Glenn Pomeroy
Commissioner of Insurance

DEPARTMENT OF INSURANCE

STATE OF NORTH DAKOTA

Bulletin 93-6

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

FROM: Glenn Pomeroy, Commissioner of Insurance

DATE: December 28, 1993

SUBJECT: Marketing of Crop Hail Insurance in North Dakota 1994

SCOPE & 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 1994 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 1994 season must be postmarked by March 1, 1994.

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 re-filed 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 must 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 it 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 the memorandum explaining the change and how it affects the coverage and the rate.

Rate Filing

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 the Department.

Each company must adhere to the NCIS loss cost. No deviations or modifications of the NCIS loss cost will be accepted.

To insure consistency, the Department feels it necessary to require that each company use the same rounding scheme in the ratemaking process. Therefore, we will require each company to round their rates in the following manner:

Base Rates less than $4.00:	Round to nearest $.25
Base Rates in the $4.00 - $16.00 Range:	Round to nearest $.50
Base Rates greater than $16.00:	Round to nearest $1.00

Final Rates: Round to nearest $.10

Rate filings must include the following:

1. The companies pure loss experience and expenses for the previous five years. (Refer to Expense History NDPC 200 (10/92) Pages 3 and 4.

2. The companies proposed loss cost multiplier, including the development and support for the multiplier, for the designated marketing year. (Refer to NDPC 200 (10/92), Page 2).

   NOTE: Each Insurer will be required to file three separate loss cost multipliers. One multiplier for each of the high, medium, and low loss cost ranges. The loss cost multiplier arrived at for the medium loss cost range will be the basis for development of the multiplier for the other two ranges. The medium loss cost multiplier is based on a companies expected loss ratio (ELR) limited to a maximum of 70% (30% expense factor for LCM of 1.429). From your developed ELR (medium range) subtract 5% to arrive at the ELR for your low range loss cost multiplier. From the ELR (medium range) add 5% to arrive at the ELR for the high range. This procedure is required of all companies. Refer to revised NDPC 200 (10/92) page 2 for proper form and formulas.

The loss cost ranges are as follows:

Low Range of FALC's	=	$3.42 or Less
Medium Range of FALC's	=	$3.43 to $6.82
High Range of FALC's	=	$6.83 or Greater"

3. A cover letter or filing memorandum detailing the companies 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 cash discounts 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 5%.

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 for purposes of claims free history, or tie-ins with other lines of insurance such as farm owners, autos, etc.

XS20IP

NCIS has filed an SX20IP policy form and factors for the 1994 season. This policy uses a payout factor of 1.25. All companies who have previously and independently filed a similar policy form need to adjust their rates based upon the NCIS benchmark. Previously filed independent policy forms using payout factors other than the standardized policy need to refile the rates with actuarial justification.

MANDATORY EXCESS OVER 10% LOSS

The NCIS manual restricts Mustard seed, rapeseed, Timothy grown for seed and wild rice crops to basic class E rates and a mandatory excess over 10% loss clause. The qualities of these crops which make them more susceptible to hail damage are felt to be significant enough to render use of alternative deductibles at low rates actuarially unsound. Therefore, no change was implemented for this season. These crops include cranbe and canola.

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 non-standard 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 indicating 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 years 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 companies ability to non-renew 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 1993 are required to complete and return to the Insurance Department the attached "Compliance Report for 1993 Crop Season" as a prerequisite to making the 1994 filing. Note: **The deadline for this report is February 1, 1994.** Also, a copy of the 1993 Compliance Report is included with this bulletin. An additional page has been added to the compliance report, requiring each insurer to list their premium volume by county. These premium amounts should include all premium written from all Crop Hail and Companion Hail policies. The total premium for all counties should match the premium entry in column four of page one of the compliance report.

Remember: The rate/form filing deadline is <u>March 1, 1994</u>.

<u>Filing Fee</u>

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 those companies to pay the same fee when filing in North Dakota.

PREVIOUS BULLETINS

Effective January 1, 1994, this bulletin supersedes the following Department bulletins:

Bulletin 92-7
Bulletin 93-1