



# Legislative Background Brief

for the  
Economic Affairs Interim Committee

February 2016

## Board of Hail Insurance

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**Administrative Appointments:** By the Governor

**Administrative Attachment:** Department of Agriculture

**Statutorily Established** - 2-15-3003, MCA. Created in 1917. Powers and duties described in 80-2-201, MCA. Meetings to be held when necessary. Provided rulemaking authority. The governor appoints the presiding officer.

### Board Duties:

- prescribe forms for all the purposes needed to carry out board operations and enforcement of Title 80, chapter 2, part 2, related to the Board of Hail Insurance;
- communicate with Montana producers regarding protection against loss by hail.
- classify risks and set fees for the hail insurance. (80-2-203, MCA);
- determine at the end of a hail season if refunds are due on a pro rata or percentage basis (80-2-222(5), MCA).

### Department Duties:

- collect and deposit fees;
- employ adjusters to appraise crop losses;
- pay crop hail losses.

**Board members.** Five members of which three are public representatives, one is the State Auditor, and one is the director of the Department of Agriculture.

Members/Address	Representing	Term Expires
Gary Gollehon, Brady, chair	public member	5/01/2017
Jim Schillinger, Baker	public member	4/18/2016
Judy Tureck, Coffee Creek	public member	5/01/2018
Ron de Yong	Director, Department of Agriculture	NA
Monica Lindeen	State Auditor/Commissioner of Insurance	NA

### Topics of Interest

- Question of whether the Board of Hail Insurance ought to be administratively assigned to the State Auditor's Office rather than the Department of Agriculture. This question includes whether appropriate oversight is provided as to solvency of the Board of Hail Insurance. Under 80-2-228, MCA, the "board may engage the services of a qualified actuary to conduct an actuarial valuation of the reserve." The same statute also says that the board may not increase fees in any year "so that the addition to the reserve will exceed 5% of the maximum risk written for that year."
- Question of whether the state ought to be involved in hail insurance coverage when federal crop insurance is available.

## Legislation Enacted Regarding Board of Hail Insurance

- HB 189 enacted in 2013 increased the amount of insurance that could be written to a maximum of \$75 from \$50 on nonirrigated land and \$114 from \$76 on each acre of irrigated land. Provided a cap of \$100,000 on what the board could authorize as a transfer to the general fund from the board's enterprise fund.
- SB 162 enacted in 2013 moved the billing and collection duties from the Department of Revenue to the Department of Agriculture and deleted the provision in 80-2-208, MCA, limiting maximum increases to "when the reserve fund is determined actuarially sound."

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- In 2015, HB 453 would have allowed a line of credit or a loan of up to \$100,000 to be secured from the Board of Investments as an alternative or supplement to reinsurance. The bill, had it passed, also would have set a 5-year maximum permissible reserve.

## Audits

The [Financial Compliance Audit](#) for the Department of Agriculture for the two fiscal years ending June 30, 2013, and released in March 2014, pointed out that the Department of Agriculture paid out approximately \$14 million on hail insurance claims in the 2013 hail year, or 260% more than the previous hail year. In 2012 the paid losses were \$3.9 million. The \$14 million withdrawal to cover weather-related crop losses left \$2.56 million in the hail insurance reserves. The audit further noted that the activities of the Hail Insurance Program accounted for 30% of the Department's financial activities. The impact of the reserve depletion, as evaluated by the financial compliance auditors, will be discussed in the next audit, which is not yet available.

## Budget, FY 2016-FY2017

The FY2016-2017 budget included \$60,388 transferred from the Department of Revenue to the Department of Agriculture after the billing and collection duties were moved to Agriculture. The program's budget for FY2016-2017 is \$1.28 million from House Bill 2, which includes indirect charges for Central Services, plus \$14.966 million in statutory appropriation. Hail insurance premiums and claims go in/out of the statutory appropriation.

## Summary of Activities

(First line is 2014, second line is 2015.)

<a href="#">Business Summary 2014</a> (11/1/2013-10/31/2014)		<a href="#">Business Summary 2015</a> (11/1/2014-10/31/2015)		Selected Crops	Acres Insured	Losses Paid
Total Risk Written	\$93,839,672 \$81,233,513	Operating Expenses	\$83,532 \$84,163	Spring Wheat	566,739 429,145	\$3,151,410 \$1,830,137
Premium Charged	\$8,655,089 \$7,545,889	Personnel Expenses	\$289,633 \$264,229	Winter Wheat	428,439 382,568	\$1,968,364 \$2,127,111
Losses Paid	\$7,382,392 \$5,528,762	Reinsurance	\$1,134,558 \$1,486,160	Barley	169,812 162,946	\$756,625 \$506,765
Policies Issued	1,461 1,219	Indirect Costs	\$57,607 \$222,014	Peas	106,807 95,084	\$610,938 \$331,648
Acres Insured	1,402,330 1,221,625	Reinsurance (2014 refund)	(\$170,235)	Durum Wheat	58,340 73,982	\$373,534 \$294,882
Acres Reported Damaged	211,041 200,399			Canola	9,174 12,699	\$130,189 \$90,173
# Losses Paid	391 312			Lentils	16,169 21,788	\$116,764 \$60,699
Loss Ratio	85.3% 73.27%			Safflower	14,002 13,142	\$97,905 \$152,663