

# Details of Forest Insurance Cover

1 September 2008 to 31 August 2009

## Policy Overview

Forest Enterprises Ltd co-ordinates a bulk insurance policy for the benefit of both its group investment and private clients via the specialist broker AON New Zealand Ltd. The annual period of cover runs from 1 September to 31 August.

The master policy is the 'Agricola Crop Insurance – New Zealand Forestry Insurance Policy' (see next section for insurer details). Under this policy, each insured peril or type of additional cover in the policy has its own aggregate maximum liability. This insurance approach is generally referred to as 'first loss' i.e. the policy covers any losses during the period of insurance as they occur, but up to a maximum of the nominated sums. This year 21,221 hectares of forest are included with a total insured value of \$182,517,049.

## Insurer

The policy is organised by Agricola Underwriting Management Pty Ltd, an Australian based specialist forestry and crop insurance provider, and is underwritten by Lumley General Insurance Ltd Sydney. Lumley Insurance has a New Zealand Standard & Poors rating of 'A- (Strong)' as at 7 November 2007.

## What is Insured

The policy is a package of relevant insurance offerings designed to cover key forest risks. The risks covered (within limits detailed below) are losses arising from fire (including arson), windstorm, volcanic eruption, plus the cost of fire fighting, forest re-establishment, infrastructure re-establishment and claims preparation. Risks NOT covered include losses arising from pests and diseases, earthquake, snow or ice, war, nuclear fission, and terrorism.

## Agreed Value

The value of the cover is an agreed sum per hectare for like areas in each forest. Forest Enterprises Ltd identifies the like areas based around the age classes present. Where Forest Enterprises Ltd provides indicative valuations for Investors (our investment groups), the agreed values are a product of the same valuation model. In theory, this should result in Investors' remaining in the same financial position following a loss (and insurance settlement) as they were before the loss. The theory and practice diverge slightly due to

- the deduction of an excess from any insurance settlement, and
- the fixing of the agreed value in advance of the period of insurance.

The impact of these factors means that an insurance settlement may not fully compensate for the loss.

Under an agreed value policy, the claims process is a matter of identifying the location and extent of loss and translating this into net hectares lost per agreed value area. This approach accommodates partial loss. The percentage loss per hectare is simply translated into net hectares lost e.g. a 9% average loss in a 100 hectares block is a net loss of 9 hectares.

## Fire Cover

A 'first loss' limitation of \$25 million applies in respect of the fire cover. In other words the agreed value per hectare will be paid up to a total for all events (and for the 12 months insured) of \$25 million. While this is less than the \$182,517,049 total insured value, \$25 million is generously more than the total value of the largest area of contiguous forest insured.

## Windstorm Cover

A 'first loss' limitation of \$2 million applies in respect of the windstorm cover. In other words the agreed value per hectare will be paid up to a total for all events (and for the 12 months insured) of \$2 million.

Because of recent New Zealand claims experience (mainly in forests under 12 years old) windstorm cover is the most difficult insurance to source and the most expensive. \$2 million is at the limit of the insurer's risk appetite for windstorm losses. \$2 million comfortably exceeds Forest Enterprises Ltd's claims experience to date, however it is less than the value of many forests and certainly some of our contiguous areas of forests. In the event of claims exceeding \$2 million, rationing would have to be applied.

Windstorm damage in trees aged 1 and 2 years typically takes the form of toppling, where the trees are shaken loose and fall over leaving some or all of their roots still in the ground. The cover for trees of this age includes a provision of up to \$1,250 per hectare for remedial work to either stand the trees up or to prune back to the first viable branch, and does not include any compensation for loss of value.

## **Volcanic Eruption Cover**

A 'first loss' limitation of \$2 million applies in respect of the volcanic eruption cover (including volcanic ash, and resulting land slip or mudflow). Given the location of the forests, the volcanic eruption risk is not great other than following a major event (e.g. Mt Ruapehu, Lake Taupo etc).

## **Fire Fighting Charges and Expenses**

The cost of fire fighting is covered within a 'first loss' limitation of \$2 million. The cost of fighting fires near each forest insured (to protect against fire spreading into the insured forest) is also included plus any Forest and Rural Fires levies.

## **Forest Re-establishment Costs**

The cost of re-establishment of the trees lost following a fire, windstorm, or volcanic eruption event is covered up to \$1,750 per hectare. The cost of preparation for replanting is included in this provision. A 'first loss' limitation of \$5 million applies in respect of the forest re-establishment cover.

## **Infrastructure Re-establishment Costs**

The cost of re-establishment of the infrastructure damaged by a fire, windstorm or volcanic eruption event is covered within a 'first loss' limitation of \$100,000. Infrastructure includes fencing, bridges and fire fighting reservoirs.

## **Claims Preparation Costs**

The cost of claims preparation is covered within a 'first loss' limitation of \$100,000.

## **Policy Limits of Liability**

The limit of any one fire claim, over all items including tree loss, re-establishment, fire fighting and claim preparation costs, is \$25 million. The policy limit for fire during any one period is \$25 million. For each other insured peril and type of additional cover, the policy limit of liability is the maximum cover provided as detailed above.

## **Excesses**

For each and every event that causes damage to a forest, each forest carries its own excess calculated at 1.5% of the total agreed value of the forest, subject to a minimum of \$10,000. The excess applies in respect of each claim.

A separate excess of \$10,000 applies in respect of fire fighting costs where there is no damage to a forest, or the loss is within the forest's excess. In addition, should a claim arise under this provision, Forest Enterprises Ltd operates a self-insurance regime and levies each forest its proportionate share of the \$10,000 excess. The net effect is that in these circumstances, the cost of fighting a fire, requiring payments to third parties (hence cash), is fully covered.

The excess is capped at an annual aggregate of \$250,000 for volcanic, fire and fire-related events, and \$250,000 for Windstorm and Windstorm-related events.

## **Public Liability**

In addition to the forest insurance group policy detailed above, Forest Enterprises Ltd also arranges public liability insurance of up to \$20 million dollars that covers the public liability of forests under management. Part of this cover includes the liability should a fire originate in one of the group forests through negligence and spread to an adjoining forest not a part of the group.

## **Changes from Last Year**

Apart from the cover parameters for fire and windstorm being more beneficial, all other cover parameters are unchanged from last year. Although the total value insured has increased by \$9 million, the total premium is slightly less. Value and age class changes within individual forests mean that some forest premiums have reduced and others increased.

## **A Change to be Considered in Future Years**

Although we have endeavoured to obtain an additional perils extension for earthquake, we have not yet succeeded. We will continue to pursue this in future renewal negotiations.

**S A R Wilton,**  
**Managing Director**  
**18 November 2008**