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**Agriculture in a Changing Climate**

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August 24, 2011

# Business Risk Management Programs



# Agenda

- Who we are
- Current risk management programs
- Growing forward
- Production insurance
- Use of technology
- AgriStability
- Risk Management Program
- How programs work together

# Who we are

- Agency of the Government of Ontario
- Partner with government and industry to deliver programs that help the Ontario agriculture sector manage risks
- Earned a reputation for proactive, reliable, customer focused service

# Some of the programs we deliver

- AgriStability
- Production Insurance (AgrilInsurance)
- Risk Management Program (RMP)
- Farm Business Registration (FBR)
- Grain Financial Protection Program (GFFP)
- Dairy Credit Program
- Orchard and Vineyard Transition Program (OVTP)

# Growing Forward

- **AgriInsurance**

Covers production losses and yield reductions caused by insured perils (weather, pests, disease)

- **AgriStability**

Covers margin declines (income loss) by any combination of production losses, adverse weather conditions or increased costs

- **AgriInvest**

A savings account for producers, supported by governments, which provides flexible coverage for small income declines, and allows for investments that help mitigate risks or improve market income

- **AgriRecovery**

Allows government to respond to natural disasters with quick, targeted assistance

# Production Insurance

- Began in Ontario in 1966
- Protects producers from yield reductions and crop losses caused by insured perils (e.g., drought, excessive moisture or rainfall, flood, frost, hail, insect infestation, plant disease, wildlife, wind)
- Perils vary by crop and are specified in the individual Insuring Agreement for each crop grouping

# Production Insurance

- Producers pool resources with government to build a strong, sustainable insurance program
- For the majority of plans, government funds 60 percent of premium cost and 100 percent of administrative cost
- Government involved through regulations, approvals and reporting

