WHITE PAPER

The future of farm risk

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Introduction

The evolving dynamics of farming related to severe weather patterns, market access concerns, barriers to growth, adoption of technology, and increased liability concerns are creating new risks for farmers. These new or emerging risks can threaten a farm's ability to meet its long-term objectives and often cause a farm to rethink its long-term strategy.

Farmers need to understand that these emerging risks require new thinking, analysis and strategic preparation. However, according to Michael Boehlje at Purdue University[1] and research conducted by Nationwide[2], these emerging farm risks are often overlooked because farmers believe these risks are external to the operation and cannot be managed or that there is a low probability of occurrence compared to the frequency of other risks such as financial and marketing risks.

The purpose of this white paper is to help farmers:

- Raise awareness of emerging farm risks and the potential disruptions they can inflict.
- Outline steps to mitigate and manage these risks.
- Recognize how the insurance industry is responding to emerging farm risks.
- Emphasize the importance of risk planning to proactively manage and reduce the potential for business disruptions.

How farm risk is changing

More frequent and more threatening

Michael Langmeier

"Traditionally, farmers have thought about risk in buckets such as production and marketing risk," says **Michael Langmeier with the Center for Commercial Agriculture at Purdue University**. "However, the risk associated with managing a farm business has really evolved in the past 15 years."

Regulatory, weather, geopolitical, disease outbreaks, market access and supply chain risks have grown exponentially, especially as the agricultural industry consolidates and as farms have grown in size and become more specialized.

According to Langmeier, a large balance sheet and specialization can intensify a farm's risk, especially when the unexpected happens. Having a resilient business — the ability to anticipate, absorb, accommodate, or recover from the effects of a shock or stress in a timely and efficient manner — is vital to survive the unexpected.

"While we typically think of farm risk as resulting in some form of physical loss, it can also take the form of a reputational or market access loss," says Langmeier.

It may be impossible to identify or plan for every evolving risk or disruption, but it's important is to realize that risk in general has intensified, and that requires a new mindset to manage it.

Future farm risk and disruption examples

These future farm risks can threaten a farm's ability to meet its long-term objectives and often cause a farm to rethink its long-term strategy. Farmers need to understand that these risks require new thinking, analysis and strategic preparation.

Production risk

- Livestock disease outbreaks that can devastate poultry, swine or cattle operations.
- A food contamination issue traced back to your locally produced farm products.
- Supply disruptions where you can't receive necessary supplies in time to continue essential operations (e.g., animal health products, crop protection, fertilizer supplies, etc.)

Growth risk

- Labor disruption leaves you without key employees to help with the harvest, milking, farrowing, or marketing of your farm products.
- Focusing on output growth (more bushels, pounds, etc.) rather than developing growth strategies, such as specialization, expansion, diversification, replication and vertical integration to achieve sustainable income growth.

Price / market risk

- Market access, in which your dairy processor faces a challenge and is unable to pick up your milk or is subject to burdensome new requirements.
- An area ethanol or soybean crushing plant experiences an operation-ending fire resulting in the loss of a market for your grain. Unexpected market changes — lower exports, larger inventories, etc. — that result in a price decline for your crops or livestock.

Digital risk

- Data privacy breach that compromises your business data.

