SENATE AGRICULTURE
EXHIBIT NO. 5
DATE 3-5-13
BILL NO. HB 189

ERICKSON INSURANCE GROUP

Montana Insurance Managers
We Cover Montana

March 1, 2013

Honorable Members of the Senate Agriculture Committee
Montana Senate
PO Box 200500
Helena, MT 59620-0500

Re: HB 189, Revise Hail Insurance Maximum, Rep. Dennis Lenz, Sponsor

Dear Chairman Brown, Vice Chair Moore and Honorable Members of the Agriculture Committee:

I am writing today to urge you to oppose HB 189, a bill sponsored by Rep. Lenz, which seeks to double the current statutory maximum limit of hail insurance. I opposed HB 189 for several reasons: 1) the unnecessary duplication of an available private market option; 2) the unfair competition that this program currently places on the private marketplace; and most importantly 3) the undue burden that it places on the backs of the taxpayers of the State of Montana.

I am a licensed insurance agent in North Central Montana and manage an independent insurance agency in Havre that specializes in crop hail and multi-peril crop insurance. We sell and service crop hail plans from multiple companies in Hill, Blaine, Phillips, Chouteau and Liberty counties and work with many producers who also purchase State Hail. I am very familiar with the current State Hail program as well as the private hail insurance market. I am also very familiar with current grain markets and the costs associated with production agriculture.

The State Hail program of today is very different from the State Hail program that was created back in 1917 as a safety net when the number of private options available to producers was very limited. Today many different products exist covering dozens of crops at competitive prices. Also in 1917 many other States had programs offering hail insurance to producers either because a private market didn't exist or the costs to develop a market were prohibitive. Montana has the only remaining State Hail program in the country, which begs the question, is this program still necessary? Every other State has determined otherwise and allows the private marketplace to assume that risk. Indeed private carriers have the capacity to manage the risk and reinsurance markets have stabilized allowing multiple product choices and have made this program an unnecessary duplication.

State Hail also benefits from several competitive advantages over private carriers. For example, the current program is not regulated by the Department of Insurance, their rates are not filed with or reviewed by the department and their forms and rules are not regulated either. In fact the entire program is controlled exclusively by a board appointed by the Governor and has virtually no oversight at all. The product they sell is not sold by licensed agents, who are required to have knowledge of products, rules and regulations as determined by this Legislature and enforced by the Insurance Commissioner. Finally, the board also routinely refunds portions of unused premiums to policyholders, a very popular feature I might add, but one that is expressly prohibited by Montana law for any private company because it could be deemed an inducement to purchase.

3 First Street West • P.O. Box 2500 • Havre, Montana 59501 • Phone: 406-265-1490 • Fax 406-265-0177

Passage of this bill could result in significant risk saturation which would pose a substantial financial threat to the taxpayers of the State of Montana. HB 189 would disrupt a geographic spread of risk that the current program has benefited from for years. In other words, liability is spread over a large area of counties, some of which have higher instances of hail storms than others. Additionally, that liability burden is often shared with private carriers since many producers buy both private insurance and State Hail. Perhaps due to historical tradition, i.e. "that's what my Dad did, so that's what I do," or perhaps due to low statutory limits, but in any case there is often shared liability. HB 189 would shift much of that now shared liability to the State Hail program exclusively, particularly in those counties where the State Hail rate is much lower than those of private carriers. It's not rocket science, if a farmer needs $100 per acre on spring wheat and the cost from a private carrier is $12 per acre and the cost from State Hail is $8, he will buy from State Hail. These counties also tend to be the areas which receive the most hail too which explains why private rates are higher. More liability in hail prone areas means increased losses. Consequently, over time you will see the loss ratio for the State begin to spike up and you will see the loss ratios for private carriers begin to decline simply because they won't be writing as much in the counties with higher rates. It is also important to note that adjustment costs would also increase because State Hail adjusters would no longer be able to depend on private company adjusters to do inspections and simply copy the appraisal sheets as they often do now, requiring more time in the field.

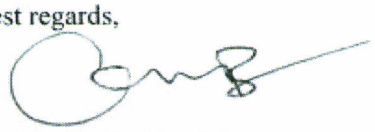
To further illustrate this, consider data from the financial summary published by the State Hail Board for crop year 2012. The overall liability written was just over $82 million, the average per acre limit purchased was $45. The program took in just over $7.1 million in premium and incurred losses of $4.3 million resulting in a 61% loss ratio. If you double those numbers or simply use the projections indicated in the fiscal note, the potential written liability goes well in excess of $150 million, the premium would be $14.2 million and losses would exceed $10.5 million resulting in an annual loss ratio of 74%. I am not suggesting the State will incur a total loss on every acre, but the 68% average historical loss ratio will most certainly go up and with only $11 million in reserves available, the financials are just too shaky. Private companies must carry reinsurance to cover these situations, the State Hail Board does not so they would need to borrow money or sell bonds to cover any significant losses beyond their reserves, and thus the taxpayers of the State of Montana are ultimately the reinsurers.

Taking all these concerns into consideration, is it really necessary to take this step? I admit the program has run very well historically and is very popular with producers, but is this the appropriate decision for Montana? I would say no. I believe the current limits are more realistic, better balanced, offer a more manageable fiscal burden for taxpayers and they live up to the original intent of the program, to be a safety net, not to compete with private insurance. Otherwise if this Legislature intends for the State Hail Board to be an insurance company and compete with private markets, I suggest you move to regulate it as such and level the playing field.

Thank you all for your selfless service to the State of Montana and your consideration of my concerns.

If you have any questions, you may contact me by phone at (406) 265-1490 or by e-mail at andrew@ericksoninsurancegroup.com.

Best regards,



Andrew R. Brekke, Manager
Erickson Insurance Group

Culver Insurance Agency

208 S. MERRILL AVE. • P.O. BOX 849 • GLENDIVE, MT 59330 • (406) 377-5631 • 1-800-660-4245 • FAX (406) 377-8546

3/1/2013

Dear Montana Legislature,

Please do NOT support HB 189. The intent of the expansion of government should be saved for providing safety and ensuring necessary services for the people of which can not to be provided without the government. There is no need for HB 189 as the private insurance sector currently provides competitive hail insurance for farmers with no concern of adequate capacity. Instead HB 189 promotes an insurance program that competes with the private industry without a level competition field. All private insurance companies are regulated by the State Insurance Commissioner's office and are prohibited from offering rebates. Yet the State Hail program is allowed to rebate premiums. Currently the private hail insurance industry bears the majority of the liability of claims but the expansion of the State Hail program may significantly and unnecessarily shift the financial risk to state government and tax payers. Once again, please do NOT support HB 189.

