Banana Risk Management
With and Without
Crop Insurance

Dr. Kent Fleming
Professor & Extension Economist
CTAHR, University of Hawaii-Manoa
What is “Risk”:

Risk refers to a situation in which more than one possible outcome exists, some of which may be unfavorable.

Risk is the possibility of adversity or loss; risk refers to uncertainty that matters.
5 sources of risk:

- **Production (and technical) risks**: unpredictable yields due to weather (storms, excess or deficiency of water), disease, insects, weeds, etc.

- **Price (and market) risk**: price variability as a result of changing supply and demand. Input prices (production costs) tend to vary less than output prices but are also a risk. (E.g., petroleum price increases impact a range of inputs, including fuel, fertilizer and pesticide costs.)
5 sources of risk (cont’d.)

- **Legal risk**: Urban-rural interfaces result in increased regulations, violations of which can lead to expensive fines and lawsuits. Violations of safety or health regulations or treatment of hired workers can also lead to legal actions.

- **Financial risk** is incurred when money is borrowed for operations. Uncertainty results from future interest rates or the willingness of a lender to lend at the levels needed or changes in the market value of collateral or the ability to generate a cashflow adequate to service the debt.
• **Personal risk:** The farm manager or key employees could suffer sudden injury or illness and others must be informed or skilled in that person’s responsibilities. Family disputes or divorce settlements can divert property and financial assets from the business.
Risk is inherent in agriculture. It is impossible to eliminate all risk. The goal is to manage risk.
Risk Management Tools & Strategies

- Irrigation
- Organic production
- Insurance
- Vertical integration
- Direct marketing (agtourism)
Current compensation for loss

• Fruit: none

• Tress: IRS deduction (depending on current basis in orchard)
Hawaii Tropical Fruit & Tree Crop Insurance Pilot Program

- Coffee
- Bananas
- Papaya
- Guava
- Mango
- Pineapple
- Lychee
- Atamoya
- Rambutan
What causes of loss will you be able to insure against?

1. Adverse weather conditions

2. Disease, but not loss due to insufficient or improper application of disease-control measures
Insurable losses (cont’d)

3. Insects, but not loss due to insufficient or improper application of insect-control measures
Insurable losses (cont’d)

4. Fire, unless weeds and other forms of undergrowth have not been controlled or pruning debris has not been removed from the orchard

5. Earthquake

6. Volcanic eruption
Insurable losses (cont’d)

7. Wildlife, unless proper measures to control wildlife have not been taken

8. Failure of irrigation water supply, if caused by an insured peril

9. Destruction of live trees authorized by the insurance provider to contain the spread of disease.
So what important risks are *not* covered?

Theft

Vandalism

Poor management
“Hawaii Tropical Fruit & Tree”

The fruit component is a yield guarantee.

If your yield drops below the level you have insured for, you will be paid for the difference at the projected price.

E.g., If your yield was 15,000 lbs./ac. and you selected 75% coverage (i.e., for 11,250 lbs./ac.) and were only able to market 6,250 lbs./ac., you would be paid 36¢/lb. * 5,000 lbs. = $1,800.
“HOW MUCH WILL IT COST?”

**YIELD:**

Hawaii County Average        16,537 lbs./acre

or

Actual Production History (APH)
average for previous 4 years = 15,000 lbs./yr.

**COVERAGE** (50, 55, 60, 65, 70 or 75%):

@ 75% = 11,250 lbs./acre
“HOW MUCH WILL IT COST?” (Cont’d)

**REVENUE:**
- RMA Price = $0.36 /lb. $4,050 /acre

**PREMIUM:**
- RMA Base Rate = 7% $284

**NET PREMIUM** *(what grower pays):*
- after USDA Subsidy of 55% $128
“HOW MUCH WILL IT COST?”

**YIELD:**
Average annual production 15,000 lbs./acre

**COVERAGE:**
75% 11,200 lbs./acre

**REVENUE:**
RMA Price = $0.36 /lb. $4,050 /acre

**PREMIUM:**
RMA Base Rate = 7% $284

**NET PREMIUM** *(what grower pays):*
after USDA Subsidy = 55% $128
Hawaii Tropical Fruit & Tree

The tree component insures against loss of the tree. If a tree dies for an insurable reason, you will be reimbursed for the value of the tree (the value is set beforehand by RMA).

There is also a lost income option you can elect to purchase.
What is a “dead” banana “tree”?

“Whenever the tree is determined by [RMA] to be dead,” or

“the tree has been uprooted,” as well as

“any tree destroyed to control the spread of BBTV.”
“HOW MUCH WILL TREE INSURANCE COST?”

**NUMBER OF TREES**  
2,000 trees

**COVERAGE:**  
75%

**INSURANCE GUARANTEE:**  
1,500 trees @ $25.00 /tree = $37,500

**PREMIUM:**  
RMA Base Rate = 0.126%  
$4,725

**NET PREMIUM** *(what grower pays):*  
after USDA Subsidy of 55%  
$2,126