Broadacre crop insurance

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What does it cover

What perils are covered?

Broadacre crop insurance policies are designed to cover broadacre crops from emergence through to harvest for a loss of Potential Yield as a direct result of either hail or fire. Insurers will generally have a separate policy for winter and summer crops – primarily they operate the same way but there may be minor differences.

Over 90% of claims relate to hail losses, approximately 5% are due to fire and the remaining losses relate to Additional and Optional benefits.

What is the Potential Yield of a crop?

This is the yield the loss adjuster determines the crop would have achieved had it not been for the hail or fire loss. Many factors will impact on crop yield throughout the season so the Potential Yield can only be determined at the end of the season. In determining the Potential Yield the loss adjuster will look at the yield of other non-affected crops on the property, in the neighbouring region and may also look at historical records.

What types of Policies are there?

There are 2 types of policies:

- **A Pre Harvest Policy** – The Sum Insured and Premium are finalised about a month before harvest based on your field by field estimate of the crop's yield and your nominated Insured Value per tonne.
- **A Post Harvest Policy** – The Sum Insured and Premium are finalised after harvest based on a Yield Declaration and your nominated Insured Value per tonne.

The differences between the policies are outlined on page 4

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What types of crop can be insured?

Most types of cereal, oilseed, pulse and legume crops can be insured, such as wheat, barley, canola, chickpeas, sorghum, sunflowers etc.

Which regions are covered?

The majority of growing regions in Australia can be covered.

What Additional and Optional Benefits are provided?

In addition to covering loss of Potential Yield from hail or fire, most policies also provide Additional Benefits which are automatically included with your hail and fire cover at no additional cost and Optional Benefits for which an extra premium is charged.

The range of Additional and Optional benefits include;

- Reducing Excess
- Automatic field splits
- Chemical overspray
- Straying livestock
- Harvested grain in storage and transit
- Replant subsidy
- Additional expenses
- Firefighting expenses
- Market value
- Fixed value
- Fixed benefit
- Standing stubble

The cover provided on each is outlined on page 9

Please note:

1. Each insurer has their own list of;
    a. Additional Benefits that they automatically include with their hail and fire policy
    b. Optional Benefits
2. Not all insurers provide all of the Additional and Optional benefits listed above.
3. Each Insurer will provide different individual loss, property or policy limits on each or all of the Additional and Optional Benefits

Is there an excess?

An excess applies to all yield loss claims and the standard excess varies depending on the Insurer and crop type. As a general rule, for most cereals, the excess is 5%, however for crops that are highly susceptible to hail the excess can be as high as 20%. The Excess is applied to the Field Sum Insured of each affected field.

For the purposes of calculating the excess on large fields (over 200ha) most Insurers provide Automatic Field Splits allowing the fields to be split into equal sized areas of no less than 100ha. This can reduce the applicable excess where the damage does not impact all of the split areas.

All Insurers offer higher excess options which reduce the applicable premium rate and hence total premium. Most Insurers also offer a reducing excess which will increase claim settlements on fields that incur high yield loss claims.

Insurers will also apply excesses to Additional and Optional Benefit claims.

What factors influence the applicable premium rate?

The applicable premium rate charged by Insurers is influenced by the following factors;

- The crop's location or region - which depending on the Insurer, might be based on the shire, locality, postcode or coordinates of the property. Those regions where hail events are more frequent will attract a higher premium rate than regions of lower hail frequency.
- The Crop Type - Crops that are more susceptible to hail damage will attract a higher premium rate.
- The Policy Type – Post Harvest Policies will attract a higher premium rate.
- The Excess level and
- Any Optional Benefits selected by you.

Which policy type is right for me?

The first decision you need to make is the type of policy you require, either a Pre Harvest or a Post Harvest policy. The fundamental difference between the 2 policy types is the way they determine the Insured Yield after the Final Revision Date which has implications for calculating Loss of Potential Yield claims as well as the Final Premium you pay.

What is the Final Revision Date (FRD)?

This is a date set by each Insurer and is generally 4 to 6 weeks before harvest. At this time, the crops are mature enough for growers to more accurately estimate their expected yield. However it must be remembered that many factors can still impact the yield after the FRD as we move into summer and the high risk hail and fire season. Frost is a good example.

What is the Insured Yield prior to the FRD?

Insurers recognise that it's impossible to accurately estimate the crop's yield at the beginning of the season when you normally purchase crop insurance. As a consequence, regardless of the type of policy you select, up until the FRD, the Insured Yield is the Potential Yield of the crop. This is summarised in the following table.

