

2013

BUSINESS RISK
MANAGEMENT BRANCH

YEAR IN REVIEW



Ministry of
Agriculture

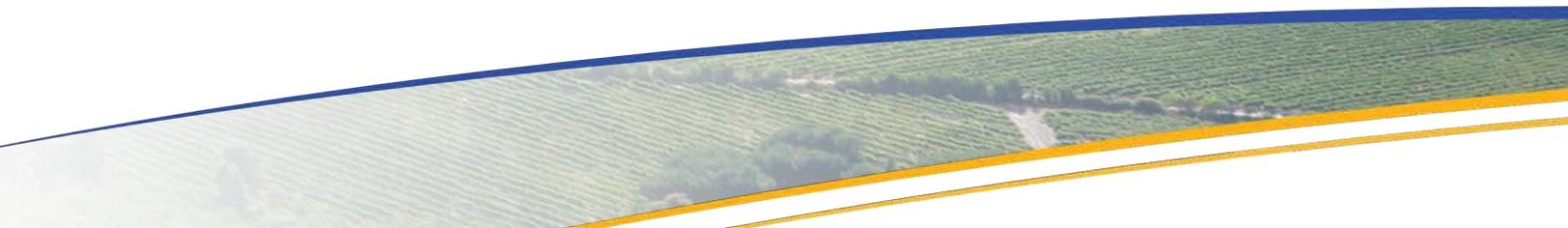


TABLE OF CONTENTS

Message from the Director	1
Branch Overview	2
- Organization Chart	3
- Ministry Budget	3
Business Plan Review	4
Financial Results	6
BRM Programs	7
- Program Governance	9
- Performance Measures	10
- Program Funding	11
- AgriInsurance	12
- Claim Statistics	18
- Agriculture Wildlife Damage Compensation	20
- AgriStability	22
- Other Programs	25
Contacts	27



BC offers proactive risk management products to help farming businesses protect themselves from severe financial loss. In 2013 the Province covered \$770 million of risk through production insurance and income stabilization for BC producers.



THE DIRECTOR, BRMB

Welcome to the Business Risk Management Branch's second annual review.

BRMB is a customer-focused organization that operates as an integral part of the British Columbia Ministry of Agriculture. The Branch is headquartered in Kelowna to be close to industry and ensure that customer service remains paramount.

Business risk management programs provide BC farmers with tools that enable them to manage economic and weather risks that are beyond their control. This provides a foundation for strong, sustainable economic growth throughout the agricultural sector and is an important part of farmers' overall risk management strategy.

I hope this report sheds light on the Branch's priorities and challenges and that it will provide our stakeholders, and other interested parties, with useful information about our business.

On behalf of our Management team and the dedicated staff across the Branch, I am pleased to present the 2013 Year in Review .

A handwritten signature in black ink that reads "Gary Falk".

Gary Falk, Director

Business Risk Management Branch

BRANCH OVERVIEW



MINISTRY VISION

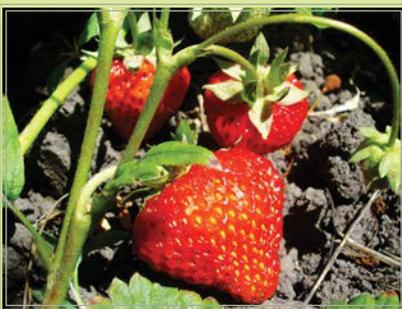
“An innovative, adaptive and globally competitive Agrifoods sector valued by all British Columbians”

MINISTRY MISSION

“Cultivate a competitive and socially responsible Agrifoods sector”

BRMB PURPOSE STATEMENT

“Helping farmers manage risks through an organization where service, results and teamwork drive the delivery of Business Risk Management programs”



BRMB is headquartered in Kelowna and has about 90 staff in 8 offices across the Province

The Business Risk Management Branch (the Branch or BRMB), and the programs it delivers, serve to achieve the policy objectives of the Ministry of Agriculture (AGRI) and the BC provincial government. The Ministry of Agriculture’s Service Plan supports the government’s priorities for jobs, the economy, families, and open government by stabilizing and expanding Agrifoods production and incomes, promoting environmental stewardship and safeguarding animal, plant and human health. The benefits of a stable and growing Agrifoods sector in BC include: steady jobs and revenue for farm families, healthy and secure local food supply, and diversified rural economies.

Risk management is a key component to every successful business and the Branch offers risk management programs to producers to help them manage the diverse risks they face. The ability to manage risks enables producers to be innovative and adapt their businesses to improve competitiveness. Business Risk Management (BRM) programs help producers to access the large capital requirements needed to succeed in farming today.

BC operates its BRM programs from within the Ministry. This allows BC to align Branch business and service priorities more closely with the rest of the Ministry and government. Other provinces run their BRM programs from a crown corporation or commission.

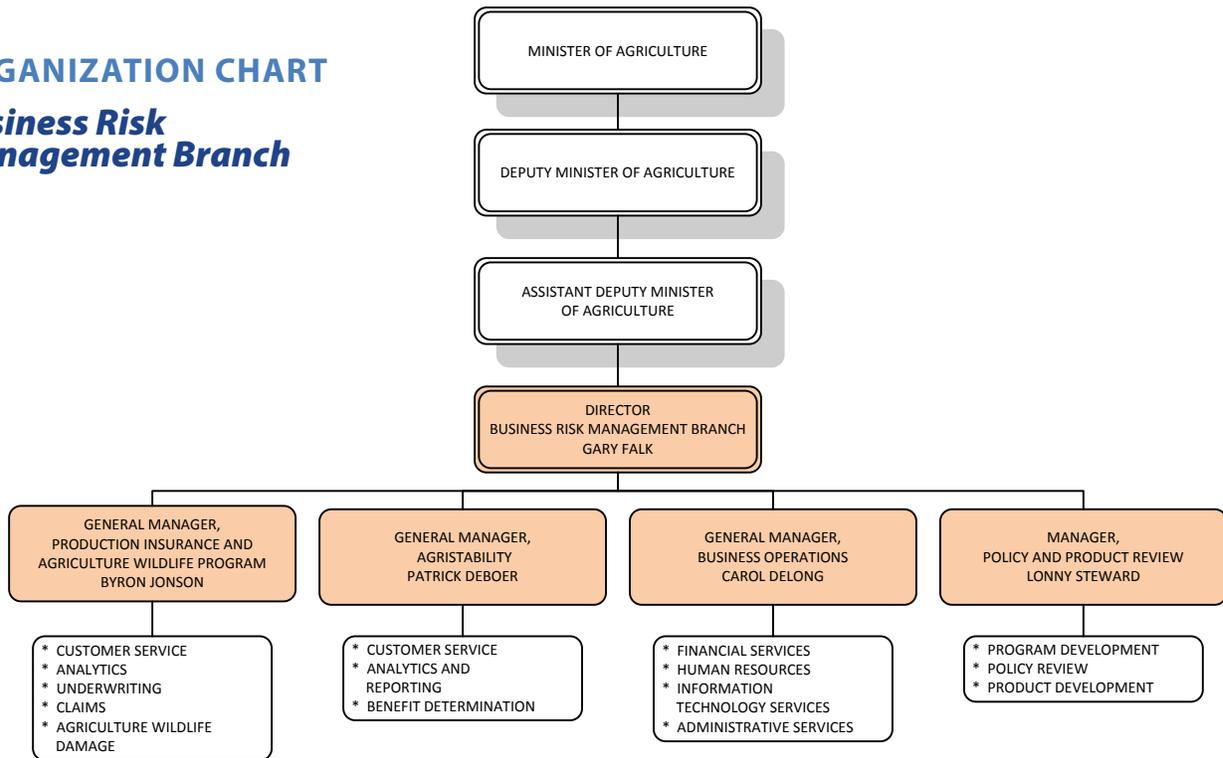
BRM programs are funded through the Growing Forward 2 (GF2) agreement, a national multilateral framework agreement between the provinces and the Government of Canada that came into effect April 1, 2013. This new five-year agreement renewed the financial commitments of the federal and provincial governments to BRM programs.

