

DAILY ROLL CALL

BUSINESS & LABOR

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date JANUARY 12, 1987

NAME	PRESENT	ABSENT	EXCUSED
REP. LES KITSELMAN, CHAIRMAN	✓		
REP. FRED THOMAS, VICE-CHAIRMAN	✓		
REP. BOB BACHINI	✓		
REP. RAY BRANDEWIE	✓		
REP. JAN BROWN	✓		
REP. BEN COHEN	✓		
REP. JERRY DRISCOLL	✓		
REP. WILLIAM GLASER	✓		
REP. LARRY GRINDE	✓		
REP. STELLA JEAN HANSEN	✓		
REP. TOM JONES	✓		
REP. LLOYD MCCORMICK	✓		
REP. GERALD NISBET	✓		
REP. BOB PAVLOVICH	✓		
REP. BRUCE SIMON	✓		
REP. CLYDE SMITH	✓		
REP. CHARLES SWYSGOOD	✓		
REP. NORM WALLIN	✓		

MINUTES OF THE MEETING
BUSINESS AND LABOR COMMITTEE
50TH LEGISLATIVE SESSION

The meeting of the Business and Labor Committee was called to order by Chairman Les Kitselman on January 12, 1987 at 8:00 a.m. in Room 312-F of the State Capitol.

ROLL CALL: All members were present.

HOUSE BILL NO. 98 - Allowing a Farm Mutual to Insure Liability Risks sponsored by Rex Manuel. Representative Manuel stated that this bill was at the request of the Cascade Mutual Farm Fire Insurance Company and will give the directors an option to sell liability insurance.

PROPOSONENTS

Herb Pasha, Director of the Cascade Mutual Farm Insurance Company, Highwood. Mr. Pasha stated that there are eight farm mutuals representing most of the state. He said they are limited and can only operate in the rural areas, and sell only property damage insurance, fire, or extended coverage, they sell only in rural areas, primarily the agricultural sector. He stated they want to be able to serve their customers, but are losing them to the major companies. He said they are not trying to compete with the open market, but want to be able to service their customers. Mr. Pasha said they have included in the bill that in order to sell liability insurance someone in the office would have to be a licensed insurance person, and when they do sell liability insurance it will be seeded out to another company or to a reinsurance group.

James W. Borchardt, Examination Bureau, State Auditor's Office. Mr. Borchardt stated that there are 12 farm mutuals, not all of them are in the farm mutual association. He said the surplus of the farm mutual ranges from about 100,000 to about 1.1 million dollars, which is a relatively low surplus base, the assets minus liabilities, which is the net worth. Cascade Mutual Farm Insurance Company indicated to him that they would like to be able to write liability insurance and he had some concerns. He wasn't sure he wanted a small company writing this type of business. He said this bill was modified in early 1980's and what it does is limit the amount of exposure that a farm mutual might have. He explained, suppose a farm mutual has a net worth of 1 million dollars, under this proposal the most that they could lose in one year on liability insurance even if they had massive losses would be 20% of that \$1,000 dollars of

net worth. He said the difficulty that county mutuals are experiencing is that the fire business which they have been very successful in handling in the past on an economical basis is leaving the county mutuals because most farmers and ranchers need both, property insurance and liability insurance, and in some instances, it may have been that the providers of the liability insurance, the out of state companies, have been willing to provide the insurance only if they could have both pieces of the business. He stated this bill would enable the county mutual to provide both pieces and yet have a margin of safety so that their liability would not be endangered.

OPPONENTS

None

QUESTIONS

Rep. Swysgood asked if these insurance companies would fall under the state guaranteed fund. Mr. Borchardt stated they did not at the present time, nor would they under this bill. He said farm mutuals are accessible and in the event of an insolvency or the inability of a farm mutual to pay its obligations, there would have to be an assessment on member policy holders, so the guarantee fund would not be involved.

Rep. Simon asked was the bill requiring that there be one farm mutual insurer that offers liability and is required to have an agent licensed by the state, and did that mean that the company would have only one licensed agent and everybody else that might be dealing with the public would be people that are not licensed by the state of Montana to sell this type of insurance. Mr. Borchardt stated that he would give it that reading, and that his office's intent would be that any farm mutual agent that would be selling liability insurance should be required to be licensed so that you have a level field with all other agents selling liability insurance. He said that anyone selling insurance like that should have proven that he understands what he is selling by having passed the state licensing examination.

Rep. Simon asked Rep. Manuel to explain why he would not want the people licensed to sell this type of insurance, when it is a technical type of job and could a mutual company just have only one licensed agent on their staff and everybody else could be selling but be unlicensed. Rep. Manuel stated that usually it was a one-person office, and if there were two, they should both be licensed. Mr. Pasha clarified that by saying that two out of the eight farm mutuals do have licensed agents in their offices at the present time, but they don't have any sales force in the

field; their sales method is done through the office with the office manager selling the insurance, and up until now, about six of the eight have an office manager that is selling this insurance.

