

# Production Insurance

BC Ministry of Agriculture



## Understanding your Tree Fruit Quality Coverage and Claim Process

All commodities other than Cherries



Having a summer storm devastate your tree fruit crop can create a significant amount of anxiety and stress. By purchasing Production Insurance coverage you have already taken steps to manage your financial risk and protect your farm business.

It's important for you to understand what you've purchased and what you can expect in the event of a storm. Please read this guide carefully. If you're still unsure about the coverage that you have purchased or how your claim would be determined, please contact your local Production Insurance office and speak with a program representative.

## **TREE FRUIT QUALITY LOSS COVERAGE**

Quality loss coverage is insurance against a loss in market grade when hail or a severe wind event damages your crop and reduces the grade (quality) of the fruit you deliver to market.

- Market grades are set out in the *Canada Fresh Fruit and Vegetable Regulations (C.R.C., c. 285)* and Production Insurance Quality Loss damages are assessed using this standard.
- Quality Loss coverage cannot compensate for losses due to perils such as frost or winter damage. Quantity (yield) Loss coverage is intended for that purpose.
- You may insure your crop for as little or as much as you like, providing coverage does not exceed the value of the crop in your orchard. The intent of the product is to allow you to make an individual risk management decision on the amount of coverage you need.
- It is not designed to provide a locked-in profit or return on investment. Production Insurance cannot compensate for low commodity prices or high input costs.
- Your claim is calculated based on the coverage you have purchased not the value of the loss. If you have purchased less than the full value of your crop, you are not fully covered.
- **Remember, your insurance needs may vary from year to year or any time there are changes to your farm operation.** Please take the time to review your Quality Loss insurance coverage with your local Production Insurance Representative early in the season.

## **PURCHASING QUALITY LOSS COVERAGE**

### ***“WHEN CAN I BUY MORE COVERAGE?”***

Production Insurance for tree fruits is purchased at two different times:

1. When you renew your policy for Quantity (yield) Loss and Fruit Tree (plant) Loss before the November 30<sup>th</sup> deadline, a minimum amount of Quality Loss coverage is automatically put in place.
2. Additional amounts of Quality Loss coverage can be purchased in the spring.

It's recommended that you purchase additional Quality Loss coverage shortly after bloom once your potential crop size and value can be determined. Another strategy is to buy up Quality Loss coverage in increments as crop size and value can be more accurately determined. This flexibility is very beneficial because you can 'top up' your coverage at any time.

**Once Quality Loss damage has occurred on your farm, additional coverage can no longer be purchased.**

#### *“HOW MUCH COVERAGE SHOULD I BUY?”*

This is entirely a personal risk preference decision. There is no right or wrong answer. However, you do want to make an informed, conscientious and deliberate decision as to how much loss your operation is willing to risk and purchase accordingly.

It's recommended that you do a rough calculation of the size of your crop (number of pounds in the field) times an average market price to get an approximate value. You must then decide what percentage of this value you want or need to protect. Some orchardists are only comfortable knowing they are fully covered. Others purchase just enough coverage to protect their production costs for the year. The decision is yours.

#### *“WHEN DOES COVERAGE COME INTO EFFECT?”*

- FOR ALL COMMODITIES OTHER THAN CHERRIES, insurance coverage takes effect at 12 noon on the second (2<sup>nd</sup>) day following receipt of full payment of the premium.
- FOR CHERRIES, Insurance coverage takes effect at 12 noon on the fourth (4<sup>th</sup>) day following receipt of full payment of the premium.

As an example, if you purchase additional Apple Quality Loss coverage and pay premium on a Tuesday, regardless of the time, the coverage takes effect at 12 noon on Thursday. If the purchase is on Friday coverage takes effect at 12 noon on Sunday.

If you have arranged for a packing house or other 3rd party to pay premiums on your behalf, there may be delays to when coverage takes effect.

Upon purchasing a new Production Insurance policy or renewing your annual policy, it is the producer's responsibility to ensure that the following information is accurate and up to date.

