



MEDIA RELEASE

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Farmers dealt another blow as crops become 'too risky' for insurers

Crop farmers grappling with the worst drought in history could be taking on 100 per cent of their production risk if they suffer through another summer of extreme weather.

According to the latest Market Overview report by insurance brokerage Gallagher, the sharp rise in storms and bushfires in recent years has seen insurers continue to retreat from agricultural products now deemed too risky for their business models.

This means crop growers who are already underinsured could face significant personal losses if they experience another bad season.

Gallagher Managing Director - Specialisms, Paul Harvey said that for insurers, the uptick in adverse weather events combined with the fallout from the Financial Services Royal Commission have spooked the sector.

"Like the banks, who have pulled back from lending to 'risky' borrowers, insurers are taking a more disciplined, actuarial approach to claims histories, often going back 10 years or more. This means some growers can't access any insurance for their income producing crops, or if they can secure insurance cover then it is limited to a few named perils which often aren't their most critical production risks.

"If we see significant losses this year – from plantation fires, storms or other weather events – we may see an exodus from the few underwriters and insurers who remain in the sector.

"This puts the gross value of crop production in Australia of \$29.3 billion under threat," he said.

¹. Broadacre crops like wheat, barley and rice make up just over half, or \$16.5 billion, of the sector. The balance – more than \$15 billion of Australia's total crop production value – is made up of 'specialist' crops like horticulture, cotton and timber.

The problem is not going away any time soon.

Climate statistics released by the Bureau of Meteorology² reveal that this past financial year has been drier than average across the country. Total rainfall was 24 per cent below average, making this past year the driest since 1970, while temperatures soared above average. This year has been the second warmest on record.

"Cotton growing in northern New South Wales and south Queensland are being significantly impacted by the dry conditions, and we're seeing similar issues in horticulture and viticulture," Mr. Harvey said.

¹ <https://www.abs.gov.au/ausstats/abs@.nsf/mf/7503.0>

² <http://www.bom.gov.au/climate/updates/articles/a034.shtml>

With little or no water in the dams, irrigation farmers have significantly reduced planted areas with many unable to plant crops at all this year. For growers with permanent plantings, the cost of water has significantly increased.

The next disaster season mean particular risk for an uninsured grower.

Farmer and Sunland Agriculture Director, Tim Watson of Hillston, NSW is one example.

“The drought, combined with the current Government policies around water, means farmers such as me are having to plant high value ground crops, to be able to maximise our return from the small amount of water we have. However, this significantly increases the risk for us as we cannot insure the ground crops at all” he explained.

Mr. Watson has made the decision to not insure any of his crops this year, due to the very small area he can set aside for growing insurable crops such as cotton or corn. Instead, he has to give priority to uninsurable ground crops such as beetroot. Subsequently, the amount it costs to cover the insurable crops versus the returns such a small crop would offer mean it is not worth it.

Mr Harvey said specialist crop growers needed to work with insurers towards a solution.

“Growers that are able to purchase insurance and are struggling with lower crop yields and revenue should take a close look at the structure of the cover they’re buying and try negotiating higher excess levels before resorting to other cost-saving measures like reducing values.

“There is an opportunity for new or existing insurers to redesign insurance policies and develop products which will fill gaps and create new insurance coverage options for the agribusiness sector,” he said.

The Gallagher Market Overview Report, released twice a year, examines the impact of market forces and specific exposures on business operations, risk management and insurance programs.

The report discusses the top insurance risks in Australia and then drills down in specific industry sectors to examine trends in supply and demand.

Read the full version

The Gallagher H2 2019 Market Overview report can be accessed in full [here](#). #GallagherMOR

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Gallagher is an international insurance brokerage, risk management and consulting firm, operating in 45+ countries. We are the chosen partner to more than 100,000 Australian businesses, from small businesses through to multinational corporations and iconic brands.

Through our network of more than 30 regional and metropolitan branches across Australia, we understand local business communities because we are part of them ourselves.

Gallagher is committed to ethical business practice and has been recognised as one of the World's Most Ethical Companies by the Ethisphere Institute for eight consecutive years from 2012–2019.