



Crop Insurance Training Seminar

Malting Barley Endorsement



Program Details

Confidentiality Notice

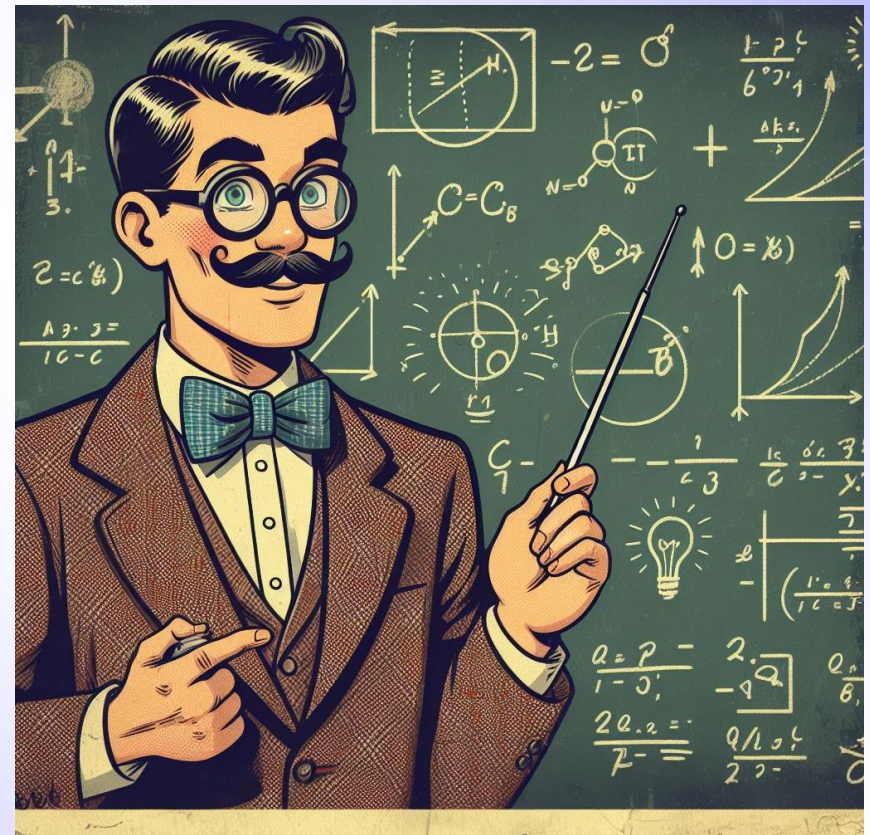
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What we're covering today

Malting Barley Endorsement (MBE) - Topics

- Participation
- Real World Loss Adjustment Example
- Local Market Price
- Questions





US Crop Insurance Overview

All Crops Insurance Experience 2023

- Crop insurance is available for 134 crops
- 634 varieties
- 35 different insurance plans
- 2023 Insurance Experience
 - Liability - \$181 bln
 - Total Premium - \$18.1 bln
 - Subsidy – \$11.3 bln
 - As of this date, Indemnity \$6.4 bln



Malting Barley Overview

Malting Barley 2022 Insurance Experience

- Acres insured
 - All barley – 2.1 mln
 - Malting barley – 1.6 mln
 - Malting Barley Endorsement – .43 mln
- Liability - \$178 mln
- Total Premium - \$32 mln
- Indemnity - \$23 mln



Background

- Development of the Malting Barley Endorsement (MBE) was a joint project between Watts and Associates, Inc. (W&A) and the North Dakota Barley Council (NDBC).
 - With the support of the National Barley Growers Association and other barley organizations



Background

- MBE is a privately-developed product, submitted to and approved by the FCIC Board of Directors, in accordance with section 508(h) of the Federal Crop Insurance Act.
- MBE extends and enhances price and malt quality coverage to producers of malting barley.



Background

- MBE became available for sale to malting barley producers in 2016.
- The MBE replaced the Malting Barley Price and Quality Endorsement in 2016.
- Offered in all counties where previous endorsement was available.
- MBE insures winter and spring types.



Background

- Since 2016 MBE has been expanded to additional counties.
- In 2021 MBE expanded to 35 counties in Ohio
- In 2022 MBE expanded to 3 more counties
 - 2 in Ohio
 - 1 in Indiana.
 - This region is winter type production.
- Additional expansions expected as US malting barley production increases in the eastern region.
- Current states with MBE represent over 99% of current insured acres of Malting Barley.



Eligibility Requirements

- Producer must buy a Small Grains policy that is:
 - Yield Protection
 - Revenue Protection
 - Revenue Protection with Harvest Price Exclusion
- Then may purchase MBE.
- MBE coverage requires the producer to have at least one malting barley contract.
- Contracts can be based on acres or production.
- Contracts can have a fixed contract price or a premium/basis contract to set price later.



Insurable Causes of Loss

- MBE covers malting barley when it is rejected by the buyer for failure to meet the standards contained in a malting barley contract.
- Must be due to an insurable cause of loss.
- Samples must be taken no later than 90 days after the end of the insurance period.
- Must be graded by March 15 the following year, to receive quality adjustment coverage.



Projected Price and Harvest Price

- MBE uses the CBOT soft red winter wheat September contract, along with the contract price, to establish the projected and harvest prices.
- Projected price discovery:
 - Winter type is August 15 - September 14 previous year
 - Spring type is February 1 to last day in February.
- Harvest price discovery:
 - All malting barley types is August 1 through August 31.



