"Managing Risks for Racehorse Owners"

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Racehorse owners know they are involved in a risky business. There are ways, however, to manage those risks which put the odds in their favour. The three main areas of risk generally identified in owning racehorses (whether owned outright, in partnership or as a syndicate member) are defined in this article as having a horse that:

- does not perform on the racetrack (performance risk);
- suffers an injury or illness so it cannot race competitively (injury risk); or
- dies during its racing career (mortality risk).

These major risks can each be managed to a lesser or greater extent by implementing simple strategies in order to minimise the impact on the owner.

Performance risk is of crucial importance because the universal aim of anyone who owns a racehorse is for their horse to win races, or at least perform at a level to pay its own way. Selecting an unraced horse (usually as a yearling) which will have sufficient racing ability to become a performer in its racing career is an inexact science. The unknown factor of its racing ability makes this the least manageable of the three risks mentioned above. The principal method available in reducing the risk of non-performance in this selection process is to seek professional (and independent) advice prior to purchase from a specialist equine vet, bloodstock agent and/or thoroughbred trainer. Purchasing a tried horse is an alternative that allows a better understanding of its ability to race, thereby lessening that risk.

Having bought the horse, managing the risk in order to maximise the chance of success on the track largely depends on those who are responsible for its care. Choosing a trainer and an agistment farm where the horse is spelled and pre-trained that are experienced professionals and respected as such in the industry is essential in mitigating the risk of poor performance. In addition, the quality of the facilities they provide, the priority of the horse's safety and level of care/treatment, and the vet they use are also primary considerations.

Injury risk can result from a myriad of reasons, many of which cannot be controlled. The chance of a horse being unable to race as a result of an injury (e.g. a horse breaking down) or ill health can be decreased by adopting the same approach as noted above (viz. applying specific criteria in selecting a trainer and spelling/pre-training property). Notwithstanding these efforts to keep the horse sound and healthy, as the old saying goes: "if you wrap a horse in cottonwool, then it will probably choke!".

Mortality risk is the most manageable of the three major risks faced by racehorse owners. The reason for this is that the financial loss experienced from the death of a horse can be managed effectively through insurance. The standard insurance policy for racehorses protects the owner against the death of the horse due to accident or illness.

Cover extends to circumstances where the horse sustains an injury or sickness and a vet certifies that the horse's suffering is incurable and so excessive that immediate destruction is imperative for humane reasons. Cover usually includes transport of the horse anywhere within Australia and surgery conducted by a qualified veterinarian under local or general anaesthetic. In addition, the policy covers the risk of loss due to the horse being stolen.

The purpose of the policy is to indemnify the Insured for loss of their asset. In other words, it intends to place the owner in the same financial position after the claim is made, as before the claim was made, by paying them the horse's fair market value. The premium paid by the owner for the insurance policy is calculated as a percentage of the Sum Insured and as such, the Sum Insured is the maximum amount the policy will pay out (provided it is less than or equal to the fair market value). As a consequence, the Sum Insured should represent this fair market value at any given time, so in the event of a claim a prompt settlement can be made.

A review of the Sum Insured should be conducted regularly; for instance when any event occurs which alters its value (e.g. if it wins a higher grade race than it has won before, or performs particularly poorly over a couple of runs), or at the conclusion of each racing preparation. Trainers are usually familiar with the market for buying and selling racehorses and may be able to advise on a realistic price for the sale of the horse, forming the basis for the Sum Insured. Otherwise, a formal valuation can be obtained from a bloodstock agent. Once this has been determined, an astute broker will ensure that the horse's performance is monitored throughout the policy period to maintain an appropriate figure.

The mortality insurance policy does not, however, transfer all the mortality risk as the policy does not cover malicious acts or pre-existing injury/illness (i.e. any illness, disease, lameness, injury or physical disability at the commencement of the insurance will not be covered).

There are, of course, no guarantees in racing, but the risk management tools outlined above offer a greater likelihood of owners achieving their goal: owning a good performer that remains sound; and also providing some financial protection in the unfortunate event of the horse's death. Mortality risk, via the use of insurance, is the most effective way of minimising the main risks encountered by racehorse owners and thus the best able to be managed.

For more information on this subject, please contact the Equine & Bloodstock team at Gow-Gates on (02) 8267 9999 or info@gowgates.com.au.