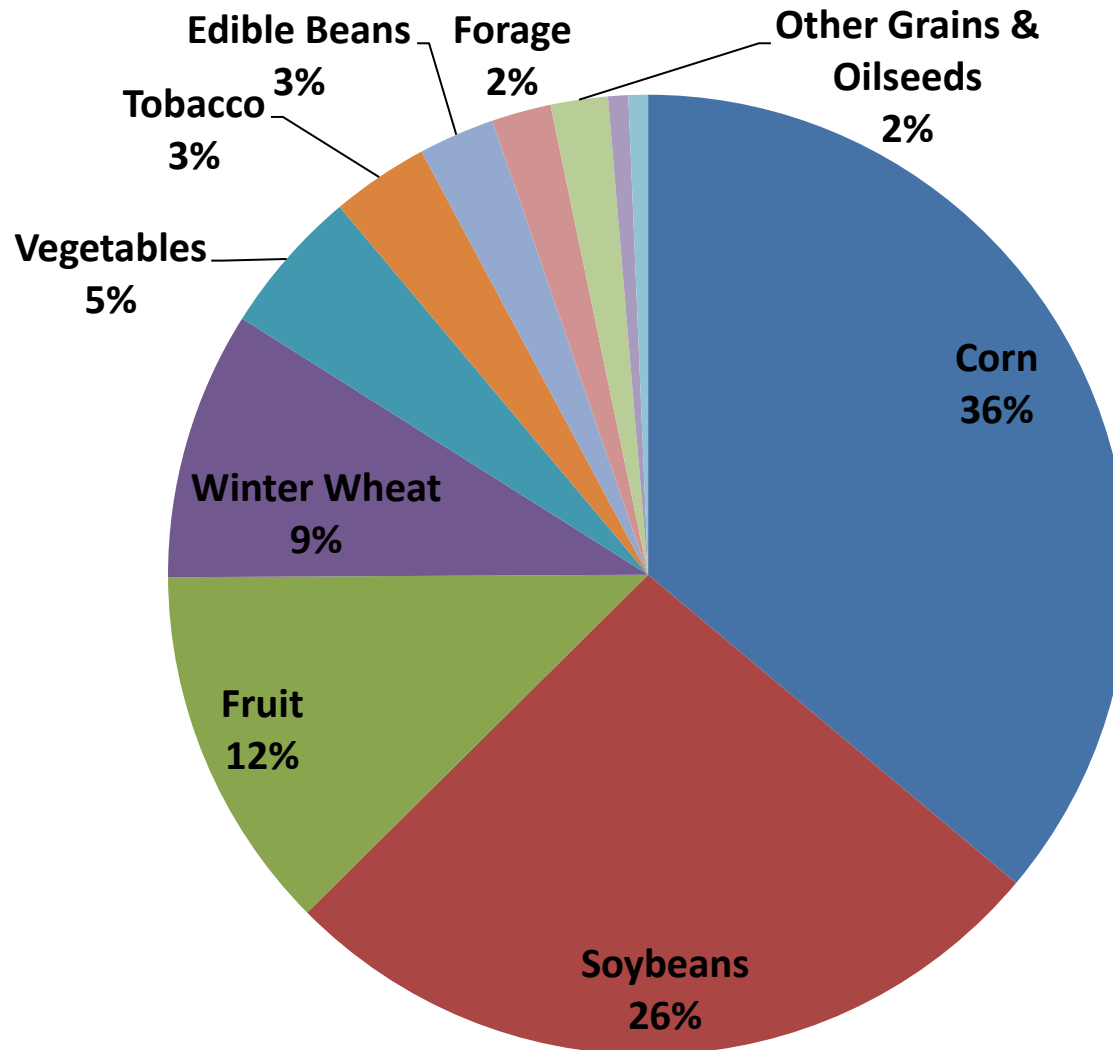


# Production Insurance

- Currently offer 73 crop plans and coverage for nearly 100 commercially grown crops
- Diverse portfolio of crops, including:
  - Forage
  - Fresh market vegetables
  - Fruit
  - Honey
  - Grains and oilseeds
  - Processing vegetables
  - Tobacco
  - Hemp



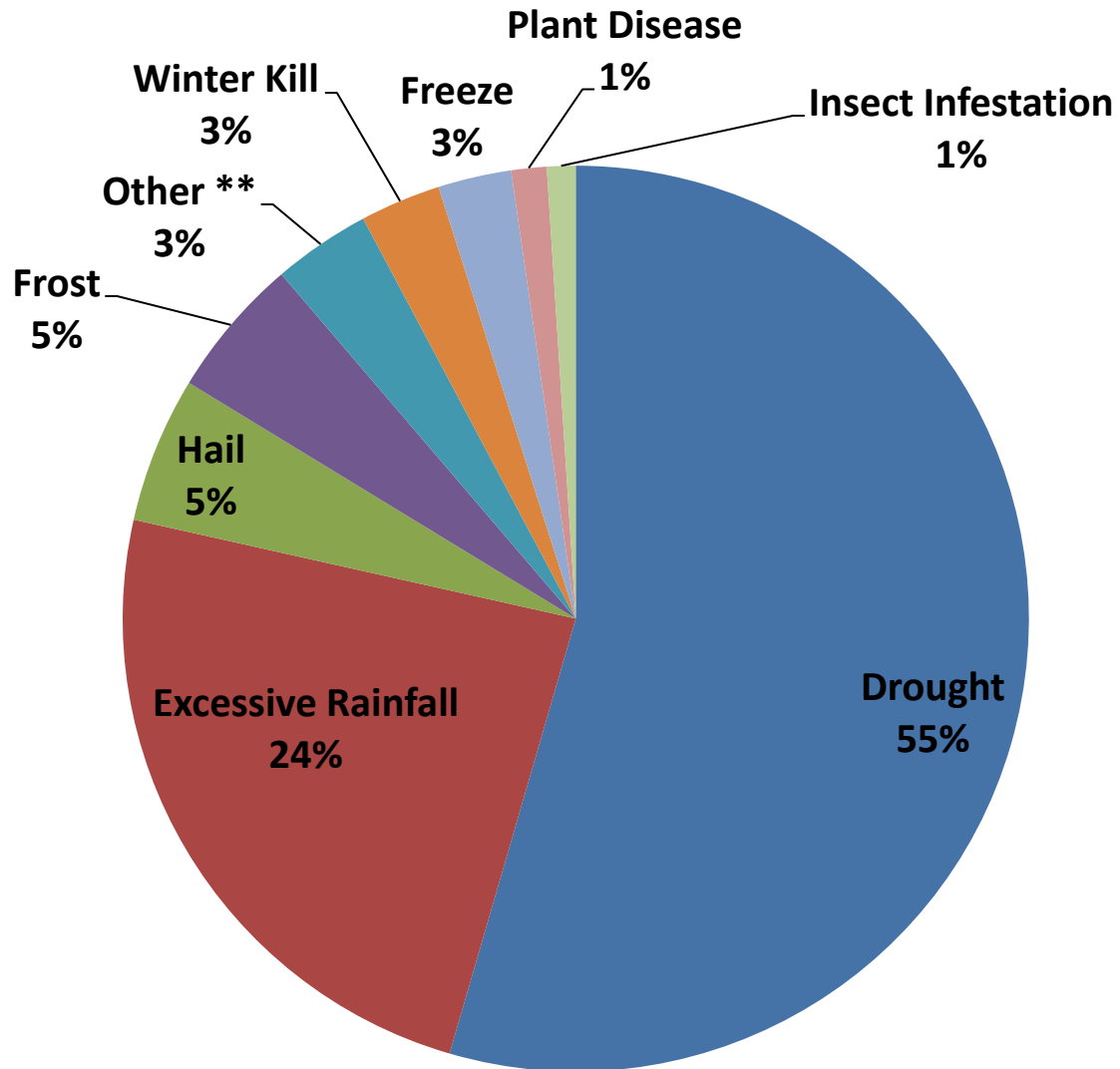
# Total liability 2010



# How does PI work?

- PI pools risk to stabilize claims and premiums for participants
- Coverage is based on a customer's average yield per acre and reflects their production experience or capability
- Average farm yields (AFY) can be trended and buffered to reflect advances in crop technology
- Customer is guaranteed a level of coverage based on their average yield and their chosen coverage level (60-90%)
- If production falls below the guaranteed level due to an insured peril, a claim may be paid

