

Agritourism: Understanding the Challenges for Insurers

Abstract

From pumpkin patches to dude ranches, wine tastings to harvest festivals, agritourism operations have become an integral part of the agricultural landscape. These operations can offer new sources of revenue to farmers and ranchers and revitalize rural economies.

Agritourism activities can also present a wide range of potential risks that need to be understood, evaluated, and underwritten correctly. It is vital that farm/ranch insurers understand this growing niche in order to provide proper coverage and protect their policyholders.

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By combining agriculture and tourism, agritourism can offer new sources of revenue, but it also can present potential unforeseen risks and new business challenges.

Agritourism

Agritourism is a trending business paradigm for traditional production-wholesale farms, offering farmers and ranchers a unique opportunity to diversify the way they earn a living.

An agritourism farm is defined as any land-based farm or business that is open to the public. These specialized destinations generally offer things to see, things to do, and produce or gifts to buy at different times throughout the year.¹ The concept has become an integral part of the agricultural industry's landscape and will likely be here to stay.

The Latest Research

Agritourism gives producers the chance to generate income through a new source by direct marketing to consumers in a variety of target markets.

Revenue from this activity may be small relative to total farm revenue – accounting for just 5.6% of farm-related income in 2017² – but it provides a viable supplement to the overall farm gross receipts. It is growing too – according to data from the US Department of Agriculture's (USDA) Census of Agriculture, revenue from agritourism tripled between 2002 and 2017.³

The benefits of agritourism are not limited to individual farmers and ranchers. Agritourism also enhances local tourism industries by enticing visitors to their area. It gives these communities the potential to increase their local tax base and provide employment opportunities that otherwise wouldn't be available, thereby revitalizing rural economies.

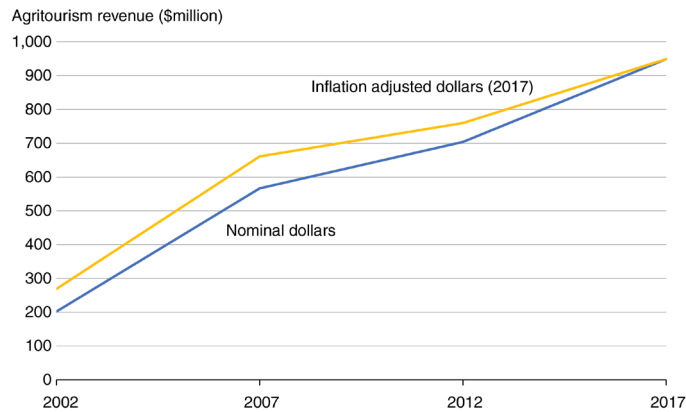
Agritourism also delivers educational and public relations benefits that encourage the appreciation of agricultural land and the farming/ranching lifestyle by the general public. Producers can display their business, land, and means of making a living through entertainment or educational activities. They can even showcase their heritage through display of antique tools, buildings, and farm equipment in a museum type of setting.

With improved government assistance and coordination, farmers and ranchers are finding it easier to get started in agritourism. Some states, such as Pennsylvania, North Carolina, Hawaii, and California, have programs that are helping farmers make the transition by providing grants, low-interest loans, consumer brochures, web sites, and other resources.⁴

Common agritourism risks insurers are asked to review:

- Dude ranches
- Pumpkin-picking patches
- Corn mazes
- Dairy tours
- Greenhouse/nursery tours and activities
- Winery tours and activities
- Horseback riding
- Wildlife viewing and photography
- Fee fishing or hunting
- Camping
- Wagon/sleigh rides
- Game preserve
- Off-road vehicles

Graph 1 Agritourism Revenue 2002-2017



Note: Values for the blue line are adjusted for inflation using the chain-type gross domestic product (GDP) deflator (2017 = 100). Nominal dollars are not adjusted for inflation.
Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, 2002, 2007, 2012, and 2017 Census of Agriculture.