The GF2 agreement obligates the Province to fund and deliver the suite of BRM programs. The Province has relinquished some control over costs and flexibility in program design in order to have 60% of program costs paid by Canada.

A key Branch objective is to adapt the design and delivery of BRM programs within the framework agreement parameters to meet the unique needs of BC producers. Regular consultations with industry leaders identify emerging issues and industry needs and help shape Branch priorities and our Province’s position in national negotiations around program design. The Branch strives to find the appropriate balance between demands for programs and services, fiscal responsibility, and national program parameters.

ORGANIZATION CHART

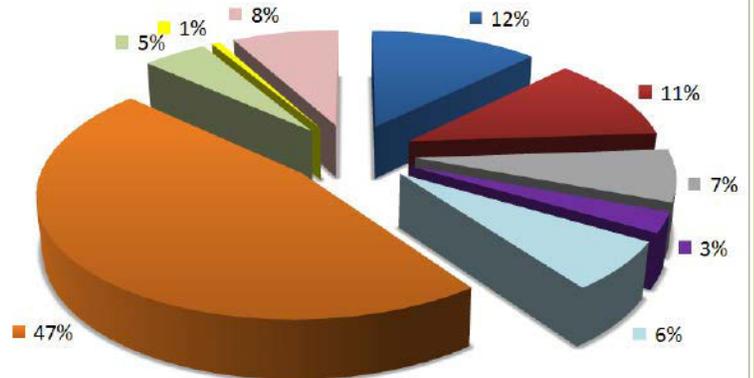
Business Risk Management Branch



As shown in the chart to the right, BRMB remains a major component of the Ministry.



Fiscal 13-14 Ministry of Agriculture Operating Budget



- Innovation & Industry Development
- AgriFood Policy & Legislation
- Plant & Animal Health
- Food Protection
- Sustainable Ag Mgmt
- BRMB
- BC Farm Industry Board & ALC
- Minister's Office
- Executive & Corporate Services

BRMB's purpose statement is achieved through a series of goals and strategies as identified in the annual business plan. Beyond program delivery, the focus of the business plan in 2013 was to improve our efficiency in delivering exceptional service to the producers of BC while better aligning our work processes with the core public service values of: *Service; Accountability; Courage; Passion; Teamwork; Curiosity; Integrity.*

The Plan was built on four strategic objectives:

PEOPLE

Goal: Support and enable a high performing organization with emphasis on accountability, service, teamwork and leadership.

Results:

- A Recruitment Strategy was rolled out in the fall of 2013 designed to ensure consistent and transparent staffing practices across the Branch and to help ensure that core competencies continued to be a key strength of the Branch workforce. The Province conducts regular work environment surveys (WES) and in 2013 the survey questions regarding Staffing Practices indicated BRMB achieved a 27% improvement over the last survey done in 2011.
- BRMB adapted the Province's performance management program to better enable the Branch to meet its goals. The program is now in its second year and has proven to be effective. The WES score relating to how the system helps staff achieve their key goals improved by 24% over the last survey done in 2011. Communication efforts were increased through the roll out of a new intranet and regular Branch calls.
- A supervisory forum was introduced to share knowledge and experience.
- A new on-boarding program was launched in the fall of 2013. This program is designed to support new staffs' success and to ensure consistency across the Branch.
- Other significant achievements, as indicated by the change in WES scores from 2011 to 2013, were:
 - ★ 26% improvement in Respectful Environment;
 - ★ 19% improvement in Recognition;
 - ★ 19% improvement in Supervisory Level Management;
 - ★ 15% improvement in Empowerment.

TECHNOLOGY

Goal: Create a technology vision that will help to modernize operations through innovative applications.

Results:

- Developed a comprehensive technology vision that focuses on client service and productivity.
- Redefined and developed an inspection module for the Production Insurance software system.
- Significantly automated the issuance of insurance policies.
- Implemented changes to the AgriStability systems as a result of the GF2 agreement.
- Completed process mapping in specific business areas.
- Introduced control processes on contracts to manage costs on technology projects.
- Improved information available online, as well as initiated some online fillable forms.
- Improved data capture in centralized databases to better enable underwriting and claims functions.
- Improved security on the Production Insurance system to make use of corporate technology tools and security modules.



SERVICE EXCELLENCE

Goal: ensure programs are well understood, developed through a consultative process and optimally respond to service and policy expectations.

Results:

- A customized Insurance Principles course was developed and delivered.
- Branch wide customer service training was carried out.
- The Business Operations group developed standards to start benchmarking service improvements.

BUSINESS EFFICIENCY AND INNOVATION

Goal: Remove silos within the business areas; increase efficiency through shared information across the Branch; facilitate better use of resources, workload balancing and cohesive decision making and foster a culture of continuous improvement.

Results:

- Began development of an integrated business model that moves from a program focus to a client centered focus.
- Significant progress was made on four Lean* projects to improve efficiency:
 - ★ AWP and PI inspection integration
 - ★ Improving cheque requisition processes for AgriStability
 - ★ Determination of coverage for PI
 - ★ Pre-verification of AgriStability data

**Lean is a proven process improvement methodology that originated over 50 years ago in the Toyota Production System.*





The cash balance in the Agricultural Income Stabilization (AIS) Trust Fund represents the reserve required to pay out future benefits.

The AIS Trust fund operates on a zero net equity basis as expenses are covered 60/40 by Canada and BC.

2013 was a relatively low claim year for Production Insurance. As premium income exceeded expenses the Production Insurance Special Account (PISA) fund balance increased by \$7M.

FINANCIAL MANAGEMENT

The management team at BRMB is responsible for the integrity, objectivity and reliability of the financial statements, notes and financial information. As a requirement under Growing Forward, BRMB is obligated to engage an independent auditor to audit our financial statements. The Branch's Business Operations group is responsible for preparing the annual financial statements for audit.

Set out below is a statement of financial operations as at fiscal year end March 31, 2014.



STATEMENT OF OPERATIONS

Fiscal Periods Ending March 31, 2014 and March 31, 2013 \$,000

	AgrilInsurance (Production Insurance)		AgriStability		Agricultural Wildlife Damage Compensation		AgriRecovery		AgriInvest	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
REVENUES										
Premiums from insured producers	\$ 6,312	\$ 6,373								
Enrolment fees from participating producers			\$ 1,213	\$ 1,128						
Interest	\$ 438	\$ 338	\$ 373	\$ 345						
Contribution from Province of BC	\$ 10,407	\$ 10,453	\$ 5,889	\$ 9,544	\$ 1,024	\$ 1,150	\$ -	\$ 4	\$ 3,412	\$ 5,007
Contribution from Canada	\$ 13,398	\$ 14,203	\$ 9,140	\$ 14,653	\$ 1,537	\$ 1,726	\$ -	\$ 6		
Other income		\$ 42								
TOTAL REVENUES	\$ 30,555	\$ 31,409	\$ 16,615	\$ 25,670	\$ 2,561	\$ 2,876	\$ -	\$ 10	\$ 3,412	\$ 5,007
EXPENSES										
Insurance claims	\$ 15,547	\$ 13,452								
Program benefits			\$ 12,586	\$ 21,321	\$ 1,283	\$ 1,529	\$ -	\$ 10	\$ 3,160	\$ 4,760
General and administrative costs	\$ 4,085	\$ 4,225	\$ 4,233	\$ 4,285	\$ 917	\$ 901	\$ -	\$ -	\$ 252	\$ 247
Loss adjusting costs	\$ 1,033	\$ 1,056			\$ 361	\$ 446				
Reinsurance premiums	\$ 2,805	\$ 3,395								
TOTAL EXPENSES	\$ 23,470	\$ 22,128	\$ 16,819	\$ 25,606	\$ 2,561	\$ 2,876	\$ -	\$ 10	\$ 3,412	\$ 5,007
Cash Balance	\$ 40,264	\$ 36,110	\$ 35,430	\$ 30,437						
Fund Balance - PISA	\$ 43,557	\$ 36,472								

*Note the table does not represent audited statements and is presented as interim information only.

BRM PROGRAMS



The national suite of BRM programs is comprised of AgrilInsurance (commonly known as Production Insurance or Crop Insurance), AgriStability, AgrilInvest and AgriRecovery. The Branch operates an Agriculture Wildlife Damage Compensation program, which is enabled under the AgrilInsurance program within the GF2 agreement.