Institutional risk

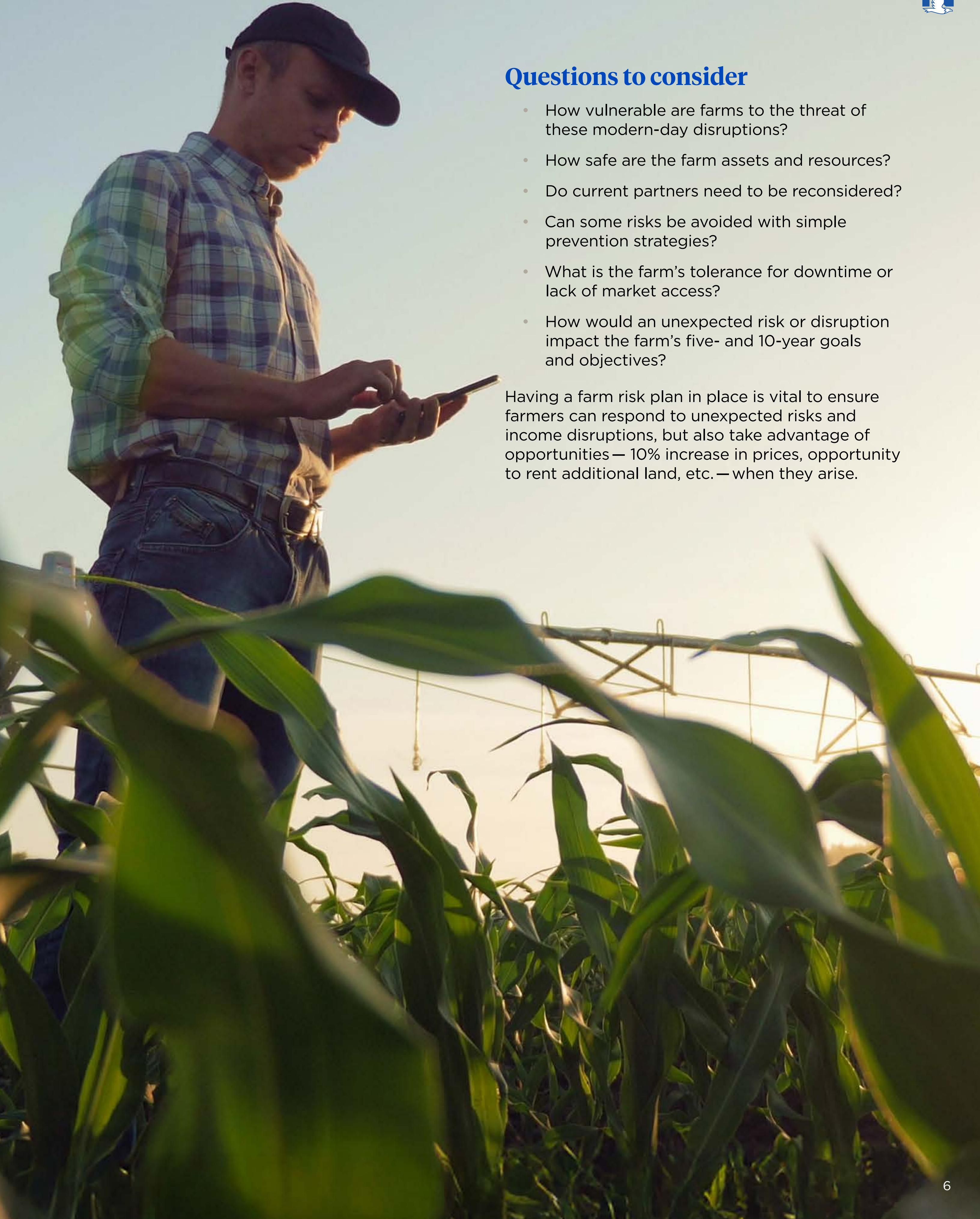
- Supply disruptions, where you can't receive necessary supplies in time to continue essential operations (e.g., animal health products, crop protection, fertilizer supplies, transportation issues, etc.)
- Regulations restricting when you can apply fertilizer or how you raise livestock (e.g., Prop 12).

Adoption risk

- Slow adoption of new technologies and practices that put your farm or ranch at a competitive disadvantage, or the adoption of a new technology or practice that does not drive efficiency or growth.

Legacy risk

- Changes in tax policy (e.g., estate taxes) impacting your ability to transition the business to the next generation.



Questions to consider

- How vulnerable are farms to the threat of these modern-day disruptions?
- How safe are the farm assets and resources?
- Do current partners need to be reconsidered?
- Can some risks be avoided with simple prevention strategies?
- What is the farm's tolerance for downtime or lack of market access?
- How would an unexpected risk or disruption impact the farm's five- and 10-year goals and objectives?

Having a farm risk plan in place is vital to ensure farmers can respond to unexpected risks and income disruptions, but also take advantage of opportunities — 10% increase in prices, opportunity to rent additional land, etc. — when they arise.

