

What types of insurance should I consider for my farm?

Options for AgriVentures Award Recipients



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Types of Farm Risks

- Liability &/or “Food Safety” related risks
 - On-farm accidents, foodborne illness outbreak, contamination, product recalls (lawsuits)
- Traditional, weather-related **production** risks
 - Floods, drought, pests, freeze



Need to Manage Risks

- **Insurance** is one tool to mitigate these risks
- What are the **different insurance policies** out there to manage these risks?
 - Provide information to make **informed insurance purchase decisions**
 - For example, confusion about general farm liability insurance vs. product liability insurance

Insurance Options

- For liability-related risks:
 - Injuries from **accidents**:
 - General farm liability insurance
 - Commercial business liability insurance
 - **Foodborne Illness related injuries**:
 - Product liability insurance (PLI)
 - Product recall insurance
 - Product contamination insurance policies
 - Others: Malicious tampering and excess/umbrella/surplus lines of insurance



Insurance Options

- For production related risks:
 - Yield protection (YP) or Revenue Protection (RP) insurance policies
 - Whole Farm Revenue Protection (WFRP)
 - Others: NAP, SCO, etc.
- These are **multi-peril crop insurance** policies administered by USDA-RMA
 - Publicly supported, privately delivered

General farm liability insurance



- Protects against liability claims for **injury and property damage due to accidents from farming activities**
 - Lawsuits due to on-farm accidents
- Covers, farmers, employees, guests, customers
- Appropriate for u-pick operations and operations with on-farm stands

Commercial business liability insurance

- Similar to general farm business liability insurance, but may **cover injuries arising from “non-farming” activities**
- Appropriate for growers with processing facilities and those that sell in farmers markets



Product liability insurance

- Protects against claims of **injury caused by a defective or hazardous product** (e.g. contaminated fresh produce)
- Provides protection if your product (say, fresh produce) causes injury or illness



Product recall insurance

- Covers **direct costs** of a product recall
 - Costs associated with getting contaminated product off the shelf & destroyed, product replacement costs, & transportation costs
- Do not cover indirect costs



Product contamination insurance



Granny SMITH FOOD SAFETY RECALL:
DEL MONTE GRANNY SMITH APPLES
LINKED TO BACTERIAL INFECTION



- Covers **both direct and indirect costs** of product recall
- Indirect costs:
 - Lost profit
 - Business interruption losses
 - Third party (downstream) business losses

“Other” liability-related insurance

- Malicious tampering insurance
 - Covers **direct and indirect losses** of product recall, but also covers losses from **criminal actions** of sabotage against grower
- Excess/umbrella/surplus lines of insurance
 - **Additional coverage when underlying available insurance is “lacking”**
 - For growers affected by recall but not source

Yield Protection (YP) Insurance

- **Individual** insurance plan that protects against **yield shortfalls** if the **actual yield falls below a guaranteed (historical) yield level**
- “Traditional” crop insurance administered by USDA-RMA
- Only for selected fruits and vegetables in NC, but available for most row crops
 - Apples, blueberries, cabbage, beans, cucumbers, peaches
 - Corn, cotton, soybeans, tobacco, wheat

Revenue Protection (RP) insurance

- **Individual** insurance plan that protects against **revenue shortfalls** if the **actual revenue falls below a guaranteed (historical) revenue level**
- Protects against both **production** and **price risk**
- Prices based on **futures prices**
 - Have option to use planting or harvest price to calculate guaranteed revenue
- Only available in NC mainly for row crops
 - Barley, canola, corn, cotton, sorghum, soybeans, tobacco, wheat

WFRP Insurance

- WFRP allows farmers to insure all crops (& livestock) at once under one policy, rather than insuring commodity-by-commodity
 - Designed for **diversified operations** and “**underserved**” commodities
- **Revenue insurance coverage** primarily based on tax records
- Premium subsidy of up to **80%** when at least two crops are grown
 - Available coverage levels from 50% to 85% (in 5% increments)
 - Coverage limit at **\$8.5 million** in revenues

WFRP Insurance

- Attractive option for:
 - **Diversified farms** (especially those with specialty crops)
 - Farms with **integrated grain & livestock systems**
 - **Single commodity farms not insurable by other RMA policies** (strawberries, sweet potatoes)
 - **Organic crop producers** (who grow crops without adequate organic price elections for insurance)
 - Farms that sell to **direct markets, local markets, specialty markets**

WFRP Experience in NC

Year	Policies Sold	Liability	Total Premium	Subsidy	Indemnity	Loss Ratio
2015	23	24,420,238	1,759,835	1,351,511	969,441	0.55
2016	61	87,934,030	5,290,762	3,997,604	8,552,678	1.62
2017	103	162,119,181	8,887,121	6,617,003	125,617	0.01

- Steadily increasing participation over the last three years
- Only 3 AGR-Lite policies sold each year from 2012-2014

WFRP Insurance

- Other issues to consider for WFRP:
 - Diversified farms typically already have low revenue risk
 - Requires more paperwork (e.g., tax records)
 - Exceptions/discounts for beginning farmers
 - Qualification requirements
 - Premiums perceived to be “high”
 - Premium is a function of county, type of commodities, % revenue for each commodity, commodity count
 - Can still purchase individual crop insurance policies if desired

“Other” crop insurance options

- Non-Insured Crop Disaster Assistance Program (**NAP**)
 - Coverage similar to YP, but through Farm Service Agency (FSA)
 - For crops not covered under individual RMA policies
 - Catastrophic coverage essentially “free”
- Supplemental Coverage Option (**SCO**)
 - Covers part of the deductible of the producer’s underlying individual YP policy

“Other” insurance options

- Livestock Gross Margin (**LGM**) & Livestock Risk Protection (**LRP**)
 - LGM designed to **protect expected gross margin** (market value of livestock less feed costs)
 - LRP designed to **protect against declining prices**
 - LGM available for **dairy cattle and swine** in NC; LRP available for **fed cattle, feeder cattle, and swine** in NC
 - Not very popular (only LRP for cattle bought in NC for 2016)
- **Apiculture; Pasture, Rangeland, Forage; Nursery insurance**

Take-home messages

- For liability-related insurance:
 - Privately administered and delivered
 - Shop around! Premiums/coverage vary
 - For PLI – typically \$1000 annual cost for \$1M coverage
- For “RMA-based” products:
 - Work with an agent you are comfortable with (same premiums/coverage since administered by RMA)
 - At least consider catastrophic coverage for your operations
- **No “one size fits all” insurance product!**

Additional Resources

- **Insurance Coverage Options for Fresh Produce Growers** by Rejesus & Dunlap (2009) [*NCSU Extension Pub*]
- **Food Product Liability Insurance: Implications for the Marketing of Specialty Crops** by Boys (2013) [*Choices Magazine*]
- **Product Liability Insurance Use among Tennessee Fruit & Vegetable Farmers** by Velandia et al. (2016) [*J. of Food Dist. Res*]
- Various Fact Sheets in RMA Website (YP, RP, WFRP)

Thank you!

- **Questions?**

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- **Website:**

- **NCSU Ag. Policy, Risk Mgt., & Crop Insurance Resources**

- <https://ag-econ.ncsu.edu/agricultural-policy-risk-management-and-crop-insurance-resources/>

