

AGRINEWS

EDITION 1, 2009



A Word from John

Welcome to the first in a series of six-monthly updates from all of us here at AgriRisk.

This issue includes a wrap-up of the tumultuous 2008/09 season, an update on AgriRisk's staff and offices, a gaze into the future of the crop insurance market and a summary of the global financial crisis impacts on the insurance industry.

I hope you find the articles in this newsletter interesting and of course, your feedback is always welcome.

John van der Vegt

Our New Toowoomba Office



In order to better meet the needs of our Queensland clients, AgriRisk has recently opened a new office in Toowoomba. Heading the branch is returning AgriRisk staff member, Matt Devine (left), whom many of you will know from his days in Tamworth, servicing our Queensland cotton and broadacre clients. It's great to have Matt back on the team and we also welcome Roger Henderson (ex-Monsanto) who's on-board to further develop our Queensland business.

The new office is located at 2 Wylie St, Toowoomba and will focus on providing our existing clients with general insurances to complement their existing crop insurance covers.

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- A new AgriRisk office in Toowoomba
- 2008-09 Season Wrap-up: FarmPack, Cotton, Forestry & Horticulture
- Cereal crop, and Exotic crop insurance markets: how they'll react after the worst season in years
- Introducing AgriRisk Life Insurance
- How the global financial crisis is affecting the insurance industry



DON'T "SET AND FORGET"

At AgriRisk we understand that farming operations change over time and insurance needs to be constantly monitored to ensure the coverage is appropriate for your operations. Adopting a "set and forget" insurance strategy will almost always result in disappointment at the time of a loss. If you would like more information on the service AgriRisk can provide you please contact Mark Chapple or Matt Devine at the numbers listed on the back page or speak to your Account Manager.



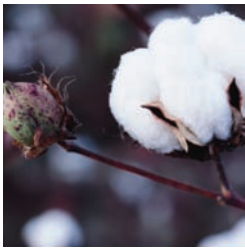
The 2008/09 Season Wrap-Up

FARMPACK

This season saw a return to higher storm frequency, especially in western Queensland and New South Wales. Many of these storms were quite intense and resulted in significant damage to farm structures, both new and old.

COTTON

Increased storm activity has generated higher than average hail storms which have impacted on cotton crops across most growing regions.



FORESTRY

Obviously much of Southern Australia experienced a higher frequency of extreme fire weather conditions resulting in plantation losses in Western Australia and South Australia but more notably Victoria. The Black Saturday losses have exceeded the 1939 Black Friday and 1983 Ash Wednesday losses, making these recent losses the most catastrophic on record in Australia in terms of areas destroyed and lives lost. 18–20,000ha of plantations were destroyed in these fires, generating losses of more than \$100 million.



HORTICULTURE

The higher than average storm frequency also impacted on horticultural crops in many growing regions whilst the Victorian fires also destroyed vines and olive orchards. Significant tonnages of grapes within these regions will be rendered worthless due to smoke taint.



Offering the Best in Life Insurance

At AgriRisk we are often asked about life insurance. And although we certainly appreciate the importance of this cover we also recognise we are not experts in this area.

We have therefore established a facility with John Nash who is an authorised representative of Millennium3, a licensed life insurance broker based in Armidale. John worked with AgriRisk for more than a decade and understands the needs of the farming community.

John has a very similar business to AgriRisk in that he understands business cannot be transacted solely by phone and fax. Face to face discussion is by far the best means of ensuring the final risk management strategy is appropriate to you.

We have no hesitation in referring John. If you would like more information on the services John can provide please don't hesitate to contact your account manager.

We've Increased our Buying Power

AgriRisk are pleased to advise that we have become a shareholder in the Steadfast Group. Steadfast are Australia's largest insurance broker cluster group comprising more than 260 Australian-owned, autonomous insurance brokerages – which operate from 340 plus offices around Australia.

The purpose of the Group is to provide the benefits of big business buying power to small to medium sized insurance brokerages. This gives us access to a wider range of products and services offered by the majority of the Australian insurance market. Furthermore the Group offers extensive educational facilities for our staff and a range of services which will allow us to keep up-to-date with current trends and new insurance markets.



How will the Cereal Crop and Exotic Crop insurance markets react to the worst season in years?

