

Overview of Rural Fire Insurance Issues

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EXECUTIVE SUMMARY

Insurance impacts on the recovery and resilience process of communities affected by rural fires. An international literature review detailed in this report documents insurance studies that discuss how insurance operates, the problems facing the global insurance industry and some of the problems that consumers have with the industry. The review details studies focused on insurance in relation to floods and fires and some of the specific insurance matters in relation to fire losses that have affected residents in the United States of America, Australia and New Zealand. An overview of a farm insurance policy is provided as a guide to the types of insurance policies available and as useful background information pertaining to the 2000 Wither Hills fire, near Blenheim, New Zealand. Research undertaken on the Wither Hills fire is examined with the focus on establishing what major insurance problems were faced by the farming community after the fire. An overview of the Marlborough District Council insurance claims is provided.

The key findings from the report are that dominant insurance problems faced by communities devastated by fire in USA, Australia and New Zealand are:

- Lack of insurance
- Underinsurance
- Lack of awareness of the terms and conditions of insurance policies
- Incorrect calculation of sums insured
- Lack of understanding the jargon used in insurance policy wordings
- Mistrust of the insurance industry
- Decisions made to deliberately underinsure – taking a calculated risk.

Additional findings were that insurance incentives may not be an effective risk reduction measure and that homeowners and occupiers need to take more responsibility towards ensuring they have adequate insurance cover.

The key recommendations are:

- Homeowners/occupiers should have a fire plan in place that is updated at the beginning of each fire season. Insurance should be an essential part of the plan.
- People need to be more aware of the risks they face with the argument that ‘this will not happen to me’ being challenged.
- Policy holders should understand what their policies does and does not cover and whether the sums insured are adequate.
- Insurance policies should be reviewed on an annual basis to ensure that the policies reflect any changes that have occurred over the previous 12 months.
- People moving to new lifestyle block developments need to be aware of the requirements and liabilities under the Forest and Rural Fires Act 1977, and to ensure that they have adequate insurance cover in place. In this instance it is more than likely that residents will own their own homes. Local District Councils could provide an introduction pack to new residents that would include a section on insurance.

- Attention needs to be drawn to the fact that people who visit rural areas for whatever purpose - work, recreation, hunting, camping, fishing etc. can also be held legally liable if they start a fire that damages third party property and for the associated fire suppression costs. People need to check that they have adequate liability cover under their domestic and/or commercial insurance policies.
- Details of information from the Withers Hills and West Melton fires need to be published widely to highlight exactly what happened to these communities.
- A summary of the key points should also be listed on appropriate websites to highlight the ramifications of not insuring or electing to underinsure fences, stock, or loss of profits insurance.
- These key points should be incorporated into a fact sheet for distribution to key stakeholders.

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1. INTRODUCTION

The aim of this report is to discuss how insurance impacts on the recovery and resilience process of communities affected by rural fires¹. The report has been prepared for the Scion Rural Fire Research Group under a social fire research programme funded by the Foundation for Research, Science and Technology in conjunction with the rural fire sector².

Following the introduction and objectives of this report a literature review is presented that has been drawn from published and web based sources. The review begins by providing a brief overview of studies that discuss how insurance operates, the problems facing the global insurance industry and some of the problems that consumers have with the industry. Details of studies that have focused on insurance in relation to floods and fires are provided before detailing some of the specific insurance matters in relation to fire losses that have affected residents in the United States of America, Australia and New Zealand.

The next section of the report provides an overview of a standard New Zealand farm package insurance policy. The reason why a farm policy was chosen was because it is normally farm properties that suffer the most damage from rural fires in New Zealand. The aim of this section is that it will be useful as a guide to the types of insurance policies available for researchers, and for policy holders to question whether they have adequate insurance cover. This also provides some background information for the next section which details the research undertaken on the 2000 Wither Hills fire, near Blenheim, New Zealand. The focus of this research was to ascertain what major insurance problems were faced by the farming community after the fire. The questions addressed were:

1. Did the farmers experience any difficulties with their insurance companies following their losses?
2. If so, then how did this impact on the recovery process?
3. Were the farmers aware of their insurance cover?
4. Did they have adequate cover?
5. What were the reasons for underinsuring or not insuring specific assets?
6. If they did experience problems with their insurance cover what changes, if any, were made following the fire?

This section also draws on information about the Marlborough District Council (MDC) insurance claim in relation to the Wither Hills fire. This highlights the importance of having adequate insurance cover in place.

The report concludes by summarising the key findings of the research and makes some recommendations about how residents can alleviate some of the stress if they are involved in these significant events.

¹ The term 'rural fires' refers to all vegetation fires in rural and/or Rural-Urban Interface areas. These fires are commonly referred to as bushfires or wildfires in different parts of the world.

² The New Zealand rural fire sector stakeholders comprise the National Rural Fire Authority, NZ Fire Service, NZ Forest Owners Association, Department of Conservation, members of Local Government NZ, NZ Defence Force and Federated Farmers of NZ Inc.

2. OBJECTIVES

The objectives of this research were:

- a. To highlight some of the insurance issues faced by New Zealand residents. In particular the issue of public liability insurance and the Forest and Rural Fires Act 1977.
- b. To highlight the impact that insurance, underinsurance or lack of insurance had on the recovery process of the affected residents of significant fire events. It is envisaged that this information that describes the potential risks people face and what can be done to alleviate some of these risks will be useful to other communities prone to fires.
- c. To build on existing research undertaken by the Scion Rural Fire Research Group (in association with the Australian Bushfire Cooperative Research Centre (CRC)), by exploring the factors that influence community resilience and recovery after rural fires.
- d. To make recommendations for future research.

3. LITERATURE REVIEW

3.1 Insurance Studies

A number of studies have been carried out that focus specifically on insurance. These include studies that:

- questioned the role of insurance as a risk reduction measure (Baker, 2002);
- detailed the manifest and latent social functions of insurance (Britton, 1991);
- noted the 'consumer discontent' with the insurance industry (Britton, 1991);
- discussed the impact on the insurance industry due to the increase in the number and size of natural and technological hazards (Britton and Oliver, 1991);
- addressed the American insurance industries' response, or lack thereof, to the issue of climate change (Dlugolecki, 1999); and
- considered the role of homeowner insurance in the USA to provide an overview of how insurance operates, how insurance premiums are calculated, and the costs associated with insurance premiums that are payable as taxes (Smalley, 2007).

Other studies revealed that one of the major problems in relation to insurance is that many insurance policy holders do not understand what their policies cover and what is excluded. Miller (1991) noted that Australian insurance companies have issued what they refer to as 'Plain English' policies since 1976. These were introduced in an attempt to demystify some of the terminology used by insurance companies. However, a report undertaken by the Australian Federation of Consumer Organisations in 1990 found that the majority of people consider insurance "a complex product" (Miller, 1991: 189). Oliver (1991) argued that:

The fault lies in the insurer's failure to be quite clear what is and what is not covered and under what circumstances. At times of natural disaster, victims under stress, disoriented by their losses, are highly sensitive to delay, anything which suggests bureaucracy or the need to justify their claim and expectations (Oliver, 1991: 48).

Leonard and Bowdich (2003) stated that this is an area that needs urgent attention as the insurance industry still has not rectified this problem.

There is also concern about the 'fine print' in insurance policies that leads to many people doubting the integrity of the insurance companies (Oliver, 1991: 48). Kunreuther and Pauly (2004) noted that this mistrust of insurance companies is a factor in people not taking out insurance, even when premiums are reasonable. They argued that one of the reasons why people elect not to insure, even when insurance is available for low frequency high cost losses, is because "this type of cover is perceived by consumers to be priced at "rip off" levels so it is not worth their time and attention" (Kunreuther and Pauly, 2004: 18). Insurance companies are constantly updating their policy wordings in attempts to make them more 'user friendly', but they can still be very confusing to their clients. Until the insurance industry can produce a product that is easily understood this mistrust of insurance companies will continue.

Another major issue is that there is very little explanation of the rationale behind the reasons for insuring certain risks and excluding other risks. Jaffee and Russell (1996:1) highlighted that after the 1994 earthquake in Northridge, California, the majority of insurance companies either ceased offering earthquake cover or imposed limitations to their policy cover. In relation to New Zealand, domestic cover for earthquake is provided by insurance companies and the Earthquake Commission (EQC).³ The (EQC) provides cover to a maximum of \$100,000 for dwellings and \$20,000 for contents. In addition, policy holders can elect to insure against the risk of earthquake up to a stated value with their insurance companies. This applies to all domestic property owners, whether in urban or rural locations. A NZ Fire Service (NZFS) levy and GST also apply. The EQC does not provide earthquake cover for commercial property, i.e. commercial or farm buildings and assets. In this instance the policy holder can elect to insure with their insurance company or decide to self insure against the risk of earthquake. Commercial and farm properties must meet certain criteria before insurance companies will provide earthquake cover. In the Australian insurance market, flood is the risk that some insurance companies are no longer prepared to insure.

3.2 Flood Insurance

There are a number of studies that have discussed flood insurance, the rationale behind insurance companies in some countries such as Australia not offering this type of cover, and what the government response to this should be (Henri, 1991; Whilden et al., 1987; Handmer, 1987). Smith and Handmer (1989) detailed the various methods for dealing with flood losses and noted that commercial insurance is just one of many available methods (self insurance was not discussed). They discussed the methods used internationally to provide financial relief following floods, drawing attention to the fact that the countries studied responded differently to flood and insurance issues. Attention was drawn to an anomaly that exists in Australia, where the majority of domestic homeowners and small businesses are unable to obtain insurance cover for flood⁴. However, the majority of medium to large scale businesses can obtain flood insurance (Smith and Handmer, 1989: 6). Smith and Handmer (2002) expanded and updated the current status of flooding risks and implications for floodplain management policy and provide insights to the industry's rationale for not providing this type of insurance.

³ Gordon (1991) provides an overview of the Earthquake and War Damage Act (1944) and amendments.

⁴ Smith and Handmer (1989:5) advise that there is limited cover available in Queensland and the Northern Territory.

Smith and Handmer (1989) also noted that disaster victims have traditionally received financial assistance from government agencies and private charities. This could possibly be another reason why people elect not to insure even when insurance cover is available. As Browne and Hoyt (2000) argued, some people elect not to insure in the belief that they will be looked after by an organisation or the Government following a loss. They used the term “charity hazard” which they define as:

The tendency of an individual at risk not to procure insurance or other risk financing as a result of reliance on expected charity from others such as friends, family, community, non-profit organizations, or a government emergency program (Browne and Hoyt, 2000: 291).

Considering fire insurance and the farmers affected by the Wither Hills fire (see Section 5), none of the farmers interviewed expected any financial assistance from the local or national government to help recoup some of their uninsured losses, except for assistance to help with the re-establishment of their pastures.

