INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF MULTI-PERIL CROP INSURANCE INCENTIVE MEASURES

Tribunal Members

Dr Peter Boxall AO, Chairman
Ms Catherine Jones
Mr Ed Willett

Members of the Secretariat

Mr Hugo Harmstorf, Ms Liz Harloe, Ms Jessica Robinson

At

Corinthian Meeting Room
SMC Conference & Function Centre
66 Goulburn Street, Sydney NSW 2000

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OPENING REMARKS

THE CHAIRMAN: Good morning, my name is Peter Boxall and I am the chair of IPART. I would like to begin by acknowledging that this hearing is being held on the traditional lands of the Gadigal people of the Eora Nation.

This is a great turnout, and thank you all very much for making time to attend today's hearing on multi-peril crop insurance. With me today are my fellow Tribunal members, Catherine Jones and Ed Willett.

Today's hearing provides both you and IPART with the opportunity to consider issues relating to our draft report released last month. This is a public hearing and forms part of the public consultation process that the Tribunal undertakes. Transcribers are present to record the proceedings, and the transcript will be publicly available. So that we can have a complete record, please introduce yourself when you start to speak.

This hearing is also being webcast. Online participants are able to submit questions.

We didn't put a time on the agenda but I anticipate going to about 12 o'clock with a short break around 11.

In early 2016 IPART finalised a framework to evaluate drought programs. Subsequently, the Government has asked us to evaluate five measures, all aimed at increasing the uptake of multi-peril crop insurance, against the framework.

Firstly we found that multi-peril crop insurance could play an indirect role in increasing crop farmers' self-reliance during droughts. However we also found that multi-peril crop insurance is unlikely to displace government assistance, such as concessional drought loans and farm household support payments.

This means that if the Government supports multi-peril crop insurance, it is likely to require additional funds.

Of the five measures we evaluated, we found that additional weather stations and an upfront subsidy comply with our droughts framework, and that the business skills

program can be redesigned to comply. The stamp duty waiver and information sharing measures do not comply.

We assessed the benefit cost ratios and found that additional weather stations delivered the greatest net benefit. Accordingly, we ranked them first.

We ranked the business skills program second because it can be redesigned to comply with the framework and it delivered the second highest net benefit.

The upfront premium was ranked third, with a modest net benefit that depends on productivity gains, which The CIE will discuss in its presentation.

The stamp duty waiver, which is ranked fourth, didn't comply with the framework and has a benefit cost ratio of 1.

The CIE was unable to estimate the benefit cost ratio for sharing RAA information and it did not comply with the framework, so we ranked it fifth.

Today we are interested in stakeholders' views on our recommendation and findings. We are also interested in exploring further sources of information to inform the cost benefit analysis.

Firstly Liz Harloe from IPART's Secretariat will present our recommendation and findings and the review process. Then The CIE will present their cost benefit analysis. We will then open the hearing for discussion firstly from round table participants and then from the floor.

I now invite Liz to present.

IPART PRESENTATION

MS HARLOE: Thank you, Peter. My name is Liz Harloe, I am a member of IPART's Secretariat, and I have been involved in the review of multi-peril crop insurance incentive measures.

Today I will quickly provide an overview of the context for the review, our terms of reference and the review process. I will then summarise IPART's draft findings and then outline the next steps in the review process.

In October 2015, the New South Wales Government engaged IPART to develop a framework for evaluating drought programs. We delivered a final report containing our drought evaluation framework late last year. The drought framework was designed to enable the Government to identify the suite of drought systems measures that both accords with the Intergovernmental Agreement on National Drought Program Reform and delivers the greatest net benefit per dollar spent.

So just to outline IPART's framework: a program will comply with the drought framework if it's well designed drought assistance, and this requires it to fulfil requirements such as addressing at least one of the IGA's objectives; being consistent with the IGA's core principles; being effective, efficient and equitable. It also needs to complement other New South Wales and Commonwealth Government programs. Then the benefits of the program also need to be able to be estimated.

If it meets all these requirements, it passes the framework, and the final step is to measure the net benefits of each program and rank them.

In March this year, the New South Wales Government asked IPART to assess five measures against our drought framework, and these were identified as possible ways to increase the uptake of multi-peril crop insurance. Firstly, the Farm Business Skills Professional Development Program, which provides a subsidy for professional development relating to risk, financial and business management, farm business planning and drought preparedness.

Another measure is to install 28 additional weather stations, and this project is already underway.

Sharing information with insurers. This measure involves providing insurers with access to the Rural Assistance Authority's information. The RAA administers Commonwealth and state rural assistance programs and holds data to support applications for assistance.

Then there is the proposed measure to waiver the 2.5%

stamp duty on multi-peril crop insurance premiums to reduce the upfront cost for farmers, and it would apply for five years.

The upfront premium subsidy involves providing a direct subsidy for multi-peril crop insurance premiums to again reduce the upfront cost to farmers. We were asked to design the subsidy, and we investigated a 5-year subsidy at 50% for two years and 25% for three years.

So far in the review we have released an information paper in April. We received eight submissions from stakeholders on that, and we engaged The CIE to conduct a cost benefit analysis on each of the five measures, and Derek Quirke from The CIE will run through his method and results on that.

We also conducted targeted consultation with insurers, government bodies and New South Wales farmers.

Two weeks ago IPART released the draft report for the review, and stakeholders can now provide submissions in response to our draft findings.

So to outline the draft findings: firstly, our draft finding is that multi-peril crop insurance could play an indirect role in increasing crop farmers' self-reliance during droughts. This is because potentially it could increase the productivity of farmers in good seasons so they can self-insure in times of drought.

We also found that multi-peril crop insurance is unlikely to displace government assistance during drought. This is because multi-peril crop insurance is unlikely to be offered at affordable premiums during drought. Also, insurers currently offer multi-peril crop insurance to cropping farmers, and 80% of current government assistance goes to livestock farmers. Further, the farmers that are most likely to encounter financial difficulties are the least likely to purchase the insurance.

Now our draft position on the five measures. So this table sets out the measures by rank, and it shows whether the measure complies with the drought framework and the net benefits of each of the measures.

We ranked the measure to install 28 additional weather stations first, and this is because it does comply with the drought framework, and it delivers the most benefit per dollar spent. It has a benefit cost ratio of 1.9 to 1.

We ranked the Farm Business Skills Development Program second. It does not comply with the drought framework but we ranked it second because it can be redesigned to comply with the framework, and it also has a positive benefit cost ratio of 1.5 to 1.

Our draft report recommends that this program is redesigned to remove the overlap between it and the Commonwealth Managing Farmers Program, and that program provides rebates for advice and assessments to help farmers prepare for new insurance policies.

We ranked third the upfront premium subsidy. It complies with the drought framework, but as the benefits only just outweighed the costs with a benefit cost ratio of 1.1 to 1 in the most likely scenario, we ranked it third.

Ranking fourth is the 5-year stamp duty waiver. It does not comply with the drought framework, and also it would not be effective in increasing uptake of multi-peril crop insurance. This is because stamp duty is only 2.5% in New South Wales. It also overlaps the upfront premium subsidy, which we think is a more effective way of reducing the cost of insurance for farmers, and the benefit cost ratio is also close to 1, so we ranked it fourth.

Sharing information with insurers does not comply with the drought framework because we found that it would not be effective. The benefit cost ratio also could not be calculated, so we ranked this program last.

After our public hearing, we invite submissions on our draft report until 15 August, and we will then deliver a final report to Government in October.

Thank you, Peter.

THE CHAIRMAN: Thank you very much, Liz. I will now invite Derek Quirke from The CIE to present the cost benefit analysis.

CIE PRESENTATION

MR DEREK QUIRKE (The CIE): Thanks, Peter. Seeing as we have a relatively short time, I will get straight into it.

I will open up with our draft report findings. We were commissioned to objectively quantify the benefits and costs for, in total, five measures. As outlined by Liz, in terms of the farm business skills, our main conclusion was that these funds cannot be used to fund the upfront audit of MPCI audit costs. It overlaps with a range of other Commonwealth and industry provided programs. It is relevant across a wide, broad spectrum of sectors within agriculture, and so therefore it is not particularly relevant to the grain sector, but in line with our experience across agriculture, the benefits would be in line with those other training and extension programs that are already available.

In terms of measure 2a, the installation of rain gauges and weather stations, it essentially improves the information for both growers and insurers over the long-term, and therefore it is quite difficult to actually estimate what the quantum of that benefit is, but for our purposes, we have examined the benefit cost analysis of previous similar investments in understanding climate or better understanding climate forecasting capability, and drew the conclusion that this additional investment would be marginal to those previous investments.

For measure 2b, the sharing of just the information that goes on the industry, the objective of this measure is essentially to improve the accessibility of existing paper-based information. It complements a range of information that's already available out there, and, for example, insurers would already have substantial databases of their own across the sector. So because of these complementary attributes, we have to assume that there is a small but positive benefit.

In terms of the stamp duty waiver, our modelling indicates that there is a limited increase in uptake, this will result in a limited increase in uptake, because of the small cost reduction, it's smaller than 2.5%. Because of this limited change in uptake, there is not going to be productivity benefit, there is unlikely to be any productivity benefit, and the benefits, the way these benefits are calculated, really comes down to the relative efficiency of taxes, one tax versus another. So our conclusion is that it is very small. It's a very marginal improvement.

The main focus of our quantification was the reduction in upfront cost of insurance premium. It became quite clear early on that government involvement in this market would not be worth it without productivity gains that are largely unanticipated or unexpected from the sector. The wider the uptake, the more likely you are to get these productivity gains, and so therefore get a net benefit from the scheme. And, really, for the low and medium scenarios that we examined, only a small productivity benefit is actually required to get a net benefit from the government involvement in this area.

