By Jennifer Haas Hoyt

Equine Insurance: Why It Is Important

Thoroughbred owners know horses can be fragile, and even new owners will often learn quickly that horses can do the most unexpected things to injure themselves. One of the soundest ways owners can protect their investments is equine insurance.

People protect their houses and property with home owners insurance, their cars with auto insurance, and themselves with health insurance. It only makes sense that they would protect their horses in the same way, especially when the animal is worth thousands and possibly even millions of dollars. Equine insurance can help minimize financial loss.

The most common form of equine insurance is mortality insurance, which reimburses an owner the full value of the horse, as determined at the time the policy is purchased, if it dies or has to be euthanized. Mortality policies often include coverage for emergency colic surgery, and owners also have the option of adding additional coverage or endorsements to a policy. These endorsements can range from major medical to mare/stallion disability to prospective foal coverage, which helps recoup the loss if a mare aborts a fetus or a foal dies shortly after birth. The cost of insurance is determined by the value of the horse and its sex, age, and use.

"Insurance is never meant to be profitable," said Joe Brown Nicholson, of Nicholson Insurance Agency of Lexington. "Insurance is supposed to help put the policy holder back in the same (financial) position prior to an incident or loss."

Protecting Horses on the Road

Even before the Bluegrass became known as the "Horse Capital of the World," owners have been shipping their best mares from all corners of the globe to be bred to stallions standing in Central Kentucky. With the ease of shipping a horse across the country or even across an ocean, it is not usual for mares to travel far and wide to be bred to stallions the caliber of A.P. Indy, Dynaformer, or Unbridled's Song.

As other states such as Pennsylvania and Indiana continue to improve their breeding incentive programs through revenues

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The cost of insurance is determined by the value of the horse along with its age, gender, and use generated by slots, it is becoming increasingly popular to ship mares to these states for foaling and/or breeding. It is also becoming common for Kentucky stallions to be leased temporarily to breeding farms in those states, and for years, the top stallions have shuttled to Australia, New Zealand, or South America for the Southern Hemisphere breeding season.

No matter to where or by what method, shipping a horse can increase the risk of injury or death, and owners can help minimize any financial loss by properly insuring a horse before it travels. Most comprehensive mortality policies will cover a horse killed while traveling within the United States and Canada and additional coverage can be purchased before a horse travels internationally.

Owners who do not own mortality policies on their horses have the option of purchasing short-term policies such as a 30-day transit policy if they want to cover


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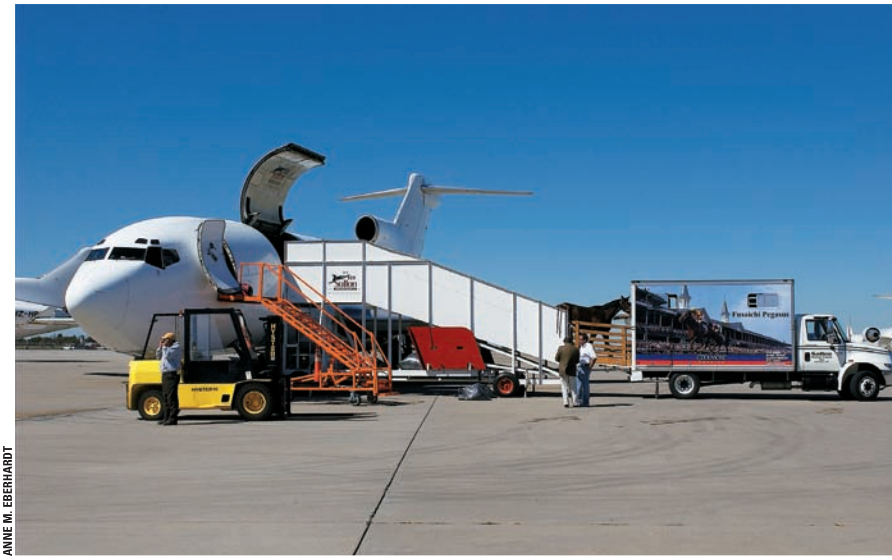
Although costly, stallion owners can protect themselves with infertility insurance their horse only while it is on the road. However, most agents would only recommend this type of insurance in such a case as for an owner, who has just purchased horses at a sale in one state and is transporting it back to a farm in Florida or for a mare, who is traveling a distance to be bred to a stallion in another state, but was going to be returning home in less than 30 days.

For owners wishing to take advantage of a state's breeding program, a 30-day transit policy would not be adequate because mares and their new foals are required to stay considerably longer. For example, the Pennsylvania rules require that a mare must be in the state by October 1 of the year of conception, and she and/or the foal must remain there for 90 days during the year of foaling in order for that foal to be registered as a Pennsylvania-bred and, therefore, be eligible for any state-bred purse money. While each state is different, most require at least a three-month stay for state-bred eligibility.

