

Insurance Information for Agritourism Businesses



Agritourism is a growing business sector in Mississippi, and it has become a method for farming entities to increase revenue by using their existing assets. These businesses are created and operated as extensions of existing farming operations, but, in many ways, they resemble a traditional, mainstreet-type business with respect to their methods of operation and inherent risks.

One of the most important components to the stability of any business is having the proper type of insurance coverage to protect the business against the risk of sudden, accidental loss. A properly designed insurance policy will provide specific coverages and limits to protect the business in the event of a loss. The following information defines some basic insurance terms and describes some of the types of insurance that should be considered when starting an agritourism business.

Definition of insurance: process by contract whereby one party undertakes to indemnify or guarantee another against loss by a specific contingency or peril (transferring of risks)¹

Definition of risk: uncertainty of financial loss; term used to designate an insured or a peril insured against²

Risk identification in property and liability exposures: process of discovering sources of loss concerning the property and liability risk faced by individuals and business firms³

Risk management: procedure to minimize the adverse effect of a possible financial loss by (1) identifying potential sources of loss; (2) measuring the financial consequences of a loss occurring; and (3) using controls to minimize actual losses or their financial consequences⁴

Four Basic Types of Business Coverage

1. **Property:** covers sudden, accidental loss to buildings, appurtenant⁵ structures, and business personal property (fixtures, equipment, and inventory)
2. **Liability:** comprehensive general liability—covers premises/operations and products/completed operations for bodily injury or property damage resulting from negligent acts or omissions for which the business may become legally obligated to pay
3. **Auto:** covers business-owned vehicles (commercial autos)—liability and physical damage
4. **Workers' compensation:** covers employees for job-related sickness, injury, and disability

Other coverages: inland marine (motorized equipment), hired/non-owned auto liability, business interruption (loss of income), commercial crime (burglary, theft, employee dishonesty), employee benefits (health insurance), commercial umbrella, data processing insurance (computer equipment, media, and extra expense incurred for restoration of data files)

Types of Policies

Mono-line: e.g., standard fire policy or general liability policy only

Multi-peril: e.g., commercial package policy (CPP), business-owners policy (BOP)

¹Merriam-Webster Dictionary: www.merriamwebster.com/dictionary/insurance on February 1, 2017.

²Barron's Dictionary of Insurance Terms, Sixth Edition, p. 454.

³Barron's Dictionary of Insurance Terms, Sixth Edition, p. 456.

⁴Barron's Dictionary of Insurance Terms, Sixth Edition, p. 456.

⁵Appurtenant—defined as belonging to; pertinent. "Secondary buildings that are appurtenant to the main building."

Types of Property Coverages

Basic form: provides coverage for the following named perils: fire, lightning, explosion, smoke, windstorm, hail, riot, civil commotion, aircraft, vehicles, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action

Broad form: provides the basic, named-perils coverage (listed above) and adds coverage for falling objects; weight of snow, ice, or sleet; water damage (in the form of sudden and accidental discharge from a plumbing system); and collapse from specified perils

Special form: provides coverage for loss from any cause except those that are specifically excluded in the policy (e.g., earthquake and flood)

Note

The information provided is intended to assist in educating individuals who are already in the agritourism business or who may be getting into the agritourism business. Business owners should consult with a licensed, professional insurance agent concerning the type and applicable limits of coverage needed before purchasing insurance coverage.

Farming entities that add agritourism businesses to their operations should consider incorporating or forming a limited liability company (LLC) because of the added liability risks involved in bringing customers to their farm premises and should seek the consultation of an attorney concerning this.

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By **Hamp Beatty**, Extension Associate and Economic Development Consultant, Extension Center for Government and Community Development.



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