So I would like to quickly focus on some of the rationale behind these findings. On the left-hand side there, there is a range of rationale for why the government at this stage should be involved in providing upfront subsidies to MPCI, and on the right-hand side there are our findings and some reasonings.

One suggestion is that it could substitute for existing government insurance assistance. As Liz pointed out, this is pretty unlikely, because of the distribution of the current assistance towards livestock producers, whereas MPCIs target primarily grain production. Another rationale is it leads to unanticipated productivity change, and we found that this is the most likely avenue of these benefits from such a scheme.

We also, in addition, found that it was unlikely to accelerate structural adjustment within the industry, improve access to capital, and the access to capital issue was particularly in reference to the cropping sector; unlikely to address information asymmetries for insurers, unlikely because the structure of all these products now incorporates full disclosure by businesses to the insurer; and the small level of current stamp duty, it's unlikely to influence additional uptake of MPCI policies at the margin.

So some important context for our findings was that when we contacted some stakeholders in the industry, one of the key problems was that it was very hard to articulate especially what form the policies were going to take, so it was hard for people to assess what they were actually commenting on. And that's simply because a lot of these

products are still under development, they are being trialled to rather select or high-end customers within the industry, and there are a number of options being investigated. We know from the consultation that price is a key factor, but there is a range of other attributes in policies, including coverages and compliance requirements, that all factor into the decision whether or not to uptake MPCI.

So the industry is really conscious, the insurance industry is really conscious of offering sufficiently low price points to increase uptake, but it's also about ways, mechanisms of mitigating loss in catastrophic production years.

One of the things we observed was that there was actually, from an insurer's perspective, they needed to have quite a geographic spread so they could manage their loss ratios in the long-term, which sort of indicates a national scheme would be more preferential to a state scheme.

Just quickly, three baseline price scenarios were considered, $14, $22 and $30. Current premiums of $30 plus in the market out there; products now being trialled in the $20 to $25 range. As I said, the market is evolving, we think that there are probably around 70 policies at the moment in New South Wales, and that represents between 3% and 6% of specialist cropping farms.

This is already outlined, the price scenarios, but I think it's important: the second major dot point there is to highlight that multi-peril crop insurance actually applies to winter cereals as a group, it excludes the summer cereals and fodder crops, but it is really focused on wheat, barley and canola, which accounts for 90% of state GVP, so it's all about those three commodities, really.

Just quickly, consultation with industry, because it's early days, people within the industry are still considering their options, but we determined a number of key lessons. People without traditional or named crop insurance are unlikely to go on to upgrade to MPCI. The first to move, as we know already, are in specialist cropping, and usually within the top 1 or 2% of best practice growers in the state. The subsidy will quite clearly encourage testing of the MPCI product or the range of products that are being offered out there. Because of the testing period and the subsidy, the drop-out rate after the subsidy period could be significant.

So the initial recommendations by farming consultants is basically to wait and see or to strategically use MPCI.

So essentially there is a very strong link between price, quantity, that's the number of farms that uptake MPCI, and the potential benefits. So in that traditional left-hand column of numbers there, we can see that essentially there's a base number in specialist cropping of about 4,750 farms in New South Wales. The baseline, without any intervention in the market by 2021, there would be 145, basically 155 policies. And then the uptake varies with price, of course, with the maximum uptake at $14 of 1,220 farms, reducing to 920 farms for the $22 or medium scenario.

This would involve average premiums for farms say for the medium or the $22 per hectare scenario to be $15,000 per farm.

One of the rules of thumb that was used out there by the consultants is that $30,000 per farm would probably be the limit for your average farmer.

So what are the potential flow-through benefits from multi-peril crop insurance? There's two key ones. There's the transfer of risk to the market, and we are seeing professional or best practice farmers doing this at the moment. But this transfer of risk is really difficult; in fact, it's impossible to quantify.

The second major benefits are these productivity benefits in terms of farmers' ability to catch up on best management practice. This is where the benefits of society lie, and this is where the benefits from the benefit cost analysis come through, and it is far more amenable to quantification.

So the potential benefits of catching up to best management practice are substantial. So the difference in any one district between the best manager, a BMP farmer, and someone at the other end of the distribution, is anywhere between 30% and 50%. That's in terms of

production. In terms of marketing, it could be anywhere between 10% and 20%. So you can actually see that there is potentially a lot of scope for catch up. But the benefits really are conditional on who actually takes it up. The people who are the furthest away from best management practice are the most unlikely to take up MPCI and therefore get the benefits.

The three main contributing factors to this scope for catch up was conservative input use, and this is mainly following the 2007/08 drought; management capability in terms of timing of operations, seeding, spraying; and improved marketing strategy.

After consulting with people in the industry, we thought in terms that the largest benefit would come from -- taking a more risk neutral approach to input use would be the largest avenue for benefits, flow-on benefits from adopting MPCI.

So after consulting with some people in the industry, we came to the conclusion that, taking a conservative approach, the largest net productivity benefit would be around 10%. So that's a combination of increased yield from more neutral input use, plus also a small marketing benefit in there. But because not everyone who would actually take up MPCI would get the full 10%, there would be a spectrum between no benefits, because there's people who are already at best practice, right through to those who uptake MPCI who are the furthest away from best practice, there would be a possibility of about a 3.3% gain.

Of course, for the highest price per hectare scenario, there would be pretty small benefits, because uptake would be limited to basically people who are already at best practice.

So today I wanted to hear really about this link between uptaking MPCI and the expected productivity gains. And because this link is so difficult to get a handle on, we looked at three particular cases.

There was no anticipated productivity gains. MPCI brings these productivity gains forward by five years, and the productivity gains wouldn't have happened without adopting MPCI.

As we have already noted, the stamp duty waiver has a very small marginal effect. But focusing on the benefits from the subsidy to MPCI, without productivity gains, from a social benefit costs point of view, without flow-on productivity gains, the subsidy would not be worth it.

In case 2, where the gains are brought forward for five years, the benefits of subsidising MPCI are still there, but they are 45% lower than in the case without -- with full productivity gains.

In the case of where these productivity gains would not have happened without the adoption of MPCI, there's net benefits in all cases, except the $30 per hectare case, and that's because in that high scenario, high price scenario, all the people who are uptaking it are basically confined to producers who are already at best practice, so there is pretty limited scope for productivity gains.

I am winding up now. But I wanted to also recognise that there is also a benefit there from the transfer of risk to the market, which hasn't been quantified.

Thanks, Peter.

THE CHAIRMAN: Thank you very much, Derek. So I now invite discussion from around the table. There are three participants that have provided PowerPoint presentations. All participants should attempt to limit their contributions to a maximum of five minutes.

So first I would like to invite Jonathan Barratt from CelsiusPro to present their response.

CELSIUSPRO PRESENTATION

MR JONATHAN BARRATT (CelsiusPro): Just stop me after five minutes, if someone is timing.

Thanks very much for inviting me here to speak. I guess, at the end of the day, it's a topic which we all are pretty keen to be looked after in terms of how we can help farmers, certainly how the insurance sector can certainly fit in.

Just a small PowerPoint presentation, this is my draft response. CelsiusPro, so we have been established since

2008, we are specialists in index insurance, single-index and single-peril insurance.

CPA applauds the State Government's initiative and IPART's involvement. I would just like to say throughout the whole process we have found them all very helpful, and when they didn't understand particular topics, they certainly put their hand up, and we came and helped them out.

I guess in the private sector, just like to pass on a few comments. Where there is a risk, there is a market and climate risk is no different, I say there is always a great stigma in terms of climate, and that is a great problem but we have insurance products out there for other types of risk, whether it is a car or any other thing, there is an insurance product that probably meets that. I don't think this should be any different.

As we specialise in single-indexing insurance, single peril insurance, there is a vibrant market. You know, on our panel of dealers, we have up to five major reinsurers that sought after our business. Every time we put out a contract it's a bid where people want our business. So when I look at the actual market, I think that when you look at it, there is a market for this risk; it's simply a matter of trying to access it and trying to inform people on how to access it.

One of the biggest issues I guess which came about from the report is that climate factors facing our farmers shift. Each year, the farmer's risk profile changes. I was just having a chat to Mark Martin over there about this year, and I think the focus that we have I understand, is on drought, but there is also a focus where you look at the balance sheets of farmers, and this year could just be one of the toughest years that they've ever had. We all look at it and say, well, they've got plenty of rain, but when you look at the cost mechanisms involved in producing the crops, this year could be very tough more so than what we have seen in the drought years. In the drought years, we know growers don't put those inputs into the market, and there are reasons for that, because they know they are not going to get yield, but in the wet they're going to throw the kitchen sink at it, and that to me is an issue because they’ve got more costs.

When we look at single-peril, obviously there's a focus on the weather. 80% of the inputs for farmers is weather related. Insurance products need to be able to adapt and be flexible to encompass all climatic risks.

I guess, when we have this discussion, that's not excluded. When I look at the multi-peril contracts, I think they are a good thing, but I think more work needs to be done perhaps to put some form of single peril in there.

I also feel that the focus should be on all climatic events, not just drought. My experience tells me that other climatic events for growers are just as devastating. You know, when we look at that, it's not a case -- we're not just looking at say just a broadacre farm. We had calls from potato farmers. We had people from chickpea growers, mung bean growers, when it gets to 36 degrees, the whole crop is wiped out.

So when we look at these generic style of products, they have to be across the whole board to help the farmer, and I think that just focusing on drought, I think that we have to look further afield.

I think one of the interesting take homes, and it was obviously picked up a little bit by Derek and also Liz, was that the discussion has been about, you know, it doesn't cover other parts of the agricultural market. In fact, when you are looking at 70% to 80% of the subsidy going to livestock, you start to think, well what's wrong with that sector?

