

2. Executive Summary

The project group findings are as follows:

- 2.1 It is clear from the sustained level of interest from grower organisations, grain industry bodies and our own preliminary market research that a multi peril product does have basic grower demand. The sophistication of the farming community is such that such cover can be regarded as one of the features of a grower's risk management approach to his business. On preliminary calculations the available market would constitute a premium of more than \$300 million for the 4 crops specified elsewhere.
- 2.2 Insurer representatives remain concerned about the potential to obtain a return from the product and recognise that the provision of capital to support the writing of this business requires not only care but a co-operative approach with government to promote a commercial alternative to the provision through government of relief programs. Said simply, unless the government discontinues relief (with the exception of social policies) it will be harder to achieve critical participation levels which will cause the failure of this commercial venture. This view tends to be supported by anecdotal comment from rural industry bodies when commenting on past failures.
- 2.3 Reinsurers have indicated a level of interest in supporting a properly constructed and delivered program. This is not a firm commitment, simply an expression based on the findings and deliberations to date. Obviously this needs to be firmed up progressively through evolution of any firm program.
- 2.4 The basis of underwriting the business is perceived by the insurer representatives on the Steering Committee to be best structured on a pool basis so as to contain cost, spread risk, ensure consistency and get the most from the contribution towards mounting the product into the market. Integrity of the whole structure needs to be established and maintained.
- 2.5 The degree of government support required is considerable so as to ensure the viability in terms of achieving grower support and also to assist in controlling the moral risk and anti-selection forces. This level of support is required in the form of premium subsidy, reinsurance involvement and removal of entitlements to other forms of relief in the case of crop failure. On the basis of a 25% take up by farmers, a direct subsidy would be required in the region of \$20 million annually. This seems affordable when compared to EC payments (exceptional circumstance) but firm negotiation needs to take place with the relevant Federal Minister.
- 2.6 The Committee has confidence that the range of technical elements in doing this business, ie product development, price setting, underwriting process and loss assessment, can be satisfactorily met. Obviously, not all have been definitely explored to a firm conclusion but this would form part of the next phase. All require considerable effort and attention, with loss assessment accuracy being vital. Preliminary briefing on this aspect using advanced technology suggests an accuracy factor of only 80%, so it is vital to select a method which is not only cost effective but fair to farmers and insurers.