THE CEREAL CROP INSURANCE MARKET

The cereal crop insurance market (incorporating all those insurers offering cereal crop insurance) has had one of their worst seasons in the last decade. For most companies their claims will far outweigh their premiums and not surprisingly they will review the competitive stance they have adopted over the last few years. This will almost certainly mean that insurers will adopt a harder line in the next few years as they try to return their portfolio to profitability.

For some insurers this will mean increasing rates across the board whilst others will look to rebalance their portfolio by changing rates in certain shires to reflect their better understanding of the long term risk.

THE EXOTIC CROP INSURANCE MARKET

The exotic crop insurance market includes insurers of cotton, forestry, horticulture, viticulture, livestock etc, who also insure cereal crops. There are far fewer insurers in this smaller segment of the crop insurance market. The results of these insurers have been marginal at best and often very poor. Due to the size of this market and its volatility we expect the changes to be more significant than in the cereal crop insurance market and will involve more than just rate changes. Expect more dramatic changes to the availability of products in certain regions as well as changing terms and conditions.



The Global Financial Crisis and the Insurance Industry

There is no doubt that the international insurance industry has been impacted by the Global Financial Crisis. AIG, the world's largest insurer, have only just survived the crisis, saved by a significant US\$173 billion capital injection and US\$150m loan from the US Government. AIG's woes were generated through its Financial Products Division which developed the largest portfolio of banking insurance products protecting banks from the financial consequences associated with loan defaults. They then traded these derivative contracts, known as Credit Default Swaps, guaranteeing the value of assets in investment portfolios.

Once the sub prime losses started to materialise AIG were called on to meet enormous liabilities to their banking and derivative customers. The US Government very quickly decided that by supporting AIG it would reduce the likelihood of a worldwide banking collapse. Today, AIG's exposure to these derivative contracts is estimated to be in the order of US\$1.6 trillion.

In Australia the GFC has not yet had a significant impact on the insurance industry. Whilst asset values and

investment returns have tumbled, the local insurers have not been significantly impacted due to the strict investment rules and regulations APRA impose on the industry restricting the type of investments insurance companies can make.

The GFC will however bring many challenges as we anticipate an increasing number of company failures that will in turn:

- create debtor issues in respect of premium payment;
- generate credit insurance claims which will impact on the availability and pricing of credit insurance; and,
- generate Director and Officer claims as parties seek compensation from those managing the companies at the time of the demise.

It therefore seems likely that local insurers will look to increase rates across the board to overcome poor investment returns whilst generating reasonable returns on equity.





YIELDSHIELD – LACK OF RAINFALL INSURANCE FOR DRYLAND WHEAT FARMERS

Many of you will have heard of this innovative product introduced last season by Primacy Underwriting Agency on a Pilot Program basis. As there were a number of complicating issues associated with this product last year we are happy to announce that most of these have now been resolved.

If you would like to discuss YieldShield and how it might assist you in managing lack of rainfall risk then please contact your Account Manager.



The Truth about Insurance Taxes

Many of you will be aware that the various State Governments levy taxes on a variety of insurance policies. These taxes include Fire Services Levies (FSL) which fund the various state fire brigades and State Stamp Duty. The amount of these taxes depends on the type of policy, state and location of the risk. These taxes are levied in addition to GST.

To give you an extreme example, the Victorian Government has recently advised that Fire Services Levies on commercial insurance in country Victoria is to rise to 63% of the basic premium. Assuming a basic premium of \$100, the Fire Services Levy, GST and Stamp Duty then add a combined total of \$97.23, leaving a total premium of \$197.23. Taxes of this magnitude force some people to simply dispense with insurance altogether or encourage others to underinsure. In the recent Victorian fires, of the 1,800 homes destroyed by fire, only 1100 were insured and of these more than 40% were underinsured.

Clearly, Governments need to find a more equitable way to fund their fire brigades and to also honour past commitments to remove State Stamp Duties when the GST was introduced.

Whilst concessional stamp duty and Fire Services Levies apply to crop insurance policies it is still illogical that a wheat crop in Queensland attracts a 7.5% stamp duty whilst in New South Wales it is only 2.5%.

The National Insurance Brokers Association is continuing to lobby all levels of Government to reform the current inequitable arrangements.

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