In the New Zealand context floods are becoming a major problem for the insurance industry. However, it appears that few studies have been undertaken on floods. The exception is Luketina (1986), who considered the role of the insurance industry in the recovery process following the Southland floods and argued that the insurance industry needed to work in unison following major losses to reduce the emotional impact of the victims of flood damage (Luketina cited Kelly, 2005: 9). What Luketina referred to is that there is no collective approach by the insurance industry following large-scale emergencies in New Zealand. This means that each person who has been affected has to deal with one or more insurance loss adjusters appointed by their own insurance company. For instance, if homeowners have their house, contents and motor vehicles insured with different insurance companies, each company would appoint their own assessor. A possible solution to this problem would be for the appointment of a panel of assessors by the industry rather than individual insurance companies. This would mean that damaged property owners would only have to deal with one assessor for all of the claims thereby reducing the time involved in settling claims and hopefully reducing the associated stress⁵.

The above studies relate to the risk of flood, but they may be extremely useful if the decision was made by the Australian and New Zealand insurance industries to exclude cover for the risk of some rural fires. It is possible that insurance companies may decide to decline to insure an individual homeowner if they reside in a high risk location and have experienced several losses. If a decision was made to exclude the risk of rural fire on a national basis, the above literature would be useful to help understand the government and the insurance industry perspectives in attempts to find solutions to the problem of not being able to insure against the risk of all rural fires.

3.3 Rural Fires and Insurance

A number of studies of rural fires mention property damage or the potential damage from fires. McCaffrey (2004) addressed risk perception; Brenkert-Smith et al. (2006) studied residents affected by wildfires in Colorado and considered resident's perceptions of mitigation alternatives; Kumagai et al. (2004) and McCool (2006) studied

⁵ This occurred in Australia with the development of the Industry Disaster Response Organisation (IDRO).

a number of wildfires in the United States⁶, noting that these fires destroyed a number of dwellings and commercial premises in the area. However, they did not provide any details related to insurance. Other studies briefly commented on the issue of insurance in relation to fires in the United States. Nelson et al. (2005) considered the preparedness of residents in Minnesota and Florida to wildfires. Their study revealed that whilst most of the respondents to their survey had created defensible spaces around their homes, they had not considered other risk reduction measures such as installing sprinklers. However, the majority of the respondents did have insurance cover in place. Arrowood (2003) argued that residents residing in wildfire-prone areas should have a fire plan in place and that insurance should be an essential part of the plan. Arrowood made the very important comment that residents need to ensure that they have adequate insurance cover in place before a fire occurs (Arrowood, 2003: 69-80).

The focus of other studies was on the associated costs of fires, with Blong (1999) arguing that it is extremely hard to quantify the true costs of fires because of the issue of underinsurance or lack of insurance. Citing a 1996 study by the Insurance Council of Australia (ICA), Blong highlighted that the report "suggests that 9% of buildings and 39% of contents are underinsured" (Blong, 1999: 8). McAneney (2005:1) also argued that it is difficult to quantify the costs associated with fires, as calculations tend to neglect to include other costs such as "loss of life, the fixed cost of maintaining and supporting state fire fighting services, the opportunity cost of the volunteers engaged in the fire fighting activities as well as any contributions from Federal Government"⁷. This view was supported by Lynch (2004) when discussing the Colorado wildfires. He argued that costs such as damage to soil and the fire suppression costs should be included in the total costs of the fires. Cortner et al. (1990) argued that people who chose to live in risk-prone areas acknowledged that they were responsible for ensuring that their properties were protected. However, they highlighted that the additional costs associated with fires are not met solely by the landowners. They argued that these costs, such as Government grants, were eventually passed on the wider population.

In relation to bushfire-damaged properties in Australia, Bianchi et al. (2004) advised that they were to establish a database that would be available via the web. The intention was to provide information about the damage suffered in bushfires to assist in the protection of buildings located in fire-prone areas. It does not appear that this service is available at the moment, but if such a web based information system were available it would be useful to include a section that details insurance issues. This may be a means to assist people to think about whether they have adequate insurance in place.

Bushnell and Cottrell (2006) surveyed residents affected by the Thuringowa bushfire to identify how many properties were owned as opposed to rented and whether this altered their perceptions to bushfire hazard. With regard to insurance the study identified that property owners were more likely to insure their property and those surveyed believed that they had adequate insurance cover in place. This was in contrast to renters who tended not to have insurance or were unaware of their

⁶ The fires studied were Yellowstone 1988; Bitterroot Valley of Montana 2000; large fires in Colorado, Arizona and Oregon 2002; British Columbia, Montana and California 2003.

⁷ The estimated losses from the 1983 Ash Wednesday fire were calculated at \$AUS324 million and the costs of the 2003 Canberra fires at \$AUS350 million as per information provided by the Emergency Management Australia (EMA) database (<http://www.ema.gov.au/ema/emaDisasters.nsf>.) For additional information about the costs of bushfires and other natural disasters in Australia please refer to McAneney et al. (2007a, 2007b).

insurance arrangements. The findings were that “residents with a lower bushfire risk perception were more likely to think that their insurance is adequate” (Bushnell and Cottrell, 2006: 1-2).

3.4 Insurance Issues in relation to rural fires

Findings from studies about rural fires in the USA, Australia and New Zealand indicate that the major issues raised were underinsurance and lack of insurance. The major problem with underinsurance was underestimating the size of dwellings, underestimating the cost of rebuilding, and not insuring for the total value of the contents. This problem arises due to people being unaware of the replacement costs of their contents. Alternatively, they make the decision to underinsure due to the perception that fire, or other insurable risks, are a low risk. One factor not mentioned in these studies is the possible cost of insurance as a factor in underinsurance.

3.4.1 Underinsurance and Lack of Insurance

The 1991 Oakland fire in California was one of the largest wildfires to occur in the USA, with 25 people losing their lives and an estimated 6000 residents losing their homes. With the temperature of the fire reaching 2000 degrees Fahrenheit, most of the properties and their contents were totally destroyed (Hoffman, 2002: 116) with the “image of bomb-blasted, smoldering Dresden” evoked after the fire (Kirp, 1997: 46). The estimated cost to rebuild and replace the dwellings, apartments and contents was approximately \$US1.6 billion (Kirp, 1997: 48). Hoffman (2002), a resident affected by the fire and an academic who later wrote about her experience, provided insights to the aftermath of the fire and the insurance problems faced by the community. She commented that most of the people affected by the fire, even though they were well educated and reasonably affluent, found out after the fire that they were dramatically underinsured. This lack of insurance cover caused considerable emotional distress following the fire with anger directed at insurance companies (Hoffman, 2002: 116). As a result resident groups formed with “acronyms like FIRE and MIFFED” and “Unexpectedly Underinsured Allstate Policy holders” to negotiate with their respective insurance companies better settlements (Kirp, 1997: 48).

By providing a united front to fight the insurance companies the residents did receive higher payments, with some receiving an additional \$US200,000 more than they were originally offered (Kirp, 1997: 48). While the residents did band together to fight for better settlements, divisions began to arise when settlements were offered on the basis that they remained confidential (Kirp, 1997: 48). It is therefore possible that some residents insured with one insurance company received a higher settlement than other residents. It is important to note that an insurance contract is between the insured and the insurance company so that any settlement made under a policy is not for public knowledge. The main aim of the residents’ groups was to obtain better settlements, but some also wanted to fight for major changes to the insurance industry. However, the effort required in maintaining this stance diminished upon claims settlement (Hoffman, 2002:116). As Kirp (1997) noted, once cheques were received most of the groups disbanded and lost interest in continuing the fight. Both of these accounts commented that there was a lack of insurance, but neither detailed the factors causing this lack of insurance.

The American Insurance Commissioner John Garamendi, in discussing complaints about insurance companies following the California Wildfires in 2003, stated that he believed that the vast majority of Californians were underinsured (Schoen, 2004). He

advised that 316 out of the 676 complaints lodged with the Commission were because residents did not receive adequate settlements to enable them to rebuild their homes. In his words “consumers all over this nation are finding that the policies that they bought for their homes do not adequately provide coverage to rebuild in the case of a total loss” (Garamendi, cited in California Department of Insurance news release, 2004). These problems were compounded due to delays in receiving settlements from the insurance companies and in obtaining new building permits because of the volume of requests being processed. Garamendi makes a significant point that:

People cannot rebuild if they haven't been able to settle their claims with their insurers yet... these people need help now, and they need the appropriate amount of cooperation from the insurers - otherwise, their additional living expenses money runs out, they may not have anywhere to live (Garamendi, cited in California Department of Insurance news release, 2004).⁸

Underinsurance also impacted on the residents in San Bernardino County, California in the 2003 fire when 3,600 homes were destroyed with most of the residents finding out after the loss that they were underinsured. In some cases residents received settlements based on less than 50% of the actual rebuilding costs while other residents had no insurance (Madigan, 2004).

Information about insurance in relation to bushfires in Australia paints a similar picture. The 1994 Sydney Bushfires destroyed 200 homes and damaged a further 200 dwellings with a large number of motor vehicles destroyed or damaged (Skully, 1994). Insurance losses were in the vicinity of \$AUS57 million (Henri, 2003). Following the fire it was estimated that while 60% of Australian residents had contents insurance, 50% of those were inadequately insured (Skully, 1994). With regard to the 2003 Canberra fires 474 homes were destroyed, an additional 800 homes were damaged, and 300 vehicles damaged or destroyed (Henri, 2003). The Insurance Disaster Response Organisation (IDRO) stated that the insured losses were likely to be in excess of \$AUS26 million with the costs of uninsured losses also costing millions of dollars (Vallence, 2005: 21).

These articles draw attention to the fact that a large number of residents are either uninsured or dramatically underinsured, with most not realising this until after a fire event. The National Inquiry held after the Canberra fires addressed a number of insurance issues. Some of the issues considered were the amount of insurance cover available, how the insurance industry performs after major disasters and the issue of incentives as a means to help reduce the costs associated with bushfires (Ellis et al., 2004: 178). In the report to the National Inquiry the Insurance Council of Australia (ICA) argued that 30% of insured buildings throughout Australia were underinsured (Ellis et al., 2004: 178). However, the Inquiry disputed these figures arguing that “only six of the 488 houses destroyed in the ACT in January 2003 did not have building insurance” (Ellis et al., 2004: 178). The ICA also estimated that approximately 25% of the people affected by the Canberra fires were uninsured. In addition, 70% of the tenanted properties had no contents insurance and 15% of owner-occupied dwellings had no contents insurance.

⁸ Insurance policies may have an extension that provides cover for additional living expenses such as having to stay in alternative accommodation in the event the family home is unliveable. Most insurance policies would provide cover up to a specified limit. Once the limit is reached the policy would no longer respond.