How farmers view risk

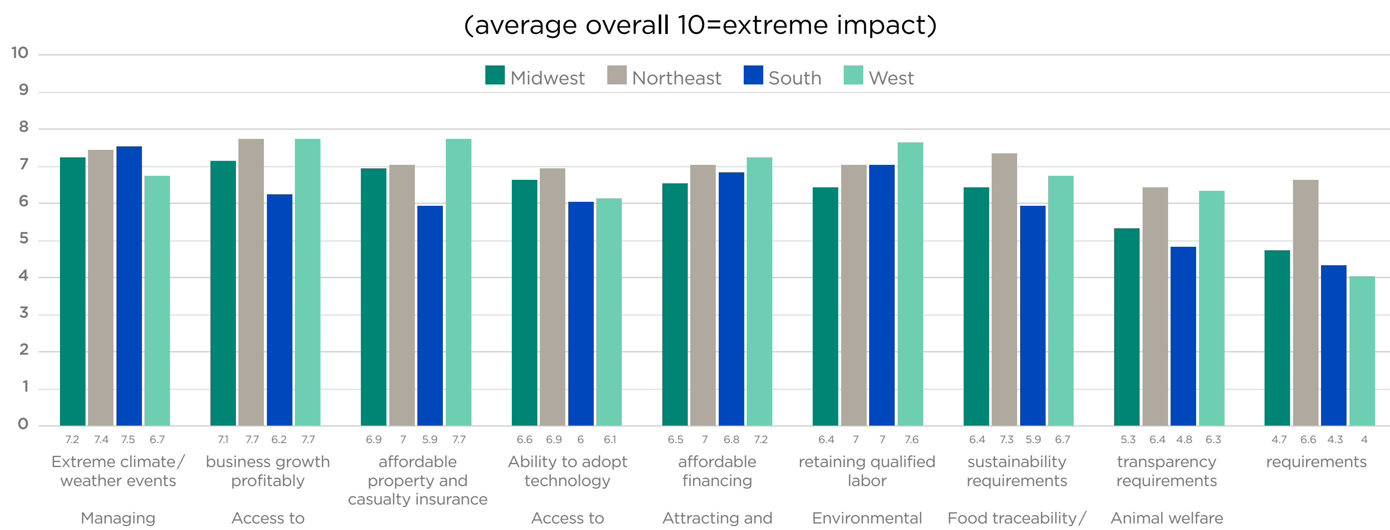
Nationwide conducted a survey — 2024 Nationwide Farmer Resiliency Study[2] — with 400 farmers and ranchers to assess their awareness and understanding of future farm risks and evaluate how prepared they are to manage or mitigate them.

Across the U.S., farmers feel these risks will have significant financial impact on their operation in the next five years:

1. Adverse weather / climate risk due to drought, flood, derecho, etc.
2. Loss of access to essential markets or key buyers for their crops, livestock, milk, or produce.
3. Supply chain disruption where you can't receive needed supplies.
4. Managing business growth and profitability.
5. Access to affordable property / casualty insurance.

Concerns do vary by region, with Western farmers prioritizing labor and insurance as their top risks, Northeastern farmers focused on environmental and market access risks, and Southern and Midwest farmers are most concerned about extreme climate / weather events.

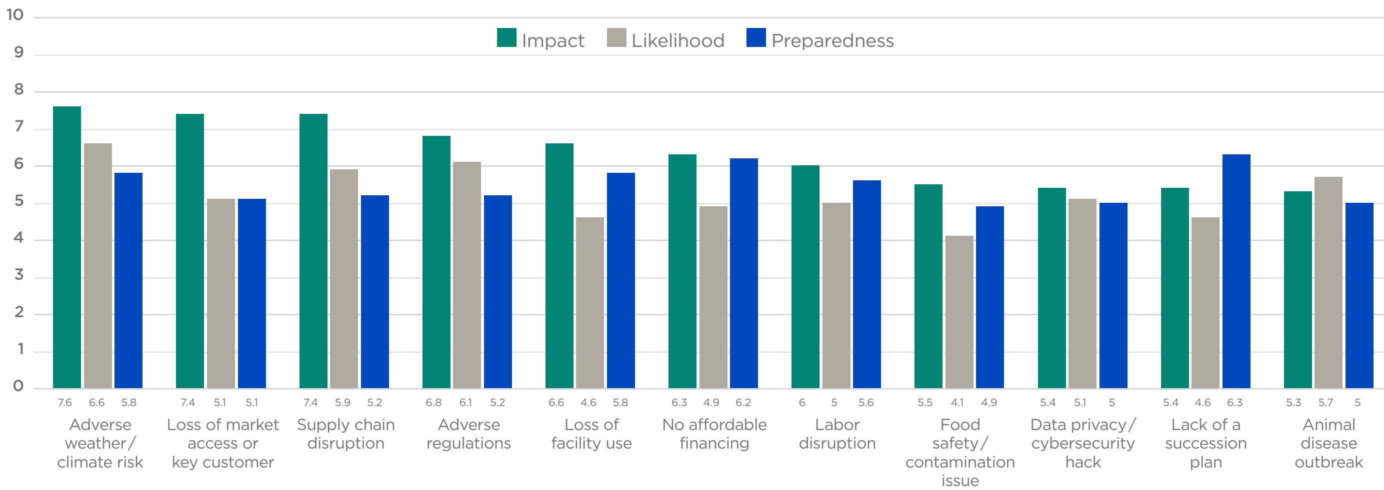
How much impact will these have on your business in the next five years?