I look at the work we have done internationally where we cover 5,500 farmers in Kenya from the NDVI product which actually helps them, it is a direct subsidy in terms of insurance against drought, the NDVI is a proxy between lack of rainfall and heat, so it is perfect for partials, and I look at what we have done there where we have underwritten and helped structure cover for World Bank, the Kenyan government, a local insurance broker, you can see that these sorts of projects can be done.

When I look at the BOM, when I look at the work that Steve puts in with his team, you can see that these sorts of products, remotely sensed products, in my mind are more of the future. The NDVI is just one which will actually

top off in terms of catering for that 70% of people who aren't covered.

In my mind, the focus should be on insurance products for all the sectors that they can use. Once again, it is a generic transfer. We have downstream effects. Obviously, if something happens to the farmer, he doesn't make his income, but what about the local store? What about the events, what about the agricultural supply area They are all affected as well. They don't perhaps get the subsidies that they should get from the Government, but their businesses hurt just as much.

So when I look at it, and I look at how this can affect everybody, in my mind, there needs to be more of a generic style of cover that people can choose if they have issues.

I guess, in my experience, it just tells me that it's across the whole industry where we have these effects as a result of the weather, and, sure, it could be flood. It could be drought. It could be heatwaves. It could be one of the biggest topics this year - is that because everyone has thrown a lot of money at the crops this year - that we have significant risk on the table, more so than perhaps in a drought year, where we have chances of washouts, chances of a downgrade. If you are making hay, you are sort of cutting it on to a high moisture profile, you've all of a sudden got a 50% downgrade. If you are producing durum wheat, 50% downgrade. When you look at some of the costings, in particular for wheat at the moment, where you've got international prices so low, a downgrade will actually put in a loss year for that grower when in fact he should have made a profit.

Yes, Peter.

THE CHAIRMAN: I am on five minutes.

MR BARRATT: Good, I am just about to finish. The focus on the sectors, insurance products need to encompass small business. Technology is only getting better, and I think that this is also a key. Remotely sensed point source weather data in my mind evolves our ability to build relevant insurances, and this to me is a big focus. Whether it's evapotranspiration, radiation, soil moisture, indexes can be built and insurances can be provided.

We put a list together of reasons of why we think and how we think we can improve multi-peril crop insurance. I think there is a place for it, but I think it needs to be improved.

Of course we concur with what IPART has done there. Just by way of a quick point, if you look at single peril index insurance, you can have a risk transfer mechanism on an average contract of £1.8 billion today. That's all in the market if you need it. So when you look at these types of cover, they are there.

Quick summary, you can just read it, because I have covered it, and because I have obviously hit the buzzer.

Thank you.

THE CHAIRMAN: Thank you very much, Jonathan.

Next we have David Blackett of Innovative Risk Transfer.

INNOVATIVE RISK TRANSFER PRESENTATION

MR DAVID BLACKETT (Innovative Risk Transfer): Firstly, thank you IPART for giving us the opportunity to make this presentation.

I am going to basically address the findings, which is the brief that we were given. So I am going to go firstly quickly through the business skills findings recommendations, because we agree with these findings and recommendations, and we don't really have anything else to say on them.

We also agree with additional weather stations and the findings on the sharing of information. I don't think there's necessarily a strong correlation between drought relief funding and what an insurance payout would be, so I don't see them as being of great use.

So what I want to do is focus on the findings on stamp duty and also on multi-peril crop cover.

So basically the finding is that the stamp duty doesn't achieve the objectives, and they are going to be complementary.

We've got problems with this. Taking the issue of complementarity first: if you are going to subsidise the premium, yes, it is a complementary measure. But I don't think anywhere you are saying that you are actually going to subsidise the premium. So I think it's not going to be complementary.

The other issue is whether it's actually effective. If the premium's not going to be subsidised, then why add disincentive to self-reliance? I think one of the major focuses here is we want farmers to be self-reliant. I don't think there is any advantage in taxing self-reliance, because you are actually turning around and giving a negative incentive.

So I think basically the cost benefit analysis has actually looked at this the wrong way around. I have been selling crop insurance since 1987, and I'm pretty certain that I have never come across a farmer that's going to say: deal me in if you're not charging me stamp duty. So I don't think you are going to get five or six extra policies out of this, I think you are going to get zero. But what you are going to get, and what I have seen, is a number of farmers who you sell the premium, and then it's a struggle, and you get to that stamp duty, and they say: look, I'm just -- I'm not going to buy it. So I know there are farmers out there who have not bought because of stamp duty.

Now, the report says, and other participants have said, that on an average premium of $25,000 you are only going to save $625. Well, that's more than most farmers are spending on public liability insurance. If the average premium is $25,000, that's double what most farmers are currently paying for farm pack business. So if you are trying to sell this, you are saying, we want to sell you a 300% increase in the cost of insurance, and, by the way, we are going to hit you with a tax on top of that.

So in an underwriting perspective, I would say to you that if I am developing a product, and we are currently trying to develop a product, I would be looking to try and keep the proportion of costs to 22.5%. If you are then adding a 2.5% stamp duty to that, you are adding to the costs of this product by 11%. It sounds like a small amount, but in actual fact it is a big amount of money, and selling a $25,000 premium is tough enough. And most farmers, when they look at this, they are going to say: well, what's the payback? What I'm saying implicit in this is that if I'm limiting my cost to 22.5%, then payback is 77.5%, which is about what payback for multi-peril crop insurance is at the moment. So taking that down to 75% by putting in an extra tax is not helpful.

So we are not advocating or asking for assistance paying for MPCI insurance; please, don't make it harder for us.

Now, multi-peril crop insurance, the upfront premium subsidy. We agree with the findings, but we think that you are asking the wrong questions. I don't think there is an indirect role or indirect benefit for multi-peril crop insurance. I think there is a direct benefit, and we are missing that in the cost benefit analysis. And I also think that if the product is designed properly, then you are going to be able to replace the concessional loans and farm household support payments. So we are basically disagreeing with it.

So the draft report is written based on the view that MPCI may have an indirect impact. We think it should have a direct impact. If it doesn't have a direct impact then the product is wrong. Why would you buy an MPCI product if it's only going to give you productivity gains. I think the previous speaker pointed out, or one of the speakers, sorry, that you can't measure what the risk transfer benefits are, but they should be a major benefit for the rural community.

So if it's not providing a direct benefit, then the product's flawed, and we believe that the existing products in the market are flawed.

So if we look at IPART, we agree, and what IPART is basically saying, we agree with this finding, is, well, if you are offering an annual policy, in the good seasons, farmers won't want to buy, and in bad seasons, the insurers won't want to offer, so there is no market. It's a dysfunctional product. So we agree with the assessment from IPART.

IAG raised a good point, that there is a chronological anti-risk selection, and this goes to the same question, that in poor seasons it's not going to be offered by

insurers, and in good seasons, no one is going to want to buy. So, again, we agree with this assessment from IPART.

I am just about finished.

So what's the solution? We are not the first people to come up with this, this has been discussed in other parts of the world, but the solution is quite simple, and that is you need a multi-year policy; that there is no way for you to insure a peril like drought on a year-by-year basis. The potential for selection is just way too high. So the simple solution that we are assuming is a multi-year policy.

Thank you.

THE CHAIRMAN: Okay. Thank you very much David. Now we call on Andrew Trotter from Latevo.

LATEVO PRESENTATION

MR ANDREW TROTTER (Latevo): Thanks everyone for coming along today, it's great to see such a public discussion in a hearing on such an important topic. Rather than going through -- I am going to follow on from David, because his representation of the findings were absolutely spot on in terms of stamp duty, the fact that this actually does have a direct impact in drought seasons, and I would welcome to talk to some of the participants, because I know there are some farmers here.

Just a show of hands, the farmers in the room, please? Let's make sure we get these people to have some discussion.

THE CHAIRMAN: Don't use up your five minutes.

MR TROTTER: It's all right. What we are talking about is how we get the productivity gains, which is how we get yield gap, you can read up there, but they are the major issues that we have in our production system. We need to understand where is our production at the moment. There is a 17-year average on yield gap, and we are tracking across the nation at about 52%, but you will notice the east of Australia, the northern GRDC zone is at 49% for the last 15 years. If you move that into a three-year trending average, we have moved from 45-50% through to about 55% in the northern region, but it's the lowest increase in productivity gain in the nation, and why is that so.

Another chart here shows the disparity between the risk profile in New South Wales and WA, for example, and I have zoomed in on the next one. The Western Australian farmers have a situation where 90% of their yields are greater than 60% of their average. It gives them the confidence to invest in their farm businesses. In New South Wales, 90% of our yields are above 35%. So if you take that the other way, 10% of our yields are below 35% of our average, and most farmers are running their businesses at somewhere between 60% and 70% of their average income, so it just shows you the greater severity of variability in New South Wales compared to Western Australia, hence why it is such a positive move for the New South Wales Government to assist New South Wales farmers.

We can go through it here, but the most important thing to scope when you are understanding what these income protection measures are, it's three levels. You have a community level, you have a personal level, and you have a business level.

The hardest thing that we have found with farmers is understanding how much this benefits their entire business. The average cost in New South Wales this year was $22 a hectare. A nudge policy of 50% is going to drive that down to $11. You can ask the farmers the difference in purchasing a product, a new concept in the market, at around the $20 or $15 mark versus around the $10. It has a very significant impact.

Like was previously said, if you get that stabilisation into the farmers, they will then disseminate those funds through the community level and also the personal level, the mental health, some of the challenges that we have in the bush. This is a very important policy for the government to get behind, because if we can support our farmers and give them a bit of a hand up so that they can support themselves, they won't be there looking for a handout when times are tough. And there is nothing more difficult, when the bank won't give you any more money, you can't afford to feed the family, you can't afford to put next year's crop in, and it all starts to unhinge from there.

