Farm Insurance: Covering Your Assets

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THE OHIO STATE UNIVERSITY
EXTENSION

Farms are subject to more risks than ever before. Whether it is the liability exposure of driving equipment on roadways or the potential of property loss due to a barn roof collapse, every farm has multiple sources of risk. While farmers can reduce their risk exposure through good business practices and rigorous safety protocols, there is no way to entirely eliminate risks. For this reason, insurance policies that adequately protect against risks are a necessity for farm operations.

Farmers likely understand the important role insurance plays in protecting farm assets. But how many actually read and understand their insurance policies? The failure to read policies is not a result of apathy but more likely due to the almost complex nature of an insurance policy. Reading and understanding an insurance policy is difficult for anyone other than those in the insurance industry.

The objective of this publication is to help by providing farmers a basic understanding of insurance policies—from common coverages to policies in preparation for a thorough policy review with the insurance agent. Our information is based on general knowledge as applicable to most policies. Farmers should periodically review their insurance policy, including coverage limits, with their agent to be sure they are fully covered for potential risks.

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1. Understanding a Farm Insurance Policy

An insurance policy is a legal contract between an insurance company (the “insurer”) and the person or business being insured (the “insured”). The policy holds the insurer responsible for paying the insured for eligible claims. The contract requires the insured to meet certain obligations such as timely reporting of claims. Once the policy becomes active, both the insurer and the insured are legally bound to the terms of the policy. This legal obligation is present even if the insured is unaware of some or all of the terms of the policy. It is the obligation of the insured to read and understand the policy.

1.1. Structure of an Insurance Policy

Most insurance policies contain the following sections, detailed further below:

- Declaration Page
- Insuring Agreement
- Definitions
- Exclusions
- Conditions
- Endorsements
- Schedule of Locations of Property

Declaration Page. The declaration page identifies the individual or entity that is insured under the policy and provides details about the policy itself such as:

- Risks or property covered
- Policy limits
- Policy deductibles
- Time period policy is effective
- List of policy forms

The Insuring Agreement. The insuring agreement is a summary of the promises made by the insurance company and states what is covered and not covered under the policy. In the insuring agreement section, an insurer promises to pay for losses resulting from a covered cause of loss (also known as a “peril”), provide certain services in the event of a covered peril, or defend an insured against a liability lawsuit. Usually, the insuring agreement outlines a policy’s broad scope of coverage, which is then narrowed by exclusions and definitions.

Definitions. The definitions section includes any definitions applicable to the specific policy.

Exclusions. The exclusions section specifically lists what an insurance policy does not cover. Exclusions include the property, act and/or cause of loss that are not covered under a policy. For example, a general liability policy may exclude coverage for an intentional or illegal act committed by the insured or damage caused by flood, earthquake or even war. Also, many policies now include exclusions for communicable diseases following the COVID epidemic.

Conditions. Conditions are provisions contained within an insurance policy that can limit an insurance company’s obligation to pay or perform. The conditions usually place some type of obligation on the insured that must be met before the insurance company is obligated to pay or cover a loss. If the conditions are not met, an insurance company can deny a claim for which coverage would otherwise have existed. Common conditions within a policy include the requirement to notify the insurance company of any loss within a reasonable time, the duty to cooperate with an insurance company's investigation or defense of a claim, or to allow an insurance company to inspect any damaged property before repairs begin.

Endorsements.[1] Insurance companies usually have a template insurance policy they use when drafting an insurance policy for an insured. Thus, it is common to find that your farm policy looks like your neighbor's policy. However, individuals and business owners can modify the standard provisions within an insurance policy by adding endorsements. Endorsements are written provisions that add, subtract, or modify the provisions contained within the original insurance policy. This allows policy holders to tailor an insurance policy to ensure that the unique needs or risks of the business are covered. An endorsement is available for a wide range of activities and assets.

Schedule of Locations of Property. The policy will include a list of property locations where insured assets are located. Each parcel owned and operated by the farm should be included. Failure to include all locations can result in a denial of a claimed loss.