Source: Nationwide Farmer Resiliency Study, November 2024

More than **65%** (two-thirds) of farmers **do not have** a plan to manage or mitigate these risks. Why don't they have a plan? Many prefer to take a wait-and-see approach, often due to a lack of knowledge about building a strong risk response plan.

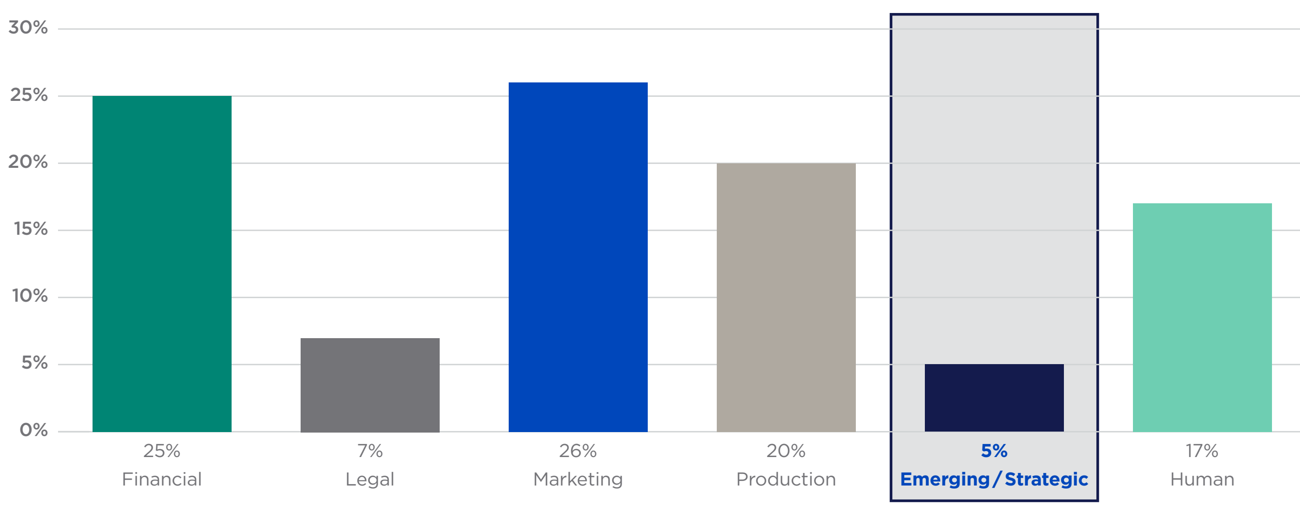
How much of a financial impact on your farm would this event be? How likely are these to happen? How prepared are you to manage risk?



Source: Nationwide Farmer Resiliency Study, November 2024

The 2024 Nationwide Farmer Resiliency Study aligns with research from a Purdue University study[3] where survey respondents were asked to indicate which major risk source was the most threatening to their farm. Despite the diversity of emerging risks, most farmers remain focused on financial, marketing or production risk.

Which of the following risks would you say is most threatening to your operation?



Source: Purdue University Center for Commercial Agriculture. Strategic Risk Survey. February 2023

Purdue University contends that part of the reason farmers rank future farm risk low as a threatening source of risk is due to the perception that these risks are external to the operation and cannot be managed. Regarding future farm risk, farmers often take on a laissez-faire mindset, believing management efforts will be futile.

