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G.A. "Art" Barnaby Jr.

KSU Under Estimated High/Low Factors[1]

Art,

I am a crop insurance agent in the Eastern Corn Belt, and it appears the Fed's might have over-cooked the high low factors if the idea is to have RA and CRC comparable in cost. I've have some counties that at the 85% level CRC is 4-5 dollars more than RA/HPO.

Why were your estimated High/Low factors so far off the money? Did RMA make an error?

Thanks,
An agent looking out for her customers

Dear Agent,

I have the same number as RMA for the RA corn volatility.

The at the money spring wheat option for both the put and call did not trade on spring wheat. Because only the at the money calls traded on some days, RMA may not have included the put in their calculation. I include the out of the money put and that would explain why my estimate was slightly different.

[1]Prepared by G. A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, March 6, 2006, Phone 785-532-1515, e-mail – abarnaby@agecon.ksu.edu.

I am not sure why my soybean estimate was higher than the official one from RMA.

The CRC High/Low factor estimates are a shot in the dark. I don't have the exact RMA procedure other than CRC premiums are supposed to be similar to RA. "Did RMA make an error?", I guess they did in the sense if the CRC premiums do not closely match with the RA premiums. However, I would assume they did not make any math error following their procedure.

RA-HPO has unlimited coverage for a lower premium and that makes the decision easy in your area; buy RA-HPO.

Given there is little I can do to get a better estimate on the CRC High/Low factors, do farmers and agents still find it useful to have an estimate for volatility that sets RA and GRIP premiums? Clearly the High/Low estimates were too far off to be of any value.

Any comments you wish provide, just email them to me.