The suite of BRM programs allows viable farming businesses to protect themselves from severe financial losses. Farms that proactively manage risk can more effectively undertake activities to seek profits. The programs are geared to enable farm businesses to adapt, innovate, plan and invest in their future by providing a firm base and level of security against severe losses. Financial institutions recognize the security provided by BRM programs when evaluating the risk of providing capital to farm businesses.

In BC, the level of government support is highest for protection against severe losses.

BRM programs are designed specifically so they do not mask market or production signals. Farm businesses that fail to adapt and innovate to changing conditions or that are chronically unprofitable do not receive ongoing support. Coverage and program payments are reduced and can disappear entirely as productivity or profitability diminishes.

The intention of BRM programs is to provide risk management tools and expertise to support innovation and development in the agriculture sector of BC.

The responsibilities of BRMB expanded in 2013 to include five new programs. These programs have diverse purposes but there is a common theme of more closely aligning the Branch with GF2 objectives through loss reduction, proactive risk management and facilitating economic development.

THE BC FEEDER ASSOCIATION AND BRED HEIFER LOAN GUARANTEE PROGRAM

BRMB has assumed the responsibility for this loan guarantee program from another part of the Ministry. The program allows cattle producers to purchase feeder cattle and bred heifers at more favorable terms than they could obtain as individuals. Daily management of the program is conducted by regional cooperative associations. The program operates from a series of Tri-partite agreements between the regional associations, lending institutions and the Province. The role of BRMB is to ensure regional associations have adequate management, follow program rules and the required Treasury Board approvals are in place to authorize the loan guarantees. There are currently seven feeder and five bred heifer associations that in total can access up to \$42 million in loan guarantees.

WILDLIFE DAMAGE MITIGATION INITIATIVE

Compensation has been the main tool for assisting producers who suffer loss and damage due to wildlife. Without mitigation and prevention options, the cost of compensation is likely to continue increasing. The Wildlife Damage Mitigation Initiative (WDM) is a proactive policy option to reduce the high cost of compensation. WDM provides funding on a cost-shared basis to individual producers or organizations to make investments to reduce losses due to wildlife. The program is specifically targeted at investments that will reduce or eliminate compensation payments. The program has an annual budget of \$300,000 over five years.

NEW VENTURES

Insurance programs are typically based on vast amounts of data with losses pooled across many participants. This has excluded from Production Insurance many emerging and specialty crops being commercially produced in BC. New Ventures is an innovative approach to Production Insurance that reduces the traditional barriers to offering insurance. Exemptions were granted by Canada to allow cost-sharing on products based on proxy crops and agronomic evaluation.

New Ventures is intended to help producers invest in enterprises where insurance has not traditionally been available. The program is more labour intensive than regular Production Insurance. Limited staff resources prohibited a wholesale roll out of the program. Coverage on grapes in a non-traditional territory was offered in the fall of 2013 and coverage will be expanded onto at least one vegetable crop in the south Okanagan in the spring of 2014.



WESTERN LIVESTOCK PRICE INSURANCE PROGRAM (WLPIP)

Alberta has been offering livestock price insurance products since 2009. Alberta's program resulted from an industry-driven initiative designed to provide producers with an easy to use risk management tool. The program offers simple, bankable and market-driven ways to manage market price without limiting any upside price potential. The four western provinces have collaborated to adapt the existing Alberta products to the rest of western Canada. The federal government is participating in the program by cost-sharing administration and providing a level of deficit financing. Alberta is delivering the program for BC while BRMB staff provide marketing and customer service support.

The Program was launched April 8, 2014.

WLPIP is funded and managed through four inter-related agreements between Canada, Alberta and the other western provinces. Most of the work of developing agreements and obtaining approvals and funding occurred through 2013.

WLPIP is a unique approach to program delivery in Canada and a step toward more industry driven and funded risk management programming. The design of the program came largely through the cattle and private sectors and premiums are paid entirely by insured producers. Centralized delivery across western Canada by the Alberta crown corporation (AFSC) is a very efficient delivery model.

AGRIRISK INITIATIVES (ARI)

ARI is a new program created within GF2 that provides funding to producer organizations and private companies to investigate, develop and launch new risk management programs. It has two components; Research and Administrative Capacity Building. The research portion is funded by Canada and capacity building is cost-shared between Canada and provinces. BC has adequate budget to cost-share initiatives but has been unable to proactively engage with industry due to limited staff resources. No projects have been undertaken in BC.

The GF2 agreement mandates the requirement for performance measures. Canada and the Provinces have agreed to a set of specific measures for each BRM program with results reported nationally for each program. The Branch must always be conscious of these measures as well as any additional performance measures developed within the Province. Tracking, auditing and reporting nationally and provincially is important work within the Branch and a requirement to receive funding from Canada.

BC has two key pieces of legislation that enable BRM programs: The *Farm Income Insurance Act* and the *Insurance for Crops Act*. The legislation and corresponding regulations authorize the Minister of Agriculture to enter into agreements with Canada around BRM programs.

Programs must also comply with the *Financial Administration Act*. AgrilInsurance functions as a legal contract between BC (the insurer) and a producer (the insured). As such, AgrilInsurance is subject to contract and insurance law. The parameters of BRM programs are described in the GF2 agreement.

Included in the agreement are references to regulations and guidelines that further define the programs. Provinces do not have the flexibility to design programs outside of the regulations and guidelines without a corresponding loss of funding from Canada. A fundamental principle of these agreements is that there is a level of equity in programs across the country. As a signatory to the agreement, BC is obligated to incur the costs of programs over the term of each agreement.

Each BRM program is subject to Federal audits that validate compliance with defined program parameters. Canada also audits the funds it pays to the Province. Provincial billing must reconcile to Provincial financial statements to ensure federal costs are accurately billed.



THE PAST

The initial financial programs in Canadian agriculture were developed with mainly social objectives in mind. Agriculture was viewed as an effective way to develop rural areas and producers were brought up to a standard of living comparable to the rest of society. These social objectives have mostly given way to economic objectives as agriculture has become an important part of the Canadian economy. Indicators now show that farm families are no longer economically disadvantaged.



THE FUTURE

External pressures demand that BRM programs evolve and change with the evolution of the agriculture sector and the policy priorities of governments. Expanding economies and higher disposable incomes in Asia, Eastern Europe and South America provide opportunities for Canadian agricultural products. The desire for fresh locally grown food also provides opportunities for BC producers.

The policy direction in GF2 is to encourage producers to adapt their businesses to capitalize on these opportunities. Governments are re-evaluating their role in agriculture and how BRM programs can encourage and support a competitive sector.

Many agriculture sectors are doing well while others struggle to find their niche in a global economy. Severe financial losses for producers will still occur due to weather, disease and market variability.

BRM programs will continue to evolve toward facilitating appropriate risk taking by focusing protection on severe losses. The responsibility for normal variations in income will continue to shift away from governments onto producers and private sector risk management tools.

The Branch is obligated to provide the data and analysis that demonstrates compliance with regulations and performance against specified measures. This requires significant resources in systems, analysis and administration. The agreements also describe the development of and reporting against performance measures which are developed jointly and agreed to by Canada and the Provinces.

A logic model for BRM programs was developed as a way to provide an integrated and consistent approach for the development of indicators for each BRM program.

LOGIC MODEL					
OBJECTIVE OF BRM PROGRAMS	BRMB PROGRAMS	BRM PROGRAM OUTPUTS	BRM PROGRAMS END OUTCOMES	BRM PROGRAM SUITE END OUTCOME	STRATEGIC OUTCOME
BRM programs provide producers with effective tools to manage financial risks	AgriInvest	Funding provided to all participants based on allowable net sales	Producers have the flexibility in managing small financial risks	Producers' income losses are reduced	A competitive agriculture, agri-food and agri-based products sector that proactively manages risk
	AgriStability	Funding provided to participants with margin declines greater than 15%	Short-term impacts of large income losses are mitigated		
	AgriInsurance	Funding to provide producers with effective insurance protection	The financial impacts of production losses are mitigated by providing effective insurance protection		
	AgriRecovery	Funding provided to participants affected by disasters	Farm business operations resume operations following a natural disaster		

BRM program costs are highly variable from year to year. Programs are intended to help cover the costs of severe losses. The frequency and severity of loss events drive program costs.

