LOGGING INDUSTRY RESEARCH ASSOCIATION
NEW ZEALAND

REPORT

Vol.5 No.4 1980

INSURANCE FOR A LOGGING BUSINESS

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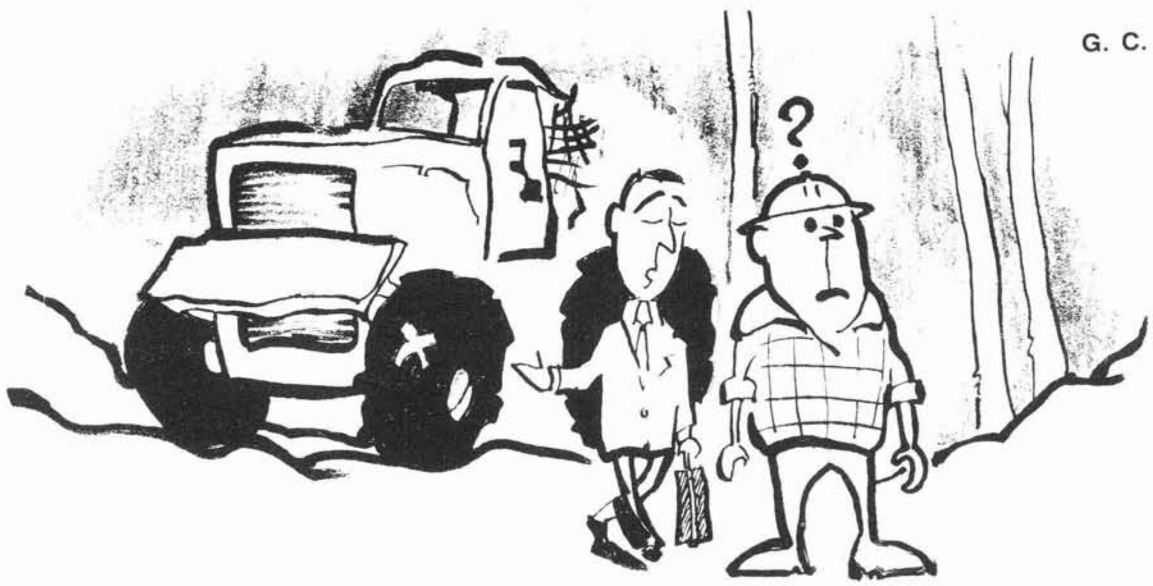

Every logging operation is exposed to risks. Some of these risks can be transferred to an Insurance Company - at a cost. A good insurance cover is an important part of the management of any logging business and its cost is a significant component of business costs. It is vital therefore to buy no more protection than is needed, yet be adequately covered. This Report, one of a LIRA series on aspects of the business of logging, aims to make loggers aware of insurance as it affects them and their business.

ACKNOWLEDGEMENTS

The technical information for this report was supplied by R.S. Caulton of Industrial and General Insurance Managers Limited, Rotorua.

WHAT IS INSURANCE?

In any logging business there is a risk that a big loss might occur. For example the main skidding machine belonging to a logging contractor might catch fire and become a write-off. On the other hand this may not occur. If the loss does occur then the contractor may be forced out of business because he could not afford to replace the skidder. That risk, or part of it, can at a small cost be transferred to an Insurance Company. This is insurance. The cost of this protection depends on the likelihood of the loss and the likely size of the loss. The Insurance Company must collect enough premium income from people wanting protection to cover all payouts plus their overheads.

WHAT INSURANCE IS NECESSARY?

1. Comprehensive Machinery Insurance:
   Covers heavy off-highway machines such as skidders, haulers and loaders and also on-highway vehicles such as trucks, cars and transporters.

   Cover is against loss or damage from fire, accident, vandalism, etc, but not mechanical wear or breakdown.

   Also covered is damage to property belonging to someone else (third party property cover). For example, if a skidder runs into a truck on the landing, the damage to the truck is covered by third party property cover on the skidder.

   In the worst possible circumstance, that is a total write-off, the liability of the Insurance Company in the case of motor-cars and station-wagons is up to their current market value which is assessed by the Insurance Company. For all other vehicles and machines, the liability of the Insurance Company is restricted to the current market value of those machines or the declared sum insured, whichever is the lesser. It is up to the owner of the vehicles and machines to see that the declared sum insured is equal to their current market value. In times of inflation, this requires yearly valuations.

2. Commercial All Risks Insurance:
   Covers ancillary items of equipment, such as tools, chainsaws, gang hut, fuel, oils etc.

   Cover is against damage or loss by fire, theft or vandalism, but not fair wear and tear.

   The loss of any one of these items may be fairly trivial but a large loss can occur when, for example, the gang hut containing saws and tools is burnt or vandalised. The liability of the Insurance Company in the event of a total loss is limited to the current market value of the items or their sum insured, whichever is the lesser. The owner needs to keep a record of all his ancillary equipment, etc, and its current market value, and make sure his insurance cover is adequate.

