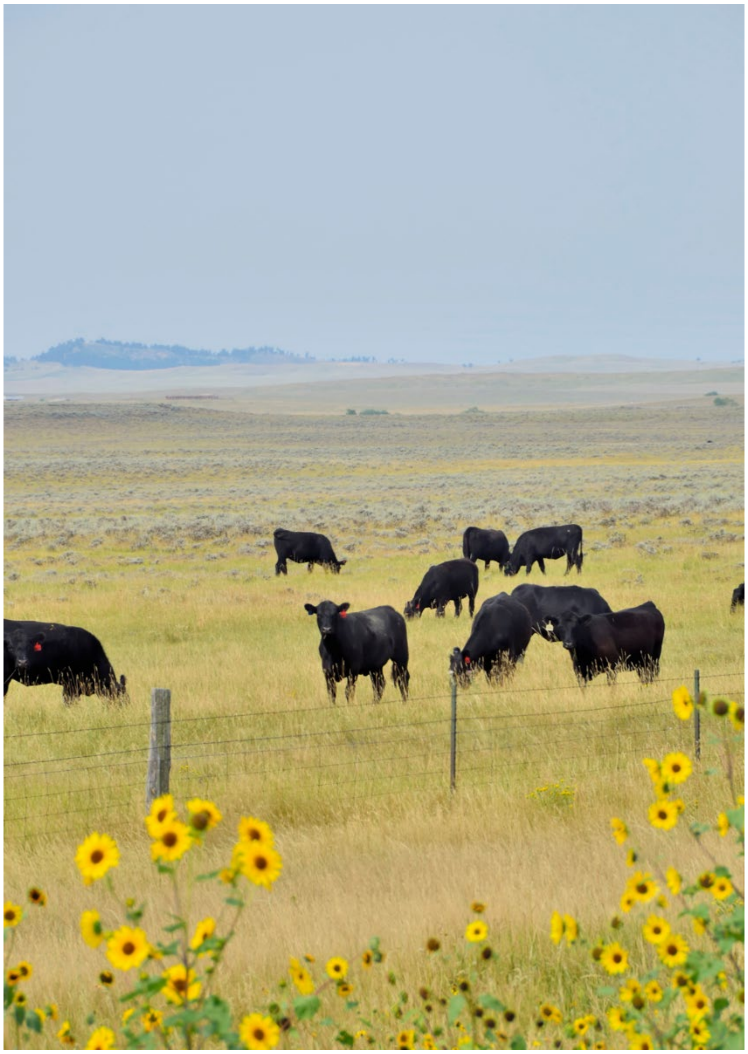

Montana Farm and Ranch Wildfire Insurance Preparedness

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Montana Farm and Ranch Wildfire Insurance Preparedness

Introduction

In the United States, 75% of the area burned by wildfires occurs on non-forested lands, often times burning across farm and rangeland[1]. The impacts these wildfires pose for farmers and ranchers can be devastating and often felt for years following the fire. One of the best ways that farmers and ranchers can prepare for a wildfire is with proper insurance coverage.

Farming and ranching are complex occupations that rarely provide a day off. Taking the time to read through and understand your insurance policy's coverage can seem arduous, but keeping your policy up to date is critical to be protected from disasters, ensure you are not overpaying, and are not underinsured. **Your policy is how you get paid following a disaster and trying to read through the fine print afterwards is not when you want to be figuring out the details.**

Private farm and ranch insurance comes in many forms. This guide is not intended to cover them all, but rather to help you understand what insurance options are available to protect your operation against the threat of wildfire, and to help find a policy that is right for you.

Know what you are paying for and what your policy covers

Your insurance policy is a legally binding agreement between you and your provider. It tells you exactly how much you will receive, and for what, in the event of a disaster. Before each fire season, annually review your policy with your agent to be clear on what is and is not covered under your existing plan. This will inform you of any changes that need to be made.

Step 1: Learn the buzzwords

Fully understanding your policy can often be difficult due to the specific language used by insurance companies. Below is a non-exhaustive table of important terms intended to help you, the policyholder, understand your policy.

