

INSURING MICHIGAN BARNs

Note: Interviews with five individuals from the insurance industry explored basic questions about how barns are insured. We were unable to schedule a conference panel presentation but have summarized their information in this article. Thanks to interviewees and their companies: Tim Barry, Newaygo Insurance Co.; Deb Bolles, Underwriter; Kurt Freight, Mt. Pleasant Agency, Inc.; Michael Mitchell, Williamston State Farm Insurance; and Mary Stucko, Michigan Farm Bureau.

Insuring Barns

-Julie Avery

Insuring barns is a complex process with few industry-wide standards and a variety of approaches. Insurance is often based on how a barn is used or functions. Even if there is a historic value, this does not mean that the barn will or can be insured for replacement costs, especially if the barn is no longer used for its original purpose. Although it is possible, traditional barns are not typically insured for 'like' replacement value, e.g., timber frame structure replaced with timber frame -vs- the equal square foot of a pole building.

Approaches to insuring barns include a basis in cash value, utility value or replacement cost value. Cash value identifies the expected useful life (100 years; 50 years) and also takes into account depreciated value over time. Utility value is based on how the barn is used. For example an old chicken coop, now used to store a tractor, will be insured to the value that is needed to replace the function of storage and not to replace the building as a coop. Replacement cost value (to replace with new) involves strict guidelines and usually can be applied to a building that is less than 20 years old or one which has been completely updated. Documented evidence here is a necessity.

Often insurance will be based on a measurement. Total damage to a big traditional gable/gambrel roof barn will probably not be insured to be rebuilt as-is, but will be replaced as a pole barn based on square feet and function that has been lost. Functional and use features can be factored into the replacement (e.g., stalls). Insurance companies utilize computer models that take in to account measurement, use, and function factors to come up with formulas and costs to determine policies and premiums. Elements considered in the formula can include: location, use, current market value for a rebuilt, cleanup costs, etc. If the barn has been modified for a commercial application, major upgrades can also be factored in, if it has been documented when the policy was made. Policies may cover rebuilding costs, or the actual cash value of the building at the time (not the original building.)

Insuring a new home that has been crafted from a timber frame barn can raise many issues and can be difficult to negotiate. Again, a good agent is the key--someone who will work with you and understand what you are doing.

The Players

There are three parties who will together develop a policy to meet your needs. Be an informed owner and take the time to find the right agent to work with. Ask around for

recommendations. Learn about other people's coverage. Good communication is key. Knowing what is possible and what you want in insurance is important when making decisions. Evidence enables the parties to identify and carve out coverage and to identify exclusions that you are comfortable with. The resulting policy is a negotiated 'contract'—an agreement by all parties—and equals a promise to pay if the worst happens. Agents and companies utilize underwriters to help them finalize policies and bring a broader sense of what is happening across the field. Some agents work for one particular company; independent agents can draw from many different companies' policies. The right agent or company for your barn may not be the same insurer as for your home.

Barns are different

Insuring a barn is very different from insuring a house. Houses are insured for replacement value of the building and the personal property within. Details of construction are known and industry standards exist that determine materials, construction, finishing and functions (bath room, kitchen, bedrooms, etc.). Depending on your policy, replacement costs for home insurance might replace a plaster wall with dry wall.

What is the basis for refusing to insure a barn?

Just as some companies will not insure modular homes, student housing or homes heated with wood, companies can choose not to insure your barn. Condition, upkeep and housekeeping are critical elements of concern for insurance companies. Insurers can also choose to not cover your home because of the condition of your barn. Each company has different approaches. Some will not handle any type of farm or agricultural.

Even if the owner has the resources and is willing to pay a higher premium for replacement in-kind for a total loss, an insurance company may not want to take on a contract for that.

Types of Insurance

Homeowner's, farm policies (large & small) and country estates are among the types of insurance policies that may include barns. Often, homeowner's policies will exclude business or farming activity. Farm policies (divided into small, medium, and large operations) treat the farm buildings for their function in the farm business. Country estate plans may include the hobby farmer or family with a small number of animals and a big garden. Some of us who have a few acres of a traditional farmstead may fall into this latter category. Sometimes the parcels may not have to be contiguous in order to be insured. Farm policies require detailed inventories of use, equipment and machinery and often on-site inspections to continue a policy. The insurance company wants to know and calculate their risk.

About the author: Julie Avery is MBPN Secretary and has lived with four Michigan barns.

COMPANION ARTICLE

The Value of Barns...just a few thoughts...

By Tom Irrer

The purpose of insurance is to help you recover (to some degree) from a loss. The more unique or artistic the loss is, the more difficult it is to appraise, in monetary terms, the extent of the loss. Barns have these issues to varying degrees.

- Barns are the art of the countryside.
- Barns are the architecture of the countryside.
- Passersby enjoy seeing a well-kept barn.
- A barn is an "experience," and it is impossible to put insurance on an experience.
- Economically speaking, we don't need to keep these old barns, but we keep them for an understanding of how we got to be where we are now. This understanding helps to prepare us to go forward.

Realize that when a barn is lost, it is irreplaceable!

I think it is most important for barn owners to recognize their exposure to risks and to do everything possible to mitigate these risks. So, rather than spend too much time on worrying about insurance for your barn, just take care of it to the best of your ability and realize that if the barn is lost others will never again get to enjoy it.

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What is most important is that we identify insurance companies at the national and state level who will insure barns used for commercial purposes. Do any of them have a booth at the National Barn Alliance or other State Barn meetings? We don't need a large number of insurance companies, but we need to identify a few, so that they can provide both expertise and competition in the commercial barn insurance market. We would like to hear from barn owners about their current insurance with the goal of identifying those companies that wish to participate in this very specialized market.

About the author: Tom Irrer is a new MBPN Board member. A Michigan mint farmer, Tom is also involved in national mint industry and has a passion for farming and the land.

We would like to hear from commercial and non-barn owners about which companies are insuring their barns. Our goal would be to identify companies that wish to participate in this very specialized market. Please send an email noting if your barn is commercial or not and the name of the insurance company and agent to: averyj@msu.edu