

Hawaii Tropical Fruits and Trees Crop Insurance Program Development

Hawaii Coffee Association Annual Meeting

July 24, 2003

Important Notes

- This presentation is to discuss the draft documents submitted to RMA on July 24, 2003 (deliverable 4.1.3).
- It is important to stress that the documents are **DRAFTS** and will be modified, as needed, between now and final submission in January.
- AgriLogic will be in Hawaii in October to:
 - Further validate and test the loss adjustment procedures.
 - Meet with producers regarding the crop provisions.

Presentation Objectives

- Provide the project's background.
- Present the basic design for the fruit and tree crop programs.
- Discuss the fundamental concepts of which the crop provisions, underwriting, and loss adjustment procedures and standards are based.

Project Background

- July 2001 - Feasibility Study performed by AgriLogic
- June 2002 - Findings of the study presented to the RMA.
- September 2002 - AgriLogic awarded contract to develop risk management strategies for Hawaii Tropical Fruits and Trees.

Oral Presentation

- This presentation (4.1.4) is the fourth deliverable of the project thus far.
 - 4.1.1 – October 24, 2002: Oral presentation to RMA discussing proposed coverage establishment procedures and executive summary.
 - 4.1.2 – December 20, 2002: Listening Session Report.
 - 4.1.3 – July 24, 3003: Drafts of insurance policies, underwriting procedures and standards, loss adjustment manuals, special provisions of insurance, and executive summary.