1.2. What Does a Typical Farm Insurance Policy Cover?

Areas of Protection. A typical farm policy includes the following areas of protection:

- Liability
- Home and contents
- Farm personal property, sometimes including equipment
- Farm structures
- Other additional coverages

A farm insurance policy typically covers both farm assets and non-farm assets. Having all assets covered under one policy, rather than having separate policies for personal and farm, is usually more convenient, less expensive, and can eliminate confusion when a claim impacts personal and farm property[2]. Noticeably absent from the above list are vehicles (including ATV's and UTV's) and workers' compensation. A separate policy is usually issued for the coverage of these vehicles for both liability and property loss. A separate policy is usually issued if the farm is required by state law to carry workers' compensation coverage.

Liability Coverage. Liability coverage protects against most risks associated with the farm operation such as bodily injury, medical expenses and property damages caused by accidents associated with the farming operation. Also, and sometimes just as importantly, the policy will cover attorney's fees associated with defending the liability incidents.

Property Loss Coverage. A farm policy will provide coverage for the loss of farm assets due to a covered peril. Farm assets are typically divided into two categories within the policy: personal farm property (machinery, grain, livestock) and farm structures. In the

[1] Endorsements are typically used to modify property and liability insurance policies. The term "rider" is often used to describe a modification of an insurance policy but applies to life insurance policy modifications.

[2] Separate business policies may be required for large-scale operations (i.e., large dairies), agritourism, or unique exposures.

event of damage or destruction of a farm asset due to a covered peril, the insurance company will pay some but not necessarily all of the covered asset's value to the farm operation.

1.3. Types of Coverage

Basic Coverage. A policy that provides basic coverage is only going to cover the insured for named perils. If an event that is not named in the policy occurs, no coverage is provided. Common perils often included in basic coverage are:

- Fire
- Lightning
- Windstorm or Hail
- Explosion
- Smoke
- Vandalism
- Aircraft or Vehicle Collision
- Riot or Civil Commotion
- Sinkhole Collapse

Each of these perils will also include exceptions to coverage. For example, the Vandalism coverage usually excludes any buildings that have been vacant for more than 30 days. Again, any perils that are not expressly provided for are not covered under a basic coverage policy.

Broad Coverage. Broad coverage is more expansive than basic coverage but is still limited to only the named perils. This type of coverage will include the perils identified in the basic coverage plus additional named perils. The additional perils covered by broad coverage often include the following:

- Burglary/Break-in damage
- Falling Objects (like tree limbs)
- Weight of Ice and Snow
- Freezing of Plumbing
- Accidental Water Damage
- Artificially Generated Electricity
- Accidental Tearing Apart
- Loading/Unloading Accidents

Like basic coverage, the broad coverage perils often include exceptions. An example of a broad coverage exception is freezing of plumbing may not be covered in a building which does not maintain heat.

Special Coverage. Special coverage is the most comprehensive coverage available. Unlike basic and broad coverage, special coverage includes everything except identified exceptions. So, everything is covered unless specifically exempted. Special coverage can and will include many exceptions. For example, special coverage will likely also include an exclusion for vandalism in buildings that have been vacant for 30 days. It is important to know what exclusions apply to the special coverage.

Incorporation of Basic, Broad, and Special Coverage in The Insurance Policy. A policy may include one or more of the different types of coverages. For example, a policy may include special coverage on all farm machinery but broad coverage on all other personal property. It is important to know what assets are covered under which type of coverage. The type of coverage is typically identified on the declarations page. It is usually best to have special coverage for the most comprehensive coverage, but special coverage is also more expensive than basic and broad coverage. Weighing the additional cost of special coverage versus the benefit of comprehensive coverage provided is an important analysis to be done for each insurance policy.

Environmental Coverage. Many standard farm policies do <u>not</u> include coverage for pollution, although pollution coverage can be added with an endorsement to the policy. Fertilizers, fuel, and manure are some of the more common potential sources of pollution for a farming operation. A pollution event can occur when an agricultural pollutant is accidentally discharged or released. Pollution coverage will typically include liability coverage for pollution cleanup costs and liability coverage for claims of bodily injury and property damage arising from a pollution event. Because nearly every farm has the potential for a pollution event, either adding environmental coverage to the farm policy or purchasing a separate pollution policy should be strongly considered.

