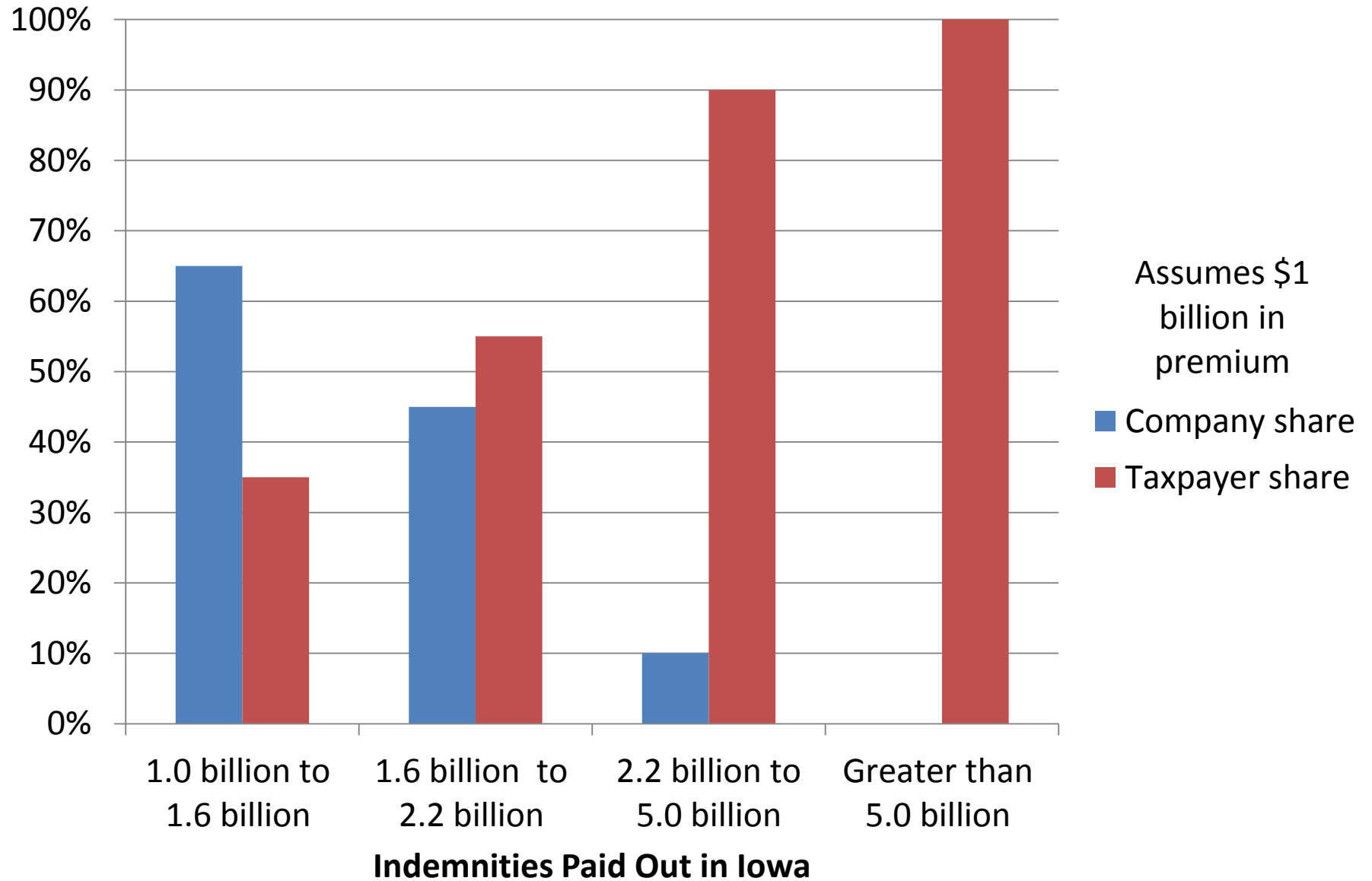