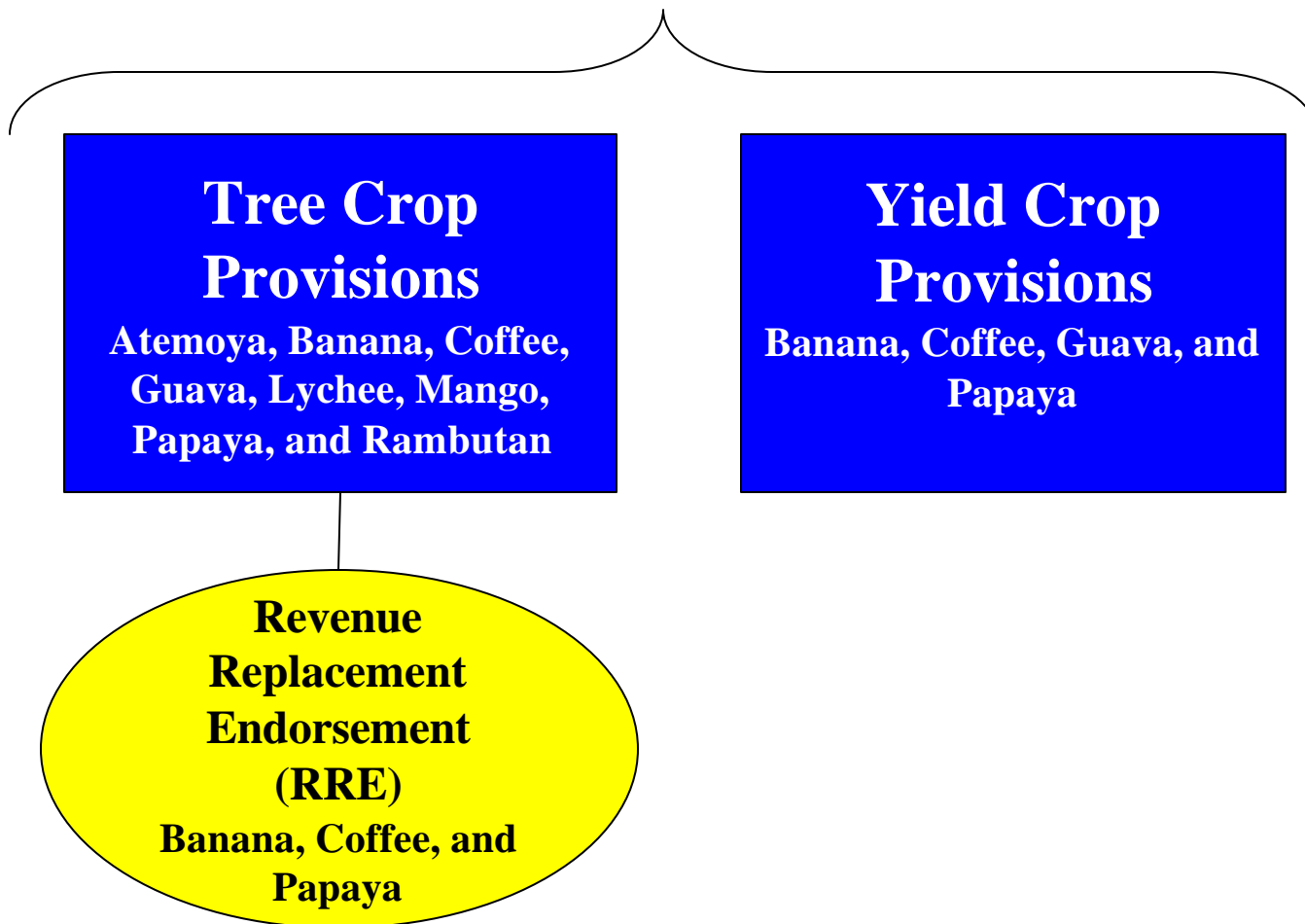
Program Design Task Order Requirements

HTFT Crops	Yield	Revenue Replacement	Tree: Rehab. & Replacement
Coffee	X	X	X
Banana	X	X	X
Papaya	X	X	X
Guava	X		X
**Specialty Trees			X
**Specialty Trees Include: Mango, Lychee, Rambutan, and Atemoya.			

Note: The TO was modified in April 2003 to include yield coverage for guava.

Program Design

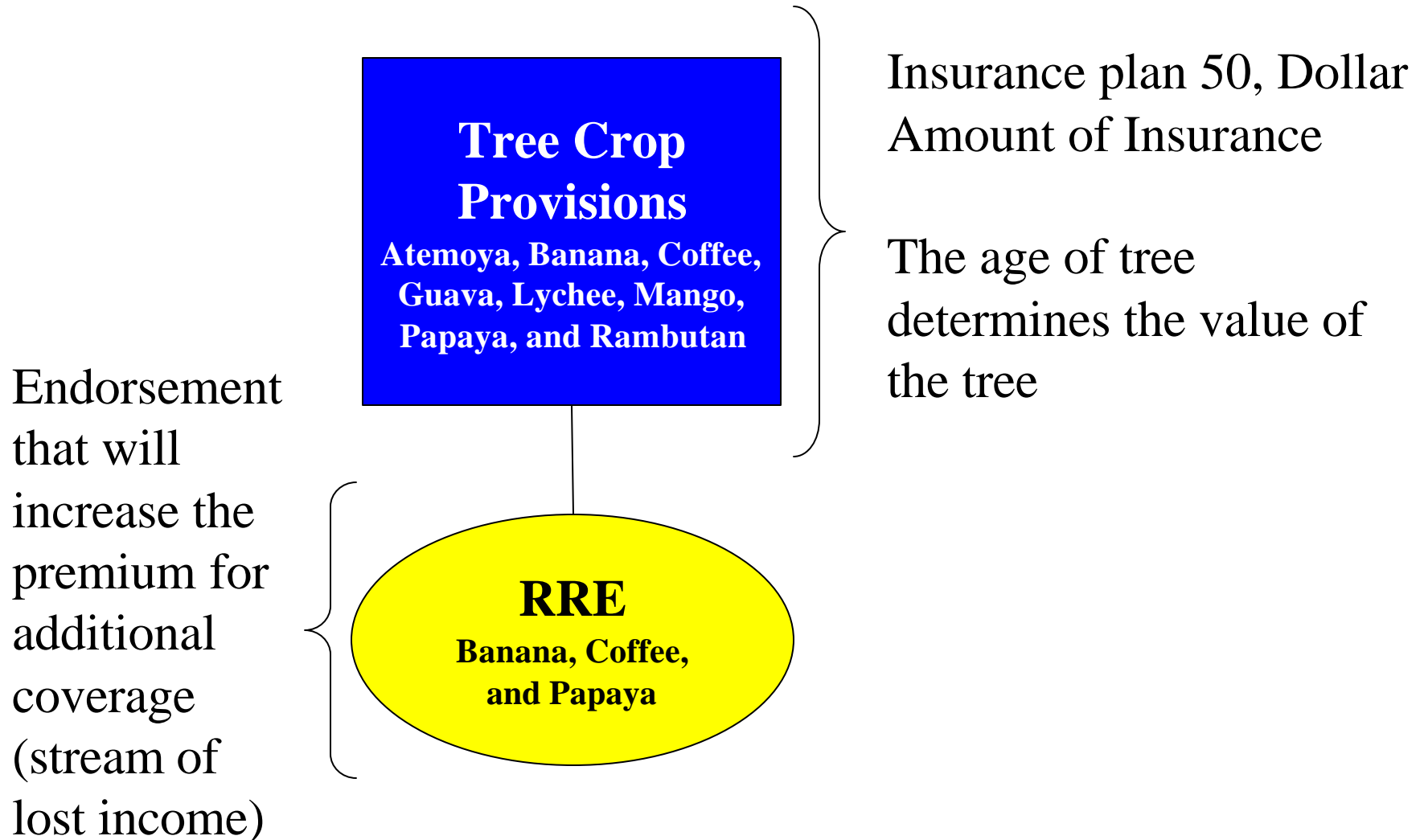
Hawaii Tropical Fruit and Trees



Program Design

- Flexible design allows the grower to select by crop:
 - Either Tree or Yield Coverage
 - Both Tree and Yield Coverage
 - Tree Coverage with or without the RRE

