

1999 Rice - Crop Revenue Coverage Common Questions and Answers

1) **Q: What is Crop Revenue Coverage (CRC)?**

A: CRC is an insurance program that guarantees a stated amount of revenue called the Final Guarantee. Since the protection of grower revenue is the primary objective of CRC, it contains provisions addressing both yield and price risks. Six key variables are Approved Yield, Coverage Level Percentage, Price Percentage, Base Price, Harvest Price, and Production to Count.

2) **Q: How is Approved Yield defined?**

A: CRC's **Approved Yield** is the historical average amount of production per acre in the insured unit. It uses the farmer's production records or yields assigned by the Federal Crop Insurance Corporation (FCIC). We use at least four crop years of yields to obtain the Approved Yield.

3) **Q: What is CRC's Coverage Level Percentage?**

A: The farmer selects a **Coverage Level Percentage** and it defines the applicable policy's coverage and deductible.

The available CRC Coverage Level Percentages are 50%, 55%, 60%, 65%, 70%, and 75%.

4) **Q: What is the CRC Price Percentage?**

A: The farmer selects a **Price Percentage** that we multiply times the defining averages for the Base and Harvest Prices to calculate the CRC policy's final Base and Harvest Prices. Farmers may select 100% or 95% as the Price Percentage for their policy. If the farmer has never selected a Price Percentage, then the policy's Price Percentage defaults to 95%.

5) **Q: What are the Base and Harvest Prices used by CRC and how are they defined?**

A: CRC defines the **Base Price** and **Harvest Price** for each coarse grains crop using the following methodology (*The Harvest Price IS NOT the price a producer receives for his crop at the local elevator*):

Rice - Chicago Board of Trade (CBOT) - Counties with a January 15 Cancellation Date:

Base Price - The December pre-harvest year average daily settlement price for the harvest year's CBOT September rough rice futures contract multiplied times the selected Price Percentage.

Harvest Price - The August harvest year average daily settlement price for the harvest year's CBOT September rough rice futures contract multiplied times the selected Price Percentage. The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price.

Rice - Chicago Board of Trade (CBOT) - Counties with February 15 or February 28 Cancellation Dates:

Base Price - The January harvest year average daily settlement price for the harvest year's CBOT November rough rice futures contract multiplied times the selected Price Percentage.

Harvest Price - The October harvest year average daily settlement price for the harvest year's CBOT November rough rice futures contract multiplied times the selected Price Percentage. The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price.

6) Q: What is CRC's Final Guarantee?

A: CRC defines the **Final Guarantee** as the number of dollars guaranteed per acre. The Final Guarantee is the greater of the Minimum or Harvest Guarantees, defined as follows:

(1) **Minimum Guarantee** - The Approved Yield per acre, multiplied by the Base Price, multiplied by the selected coverage level percentage.

(2) **Harvest Guarantee** - The Approved Yield per acre, multiplied by the Harvest Price, multiplied by the selected coverage level percentage.

7) Q: With the key variables defined - how does CRC actually work? **(All prices used in the following examples are for illustration purposes only - they ARE NOT the actual prices that CRC might use.)*

A: The following rice example explains CRC's basic principles.

Let us assume the Rice Base Price is **\$0.096/lb** and the selected coverage level is **65%**.

A rice grower with an Approved Yield of **5800 lbs/acre** has a Minimum Guarantee equal to **\$362/acre** (5800 lbs/acre * \$0.096/lb * .65). The Final Guarantee cannot be less than \$362/acre, but it can be greater if the Harvest Guarantee turns out to be greater than \$362/acre.

8) Q: What happens if the Harvest Guarantee is greater than the Minimum Guarantee?

A: The **Final Guarantee** is the greater of the Minimum or Harvest Guarantees.

For example, assume it is determined that the Rice Harvest Price is **\$0.100/lb**. CRC uses the Harvest Price to calculate a Harvest Guarantee equal to **\$377/acre** (5800 lbs/acre * \$0.100/lb * .65). The \$377/acre Harvest Guarantee is greater than the \$362/acre Minimum Guarantee. As a result, CRC establishes our example's Final Guarantee at **\$377/acre**.

9) Q: What is CRC's Production to Count?

A: **Production to Count** equals harvested and appraised production from the insured acreage as outlined in the CRC Rice Crop Provisions. Production to Count may also include quality adjustments described in the CRC Rice Crop Provisions.

10) Q: **How does CRC determine Calculated Revenue?**

A: CRC determines **Calculated Revenue** by multiplying the farmer's Production to Count for the unit times the Harvest Price. Remembering that Calculated Revenue uses the CRC Harvest Price and not the price a farmer might receive for his crop at the local elevator is very important. Calculated Revenue counts against the farmer's Final Guarantee in determining indemnity payments.

Let us assume the farmer in our example has Production to Count equal to 2500 lbs/acre. Under these circumstances, the farmer's Calculated Revenue is **\$250/acre** (2500 lbs/acre * \$0.100/lb).