Rep. Simon asked why they would not want those people that are having contact with the public and writing policies licensed by the state so that they can assure that the customer is getting the kind of coverage and protection that they need. Mr. Pasha responded that the direct sale would be done through the office manager that is licensed, and the salesmen do the public relations work.

Mr. Verdon, staff researcher, Legislative Council, referred to the amendment and stated that this doesn't grant a new exemption; the exemption was in the statute that no one in a farm mutual is required to have a license as an agent. He said that this change requires that at least one person in the farm mutual must be a licensed agent to sell liability insurance, and suggested an amendment be added to say, "and any persons who sells liability insurance must be licensed".

Rep. Wallin asked if these policies are inaccessible policies that don't come under the state guaranteed fund, and if in event of losses, the policy holders are automatic holders and are assessed for any shortfall that the company has in making payments. Mr. Borchardt responded that was correct.

Rep. Wallin stated that in a particular case some reference was made to being reinsured, and since the state auditor's office does not do a lot of supervising on this type of activity, how do they know that is reinsured and to what limits and what protection does the common policy holder have that he is not going to be assessed in some large loss. Mr. Borchardt stated that in reference to the question to his office monitoring, their office is in the process of revising the farm mutual annual statements that have to be submitted by March 1 and one of the things that they would include in the event that a farm mutual would be permitted to write liability insurance would be a section of interrogatories that the farm mutual would be required to respond to which would indicate which reinsurers the farm mutual had and what the limit of coverage was from that reinsurer. He said the policy holder would have the assurance of the law, and in the event that the farm mutual wrote liability insurance the officers of the company could provide them with details of just what kind of reinsurance they had and in what amounts.

Rep. Wallin asked how much should the reinsurance be in the company and how would they qualify. Mr. Borchardt stated that these are included in the bill, that a farm mutual

insurer that retains any portion of liability risk shall obtain reinsurance on that liability business, with an insurer authorized to do business in this state, and the farm mutual insurers' maximum aggregate liability for incurred losses on liability coverage retained for any calendar year or contract year, may not exceed the smaller of the \$200,000 or 20% of the farm mutual insurer's surplus as of December 31 of the preceding year.

Rep. Swysgood asked if Mr. Borchardt feels that this bill addresses the situation that there is enough capital on these companies to have adequate reserves to maintain this level of protection. Mr. Borchardt said that he did.

Vice Chairman Thomas asked if there are any membership fees to belong to a farm mutual. Mr. Borchardt said he was not sure.

Vice Chairman asked if if the fund could be depleted in successive years. Mr. Borchardt said that in successive years, you could drain the surplus, but basically with the protection, even massive losses in liability would not make the farm mutual insurer insolvent.

Rep. Wallin stated that the policy holders needed protection so that they wouldn't be subject to further assessment in case of a large loss, and someone came back to the policy holder and demand more money from him. Mr. Pasha said they were trying to provide a basic insurance for these customers and at the same time not risking their potential of the business.

Rep. Wallin asked if they limit the policies to \$500,000 dollars maximum that have been paid, and these suits get to be more than this, how many of those could they afford to pay off before they are insolvent and not be able to cover the other people that are still policy holders. Mr. Pasha replied that under the aggregate situation, they would be pretty well protected.

CLOSING

Rep. Manuel thanked the committee and suggested the amendment that "ceded" be changed to "liability" at the recommendation of the Insurance Division.

EXECUTIVE ACTION - January 12, 1987 - 10:45 a.m.

ACTION ON HOUSE BILL NO. 31 and No. 68

Chairman Kitselman referred House Bill No. 31 and House Bill No. 68 to a subcommittee composed of Representatives Nisbet, Jones, and Glaser, with Rep. Glaser as chairman.

Rep. Swysgood moved to put House Bill No. 31 and No. 68 into subcommittee. Motion carried with Representatives Nisbet, Bachini and Hanson opposed.

ACTION ON HOUSE BILL NO. 98

Rep. Driscoll moved that House No. 98 DO PASS.

Rep. Driscoll moved the amendments made by Rep. Manuel.

Chairman Kitselman recommended that House Bill No. 98 be put into a subcommittee before adopting the amendments. The subcommittee would be composed of Vice Chairman Thomas, Representatives Wallin and Bachini, with Vice Chairman Thomas as chairman.

Rep. Driscoll withdrew his motion.

Rep. Pavlovich moved to put House Bill No. 98 into subcommittee. Motion carried with Representatives Nisbet, Brandewie, Swysgood, McCormick, Bachini, and Hanson opposed.

ADJOURNMENT

The meeting adjourned at 11:00 a.m.



REP. LES KITSELMAN, Chairman

