



CONVERSATIONS FOR RISK MANAGEMENT - THREE IMPORTANT DAIRY ISSUES TO INITIATE WITH YOUR CLIENTS

Setting expectations of milk losses, the importance of business continuity planning, and understanding directors' responsibilities are three important issues farm advisors should be initiating with their clients. This article looks at what conversation topics should be covered and why.

Start the conversation early

We know that dairy farmers wear many hats and make many decisions on a day-to-day basis. The complexity of owning a farming business now requires a higher degree of human resource management, legal knowledge and financial literacy than ever before. This means that advisors need to continue to be mindful of how their information is delivered.

Once the cows have dried off dairy farmers are required to make business decisions before the focus quickly returns to the day-to-day operation of the farm. This also leaves very little time for the planning that small-to-medium businesses in other industries would do.

Previously, once the cows are dried off, it gave the time and opportunity to have in-depth conversations around some of these business decisions. As we begin the conversation this summer, in bite sizes pieces, this

will allow farmers the time required to make better decisions and put a plan in order to set themselves goals and objectives in the season to come. This article covers three key areas where advisors can really make a difference with clients.

Setting milk loss expectations

For contract milkers or sharemilkers and farm owners who have recently engaged (or are considering engaging) in a contract or sharemilking arrangement, it is important to have a complete understanding of who is responsible for what when it comes to milk losses. The sharemilker-owner relationship is usually tested when things go wrong and expectation management plays a key role in helping to avoid potential conflict. For instance, between 2017 and 2019 FMG paid out 3,730 milk claims, totalling \$13.1 million.

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With over 1,000 losses a year just for FMG's clients (approximately 55% of the dairy farming businesses), it is likely there will be at least one loss over a typical three-year contract. Often there are no issues when the expectations of 'who is responsible for what' are set early. When these expectations are not set it can create a strain or even cause a break down in the sharemilker-owner relationship. This can be particularly disheartening if it is the first arrangement that the sharemilker or owner have been a part of.

Table 1 gives a basic summary of the responsibilities included in a typical sharemilking arrangement contract. The guide provides advisors a high-level understanding of who is responsible for what losses to allow for a more informed conversation with a client. This may not reflect every individual contract and those who have original or amended contracts where professional advice may be required.

Farm owners often believe that the contract/sharemilker takes on all or most of the risk for milk, but as noted above the risk is shared. Although antibiotic contamination is the most common loss cause, with 30% of FMG milk loss claims, chiller failure is not far behind with 25% of claims.

Building a resilient dairy business

Although dairy farming was able to continue to operate as an essential service, the experience of COVID-19 has continued to remind us of the importance of a business continuity plan (BCP) for every business. No matter the size of the dairy business, having a BCP is a must. Often farmers (and even advisors) can be put off the process as the potential threats to the business can often seem too farfetched and abstract. If your client does not have a BCP at all it is recommended that this start by considering the following two situations:

- Prolonged inability to use the cowshed (e.g. earthquake, fire, major flood)
- Key person not able to work (e.g. injury, disablement, death).

These two events are very real situations that can have a detrimental impact on the dairy business. Trying to solve every situation is not realistic, while starting small and continuing to build on the BCP can over time promote a more resilient dairy business.

The map in **Figure 1** shows how few regions have been spared from extreme events. Last year alone FMG settled on 22 cowshed fire claims and over \$200 million from the 2016 Kaikoura earthquake. What these events all have in common is the ability to put the cowshed out of action for a prolonged period.

Milk is a perishable product that is produced and collected daily. There is no luxury of time when the cowshed is out of action when cows need to be milked within 24 hours. Those farms that have a BCP or some form of contingency plan have been able to manage the financial, logistic, environmental and animal welfare issues that come with these events.

When looking at BCPs it can be so easy to get tied up in the assets that we forget the most important one of all – the people. The Accident Compensation Corporation (ACC) found in 2014 that the dairy industry lost 155,451 days (or 425 years) to injury, costing businesses a total of \$31.7 million. It is important that the BCP plan outlines how the business would react to a circumstance where a key person on the farm is unable to work for an extended period.

Understanding director and officer responsibilities

It is quite concerning the amount of dairy businesses that operate as a company but do not understand the responsibilities they take on as a director and/or officer of the business. Company directors' decisions are often scrutinised in hindsight and a lack of detailed records around decision-making could suggest matters were not properly considered or dealt with. In addition to the business itself, directors can be held personally responsible for a range of offences under various Acts, including the Health and Safety at Work Act 2015 and the Resource Management Act 1991.

