
Crop Insurance as a Risk Management Tool for Dryland Agriculture

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The mandate of the Saskatchewan Crop Insurance Corporation (SCIC) is to provide crop production insurance to farm businesses in order to manage production risk and stabilize the farm economy.

SCIC's stated purpose is to provide producers with multi-peril insurance arising from uncontrollable natural causes on fall and spring seeded crops as well as forage crops. Crop insurance does not provide a price or revenue guarantee for producers. It is strictly focused on production risk.

Crop insurance was first offered in Saskatchewan in 1961, which was the driest year since 1937. There were 194 producers in the program that year with 33,500 acres insured. The program had an Indemnity to Premium (I/P) ratio of 4.34.

Crop insurance was in a surplus position from 1962 to 1983. However, in the mid to late 1980's the program suffered four severe loss years within a six year period:

- 1984 I/P ratio 2.11
- 1985 I/P ratio 2.48
- 1988 I/P ratio 3.83
- 1989 I/P ratio 1.88

The program started the decade of the 1990's with a deficit of more than \$600 million. It ended the decade with a surplus of \$315 million due to a nearly unbroken series of favorable years. There was only one year in the decade with an I/P > 1.00. In 1992 the I/P ratio was 1.35 due to a widespread early frost. While the 1990's was good in climatic terms for most of the province, regional droughts plagued some areas (mainly the Northwest) in the middle years of the decade.

Drought had big impact over a large area of the province in 2001. However, losses under the crop insurance program were not as great as during the droughts of the 1980's. The I/P ratio in 2001 was 1.60.

The question has been raised as to why indemnities weren't higher in 2001. Some possible reasons include:

- Decent reserve moisture (some areas)
- Timeliness of precipitation
- Temperatures not as extreme as in some previous droughts
- Improved production technology

A question that frequently arises is whether or not crop insurance stabilizes farm incomes. The following are a few statistics that address this issue:

- Average Sask Realized Net Farm Income (RNFI) 1991 to 1999:
 - With CI \$580 million
 - Without CI \$538 million
 - RNFI 8% higher with CI

- Coefficient of Variation of Sask RNFI 1991 to 1999:
 - With CI 35.4%
 - Without CI 39.8%
 - RNFI 11% less variable with CI