2. Obtaining and Maintaining a Farm Insurance Policy

2.1. Choosing an Insurance Agent and Carrier

An insurance agent is an important person on a farmer's management team. Selection of the agent is important to ensure the insurance policy meets the needs of the farm. The insurance agent should have a good understanding of agriculture and experience working with farms. Additionally, the agent should be able and willing to work with the insurance carrier to build a policy for each farm, not simply use the same template for every farm. Each farm is unique, and the farm insurance policy should be unique as well. When interviewing prospective agents, be sure to ask for their background and experience with farms and consider asking for referrals from other farmers.

The insurance agent can only design an insurance policy to cover the farm activities and farm assets that they know about. It is the farm owner's responsibility to inform the insurance agent of how the farm operates, who is involved with the farm, and the assets owned by the farm. Consider inviting the insurance agent to visit the farm to be sure they have a good and full understanding of the operations of the farm.

Each insurance agent works with one or more insurance carriers. Several services provide financial ratings of insurance carriers, and it is worthwhile to know the rating of the carrier you work with. Your agent should be able to provide you with the financial rating as well. The rating indicates the carrier's ability to pay claims, especially in times of large catastrophic losses that can occur during a natural disaster.

Understanding your carrier's rating is important as the carrier has an ongoing financial obligation to you. If the carrier is unable to cover all claims in a natural disaster or otherwise fails to meet its coverage obligations, a farm covered by that carrier can be at risk. Keep in mind that the same rating can mean different things depending on the service used. For example, an A+ score is the second highest score for A. M. Best while an A+ is the fifth best rating for Moody's.

2.2. Cancellation of a Policy

A farm insurance policy can include several reasons for cancellation, often more intricate reasons than a typical homeowner's policy contains. When cancelling a policy, the insurance carrier will mail a notice of cancellation to the insured at least 30 days before the effective termination date. This notice period provides time for the insured to obtain another insurance policy or correct errors and maintain the current insurance. If a policy is cancelled, a refund is usually issued to the insured for any amount paid for a period that will no longer be covered. Cancellation rules and notification periods vary by state and are mandated by the state's Department of Insurance.

Nonpayment of Premiums. The first reason for cancellation is the most obvious one, nonpayment of premiums. This is as simple as it sounds. The insured must make timely payments to continue to keep its insurance policy in place and at work. Insurance carriers are required to provide written notice to the insured that premiums are past due and that the policy will be cancelled if payment is not made. The insured usually has the option to pay the premiums monthly, quarterly, semi-annually or annually.

Fraud and Reckless Omission. Other reasons that a policy might be cancelled are connected. One may be the discovery of fraud or material misrepresentations in the information given to obtain the policy. The other may be a reckless omission of information given to obtain the insurance policy. These two provisions cover any incorrect information, usually provided by the insured in an application form, which may have been provided, intentionally or not, to the insurance provider when procuring the policy. An insurance company relies on the accuracy and validity of the information they are provided when deciding the appropriate methods of coverage. It is necessary to ensure that accurate information is transmitted to any insurance provider.

Risk Profile. A policy can be cancelled due to changes in an insured's risk profile. The insurance carrier issues a policy based on the known risks attributable to the insured. If the insured increases their risk exposure, the insurance carrier may not be willing or able to cover the additional risk exposure and cancel the policy mid-term or non-renew the policy at the expiration. An example provision in an insurance policy may be something like "This policy may be cancelled due to a substantial change in the individual risk which increases the hazard potential to the insurer unless the change was reasonably foreseeable." Similarly, a policy may include cancellation language such as " This policy may be cancelled due to any determination that the insurer determines could create a condition that is hazardous to the public."

Compliance. If the insured fails to maintain adequate compliance with the safety codes applicable to a building or structure, the insured party risks losing their coverage for the building or structure.