Sincerely,

Melonie J. Beeler

3/04/13

Ag Committee Members
Taylor Brown
Eric Moore
Shannon Augare
Scott Boulanger
Mary Caferro
Sue Malek
Terry Murphy
Mike Phillips
Scott Sales
Sharon Stewart-Peregoy
Janna Taylor

Dear Ag Committee Members:

I'm writing to encourage you to carefully consider HB 189 bill and choose to vote "NO" on its passage.

It is my understanding HB 189 stems from concerns of lack of hail insurance capacity for Montana's farmers. Though ten years ago this may have been a concern, in recent years private insurance companies have offered more than enough coverage to Montana farmers. Only last week I received the **insurance per acre (IPA) limits from Rural Community Insurance Services' 2013 hail insurance year for Montana crops: $600/ac. for wheat; $500/ac. for barley; $350/ac. for oats; $400/ac. for alfalfa/hay; and $350/ac. for dry peas** to name the more prevalent crops. These IPA's were available last year as well. It does note appear to me that lack of available coverage is a substantiated concern.

I too am concerned with the actuarial soundness of Montana's Hail Insurance Program should they increase their liability to the proposed extent. Previously, the State and private insurance carriers shared the risk of hail insurance throughout Montana. Should the State increase their IPA, the **risk will increase for the State** as a large percentage of farmers, who historically buy "$100/acre hail insurance," will buy from the State and forego private carriers. Not only does this increase the State's risk, it **also increases the State's responsibility to have adequately trained CROP adjusting staff** to timely address hail losses in a busy year. These loss adjustments have primarily been executed by private carriers, who shared in the liability, and consequently shared in their loss findings. **With the increase in liability and the increase in adjustment costs, it would appear that, over the course of only a handful of years, the State of Montana would put itself in a loss ratio situation that would jeopardize their**

self-sustaining hail insurance program – let alone still make available the attractive dividend refund.

Finally, I struggle to understand the concept of the State of Montana competing with private industry. Years ago private insurance carriers were given the responsibility of determining effective hail rates while providing a product they struggle to keep sound. And, for years, **private insurance carriers have maintained hail insurance is not a big money maker in Montana**. It is because of their other insurance programs that they are able to continue to provide hail insurance year after year. **How will the State subsidize their hail insurance program?**

I grew up on a farm and live in the Conrad area surrounded by farmers. My intent is not to short change those people I live and work with. My intent is to continue doing an excellent job in providing farmers good hail insurance coverage from good companies and, in the event of a loss, a timely and professional loss adjustment followed quickly with a check in the mail. I personally do not want to worry, as a taxpayer, if HB 189 will be more of a detriment than an asset to the State and, eventually, me as a Montanan.

Please, again, vote "NO" for HB 189 and DO NOT increase the state hail insurance coverage.

Thank you –

Cynthia M. Ries

Cynthia M. Ries, AFIS
Licensed Agent
Stockman Insurance
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3/1/2013

Dear Montana Legislature,

Montana is the only State in the Hail Insurance business. The other States in the Union have all indicated otherwise and have long disbanded their State Hail programs. Every dollar of private hail premium that is eliminated from the market deprives the state from taxing that premium. The private system of today has the capacity to handle the risk. After participating in the business for 35 years in the counties in Montana where the hail rates are at their highest, I am used to working side by side with the State subsidized program but this current proposed legislature will virtually eliminate the private industry from the business. This is a threat to our livelihood and I urge your vote against such a reckless proposal.

Sincerely,

Jim Culver

March 4, 2013

Montana Senate
Ag Committee
PO Box 200500
Helena, MT 59620

House Bill 189

Dear Ag Committee Members:

I am asking you to vote against House Bill 189. I make a living selling insurance. Currently I feel the State of Montana writes about 50% of the crop hail insurance on dry land wheat. I feel if you pass house bill 189 I will no longer sell any crop hail insurance to my current dry land wheat farmers. The statement that was made in the House about their not being adequate crop hail insurance is not true in eastern Montana. We have all the crop hail insurance available that a farmer wants. I would question if the State of Montana has the adjustors they will need to handle claims if they have to do all of the adjusting. The advantage the State of Montana has for selling crop hail insurance is you rebate. It is against the law for private insurance to rebate. Why should the State of Montana be in competition with private business?

It appears in 2011 the Montana Hail Insurance Program sold $136,034,127 of premium. If HB189 passes I feel that number will come close to doubling. What are the affects of $136,034,127 being taken out of private industry? The Companies will no longer get the premiums, the agencies will no longer get commission and the agents will no longer get any commission. This will cause a lot of money to be taken out of the tax system.

I do not feel the State of Montana needs to be in the crop hail business. We need to have less government and more private business.

Sincerely,

Verna Baisch

Verna Baisch
15 Cactus Lane
Glendive, MT 59330

Montana State Hail Insurance Program

Actuarial Analysis
Crop Year 2012

Taylor-Walker & Associates, Inc.
Actuarial Consulting Firm

November 29, 2012

Mr. G. Lee Boyer, Rural Development Bureau Chief
Montana State Hail Insurance Program
Department of Agriculture
P.O. Box 200201
Helena, MT 59620-0201

Dear Mr. Boyer:

Montana State Hail Insurance Program

Per contractual agreement, we completed our 2012 actuarial analysis for the Montana State Hail Insurance Program. Enclosed is our final report and supporting exhibits.

We have enjoyed working with you on this assignment. We appreciate the assistance of your staff in providing the necessary data and information. Please feel free to contact us if you have any questions or comments regarding our study.

Sincerely,

TAYLOR-WALKER & ASSOCIATES, INC.

R. Glenn Taylor, ACAS, MAAA
President

RGT/ssg

Enclosures

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www.taylor-walker.com

MONTANA STATE HAIL INSURANCE PROGRAM

ACTUARIAL ANALYSIS

Introduction

The Montana State Hail Insurance Program (Program) contracted with Taylor-Walker & Associates, Inc. to estimate the required Program reserves in accordance with statutory provisions. The scope of our assignment involved the evaluation of current Program reserves relative to the statutory requirement that reserves be sufficient to absorb reasonably anticipated catastrophic losses. In addition, we have provided the Board with information regarding the 2012 crop year surplus/deficit and information regarding premium rate adequacy and related diagnostics.