Term:	**Definition:**
Actual Cash Value (ACV)	The replacement value of an item considering depreciation due to wear and tear or decrease in value over the course of time. To determine an item's ACV, an insurance adjuster will start with the cost of replacing your damaged or stolen property and lower the value based on depreciation factors, such as age and wear and tear. The process may vary by insurer, but your insurance agent may help you to understand the factors that go into their calculation.

Blanket Coverage/Insurance	Covers more than one type of property at one or more locations, or one type of property at multiple locations, all under one policy with a single limit. This coverage allows you to protect many items under a single policy without needing to individually insure each item.
Coverage	The amount of risk or liability (see below) that an insurance provider covers for a policy holder.
Covered Perils	The kinds of disasters that you will be covered for, should a disaster strike. Such perils may include hail, drought, fire, wind, lightning, frost, or flooding. If a peril is not listed in your policy, you will not be covered for loss or damage if that disaster occurs.
Deductible	The amount the policy holder agrees to pay before the insurance provider pays for any claim. Deductible payments will depend on the item and peril you are insuring for. You may have different deductibles for different perils, be sure to review this with your agent.
Depreciation	The decrease in the value of your property due to age, wear, or other causes. (See Actual Cash Value)
Exclusion	A provision in your insurance policy that excludes or limits certain types of coverage or risks.
Hazard	There are two common insurance definitions for the word hazard: 1) A coverage that protects the home/business owner against physical damages such as fires or severe storms. 2) A condition that creates or increases the chance of loss or damage. Examples of a hazards include neglect of suggested maintenance on a tractor, or faulty wiring in a building leading to an increased risk of a fire.
Indemnity	The contractual obligation of your insurance provider to compensate you for damage or losses that occur to insured items.
Insured Value	The agreed dollar value that you will receive from your insurance agency if your item is damaged or destroyed.
Liability	Insurance coverage protecting against claims if someone is injured or affected because of your operation's activities.
Policy Limit	The highest amount your insurance provider will pay for a claim.
Listed Property	Property that is used in the operation of your business more than 50% of the time rather than for personal use. This could be a truck on your farm that you use more than half of the time for operational purposes.
Loss	The direct or accidental damage or destruction of an insured property item. Typically, the cause for filing a claim.
Loss of Use	Coverage that pays for additional expenses if the policy holder needs to move out of their residence, or rent a vehicle, while repairs are made because of damage covered by a loss.
Market Value	The amount an item could be sold based upon its resale value in the marketplace.
Mitigation	Steps taken to reduce the likelihood of damage/loss to insured property.
Named Insured	The person or entity identified as the insured in the insurance policy.
Named Perils	The hazards that your insurance policy covers. Otherwise known as perils
Personal Property	All property not classified as real property (see below) such as tools, tractors, furniture etc.
Policy	The contractual agreement between the insurance company and the policyholder stating what claims the insurer is legally required to pay.
Premium	The amount the policyholder pays for their insurance coverage.
Real property	Refers to the land and the fixed structures attached to it, such as buildings, garages, and fences.
Risk	Two common uses of the word risk for insurance purposes: 1) The threat(s) which the insurance agency has agreed to insure you against (see covered perils).

	2) The uncertainty or chance of a harmful event occurring causing damages to you or your property.
Scheduled Coverage	A form of insurance policy that specifically lists each item that will be covered by the insurance company.

Step 2: Decide what you want covered

As the policyholder, you get to decide what you want your insurance plan to cover so that it meets your exact needs. This often involves trade-offs between the cost of coverage vs. the potential cost of replacing your equipment, crops, or animals out of pocket. In this section, we will discuss insuring the operational property on your farm such as barns, tools, and machinery, as well as crops and livestock.

Farm Personal Property (FPP):

FPP covers physical items such as buildings, tools, tractors, harvesters, barns, and even livestock. Such items are critical to the functionality of your operation but are not covered by typical homeowners' insurance.

When reviewing your farm's personal property protection policy, there are three main categories to keep in mind: **listed property, covered perils, and insured value**[2].