The point of this is that insurance responds very quickly. It responds far quicker than any government measure. For example, last year, our first claim from a Victorian farmer was processed and paid in full on 22 December last year, before a lot of the monies had been received by the grain companies. So that just shows you how quickly the insurance companies can respond if the contracts are set up and in place.

But I will leave it at that. Thank you.

THE CHAIRMAN: Thank you very much, Andrew. Other comments around the table? Philip, any comments?

MR PHILIP HEATH (IAG): Sure. Five minutes?

THE CHAIRMAN: No need to push it.

COMMENTS FROM THE FLOOR

IAG PRESENTATION

MR HEATH: So my name is Philip Heath, I represent IAG in terms of rural brands in their insurance portfolio. It is essentially giving CGU in the rural areas. IAG welcomes the findings of the report and we support the following views.

Certainly subsidies will increase the uptake of multi-peril crop insurance. Increased uptake of multi-peril crop insurance will increase crop farmers' self-reliance.

From a stamp point, we don't agree with the view on stamp duty. It is a psychological block for the purchase of insurance.

Secondly, we did question whether increased weather stations actually assists in long-term forecasting. Yes, it will help in the short term forecast for farmers, but long-term forecasts are more driven by other international factors and not necessarily local conditions.

The third point. We do acknowledge that on face value, increased multi-peril crop insurance would not reduce drought payments by much, as per the report, based on 80% of payments go to livestock farmers, but we would also make the point: multi-peril crop insurance is in its infancy in Australia. Grain, so wheat, barley, canola, is only the first steps, and there is nothing to prevent multi-peril crop insurance spreading to other farming types. We have been asked to deal with and insure farmers for a pineapple farm in Queensland, and we also take the view that it can spread to livestock farming too.

Fourth point, we found it an interesting comment on page 5 of the report that insurers will increase premiums in drought years. We do not agree with this. Our pricing, indeed most of industry pricing, is based on meeting the capital costs over a longer term period and not single years. As has been mentioned, we are interested in looking at long-term contracts, multi-year contracts, and they will be priced accordingly.

Lastly, other insurance incentives may apply at renewals, and that renewal may coincide with a drought year.

Lastly, we do acknowledge that the report deals with a fixed framework in respect of drought, and therefore misses other pertinent benefits. It has been mentioned by other presenters about the increased financial stability. Increased financial stability will increase investment by farmers. It will also increase support from banks and access to capital. We do believe, and it has been touched on, that it will improve the mental health and better rural conditions.

Lastly and not least, we do believe that multi-peril crop insurance will increase the entry of young farmers into the agricultural industry which we all know, from a federal point of view, is a big issue.

Lastly, we would make the point that a multi-peril crop insurance does deal with multi-perils and not just drought, so whether that's pests, whether that's frost, whether that's a drop in quality, a multi-peril crop insurance will cover those, and therefore has benefits wider than just drought.

Thank you.

THE CHAIRMAN: Okay. Thank you very much. Nigel, do you want to say something?

MR NIGEL WOODEN (MPCI Australia): I will maybe just speak here for a second. Thank you very much for your time.

A couple of interesting points, thanks very much. I think multi-peril over a long-term, really important, powerful. Some of the things we were questioning in the report was just the subsidy's capacity to roll the benefit of the subsidy over years, so multiple years, so signing up for one year, two years, three years, perhaps not paying the full benefit in the first year, but moving onto the second. That was our overall contribution to where we thought additional information can be helpful. Thanks.

THE CHAIRMAN: Thank you very much, Nigel. Moving on to Danica.

MS DANICA LEYS (Country Women's Association NSW): Thank you. Thank you all. I will be making some broad and luckily brief statements on behalf of the Country Women's Association.

My name is Danica Leys, I am CEO of the Country Women's Association. The CWA is very pleased to be here today to provide input to this public hearing. Our State President Annette Turner is also here in the audience, and we welcome the opportunity that we have to put forward the views on behalf of our members.

From the outset we will say that CWA are not experts in the finer details of insurance products. However, we are experts on rural communities, which has already been mentioned here this morning. In that regard, the importance of designing out a policy that holds a more resilient and self-reliant farming base cannot be overstated.

Healthy, financially sound and productive agricultural enterprises underpin rural communities across the state, and whilst much of the evidence presented in previous submissions to the report and here today will focus on the core technical data around the uptake of MPCI, we are here to ensure that the human face of the impacts on these decisions is not overlooked.

IPART has an important job to do, and from what we have been able to review so far, they have been doing a very thorough and diligent job, and we are certainly in agreement with the draft recommendations so far. But let us not lose sight of what we want to achieve, and that's a better outlook for rural communities, and that's really what The CWA is all about.

Specifically back to drought policy, our members consistently relay to us that drought policy, in their view, in this state, is lacking strategic direction, and is certainly lacking in terms of its effectiveness in supporting the communities that need it the most. That being said, it's a good opportunity that the Government is taking the time now to address this issue in a comprehensive fashion.

Multi-peril crop insurance is one part of the broader picture when it comes to effective drought policy, and we are pleased to see IPART recognise that as just a piece of the puzzle rather than the solution as a whole.

We have already stated in our earlier submission and taken the opportunity to state again now that we don't think multi-peril crop insurance is the total answer to good and effective drought policy. In some circles we find it is perhaps being talked up a bit too much as a solution when it's not. We do however welcome the further analysis that's happening here today, in looking at the barriers to uptake, and it's an important option that should be considered in the mix.

We have been concerned with some comments that we saw in initial submissions prior to the release of the draft report from some insurers, including the notion of making multi-peril crop insurance compulsory, as well as the idea of making access to drought assistance dependent on the purchase of a multi-peril crop insurance policy. We would like to say at this stage that we reject both of those suggestions. We don't think they are appropriate in the Australian context. There are too many variable and different sets of circumstances to realistically think that that's a viable option for increasing uptake.

We were also concerned to see some providers submitting a comment that farmers are slow adopters of new technology and new business products. That is incorrect, and I challenge anyone that has that somewhat antiquated view of the agricultural business to reassess their stance. Farmers are indeed savvy business individuals with often very large risks to carry, combined with a variable

climate. They won't take up a product unless it does what it says it is going to do, and they are really putting too much at risk already to throw money into a product that they are not sure about. This is why this review is so important: to objectively analyse the barriers to entry, and to consider the costs and benefits associated with breaking those barriers down, if appropriate.

As I said before, we support the directions and initial findings of the draft IPART report, we look forward to more discussion over the morning, and we again thank you for the opportunity to comment.

THE CHAIRMAN: Thank you very much, Danica. I was just wanting to go to Steve from the Bureau of Meteorology, then Mark and Nicholas, then back to Sonia and Nick, and then we might take a break. Steve.

MR STEVE LELLYETT (Bureau of Meteorology): Thank you, Chair, and thank you very much. I appreciate the opportunity to talk at this round table.

My comments aren't going to be so much directed to the insurance itself and its design, but more about what we might be able to do moving forward from here. It was very heartening to see the finding that the weather station initiative was seen as a positive. It is a positive cost benefit ratio estimated there.

There are three ways, I think, and each of these could impinge on policy design, premiums, and help with the information asymmetry between farmers and insurers. The three sort of generic areas are historic data for the long-term, and looking at the underlying basis of risk associated with weather; current data, used for tracking and assessing outcomes; and then seasonal forecasts, so looking at the season ahead, encouraging improved performance, but also understanding what risks there are in the coming seasons.

It was mentioned also by one of the speakers that satellite remote sensing could play a larger role. We certainly have access to that kind of information that could be leveraged, but that is something that needs to be explored in another forum.

Going to the first, to historical long-term data, in the past we have had direct interaction with the insurance industry, particularly in relation to weather derivatives, and in that point the impartiality and independence of the observations was an important element, and I suspect that that will continue to be the case.

One of the big challenges was the sparsity of information, without having complete geographic coverage, so it's just a question of individual observations, and ensuring a place that isn’t next to where the individual observation is. However, we now have moved towards having gridded analysis, so in other words a geographic mesh laid over the top of the landscape, to estimate values of rainfall and other climate parameters right across the whole of Australia, so for most parameters down to a 5-kilometre resolution, and these grids are both current as well as going back in time to the early 1900s. So if they were deemed acceptable in terms of interpolating between those data points, there is a scope there for having some improved information for use in designing insurance related products.

THE CHAIRMAN: You are saying that (indistinct).

MR LELLYETT: I am not sure that anybody is, but there is an opportunity to leverage that capability there. And we could actually go further in increasing the resolution not just to 5 kilometres but down to 2.5 kilometres, or find a scale which is getting much closer to actual farm scale, and that's possible with some further investment in the interpolation schemes and so forth. So there is a couple of ways you can improve that. One is to take additional observations, which the initiative is already underway with the additional weather stations. Another way, as just mentioned, is to improve the interpolation of the grid itself.

So in that regard, we could improve the analysis scheme with further investment. We could also start to look at bringing in third party data and to fill in the extra gaps in the network. In taking that kind of approach we have to be very careful about data quality. It's a key consideration. If you put poor quality data into an analysis, you are going to get a poor quality analysis coming out.

So we would be looking to set some standards there for acceptance of that kind of data, and there is a possibility

that we could move in that direction. We haven't done it yet, but again, with some additional investment, we could head in that direction.

To the third area now, which was the seasonal forecasts. There's two perspectives here. One is the three-monthly forecasts that we are doing at the current time, which is much more detailed and allows on-farm decisions to be made, looking at the risks associated with those three-month outlooks.

Three-month outlooks have been improved to look at things such as the probability of exceeding a particular amount of rainfall that's associated with a particular decision. In fact, the whole probability distribution of each of the parameters we can predict for is available and could be utilised in designing insurance products. So there is another opportunity there.