- Map of farm (detailing each parcel or unique block)
- Accurate tree count (within each unique parcel or block)
- Packing house # (number) by lot
- If leased, a current and legal lease agreement

If the information is not accurate, delays, reductions, or complete denial of a claim is possible.

# **TREE FRUIT QUALITY LOSS CLAIM PROCESS**

## **FILING A NOTICE OF LOSS (NOL)**

**You must file a Notice of Loss (NOL) with your local Production Insurance office as soon as you suspect damage to your crop and each and every time that you suspect damage.**

- Prior to filing your Notice of Loss (NOL), inspect your crop for the extent of damage. Check lots, types of fruit, and all varieties.
- You must list each lot and variety for which you suspect damage and the date that damage occurred on your Notice of Loss (NOL).
- Take this opportunity to advise Production Insurance of any special circumstances or requirements pertaining to your damaged crop.
- You may file your Notice of Loss (NOL) by telephone or in person at your local Production Insurance office.
- If you are filing by telephone, a NOL Confirmation letter will be mailed to you. Check the information in the letter carefully as this represents proof that a Notice of Loss (NOL) has been filed. If you have not received your NOL Confirmation letter within two weeks, contact your local Production Insurance office.
- If you are filing a NOL in person ensure that you receive and retain a copy of the Notice of Loss (NOL).

**Note: If additional Quality damage occurs after the initial storm be sure to file additional Notices of Loss (NOL) as required so that you can be certain that all damage is accounted for.**

## MANAGING YOUR CROP AFTER QUALITY LOSS DAMAGE HAS OCCURRED

Severe damage to your fruit crops can be very stressful and you may be anxious to have your damage adjusted. It's important to note that Quality loss damage to fruit crops is adjusted when the fruit is **mature**.

- Production Insurance adjusters may not adjust your loss for some time or they may arrive at your orchard to do a quick overview for planning purposes. This doesn't mean that nothing is being done; every claim will be adjusted to standard at the appropriate time.
- Fruit is graded according to the *Fresh Fruit and Vegetable Regulations (C.R.C., c. 285)*.
- Quality damaged fruit is graded twice, once disregarding any damage and then re-graded taking into account the damage.
- When damage occurs early in the season it is expected that normal crop management practices will be carried through until crop maturity. This includes thinning your crop to a normal crop load. We expect that you will be removing some damaged fruit through the normal course of thinning.
- **Thinning damaged fruit**– selectively thinning hail or wind damaged fruit to remove as much damage as possible is a departure from normal crop management practices.
- Doing so will reduce any potential Quantity (yield) loss claim and will mask the true amount of Quality loss your crop has suffered.

**Avoid claim penalties** by notifying Production Insurance **BEFORE** you consider any change in crop management.

Production Insurance cannot advise you what the best management practice is for your crop after it has been damaged, however experience has shown time and again that it is in the best interest of the grower to continue to manage the crop normally through to maturity.

- **INCLUDE US IN THE CONVERSATION** - Your marketing agency (packing house) may suggest a strategy to maximize the return on your damaged crop.
- **Before you deviate from normal management practices (such as excessive removal of hailed or wind damaged fruit), you MUST advise your local Production Insurance office.**

## ARRANGING AND ATTENDING THE QUALITY LOSS ADJUSTMENT

Production Insurance has contracted adjusters to measure your damage. Your claim is calculated by Production Insurance based on this information.

Only individuals authorized by Production Insurance are able to assess the Quality loss of your crop.

- Adjustments for Quality losses are conducted when fruit is **mature** and are variety specific. Scheduling of your Quality loss adjustment will depend upon the stage of crop development, the severity of the event and the number of Quality Loss claims that Production Insurance adjusters have to complete.
- If you have damage to a number of varieties, a number of adjustments may need to be scheduled as varieties **mature**. Please note that where a particular variety comprises a very small proportion of the total crop a separate adjustment may not be conducted.
- An adjuster will contact you by telephone or will leave a message advising you of the time of the adjustment.
- It is in your best interest to attend the adjustment.
- Adjusters are directed to proceed with the adjustment as soon as they arrive at the farm. If you arrive late, even by a few minutes, the adjustment may have already been started or it may be completed.
- The adjuster's role is to properly sample and grade your crop and to report these results to you and to Production Insurance. If you are concerned about how your crop is being sampled or graded, speak to the adjuster before the adjustment is completed.
- You are entitled to a copy of the results of the adjustment. If you attend the adjustment you will be provided with the results at that time. If you do not attend, a copy of the adjustment result will be provided to you.
- Once you receive the results of your adjustment review them carefully. If you have concerns about the results of the adjustment discuss them as soon as possible with your adjuster or with Production Insurance staff.

