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## RM, Background

- Began post World War II
- Long associated with the use of market insurance to protect from loss
- Other alternatives eventually appeared
  - Avoidance
  - Derivatives
  - Hedging
  - Contractual transfer (non-insurance)
- Enterprise Risk Management

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## What Is Risk

- A condition of human existence
- Uncertainty** about an outcome
  - Could be a favorable outcome
  - Could be an unfavorable outcome
- Risk** in insurance =
  - A peril insured against
  - Person and/or property protected by insurance

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## What Is Risk

- Loss and Indeterminate Outcome
- Loss
  - If we know for certain that a loss will occur, then there is no risk
- Indeterminate Outcome
  - At least two outcomes – one of which is not favorable

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## What Is Risk

- Uncertainty concerning the occurrence of a loss

*Principles Of Risk Management and Insurance*  
George E. Rejda

- A condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for.

*Fundamentals of Risk and Insurance*  
Emmett J. Vaughan  
Therese Vaughan

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## Risk Management Defined

“Risk Management is a scientific approach to dealing with **pure risks** by anticipating possible accidental losses and designing and implementing procedures that minimize the occurrence of loss or the financial impact of the losses that do occur.”

Fundamentals of Risk and Insurance

Emmett J. Vaughan

Therese Vaughan

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## Degrees Of Risk

More Risk vs. Less Risk

Actuarially speaking probability of death:

- At age 52 is approximately 1%
- At age 79 is approximately 10%
- At age 97 is approximately 50%
- At age 79 we would view the “risk” of death as greater than that at age 59 but less than that at age 97

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## Russian Roulette Anyone???

- Two bullets vs. one, where is there more risk?
- Four vs. three, where is there more risk?
- Six vs. five, wherein is the risk?



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## Russian Roulette, continued

- 0 Bullets = ONLY one outcome (favorable) ergo NO uncertainty and NO risk
- 6 bullets = ONLY one outcome (unfavorable) ergo NO uncertainty and NO risk
- 3 bullets = greatest uncertainty & greatest variable for two different outcomes



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## Risk vs. Perils vs. Hazards

- Oftentimes used interchangeably, RISK as previously defined is:
- Uncertainty concerning the occurrence of a loss  
Principles of Risk Management and Insurance  
George E. Rejda
- A condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for.  
Fundamentals of Risk and Insurance  
Emmett J. Vaughan  
Therese Vaughan

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## Risk vs. Perils vs. Hazards

Perils = a cause(s) of loss

Hazards = a condition that may create or increase the chance of a loss arising from a given peril

It is possible for one to be both

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## Risk vs. Perils vs. Hazards

- Hazards – normally split into three categories
  - Physical = those properties that increase the chance of loss from various perils
  - Moral = those dishonest tendencies in the character of the insured person
  - Morale = increases losses where insurance exists