The Future State of Risk Study[4] conducted by Nationwide with The Directions Group (formerly Aimpoint Research), suggests risk is a factor to be managed versus a problem to be solved.

Even risks farmers perceive outside of their control today can still be and should be managed. Helping farmers adopt a mindset focused on identifying and understanding future risks, and that these risks can be managed to mitigate the downside and unlock upside opportunities, is essential for their future success.

Producers feel most vulnerable to external political, natural and economic forces.

How farmers rate their ability to manage various risks.

	Type of risk	Low ability	Medium ability	High ability
Disruption from new innovations	Adoption Risk	35%	52%	13%
Cyber security	Digital Risk	39%	44%	16%
Data privacy	Digital Risk	34%	45%	20%
Data/digital connectivity	Digital Risk	32%	47%	20%
Traceability requirements	Digital Risk	30%	53%	17%
Corporate farming (vertical integration)	Growth Risk	55%	35%	10%
Industry consolidation	Growth Risk	54%	35%	11%
Leveraging partnerships	Growth Risk	32%	49%	19%
Interest rates	Institutional Risk	48%	33%	19%
Tax laws	Institutional Risk	48%	37%	16%
Regulations on inputs	Institutional Risk	46%	43%	12%
Sustainability/conservation regulations	Institutional Risk	34%	49%	17%
Rural economic growth	Legacy Risk	52%	38%	10%
Geopolitics	Price/Market Risk	63%	27%	9%
Commodity price fluctuation	Price/Market Risk	47%	37%	16%
Demand uncertainty	Price/Market Risk	47%	43%	11%
Growing requirements of environmental policy	Price/Market Risk	45%	42%	13%
Limited market channels	Price/Market Risk	41%	45%	14%
Weather	Production Risk	61%	24%	16%
Cost of energy and fuel	Production Risk	44%	35%	21%
Availability of skilled labor	Production Risk	44%	44%	13%
Input availability	Production Risk	33%	50%	17%
Input cost variability	Production Risk	32%	52%	15%

Nationwide Future State of Risk Study, April 2024

"Farmers, like all of us, tend to focus on putting out today's fires, when they should be thinking about what risks or disruptions could impact their growth, transition, etc. five years from now," says Langmeier.

The changing state of insurance

Insurance has traditionally played a critical role in protecting farmers from financial losses caused by unpredictable risks like natural disasters, fire, livestock disease outbreaks and other unforeseen events. But farmers today need to realize the state of insurance is changing.

"For example, the cost of an accident is like an iceberg today," says **Laramie Sandquist, Senior Associate Vice President for Agribusiness Risk Management at Nationwide**. "What's covered by insurance can be just the tip you see above the water line. What's below the surface — lost business, legal disputes, fines, stress, disgruntled customers — often is not covered by insurance. But it all affects your bottom line."

Laramie Sandquist

The insurance industry is evolving to navigate the increasing risks in agriculture.

Here are some examples:

Premiums are rising. Inflation has increased the cost (materials and labor) to repair or rebuild, as well as living in an area prone to adverse weather events like straight-line wind, tornadoes, hailstorms, wildfires or hurricanes.

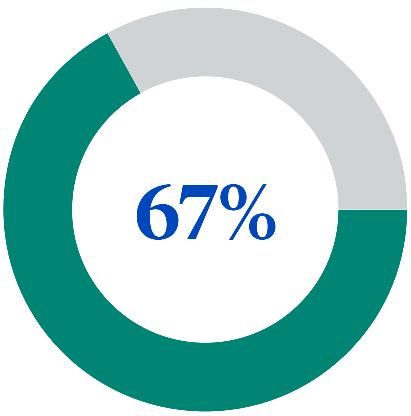
More rigid underwriting standards. When taking out a new or renewing an existing policy, farmers can expect insurers to visit the farm or ranch to assess the risk of filing a future claim. If they find something serious, like a roof that needs to be replaced, the underwriting team may not give them the stamp of approval.

Policy cancellations. Some insurance carriers are deciding not to renew certain policies in areas prone to adverse weather events. In 2023, the U.S. experienced a record 28 major natural disasters that caused at least $1 billion in damage. The estimated insured property losses due to natural catastrophes in the last four years have totaled over $360 billion, nearly 40% higher than the previous four years.

