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Adjusting Hail-damaged Crops for Crop Insurance Reporting

William M. Edwards
Iowa State University, wedwards@iastate.edu

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Adjusting Hail-damaged Crops for Crop Insurance Reporting

Abstract
Hail damage to crops in north central Iowa caused great losses; the total of which will become more defined with harvest. The following guidelines are intended to help farmers through the process of adjusting hail-damaged crops for crop insurance reporting.

Keywords
Economics

Disciplines
Agricultural Economics | Agricultural Science | Agriculture | Agronomy and Crop Sciences | Climate
Adjusting Hail-damaged Crops for Crop Insurance Reporting

By William Edwards, Department of Economics

Hail damage to crops in north central Iowa caused great losses; the total of which will become more defined with harvest. The following guidelines are intended to help farmers through the process of adjusting hail-damaged crops for crop insurance reporting.

Crop-hail and companion hail insurance

1. These are policies sold by private crop insurance companies. They are separate from the multiple peril policies regulated by the Risk Management Agency (USDA), and their premiums are not subsidized.
2. Crop-hail policies provide a maximum dollar amount of coverage per acre, with a fixed percent deductible. Companion hail policies are similar, but provide coverage only in addition to coverage provided by standard MPCI policies.
3. They generally cover damage due to hail, wind and/or fire. They do not cover yield loss due to other weather events, or price risk.
4. Damage is estimated as a percent of what the yield would have been without the weather occurrence, but a specific yield estimate is not made.
5. The adjustor may look at the crop soon after the damage occurs, but often will defer an appraisal until later, possibly just before harvest when crop damage is more evident. If the crop is harvested, check rows should be left.
6. After a percent loss is determined, the payment is equal to (percent loss minus percent deductible) x dollar value of coverage.
7. Many policies have a “disappearing deductible,” which means that as the percent crop loss increases the unpaid deductible portion decreases until eventually the entire loss is paid. This is done by multiplying the appraised loss by a factor of 1.25 or 1.5.

Example: A farmer purchases a policy with a $500 per acre coverage level and a 5 percent disappearing deductible. After a hail storm, the adjustor determines the yield loss to be 15 percent.

Payment = (15% - 5%) x 1.25 x $500 = $62.50 per acre.

Multiple Peril Crop Insurance (MPCI)

1. The volume of crop is first corrected to a standard moisture percentage, 15 percent for corn and 13 percent for soybeans.
2. A quality adjustment factor is computed based on three factors:
   • Sample grade discount of 9.9 percent. Additional discounts may be applied if a musty, sour or otherwise objectionable odor is detected.
   • Low test weight, beginning at samples testing below 49 pounds per bushel for both corn and soybeans, and down to 46 pounds for corn or
44 pounds for soybeans.

- Excessive kernel damage, beginning at damage in excess of 10 percent for corn and 8 percent for soybeans, up to 35 percent kernel damage for either crop.

3. Quality discounts for damage in excess of the MPCI “chart values” for either low test weight or kernel damage will be based on the percent price discount determined by the buyer compared to the local market price on the same day. Unsold production will have an adjustment factor of 50 percent.

4. Additional discounts may be taken for substances such as aflatoxin, vomitoxin or fumonisn. Each substance has a separate discount table, ranging up to 40 percent for aflatoxin and fumonisn and 45 percent for vomitoxin. Samples tested for aflatoxin must be obtained before grain is placed into storage.

5. The bushels of production at the standard moisture level will be reduced by the percent quality adjustment factors to arrive at the “production to count” bushels. These bushels will be used to settle claims for any MPCI policy, and to calculate actual production history (APH) yields for future policies.

Example: a truckload of damaged corn contains 900 bushels after the moisture content is adjusted to 15 percent, and receives a “sample” grade.

<table>
<thead>
<tr>
<th>Sample grade</th>
<th>48.5 pounds per bushel</th>
<th>16.5 percent</th>
<th>30 ppb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test weight</td>
<td>Discount factor = .099</td>
<td>Discount factor = .041</td>
<td>Discount factor = .132</td>
</tr>
<tr>
<td>Kernel damage</td>
<td>Discount factor = .100</td>
<td>Discount factor = .132</td>
<td>Discount factor = .100</td>
</tr>
<tr>
<td>AFLX Present</td>
<td>Total discount = .372</td>
<td>Total discount = .628</td>
<td>Total discount = .565.2 bushels for that load</td>
</tr>
</tbody>
</table>

The value of the payment will depend on the type of MPCI policy and guarantee purchased, the indemnity price, and for revenue insurance the futures price at harvest time.

For more details consult your licensed crop insurance agent or insurance provider.

A related ICM News article, [Update on Hail Damaged Grain](#), contains a short checklist for making decisions about crops affected by severe hailstorms.

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**William Edwards is a professor of economics with extension responsibilities in farm business management. Edwards can be contacted at (515) 294-6161 or by emailing wedwards@iastate.edu.**

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