

AgInsure Newsletter

May 2017

Insight • Ingenuity • Integrity

Welcome

A brief introduction on why we exist.

When I joined the Government Insurance Office of NSW in 1989, I was surprised to learn that they had a space underwriter.

Sputnik 1, the first artificial Earth satellite, was only launched into orbit by the Soviet Union on 4 October 1957, heralding the start of the space age. Just thirty-two years later, I was invited into the GIO space underwriter's office to watch the launch of an insured satellite where in a few minutes we would learn if the company had made hundreds of thousands of dollars, or lost millions.

To put this in context, about ten thousand years ago, our ancestors chose to settle down to become farmers. This one decision made possible everything we take for granted in our modern world. For the first time, a food surplus was produced that allowed some of our ancestors to specialise in activities other than food production.

Today, the only real difference is that our farmers have become vastly more efficient. In Australia, over 97 percent of the population

specialise in something other than food production.

So, in less than a generation, we were able to develop commercially-sustainable space insurance. And yet, ten thousand years after farming started, there is still not a viable insurance product in Australia that will cover a farmer's crops and livestock against drought loss.

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Ever since joining GIO I have been asking the question: "How is it that during my lifetime a comprehensive insurance product has developed for something as inherently risky as rocket launches while farmers, who have been around for over ten thousand years, still can't insure against drought?"



Working out the answer to this question has led directly to the formation of **AgInsure**. We are four insurance professionals, with collectively over 100 years of experience, who have come together because we believe we can offer Australian farmers a better deal on insurance against natural perils.

Our mission is to develop a commercially viable Multi-Peril Insurance (**MPI**) product to help farmers survive natural perils like drought so they can adapt to the challenges that climate change will bring.

MPI - the story so far

Back in the early 1990s at GIO we tried the incremental approach to developing a MPI product. We added the additional peril of frost to the standard winter crop insurance product that covered the perils of hail and fire. This turned out to be a bad idea.

The mistake we made was tacking a new peril, with a different risk profile, onto an existing policy structure that had developed around the risk profiles of hail and fire – both predominantly end of seasons risks.

Current Multi-Peril Crop Insurance (MPCI) products are making a similar mistake. A cyclical peril like drought cannot be tacked onto an annual policy – multi-year policies are needed. And they need to insure more than some winter cereal crops.

Current MPCI products are far too limited to be attractive for many farmers. They have struggled to be economically sustainable in the Australian market and many are seeking premium subsidies, which no Australian government has yet supported.

Something better is needed

MPCI has made a faltering start in Australia over the past couple of seasons. However, in its current form it plays only a minor role in protecting crop farmers and mitigating the risks they face. For crop farmers, this is a significant shortcoming, but for graziers there is no cover at all, and in NSW over 80

percent of government drought assistance goes to livestock farmers.

The difficulty is that risks such as drought are systemic risks – they will affect all farmers in a region at the same time. However, there are solutions to systemic risks that have been developed in other areas, such as loan mortgage risk for banks – if a housing market bubble bursts then the value of all housing collateral for loans reduces, as happened in the US during the GFC.

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Why MPI?

Putting the need for multi-peril insurance in context, during the ‘Millennium Drought’, annual rainfall was 73 mm below average, or 12.4% below the 20th Century mean for the years of drought (1997 to 2009). By mid-2010, the Australian Government had paid \$4.4 billion in direct drought assistance to farmers.

However, this economic cost is small compared to the human cost. The male suicide rate during the Millennium Drought for Queensland farmers was more than double that for the population as a whole.

The lack of a viable insurance product to mitigate the effects of natural perils such as drought, to help farmers manage their own risks, is a serious problem for which the insurance industry has not yet been able to provide a workable solution.

AgInsure believes we can develop the right products to provide Australian farmers with the tools they need to meet the challenges ahead for sustainable agriculture.

A new horizon

We believe it is time for farmers to take matters into their own hands. Just as our ancestors did ten thousand years ago, it’s time to stop doing the same old thing and try another approach. AgInsure is here to help farmers and do what the insurance industry has not yet been able to do – produce a commercially viable, sustainable MPI product that covers all a farmer’s activities.

If you would like to know more about us or read more about our ideas, visit our website.

If you would like to contact us email me at david@aginsure.com.au

David Blackett
Managing Director

Note: The information in this document is by its nature general. It is not financial product advice. Readers should seek professional advice before making any decision about insurance.

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Insure**
...standing by you