

Marketing

Check insurance's limitations

FARMING operations face innumerable risks and hazards. Everyday farms are subject to the possibility of losses due to fire, wind, theft and accidents. It is not possible to eliminate the source of these risks, but it is possible to manage the potential economic losses with insurance. However, it is important to understand the specifics of each policy to ensure it covers activities of each farming operation. Here are examples of limitations that some policies may have:

■ **Holding products for customers.** Many farmers also sell seed and other inputs. It is common practice for customers to make payment at the end of the year for income tax management but not pick up the product until a later time. When the customer makes payment, ownership of the product can change from the seller to the buyer. The seller's insurance often only covers products owned by him, not others.

Consider this example. A farmer is a seed dealer and operates the business out of his barn. In late December, many



Country Counsel

BY ROBERT MOORE

customers pay for their seed but will not pick up the seed until close to planting. In January, the farmer's barn burns down, and all seed is lost. The farmer turns the claim into insurance for his losses, including the seed. The insurance company refuses to pay for the seed that has been paid for because the policy only insures seed belonging to the farmer. The company claims that upon payment, ownership of the seed transferred to the customers and is not covered under the farmer's policy.

In this situation, the farmer should make sure his policy covers seed that customers have bought but not yet received. This may require adding an endorsement to the policy, which is fairly easy and well

worth the effort and additional expense.

■ **Fire loss.** It is common practice to have insurance for fire loss on buildings and structures. It is important policies also cover the contents of the building lost in a fire. For example, if a machinery storage building burns down, the machinery should be covered as well. In some cases when a building has burned, the insurance company will cover the building but not the machinery. The machinery lost in a fire can be hundreds of thousands of dollars and must be covered in the event of a fire.

■ **Adding a business activity.** Any time an additional activity is added to a farming operation a phone call should be made to the insurance agent. Farmers sometime begin new activities that are closely related to the existing farming operations but may be different enough to not be covered by their existing policies. Examples include adding a farm market, custom harvesting or spraying, and agritourism. Adding any of these activities significantly increases the liability exposure

of the farming operation and thus must be specifically added to the policy.

■ **Pollution.** Many farmers are surprised to learn their liability policy does not cover environmental damages. Fertilizer spills, chemical drift and manure entering a waterway are examples of possible environmental damages. These types of incidents can cause major damages, as well as fines from governmental agencies. Farmers should make sure their policy covers environmental liability, and if it does not, an endorsement should be added.

Casualty loss and liability insurance is the best, most economical risk protection tool farmers have available. However, it is critical all activities and assets are protected by the policy. Each policy should be periodically reviewed to ensure all assets and activities are covered. Too often, the inadequacies of insurance policies are not discovered until a claim is made, and it is too late to correct.

Moore is an attorney with Wright & Moore Law Co. LPA.

Travel with *Ohio Farmer*

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Director of Broadcasting, Penton Agriculture

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