Ramifications of forestry insurance

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There is no need to define "insurance" as we all employ it annually to protect our possessions. However, its place in forest risk management needs to be amplified.

Risk management is defined as "the logical and systematic means of minimizing the causes and adverse effects of accidental loss or destruction, so to conserve the assets and earning power of an organization, at the least possible cost".

Hence to ensure the most effective use of resources an organization should:

i) Insure those potential losses that are too great to retain, keeping in mind the cumulative effect of repeated low-cost losses. Risks with high severity potential should be adequately insured, even though the possibility of such a loss occurring is remote, e.g. a mill boiler.
ii) Be aware of potential losses and take effective steps to minimize them.

The risk management process as related to hazards will usually be familiar to managers and supervisors closely concerned with them. However there are two reasons why outside specialist assistance is often required to complete the picture:

i) Familiarity and closeness to a situation may make objective appreciation difficult.
ii) The potential hazard of some conditions or actions may be outside the experience of those concerned.

Risks constantly arise due to changing circumstances and must be controlled on a day-to-day basis. The development and education of "in-house" expertise is imperative to the efficient management of any risk situation. The simple way to handle this problem is to locate an insurance broker with international experience in handling forestry related insurance, and with a specialist appraisal staff immediately available. If the broker secures your business, the underwriters meet all costs, and all the owner has to do is accept the recommendations or select options.

Insurance of plantations.

Until 1983 the forest owners in New Zealand were well served for insurance protection. The Forest Owners Association had set up a simple and easily understood "Forestry Insurance Scheme" based on units of value in terms of life insurance principles. This suited the owners of smaller properties. The larger forest companies had sought accommodation with brokerage firms with international experience in the agricultural and forestry fields. New Zealand's splendid record in the handling of forest and rural fires enabled the brokers to obtain a most favourable premium rating.

The Southern Oscillation Index recorded an unprecedented fall in pressure in 1982-83. In consequence, the Antipodes suffered severe climatic disruptions. This was reflected in New Zealand by drought east of the mountain spine. Africa suffered crippling drought and plantation fires, there were floods and landslides in Peru, much of the vegetative cover on Kalimantan was burned, tropical cyclones assailed Tahiti, Suva and Tonga. However Australia suffered most with the worst recorded drought in 200 years and huge fires which killed 75 people and left 8000 homeless; and the financial cost of $A2 billion included some 24,000 ha of pine plantation.

This unhappy situation upset Munchen Re, the gnomes of insurance based in Munich, who really set the trend for insurance premiums. Rates have escalated from a .25 vicinity to .60 and higher, while underwriters refuse to deal with some countries. Strong representations have been made in Munich and London to convince insurers that New Zealand is a special case, but persistent plantation losses in Australia and an $8 million claim in 1986 from Peru, have made the case difficult.

This situation is resulting in forest owners reviewing many of their insurance practices.

It may be wise to insure only the forest age classes that are vulnerable to fire. Plantations rarely become flammable before age 4, and provided that there is a complete rot down of tending slash, the stands tend to develop their own microclimate, and a degree of immunity from fire. With radiata pine this begins at age 16 and lasts to the end of rotation although this is modified by site conditions.

The present position

The position with plantation fire insurance at mid 1986 was that the major forest companies had declined further acceptance of the exaggerated premiums on offer. They are considering either the purchase of units of value from the "Forestry Insurance Scheme" to cover a professionally assessed maximum possible loss (MPL), or are providing for capital reserves to counterbalance such loss.

To date, the New Zealand Forest Owners' Scheme, because the risk is mainly proliferated in small parcels, has proved outstandingly viable from the insurer's point of view. The local brokers are instancing this result, plus New Zealand's excellent forest and rural fire control legislation and organization, to convince international underwriters that, with the possible exception of Canterbury, our fire loss history over the past 40 years justifies a premium between .15 and .20. For their part the underwriters are allying the volcanic and fire disasters at Mounts St. Helens, Galinigung, Unauna, and Etna with New Zealand's likely problems in the central North Island.

The ideal in forest fire insurance to protect owners or shareholders properly is a realistic and carefully defined risk incorporated into a justly priced policy that fine prints the legal and protective measures concomitant. In this regard it is pleasing to record that, with the enforced disintegration of the NZ Forest Service, it has been recognized that the Forest and Rural Fires Act 1977 is a conservational essential, and amendments are in train to preserve its powers completely.

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