Canadian BRM Programs, Private Insurance, and Contrasts with U.S. System

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Primary focus is attracting competent students to the food and agricultural sectors.

Secondary focus is informing policy through research.

- Trump to Biden: Implications for Canadian Agriculture (open access in *Canadian Journal of Agricultural Economics* - https://onlinelibrary.wiley.com/journal/17447976).
- COVID-19 and the Canadian Agriculture and Food Sectors: Thoughts from the Pandemic Onset (*Canadian Journal of Agricultural Economics* - https://onlinelibrary.wiley.com/journal/17447976).
- Modelling the Effects of ASF on Ontario's Hog Sector.
- Modelling Scenarios of Trade Liberalization in Canada's Dairy Industry.

Past BRM Activities

Canada

- Actuarial audit of AgriCorp for provincial auditors.

United States

- USDA-RMA Research Advisory Committee.
- Standard reinsurance agreement between government and private insurers for USDA-RMA.
- Designed rating methodology of yield and area-based products for USDA-RMA.
- Designed coverage level rate relativities in APH program for USDA-RMA.
- Expert actuarial reviewer on numerous products for USDA-RMA.
- Designed retain-cede rating game for comparing rating methodologies used by USDA-RMA.

Canadian BRM Institutions

- Canada is relatively unique in that agricultural policy does not belong exclusively to the federal government, they share that with provincial governments.
- Canada has roughly five year policy frameworks much like the U.S. farm bill
- Framework is negotiated between the federal and provincial governments with input from industry.
- Provincial Crown Corporations (BC, Alberta, Saskatchewan, Manitoba, Ontario, and PEI) administer much of BRM programs in Canada.

BRM Seems to be Under Constant Review

- With good cause → biggest monetary outlay for domestic agricultural programs.
- Lots of questions to ask.
  - What flaws are with current suite of programs?
  - What are the alternatives programs?
  - What $$ are required for possible alternatives?
- **Changes (past and likely future) seem to be largely driven by the overall size of BRM budget.**

BRM Alternatives

- Increase AgriStability coverage to GF1 levels
  - funded by government as in GF1
  - funded by increasing co-pay
  - funded by removing AgriInvest
  - funded by reducing AgriInsurance subsidies
  - funded by reserves
  - farmer pays the premium for the 70-85% coverage and government covers operating costs
  - combination of the above
- Introduce a shallow loss program
  - area based?
  - funded by producer premiums but operating costs are covered by governments much like Western Cattle Price Insurance Program
  - purely private?

Alternatives

- Replace AgriStability with revenue insurance
  - issues of co-pay, coverage levels, and subsidization all remain
  - less transaction costs on farmers and government to determine and settle claims
- Replace AgriStability with an area margin or revenue program
  - basis risk
  - issues of co-pay, coverage levels, and subsidization all remain
  - less transaction costs on farmers and government to determine and settle claims
- Replace percentage based coverage levels with frequency based coverage levels
  - Guarantees would be based on 1/10, 2/10, or 3/10 year loss rather than a percent of expected yield, margin, revenue

Current Involvement of Private Insurance Companies in Canadian Agriculture

- Property, fire, etc.
- Hail insurance
- Global Agricultural Risk Solutions and other private companies.
- Some provincial Crowns buy private reinsurance despite $7.5 billion in fund surpluses.

Private yield, margin, and revenue insurance represents a very small part of the market - not just in Canada - but all countries (developed and developing).

Why So Little Private Yield/Margin/Revenue Insurance?

1) Crowding Out?

- Private Insurance Charges
  1. pure premium
  2. return to capital that reflects inherent risk
  3. administrative and operating expenses
  4. reinsurance cost
- Public Insurance Charges
  1. pure premium
  2. reinsurance cost (only in Canada - very odd)

2) Always option to self insure

Where Can Private Insurance Co-exist with Public Insurance

- Offerings to fill in gaps in public insurance (i.e., shallow loss coverage such as whole farm margin coverage above 70%).
    - most have chosen to self-insure for shallow losses but it can attract relatively risk adverse farmers that want additional insurance for public coverage gaps.
- Cherry pick farmers that are overcharged;
    - given high subsidies with public insurance farmers have to be significantly overcharged for private to be cheaper.
- Attract farmers that just do not want to purchase public insurance
- CAP incentivized private insurance by allowing private insurance premiums to count as eligible expense but private claims do not count against AgriStability payments.

Contrasts with U.S. Crop Insurance - Programs

- U.S. government offers commodity specific yield insurance much like Canada's AgriInsurance although farmers are allowed to sub-divide their farm into units. Subsidies are roughly equivalent.
- U.S. offers commodity specific revenue insurance and Canada does not.
- U.S. offers area yield and revenue insurance and Canada does not.
- U.S. offers a variety of shallow loss products and Canada does not.
- U.S. does not offer a program similar to AgriInvest.

Contrasts with US Crop Insurance - Institutions

- U.S. government sets or approves premium rates (like Canada).
- U.S. government approves which insurance products to offer (like Canada).
- Private insurers (and brokers) sell products to farmers *unlike* in Canada which uses provincial Crown Corporations to deliver the program.

Contrasts with US Crop Insurance - Institutions

- U.S. government asymmetrically shares the underwriting gains/losses in a somewhat convoluted way with insurance companies so that they are incentive compatible. In Canada, all underwriting gains and losses are retained with the provincial Crown Corporations.
- US government does not purchase private reinsurance for their retained book of business whereas most of the provincial Crown Corporations do.
- Mechanism for private commodity groups to submit plans of insurance for consideration in the U.S. but not Canada.

Provincial Crown Corporations - 2019/2020 ($ millions)

Province	Fund Balances	Reinsurance Costs	A&O Expense as a % of Premium
British Columbia	n/a	n/a	n/a
Alberta	2,839.6	19.8	5.8%
Saskatchewan	2,336.2	24.7	7.4%
Manitoba	691.2	32.7	10.6%
Ontario	809.9	5.3	11.0%
Quebec	789.7	n/a	10.5%
Prince Edward Island	n/a	n/a	n/a
Total	7,466.6	82.4	225.6

Note: Fund reserves total more than 5 year BRM government budget.

Provincial Crown Corporations - Notes

- Provincial Crown Corporations operate cheaper than the reimbursement for administrative and operating expenses to the private companies in the U.S.
- Provincial crown corporations that purchase private insurance represent the only public government in the developed world to purchase private reinsurance. FCC does not. USDA does not.
- Fund balances reflect that the actuarial rating methodology is biased towards accumulating surpluses much like a private insurance company rather than a public program.

End

Much of what was presented here is taken from an extended presentation (2 hours) titled "Canadian BRM Programs under Review: A Study of Syntax and Mythical Changes" at the Canadian Agricultural Economics Society 2020 policy conference.

Thanks for the invitation.

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