INS AND **OUTS** OF HORSE INSURANCE

What owners should know about protecting their stock

BY LENNY SHULMAN

CATHERINE NICHOLS (GETTY IMAGES)

OWNERS AND BREEDERS HAVE a seemingly endless batch of decisions to make—which horses to buy, who will break and then train them, who will ride them and in what races, whom to breed to, which horses to keep and which to sell. And after answering all those questions, there is one very important decision yet to be made: whether to insure one's equine stock.

Coverage for horses, breeding animals, foals, weanlings, and yearlings exists in the marketplace, and each owner needs to examine his or her capacity for loss before embracing or declining coverage.

"It's very owner-specific," stated Michael Levy, president of Lexington-based Muirfield Insurance. "It's a risk/tolerance philosophy predicated on each owner's wishes. Simply, it's whether the loss of that animal is going to negatively affect their program to where they buy coverage. If they can absorb the loss, they might forego it.

"We have clients that insure every single horse down to the ones that are worth $10,000, and clients that don't insure anything unless the horse is worth seven figures."

Matt Delehanty, a broker with Louisville-based Lavin Insurance Services, said, "The only difference between a Van Gogh and an American Pharoah is that one is alive and one is not. It's still a piece of property that someone is trying to protect, although the perils associated with horse insurance are different from most other forms of insurance."

The costs associated with horse ownership as well as declining Thoroughbred foal crops have led to fewer owners purchasing insurance.

"You've got to pay to train them, feed them, van them, fly them, and keep them healthy," said Delehanty. "When you get those monthly bills and they're higher than you expected, insurance is an easy one to eliminate. There are people that have had insurance, and after three years their accountant tells them he's written $300,000 in insurance checks with nothing to show for it, and they don't want to pay the premium anymore. Then there's a guy who buys some yearlings and there's a lightning strike and two of them die and they're not insured. That person could call the next day because he's going to sleep better if he's got insurance."

There isn't necessarily a correlation between the value of one's stock and the chances of those horses being insured. A wealthy owner who campaigns a well-bred grade 3 winner is no more likely to insure that horse than the owner of a relatively inexpensive claimer.

"Someone can go to Turfway Park and claim a $5,000 horse for his wife, and it will devastate her if the horse dies," said Delehanty. "So it's worth paying a few hundred dollars to offset that loss. If a wealthy guy loses a stakes winner, it might not affect his bottom line so he doesn't spend the premium to protect it. Every person weighs their decision differently."

Several events in this young century have affected the equine insurance market. The 2001 World Trade Center terrorist attacks caused insurance companies to lose a good deal of their net worth and pull back from non-essential product lines, such as equine insurance. Also, Mare Reproductive Loss Syndrome hit the Thoroughbred world that year, and highly insured horses Dubai Millennium and Unbridled died, causing large payouts and a subsequent contraction in the equine insurance market as companies with considerable exposure in those losses left the field. While there are hundreds of agencies that will write equine policies, only about a half-dozen insurance companies remain that will underwrite insurance on all breeds of horses.

"Major players left the market completely, and other companies started raising their rates from a 3% risk to a 5% risk," noted Ron Kirk, founder of Kirk Horse Insurance in Lexington. "Then we had the recession hit in 2008 and the value of horses dropped precipitously. When people's livelihoods are threatened, discretionary purchases such as racehorses go to the back burner. So the total value of horses to be insured dropped by between 25% and 50%. The average value didn't drop that much, but it's like the art market. When it's flat, the top stuff doesn't come on the market because people will hold on to them and ride it out.

"With horses, when the market contracts and the prices for yearlings become out of line with what breeders paid to produce and raise the horse, everybody's cash flow is compromised and even if people want to, they can't afford to buy insurance; they just don't have the cash.

"After that, prices for insurance dropped because companies deluded themselves into thinking if they dropped premiums, they'd keep their market share. But when one company drops rates, others will follow. And you have the base rate of claims increasing because people start cutting corners—maybe they only hire a night watchman for breeding season instead of all year, or they don't repair their fences as quickly and nails are on the ground. Or people don't stay as aggressive in their treatments, thinking a horse might be worth more dead than alive. Claims go up relative to the premiums received, companies lose money, and they pull out of the market."