Assumptions

The following assumptions are important to the proper understanding of our reserve analysis:

- Montana statute requires that the actuarial valuation include a "determination of the amount of reserve necessary to absorb all reasonably anticipated catastrophic losses". We interpret this provision to relate to annual catastrophic losses, and not to consecutive year catastrophic losses, nor to losses resulting from a single catastrophic storm.

- We note that the statute refers to reasonably anticipated catastrophic losses and not necessarily to worst-case catastrophic losses.

- For some expense categories, paid expenses are assumed to reasonably reflect incurred expenses.

- State and county assessments are estimated as the prescribed percentages applied to premiums rather than actual paid assessments.

- We assumed that all delinquent premiums would be available to cover any catastrophic claims.

In addition, there are several assumptions that are important to the proper understanding of our premium rate analysis. The assumptions are as follows:

- We assumed that observed historical loss ratio trends, including claim frequency and severity trends, are not indicative of expected future trends in claims experience. Rather, we have used the Program's long-term

average loss ratio, adjusted for historical rate changes, to represent the expected future loss ratio.

- We assumed that underwriting expenses are relatively fixed and that LAE is variable with respect to losses.

- We assumed that investment income attributable to current reserves applies to the benefit of current policyholders.

Summary and Recommendations

We based our analyses on Program historical data and on current crop year results. The projections are evaluated as of October 31, 2012. Findings and recommendations regarding reserves are summarized as follows:

- The 2012 crop year losses and expenses were $2,021,198 less than premiums.

- Net assets (including premiums receivable) available to cover future catastrophic losses are $11,729,168.

- Assuming 2.0 million acres to be insured during the 2013 crop year at a risk level of $45.70 per acre, and assuming a 5% load to losses to cover loss adjustment expenses (LAE), we estimate that current net assets represent a 99.988% confidence level of being sufficient to cover potential deviations from expected 2013 claims experience. Based on these findings, it is our opinion that the current reserves are actuarially sound.

- It is our opinion that a refund of up to 50% of 2012 premiums does not materially affect the soundness of the current reserves to cover future catastrophic losses. A refund amount in this range would not subject the remaining reserves to material additional risk and yet would provide an incentive to current insureds to remain with the Program.

- We recommend that the possibility of future increased risk, due both to increased number of insured acres and also to possible future coverage increases, be considered in establishing reasonable reserve levels.

Our findings and recommendations regarding premium rate adequacy are as follows:

- Current premium rates are projected to produce a 22.4% underwriting profit and a 23.5% operating profit for the 2013 crop year. Of course, the potential variation from the expected results is significant on a year-to-year basis.

- The Program loss ratio over the past 20 years has trended downward at a rate of –1.6% annually, although the trend appears to be due more to random fluctuation than to any measurable factors, as the indicated trend considering only the most recent 10 years is upward. The claim frequency component has trended downward at an annual rate of –4% while the claim severity component has trended upward at +8%. The increases in coverage levels implemented a few years ago are contributing to the upward trend in claim severity.

- We recommend that the projected need for future premium rate increases continue to be monitored.

Reserve Analysis

Exhibit 1, Sheet 1 details our calculation of the current crop year surplus. Crop year 2012 incurred losses are approximately $4.37 million, and estimated annual incurred expenses are approximately $0.76 million. The crop year premiums of approximately $7.15 million exceed total losses and expenses for this crop year by approximately $2 million. Estimated crop year expenses are derived from actual paid administrative expenses from November 1, 2011 through October 31, 2012 of approximately $341,000, estimated incurred indirect assessments of approximately $167,000, and estimated incurred state and county assessments of approximately $250,000. We assumed that these 12-month expense figures adequately approximate crop year 2012 incurred expenses.

We display in Exhibit 1, Sheet 2 the total reserves available to pay catastrophic losses as of October 31, 2012. The total reserve fund balance is the sum of actual cash balance, interest receivable, travel advance, long term securities, assets invested in the Short Term Investment Pool, premiums receivable, prepaid expenses, all net of liabilities.

Exhibit 1, Sheet 3 displays the estimated distribution of 2013 crop year losses and LAE assuming 2.0 million acres insured at an average risk level per acre of $45.70, and assuming an LAE load of 5%. This distribution is based on 96 years of actual historical Program losses adjusted to the projected 2013 level and

adjusted for a 5% LAE load, and a fitted distribution to the adjusted data. The historical Program data used in our calculations are displayed in the Appendix accompanying this report. The projected 2.0 million acres was conservatively selected based on observed historical patterns. The $45.70 risk figure was selected based on actual figures of between $44 and $46 for the past three years, and the fact that no further coverage increases are contemplated for 2013.

Exhibit 1, Sheet 4 displays the confidence levels of current reserve funds with and without refunds ranging from 10% to 50%, to cover catastrophic claims. The fitted claims distribution indicates that current reserves are at a 99.99% confidence level. This sheet also shows that refunds of 10% to 50% do not materially affect the confidence level of remaining reserve funds available to cover a catastrophic year.

Premium Rate Analysis

The premium rate analysis is documented in Exhibit 2. Exhibit 2, Sheet 1 summarizes our findings, indicating that the current rate level is expected to produce a 22.4% underwriting profit and a 23.5% operating profit for the 2013 crop year. The projected loss ratio is selected as the weighted average 20-year on-level loss ratio. On-level loss ratios were determined from historical loss ratios by adjusting premiums to the current rate level. The projected expense ratio is based on a review of the historical data shown on Exhibit 2, Sheet 2. Projected investment income is based on a 1.0% annual rate of return applied to invested assets of $8.6 million. For simplicity, we assumed that premiums generated from 2013 crop year activity will not generate any investment income.

Exhibit 2, Sheet 2 displays historical underwriting expense ratios and our selected ratio for the 2013 crop year. We note that the 2005 through 2008 expense ratios are lower than for prior years. This appears to be due to the significant increase in premium volume during these years. We also observe that expenses do not vary directly with premiums. We judgmentally selected a 2012 expense ratio of 10.5% based on various averages of actual historical ratios.

