

Dear Jessica Robinson,

Submission to IPART Multi-Peril Crop Insurance Incentive Measures

SureSeason welcomes the opportunity to provide our submission to the IPART review on Multi-Peril Crop Insurance Incentive Measures.

SureSeason is an Australian company operating in the Revenue Multi-Peril Crop Insurance space as Managing General agent of Lloyd's. Lloyd's is the world's specialist insurance and reinsurance market, bringing together an outstanding concentration of underwriting expertise and talent. It is often the first to insure emerging, unusual and complex risks. around 80 syndicates are underwriting insurance at Lloyd's, covering all classes of business. together they interact with thousands of brokers daily to create insurance solutions for businesses in over 200 countries and territories around the world. Lloyd's insures the majority of FTSE 100 and Dow Jones industrial average companies.

Lloyd's enjoys strong financial security supported by excellent ratings. Visit www.lloyds.com for more information.

Executive Summary

- SureSeason welcomes that Government has a number of measures available to support primary producers in times of drought.
- Emerging MPCl market in Australia is in its infancy offering 'Drought' and 'Peril' insurance.
- Many significant Health and Wellbeing, Social, Economic benefits to Governments and community provided through such insurance;
 - MPCl supports all participating growers with improved financial security and economic rural sustainability.
 - MPCl succeeds in reducing credit risk for financiers giving superior financial management boosting agriculture investment.
 - MPCl improves Health and Wellbeing which improves family, community connection along with mental health issues.
 - MPCl empowers rural economic sustainability and reinvestment supporting business, education and government organisations.
 - MPCl promotes young people entering the agriculture industry with secure reliable income.
 - MPCl enables further investment into Technology, Big Data implementation, Production Management for greater return on investment.

- Successful MPCl industry requires all stake holders including Government, Industry companies to work together ensuring barriers such as education and awareness, value proposition, adverse-selection, anti-selection are understood and overcome which benefits the farm gate GDP.
- Government initiative with support measures outlined at IPART Public Hearing, 2nd August '16 underpins the NSW state government lead allowing the move for all state and federal government schemes needed to remove barriers of participation nationally with MPCl. The benefits of these Government support actions will allow large reinvestment along with company tax receipts to help offset the balance of committed support.

Review of IPART Review of Multi-Peril Crop Insurance Incentive Measures Draft Report and Public Hearing

IPART Draft Report and Public Hearing has achieved the foundation assessment against the drought program and evaluation framework.

SureSeason acknowledges the input from stakeholders and shares many views not withstanding contributing further input as an Australian leading MPCl value provider.

SureSeason continues to invest resources and value in developing relationships/information transfer at the farm gate, Industry and Government from humble beginnings. Furthermore, understand working together with Government in supporting how successful MPCl programs need to be supported welcome IPART Draft findings.

SureSeason supports and expands on IPART draft findings ^(“4.1 Draft Findings” Review of multi-peril crop insurance incentive measures, July 2016 Draft Report) with further support behind MPCl playing a **direct** role in increasing winter crop growers self-reliance during droughts. Multi-Peril crop insurance **will** meet and displace concessional loans during droughts for winter cropping growers.

Assist growers adapt and prepare for impacts of increased climate variability

SureSeason acknowledges that draft information suggesting that insurance is **not** likely to be an effective loss mitigation tool for drought in particular. As suggested drought events can typically be foreseen in advance with suggestion of insurers unlikely to offer affordable policies that cover drought when the risk of payout is high. SureSeason is committed to Australian grower's risk mitigation including drought and reassures all stake holders including Government that this area has been fundamentally the major area of concern.

While insurance company's do not want to be exposed to drought and can opt in and out as ^(“4.2.2” Review of multi-peril crop insurance incentive measures, July 2016 Draft Report) suggests by no mean this is completely correct. Existing multi-peril product(s) do offer rolling year renewals along with incentives to secure risk protection for forward looking periods of low soil moisture and drought as well all other policy listed perils. Our view differs with the findings of the Grain Producers task force. The taskforce findings are inaccurate with affordable premium available today in the MPCl market place for forward looking and potential drought conditions. Therefore, policy payouts will occur for eligible policy holders during drought events.

SureSeason™

PO Box 101
Horsham VIC 3400 Australia
P +61 03 5382 0569
F +61 03 5382 0205
info@sureseason.com.au
ABN 21 601 112 556

Enhances long-term sustainability and resilience of growers

Multi-Peril crop insurance does help many growers enhance the long-term sustainability and resilience. Increase their investment and timing of inputs and application methods as well as adopt best management practices in a timely order. SureSeason long term studies since 2008 suggest not all but most arable dryland and irrigation growers improve GDP at farm gate year on year with multi-peril safeguarding downside risk.

