



IAG welcomes the proactive stance of the NSW government in addressing measures to increase the uptake of multi-peril crop insurance (MPCI).

IAG also welcomes the opportunity to submit its response to both the draft report from NSW IPART titled 'Review of multi-peril crop insurance incentive measures' dated July 2016 as well as the discussion at the public forum held on Tuesday 2nd August in Sydney.

Comments on Draft Findings

a) Upfront Premium Subsidies (Page 48)

- IAG agrees that an upfront premium subsidy complies with the drought framework;
- IAG also agrees that an upfront subsidy will increase the take up of multi-peril crop insurance and that increased uptake will further increase farmers' self-reliance;
- IAG views the subsidy levels of 50% in the first two years (capped at a maximum of \$30,000) followed by 25% (capped at \$15,000) in the final three years as being sufficient to increase interest and demand for the product;
- Whilst it is noted that an ongoing subsidy may be required to assist affordability, IAG takes the view that any such decision be postponed and the private insurance market be encouraged to create innovative ways to assist affordability and longevity rather than being reliant on long-term subsidies;
- IAG also believes that a private risk based approach to MPCI will incentivise farmers to improve farming practices in order to lower MPCI premiums. As a consequence, this will improve farming productivity and further reduce reliance on Government drought relief.

b) Waiving of Stamp Duty (Page 60)

- IAG disagrees with the contention that removing Stamp Duty would not be an effective measure;
- Currently all farmers must pay stamp duty and GST on all Farm, Crop and Livestock insurance, increasing the cost of such by more than 12.5% (such taxes are compounding). This has a detrimental effect not only on the purchase of insurance but also the setting of correct sums insured. Whilst it is acknowledged that GST is a Federal issue, and outside the remit of this paper, Stamp Duty is a State Government responsibility;

- In addition, IAG also supports the view that it makes little sense for a State Government to subsidise insurance premiums to improve affordability, and then tax the subsidised premiums;
- As per the initial IAG submission we believe that the removal of stamp duty would have an immediate and positive impact on premium affordability.

c) Increased Weather Stations (Page 60)

- IAG notes that this is already an existing program with funding of \$2.5 m (as per Letter from Mike Baird, NSW Premier dated 22 March)

d) Pricing of Multi-Peril Crop Insurance

- IAG rejects the comment on page 5 of the report that “insurers are unlikely to offer affordable premiums that cover drought during times of sustained drought”. IAG sets its pricing to meet the capital requirements over a long term and does not increase prices to cover short term events.

e) Reducing Drought Assistance

- IAG acknowledges that 80% of drought payments are made to livestock farmers (page 45). This would mean that subsidising MPCl premiums for grain farmers may not lead to significant savings in the short term;
- However, IAG is of the view that any initial MPCl program might (and indeed may have to) diversify into other areas and farming types e.g. cattle and pasture as has happened elsewhere in the world;
- Whilst IAG does not have access to the data from which this figure is derived, we would question how many of such farmers are dedicated livestock farmers and how many may be mixed.

f) Framework of Report

- It is acknowledged that the IPART report is drafted with regard to the current drought policy and framework, and is primarily an economic argument;

However, IAG believes that the report significantly underplays the improvements in rural conditions that MPCl can generate. These are:

- Improved mental health. The increased financial security that MPCl offers decreases the stress that both farmers and their families experience. Such stress is well documented and very real, and the role that MPCl can play in reducing this, leading to improved living conditions for farmers, their families and for rural communities in general cannot be underestimated.
- Improved access to capital from banks, who may view the presence of MPCl as a positive credit risk and be more likely to grant loans at a lower rate.

- iii. Increased young farmer participation in the agricultural industry. The certainty that MPCl offers, and the easier access to bank capital can encourage more young people into the agricultural industry and rural areas, creating sustainable employment and assist the next generation of farmers.

Yours sincerely,

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IAG**