# Claims by peril (2000-2010)

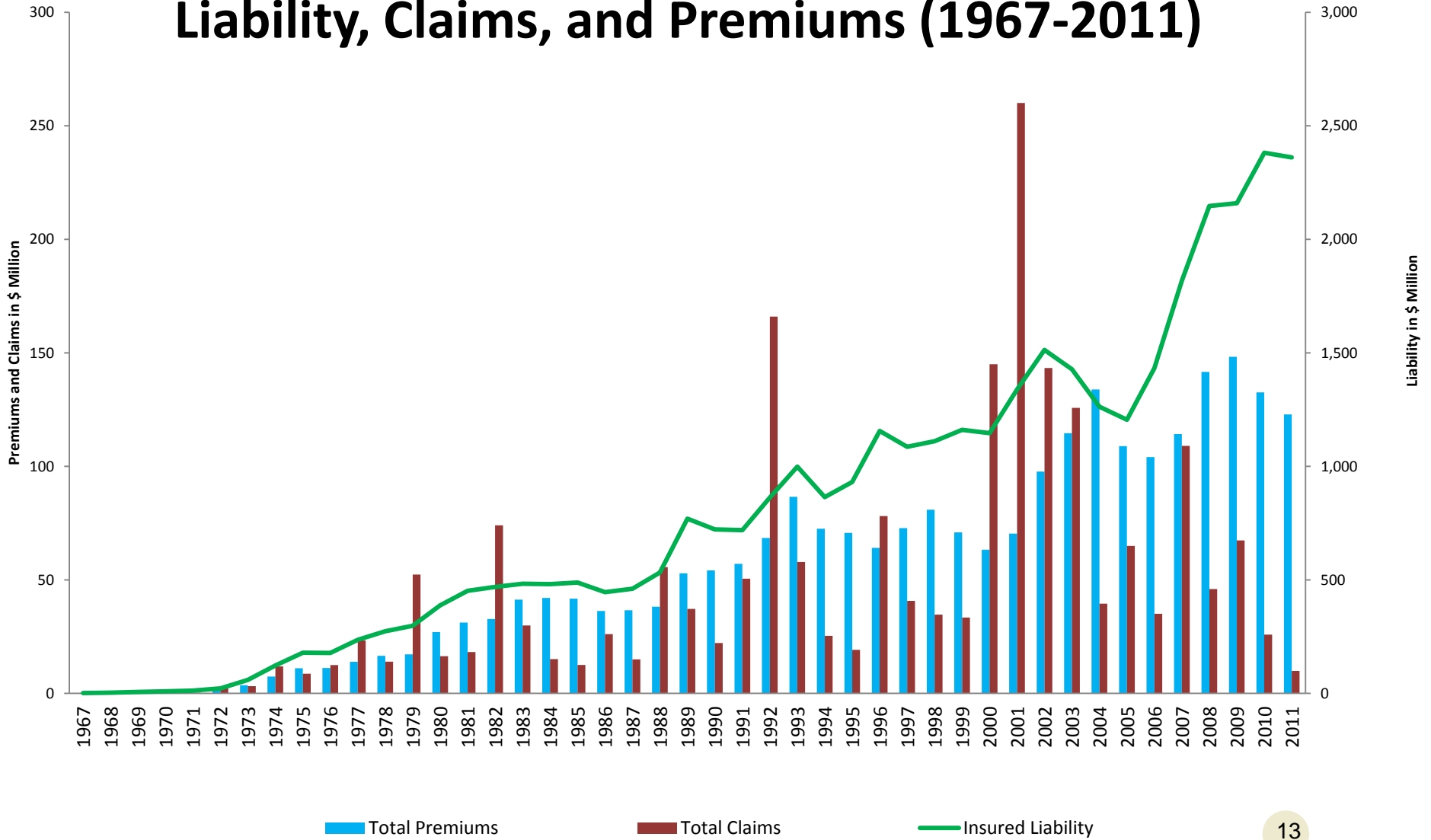


# Claims

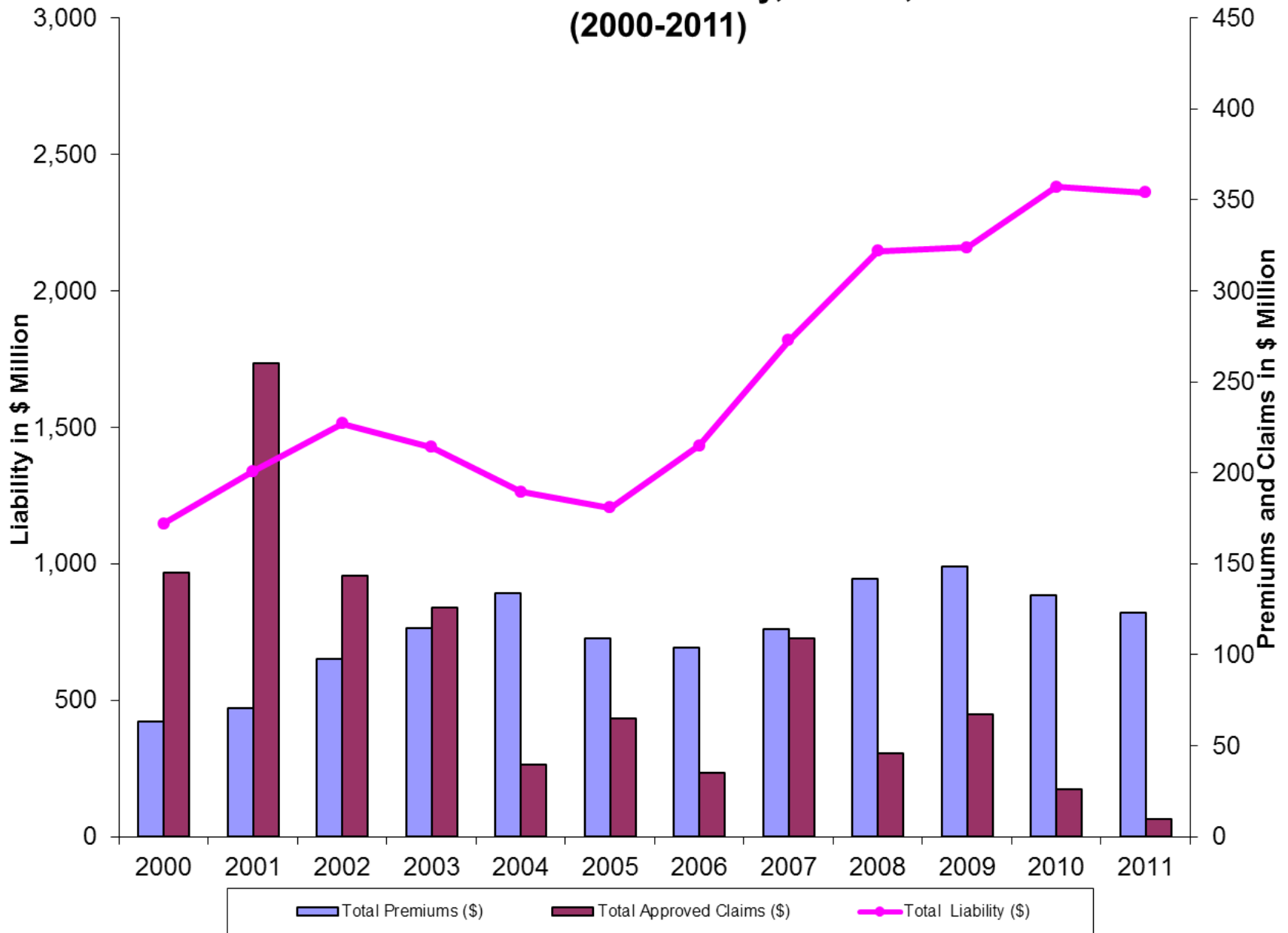
- Reseed benefit
  - May be paid if some or all acres must be reseeded due to an insured peril
- Unseeded acreage benefit (USAB) benefit
  - Compensates if an insured peril prevents planting or seeding of all or part of insured acreage
- Non-production losses
- Production – yield loss
  - Corn AFY = 140 bu @ 85%
  - Guaranteed production (GP) = 119 bu
  - Actual yield = 100 bu
  - Claim = 19 bu x claim price

