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COMMISSIONER OF INSURANCE

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DEPARTMENT OF INSURANCE

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BULLETIN 92-7

TO: All Property and Casualty Insurance Companies Writing Crop Hail Insurance in North Dakota

FROM: Earl R. Pomeroy, Commissioner

DATE: December 14, 1992

SUBJECT: Marketing of Crop Hail Insurance in North Dakota 1993

INTRODUCTION

The North Dakota Insurance Department has undertaken a review of its crop hail filing program. This was done due to the 1991 law change. N.D.C.C. Chapter 26.1-25, prohibits rating organizations from filing fully developed rates on behalf of companies. The law does permit advisory organizations to file loss costs instead.

The Department further recognizes that the crop hail insurance line has significantly unique characteristics which set it apart from the normal property and casualty lines of insurance, specifically in the area of rate making. As such, we have over the years attempted to treat this program in an appropriate manner by recognizing its uniqueness and extreme volatility. The following procedures represent our revised approach in light of this review.

SCOPE AND APPLICABILITY

This bulletin pertains to all insurance companies seeking to market policies for the coverage of crop hail insurance in the State of North Dakota for the 1993 season. Crop hail insurance includes policies providing crop hail coverage, companion hail coverages, and other similar type supplemental products.

FILING DEADLINE

All form and rate filings intended for use in the 1993 season must be postmarked by March 1, 1993.

FILING PROCEDURES

The North Dakota Insurance Department will review crop hail policy form and rate filings according to the criteria set forth in this bulletin. Except as otherwise provided herein, forms and the loss costs for crop hail insurance shall be as filed by the National Crop Insurance Services (NCIS).

Form Filing

Forms once filed by a company need not be refiled on an annual basis. Companies who are filing new forms, form changes, and new product forms must adhere to the following steps:

1. Companies proposing to use NCIS forms may file by reference, indicating by memorandum a list of forms they will use (to include name, form number, and edition date).

2. Companies proposing to use independent policy forms can file a copy of each form along with a memorandum explaining how and where the policy differs from the NCIS form and what impact that makes on coverage and rate.

3. Companies proposing to use a deviated or modified NCIS form must file a copy of the form along with a memorandum explaining the change and how it affects the coverage and the rate.

Rate Filings

Due to the unique and volatile characteristics of this line of insurance, rates are required to be filed on an annual basis using the filing forms prepared by this Department.

Each company must adhere to the NCIS loss cost. No deviations or modifications of the NCIS loss cost will be accepted. A company's loss cost multiplier must be applied uniformly to all rate categories on a statewide basis.

Rate filings must include the following:

1. The company's pure loss experience and expenses for the previous five years. (Refer to Expense History NDPC200 (10/92), pages 3 and 4.)

2. The company's proposed loss cost multiplier, including the development and support for the multiplier, for the designated marketing year. (Refer to NDPC200 (10/92), page 2.)

   NOTE: The Department has determined that a company loss cost multiplier of less than 1.429 cannot be substantiated and, therefore, will not be approved. The company loss cost multiplier is shown on page 2, line 4, of the Crop Insurance Form and Rate Filing Form NDPC200. A loss cost multiplier corresponds to an expense ratio of 30 percent.

3. A cover letter or filing memorandum detailing the company's rationale for its request.

4. A copy of the proposed rates for new products (not NCIS-based products) must include a filing memorandum with statistical and actuarial documentation as appropriate to support the request or an actuarial report prepared by NCIS describing the appropriate relativity to current NCIS-based products.

DISCOUNTS

Cash Discounts

The Insurance Department will recognize a cash discount offered for receipt of premium before July 1 or for payment in full with application for new policies written after July 1, provided the discount does not exceed five percent.

The cash discount will be allowed on policy changes after July 1 if the original policy was paid on a cash discount basis and payment is received with the change.

The purchaser of a crop hail insurance policy is entitled to receive the offer of the cash discount in the event the company provides one; therefore, applications for crop hail insurance based upon filings providing the cash discount shall include

notice to the purchaser specifically waiving his or her option to elect a cash discount in the event the purchaser declines to pay the premium by July 1.

If the purchaser has been properly informed, waives the cash discount, and does not make full payment at the time of application, the agent can take advantage of the cash discount by submitting full payment with the application to the company. The agent and the purchaser would, however, be in violation of the rebate statute if the agent were to subsequently pass on a cash discount to the purchaser in an agency billing.

Other Discounts

The Department does not recognize discounts based upon total limits of liability of the policyholder or premium volume, MPCI package discounts, claims free history discounts, or tie-ins with other lines of insurance such as farmowners, autos, etc.

COMPANION HAIL PRODUCTS

Endorsement 1988-CHIAA 653 is intended to be used in conjunction with the crop hail policy form to provide optional and supplemental coverage to the underlying MPCI or FCIC policy. Since the marketing of this form as a stand-alone policy is contrary to its intended usage, such marketing will not be permitted. This prohibition extends to other nonstandard companion hail type policies as well.

