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BULLETIN 87-6

TO: All Crop Hail Insurance Companies

FROM: Earl Pomeroy, Insurance Commissioner

DATE: May 26, 1987

SUBJECT: MARKETING OF COMPANION HAIL POLICIES

Due to the type of inquiries we have received in the Department, it is evident we need to address the marketing of companion hail policies. Specifically, two areas need to be addressed.

1.) The use of companion hail as a separate policy.

The use of the companion hail plan is relatively new, having been adopted by CHIAA in 1983. The intent is to use the companion hail plan as a supplement to the MPCI (FCIC) policy, not as the sole crop hail policy. However, the CHIAA rules do not contain a specific prohibition against the marketing of the companion hail as a separate policy, nor do the Department guidelines address this specifically. Therefore, even though it was not intended to be used alone, there is no specific prohibition against it. Consequently, companies can market the companion plan as a separate policy at this time.

2.) Overinsuring of companion hail and resulting inadequacy of rates.

Although there is no prohibition to the use of the companion hail plan as a separate policy, there are definite guidelines to use in determining the proper limits of liability. This is indicated in part in policy form CHIAA-653 and CHIAA Bulletin 87081-CHI.

It is clear that the formula for determining liability limits of the companion plan is predicated upon the basic MPCI (FCIC) coverage. Limits under the companion plan are limited to a percentage (i.e., 50 percent, 35 percent, or 25 percent) of the MPCI (FCIC) value.

The actuarial pricing of the companion plan uses the above principle and does not contemplate returns in excess of 100 percent of the total Actual Cash Value of the crop. Therefore, any company approving and/or accepting liability limits in excess of the limits intended for the companion plan, whether written with or without the supporting MPCI coverage, will be charging inadequate rates. North Dakota Century Code section 26.1-25-03-1e prohibits the use of inadequate rates. Therefore, any company allowing liability limits in excess of those intended in the basic formula would be in violation of the Code. These companies would be subject to penalties as outlined in N.D.C.C. sec. 26.1-25-18.

ERP:LM/rer