



# Risk and insurance for your forest

Jo McIntosh

*In early December I visited the aftermath of a large plantation fire. As I stood looking at the debris, which was still smouldering, it really bought home to me how important risk prevention and risk reduction is, and that insurance for owners of standing timber is just the ambulance at the bottom of the cliff.*

Insurance is an important ambulance and no one actually wants to make an insurance claim when things go wrong. Our role as insurance brokers is to make sure you are properly covered and your claim runs smoothly.

Before discussing insurance, I want to touch on managing risk. This is very timely given that at the time of writing at the end of 2015, New Zealand had already had more than our usual share of fires with significant fires in Southland, Marlborough and Masterton. It is a worrying sign given it is so early in the summer season. Perhaps of even more concern is that some fire fighters think it is only a matter of time before New Zealand has an Australian style problem and that a forest fire causes loss of homes or loss of life.

## Managing the risk

There are many ways to minimise your risk and I really encourage forest owners to review the guides that are freely available. There are some good publications, with low cost, practical and simple suggestions to help you manage risk. A good example is the New Zealand Rural Fire Authority *Fire management guidelines for small forests* available on [www.nrfa.org.nz](http://www.nrfa.org.nz). Here you will find hints in some key areas including pruning, thinning, making sure you know your local fire authority and that they know you, signage and operating machinery.

Harvesting increases your risk of a fire. Talk to your harvesters, make sure that they are aware of fire conditions and are following best practice risk management procedures. Be aware that there are some regions with increased risk due to local factors, such as the Marlborough region which have an increased risk in relation to harvesting debris on slash sites.

Do you know how high any debris piles will be on your site? What is the regional best practice maximum height in your area? It always surprises me how many cases of spontaneous fire combustion emanate from these debris piles and how difficult they are to manage once ignition occurs.

The other common source of fire at harvesting is from the operation of machinery. Again, we suggest you talk to your harvester and ask them how they are

managing this area of risk. While you can never eliminate all risk, minimising risk is in everyone's best interest.

## The claim process

Let us imagine that the worst has happened and you have had a fire at your standing timber plantation. It is often the case that many years of hard work and planning have just, quite literally, gone up in smoke. Quite apart from having to deal with emergency services and the immediate practical ramifications, emotionally this can have quite an effect. What about insurance now?

If you are insured through the NZFFA Aon Standing Timber scheme, the first thing to do is to call your broker and notify them of your loss. The same process would apply for all insurance companies. They will ask you some immediate questions such as –

- What is your insured policy name and policy number?
- Do you know how the fire started?
- Was the ignition point on your land?
- Who is the best on-the-ground contact person for the loss adjuster to contact?

Your broker will also ask you to send a short claim form through so that they can formally advise the insurer, appoint a loss adjuster and get the claim process under way.

There are some good reasons for those immediate questions around ignition and establishing the cause. This will help determine if an independent fire investigator should be appointed and also establish if you need to notify your public liability insurers.

If it is clear that the ignition point started within your forest boundary and subsequently spread to a neighbour's property, there is a good chance you may incur liability for that damage and will therefore have triggered your public liability policy and the Forest and Rural Fires Act sub-limit of that policy. If a third party started the fire, you or your insurers may be able to make a recovery from them and you need to have your broker to guide you through this process. We will discuss public liability claims and processes in a later article.

## Settling your claim

In terms of your timber policy, once a loss adjuster is appointed they will work with you to calculate your claim. If you have purchased the Aon Insurance Facilitators policy the calculation will look like what is shown in the table on the right.

One of the first things a loss adjuster will do is establish if there is any possible salvage. It is important to understand that the standing timber policy requires you to work with the insurers to obtain the best possible salvage result. So that a salvage operation can take place, the loss adjuster, in consultation with you, will determine if the salvage is economically viable. This will include factors such as the sale price of logs along with costs, such as those of harvesting, removal of debris and transport, to establish if any salvage will be cash flow positive. In other words, will the cost of salvage be worth doing.

The loss adjuster will also work with you to establish the area lost. The policy claim calculation is the area damaged multiplied by sum insured. There are, however, some additional policy sections that allow you as the insured to 'square off' a block. The wording we use in our policy extends to allow for any remaining undamaged standing timber to be declared a total constructive loss when it is deemed by the loss adjuster as impractical to continue growing the trees. This is important as no one wants undamaged stray trees left behind in a block that will be uneconomic to harvest in the future if left standing.

## Other considerations

Because the claim calculation is based on the value shown in your schedule, it is very important to consider your insured values. Each year at renewal we recommend you think about a loss occurring on the last day of the coming policy period. What value do you want or need the claim to be calculated on? We also strongly recommend that you also consider additional cover, such as removal of debris and replanting costs.

Even if you do not plan to replant the trees, it is probable that you will need some funds to allow you to remove debris and clear away damaged trees. This removal of debris and replanting costs extension includes reasonable costs of debris removal, replanting and costs incurred in removing undamaged trees to gain access to damaged areas.

Unlike many other policies the Aon policy does not require you to replant within 12 months. This is important as the requirement to replant within 12 months of the loss is often unable to be complied with due to the weather and ensuring the optimum time of year for planting.

The policy can also include claim preparation costs which again is another valuable extension. Costs such as aerial mapping are common after a loss and these can form part of your claim.

## Basis of settlement

In the event of loss or damage of your standing timber and subject otherwise to the terms, exclusions, conditions and any endorsements of this policy, the area damaged will be determined by us, after consultation if necessary with you and our appointed loss adjuster, as soon as practical after the area has been declared safe for entry and working.

The area damaged multiplied by the agreed value of the standing timber within the area damaged is the maximum amount we will pay you in the event of loss or damage during the period of insurance. This is subject to the provisions of the deductible, salvage, optional benefits and/or any policy sub limits and/or policy aggregates as shown on your certificate of insurance.

### Method of settlement

Area damaged times agreed value	\$
Less salvage	\$
Nett loss	\$
Plus optional benefits	\$

The nett loss and optional benefits are capped to any policy sub limit or aggregate if applicable.

Less deductible	\$
Nett claim	\$

## How long it all takes

We often get asked how long a claim will take to finalise. It very much depends on the extent of damage, the extent of the salvage operation required and often on the weather and terrain. However, insurers are open to making interim payments for costs incurred as the claim progresses, once it is clear that there has been an insured loss.

The other common question we get asked is in respect of the cost of cover. Most people are surprised at how affordable standing timber insurance is. But you have to have cover in place before you need it. There was a flurry of fires around New Zealand in late 2015 and we could see that it caused a number of uninsured forest owners to suddenly consider and review their lack of insurance. For some it was a shock that insurers apply a waiting period before cover applies and for those who were harvesting over the summer, insurers have been generally unwilling to offer terms. Had these insurers been approached in the winter, I am sure that the response would have been much more favourable.

The Aon forestry team will provide you with quality advice and achieve good insurance results, not only in terms of up front premiums but also in respect of any claims, should you have a loss. Aon contribute a percentage of the premium towards the NZFFA.

*Jo McIntosh is an Executive Director for Aon Insurance.* 🌲