



United States Department of Agriculture
Risk Management Agency

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2005 INSURANCE FACT SHEET

Managing Agricultural Risks

Spokane Regional Office

Agriculture in Today's Environment

Government policy makers continue to place greater confidence in the ability of agricultural producers to make sound business decisions. Market orientated farm legislation and the Agricultural Risk Protection Act of 2000 has provided a great deal of risk management support. **USDA's Risk Management Agency (RMA)**, formerly Federal Crop Insurance Corporation (FCIC) administers an education and outreach initiative that places a special emphasis toward creating more awareness about agricultural risks and the tools and strategies to manage risk.

Risks on the Farm

Farming includes many fundamental forces (risks beyond our control): increasing global competition; rapidly changing business structure of agriculture; new technology; and ever-changing volatile weather patterns.

Benefits of Goal Setting

Improving risk management (RM) skills, begins by identifying interactions between one source of risk and another. RM is a goal-directed process and its' benefits reflect values, interests, resources and capabilities, while providing a basis for decisions and a focus point to establish priorities when resources are scarce and also as a means for measuring progress.

Five Primary Areas of Agricultural Risk

An example or backup plan of risk in agriculture may include:

Production Risk— carrying a crop to harvest, resulting with low yields or a total crop loss; pest and weather risks. **Backup plan:** Obtaining crop insurance, geographic and enterprise diversification, irrigation and alternative production methods are RM strategies that affect yields and help reduce risk.

Marketing Risk— receiving a fair market price for the crop(s) and the chance the price received will vary.

Backup Plan: Utilizing new revenue crop insurance

products to guarantee revenue by combining yield and price variability (available by crop, in selected areas). Futures and option markets, forward contracting, selling at harvest for cash, or storing the commodity and selling later can be used in various combinations to form a pricing strategy. Pricing strategy must be flexible enough to achieve desired results, as market conditions change during the production and marketing period.

Financial Risk— the chance that returns to the farm operation will not be great enough to sustain it over time, balancing farm records or meeting financial obligations.

Backup Plan: The capacity of a grower to bear financial risk depends on an adequate equity position. Negative cash flows weaken this equity. Lenders may insist that borrowers keep careful records and follow a well-designed business plan accounting for risk. This may involve the use of crop insurance, forward pricing, use of futures and options markets or combinations of these.

Legal Risks— not obtaining adequate farm property and liability insurance coverage or possibly harming a neighbor's crop when applying herbicides. **Backup Plan:** Develop plans and review them annually (or more frequently) to ensure farm property and liability insurance coverage plans are accurate as additional equipment is obtained or other changes are made. Become more familiar with environmental regulations and keep informed and stay active in public policy.

Human Resource Risks— not having estate plans in order, that in the event of something happening, the farm can continue with the least amount of disruption, the lack of farm labor as a result of harvesting demands or not fully considering the effects of government programs being phased-out. **Backup Plan:** Have a sound and effective estate plan. Review various health, disability and life insurance policies. Begin or continue to develop/update an RM plan.

Additional Information

To receive additional information about education, outreach and research or any RMA program, please contact Jo Lynne Seuffer at telephone number (509) 353-2147.

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