**Risk Management for Agropreneurs**

**Why Farming is Risky**

You need a protection on your farming business to manage your risks. Farming is a risky business because of the following reasons:

* Vulnerability to climatic factors
* Timeliness in agriculture
* Dealing with life
* Non-durability of agricultural produce
* Use of heavy duty machines
* Possible infection and death from infected produce
* Litigation resulting from death and other losses
* Natural hazards such as fire and snow
* Theft
* Crop loss due to diseases and unfavorable weather

**Ways to Handle Risks in the Farm**

* *Avoid: To make sure risk does not happen.*
* *Reduce: Mitigate the effect of the risk.*
* *Transfer: To another entity to bear the risk*
* *Retain*or*Accept: Take it as it comes. Don’t do anything.*

**Types of Insurances that a Farmer Should Have**

Farmers should consider having the following insurance as a risk management strategy on their farm business.

* Crop /Livestock Insurance
* Product liability Insurance
* Auto insurance
* Business liability
* Homeowners
* Life insurance:
* Health insurance
* Travel insurance
1. [**Crop and Livestock Insurance**](http://www.usda.gov/wps/portal/usda/usdahome?navid=CROP_LIVESTOCK_INSUR)

USDA helps producers manage their business risks. USDA's Risk Management Agency (RMA) promotes, support, and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers.

RMA operates and manages the Federal Crop Insurance Corporation (FCIC).

RMA has three divisions: Insurance Services, Product Management, and Risk Compliance.

Seventeen private-sector insurance companies sell and service the policies of the RMA. RMA develops and/or approves the premium rate, administers premium and expense subsidies, approves and supports products, and reinsures the companies.

For info on crop insurance: <http://www.usda.gov/wps/portal/usda/usdahome?navid=CROP_LIVESTOCK_INSUR>

The link below is the list of other insurance companies for agriculture:

<http://www3.rma.usda.gov/tools/agents/companies/indexCI.cfm>

***Types of Crop Insurance***

Owners or operators of farmland, who have an insurable interest in a crop in a county where insurance is offered on that crop, are eligible for insurance. The common Crop Insurance policy provides four choices of buy-up plans:

* + *Yield Protection plan*: Yield Protection covers unavoidable production losses caused by drought, excessive moisture, hail, wind, frost/freeze, tornado, lightning, flood, insect infestation, plant disease, excessive temperature during pollination, wildlife damage, fire, and earthquake.

Yield Protection does not cover losses resulting from poor farming practices, low commodity prices, theft, and specified perils that are excluded in some policies. There are specific restrictions on some crops based on acceptable farming practices.

* + *The Revenue Protection plan:* Revenue Protection insurance guarantees a certain level of revenue rather than just production. It protects you from declines in both crop prices and yields. The guarantee is based on market prices and the actual yield on your farm.
	+ *The Revenue Protection with Harvest Price Exclusion plan:* Revenue Protection policies can be written so that the level of the revenue guarantee is determined solely by the futures prices, and does not increase even if the futures price rises by harvest. The producers may elect to purchase insurance without the harvest price option (RP-HPE). The RP-HPE policy carries a lower premium than the RP policy.
	+ *Catastrophic coverage*: this is only available under the Yield Protection plan

**Why You Need Crop Insurance**

* + - Crop insurance allows farmers to customize their plans and coverage to accurately reflect individual losses and their unique yields or risk.
		- Provides producers the financial freedom to build capacity and innovation.
		- Producers are required by the policy to meet the standards of "good farming practices" in order to be eligible for payments when incurring losses.
		- Crop insurance provides farmers with the income needed to settle contracts.
		- Payments are made very close to the time of harvest, so farmers can reinvest the money into the farming business.
		- There is proper reward for effort and appropriate protection against events beyond the producer's control.
1. **Product Liability Insurance**

Protect farmers and their businesses against people’s claim for injury, illness and losses due to the produce farmer sold. It covers medical expenses, cost of lawyer, and more. It is generally required by farmers who sell to grocery stores, retailers, farmers’ markets, and institutions such as school, hospitals, prisons, etc. Institutions usually require $1M- $5M product liability insurance, depending on the size of the store, volume of sales, etc.

Product liability insurance can be purchased through an insurance company that specializes in farm insurance or as additional services offered by homeowners, renters and auto insurance companies.

1. **Others**
2. Auto insurance: For your cars and other vehicles that you use for farming business
3. Homeowners: For your house (including farm house) against fire, injuries, flood and earthquake (requires special coverage)
4. Business liability:
	1. General liability insurance covers someone hurt on the premises, from the product or damage to someone’s property;
	2. Property insurance covers your equipment from fire, vandalism, theft and smoke damage;

For crops covered by government supported insurance, please go to: <http://www.rma.usda.gov/policies/2013policy.html>

1. Life insurance: Protects farmers and business from losses if he/she dies or become disabled;
2. Health insurance: Pays for the cost of health such as medical bill;
3. Travel insurance: Insures you against losses and death while raveling;

*Generally, it is advisable for farmers to buy their product liability insurance so that insurance company can pay for you if any consumer sues for selling infected produce.*

**Cost of Insurance Policy:**

There are different factors determining prices of different insurance types.