In addition, the model that underlies that seasonal forecast is in the process of being upgraded and improved, partly with White Paper funding from last year, federal funding. What will come of that will be a new model with increased resolution. The previous resolution was 250 kilometres. We will be moving down to 60. In the future there is the possibility of going even further than that. We will be making more regular updates, so rather than the monthly update there will be weekly or biweekly updates, and also with this kind of model we will see improvements to the accuracy.

Looking into the future, the other things that we could do with that when those improvements are being made, we could, for example, look at other parameters, so at the current time there is just a focus on temperature and rainfall, but there are other things such as evapotranspiration and so forth or evaporation that could be taken out of these models, and we could look to doing that. We could also look to extending the lead time of forecasts from three months out towards six, and perhaps even further than that. So we are actively looking at that, but again, that's an area where we will eventually head in that direction, but could be stimulated by some upfront investment there.

Finally, there's the longer term outlook perspective of seasonal forecasting, which goes beyond just a detailed forecasting of three months to what's going to be the state of the climate system next year or in the next six months or nine months, for example. So that goes really to the chances for El Nino and La Nina, which are the things that drive drought, and flood episodes, or flood years, and there is a fundamental risk shift going on in that swing between those conditions. And the models that we have for that aren't just for Australia, but they are global, and the signals that come out of that have global implications, so that means that insurers can also look at geographic hedging across markets and not just in Australia. So that may help to also stimulate some activity.

So, in summary, there's quite a bit more that we could do, and the Bureau is interested in engaging with insurers to understand how we might be able to tailor and package our information better for use in designing policies or in actual delivery of policies.

We would also be interested in investigating whether it might be possible to find some baseline, a standard or a package of offerings for the industry to help stimulate growth, and that doesn't preclude the possibility of individual tailoring for more specific policy design, but it might help to get over some of the initial issues about understanding the basis of risk.

THE CHAIRMAN: Okay. Thank you very much, Steve. Very interesting.

I will call on Mark and then Nicholas.

MR MARK MARTIN (MarketAg): Thank you. Mark Martin from MarketAg. We're independent commodity advisers.

I would just like to firstly read from a report from RaboBank that was released this year in relation to the current situation with commodity prices and decline in farming returns, and that stated:

> The use of crop insurance protects farm revenue in deep yield loss conditions. This insurance creates a safety net in which the farmer has the ability to lock in favourable prices months and years before the crop is harvested. These measures help to protect that farm income

> over those times.

We have seen that example this year with the current situation where we have probably a bin busting cropping year in front of us, but we have alarming low prices, ten year returns, we have had very little uptake by the farming community with forward pricing to capture those prices earlier on because of the concerns of what may take place with production with the last ten years certainly giving them those concerns.

If they had a safety net, as Rabo suggest the revenue crop insurance does give American farmers, if they had that in place, they would be able to take more activity with their forward pricing. This in turn gives them more consistency of their revenue streams on a year-by-year basis. This in turn gives them a far greater access to funds from the banks. It also gives the farmers themselves the ability to sleep at night.

It was mentioned before that inputs dropped off from the 2002, 2008 drought. Forward marketing also fell away after that drought because there were some horrendous stories of negative returns made from forward pricing at that time. A revenue based insurance model or revenue based insurance will protect from that. If farmers lift from maybe doing 5-10% to 40-50% of their marketing, they do have that consistency of return, and their businesses would be insured that they would stay there.

One of the things about the program that we are discussing here today, and I am looking at the subsidy for the premium, is that it would encourage farmers into the program. Once they are into the program, their networking, their telling other farmers, will encourage others; they will see by what takes place there.

An example of that is 15 to 20 years ago the Western Australian government put in place a three to four year subsidised program to give farmers access to consultants to help the business skills of their farm. That is now part and parcel of the WA farmer's life, and I must say, when we look at the returns from WA farmers compared to east coast farmers, who are using these skills or these outsourced services, their returns are far more consistent and far better.

One other thing I must add is that just the premium, subsidised premium alone is not enough. The farmers need to be upskilled into adopting these marketing programs.

I must say, one of the greatest travesties that I have seen is that farmers have upskilled themselves very much in the agronomic area, they will outsource that, they will do it in their tax planning, and do it in their cash flow planning, but their crop marketing has been left by the wayside, and I do believe that if we are going to do this, the business skills program should include crop marketing as well.

THE CHAIRMAN: Okay. Thank you very much, Mark. Now Nicholas and then Sonia.

MR NICHOLAS SCOFIELD (Allianz): Nicholas Scofield from Allianz. We would like to commend the government for taking a serious look at MPCI, and the need to make it more affordable.

Just in terms of I think some of the key takeouts from The CIE paper that Allianz agrees with entirely, and has been saying similar things to Government for a while now. The first is that the uptake of MPCI is likely to be limited in the absence of government intervention.

New South Wales crop farmers are highly sensitive to MPC policy costs. There is potential for significant unanticipated policy gains, and only modest unanticipated improvements in productivity are required for a direct subsidy to MPCI to have a BCR greater than 1:1. The potential improvement in productivity identified in your report is conservative and plausible. They are all quotes from The CIE report that we would endorse wholeheartedly.

In particular, I think we would say that not just the improvement in productivity but the improvement in the broader welfare gains to the community based on the analysis is conservative.

One of the reasons for that is that there is a number of aspects in the analysis and the conclusions that we disagree with and, in a sense, bias, if you like, the outcome of the analysis sort of in the negative direction. The first is that it won't displace drought assistance. We know from other studies like the WA study that drought assistance crowds out insurance. I think the biggest thing

missing is that the analysis appears to look at MPCI as a sort of adjunct to the whole of the rest of the drought assistance framework, whereas it really should be considered as an integrated part of the existing system, and when you look at it in those things, and the report has found that MPCI is -- well, it uses the word "conflict", so it conflicts the drought relief measures. Another word better suited, I think, is it substitutes for them.

There's certainly measures of the Commonwealth like the farm household allowance and the farm management deposits which in some respects are, if you like, direct substitutes for the sort of assistance that the MPCI is hoping to provide, so I guess that just reinforces the need for MPCI to be considered as part of the whole drought assistance framework that's at the Commonwealth level.

When you start considering that they may be offsetting government revenue opportunities, then various aspects of the analysis become more positive, so, for example, the excess burden applied to per dollar of revenue raised of 35 cents in terms of the analysis would be negated if there was a revenue neutral subsidy applied to MPCI through the reduction or eligibility for other measures. So that's really the question about integrating into the other existing drought relief payments in particular, and all that can be done through product design.

Many of the other objections, in a sense, relate to product design, and issues around the comment about it won't displace drought expenditure, because 80% goes to livestock. I mean, well, the industry never said it wasn't possible to produce MPCI products for the livestock sector, and they exist overseas. It is somewhat of an odd comment, to be frank. To me, it's like saying the Commonwealth shouldn't spend any money trying to get people off the Newstart Allowance because most of the income support expenditure is in old age pensions and the DSP.

It can be extended more broadly, and in terms of the expenditure spent on broadacre cropping, then, obviously, if it can displace some of that, if the framework is established in a way that integrates MPCI into a whole suite of assistance measures rather than have the analysis just sort of sitting on the side, if you like, and then drawing a range of conclusions about how it can fit before it sort of bumps into other things.

I guess the last point we would make is a general agreement of the analysis we thought would be better able to draw out many of the welfare gains that extend beyond farming. People have mentioned the speed at which claims can be paid compared to, you know, establishing better relief payments, and just the stability it gives to the farm enterprise and production, and the way that that then helps to recirculate that into the rural regional communities during these sort of periods.

I guess the last point is we can provide this product in greater periods, we don't price it up and down like a yo-yo, it is priced more like flood insurance, we talk about average return of 5, 10, 20, 50, 100 years, it is priced on a more sustainable long-term basis. So we disagree with various comments in relation to it wouldn't be offered in drought. I mean, I think the last three years the product has been available probably dispels that claim by virtue of reality.

But in terms of the pricing and the foreseeability and all the rest of it, there are other things like no claim benefits. So there's various ways in which the product can be designed and extended and tailored to fit into the New South Wales situation and, you know, the federal and state drought assistance framework.

THE CHAIRMAN: Okay, thank you very much, Nicholas. Sonia.

MS SONIA O'KEEFE (NSW Farmers' Association): Thank you, Peter. New South Wales Farmers. Thank you for giving us the opportunity to be here today.

This is a big issue for our association, so I would just like to also introduce Dan Cooper, who is also here today representing New South Wales Farmers. He is part of our Grains Committee, and he may have some comments to make as the day goes on.

Drought and climate is one of the biggest impediments to the productivity of the New South Wales farming sector and the positive effect it has on regional communities. New South Wales Farmers strongly endorses supporting farmers to prepare for drought, assess and manage risk, and deal with adverse impacts and conditions which are beyond any reasonable capacity for preparation. It's the view of

New South Wales Farmers that such policy should be considered as a co-investment with farmers and rural communities to ensure that the negative impacts of climate variability on the country and regional communities are mitigated.

The importance of the impacts of climate variability on regional communities should not be underestimated, with drought deeply affecting the financial, social and mental fabric of farming families and rural communities. Therefore drought policy, both direct measures that are targeted explicitly at farms for preparation, in-drought assistance and post-drought recovery, as well as broader more indirect support measures such as social support and community support, cannot be considered in isolation. Rather, drought policy must be considered from the broader perspective of rural and regional development.