**Note: Keep in mind that it will be easier to resolve disagreements while the crop is still hanging on the trees.**

## HARVEST CONSIDERATIONS AND REPORTING PRODUCTION

If any portion of your crop has not been adjusted, check with your Production Insurance office prior to beginning or resuming harvest.

- Abandoned fruit is part of your crop yield. It is important to report abandoned crop before it is disposed of so that it can be verified by an adjuster.
- Depending upon how the damage was sampled, you may be asked to report yield by variety and by lot on your Declaration of Production.
- **Report your yields by Declaration of Production as soon as possible after harvest. Late reporting may delay your payment into the next calendar year.**

## INDEMNITY PAYMENTS

Claims are processed after all inspections are completed, once harvest operations are finished and after you remit a completed Declaration of Production and any other required documentation.

- Normally, this means late summer and early fall for soft fruit and in late fall or early winter for apples and pears.
- A Claim Summary letter detailing how your claim was determined will be mailed to you.
- If your claim results in a payment, the indemnity cheque will be mailed separately from the Ministry of Finance.
  
- If you have an Assignment of Indemnity in place, the claim payment will be paid to the assignee.
- If you wish to defer your payment into the next calendar year, you must advise us when you remit your Declaration of Production.
  
- By cashing the cheque you accept that your claim is satisfied.
- If you require an explanation on how your claim was calculated or disagree with the result, contact your local Production Insurance office prior to cashing your indemnity cheque.
- If you are still not satisfied with the claim settlement, the steps to appeal a claim are outlined in section 13 of your Tree Fruit Policy Wording for The Continuous Specified Perils Production Insurance Contract.



## MEASURING THE DAMAGE AND CALCULATING THE CLAIM

There are two components to your Quality loss adjustment; **sampling and grading**.

### ***Sampling:***

- The adjuster is required to take a representative sample for each variety except where a variety makes up a very small percentage of total yield.
- Where damage is variable, the sample size is increased until it is representative. Varieties are sampled separately.
- The selection pattern within the orchard block must be representative of the crop distribution.
- Instructions to the adjuster are to draw a representative sample. If it is unclear to you why a certain sample selection is being made, ask the adjuster for an explanation. If you and the adjuster are unable to come to agreement on the sampling, the adjuster is directed to complete the sample and proceed to grading. The process for requesting a second sampling is outlined in the *Finalizing Your Quality Loss Damage Adjustment* section.

### ***Grading:***

- Fruit is graded according to the standards set out by the *Fresh Fruit and Vegetable Regulations (C.R.C., c. 285)*.
- Damaged fruit is graded twice, once disregarding any damage and then re-graded taking into account the damage. The difference between the two grades will determine the *Field Damage*.  
**Note: Grading ignores the color and size of the fruit.**
- The adjuster will grade the sample at the orchard. If it is unclear to you how the fruit has been graded, ask the adjuster for an explanation. If you and the adjuster are unable to come to agreement on the grading, the adjuster is directed to finish and to retain the sample for a second grading. The process for requesting a second grading is outlined in the *Finalizing Your Quality Loss Damage Adjustment* section.

## FINALIZING YOUR QUALITY LOSS DAMAGE ADJUSTMENT

Once the sampling and grading are finished the loss adjustment is complete.

- If you are present at the adjustment you will be asked to sign the Hail Loss Worksheet indicating your agreement with the results.
- If you are not present at the adjustment, we will provide a copy of the results to you.
- If you do not agree with the results of the adjustment you must indicate this on the Quality Loss Worksheet. You will be asked to specify why you disagree with the results of the adjustment.
- In case of disagreement be sure to contact your local Production Insurance office prior to beginning or resuming harvest. Production Insurance staff will review the adjustment with you and, if required, will schedule a second adjustment.