"If an owner feels a mare is worthy enough to send to another state for the purpose of breeding, then they are probably best served with a policy that extends the entire life of that mare," said Arthur Maberry, of Brooks-Maberry Insurance in Sweetwater, Texas. "Our mortality policies include travel within the U.S. and Canada, and we can add air transit coverage for a small additional charge."



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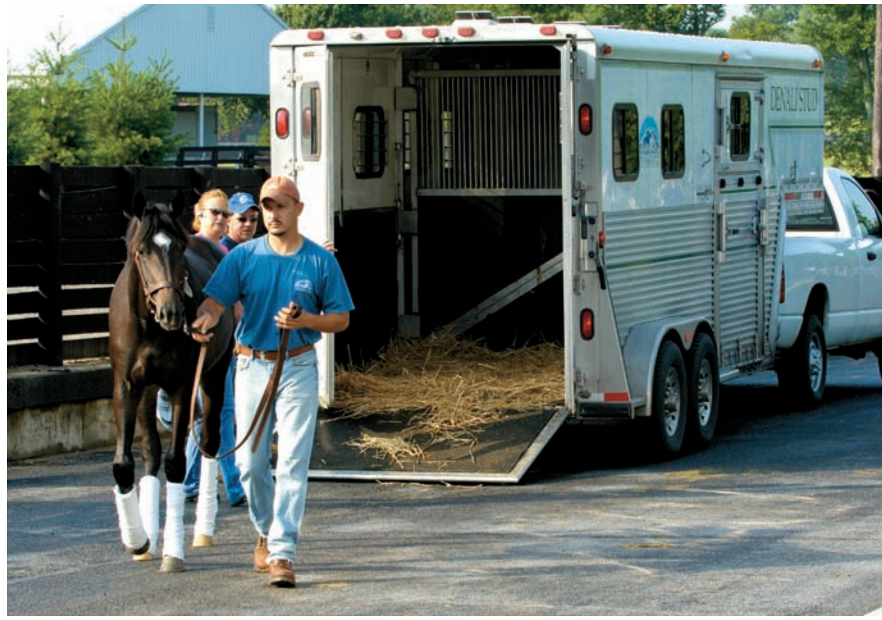
Most mortality policies cover travel within the U.S. and Canada, air travel coverage is extra

With broodmares, travel can increase stress and, therefore, increase the risk of losing her unborn foal, which would also mean the loss of any money potentially obtained through the sale of that foal as well as possible loss of the stud fee. One way to protect against this loss is with a prospective foal policy. Prospective foal policies are commonly used to offset the loss of an unborn foal should a mare abort, but it can be written to cover the foal for a set amount of time after birth, which is generally the first 45 days of a foal's life. It also could be written to protect a foal for up to a year. During the period of the policy, the owner is protected should the foal be injured or die while traveling. If a foal is not covered by a prospective foal policy, an owner can insure a healthy foal when it is 24 hours old.

Other ways owners can protect themselves when their horses are traveling is to add major medical or emergency surgery endorsements to a policy, which would cover any medical expenses such as surgery to repair a leg fracture sustained in a trailering accident.

Additionally, mare disability or stallion disability endorsements can be added to policies and offer coverage should accident, illness, or disease render a mare or stallion unable to breed either temporarily or permanently. These endorsements are not limited to horses that are traveling, but because risks do increase during this time, it is wise to have your horse fully covered.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"Fall of hammer" insurance provides immediate protection for auction buyers

Additional Coverage for Mares and Foals

Horses don't need to be on a van or a plane to get injured, and horse owners can sit around for hours telling tales of the crazy things their horses have done to hurt themselves. Sound horses can become lame, healthy mares can lose foals, and young stallions can die in freak accidents. These things are random and happen unexpectedly. The one constant that can help prevent financial loss in these cases is equine insurance.

One of the most inexpensive ways to insure a horse is through a specified and optional perils policy. This coverage will reimburse an owner only if a horse dies or has to be euthanized due to specified perils such as fire, lightning, or a windstorm. Optional perils can be added based on the location and needs of the owner. These can include, but are not limited to wild dog attacks, a barn collapsing, drowning, and accidental electrocution.

Several other factors to keep in mind while selecting insurance for broodmares include the age and value of the mare. Nicholson says his best recommendation would be full mortality, which could then be supplemented with a barrenness policy and/or other endorsements such as prospective foal and stallion availability. A barrenness policy helps protect an owner if a mare fails to get pregnant, if that mare has been covered at least twice by a stallion during two different heat cycles. The barrenness policy is a good option if a breeder decides to save money by purchasing a "no guarantee" stallion season rather than a "live foal guarantee" season because the policy will cover the cost of the stud fee if the mare fails to get pregnant.