Exhibit 2, Sheet 3 shows the 20-year historical claims experience. On-level loss ratios are displayed. Also, on-level loss ratios were fitted to exponential curves to indicate the historical annual trend in loss ratios. Exhibit 2, Sheet 4 displays the frequency and severity components of the loss ratio and their respective trends. Exhibit 2, Sheet 5 displays, graphically, actual and fitted claim frequencies, claim severities, and on-level loss ratios. Loss ratios appear to be trending on average at –1.6% annually, although the trend appears to be due more to random fluctuation than to any measurable factors. The claim frequency component is trending downward while the claim severity component is trending

upward. The increases in coverage levels implemented a few years ago are contributing to this upward trend in claim severity.

Conclusion

We are available to discuss any questions or items regarding this report.

Exhibit 1, Sheet 1
Montana State Crop Hail Insurance Program
Calculation of the 2012 Crop Year Surplus/Deficit

	Dollars	Percent of Premiums
(1) 2012 Year Premiums:	$7,145,383	100.0%
(2) 2012 Year Paid Losses:	$4,366,501	61.1%
(3) 2012 Year Administrative Expenses:	$757,684	10.6%
(4) 2012 Year Total Costs:	$5,124,185	71.7%
(5) 2012 Year Underwriting Surplus/(Deficit):	$2,021,198	28.3%

Notes:

(3) Paid administrative expenses, 11/1/11 - 10/31/12 $340,504
Estimated incurred indirect administrative assessments $167,091
Estimated incurred state and county assessments (3.5% of premiums) $250,088
Total $757,684

(4) = (2) + (3)

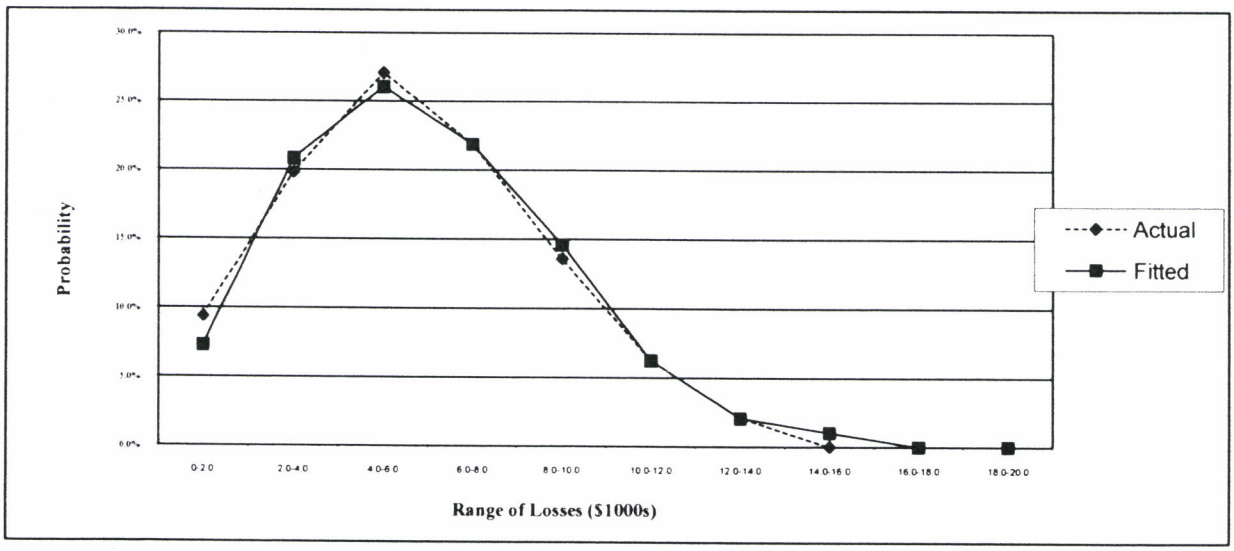
(5) = (1) - (4) Does not include investment income generated during the year.

Exhibit 1, Sheet 2
Montana State Crop Hail Insurance Program
Calculation of Current Reserve Fund
(As of 10/31/12)

Assets:	
(1) Cash Balance:	$44,801
(2) Interest Receivable:	$0
(3) Travel Advance & Prepaid Expenses:	$0
(4) Long Term Securities:	$0
(5) Short Term Investment Pool:	$8,605,219
(6) Outstanding Premiums:	$3,363,473
(7) Total Assets Available (Sum of (1) thru (6)):	$12,013,494
Liabilities:	
(8) Compensated Absences	$34,237
(9) Payments to State/Counties	$250,088
(10) Total Liabilities (Sum of (8) and (9)):	$284,325
Net Assets Available ((7) - (10)):	$11,729,168

Exhibit 1, Sheet 3
Montana State Crop Hail Insurance Program
Probability Distribution of Incurred Losses in 2013

Range of Losses & LAE (in $Millions)	Actual # of Years In Range	Fitted # of Years In Range	Empirical Probability of Losses in Interval	Fitted Probability of Losses in Interval	Empirical Cumulative Probability Distribution	Fitted Cumulative Probability Distribution
0-2.0	9	7	9.4%	7.3%	9.4%	7.3%
2.0-4.0	19	20	19.8%	20.8%	29.2%	28.1%
4.0-6.0	26	25	27.1%	26.0%	56.3%	54.2%
6.0-8.0	21	21	21.9%	21.9%	78.1%	76.0%
8.0-10.0	13	14	13.5%	14.6%	91.7%	90.6%
10.0-12.0	6	6	6.3%	6.3%	97.9%	96.9%
12.0-14.0	2	2	2.1%	2.1%	100.0%	99.0%
14.0-16.0	0	1	0.0%	1.0%	100.0%	100.0%
16.0-18.0	0	0	0.0%	0.0%	100.0%	100.0%
18.0-20.0	0	0	0.0%	0.0%	100.0%	100.0%
Total	96	96	100.0%	100.0%		



Notes:
Distribution based on historical losses projected to 2013 level and including estimated loss adjustment expenses.
Average losses = $5.86 million.

Exhibit 1, Sheet 4
Montana State Crop Hail Insurance Program
Confidence Levels of Available Funds

	Refund Amount	Available Funds	Confidence Level
Current	$0	$11,729,168	99.988%
Less 10% refund	$714,538	$11,014,630	99.975%
Less 20% refund	$1,429,077	$10,300,092	99.950%
Less 30% refund	$2,143,615	$9,585,553	99.904%
Less 40% refund	$2,858,153	$8,871,015	99.821%
Less 50% refund	$3,572,691	$8,156,477	99.676%

Notes:
Current available funds from Exhibit 1, Sheet 2.
Confidence level represents the likelihood that the deviation in actual 2013 losses and LAE from expected amounts will be less than or equal to available funds.

