

Overview of Risk and Risk Management in Agriculture

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Today's Discussion

An overview of risk and risk management in agriculture

- Five general types of risk
- Introduction to some risk management tools.
- Crop insurance vs disaster assistance programs

What is Risk?

Risk is the chance that something bad or undesirable will happen

Risk can affect your finances, health, satisfaction & well being

What is Risk?

Risk ↔ Reward
Tradeoff

Upside: Taking greater risks usually means greater rewards over time

Downside: Losses from risk taking can be devastating

Q. How much risk are you willing to take? (What is to be gained?)

What is Risk Management?

Risk management is:

- Finding your risk tolerance & capacity
- Identifying your risks
- Creating risk goals & management plan
- Tools & strategies to reduce effects of risk
- Evaluation of tradeoffs between possible losses and expected rewards

Risk Tolerance & Capacity

Risk lovers, risk neutral, risk averse

- Generational differences
 - Gender differences
- Life stage/family differences
 - Life experiences
 - Wealth, resources

Dynamic and changes over time

ID Risk: Five General Risk Areas



Five Risk Management Areas

- ✓ **Production**
- ✓ **Financial**
- ✓ **Price or Market**
- ✓ **Institutional or Legal**
- ✓ **Human or Personal**

What are your top risk areas?

*On your own, do the “Producer
Business Checkup Exercise”*

<https://www.ctahr.hawaii.edu/oc/freepubs/pdf/EI-23.pdf>

Top 5 Reasons for Not Managing Risk

- 1. I'm waiting for my neighbor to try it.*
- 2. Crop and livestock losses build character.*
- 3. It's more fun to keep my lender guessing about my ability to repay.*
- 4. Sleeping too soundly would make my spouse wonder.*
- 5. Life would be dull without daily doses of fear*

Source: Farm Futures

Timing of Risk Management

Ability to Increase Profitability @ Lowest Cost



Phases of the Cropping Cycle

Some Tools for Managing Risk

- Crop Insurance & Disaster Assistance
- Other Insurance and Estate Planning
- Crop/Enterprise Diversification
- Value Adding/Niche Marketing/
Contracting/Direct Marketing
- Disaster Preparedness Plans

Types of Federal Crop Insurance Risk Management Agency (RMA)

Traditional

Multiple Peril
Crop Insurance

Catastrophic

Group Risk
Plan

Revenue

Income Protection

Whole Farm

Group Risk Insurance
Plan

Revenue Assurance

Crop Revenue Coverage

Dollar

Other

Livestock Risk
Protection

Livestock Gross
Margin

Vegetative Index

Rainfall Index

Other Insurance and Estate Planning

- Life, Health, Medical, Disability Insurance, etc.
- Building, Car, Product Liability, etc.
- Key Personnel Coverage
- Estate Planning
 - Up to date
 - Directive “Does what you want it to do”

Crop/Enterprise Diversification

Diversification

- Crops: e.g. Sheep, Goats, Herbs, Tea, Corn, Pumpkins
- Products: “adding value,” vertical integration
- Direct Marketing (Farmers’ Markets, U-pick, roadside, CSA)
- Agri-Tourism (destination or on the way?)

Crop/Enterprise Diversification

Suggestions:

- Test new enterprises on small scale
- Friends and family as test market
- Can't do everything
- Uniqueness of product/experience
- New practices close to current practices

Caution: “Diversification may not reduce risk,
and could actually increase risk”

Value Adding / Niche Marketing

Adding value via form, place, time, ownership, information

- Buy local
- Vertical integration
- Direct marketing
 - Farmers' Markets, U-Pick, Roadside Stands, CSA
- Internet & mail order
- Agri-Tourism

Which Apples Are Preferred?

Food *versus* *Tourism*

\$1.49/lb to consumer

\$0.20 to farmer

\$0.59/lb to consumer

\$0.59/lb to farmer

PRODUCT FORM: FRESH OR PRECUT?

**Processing adds cost, but not
always value**

Disaster Preparedness Plan

- Emergency Contact Information
 - ✓ Employee Emergency Contacts
 - ✓ Land Managers, Suppliers & Contractors
 - ✓ Customer Contacts
- Communication Plan
- Evacuation Plan
- Shelter Plan
- Finances, Insurances, & Succession
- Employee cross-training

Disaster Programs Farm Service Agency (FSA)

Selected Types of Disaster Assistance Programs

General

(NAP) Non-Insured
Assistance Program
& Buy-up

(EM) Emergency
Disaster Loans

(ECP) Emergency
Conservation Program

(WHIP) Wildfire and
Hurricane Indemnities
Program

Crop Specific

(CDP) Crop
Disaster Payments

(TAP) Tree
Assistance
Program

Livestock

(LFP) Livestock
Forage Disaster
Program

(LIP) Livestock
Indemnity
Program

(ELAP) Emergency
Assistance for Livestock,
Honey Bees & Farm
Raised Fish

USDA Crop Insurance & Disaster Assistance Programs

	Risk Management Agency (RMA)				Farm Service Agency (FSA)			
	Current Insurance Plans				Natural Disaster Programs			
Commodity	Whole Farm	Fruit (APH)	Tree/ Dollar Amount	LRP	NAP*	TAP	ELAP, LFP, LIP	ECP
Banana	√	√	√			√		
Coffee	√	√	√			√		
Mac Nuts	√	√	√ Trees			√		
Papaya	√	√	√			√		
Other Tree Crops	√				√	√		
Nursery	√		√					
Other Crops	√				√			
Livestock	√			√			√	
Farm/Ranch Land					√			√

Notes:
 * NAP is not available for crops where catastrophic (CAT) is available.

No RMA insurance or FSA NAP = No access to disaster programs

Documentation is the KEY...



Recordkeeping!

Challenges & Opportunities Ahead

- Discriminating Consumer Preferences
- Globalization
- Rural-Urban Interfaces
- New Technologies
 - GIS/GPS
 - GMO's
- Food Safety and Tracking
 - Organic
 - COOL
 - FSMA
 - Animal ID

Summary of Key Points

- Records, Records, Records!
- Look for new opportunities
- Know your top risk areas
- Know where you are going and how you plan to get there
- Seek assistance from support agencies & organizations, and other producers
 - Cooperative Extension
 - USDA/FSA, NRCS, RMA

Questions?

Mahalo!