Potential purchasers should not expect bargain-basement rates when purchasing equine insurance. Explained Levy, "A company that took in $40 million in premiums in 2008 probably has about $20-$22 million in premiums today, not because it has lost market share, but because that's where the market is. There are a lot fewer targets in the foal crop, and fewer stallions that justify being insured. Aside from the elite few, many of them just aren't worth insuring. With that $22 million book, one or two big hits will affect it a lot more than they would at $40 million. So in order to balance out that risk, you need to firm up rates."

RACEHORSES VS. BREEDING STOCK

Racehorses are generally insured at a rate of 5% of their value. In the past, what a horse's value actually was became a point of contention between insurer and customer once the horse died. Kirk said that insurance companies were only paying out on average 50% of the insured value of a horse, leading him to come up with Agreed Value, wherein the company and the client agree in advance on the value of a horse.

"We tried to clean up the insurance game with the Agreed Value system," said Kirk, who also owns horses. "It is valuable when you have one-of-a-kind assets like jewelry or a racehorse. The client will collect 100 cents on the dollar of the agreed value, unless that value was renegotiated at some point. If a horse, for example, runs in a claiming race, the moment the gates open that horse's value drops to the claiming price. Like-

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ANNE M. EBERHARDT

wise, if you put a horse through a public auction and buy it back for a lower price than he was insured for, its value drops to the RNA price. But even in these cases, we're receptive if a client says the horse ran in the claiming race as a confidence-builder and won by nine lengths, or if his horse got stuck in the last day of the sale and nobody was around to bid. I'm in the horse business; I understand how things happen and am open to coming up with a reasonable solution."

ANNE M. EBERHARDT

Prospective foal insurance is attractive if the breeder has a no-guarantee season to a stallion

Racehorses are insured for mortality, not injury, so owners are basically purchasing life insurance on their active runners.

"Loss of use is an unwritable product," Delehanty explained as to why injuries cannot be insured. "How do you define loss of use on a racehorse? You can't insure against a racehorse not earning money. If he can't run anymore, that includes 60% of all racehorses."

Kirk said factors such as location of the horse, trainer of the horse, and its talent level are all factors in what rate is charged the owner.

"Cautious trainers with fewer breakdowns should carry lower premium rates for their clients," Kirk said. "Owners that choose safe trainers and good vets and farms that don't cut corners are people I'd embrace. You have to be willing to back your convictions and step away from doing business with others."

Added Delehanty, "The $5,000 claimer is more expensive to insure than a grade 3 horse because the actuarial statistics tell us there's more of a chance of a loss on him. Then you can get into the issues of track biases and trainers associated with insurance losses."

If a buyer chooses straight coverage without deductibles, the premium is figured by taking into account the value of each horse on an individual basis, with the rate for higher-valued horses lower than on cheaper horses. Deductible coverage comes into play for owners with more stock to insure. Generally, deductible coverage is offered for owners of 20 or more horses with a total insured value of at least $2 million, with no one horse accounting for more than 20% of that total.

COURTESY MATT DELEHANTY

Matt Delehanty

COURTESY RON KIRK

Ron Kirk

"Insurance companies created deductible coverage to make it more appealing for owners to insure everything," said Kirk. "Companies want a spread of risk and prefer that you insure 20 horses rather than just insuring two or three high-value ones. So you can go to a customer and say, 'instead of paying us $80,000, just pay us $40,000, and the other $40,000 becomes your annual aggregate deductible that applies for the full year. All the losses are added together, and once the deductible is exceeded, everything is paid in full.' "

Breeding stock generally is insured at a 3% rate. When a stallion goes to stud, that farm often recruits investors to form a syndicate to participate in the stallion's breeding career.

"The unknown is whether that stallion will be suitable for breeding," noted Delehanty. "If he's been syndicated for a significant amount of money, and I as a shareholder want to protect my investment, I can purchase first-season stallion infertility insurance."

Stallions, unlike other stock, can be quantified as to their worth by considering their stud fee and the number of mares that will be bred to him. Thus, unlike racehorses, they can be covered for injury.

"There's a good sense what the income stream is going to be," said Delehanty, "but what if he gets colic Feb. 3 and is out of service three months? That's a lot of income disappearing. So you can buy loss of income coverage associated with the expected revenue that stallion would generate during a breeding season. If a shuttling stallion fails a test and can't get back into the country, there's income lost, and we'll be happy to cover that horse, and charge you for it."