Exhibit 2, Sheet 1
Montana State Crop Hail Insurance Program
Analysis of Rate Adequacy

		Percent of Premiums
(1)	Projected 2013 Loss Ratio:	67.1%
(2)	Projected 2013 Expense Ratio:	10.5%
(3)	Combined 2013 Loss & Expense Ratio:	77.6%
(4)	Indicated 2013 Underwriting Margin:	22.4%
(5)	Projected 2013 Investment Income:	1.1%
(6)	Indicated 2013 Operating Margin:	23.5%

Notes:
(1) See Exhibit 2, Sheet 3
(2) See Exhibit 2, Sheet 2
(3) = (1) + (2)
(4) = 100% - (3)
(5) = 1% of ($8.6 million / $7.9 million).
Assumes invested assets stay level during 2013 at $8.6 million.
(6) = (4) + (5)

Exhibit 2, Sheet 2
Montana State Crop Hail Insurance Program
Expense Ratio Analysis

Crop Year	Underwriting Expenses	Premiums	Ratio
2003	$438,917	$4,000,547	11.0%
2004	$444,344	$4,003,240	11.1%
2005	$512,150	$5,845,572	8.8%
2006	$500,623	$5,175,482	9.7%
2007	$639,700	$7,925,390	8.1%
2008	$685,779	$7,405,099	9.3%
2009	$661,775	$6,253,975	10.6%
2010	$783,292	$7,459,098	10.5%
2011	$705,815	$6,290,064	11.2%
2012	$757,684	$7,145,383	10.6%
Average			10.0%
3-Year Average			10.8%
Selected			10.5%

Notes:
Expenses include loss adjustment expenses.

Exhibit 2, Sheet 3
Montana State Crop Hail Insurance Program
Loss Ratio Analysis

Crop Year	(1) Losses	(2) Premiums	(3) Actual Loss Ratio	(4) On-Level Premiums	(5) On-Level Loss Ratio	(6) Exponential Fit to On-Level 1993-2012	(7) Exponential Fit to On-Level 2003-2012
1993	$ 1,975,595	$ 1,996,387	99.0%	$ 2,030,044	97.3%	76.9%	
1994	$ 733,022	$ 2,138,728	34.3%	$ 2,174,785	33.7%	75.7%	
1995	$ 3,140,158	$ 2,622,528	119.7%	$ 2,666,741	117.8%	74.5%	
1996	$ 1,863,815	$ 2,879,814	64.7%	$ 2,928,364	63.6%	73.3%	
1997	$ 1,557,198	$ 2,817,819	55.3%	$ 2,865,324	54.3%	72.1%	
1998	$ 1,893,114	$ 2,582,146	73.3%	$ 2,625,678	72.1%	71.0%	
1999	$ 2,256,636	$ 2,426,448	93.0%	$ 2,467,355	91.5%	69.9%	
2000	$ 2,928,557	$ 1,888,504	155.1%	$ 1,920,342	152.5%	68.7%	
2001	$ 2,168,046	$ 1,476,007	146.9%	$ 1,500,890	144.5%	67.7%	
2002	$ 1,439,433	$ 1,613,880	89.2%	$ 1,655,256	87.0%	66.6%	
2003	$ 1,361,700	$ 4,000,547	34.0%	$ 4,048,455	33.6%	65.5%	35.4%
2004	$ 1,879,295	$ 4,003,240	46.9%	$ 4,028,860	46.6%	64.5%	38.5%
2005	$ 2,539,537	$ 5,845,572	43.4%	$ 5,845,977	43.4%	63.5%	42.0%
2006	$ 1,142,454	$ 5,175,482	22.1%	$ 5,179,262	22.1%	62.4%	45.8%
2007	$ 6,719,017	$ 7,925,390	84.8%	$ 7,930,616	84.7%	61.5%	49.9%
2008	$ 3,702,885	$ 7,405,099	50.0%	$ 7,409,658	50.0%	60.5%	54.4%
2009	$ 3,812,759	$ 6,253,975	61.0%	$ 6,253,975	61.0%	59.5%	59.3%
2010	$ 7,013,070	$ 7,459,098	94.0%	$ 7,459,098	94.0%	58.6%	64.7%
2011	$ 4,174,093	$ 6,290,064	66.4%	$ 6,290,064	66.4%	57.6%	70.5%
2012	$ 4,366,501	$ 7,145,383	61.1%	$ 7,145,383	61.1%	56.7%	76.8%
Total/Trend	$56,666,886	$83,946,109	67.5%	$84,426,125	67.1%	-1.6%	9.0%
Selected Trend:					NA		
Projected 2013 Crop Year Loss Ratio:					67.1%		

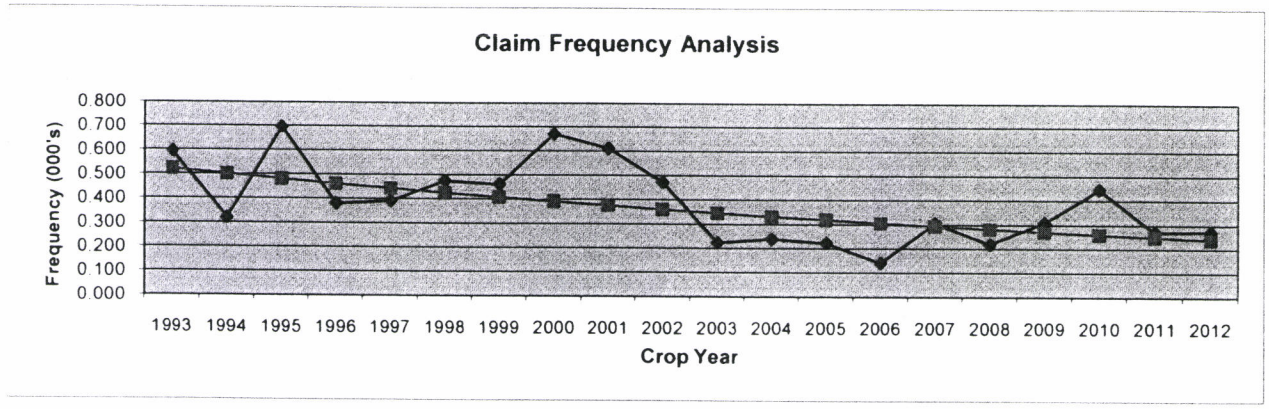
Notes:
(4) On-level premiums = historical premiums adjusted to 2012 rate level.
1.0169 Adjustment to 2001 and prior
1.0256 Adjustment to 2002
1.0120 Adjustment to 2003
1.0064 Adjustment to 2004
1.0001 Adjustment to 2005
1.0007 Adjustment to 2006
1.0007 Adjustment to 2007
1.0006 Adjustment to 2008
1.0000 Adjustment to 2009
1.0000 Adjustment to 2010
1.0000 Adjustment to 2011
(6), (7) Based on historical variability, 0% trend is selected.