Policy Type	Pre Harvest Policy	Post Harvest Policy
Where a Loss of Yield occurs prior to the FRD	The Insured Yield is the Potential Yield of the crop	The Insured Yield is the Potential Yield of the crop

What is the Insured Yield after the FRD?

Regardless of the Policy Type, at the FRD you are required to restate or revise the Insured Yield on each Field.

- If you have selected a Pre Harvest Policy this essentially locks in your revised Insured Yield for the remainder of the season. This allows the Insurer to calculate the Final Premium.
- If you have selected a Post Harvest Policy the Insurers allow a level of flexibility in the Insured Yield above and below your revised Insured Yield for the remainder of the season – generally +/- 25%. You must complete an after harvest Yield Declaration to enable the Insurer to calculate the Final Premium.

Please note each insurer offers different levels of Insured Yield flexibility or Yield Swing on their Post Harvest Policy but most offer +/- 25%.

The following table highlights the important differences between the 2 policy types in terms of calculating the Insured Yield after the FRD and the Final Premium.

Policy Type	Pre Harvest Policy	Post Harvest Policy
Where a Loss of Yield occurs after the FRD	The Insured Yield is the lower of the revised Insured Yield at the FRD or the Potential Yield of the crop as determined by the Loss Adjuster	The Insured Yield is the Potential Yield of the crop but it cannot exceed the revised Insured Yield at the FRD +/- the Insurer's Yield Swing
The Final Premium is based on	The revised Insured Yield at the FRD.	The Harvested Yield of the crop subject to the insurer's Yield Swing

How does a Post Harvest Policy reduce the likelihood of over and under insurance?

The following table uses an example to highlight how a Post Harvest Policy reduces the likelihood and impact of over and under insurance after the FRD. The example assumes a grower revised the Insured Yield on their wheat crop to 2.0t/ha at the FRD and the Insurer provides a +/-25% Yield Swing on their Post Harvest Policy. So if the revised Insured Yield at the FRD is 2.0t/ha the range on the Post Harvest policy is 1.5t/ha – 2.5t/ha.

Policy Type	Pre Harvest Policy	Post Harvest Policy
Example 1 **Underinsurance** The Potential Yield of the crop is **2.75t/ha**	The Final Premium and any Yield Loss claim is based on an Insured Yield of **2.0t/ha** *The crop is underinsured by 0.75t/ha*	The Final Premium and any Yield Loss claim is based on the Potential or harvested yield but capped at **2.5t/ha** in accordance with the Insurer's +25% Yield Swing. *The crop is underinsured by 0.25t/ha*
Example 2 **Overinsurance** The Potential Yield of the crop is **1.2t/ha** due to a late frost	**Where no loss occurs** The Final Premium is based on an Insured Yield of **2.0t/ha** *The crop is overinsured by 0.8t/ha*	**Where no loss occurs** The Final Premium is based on the harvested yield but capped at **1.5t/ha** in accordance with the Insurer's -25% Yield Swing *The crop is overinsured by 0.3t/ha*
	Where a loss occurs after the FRD The claim is based on an Insured Yield of 1.2t/ha *The Final Premium is recalculated based on an Insured Yield of 1.2t/ha*	**Where a loss occurs after the FRD** The claim is based on the Potential Yield of the crop but capped at 1.5t/ha in accordance with the Insurer's -25% Yield Swing The Final Premium is based on an Insured Yield of 1.5t/ha *The crop is overinsured by 0.30t/ha*

Why would I choose a Pre Harvest Policy

You would choose a Pre Harvest policy if you wanted to finalise your cover - the Insured Yield, Insured Value, Field and Property Sum Insured and Premium at the FRD. You will be accepting the fact that your revised Insured Yield may not reflect the Potential or Harvested Yield of the crop – meaning you are more likely to be over or underinsured.

Why would I choose a Post Harvest Policy?

You would choose a Post Harvest policy if you are concerned about the accuracy of your revised Insured Yield at the FRD and recognise that the crop can be affected by a variety of perils after that time which will impact on the harvested yield. You will also be comfortable completing an after harvest Yield Declaration and paying a premium that better reflects the harvested yield of the crop.

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How do I structure my cover?

In addition to specifying the Type of Policy you require, when you apply for cover you will also need to provide specific information on the location of each property and a summary of your production on each. For each Field you must provide the Field identifier, the Area in ha, the Crop Type, the Provisional Yield and the Insured Value.

This production information allows the Insurer to determine the Field Sum Insured.

