

24 July 2017



## WHAT

In April 2016, IPART was asked to evaluate five measures to increase the uptake of multi-peril crop insurance. We also considered how a subsidy for multi-peril insurance should be designed if the Government decided to introduce one.



## WHY

The NSW Government committed to working with the Commonwealth Government and farming communities to encourage the development of a commercial multi-peril insurance sector for cropping. A number of insurers have offered unsubsidised multi-peril crop insurance products in the NSW market since 2014, however it was being purchased by less than 1% of crop farmers in 2016.

IPART provided advice on whether different measures are likely to increase the uptake of multi-peril crop insurance, and whether they are good value for money.



## WHO

Our review considered incentives for the uptake of multi-peril insurance for **crop farmers** only. Of around 18,000 farm businesses in NSW, around 7000 undertake substantive cropping activities.



## KEY FINDINGS

We found that the main potential economic benefit of multi-peril crop insurance is increased productivity in good seasons, because it might encourage additional upfront investment in inputs such as fertiliser. This may occur because if low yields result from subsequent adverse conditions, the costs are underwritten by the insurance, improving farmers' confidence, and access to capital. Insurers may also provide incentives for insured farmers to adopt best practice through their products.

We found that three of the measures we were asked to look at complied with IPART's drought program evaluation framework. In order of best value for money, these were:

- ▼ The installation of additional rain gauges and weather stations that commenced in January 2016
- ▼ The Farm Business Skills Professional Skills Development Program that commenced in November 2015, and
- ▼ A proposed subsidy for multi-peril crop insurance premiums.

We recommended that if a subsidy for multi-peril crop insurance was introduced, it should only be done so on a temporary basis. This is because we did not find evidence that the low uptake of multi-peril crop insurance was due to a market failure, and because we found that the expenditure on an effective subsidy for insurance would be greater than any savings in drought assistance.

We found that two measures did not comply with the framework:

- ▼ A proposed waiver of the 2.5% stamp duty on multi-peril crop insurance premiums, which is unlikely to reduce the costs of the insurance enough to materially increase the uptake of insurance, and
- ▼ A proposal to improve sharing of the Rural Assistance Authority's information with insurers, which is unlikely to improve insurers' actuarial models to bring down costs.



## HOW

To assess the measures against IPART's drought evaluation framework, we conducted our own analysis, consulted with a range of stakeholders, including insurers, farmers, peak bodies, and government agencies; and engaged an economic consultant to measure the economic benefits of each measure.

A measure complied with the drought framework if:

1. It encourages self-reliance, drought preparedness and mutual responsibility, occurs where there is a clear role for government action, and is effective, efficient, equitable and effectively administered.
2. It is complementary with other NSW Government programs.
3. The net benefits of the program can be estimated.

We then ranked the measures according to their benefits.



## RESPONSE

The Government responded to our final report in June 2017. It decided not to introduce a subsidy scheme for multi-peril crop insurance. However, it announced that it would remove the 2.5% stamp duty on multi-peril crop insurance from 1 January 2018 to make it more affordable for farmers.



## WHAT NEXT

IPART recommended that the NSW Government continue to apply our evaluation framework to review its drought assistance programs and only fund programs that comply with the framework, have benefits that exceed costs, and generate the greatest net benefit within the budget constraint.