Marketing

The company can market its contracts prior to the new season rates being approved by the Department, if they provide the purchaser with appropriate disclosures that the rates that will be applied to the contract will be those approved for that season, not the prior season and provide a procedure by which the purchaser can cancel the contract without penalty AFTER notification of the approved rate.

Continuous Policy

Some companies market contracts which are termed "Continuous Policies". The policies generally provide automatic coverage at last year's levels to new crops early in the season but require confirmation by a certain date in order to continue the contract. The Department has approved continuous policy contracts. Since a continuous policy provides for an automatic renewal of the

contract, please be advised that this may preclude or eliminate the company's ability to nonrenew the contract using standard procedures.

Dividends

Since the Insurance Department occasionally receives complaints about the use of dividends in the marketing of crop hail insurance, we would like to reference N.D. Admin. Code § 45-05-02-03 regarding the use of dividends in the marketing of crop hail insurance. The Department will strictly enforce these rules which prohibit the use of dividends in the marketing of crop hail insurance.

COMPLIANCE REPORT

Those companies who actively wrote crop hail insurance including MPCI in 1992 are required to complete and return to the Insurance Department the attached "Compliance Report for 1992 Crop Season" as a prerequisite to making the 1993 filing. Note: **The deadline for this report is February 1, 1993.**

(Remember: The rate/form filing deadline is March 1, 1993.)

Filing Fee

North Dakota does not require a filing fee for form and rate filings. However, if a company is domiciled in a state that requires filing fees of North Dakota companies, we do retaliate by requiring that those companies pay that same fee upon filing with North Dakota.

PREVIOUS BULLETINS

Effective January 1, 1993, this bulletin supersedes the following Department bulletins and memorandums:

- Bulletin 83-3
- Bulletin 85-1 and 85-1 Amendment
- Bulletin 86-1
- Explanatory Bulletin dated May 21, 1986
- Bulletin 86-6
- Memorandum - 1987 Crop Hail Guidelines dated November 25, 1986
- Clarification of Bulletin 86-6 dated March 17, 1987
- Bulletin 87-6

Memorandum - 1988 Crop Hail Guidelines dated December 3, 1987
Memorandum - Marketing of Comparison Hail Policy dated October 30, 1987
Bulletin 88-2
Bulletin 88-10
Bulletin 89-3
Bulletin 90-7
Bulletin 91-5

CROP INSURANCE FORM AND RATE FILING
Adoption of Advisory Organization Loss Costs

Date: _____

1. Insurer Name: _____
   Address: _____
   _____
   _____
   _____
   _____

2. Insurer NAIC #: _____

3. Line of Insurance: _____

4. Advisory Organization: _____

5. Advisory Organization Reference Filing #: _____

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the loss costs in the captioned Reference Filing.

   The insurer's rates will be the combination of the loss costs and the loss cost multipliers.

7. A. Rate Change due to Advisory Organization's revised Loss Costs: _____ %

   B. Rate Change due to Insurer's revised Loss Cost Multiplier: _____ %

   C. Total Rate Change: _____ %
   $= (1 + A) * (1 + B) - 1$

   D. Effective date of Rate Change: _____

8. RETALIATORY FEE:
   Form $ _____ Rate/Rule $ _____

   State of Domicile: _____

9. FORM FILING REQUIREMENTS:
   _____1. Description of form(s).
   _____2. List of forms (Company, title, number, edition date).
   _____3. Explanation of coverages that are broadened, reduced or limited.
   _____4. Copy of forms (if not a reference filing).

10. MANUAL/RULE FILING REQUIREMENTS:
   _____1. List of new rules.
   _____2. List of rules being replaced.
   _____3. Explanation of rule change.
   _____4. Copy of Manual/Rule.

Insurer Name: _____ Date: _____
NAIC Number: _____

CROP INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION LOSS COSTS
SUMMARY OF SUPPORTING INFORMATION FORM

CALCULATION OF COMPANY LOSS COST MULTIPLIER

1. DEVELOPMENT OF EXPENSE RATIO

Attach 5 year insurer expense history and any other additional supporting information. This filing will not be considered unless the completed Expense history form is attached.

	PROPOSED PROVISIONS
A. Total Production Expense:	_____ %
B. General Expense:	_____ %
C. Loss Adjustment Expense:	_____ %
D. Taxes, Licenses & Fees:	_____ %
E. Underwriting Profit & Contingencies:	_____ %
F. Other (Explain):	_____ %
G. TOTAL :	_____ %

2. EXPECTED LOSS RATIO: _____ %
(ELR = 100% – #1G)

3. COMPANY FORMULA LOSS COST MULTIPLIER: _____
(FLCM = 1.00 / ELR)
(Must not be less than 1.429)

Provide detailed explanation and support for any difference between historical and proposed expense provisions.

