Utilizing a Farmowners' Insurance Policy to Manage Risks to Farm Property

The risks faced by agricultural producers are numerous and varied. There are many exposures faced by farms, from liability issues, to issues of succession and estate planning. One of the most significant risks for a farm is property risk. Without land and machinery to work the land, a farm would not be able to produce anything. In order to protect a farm's property, there are several choices of insurance policies. One of the most commonly used is the Farm Owners' Policy form. This article will discuss the terms of the Farm Owners' Policy and how a farmer can maximize the coverage under the policy for the benefit of his or her organization. The article is based on the Insurance Service Office's (ISO) Farmowner's Policy which is considered an industry standard. However, while most companies' policies resemble the ISO form, it is important to note that policies can vary between insurance companies, and there can also be some variation between policies in different states. Thus, it is very important to consult with an insurance professional in your state when purchasing an insurance policy.

The ISO Farmowners' Policy form, or FOP, consists of multiple coverages for a wide variety of property types that are commonly associated with a farming operation. A FOP is a package policy as it combines homeowners' and business property insurance into the same policy. The FOP covers dwellings and personal property associated with a home on a farm, outbuildings such as barns, sheds, grain bins, silos, and stables. The policy also covers some mobile equipment such as tractors, all-terrain vehicles, and harvesting equipment. In addition to the hard assets described above, the FOP provides some limited coverage for poultry, livestock, and other animals raised on the farm. If this coverage is utilized correctly, a small operation can transfer some of the risks associated with the production of livestock to the insurer. Additionally, the FOP also provides coverage for harvested grain, cotton, tobacco, and hay that are being stored on a farm's premises.

The Farm Owners' Policy's coverages are classified into seven categories, labeled A through G. Each of these coverage parts covers specific property risks on the farm. It is important to know the needs of the insured farm and to pair those needs with the appropriate coverage parts. Additionally it is important to understand the requirements of the insured are under each coverage.

As stated before, the Farm Owners' Policy is essentially a hybrid of personal homeowners' property insurance and commercial property insurance. Coverages parts A - D of the FOP provide coverage for residential property and Coverages E, F, and G provide coverage for the business aspects of the farm.

Residential Property Coverage

The residential personal property coverage parts of the FOP allow famers that live on their farm access to a package policy that will cover their residence and its contents in conjunction with their farm business. This portion of the FOP is very similar to a homeowner's insurance policy. As such, corporate farms or farmers that do not live on their farm premises would not need coverages A-D.

Coverage A

Coverage A of the FOP covers the primary dwelling of a farm's owner. The policy requires that this property covered under this section of the policy be residential in nature. This building cannot be used primarily for business purposes. The structure in question must either be the primary residence of the farm owner, or the property must be rented to a tenant to use as his or her residence. Under Coverage A, the farm owner will be indemnified for any covered losses arising from either the named perils stated in the policy, such as fire, lightening, windstorms, or hail damage. Or, if the farm owner wants broader coverage, there is an option to purchase an open perils policy which will cover the primary residence of the farmer from any perils that are not specifically excluded by the policy.

Coverage B

Coverage B of the FOP covers any "Private Structures Appurtenant to Dwellings." This coverage would include items of property such as personal sheds, garages used for personal (non-farm) property, and pump houses for residential water wells. The policy specifically excludes farm related structures from being covered by this coverage part of the insurance policy. All farm structures are covered under a different section of the policy.

Coverage C

Coverage C of the FOP covers Household Personal Property. This includes items such as TV's, clothing, and home furnishings. It is important to note that farming related property is not covered under this section of the policy. This means that a farmer's TV would be replaced under this section of the policy but his GPS yield mapping equipment being stored in the house would not be covered. All farm property is covered under another section of the policy.

Coverage D

Coverage D protects insureds from the loss of use of personal property. An insured will be indemnified for any additional costs of living incurred by the loss of use of his or her dwelling under this policy. If the insureds house is unlivable after a covered loss, Coverage D will pay for the insured to rent an apartment or hotel room while the home is under repair.

