



COMMISSIONER OF SECURITIES AND INSURANCE

Troy Downing
Commissioner

Office of the
Montana State Auditor

December 22, 2022

Montana Board of Hail Insurance
PO Box 200201,
Helena, MT 59620-0202

RE: Reinsurance

Dear Colleagues:

As we approach the new year, I wanted to thank every member of the Montana Board of Hail Insurance (the “Board”) and program staffers for the continued excellent work they do on behalf of those who rely upon the critical protections afforded by the Montana Hail Insurance Program (the “Program”).

I am writing, specifically, regarding my concern that Board discussions regarding Program participation in a reinsurance program are given proper and complete consideration. Determining the appropriate level of reinsurance can be challenging even for the most sophisticated insurers.

The purpose of this letter is to express concern that we may be underutilizing resources in arriving at a decision regarding the application of reinsurance. It is my hope that this letter transitions the reinsurance conversation from a binary “yes” or “no” decision, to an analyses-based dialogue that vets the risks, concerns, costs, and potential consequences of the use of this risk-mitigating tool, or, what is an appropriate amount of risk deferral for the Program.

The infusion of American Recovery Plan Act (ARPA) funds significantly improved the Program’s surplus, but I would caution the Board to consult with a qualified actuary, reinsurance intermediary, and to consider the impacted stakeholders, prior to the Program retaining more crop hail risk or deciding against reinsurance altogether. Clearly we have a duty to provide risk coverage that is priced appropriate to risk, palatable to those using the Program, and to avoid unnecessary exposure to potential insolvency.

As the Commissioner of Securities and Insurance (CSI), our office believes reinsurance is a sound insurer practice. In certain circumstances Montana law requires reinsurance. Montanans have entrusted the Board as financial stewards, such that the losses from a single catastrophe would not be shouldered by the program alone. As the Board continues this very important discussion, we respectfully offer the following information for its consideration:

- It is our experience that responsible insurers transfer risk to reinsurers. Because of the complexity of precisely quantifying risks, Montana insurers can leverage the sophistication, modeling capabilities, and more importantly, the financial stability of geographically diversified reinsurers.
- Hail is a high-risk peril. We need only consider the severe hail losses in 2013 that resulted in the near depletion of the Hail Program's premium funding and reserves. While the ARPA funds of approximately \$7.5 million certainly provide additional, and not insubstantial, assets to help manage the program's risk, without reinsurance a single catastrophic hailstorm could wipe out reserves, inclusive of the recently infused ARPA funds.
- Regarding a potential insolvency, per Mont. Code Ann. § 80-2-244(2) and Admin. Rule Mont. 4.4.313, claims are paid pro-rata, on a share-and-share-alike basis, which means that shortfalls in claim payments would remain unpaid until the program reaccumulates sufficient funds. This would have a devastating impact on Montana's farmers, consumers, and local economies.
- Per Mont. Code Ann. § 33-4-502 a farm mutual insurer writing crop hail insurance must purchase reinsurance. The maximum retention allowed is 15% per risk, which is significantly less than the Hail Board's current 30% retention. We argue that a reasonable principle of insurance based on Montana law, regardless of the nature or classification of the insurer, is that acquisition of reinsurance, particularly when insuring high-risk perils like hail, is almost always required to effectively mitigate loss and ensure payment of claims.
- Reinsurance is a relationship-driven business and fewer markets exist today for reinsurance than ever. The Hail Program could face challenges in procuring reinsurance in future years should the Board terminate its present reinsurance relationship.

The importance of reinsurance was underscored by the Montana legislature when it authorized the Board, per Mont. Code Ann. § 80-2-209, to secure reinsurance when it was clearly advisable. I suggest that the Hail Board has a duty to consider all reinsurance options and would benefit from formalizing the reinsurance buying process. The Board should tabulate all relevant claims data for future use. An immediate next step would be to request a quote for an excess-of-loss contract to benchmark against the proposed quota-share contract for crop year 2023.

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In conclusion, I would welcome a dialogue at the next Board meeting, and it is my hope that the Board invites input from a qualified actuary, or similar advisor, along with impacted stakeholders, as we move toward making a better, more-informed decision regarding the Hail Program's future utilization of reinsurance.

Thank you again for your service and for your consideration. Please do not hesitate to call me at 406-444-2006 or email me Troy.Downing@MT.gov with any questions or comments. I look forward to continuing this important discussion.

Respectfully,



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