1) **Listed property**: These are the items you own that are covered by your policy. Generally, your FPP falls into three main categories: structures, equipment, and inventory.
   - **Structures:** May include any fixed structure that is not your home, such as barns, storage units, greenhouses, and feed lots. The contents within each structure must be insured separately as equipment unless they are integral fixtures such as plumbing (see the 80% rule).
   - **Equipment**: Includes items such as seed spreaders, weed eaters, tractors, shovels, and fence post drivers. While one item may not seem like much, their combined value can total in the thousands of dollars. These items can either be **scheduled out or protected under a blanket coverage plan** (see below). If you use a truck for work, it is worth talking with your insurance agent about adding it to your overall farm insurance policy as it can be cheaper than insuring it as a personal use vehicle.
   - **Inventory:** Inventory covers the items that are stored within your FPP structures. This may be hay, fertilizer, seed, and livestock. It is important to note that inventory items are only covered while they are stored. Once items such as fertilizer and seed are in use, they lose their coverage.

What about crops? See below for crop insurance options.

2) **Covered Perils:** These are the types of disasters included in your coverage that, should they occur, you will be refunded for the damage/loss. Perils may include hail, drought, fire, lightning, wind, frost, flooding, etc. It is extremely important that you understand what perils are covered in your insurance plan. Not all perils are covered. **Uncovered risks are called exclusions**. When searching for coverage or talking to your agent, be sure that the perils most likely to happen in your area are covered by your policy. Ensure that your farm includes wildfire in the list of covered perils. **It is common for insurance policies to not automatically list wildfire as a**

covered peril. Speak with your insurance provider to make sure that wildfire is one of your covered perils as there may be exceptions for coverage depending upon whether the fire was natural, or human caused.

3) **Insured Value**: This is the dollar value that you will receive from your insurance agency if your item is damaged or destroyed. When considering the insured value of your FPP, there are two primary types of insured value – replacement cost and actual cash value.
    - **Replacement Cost** will refund that item to its insured value *without* deducting the item's depreciation. If you buy a new tractor and insure it for its replacement cost and the tractor is destroyed 5 years later, you will be covered for the cost of replacing it with a new tractor with the same capabilities and not what it would have been worth prior to the damage.
    - **Actual Cash Value (ACV)** will replace the damaged or destroyed item accounting for the item's depreciation. Consider a car you bought brand new, and its resale value 10 years later. ACV typically have lower premiums but will not refund you for what you initially paid for your item.

The 80% rule: It is common for insurance companies to only cover the full cost of property damage if you insure your property at 80% of the replacement cost or more. If you insure for less than 80% and your property is damaged by a covered risk, the insurance provider will only reimburse you for the proportionate amount that the insurance provider would have liked you to insure it for (80%).[3.]

For example, you insure a toolshed that cost $10,000 to build for 70% of the replacement cost (or $7,000). If the structure is destroyed due to a wildfire, the insurance company may only pay you the difference between what you insured for, and the 80% they want you to insure for. In this case, 70% (the amount you insured for) / 80% (the amount they want you to insure for) = 87.5% – the total amount the insurance company will pay for the toolshed leaving you to cover the remaining 12.5% or $1,250. For a shed, this might not be much, but for complex structures such as commercial grain silos, this difference may cost you tens of thousands of dollars.

Scheduled vs Blanket insurance: You will need to list the items that you want covered within your insurance policy. When insuring your farm or ranch, you may need to consider whether you want *scheduled* or *blanket* insurance. There are benefits to each, and it isn't uncommon to use both.

Scheduled Coverage is an itemized coverage of individual, specific items that you want covered. This coverage will typically pay up to the value that you choose to insure the item for. For example, you may want to put a combine harvester on a scheduled list and insure it at a replacement cost. That way, if your combine is damaged due to a covered event, you will receive full compensation for getting your combine fixed or replaced. This allows flexibility for your specific needs and budgetary constraints. Scheduled coverage can be helpful if you are insuring a few highly valued animals rather than a whole herd, or new tractors and other large pieces of equipment.

- Each scheduled item will need a description such as make, model, year, and serial number. If you decide to schedule livestock, you will need descriptions for the animal(s) too, such as age and species.

