

A view from the other side of insurance

Jo McIntosh

Over recent years, I have been writing about how important it is to carefully consider your standing timber policy values, the perils you choose to insure against, such as fire, wind and earthquakes, and the policy limits. In preparation for this article I thought it would be helpful to spend some time talking to a couple of people who have had real experience in claims and, given their practical perspective, get their views on what they think is important and why. I have presented that feedback below.

The first person I spoke to was Richard Mandeno who is a Director of Arbor Forestry and has an extensive involvement in the forestry industry. Arbor Forestry manage a group of plantation forests around New Zealand and as part of their risk management, they have purchased standing timber insurance from Aon for many years.

Richard remarked that it seems the climate is definitely changing and, after several claim-free years, Arbor has noticed an increase in extreme weather which has led to claims under its standing timber policy. 'We have had three claims in the last two years, with two wind losses and extreme rain that caused loss of timber through weather landslip. We were pleased with the insurance result of these claims and happy that we decided to take some of the additional cover on offer as these proved to be very valuable'.

The experience of making claims

Apart from confirming how important it is that the nominated insurance values are correct, Richard made the following comments.

We also learned a few lessons – our values included carbon and an element of profit and investment return and it re-confirmed our process to have a regular review of these values. We also realised that a review of the insured mapped areas is important especially for trees aged 10 or more years as there often is tree mortality and shifts in areas and these should be reflected on our schedule.

We were thankful that we had a generous re-establishment limit. This is a flexible cover and can be used for removal of debris, as well as replanting. We also made good decisions in opting for some of the more unusual extensions such as weather landslip.

The weather landslip claim was quite dramatic. The region had such a large rainfall that areas of the forest simply slipped away. There were numerous

small pockets affected and, while in isolation none were particularly large, there were so many slips that over the total forest area it was a significant event.

The claims took several months to finalise. This was due to challenges with access at that time of the year and weather effect on replanting and re-establishing tracks. It is important to understand that if you have a claim you should expect it will take some time to settle. It also took a lot of time for our team to collate the required information. Nevertheless, had we not been insured we would still have had to deal with the mess but not have the benefit of an insurance pay-out at the end of it all.

As noted above, Richard commented specifically on a few areas of cover that proved particularly valuable – the re-establishment limit is one. This is a very flexible optional benefit and the nominated policy limit can be applied to removal of debris, righting and replanting.



Land slips and carbon

The other cover that Richard found valuable was the 'weather landslip' cover. It is fair to say that not many New Zealand plantation owners take out this cover but perhaps more should, especially those in regions with challenging topography and steep country that may be prone to slipping. Apart from the immediate benefit

of having an insured value for the trees themselves by having this cover in place, it also triggers the 'removal of debris' and replanting costs benefit.

Arbor had included a limit for claim reparation and this was valuable as it allowed for costs such as aerial re-mapping and an allowance for their costs to prepare the claim. Many of these extra covers have only a nominal cost but are very valuable at the time the claim is made.

Richard also discussed carbon cover. For many forest owners, they have 'parked' carbon due to the historically low values. However, as the price of carbon climbs, more forest owners are considering the carbon risk in their estates and factoring that into insurance.

It is particularly important to consider carbon if you have entered into a carbon trade arrangement. Have you considered the implications of fire or wind that leads to a reduction on live trees and therefore carbon sequestration? How will that affect you?

Handling claims

Another person with some valuable feedback and significant experience on claims is Jim Russell, the Managing Director of an ARC Natural Risk Pty Ltd. ARC is one of the assessors appointed by Insurance Facilitators when a claim is notified.

Jim has a long-standing involvement in forestry. He grew up in the Green Triangle, which is situated between Victoria and South Australia, and has forestry in his blood. While Jim is based in Australia, he also works with local New Zealand forestry consultants.

I asked Jim what the process is that he follows when he receives a call on a claim? He said that generally the insurer will email him and send through a copy of the client's policy schedule and the policy wording. It is this document which forms the basis of the claim calculation. Jim then contacts the forest-owner to establish further details.

From his early discussions with the forest owner he will determine the capabilities of the forest owner to manage any salvage and replanting operation. For example, he will ask if you have a forest manager. If you do, it is likely that they will work with both of you to manage a claim. Some of the larger forest owners will have their own infrastructure and can therefore manage their own salvage operation. For smaller forest owners, who have not yet been through a harvest rotation and who do not have a forest manager, Jim will help them find a suitable harvester and give more assistance to see the process through.

I asked Jim what, in his opinion, were three key things that standing timber owners need to consider? His first was that forest owners need to think about why they are insuring. Are they looking to recoup the cost to date or do they want to recoup profit? The values they nominate are therefore very important as they are the value that he will use to calculate a claim.

Like Richard, Jim also commented that a claim can take time to be finalised. The length of time a claim takes to process varies greatly depending on matters such as tree age, market conditions, access and weather. If you have taken the re-establishment benefit and are replanting, this can also take a long time. You need to plant at the right time of the year. While some forest owners like the idea of being paid in advance on the basis of an agreed price per hectare, this is not always the recommended approach. The replanting process can throw up extra costs which you may not have considered, such as extra labour costs and weed spray.

Keep to right insurance limits

We have noticed that some forest owners opt to reduce their premium by lowering their sum insured or their limits and it is important to consider the effect of salvage in that option. If you set the per hectare value too low and salvage is possible, you may be very disappointed with the result as your claim is limited to the values stated on your policy schedule.

It is important to remind forest owners that a calculation at claim time is worked out in the following way. The area damaged is multiplied by the agreed value of the standing timber within the area damaged. This is the maximum amount that will be paid in the event of loss or damage during the period of insurance. All this is subject to the provisions of the deductible or insurance excess, salvage, optional benefits and any policy sub-limits and policy aggregates which are shown on the certificate of insurance.

An example of the calculation in a claim for 10 hectares of damage could be as follows –

The area damaged 10 hectares multiplied by the agreed value \$10,000 a hectare	\$100,000
Minus the value of the salvage	\$50,000
The nett loss would therefore be	\$50,000
Add the re-establishment and removal of debris costs	\$7,500
Add claim preparation cost	\$1,000
Less the excess or deductible which could be	\$5,000
This means the nett claim paid would be	\$53,500

The key message is that while no one wants to have to make a claim, they do happen and with apparently increasing frequency. Claims can be time-consuming and organisations such as Aon and Jim's business look to partner with forestry owners and managers to make the process as smooth as possible.

My thanks to Richard and Jim. I hope you found their practical insights as helpful as I did. I would also like to take this time to remind readers that Aon has a scheme for NZFFA members and pays a contribution to the organisation.

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