

How Watermen Can Minimize Business Risks

Risk and uncertainty are very much a part of commercial fishing. Heavy rains can flood rivers and bays with fresh water, ruining harvests. Or a long winter freeze can put fish and shellfish out of reach, damaging boats and tearing up docks.

We can't control the weather, but we can do some things to combat risk and uncertainty. Of course, protection against risk often comes at a cost. As a business manager, a commercial fisherman must make decisions about whether protections outweigh costs. This FACT SHEET considers some of the things a waterman can do to protect his business. These include:

- Insurance
- Diversification
- Contracts
- Crew-share
- Asset liquidity

Insurance

Insurance can protect you against the unexpected. By paying predictable premiums, you, as a policyholder, avoid the unpredictable expenses that could destroy your business. Insurance companies are able to cover losses because they can estimate the number of accidents which will occur in a large group over time. Playing against well-researched odds, insurance companies can pay off claims and still win profits.

Here are the more common kinds of insurance:

Property Insurance

Property insurance protects against loss of equipment and belongings, including a vessel, a car, a home.

Owners of large vessels should have hull insurance. Insuring gear may not be worth the cost if you are willing to accept the risk of losing traps, nets and so on.

Accident and Health Insurance

Accident and health insurance help protect you against the rising costs of health care. Since a single illness or accident could wipe out savings or put you deep in debt, this kind of insurance is very

important. Your business depends on your health.

There are many sources of health insurance coverage available to commercial fishermen:

Blue Cross/Blue Shield is a nonprofit association of hospitals and physicians. Blue Cross covers expenses while you are in the hospital. Blue Shield covers surgical and medical costs. Blue Cross will pay all fees at going rates for participating hospitals for a specified length of time. Blue Shield pays surgeons and doctors at a scheduled rate and will pay no higher. If your doctor is a Blue Shield participating doctor, he or she must accept the scheduled rate as full payment; if the doctor is not participating in the program, you will have to pay the difference in cost.

Group Health Insurance (GHI) is the name of a plan intended to cover doctor's costs for office visits and surgical expenses with some related costs covered. GHI pays on a schedule-of-fee basis. This means a GHI-participating doctor must accept the scheduled fee as payment in full. GHI does *not* cover general hospital costs and by itself would provide only partial coverage.

Private Insurance Companies, and there are many of them, offer health and accident coverage. Private companies will usually be higher priced, benefit for benefit, than the nonprofit organizations.

Public Health Services provide medical care for those who are eligible. If eligible, you could receive medical care in Public Health Services' hospitals throughout Maryland. Contact your local Public Health Services office.

Health Maintenance Organizations (HMO) are groups of doctors who join together to form a team which can provide all or most of your medical needs. You are charged on a prepaid basis, paying only one fee each year. For this fee you receive all the health and medical care you require. There are only a few of these HMOs around right now.

Medicare is a health insurance program for people 65 and older and some people under 65 who are disabled. It is a Federal Government program run by the Social Security Administration.

Medicaid is a public assistance program administered by your County Social Services Department. It is designed for people receiving a pension,, for the blind or those who fall within certain income limits.

Life Insurance

Life insurance protects your family and business against the financial burden arising from your death. There are four basic types of policies available: (1) Term life insurance, (2) Straight life insurance, (3) Limited-payment life insurance, and (4) Endowment life insurance.

Term life insurance. Under this type of policy an insurance company is obligated to pay if a death occurs within the time limit covered by the policy. If the insured is living at the end of the specified term, all premiums paid are the property of the insurance company, and the policy automatically expires. The chief advantage of term life insurance is its low cost.

Straight life insurance. The most popular form of life insurance is straight life. The premium remains constant throughout the life of the insured but varies according to how old you are when you buy it. The younger you are, the cheaper it is. The policy combines a plan of protection and savings. Straight life premium rates are higher than those charged for term insurance. The reason for this is that each payment contains an element of savings as well as the amount necessary to buy protection. These savings remain with the life insurance company, unless the policy is cancelled. At the time of cancellation, the insured is provided with what is known as the *cash surrender value* of the insurance contract.

Limited-payment life insurance. The difference between limited-payment and straight life insurance is that premiums on limited-payment policies are due for only a stated number of years, annual payments are larger, and the cash surrender values are higher. The advantage of this type of policy is that you are able to eliminate the drain of premium payments extending over a lifetime and can concentrate them during your years of maximum earning capacity.

Endowment life insurance. Endowment life insurance is similar to limited payment insurance, except that it emphasizes the element of savings.

Diversification

By working in more than one area, you can reduce your reliance on a single market. When the earnings of one product are low, hopefully the other will do better. If you diversify, you will likely experience less income fluctuation than the waterman who concentrates in one fishery.

Diversifying could mean fishing in different fisheries, chartering, Working in a related field (like marine diesel mechanics) or working in an unrelated field or any combination of these.

Diversification has a cost associated with it. You may have to compromise with a vessel that will do more than one job. You may have to get additional gear or training.

Contracts

A waterman can remove all or part of the future uncertainty surrounding market transactions by entering into a contract or market agreement with a buyer. Remember, though, that by protecting yourself against possible low fish prices you forfeit possible gains associated with low supply, high-price market conditions.

Crew-Share

Almost every vessel operator pays the crew on a percentage of the total catch. By doing this, the crew shares in the cost and the possible risks of a poor trip. The operator tends to reduce potential loss from a poor trip at the expense of a greater potential gain from a good trip.

Asset Liquidity

With more money in the bank and a larger percentage of equity (ownership) in a vessel, you can get through bad times easier than someone with little money in the bank and large monthly payments due. By keeping cash on hand or assets in a form that can be easily liquidated or converted to cash, you can get through those occasional bad times. Investing in readily marketable gear and electronics allows these assets to be quickly converted to cash, if the necessity arises. This means, for example, investing in portable radios and radar instead of built-in equipment.

Summary

No one can avoid the uncertainties of life, but knowing a few ways to minimize risks can help keep you in business. By insuring your possessions and your health, by contracting and crew sharing, by diversifying your business into several areas, you can avoid setbacks that could drain your capital. By insuring your life you can ensure the security of your family. Only you can decide if the benefits are worth the cost.

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Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, University of Maryland, College Park, and local governments, Thomas A. Fretz, Director of Maryland Cooperative Extension, University of Maryland.

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