Table 1: Basic summary of milk loss responsibilities with a typical contract/sharemilking contract

PARTY RESPONSIBLE	CONTRACT/SHAREMILKER	FARM OWNER WITH MILKER	OWNER OPERATOR
AREA OF RESPONSIBILITY	Milk losses as part of the farming operation	Milk losses as part of property and plant	Accepts all responsibilities listed
EXAMPLE	<ul style="list-style-type: none"> • Antibiotic contamination • Forgetting to turn on the vat 	<ul style="list-style-type: none"> • Chiller failure • Power outage 	<ul style="list-style-type: none"> • Antibiotic contamination • Forgetting to turn on the vat • Chiller failure • Power outage

MAJOR CLAIMS EVENTS

1 April 2018 – 31 March 2020

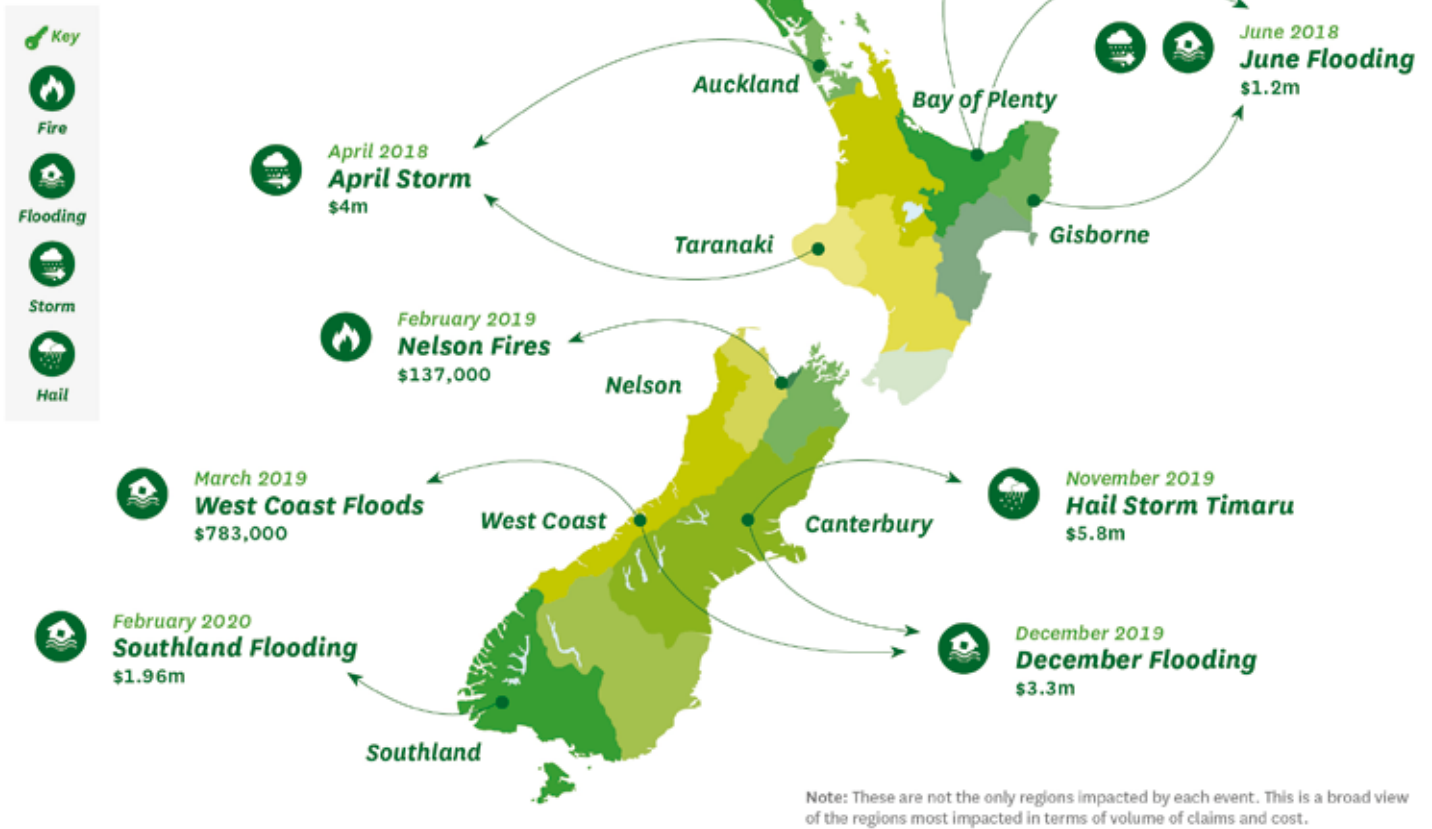


Figure 1: FMG major claims events for two financial years (1 April 2018 – 31 March 2020)

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There have been cases, particularly in family-owned businesses, where spouses, children, long-serving employees or family friends have been listed as directors without taking an active governance role. In some cases, they were not even aware they were directors. It is important that all directors are aware of their obligations. If they are uncomfortable with these obligations, or are unable to carry them out, it is important to seek professional advice about reassigning governance roles.

If you or your clients are not aware of your responsibilities as a director and/or officer, the New Zealand Companies Office has very good resources available as an introduction. Given the seriousness of this area, it is recommended that legal advice be obtained. Unfortunately, ignorance offers little defense.

Talk to your clients

Advisors need to consider and take the opportunity to discuss the three topics above well before the start of the new season. It is the responsibility of farm advisors to deliver information to clients in a way that is comprehensible with sufficient time to allow clients to make an informed decision. These topics cover a range of different advisory disciplines and having these conversations with your clients, along with many others, will help to set them up for success.

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