

INSURANCE CONSIDERATIONS FOR YOUR FARMING OPERATION

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INTRODUCTION

Insurance is an essential tool for protecting your farming operation from various forms of agricultural risk. Agricultural risk can be divided into five broad categories – production, marketing, financial, legal and human (Crane et al., 2013). Understanding and implementing insurance products that are beneficial to your operation can seem like a daunting task. Insurance, to some, can feel like another language, so working with a professional is essential. This publication explains coverage options, including liability, physical damage and large equipment, which can be important for farmers to consider, and how selecting the right agent to meet your operation's needs is critical.

CHOOSING THE RIGHT AGENT

When considering insurance products for your operation, it is important to understand the intent of each insurance product and what it is and is not protecting against. Not all insurance companies offer coverage for farm exposures and view farming as a personal risk, while others view farming as a commercial type of risk. Therefore, working with an insurance company that has a track record of servicing agriculture (and your specific commodity) is critical. Farmers should consider types of insurance (liability, physical damage, business interruption, life and disability, and livestock and crop insurance) and the asset or revenue category that is being protected (home, buildings and permanent structures, machinery and equipment, crops and livestock, income streams and human capital). Some companies can create a package policy, which offers multiple coverages under one policy. To fully understand what is and is not covered under your insurance policy, it is essential to select a qualified insurance agent who understands typical agricultural practices and the coverages necessary for a specific type of operation. Building a relationship with a qualified insurance agent and maintaining consistent communication will help develop an insurance portfolio that accommodates and protects your farm's needs.

TYPES OF INSURANCE

Liability Coverage

Some farmers may ask how liability insurance can play a role in their farming operation. Liability coverage is designed to cater to you and your operation's specific needs as it can be designed to cover the acreage you specifically own/and or rent as well as the type of farm you are operating (e.g. traditional production agriculture, specialty crops, agritourism, etc.). When contemplating liability insurance coverage, think of it as insurance that can potentially protect you and your assets in the operation in the event of a lawsuit or when an incident occurs on the operation and results in a loss. General farm liability, commercial business liability insurance and product liability insurance are discussed in this section.

General farm liability coverage typically covers accidents that occur on the farm while “necessary” farming activities are being conducted. Depending on the insurance company, liability can be written using a general liability policy or simply a personal liability policy. Each of these policies includes a total amount coverage and coverage for medical payments to others coverage. Coverage for medical payments to others includes coverage of costs associated with injuries of employees or guests of your farm. Consider an example of hiring help to clean fencerows. Now imagine a scenario where an employee steps in a hole and injures a leg. If liability coverage is in place for your operation, the medical payments to others coverage would assist with the employee's medical bills resulting from the injury. The seriousness of an injury or accident can escalate quickly, both medically and financially. Your liability insurance would offer monetary protection for that situation up to the limit of liability, and, as a farmer, it is imperative to consider all assets when determining a total amount of liability coverage. Knowing your total asset value is critical to determining the amount of coverage needed. Another important point to discuss is that under general liability, accidents pertaining to farm business that occur on roads are normally covered. However, it is critical that you confirm if a vehicle or equipment is considered in the insurance policy and covered by farm liability insurance (Massey and Langford, 2019).

General farm liability coverage can significantly alleviate risks for producers participating in agricultural activities that follow the typical definition of farming a crop or livestock. Commercial business liability insurance needs to be taken into consideration when a producer is partaking in or hosting activities on the farm that do not fall under the typical definition of farming. An example of these activities is an agritourism operation hosting corn mazes or hay rides during the fall. The coverage is written specifically for the business and may cover additional injuries that would not be covered in a general farm liability policy (Pepper, 2013).

Although general liability or commercial business liability coverage may cover assets on your farm when accidents occur, a specific liability coverage that certain producers may consider purchasing is product liability insurance. According to Edwards et al. (2016), product liability risk can be described as: "Liability risks in that consumers can take legal actions against producers demanding monetary compensation claiming the food they purchased made them sick." Product liability insurance may be particularly important for producers selling fresh produce directly to customers or allowing guests to be on their premises where food, such as fresh produce or value-added products, is consumed. Some restaurants and grocery stores require producers to carry product liability insurance coverage (Kime and McGee, 2023).

Physical Damage Coverage

Coverage that can assist a farmer in paying for damaged property is referred to as physical damage insurance. You purchase physical damage insurance coverage for your home and automobile to ensure that if you suffer any type of loss of insured property, you can repair the damage done. For similar reasons, items you rely on to generate income from your farming operation, such as tools, machinery, structures, and other equipment used in your operation, should be insured. Examples of events that could incur a loss include but are not limited to, flooding, cab glass breakage, and fires. Lending institutions where you hold loans or mortgages could mandate that you have physical damage coverage to ensure they do not lose money due to a loss. Remember though, even if there is no liability on the asset that requires insurance, if a loss occurs and there is no coverage in place, this is a direct loss to the producer.

Physical damage coverage can be purchased for farm structures as well. Insurance companies offer replacement cost or actual cash value loss settlements for farm structures. When you choose replacement cost loss settlement, understand the insurance company will want to insure it for the actual cost of rebuilding the structure from the ground up. These structures usually indicate higher coverage amounts and better-quality buildings, so the insurance company may elect to inspect them for quality and coverage. The actual cash value gives a little more leeway to determine the coverage amount. This is usually the loss settlement chosen for older or outdated structures. When insuring the structures, consider what is being kept in the structure. Some scenarios to consider are utilizing barns in your operation to store hay or grain bins to store harvested crops. Along with insuring the structures, the hay and grain stored should also be insured for a lump sum amount of coverage.