The National Inquiry report further revealed that a number of residents in Canberra had wanted to increase the sum insured on their dwellings, but that this request was refused by some of the insurance companies (Vallence, 2005:24). The reason for this was not provided, but it could be that insurance companies may have felt that the area was too high a risk to provide insurance cover for. In this situation the insurance companies have a number of options available. They can provide cover and charge a higher premium or impose a higher excess. (A standard excess is in the vicinity of \$50-100. Insurance companies may elect to increase the excess to \$250 or \$500 in relation to flood risk), they can refuse to offer insurance cover, or they can offer the cover but limit the sum insured (which appeared to be the case in the Canberra fires). Britton and Oliver made an extremely important point that the “insurance industry is not a philanthropic industry” (Britton and Oliver, 1991: 2). Insurance companies, like any other business, must operate on a commercially viable basis and make a profit. They also advised that due to the increased number and the magnitude of natural hazards, a number of insurance companies were struggling to obtain adequate levels of reinsurance. Reinsurance is a tool used by the insurance industry to transfer risk and as it becomes less available the insurance industry is likely to decline to provide cover for events such as earthquakes, floods and fires if they have the potential to cause catastrophic losses (Dlugolecki, 1999: 16). The point is that insurance is a product with no absolute guarantee that people can obtain the cover they may require.

For wildfire-affected residents in the USA there is the option to lodge a claim with FEMA (the Federal Emergency Management Agency), but the cover provided has been found to be very limited and most cases was granted as a loan (Mileti, 1999). While most accounts of fires have focused on individual residents and contents, businesses were also affected. In one situation a business did not suffer any actual damage, but suffered a loss of turnover due to the area being evacuated. The business did not have insurance cover in place for this eventuality and was refused a bank loan because it was considered that they would not be able to pay the loan back (Madigan, 2004). With regard to business/farm insurance packages in New Zealand, most policies provide an extension under the Business Interruption Policy that provides cover for a reduction in turnover due to an insured loss occurring within the vicinity of the business. There is normally a limit or percentage of turnover stated in the policy.

A study of the East Gippsland fires in Victoria, Australia noted that most of the farmers affected by the fires had insurance cover in place that covered domestic dwellings and contents, some farm assets and motor vehicles, but they did not have cover for stock, fences, and business interruption insurance (Whittaker, 2008). In addition, the majority of the farmers did not experience any problems dealing with insurance companies. This is similar to the findings from the Wither Hills fire, which will be discussed in more detail later in this report (see Section 5). In East Gippsland there were also domestic property owners that were affected by the fire and in their case most had insurance cover in place. It was not stated whether this cover was adequate or not. However, it was mentioned that following the fire insurance premiums in this area increased. This may have meant that people who were underinsured may not have been able to afford to increase the cover on their properties.

Kelly’s (2007) case study of West Melton, a township located 15km from Christchurch, New Zealand, provides insights into some of the insurance issues faced by the residents of this rural and lifestyle property community. A house, caravan, cars, sheds, fencing, shelter belts and plantations were destroyed in the fire. The major problems for

these residents, as found in the American and Australian studies, was that most of the residents found out after the fire that they were uninsured in certain areas (Kelly, 2007: 9). A couple said that their financial loss after the fire was \$NZ140,000 of which they were insured for \$NZ100,000. It is unclear whether this was due to the couple electing to underinsure, or from a misunderstanding about the level of insurance. Other interviewed residents advised that they had made the decision not to insure fences and livestock because they believed the premiums were too expensive for the risk involved. They made what they considered to be a 'calculated risk' by not insuring (Kelly, 2007: 116).

Kelly commented that one of the interviewees had lost a shed in the fire and did not realise until after the fire that it was uninsured (Kelly, pers. comm.). The resident advised that when they moved to this location from another rural location they consulted their insurance broker asking for the same cover they had at the previous farm property. They took this to mean that their outbuildings were covered under the policy. This was not the case, with the insurance company advising that sheds needed to be specified under the policy for them to be insured. The important lesson to be learnt from this example is that the resident should have received an updated policy wording or policy schedule after the conversation with the broker. Insurance documentation should be checked and, if there are any doubts about the cover, these should be clarified immediately.

In the 2000 Wither Hills (Blenheim) fire the affected parties did have insurance policies in place. The main problem was that they were underinsured or, in the case of some of the farmers, had elected not to insure a specific asset or protect against all eventualities due to financial restraints. Other farmers made what they considered a calculated decision based on premiums versus the likelihood of an event occurring. When discussing rural fires in their area most advised that even though fires occurred on a regular basis they did not believe that it would cause massive destruction.

3.4.2 Incorrect calculation of sums insured

Based on the accounts of fire damage in the USA, the major issues detailed were misunderstandings of the insured's role in calculating the sum insured that was required for dwelling and contents insurance policies (Schoen, 2004). American insurance companies provided replacement cover on dwellings based on a sum-insured basis. This is similar to the cover provided in Australia, but it is in contrast to most New Zealand insurance companies that provide replacement cover based on the total area of a dwelling (there are exceptions and these will be detailed in section 4.5). The central issue is whose responsibility it is to establish the sums insured under insurance policies. Don Halte, a resident affected by fires in San Diego, advised that he had a replacement policy with his insurance company, but when he came to claim he realised that he was underinsured by \$US200,000. In a hearing arranged by California Insurance officials to discuss the issue, he was quoted as saying "I thought replacement meant replacement... a gentleman here has a dictionary. Maybe I should look at it." (Schoen, 2004). The Carrols, a couple affected by the San Diego fire, said that they found out after the fire that their property was underinsured by \$US100,000. When taking out the insurance cover Mrs Carroll, who stated that she was fully aware of the risk of fire in the area advised the insurance agent that she wanted "full cover" (Treaster, 2004).

Treaster (2004) argued that the American insurance problems occurred because of major changes in the 1990s to the way that American insurance companies insured domestic dwellings. Prior to this, insurance companies offered what was referred to as an “unlimited sum insured” or “guaranteed replacement policy” (Treaster, 2004). From 1990 onwards most insurance companies changed to providing cover on a sum insured basis. Schoen (2004) also argued that major changes to the way that insurance companies in the USA underwrite risks have impacted on the insurance cover provided. Instead of insurance companies undertaking personal surveys of residential properties that are located in high risk areas they are relying on new forms of technology. This move away from a face-to-face approach was also of concern to Garamendi, California’s top insurance regulator, who argued that these new methods may leave some homeowners without the correct amount of insurance cover. Garamendi as cited in Schoen, 2004 states:

Insurance companies, in an effort to reduce costs, are using technology to the exclusion of the personal knowledge and review of an underwriter — to go and see the property. They’re making a very big mistake that may cost them dearly in the future, both in terms of losing a good customer and in terms of underinsuring.

In addition, there are major misunderstandings about who is responsible for calculating the sum insured of a domestic property. Most homeowners believe that it is the responsibility of the insurance companies to calculate the sum insured and charge the appropriate premium as they are ‘the experts’. However, as Treaster (2004) highlighted, insurance companies considered it the responsibility of the homeowner to calculate the costs of the insurance and to ensure that the sums insured are updated on a regular basis. Major problems therefore arise due to the incorrect calculation of the replacement sum insured of a dwelling when an insurance cover is implemented. This problem can be further compounded if the sum insured is not updated at each insurance renewal or if people add extensions to their property and fail to update the sum insured. The stance of the American insurance industry is that it is the insured’s responsibility to calculate the correct sum insured. This is also the case in Australia and New Zealand. Henri (2003), in relation to Australia, commented that people who live in bushfire-prone areas must ensure that they have the correct insurance cover in place. From Henri, 2003:

Opting not to insure at all is a folly but to underinsure such a valuable asset as one’s home and possessions is a disaster in its own terms. Underinsurance is a disaster that can be avoided. People choosing to ‘live among the gum trees’ must use insurance to its fullest extent to protect their assets.

The key point being made in these statements is that it is the responsibility of the homeowner or tenant of a property to ensure that they have adequate insurance cover.

3.5 Insurance Incentives

Winter and Fried (2000) surveyed residents affected by fires in rural Michigan. One of the residents interviewed suggested that there should be reduction in house insurance premiums if the dwelling was built using fire resistant materials (Winter and Fried, 2000: 43). Leonard and Bowdich (2003) also advocated that there should be “insurance incentives for individuals undertaking risk reduction initiatives - this can become a key motivator for education initiatives”. By this they are suggesting that if incentives were

available the promotion and uptake of risk reduction measures may increase. One of the recommendations made in the Australian National Inquiry on Bushfire Mitigation and Management report (cited in Vallence, 2005: 24) was that:

The insurance industry should do more to assist homeowners by providing advice on the appropriate level of insurance and providing discounts for those that undertake appropriate fire prevention measures.

In response, Chris Newland, the IDRO South Australia co-ordinator, argued that the recommendation was “impractical.” In his view (cited in Vallence, 2005: 24):

This system would allow home-owners to initially show they have systems in place such as fire pumps and a neat and tidy property to receive a rate reduction. If there is a claim the insurer can't prove whether the property has been continually maintained or not.

Smalley (2007), discussing the issue of incentives in America, made some valid comments that are also relevant to Australia and New Zealand. He argued that the “widespread notion that financial incentives of reduced premiums will encourage interface homeowners to apply Firewise⁹ mitigation measures voluntarily is weak”. He used the example that insurance premiums savings from installing a non-combustible roof would never be enough to offset the costs of the roof. In addition, a resident may have taken these measures to find that their insurance company have decided to exclude the risk of wildfire or the insurance company may decide at later stage to increase premiums.

It is important to note that even if an insurance discount was given for having risk reduction measures in place they are always going to be relatively minor premium incentives. For example, the following quote was obtained from a New Zealand insurance company website. The premium for a 120m² dwelling was \$373.11 inclusive of GST, of which the government levies were \$123.00. The premium that the insurance company collects is \$208.65. If the insurance company provided a discount for certain risk improvements it would likely be a 10 to 15% discount. In this instance, if the insured had installed risk reduction measures they might receive a discount of \$20 for a dwelling and an even smaller discount for contents on an annual basis. However, there is no guarantee that the insurance companies would continue to offer this discount on a long-term basis.

Smalley (2007) stated that people need to take more responsibility towards risk reduction measures. They needed to focus on protecting their residences and their lives rather than worry about what insurance incentives were available. Smalley also argued that once the focus changes to people assuming the management of their own fire risk we will see the development of more community based approaches to mitigating community hazards.

⁹ Firewise is a national fire protection association based in the United States of America. For additional information refer to website www.firewise.org/resource.

