

EXECUTIVE SUMMARY

Watts and Associates, Inc., (W&A), a specialized crop insurance development consulting firm, was contracted to evaluate the feasibility of development of an insurance program for sheep in Ontario. This report considered a number of designated feasibility criteria, including requirements for a potential program:

- Be ratable and operable in an actuarially sound manner;
- Moral hazards must be avoidable or controllable;
- Customers must not be able to select insurance only when conditions are adverse;
- There must be enough interest for the risk to be spread over an acceptable pool of insureds;
- There must be no potential for beneficial gain; and
- The perils affecting production must be identified and categorized as insurable and non-insurable.

To support this research effort, W&A partnered with Ontario Sheep Farmers to conduct three on-site listening sessions throughout Southern Ontario sheep production regions in September of 2019. In the several months that followed, W&A made strenuous attempts to collect and obtain data to support evaluation of insurable risks. In addition to two separate Ontario Sheep Farmer surveys, data were collected from Ontario Sheep Farmers, Stats Canada, GenOvis, the U.S. Department of Agriculture, and even individual sheep farmers in Ontario. When these data were found to be insufficient to support robust statistical analysis, additional inquiries and data requests were provided to all of the afford referenced data sources. In addition to quantitative analysis, a thorough literature review was conducted to assist in the development of risk profiles and to differentiate potentially insurable and uninsurable risks.

Based on stakeholder feedback, the Contractor worked to determine what types of production insurance garnered both producer interest and were potentially feasible. Ultimately, two primary classifications of potential sheep insurance programs were considered in detail; Production (average daily gain) Insurance and Mortality Insurance. Based on the simple consideration of the feasibility criteria, neither option meets the standard for feasibility at the present time based on several independent and confounding issues fundamental to the offer a viable insurance product. These issues are not unique to Ontario and indeed are present in livestock industries worldwide; no model for a successfully deployed insurance program for sheep production was identified anywhere.

The Contractor does not believe a blanket infeasibility finding provides much value to the Ontario Sheep industry. As a result, considerable additional effort was expended to attempt to offer a pathway that could ultimately support a program for the benefit of Ontario Sheep producers. Based on many fundamental challenges to feasibility, production insurance for sheep is deemed impractical. The study found that mortality insurance could eventually become feasible if the following conditions could be met:

- 1) Substantially greater volumes of mortality data were collected support ratemaking;
- 2) Participating sheep farmers commit to provide detailed production and mortality data on an ongoing basis to support future experiential ratemaking;
- 3) Program deductibles could be set to compensate only unusual losses;
- 4) Coverage cannot attach to lambs until they are 50 days of age;

- 5) Compensation levels for lost lambs be set below their actual market value; and
- 6) Farmers commitment to best management practices.

If these criteria can be met, the feasibility of sheep insurance in Ontario should be revisited.