The two biggest factors that dictate costs are commodity prices and weather. These factors are obviously unknown at the start of a fiscal year and cannot be reliably predicted. Two funds have been developed in an attempt to buffer cost variability to the Province: (Production Insurance Special Account – commonly referred to as “PISA”; and the Agricultural Income Stabilization Trust – “AIS Trust”).

Tracking and reporting on the performance of BRM programs has inherent complexities because the programs run on a crop year basis (November 1 to October 31) or a program year basis (January 1 to December 31) while the provincial government’s fiscal year is April 1 to March 31.

The AIS Trust and PISA have proven to be workable mechanisms to smooth Ministry expenditure on BRM programs. They do, however, require considerable effort to manage effectively. The effort is justified given that annual variability in program costs often exceeds \$20 million which represents close to 25% of the Ministry’s total budget. Without smoothing mechanisms other Ministry programs and all spending outside GF2 obligations would be jeopardized and the Ministry would require contingencies from Treasury Board every two or three years.

The Agriculture Wildlife Damage Compensation program is a relatively small program and is managed from the Branch operating budget.

AgriRecovery does not have a designated budget and every initiative requires a Treasury Board submission. Initiatives have fixed maximum costs and once costs are incurred Canada is billed for their 60% share.

Federal cost-sharing is a critical component of all the BRM programs. Canada contributes 60% of all administrative costs as well as a significant portion of AgriInsurance premiums. The cost-sharing received from Canada is dictated by actual program costs and is only received after those costs are known.

This means that federal recoveries are as variable year to year as program costs. Managing the relationship with Canada and developing the systems to bill Canada are key priorities for the Branch. Guiding this relationship is a tight framework of legislation, regulation, agreements, guidelines, performance measures and audit.



AGRIINSURANCE (PRODUCTION INSURANCE)

The Province offers financial protection against crop losses due to uncontrollable weather events. AgrilInsurance provides insurance for 42 different crops throughout the Province. A level of production is guaranteed in exchange for a premium. Premiums are cost-shared between producers and both levels of government. The GF2 agreement specifies what coverage Canada will cost-share.

In crop year 2013 more than 2,100 policies were issued generating \$25M in premiums and covering \$495M in risk.

The program operates very much like any commercial insurance organization. Premium rates must be actuarially sound and an insurance fund is established that is self-sustaining over time (PISA). However, all administration costs are borne by government. Coverage and premium costs are set at the individual level regardless of the size of the producer's operation. Crop losses due to drought, flooding and other natural disasters destroy producers' livelihoods and result in political pressure on governments to make direct payments to those affected. AgrilInsurance provides a predictable, timely and budgeted mechanism for governments to respond.

All ten provinces have AgrilInsurance programs and there is considerable flexibility as to which crops will be insured and at what value. The products in BC are regularly compared and contrasted to the products offered in other provinces.



This often results in pressure on BC to adopt program features offered in other provinces.

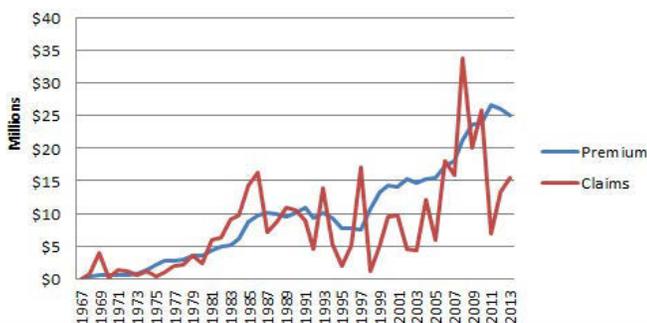
AgrilInsurance claims are paid from PISA. Premiums from producers and both levels of government are paid into the account throughout each crop year. The Provincial share of premiums is paid into PISA as a transfer from the Ministry of Agriculture operating budget. Premium amounts vary year to year and are influenced by participation, coverage options, loss rates and commodity prices. The Provincial budget allocation for premiums must be updated periodically to accommodate shifts. The federal share of premiums is paid only after the Branch bills Canada, which can be done as soon as insurance coverage is purchased by a producer but is typically done once or twice per year.

AgrilInsurance was established in BC in 1967.

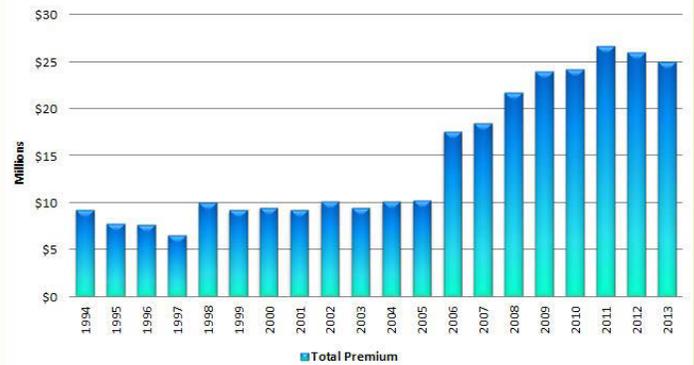
Reinsurance is purchased in the private market to protect the Province in extreme loss years. Reinsurance premiums are paid from and reinsurance claims are paid into PISA.

The program is actuarially sound and has collected sufficient premium to cover costs since inception.

PRODUCTION INSURANCE PREMIUMS Vs. CLAIMS BY CROP YEAR

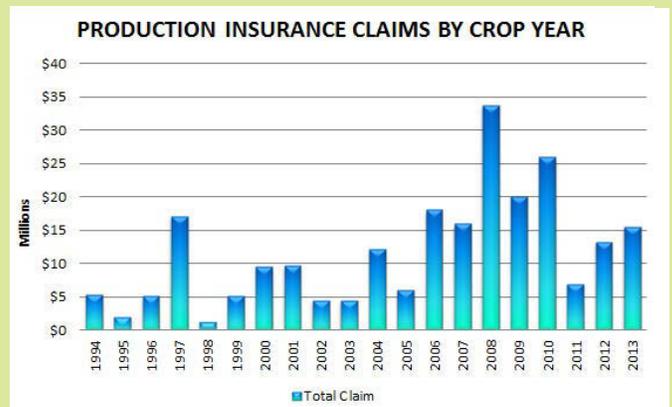
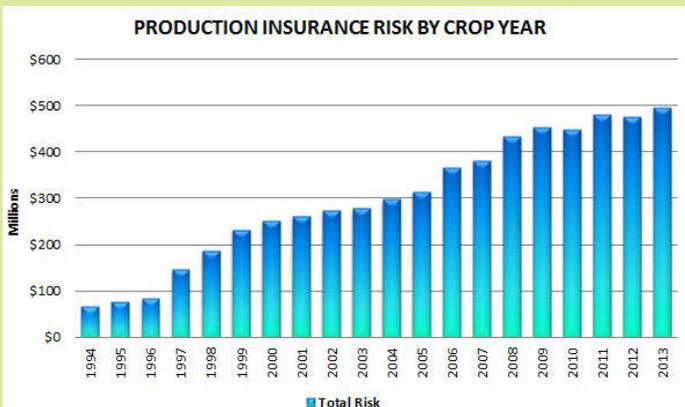


PRODUCTION INSURANCE PREMIUMS BY CROP YEAR





The Branch budget must include an expense for claims, which cannot be accurately predicted. Above average claim years require the Ministry to obtain Treasury Board approval to exceed budgeted claim expenses regardless of the PISA fund balance.



CROP CONDITIONS IN 2013

Growing conditions in 2013 were generally good across the Province. The spring season was cooler and wetter than normal and it turned hot and dry in July. Overall harvest conditions for most crops were good, although some crops experienced severe losses in some areas.

