

Keeping Australian Farmers Farming.

A new way to improve cash flow and access additional working capital



Anyone living in Australia's regional areas needs no reminder of how hard farming has been in the last 10-15 years, regardless of region. Droughts, floods, frost and other perils have resulted in too many years where farm businesses have run at a loss.

To stay in the game, most enterprises have gone through expansion phases to gain greater economies of scale. While this increases opportunities for greater profits, it does in turn expose the family business to potential losses.

Australian farmers have also seen declining terms of trade, with a significant increase in fertilizer and machinery expenses. In fact, due to increases in landholdings and costs within farm businesses, working capital requirements

are now on average three times greater than they were just 10 years ago.

When working capital is stretched, it's not just the farm that struggles. We all know not enough money to invest in crops leads to lower yields and lower profits - but the real impact is on families. Lack of funds often leads to family partnership splits and the breakdown of family relationships.

Cash flow pressures have also led to a large number of farmers selling up. In many cases these are businesses that have carried too much debt in an expansion phase, then been forced to sell to the highest bidder after a devastating knock from Mother Nature.

And then there is one of the hottest topics in Australia right now - foreign ownership. While it is not the preferred option, farmers are increasingly taking up this strategy as there are simply not enough alternatives to raise working capital.

A global perspective

If we look further afield, we can see how other countries have attempted to deal with these challenges. A recent example is the wide scale drought in the United States in 2012. Farmers had one of their lowest production years on record, with many US growers comparing it to dry seasons in the 1930s. Despite this, farmers and regional communities did not miss a step. How was this possible?



American farmers and their strong political lobby groups have long recognised the social risks involved in having farmers fall over due to one or two bad seasons. With government assistance, industry wide insurance programs have been put in place to support farmers through tough times.

The enormous success of this strategy was evident this season, with the entire US farming industry functioning as if there was no drought in 2012.

Unfortunately, with our lower population and tax base, the Australian Government has never been able to underwrite programs such as this - meaning that if Australian farmers wish to have an insurance program, they are going to need to pay for it themselves.

What about crop insurance?

Multi-Peril Crop Insurance products in Australia have come and gone.

Early models have not been viable as premiums were too high without government assistance. These models also exacerbated risk profile and constrained a farmer’s ability to raise capital and adequately protect against financial losses in poor seasons. Yield-based products cannot provide a revenue guarantee for the simple reason that the grain price is not pre-determined.

A new insurance product on the market from Latevo International has the

potential for radical change, offering more affordable premiums with risk assessed individually. Rather than using district averages, Latevo has developed a revenue-based program that reviews each farmer’s risk profile on an individual basis.

Revenue protection - a new way

To explore this new concept for Australian farmers, we spoke to Latevo International CEO, Andrew Trotter - a farmer himself - to see how it stacks up.

Latevo International is an Australian company with its roots in Canada. Andrew Trotter says that the concept is born out of 30 years of trial and error in the Canadian agricultural insurance market.

Developed by Australian farmers and underwritten by Allianz, this revenue-based product includes a customised program that actually supports improved farm management and profitability. The predecessor to this model has been functioning in Canada for three years.

“This is a new model that unlocks access to working capital and introduces competitively priced options that are relevant to Australian farmers and their coverage needs,” says Trotter.

Next year marks the international commercial release of Revenue Protection Insurance in Australia, a significant milestone for Latevo.

This is something no other Australian insurance company has been able to provide.

“Revenue Protection Insurance will give Australian farmers similar choices to farmers in Canada and the US - an insurance product to protect their business against events of Mother Nature,” Trotter explains.

Australian farmers are renowned for their innovation and adaptability to the challenges of the Australian climate. However, it is hard to prosper without better cash flow in poor seasons and access to more working capital in all seasons.

“North American farmers cannot imagine farming without a safety net. They think we’re crazy Aussies,” said Trotter.

As Latevo’s model is based on revenue and not yield, it is more than just insurance.

“Insurance and finance are intrinsically linked. Without insurance, banks, machinery dealers and Ag Chem retailers just can’t provide extended payment terms to the same level. Take finance on a grower’s header as an example. All finance companies or banks require an insurance cover note before a farmer takes delivery. That’s code for ‘No Insurance, No Loan,’” says Trotter.



November 7, 2013

Chief Executive Officer
Latevo International
Shop 8, 6/16 Sanders Street
Griffith NSW 2680

Dear Andrew,

For well over a decade, WAFarmers has been lobbying for the introduction of a Multi-Peril Crop Insurance into the Western Australian market. We are delighted that Latevo International has introduced such a product.

We have encouraged our members to consider Multi-Peril Crop Insurance in their business planning and to make their own enquiries on the suitability of the Latevo product.

We are strong advocates for a Multi-Peril Crop Insurance product, which we believe offers security to growers. Many of our members have challenging financial circumstances which can limit access to additional capital, however, we are confident that this product will alleviate some of these challenges.

We are proud to welcome you as a diamond sponsor and look forward to a mutually beneficial relationship long into the future.

Yours faithfully,

Dale Park

President

The Western Australian Farmers Federation Inc.

“We are strong advocates for a Multi-Peril Crop Insurance product, which we believe offers security to growers”

DALE PARK - PRESIDENT THE WEST AUSTRALIAN FARMERS FEDERATION

“Latevo International has spent a great deal of time working with the banks. Our support from Westpac is a clear sign of the need to encourage growers to protect against down turns in their business,” says Trotter.