Premium rates are based on:

1. The coverage level chosen,
2. The insurance unit chosen,
3. The loss history for the county in which you farm.
4. The premium rate, as a percent of the dollar value of protection,
5. Actual Production History (APH) yield.

Your premium per acre is calculated as follows:

Insurance APH yield
x percent yield coverage election
x indemnity price election
x premium rate (varies by crop, county)
x subsidy factor

To encourage broader participation, Congress authorized FCIC to subsidize YP premiums. The amount of the subsidy depends on the coverage level and units structure chosen. The percent of the premium that is paid from this subsidy varies from 100 percent for catastrophic level coverage to 38 percent or less for the highest levels of coverage under basic and optional units.

The following are the common costs:

* Auto insurance: Depending on the type of vehicle, level of coverage and the age but ranging from $100 - $150 per month.
* Homeowners: Depending on the size, city, age, interest rate and the cost of the home but ranging from $800 - $25000 per year
* Crop insurance:  owners or operators of farmland, who have an insurable interest in a crop in a county where insurance is offered on that crop, are eligible for insurance. The cost depends on the crop type and the percentage of coverage chosen.

<http://www.rma.usda.gov/handbooks/18000/2014/18010.pdf>

* Product liability insurance cost depends on the size of farm, state and volume of production. It varies from $1,000 to $5,000 for$1 million, depending on the amount of coverage, number of crops, farm size etc.
* Life insurance depends on the amount of policy and type but ranging from $40 -$70 per month, depending on policy type, health history, age, risk factors, etc.

**There are other Types of Disaster Assistance Programs by different USDA agencies:**

1. **Farm Service Agency (FSA) Disaster Program**

|  |  |  |
| --- | --- | --- |
| ***General*** | ***Crop Specific*** | ***Livestock*** |
| (NAP) Non-InsuredAssistance Program | (CDP) CropDisasterPayments | (LFP) LivestockForage Disaster |
| (EM) EmergencyDisaster Loans | TAP) TreeAssistanceProgram | (ELAP) EmergencyAssistance forLivestock, HoneyBees & Farm RaisedFishConservationProgram |
| (ECP) Emergency |  | (LIP) LivestockIndemnityProgram |

1. **Risk Management Agency (RMA)**

**Crop/Livestock Insurance**

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| --- |
| **Types of Federal Insurance** |
| ***Traditional*** | ***Revenue*** | ***Other*** |
| Multiple Peril  | Income Protection | Livestock Risk protection |
| Crop Insurance | Adjusted Gross Revenue Protection | Livestock Gross Margin |
| Catastrophic Margin | Adjusted Gross Revenue Lite | Vegetation Index |
| Group Risk Plan | Group Risk Insurance Plan | Rainfall Index |
|  | Revenue Assurance |  |
|  | Crop Revenue CoverageDollars |  |

1. **Natural Resources Conservation Service (NCRS)**
2. ***Environmental Quality Incentives Program (EQIP)***

Program provides financial assistance for:

– Tree & Shrub Establishment

– Fence

– Pipeline

– Irrigation systems such as micro-irrigation

– 90% payment rates

– \*Practices are installed and certified before payment is made.

– \*\*30% “upfront” payment can be made before the practice is installed, but practice must be completed in 30 days. Upfront payment can be used for materials/supplies to start the project and must have a design for the project in hand.

1. ***Wildlife Habitat Incentives Program (WHIP)***
* Designed to develop and improve high quality habitat for national, state, Tribal, and locally significant wildlife.
* Wildlife practices can include stream buffers, upland wildlife habitat establishment (grass plantings), and watering facilities (i.e. dirt tanks).
* 90% payment rates
* \*Practices are installed and certified before payment is made.
1. ***Conservation Stewardship Program (CSP)***

 Consists of:

* Enhancements that improve conservation performance (i.e. extending existing field borders and improving plant diversity in non-cropped areas for wildlife food and habitat).
* Enhancement “bundles” (i.e. Improve Plant Diversity, shallow water habitats, cover crop mixes, and buffer widening enhancements)
* Installation of new conservation practices (i.e. Tree and shrub establishment)

– Estimated payments range is between $12.00 - $22.00 per acre.

1. ***Conservation Technical Assistance (CTA)***

– Providing conservation assistance without any financial assistance.

– Can involve calling in “the experts” such as extension specialists, agronomists or plant material specialists.

**Reference**

<http://www.extension.iastate.edu/agdm/crops/html/a1-48.html>

<http://www.cropinsuranceinamerica.org/about-crop-insurance/why-its-essential/#.VFlOPTTF98E>

<http://www.rma.usda.gov/handbooks/18000/2014/18010.pdf>

*For more information and counseling about risk management contact your local Farm Bureau or Risk Management Agency of USDA. New Roots Agropreneurs should contact New Root Offices near them.*