In the Okanagan region, a number of spring frost events adversely affected all soft fruit yields. Oliver-Osoyoos and the Similkameen had eight rain events in June resulting in significant amounts of cherry splitting, particularly for earlier varieties. The yield for apples was reduced by spring frost. Late season hail storms caused additional loss to the remaining apple crop. Substantial hail damage wiped out the crop in some orchards located in Kelowna, Oliver and Summerland areas. Consequently, the majority of the total claims in 2013 were paid on tree fruit crops.

In crop year 2013, the program took on approximately \$495M in crop production and plant mortality risk. Approximately \$25M in risk premiums were contributed to the insurance fund to cover losses. An additional \$5M was spent to administer the program and manage the risk through prudent underwriting and loss adjustment. In order to limit the exposure of high losses to the program, a portion of the risk was ceded to private reinsurance markets through a stop-loss reinsurance treaty.

Some crop loss was caused in grapes by spring frost and late season hail in the Okanagan region. Rainy weather resulted in bunch rot and sour rot in some vineyards.

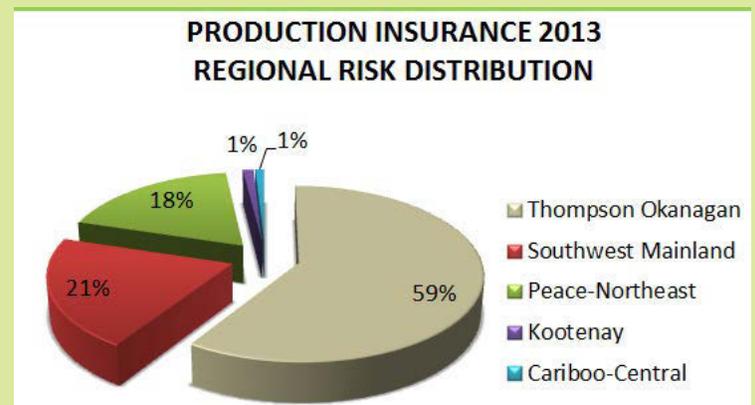
Heat and dry conditions affected the berry crop in the Fraser Valley area. Severe browning off was found in blueberries in some cases and blueberry plants in fields without irrigation suffered drought stress. Rain also caused some splitting of late blueberries. As a result of hot temperatures in July, sunscald was reported on raspberries. This resulted in a slightly smaller raspberry crop than normal.

The crop risk portfolio is diversified both by the mix of crops and geography. This reduces the likelihood of an extreme loss event affecting all insured crops.

Excessive rainfall and fall flooding also resulted in crop loss for potatoes and Brussels sprouts in the Fraser Valley area.

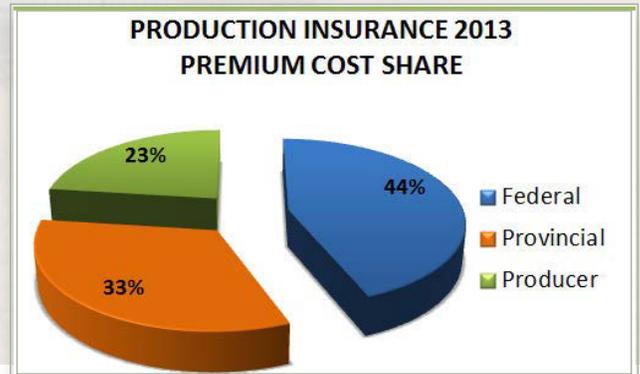
For grain crops, favorable growing and harvest conditions resulted in above average yields and quality. Excessive spring moisture, however, resulted in unseeded acreage and reseeding claims on some farms in the North Peace region.

Very few Notices of Loss were received for forages. A wet spring followed by hot weather resulted in good yields for forages. However, because of wet conditions in some locations, it was challenging for farmers to find harvest windows.

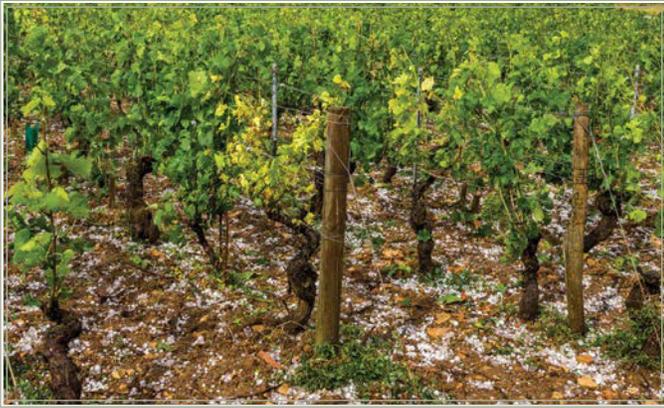




Sufficient premium must be charged to ensure that the insurance program is self-sustaining in the long run. Program methodologies (premium rate, probable yield, self-sustainability) are certified by an independent actuarial assessment generally every five years. The Federal Government and the Province both contribute substantial premiums to the fund, in addition to premiums paid by producers. Administration costs are fully covered by government. The primary focus of Agrilnsurance is to cover catastrophic loss events and as such the premium cost of catastrophic coverage is almost wholly paid by government. This structure encourages participation in the program and provides a planned response to disasters. At higher coverage levels, both government and producers share premium costs.



REGION	CROP PLANTS	2013 RISK (millions)
Southwest Mainland, Vancouver Island	Berries, Vegetables, Flowers, Grapes, Forage	\$102
Kootenay	Tree fruit, Grain, Forage, Grapes	\$5
Thompson Okanagan	Tree fruit, Grapes, Forage, Vegetables, Grain	\$293
Cariboo-Central	Forage, Grain	\$4
Peace-Northeast	Grain, Forage	\$91



UNDERWRITING

The primary role of the underwriter is to evaluate the risk of individual producers and to determine how much to take on behalf of the program. In BC, underwriting is done on an individual basis using a producer's historical production records. Where an individual does not have historical records, area average yields are used to determine coverage.

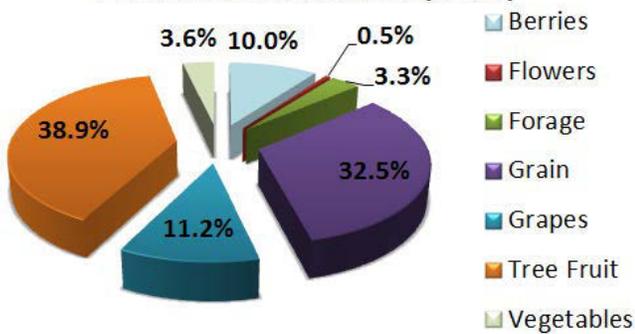
In crop year 2013, \$16M was paid out on crop loss claims, up from \$13M in the prior year. The largest losses were sustained by the tree fruit industry and the primary cause of loss was due to hail and rain on tree fruit crops.

LOSS ADJUSTMENT

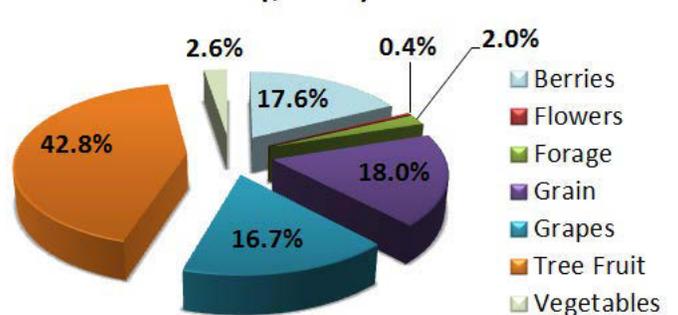
Claims are only paid for losses due to perils specified in the contract policy wording. A detailed Notice of Loss specifying the peril and the date and the location of the damage must be provided by the insured producer. Following notification, losses, and cause of loss, are confirmed by on-farm inspections. When losses are widespread they are sometimes confirmed by area wide inspections in order to economize costs.

