

BACKGROUND

Financial Position of the Crop Insurance Program

From 2001 to 2006, the Crop Insurance Program has paid over \$2.2 billion to Saskatchewan producers, while collecting \$1.5 billion in premium from producers and governments. Because of large payouts in 2001 to 2004, the deficit at the end of 2004 was \$627 million. **However, relatively good production years in 2005 and 2006 have reduced this deficit to \$340 million going into 2007.**

To be sustainable over the long-term, the premiums charged over time must be sufficient to pay the claims incurred. Base premiums are revised annually to reflect the financial position of the program and include an element to address deficit recovery or reserve accumulation requirements. All Crop Insurance premiums are used for the purposes of paying claims or reinsurance costs only; premium dollars are not used to pay corporate administration costs.

The federal and provincial governments provide reinsurance in accordance with terms set out in the Canada-Saskatchewan Production Insurance Agreement. When total claim dollars paid exceeds total premiums collected, the corporation borrows the required amount from the provincial and federal governments to ensure all eligible claims are paid.

2007 Prices, Coverage and Premiums

Each year, Crop Insurance prices, coverage and premiums are updated using the actuarial guidelines established for the Crop Insurance program.

- Prices are forecasted based on expected final market values. Crop Insurance's insured price is the 2007-2008 market price as forecasted by Agriculture and Agri-Food Canada in consultation with Crop Insurance.
- Dollar coverage is based on two components: yield (bushel) coverage and insured price. Yield coverage is based primarily on a customer's individual production information, including long-term individual and long-term area yields. **Dollar coverage is increasing from a provincial average of \$64 in 2006 to \$86 in 2007.**
- Premium rates are set annually by crop and risk zone, reflecting a long-term expected loss experience and the overall financial position of the program. Rates include an additional provision to recover program deficits over a 15-year period, including expectations of occasional large payouts during that time. Premiums also vary by region and may be impacted by the customer's claim history. **Overall, premiums will be reduced by 3.4 per cent in 2007.**
- As in 2006, premiums are cost-shared by producers and governments, with the producers paying 40 per cent of the premium at all coverage levels and governments paying 60 per cent.

Program Updates for 2007

Saskatchewan Crop Insurance works to design and deliver insurance products that enable customers to tailor coverage to their operations. In 2007, the corporation has continued these efforts by introducing several program changes to enable customers to mitigate risk in a number of agriculture markets.

- **Variable Price Option Introduced**

Under the new Variable Price Option, if market prices change, the customer's insured price will also change. The final market price will be set in July from Agriculture and Agri-Food Canada's market price forecast. Customers have until March 31 to select this option.

Example: If the base price for barley on your coverage detail is \$100/T (\$0.100/kg), your individual coverage is 1000 kg/acre and you selected 80% coverage, your liability would be:

$$\begin{aligned}\text{Liability} &= 1000 \text{ kg/ac.} \times 80\% \times \$0.100/\text{kg} \\ &= \$80/\text{ac.}\end{aligned}$$

If your premium rate is 5%, your premium would be:

$$\begin{aligned}\text{Premium} &= \$80/\text{ac.} \times 5\% \\ &= \$4.00/\text{ac.}\end{aligned}$$

The insured price is then reset in July based upon July price forecasts of final market prices. If the price increases to \$120/T (\$0.120/kg), your liability and premium are calculated using the new, insured price as follows:

$$\begin{aligned}\text{Liability} &= 1000 \text{ kg/ac.} \times 80\% \times \$0.120/\text{kg} \\ &= \$96/\text{ac.}\end{aligned}$$

$$\begin{aligned}\text{Premium} &= \$96/\text{ac.} \times 5\% \\ &= \$4.80/\text{ac.}\end{aligned}$$

If the insured price decreases based on the July price forecast to \$80/T (\$0.080/kg), your liability and premium are calculated using new insured price as follows:

$$\begin{aligned}\text{Liability} &= 1000 \text{ kg/ac.} \times 80\% \times \$0.080/\text{kg} \\ &= \$64/\text{ac.}\end{aligned}$$

$$\begin{aligned}\text{Premium} &= \$64/\text{ac.} \times 5\% \\ &= \$3.20/\text{ac.}\end{aligned}$$

- **Coverage Introduced on IP Canola**

Saskatchewan Crop Insurance is introducing insurance coverage for identity-preserved (IP) canola. IP canola is contracted based on its oil profiles and coverage is based on the contracted price.

- Unseeded Acreage Feature Refined**

The Unseeded Acreage feature is available to all customers as part of the multi-peril contract of insurance, protecting producers in the event that it is too wet to seed by June 20. In past years, coverage on Unseeded Acreage was based upon the number of acres a customer normally seeded, less a five per cent whole-farm deductible. Beginning in 2007, the deductible will apply only to quarter sections where there are wet acres rather than on a whole farm basis. This will reduce the impact of the deductible.
- Crop Averaging Pilot Program Expansion**

Crop Insurance's Crop Averaging Pilot Program, introduced in 2005, has been expanded to the entire province. Under this program, eligible crops are "basketed" instead of treating as individual crops, allowing Crop Insurance to return the reduced insurance risk to the customer in the form of coverage above 80 per cent of their average yield, to a maximum of 90 per cent.
- Establishment Benefit Now Covers Gopher Damage**

Where gophers damage acres on a farm so the crop does not establish, an establishment claim will be paid. A further benefit is available if the infestation is so severe that a customer chooses to remove these acres from insurance for the year. Any claim is subject to a deductible.
- Wild Rice Insurance Pilot Program Introduced**

In response to recent losses experienced by wild rice producers, Crop Insurance has introduced a Wild Rice Insurance Pilot Program to support the province's growing wild rice industry. The new program is an area-based insurance program, meaning coverage is based on the average production for each region in which the customer harvests.

Deadline

Customers will receive their personal coverage and premium information in their endorsement packages to be mailed in early March. Information is also available at any of the customer service offices throughout the province, online at www.saskcropinsurance.com and by calling 1-888-935-0000.

The deadline to apply for, make changes to or cancel the 2007 contract of insurance is March 31. A Crop Insurance contract is continuous; unless changes are made by March 31, the selections made for 2006 will remain the same for 2007.