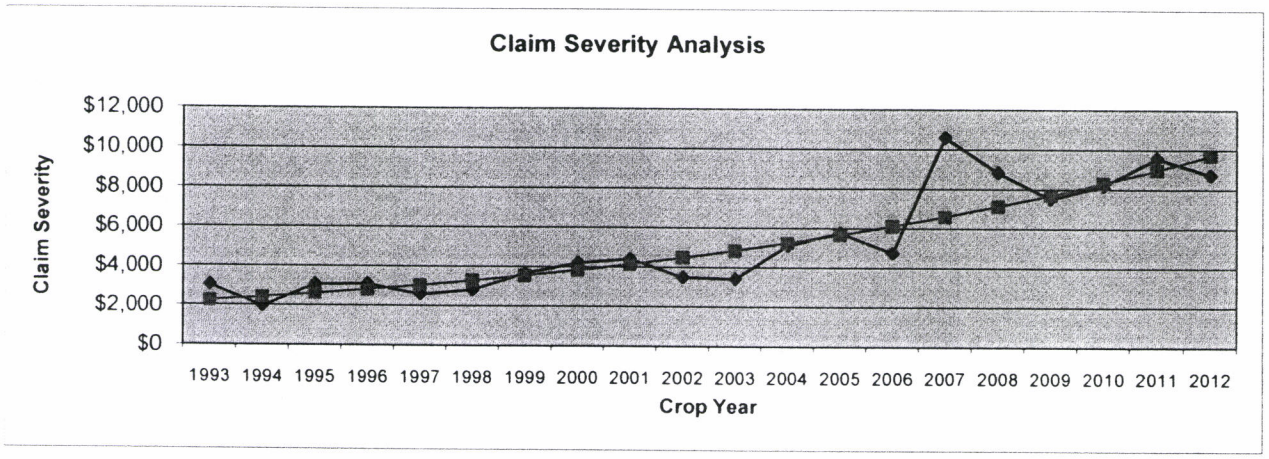
Exhibit 2, Sheet 4
Montana State Crop Hail Insurance Program
Analysis of Claim Frequency and Severity Trends

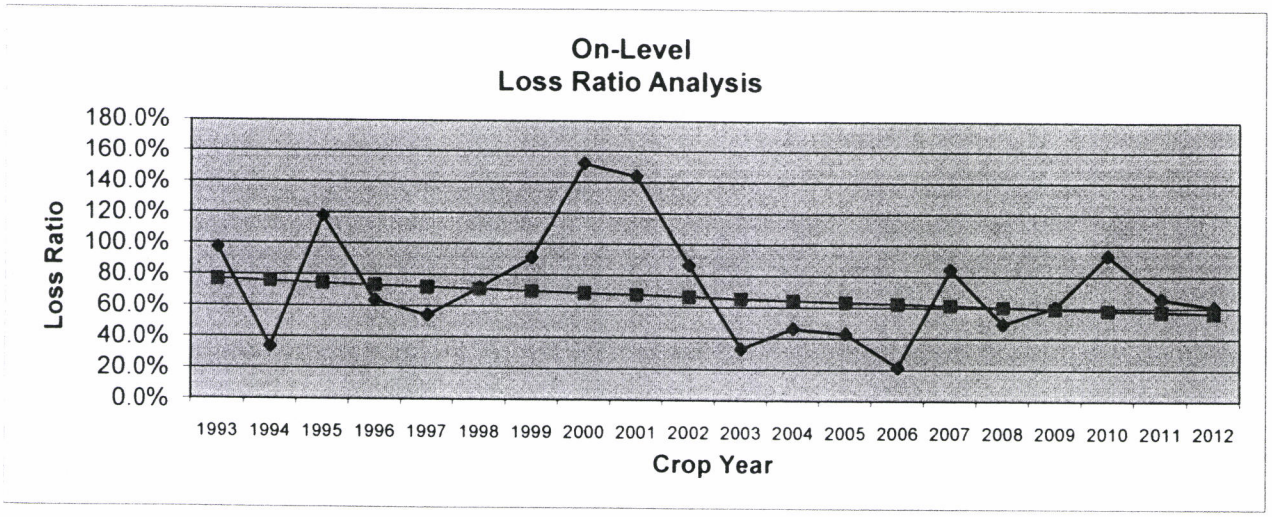
	(1)	(2)	(3)	(4)	(5)	(6)
	Claim Frequency			Claim Severity		
Crop Year	Actual	Exponential Fit to 1993-2012	Exponential Fit to 2003-2012	Actual	Exponential Fit to 1993-2012	Exponential Fit to 2003-2012
1993	0.594	0.523		$3,053	$2,249	
1994	0.321	0.503		$1,955	$2,428	
1995	0.696	0.483		$3,097	$2,623	
1996	0.381	0.463		$3,117	$2,832	
1997	0.393	0.445		$2,600	$3,059	
1998	0.476	0.427		$2,834	$3,303	
1999	0.463	0.410		$3,675	$3,567	
2000	0.671	0.394		$4,226	$3,852	
2001	0.613	0.378		$4,416	$4,160	
2002	0.474	0.363		$3,519	$4,493	
2003	0.226	0.349	0.206	$3,447	$4,852	$4,479
2004	0.241	0.335	0.216	$5,121	$5,240	$4,927
2005	0.225	0.322	0.227	$5,785	$5,659	$5,420
2006	0.142	0.309	0.239	$4,760	$6,111	$5,961
2007	0.308	0.297	0.251	$10,598	$6,600	$6,557
2008	0.221	0.285	0.263	$8,859	$7,127	$7,212
2009	0.312	0.274	0.277	$7,535	$7,697	$7,933
2010	0.448	0.263	0.291	$8,193	$8,312	$8,726
2011	0.274	0.252	0.306	$9,596	$8,977	$9,598
2012	0.276	0.242	0.321	$8,751	$9,694	$10,558
Averages						
1993-2012	0.388			$5,257		
2003-2012	0.267			$7,264		
2008-2012	0.306			$8,587		
Indicated Trend		-4.0%	5.1%		8.0%	10.0%

