

# MULTI PERIL CROP INSURANCE

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As an initial subscriber to Latevo MPCl three years ago, I take great pleasure in providing feedback to the IPART draft report.

There are quite a few fallacies, there is misinformation and glaring omissions.

As a winter grain grower from Southern NSW, I was immediately attracted to the idea of crop insurance when it first became available. Now in my third year of using Latevo, I have learnt so much on how significant this product will be for, not only myself, but the cropping industry as a whole.

I will touch on the fallacies and misinformation in the report, but I would prefer to comment on the opportunity that this product will provide that is missing from the report.

First and foremost, I would recommend that the term 'Multi Peril Crop Insurance' be scrapped. The term has been around too long and I believe that the term 'Farm Income Insurance' be used instead. The industry needs a massive increase in participation with this product and using a term that farmers have become aware of, and dismissed through ignorance of its' potential, will be counterproductive going forward. A new injection of interest in this insurance product needs a name change without a doubt.

On first reading the report, it became glaringly obvious that by and large it was focussing in the wrong areas. Point 1.1 reads, 'the insurance is unlikely to displace Government assistance, such as concession loans and farm household support payments during droughts'. I contend that the opposite would evolve over time. Point 1.1.1 reads, 'Multi Peril Crop Insurance is not likely to be effective in mitigating the risk to farmers of drought. This is because droughts can typically be foreseen months in advance.' I will focus on the argument to the first statement later on, but the second statement regarding foreseeing drought is ludicrous. How can anyone predict that a drought will begin 'months in advance', or weeks or years for that matter. I have been farming for 37 years and I can say with some authority that weather is unpredictable. I can look at climate models and projections, which may give a regional rainfall forecast, but that is all it is. Weather and rainfall is dynamic and unpredictable and also very localised.

Point 2.5 reads, 'Other risk mitigation options available for farmers regarding self insurance through savings, debt, swaps and futures', no one can self insure through savings. Covering losses by the use of saving is not insurance. Using swaps and futures is not an alternative to insurance. They are price hedging products that do not guarantee income.

Point 2.5.1 titled 'Self-insurance – Additional Debt', this is the most ridiculous statement of the whole report. Going into more debt by borrowing against the value of the farm is not an avenue of self insurance, it is an avenue to self destruction.

What this reports is very clearly missing, is the potential of insurance to not only cover losses during the drought years, but more importantly to increase income and profitability in the good years. I cannot emphasis this enough. Far and away the single most important point on income insurance is for the potential to significantly increase profitability in the productive years. High yields and high prices almost never align in a given year. Generally the opposite occurs. When there is high production, demand decreases so prices fall. Conversely, when there is low production, demand increases and so do prices. This is where crop insurance becomes incredibly important. With insurance backing me, I now have the ability to plan my cropping program several years in advance and sell or hedge prices when they are higher than average several years forward. I can do this because I know have a guaranteed minimum income backed by insurance allowing me sell forward without fear of low production and contract wash out costs. As an example of the impact of hedging more proactively, opportunities to fix prices for the commodities I grow, at up to up to \$50 per tonne, have been available. On a 5000 tonne crop, that equates to \$250,000 per year. There has been the odd occasion when even higher prices could have been attained. I believe that a flow on effect from increasing profits by taking advantage of higher prices when they become available, will lead to higher yields because there will be a greater confidence to spend on inputs like fertiliser in years when we may otherwise have tried to cut spending because of uncertainty of weather, only to miss out on potential increases in yield. We simply cannot afford missed opportunities, which often happen when we try to guess the weather, only to get it badly wrong.

Larger scale farmers can mitigate some of their weather risk by geographical diversification, however many small to medium scale farmers like myself are more localised and weather risk prone, therefore income insurance can help alleviate this risk factor.

So now my business has a far greater ability to match above average yields with above average prices, which in the past we haven't been able to do since the dismantling of the Australian Wheat Board with its' guaranteed minimum price scheme. With the security of farm income insurance, I can now farm every year applying the best agronomy practices without the fear of spending the money on a crop which may be impacted by some unforeseen weather event. I cannot overstate how significant this is to my business, and if this is translated industry wide, it will have a massive impact on the grains industry as a whole. I believe this product can be a watershed to the grains industry as we know it. This product needs to be supported, promoted and backed by positive industry leaders. The proposed insurance premium subsidies is a very good start to attract more farmers to this product. Education as to how this product can change a business begins with involvement. Only then, will confidence of the product be attained and the huge potential benefits be understood.

I commend Andrew Trotter of Latevo with his foresight in the impact that this insurance will make. The original Latevo insurance started in 2014 as a good model, but Andrew has improved on it markedly since then. The challenge I see now is to come up with a model for the grazing and horticultural industries so all farmers can benefit. If these challenges can be met, farmers will generally be self sufficient and should no longer rely on government support in times of drought or during other weather anomalies such as frost and floods contrary to which item 1.1 in the report states. The impact on the economy will be enormous.

Andrew Hawthorne  
"Uley"  
Ardlethan 2665 NSW