TO INSURE OR NOT

Making sense of equine insurance in changing times

BY RON MITCHELL

Not unlike other aspects of their personal lives or businesses, Thoroughbred owners turn to insurance to protect their investments.

At some point every horse owner will be faced with the dilemma of whether to insure his or her bloodstock and wrestle with the question: for how much? While an equine acquisition being financed by a bank will require insurance to protect the horses being used as collateral, the decision to insure is largely at the discretion of the owner.

"It depends on two factors," said Michael Levy of Muirfield Insurance in Lexington of the dilemma owners face about whether to insure their Thoroughbred holdings or to "self-insure" by deciding to absorb the risk themselves.

"If there is a loss, how is the loss going to affect you financially and emotionally? I cannot weigh that risk for you. You have to tell me how much premium you are willing to pay to cover a loss—whether it's your favorite horse that was valuable and you would be devastated if something occurred, or if it's a cornerstone of your program in terms of financial benefit and you would need that claim in order to move forward," Levy said.

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Jerry Parks, of Jerry Parks Insurance Group in Ocala, Fla., said a general rule of thumb is to insure a new foal or a new sale acquisition automatically until the owner can evaluate the asset and determine its value.

"You don't have to insure your horse," said Parks. "It depends on the owner's financial position. Some say 'I can afford to lose up to $100,000' and start to insure at that level. We still insure a lot of horses for $25,000."

Overall, horse insurance occupies a small niche within the much larger insurance world, with about a dozen major agencies across the country writing the coverage through a number of underwriters. Some agencies only deal with one underwriter while others can shop the coverage around to any number of companies.

Prior to 1981, horses used to be valued on an "actual cash basis," which meant the insurance company would appraise the horse's value at the time of death, regardless of the value on which premiums were paid.

Ron Kirk, an executive with a life insurance company who also operated a small Thoroughbred racing stable, changed this model two decades ago by offering policies more akin to human insurance coverage. The then-unorthodox concept of "agreed-value" payoffs have now become more common within the entire industry, in one form or another.

"I do feel somewhat proud," Kirk said recently of his role in changing the horse insurance landscape.

Under an agreed-value policy, the underwriter pays the amount agreed on between the company and the policyholder, which is the amount on which the premiums were based at the time the coverage was taken out or was amended due to value fluctuations.

"Currently, we only write agreed-value policies," said Levy. "There are different (policy) forms in the marketplace that are not agreed-value policies, but we choose not to offer them. (With agreed-value) there is not a contractual issue with arbitrary valuation at the end game."

The move to write agreed-value policies has been one of the few equine insurance innovations since the 1980s.

The types of coverage available are as varied as the typical risks all owners or breeders face during the course of Thoroughbred racehorse ownership or breeding. Some of the most common forms of equine insurance are full mortality (the basic life insurance policy), owner's liability, prospective foal and live foal, and stallion infertility.

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KEVIN THOMPSON

Joe Nicholson


COURTESY JERRY PARKS

Jerry Parks


ANNE M. EBERHARDT

Michael Levy

the horse," Parks said of coverage that begins as soon as a horse is bought at auction. "They will protect the initial investment for at least a year."

Parks said he has seen a large increase in recent years in owner's liability insurance policies, noting that many owners previously believed their homeowner's insurance or policies held by their trainer or a racetrack would cover them.

"We have sold more of that coverage in the last couple of years than in the previous 25 years," Parks said. "People in this business have tremendous assets to cover. When you go to bed at night, you don't have to worry."

"All of these entities have liability insurance, but when an accident occurs, the lawyers will call in all the parties involved, including the owner, to determine who is at fault and at what level," Levy said.

While figures are hard to come by, syndicates at Lloyd's of London are the most prominent underwriters on an international basis, but there are about a half-dozen entities that insure horses on a regular basis in the U.S. For most policies only one underwriter is able to carry all the risk, with others brought in to help the "lead underwriter" for more expensive horses.

"I find equine underwriters reluctant to discuss premium income," said Anthony Cecil, who operates Anthony Cecil Insurance in Lexington and Miami. "It appears to me that domestic underwriters have taken the lion's share of the domestic market, and I suspect Lloyd's of London has made up for the loss (by insuring horses) in other markets."