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## Classifications of Risk

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## Types Of Risk

Financial &amp; Non-Financial

Static &amp; Dynamic

Fundamental &amp; Particular

Pure &amp; Speculative

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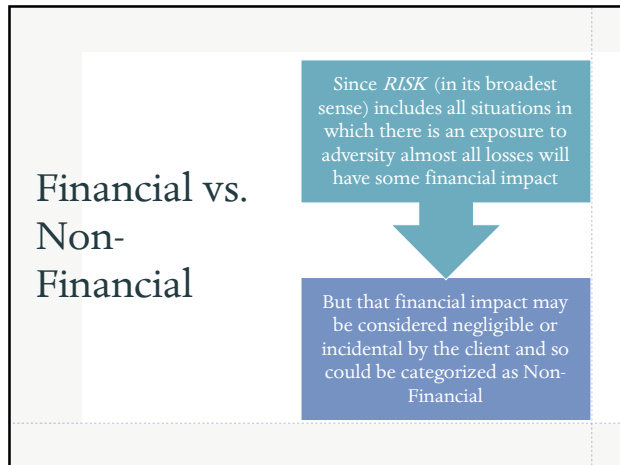
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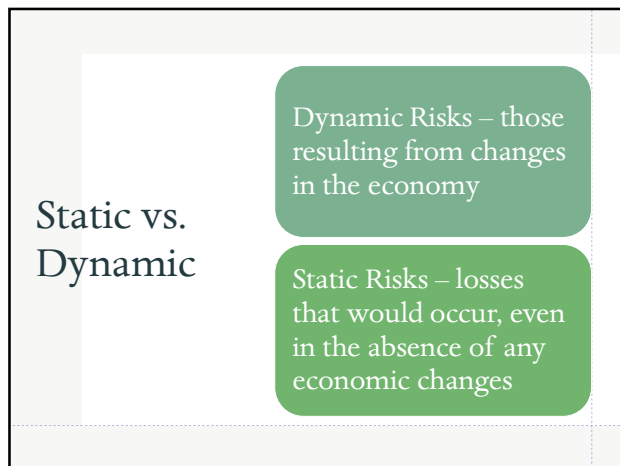
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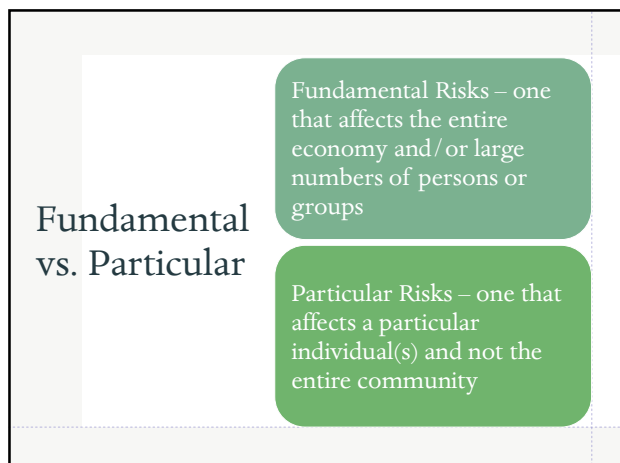
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## Pure vs. Speculative

Pure Risk – situations wherein there are ONLY the possibilities of loss or no loss

Speculative Risk – situations in which either a profit or a loss is possible

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## Types of Pure Risks

- Personal risks
  - Your health and your life
- Property risks
  - What you own and/or are responsible for
- Liability risks
  - Your responsibility for others being injured...by your fault
- Risks arising from failure of others
  - Your reliance on someone else is also filled with risk (vicarious)

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## Methods for Handling Risks

Risk Control & Risk Financing



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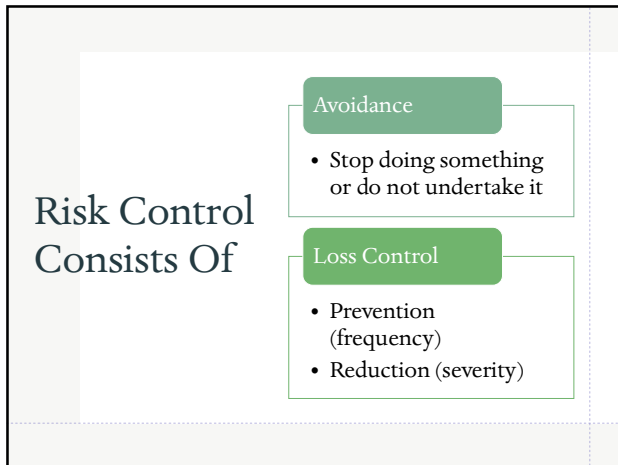
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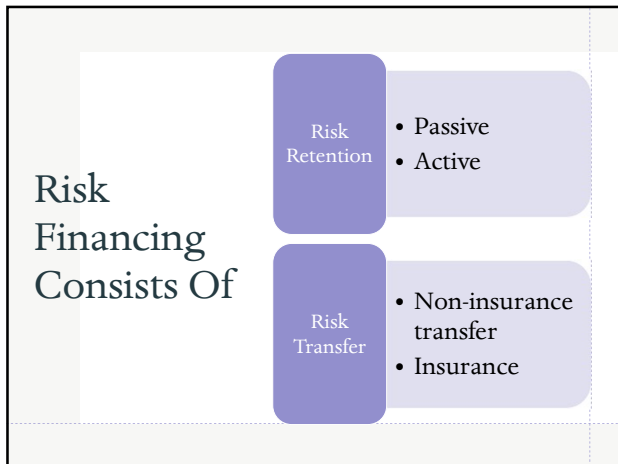
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**Risk Characteristics**

	High Frequency	Low Frequency
High Severity	OUCH!	Insurance
Low Severity	Retention & Reduction	WHAT, me worry?

