

29 April 2016

Comments on NSW Government Multi-peril Crop Insurance Review

Prepared for: Independent Pricing and Regulatory Tribunal

Prepared by Andrew Trotter, CEO Latevo

The purpose of this document is to submit comment to the Independent Pricing and Regulatory Tribunal (IPART) on the New South Wales (NSW) Government Multi-peril crop insurance (MPCI) incentive measures review. Latevo CEO, Andrew Trotter, met with the tribunal on 21 April 2016 to discuss the review. As such, we offer the following discussed comments for consideration:

1. What are the barriers to the offering and uptake of MPCI in NSW?

Barriers to Offering:

In Latevo's experience the barriers are based around the Australian insurance industry's reluctance to participate in managing the risk. Understanding the environmental risk and rating it has been difficult for the industry, however the updated Latevo model has now resolved the issue. In addition, the failed attempts of the past MPCI operators continue to plague the industry and make potential insurance participants reluctant.

Uptake Issues:

- Conservative, skeptical farmers.
- Poorly informed industry and advisory sector on risk and insurance.
- Perception of the need for government involvement – international precedent.
- The perception that MPCI is too expensive – value is not yet understood.
- Willingness to take the risk.

A major barrier to potential future uptake is the cost of sector development. The cost per sector to develop an effective MPCI product can range from \$1 - \$2 million. Latevo would like IPART to consider NSW Government industry grants for sector development to alleviate financial strain on MPCI businesses as part of the MPCI incentive measures review.

2. What issues should IPART take into account when designing a measure to reduce the upfront cost of MPCl premiums?

To achieve the NSW Governments target of increasing the value of primary industries by 30 per cent by 2020, we need to increase water use efficiencies – in other words, convert water to produce more efficiently and effectively. If we expect farmers to target higher yields, their downside risk needs to be managed. Using a trailing stop loss is common practice in financial markets but a foreign concept in agriculture – however, this management approach would encourage strategic risk taking to produce high yield and lift the entire states productivity.

For this to have an impact though, 50-70 per cent would need to be effectively risk managed through MPCl to reach the 30 per cent growth target. Without direct stimulus this is not possible.

As discussed with IPART, Latevo believes four measures should be considered as part of the MPCl incentive measures review as tools to reduce the upfront cost of MPCl premiums:

a) Direct stimulus

Latevo would recommend IPART consider a six-year direct stimulus package as part of the MPCl incentive measures review. Rural economic recoveries are generally slower than they should be exacerbating social losses, because there are not sufficient farmers insured. Not a temporary bailout, a direct stimulus is a practical strategy to the underlying problem of MPCl uptake.

Currently, NSW is the most expensive state for MPCl per hectare purchased. In NSW the average price for MPCl per hectare is \$22.00 compared with Western Australia (WA) where average cost is \$15.00 per hectare. This is a direct reflection of the inherent environmental risk of NSW. The price difference represents the greater income variability that the NSW farmer must deal with.

In addition to uptake a six-year stimulus is designed to change uptake behavior over time.

Here is what Latevo recommends:

Year	Stimulus offered
2017	\$10.00 per insured hectare
2018	\$10.00 per insured hectare
2019	\$5.00 per insured hectare
2020	\$5.00 per insured hectare
2021	\$5.00 per insured hectare
2022	\$0.00 per insured hectare

b) Stop loss

Latevo would like IPART to consider recommending a stop loss as part of the MPCl incentive measures review. A 200 per cent stop loss would disconnect NSW from the national risk pool, providing or unlocking unlimited capacity for the global reinsurers to insure NSW growers.

A state government stop loss essentially makes NSW its own risk pool. In other words, removing NSW from the national risk pool unlocks unlimited capacity from the global reinsurers and will ultimately create a review/reduction in MPCl pricing for NSW.

c) Waiver stamp duty

In Latevo's experience, the cost of stamp duty is a barrier to MPCl uptake in NSW. MPCl stamp duty costs 2.5 per cent of the premium. Latevo would like IPART to consider a stamp duty waiver as part of the MPCl incentive measures review. A tax incentive, or waiving stamp duty will provide immediate incentive for NSW growers to seriously consider MPCl.

Changing perception is one of the major challenges in an industry that is known for the slow adoption of technology. By the state taking the lead it helps encourage farmers.

d) No plant concessional loans

NSW growers need an incentive not to plant when weather conditions suggest the season will not be viable. At present there is a disconnected decision-making processes in place for investments in agricultural risk loss reduction and mitigation, so Australia ends up spending too much on recovering from events rather than figuring out how to prevent or mitigate these risks.

Unlike the Drought Concessional Loan scheme, which is aimed at farm businesses experiencing significant financial impact as a result of drought, a no plant concessional loan would encourage the grower not to plant when conditions deem that the probability of failure is extremely high.

Latevo recommends that a no plant concessional loan be considered at a rate of 6 x the premium. An average NSW premium is \$22.00 per hectare. The farm business would receive \$132.00 per hectare – enough to carry on, and correctly prepare for the next crop year.

The main objective of the incentive is that if isn't right to sow a crop, the state will help the grower through the season. If it is deemed suitable to sow however, underpin the decision with MPCl. If the season turns bad, the farm business is correctly protected and not in need of further state support.

3. Are there any other issues that IPART should have regard to in assessing the measures to increase the uptake of MPCl?

Latevo would like to suggest that installing additional rain gauges and weather stations is not necessary. Rainfall technology already exists – there is no need to build new measures. Instead, Latevo would suggest that IPART investigate developing and combining the following (existing) technologies to build an open platform that combines BOM data and farmers rainfall records:

- Buy providing funding and facilitating the combination of the Australian Climate <http://www.australianclimate.net.au> and www.latevomaps.com technologies and ensuring it is placed on an open platform. This enables a low cost option that delivers the most accurate rainfall measure possible.
- The result of developing and combining the above (existing) technologies is rain stations across NSW, on average every 5kms apart at a much lower cost than placing new rain stations.

Contact details

Latevo would be delighted to elaborate on any of the above comments. If you have any questions or would like more information, please don't hesitate to contact Latevo at:

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