How do I determine the Provisional Field Sum Insured

The Field Sum Insured is calculated as follows:

Field Area x Insured Yield x Insured Value

Both premiums and claims are based on the Field Sum Insured so the field areas you nominate must be accurate. If the field area is under stated, any claim on that field may be subject to underinsurance which means any yield loss claim may be reduced.

The calculation of the Field Sum Insured is shown in the following example.

Field 6	100ha
Insured Yield:	2.0 tonnes/hectare
Insured Value:	$250/tonne

The Field Sum Insured for field 6 is $50,000 *(100ha x 2.0t/ha x $250/tonne)*

All field Sums Insured are added together to generate the Property Sum Insured.

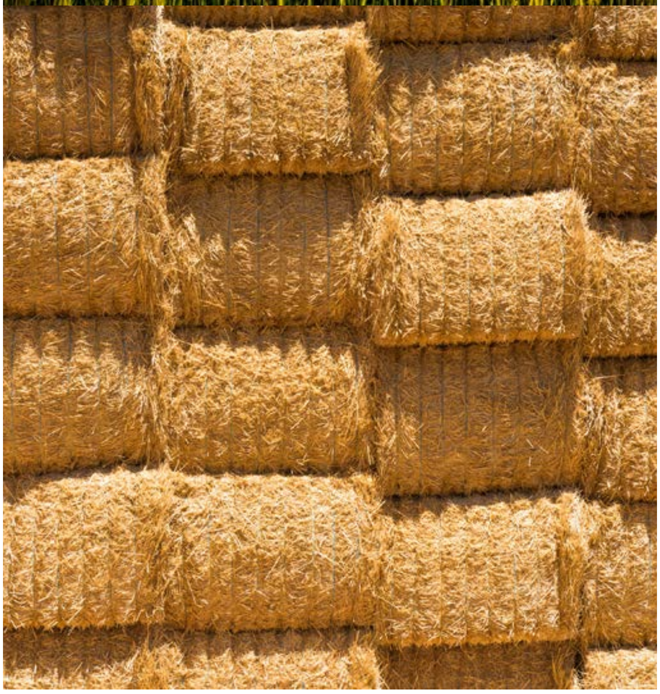
Do I have to insure my total crop area?

Some Insurers require you to insure your total crop area whilst others do not. If you are not insuring your total crop area, you must provide a map of the property which will allow the Insurers to clearly identify which fields are, and are not insured.

How do I determine the Insured Yield?

At the time you arrange cover, the yield cannot be accurately estimated. You therefore nominate a Provisional Yield which should reflect the yield you expect the crops to achieve. Regardless of your nominated Provisional Yield, up until the FRD the Insured Yield is the Potential Yield of the crop.

Please refer to the previous section about Policy Type which provides additional information on the how both policy types determine the Insured Yield after the FRD.



How do I determine the Insured Value?

For each crop type, you can nominate the Value per tonne you want to insure depending on your financial circumstances and requirements. Having said that, most growers will nominate a value that reflects their farmgate sale price or forward sales contract price per tonne. Once approved by the Insurer it is considered an “Agreed Value” and they cannot change it.

What if I have a sharefarming arrangement?

If you have a sharefarming arrangement, cover can be arranged for the land owner and the share farmer together or separately. You simply need to provide details of each party requiring insurance and their respective interest in the crop.

What if a financier has an interest in the crop?

If a bank or financier has a legal interest in your crop then this interest should be noted on the policy. In the event of a loss, any claim settlement will generally take into account the specified Interested Party.

How is the Final Premium calculated and when is it due?

The Final Premium is calculated as follows;

Sum of the Field Sums Insured x Applicable Premium Rate

With a Pre Harvest Policy the Field Sums Insured are finalised at the FRD allowing calculation of the Final Premium. Notwithstanding this most insurers won’t require premium settlement until after harvest when growers have received the proceeds from the sale of their crop.

With a Post Harvest Policy growers are required to complete an after harvest Yield Declaration. The insurers will then calculate the Field Sums Insured based on the harvested yields (subject to the Yield Swing) and Final Premium.

Can I make changes to the cover during the season?

Insurers recognise that many things can change from the time you purchase crop insurance to the end of the season, so they allow flexibility for changes. The key date is of course the FRD.

What changes can I make to the cover ***prior*** to the FRD?

Each Insurer will have different terms and conditions regarding changes to your cover prior to the FRD but this is a guide.