Tree Crop Program Design



Yield Crop Program Design

**Yield Crop
Provisions**
Banana, Coffee, Guava,
and Papaya

Insurance plan 90,
APH

Coverage
applicable to crop
varieties listed on
the actuarial table

Map areas will be
constructed for
rating purposes

Development Process

- Considered risk management needs of producers.
- Validated approach with agricultural experts, subject matter experts, producers, and University of Hawaii personnel.
- Verified results with primary and secondary data sources and third party review.
- Complied with task order requirements.

General HTFT Concepts

- Insurance Program Dates
 - Same program dates between trees and fruit
 - July 1 to June 30: Insurance period for coffee
 - January 1 to December 31: Insurance period for all other crops.
- Cause of Loss Limitations
 - Papayas: Papaya Ringspot Virus excluded as an insurable cause of loss
 - Coffee: Losses due to nematode infestation will not be covered during the first four years after set out.

General HTFT Concepts

- Fallowing
 - Required cultural practice when replanting to fields infested with nematodes (coffee) or PRSV (papayas).
- Stumping
 - Acceptable practice for all HTFT crops, except bananas and papayas.
 - Most damaged trees can be salvaged through the use of stumping.
 - Climate and growing environment in Hawaii allows a quick recovery after stumping.

Tree Concepts

- Dead or Alive
 - Quick tree recovery
 - Rehabilitation is considered a part of regular tree maintenance.
 - Producers wanted affordable catastrophic coverage for loss events such as hurricanes.
 - Producers were not interested in rehabilitation or partial tree loss payment.

Tree Concepts

- Revenue Replacement Endorsement
 - Coverage for the stream of income lost from the time the tree is destroyed to the time the tree, after replanted, resumes normal fruit.
 - There must be a loss under the tree policy for the RRE to attach.
 - Requires that all trees destroyed to an insured cause of loss must be removed from the field and replanted to the same crop of another tropical tree prior to the settlement of claim.

Fruit Concepts

- Production history requirements
 - 4 years
- Units by harvest period
 - Available for bananas only.
 - Sufficient data exists from both producers and Hawaii Agricultural Statistics Service.
 - Allows banana producers, who harvest year-round, to collect indemnity payments closer to the time of loss, rather than at the end of the year.

Fruit Concepts

- Quality
 - There is no quality adjustment due to fruit
 - Lack of price data
 - No quality standards in place for some crops, and no agreed upon standards for others.

Fruit Concepts

- APH Reporting Requirements
 - One year lag period for reporting fruit production and the grower must report two years of production.
 - In the year of stumping, the period of time allowed before production fully resumes will not be considered to be a break in continuity for APH reporting purposes.
 - In the year of fallowing, the period of time allowed before the tree is replanted will not be considered to be a break in continuity for APH reporting purposes.

Example: Tree Loss Adjustment

- 1. Tree Policy:
 - A. Total Guarantee = Number of trees
(by stage or age) x “Tree Reference Price”
(est. value) by age or stage x coverage level
 - Example: **2000 trees @ \$35 each x 75% coverage = \$52,500**

B. Total Premium = Liability * Base Premium rate (1 – 3%

Example: \$52,500 x 2% = \$1,050

C. Producer Premium Paid = Total premium less
USDA subsidy % (say (33%))

Example: \$1,050 - \$350 = \$700

Example: Fruit Loss Adjustment

- 2. Fruit policy
 - Production guarantee/acre = Approved yield/acre * coverage level
 - **Example: 10,000 lbs. * 75% = 7,500 lbs**
 - Total guarantee = production/acre * no. of acres
 - **Example: 7,500 lbs. * 3 acres = 22,500 lbs**
 - Liability = Total guarantee * price election
 - **Example: 22,500 lbs. * \$.95/lb. = \$21,375**

Example: Fruit Loss Adjustment

- Total premium = liability * base premium rate (1 – 3%)
 - **Example: \$21,375 * 2% = \$427.50**
- Producer premium paid = Total premium less USDA subsidy % (33%)
 - **Example: \$427.50 – \$142.50 = \$285**