**Remember it will be far easier to resolve any disputes while the crop is on the tree rather than waiting until after it is harvested.**

- If a second adjustment is warranted you must attend it. The results of the second adjustment will be used to calculate your claim.
- Please keep in mind that adjustments are variety specific. The Quality Loss Worksheet that you are agreeing to may not represent all of the varieties that you have insured. Other varieties may be adjusted later.

Quality loss damage can vary significantly among varieties of apples. Different varieties may be at different stages when damage occurs, may have hardness or skin type which resists damage differently, or may recover from damage differently. The *Fresh Fruit and Vegetable Regulations* will grade hail or wind damaged Type 1 varieties differently than Type 2 varieties.

These factors, combined with the variable effect some perils can exhibit within an orchard (e.g. hail), can account for very significant differences in Field Damage between varieties, within an orchard or between neighboring orchards.

## DETERMINATION OF FIELD DAMAGE

### EXAMPLE FOR APPLES ONLY

*Note: Other grading factors are used for other tree fruit crops. Please contact your local Production Insurance office for this information*

The following chart lays out the process used for the calculation of Field Damage.

- Type 1 apples include all varieties except those listed as Type 2.
- Type 2 apples include: Macintosh, Lodi, Transparent, Sunrise, other summer apples, and any variety that cannot be graded as Extra Fancy.

<b>Downgrading</b>	<b>Grades</b>	<b>Type 1</b>	<b>Type 2</b>
Extra Fancy reduced to	Extra Fancy	0	0
	Fancy	35	0
	Cee	100	0
	Cull	100	0
Fancy reduced to	Fancy	0	0
	Cee	65	95
	Cull	65	100
Cee Reduced to	Cee	0	0
	Cull	0	5
Natural Culls		0	0

**Example:** A 32,000 lb. Gala crop is sampled and graded for Quality damage as follows:

<b>Depreciation</b>	<b>Grades</b>	<b>Total Samples</b>	<b>% Downgrading</b>	<b>Weighted Downgrade</b>
Extra Fancy reduced to	Extra Fancy	10	0	0
	Fancy	12	35	4.2
	Cee	4	100	4.0
	Cull	8	100	8.0
Fancy reduced to	Fancy	0	0	0
	Cee	2	65	1.3
	Cull	4	65	2.6
Cee Reduced to	Cee	1	0	0
	Cull	8	0	0
Natural Culls		5	0	0
<b>TOTALS</b>		<b>54</b>		<b>20.1</b>

**Field Damage** is calculated as  $20.1 \div 54 = 0.372$  or **37.2%**

## CALCULATING YOUR QUALITY LOSS CLAIM

Using the *Field Damage* from the Adjuster's reports, Production Insurance will calculate a *Depreciation Factor* for each sampled commodity type, variety and lot ("Sample").

- 1) For Commodity groups where separate varietal Insurable Values are used (Apples and Pears):
  - a) Total Yield of each Sample is converted to dollar value using the current year's Production Insurance varietal Insurable Value (note: Individualised Insurable Values (IIV) are NOT used for this),
  - b) A Depreciation Factor (from the table on p.14) is applied to the value of each Sample,
  - c) A weighted average Depreciation Factor is calculated for the entire crop,
  - d) The claim is determined by multiplying the value of Quality Coverage purchased by the weighted average Depreciation Factor.

**Example 1** - An apple grower expects to harvest 200,000 lbs and decides to buy \$35,000 Quality Loss Coverage, enough, he feels, to protect his business if hail destroys his entire crop. A hail event occurs in early August and a pre-harvest loss inspection is made. The grower's actual harvested yield is slightly better than his expectation and comes in at 234,475 lbs.