11) Q: **How does CRC calculate an indemnity payment?**

A: If a CRC policy's Calculated Revenue is less than its Final Guarantee, then CRC pays an indemnity equal to the difference. For instance, our example's farmer receives an indemnity payment equal to **\$127/acre** (\$377/acre - \$250/acre).

12) Q: **What unit structures are available with CRC coverage?**

A: Growers may select Basic, Optional, or Enterprise Units based upon their farming operation. Definitions for each unit type are in the 1999 CRC Basic Provisions.

13) Q: **When does Crop Revenue Coverage make indemnity payments?**

A: If an indemnity payment is due under a CRC policy, then CRC will pay as follows:

If we do not know the policy's Harvest Guarantee at the time a **total loss** or **prevented planting loss** is determined, then we will pay losses in two segments.

- (1) First, we pay an initial indemnity based upon the Minimum Guarantee.
- (2) Second, once we know the Harvest Guarantee, we recalculate the indemnity payment and then pay any additional indemnity due. An additional indemnity payment is due if the Harvest Guarantee is greater than the Minimum Guarantee.

If we do not know the Harvest Guarantee when a **partial loss** is determined, then we cannot pay an early indemnity because any remaining crop could produce the Final Guarantee.

If we know the Harvest Guarantee at the time a loss is determined, then we will pay losses based upon the Final Guarantee.

We can only complete losses after the Harvest Price and Production to Count have been determined.

Once FCIC publishes a Harvest Price, the company may set a crop yield point for each insured unit that will trigger a revenue loss payment. The company may publish the methodology that calculates the *Trigger Yield* with an explanation of the proper procedures to follow for claim payment.

14) **Q: How does Crop Revenue Coverage handle Late Planting, Prevented Planting, and Replanting?**

A: CRC's **Late Planting** provisions cover acres of the insured crop that are planted during the late planting period. The late planting period begins the day after the final planting date for the insured crop and ends 25 days after the final planting date. The Final Guarantee for each acre planted to the insured crop during the late planting period will be reduced by 1 percent per day for each day planted after the final planting date.

CRC's basic **Prevented Planting** coverage for prevented planting acreage equals 45 percent of the Final Guarantee for the acreage if it were timely planted. However, in return for an additional premium, the farmer may increase his prevented planting coverage as specified in the actuarial documents.

CRC offers **Replanting** Coverage if the replanted acreage includes at least the lesser of 20 acres or 20 percent of the insured planted acreage for the entire unit. Also, the damage must show that the remaining stand will not produce at least 90 percent of the Minimum Guarantee for the affected acreage. The maximum replant payment per acre is the lesser of 20 percent of the Minimum Guarantee for the affected acreage, or 400 pounds multiplied by the Base Price, multiplied by the grower's insured share.

15) **Q: How is the CRC premium calculated and when is the premium due?**

A: CRC uses the following worksheets to calculate its Producer-Paid Premium:

CRC Rice High Risk Classification Premium Calculation Worksheet - CRC uses this worksheet to calculate the producer-paid premium for CRC crop insurable acreage with a high risk classification or written agreement rate that references the Supplemental Rate Differential (as displayed on the FCI-35 Coverage and Rate Table) to determine the MPCl Base Rate.

CRC Rice FCI-35 R-Span Base Rate Premium Calculation Worksheet - CRC uses this worksheet to calculate the producer-paid premium for all other CRC crop insurable acreage.

CRC bases premiums upon the Base Price and subsequent Minimum Guarantee. These premiums can only change if the company makes APH or acreage corrections.

Premiums for CRC are due when coverage begins. The company bills premiums for CRC on dates contained in the Actuarial Documents.

16) **Q: Does the grower need to submit a separate CRC application for each county?**

A: Yes. A grower must submit a separate CRC application for each county.

17) **Q: Is CRC a continuous policy?**

A: CRC is continuous and provides coverage for each succeeding crop year, unless canceled by a time specified in the CRC policy.

18) **Q: Does CRC use written agreements?**

A: Written agreements may apply to CRC for **rating purposes only**. CRC may use a written agreement authorized by FCIC that allows standard R-span rates for a specific crop grown on a specific high risk classification. Additionally, CRC may use a written agreement authorized by FCIC that includes a reduced rate for the crop acreage on a specific high risk classification. Accordingly, CRC may use a written agreement authorized by FCIC that includes a specific MPCl base rate for the applicable crop on uninsurable or unclassified acreage.

When the written agreement specifies a high risk classification rate or MPCl base rate using a rate differential, we use the Rice High Risk Classification Formula Worksheet to calculate the producer-paid premium. If the written agreement specifies a standard R-span rate or reduced rate map area adjustment factor, we use the Rice FCI-35 R-span Base Rate Formula Worksheet to calculate the producer-paid premium. The applicable crop specified in the written agreement must be eligible for CRC coverage.