

Insuring “Agritainment” (insurance provider perspective)

Is it farming or a business?

City folk are heading back to the farm--if only for a few hours on the weekend--and it's changing how some farmers operate. Many farms, particularly those that ring metropolitan areas, are capitalizing on the allure of rural life by inviting the public onto their land for tours, petting zoos, corn mazes, and other farm marketing activities known as “agritainment” or “agritourism.”

“It's grown exponentially,” says Chris Leliaert, a vice president and agriculture specialist in the Chicago office of Towers Perrin, an international reinsurance and consulting firm. “In the past, public access to farms was directly related to agriculture, like apple picking,” Leliaert says. “Now it is more of a business structured to expand upon the rural lifestyle and farm experience.” Many state departments of agriculture are encouraging farmers to offer agritainment activities and promoting agritourism among urban and suburban residents. “It is becoming increasingly popular for Virginia farmers to open up their farms to visitors,” says Darlene Wells, director of underwriting and market research and development for Virginia Farm Bureau Insurance services, Richmond. “Farmers are identifying creative ways to attract consumers to the farm to sell their products,” she says, adding that events range up to “large festivals attracting thousands of people.” “They're ringing the cash registers from a lot of different directions,” says Leliaert.

Vital income

“For many farm families, agritainment is vitally important. It's truly the difference between keeping or selling the family farm,” adds Jane Eckert, CEO of Eckert Agrimarketing, St. Louis, Mo., and a member of a farm family that has converted its orchards into a year-round “pick your own” enterprise. According to Eckert, many farmers on the urban periphery want to maintain farms their families have held for generations, but are torn between the low returns made from agriculture and the lure of the windfalls they can reap by selling land for real estate development. “It's not like they're looking to be millionaires,” Eckert says. Agritainment marketing is seen as a way to bridge the gap between farming and selling out, but often comes to overshadow agricultural production as a source of revenue. “Once farmers get started in agritainment, it often grows from a supplemental form of income to a primary form of income,” says Eckert.

Eckert sees modern commercial agritainment as distinct from older forms of direct farm marketing, which focused on providing buyers with less expensive produce. “It's not priced as a bargain today,” she says. “It's priced as entertainment.”

Exposures

While Eckert carefully distinguishes between farming and commercial agritainment operations, many farmers may not, leaving farm insurers with potential exposures they perhaps never intended to cover.

Says Leliaert: "When you bring people out to a farm who don't know what they're looking at--whether it's equipment, livestock, or an electric fence--it could be a recipe for disaster." He adds that "farmers are not as aggressive with loss control measures as commercial businesses, and there's not a lot of public regulation" of agritainment activities. Animal bites and falls from machinery, rides, and attractions are among the high frequency sources of claims associated with agritainment, according to Kelli Kukulka, a vice president and agriculture specialist in the Chicago office of American Re-Insurance. Carriers and reinsurers have been hit by severe bodily injury claims arising from E coli outbreaks at petting zoos and salmonella outbreaks caused by improper food handling and storage, she adds.

In 2000, more than 20 children became infected with the E coli bacteria during a visit to a Pennsylvania farm where they were allowed to touch animals. Two of the children suffered severe kidney damage from the infection and required dialysis. The dangers of animals and E coli broke into national prominence in succeeding years as scores of people contracted E coli infections at petting zoos at state and county fairs in Ohio, Wisconsin, Oregon, North Carolina, and Florida. In light of these and other hazards, Kukulka cautions against overestimating the benefits of agritainment for the farm economy. "While growing, I would still not classify agritainment as a standard source of farm income," she says. "According to recent Agricultural Service Extension publications, many of the exposures that we would classify as 'agritainment' do not in fact turn a profit for the family farm."

Is it farming?

Whether certain activities are profitable in themselves goes to the heart of farm insurance underwriting, as the growth of agribusiness tests the distinction between farming, covered by standard farm forms, and other business activities, which are generally excluded.