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## Risk Management & Its Contributions to the Sustainability of Farm/Ag Clients

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## Contributions

Helping	Helping clients achieve their financial goals • WHAT are their financial goals
Controlling	Controlling their overall exposure to uncertainty (risk) • Have you identified their exposures to loss
Reducing	Reducing their overall expenses • This does not mean selling them insurance cheaper than the next guy

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## The Risk Management Process



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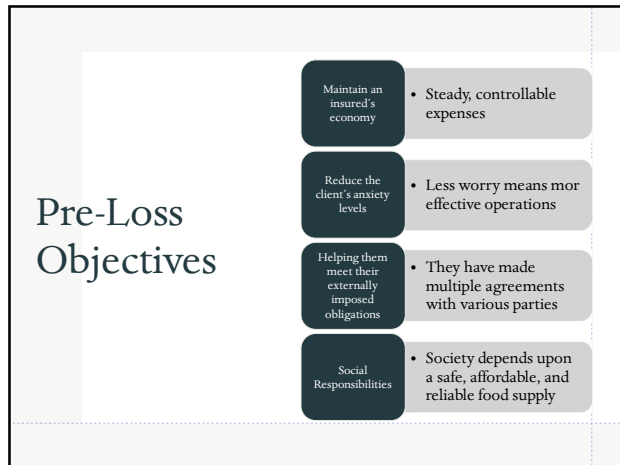
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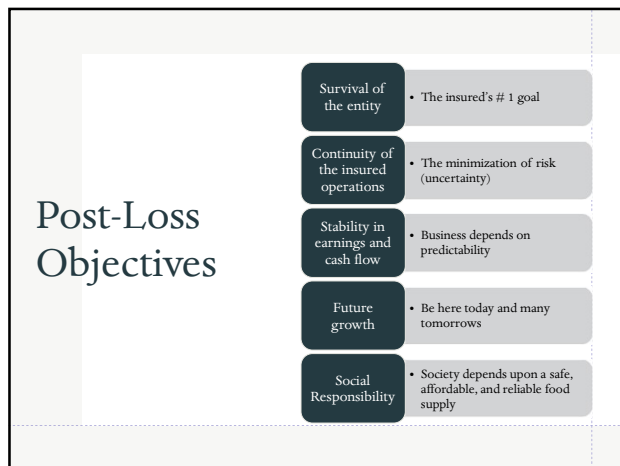
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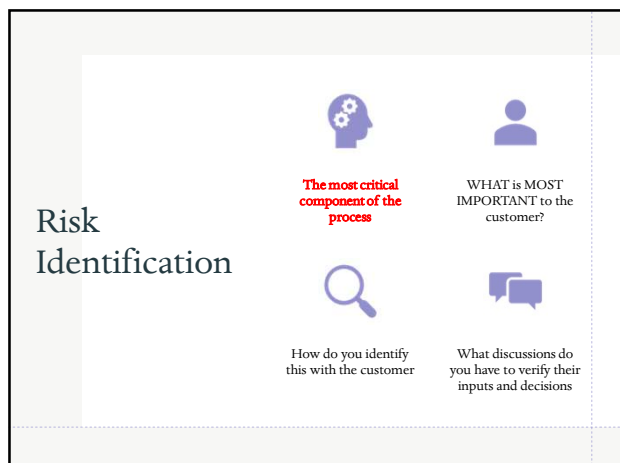
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## Evaluation Of Risks

• A relative ranking of importance based upon **SEVERITY** wherein ALL losses that would represent a **financial catastrophe** are ranked the same. We Would also include as part of that discussion:

- Critical risks
- Important risks
- Unimportant risks

NOT all risks are equal – don't treat them as such

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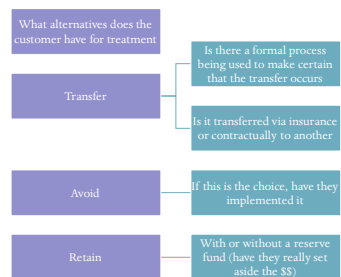
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## Are There Alternatives



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## The Insurance Alternative

- **Essential** Insurance
  - Do not risk more than you can afford to lose
  - Probability that a loss may or may not occur is less important than the SIZE of the potential loss
- **Important** Insurance
  - Consider the odds
- Optional Insurance
  - Don't risk a little for a lot – or – vice versa
- NOT "can I afford it" – "can I afford to be without it"

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## Types of Risk to Address



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## Determining Risks Faced

- What can get in the way of the farmers production
- Do you understand COMPLETELY the operations of the insured
- What are you using in your determination process

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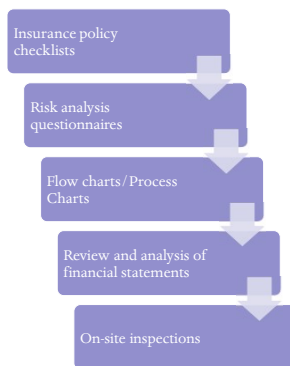
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## Process Determination Tools



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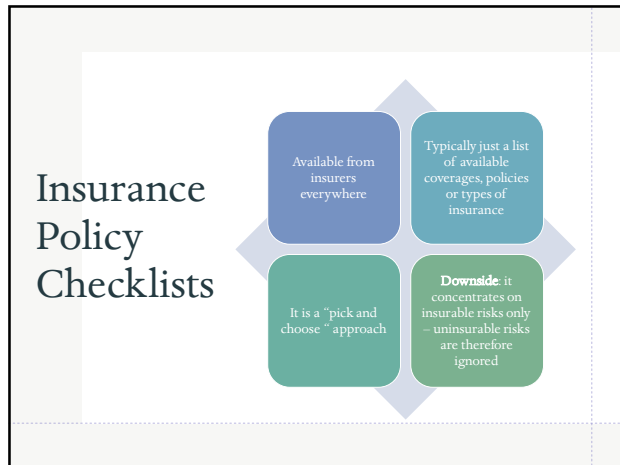
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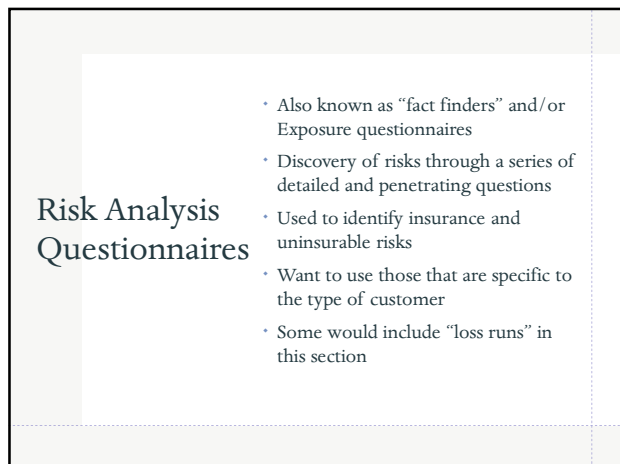
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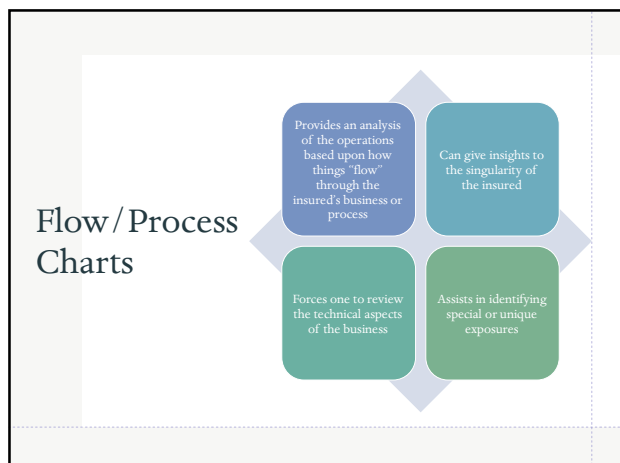
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Can be a significant tool in identifying other exposures to loss



Balance sheet might alert one to the existence of assets otherwise overlooked



Income and expense classifications will also assist in determining the overall perspective of the operations

## Analysis of Financial Statements

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## On-site Inspections




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☐ ALL of the preceding

☐ Insurance policy checklists

☐ Risk analysis questionnaires

☐ Flow/process charts

☐ Analysis of financial statements

☐ Inspections

## The Preferred Approach ?

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Given the Preceding...