3.6 Summary

Based on the information obtained in this review of international literature, it is apparent that the insurance issues faced by residents after rural fires are similar in USA, Australia and New Zealand. The literature review revealed that the dominant insurance problems faced by communities devastated by fire are:

- Lack of insurance
- Underinsurance
- Lack of awareness of the terms and conditions of insurance policies
- Incorrect calculation of sums insured
- Lack of understanding of the jargon used in insurance policy wordings
- Mistrust of the insurance industry.
- Decisions made to deliberately underinsure – taking a calculated risk.

In the USA examples it was revealed that the incorrect calculation of the sums insured is a major factor in policy holders being underinsured. The Australian and New Zealand examples also stated that underinsurance and lack of insurance is a major issue. However, the major difference is in relation to farmers who have elected not to insure some assets, taking what they consider as a calculated risk. Other factors included that people mistrust the insurance industry, they do not understand insurance companies' jargon and they do not understand insurance companies' rationale behind their underwriting decisions.

The review also highlighted that insurance incentives may not be an effective risk reduction measure and that home owners and occupiers need to take more responsibility towards ensuring they have adequate insurance cover. However, most of the literature reviewed only discussed insurance in a limited form, with no studies providing any in-depth analysis of the insurance issues faced by communities. This is information that is extremely useful to enhance community resilience and recovery processes since it provides insights into the social and economic problems that face people after the devastating effects of these types of fires.

4. FARM INSURANCE POLICY

The aim of this section is to provide an overview of a standard farm insurance policy, detailing the different sections and the type of cover available. Policy wordings are updated on a regular basis with companies issuing new types of products. It is therefore extremely difficult to provide a comparison between the different products offered within the New Zealand insurance industry. Insurance companies or broker's policy wordings and conditions also differ, therefore policy holders must check their own policy wordings to ensure that they have adequate insurance cover in place. A standard farm package insurance policy will provide cover for the following:

- Farm assets
- Farm income
- Public liability insurance
- Statutory liability insurance
- Dwelling and contents insurance
- Motor vehicle and boat insurance.

4.1 Farm Assets

The farm assets policy is also referred to as a material damage policy and provides cover for accidental loss or damage to farm assets (excluding motor vehicles) subject to the policy conditions and exclusions. The policy holder should be aware of these conditions and exclusions. The policy will provide either replacement or indemnity value cover depending on the requirements of the insured and the insurance company policy wordings. Replacement value conditions means the insurer pays the cost of reinstatement of the damaged asset without deduction for age, wear and tear, on a like-for-like basis. The asset must be reinstated for this settlement basis to apply. Indemnity value means the settlement is based on the cost of reinstatement less a deduction for age, and wear and tear. Larger farm buildings normally need to be specified under the policy with other assets, such as farm implements, grouped together under one sum insured.

Most insurance companies provide cover for fences under their farm assets policies, provided that they are specified on the policy. However, one of the insurance brokers interviewed advised that broker policy wordings tend to automatically cover fences under the plant and assets sum insured, and therefore do not need to be stipulated as a separate item. He also suggested that for those farmers that insure direct with an insurance company that they check the limit as most policies have a limit of \$2500 which would be inadequate in the event of a loss. He advised it would be possible to increase this limit, but an additional premium would apply.

In addition, most farm insurance policies do provide a limited form of cover for stock as shown in the following excerpt from a New Zealand Insurance policy wording:

The policy provides cover for accidental death of livestock that occurs during the period of insurance that is caused by:

- a) fire, lightning, explosion or electrocution; or
 - b) aircraft or other aerial or spatial devices or articles dropped from them; or
 - c) impact by any vehicle; or
 - d) smothering caused by panic, arising from (a), (b) or (c) above;
- but only while the **livestock** are on **your rural property**, or held in an enclosure such as a building, covered yards, stockyards and the like.

4.2 Farm Income

Farm insurance policies also provide cover for loss of farm income (this section is also referred to as loss of profits or business interruption). The aim of this policy is to provide cover for any consequential losses that may arise following damage or loss of physical assets insured under a material damage or farm assets policy. The policy also provides cover for additional expenses and/or increased costs of working incurred and accountant's fees. (Increased costs of working are additional expenses that a farmer incurs in attempting to make their farm productive.) These costs must be approved by the insurance company before they are incurred). Any claim is settled within what is termed the "indemnity period", which is the time taken to return turnover to the level prior to the claim. The indemnity period is commonly set at 12 months to match the policy period, but can be amended to suit the particular circumstances, i.e. 18 or 24 months. For a claim to be paid out under this policy there must have been a claim payable under the farm assets section of the policy. For example, if the farmer's pasture land was the only asset damaged and it is not insurable, then there would be no cover for loss of profits.

4.3 Public Liability Insurance

Public liability insurance is essential for anyone living in, and advisable for people visiting, rural areas in New Zealand. A public liability policy responds to claims made against the policy holder for damage to third party property, for which they are legally liable. For a claim to be triggered there must be a legal liability established against the insured as a result of the action they took or did not take. Importantly, it is the plaintiff who must prove that the insured party acted negligently. Most insurers issue what is known as a 'Broadform Policy'. This policy responds on the basis of cover per "occurrence" and on the basis of a limit of indemnity per occurrence. Thus multiple claims can be lodged in any one insurance period. The minimum sum insured recommended by insurance companies is \$1,000,000. However, problems can arise if farmers have older-style policies that have not been updated and still have levels of cover of \$250,000 and \$500,000. They may not be aware of the level until a claim occurs. Therefore limits should be checked and, if the cover is insufficient, insured parties should approach their insurance companies or brokers to enquire about the additional costs to increase the limit.

Using the example of a fire that starts on a farm property due to the owners' negligence, i.e. a burn-off that is not handled correctly and burns surrounding properties; the affected neighbours would lodge a claim with their own insurance company. For any item that is uninsured or underinsured, they can attempt to lodge a claim against the insurance company of the party at fault. In addition, the insurance companies will also attempt to recover their costs. It is possible that neighbours and insurance companies could take the matter to court to recover any amount that is not claimable under the public liability policy.

However, disputes do occur over whether a person is liable or not for the spread of the fire, as was the case with the 2003 West Melton fire. In this instance, local residents attended de-briefing meetings held after the fire wanting to know the cause of the fire and who was to blame. This meant that the residents may have recourse to claim for their uninsured losses, especially if the party at fault had public liability insurance (Kelly, 2007: 47). The owner of the property where the fire started had burnt horticultural rubbish a month earlier and believed that the fire had been extinguished. However, the fire was still smouldering undetected and re-ignited on the 14th December 2003. The property owner did have public liability insurance, but their insurance company declined liability stating that their client was not legally liable for the fire. The insurance company argued that the property owner had taken all reasonable precautions to ensure the fire was out, but due to a number of "unforeseen events" the fire re-ignited thereby damaging neighbouring properties (Kelly, 2007:114). This meant that insurance companies that had paid claims for fire losses and residents who wanted to recoup some of their uninsured losses had no option but to take the matter to court.

Most public liability policies include an extension commonly referred to as 'Bodily Injury Liability – Exemplary Damages'. This extension covers the insured against legal action for exemplary and/or punitive damages. In this instance a plaintiff would bring an action where personal injury resulting in death or serious injury has been caused by the serious misconduct of the insured policy holder. The taking of an action for exemplary and/or punitive damages is a means of circumventing the restriction imposed by the Accident Compensation Corporation (ACC) regime in New Zealand. If the Court accepts that the organisation is negligent then the insurance policy will cover the defence costs and the amount awarded up to the sum insured stated in the policy.

The public liability policy also provides an extension for costs associated with the Forest and Rural Fires Act 1977.

4.3.1 Forest and Rural Fires Act Extension

In New Zealand two fire management systems exist. The urban fire areas are covered by the New Zealand Fire Service (NZFS). This area accounts for 2% of New Zealand. The remaining area is covered by a rural system that is managed by 86 Rural Fire Authorities such as district councils, rural fire committees and the Ministers of Conservation and Defence. The rural system operates under the Forest and Rural Fires Act 1977 ('the Act') and related statutes and regulations (Johnstone, 2003).

Section 43 and Section 46 of the Act will be discussed in this section, as insurance cover can be obtained to meet the legal requirements of these sections. Section 43 of the Forest and Rural Fires Act states that recovery of fire costs associated with the "control, restriction, suppression, or extinction of the fire" can be obtained from the person responsible for the fire (Forest and Rural Fires Act 1977:43). This appears straightforward in that if someone is responsible for starting the fire then they will be held liable for the fire suppression costs. It is extremely important to note that this applies to any person that starts a fire, whether they are a resident or a temporary visitor to a rural area. This is in addition to the costs of damaged third party property which is covered under the main body of the public liability insurance policy.

Section 46 of the Act, which states that the Fire Authority can levy costs for fire suppression to "Any landowner in respect of any land in the district" and "Any owner, lessee, licensee, possessor, or occupier of any property which is in the district at the time of the fire and was menaced by the fire" (Forest and Rural Fires Act 1977:45-46). This means that if the Fire Authority is unable to recover the costs from a negligent party, then the Act provides for the Authority to levy costs as stated above. However, Knight and Dudfield (2002) note in their presentation to the New Zealand Law Association conference that:

The Fire Authority has a wide discretion to determine the allocation of the levy but is obliged to take certain matters into account:

- *Value of property saved.*
- *The fact that fire-fighting operations were directed to save particular property.*
- *The extent of assistance rendered by people levied.*
- *The extent of loss suffered by any person.*
- *Such other circumstances as the Fire Authority considers relevant.*

A standard liability policy wording from Vero Insurance: Agriplan policy (accessed from www.veroinsurance.co.nz)¹⁰ provides the following cover:

We will cover you for your liability under the Forest and Rural Fires Act 1977 arising from any one event occurring during the period of insurance for:

¹⁰ This policy information was accessed in 2007. Insurance companies regularly update policy wordings therefore this may not be a current policy wording.

- a. *costs and levies under sections 43, 46 and 46A incurred and apportioned by any Fire Authority; and*
- b. *costs claimed by any other party in order to protect their property from fire.*

However, we will not provide cover where your liability arises directly or indirectly from any fire you lit intentionally that did not comply with the Forest and Rural Fires Act 1977 or any other statutory or local body requirement governing the lighting of fires.

We will pay up to the amount shown on the schedule. This amount includes legal costs.

You are only entitled to payment of this benefit under one section of this policy or under one policy with us.

We will not pay more than the amount shown on the schedule (plus legal costs and expenses incurred with our consent) in total for any legal liability (whether pursuant to this Act or otherwise) arising out of any one event.

Most current farm policies provide a limit of \$1,000,000. However, if policies have not been updated or upgraded for a number of years then a lower limit of \$250,000 may apply.

