

# Farm Insurance – Peace of Mind vs. Sleepless Nights

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## ■ Introduction

Having been in the insurance industry for over 25 years, I have seen many changes both from the producer's side and from the insurer's side. The "roller coaster" of the insurance industry can have all of us screaming. The only difference is, in the insurance world, the screaming happens on the way up and not the way down.

Like the hog industry, the insurance industry also goes through its cycles. When insurers are making money, you, the consumer, benefit with lower rates, increased capacity and typically a broader insurance product. When catastrophes hit, and the insurers have huge losses, this affects every one. Catastrophes such as 9/11, Hurricane Andrew and Hurricane Katrina have had major effects on all insurers and re-insurers. This filters down to you, the consumer.

## ■ Why We Buy Insurance

Most people that purchase an Insurance Product are purchasing a promise. A Promise that, in the event of a loss, that particular insurance product will respond in the manner, which they believed it would, when they purchased it. We buy insurance, to give us "Peace of Mind" and let us sleep at night.

There are many insurance products available and we, as consumers, trust our advisors to provide us with products that will keep us in business. Unfortunately, there is always fine print - the exceptions to the rules. There are many stories about people, just like you and I, who have had a claim or loss that just wasn't covered. Why? Well, there are many answers to that question.

## **The coverage is not available**

We used to say, you can insure anything as long as you are willing to pay the price. Believe it or not, there is some insurance money just can't buy. As an example, try buying flood insurance in a flood zone or earthquake coverage in a quake zone. Most insurers stay away from providing coverage that will ultimately end up with a loss. Other insurers will provide the coverage, but will require huge deductibles or they may attach warranties to the policy that could reduce the risk of loss.

Over the past few years, the insurers have become very concerned with losses regarding livestock and in particular death of livestock due to suffocation. So they have attached warranties to the policy which require you to have alarms and generators in place that are tested monthly and a log kept. The alarms must be monitored 24 hour a day and the generators must be able to provide adequate power to operate your ventilation systems in the barn. If these alarms and generators are not in place, the insurer would not provide coverage for Power Interruption or Mechanical Breakdown.

## **The coverage is available but you did not purchase it**

Either you didn't feel it was a necessary product – or you didn't understand the consequences of not purchasing it.

Business Interruption insurance is one product that has many forms that are available to you. Again, you have to ask yourself a few questions in order to determine the type of coverage you want or if you want coverage at all.

If you are going to rebuild your facility after a total loss, you want your Business Interruption coverage to help put your operation back in the same position it was before you had the loss. The length of time it will take to get you back into that position depends largely on the type of operation you have.

You should have coverage for the worst-case scenario. A total loss at your largest facility may occur in the dead of winter. You lose your breeding herd, your facility is destroyed, and reconstruction costs will be higher because of the time of year.

There are warranties and conditions contained in the policy, and you were either not aware of these warranties and conditions, or you did not adhere to them.

Warranties and conditions are implemented into a policy to help reduce the risk and/or severity of loss. These warranties can apply to alarms and generators as mentioned earlier. But they can also apply to day to day maintenance of your facility. Annual servicing of your heating units, upgrading

the wiring in the facility – these are some of the things insurers will look at when evaluating risk.

The hog industry has also changed dramatically over the last 5 – 10 years. In 1994, a 600 sow farrow to finish operation was considered a very large operation. Today, we are looking 6000 sow operations. The increase in the size of operation also meant the increase in values at risk. This created different problems for the insurers.

Higher values at risk meant the insurers had to provide more capacity. If they didn't have the additional capacity, they had to reduce their participation on a risk. This led to the need to subscribe insurance policies in order to have full coverage on the facility. In some cases, not enough insurers were willing to participate on a risk and this may have led to policies with a Limit of Loss which was less than the total insured values.

Post 9/11, insurers either reduced their capacity or decided not to provide insurance to high risk accounts.

So herein lies the problem: more values and fewer insurers. Fewer insurers meant that they had the upper hand. Consumers had fewer options and your agent or broker had to negotiate with insurers that basically said – if you don't like our terms, find someone else. Since there was no one else, we had to live with more restrictive policies, less coverage and reduced capacity.

## ■ What can you do?

As an owner of a swine facility, you have to determine what procedures you have in place to reduce the chances of a loss occurring. You have to determine what you are willing to do and the cost you are willing to pay, to make your facility safer and more attractive to the insurance industry. Controlling risk can have a very positive effect on what type of insurance products insurers are willing to provide to you. You have to weigh the cost of having these procedures and risk controls in place against the amount you could lose if you have an uninsured loss.

If you decide not to put in the generators or alarms systems, the insurance companies may decide that you are not willing to help in reducing the possibility or severity of a loss. They may decide that you are not a risk that they are willing to insure or they will limit the coverage they are willing to provide.

If you decide to put the generators and alarms in place, and go the extra mile, they will look at you differently and think – this is an operation that is willing to

do some risk control and help reduce the possibility or severity of loss. They are more likely to decide to provide you with full coverage.

When building new facilities, risk control can play a big part in the planning and design of the facility. Putting in firewalls and fire stops, or putting more separation between buildings, can have a very positive effect when presenting your risk to the insurers.

Employees can play a big part in risk control. They are the ones in the barns on a day-to-day basis. They see things that sometimes you don't because you are not in the barn everyday. You must have procedures in place for reporting situations or conditions that lead to a loss. Conditions that affect the employees themselves, the hogs, and the facility, when reported or brought to your attention, can reduce or eliminate losses.

## ■ Summary

Insurance has become a very important part of your overall business decisions. You have to know what risks you are willing to take and how to handle those risks. It is not much different than deciding on what type of breeding stock you are going to purchase. If you choose the wrong breed for your environment, it can have a detrimental affect on your bottom line. If you choose the wrong insurance product and coverage, it can have a detrimental affect on how and if you recover from a loss.

If you have a multi million dollar facility, you want to make sure that it is properly insured and that if you have a loss that destroys your facility, the insurance will respond, rebuild and put your business back in the same position it was before the loss.

How do you do that? You must take a good look the types of coverage's that are available and understand those coverage's. You have to ask yourself a few questions:

- If you have a loss today that destroys your entire operation – will you want to rebuild and continue or would you decide not to rebuild and change how you make a living?
- If you have a loss today, what portion of that loss could you take on yourself (i.e. deductibles, self- insured retentions or perils)
- What do you expect from your Insurance policy? Reconstruction, loss of income, loss of livestock?

Once you have answered these questions, you can start to discuss your insurance needs with your broker or agent.

There are a number of products available and each one will be different. If you have a clear picture of what you want or need, you can ask the right questions when discussing coverage with your broker.