Cancellation by Insured. An insured typically has the right to cancel their policy at any time, although some fees might apply. Generally, cancellation by the insured will require the individual to deliver notice to the insurance company.

3. Dealing with a Loss or Claim

In the event of a property loss or a liability incident, the insured and the insurance carrier cooperate to determine the type of coverage and the extent of coverage required by the insurance policy. As a practical matter, an insured is well-advised to thoroughly document the loss event. This may include written notes, pictures and/or retained documents.

Notification. The insured should notify law enforcement if any laws were broken in causing the loss event. This notification should be promptly followed by notice to the insurance company and include a general description of the events and the property that is damaged. This notice does not usually need to be in great detail, but a simple explanation of how the damage occurred, when the damage occurred, and what property was damaged. Additionally, it is important for the insured to take reasonable steps to protect the property from further diminishing in value. Essentially, the insured should not allow the property to be completely destroyed if the insured party can salvage any of the value.

Inventory. After notification is provided, the duties and responsibilities of the insured are not over. For a property loss, the insured party should complete an inventory of the damaged property. The inventory may include quantities, costs, values, and the specific amount of loss claimed. An inventory serves multiple purposes. First, it causes the insured to identify all property subject to loss and the extent of the loss in an organized manner. An inventory also provides a summary to the insurance carrier so that the carrier may begin the claim process more expeditiously. The insurance provider will likely conduct an investigation into the claimed loss and an inventory will assist the carrier in its investigation. Last, in the event the insured disputes the insurance carrier's determination related to the loss, the inventory will make the process of challenging the insurance carrier's payout easier.

4. Your Insurance Policy at Work

4.1. Property Loss Payout Determinations

Obviously, insurance is obtained for the financial protection it provides to the insured in the event of a loss event. Thus, the amount one receives from their insurance carrier is likely one of the main considerations when reviewing or shopping for a new policy. Essentially, property insurance payouts are calculated based on either the replacement value method or the actual cash value method.[3] These two payout methods create the basis for the amount of money an insured party will receive for their loss.

Replacement value means the cost to repair or replace the Covered Property, at the time of loss or damage, with materials of like kind and quality, without deduction for deterioration, depreciation, and obsolescence. Essentially, a policy utilizing replacement value will pay the smaller amount of restoring the items to their condition at the time of damage or the cost of replacing them with items of the same condition. This method can provide a more stable and higher amount of payout in certain circumstances[4].

The other means of determining an insurance payout is by using actual cash value. Because most items depreciate over time, the amount paid under this method is usually lower than the replacement value method. Under the actual cash value method, the insured will be paid the value of the item's depreciated value rather than the amount it will cost to replace. The difference between these two payout methods is an important consideration when analyzing insurance policies, especially with the recent rise of inflation.

Consider the following example:

A new tractor purchased in 2020 for $300,000 is now worth $200,000 due to depreciation. The same model tractor, now three-years-old, with similar hours, wear and use is valued at $250,000. In this situation, someone who has a replacement value insurance policy would receive the $250,000 necessary to repurchase the same or similar model. On the other hand, someone covered under the actual cash value method would only receive the $200,000 amount.

[3] If the insured and insurance company agree on a payout amount, the agreed upon amount can be used in lieu of the replacement value or cash value.

[4] For equipment, insurance carriers will sometimes use replacement value only for newer items and actual cash value for all other items.

The above example is a simple explanation of the difference between replacement value and actual cash value payouts. Keep in mind, payouts are subject to deductibles and limits that can make the payout differences more nuanced. Be sure to work with your insurance agent to determine the payout for specific losses.[5]

An insurance policy will typically include a limit on the payout. The insurance carrier includes the limit to protect itself from unusually large claims or unforeseen claims. For example, using the above scenario, the insurance carrier may have included a limit of $225,000 for the payout. In that event, the owner would have only received $225,000 for the payout rather than the $250,000 for the replacement payout. Limits to payouts are an important term in insurance policies, be sure review the limits carefully to ensure adequate coverage for farm assets.

