

Sharing the Risk

by: Milt Toby, JD

Is insurance a necessity or a luxury, especially in a down economy when every penny counts?

At its simplest, insurance is nothing more than a way for one person to shift to someone else the risk of something bad happening. I pay you a premium; in return, you agree to take the financial hit if I have an accident, or my house burns, or my horse dies. It's a gamble that works only because the number of people who suffer catastrophes and collect on their insurance coverage usually is far smaller than the number of risk-averse people who pay premiums. When the cash flow shifts in the opposite direction, when there is a natural disaster resulting in hundreds or thousands of claims, for example, or when a multimillion-dollar horse dies, insurance companies can suffer crippling losses.

Insurance is not just for high-value horses and property. The less able a person is to afford a financial loss, the more that person needs insurance to protect his or her investment. The question is: How much insurance coverage is enough, without being too much?

One way to estimate the kind and amount of coverage needed is by evaluating the type of activities in which a person participates and the level of his or her involvement with horses. As the level of involvement rises, so does the need for various kinds of insurance coverage. The following generalizations might help sort things out.

Finding an Insurance Agent

Locating a reputable equine insurance agent should be like looking for any other professional, according to Cathy Lowe, president of Kiger Insurance Inc., in Lexington, Ky.

"You can do an Internet search or look through the telephone book," she says. "Those are good resources, but they don't tell you anything about the reputation of the agent or company. Personal references are the most valuable ways to locate a good agent. Talk to people you know, especially if they are doing the same thing that you want to do, and get their recommendations."

--Milton C. Toby, J.D.

Rider/competitor; no horses; no real property Horse enthusiasts who ride horses belonging to someone else, at a farm or riding facility they do not own, have limited--but nevertheless important--insurance concerns.

"The first thing this individual needs is really good personal health insurance," says Cathy Lowe, president of Kiger Insurance Inc. in Lexington, Ky. "That is necessary for anyone who works with horses because the potential for being injured is so high."

Another consideration is possible liability arising when the rider does something resulting in an injury to another person or to a horse, or that causes property damage at the farm or riding facility. Homeowner's insurance typically does not insure against off-premises liability, Lowe says, and supplemental liability coverage should be considered. Such coverage also might be required by the farm or facility owner before allowing a person onto the property to ride. Finally, a special endorsement covering off-site theft of tack is available. (Homeowner's and automobile policies should cover thefts from home or from a vehicle.)

Rider/competitor/breeder; horse owner; no real property; horses boarded somewhere else Add owning a horse, or horses, to the equation and the situation becomes more complicated. Additional insurance options for this individual include: 1) horse owner liability; 2) equine mortality; 3) major medical and/or emergency colic surgery; and 4) loss of use.

Horse owner liability coverage is relatively inexpensive, according to Jerry Parks of the Jerry Parks Insurance Group in Ocala, Fla., with premiums averaging between \$700-\$800 for \$1 million in coverage. It covers damage caused by horses owned by the insured.

Equine mortality insurance reimburses a horse owner if the insured animal dies. Coverage can be either full mortality, which covers death by any cause, or limited mortality, which insures against death resulting from specified causes, such as lightning. With both types of policies, the value of the horse is determined either at the time insurance is purchased (an agreed-upon valuation, usually based on an appraisal, that does not change during the term of the policy) or at the time of the horse's death (based on fair market value that might change if the animal's value has decreased).

The fair market value of a horse is the amount a willing buyer would pay a willing seller for the animal. Fair market value can be adversely affected by entering a Thoroughbred in a claiming race for a specified price, or entering a horse in an auction with a reserve set by the owner/seller. If the fair market value of a horse increases, by winning an important competition, for example, additional insurance coverage must be negotiated.

It is tempting to think of mortality insurance as the equine equivalent of life insurance for a person, but the analogy is incorrect. The purpose of life insurance is to provide for the insured's family by replacing potential earning power. Equine mortality insurance, on the other hand, allows a horse owner to buy an equivalent animal if the insured horse dies. Mortality insurance does not include projected earnings in the show ring or on the racetrack.

The decision to buy mortality insurance can be complicated, especially when the economy is not doing well. Lowe says mortality insurance purchases were up slightly at the September 2009 Keeneland Thoroughbred yearling sale in Kentucky, while Parks notes that some established customers were forgoing insurance. Lowe speculates that some yearling buyers might have been trying to protect what they saw as bargain investments at the auction. Parks says that due to the economy, some horse owners are deciding to take a gamble by dropping insurance to cut costs.

There are a few situations in which purchasing mortality insurance is not an option--it's a requirement. Most common is when the horse is used as collateral for a loan. In that case, the lending institution almost always will require that the animal be insured for a value that at least covers the amount of the loan.

Mortality premiums are based on the animal's insured value and are as low as they have been in several years--from 2.0-2.5% for yearlings, to around 3.0% for broodmares, to 4.0-4.5% for other horses.