Notes:
(1) 1000*Number of Claims/Insured Acres
(4) Losses/Number of Claims

Exhibit 2, Sheet 5
Montana State Crop Hail Insurance Program
Analysis of Claim Frequency and Severity Trends







Montana State Crop Hail Insurance Program
Historical Data

Year	(1) Number of Policies	(2) Risk	(3) Premiums	(4) Losses	(5) Acres Insured	(6) Number of Losses	(7) Loss Ratio (4)/(3)	(8) Refund Amount	(9) Refund % (8)/(3)	(10) Risk Per Acre, (2)/(5)	(11) Losses Per Acre (4)/(5)
1917		3,178,402	106,181	61,604	270,787		58.0%		0%	11.74	0.23
1918		8,092,204	404,976	393,798	385,503		97.2%		0%	20.99	1.02
1919		939,441	58,789	55,055	78,452		93.6%		0%	11.97	0.70
1920	2,383	3,216,346	299,731	254,570	270,148	638	84.9%		0%	11.91	0.94
1921	1,204	1,494,479	140,682	152,494	124,977	356	108.4%		0%	11.96	1.22
1922	1,261	1,460,030	136,705	106,119	129,650	376	77.6%		0%	11.26	0.82
1923	1,412	1,240,673	109,470	132,145	126,771	592	120.7%		0%	9.79	1.04
1924	1,025	895,430	74,167	35,058	108,334	215	47.3%		0%	8.27	0.32
1925	1,169	1,158,759	75,637	16,499	115,406	84	21.8%		0%	10.04	0.14
1926	1,136	1,188,748	82,314	25,449	118,889	147	30.9%		0%	10.00	0.21
1927	1,800	1,802,267	149,576	119,464	218,000	484	79.9%		0%	8.27	0.55
1928	1,935	2,008,592	149,847	141,011	248,000	422	94.1%		0%	8.10	0.57
1929	1,649	1,993,974	132,986	27,529	242,854	95	20.7%		0%	8.21	0.11
1930	1,562	2,001,047	145,700	93,315	257,955	249	64.0%		0%	7.76	0.36
1931	234	279,806	22,055	21,871	38,013	48	99.2%		0%	7.36	0.58
1932	1,082	1,072,450	84,511	128,808	162,579	368	152.4%		0%	6.60	0.79
1933	764	630,897	49,487	36,858	109,888	147	74.5%		0%	5.74	0.34
1934	598	532,161	40,569	24,334	74,974	50	60.0%		0%	7.10	0.32
1935	1,545	1,449,100	116,159	145,614	214,595	454	125.4%		0%	6.75	0.68
1936	421	391,122	26,859	600	59,159	7	2.2%		0%	6.61	0.01
1937	530	462,706	35,273	17,791	67,909	66	50.4%		0%	6.81	0.26
1938	2,670	2,505,423	193,007	126,130	357,007	524	65.3%		0%	7.02	0.35
1939	1,195	1,062,243	83,157	42,302	152,321	210	50.9%		0%	6.97	0.28
1940	1,040	919,895	71,454	95,485	136,899	341	133.6%		0%	6.72	0.70
1941	1,971	2,054,557	163,601	145,400	293,999	562	88.9%		0%	6.99	0.49
1942	2,149	2,492,670	197,984	178,911	322,032	533	90.4%		0%	7.74	0.56
1943	3,060	3,594,542	295,494	371,954	453,797	910	125.9%		0%	7.92	0.82
1944	2,294	3,588,231	311,808	360,336	435,126	721	115.6%		0%	8.25	0.83
1945	2,626	4,571,798	392,132	301,263	541,998	389	76.8%		0%	8.44	0.56
1946	2,614	4,268,566	382,318	355,964	510,017	679	93.1%		0%	8.37	0.70
1947	3,197	6,061,199	553,792	406,858	701,012	904	73.5%		0%	8.65	0.58
1948	3,225	6,643,254	584,610	523,894	739,227	696	89.6%		0%	8.99	0.71
1949	1,729	3,365,953	295,622	162,995	376,638	210	55.1%		0%	8.94	0.43
1950	3,093	5,993,270	543,083	134,628	671,340	261	24.8%		0%	8.93	0.20
1951	2,514	5,634,090	494,297	326,566	627,684	424	66.1%		0%	8.98	0.52
1952	1,518	3,500,317	290,960	100,336	375,541	136	34.5%		0%	9.32	0.27
1953	2,961	7,870,126	686,343	421,477	755,928	555	61.4%		0%	10.41	0.56
1954	2,324	5,773,906	503,792	448,221	547,034	657	89.0%		0%	10.55	0.82
1955	2,305	5,428,902	466,206	198,727	513,811	310	42.6%		0%	10.57	0.39
1956	1,247	3,249,738	211,302	217,277	304,109	261	102.8%		0%	10.69	0.71
1957	1,911	4,787,076	406,325	331,432	454,322	427	81.6%	40,633	10%	10.54	0.73
1958	2,083	5,548,902	440,413	143,541	513,192	240	32.6%	132,124	30%	10.81	0.28
1959	2,536	7,135,784	562,468	217,108	656,835	222	38.6%	195,632	35%	10.86	0.33
1960	2,844	8,160,074	652,107	452,654	755,324	515	69.4%	163,027	25%	10.80	0.60
1961	2,009	6,035,661	461,264	570,984	552,735	392	123.8%		0%	10.92	1.03
1962	3,198	8,593,193	690,445	958,755	795,527	965	138.9%		0%	10.80	1.21
1963	2,536	7,346,940	602,966	938,726	674,907	1,055	155.7%		0%	10.89	1.39
1964	2,609	7,460,765	641,786	728,386	690,631	716	113.5%		0%	10.80	1.05
1965	2,323	7,060,927	620,242	550,486	649,124	568	88.8%		0%	10.88	0.85
1966	2,081	6,281,261	554,123	322,877	571,810	316	58.3%	166,236	30%	10.98	0.56
1967	2,234	7,598,010	668,603	140,144	688,976	153	21.0%	267,441	40%	11.03	0.20
1968	2,587	8,987,833	780,046	390,771	805,950	478	50.1%	294,000	38%	11.15	0.48
1969	2,911	9,300,924	826,680	541,089	849,007	483	65.5%	295,813	36%	10.96	0.64
1970	2,657	8,422,974	748,659	296,767	767,967	467	39.6%	434,038	58%	10.97	0.39
1971	3,077	11,498,341	1,009,743	566,388	1,051,764	418	56.1%	312,826	31%	10.93	0.54
1972	2,585	10,177,714	908,297	380,439	939,416	471	41.9%	526,812	58%	10.83	0.40
1973	2,651	11,571,965	1,042,876	142,525	1,066,169	182	13.7%	855,164	82%	10.85	0.13
1974	3,051	15,006,883	1,310,919	804,895	1,348,014	578	61.4%	380,166	29%	11.13	0.60
1975	3,313	16,296,098	1,408,277	1,274,333	1,461,941	938	90.5%		0%	11.15	0.87
1976	2,882	14,842,443	1,299,993	1,116,489	1,333,668	831	85.9%		0%	11.13	0.84
1977	2,146	10,692,679	949,468	335,896	970,757	299	35.4%		0%	11.01	0.35
1978	2,625	17,059,114	1,512,391	1,626,810	1,039,998	912	107.6%		0%	16.40	1.56
1979	1,846	13,567,843	1,189,607	431,771	821,521	245	36.3%	175,546	15%	16.52	0.53
1980	1,326	15,133,911	1,209,283	1,590,523	662,326	439	131.5%		0%	22.85	2.40
1981	2,002	23,542,542	1,987,230	1,978,486	1,043,662	743	99.6%		0%	22.56	1.90
1982	2,138	25,299,339	2,179,350	1,230,694	1,120,740	523	56.5%	1,101,051	51%	22.57	1.10

