

Definitions of Risk Management Categories

Risk is an important aspect of the farming business. Risk management involves choosing among alternatives that reduce the adverse financial effects of the uncertainties of weather, yields, prices, government policies, global markets, and other factors that can cause wide swings in farm income. Risk Management Education, within the enabling legislation for the Extension Risk Management Education Program, is defined as training that improves the ability of agricultural producers and their families to effectively manage risks. Five general risk categories associated with farm and ranch businesses are described below.

Production risk derives from the uncertain natural growth processes of crops and livestock. Weather, disease, pests, and other factors affect both the quantity and quality of commodities produced.

Price or market risk refers to uncertainty about the prices producers will receive for commodities or the prices they must pay for inputs. The nature of price risk varies significantly from commodity to commodity.

Financial risk results when the farm business borrows money and creates an obligation to repay debt. Rising interest rates, the prospect of loans being called by lenders, and restricted credit availability are also aspects of financial risk.

Institutional risk results from uncertainties surrounding Government actions. Tax laws, regulations for chemical use, rules for animal waste disposal, and the level of price or income support payments are examples of government decisions that can have a major impact on the farm business.

Human or personal risk refers to factors such as succession, disability, estate problems, wellness, or human relationships that impact the viability of the farm (e.g. divorce, sibling rivalry, and intergenerational issues). Labor relations or labor supply are another area of the financial well-being of the farm or ranch business.

Source: <https://www.ers.usda.gov/topics/farm-practices-management/risk-management/risk-in-agriculture/>