

Insurance Basics



value-added & alternative agriculture

Written by:

Annette Dunlap, MBA

Extension Associate in Value-Added and Alternative Agriculture

OVERVIEW

Every business owner faces risks. A typical risk is that a business becomes unprofitable and must close. Other risks include the danger of a visitor or customer becoming injured on your property, an employee getting hurt on the job or crops failing because of adverse weather.

Insurance is a tool that helps farmers reduce their exposure to risk. The purpose of insurance is to reduce the impact that an adverse event will have on your bottom line. Therefore, in order to offer the best possible coverage, it is important for you, the producer and business owner, to talk with your insurance agent and review how you might be exposed to a high-risk situation.

REVIEW YOUR EXPOSURE

Your goal is to make sure that you are covered by the right kinds of policies and at a coverage level that provides you with sound protection. The types of risks vary by operation, so do not assume a one-size-fits-all approach to insurance coverage will work best for you.

A good starting point is to conduct an insurance review with your agent. The purpose of the review is to help your agent understand the type of operation you have and to make certain that you understand all of the areas where you could potentially be at risk (have exposure) for a lawsuit or loss.

TYPES OF COVERAGE

Three basic kinds of coverage are generally necessary for farm operations: premises liability, crop insurance and products liability. A premises liability policy protects the property owner from injuries that are incurred by a visitor on the property. Property owners are expected to take all necessary steps to reduce the likelihood that an accident may occur. A policy may not cover a policyholder if the injury is shown to be the result of the policyholder/property owner's negligence, so it is important that a property owner show that efforts have been made to reduce the risk of injury.

Crop insurance is available to protect the producer from the loss of revenue due to the loss of a crop as a result of an adverse event. USDA's Risk Management Agency is encouraging producers to move toward the purchase of revenue insurance, which protects the producer's income, as opposed to only insuring against the loss of a crop.

Products liability insurance provides protection for producers who sell product that has had some processing, such as the processing of fruits into jams or jellies, or the making of preserved foods, such as pickles.

FARMERS' COMPREHENSIVE COVERAGE

A farmers' comprehensive policy will cover the home, buildings and farm-specific activities on the property. Included in this coverage are:

- Unprocessed (raw) farm product
- Pick-your-own operations
- Roadside stands at the property

COMMERCIAL LIABILITY COVERAGE

Certain non-farm activities may change your insurance needs such that you may require a commercial liability policy. "Non-farm" activities, processed farm products, non-farm receipts, public exposure on your property and/or selling produce grown by others are all examples of activities that require a commercial policy.

OTHER COVERAGE NEEDS

If you have 10 or more year-round, full-time employees, or any employees under the H2A program, you are required to have workers' compensation insurance. Even if not required to carry workers' compensation coverage, you may wish to opt in to protect you in the event of an employee injury. You may also wish to discuss an umbrella liability policy with your agent. This type of

policy protects you against a severe loss, and typically offers coverage beyond the usual limits offered in automobile and general liability policies.

Check with your insurance agent to determine the appropriate coverage type and limits for your operation.

READ THE EXCLUSIONS

While it may not make good bedtime reading, it is essential that you read your policy when it is issued. Pay particular attention to the section called "Exclusions." This section details what is not covered.

Contact your agent with any questions you have about your policy. If you question or dispute your coverage after reading your policy, request that your agent get you an explanation in writing by an authorized official at the insurance company's home office. Keep this written explanation with your policy documents.

REDUCE YOUR RISK

There are some very simple, everyday things that you can do to reduce your risk and your exposure.

First, walk your property daily, especially during seasons when activity is high. Make sure walkways are free of clutter, loose stones or exposed roots. Nail down loose boards and sand wooden surfaces. Store pesticide containers in locked sheds. Keep equipment locked away from activity areas. Use clearly worded, easy-to-read signs to instruct and direct visitors to your location.

Second, establish safety procedures, document them and train all of your staff. In addition to procedures related to safe equipment handling and safe pesticide use, instruct your staff to wash hands and use care when handling raw produce.

Third, keep good documentation of your on-farm activities. Maintain a log of daily inspections. Keep good records of pesticide use. Record the dates you irrigated crops, especially those that are sold raw, and note the source of the irrigation water.

Fourth, have clearly marked parking areas that, if grassed, are mowed regularly to avoid fires caused by catalytic converters on automobiles. Identify an entrance and exit that give customers a clear view of the road. Choose parking and driveways that minimize pedestrian exposure to moving vehicles.

Finally, establish rules regarding children and pets. Your goal is for every farm visitor to enjoy his or her time on your property. Help parents remember to keep an eye on their children. Pet owners may also need a reminder that your operation, especially if you grow and sell raw produce, cannot be pet-friendly for health and liability reasons. Where pets are permitted, be firm about your leash requirements and owners cleaning up after their pets.

A FINAL WORD

In order to assure that you have the coverage you need, it is very important that you communicate with your insurance agent. Remember, you are paying your premiums with the expectation that you will be covered if you file a claim. Make sure that you are dealing with an insurance broker/agent who is licensed to do business in North Carolina. (See box below.) Your agent needs to understand what you are doing to make sure you are appropriately and adequately covered. Ask lots of questions – the only 'stupid' question is the one that isn't asked!

Is this Insurance Company Licensed to do Business in NC?

North Carolina insurance companies do not provide insurance for every type of farm-to-consumer sale. An example is the sale of custom-slaughtered meat. Purchase of insurance to cover these activities from an agent, broker or company that is not licensed in NC **will not give you coverage**. You can check the types of insurance a company is approved to sell in the state by visiting: http://infoportal.ncdoi.net/run_reports.jsp?REPT=INSCMPLOA and clicking on the links to "Contractual Liability" and "General Liability."

RESOURCES

For more information:

NC Department of Insurance – <http://www.ncdoi.com>
USDA Risk Management Agency – <http://www.rma.usda.gov>

North Carolina Industrial Commission (information on workers' compensation) -<http://www.comp.state.nc.us>

Note: This leaflet is for informational purposes only and is not to be construed as offering legal advice or as recommending a particular type of insurance or insurance provider.

The Value-Added and Alternative Agriculture Start-up Tool Kit