Depending on your farm's enterprise(s), you may have equipment, such as tractors, combines, hay balers, tillers, etc., that help your farm's operation. Insurance companies do offer ways to insure such equipment, and it is suggested that these items be insured as well. One way is blanket coverage, which is similar to small tool coverage, a lump sum amount of coverage for all of your equipment. The other is to specifically insure or "schedule" each piece individually. Scheduled coverage gives producers the ability to select specific pieces of equipment they want to insure and assign a specific amount of insurance to those individual pieces of equipment. This allows you to customize your coverage and be assured that you have adequate limits for higher-valued pieces of equipment. It is extremely important to be aware of the value of your equipment and the values for which you have them insured.

Most insurance companies offer actual cash value loss settlement on equipment, which allows for depreciation of the loss. This works like your automobile insurance: the older and the more miles a vehicle has, the less it is worth. The same holds true for most farm equipment. The point to take from this is: do not insure your equipment for more than you could buy another of the same size and quality.

Coverage and Deductibles

Something else to be aware of with your insurance provider is their coverages and deductibles. Coverage is the total amount of risk or loss protected by an insurance policy. Some offer all risk coverage except where excluded, and some are by peril, or cause of loss. It's important to note all risk coverage is a broad coverage, and you must be aware of the exclusions. Exclusions could include, but are not limited to, war, pollution or typical wear and tear. Perils are specific to the event that caused the loss. A few examples of perils are wind, hail, theft and lightning. When it comes to small tools and equipment, most companies offer a lump sum amount of coverage. This means you would add up all of the values of your wrenches, air compressors, torches, etc., and insure them all for a lump sum amount. This way, you would have coverage to replace them if they were damaged.

Deductibles are an out-of-pocket amount of money that the person carrying the insurance policy must pay before the insurance plan begins to cover expenses associated with the loss. Regarding deductibles, some have percentages, and some have flat deductibles. A flat deductible is a specific dollar amount that you must pay before insurance will pay out for damages. For example, if you have a \$1,000 deductible and you file a claim for wind damage to your farm shop and it is determined damages are \$5,000, the insurance provider will pay out \$4,000 after you have covered the \$1,000 deductible. For percentage deductibles, the deductible amount is a percentage of the total coverage policy amount. For example, if a machine shop is insured for \$200,000 and your deductible is 3 percent, you would pay \$6,000 of the filed claim.

Crop and Livestock Insurance

Crop and livestock insurance are risk management tools that producers can utilize to protect themselves against losses resulting from natural causes, such as weather and disease, and sometimes market price fluctuations. In the event of a loss to your typical agricultural production output, having insurance on the commodity can assist in income stabilization and help producers recover some of their investment. There are various avenues to consider when insuring your commodity, whether through private insurance companies or government entities such as the United States Department of Agriculture (USDA).

Business Interruption Insurance

Business interruption (BI) insurance is an insurance coverage that assists agricultural producers in replacing income lost from an event. Agricultural enterprises, such as poultry, swine or dairy require necessary infrastructure to guarantee that the operation can continue business. For a poultry farm, BI insurance coverage is critical in the event of a loss to ensure that expenses can continue to be paid. A BI insurance policy should be considered when the farm is reliant on critical infrastructures, hired labor is necessary to keep the operation effectively running, and monthly expenses are accrued and due from typical daily production practices.

Life and Disability Insurance

Purchasing life and disability insurance to assist in the loss of a key principle or the inability to manage a farm could be critical to protecting yourself or your loved ones. Life and disability insurance can help protect your family and one of your most important assets – income. Life and disability insurance can provide your family with financial stability in the event of your absence. These insurance policies can typically be sold as individual or joint policies and are customizable to fit your operation and family's specific needs.

Additional Details to Remember

Another important detail to remember with insurance policies is the time of renewal declaration from your insurance company if any changes to your current policy need to be made. Renewal declarations show the coverage you have as well as coverage values you have insured on your policy. Some insurance companies refer to the coverage amounts as the limit of liability. The limit of liability means the coverage amount or value the item is insured for. Keep track of the values to make sure you do not have your actual cash value items over-insured or your replacement cost items under-insured. You may elect to remove coverage altogether, depending on the quality or usage of the item. It is important to make sure your insurance coverage matches your farm's assets as well as the characteristics of your operation.

CONCLUSION

Acquiring the right insurance for your farming operation can be a tedious and hefty task. With various terminologies or types of coverages and details, it is easy to find confusion on what is best for your farm. This publication is designed to assist agricultural producers in weighing what coverage options are best for their farm as well as making sure all aspects of the farm are insured. At the end of the day, having an insurance agent who understands farming and agriculture is the best option to assist you in developing an insurance portfolio specific to your operation.

Additional Resources

This publication is not the only resource available to producers when considering what insurance best fits and protects their operation. This topic is so important it is deemed necessary to make sure our Tennessee producers have resources available to them to make the best choice possible with the help of their insurance agent. Listed in the references below, Ohio State University has a library of publications pertaining to working with an insurance agent and properly covering your farm assets.

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