Farmers are noticing insurance industry changes. According to the 2024 Nationwide Farmer Resiliency Study[2], 91% of farmers in the study have experienced a premium increase — only 10 farmers in the study had not seen their premium increase. In the West, 77% of farmers are noticing fewer insurance carriers, and 49% of these farmers lack certainty they can get insurance.

Farmers are adjusting deductibles, proactively preventing losses and seeking lower rates while cutting other costs to afford higher premiums.

A vast majority of farmers (67%) do not feel confident they can adapt to a changing insurance landscape.



67% of farmers do not feel confident in their ability to adapt to increasing premiums.

61% of farmers do not feel confident in their ability to adapt to increasing deductibles.

66% of farmers do not feel confident in their ability to proactively prevent losses.

61% of farmers do not feel confident in their ability to demonstrate they are a better risk.

33% of farmers lack the certainty they can get insurance.

Western farmers are significantly less confident they can adapt to a changing insurance industry than other farmers in the study.

Source: Nationwide Farmer Resiliency Study, November 2024

New era of managing risk: predict and prevent

"The new era of risk will require a shift in mindset among farmers from "repair and replace" to "predict and prevent" in order to lessen the level of restoration required," says Sandquist. "This necessitates a different approach to risk preparedness to protect an operation from the devastation of potential loss."

Moving forward, farmers should proactively take control of their risk profile. Taking steps to prepare, prevent and protect their farm makes them more attractive to insurance carriers. As insurance carriers implement more rigid underwriting guidelines, assuming a carrier will insure your farm or ranch is not a given in this new environment.

To help prepare farmers for risks that might have a devastating impact or disruption on their businesses, Nationwide® has developed the Farm Risk Ready℠ initiative to help them prepare and prevent to protect their best farm future.

This initiative helps farmers identify and manage their business risks to protect their farm's future. With the assistance of a Nationwide® Farm Certified Agent, farmers can develop a personalized Farm Risk Ready Plan to manage the risks specific to their farm situation.

Scan or click here to learn more about Farm Risk Ready.

Be risk ready

Prepare, prevent and protect to become more insurable

Prepare:

Conduct a risk assessment. Farmers should identify all potential risks within their farm operations, including safety hazards, legal liabilities and financial risks, to understand where vulnerabilities lie.

Prevent:

Develop a plan. Farmers can create a plan to mitigate identified risks by implementing preventive measures, safety protocols and employee training programs.

Protect:

Become more disruption resilient. Farmers can connect with their insurance agent to identify what steps they can take to make their farm or ranch more resistant to emerging risks. For example, to protect against windstorms and other natural disasters, they may be able to save on premiums by reinforcing a roof or buying stronger roofing materials.

> "We have had two major wholesale customers abruptly cancel due to problems in their operation. Now, we work hard to have multiple markets, and no single point of failure."
>
> —Northeast producer

Importance of risk planning

"As a producer, you always have to plan for trouble." —Western producer

Farms have grown in size, yet farmers traditionally haven't spent as much time thinking about how to manage their increased risk, which can be commensurate with their growth.

Overall, **47%** of farmers believe if the risk happens they can address it at that time.

"As a farm or ranch business grows, business owners need to dedicate time to risk planning, such as identifying the future farm risks that can impact their farm or ranch and having a plan A, B and C ready to implement if and when needed," says Sandquist. "While some farmers and ranchers have made the shift in mindset, many have not."

Farm risk planning

Let's explore resiliency and risk planning:

Resilience is the ability of a farm to anticipate, absorb, accommodate, or recover from the effects of shock or stress in a timely and efficient manner.

A risk plan is a document that details the strategies to prevent risks, maintain operations and recover in the event of a disruption to a farm business. The plan ensures that personnel and assets are protected and can function quickly with minimal negative impact in the event of a business disruption.