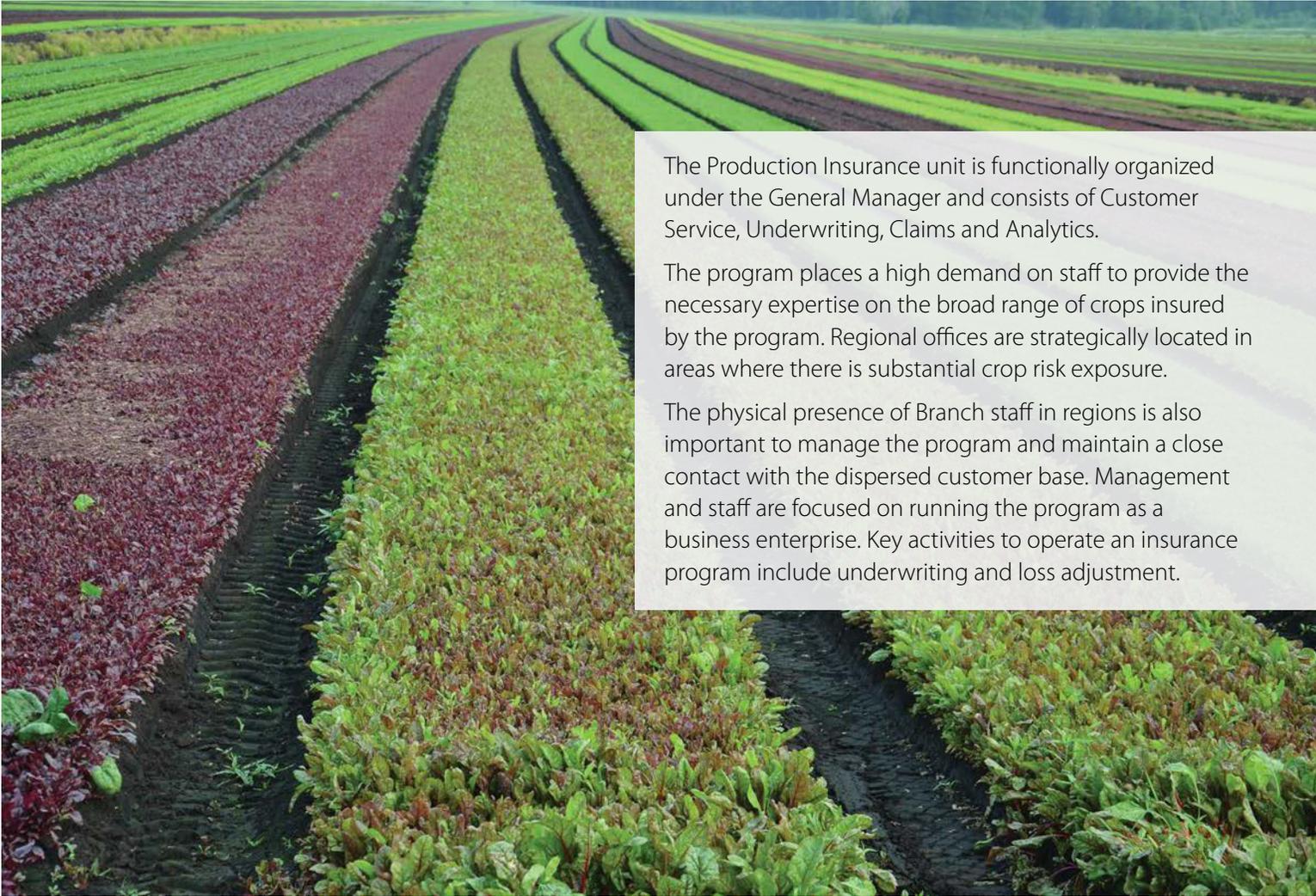
Normally, crop loss claims are finalized by confirming final harvested production. Final production is determined by verified sales receipts where crops are sold by third parties. For hail claims in tree fruits and grain, representative fields are sampled and damage is calculated using standard techniques. Field adjusting inspections are carried out by trained contractors.

**PRODUCTION INSURANCE 2013
PREMIUM BREAKDOWN (\$25M)**



**PRODUCTION INSURANCE 2013 COVERAGE
(\$495M)**



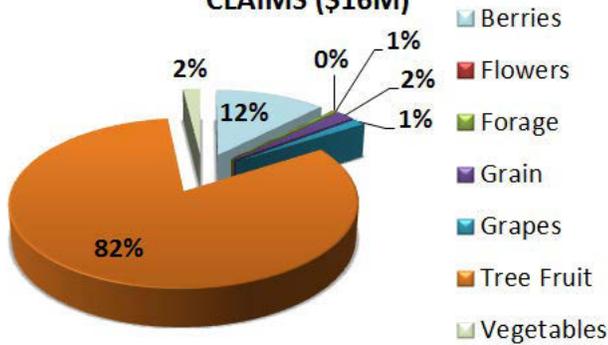


The Production Insurance unit is functionally organized under the General Manager and consists of Customer Service, Underwriting, Claims and Analytics.

The program places a high demand on staff to provide the necessary expertise on the broad range of crops insured by the program. Regional offices are strategically located in areas where there is substantial crop risk exposure.

The physical presence of Branch staff in regions is also important to manage the program and maintain a close contact with the dispersed customer base. Management and staff are focused on running the program as a business enterprise. Key activities to operate an insurance program include underwriting and loss adjustment.

**PRODUCTION INSURANCE 2013
CLAIMS (\$16M)**



PRODUCTION INSURANCE CLAIM STATISTICS									
2006 to 2013									
CROP PLAN	CROP	2006	2007	2008	2009	2010	2011	2012	2013
BERRIES	BLUEBERRY	284,954	2,752,805	6,715,645	1,267,960	355,797	686,645	172,804	1,883,495
	BLUEBERRY PLANT	31,794	33,704		11,560		8,252	2,960	
	CRANBERRY	51,810		850,435	331,621	891,491	254,530		
	RASPBERRY	512,538	444,287	108,833	64,181	24,248	9,915	58,333	34,674
	STRAWBERRY			4,351	18,116				
	STRAWBERRY PLANT			140,713	83,232		25,201		
BERRIES TOTAL		881,096	3,230,796	7,819,977	1,776,670	1,271,536	984,543	234,097	1,918,169
FLOWER BULBS	TULIP BULB		45,000						
FLOWER BULBS TOTAL			45,000						
FORAGE	FORAGE	1,836,189	918,673	853,178	1,527,104	1,593,954	103,445	349,901	42,992
	SILAGE CORN		81,754	50,631		43,354	14,926	71,045	2,365
	UNSEEDED SILAGE CORN	850		2,897			2,904		
	WINTER SURVIVAL	46,881	39,072	5,935	48,404	26,786	18,404	19,559	
	FORAGE ESTABLISHMENT	347,860	82,672	444,737	145,980	523,820	142,093	238,123	8,352
	FORAGE TOTAL		2,231,780	1,122,171	1,357,378	1,721,488	2,187,914	281,772	678,627
GRAIN	BARLEY	317,864	46,075	1,274,380	183,717	577,259	275,835	124,950	22,645
	CANOLA	1,221,348	19,348	3,218,947	129,416	4,469,323	682,113	71,255	48,290
	FALL RYE		2,380	3,309					14,960
	FIELD PEA	114,491	1,470	173,134	87,916	111,621	44,782	3,579	9,958
	OAT	226,244	12,622	243,840	57,139	257,142	29,518	131,283	6,869
	UNSEEDED GRAIN	1,400	162,515		28,350	21,360	32,195	6,720	200,047
	WHEAT	536,122		1,255,768	108,885	578,057	14,922	21,432	5,063
	GRAIN BASKET	956,449		2,308,384	1,046,399	5,384,533	92,432	228,842	
GRAIN TOTAL		3,373,918	244,410	8,477,763	1,641,822	11,399,294	1,171,796	588,061	307,832
GRAPES	FRESH GRAPE	5,946	33,286	36,043	103,066	54,183	30,690	4,152	141,066
	VINE	2,603	205,705	41,965	3,573,085	1,323,807	296,049	74,610	2,290
	WINE GRAPE	12,415	158,447	46,330	1,048,720	864,613	328,766		62,680
GRAPES TOTAL		20,964	397,438	124,338	4,724,871	2,242,603	655,505	78,762	206,036
TREE FRUIT	APPLE	7,848,183	4,973,715	7,961,381	9,119,919	1,754,131	1,281,633	6,143,321	8,532,831
	APRICOT	339,422	138,805	274,053	53,445	69,340	91,910	135,975	78,668
	FRUIT TREE	64,024	69,449	271	139,318	428,560	130,342	27,914	
	PEACH	581,678	517,538	1,454,841	777,026	133,204	59,362	642,676	558,997
	PEAR	313,476	158,205	160,604	20,205	43,171	69,778	293,065	470,756
	PLUM	169,219	215,835	289,431	90,608	14,230	55,489	47,357	83,704
	SWEET CHERRY	1,899,220	3,903,566	5,894,518	1,109,775	2,331,429	1,890,117	4,032,673	3,048,340
	TREE FRUIT TOTAL		11,215,222	9,977,113	16,035,099	11,310,296	4,774,065	3,578,631	11,322,981
VEGETABLE	BEET	-	-	-	-	-	-	-	-
	BROCCOLI	106,463	39,313		6,125	116,927	27,500	10,525	
	BRUSSELS SPROUTS	1,893		181,591		344,537		117,214	40,552
	CARROT	63,245	146,619	24,570		241,121	114,800	22,868	
	CAULIFLOWER			8,512	2,432	6,840		10,336	
	CORN		2,824						
	ONION				26,805	5,597		755	
	POTATO	132,996	710,148	10,727		3,116,627	56,166	82,296	257,395
	RUTABAGA							4,560	
	BEAN	4,842	1,342	6,023	8,826	68,161			
	PEA	50,294	16,433	16,110				6,157	
	CABBAGE					149,413	65,194	55,907	
	VEGETABLE TOTAL		359,732	916,678	247,533	44,188	4,049,222	263,660	310,618
GRAND TOTAL		18,082,712	15,933,606	34,062,087	21,219,335	25,924,634	6,935,907	13,213,146	15,556,989