According to a survey of some leading equine insurers, rates vary based upon a number of factors that include the use of the horse (i.e., racehorse, broodmare, stallion, etc.), age, appraised value, deductible levels, and the number of horses being insured. Premiums range from 1.8-3% of value for mortality insurance to 11% for prospective foal coverage. Premiums for a young horse in training would be in the 4-4.5% range, insurers say.

Obviously, rates are higher for racehorses due to the higher risk involved with being on the track, and for more expensive bloodstock, such as million-dollar mares and top sires.

The greatest risks for underwriters are successful sires whose values can soar as their offspring excel on the racetrack. In some cases the amount of insurance being written to cover shares in any one stallion can mount to a point at which it is at or near capacity.

Capacity may have been more of an issue when the bloodstock industry peaked five or six years ago, but today coverage is available even if a stallion's total value is near its peak. Stallions such as Tapit, War Front, and More

CHANGES LOOM IN EQUINE INSURANCE

As the Thoroughbred industry underwent a recession that paralleled the national economy from 2008-12, one of the few economic bright spots for owners was a decline in insurance premiums due to intense competition among underwriters and agents.

With foal crops declining from 35,265 in 2008 to an estimated 23,500 in 2013, according to The Jockey Club, and a corresponding decline in mares being bred, agents and underwriters began to cut insurance premiums as a way to attract new business or retain existing clients.

Also, the horse industry recession led several major banks to withdraw from equine lending, further diluting the amount of insurance to be underwritten.

"There are more companies chasing a smaller amount of business and having exhausted every other approach they just keep cutting rates," said Ron Kirk of Lexington-based Kirk Horse Insurance. "If (underwriting) companies won't cut rates, the agents will cut their commissions and try to compete that way.

"I know there's a lot of red ink at various insurance companies," said Kirk, who formed his company in 1981. "This is far from an easy business to be in, in any way, shape, or form. It is very, very competitive."

"You have taken off a third of the foal crop and thereby taken off a third of the horses that potentially could be insured," said Michael Levy of Muirfield Insurance in Lexington. "That has created a marketplace that is very competitive, as competitive as I have seen in terms of underwriters and agents trying to maintain their volume. Rates are at the lower end of the spectrum of what I have seen in more than 20 years of writing insurance. The consumer is getting a very good deal."

Kirk and Levy said the industry is braced for a shake-out that is likely to result in at least one or two major players getting out. That, in turn, could result in a rise in premiums.

"I am expecting there will be a series of companies that withdraw from insuring horses...and that will eventually tighten up the market price-wise," Kirk said. "I don't know how long it's going to take because nobody wants to cry 'uncle.' Everybody says, 'If we can just stick this out, somebody will go out of business and premium rates can go back up and we can be profitable again.' "

"I have heard at least one major company is getting out, but it is a rumor that is about 50-50 on reliability," said Levy, who declined to name the underwriter. "I don't think there is enough premium to chase right now. Until volume increases, I think you will see (companies maintaining) status quo for awhile."

Kirk said the last major shakeout within the field came in 2001-02, when a convergence of events led to two of the top equine underwriters getting out of the business. Those events included the 9/11 attacks that sent the American and horse economies into a tailspin, the deaths and subsequent large insurance payoffs for stallions Unbridled and Dubai Millennium, and the outbreak of Mare Reproductive Loss Syndrome that stifled a lot of breeding activity and resulted in smaller foal crops.

"It's been a long time coming," Kirk said of a possible reshuffling of the deck. *By Ron Mitchell*

Than Ready are among those whose values have escalated significantly.

"You can find capacity, but the premium rate might be a little higher," said Joe Nicholson of Nicholson Insurance in Lexington. "On the more popular stallions you will bring in some syndicates or carriers that normally don't write that coverage."

Considering the competitive nature of the industry and the similarities among premium costs, what sets one agent or underwriter apart from another is the personal advice he or she offers and the way claims are handled.

"While myself and my colleagues, competitors, and peers all try to produce a competitive product in terms of price, the separation occurs when the comfort level of representation between the client and agent is called into question when there are issues—and there will always be issues," Levy said. BH