Insurance that could change the future

For further views on how Revenue Protection Insurance works, we sought advice from John Thomson, Director of national accounting firm, RSM Bird Cameron.

“I grew up on a farm; I am an accountant and I have been involved with agriculture and agribusiness most of my professional career. I can appreciate the emotional and

financial trauma when things go wrong on a farm,” said Thomson.

“Revenue Protection Insurance is a mechanism to protect a farm’s equity by protecting cash flow. A negative cash flow results in a loss of equity, as the shortfall needs to be met either with debt or the sale of personal or business assets. Due to the diminishing capacity for farms to carry debt, any losses due to drought, frost or other peril will risk reducing farm equity below a level acceptable by a financier.

“A simple calculation is to work out the surplus cash flow in an average year and divide it into the total cash out flows for a year. The answer represents the number of years it will take to recover from total crop failure.

“It is one thing working for nothing and having Latevo Revenue Protection Insurance picking up the loss in farm revenue - and another to work for nothing and lose your farm.

“Farmers that start making statements such as ‘I just need the big year and I will be fine’ means they have moved from running a business to taking a punt against the elements,” he said.

Thompson went on to say that Revenue Protection Insurance is likely to strike a resounding note with young farmers trying to take over a family farm or start out by purchasing their first farm.

“From a bankers perspective, this type of risk mitigation tool has been a long time lacking.”

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September 16, 2013

Chief Executive Officer
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Dear Sir,

I would like to thank you for the time you have spent by your company with me over the past few months to explain and demonstrate your strong commitment to provide farming businesses an 'Income Protection' Insurance product to market.

From a banker's perspective, this type of risk mitigation tool has been a long time lacking, with its absence distorting the natural growth and innovation of the WA Grains industry.

The introduction of this style of product will enable the following:

- Continuity of capital within the industry (Financed or Investor).
- Provide financial certainty to invest in longer term farm innovation.
- Access to longer term finance on more favorable terms as cash flow risks are addressed.
- Assist in reducing the barriers to entry for younger farmers to enter the market.
- Provide the capacity for strong existing business's to grow and expand land holdings with certainty.
- Assist in delivering financial stability to agricultural communities who service the industry (local retail and the like).

Westpac is a strong supporter of business innovation that assists in delivering a more long term financially sustainable agricultural industry, and we commend your company for the leadership it is showing within the industry and we look forward to you assisting in providing more certainty to our clients.

Yours faithfully,

Chris Moore
Westpac Head of Grain
Commercial & Agribusiness Banking WA

“From a banker’s perspective, this type of risk mitigation has been a long time packing and is great news for the industry. The absence of such support distorts natural growth and innovation, something I have seen first hand in the WA Grains industry,” says Chris Moore, Westpac Head of Grain, Commercial & Agribusiness Banking WA.

“This type of product will enable continuity of capital within the industry and the financial certainty to invest in longer term farm innovation. Strong, existing businesses will have the capacity to grow and expand their landholdings with certainty.

“In addition, with cash flow issues addressed, farmers will have access to longer term finance on more favourable terms and agricultural communities that service the industry will benefit from greater financial stability,” he said.



“Latevo’s Australian program is underwritten by Allianz so farmers can be comfortable the model can withstand wide scale events similar to what happened in the US in 2012”

ANDREW TROTTER CEO LATEVO INTERNATIONAL

“It is also likely to benefit long term farmers, such as a couple in their early sixties with no children coming back to the property. If they farm in a marginal area they may make a living and save a little if seasons are average – but if there is a frost or drought they are risking their retirement assets.

“There are many young farming families who are committed to sending their children to boarding school, just as they attended themselves,” Thomson said.

“A child born to a farming family should have the same opportunities as their city cousins in pursuing careers of their choice and not be penalised by living in regional and remote Australia. Funding boarding school fees in a drought, flood or frost can be extremely challenging. Latevo Revenue Protection Insurance assists in making sure the school fees are paid.”

Thomson recalls a senior accountant reflecting that ‘drought, disputes, divorce and damn taxes’ were the curse of the farming community.

“The dominant cause of most of these is financial pressures due to failure of the farming business to generate sufficient revenue, as a result of crop failure. A revenue insurance policy may be more than just balancing the budget. It is likely to extend to fewer disputes and ultimately, happier families.”

A game changer

Latevo CEO, Andrew Trotter further commented that “Latevo’s Australian program is underwritten by Allianz and some of the world’s largest global reinsurers. Farmers can be comfortable the model can withstand wide scale events similar to what happened in the US in 2012.”

While revenue insurance doesn’t take all the risk out of farming, it does take it back to an acceptable level.

“Revenue Protection Insurance is a game changer for Australian farmers as it deals with the two biggest issues facing the farming community; cash flow and negative return seasons,” said Trotter.

The new model from Latevo International will provide a new way to improve cash flow and gain access to additional working capital. Utilising revenue insurance will also protect against financial losses in poor seasons.

Stabilising farm revenues also stabilises industries supporting farmers, with a flow on effect of more opportunities for regional communities, businesses and families to prosper from greater stability and reduced financial volatility.

“A revenue insurance policy may be more than just balancing the budget. It is likely to extend to fewer disputes and ultimately, happier families” JOHN THOMPSON DIRECTOR RSM BIRD CAMERON

For more information call
1300 LATEVO



Underwritten by

Allianz 