AGRICULTURE WILDLIFE DAMAGE COMPENSATION

This program (AWP) provides assistance to forage, grain, and livestock producers for verified crop and livestock losses. The program includes compensation for wildlife damage to standing forage and grain, separation of excreta contamination from grain, and livestock losses due to wild predators. Wildlife consumes or damages crops and compensation is paid to producers for a portion of that loss.

Wildlife management is the responsibility of the Ministries of Environment; and Forests, Lands & Natural Resource Operations. The program does not shift those responsibilities; it only provides a financial buffer as affected producers work with the responsible Ministry(s) to find appropriate mitigation or prevention methods. The Branch actively works with industry and the other Ministries to find and develop loss reduction strategies in order to reduce the amount of compensation.

BC's experience with agricultural losses due to wildlife is unique as a majority of the agricultural activity in BC occurs on, or around, land that is favorable as wildlife habitats. Because of this, interaction between wildlife and agriculture is a frequent occurrence, often resulting in negative consequences for wildlife, agriculture or both.

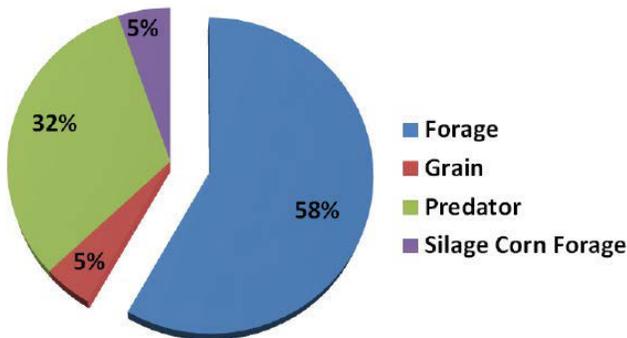
The Federal and Provincial governments' commitment to provide compensation for agricultural losses due to damage from wildlife is enabled through GF2. One of the requirements of GF2 is that compensation can only be paid if there have been efforts made to avoid or reduce damage such as: hunting strategies; lure crops or fencing. Working in collaboration with industry stakeholders, the Ministry of Agriculture; the Ministry of Forests, Lands and Natural Resource Operations; and the Ministry of Environment, AWP staff develop policies to ensure compensation programs are integrated with initiatives for the prevention and mitigation of damage.

AWP staff are responsible for the development and delivery of policies and programs that will address the consequences of BC's unique agriculture wildlife interface issues. Program staff provide leadership on agricultural issues related to wildlife damage, prevention, mitigation and compensation.

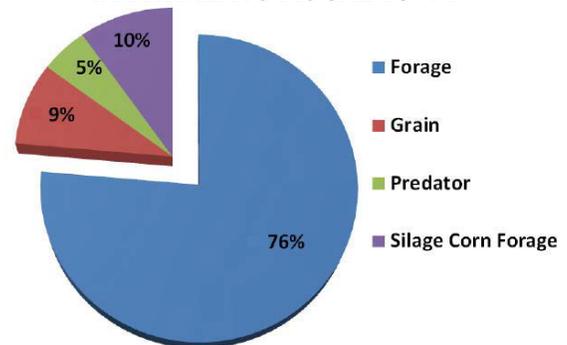
GF2 requires efforts to be made to avoid or reduce damage by wildlife in order for benefits to be paid.

AWP is a program that compensates producers for losses due to wildlife. Producers are expected to manage their farms to minimize losses. Compensation is considered a last resort and will not be paid where losses could have been reasonably avoided.

DISTRIBUTION OF 338 WILDLIFE DAMAGE PAYMENTS, FISCAL 13-14



WILDLIFE DAMAGE DISTRIBUTION OF \$1.3M IN PAYMENTS FISCAL 13-14





Eligible losses vary year to year due to the level of wildlife pressure and the growing conditions for the year. Although low in frequency, the grain excreta separation compensation payments can be very significant. The reason for this is there are very few early snowfall events which create the conditions for losses due to excreta.

HISTORICAL PARTICIPATION AND LOSSES		
CROP YEAR	REGISTERED PARTICIPANTS	CROP & LIVESTOCK LOSSES
2008	250	\$1,230,000
2009	544	\$1,644,000
2010	598	\$1,306,000
2011	530	\$2,231,000
2012	515	\$1,500,000
2013	503	\$1,300,000

AgriStability is a business risk management program that protects against large declines in a producer's net farming income.

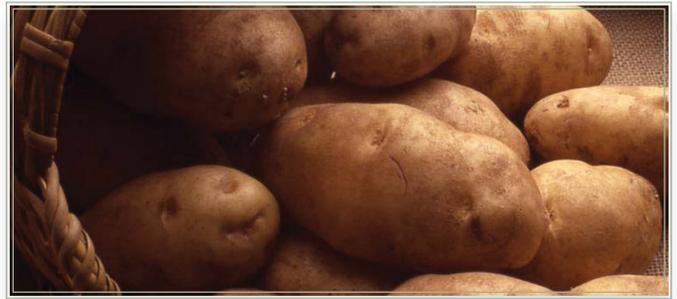
AgriStability support is provided on a whole farm basis. The farm may trigger a benefit caused by significant drops in production or commodity price, an increase in allowable expenses, or a combination. AgriStability is intended to work in conjunction with AgrilInsurance and AgrilInvest to provide producers with maximum risk protection and financial stability.

As the program is margin based, the current program year margin is compared to the reference margin and if it is 30% or more lower than the reference margin, a payment is made. The program year margin is the difference between allowable income and allowable expenses. The reference margin is the average of the 5 years' program margins prior to the current program year with the lowest and highest margins dropped.

Allowable income includes commodity sales and some program payments, e.g. AgrilInsurance. Allowable expenses include commodity purchases and the direct input costs incurred in producing agricultural commodities, e.g., fertilizer, feed, arm's length labour. Margins are adjusted to an accrual basis to account for changes in inventory value, changes in accounts payable and receivable, and purchased inputs.

Each year approximately 2,800 enrolment notices are issued.

Coverage drops as margins and profitability drop. When a farm ceases to be profitable, coverage eventually becomes unavailable.



The design of AgriStability is consistent across the country. There is little flexibility for provinces to alter program design. In BC, the program operates from data provided to Canada Revenue Agency and is closely linked to income tax filing. This linkage affects the timing of payments as program year margins cannot be calculated until program forms are filed which means that payments cannot be finalized until the year following production.