# Production Insurance Ontario

## Liability, Claims, and Premiums (1967-2011)

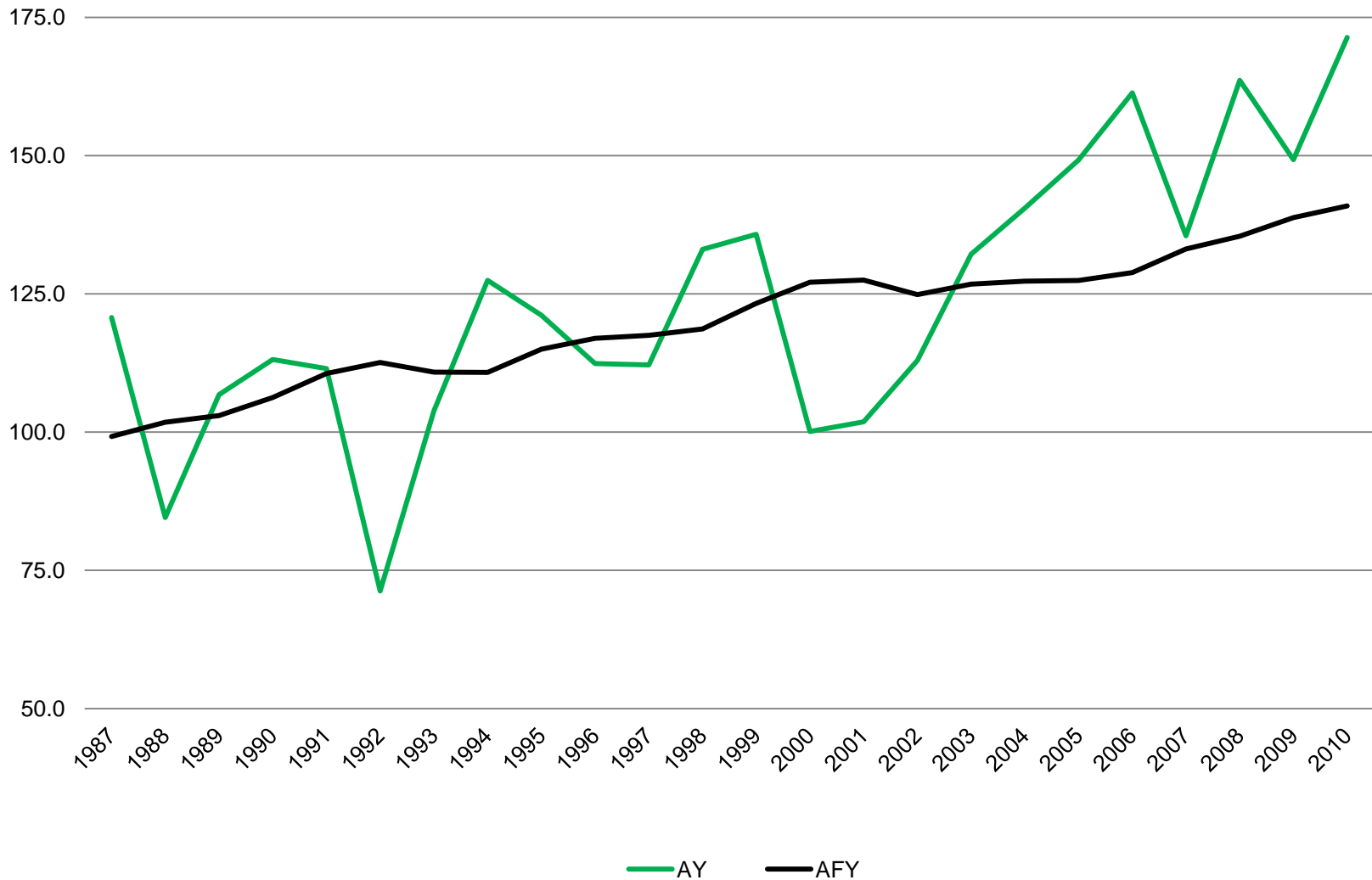


## Production Insurance Ontario Liability, Claims, and Premiums (2000-2011)



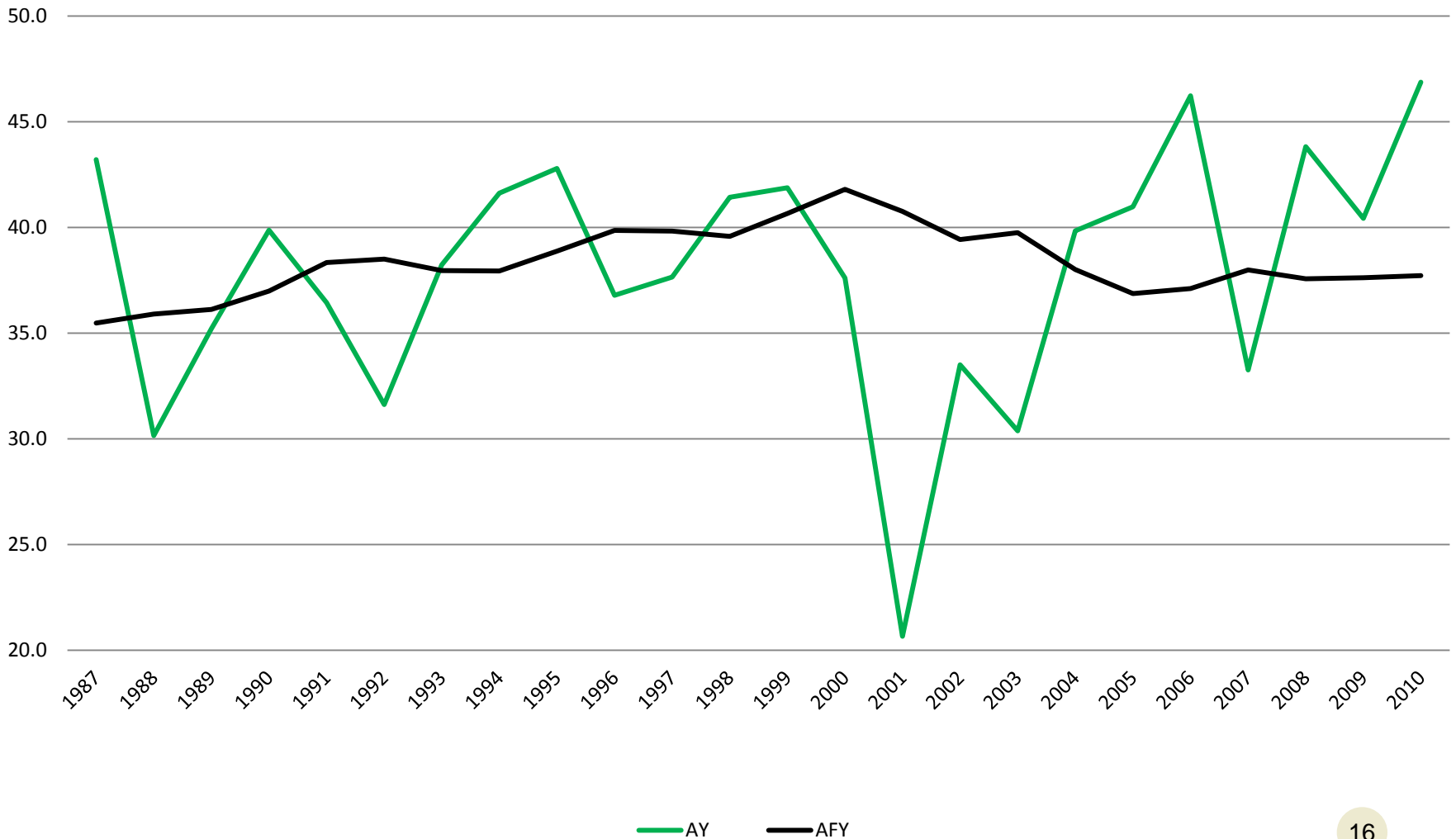
# Production Insurance Ontario

## Actual Yield (AY) and Projected Yield (AFY) for Corn (bu/ac)



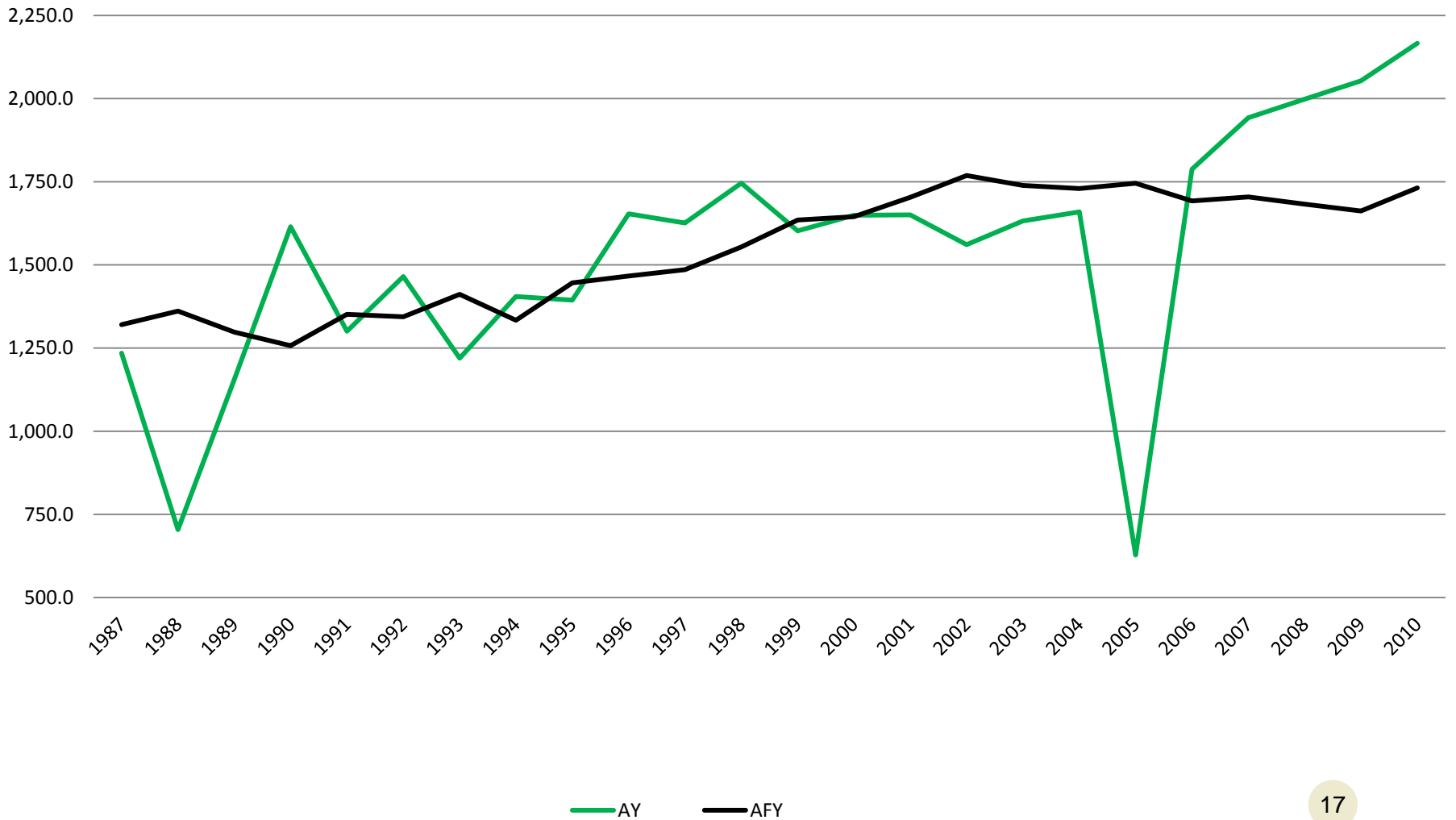
# Production Insurance Ontario

## Actual Yield (AY) and Projected Yield (AFY) for Soybeans (bu/ac)



# Production Insurance Ontario

## Actual Yield (AY) and Projected Yield (AFY) for Canola (lb/ac)



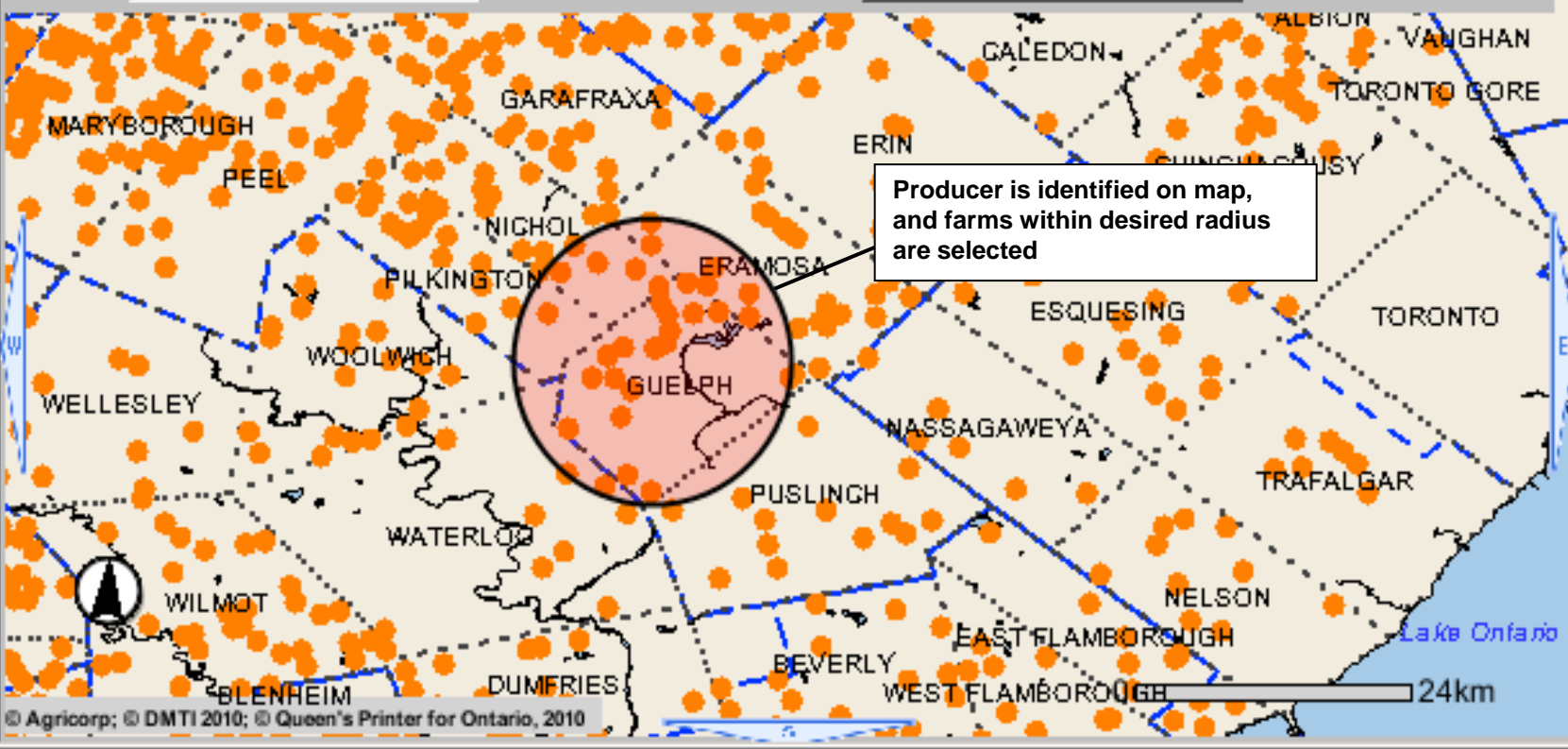
# Evolving coverage

- Differentiation
  - Grape - multi-tier pricing structure
  - Organics, agronomics
- New crops and varieties
  - Day-neutral strawberries, ginseng, hazelnuts
  - Hybrids – canola, tobacco
- New design
  - Fresh Market Vegetable – Acreage loss
  - Forage derivative
  - Bio mass & fuels, small grains, perennials, specialty vegetables...



