Multi-Peril Crop Insurance

For wheat, barley and canola.

Please read and consider the following carefully. We'll call you to discuss your thoughts.

You could insure your crop against adverse weather and other factors that might have a serious negative impact on your crop yields – even total crop wipeout.

Most graingrowers have regularly insured their crops against fire and hail. But Multi-Peril Crop Insurance could offer protection against those great variations in weather that can severely reduce your crop yield. In fact you may in the future be able to insure against the type of circumstances that in the past could have led to financial ruin of your farm enterprise.

Multi-Peril Crop Insurance can protect against severe crop losses – rather than minor crop losses - due to circumstances such as excessive rainfall, lack of rainfall, lack of sunshine at key growing periods and other whims of nature. In fact it's easier to say what Multi-Peril Crop Insurance does not cover – these are summarised in the Excluded Events Listing (Table 3 in Section 5).

1. How it would work

Crops insured under the policy would be covered for **loss of yield** due to any event other than an excluded event (see Table 3). You would be covered for yield losses for any event not listed in this table. **Quality downgrade** is not covered.

Crops covered would be wheat, barley and canola. If you wish to take out Multi-Peril Crop Insurance, you must insure *each* of these crops that you grow. For example, if you grow wheat and barley , you cannot take out cover for wheat only. Both crops grown must be covered, if you decide to take out Multi-Peril Crop Insurance. Also you must insure the *entire* crop – *all* paddocks grown of each crop covered by this type of insurance.

If you decide to take out this cover, you must insure at least 30 days before planting commences for any of the relevant crops.

First, we need to define some terms and a formula.

A[illegible] d va[illegible] or e[illegible] crop

For each crop covered by the policy, the insurer agrees with you on projected yield (tonnes per hectare) and projected value ($ per tonne). Hence there is an agreed value on each crop covered by the policy. Agreed yields per hectare and value per tonne will take into account regional variations and market conditions at the time. They will be realistic.

Deductible amount or Excess (%)

The deductible amount is the proportion of agreed crop value that you cannot claim, should you make a claim against the policy.

The deductible amount will typically be 50% or 60%. While these excess or deductible amounts may appear high, remember this type of crop insurance covers for the vagaries of the weather and is aimed at covering **serious loss** situations. The aim is to at least recover input costs, should severe crop losses or total wipeout occur.

Indemnity Value for each crop

This is the agreed value of each crop covered by the policy, less any excess or deductible amount. For example, if a particular crop had an agreed value of $100,000 and a 50% excess had been chosen by the grower, the Indemnity Value for this crop would be $50,000.

Total Indemnity Limit

This is just the sum of the Indemnity Values for each crop covered by the policy.

Total Adjusted Income

An adjusted income is calculated for each crop, as follows:

$$\boxed{\text{Adjusted Income}} = \left[\boxed{\text{Actual harvest (tonnes)}} + \boxed{\text{Any reduction in harvest caused by } \textit{Excluded Events} \text{ under policy (tonnes)}} \right] \times \boxed{\text{Insured value (\$ per tonne)}}$$

Total Adjusted Income is just the sum of the adjusted income for each crop covered by the policy. Remember that the **insured value** per tonne is nominated by you and agreed by the insurer at the time the policy is taken out. This will not change as the season progresses, even if there are fluctuations in the farm gate prices of the crops insured.

The claim payment formula

If an event (other than an excluded event) occurs, claims are paid according to the following formula:

Claim Payment = *Total Indemnity Limit* less *Total Adjusted Income*

2. Example of claim settlement

Assume you planted wheat and barley and took out a Multi-Peril Crop Insurance policy as per the area, agreed yields and agreed values per tonne set out in Table1. You had also nominated a 50% excess. Table 1 shows how a Total Indemnity Limit of $111,000 is calculated.

Table 1

	A	B	C	D	E	F	G
Crop	**Area (Ha)**	**Agreed yield (tonnes/Ha)**	**Estimated Harvest (tonnes) =A x B**	**Agreed value per tonne ($)**	**Gross agreed crop value = C x D**	**Excess or Deductible Amount %**	**Indemnity Value = E x (100% - F)**
Wheat	400	2.5	1000	$150	$150,000	50%	$75,000
Barley	200	3.0	600	$120	$72,000	50%	$36,000
	Total Indemnity Limit ----------→						**$111,000**

Say, due to severe lack of spring rain (very dry or drought finish), the quality and quantity of grain harvested was below expectations. While quality loss is an excluded event, yield loss is not excluded and you are therefore entitled to make a claim.

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Let's say the Actual Harvest Yield and the Actual Farm Gate Price are as per Table 2. Let's also assume a reduction in yield for barley due to an Excluded Event (for example some soil erosion in one area of a barley paddock due to early growing season rainfall – just to show how the policy works).

The policy covers loss of yield due to an event that is not an Excluded Event. Therefore no cover is provided for the reduction in price (quality) or losses on barley due to Excluded Events. Total Adjusted Income can be calculated as follows:

Table 2

	Simply transferred from Table 1				Actual outcome of season					
	A	**B**	**C**	**D**	**H**	**I**	**J**	**K**	**L**	**M**
Crop	**Area (Ha)**	**Agreed yield (tonnes/Ha)**	**Estimated Harvest (tonnes) =A x B**	**Agreed value per tonne ($)**	**Actual yield (tonnes/Ha)**	**Actual Harvest (tonnes) = A x H**	**Reduction in Harvest due to Excluded Events (tonnes)**	**Actual Farm Gate Price $/tonne**	**Adjusted Harvest (tonnes) = I + J**	**Adjusted Income $ = L x D**
Wheat	400	2.5	1000	$150	1.0	400	0	$150	400	$60,000
Barley	200	3.0	600	$120	0.7	140	20	$105	160	$19,200
									Total Adjusted Income ---→	**$79,200**

In the above example, the Total Adjusted Income ($79,200) is less than the Total Indemnity Limit ($111,000 from Table 1). Therefore, the claim would be settled as follows:

Total Indemnity Limit – Total Adjusted Income = Claim Payment
($111,000) ($79,200) ($31,800)

That is, you would receive compensation of $31,800.