In this context of drought policy, New South Wales Farmers welcomes the investigation by the New South Wales government and IPART into the role of multi-peril crop insurance products within drought policy and the role of government to facilitate the development of a market for such products. We support the Tribunal's findings that there are a number of benefits that government support for multi-peril crop insurance will bring to realising the objectives of the Intergovernmental Agreement on that policy reform, specifically that it will aid cropping farmers to increase their sustainability and self-reliance.

Likewise, we welcome the Tribunal's acknowledgment of the limitations of multi-peril crop insurance, recognising that it is but one of the important tools that will assist industry and government to meet the economic and regional development objectivities of drought policy. These limitations include the limited multi-peril crop insurance take up being made across the agricultural industry at this present time, which at the present not only includes coverage for livestock businesses but also the cropping of summer grains and horticultural crops. Further, as IPART recognised in the draft report, there are competing drought risk management strategies available to farmers.

New South Wales Farmers agrees with the analysis that the major impediment to the take up of multi-peril crop insurance is the cost of premiums, particularly in comparison to well understood drought risk management strategies. Feedback from New South Wales Farmers membership is that a premium of around 5% of insured amount is what is considered commercially affordable.

We understand that in the development of the 5-year subsidy program, IPART has sought to overcome the barriers caused by current premium costs. However, New South Wales Farmers recommends that as part of the investigation IPART should examine other supply-side options that may result in a lower lasting reduction to the structural costs of multi-peril crop insurance. This recommendation is based on the high proportion of administrative costs associated with multi-peril insurance.

CIE reported in its draft report that the OECD estimated administrative costs of a multi-peril premium over and above the risk components to be approximately 30%. Other OECD papers have estimated administrative costs of multi-peril insurance mean that the premium could be 50% higher than the actuarial costs of the insurance. Therefore a well-targeted investment to lower administration costs of multi-peril crop insurance such as the adoption of existing yield prediction models may have a longer lasting impact on demand than the proposed subsidy.

Lastly, to highlight the benefit of multi-peril insurance within drought policy, New South Wales Farmers believes the draft report underestimates the value of multi-peril insurance in indemnifying against risks of drought in the cropping industry. It does so by not considering the full range of factors that are considered in determining planting intentions and therefore over-estimates premium impacts of low soil moisture prior to sowing.

Specifically, it fails to note that because of the historical importance of in-season rainfall on crop success in a uniform seasonal rainfall zone and indeed in southern and western winter dominant rainfall zones, planting intentions will not predominantly be based on a soil moisture profile at that zone. This is a factor taken into account in determining the actuarial risk of a policy. As such, multi-peril insurance has the capacity to indemnify a farmer in the uniform seasonal rainfall zone in seasons where drought precipitates due to insignificant rainfall during the crop's growing season.

Thank you.

THE CHAIRMAN: Thank you very much, Sonia. Nick.

MR NICK MILHAM (Department of Primary Industries): Thanks, Peter. At this point I would just like to take the opportunity to emphasise the importance that this government places on this review, evidenced firstly by the development, commissioning by IPART of the development of the drought framework to ensure that we do have a mechanism in place for robust and objective evaluation of propositions for the New South Wales government to provide further support to the farming sector and rural communities particularly affected by drought, but more broadly, and then the application of that framework to the particular concept of multi-peril insurance. So I just want to emphasise the fact that we do have a very strong interest in the outcome of this review.

The government has already made a demonstrated commitment to exploring what can be done appropriately in relation to the multi-peril insurance market and the development of appropriate products primarily in the context of it being part of the drought policy framework within New South Wales but appreciating it has broader application than that. So it's been of great interest to me to hear some of the things that have come forward today, and I expect that it has been for IPART as well, to hear I guess some of the other potential things that can be looked at in relation to things like multi-year policies, geographic hedging, perhaps also taking into account perhaps more broadly the other benefits that have been suggested can emanate from a wider uptake of multi-peril insurance as a result of the evidence being put forward today, and perhaps we will look forward to hearing more of that being explored subsequent to morning tea.

THE CHAIRMAN: Thank you very much, Nick. I suggest that we break now for ten minutes.

For those who haven't been to these sorts of hearings before and are in the audience, you usually get a chance to have a say, believe it or not. We will probably go beyond 12 o'clock, given the interest, but see you all back here in ten minutes. Thank you.

SHORT ADJOURNMENT

THE CHAIRMAN: Welcome back. Thank you very much for the discussion so far. It's been very interesting.

A number of you have broadened it out a bit, which we are quite happy to go along with. Just to keep in mind that the context of the review is multi-peril crop insurance. We are more than happy to talk about multi-peril insurance for livestock and other things as well, which of course Nicholas suits better to a general equilibrium approach.

Also I think it was David made a comment to the effect, I don't want to verbal you here David, but to the effect that a properly designed policy would be able to assess the direct impact rather than just indirect impact, so we would be most interested to hear any additional comments on this, along these lines. That's great.

What we would like to do now is give some of the people in the audience a chance to make some comments, and then there will be also an opportunity for people around the table to have another comment. I notice that Daniel is sitting up here from the New South Wales Farmers.

So opening up to the audience. We have a roving mic. In the middle and then down the front.

MR GREGOR PFITZER (Assetinsure Pty Ltd): Hi, Gregor Pfitzer, Assetinsure.

We have been supporting the multi-peril crop insurances on a regular basis for two years, and I just want to highlight the underwriting and capacity decisions were made at a time when El Nino was in full swing, so in that sense, drought was always a consideration in that.

I don't want to reiterate what other speakers have said, but I believe it was already mentioned that significant payouts were made particularly in Victoria last year, and that has shown that the policy is very effective. Having said that, the demand in 2016 was probably lower than expected, and for that, I only have two explanations. One are the actual barriers to buying a product which is not yet well known, and secondly the cost. So in that sense, I believe I want to implement the IPART review because I believe it would be a very effective measure if you, for a limited period of time, helped in the uptake of

the product.

I also believe the decision is correct to suggest a simple way of subsidy form, so to just make it dependent on the building with a cap for equity makes a lot of sense.

I also agree with the statement that it is not a problem that in the market there is a suite of different multi-peril crop insurance policies, and it is more important to get the train out of the station than to try to design a system, particularly in Australia, with its complicated federation, where everybody would agree and we would still have to wait for 20 years to get something off the ground.

So a simple approach which is effective, and I agree, over time, there will be more improvements that can be made in integrating the insurance into a more general framework, and that can be achieved, but I think one should highlight the dynamic nature of the market. So there is now a market in its infancy, and that can be developed further, and also that, experience suggests, will address the supply side aspect, so there will be more players in that, and there will be also more competition around the cost of distribution and product design.

So I believe just keeping it simple with only one additional comment: I agree that it makes very little sense to still have a stamp duty on a product that is subsidised on the other hand. So I would suggest that is taken into account.

THE CHAIRMAN: Okay. Thank you very much, Gregor. Over the front, Anna.

MR JOHN THOMSON (JBC Corporate): John Thomson.

I would like to direct my comments to the report which commented on that agriculture had adequate capital. In our opinion, our research suggests that's incorrect. It's incorrect because, well, primarily of the increase in land values since 2000, and you will find, when you look at individual farm businesses, that they have reached their lending value ratio limits or they have reached their tolerance to risk with respect of borrowings.

When you bring in multi-year revenue insurance policies, and these are multi-year revenue insurance policies, we then have the capacity to fund seasonal cropping programs using those insurance policies as security. That then brings in a new level of funding, and it brings a whole new raft of capital into agriculture. This is not a criticism of the big four banks, but we know the big four banks have reached their tolerance to their exposure to agriculture, so we need to find other innovative ways to fund our best and most efficient farmers.

The second comment is that when you look at the demographics of farmers, you will find that the most productive farmers are in the top 25%. If you go down to the 50% mark, they are the farmers who have the capacity to become very productive farmers, with scale and further investment.

When you look at the bottom 25% of farmers, no matter what you do, they simply aren't going to get to those productive levels required.

It then follows that if you can increase the amount of working capital in the industry to allow the more productive farmers access to the less productive farmers without increasing personal debt, you will have a net increase in productivity.

If you go and look at the WA numbers, which are well recorded, we are looking in the medium rainfall areas at a $300 or $400 a hectare difference in good years, and it is primarily due to the strength of their balance sheet and their uptake of innovation.

THE CHAIRMAN: What's your organisation, John?

MR THOMSON: I am an accountant.

THE CHAIRMAN: An accountant, okay. Thank you.

Other questions from the floor, comments? Yes.

MS SHARON MAGUIRE: Please excuse me if I read this. This isn't my comfort zone at all.

My name is Sharon Maguire. My husband Kevin is beside me and I live in Central Western New South Wales. We operate

a diverse mixed farm between Forbes, West Wyalong and Condobolin My husband is a fifth generation farmer and I'm a third generation farmer. Our property size is 2,706 hectares and we have three sons, aged 21, 19 and 15. We have taken out multi-peril crop insurance for the past three years including this year. We have not had to claim in this time but suspect that if the wet weather we are expecting does not get up then this year we may be submitting our first claim. Currently we are experiencing a flood in our area with the prediction that we will continue to experience above normal rain for the next three months. Our crops are very wet now and experiencing stress due to excess moisture.
During the 2000 years we underwent some very tough and stressful years. These years have taken a large toll on both our family and also our farm, leaving us with a large debt.

Setting the scene, we have always taken out crop insurance for hail and fire as we considered it one of our tools to mitigate risk. However, choosing to take out multi-peril crop insurance was a huge decision for us. It was very expensive, especially when you considered our debt level. First we had to get our heads around the fact that we were purchasing a relatively new product which we were uncertain about, despite understanding the principle of it. We knew no one else who had tried and tested it in our region so we couldn't ask them about their experience. Secondly, we then had to pay upfront the cost of preparing an application for that insurance, which was not only costly, but it also was very time consuming, and this was all prior to us meeting our premiums. This was all very difficult when we were struggling with money to start with.

