

Risk Assessment and Management

1. Types of Risk

There are six main categories of risk that may be relevant to agritourism enterprises. Legal risk is perhaps the most commonly recognized risk, but you also face human resources risk, business interruption risk, production risk, marketing risk and financial risk when you operate an agritourism business.

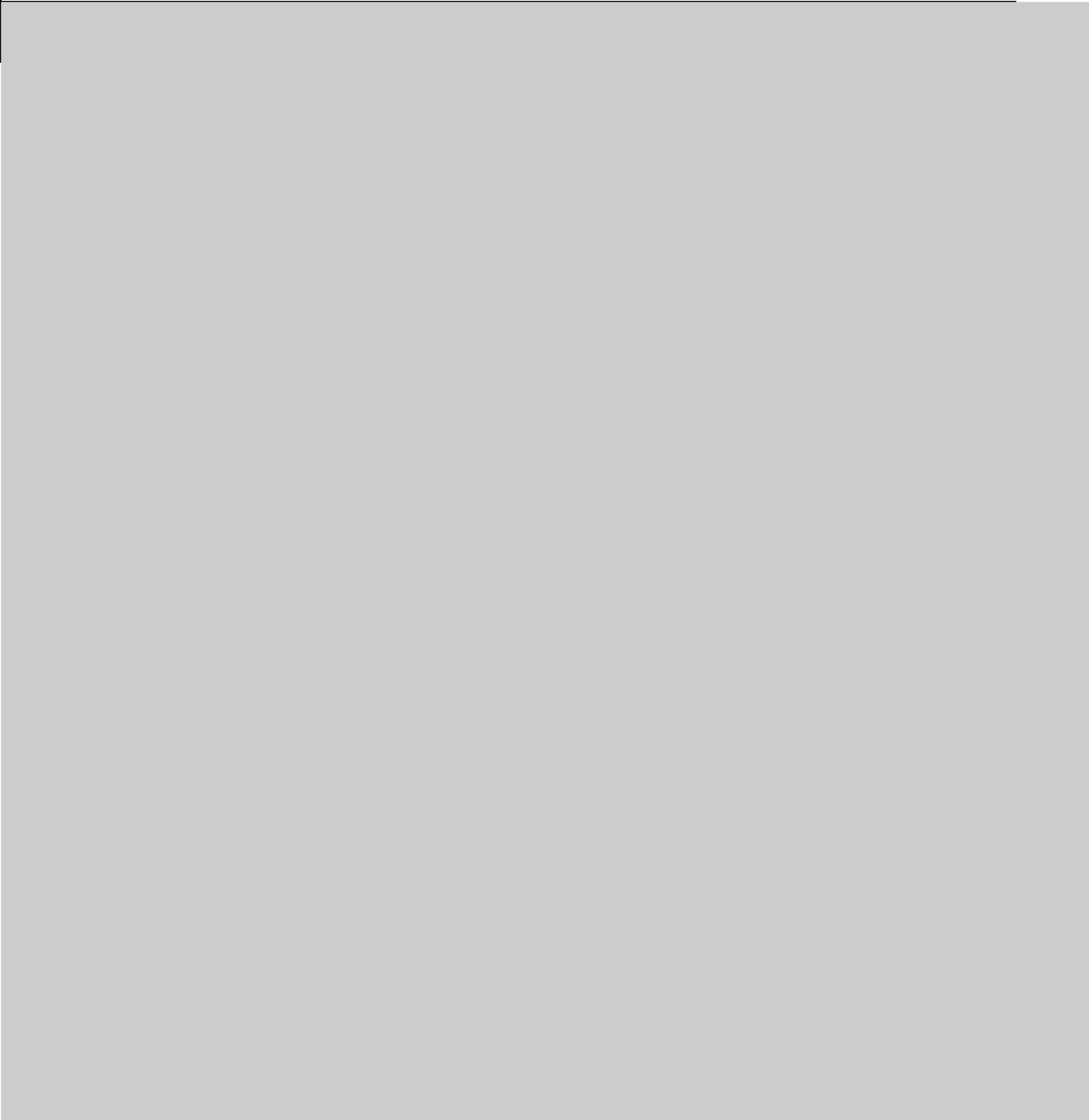
Type of Risk	What Does It Involve?
Legal Risk	Federal, state and county laws and regulations concerning public health & safety; accessibility by the disabled; land use & development; direct marketing; licenses & taxes, the environment
Human Resources Risk	Changes to family that will impact business management (death, divorce, disability, disagreement); protection & management of employees
Business Interruption Risk	Loss of income due to hazardous weather, natural disasters
Production Risk	Agritourism enterprises that incorporate or rely on the production of agricultural commodities, specialty crops, or livestock face production risks. Weather conditions, disease or pests may decrease or eliminate yields. Biosecurity may be compromised by increased traffic, which increases the potential for disease or pathogens to spread among crops, livestock or products.
Marketing Risk	May include not being able to attract enough customers, attracting more customers than you can accommodate for a quality experience, or negative impact from a new source of competition.
Financial Risk	Meeting cash flow needs, obtaining affordable debt capital, maintaining or growing equity in the agritourism enterprise, risk of having property damaged or stolen