3. Public Liability Insurance:
   Covers liability for costs resulting from some legally negligent activity of the logging business. The most common is the cost of fire fighting and fire loss as a result of a forest fire starting through some action of the logging operation.

4. Personal Accident and Sickness Insurance:
   The Accident Compensation Commission levy, which should be paid by logging contractors for themselves and their men, is a form of insurance. Currently the ACC will pay 80% of taxable personal income (up to a certain limit) after the first week off work due to a work related accident. Workers supplementary insurance is available also to cover the first week off work and the remaining 20% of income not paid by the ACC.

   Owner-operators of logging machines, and "indispensible" contractors, should take out personal accident and sickness insurance so that they can afford to pay someone to operate their machine if they are away through accident or illness.

HOW TO SELECT INSURANCE

To help select the most appropriate insurance package consider the productivity and risk factor for each item. To do this ask:-

1. What misfortunes could cause financial hardship to the business or the family of the business owner?

2. How likely is the misfortune and is the possible financial loss serious enough to make insurance necessary?

3. Does the insurance cover suit the special circumstances of the business and does its cost seem reasonable in relation to the protection it gives?

4. In deciding whether or not a particular item of logging equipment should be insured, the following guidelines can be used. If an individual item of equipment plays a vital role in the continuing production of the logging operation then it will have to be repaired or replaced immediately if it is damaged or written off. If the owner of the logging business cannot do this immediately from his own resources, then he should be covered by insurance against this loss. Thus a skidder must be insured but a chainsaw need not necessarily be insured.

5. Check the 'fine print',that is the written or typed conditions. Company policies vary as to exactly what is covered. Details may be open to negotiation.

Note: There may be legal requirements for the amount and type of insurance cover needed, e.g. hire purchase agreement contracts and contracts between logger and forest owner.

INSURANCE TRANSACTIONS: WHAT IS INVOLVED?

To obtain insurance cover you need to go to an Insurance Company (or Agent for the Company). You will be assisted in filling out or submitting an Insurance Proposal. This will give details of what is to be insured and also details which will help the Insurance Company assess the degree of risk involved. The Insurance Company must be aware of all factors affecting risk; e.g. exact type of business, machine modifications, etc. A proposal is used by the Insurance Company to make up a policy. While this is being made up you can obtain a Cover Note, as proof of your insurance, if this is required. The policy is a legal document setting out the terms and conditions of the contract, which should be read and understood.

When a claim is made against an Insurance Policy, the responsibility for settling it is normally taken by the Insurance Company. When the loss is very large or involves technical details, an Assessor or Loss Adjuster, may be called in to give expert opinion. This is often the case with heavy logging machinery.

INSURANCE PREMIUMS: HOW MUCH?

The Insurance Company will determine a premium rate for the insurance required. The premium rate is based on the risk of the Insurance Company having to pay out on a claim. They will take into account their history of claims made for that particular kind of equipment. The premium rate multiplied by the sum insured gives the premium to be paid.

Some premium calculations are slightly more complex. For example, there is frequently a fixed premium for the first few thousand dollars of value of the item to be insured and the rate then varies according to the sum insured. The Government Earthquake and War Damage Levy is a separate charge and is applied wherever there is a risk of fire (i.e. motor vehicle, machinery and all risks insurances).

Typical examples of insurance premiums are:

* Heavy Machinery and All Risks Insurance approximately 1%-2% of the sum insured.
* Public Liability Insurance for $500,000 of cover, approximately $300-$500.

INSURANCE PREMIUMS: CAN THEY BE REDUCED?

There are a number of ways in which the logging contractor can reduce the gross cost of insurance cover. Some suggestions are:

1. Take your total insurance requirement as a package and see which Insurance Company gives you the better deal. Rates do vary from company to company, especially with regard to savings from voluntary excesses or franchises (see "2" below)

2. Consider accepting the first part of the risk yourself. For example, when insuring a log skidder, the logging contractor could pay for say the first $1000 of every claim and the Insurance Company anything thereafter: this is known as an excess. Another strategy is for the Contractor to pay all claims below say $1000 while the Insurance Company pays the whole of any claim which is over $1000: this is known as a franchise.

   If either of these is accepted there should be a corresponding reduction in premium.

3. Make use of your claims history, if it is good. You should expect a regular review of your premium based on your claims experience.

4. Consider a Group Insurance Scheme. The rates of insurance premiums for heavy machines are determined from the average claims made against Insurance of all heavy machines operating in New Zealand. Where a Group of logging contractors can show that their risk of making a claim is less than this average then they could normally expect to find a competitive rating system to apply to that Group. There may be other advantages in a Group Insurance Scheme, such as good servicing, good reviewing and effective claims settlements.

5. Practice risk management. Since premium rates are based on claims made, it is commonsense to endeavour to reduce the claims from your operation in order to reduce the premiums which you pay. The most common insurance claim made today in the logging industry is for fire in machinery. Often these fires start through poor housekeeping, that is small isolated fires start in dirty engines and generate into major fires. Be aware of this and keep a clean machine and a clean logging operation.

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