Projected Price and Harvest Price (cont.)

- For a Revenue Protection (RP) policy, the MBE price used for insurance will consider the Revenue Protection policy's revenue coverage.
- For RP, the guarantee is reset to the higher of projected or harvest price.
- MBE coverage is adjusted to reflect these differences.



MBE Indemnity Calculations

In 2021 the following change to MBE was made.

- Local Market Price (LMP) was defined and added to the endorsement provisions
 - “...the cash grain price per bushel for U.S. No. 2 barley on the date the malting barley is not accepted at the contract price or is rejected by the buyer.”
 - This change reflects the cash grain price a farmer would have received on the day malting barley was rejected.
- Indemnity calculation uses LMP in place of the RMA barley harvest price.



MBE Indemnity Calculations

Discounted Purchase Price

- MBE added a definition for “Discounted Purchase Price”
- This term and procedure was already in the MBE program, but now is defined in policy.
- The Discounted Purchase Price is used when the buyer purchases malting barley at a lower than contracted price when barley failed one or more quality requirements.
- Indemnity calculations use the greater of the discounted purchase price or the local market price.



Example

Example uses:

- Rejected barley sold into local market
- Revenue coverage



Projected Price and Harvest Price

- Determination of the projected price and the harvest price
- Two kinds of malting barley contracts.
 1. Fixed Price Contract.
 2. Basis/Premium Priced Contract – a contract that provides a basis/premium amount above or below a base price to be determined later.



Projected Price and Harvest Price

1. Fixed Price Contract

Example: If the malting barley contract provides a fixed price for the contracted production, **the projected price** for that malting barley contract is the contract price.

The contract states that the price to be paid to the producer is \$8.00 per bushel.

Projected price = \$8.00



Projected Price and Harvest Price

2. Basis Priced Contract

The contract provides for a premium amount (assume minus \$1.00 per bushel (-\$1.00)) relative to a base price to be determined (i.e., for soft red winter wheat).

Example

- The producer chooses to price the contract on May 1.
- The closing price for soft red winter wheat on that date is \$9.00 per bushel.
- The contract price is base price for that malting barley contract is \$8.00.



Projected Price and Harvest Price

2. Basis Priced Contract (cont.)

Example 2:

- Same scenario, but now assume the producer has not established the base price on or before the acreage reporting date.
- Therefore, the base price for that contract equals the projected price for soft red winter wheat in accordance with section 10 of the MBE.
 - The contract provides for a premium amount of minus \$1.00 (- \$1.00) per bushel from a future price for wheat.
 - The MBE projected price for soft red winter wheat is \$8.00 per bushel.
 - The contract price to use for MBE is $\$8.00 - \1.00 (premium amount) = \$7.00 per bushel.



Projected Prices and Harvest Prices

Projected Pricing	Projected Price	Harvest Price
Contract Price	\$8.00	
CEPP Feed Barley	\$6.00	\$4.00
MBE	\$7.00	\$4.50
Insured Price	\$8.00	\$5.50



Production and Guarantee

Production

Contracted Production	12,000
Acres	200
APH	60
Contract bu/acre	60
Coverage Level	0.75

Insurance Guarantee

Per Acre	\$360
Total	\$72,000



Loss Calculation

Loss Calculation

Adj Harvest Price	\$5.50
Adj Factor	0.636
Adj Contract Production	7,632
PTC	7,632
Value PTC	\$41,976
Indemnity	\$30,024



Harvest Price

Harvest Price

- For revenue protection, subtract the MBE projected price for wheat (in accordance with section 10 of the MBE) from the projected price determined by the producer's contract, and
- Add that result to the MBE harvest price (in accordance with section 10 of the MBE.)
- For yield protection, the harvest price is the projected price as there is no revenue price change coverage.



2021 Policy Changes (Cont.)

Section 8 – Settlement of Claim.

- Sections 8(a)(5) and 8(a)(6) added “for use as malt” to clarify applicable use associated with malting:
 - “...eligible contracted malting barley production rejected for use as malt by a buyer and that we determine was rejected and disposed of in accordance with...”
 - “...that fails to meet one or more of the quality standards applicable to a malting barley contract, or a malting barley price agreement, but is accepted by a buyer for use as malt at a discounted purchase price ...”



2021 Policy Changes (Cont.)

Section 8 – Settlement of Claim.

- Section 8(a)(5) replaced the applicable harvest price of barley from the Commodity Exchange Price Provisions with local market price.
- Section 8(a)(6) revised this paragraph by changing the quality adjustment calculation from use of purchase price to the greater of the discounted purchase price or the local market price.



Loss Example

For example, the buyer rejects 1,000 bushels of harvested production due to an insurable cause. The 1,000 bushels of are eligible for quality adjustment:

- OLD: The CEPP price for barley for 2020 was \$2.66. The adjusted quantity is $1,000 \text{ bu.} \times \$2.66 \div \$4.50 \text{ (MBE Harvest Price)} = 502.2$ bushels production to count.
- NEW: The local market price for barley is \$2.15. The adjusted quantity is $1,000 \text{ bu.} \times \$2.15 \div \$4.50 \text{ (MBE Harvest Price)} = 477.8$ bushels production to count.



Questions

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