4.2. Co-Insurance

As stated earlier, a farm insurance policy is a contract between the insured and the insurance carrier. For the policy to be fair to both parties, the insured must provide an accurate inventory of the assets to be covered, including values. The insurance carrier then uses the inventory of assets and values to calculate the premiums it must charge to carry the insurance.

A policyholder may be tempted to suppress the values of the assets in an attempt to keep the premiums lower or, more likely, may not keep up with the replacement value of property. In either case, whether intentional or not, the insurance carrier is put into an unfair arrangement as it calculates premiums based on undervalued assets.

Consider the following example:

> Farmer bought a tractor five years ago for $80,000. Farmer believes the tractor has declined in value and includes a $60,000 value on his insurance policy. A similar tractor today would cost $100,000. Farmer's insurance policy pays replacement value in the event of damage or loss. The tractor is lost in a fire. Farmer expects to be paid the replacement value of $100,000.

In this scenario, Farmer may expect to be paid $100,000 to replace the tractor, but he paid premiums based on a $60,000 value. It would be unfair to make the insurance carrier pay $100,000 in replacement costs when it based its premiums on a $60,000 tractor.

To avoid the scenario in the above example, farm insurance policies include a co-insurance provision. This concept is an agreement between the insured and the insurance carrier that a minimum amount of insurance must be purchased to replace property in the event of a loss. If the policyholder purchases less than the specified percentage, the insurance carrier is not required to payout the full replacement value – making the policy holder a "co-insurer." The insurance policy usually requires the insured to purchase insurance on 80% - 100% of the value of property. Co-insurance

[5] Determining Replacement Value can be a complicated process as it is determined on a case-by-case basis and depends on many different factors. Be sure to review the Replacement Value component of your farm insurance policy with your insurance agent.

generally applies to outbuildings, dwellings, and blanket farm personal property.

Consider the following example:

Using the same example as above, Farmer's co-insurance provision requires 80% coverage. The tractor was only valued at 75% of the replacement value so the co-insurance provision in Farmer's insurance policy is triggered. The payout calculation for this loss is as follows:

Tractor Replacement Value:	$100,000
Co-insurance requirement:	80%
Required amount of insurance: ($100,000 x 80%=$80,000)	$80,000
Actual insurance amount purchased	$60,000
Actual insurance/required insurance: ($60,000/$80,000 = 75%)	75%
Required payout[6]: ($100,000 x 75% = $75,000)	**$75,000**

As this example illustrates, Farmer did not meet his obligation to buy insurance on at least 80% of the value of the tractor. Farmer reported a value of $60,000 or 75% of the value of the tractor. By not meeting the 80% co-insurance requirement, Farmer triggered the co-insurance provision and is therefore partly responsible for the replacement cost. Farmer becomes the co-insured for 25% of the replacement value, the proportion that Farmer undervalued the combine. If Farmer had valued the tractor at $80,000 or higher, the insurance carrier would have been required to payout the full $100,000 for the loss. By undervaluing the tractor, Farmer forfeited $25,000 of insurance payout.

Co-insurance is an important part of a farm policy that most people have never heard of. The co-insurance provision should be reviewed with the insurance agent along with the value of assets to ensure that full payouts will occur in the event of a loss. It does no good to discover that assets are valued too low after a claim is submitted, any adjustments in value to comply with the co-insurance requirement must be done before there is a loss.

4.3 Appealing Coverage Determinations

After submitting a claim, the insurance carrier will typically send a letter stating the extent of the coverage or a denial of coverage. The letter will also include instructions on how to appeal the determination. If the insured does not believe the coverage or denial determination is correct, the insured can appeal the determination. The notice of appeal is sent to the insurance carrier and will initiate the appeal process. Be sure to meet all deadlines and follow the instructions for appealing carefully. A missed deadline or a misstep in filing the appeal can extinguish appeal rights. The matter must typically be appealed to the insurance carrier before taking the matter to arbitration or litigation.