Owners can buy mortality coverage as well as major medical coverage for broodmares. Major medical reimburses the owner for customary and reasonable vet charges—including surgeries—as a result of accident, injury, or illness, including during delivery. Prospective foal insurance can also be purchased, and guarantees that if the mare loses the foal from a period before birth until just after, you're covered. This is particularly attractive if the breeder has bought a no-guarantee season to a stallion and the mare doesn't carry the pregnancy to term. The risk of a no-guarantee season, in which the stud fee is due when you sign the contract, can be offset by prospective foal insurance, with rates based on the fertility percentage of the stallion, age of the stallion, and the mare's produce record.

Mare owners can increase coverage if she's just had, for instance, a 2-year-old break his maiden at Saratoga by 10 lengths. "There's a legitimate argument there," said Delehanty, "because between the time the horse hit the wire and is posing for a picture, the phone has rung seven times with people making offers."

Foals can be insured at a sliding rate, with the most expensive period being the moment they are born through the first week. Rates decline as the foal gets older. If an owner is planning to make purchases at a yearling sale, he will typically call his agent in advance to secure fall of hammer coverage, wherein the insurance company will indemnify the customer as soon as ownership of the yearling transfers. The sale price becomes the value of the yearling.

Choosing a broker with knowledge of the business is essential to a good result.

"An insurer should understand the horse industry and think through how to help the client spend their premiums wisely," said Kirk. "Most of the agents around today are fairly good at helping people understand the risks they should insure or take on on their own." BH

THE MAN BEHIND THE BONUS

If you've ever enjoyed the heightened stakes of a fan getting to place a five-figure win bet on a race courtesy of a third party, or watched a $1 million horseshoe pitch at the track, or received a mystery mutuel ticket in the mail, you can thank John Unick. Unick, 48, is an enthusiastic fan of Thoroughbred racing based in Northern California and is also an insurance broker who currently works for Insurance Office of America, a large, privately-held company that does work for the National Football League, National Basketball Association, and National Hockey League.


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California Chrome's Awesome Again score had broker John Unick nervous

When a racetrack, or a group of racetracks, want to put on a promotion that involves paying a bonus to a horse that wins a series of races, or pay out a considerable sum to a fan picked at random who successfully performs a task, they call Unick to put insurance in place that will help them pay off should the bonus get hit. Unick calls it "hole-in-one coverage," like when a basketball fan hits a shot from midcourt or when a Santa Anita Park patron throws a horseshoe on St. Patrick's Day when a ringer pays a million bucks. So far, Unick has been nothing but good luck to his clients.


COURTESY JOHN UNICK

John Unick

"I've placed $3 million in premium in these bonuses, and they've never been hit," he said. "TVG, Del Mar, and Santa Anita had an agreement this year that if California Chrome won the Pacific Classic, Awesome Again Stakes, and Breeders' Cup Classic (all G1), they'd pay a $1 million bonus. That started getting me nervous after the Awesome Again, because that wasn't much of a race. I worry more about it being a fair contest than about the actual bonus being hit."

When Arrogate passed Chrome in the Classic, Unick's record remained perfect. He's insured similar challenges involving Shared Belief and American Pharoah, the latter of whom lost the Travers Stakes (G1), negating a possible bonus. Had Game On Dude won the 2011 Classic a lucky fan would have won $500,000, but Drosselmeyer passed him late to win.

"Had Game On Dude held on, I wouldn't have felt badly because he was 14-1," Unick noted.

Unick said the toughest thing he's had to insure was Santa Anita's promotion of bringing back retired jockeys to ride against each other in a race.

"That wasn't a good idea," Unick said. "We had to have all kinds of indemnity benefits. If one of those jockeys would have gone down, my repuation would have gone up in smoke. There was between $3 million and $5 million on the line. I'm standing there and one guy comes into the paddock and he's 25 pounds overweight. I wanted to call off the whole thing."

Despite that, Unick said he'd like to see racetracks do more big-money promotions.

"I handled the deal when Marylou Whitney put up a bunch of money for one fan to bet on the Whitney Stakes (G1). It's a side of the business that's growing, and I enjoy doing weird stuff like that," he said.

Unick also helped solve the workers' compensation crisis in California in 2000, setting up the captive, or partially self-insured program, that exists today. He has done work covering jockeys and backstretch workers. And he waits for a bonus to be hit.

"I'll be standing in the winner's circle with a paper bag filled with money," he joked. *— By Lenny Shulman*