...What Else Is The Insured Doing ?

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## What We Often Discover

- Custom farming operations
- Weddings
- Overnight stays (AirBnB, others)
- Overnight stays in various farm locations & dwellings
- Weddings
- Harvest days
- Trail rides – guided or not
- Hunting leases & parties
- Seed dealers
- Pumpkin patches
- Haunted houses
- Corn mazes & Hay rides
- Selfharvesting operations
- Power generation
- Canning & teaching thereof
- Repair operations – auto, farm implements, welding
- Trucking operations
- Anything that isn't "Farming"

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## Some Considerations

Equipment repairs

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Seed dealers

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Custom farming

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Welding services

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Construction

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Trucking

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Power generation

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Agritourism in all of its potentialities

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## Liability Concerns



If they are insured on a Farm Liability coverage form – ISO or AAIS – we are going to have issues with the “farming” definition



These coverage forms are written for “farming” – not construction for others, welding services for others, seed dealers and their potential E & O, and the like



Let’s look at the two definitions:

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## ISO - Farming

- 8. “Farming”:
  - a. Means the operation of an agricultural or aquacultural enterprise, and includes the operation of roadside stands, on your farm premises, maintained solely for the sale of farm products produced principally by you. Unless specifically indicated in the Declarations, “farming” does not include:
    - (1) Retail activity other than that described above; or
    - (2) Mechanized processing operations;
  - b. However, “farming” does not include the operation of:
    - (1) Any “agritainment” on your farm premises; or
    - (2) Any retail activity or any mechanized processing operations performed, in whole or in part, for “agritainment”.

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## AAIS - Farming

8. “Farming” means the ownership, maintenance, or use of premises for the production of crops or the raising or care of livestock, including all necessary operations.

“Farming” also includes the operations of roadside stands and farm markets maintained principally for the sale of the “insured’s” own farm products, but it does not include other retail activities.

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## Agritourism

- “Agritainment” in ISO forms
- Not specifically mentioned in AAIS forms (yet)
- ISO utilizes the Agritainment Property and Liability forms
  - Agritainment – Property, FP 05 0 04 16
  - Agritainment – Liability, FL 05 01 04 16
- AAIS suggests the use of the CGL



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## How Are You Addressing

- Professional Liability exposures
- Custom farming work
- Agritainment exposures in all of their permutations
- Liquor liability
- Their processing exposures
- Building for others
- Garagekeepers exposures
- Hauling for others

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## The CGL

- How often do you offer
- There are some distinct advantages
- What’s covered?
- Processing not often a concern
- Manufacturing can easily be addressed
- It’s auditable
- U/Ws will often be agreeable to modifying it to fir the
- A vast array of exposures – other than farming – can be

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## Agritainment

- Limited by your underwriter's willingness to provide the coverage
- Subject to ISO classifications
- Rating considerations

ISO Endorsement FL 05 11 04 16

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## Some Final Considerations

- Zoning or land use
- Liability laws regarding immunity for agritainment
- Noise restrictions
- Traffic restrictions
- Others?

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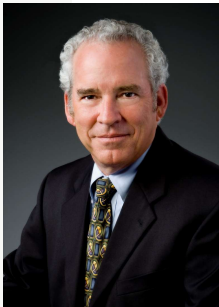
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## Thank You !



- Casey Roberts, ACSR, AFIS, CIC
- (707) 477-0913
- Laurus Insurance Consulting
- 328 Cupola Court
- Lincoln, Ca. 95648
- casey@laurusinsuranceconsulting.com

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