Breeders can further protect themselves, especially if they have a "no guarantee" season, with a prospective foal policy because again, the policy will at least cover the stud fee should a mare lose the foal in utero. Sometimes the value of the mare is less than the foal she is carrying, so both Nicholson and Maberry point out this is another instance to consider a prospective foal policy. Such cases include an older mare or one that is unproven as a broodmare but was bred to a stallion with a costly stud fee.

Stallion availability coverage helps eliminate the risk of booking a mare to a certain stallion and then that stallion becoming unavailable at the time of service due to accident, sickness, disease, or death.

Yet, another way for owners to protect themselves, especially when obtaining bloodstock at a public auction is through "fall of hammer" coverage. A person with a pre-existing relationship with an insurance company can call his or her agent and have this coverage added prior to a sale.

"Accidently, I bumped into a client at a sale, and he asked if I would cover him on a horse he was about to purchase," said Nicholson in explaining why someone may want "fall of hammer" coverage. "I told him yes. He purchased the mare and on the way back to the barn, she flips over, hits her head, and had to be euthanized. The company reimbursed him the full sale price because he had asked for the coverage prior to the sale. If he had never seen me, he wouldn't have gotten his money back."

Insuring Stallions

One of the biggest criticisms against the Thoroughbred industry is that horses are retired too quickly. However, the financial gains of standing a top stallion prospect can far exceed any money ever earned on the racetrack, so it becomes a wise business move to retire a horse at the top of its game.

Prime examples are 2000 Kentucky Derby winner Fusaichi Pegasus and 2004 Kentucky Derby winner Smarty Jones, who were both retired as 3-year-olds.

On the flipside is Cigar, who retired at the end 1996 as the then richest Thoroughbred with more than $9.9 million in earnings, but he proved infertile. Although a costly type of insurance, stallion owners and syndicates can protect themselves by purchasing a stallion first year/first season infertility policy in the event that a stallion is unable to impregnate a certain percentage of approved mares bred in his first year at stud. The percentage used is typically 60% of the mares that fit into certain age and reproductive guidelines set by the insurance company. In the case of Cigar, the Italy-based Assicurazioni Generali paid Cigar's $25 million infertility-insurance policy in full and took ownership of him before he eventually retired to the Kentucky Horse Park's Hall of Champions.

Established stallions are most commonly covered by full mortality policies that will often contain a major medical and/or a stallion infertility due to accident, sickness or disease (stallion ASD)

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Purchasing insurance is a decision based in large part on how much financial risk an owner is willing to take

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endorsement. One of the most famous cases of a farm recouping the loss of a stallion was after the death of Alydar in 1990 due to a freak accident. His owner, Calumet Farm, reportedly collected $36 million. Insuring a stallion might be essential to a good business plan for a stud farm of any size.

Stallion owners further protect themselves by requiring all mare owners to present health certificates stating that a mare is disease free. Each party enters into a "hold harmless" agreement at the time the mating contract is signed, so regardless of whether a stallion injures a mare or a mare injures a stallion, the owner of the injured horse can only recoup losses or medical expenses through having insurance on that horse.

Emerging Trends in Equine Insurance

The downturn in the U.S. economy that has negatively impacted the Thoroughbred racing and breeding industry has also trickled down to the equine insurance companies. Several agencies agreed that one trend they are commonly seeing is people adjusting the insured value of their horses in relation to the present market. Not unlike many home owners who have seen the value of their homes drop in recent years, so too have horse owners seen the value of their bloodstock drop.

Purchasing equine insurance is a personal decision for each horse owner based on how much financial risk he or she is willing to take. For large operations, the cost may be too prohibitive to have insurance on all their horses, while a smaller operation may still be in business today because they recouped the financial loss through insurance when their only broodmare died suddenly and they used that money to purchase more at a sale.

One thing that Nicholson Insurance is offering clients is deductible policies, which allows people to determine how much risk they are willing to take, but at the same time having their animals covered in the event of death or an injury. The up-front cost of these policies is less than full mortality and can be applied only to multiple horses. It is the same principle as a healthy person choosing health insurance with a high deductible to save insurance costs but still being covered if the unforeseen happens.

"The most important reason people buy equine insurance is to protect their investment," said Maberry. "Insurance can't cover the emotional loss, but it can cover the financial loss. Each individual is different, and they will purchase what they are comfortable with based on the risks they are or aren't willing to take."

All equine insurance companies, especially the ones that specialize in the Thoroughbred industry, offer the same types of policies; however, each company has its own wording and requirements. Once the decision is made to purchase insurance to protect the investment, a Thoroughbred owner should find a company that best fits his or her needs.