There are however, some issues with the Forest and Rural Fires Act 1977. An article from Richard Johnstone, a lawyer with Wynn Williams and Co who has vast experience in this area, highlighted some of the concerns¹¹. Johnstone (2003) provided a brief summary of the case of Tucker v New Zealand Fire Commission held in the High Court to highlight that Section 43 of the Act “is drafted poorly”. This case related to an incident in 1997 when one of the tyres being transported by Mr Tucker burst causing sparks, which ignited a fire on the roadside. With the windy conditions on the day the fire spread to surrounding properties. The costs of fighting the fire were approximately \$20,000. The NZ Fire Service Commission and the Minister of Conservation (the responsible fire authority) held Mr Tucker liable for these costs. However, Mr Tucker denied that he was negligent, stating that he had done everything that he could to ensure that his truck and trailer unit was secure. In response, the NZ Fire Service Commission stated that it did not matter whether Mr Tucker was negligent or not as “the law imposed strict liability” (Johnstone, 2003). From the position of the NZ Fire Service Commission, this meant that Mr Tucker was liable for the fire suppression costs as his vehicle had started the fire. The case was first heard at the District Court level and found Mr Tucker liable for the fire suppression costs. The matter then went to the High Court as Mr Tucker appealed this decision. The High Court found in favour of Mr Tucker with Justice Young stating that Mr Tucker was not at fault as he was driving a well-maintained truck and trailer and was not aware that a tyre had burst. As Johnstone (2003) reported Justice Young held that the combination of events which produced the fire was “extraordinary and therefore Mr Tucker did not cause the fire”.

¹¹ Further information about this case can be located on the Wynn Williams and Co website <http://www.wynnwilliams.co.nz> and Kelly (2005) report. Knight and Dudfield in their presentation to the New Zealand Law Association conference in 2002 also mentioned the case of Hollamby vs. Attorney-General (unreported, Blenheim HC, M24/82, 31 March 1983, Chilwell, J).

The above example highlights that anyone residing, working, or visiting a rural area needs to be aware of their potential liability. Johnstone (2003) states:

If you light a fire, whether to burn garden rubbish or paddock stubble, or to cook up your sausages on the barbecue, you will be personally liable for all of the consequences if the fire escapes. If a fire starts accidentally, say from a spark from a tractor exhaust, you will be liable if ordinarily you would know there was a risk, or should have known there was a risk, and had not taken precautions.

With the development of new subdivisions and lifestyle blocks located in rural fire districts, some property owners may not be aware of their requirements under the Forest and Rural Fire Act and its amendments. If the residents have domestic dwelling and contents insurance (this will be discussed in more detail in Section 4.5) they do have liability cover that includes the forest and rural fires extension. However, major problems exist for people that do not have any insurance cover, or if the cover is inadequate.

With regard to the 2000 Wither Hills claim the estimated losses from this fire, including damaged or destroyed assets and loss of farming revenue, was estimated at being in the vicinity of \$4-7 million. In addition, the fire suppression costs were nearly \$700,000. Using this as an example, assume that the total costs associated with the claim were in the vicinity of \$8 million and a farmer was considered legally liable. Also assuming that the farmer had public liability insurance with a limit of indemnity of \$1,000,000 and an additional \$1,000,000 cover for the Forest and Rural Fires Act extension. In the Wither Hills case there would have been adequate cover for the fire suppression costs of \$700,000 but, the general limit of \$1,000,000 would have been inadequate to cover damaged or destroyed assets. While the Wither Hills fire was an extreme fire event, it is conceivable that even a small-scale rural fire could possibly cause millions of dollars of damage, especially where high-value assets are destroyed (such as timber). It is possible to increase the limit of the public liability insurance and the Forest and Rural Fires Act Extension. Policy holders need to contact their insurance advisor to obtain quotations.

Kelly (2007: 117) found that most of the residents affected by the 2003 West Melton fire reassessed their insurance policies, but that many did not make any major changes to their policies except for their public liability insurance which they increased the limit to \$1,000,000. With regard to the Wither Hills study, farmers were asked if they had public liability insurance and if they were aware of their obligations under the Forest and Rural Fires Act. All of the farmers confirmed that they did have this cover in place, but most were unsure of the limits under their policies. No one mentioned that they increased this cover after the fire.

4.4 Statutory Liability Insurance

Farm policies also offer Statutory Liability insurance. This policy provides cover for fines, penalties and legal costs resulting from an innocent breach of an Act of Parliament. This type of policy caused unease in some quarters when first promoted by the insurance industry as essentially its detractors saw it as a way of organisations abdicating their responsibility for breaking the law. The insurance industry argument was the wording of the policy made it clear that only unforeseen events were covered and deliberate acts were excluded from cover. Notwithstanding this, the Government made it illegal in 2003 to provide cover for any fine issued under the Health and Safety

in Employment Act 1992 (HSEA). In relation to the HSEA, the policy does not cover any fines, but any reparation is awarded and the legal costs are insured.

4.5 Dwelling and Contents Insurance

Farm package policies also include cover for dwelling and contents insurance. These policies provide cover for accidental loss or damage to the dwelling and contents subject to the policy conditions and exclusions. As mentioned previously, New Zealand insurance companies, in most cases, provide replacement cover on dwellings based on the total area of the dwelling. There are some exceptions. If the dwelling was built prior to the 1930s and has not been rewired or re-plumbed then insurance companies may offer replacement cover based on a sum insured. If there are concerns about the age and the state of the building, insurance companies may elect only to offer indemnity value. With regard to contents insurance, policyholders are required to calculate their sum insured. Most insurance companies provide a calculation guide in order to help people ensure that they have the correct cover. The sum insured should reflect the costs of having to replace household contents and personal effects in the event of a total loss occurring, such as a fire or an earthquake. The settlement is based on the policy cover provided and differs between insurance companies. Dwelling and contents policies also have a public liability extension sometimes referred to as occupiers and personal liabilities, and in the case of a tenanted property, tenants liability. Most modern policies have liability extensions with a limit of indemnity of \$1,000,000 and a limit of \$1,000,000 for the Forest and Rural Fire Act Extension.

4.6 Motor Vehicle and Boat Insurance

Motor vehicles and boats can also be insured under a farm policy. With regard to motor vehicles, insurance companies provide cover for accidental loss of or damage to specified vehicles. If a vehicle is partially damaged the policy responds by repairing the vehicle. If the vehicle is totally destroyed or stolen then the basis of settlement differs between insurance companies. Some policies only provide cover for the market value of the vehicle at the time of the loss. Other policies will provide replacement cover of the vehicle if it is less than 12 months (from the date that it was manufactured). Farm implements and agricultural machinery are normally only covered for market value. Some policies insure trailers automatically up to a value of \$1000 while other insurance policies require that trailers are specified under the policy. Another option is third party liability insurance which is a policy designed to protect drivers for damage to other property rather than providing cover for the insured's own vehicle.

Boats can also be insured with the policy providing cover for accidental loss of or damage to the boat or boats specified in the schedule as well as providing liability cover.

4.7 Summary

There are a number of extensions, clauses, conditions and exclusions that apply to each of the above sub-sections. An excess/deductible (the portion of an insurance claim that the policy holder is responsible for) also applies per sub-section. The intention of this section was to provide an overview of the type of policies that are available and to draw attention to insurance cover for fences, stock and, farm income. Most of the farmers affected by the Wither Hills were either uninsured or underinsured in relation to these types of cover. Another aim was to highlight how important it is to have adequate public liability insurance including the Forest and Rural Fires Act Extension.

5. CASE STUDY – WITHER HILLS

The 2000 Wither Hills fire, the largest grass fire experienced in New Zealand since 1983, burnt through 6159 hectares of farming land destroying fences; water pipes; livestock; forests; and the Wither Hills Farm Park, a farming and recreational complex owned by the Marlborough District Council (MDC). The fire was reported to the NZFS Communication Centre at 1601 hrs on 26 December 2000. Fire investigators were unable to ascertain the actual cause of the fire, but they did establish that it began on a grass verge on Taylor Pass Road, between the Omaka Cemetery and the Wither Hills walkway (Darragh et al., 2000). This is an area approximately 5km from the main business district of Blenheim where residential, commercial and rural properties are located. It took nearly twenty hours before the fire was contained. The fire was officially declared extinguished nearly 3 months later on the 14th March 2001. The Wither Hills was returned to its pre-fire condition over time with financial reimbursement of insured losses from the Council's insurance companies, a grant obtained from several Government departments, and assistance from residents. The 2000 Wither Hills fire placed many of the affected farmers in dire financial positions, as it was nearly two years before they derived an income from their land. The majority of the farmers did not have adequate insurance cover, but they were able to rebuild their lives with some of their losses covered by insurance and grants, hard work and help from family and friends.

It must be noted that a wildfire of the extent and impact off the 2000 Wither Hills fire could occur again at any time in the Blenheim area as Marlborough has one of the driest climates in the country and experiences prolonged periods of extreme fire risk most years. This is reinforced by the findings from research to describe fire climates in different parts of the country (Pearce et al. 2003, Pearce and Clifford 2008) that ranks Marlborough as having the most severe fire climate in New Zealand. The likelihood of similar fire events in Marlborough and other areas of the country is also increasing as a result of climate change, with New Zealand likely to experience more severe fire weather and fire danger, especially in the Bay of Plenty, east of both the North and South Islands and central (Wellington/Nelson/Marlborough) regions in the future (Pearce et al. 2005, Pearce and Clifford 2008).

5.1 Research approach

The MDC, which suffered extensive damage as a result of the fire, was involved in arranging the de-briefing meetings held after the fire and knew a number of the farmers in the region. The first point of contact was therefore with the Council employee who was involved in the preparation and ongoing issues in relation to the Council's insurance claim. Archival information about the fire and the MDC claim were provided by the Council. In addition, appointments were arranged with seven key personnel that were involved in the fire suppression operation and with Civil Defence and Emergency Management. Interviews were undertaken in December 2006. The actual fire issues are detailed in a report on lessons learnt from the Wither Hills fire (Graham and Langer, 2008).

The MDC also provided the name of a farmer who was able to provide details of other affected farmers and their contact details. According to the Federated Farmers of New Zealand Inc. report (2001: 3), the total number of farm properties affected by the

Wither Hills and nearby Ward¹² fire were 19 pastoral farms, 2 lifestyle blocks, 6 olive groves and 1 small vineyard. Several farmers were approached, with six farmers agreeing to be interviewed in February 2007. Even though only six farming families were interviewed, they provided a wealth of information about their experiences during and after the fire. To protect the identity of these farmers, they will be referred to throughout the report as Farmer A, B, C, D, E and F. The location of their farms is also not disclosed.

