LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7527 **NOTE PREPARED:** Feb 4, 2003
BILL NUMBER: HB 1692 **BILL AMENDED:** Feb 3, 2003

SUBJECT: Farm Mutual Insurance.

FIRST AUTHOR: Rep. Ripley **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) This bill replaces and repeals the current law concerning farm mutual insurance companies, providing for standard and extended companies. The bill makes conforming amendments. The bill also makes a technical change.

Effective Date: July 1, 2003.

Explanation of State Expenditures: (Revised) The Department of Insurance will experience a negligible increase in workload. This bill increases reporting requirements and creates two new insurance categories. In addition, this bill provides for administrative review of files and transactions of farm mutual companies.

Background Information: This bill establishes two categories of farm mutual insurance companies, standard and extended farm mutual insurance. Under current law, farm mutual insurance companies are not allowed to sell policies in incorporated areas of the state. This bill modifies the restrictions on farm mutual insurance companies regarding the areas in which they can sell their policies.

Under the provisions of this bill, standard farm mutual companies may sell specified insurance policies in all areas of the state except Class 1 cities. Standard farm mutual companies with annual direct written premiums not less than $100,000 can service not more than ten counties. Standard farm mutual companies with annual direct written premiums in excess of $250,000 may vote to service more than ten counties. Extended farm mutual companies may sell insurance in all areas of the state excluding Class 1 cities. Current farm mutual policies issued to individuals in areas currently Class 1 cities may remain in effect.

The bill sets criteria that allow farm mutual insurance companies to obtain a certificate of authority as an extended farm mutual insurance company. A new standard company that has operated for at least three years and has an annual direct written premium of more than $1 M may apply for an extended farm mutual certificate. Extended companies can provide the same types of policies as a standard farm mutual company as well as other kinds of insurance approved by the Commissioner. In addition, this bill allows current farm mutual insurance companies to elect to convert to an extended company if they meet the requirements and the Commissioner approves.

Both standard and extended farm mutual insurance companies are limited to the amount of annual written direct premium they can write and still be certified a farm mutual insurance company. If the amount of annual written direct premium exceeds $10 M, they must apply for certification as a domestic mutual insurance company.

According to the bill, a farm mutual insurance company established after June 30, 2003, must have at least $100,000 in annual direct written premium and 250 applicants for insurance policies prior to issuing an insurance policy.

This bill sets reporting requirements for both standard and extended farm mutual companies. Both standard and extended companies are required to submit reports to the Commissioner each year. These reports shall contain financial information and be accompanied by a filing fee.

There are currently 40 farm mutual insurance companies in the state. All of these would automatically be converted to a standard farm mutual company if this legislation is implemented. It is anticipated that less than 10% of these companies would seek certification as an extended company in the first year. As time progresses, more standard companies may seek the extended certification. Department staff anticipate that administrative costs associated with overseeing these new extended companies would be minimal.

The funds and resources required to administer any additional workload could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; (5) Funds derived from filing fees or (6) New appropriations.

Explanation of State Revenues: This bill requires farm mutual insurance companies to pay filing fees periodically. All farm mutual insurance agents must obtain an insurance producer license from the state. It is estimated that between 50 and 60 agents would require licensure at a cost of $40 per license (license is good for four years) for total additional revenue of $2,000 to $2,400. The filing and license fees are to be deposited in the General Fund and the Department of Insurance Fund.

In addition, the Commissioner may levy a civil penalty not in excess of $10,000 if the Commissioner determines that a farm mutual insurance company has violated certain provisions set in statute. Civil penalties are to be deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Insurance.

Local Agencies Affected:

Information Sources: Susan Andrews, Executive Vice President, Mutual Insurance Companies Association of Indiana, (317) 848-5067; Cynthia Donovan, Manager of Securities and Financial Services Operations, Department of Insurance, (317) 232-2408.

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