

Santa Cruz County Farm Bureau Ask Laura Newsletter Column
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Q: I am just starting out in farming. Do I need liability insurance for my farm?

A: The short answer is yes—the longer answer is that liability insurance is one way of helping you to manage risk on your farm. Risk in agriculture comes in many forms, for example, production, financial, marketing, legal, and human resources. As a farmer you will want to consider your own tolerance for risk, the probability of a given risk taking place, what the potential impact might be on your business, and the cost of insurance. You can think of the purchase of insurance as the cost of minimizing losses or shifting risk to an insurance provider.

Liability insurance policies can be general and provide limited coverage for bodily injury and property damage or more comprehensive and provide broader coverage for the farm. In selecting or making decisions about liability or any type of insurance it is important that you work with an insurance professional to determine what is best for your needs. The appropriate type and amount of insurance for your business depends on the farm’s characteristics, for example, the total number of acres, the type of crops or animals, the number of employees you have, how you market your products, and whether your home is located on the farm property. Farm or business activities such as direct marketing, agritourism or u-pick operations, processed products, and custom farm work will also play a role in determining the right type and level of insurance for your business.

The following figure¹ may help you to think through potential risks for your farm, and what action you might take with respect to minimizing those risks with the purchase of insurance. Here is one example or scenario to get you started. You are a new farmer, and have a substantial amount of capital invested in farm equipment and implements, which you keep in an on-farm building when not in use. You have basic insurance to cover losses from fire, but your coverage is not sufficient to replace everything in the event of complete—and catastrophic—loss. Do you purchase a higher level of insurance? The probability of an on-farm fire is probably low, but the impact of a complete loss of your capital investment would most likely be catastrophic. You may want to purchase a higher level of insurance, especially if you have a low tolerance for risk.

Probability of Occurrence	High	Action needed?		Immediate action?
	↑			
	Low	No action?		Action needed?
		Small	→	Catastrophic
		Potential of Impact		

¹ Adapted from: Farm Management: Principles and Practices. 2004. Author: Kent D. Olson. Iowa State Press. Page 295. Prioritizing Risks.