Annual payments to BC producers average \$34.9M from 2007 to 2011. For the 2012 program year, payments are forecast at \$21.3M and for 2013 the forecast is \$12.6M.

Enrolments generally start in March and are complete by the end of June. About 80% of those who receive enrolment notices provide complete applications and 30% of participants receive a benefit in any given year. The number of participants is highest in the cattle sector at 30%; the Berry and Tree Fruit sectors are next at 20% each. The dollar amount of reference margin coverage is highest in the Berry sector at 20%, the Cattle and Greenhouse Vegetable sectors are approximately 15% each and the Tree Fruit and Nursery sectors are 10% each.

Prior to filing to CRA, participants can apply for an interim payment and receive 50% of their estimated final benefit. The final benefit can only be determined after the participant has submitted the necessary income and expense information on the program forms to CRA.

\$178.3M in AgriStability benefits have been paid to date to producers for the 2007 to 2012 program years. BC's share is \$71.3M.



AgriStability provides coverage for severe drops in market price, spikes in input costs, and production losses.

Government contributions provided through the AgriStability program will decrease in the 2013 program year as a result of the intentional GF2 policy shift to funding which encourages producers to proactively innovate and adapt to production and market conditions.

The lowered margin coverage and overall government contribution rate is expected to decrease participation and possibly the administrative resources, infrastructure, and processes required to administer AgriStability.

The first income stabilization program was established in 1995 when the federal and provincial governments introduced the Farm Income Disaster Program.

AgriStability Statistics by Program Year at March 31, 2014							
	2007	2008	2009	2010	2011	2012	2013
Final Applications							
Complete Applications	3,000	2,535	2,696	2,732	2,429	2,058	
Number of Applications Processed	3,000	2,535	2,693	2,700	2,203	559	
Reference Margin for Applications Processed	\$326M	\$274M	\$266M	\$268M	\$288M	\$93M	
Percent of Applications Processed	100%	100%	99%	99%	91%	27%	
Number of Applications with Payments	1,121	1,024	1,051	818	416	144	
Total Value of Benefits Processed & Approved	\$56M	\$49M	\$332M	\$27M	\$11M	\$5M	
Interim Applications							
Number Received	94	93	227	179	107	57	50
Number of Payments	42	31	105	119	54	21	7
Total Value of Benefits Processed & Approved	\$2M	\$4M	\$4M	\$4M	\$3M	\$1M	\$6K
<i>Note: dollar values have been rounded off to the nearest million (M) or thousand (K)</i>							



Originally, AgriStability was delivered by Canada to BC producers. At the request of industry, and in order to be more responsive to the customer, BC took over delivery of the program in 2010.

Governance of AgriStability administration is established at the national level through working groups with representatives from each province and Canada. The AgriStability and AgriInvest Administrators Working Group (AWG) drafts program guidelines, provides a forum for sharing of best practices between administrations, endeavors national consistency in the application of program guidelines and agreements and informs the national Business Risk Management Working Group of administrative impacts of policy changes.

The AgriStability unit is functionally organized under the General Manager and consists of Customer Service, Benefit Determination and Analytics.

The Customer Service team provides the foundation client service work of communications and program promotion as well as supporting the benefit determination activities.



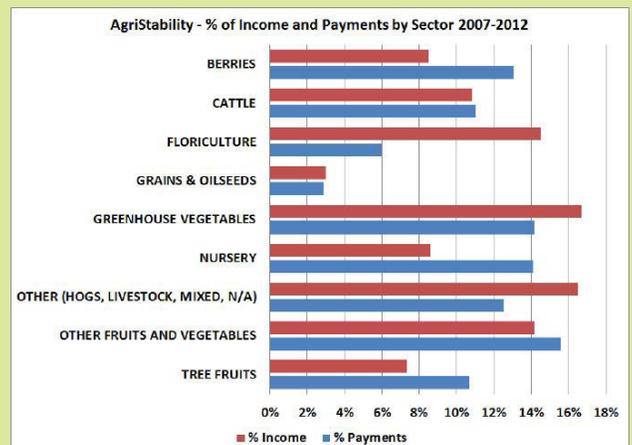
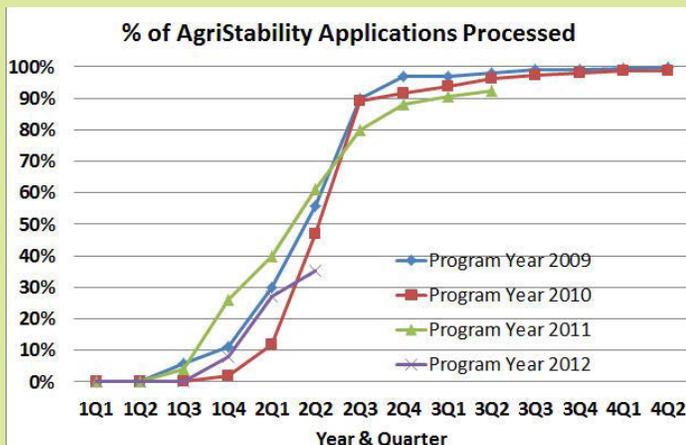
The Benefit Determination team carries out the application processing which includes verification of producer's financial information, determining the amount of the benefit and quality assurance processes.

The Analytics and Reporting team establishes the economic values required for benefit calculations, performs national and internal reporting requirements for program metrics, performs the analysis to report for national and internal performance measures such as payment accuracy, collaborates with Agriculture and Agri-Food Canada to validate program payment forecasts and manages the participant appeal and adjustment request process.

Coverage reductions to AgriStability under GF2 take effect for the 2013 program year but BC will not fully realize savings until the 2015-16 fiscal year.

There is a significant lag in the timing of AgriStability payments compared to a producer's production year, for example, benefits for the 2011 production year are primarily paid out in 2013 after producers have filed taxes and applications are processed.

2013 marks the fourth year full year of AgriStability administration by the Branch and the second full multi-year processing workload.





AGRIINVEST

AgrilInvest is a savings account program through which governments match producer deposits up to a prescribed percentage of allowable net sales. Under Growing Forward, the government matching contribution was limited to 1.5% of allowable net sales and was capped at \$22,500. Under GF2, that amount is reduced to 1% with a cap of \$15,000.

Canada delivers the AgrilInvest program to producers in BC and across the country with the exception of Quebec, which has its own administration.

\$45.5M in government matching contributions have been made to date to producer accounts for the 2008 to 2012 program years. BC's share is \$18.2M.

3,916 producers have a current cumulative balance of \$43.1M in their AgrilInvest accounts.

AGRIRECOVERY

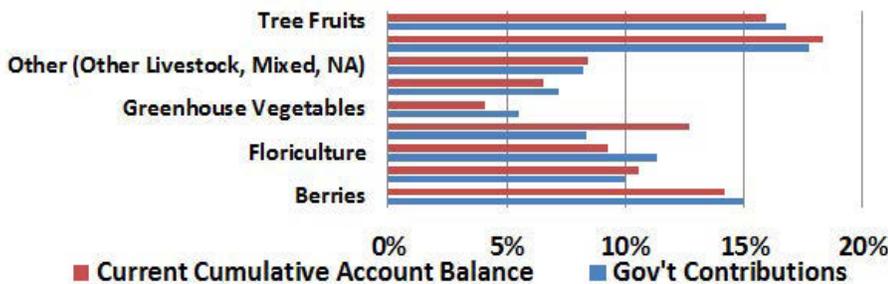
AgriRecovery is not an ongoing program. It is a framework that allows governments to respond to disasters by providing impacted producers with funds to cover extraordinary costs. Each AgriRecovery response requires its own contribution agreement with Canada that specifies eligibility and amounts that can be paid.

There were no AgriRecovery initiatives implemented in 2013.

- ▶ *The purpose of AgrilInvest is to help producers develop financial reserves to cover smaller income declines or to make strategic investments.*
- ▶ *AgriRecovery is an ad hoc program developed to help with extraordinary costs incurred as a result of disasters.*



AgrilInvest - % of Total Gov't Contributions and Current Cumulative Account Balances by Sector 2008-2012





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