

Crop Insurance: Beyond the Insurance Policy

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You don't need us to paint you a picture of the nightmare-like scenarios: hail, a hurricane, a freeze, the resulting dead plants. Even if you haven't suffered a major crop loss, you've likely laid awake at night with some threatening act of nature playing out in your mind.

And while there are policies to protect your structures and equipment, the damage that hurts the most (emotionally and income wise) is crop loss. Which should make crop insurance a no-brainer for most wholesale growers.

Thanks to the Federal Crop Insurance Corporation (FCIC), you have the option of highly subsidized Federal Nursery Crop Insurance, as well as buying more comprehensive crop insurance policies from private insurers.

Here's another reason to buy crop insurance: you may need it to qualify for Federal Disaster Relief. Growers with crop insurance policies will qualify for further funds from the Federal Disaster Assistance Program, while those without policies may receive no funding.

Why Your Inventory Reports Can Fail You

What's the big deal if you initially under-report your inventory under the Federal Nursery Crop Insurance program?

Ben Bolusky at FNGLA explains, "If your plant inventory value at time of claim exceeds 10% of the value at time of application, then you cannot collect on a claim and you lose crop insurance eligibility for the affected plant units."

In 2008, the nursery industry successfully lobbied to change the RMA's proposed inventory tolerance threshold of 6%. So 10% is an improvement of sorts, but FNGLA has been pressing RMA to treat over-reporting as the agency treats under-reporting: by assessing a penalty rather than losing a claim and insurance eligibility.

The other issue at hand is that RMA allows growers to increase their peak inventory value records twice during the crop year, but growers are not allowed to decrease their values. "Given the economic market challenges continuing to face growers, this may cause one's inventory value to be much lower at the time of claim, thereby kicking them beyond the 10% tolerance," says Ben. "So, as a grower, you could lose your claim and insurance eligibility without ever having done anything wrong."

Before you buy

Make sure you know what you're buying and what it covers. "Keep in mind that the Federal Government and private insurers like Hortica write crop coverage," says Nancy Zollo, a claims adjuster with Hortica Insurance. "While there is sometimes an overlap between the two policies, there are differences in qualifications and the policies in general."

"Be sure to work closely with your crop insurance agent and ask a lot of questions," advises Ben Bolusky of the Florida Nursery, Growers and Landscape Association (FNGLA).

Know what your deductibles are, which crops are covered, and what constitutes an insurable loss. While basic catastrophic coverage through the Federal Nursery Crop Insurance Program may help you out if you have a large loss, you might find yourself wanting a lower deductible (but higher premium) through a private policy that will cover smaller losses.

In both cases, you'll be dealing with a private insurance company. Sound confusing? Here's how it works: The Federal Nursery Crop Program is part of the Federal Crop Insurance Corporation (FCIC); these programs are administered by the Risk Management Agency (RMA),

which underwrites crop insurance policies for hundreds of crops and livestock in the United States. Private insurance companies then act as agents and sell these crop insurance policies to growers. (You can learn more at the Risk Management Agency website: www.rma.usda.gov.)

After you buy

Keep up-to-date records. "The single most important tidbit of advice: Keep detailed and accurate inventory records and supporting documentation. The accuracy of your records is the key to whether, and to what extent, you can collect in the event of a claim or insurable loss," advises Ben. Inaccurate record keeping can, literally, void your crop insurance.

The USDA's Risk Management Agency (RMA), which sets the rules for the Federal Nursery Crop Insurance Program prefers growers use their "Crop Inventory Valuation Estimate Report" (a software program commonly known as DataScape) to develop Plant Inventory Value Reports (PIVR). Most authorized insurance providers follow this preference and also request that their insurance clients use DataScape.

Hortica, which sells private crop insurance policies and acts as an agent for the federal program, also stresses the importance of record keeping. Two Hortica claim representatives, Nancy Zollo and Eric Jones, gave us these suggestions of information to have on hand in the case of a claim:

Detailed inventory (type of product, quantity, stages of growth)

- Overall inventory. This assists in establishing if the limits carried are adequate.
- Inventory by location. Since you're more likely to sustain a partial loss to a specific area, an inventory by location will give you quick access to the amount and type of crop lost or exposed.
- Time inventory. A catalog of how your inventory fluctuates during different seasons is important.

Growers price list or invoicing from supplier

Pricing breakdown

- Initial expenses incurred for materials and labor
- Cost to maintain (labor, materials, utilities)
- Costs to package and ship
- Profit

Production time frame (Used to establish costs at any given time.)

Spoilage/waste rates

Production records for three previous years. (These are utilized to establish trends or changes in production.)

"While all the information might not be necessary or applicable in certain situations, having this information should streamline the claim process and help the insured make better insurance choices," says Nancy.

And while it may seem like a lot to keep track just for a "what if" situation, it's also valuable information for good bookkeeping and making financial decisions about your business.

Store documents off property. A crucial thing to remember! Be sure to keep a copy of your insurance policies, along with the documents of your inventory, plus any photos or videos that also help document your inventory, in a safe place (not on the insured property).

When disaster strikes

On that unfortunate day when something happens and your inventory suddenly becomes unsaleable (but hopefully insurable), take a methodical approach to documenting the damage and filing your claim.

- Take a careful inventory of the damage. Take pictures.
- Contact your insurance agent.
- Do not begin cleaning up or discarding plant material until you sort out the claim with your insurance agent.

They may want to see the damage or get further documentation.

Dealing with Disaster

Bill Lyden will always remember 2005. That was the year the storms came. And without crop insurance, Farm Life Tropical Foliage would not be doing business in Homestead, Florida, today.

On August 25, 2005, Hurricane Katrina started its journey toward New Orleans with a quick stop in Florida. Originally listed as a Category 1 storm, it changed courses and caused a fair amount of damage, Bill recalls.

Nearly two months later to the day, Hurricane Wilma arrived in Southern Florida—a visit Bill remembers vividly because this storm was even more destructive than its predecessor.

"I like to say Katrina put us on our knees and Wilma just put our face in the mud," Bill jests. Turning more serious, he continues: "Whatever was loosened up during the first one, the second one took out. Nurseries down here suffered anywhere from 50 to 100% damage. For me, I was hit pretty hard because of my shadehouses. I have a lot more exposure in the large houses and we took a severe hit there."

Things looked grim, but there was one thing Bill was thankful for—his crop insurance policy. Without it, his business would have been another of Katrina and Wilma's many victims.

Bill says that there's no doubt crop insurance allows him and other Florida growers to remain in the horticulture industry, especially after natural disasters such as those he experienced first hand in 2005.

"I think it's absolutely mandatory. It's the first thing you should really consider when you're going into the business or when you're doing your budgeting. You've got to make sure that line item is taken care of."