There are five core components to a risk plan:

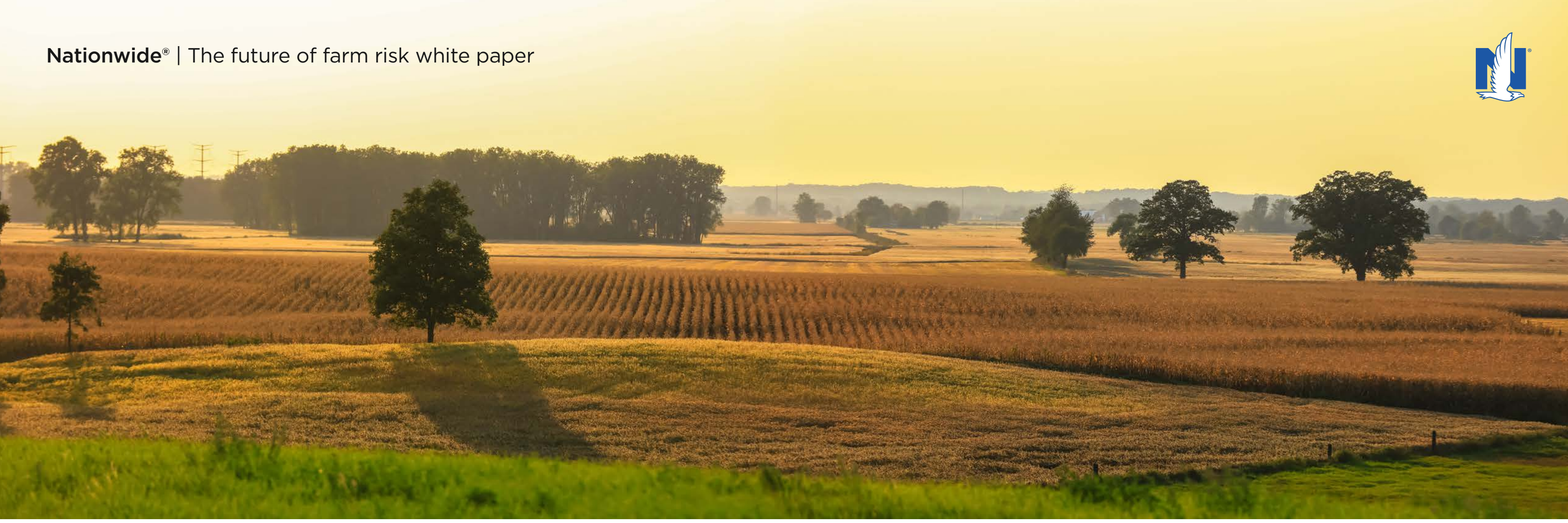
1. **Identify risks** — What are the greatest risks, their consequences and likelihood of occurring?
2. **Develop risk management approach** — What are the most effective and efficient means to prevent or manage the risk?
3. **Create contingency plans** — What is Plan A, B and C if a disruption happens?
4. **Communicate and train** — Does everyone know what to do or how to respond should a crisis or disruption happen, when time is of the essence?
5. **Prepare to recover** — What steps are necessary to restore and successfully operate after a disruption?

Findings from the 2024 Nationwide Farmer Resiliency Study show that farms with a risk plan are:

- More likely to take steps to prevent losses,
- More likely to take steps to demonstrate they are a good risk, and
- Less likely to have experienced an increase in insurance premiums.

"Due to the instability of suppliers, we have developed a business resilience plan and established multiple feed supplier channels to cope with supply chain disruptions. We completed it with the help of external experts."

—Northeast producer



Conclusion

Managing risk is a continuous process. New risks and new mitigation strategies are always emerging. Therefore, it's important to review a risk plan at least annually and adapt it as conditions evolve. This helps keep the plan current, which will best serve the farm operation.

By proactively protecting against potential risks and losses, farmers are better positioned financially to take advantage of business opportunities and to execute a business plan successfully.

Additional strategies farmers can use to build a resilient farm business

- Have written goals and objectives that explore what the farm will look like in five to 10 years.
- Designate a point person to think about potential risk factors or opportunities, then get together once a quarter to discuss how to respond.
- Ensure everyone involved in the farm business (family and employees) understands the future vision and their role. Communication is key.
- Be open to using outside advisors — insurance agent, financial advisor, agronomist, CPA, transition planners, etc. — to augment skill sets.

References

1. Michael Boehlje. Strategy Development in a Turbulent Business Climate: Concepts and Methods. 2003. https://ageconsearch.umn.edu/record/28632?v=pdf. Retrieved December 1, 2024.
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