_____
_____
_____
_____
_____
_____

4. CASH DISCOUNT: _____ %

NORTH DAKOTA EXPENSE HISTORY FOR PRIOR FIVE YEARS

Insurer Name: _____ NAIC Number: _____

YEAR:											5 Year Historical Average Percent of Premium
	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	
Crop Hail Premiums *		100		100		100		100		100	
A) Actual Losses **											
B) Production Expense											
C) General Expense											
D) Loss Adjustment Expense											
E) Taxes, Licenses & Fees											
F) Profit(Loss) & Contingencies											
G) Total: A through F											
H) Cash Discount											
I) Deviation											

Person responsible for Filing: _____

Phone #: _____ Date: _____

* Includes premium from Crop Hail and Companion Hail–type policies

** Does not include any Loss Adjustment Expense

COUNTRY WIDE EXPENSE HISTORY FOR PRIOR FIVE YEARS

Insurer Name: _____ NAIC Number: _____

YEAR:										
	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem
Crop Hail Premiums *		100		100		100		100		100
A) Actual Losses **										
B) Production Expense										
C) General Expense										
D) Loss Adjustment Expense										
E) Taxes, Licenses & Fees										
F) Profit(Loss) & Contingencies										
G) Total: A through F										

Person responsible for Filing: _____

Phone #: _____ Date: _____

* Incl[illegible] premium from Crop Hail and Companion Hail–type policies

** Does [illegible]nclude any Loss Adjustment Expense

CROP INSURANCE FORM AND RATE FILING

Adoption of Advisory Organization Loss Costs

Date: _____

1. Insurer Name: _____
   Address: _____
   _____
   _____
   _____
   _____

2. Insurer NAIC #: _____

3. Line of Insurance: _____

4. Advisory Organization: _____

5. Advisory Organization Reference Filing #: _____

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the loss costs in the captioned Reference Filing.

   The insurer's rates will be the combination of the loss costs and the loss cost multipliers.

7. A. Rate Change due to Advisory Organization's revised Loss Costs: _____ %

   B. Rate Change due to Insurer's revised Loss Cost Multiplier: _____ %

   C. Total Rate Change: _____ %
   $= (1 + A) * (1 + B) - 1$

   D. Effective date of Rate Change: _____

8. RETALIATORY FEE:
   Form $ _____ Rate/Rule $ _____

   State of Domicile: _____

9. FORM FILING REQUIREMENTS:
   _____1. Description of form(s).
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Insurer Name: _____ Date: _____
NAIC Number: _____

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C. Loss Adjustment Expense:	_____ %
D. Taxes, Licenses & Fees:	_____ %
E. Underwriting Profit & Contingencies:	_____ %
F. Other (Explain):	_____ %
G. TOTAL :	_____ %

2. EXPECTED LOSS RATIO: _____ %
(ELR = 100% – #1G)

3. COMPANY FORMULA LOSS COST MULTIPLIER: _____
(FLCM = 1.00 / ELR)
(Must not be less than 1.429)

Provide detailed explanation and support for any difference between historical and proposed expense provisions.

_____
_____
_____
_____
_____
_____

4. CASH DISCOUNT: _____ %

CROP INSURANCE FORM AND RATE FILING
Adoption of Advisory Organization Loss Costs

Date: _____

1. Insurer Name: _____
   Address: _____
   _____
   _____
   _____
   _____

2. Insurer NAIC #: _____

3. Line of Insurance: _____

4. Advisory Organization: _____

5. Advisory Organization Reference Filing #: _____

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Insurer Name: _____ Date: _____
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F. Other (Explain):	_____ %
G. TOTAL :	_____ %

2. EXPECTED LOSS RATIO: _____ %
(ELR = 100% – #1G)

3. COMPANY FORMULA LOSS COST MULTIPLIER: _____
(FLCM = 1.00 / ELR)
(Must not be less than 1.429)

Provide detailed explanation and support for any difference between historical and proposed expense provisions.

_____
_____
_____
_____
_____
_____

4. CASH DISCOUNT: _____ %

COMPLIANCE REPORT FOR 1992 CROP SEASON

Insurer Name: _____ NAIC Number: _____

Deviation: _____ Cash Discount: _____

POLICY	MPCI (1)		COMPANION HAIL (2)		CROP HAIL (3)		TOTAL CROP HAIL (4) = (2) + (3)	
	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem
Premium		100		100		100		100
Losses *								
Production Expense								
General Expense								
Loss Adjustment Expense								
Taxes, Licenses & Fees								
Profit (Loss) & Contingencies								

Person responsible for completion of form: _____

Phone #: _____ Date: _____

REPORTING DEADLINE IS FEBRUARY 1, 1993

* Does not include any Loss Adjustment Expense