"The Farmowner's product provides coverage for what we call traditional farming, the raising of crops and livestock," says Wells at Virginia Farm Bureau. "It also includes the operation of roadside stands and farm markets, but excludes coverage for [other] business activities. "This presents a delicate situation," she adds. "Farmers view some of these [agritainment] activities as part of their farm operation, and thus should be considered farming in regards to coverage. "We explain that an unendorsed Farmowners policy does not contemplate these activities, either through its coverages or pricing."

To address the exposure, Virginia Farm Bureau has developed farmowners endorsements for providing limited coverage, for additional premium, for specified agritainment activities. North Carolina Farm Bureau Insurance takes the position that it will cover agritainment exposures automatically under a farmowners policy if the insured is not charging for the activities, but will insist that a farmer that is charging for public access events purchase a general liability policy to

cover that exposure. Nationwide Agribusiness, Des Moines, Ia., takes a similar approach., according to Jerry Hillard, exclusive agency sales officer. “We use a farmowners product to cover the farm operation and a GL policy to insure the agritainment part,” he says. “We then have a separate reinsurance program for the GL. “The approach we take presumes the agritainment is excluded as a business exposure,” he adds. Hillard adds that Nationwide believes agritainment activities provided free of charge are automatically covered under a standard farm owners policy. “We’ve always said we don’t mind if you take the Sunday school for a hayride,” he says.

Not uniform

“There has not been uniform treatment [of agritainment] among farm carriers,” says Kukulka at American. “Some [carriers] have chosen to avoid the exposure entirely by using exclusions or declining accounts with these exposures,” she says. “When agritainment risks are accepted they are typically included in the basic farm liability premium if deemed incidental. “When [agritainment exposures] exceed a predetermined threshold, they are generally charged a premium based on the gross receipts or number of exposure units reported. “Another approach, at least by one carrier, has been to establish a separate surplus lines policy with separate rates and separate underwriting questions and guidelines to address these commercial exposures on the farm.”

Eckert of Eckert Agrimarketing says that insurance coverage is becoming a growing concern for farmers that want to establish commercial agritainment operations. “The biggest hang-up we hear is ‘I can’t find anyone to write the insurance’ or ‘I can’t afford it,’” she says.

Controlling losses

Whether agritainment activities are incidental or not, Leliaert believes farmowners insurers will find it difficult to deny a liability claim arising from an injury related to agritainment. He adds that insurers are frequently surprised at the agritainment exposures they encounter during underwriting audits of farm accounts. Agritainment, then, provides a new series of complications for farm underwriting operations that are already strained to keep up with diverse exposures. As a safety principle, Eckert recommends that agritainment activities be conducted in areas separate from market agriculture operations.

In her view, the public should stay away from working farm machinery, equipment, livestock, and supplies. With that established, Eckert says agritainment operators and their insurers should pay special attention to three types of hazards:

Animals: The risks of e coli and bites are well-established, and human contact with animals should be avoided, a consideration that might stop many agritainment operations before they start.

Ladders: Don't allow members of the public to use ladders for picking, Eckert says. Let them pick what they can from the ground, and have farm staff pick produce that is out of reach.

Transport: Transport hazards are frequently overlooked, according to Eckert. A common cause of falls on farms involves members of the public getting on and off hay wagons and other forms of transport by themselves. Customers should always be helped onto and off of vehicles, she says. Given that insurers are often unaware when farm accounts venture into agritainment activities, "it is critical that claims adjusters report unusual exposures to underwriters," Kukulka says. "I recall one claim that had a description that read: "Broken arm, child fell from zip line" (A zip line is a cable that stretches between poles, structures, or hills for thrill-seekers to ride across on a pulley.) "It took two years before the account underwriter realized that a zip line was something far different from an ordinary farm exposure and non-renewed the account."

Farm underwriters will increasingly find that agritainment presents them with exposures "far different from ordinary farm exposures," with unpredictable implications for farm insurance products.