In the above, it can be seen that it is the **loss of yield** due to an insured event that gives rise to a claim. A diminished value due to a loss of quality or change in the farm gate price does not impact on the claim calculation.

3. P[illegible]d o[illegible]ve[illegible]

The following table shows when cover begins and ends for each crop:

Insured Crop	Period of Insurance
Wheat and Barley	Cover begins at First Jointing and ends when the crop is harvested or at 4pm on the expiry date of the policy (whichever occurs first). First jointing is the stage of crop growth when the top node or joint can be distinguished on the stem of at least 50% of the crop.
Canola	Cover begins at the Eight Leaf Stage and ends when the crop is harvested or at 4pm on the expiry date of the policy (whichever occurs first). Eighth Leaf Stage is the stage of growth when at least 50% of plants have at least eight expanded true leaves, which can be counted on the primary stem without the need for dissection or other handling.

If a crop fails before reaching the First Jointing (for wheat and barley) or the Eight Leaf Stage (for Canola), no claim is payable.

4. Premium Rates (Cost of Insurance)

These will be discussed when we call to discuss this type of insurance with you. The rates will apply to the total expected income (that is, the agreed value of the total crop(s) when insurance is taken out). A different rate will usually apply to each crop covered by the insurance.

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5. Excluded Events

The policy <u>does not cover</u> any claim arising directly or indirectly from the events listed in Column A of the table.

However cover is provided for claims arising from the event, where the circumstances detailed in Column B apply.

Table 3

Excluded Events (Column A)	**However Cover is Provided for:** (Column B)
Loss of Quality Resulting in a reduction of price	
Market Price changes or fluctuations.	
Animals, Birds, Vermin or Insects	**Locusts** or **Mice** moving onto a crop in uncontrollable numbers
Disease	**Disease** occurring as a **direct result** of an event that is **not excluded** (i.e. is not listed in Column A)
A Deliberate Act ordered or carried out by you or any person acting with your permission	When the **act is carried out to reduce or avoid damage** that would have otherwise occurred
Flood – which is the escape of water from a natural or modified water course, lake or dam resulting in the flow of water onto land that is normally dry.	
Hail	
Fire	
Genetic Defect of any kind	
Erosion or Landslip	
Malfunction of Machinery	
Mismanagement or failure to apply acceptable crop management practises – This includes the overapplication, underapplication or untimely application of water, fertilisers, growth accelerant, growth retardant, fungicide, herbicide, insecticide or any other chemical treatment of the soil crop. It also includes untimely incompetent planting or harvesting and inappropriate crop rotation.	
Events that occurred **before the period of insurance**	
War or warlike activities – including invasion, act of a foreign enemy, hostilities (whether war is declared or not), civil war, rebellion, revolution, insurrection, military or seized power or terrorism.	
Nuclear Weapons material	
Lawful seizure, confiscation, or requisition by an order of Government, Public or Local Authority.	We will pay for damage that occurs as a result of the order if it prevents or attempts to prevent loss or damage covered by this policy.
Ionising radiation or contamination by radioactivity from any nuclear fuel or waste from the combustion of nuclear fuel	
Pollution or pollutants of any type	

6. Common Questions and Answers

Q. When I insure against fire and hail, the excess (deductible amount) is only 5% or 10% of crop value. But with Multi- Peril Crop Insurance, the excess is typically 50% or 60%. Why is this so?

A. Multi-Peril Crop Insurance covers you against many whims of the Australian weather. This insurance would be very expensive if the excess on the policy was only 10%, or even 30%. Multi- peril Crop Insurance covers for a broad range of events and is primarily aimed at covering your crop production costs, in the event of substantial yield losses or crop wipeout.

Q. Will the policy also cover fire and hail?

A. No. These events are excluded from Multi-Peril crop Insurance. You could take out a separate policy for this, with excess levels of 5%, 10% or other as nominated by you.

Q. Is it possible for me to have substantial losses on one crop, say due to frost, but still not be able to claim because my revenue on other crops was very good?

A. This is correct. The idea of Multi-Peril Crop Insurance is to protect the overall farm. So yield losses on one crop might be offset by yield gains on another. If this happens, your farm enterprise won't be seriously disadvantaged and the workings of the policy take this into account. But remember, whenever your total adjusted income falls below your total indemnity limit, you will be able to make a claim, providing the circumstance is not due to an excluded event.

Q. Why can't I insure for just the crops I wish to nominate. Why does the policy cover wheat, barley and canola? If I grow three of these, I must insure all three. Isn't that a bit restrictive?

A. The idea of the policy is to provide you with a guaranteed minimum income in the event of severe yield loss to your entire enterprise. The basic concept is to make sure you are able to cover the costs you incurred in growing the insured crop. Premiums would be more expensive if there was freedom to 'pick and choose' which crops to insure.

Q. Can crops other than wheat, barley and canola be covered under a Multi-Peril Crop Insurance policy?

A. At this stage, no.

After reading and thinking about this Multi-Peril Crop Insurance concept, please keep these pages in a safe place and have them nearby when we call for a chat about the idea.