Each of these risks has the potential to be very costly to your business. The planning and operation of an agritourism enterprise should, therefore, include risk assessment and the development and implementation of a risk management plan.

number of other factors specific to each enterprise. These regulations may be imposed at the federal, state and local levels of government. It is important to investigate all regulations applicable to your agritourism enterprise in order to avoid penalties, fines or interruptions to your business.

Regulations Checklist

The following list of regulations is discussed in the next section. You should check each regulation that applies to your operation and then become familiar with the details of those regulations. You are also encouraged to contact the appropriate governing agency for more information on how the regulations may directly impact your agritourism enterprise.



Risk Identification Exercise⁴

Type of Risk

Assessment Questions

Identified Risks

Type of Risk	Assessment Questions	Identified Risks
Marketing Risk	<p>my existing enterprise(s)?</p> <ul style="list-style-type: none"> • Will the new enterprise provide effective diversification? • Will my lender understand my plan and help me achieve my goals? • What are the potential costs and returns associated with alternative strategies? • Should I seek professional marketing services? • Have I checked my marketing plan against my financial plan to make sure that income from marketing covers cash flow needs? • Have I calculated operating costs and estimated my revenues to determine... 	

The risk assessment process also involves estimating the likelihood that a risk will result in loss, damage or injury as well as the potential magnitude of the loss. You will be able to accomplish this phase of the risk assessment process later with the Risk Assessment and Management Worksheet.

5. Risk Management

Simply identifying risks does not diminish or eliminate them. A risk management plan should be developed and implemented to help reduce or eliminate potential risks. Risk may be managed using four general methods:

1. Avoid risk
2. Reduce risk
3. Transfer risk
4. Accept risk

Avoid Risk. You can avoid risk simply by choosing not to engage in agritourism activities altogether. By using the risk assessment process, you may also decide that a specific agritourism activity has more risk associated with it than you want to take on. Therefore, you can decide not to offer that activity.

Reduce Risk. You can reduce risk by implementing preventative measures and procedures. For agritourism enterprises, customer and employee safety

Risk Management Method Matrix		
	Low Severity	High Severity

à **Accept**

- £ Develop a business analysis and management system.
- £ Choose a beneficial business structure for your agritourism enterprise.
- £ Monitor market conditions.
- £ Create an emergency fund to pay for insurance deductibles and unplanned, necessary repairs.

Now that you have listed potential risks and have read about different methods and strategies to manage risk, use the Risk Assessment and Management Worksheet to further assess your risks and develop risk management strategies for each.

Risk Assessment and Management Worksheet

1. Refer to the Risk Identification Exercise you completed earlier. List the risks you identified on that worksheet in the numbered rows under the column heading Potential Risks. (You may need to make additional copies of the worksheet.)
2. Rate the likelihood that each of the potential risks will result in actual loss, damage or injury on a scale of 1 (Low Risk) to 5 (High Risk) by circling the corresponding number under the column heading Likelihood of Injury.
3. For each potential risk, rate the magnitude of the potential loss, damage or injury on a scale of 1 (Small Risk) to 5 (Large Risk) by circling the corresponding number under the column heading Magnitude of Potential Loss.
4. Develop appropriate strategies to avoid, reduce, accept and/or transfer each of the identified risks.
5. Finally, estimate the cost of your planned risk management strategies. Reassess activities and potential risks where costs are too great.