Year	(1) Number of Policies	(2) Risk	(3) Premiums	(4) Losses	(5) Acres Insured	(6) Number of Losses	(7) Loss Ratio (4)/(3)	(8) Refund Amount	(9) Refund % (8)/(3)	(10) Risk Per Acre, (2)/(5)	(11) Losses Per Acre (4)/(5)
1983	2,251	25,146,238	2,178,891	1,794,862	1,112,673	585	82.4%	433,334	20%	22.60	1.61
1984	2,273	27,055,207	2,370,027	369,708	1,206,834	197	15.6%	2,131,011	90%	22.42	0.31
1985	2,029	24,457,536	2,152,897	1,499,182	1,092,158	538	69.6%	638,505	30%	22.39	1.37
1986	2,861	34,180,835	2,968,198	1,134,795	1,563,961	453	38.2%	1,768,113	60%	21.86	0.73
1987	3,038	34,991,738	3,018,007	713,650	1,595,773	362	23.6%	2,111,046	70%	21.93	0.45
1988	2,244	24,692,265	2,137,452	1,541,108	1,116,578	400	72.1%	637,028	30%	22.11	1.38
1989	3,266	42,724,810	3,661,612	1,446,960	1,946,706	488	39.5%	1,088,829	30%	21.95	0.74
1990	2,827	36,885,205	3,161,800	3,692,434	1,693,060	789	116.8%	0	0%	21.79	2.18
1991	2,293	25,078,472	2,134,804	2,740,660	1,160,056	681	128.4%	0	0%	21.62	2.36
1992	1,669	18,958,636	1,623,514	956,514	869,116	306	58.9%	0	0%	21.81	1.10
1993	1,989	23,560,144	1,996,387	1,975,595	1,089,459	647	99.0%	0	0%	21.63	1.81
1994	1,968	25,274,158	2,138,728	733,022	1,169,751	375	34.3%	429,135	20%	21.61	0.63
1995	2,337	31,476,512	2,622,528	3,140,158	1,456,469	1,014	119.7%	0	0%	21.61	2.16
1996	2,407	34,536,852	2,879,814	1,863,815	1,567,757	598	64.7%	347,765	12%	22.03	1.19
1997	2,272	33,551,599	2,817,819	1,557,198	1,525,269	599	55.3%	841,643	30%	22.00	1.02
1998	2,217	30,421,758	2,582,146	1,893,114	1,402,778	668	73.3%	513,756	20%	21.69	1.35
1999	1,998	28,754,279	2,426,448	2,256,636	1,324,798	614	93.0%	0	0%	21.70	1.70
2000	1,628	22,344,773	1,888,504	2,928,557	1,032,353	693	155.1%	0	0%	21.64	2.84
2001	1,269	17,510,769	1,476,007	2,168,046	801,563	491	146.9%	0	0%	21.85	2.70
2002	1,232	19,015,148	1,613,880	1,439,433	863,153	409	89.2%	0	0%	22.03	1.67
2003	2,395	46,764,162	4,000,547	1,361,700	1,751,570	395	34.0%	395,350	10%	26.70	0.78
2004	2,026	47,203,746	4,003,240	1,879,295	1,521,701	367	46.9%	786,648	20%	31.02	1.23
2005	2,440	68,141,418	5,845,572	2,539,537	1,950,693	439	43.4%	1,724,531	30%	34.93	1.30
2006	2,107	59,918,927	5,175,482	1,142,454	1,686,482	240	22.1%	2,568,768	50%	35.53	0.68
2007	2,556	91,278,055	7,925,390	6,719,017	2,058,886	634	84.8%	788,538	10%	44.33	3.26
2008	2,269	84,935,978	7,405,099	3,702,885	1,890,709	418	50.0%	2,929,163	40%	44.92	1.96
2009	1,996	71,616,272	6,253,975	3,812,759	1,620,543	506	61.0%	1,860,834	30%	44.19	2.35
2010	2,178	85,842,424	7,459,098	7,013,070	1,910,623	856	94.0%	743,180	10%	44.93	3.67
2011	1,943	72,428,597	6,290,064	4,174,093	1,589,112	435	66.4%	1,560,426	25%	45.58	2.63
2012	1,925	82,433,752	7,145,383	4,366,501	1,805,947	499	61.1%	0	0%	45.65	2.42
Totals	195,506	1,672,656,773	143,179,510	97,528,439	77,901,177	43,353	68.1%	29,638,109	21%	21.47	1.25