Farm Property Coverage

Farm Property Coverage parts in the farmowner's policy cover a farmer's business property. This can include things such as livestock, tractors, farm buildings, and other farm specific equipment.

Coverage E

Coverage E is one of the options under a FOP to cover farm personal property. This coverage provides indemnification for covered losses to multiple types of property. These can include livestock (cows, pigs, sheep, horses, mules, and donkeys), fish, bees, feed, grain, computers, farm products, hay, borrowed equipment, and computers. Coverage E will cover these property types on a "scheduled" basis. This means that in order for the property to be covered, it must be listed on the Declarations Page of the insurance policy. Choosing to cover business property in a scheduled manner can be especially advantageous if the property in question is particularly expensive. For example, if a farm owner has a GPS guidance system that is very expensive, if this property is scheduled the owner will be indemnified at an agreed upon value in the policy. However, if it is not scheduled, it will be subject to a coinsurance requirement which will decrease the indemnity payment in the event of a covered loss to the GPS system. This could mean that the insured might not be able to replace the property if a loss occurs.

It should also be noted that the insurance policy allows for livestock to be covered in a scheduled manner. This provision of the FOP allows producers to mitigate some of the production risk associated with raising livestock. While it should be stated that the policy does not cover livestock lost from most natural causes, e.g. illness and disease, the policy will cover livestock losses arising from accidents, weather (excluding floods), accidental shootings, wild animals, and dogs. This coverage could be especially helpful to producers who are unable to purchase livestock insurance in their states as it provides an opportunity to transfer some of the livestock production risk to another party. This is also particularly useful to livestock producers, because FOP can be used to fill some of the holes in the Livestock Safety Net provided by the 2014 Farm Bill.

Coverage F

Coverage F in the FOP is much like Coverage E in the sense that both coverages cover farm personal property. The two coverages differ in two very important ways. Coverage F has a coinsurance requirement and property is not scheduled. These two differences are very important. Since Coverage F is not scheduled, the items that are covered are not listed on the declarations page. This makes Coverage F sort of a catch-all coverage that will take care of any property that is not listed specifically in the policy. This catch-all status does come with a drawback: a co-insurance requirement. A coinsurance requirement means that farmers must maintain a certain amount of insurance coverage on a piece of property in order to receive the full benefit of the insurance policy. The standard coinsurance requirement is 80%. This means that a farmer must maintain insurance limits on a piece of property of 80% of the value of the property or greater. For example, if a farmer owns a $10,000 mower that is not listed in Coverage E, then the farmer will need to keep at least $8,000 in coverage in Coverage E to protect the mower. If the co-insurance requirement is not met, then the insured will face a penalty at the time of loss adjustment.

Additionally, Coverage F has several exclusions. These exclusions can greatly limit the types and values of property that can be covered under this part of the insurance policy. It should be noted that farmers can purchase a separate Inland Marine Policy for any property that is excluded in this portion of the FOP.

Coverage G

Coverage G covers farm buildings and structures other than those covered in Coverages A and B. These structures include silos, portable buildings, fences, radio antennas, and satellite dishes. This coverage will also cover other land improvements.

Other Coverages

The basic Farmowner's Policy form also offers a few other minor coverages that can protect different classes of a farmowner's property. A few examples of these are debris removal coverage, coverage for trees and shrubs, grave marker and mausoleum coverage, and credit card fraud protection. Generally, these coverages are relatively small, less than $1,000. However, they can be increased if the insured wishes to purchase an endorsement on their policy.

Best Use of the Farm Owners' Policy

The FOP is specifically designed to be used by farmers that live on the farm and farm in close proximity to their dwelling. This is often not the case for farmers today whose operations can often spread for miles. Additionally, if a farmer does not live on the farm, there are policies that will better cover his or her risk available to be used.

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