Blanket Coverage provides one total limit for all your FPP under a single policy. That means all your trailers, tools, grain, and livestock are bundled into one all-encompassing insurance policy. Because it is all covered under one policy, you can use that total limit to cover any individual peril you face. This includes everything from farming equipment to livestock. While you will not need to list every item, an agent should come out and provide an assessment of your items to ensure they are valued appropriately.

Consider: Both scheduled and blanket coverage have their pros and cons. Consider the costs of insuring your items individually or as a lump sum, versus the cost of repair or replacement without any insurance coverage. It is best to speak with your agent to understand your risks and determine your comfort level with these risks when insuring your FPP and livestock. Take the time to work through and evaluate your assets and imagine worse case scenarios to determine if you would be able to financially recover from a disaster such as wildfire without having an adequate insurance plan in place.

Insuring Crops and Livestock

Livestock:

Livestock insurance can cover a wide variety of perils such as accidental shootings, floods, collisions, and fire. It is important to work with your insurance agent to cover perils and the specific needs of your herd and operation. As noted above, livestock can be included in your FPP insurance plan and can be covered with scheduled *or* blanketed insurance plans. Next, we will cover a few more ways to protect your livestock investments. It is important to check with your agent if you can include wildfire as one of the covered perils in your livestock's insurance plan **as wildfire is not covered by many private insurance providers.**

Livestock Mortality Insurance provides livestock insurance coverage against unexpected deaths from a wide range of accidents including accidental shooting, blizzard, or fire. Availability for fire protection may vary between insurance providers, livestock species, and locations. When speaking with an insurance agent, specifically ask if fire is a covered peril within their existing policies.[3]

Herd Insurance, also referred to as herd coverage, is the most common form of livestock protection. Depending on your insurance provider, you can list herd insurance alongside your FPP, or as a separate specialized mortality insurance plan. This means that you would purchase herd insurance as an add-on that is separate from your FPP. Herd insurance provides coverage for a specific number of livestock listed in your policy. Most herd insurance policies do not cover mortality caused by disease, old age, or other natural causes.[4]

Pasture Fire Protection insures against damage on your rangeland, pastures, and forage ground caused by fire no matter the ignition cause. This policy often covers fire department service charges ranging from $500-$750 in case the fire department is called to protect your rangeland. This insurance option requires that you renew your policy annually. Coverage per acre is determined by the purchaser and will vary depending on the provider.[5]

Crops:

It is important to note that **not all fire is automatically covered** in most crop federal insurance policies as there can be discrepancies between human and naturally caused fires, and even how certain fires spread. Multi-Peril Crop Insurance will not cover the fire if it is due to a non-natural ignition (i.e., human caused). In Montana, humans cause approximately 75% of all wildfire ignitions. To protect your crops against all wildfire, both natural and human caused, you will need to add wildfire to your list of covered perils. This addition will be covered by the commercial insurance company you are working through and not through the USDA's Risk Management Agency.

Multi-Peril Crop Insurance (MCPI): MCPI is a federally regulated insurance program that is sold through the private sector. Insurance premiums are subsidized by the Risk Management Agency (RMA) in order to reduce the cost to farmers. There are two basic ways that you can insure your crops with an MPCI policy: yield based insurance and revenue-based insurance. Yield based insurance will provide compensation if you suffer a yield loss relative to your historical average (typically 50% of the average) and payout is typically set at 55% percent of the estimated crop value. In a revenue-based policy, a farmer will select a level of coverage (typically between 50-70% of the historical average yield) and the plan sets a projected price for the harvest. The payout is the difference between the projected revenue and actual revenue.[6]

Crop-Hail Insurance: Crop-Hail protection is a privately offered policy which covers damages from hail, but will often extend to fire, lightning, wind, and vandalism. Hail can be devastating for crops but may only affect portions of your total crop during a single event. For this reason, you can purchase Crop-Hail insurance on an acre-by-acre basis. This policy allows the purchaser to select a dollar amount of coverage up to the expected value of the crop. Depending on your insurance provider, it is common to purchase Crop-Hail insurance at any time of the year though effective dates may vary.[7]

