Author: Andrew McBain, AACL Managing Director
Paper Title: Multi Peril Model for Australian Farmers
Presenting Author: Andrew McBain, AACL Managing Director
Date: 25 November 2008

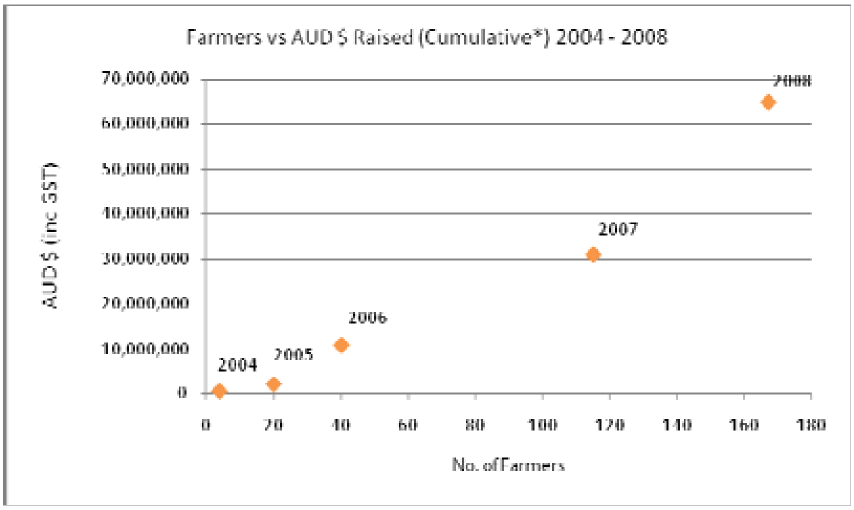
The purpose of this proposal is to address some keys issues facing Australian farmers both currently and into the future. Increased production and income volatility needs to be managed through market based mechanisms which enable farmers to smooth out their cash-flow, share risk and reward with third parties and diversify their income base.

AACL Background

AACL has developed a unique product called Grain Co-Production. Grain Co-Production has been operating in Western Australia since 1999 and is designed to underwrite or insure a farmers production costs against uninsurable risks such as drought, frost and flood.

Grain Co-Production works by attracting third party investors who provide unsecured capital to farmers each year to plant crops. The investors share the risks and rewards with the farmers. The model is an extension to the principal of share-farming. In 2008 AACL invested $65m with Australian farmers to grow wheat and barley crops.

Years	No. of Farmers	AUD $ Invested
2004	4	550,000
2005	20	2,200,000
2006	40	11,000,000
2007	115	31,000,000
2008	167	65,000,000



Proposed Solution

AACL believes that partnering investors and farmers to grow crops through a model like Grain Co-Production achieves cash-flow stability for farmers and a market mechanism to differentiate viable and nonviable operators.

Insurance companies and Government will not provide a multi peril model in isolation to individual farmers because of the risks of insuring an individual farm. What AACL is proposing is that Government and insurance companies provide an underwriting mechanism to AACL's Grain Co-Production pools – that way significantly reducing their exposure from the individual location to pooled multiple and diversified locations. AACL believes that a combination of investor capital, pooling and then underwriting at the pool level is the answer to providing a commercial solution to multi peril and to removing a large degree of the onus from the Government for EC and subsidies.

How the Proposal Would Work

The Grain Co-Production model works by attracting farmers from all growing regions and pooling the production from those regions to achieve diversity for the investors.

The investors act like underwriters by funding the crop on a non-recourse basis. The farmers benefit from the guaranteed cash-flow which effectively puts a floor price for their income regardless of the season. In a good season the farmers share some of their upside with investors with the effect being that the farmers are putting away a little bit in good times to cover the bad seasons.

The investors risk is spread by AACL contracting farmers in many different regions with the results pooled to diversify the risk.

The Government would provide an arm's length and commercial underwriting mechanism to the Grain Co-Production pools each year. AACL would pay the Government a premium per annum based on the spread of properties and in return the Government would provide an underwriting of the investor's farmer payments at a pooled level from a zero to a 10% loss. Beyond that level the investors would be liable for further downside or it may be possible to arrange a further level of underwriting from the private sector. Such an underwriting mechanism would enable AACL and other companies to attract sufficient capital from the private sector to share the production risks with farmers – thus achieving a commercial outcome for all stakeholders.

For further details please contact Andrew McBain.