Variety	Yield (lb)	Insurable value (\$/lb)	Crop Value	% Field Damage	Depreciation Factor (%)	Value of Loss
Ambrosia	110,025	0.33	\$35,758.13	58	86	\$30,751.99
Gala	36,300	0.20	\$7,368.90	42	46	\$3,389.69
Granny Smith	46,750	0.16	\$7,386.50	35	30	\$2,215.95
Jonagold	2,400	0.07	\$172.80	67	100	\$172.80
Red Delicious	25,800	0.12	\$2,967.00	35	30	\$890.10
Spartan	13,200	0.14	\$1,861.20	67	100	\$1,861.20
<b>Total</b>	<b>234,475</b>		<b>\$55,514.53</b>		<b>AVG = 70.8%</b>	<b>\$39,281.73</b>
Average weighted Depreciation Factor is $\$39,281.73 \div \$55,514.53 = 70.8\%$						
Claim amount is <b>70.8%</b> of the Coverage Value $0.708 \times \$35,000 = \mathbf{\$24,780}$						

- 2) For Commodity groups where separate varietal Insurable Values are NOT used (peaches and nectarines, plums and prunes, apricots):

- Total Yield of each Sample is converted to dollar value using the current year's Production Insurance commodity Insurable Value,
- A Depreciation Factor (from the table on p.14) is applied to the value of each Sample,
- A weighted average Depreciation Factor is then calculated for the entire crop,
- The claim is determined by multiplying the value of Quality Coverage purchased by the weighted average Depreciation Factor.

**Example 2** - In a similar example, hail damages a peach crop with \$15,000 hail coverage as follows:

Variety	Yield (lb)	Insurable value (\$/lb)	Crop Value	% Field Damage	Depreciation Factor (%)	Value of loss
Red Haven	10,025	0.386	\$3,869.65	65	100	\$3,869.65
Cresthaven	36,300	0.386	\$14,011.80	23	6	\$840.71
O'Henry	2,500	0.386	\$965.00	38	36	\$347.40
	48,825		<b>\$18,846.45</b>		<b>AVG = 26.8</b>	<b>\$5,057.76</b>

Average weighted Depreciation Factor is  $\$5057.76 \div \$18,846.45 = 26.8\%$

Claim amount is **26.8%** of the Coverage Value  $0.268 \times \$15,000 = \$4020$

### MINIMUM THRESHOLD QUALIFIER

To qualify for an indemnity payment,  
**the average weighted Depreciation Factor must exceed 5%.**

In other words, if you've lost less than 5% of the value of the coverage you bought, no claim is paid.

When the average weighted Depreciation Factor is above 5%,  
the entire claim amount is paid.

## Depreciation Table – all commodities other than Cherries

*Note: A copy of the depreciation scale for cherries is available through your local Production Insurance office.*

Average % Field Damage	Depreciation Factor
20	0
21	2
22	4
23	6
24	8
25	10
26	12
27	14
28	16
29	18
30	20
31	22
32	24
33	26
34	28
35	30
36	32
37	34
38	36
39	38
40	40
41	43
42	46
43	49
44	52
45	55
46	58
47	61
48	64
49	67
50	70
51	72
52	74
53	76
54	78
55	80
56	82
57	84
58	86
59	88
60	90
61	92
62	94
63	96
64	98
65-100	100

If you have any questions about your Quality Loss claim or about the information in this document, contact your local Production Insurance office.

*Disclaimer: Policies, procedures and standards may change from time to time. Please check with your local Production Insurance office that this document is current. Where there is a discrepancy between this document and the Tree Fruit Policy Wording for The Continuous Specified Perils Production Insurance, the Tree Fruit Policy Wording for The Continuous Specified Perils Production Insurance will be followed.*

# Production Insurance

## BC Ministry of Agriculture

For more information, contact your nearest Production Insurance office  
or call toll free:

Kelowna	1-888-332-3352
Oliver	1-888-812-8811

Visit the Ministry of Agriculture website for more information:  
<http://www.gov.bc.ca/agribusinessriskmanagement>

Production Insurance is supported by both the federal and provincial  
governments and is delivered by the  
British Columbia Ministry of Agriculture

This guide contains general information only; it does not form part of any  
insurance contract.

Production Insurance  
Business Risk Management Branch  
Ministry of Agriculture  
British Columbia

Understanding your Tree Fruit Quality (Hail) Coverage and Claim Process  
August 30, 2016