However, we have been lucky. We are still intact after those 2000 years both physically and emotionally. Financially we are seriously dented, but we are intact. We also have at least two very good driving forces to continue to prosper. Our two eldest sons genuinely love farming and want to return to the farm. Our third son, as I said, he's 15, he is still young, but he is indicating that that's where he would like to end up.

It's to this point that I want to bring to your attention something that wasn't actually discussed previously in your report, although it has been touched on very briefly today by Andrew from Latevo, I think it was Philip from IGA, Danica from CWA and also Sonya from New

South Wales Farmers.

At no stage has the human aspect of farming families been discussed. Our farmers and their families are one of the most valuable resources that the rural sector has, and the cost of their well-being has not been considered when assessing the benefit of subsidising this form of insurance.

I consider ourselves to be very lucky. We personally have made it through many exceptional and stressful years. Our community is very lucky because it hasn't really experienced a suicide. We have only had to deal with severe depression. I don't believe that our community is free from suicide in our district yet. As mentioned, this year could be just as harsh as a drought year, because we have sunk everything into these crops. In our immediate community we have recently had two farms sold. Both of the farmers were suffering from depression due to the harshness of our climate and its effect on their farms and families. They lost their resilience to get up and have to constantly fight the volatility of our markets and the weather in an effort to make a living. One of these was my brother-in-law. Both were good farmers and undertook good management practices on their farms, but neither could continue to function when placed under the ongoing stress brought upon by the variability of their income flows.

Another neighbour spent a number of months in hospital suffering a severe debilitating depression. He is improving but he still struggles against the black dog. We also have another neighbour who is suffering from depression but is hanging in there with extra support.

All of these neighbours are within a 5 to 20 kilometres radius to ourselves and are well known to us. Generally, farmers are very proud, and they are too proud to talk about emotional distress, but with so many people experiencing it within our district, it's made our community very aware of the importance of good mental health in our district and the rural sector.

In previous years when farmers truly flourished there were stabilisation schemes in place for both food and fibre such as the single desk for grain prices and wool floor prices. We no longer have these stabilising influences on which to hedge our income.

This lack of stability in the marketplace, the not always predictable weather patterns and the mental health status of our farmers has been a huge stress for them. It is no wonder that the average age of death is lower in the regional areas of Australia than in the City counterparts.

Regional Australia needs some stability, and I think income protection, and that's how I prefer to think of multi-peril crop insurance, can provide some stability. I believe that it can inject the confidence in farmers to sow their crops without the fear of failure and continuous financial loss. I believe this would benefit our farmers' physical and financial status of their farms and can more importantly improve their mental health and their capacity to make sound judgments.

I can only see positive attributes for the farming sector if they too can be persuaded to purchase multi-peril crop insurance. I believe that the biggest blocker for taking out this form of insurance is its extremely inhibitive cost. Providing incentives to farmers to undertake this insurance can only be a plus providing the opportunity is accessible to all farmers.

I firmly believe the farmers would much prefer to be self-reliant, and I believe Andrew from Latevo said this earlier, that they would actually prefer a hand up rather than a handout. Any decision that the Government makes must address and ensure the long-term well-being of farmers, not solely focusing on economic benefits. This will ensure continued resilience of rural communities and also rural families in the longer term.

THE CHAIRMAN: Thank you very much, Sharon. That's very eloquent. Thank you.

Other comments or questions? Any other comments or questions from the floor?

MR SHANE PEASLEY: Hello, my name is Shane Peasley. I have had multi-peril for the last three years. I think today everyone has talked about drought. It's not only drought, it's the floods that can mean grain growing is undone. In the central west that's happening as we speak.

As I said, I have had it for three years, and my production's probably increased $80 to $100 per hectare net return, so I think the benefit from the Government for income tax and GST revenue would be considerably better than that 1 to 1.1 ratio you spoke about earlier.

Thank you.

THE CHAIRMAN: Thank you very much, Shane. Can you put your finger on any particular issues about why your net production per hectare has gone up?

MR SHANE PEASLEY: Just confidence. Instead of looking at the sky and thinking what to do, just look at the calendar, and this has got to be done, because, you know, you've got a base price for your income.

THE CHAIRMAN: Okay. Thank you, that's very helpful. Other comments or questions from the floor? I can't see very well here because of the lights. Maybe, Daniel, would you like to say something?

MR DANIEL COOPER (New South Wales Farmers' Association):

Thank you for the opportunity. By reference, I farm not too far from the Maguires and Shane, just to the east. Certainly if you put a bottle in the creek I think it would end up at their place pretty quickly at the moment.

I think I reiterate what they say, I think IPART has underestimated the potential upside that a successful multi-peril crop insurance could play, could deliver to agriculture. I think there is potentially more upside than probably what has been stated.

I guess just a question to the reinsurer that's come up, obviously, they'd preference a subsidy to get the costs down, I am just wondering what -- I guess what I would say to all the players in this space is what is going to get the biggest bang for our buck? Our concern would be that a potential subsidy is a sugar hit, and eventually when that's weaned off the product can't stand alone.

So where is the biggest market failure? We are here talking to some of the players that the cost of administration is the biggest impediment. So I'm just wondering, if we can hear from the reinsurers, where is going to get the biggest bang for the dollar if the government is going to contribute to this scheme, ensuring

that the potential of the multi-peril insurance market is viable and can stand on its own two feet on its own, to develop the evidence that's been outlined.

THE CHAIRMAN: Okay. Thanks a lot, Daniel.

Comments from around the table.

MR SCOFIELD: Nicholas from Allianz. One comment on that. In terms of the design of the program, the analysis predicts that at the end of the five years, the uptake essentially halves or more. And while it's probably easier to get a government into a temporary program than a permanent one, I am happy to start with a temporary program, but what I would say is that a step down after the second year will have exactly the same effect.

So we know from our international experience that when subsidies get reduced, participation falls, and I'm not a farmer, but I guess if I'm looking at a subsidy program and I know that after two years, the subsidy is going to significantly reduce, I wonder whether that has an impact on people's willingness to look a little bit into the medium term and to consider whether it's even worth starting.

So I think what we would say is that it's probably better off at a sustainable level, and to make it up, whether that means bringing the amount of subsidy down or whatever, but obviously it's still got to be effective, but at a sustainable level of subsidy rather than one that's stepped down after a few years I think would be a better design.

THE CHAIRMAN: Yes. I mean, it depends what we think is the major problem. Is the major problem in introducing farmers to the product and getting them into the system, and then they can make up their own mind whether they want to continue, or is the major problem that it's just not financially viable for the insurance industry to offer this product over the longer term without a subsidy?

MR SCOFIELD: Well, it's a bit of both, but I think the emphasis is on the latter. Allianz is probably the biggest agricultural insurer in the world, we are involved in all these government industry type programs, in North and South America, Eastern and Western Europe and Asia, and the experience is that the risk price, if you like, of the product is at a level which is regarded as cost prohibitive to a majority of farmers, which means the level of participation in an unsubsidised environment is never likely to get much above 10%. Whereas in subsidised environments, it's usually north of 60%, and can be north of 80%. In some places it's mandatory, but talking about offsetting expenditure in drought programs, obviously it changes the whole equation. If you have penetration rates of 70% as opposed to 7%, it changes the whole equation I would have thought in terms of government expenditure on drought relief in the broad.

THE CHAIRMAN: Okay. Thank you, Nicholas.

Other comments? So David and then John.

MR BLACKETT: I'm going to be slightly controversial. I am actually not in favour of subsidies. I think subsidies destroy -innovation, and I think why the product is flawed is it is effectively copying subsidised programs from overseas, and I think that one, it kills innovation but it also masks the costs, because all that does is subsidises unrealistic costs. I think if we are going to make this work properly in the Australian context we have to be innovative and we have to produce a product that stands on its own two feet.

If there is a subsidy, and I think there is a case for a temporary subsidy to get the ball rolling, but at the end of the day, when that stops, the product has to stand on its own two feet. If the starting point is this only works because there is a subsidy then the product’s doomed.

THE CHAIRMAN: Okay. Thank you very much, David.

John then Daniel.

MR THOMSON: Again, I think the little bit that's missing here this morning is the dynamic interaction between productivity, pricing and innovation. And when you reduce these and you can hedge your price you get a different dynamic in farm management, and once you get that dynamic, where you have the capacity to access more capital, more risk capital or equity capital or debt capital, plus you can pick that $20 or $30 up on pricing, and you have the opportunity to get 5 to 10% improvement in productivity,

once a farm business gets accustomed to that level of increased stability and increased revenue, they will just see it simply as a financing cost. They won't see it as an insurance cost. Especially in this low interest environment.

THE CHAIRMAN: Good. Thank you very much, John. Daniel.

MR COOPER: Thanks. Just following on from the previous question, Nicholas touched on it, and I certainly agree with some of David's comments. I am just wondering, again, Nicholas, is your view that after the sugar hit finishes, the premiums will jump back up to where they are today? I guess the impression we got was that the government assisting start-up of multi-peril products would build a pool to allow a buffer to reduce the cost of the premiums. So do you think that five years is enough to build a pool big enough, with that assistance, to then stand on its own two feet, and premiums be lower, to maintain uptake, or do you think that at the end of this it will jump back to where it is and kill the product?

MR SCOFIELD: Look, people talked before about geographic spread, and insurance is said to be the law of large numbers, but ultimately, as well, the risk price is the risk price. And I think the comment was made that 5% of something insured is seen as an affordable level. You know, while there is likely to be some gains from geographic spread and larger numbers, they are still only going to be modest in that sense. It is unlikely that that will change that broader equation in terms of the affordability of the product. You know, broadly speaking. And certainly that's the experience in other countries.

