

When you can't afford it, you most need it!

I have been involved with a few dilemmas regarding client's insurance covers lately. These range from balancing personal covers to achieving cost effective protection for business and personal assets. They've reinforced the old adage about insurance - ***"when you can't afford it, you most need it!"***

Both in my own businesses and for my farming clients, insurance has been one of the most difficult issues to nail down. Perhaps it's belief that we're covering circumstances that may never happen. Perhaps it's because recommendations can come from sources perceived as being driven by sales targets and commissions.

The reality no doubt lies in between. Sorting it depends on quality advice, transparency and regular review. Building relationships with a competent insurance professional is a key component of effective risk management.

There are three key areas to get right. These are ***Life Cover, Income Protection and General Insurance.***

Life Cover

I've recently lived the reality of the untimely death of one of my clients. This put the spotlight on a number of decisions made over the last 15 years acting for them. It's reassuring to know the insurance strategies agreed now see the farm sustainable and surviving family with breathing space to make decisions.

In most businesses I work with the male of the partnership is physically involved in the farm. Their death would obviously have a significant impact on sustainability. For dairy clients I suggest cover whereby debt can reduce to near the value of the herd. This allows either employing management staff or running debt free as a 50:50 sharemilking enterprise. The approach may need to be even more aggressive for dry stock or cropping operations.

The death of a non-farming partner probably has less impact so often they're insured for a lesser amount. The focus here is to create some breathing space and cater for family needs.

There needs to be a balance between cover and cost. Age and health issues impact on this and each case needs to be treated on its merits.

Income Protection

The second area is Income Protection. This ranges from effective accident cover through to sickness and disability. Individuals have different attitudes to insuring for these events. I regard a minimum cover that allows delegated management without placing undue pressure on finances.

I recently had a client whose unexpected health event required him to take 12 months out of the business to rehabilitate. There was insurance cover that meant we could afford quality staff and they have made an outstanding contribution.

The second ingredient for success in this situation was an established professional team able to take over business and farm management and leave the family to concentrate on rehabilitation. This pays real dividends. Developing relationships with top professionals before the event offers continuity that will minimise the impact on the business. With systems in place it's easy for others to take over the reins.

General Insurance

There are always budget pressures on general insurance and individual attitudes to risk need to be taken into account.

My recommendation is for general insurance to operate within an agreed budget. Rather than simply increasing the premiums to provide recommended cover, I want to know how the cost will increase with greater excesses met by the owners before the insurance company pays out. This way we can assess value and share the risk. Thorough staff training, effective workplace procedures and regularly reviewed health and safety systems will all contribute to a manageable result.

Insurance is a matter of balance. Don't leave it to chance so adverse events destroy years of hard work. Rather use the best advice to secure a level of risk that you can live with.

As in all professions, there's a range of "experts" available for support. If you are unsure who to use, get referrals from those you trust in other areas such as your accountant or consultant. They'll generally know who is delivering quality service. Once you form the relationship constantly review your arrangements to keep informed and have all parties 'on their toes'.

No doubt there will be insurance professionals reading this who will have other views on how best to manage these situations. Perhaps my approach is too simplistic. It reflects my perspective that many recommended insurance strategies are too complicated and beyond the understanding of many business owners. My challenge to the Industry is to produce plain language strategies ranked in order of priority so they can be assessed against a finite budget - and manage the reality that "when you can't afford it, you most need it".

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