The Noninsured Crop Disaster Assistance Program (NAP) is administered by the US Department of Agriculture Farm Service Agency (FSA). As crop insurance availability for certain crops can vary depending on the state, NAP provides financial assistance to producers of non-insurable crops to help protect against natural disasters resulting in crop destruction, lessened yields, or unplantable crops. NAP will only cover fire damages if the cause of the fire is natural (not human caused). If the fire is human caused and it affects your crops, it must be due to adverse natural circumstances such as drought or extreme high winds. To apply, eligible applicants must apply at their local Farm Service Agency office and pay the application fee upon submission.[8]

Catastrophic Risk Protection (CAT): CAT is another part of the Federal Crop Insurance program administered by the RMA. CAT coverage is typically a last resort program for farmers that have lost more than 50% of their average historical crop yield. The program will compensate farmers for 55% of the projected season average market price and 50% of their Actual Production History. Farmers pay no premiums for CAT coverage but will pay an administrative fee of $655 per crop, except in special cases of financial hardship.[9]

Private Insurance Crop Fire Protection: Some private insurance agencies in Montana offer crop fire coverage at 25 cents per $100 per acre. Specific crops will have different limits for what you may insure them up to depending upon the crop that you have planted. If you were to insure a crop that is worth $300 per acre, then you would pay 75 cents for every acre you wish to insure. Since this is a private insurance add on, you must purchase this coverage through your insurance provider. Typically, you may purchase this coverage any time between June 1st and September 1st.

As the insured farmer, you have the following responsibilities:

a. You must report all required information to your insurance agent or provider to establish a contract or guarantee.
b. As with all insurance policies, you must pay all applicable insurance premiums and fees associated with your agreement.
c. You must notify your insurance provider when a loss occurs if you want a payout.
d. You must follow all appropriate farming practices listed in the Risk Management Agencies guidelines. This is extremely important, as you may not receive compensation following a disaster if you deviate from these practices.
e. **Any deviation from your policies requirements may lead to ineligibility to collect indemnities associated with losses.**

Step 3: Be Prepared and Review your Policy

Your operation is your livelihood. Understand what risks you are willing to take and what financial burdens your business can withstand. Higher insurance premiums may cost more money up front but can also save your operation down the line. Work through your policy both at home and with your agent so that you know exactly what you are protected against and for what you are paying.

Document your insured property:

Many insurance companies require a documented list of the items you will seek to replace. Adequate bookkeeping is extremely important when dealing with post-disaster insurance recovery. Store this information in cloud storage or a fire-proofed lock box.

- Photos: Take pictures of your shop walls, farming equipment, and infrastructure to have a visual inventory of the items you own and may need to account for.
- Spreadsheet: Keep an inventory of the items you own, including cost, serial number, year purchased, and current condition.
- Annually review your inventory in case you have purchased new items you wish to be included in your plan, or in case you are paying for coverage you do not need.

Step 4: Build a relationship with your insurance agent

This is perhaps the most important step. There are almost limitless ways you can tweak your policy to best meet your operation's needs, and your insurance agent is the best tool you have at your disposal to understand your options. Insurance companies compete with one another through insurance knowledge, insurance packages, business relationships, and customer service. Insurance agents rely on your business to maintain theirs. If your current policy isn't working for your needs, call around and talk with different insurance agents until you find the coverage that is right for you and your operation. Work closely with your agent to create a policy that best suits your operation's needs. This will ensure that you are not over or under covered, and that you are not overpaying for coverage you may not need.

Further Resources

If you are interested in learning more about farm and ranch wildfire preparedness and how to farm through the wildfire season, check out **Farmer Campus**'s Wildfire Program. Farmer Campus provides an interactive self-led courses that will walk you through the steps to reduce your legal, financial, and operational risks during wildfire season. To learn more, visit **farmercampus.com/fires/**

Farm Commons offers an online platform for legal workshops, insurance resources, and self-guided courses to help farmers and ranchers to learn how to protect their livelihoods and build resilience into their operation's plans. To visit their website, go to **https://farmcommons.org/**

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