If the insurance carrier denies the appeal, then litigation and/or arbitration may be the next step. At this point, hiring an attorney is often warranted. An attorney experienced in

[6] Any deductible would also be deducted from the payout.

working with matters related to insurance and insurance carriers can provide valuable insight and counsel in an insurance claim appeal. Some policies may require arbitration to resolve a dispute. Arbitration is a private dispute resolution process where a person or persons hear arguments from both parties then issue a decision. Arbitration can be more expeditious and less costly than litigation. Matters taken to litigation are decided by a court. Litigation may take longer and be more expensive than arbitration but also may provide more appeal rights.

In addition to appeals to the insurance carrier, complaints about the conduct of insurance carriers can be submitted to your state's Department or Bureau of Insurance. The complaint should explain the matter in some detail. Including photos or other supporting evidence with the complaint is often a good idea. The department will review the complaint and, if warranted, conduct an investigation into the matters provided by the complaint. The department may reach out to the carrier to encourage a resolution of the matter identified in the complaint. All insurance carriers conducting business in Ohio are subject to the rules and regulations of the Ohio Department of Insurance.

5. Unique Activities That May Not Be Covered by a Farm Policy

Below is a list of activities and assets that may not be covered by standard farm policies. Each of these are a source of liability exposure. Review the list and check any activities that are involved with your farming operation. Then provide the list to your insurance agent to be sure your farm policy covers each activity or asset.

- ☐ Agritourism activities
- ☐ Aircraft application of pesticides or fertilizers (self or custom)
- ☐ Aircraft for personal use
- ☐ ATV, side x side, or recreational vehicle
- ☐ Barns and structures not currently used or in disrepair
- ☐ Bed and breakfasts
- ☐ Confined animal facilities
- ☐ Custom application of pesticides or fertilizer
- ☐ Custom farm operations such as planting or harvesting
- ☐ Drones – scouting
- ☐ Drones – application of pesticides/seed
- ☐ Embryos stored or in recipient animal
- ☐ Exotic or non-domesticated animals
- ☐ Farm markets
- ☐ Farm stands
- ☐ FFA and 4-H Projects
- ☐ Freezer beef and meat
- ☐ Hauling crops, goods or cargo for others
- ☐ Holding products such as seed, hay, or inputs for customers after payment
- ☐ Horse boarding, riding, or training services
- ☐ Hunting leases or other paid recreational uses
- ☐ In-home businesses
- ☐ Leasing buildings or structures to others

- Livestock of others in your care, custody or control
- Manure digester and methane collection
- Non-owned livestock
- Off-premises use of ATV or recreational vehicles
- Oil and gas wells
- Pesticide or fertilizer drift
- Petting zoos
- Pick-your-own activities
- Ponds with docks or diving boards
- Portable buildings or structures, including greenhouses
- Pulling tractor or truck
- Purchased feed, seed, or inputs not picked up or delivered
- Radio or TV Antennas
- Rental property
- Rental of grain bins
- Sale of "altered" food products such as bratwurst or sausage blends
- Sale or production of food or other consumable goods
- Show stock or high value livestock
- Solar panels
- Swimming pools
- Tractor shows, parades, hayrides
- Tours (paid or unpaid)
- Using borrowed equipment
- Using rented equipment
- Unoccupied houses
- Valuable refrigerated or frozen products
- Valuable or important information on computers
- Watercraft
- Wedding or event venues
- Wind turbines
- Wine or cider production including tasting rooms
- Website or online presence that collects money or stores customer information
- Your produce, grain, livestock or other farm goods in transit

Conclusion

A farm insurance policy is a necessity for every farming operation. While a complete and thorough understanding of an insurance policy is challenging for most policy holders, a basic understanding of the policy can at least allow for an opportunity to review the policy with the insurance agent. Insurance policies can and should be reviewed occasionally and customized to each individual farming operation. Almost any asset and activity can be insured but the insurance agent and insurance carrier must be aware of the activity and asset. While this bulletin provides a general overview of farm insurance policies, it is no substitute for a comprehensive review of the farm insurance policy with the issuing insurance agent.

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