Risk Assessment and Management Worksheet				
Potential Risks	Likelihood of Injury	Magnitude of Potential Loss	Methods to Avoid, Reduce, Accept and/or Transfer Risk	Estimated Cost of Risk Management Methods
	Low - High	Small - Large		
1.	1 2 3 4 5	1 2 3 4 5		
2.	1 2 3 4 5	1 2 3 4 5		
3.	1 2 3 4 5	1 2 3 4 5		
4.	1 2 3 4 5	1 2 3 4 5		
5.	1 2 3 4 5	1 2 3 4 5		
6.	1 2 3 4 5	1 2 3 4 5		
7.	1 2 3 4 5	1 2 3 4 5		
8.	1 2 3 4 5	1 2 3 4 5		
9.	1 2 3 4 5	1 2 3 4 5		
10.	1 2 3 4 5	1 2 3 4 5		
11.	1 2 3 4 5	1 2 3 4 5		
12.	1 2 3 4 5	1 2 3 4 5		

6. Consulting an Attorney

Consulting with a legal advisor who specializes in agricultural and rural issues will help protect your business as well as your customers' safety. Depending on the type of agritourism operation you have, you will want to discuss the following potential risks with an attorney:

- General liability (financial loss because of bodily injury or property damage to employees or customers caused by negligence);
- Personal injury (visitor injury on your property);
- Property damage (that occurs to visitors' personal property while on your farm or ranch);
- Product liability (harm to visitor from consuming or using your product(s)); and
- Professional liability (protection for a business that provides a service to visitors, in the case where the service causes personal harm).

It is advisable to review your business structure with your tax accountant to understand your exposure to liability, and to finalize your business plan before consulting your attorney.

7. Insurance Concepts

Insurance is a method used to manage risk by transferring it to another individual or entity. Insurance is defined as "a legal contract whereby risks are transferred from one party to another in exchange for a premium."⁵

Several types of insurance may be relevant to agritourism enterprises, including:

1. Commercial or general liability
2. Product liability
3. Special events liability
4. Property and loss
5. Health and disability
6. Crop

Insurance purchased for your farm enterprise will protect your business from financial loss due to property damage, liability, and other risks. For more information, contact your insurance agent or the National Farm Insurance Association at 1-800-368-7263.

When searching for and obtaining insurance, you should contact the carrier for your other insurance policies, such as your farm policy. Since that company has a history with you, it may be more likely to provide coverage for your agritourism activities. It may be beneficial, however, to compare similar policies from other companies every couple of years to be sure you have the policy that best meets your needs at the most economical price.

Many insurance companies have little or no experience with agritourism enterprises and, therefore, may be reluctant to provide coverage. Although agritourism in its earliest form began in the 1800s, very little information is available on which to evaluate potential risks. When the risk cannot be quantified, companies cannot accurately set premiums or the price for coverage to ensure that they will be able to cover claims and maintain a profitable business. Insurance companies may decide not to write a policy for agritourism enterprises in order to avoid financial risk for their companies. Companies may also decide to reduce financial risk by offering policies to certain types of enterprises or for a limited number of enterprises. As the industry continues to grow, the demand for liability insurance products for agritourism is increasing; and as more information becomes available about risk exposure, it is likely that more insurance companies will offer options for coverage.

When considering insurance coverage as a risk management strategy, it is helpful to understand some specific terminology and concepts. The following table lists some common insurance terms with general definitions.

Common Insurance Terms and Definitions	
Term	Definition
Policy	Written contract for insurance coverage.
Coverage	The dollar amount available from the insurance company to meet liabilities or cover damages as defined in the policy.
Premium	The price paid to the insurance company for the policy.
Deductible	The amount specified in an insurance policy that the insured party must pay out of pocket. It relieves the insurer of responsibility for an initial specified loss.
Covered Peril	Something that imperils or causes risk of injury or loss that is eligible for coverage.
Excluded Peril	Something that causes risk of injury or loss that is not eligible for coverage. Usually, perils not specifically listed as covered are assumed to be excluded.
Claim	A request for payment for damages or loss sustained.
Exposure	The potential for damages or loss.

When visiting with an insurance agent regarding insurance for your agritourism enterprise, you should be prepared to provide some information. It is important to communicate fully and clearly to make sure the agent understands your enterprise and the potential risks. Consider inviting the agent to your operation to give a better idea about what you are planning to do or are doing.

Read each insurance policy carefully and make sure you understand what perils are included and excluded in the coverage, the amounts of deductibles, levels of coverage and details on how to file a claim. Do not rely solely on the agent to tell you all the details of the policy. Generally, you should not share details of your insurance coverage with customers except for what is necessary to file a claim.

Two worksheets to help you collect and organi