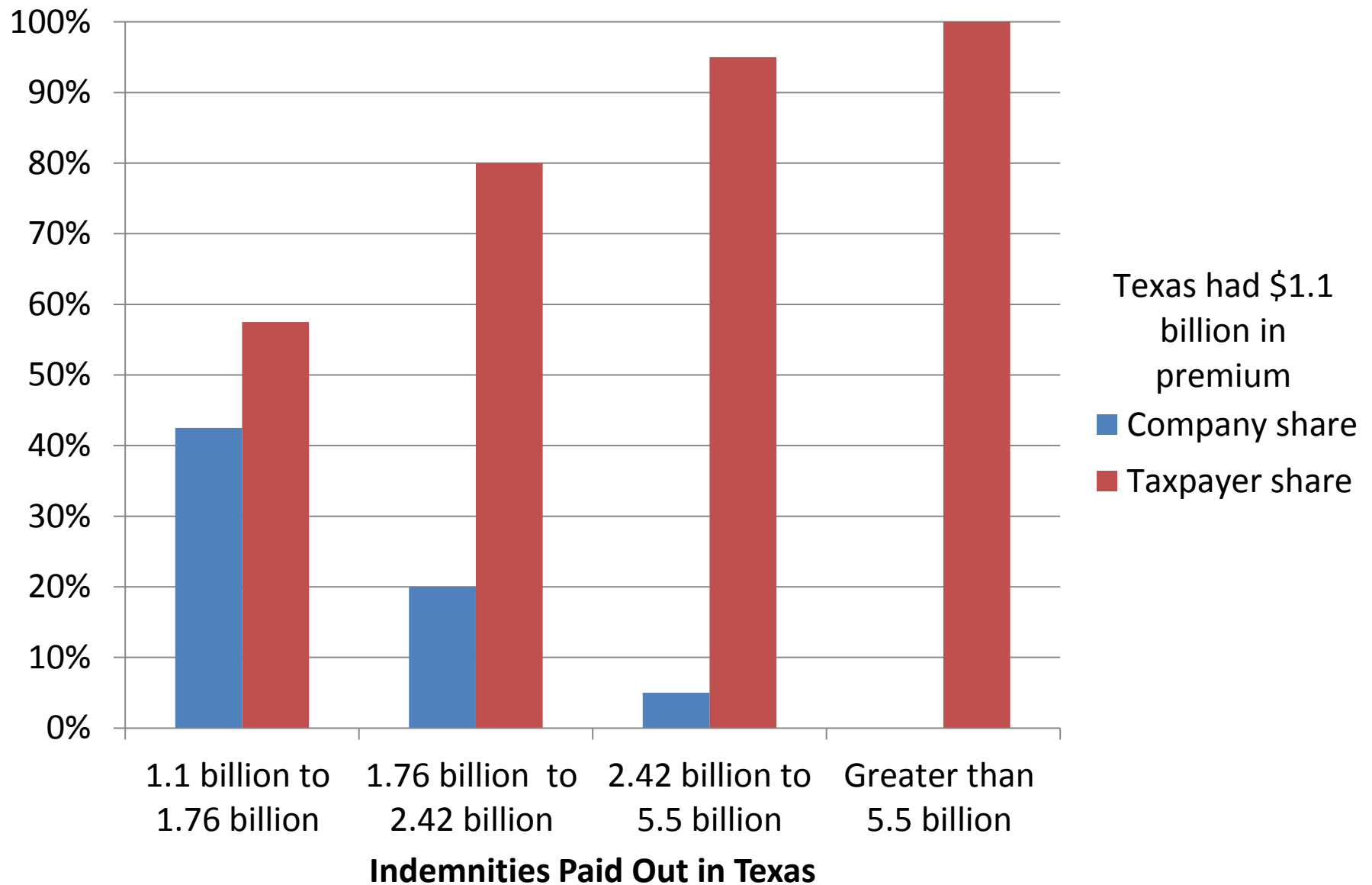