Not all multi-peril crop insurance is based on historical performance as suggested ^(Box 4.1 Review of multi-peril crop insurance incentive measures, July 2016 Draft Report). Today there are commercial offerings that look at current and forward looking risk and growers can participate in these offerings at premium levels in line with rear ward looking and historical performance multi-peril crop insurance offerings.

Stamp duty waiver

While the 5-year stamp duty waiver on insurance premiums does not comply with the drought frame work as perceived not to be effective in achieving its objectives as well not complimentary with upfront premium subsidy, which is more effective. SureSeason has interviewed 100's of winter crop growers over a period since 2008. While we believe review findings are correct, we also suggest all growers from a perceived Government support and moral view, particularly medium to larger growers, will benefit from stamp duty wavering in line with the premium investment subsidy, pro rata from larger premium values invested. SureSeason's findings from grower interview's conducted believes stamp duty support is the single largest "mind" barrier in line with education and awareness in supporting multi-peril initiatives.

Farm Business Skills Professional Development Program

All multi-peril stakeholders involved at the farm gate educational level have a role to play. Those who offer independence advice and training are key to the successful education and awareness support for farm businesses with multi-peril offerings. Many of these organisation interact with the greater majority of growers today including, production consultants, accountants, productivity specialists, private agronomists, brokers and more. While draft findings suggest it is difficult to measure the redesigning of Farm Business Skills Professional Development Program to increase the uptake of multi-peril crop insurance, SureSeason suggests that education and awareness supports the grower and farm business to investigate the multi-peril offering most likely to be of best value for their business. This comes about from not one current multi-peril offering being the same as the next. All commercial offerings today differ greatly from each other and therefore education and awareness is paramount for the market to make educated decisions on value propositions that meet the needs of their own farm business situation and risk appetite.

Government and Industry Considerations

Subsidised MPCl exists in most countries and more than 95% of worldwide insurance premiums come from these programmes and therefore is a recognised solution internationally. Most countries look at soft and social factors such as food security/self-sufficiency, grower wellbeing, preventing drift to cities and so on. Uptake can be very high even in countries where grower education is very low, the only real barrier to uptake is cost. Not so much grower education and data availability (eg: compare Australia to India, China, Thailand).

The IPART Review of multi-peril crop insurance incentive measures report rightly identifies anti-selection as a major issue but there are potential solutions – a 3-year policy, prices that change, and an early sales window. There needs to be product enhancement rather than say MPCl is no good. The same issue exists in other countries.

There may be a case for MPCl to replace other government assistance for cropping growers – which could be phased out. While other packages are going to be handed out, this is a disincentive for growers to take cover. There could be a higher subsidy for a basic insurance package, as the report says was suggested by Allianz. This is how the USA got MPCl started.

Insurance allows governments to make an annual funding for disasters (by way of consistent premium subsidy) rather than pay a single, unexpected, much larger amount when there is a peril.

We don't think subsidies will work as a short term option (5 years with 50%, 50%, 25%, 25%, 25% as proposed). The problem is the risk is high and the cost of insuring it is high.

The cost of subsidy might be a lot more than \$8 million. That implies a NSW premium pool of only \$16 million. Modelling possible sales under different scenarios isn't possible to do and those figures should be disregarded, as should the cost benefit.

A subsidy is necessary for growers to take a reasonable level of cover. At the moment many growers are taking inadequate small bands of cover because it is all they can afford. Growers who like MPCl will allocate a dollar spend to it, and probably maintain that even if a subsidy is introduced.

In a catastrophic drought, risk mitigation measures aren't effective – eg: planting dates, varietal selection, minimum tillage etc. Everyone is wiped out.

Contrary to the report (page 20 Review of multi-peril crop insurance incentive measures, July 2016 Draft Report), the cost of capital for reinsurer is not high just because there can be catastrophic losses. The capital allocation to agriculture is actually lower than for many other classes of

business. In the wider scheme of things reinsurers are looking for exposure to agriculture risk because it does not correlate with other major classes (typhoon, earthquake on property etc) and are looking for Australian business to obtain geographical spread – since most ag business comes from USA, China, India, Canada, Europe.

Weather derivatives might have low administration costs and sufficient data but basis risk is a major issue: i.e.: farms will receive payouts when there is no drought and vice versa. It is a very big job to try to correlate a specified weather event to yield. This is the area where these products mostly fall over.

Conclusion

SureSeason welcomes IPART draft review and is of the view that MPC1 is a viable sustainable product in the Australian market. Today's Government addressing the regulatory and structural obstacles in supporting multi-peril industry enhances significant economic benefits to the Government, in terms of direct budget impacts along with farm business productivity gains and improving economic stability in rural communities.

SureSeason embraces Government working with the agriculture and the insurance industry to enable better industry competitiveness nationally, competing with food production world-wide.

Yours sincerely,



Brendan Reinheimer
Director - SureSeason Australia Pty Ltd