Factors Influencing the Adoption of Agritourism

Demographics and geography play important roles in the growth of agritourism enterprises. One study conducted by the USDA showed that female operators are more likely to participate in agritourism than their male counterparts. Older operators engage in agritourism more than younger farmers and ranchers. Additionally, ranches that process or sell food for human consumption are also more likely to adopt agritourism, as are those with cattle and horses (operations which may serve, for example, as dude or guest ranches).⁵

Regional characteristics such as financial productivity, travel infrastructure (e.g., major scenic highways), and the proximity of other local attractions provide greater opportunity for entrepreneurs in certain areas to adopt agritourism as an enhancement to their current operations.

In another study, the USDA identified clusters of agritourism by grouping counties with a high share of farms participating in agritourism, which they labeled as "hot spots". Hot spots that were located adjacent to coastal urban centers were mainly small farms. The dude/guest ranch activity was found primarily in the intermountain West near natural amenities such as reservoirs, national parks, or natural attractions. Other agritourism hot spots, such as those in western Texas, offered the availability of hunting.⁶

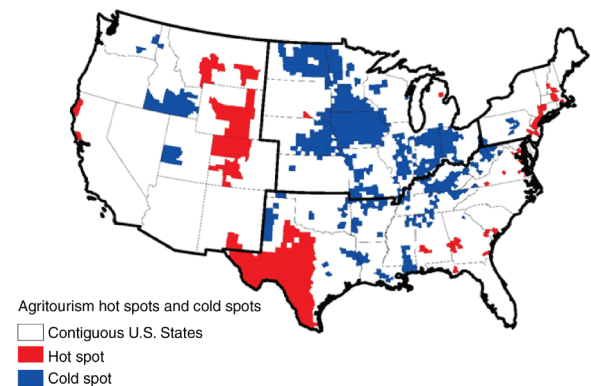
The Future of Agritourism

The USDA's most recent Ag Census shows us the changing picture of traditional small and mid-sized farms and ranches. In this economic environment, agritourism reveals itself as a viable endeavor to keep these farms running.

One common approach in agritourism in certain areas today is to offer entertainment (or "agritainment") by hosting haunted houses, corn mazes, cider mills, wine festivals, restaurants, craft shops, and hay rides, as well as other activities on the farm. This allows producers in areas with growing populations and urban sprawl to achieve important outcomes and develop brand new revenue opportunities in the midst of an evolving economy and outlook.

There is much yet to be studied regarding what constitutes a successful agritourism operation, and researching consumer trends as well as demand will reveal where economic value may be gained. It is expected that even more "to-be-determined" attractions will continue to surface, and that both state and federal-level agricultural officials will be adopting more active roles in assisting and regulating the development of such venues in the future.⁷

Graph 2 Agritourism Hot Spots



Note: "Hot spots" show high concentrations of farms and ranches with agritourism revenue. "Cold spots" show low concentrations of farms with agritourism revenue. Hot spots and cold spots are determined using local indicators of spatial association, which are statistics that evaluate the existence of clusters. Hot spots are clusters with higher rates than expected by chance alone ($\rho < 0.01$), and cold spots are clusters with lower rates than expected by chance alone. Data do not include Alaska and Hawaii.
Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, 2012 Census of Agriculture.

Challenges of Agritourism

Like any entrepreneurial endeavor, agritourism has a number of risks and challenges. Even weather can be a factor to consider. On a traditional pumpkin farm, for example, a single hailstorm could affect the crop. If the farm also operates as an agritourism venture, not only could the crop be damaged, but so could the ability to host guests (and earn income from guest admission). Rainy weekends could dampen traffic numbers or entertainment opportunities. Operators would also need to consider logistical factors, such as adequate shading in hot summer months, enough water or concessions, availability of restrooms, and sufficient parking.