Crop Insurance and the Drought

Who Will Pay the Losses in Iowa?



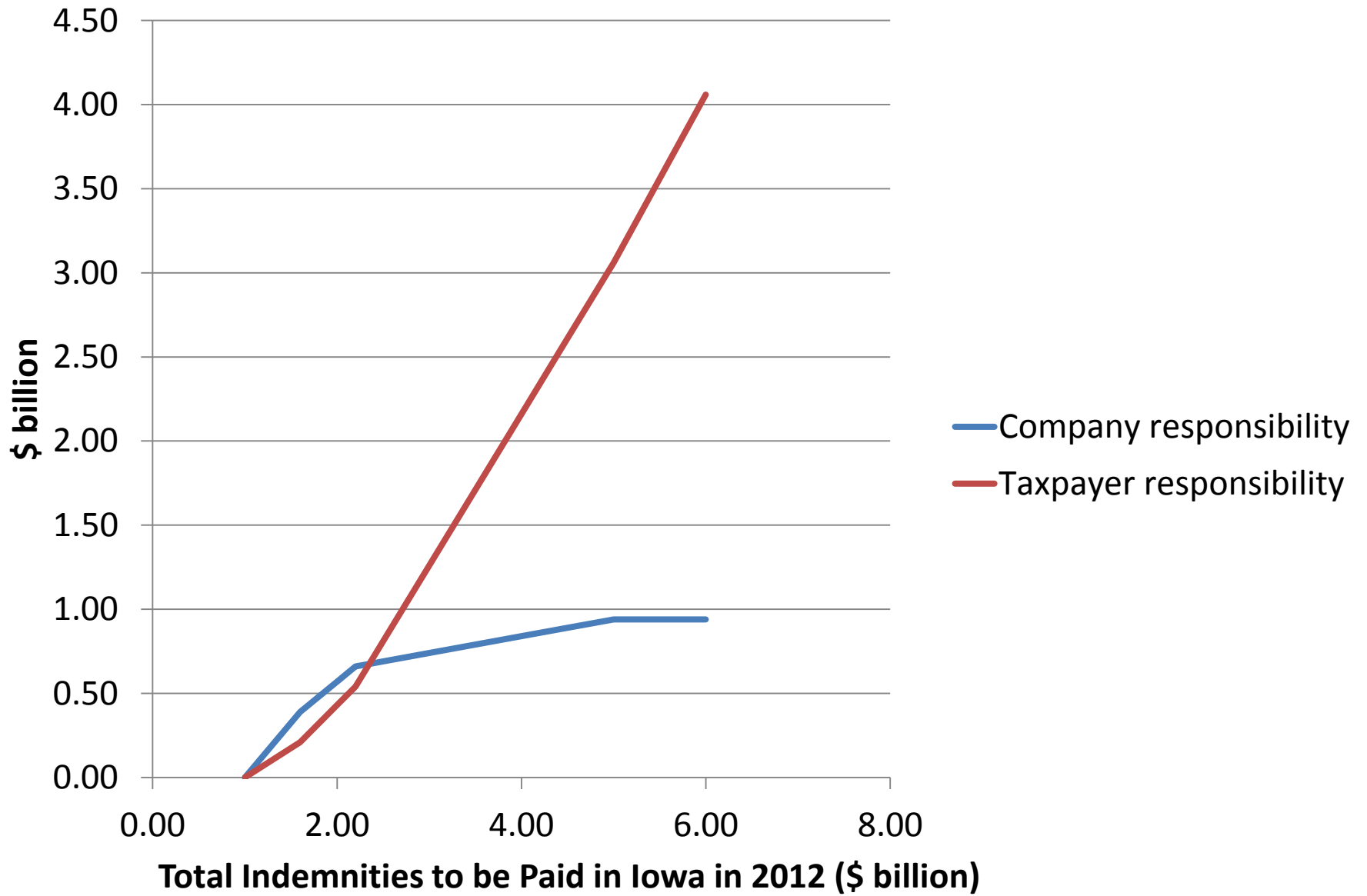
Who Paid the Losses Last Year in Texas?



Texas in 2011

- Indemnities paid = \$2.6 billion
- Premium = \$1.1 billion
- Underwriting Loss = \$1.5 billion
- Assuming companies put all Texas premium in the commercial fund and retained 100% of premium for themselves
- Companies took \$421 million of the loss
- Taxpayers took on \$1.075 billion of the loss

Who Will Pay the Losses in Iowa in 2012?



How Bad Can it Get?

- In 1993, Iowa underwriting losses were 3.65 times as large as premiums
- A repeat of these losses with today's premium would mean indemnities of almost \$5 billion
- But losses might be much higher than this because 80 percent of Corn Belt corn policies will value yield losses at the higher fall harvest price: \$8.00 per bushel versus \$5.68 per bushel.

An Example

- Farmer with an average yield of 180 bu/ac buys an 80% Revenue Protection policy
- Springtime price = \$5.68 per acre

FARMER GUARANTEE: \$818 per acre

FARMER EXPECTED REVENUE : \$1022/acre

- Farmer harvests 100 bu/ac
- Harvest price = \$8.00 per acre (assumption)

Indemnities

- Yield insurance (YP):
 - $\$5.68 * (0.8 * 180 - 100) = \$250/\text{acre}$
- Cheap revenue insurance (RPHPE):
 - $0.8 * \$5.68 * 180 - \$8.00 * 100 = \$18/\text{acre}$
- Expensive revenue insurance (RP):
 - $\$8.00 * (.8 * 180 - 100) = \$352/\text{acre}$

Final Post-Harvest Revenue

- No insurance: \$800
- YP: $\$800 + \$250 = \$1050$
- RPHPE: $\$800 + \$18 = \$818$
- RP: $\$800 + \$352 = \$1152$

Why RP?

- Suppose farmer forward contracted 80% of his anticipated production at \$5.68.
- Farmer sells 100 bushels at \$8.00 for \$800
- Farmer lost \$334 on his forward contract
- Farmer gains an indemnity of \$352 from RP
- Total revenue = \$818/acre same as RPHPE with no forward contract

- With YP, total revenue = \$716
- With RPHPE, total revenue = \$484