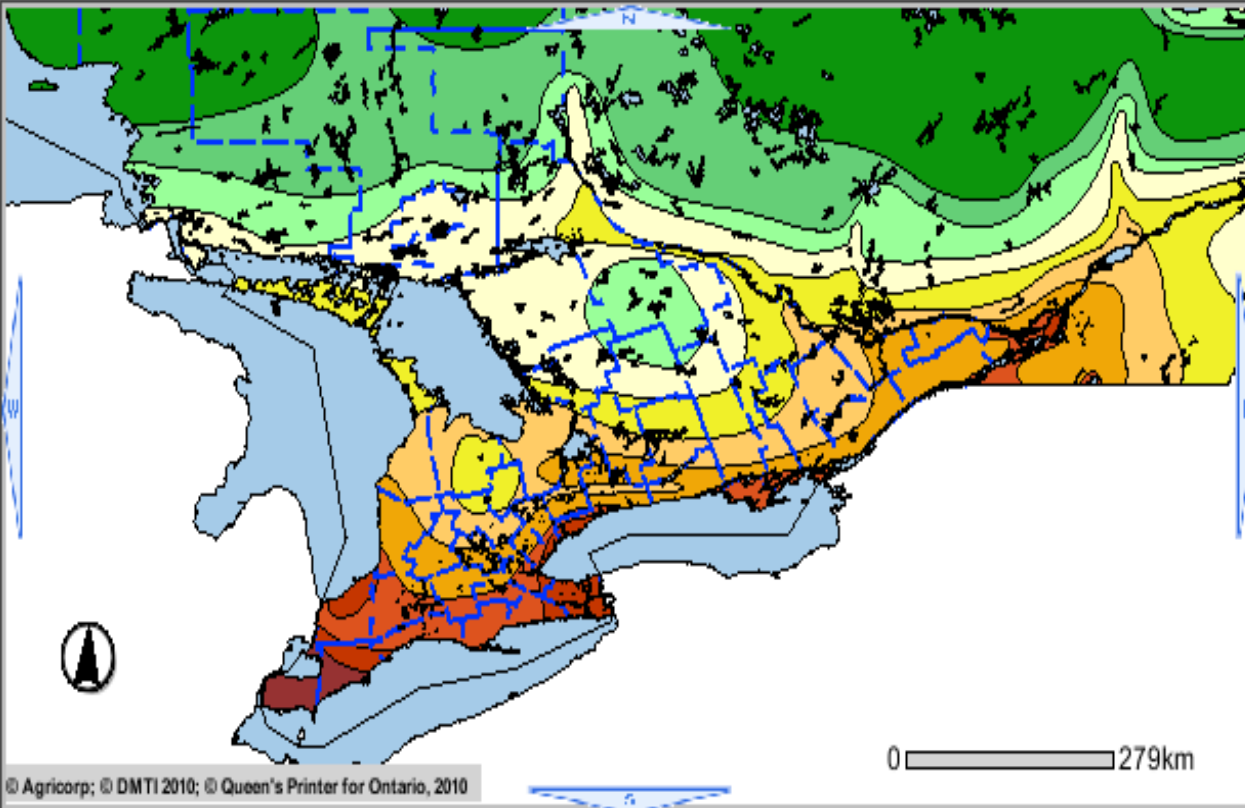
Radius:

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[Layer](#) | [Legend](#) | [Query](#)

Refresh Map

-  Water
-  Geographic Area
- Heat Units**
-  Less than 1700
-  1700-1900
-  1900-2100
-  2100-2300
-  2300-2500
-  2500-2700
-  2700-2900
-  2900-3100
-  3100-3300
-  3300-3500
-  3500 - 3600

Web GIS can be used to determine available heat units for a particular farm. This information can be used in determining acceptable varieties and associated yield potential. Varieties with higher yield potential require more heat units to reach maturity, and are therefore unsuitable for areas with less available heat units.

# AgriStability

- AgriStability is based on the whole farm principle rather than based on individual crops like PI
- Based on the philosophy that producers and government share in replacing lost income
- Protects whole farm against lost income caused by:
  - Market conditions
  - Production loss
  - Increased costs
- Payments are generated when a participant's production margin decline is greater than 15 percent of their reference margin
- Interim payments are available to assist with cash flow prior to year end

# AgriStability – How it works

- AgriStability compares program year production margin to the five year average reference margin
  - The yearly allowable net income is the *production margin*
  - The historic allowable net income is the *reference margin*
- The production margin is calculated by subtracting allowable expenses from allowable income in the program year
- The reference margin is the average of the five most recent production margins, excluding the highest and lowest years
- Enrolment: New applications and fee due April 30; once fiscal year complete, submit tax data

# Risk Management Program

- Helps producers of grains and oilseeds, edible horticulture, cattle, hogs, veal and sheep manage the risk of fluctuating costs and market prices
- G&O packages mailed in early August, livestock and edible horticulture packages will be mailed in September

## RMP for G&O and livestock

- Payments are made if a crop or animal's market price falls below the annual support level
- Support level is based on the cost of production, which is calculated by the provincial government

# Risk Management Program

## SDRM for edible horticulture

- A producer can open a Self-Directed Risk Management (SDRM) account, make a deposit, and receive a government matching contribution of a percentage of their allowable net sales
- More than 150 eligible commodities
- Premiums for G&O and livestock RMP and participant contributions (deposits) for SDRM are waived for 2011
- Information sessions August and September

# Programs work together

## **Production Insurance**

- Provides coverage for individual crops against natural perils

## **AgriStability**

- Whole farm approach that protects against lost income as a result of market prices, increased costs and production loss
- PI can help maintain reference margin and is an eligible expense

## **Risk Management Program**

- Covers price and cost of production risks and acts as an advance against the provincial portion of AgriStability

# Questions

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