Policy Type	Pre Harvest Policy	Post Harvest Policy
Field Area	Yes	Yes
Insured Fields & Crop Failure	Yes	Yes
Insured Yield	Not necessary as the Insured Yield is the Potential Yield	Not necessary as the Insured Yield is the Potential Yield
Insured Value	Yes increases will be allowed but subject to a waiting period, reductions are generally immediate	Yes increases will be allowed but subject to a waiting period, reductions are generally immediate

What changes can I make to the cover ***after*** the FRD?

Each Insurer will have different terms and conditions regarding changes to your cover after the FRD but this is a guide.

Policy Type	Pre Harvest Policy	Post Harvest Policy
Field Area	No	No
Insured Fields & Crop Failure	No	No
Insured Yield	No	Increases may be allowed but will be subject to a waiting period. Reductions generally not allowed
Insured Value	Yes increases will generally be allowed but subject to a waiting period. Reductions generally not allowed	Yes increases will generally be allowed but subject to a waiting period. Reductions generally not allowed

Additional and Optional Benefits

In addition to covering loss of Potential Yield from hail or fire, most policies also provide Additional Benefits which are automatically included with your hail and fire cover at no additional cost and Optional Benefits for which an extra premium is charged.

Please note;

1. Each insurer has their own list of;
    a. Additional Benefits that they automatically include with their hail and fire policy
    b. Optional Benefits
2. Not all insurers provide all of the Additional and Optional benefits listed below.
3. Each Insurer will provide different individual loss, property or policy limits on each or all of the Additional and Optional Benefits

Additional Benefits and Optional benefits include:

Reducing Excess

Most insurers offer a Reducing Excess. In simple terms once the yield loss percentage on any field exceeds 20% then the excess reduces by 0.5% for each 1% yield loss percentage increase above 20%. So if the base excess is 5% and you select a reducing excess, on each field where the yield loss percentage exceeds 30% the excess will be nil.

Automatic Field Splits

For the purposes of calculating the excess on large fields (over 200ha) most Insurers provide Automatic Field Splits allowing the fields to be split into equal sized areas of no less than 100ha. This can reduce the applicable excess where the damage does not impact all of the split areas.

Chemical Overspray

Covers a yield loss as a direct result of chemical damage from a third party's spray rig within a specified distance from your crop. Aerial spraydrift is not covered. Insurers also require you to provide the name of the third party that created the spraydrift.

Straying Livestock

Covers a yield loss as a direct result of livestock (not your own), that have entered the property and destroyed the crop. The gates and fences must be maintained and insurers require you to provide the name of the neighbour or third party who owns or manages the stock.

Harvested Grain in Storage

This benefit covers grain in storage on your property against loss of yield due to fire, lightning, explosion and earthquake, wind or water (but not flood) and impact from a vehicle or aircraft. The storage can be either:

- Temporary Storage – such as grain bins, silo bags and grain socks
- Permanent Storage – such as fixed silos or buildings

Special conditions apply to the construction and soundness of the buildings or storage.

Most policies provide modest levels of cover. If you are storing significant amounts of grain on your property, then it is more appropriate for the grain to be insured under your farm insurance policy.

Harvested Grain in Transit

This benefit covers accidental loss or damage to grain whilst in transit from your property to the bulk handling authority or other delivery point. Conditions around both the driver and conveying vehicle apply.

Replant Subsidy

Where an Insured crop is destroyed by hail early in the season and it is possible to replant the crop, the Insurer will provide an agreed dollar per hectare to replant the crop. Most Insurers automatically cover the subsequent crop, however in some cases, you may need to arrange a new policy and pay another premium.

Additional Expenses

Where an insured crop is damaged by an insured event, the insurer will reimburse you for any additional expenses you incur to minimise the loss of yield. Each Insurer has a limit per hectare and generally you must secure agreement from the Loss Adjuster before incurring the costs.

Fire Fighting Expenses

The Insurer will reimburse you for the costs you incur in extinguishing a fire in the field or the immediate vicinity of a field which poses a threat to the growing crops.

Market Value

The Value per tonne on all or part of a particular crop type is determined based on an agreed external commodity market price at the time you would normally sell your crop. A premium discount usually applies for this option.

Fixed Value

The Value per tonne you select is fixed and cannot be changed at any time in exchange for a premium discount.

Fixed Benefit

Both the Value per tonne and Insured Yield are fixed and cannot be changed at any time in exchange for a premium discount.

This option is useful where you only want to insure for a fixed amount, like your production costs.

Standing Stubble

Under this option, a dollar amount per hectare is paid if the standing stubble or straw is destroyed by fire. This recognises that there is a value in the straw or stubble left after harvest.

What happens if I have a loss?

If your crop suffers a loss of yield due to hail or fire, or any other insured event you need to advise us immediately so we can notify the Insurers.

