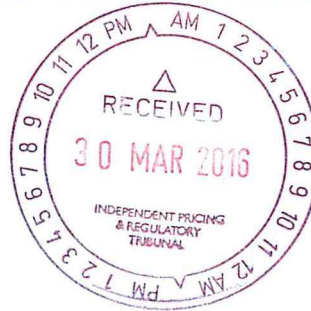




Premier of New South Wales
Minister for Western Sydney



Reference: 2016-A1552373

Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

22 MAR 2016

Dear Dr ~~Boxall~~ ^{Peter}

Pursuant to section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, I am now referring the following matter to the Tribunal for investigation and report: Evaluation of Suggested Multi-peril Crop Insurance Incentive Measures. The terms of reference are enclosed.

The Tribunal is requested to submit a formal report to the Minister for Primary Industries and me no later than seven months from the date of this letter.

If your officers wish to discuss this matter, please contact Laura Eadie, Director, Resources and Land Use Branch, Economic Policy Group, Department of Premier and Cabinet on 9228 5546.

Yours sincerely

MIKE BAIRD MP
Premier

Evaluation of Suggested Multi-Peril Crop Insurance Incentive Measures

Terms of Reference

I Michael Bruce Baird, Premier of New South Wales, pursuant to Section 9(1)(b) of the *Independent Pricing and Regulatory Tribunal Act 1992*, request the Independent Pricing and Regulatory Tribunal (IPART) to:

Review a series of existing and proposed drought assistance measures that have been identified as options to increase uptake of Multi-Peril Crop Insurance against IPART's drought evaluation framework and consider the implications for the current combination of measures in the Government's drought strategy.

1. Context

The NSW Government is interested in the potential for Multi-Peril Crop Insurance (MPCI) to reduce farmer reliance on government assistance while increasing drought preparedness and resilience. The NSW Government has made a commitment to support the development of the commercial multi-peril crop insurance market.

On 2 November 2015 the Minister for Primary Industries co-hosted a Multi-Peril Insurance Summit in Sydney, attended by farmers and representatives from banks, insurance and reinsurance companies, the Australian Government and farming organisations from Australia and internationally.

The Summit identified a number of impediments to the development of the multi-peril insurance market. The three key issues affecting multi-peril insurance provision and uptake are:

- gathering and obtaining data to understand the risks and how farmers behave
- the cost of insurance
- education and understanding of the benefits of multi-peril insurance.

A number of possible options for Government action to address these impediments have been identified.

2. The Task

IPART is to assess the current and proposed measures listed in Attachment A (NSW-led measures) against the Drought Evaluation Framework.

IPART is to report on whether each of the proposed measures meets the Evaluation Framework criteria.

For proposals that do not meet the criteria in the Evaluation Framework, IPART should advise if the proposals could be re-designed to meet the criteria.

Evaluation of Suggested Multi-Peril Crop Insurance Incentive Measures

For proposals that meet all criteria except the complementarity test, IPART should identify the programs that it duplicates or conflicts with.

3. Relevant reviews and documentation

The NSW Department of Primary Industries will assist IPART with the provision of information and data on the programs to be reviewed.

4. Process and timing

The review should involve targeted consultation with key stakeholders and potential data source entities.

A draft report should be provided by no later than 4 months after the Terms of Reference are signed and a final report provided to the Premier and the Minister for Primary Industries by no later than 7 months after the Terms of Reference have been signed.

Evaluation of Suggested Multi-Peril Crop Insurance Incentive Measures

Attachment A

NSW-led measures		Status
Farm Business Skills Professional Development Program	<p>The Farm Business Skills Professional Development Program provides financial assistance for farm business planning and the upfront cost of the business assessments required to support an application for multi-peril insurance</p> <p>The program also has the capacity to generate farm business information that could be used by a farmer to assist in accessing MPI.</p>	This is an existing program with funding of \$45 million over 5 years
Improved information for insurers and farmers	<p>This measure includes the development of two key information sources to improve the publicly available information for farmers and insurers:</p> <ol style="list-style-type: none"> 1) The NSW Government is working with the Bureau of Meteorology to develop an enhanced network of weather stations across NSW. In the first instance 20 stand-alone tipping bucket rain gauges and 8 automatic weather stations will be installed. This information will be used to enhance the regular Seasonal Conditions Reports. 2) NSW Rural Assistance Authority data will be assessed as a potential source of agricultural production information for the insurance industry 	<p>Element 1 is an existing program with funding of \$2.5 million</p> <p>Element 2 is underway and not expected to impose additional costs</p>
Stamp duty waiver for MPCl premiums	This measure would involve the Government waiving stamp duty on MPCl premiums for five years (see Attachment C)	This is a new measure. It is estimated that the average waiver would be valued at \$105 per premium
Reduced upfront cost of MPCl premiums	This measure would involve the Government subsidising the upfront cost of the yearly premium. Farmers may be required to repay some or all of this through instalments.	This is a new measure, to be designed by IPART in consultation with DPI. It may impose additional costs.

Background on the Stamp Duty Waiver

The cost of insurance is a major factor influencing farmer uptake, as was explained at the Summit by some participants.

Last year, according to the multi-peril insurance company Latevo, there were 66 multi-peril policies written across Australia, with 27 of those located in NSW.

Table 1 Latevo Multi-Peril Insurance Policy Details

State	Growers	HA	Value insured
NSW	27	60,539	\$1,268,727
QLD	6	13,647	\$355,706
SA	10	17,916	\$331,187
VIC	17	34,827	\$718,310
WA	5	21,329	\$431,525
Total	66	148,258	\$3,105,456

There are several other companies that have entered the Australian Multi-Peril market, however, multi-peril insurance is currently used by a very small number of the 25,350 grain farms in NSW (ABARES 2015).

Stamp Duty

The Office of State Revenue classifies crop and livestock insurance as class C which attracts a stamp duty of 2.5 per cent of the premium.

Using data supplied by Latevo, the average policy would be \$4,229 and average area covered 2,242 HA. The average saving from a potential stamp duty waiver would be \$105 per policy.

Table 2 indicates the estimated annual value of the Multi-Peril Insurance industry if the entire NSW broadacre crop was covered and the expected annual cost of the stamp duty tax forgone assuming that:

- only 65% of the estimated crop value is eligible for insurance; and
- insurance premiums are 9% of the insured value.

Table 2: Estimated stamp duty waiver costs if 100% of farmers take up MPI.

Parameter	Estimated value
NSW value of broadacre crops	\$4.84 billion
Max Crop value insured	\$3.15 billion
Estimated insurance premiums	\$283.16 million
Stamp duty forgone	\$7 million

Evaluation of Suggested Multi-Peril Crop Insurance Incentive Measures

Table 3: Estimated stamp duty waiver costs if 20% of farmers take up MPI

Parameter	Estimated value
20% of value of broadacre crops	\$968 million
Max Crop value insured	\$629 million
Estimated insurance premiums	\$56.63 million
Stamp duty forgone	\$1.41 million

