13. (3.5 points)

Canada's Agricultural Policy Framework (APF) includes two business risk management programs:

- the Production Insurance Program
- the Canadian Agricultural Income Stabilization (CAIS) Program

a. (1.5 points)

Describe each program and explain how they complement each other.

b. (0.5 point)

Identify two types of Production Insurance plans.

c. (1.5 points)

Livestock insurance is not currently offered by the APF. A private insurance company wants to offer this coverage and asks that a plan similar to the Production Insurance plan for crops be designed. Describe how the plan could be set up including underwriting, pricing and the claims handling procedure.

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QUESTION 13	
TOTAL POINT VALUE: 3.5	LEARNING OBJECTIVE: B1-B2
SAMPLE ANSWERS	
Part a: 1.5 point	

Sample 1:

Production insurance :

- Manage production risk that arise in the agricultural industry
- Provide income loss protection on a commodity basis due to uncontrollable risk loss, e.g. weather, snow, wind, drought
- Doesn't cover market price volatility or fuel price increase
- Participation is voluntary

CAIS :

- Mitigate unforeseen income disruption and promote long-term income stability
- Provide income loss protection above the entire farm entity basis
- Cover perils not covered by PI, e.g. market price volatility, fuel price increase, etc.

The payments from PI are counted as the income for the reference margin on CAIS. If producer participate in PI, they're eligible for higher reference margin and potentially higher payments under CAIS.

Sample 2:

Production insurance :

- Provides income protection on a commodity basis for uncontrollable production losses due to weather, pests, disease.
- Encourages risk management and mitigation of losses

CAIS :

- Provides protection against income disruption due to rises in input costs (eg: guel) or changes in market price.
- Promotes long-term income stability

They complement each other as different types of loss protection are provided by each program (no overlap)
Both programs are run by the provincial and federal governments which allows coordination of roles and efficiencies in administering the programs

Part b: 0.5 point(s)

- Individual yield program
- Collective protection

Part c: 1.5 point(s)

Sample 1:

- Underwriting :
  - To avoid moral hazard, all livestock must be insured
  - Insurance must be bought before any possible loss

- Pricing :
  - Should include deductible and coinsurance to avoid moral hazard
  - Pricing must be risk-based to make sure the program is sustainable
  - Pricing should consider historical losses of the insured

- Claims :
  - Claims must be paid quickly for the insured to avoid economic disruption

Sample 2:

- Underwriting :
  - Farmer to choose a livestock to be insured. Once a livestock type is selected, all of the livestock of the same type in that farm is to be insured
  - Insurance must be purchased before any damages are possible
  - Operate on a co-insurance basis with deductible to ensure financial accountability and loss prevention

- Pricing :
  - Can be based on long term historical results

- Claims :
  - Claims can be made based on individual production basis or area production basis
  - Product would cover all losses to livestock caused by natural hazards like fire, flood or disease.

SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT
Part a
In relation to Production Insurance, a lot of candidates stated only that it covers production losses. Because the objective of the question is to provide a description of production insurance, simply stating that production losses are covered was deemed insufficient particularly because the program is already named Production Insurance. We were looking for a description of what types perils are covered, how it works, etc. Most candidates had a good understanding of what CAIS is and how it complemented with Production Insurance.
Part b
Most candidates got full points for this question. It only was asking to state so no explanation was necessary.
Part c
Hardest part of the question due to its open ended nature. Some candidates have described a government-based insurance plan even though the question states that it is a private insurer. Given that there are a significant number of points available, we expected candidates to describe the hypothetical program in detail. Some candidates have given a correct answer however they hadn't elaborated enough to obtain full points.