People mentioned other countries, you know, killing our farmers with their subsidised product, and that's absolutely true. Part of the reason it's true is that government expenditure up to a certain level on MPCI type subsidy programs is consistent with WTO rules, and all our competitors are doing it effectively except for us.

So I certainly agree that at the end of the day it's a question of, you know, finding that perfect balance between the amount of penetration, and in a voluntary arrangement, 100% is not going to be the equilibrium level. Minimising the government subsidy, minimising the price of the product, and I think, you know, as time evolves, the product matures, and, if you like, the insurers and the government working more as a partnership in terms of trying to make the thing sustainable, we can find those equilibriums. It's unlikely, based on international experience, that an unsubsidised product would achieve the best levels of penetration and things that flow from that like geographical spread and just, you know, numbers in the pool, et cetera.

THE CHAIRMAN: Okay. Thanks Nicholas.

MR DAVE CROWLEY (Delta Agribusiness): Dave Crowley from Delta Agribusiness.

Our company over the past 18 months has established a permanent weather station network of 72 stations spread across the New South Wales cropping belt, and we are currently in the process of rolling out a moisture probe network to aid our growers with better production data and to try and take away some of that production risk.

My question to the panel and to the insurers is will more data points and better production data help in reducing premiums over time?

THE CHAIRMAN: Thanks very much, Dave. Anybody like to have a go at that one? David?

MR BLACKETT: I will kick it off. Look, more information is always useful, but I don't think that alters the cost. I think the major thing in terms of cost is product design and flexibility in that, so growers can select a level of their own risk tolerance they want to off-load through risk transfer.

The other comment that I would make is that I don't agree with other comments that have been made that farm management deposits work against insurance. The kind of product we are developing would work hand in hand with farm management deposits , and I think that's an essential risk management tool.

THE CHAIRMAN: Thanks, David. Andrew.

MR TROTTER: Dave, I would just like to add to the fact that the more information we have about a farm, moisture, it does have a large impact in the insurance offerings and our

product makes adjustments throughout the seasons. So if we do have that information, it certainly gives us the comfort to make sure that we can offer the farmer a little bit more insurance, and pro rata that ends up a better deal for the farmer.

The other point I would just like to make, just head to head, if you look at a 2 tonne per hectare hectare farm in Western Australia versus New South Wales, to get the same degree of coverage, the New South Wales farmer needs to pay $7 per hectare more because of the extra volatility of New South Wales and its inherent risk profile. New South Wales is more riskier than the southern states when you look at the long-term numbers. So a subsidy to help New South Wales farmers would be good.

I would say we have just as many New South Wales farmers proportionately as what we do in the other states, because those farmers understand the risks within their business, and they have been more than prepared to pay that $20-$22 per hectare premium because they understand the intrinsic benefits. It goes back to I think the comments that John made, that once farmers understand those intrinsics benefits, they stop looking at it as a $22 per hectare cost and they start seeing the advantages within their business.

THE CHAIRMAN: Thank you very much, Andrew.

Steve, would you like to say anything on the comment that Dave raised?

MR LELLYETT: Yes, thank you.

Look, I think that it goes back to the insurers and what they like to use. Certainly, if they are going to base their policies around individual station data, then that helps, but there is this option now of the gridded data as well. Ultimately, if we bring in third party data, including information from Delta which would help enormously on enhancing the products on offer.

THE CHAIRMAN: Thanks, Steve. Jonathan.

MR BARRATT: Yes, I would also like to add that if the farmer has the data then we can correlate the data to, in terms of what Steven said, in terms of interpolated data.

Then we have a dataset that we can approach reinsurers, because all we are after is data which is precise, data that you can base a policy on. So any form of data from the farmer, we actually look at farmers with their rain chart to try and compare what data they have to what data BOM has. Once you have that, you have a line in the sand which you can base your policies on. So anything like that is always possible.

THE CHAIRMAN: Thanks, Jonathan. Yes.

MR JAMES: James from rural insurance agency. I just want to go back to the question posed by Dan earlier about how a subsidy in a slightly different form may make a contribution. One of the challenges for multi-peril crop insurance is the cost of administration, particularly loss adjustment, and in Australia we have a particularly big challenge in terms of the size of the country. I know we are talking specifically about New South Wales, but in terms of the rest of the world we have a big country with a small amount of farmers, which poses a logistical challenge.

If you look at the US programs, you have an organisation called National Crop Insurance Services which is in place to help look after loss adjustment, and I think that's an area we should consider, I think it is potentially relevant to insurers on a broader scale in Australia.

I also then want to take the opportunity to agree with something David Blackett said earlier. He was talking about what would happen at the end of the period with the subsidy which was considered. I think a subsidy which lasts five years would give insurers in Australia time to be innovative and come up with solutions which will survive in a non-subsidised market. I think there is no doubt experience around the world will show that multi-peril crop insurance is very, very difficult in an unsubsidised market and we are going to have to do something different to make that work, so I want to agree with David's comment of what he was suggesting.

THE CHAIRMAN: Thank you very much, James. Any other comments or questions before we wrap up? Yes.

MR JON GAPES (Insurance Facilitators): Hi, I'm Jon from Insurance Facilitators.

We have had MPCI running for a number of years. One of the main problems we see moving forwards in an unsubsidised market is that we are pole apart. We have some very innovative, fantastic farmers out there, if you look around the world, our farmers are some of the most innovative in the world because of the environment we live in. The problem we have at the other end, the insurance arm, is that we have to cap out effectively a number of years, and we come up with our rate. So we are not in and out every year like some others have proposed around here. We see it as very long-term goals.

The problem we have is, unsubsidised, we have to have a rate up here. A farmer is looking for a return every three years, and they want a rate here. We are pole apart. Without some sort of bridge, without some sort of subsidy moving forward, I see this as a very hard task.

Thank you.

THE CHAIRMAN: Thank you, Jon. Sonia.

MS O'KEEFE: Peter, I just had a question for your panel around the redesigning of the professional training package.

So you've identified that there are some crossovers with the federal package and the federal package, as we understand it, was about a farmer being able to get advice and to help put in the application if they took up a policy. What you recommended for the redesigned New South Wales package would be that the rebate would only be available in relation to professional development activities. So would you consider that if a farmer was just seeking advice on an insurance policy, and got some external paid for advice around that, does that fit in with your redesigned plan, without actually taking up the policy?

THE CHAIRMAN: Thanks, Sonia. Jessica?

MS JESSICA ROBINSON: Jessica from IPART. I think we see an issue with an overlap between the Commonwealth program and the business skills professional development program in relation to that area, because farmers can get a subsidy from the Commonwealth program for that professional advice, and so there would be an issue with complementarity if that part of the program was maintained in the business skills professional development program.

THE CHAIRMAN: Feel free to put this in your submission or to talk to us about it. This is a draft report, and that's why we have these round tables.

Daniel.

MR COOPER: Thanks, Chairman. I just want to make one comment from our business perspective, on the cap on 30,000 on the subsidy. At around $22 a hectare it would cost about a quarter of a million for our business to take out multi-peril at that rate, so I think if rates are around the $10 mark, you know, we would definitely consider the price, we would look at it, but at current levels it is just prohibitive, that cap of $30,000 subsidy, it's still over 200,000, still close to a quarter of a million. So that was the point I was putting before, any subsidy that hits the mark generally has an effect broadly on the uptake.

THE CHAIRMAN: Sure. Thanks, Daniel. Any last comments, questions? John.

MR THOMSON: I actually work in the area of corporate reorganisation and agribusiness. What's happened in recent times where we have seen Chinese and European investors coming to Australia, they have come to Australia to actually buy grain, not actually to buy farms. And one of the things that's stopped them investing in actual production is volatility, because they just simply won't tolerate losses. They will actually tolerate not making any money, but they won't tolerate losses.

We are currently putting a deal together with the Chinese to grow a specific sort of wheat in WA where we plan to insure the whole lot over a diversified area. The premium the growers will get will be $30 to $40/tonne. If we can't get the right insurance onshore we have made arrangements to go offshore with it.

That actually represents an opportunity for farmers in Australia. It also highlights the risk of not having a domestic insurance policy that's active, because we will end up losing control of (a) the financing of some of these

crops, and also the marketing of these crops. So while there is a fear that we may lose the farm, we also may lose the markets and the input supply chains if we don't control our volatility.

THE CHAIRMAN: Thanks, John. Before you go, can you just let Anna know the name of your organisation, for the transcript.

COMMENT VIA WEBCAST

MR MARK GREENSHIELDS (Monta Flora Agriculture): This is a comment rather than a question: The Australian agriculture sector currently sits at a significant point in its history as the opportunities presented by an emerging global middle class converge with the broad restructuring of Australian agriculture with ageing management about to hand control over to a younger demographic and the associated restructuring of the family farm. Young farmers impacted by this may themselves be quite innovative but find they are restricted financially within a restructured business as siblings are paid out and land holdings split. Confidence is the most important psychological contributor to performance in the business world, and if Australia is to compete globally with an agricultural sector characterised heavily by the family farm model, then it is our view that multi-peril income protection insurance should play a significant role in building confidence into this business landscape and by extension, its drought resilience.

THE CHAIRMAN: Okay. Any other questions or comments? Any last comments from round the table? No.

CLOSING REMARKS

THE CHAIRMAN: Well, thank you very much. This has been a really great session, very interesting, very intellectually stimulating. I would like to thank you all for participating today.

The transcript of today's proceedings will be available on our website in a few days.

Just to remind you that submissions on our draft report are due on 15 August and given the tight timeframe we may be unable to accept late submissions. I will deliver the final report to the Premier and the Minister for Primary Industries in October.

Have a good afternoon. Thank you.

AT 12.23PM THE TRIBUNAL WAS ADJOURNED ACCORDINGLY