All of the farmers interviewed were acutely aware of the fire risk in their region, but even with this awareness none were prepared for the scale and magnitude of the Wither Hills fire. As farmer D said:

I think, because it was so foreign to Marlborough, it was not like if you lived in Australia and you had these fires time and time again. But to Marlborough it had never happened, and it was so foreign. Somebody said to me the other day 'it won't be the last one we have' and I thought – it's weird, because I sort of think it's one in a hundred years, or one in two hundred years. Yeah, it's funny to say it won't be the last one...

Farmers were unable to state accurately the financial costs of the fire due to the time delay in undertaking this research and because they all wanted to forget this traumatic event. However, Federated Farmers estimated that the damage to assets in the region was approximately \$1 million. In addition, to these costs it is estimated that the loss of farming income to the region to be somewhere in the vicinity of \$3-6 million (Federated Farmers of New Zealand (Inc) 2001: pp3-4).

5.2 Findings

Of the six farming families, one had extensive farm insurance cover in place, but like the other farmers did not have any loss of profits or farm income insurance. This was a major issue because it was two years before farmers were able to derive an income from their land and most of the productive land was destroyed by the fire. Farmers that were uninsured or underinsured in specific areas seemed very accepting of their lack of insurance. However, it is possible that if the interviews had taken place immediately after the fire then the farmers may not have been as accepting of this matter. Five of the farmers interviewed were satisfied with the insurance settlement and the time that it took insurance companies to settle their claims. One farmer experienced some initial problems with his claim but it was settled to the agreement of both parties involved.

Of the six farmers interviewed, three were insured with an insurance company and three arranged their insurances via an insurance broker. Most of the farmers were not fully aware of their policy cover and were not aware of when their policies were last updated. The exception to this was Farmer C, who used the services of a Christchurch based insurance broker and annually updated his insurance cover. It appeared that Farmer C had the most comprehensive insurance cover in place of all the farmers interviewed.

¹² The Ward fire ignited at approximately 9 am 26/12/2000. Ward is located approximately 46 kms from Blenheim. The obtained reports do not provide a breakdown of the separate damage and costs (see Section 5.3.1) of the Wither Hills and Ward fires.

The farmers' accounts of their damage and the role of insurance indicates that having appropriate levels of insurance and an understanding of their insurance policy cover assisted in the recovery process. Nevertheless, there were additional costs that the farmers faced that were uninsurable, such as associated costs with re-seeding the land and fighting the resurgence of weeds, in particular nassella tussock. The farmers did receive some assistance for re-seeding from a grant obtained from the Ministry for the Environment and the Ministry of Economic Development. In addition, they received help with weed control from the MDC, but the majority of the costs had to be met at a time when farmers were not receiving any income from their land.

5.3 Wither Hill Farmers Insurance Issues

The Insurance Council of New Zealand estimates that 30-40% of people residing in rural communities are uninsured¹³. Most of the farming families affected by the Wither Hills fire had insurance policies in place but were underinsured or had no insurance for damaged items, such as fences, stock, etc. (Federated Farmers of New Zealand (Inc), 2001 and interviews). All of the farmers interviewed commented that they believed they would experience problems dealing with their insurance companies after the fire, but as Farmer A stated this was not the case:

I thought oh here's another fight and the fella [insurance assessor] came along and said "look you have been through enough. They were good.

All of the farmers acknowledged that they were unhappy that some items were uninsured, but they appreciated how quickly the insurance companies settled their claims, with five of the six farmers receiving reimbursement of their insured losses within a few weeks of the fire. One of the farmers was unhappy about an exclusion that applied under his policy and argued that the policy wording was ambiguous. He was successful and obtained an ex-gratia claims settlement from his insurance company¹⁴. He subsequently changed his insurance provider, placing his business with the Farmer C's insurance broker. Farmer F was the only other farmer that changed their insurance arrangements after the fire.

5.3.1 Fencing

Federated Farmers of New Zealand Inc (2001: 4) estimated that approximately 250 kilometres of fencing was destroyed in the Ward and the Wither Hills fire, with estimated repair costs of \$750,000. All of the farmers interviewed suffered extensive damage to fencing with Farmer C being the only farmer to have adequate cover for his fences. Farmer F did have insurance cover, but realised after the fire that they were underinsured and received a settlement of one-fifth of the replacement costs. This was similar for Farmer A, who received 50% of replacement costs. Farmers B, D and E assumed that their insurance policies would cover fencing, but found out after the fire their fences were not insured because the fences were not specified in their insurance policies.

Farmer B estimated that the initial cost to replace fences was approximately \$4000, but this was only a fraction of the repair costs, as he elected to repair the fences gradually.

¹³ The ICNZ estimated 40% of the rural communities affected by the 2004 floods were uninsured (Stock, 2006). It was estimated that 30% of the people in Canterbury region during the 2006 snow storm were uninsured (Espiner and McKenzie-McLean, 2006).

¹⁴ As this claim was settled ex-gratia the circumstances of the claim cannot be disclosed.

Farmer D estimated that the initial costs were a few thousand dollars and, like Farmer B, repaired the fences as required. In speaking about the discussion with his insurance company after the fire Farmer B said:

I found that my water reticulation was covered, but my fences weren't. And I had an extensive farm package; I thought that fencing would have been a fixture. But he said, no, they had to be stipulated. So it cost me a little bit extra in repairs for the fences, but because it wasn't fully covered, any cover, we kept it to a bare minimum. So we're now only doing the repairs as required. We do the essentials.

5.3.2 Stock

Stock losses from the fire were estimated at \$164,000 (Federated Farmers of New Zealand (Inc) 2001: 3). Of the six farmers interviewed, four had insurance in place to cover their stock but some did not lose any stock. Two of the farmers did not have insurance on their stock as they were unaware that they could obtain insurance cover. Farmer D was one of the farmers that did have insurance and he was pleased to receive a claims cheque for \$10,000 within a week after the fire, but they were dramatically underinsured. In his words:

I don't know why, but I did have cover. But unfortunately it was undervalued. I had a figure on it, just a tally, and of course when I valued the stock, when it was taken out they were worth say \$30 a head. When the fire happened, they were probably worth \$50 a head. We got the maximum we could claim – they didn't even question the tallies or anything. So we were lucky, we got the full payout and within a few days we got the money in our hands. It was brilliant.

As he notes, the value of his stock had increased since he had first insured them, but the sum insured had not been increased. In speaking to a broker about whose responsibility is it to ensure that the stock sums insured are adequate, he advised that the onus is on the insured farmer to establish the sum insured and ensure the values are updated on a regular basis.

Insurance issues relating to stock losses were not the only stressful factor. Farmers F and D commented on the emotional costs of having to destroy injured sheep after the fire. In Farmer F's words:

We went out and assessed what the damage was, what stock – and we had to put a lot of stock down and that was pretty tough. That was probably the hardest day, emotionally. You sort of think: shit, you put all this work into getting these stock and here you are shooting them. But you had to do it to be humane with them. So we did that, and we had a lot of help, a lot of support. And then on the Friday, you sort of think you can't cry over spilt milk, it's happened, you've just got to roll your sleeves up...

Another dilemma faced by all of the farmers was what to do with their remaining stock, as the fire had extensively damaged their pastureland. Most of the farmers made the decision to keep their stock and move them to other sites. This was a stance recommended by Tony St Clair, from Federated Farmers, who was quoted as saying that people were in shock immediately after the fire. His advice was "don't get rid of all

your stock - feed on the farm where you can ... psychologically farmers are far better off if they have some livestock around” (St Clair cited in Webb, 2000). However, this was a decision that most regretted as Farmer D revealed:

It was too big a stress, and they came out – it was wicked, I should never have – they got overstocked up there and they starved to death, some of them. We had to get them out in a hurry in the end and we had cows calving in the truck coming home, things like that. No, it was wicked.

Farmers C and E advised that, because of the poor condition of their stock once they were returned they had no option but to sell them for a lesser amount than they normally would have received. All of the farmers that made the decision to move their stock advised that if this type of event occurred again they would sell the majority of their stock immediately.

This was the stance taken by Farmer B who advised that, while he sold his stock at a slightly lower price than what he would have normally received, he believed that in the long-term this was the correct economic position to take. The most upsetting issue for him was the decision to sell some of his key breeding stock, which meant that some of the bloodlines were gone forever.

5.3.3 Loss of Farm Income

All of the farmers said that it was nearly two years before their land was productive again. For some of the farmers, they were only just returning in 2007 to a similar income as it was prior to the fire. Farmer F spoke of the issues they faced following the fire:

Because we had the fire and with the drought that didn't break until August, September, so we went from January to August, September with a moonscape for basically 12 months. Then we had another 12 months to let things come away and get cover back on the ground before we could re-graze it. So, probably 18 months that we never had stock from the point of the fire, back on the property. And then obviously from that 18 months you're waiting probably another 6 months before you actually show true income coming off the land again...

None of the farmers had cover in place to reimburse them for their loss of income following the fire, and most of them commenting that they were unaware that they could obtain this type of cover.

While none of the farmers had loss of profits insurance, Farmer C did have an extension under his farm asset policy that allowed him to claim for some of the additional costs incurred. This policy provided reimbursement for the costs associated with transportation and relocation of their stock and for some of the costs associated with leasing additional land. This type of policy provides cover for any additional costs that an insured incurs that assists the insured in maintaining their business operations. The extension stipulates that there must be loss of or damage to insured assets before this extension applies. The maximum cover under this extension is \$25,000 “for any one accident” (New Zealand Insurance Farm Insurance policy wording). While New Zealand Insurance includes this cover as an automatic extension at no additional cost, farmers should check their insurance policies to ascertain if they have this extension.

In speaking to the farmers about changes made to their policies after the fire only one had taken out loss of profits insurance, even though this is a reasonably inexpensive insurance product. The other farmers had not even enquired about the cost of this policy which was interesting as having this type of cover in place would lessen some of the financial burden faced by the farmers in the event of another fire occurring. When asked about this issue their response was that they believed that it would be unlikely that they would suffer a loss of that magnitude again.

5.3.4 Forest Insurance

Farmer D was the only farmer interviewed who owned a forest block. Forest insurance is not covered under a farm insurance policy - a separate policy needs to be taken out. Farmer D was very aware of the importance of insuring what they thought was a 33 hectare forestry block, as there had been at least six fires in the region that year. Federated Farmers of New Zealand Inc. report (2001) stated that 40 hectares of forest were lost in the fire. However, this is incorrect as the MDC lost 55.2 hectares, Farmer D lost 43 hectares and he advised that other farmers had also lost forestry blocks. It was not until after the fire that they realised that they were underinsured. In Farmer D's words:

So the forestry insurance – we'd assessed the area initially with the forest bit. And when we came to make the claim the insurance assessors put a helicopter up and took photos of the area, and then got a draftsman to plot the area, and we were under-insured by about 10 hectares. So we got the maximum, but we couldn't get any more. Of course that was disappointing... But the maximum was for re-planting as well – we didn't get the forestry insurance if we didn't re-plant. We had no choice, we re-planted.¹⁵

Farmer D advised that he had attended a forestry field day after the fire and spoke to a number of the other farmers that had lost forestry blocks in the Wither Hills fire. He was surprised to find that most of them did not insure their blocks, with one uninsured farmer saying that the fire had cost him "a few hundred thousand dollars". He said that most of the people he spoke to did not insure their forest blocks because they believed that the insurance premiums would be too expensive. They were shocked to find out that the initial cost of insurance was only \$400 to \$500. A survey undertaken by the New Zealand Forest Owners Association in 2005 revealed that of the 64 responses received regarding insurance "38 respondents (64%) indicated that they were insured for fire, 26 (36%), were not". For those who did not have insurance several reasons were given such as "own protection, dispersed estate, cost, prepared to absorb the loss, low or no risk" (Pearce, 2007).

