HARVESTING OPPORTUNITIES

INSURING FAMILY FARMS

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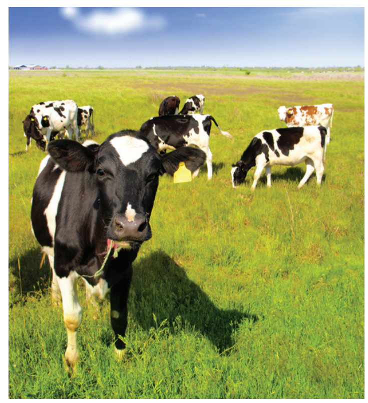
Much has been written about the demise of the family farm in the United States. Even though the number of small family-owned farms has decreased dramatically in recent years, there are still more than two million small farms in America. These farms are a marketing opportunity for savvy insurance companies. To be classified as a farm under the U.S. Census, the entity produces (or should have produced) at least $1,000 in agricultural products each year.

According to the U.S. Department of Agriculture, 98 percent of U.S. farms are family owned. Across the United States farm assets including farmland are controlled primarily by small family farms, with annual sales of less than $250,000, rather than large corporate farms. A large percentage of very large farms (annual sales of more than $500,000) are family owned as well. Less than 60,000 farms produce $1 million or more per year.

Small farms generally depend on income that is not generated by the actual farm. In fact, less than 25 percent of all American farms bring in more than $50,000 annually, while annual production costs run around $110,000. Many may not even consider their farms to be a business, since they may barter their crops for services or receive only limited income.

A standard homeowners policy may not be adequate to cover all of the farm's exposures, as a homeowners policy often excludes coverage for business exposures such as farming operations. Barns and other outbuildings and structures designed or used for farming may be excluded from property coverage. Excluded buildings can also include those originally designed for farm use that have been repurposed, such as a barn now being used as a garage or a workshop. Business activities may also be excluded from liability coverage.



A commercial farm package policy is appropriate for a larger farm. However, policies designed for large corporate farms may not provide the coverage a small farm needs, especially when the family lives on the farm. A farmowners policy may be more appropriate as it is designed to combine the personal and business exposures of the family-owned farm. Using a farmowners policy can help avoid litigation issues, coverage overlaps, and the stacking of liability limits that may occur when a risk is covered by both a homeowners and a commercial farm policy.

Coverage issues go beyond the actual land and buildings. Farm equipment and machinery can represent a significant investment for the farmer. Machinery run by high tech computers and GPS systems is susceptible to mechanical breakdown, so this can be an important coverage enhancement to the farmowners policy. In addition to products liability for crops and other agricultural products, liability exposures to consider include nonfamily members who may be harvesting crops or customers on premises for farm stands or "pick your own." Some farms supplement their income with activities such as hayrides and pumpkin picking, which increases the number of people on premises. Another unique hazard of farms is exposure to chemical drift from the application of fertilizer and pesticides.

Vehicles used exclusively on a farm are less likely to be involved in typical vehicle losses such as collisions and theft, and as a result could be eligible for special farm discounts offered by some companies. The line between mobile equipment and automobile becomes blurred for some farm trucks that may never leave the farm and may not even be registered for road use. Some vehicles such as ATVs may be dual purpose—used on the farm but also off premises. If a vehicle is used off premises, it may not be eligible for the farm use discount and must be insured to reflect the off premises exposure.

As with any risk, proper inspection of the property and vehicles to be insured is essential. Recent media accounts have publicized a growing fraud trend related to farms. The U.S. is seeing an increasing number of cases of farm cheats. Examples include "farms" that suffered "losses" that turned out to be fraudulent and crops and equipment that were insured and allegedly damaged that actually never existed. One farmer even simulated a hail storm to collect on his policy. Carriers should also be wary of insurance cheats who are trying to obtain a farm discount for vehicles that are not being used in farming operations. A Porsche or Mercedes garaged in Brooklyn is probably not being used for farming, but it's not always this clear.

Understanding the risk and exposures you are insuring can help to avoid costly litigation or losing a customer because their loss was not covered, when they thought it would be. These steps will help companies take advantage of an often underserved market—the family farm.

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New York State Farms

U.S. Department of Agriculture (USDA) statistics show that the number of farms in New York remained stable in 2012 at approximately 36,000 farms. Farmland covers roughly 7 million acres in the state. The average farm size in New York is under 200 acres—less than half the national average.

New York is home to 600,000 dairy cows. Dairy is New York's largest agricultural product, representing more than half of the agricultural sales in the state. New York is the second leading state in the nation for apple production and third for wine and grape juice production.

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