

# RIGHTRISK™

## RIGHTRISK NEWS

### Managing Institutional Risk

Institutional or legal uncertainty introduces risk to the agricultural business environment. A simple way to understand institutional risk is to think of it as changes in the rules of the game resulting from people outside the business making decisions that have an impact on the business.

A possible lawsuit is an example of a legal risk. Societal changes in tastes and preferences is an example of social risk. Changes in government programs would be an example of policy risk. All of these fall under the umbrella of institutional risk.

For most people involved in agriculture, institutional risk is real and significant. At times, however, it can be very difficult to do much about and even more difficult to quantify. As a result, it is often overlooked by agricultural producers. Often, it is not even considered for active risk management, although it is an area of uncertainty producers are extremely concerned about.

A comprehensive approach to risk management in agriculture involves addressing institutional risk along with the production, market, financial, and human risks that also affect the operation.

One of the most important controls for managing institutional risk is to stay informed. This involves being disciplined about keeping up with the latest news. It involves attending and actively participating in informational meetings when they are available. This may also include communicating your views to others as policies are being formed. Not only will this ensure your voice is heard before policies are set, but it will also force you to better understand the issues and more clarity on why it is (or isn't) important to you.



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#### DATES TO REMEMBER

**Crop Insurance Sign-Up Deadline (Most Spring Planted Crops)**

-March 15, 2015, final planting dates crop specific

**Whole Farm Revenue Protection (WFRP)**

- February 28th

**Margin Protection Program Dairy (MPP-D)**

- 2017 crop year  
July 15th-Sept. 30th

**NAP Coverage (Spring-planted crops)**

- county specific deadlines

**RI-PRF Coverage**

November 15th, 2016 for 2017 crop year coverage

**Forage Insurance**

- September 30th

**Acreage Reporting:**

- November 15th

For more information see:

<http://www.rma.usda.gov>

<http://www.fsa.usda.gov>

How Much Risk is Right for You?

Business structure is another tool that can be used to address institutional risk. Limited liability companies and corporations can provide the means to protect important personal and business assets from legal threats. These forms of organization can also provide flexibility in terms of passing on the farm or ranch to the next generation under potentially variable inheritance tax laws. However, too much business structure can expose you to policy risk where exemptions to new regulations tend to be most generously applied to family-owned farms in sole proprietorships. Ask questions and make sure you understand any regulatory issues that may accompany a more formal business structure.



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Contracting is an area that can both create and control institutional risk. It is important to understand that it is possible to enter into a legally binding contract agreement without putting it into writing. It is in your best interest to put an agreement into writing where there is a chance that a misunderstanding might develop over details or that it could lead to a significant conflict down the road. Written agreements reduce the chance of a misunderstandings and it will protect your interests if there is one.

Don't be afraid to ask a lawyer to review written agreements. Ask the lawyer clarifying questions to make sure you completely understand it before signing it. Once you have

## HIGHLIGHTED TOOL

Planning to make some management changes this spring on your farm or ranch? The *Transition Planning Worksheet* can help you avoid overlooking important considerations in the changes you are planning.

The *Transition Planning Worksheet* provides workspace for developing transition plans. In general, the worksheet helps to describe the changes in enterprise activities, resource use and management changes proposed over the planning horizon. The overriding idea for the worksheet is to plan how changes are to be implemented across time to allow the operation to move from where it currently is toward its strategic goals. Stated another way, these changes are the tactical objectives required for strategic goal attainment.

Most tactical-level changes will not occur overnight, nor will they necessarily occur at known intervals. For this reason, the worksheet has a beginning column and an ending column, with intervening columns headed by blanks for dates.

A tutorial for the worksheet is available under Module 4, Presentation 2 of the Strategic Risk Management 101 course on the Risk Navigator SRM website. The *Transition Planning Worksheet* is an excellent resource to help you introduce disciplined analysis of the changes and possible consequences included in your management plans for this spring.

The *Transition Planning Worksheet* electronic tool is available for download from the Risk Navigator toolbox at <http://risknavigator.com/toolbox/TransitionPlanningWorksheet/TransitionPlanningWorksheet.html>.

To access see: [RightRisk.org](http://RightRisk.org) > Products > Risk Navigator.

Transition Planning Worksheet		Beginning Benchmarks:	_____	_____	_____	Ending Benchmarks:
		_____	_____	_____	_____	_____
Proposed Enterprise Changes	Existing Resource:					
	Enterprise					
	Enterprise					
Resource Changes	Basic Resources: Natural and Agronomic					
	Changes to Output					
	_____					
Resource Changes	Livestock/Wildlife Resources:					
	Changes to Output					
	_____					
Resource Changes	Human Resources:					
	Changes to Output					
	_____					
Resource Changes	Financial Resources:					
	Changes to Output					
	_____					
SWOT Analysis:						
Strengths						
Weaknesses						
Opportunities						
Threats						

## MANAGING INSTITUTIONAL RISK CONTINUED FROM PG. 1

completed a few written contracts, it typically is a lot quicker to create others of a similar type in the future.

Liability insurance is an important tool to help manage institutional risk. In particular, if there is a possibility of harm to someone outside the operation that could point to your business as a source of causality, then you will want to make sure that you have a liability policy that covers that risk.

A general farm liability policy is usually sufficient. However, make sure you ask question of your insurance provider and give careful thought to the events or consequences you want the policy to cover. Check that you are purchasing adequate protection for the type of risk you are concerned about and be sure you will not be paying for insurance that provides no protection for those types of outcomes.

Institutional risk can be a significant source of risk for an agricultural business. It can also present many uncertainties for the operator to consider when making decisions. It is important to give it careful attention on a regular basis and make sure your operation is in the best position moving forward. While it may not be as often on your mind as marketing and production risk, managing institutional risk is an important part of having a complete risk management plan.



*RightRisk helps decision-makers discover innovative and effective risk management solutions.*

**RIGHTRISK™**

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*How much risk is right for you and your operation?*

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