5.4 Land – an uninsurable asset

For all of the farming families, the biggest obstacles they faced was getting their land back to a similar condition as prior to the fire and fighting the resurgence of weeds. It is not possible to insure farmers' pasture land against the risk of fire, so this was a cost that farmers met at a time when they had no income. The drought conditions of the time compounded this problem. The farmers did receive assistance from the grant from the Ministry for the Environment and the Ministry of Economic Development. The MDC

15. In this quote Farmer D states "we didn't get the forestry insurance if we didn't replant" what he means is that the policy would not respond if he elected not to replant. Additional information about forest insurance is included in Section 6 on the MDC insurance claim.

distributed these funds to farmers in accordance with strict guidelines with the funding proportioned as follows (MDC facsimile held in archival records, 27/07/2001):

MDC to farmer =	Share of recovery funding (calculated by area)
Less	Seed cost
Less	Seed Application
Less	Fertiliser Application
Less	Freight

Payments to affected farmers ranged from \$1500 through to \$27,000, depending on the size of the affected property (Allocation of government funding: MDC facsimile held in archival records, 20/07/2001). In addition to the funding, the MDC also assisted the farmers by supplying labour to help with the removal of weeds.

The other major issued faced by the farmers were the costs incurred in having to eradicate weeds, in particular nassella tussock. The presence of nassella tussock is an ongoing issue for farmers, but the fire compounded the problem as the tussock came back stronger after the fire. As Farmer C commented:

Well that's been the biggest problem we are facing now. And it's tussock, gorse, broom – all those seeds germinate with the fire. And it cracks the hard seed of a lot of our noxious weeds, and they germinate... It was there and it was reasonably easily – well, there was a cost every year of controlling, but that cost would have, in the last few years... but 3, 4 years, it would be costing four or five times as much. And actually the rate for doing it hasn't gone up very much in those years... so the fire definitely, definitely germinates a lot of that seed that's been dormant in the ground.

Farmer F also provided an insight into the costs involved in fighting weeds:

Like on this property here we were paying around \$10,000 a year for nassella and that doubled, and that was for about 3 years after. Even now the tussock is quite bad. There's a lot of areas that had scrub and things covered, so the weed seed was suppressed because it was shaded out with scrub and things. All that scrub got burnt off so all of a sudden there's an opportune time for all that seed that was sitting in the ground just went Boom... So that's been quite a huge cost....

In Farmer F's case, the costs of fighting the weeds doubled at a time when they were receiving no income. This placed them in a dire financial position for a number of years after the fire.

5.5 Reflection on the fire and changes made after the fire

Even though most of the farmers were not adequately insured, nobody commented on any animosity towards the insurance companies as most of the claims were settled extremely quickly and without any major stress. Most of the anger about the fire was directed towards the Marlborough District Council and the fire authorities. This is discussed further in the report which focuses on lessons learnt from the Wither Hills fire (Graham and Langer, 2008). While none of the farmers interviewed were able to state accurately what the financial cost of the fire was to their farms, Farmer B estimated that

it would have been in the tens of thousands. They all commented that it affected them financially and emotionally as Farmer F's wife said, "it's been tough. Certainly afterwards, probably the first two or three years afterwards, I think that financially and emotionally – you're tired, I guess as a farmer you just move on".

Farmers were asked what changes they had made to their insurance policies because of the fire. Farmer A advised that they did not make any changes. They did not consider taking out loss of profits insurance or investigating whether they could get replacement cover on fencing. When asked why, they advised that they had gone through so much after the fire they did not want to make any changes. Farmer B changed to Farmer C's insurance broker, as it appeared that they had superior insurance cover. Farmer D, who was one of the farmers hit hardest by the fire, reassessed their insurances, increased the cover on their stock and insured their fences. They now feel that they are adequately insured. For Farmer F, one of the biggest lessons they learnt from the fire was to be aware of what they were insured and not insured for and to update policies regularly. They were with an insurance company at the time of the loss and while not unhappy about the claims settlement and service, they believed that they would obtain a better cover and advice by dealing with an insurance broker. They have now arranged cover for loss of income. Farmer E did not amend their insurance policies but they did sub-divide their land selling off the majority to surrounding vineyards. They had been considering sub-dividing for a while and the fire prompted them to make the change.

Farmer C was completely satisfied with his insurance arrangements at the time of the fire. He had a good working relationship with their insurance broker and trusted them to arrange the appropriate insurances for their requirements. Even though he had adequate insurance cover in place he advised that most farmers do not fully insure. In his words:

None of us insure up to the max, and that's where the Council had the advantage. They were insured right up to the max. Because farmers doing budgets, with restraints, you're always doing a bit of a compromise, and say, 'right, we'll insure up to this amount and that amount.' And I think some did have trouble – well, they didn't have insurance and not, and to what level it was insured. I mean some insurance companies are very good and keep everything up to date. And perhaps that's why we went to a broker, really, more than anything else – we weren't getting service of updating things as much as we should.

One of the insurance brokers spoken to advised that most brokers attempt to meet with their farming clients on an annual basis to update their insurance policies. He advised that most of his farming clients make the renewal date of their policies the same time as the completion of their annual accounts. This means that when he contacts them to arrange a renewal meeting, they are too busy with other issues. He recommended that farmers should consider either changing their renewal date to a time in the year when they are not as busy, or keeping the existing date but making time later in the year to discuss their insurances. He said that he often uses actual events like the Wither Hills fire to make clients aware of the issues they can face, but most of the time his clients do not believe it will happen to them.

Having adequate insurance cover, knowledge of their insurance cover and knowing who to contact after the fire helped Farmer C cope with the aftermath of the fire. However,

like all of the farmers, they still had to deal with the destruction of their land and associated stresses, which cannot be insured against.

6. MARLBOROUGH DISTRICT COUNCIL INSURANCE CLAIM

6.1 Background information

Based on information provided by the Marlborough District Council (MDC), it was estimated that the insured loss (including fire suppression costs) was approximately \$1.5 million. Following the fire, the Council identified three areas where they did not have insurance cover: water reticulation systems; non-production tree plantings; and pasture reinstatement. The total costs of these uninsured items are not known except for the pasture replacement. The Council obtained funding from the Ministry for the Environment for \$186,000, and \$439,000 from the Ministry of Economic Development that assisted the conservation efforts of the Council and the community. A grant for \$15,000 was also received from the Ministry of Agriculture and Forestry to assist in the recovery process. Without adequate insurance cover and assistance from the Government, the Marlborough community may not have only lost a valuable community asset, but potentially ratepayers could have been called on to assist in the financial costs associated with the re-establishment of the Wither Hills Park.

The Wither Hills fire of 2001 affected the Council in relation to insurance issues in the following areas:

- (a) Recovery of fire suppression costs in its role as the Rural Fire Authority
- (b) Recovery of costs incurred for losses to the Council's assets.

From interviews with staff from the MDC, it was clear that the Council had adequate insurance cover in place. There were some issues with regard to policy cover and settlements, but these were resolved to the satisfaction of the Council. They advised that they have regular meetings with their insurance brokers to ensure that they have adequate cover and that the claim was handled efficiently with assistance from their brokers.

6.2 Material Damage and Business Interruption

The Council's material damage policy provided cover for the damage incurred to Council assets, such as recreational facilities and equipment, stock and fencing. This policy provided either replacement or indemnity value cover depending on the basis chosen by Council for the various assets listed in their insurance schedule. The policy also provided cover for an additional \$1 million for property not declared on the schedule of assets¹⁶. Their insurance company appointed a loss adjuster to assess the loss. There was an issue about whether or not fences were covered under the asset policy, but it was agreed that as the policy wording did not exclude fencing then it would be covered as undeclared assets. The claim under this policy was initially assessed at \$721,617.50, with \$565,635 allocated for the cost of replacing fencing. However, the Council experienced time delays with replacing the fencing due to the lack of available

¹⁶ The intent of this cover was to provide some measure of safeguard for an asset inadvertently omitted for the schedule of assets supplied as the basis for insurance.

contractors, as most fencing contractors were occupied with work supplied by local vineyards. Their insurance company made a provisional payment of \$350,000 (GST inclusive) to MDC in April 2001, pending final accounts. It was subsequently found that the estimated cost for the re-fencing had been over-estimated, with the actual repair costs being \$523,487. Final accounts were received and the final settlement was made in December 2004.

In addition to the material damage policy, the Council also had a business interruption policy which provided cover for losses resulting from the claim under the material damage policy. This provided cover for lost rental and additional expenses. This loss was assessed at \$14,299.61 (including GST), for rental, rates and insurance costs. The claim under this section was settled in August 2003.

6.3 Recovery of fire suppression costs

As the Rural Fire Authority for the district, the MDC is able to obtain recovery of costs incurred in the suppression of a fire from the National Rural Fire Fighting Fund (RFFF), administered by the National Rural Fire Authority (NRFA). The Forest and Rural Fires Act 1977 and its Amendments set out the basis on which the fund will reimburse costs incurred. The fund can reimburse up to 95% of the costs (less an excess of \$1,000), subject to appropriate supporting documentation. The Act requires that any incident that is likely to be a claim on the fund must be notified to the National Rural Fire Officer within 24 hours of the fire being reported. The Rural Fire Authority must then lodge the claim with the NRFA within 3 months of the date of the fire, regardless of whether the full costs are available, with the full claim submitted within one further month (Refer to National Rural Fire Authority circular 2007/07 for a full explanation). To safeguard itself against the financial implication of either failure of the fund to reimburse the costs and/or the shortfall received from the fund (i.e. the 5% not payable by the fund and/or costs not payable under the Act), a Fire Authority can insure this exposure under a Forest and Rural Fires Costs Reimbursement Policy.

