

Hail Insurance

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(Innovative Risk Transfer)

Deciding on whether and how to insure is an important decision requiring a clear understanding of the risks and impacts that hail can have on your business. Cotton hail insurance is more complicated than winter crop insurance as you are planting into the hail risk period rather than harvesting out of it.

This fundamental difference changes the whole structure of cotton hail insurance because the hail events are happening at the beginning of crop growth rather than at the end. This means if you have a loss early in the season there is the potential to re-plant. If hail damage comes later, partially damaged crops will be grown out and the loss assessed by reference to a suitable undamaged control crop. If there is a total loss, the claim payment must be adjusted to take account of variable production costs not incurred due to the early loss of the crop. None of these factors need to be considered when structuring winter crop insurance.

All policies aim to put you in the same position after a loss as you would have been had the loss not occurred, subject to the excess and the adequacy of the sum insured you nominated.

Differences between policies

The main differences between policies, and the complication when comparing them, relates to total loss claims and how the variable cost savings are defined and treated. Although the different policies define and treat variable costs differently, if the same total figures are used and apportioned properly, the differences in total claim outcome are minimal and should be easily explained to you.

The way cotton hail claims are dealt with should be considered in comparing insurance policies. One of two different methods are usual: insurers will either engage Loss Assessors or Loss Adjusters.

Loss Assessors inspect the crop to assess the damage and how the crop is being managed after the loss. Follow-up inspections are conducted and ongoing advice about crop management and picking is provided. After each inspection, the Loss Assessor reports back to the insurer who determines your payout.

Loss Adjusters also inspect and assess the damage, but then go further and negotiate a claim settlement with

BEST PRACTICE

- Allow yourself enough time to consider your business needs as well as the details of the policies on offer.

you. They present the negotiated settlement to the insurer for approval.

Once you have determined your specific needs you should then talk to hail insurance providers and specialists for more advice and information.

For more information please contact your preferred crop insurance specialist.

New Risk Management Tools

By **JOHN VAN DER VEGT** (AGRIRISK)

Weather derivatives

Over the last few years a number of international reinsurers have become more interested in products that are based on weather statistics rather than historical losses — these are called weather derivatives, and they are not an insurance product.

The reason for their growing popularity is that they can be priced based on weather data that is readily available over an extended time period. Weather derivatives are simple contracts that respond when specific weather triggers are recorded at a specified meteorological station. As a consequence weather derivatives create a basis risk as losses are determined at the meteorological station rather than on farm.

Weather derivatives could be structured to financially protect a farm business from

- Insufficient rainfall during the planting window or growing season.
- Excessive rainfall at harvest
- Temperature extremes such as frost at flowering or excessive heat at critical stages of crop growth
- Lack of heat units during the vital growth stages of the crop
- Excessive wind

Index products

Index products are not an insurance product. They are based on an available independent index generally of yield or weather data. With Index products losses are determined by changes in the index which creates a basis risk as losses are determined according to the index rather than on farm.

While Weather Derivatives and Index Products are relatively new to the Australian Agribusiness sector, it's still early days but growers need to be aware of these risk management tools as they may well provide a far better option than having no financial safeguards at all.

Please note that Weather Derivatives and Index products are not insurance products and special licencing is required to provide advice in this area. If you are interested please seek professional advice from an appropriately licenced organisation.



Matching cover to your risk profile



Helping you carry on when nature does its worst



Working for a 'fair go' from insurers

Agricultural Insurance Services

AgInsure, the agricultural insurance specialists, provide what we think is the best value cotton hail insurance available.

We take time to understand your business so we can match cover to your agronomic practices and risk preference.

And when destructive hail comes, we'll act as your advocate and negotiate with the insurer to promote a fair and timely claim outcome.

We'll stand by you, so you can carry on when nature does its worst.

For further information call 1800 648 794 or visit www.aginsure.com.au/manual



...standing by you