Following notification of your loss, the Insurers will appoint a Loss Adjuster to quantify your loss.

How are Yield Loss Claims Calculated?

Yield loss claims on each affected field are calculated as follows

1. **Calculate the Net Yield Loss Percentage**

$$\frac{\text{Potential Yield} - \text{Harvested Yield}}{\text{Potential Yield}} \quad \text{Less the excess}$$

The appointed Loss Adjuster will determine the Potential Yield on each field impacted by the hail or fire. The Potential Yield is what the crop would have yielded if the hail or fire had not occurred. As the policy only covers hail and fire, the Loss Adjusters will determine if other factors have impacted the crop, these are uninsured perils (for example, frost or flood) and will be deducted from the Potential Yield.

2. **Calculate the Field Sum Insured**
   The Field Sum Insured is calculated as follows

Area in ha x Insured Yield x Insured Value

3. **Calculate the Claim**

Field Sum Insured x Net Yield Loss percentage

The following claim examples highlights the 3 step claim calculation process for losses occurring both before and after the FRD for both Policy Types.

Claims Example

A wheat field is insured as follows

A	Area of field	100ha
B	Provisional Yield	2.0t/ha
C	Insured Value	$225/tonne
D	Excess	5%

At the FRD the grower made the following revisions

E	Updated Yield	3.5t/ha
F	Insured Value	$250/tonne

The crop is impacted by hail and the Loss Adjuster provides the following additional info;

G	Potential Yield	5.5t/ha
H	Impact of other perils, e.g. frost	0.5t/ha
I	Harvested Yield	1.6t/ha

Where the loss occurs ***prior*** to the FRD

Step 1. Calculate the Net Yield Loss percentage	Pre Harvest Policy	Post Harvest Policy
(Potential Yield – Harvested Yield)* *Potential Yield**	(5.0 – 1.6) 5.0	(5.0 – 1.6) 5.0
Gross Yield Loss Percentage	68%	68%
Less the Applicable Excess	(5%)	(5%)
Net Yield Loss Percentage	**63%**	**63%**

**The impact of any uninsured perils is deducted from Potential Yield*

Step 2. Calculate the Field Sum Insured	Pre Harvest Policy	Post Harvest Policy
*Area x Insured Yield** x Insured Value****	100ha x 5.0t/ha x $225/t	100ha x 5.0t/ha x $225/t
Field Sum Insured	**$112,500**	**$112,500**

Remember where the loss occurs prior to the FRD the Insured Yield is the Potential Yield of the crop

Step 3. Calculate the Amount Payable	Pre Harvest Policy	Post Harvest Policy
Field Sum Insured x Net Yield Loss %	$112,500 x 63%	$112,500 x 63%
Amount Payable*	**$70,875**	**$70,875**

The Amount Payable by both policies is the same as the Insured Yield on both Policy Types prior to the FRD is the Potential Yield of the crop.

Where the loss occurs ***after*** the FRD

Step 1. Calculate the Net Yield Loss percentage	Pre Harvest Policy	Post Harvest Policy
(Potential Yield – Harvested Yield)* *Potential Yield**	(5.0 – 1.6) 5.0	(5.0 – 1.6) 5.0
Gross Yield Loss Percentage	68%	68%
Less the Applicable Excess	(5%)	(5%)
Net Yield Loss Percentage	**63%**	**63%**

**The impact of any uninsured perils is deducted from Potential Yield*

Step 2. Calculate the Field Sum Insured	Pre Harvest Policy	Post Harvest Policy
*Area x Insured Yield** x Insured Value****	100ha x 3.5t/ha x $250	100ha x 4.38t/ha^ x $250
Field Sum Insured	**$87,500**	**$109,500**

*** Where the loss occurs after the FRD the Insured Yield under both policies is different.*
****The grower increased the Insured Value at the FRD*
^ The Insured Yield has been capped at 25% of the revised Yield at the FRD

Step 3. Calculate the Amount Payable	Pre Harvest Policy	Post Harvest Policy
Field Sum Insured x Net Yield Loss %	$87,500 x 63%	$109,500 x 63%
Amount Payable*	**$55,125**	**$68,985**

Summary Points to note on the claim calculations

1. The Net Yield Loss Percentage doesn't change regardless of the time of the loss or Policy Type.
2. The Amount Payable on losses incurred prior to the FRD are the same for both Policy Types as the Insured Yield is the Potential Yield of the Crop.
3. In this example, the Insurer's Yield Swing on their Post Harvest policy is +/- 25%.

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