

IN THE MIDST OF CHANGE
CHALLENGES AHEAD FOR THE CANADIAN AGRI-FOOD SECTOR
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À LA CROISÉE DES CHEMINS:
LES DÉFIS À VENIR POUR LE SECTEUR AGROALIMENTAIRE CANADIEN

ABSTRACT 8

Whole-farm Income Insurance: A Risk Management Strategy or Investment Tool?

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Government Business Risk Management (BRM) programs are a suite of instruments available to farm business owners in Canada to protect against agricultural risk. Among the major protection programs is AgriStability, an income insurance program, which triggers payments based on a historical moving average of whole-farm profit margin. Over the past 10 years, the program has been revised twice in terms of coverage levels, premium rates, and payment limits. Though the premium rates are highly subsidized, participation in the program has been declining over the past decade. This study uses the longitudinal Ontario Farm Income Database (OFID) to investigate Ontario beef farmers' strategic participation behavior in response to historical farm-level income fluctuations, program payments, and external policy changes between 2003 and 2013. Prospect theory and a reference-dependent preference framework are used to model farmers' perceived gain and losses, and their resulting withdrawal behavior. The study aims to provide insight into how farmers perceive and utilize the government-funded risk management programs, i.e. as a pure risk management tool or as a speculative investment strategy for earnings. Results also generate implications for the rationale and efficiency of this type of program from an economic equity point of view.

Key Words: Whole-farm income insurance, participation and withdrawal, prospect theory, panel data