A Forest and Rural Fires Costs Reimbursement Policy does not cover any costs that are recoverable from the Rural Fire Fighting Fund or other party, i.e. a landowner. The policy contains an exclusion to the effect that if a claim has not been lodged against the RFFF in terms of the Act requirements then the claim can be voided. Rural Fire Authorities can establish the limit required, but the maximum sum insured offered by insurance companies is \$5 million¹⁷. At the time of the Wither Hills Fire, the MDC had a Forest and Rural Fires Policy in place with their insurance company for \$1 million with an excess of \$2,000 per claim. The Rural Fire Fighting Fund reimbursed \$616,308.99 of the \$670,136.97 claimed by the MDC (plus GST) less a \$1,000 excess. The Council then received reimbursement of the shortfall from their insurer, less a \$2,000 excess (Marlborough District Council Archives: F090.06).

Although the Council did have adequate insurance cover in place, the fire did place additional burden on the organisation. The magnitude of the event, and the subsequent

¹⁷ This sum insured is an "aggregate sum insured" which means that the sum insured is per claim and in total for any one period of insurance, i.e. each 12-month period. If the sum insured is stated at \$1 million and the fire authority has a claim for \$850,000 near the start of the insurance period it only has \$150,000 available if another claim was to incur prior to the expiry of the policy period. It is possible for a fire authority to purchase cover above the \$5 million. One option is to purchase additional cover with another insurer on an "excess layer basis." This method means that Insurer A pays the loss up to \$5 million and Insurer B pays any amount in excess of the \$5 million.

claims meant that staff from within the Council had to be transferred to help assist with the claim. Additional staff were also employed to assist in the recovery process. A major issue identified was that the Council were required to pay the costs involved with suppressing the fire before they could claim these costs back from the RFFF. It was suggested that the Council approach the NRFA, to ascertain whether it was possible for progress payments to be made to “alleviate the strain on Council’s cash flow which will otherwise result” (Minutes of the MDC fire financial recovery group meeting 10/01/2001). It was not possible to locate any records that reveal whether this action was taken.

A guilty party responsible for causing the fire was not identified. If it had been, the NFRA could have sought reimbursement of the suppression costs from the guilty party.

6.4 Public Liability Insurance

The MDC were not responsible for starting the Wither Hills fire, therefore there was no liability on the Council to reimburse farmers for the costs associated with the fire. Liability to other parties as a result of any alleged negligence in the fighting of the fire as the Rural Fire Authority is also precluded by the protection provided under Sections 56 and 57 of the Forest and Rural Fires Act 1977 and its amendments.

6.5 Forestry Insurance

The Marlborough District Council had insurance cover in place to protect against loss of or damage to their forestry block by fire. Their policy covered specified stands of growing trees, re-establishment costs and fire suppression costs. This policy provided payment of re-establishment costs; clearing and land preparation, re-fencing, re-roading, new seedlings and their initial re-planting. The maximum amount payable under the policy was \$150 per hectare times the number of units specified in the insurance schedule. The Council had approximately 150 hectares of standing timber insured under the policy.

The basis of settlement provision under the policy dictates the method used to calculate the loss. To assist the Council in calculating their loss, they appointed Merrill and Ring New Zealand Ltd to prepare a report. This report identified inaccuracies that resulted in the overall size of forest lost being reduced to 55.2 hectares. Salvage logging formed part of the basis of settlement, with the salvage operation commencing on the 1st March 2001, but this was discontinued on the 14th March as a substantial number of the trees were too heavily charred. Salvage cost savings were therefore negligible. The Merrill and Ring report calculated the cost of re-establishment at \$60,584. This fell within the policy limit of \$70,812 claimable for re-establishment costs. However, due to the drought conditions at the time, re-planting was delayed and subsequently the costs exceeded the policy limit¹⁸ (Merrill and Ring New Zealand Ltd, 2001) In addition, the policy also provided cover for fire suppression costs if these were not payable by another party. The cover of \$250,000 was not called upon as re-imburement was recovered via the RFF and other insurance products.

6.6 Grants obtained

One of the larger costs faced by the Council and the farmers was the additional costs incurred in having to re-seed and replant their land. The MDC and Federated Farmers

¹⁸ It is a requirement of forest insurance policies that re-planting has to be undertaken in the next planting season, unless the Insurer agrees otherwise.

submitted reports to the Ministry for the Environment asking for financial assistance to meet the re-seeding costs and the “soil conservation plantings and structures in the Wither Hills Catchment Control Scheme in the Awatere Valley” (Memorandum of Understanding: 3). The total grant obtained was \$625,000 (GST inclusive). This grant included “\$439,000 for work within the Wither Hills Scheme area and \$186,000 for work on pastoral land affected by the fire in the Awatere Valley and land adjacent to the Scheme area” (Memorandum of Understanding: 3). The Ministry for the Environment issued a grant for the sum of \$186,000, with the balance of \$439,000 being paid by the Ministry of Economic Development¹⁹. In addition, a grant of \$15,000 was obtained from the Ministry of Agriculture and Forestry to assist the Council with the “co-ordination of the recovery effort, counselling services to people affected by the fire, and for technical advice” (Ministry of Agriculture and Forestry, Letter to MDC dated 10/01/2001).

6.7 Summary

The preceding discussion reveals the extent of the loss suffered by the Council from the Wither Hills Fire. Without adequate insurance cover in place and the grants obtained, the Council would have had to meet the losses from other funds or delayed the recovery process until additional funds were sourced. The staff interviewed stated that they had a good working relationship with their broker, were aware of the procedures in place with regards to notification of claims and the claims process, and had designated people responsible for arranging insurance and the handling of claims. This meant that the claims process was reasonably stress free. This is in contrast to the farmers interviewed who were, in most cases, unsure who they were insured with and what to do in the event of a loss occurring. In fact, most stated that they expected a battle with their insurance companies.

7. CONCLUSION AND RECOMMENDATIONS

The first section of this report reviewed literature on general insurance studies before discussing the issue of flood insurance. Flood insurance studies were reviewed because floods are a major concern in the New Zealand and Australian insurance industry. There may be additional studies on natural disasters that discuss insurance, but the insurance problems faced by communities are expected to be similar.

The dominant insurance problems faced by communities devastated by fire were:

- Lack of insurance
- Underinsurance
- Lack of awareness of the terms and conditions of insurance policies
- Incorrect calculation of sums insured
- Lack of understanding of the jargon used in insurance policy wordings
- Mistrust of the insurance industry
- Decisions made to deliberately underinsure – taking a calculated risk.

¹⁹ The calculation of the payment to the farmers is included in Section 5.4.

Literature revealed that insurance incentives may not be an effective risk reduction measure. The focus needs to move away from requesting that insurance companies offer premium reduction incentives. Instead the focus should be towards individuals being made more aware of the ramifications of not taking adequate fire reduction measures and having inadequate insurance cover.

A brief overview of a standard farm package policy provided a guide to understand the type of policies that are available. The focus was on public liability insurance and the forest and rural fires extension, in an attempt to highlight how important it is to have this insurance. The Wither Hills fire was used as an example of the potential liability and fire suppression costs that a farmer, rural resident, or rural visitor may incur if they are responsible for starting a fire.

In the New Zealand context, using the Wither Hills case study, the two major insurance issues were lack of insurance and underinsurance. The reasons why this occurred was due to either the farmers not updating their policies on a regular basis, because they were unaware that some assets needed to be specified, or because they elected not to insure certain risks. The Wither Hills case study also revealed that individuals with adequate insurance cover in place and a good working relationship with their insurance broker (e.g. Farmer C and the MDC) meant that they were able to recover from the fire in a better position. Having adequate insurance cover in place, an awareness of what insurance policies do or do not cover, and an understanding of how the insurance system operates assists in the recovery process.

The recommendations from this report are:

- Homeowners/occupiers need to focus on ensuring that their properties are fire resistant, whether or not they are entitled to any form of insurance incentives (Smalley, 2007)
- Homeowners/occupiers should have a fire plan in place that is updated at the beginning of each fire season (Arrowood, 2003). Part of the plan needs to be an overview of their current insurance arrangements. If people are unsure about policy cover then they must be proactive in asking their insurance company or broker to clarify any matter that they are unsure of. If people then make the informed decision not to insure certain assets, or not take out covers such as loss of profit insurance, then at least they are more aware of what their policy does or does not cover in the event of a major loss occurring.
- Policy holders should be aware of who they are insured with and who to contact in the event of a claim occurring. They should also know the name of the person to speak to if they have any concerns about their claim once it is lodged.
- They should be aware of the claims process. They should speak to their broker or insurance company representative to ascertain what happens after a fire and what documentation the insurance company requires.
- Policy holders should be aware of what their policy does and does not cover and whether their sums insured are adequate. This is the responsibility of the policy holder.
- They should request that their broker or insurance company explain their policy cover to them. They need to make time to meet with these insurance professionals.

- Insurance policies should be reviewed on an annual basis to ensure that the policies reflect any changes that have occurred over the previous 12 months.
- To ensure that they have adequate insurance cover, it is recommended that they deal with a reputable insurance broker. One of the best methods of selecting a broker is to ask other farmers who deal with a broker about their service, etc. The broker should also be a member of the Corporation of Insurance Brokers. The advantage of dealing with a broker is that you have an independent person to speak to at any time and they have the ability to make comparisons about available farm insurance products.
- From the interviews undertaken, it appears that some farmers do not insure specific assets or insure their loss of profits because they believe that the insurance premiums would be too expensive. It is recommended that they contact their insurance representative and obtain quotations for as wide a cover as possible. The decision not to insure can then be made once all the available facts are able to be considered.
- Farmers who insure different aspects of their business with different insurance companies should consider a farm package with one insurance company to avoid having to deal with a number of insurance assessors following a loss.
- People moving to new lifestyle block developments need to be aware of the requirements and liabilities under the Forest and Rural Fires Act 1977, and to ensure that they have adequate insurance cover in place. In this instance it is more than likely that residents will own their own homes. Local District Councils could provide an introduction pack to new residents that would include a section on insurance.
- Attention needs to be drawn to the fact that people who visit rural areas for whatever purpose - work, recreation, hunting, camping, fishing etc. can also be held legally liable if they start a fire that damages third party property and for the associated fire suppression costs. People need to check that they have adequate liability cover under their domestic and/or commercial insurance policies.
- People need to be more aware of the risks they face with the argument that 'this will not happen to me' being challenged. Details of information from the Withers Hills and West Melton fires need to be published widely to highlight exactly what happened to these communities. It may be useful to ask the Federated Farmers and other similar organisations to include the information in their publications. This relates to matters other than insurance. For example, the decision to move or not to move stock.
- A summary of the key points should also be listed on appropriate websites to highlight the ramifications of not insuring or electing to underinsure fences, stock, or loss of profits insurance.
- These key points could also be incorporated into a fact sheet for distribution to key stakeholders.

8. ACKNOWLEDGEMENTS

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