

Crop INSURANCE

Adding Hail Insurance Coverage

In the U.S. over 50% of hail storms occur from March to May. However, the largest crop losses to corn from hail occur from June to September.

That's because early in the growing season, losses are typically limited to leaf defoliation and reduced stand counts.

According to agronomic research, hail losses increase rapidly after the V6 growth stage when the growing point breaks the soil surface. The degree of hail loss depends on the crop growth stage. Yield losses due to defoliation during this vegetative stage can be estimated, but the stalks may need to be split to determine if the plants are alive.

However, when hail losses occur during the reproductive stage, direct damage to the ear will also need to be considered. Total corn yield loss from hail is estimated by combining the expected yield loss from stand reduction, direct damage and defoliation.

Hail is a covered peril under federal crop insurance policies. Primary farm-level products for 2011 are Revenue Protection (RP) and Yield Protection (YP). If a hail loss occurs, an indemnity payment is not triggered until the loss exceeds the deductible under that policy.

In 2011 the corn crop is likely one of the most valuable crops you've produced, with current cash prices for fall delivery around \$6 per bushel. Should a mid-season hail storm strike, do you have adequate crop insurance coverage?

3 reasons to consider adding hail coverage

First, you've accepted a large deductible by limiting coverage to only a federal crop insurance policy that provides multi-peril coverage. Should hail damage occur, the 15% to 35% deductible you've accepted (electing a 65% to 85% policy) has never represented more dollars per acre at risk. Net returns to a harvested crop are at extremely high levels in 2011. With profit margins 2 to 3 times above normal, it could be devastating to the operator's long term future to lose a large portion of this year's crop.

Second, if you elected to use enterprise units on your federal crop policy, all fields planted to that crop are combined at the county level should a loss occur. The decision to elect enterprise units is popular, as it might cut farmer paid premiums by as much as 50%. However, the use of enterprise units potentially exposes individual farms to a hailstorm, while the rest of the unit may not suffer loss. Protection from spotty loss events such as hail on one farm and not others is more important if you've elected enterprise units.

Third, crop insurance companies are providing hail insurance at historically low rates. According to filings made to state insurance departments, crop hail rates are significantly less than their expected losses. Current crop hail rates would have to be twice as high to cover claims and expenses for an average loss year.

Explore various crop hail policies

There are a number of choices in crop hail insurance products. Traditional products such as crop-hail are offered as companions to federal crop insurance policies and provide protection damage from hail and/or fire. A fire that is caused by a non-natural occurring event, such as a combine, is not covered under a federal crop insurance policy.

A crop-hail product provides protection up to the actual value of the crop. These policies tend to provide coverage in dollars per acre per farm with various deductible levels. A minor loss due to hail may not trigger an indemnity payment.

Since coverage is provided on an acre-by-acre basis, a producer seeing a bumper crop or higher crop prices, can increase their coverage during the growing season to cover the value of the crop. Various options with different deductibles may also be selected that impacts the final premium paid.

Consider production hail

Another choice for hail coverage is often referred to as "production hail." Companies may refer to this product by different names, but the advantage of such a policy over the more traditional crop-hail policy is that it combines hail coverage with existing multi-peril coverage. Production hail protects the top portion of your crop, that same area that you've accepted a deductible of 15% to 35% depending on the level of coverage elected in your federal crop policy.

Typical production hail policies allow for coverage of up to 120% of your Actual Production History (APH) and up to 100% of the RP or YP projected price, \$6.01 per bushel corn and \$13.49 per bushel soybeans respectively in 2011. Some companies allow for enterprise units to be separate for loss purposes, similar to how optional units work.

Deductibles and qualifying losses also vary by insurance company, but premiums appear quite competitive for production hail when compared to the more traditional crop-hail policies.

Conclusion

In all cases, 2011 may very well be the year to add crop hail insurance to your risk management plan. Consider consulting a knowledgeable insurance agent to determine the best option and risk management value for you. Remember most crop-hail or production hail policies require a 24-hour waiting period before coverage begins.