However, according to The National Ag Law Center, the largest issues that operators need to consider with agritourism are legal concerns. Landowners face a liability risk once they open their land and allow guests onto their property. Most guests are considered an “invitee” by having the permission of the

landowner to be on the premises. Since they provide an economic benefit to the operator, they are primarily owed the highest duty of care and must be warned of any existing potential dangers. Invitees are not limited to just customers but can also include permanent or temporary employees staffing events occurring on the premises. A robust risk management plan, addressing any issues that could arise, is a must.⁸

Additionally, numerous states have relevant statutes that generally protect guests or participants against “inherent risks” or “negligence.” Many operators are required by state statute to post warning signs in plain view for guests with pre-scripted language advising them of the risks involved in a particular activity or concerns regarding the operation. Failure to do this could affect a defense, should an incident occur, and insurers should be vigilant for the protection of their policyholders.⁹

Agritourism operators and insurers need to be aware of specific state or local laws regarding activities they plan to offer. Such activities could include food stands or eat-in restaurants, liquor establishments, or other activities that may require specific qualification or licensing for participation, such as livery or shooting sports.

Finally, there is a high risk right now associated with COVID-19 and the potential exposures it can impose on agritourism operations. Businesses need to ensure that they are following all government directives and guidelines regarding acceptable crowd sizes and other requirements, such as food restrictions, social distancing requirements, use of masks, etc.



Considerations For Insurers

Ensuring that agritourism activities are evaluated properly and understood completely can be a challenge. It is essential that insurers inquire, on an annual basis, about all activities occurring on an insured farm or ranch, in order to make sure that all risks are underwritten correctly and proper coverage is included on the farmowners policy.

For example, adventurous high-risk activities may be offered to increase interest and popularity but may be excluded on a standard underlying policy or require additional endorsements to properly cover. Endorsements extending to additional business pursuits with adequate premium may be considered in such situations. Commercial General Liability insurance may be needed for certain agritourism operations, and a standard Farm Umbrella with higher valued property or higher farm gross income may be recommended to accompany the increased risk.

Other potential risks that could affect the operations and thus the insurance policy include mad cow disease, bird flu, genetically modified crops, pollution, environmental groups, foul odor lawsuits, and contract farming. It is important to evaluate such gaps and make sure either the policy is adequately amended or appropriate exclusions are added.

Proper limits are crucial, as the cost of land, equipment, fuel, and repairs continue to rise, easily reaching into hundreds of thousands. An annual review of farm equipment is needed to account for the buying, selling, and swapping of items.

Finally, in order to best serve their farm/ranch customers engaged in agritourism, insurers need to stay aware of these niche operations, understand the local markets for the areas, and underwrite with careful, comprehensive understanding of internal operations. This may require

updating insurance forms, or educating farm and ranch underwriters on newer technology, activities, and trends. Strong financial balance sheets and sophisticated automation systems will also help ensure quality and smooth transactions when policies involved with agribusiness or agritourism are reviewed in years to come.



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End Notes

¹ Greg Thessen, “Measuring the Economic Impact of Agritourism on Farms,” USDA National Agricultural Statistics Service, https://www.agmrc.org/media/cms/Agritourism_Thessen_A812A9AE31310.pdf

² Christine Whitt, Sarah A. Low, and Anders Van Sandt, “Agritourism Allows Farms to Diversify and Has Potential Benefits for Rural Communities,” USDA Economic Research Service, November 04, 2019

³ 2017 Census of Agriculture, United States Department of Agriculture, National Agricultural Statistics Service, April 11, 2019, <https://www.nass.usda.gov/Publications/AgCensus/2017/index.php>.

⁴ Mark Mitchell and Gregory Turner, “Agri-tainment: A New Crop for Farmers,” Journal of Food Products Marketing Vol 16, 2010 <https://www.tandfonline.com/doi/full/10.1080/10454446.2010.509238>

⁵ Whitt, Low, and Van Sandt, “Agritourism Allows Farms to Diversify and Has Potential Benefits for Rural Communities.”

⁶ Whitt, Low, and Van Sandt, “Agritourism Allows Farms to Diversify and Has Potential Benefits for Rural Communities.”

⁷ Mitchell and Turner, “Agri-tainment: A New Crop for Farmers.”

⁸ “Agritourism – An Overview,” The National Agricultural Law Center, March 2020. <https://nationalaglawcenter.org/overview/agritourism/>

⁹ “Agritourism – An Overview.”

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