


“Additional LGM Policy Provisions”

Understanding Risk Management Using Livestock Gross Margin Insurance

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Understanding Risk Management Using Livestock Gross Margin Insurance



Home Study Course
Chapter 3
Additional LGM Policy Provisions

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Chapter 3 Objectives

- Specific perils covered by LGM
- Ownership and records for LGM insured livestock
- Guaranteed pricing
- Transfer coverage and assignment of indemnity

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Single Peril Insurance

- Protects against declines in cattle feeding or swine finishing margins
- Does not cover other losses like:
 - ✓ Mortality
 - ✓ Condemnation
 - ✓ Physical damage
 - ✓ Local basis changes
 - ✓ Poor performance
- Producers can buy separate insurance policies that insure against those perils

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Death Loss

- Death loss does not need to be reported
- If total actual marketings are less than 75% of total target marketings in the insurance period the indemnity is reduced proportionately
 - ✓ If total actual marketings are 70% of total target marketings, indemnity is reduced by 30%
 - ✓ Premium is not reduced

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Sale Date Variation

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- Indemnity is not affected if target marketings are not sold in target marketing month
- AGM calculated as if they were actually marketed in target marketing month
- If not sold in target marketing month, cash spreads differ and the varying price spreads are not insured

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Livestock Records

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- Cattle records subject to inspection by insurance company or RMA:
 - ✓ Feeding
 - ✓ Finishing
 - ✓ Sales receipts
 - ✓ Livestock can also be inspected
- Swine include the above records as well as
 - ✓ Breeding
 - ✓ Farrowing records

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Livestock Records

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- Producers must retain all records for 3 years after the end of the insurance period
- RMA can request records from:
 - ✓ Packers, financial institutions, shippers, sale barns, terminals, cooperatives, associations, or accountants

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Guaranteed Pricing

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- No bid/ask spread as with options market
- EGMs and premiums set after CBOT and CME closes
 - ✓ Once set, EGMs and premiums do not change for that day

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Coverage Transfer

- Transfers ownership of insured livestock to another party
- Current owner must file “Transfer of Right to Indemnity Form” with insurance agent



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Assignment of Indemnity

- Transfers right to collect the indemnity payment to another party
- Owner must file “Assignment of Indemnity Form” with insurance company
- Owner can file form no later than 15 days after receiving notice of probable loss
 - ✓ Or assignee must submit marketings report 15 days after expiration of initial 15-day period

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Use of Other Hedges

- LGM and LRP cannot be used to insure the same livestock at the same time
 - ✓ LRP can be used to insure eligible livestock and once that protection has been lifted, those livestock can be insured with LGM
- Any position can be taken in the futures and options markets during the LGM insurance period

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Other Considerations

- Insurance cannot be sold back to recover premium
- Coverage only has value on end date and cannot be lifted once in place
- LGM is an insurance policy, not a derivative
- Entities with collateral interest may view favorably
- LGM fits any size operation

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Summary

- LGM only insures against feeding margins
- Records must be maintained and are subject to inspection
- Coverage and indemnities can be transferred to another party
- LRP cannot be used simultaneously with LGM

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What's Next?

- Chapter 4: LGM for Cattle Basis and Purchasing Considerations
 - ✓ Difference between the cash gross margin and AGM
 - ✓ Optimal sales closing months to purchase LGM

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