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FIRE AND TORNADO FUND AND BONDING FUND - ASSESSMENTS, PREMIUM WAIVERS, AND LOAN OPTIONS

This memorandum reviews statutory requirements relating to fire and tornado fund premium assessments and bonding fund premium waivers and provides an option to allow more longer term investments of these funds.

FIRE AND TORNADO FUND

North Dakota Century Code Section 26.1-22-14 (attached) provides that if the balance in the fire and tornado fund is less than \$12 million, the Insurance Commissioner shall levy an assessment against every policy in effect in accordance with the formula included in the section in order to return the balance to \$12 million.

The Insurance Commissioner would utilize the following procedures to determine the assessment:

1. Calculate the amount necessary to provide a \$12 million balance in the fund.
2. Calculate the Insurance Services Office (ISO) rate for fire and tornado fund policies. The ISO rates use standardized criteria to determine the premium amount that should be charged on an insurance policy. Major items used in determining the rate are the type of building, the use of the building, and the location of the building.
3. Determine the percentage of the ISO rate that should be imposed on all policies to generate the funding necessary to bring the fund balance to the \$12 million level.

For example, if the fire and tornado fund balance dropped to \$10 million, the following items would be considered by the Insurance Commissioner in determining the assessment amount:

1. The Insurance Commissioner would determine that \$2 million must be generated from the assessment to return the fire and tornado fund balance to \$12 million ($\$12 \text{ million} - \$10 \text{ million} = \2 million).
2. The fire and tornado fund currently charges, as its regular premium rate, 15 percent of the ISO rate which generates approximately \$3 million per year.
3. The ISO rate would be determined for all policies insured by the fire and tornado fund ($\$3 \text{ million} \div 15 \text{ percent} = \20 million).
4. The assessment needed to be imposed on each policy to generate the \$2 million needed would be 10 percent of the ISO rate

($\$2 \text{ million} \div \$20 \text{ million} = 10 \text{ percent}$). Therefore, each policy's rate for the year would be increased by 67 percent ($10 \text{ percent} \div 15 \text{ percent} = 67 \text{ percent increase}$).

BONDING FUND

North Dakota Century Code Section 26.1-21-09 (attached) provides that beginning July 1, 1953, bonding fund premiums be waived until the bonding fund balance drops below \$2.5 million. If the fund balance drops below \$2.5 million, premiums, as determined by the Insurance Commissioner, must be collected until the fund balance is \$3 million, at which time all premiums are again waived until the fund balance drops below \$2.5 million.

LOAN OPTION

As an option for increasing investment returns on the fire and tornado fund and bonding fund, provisions could be added in statute that would enable the Insurance Commissioner to invest more fire and tornado fund and bonding fund moneys in longer term investments. This could be accomplished by authorizing the Insurance Commissioner to obtain loans from the Bank of North Dakota to pay major claims or other major payments which may arise until the moneys invested are available.

The schedule below presents the claims paid from the fire and tornado fund and bonding fund since 1991:

Fiscal Year Ending	Fire and Tornado Fund	Bonding Fund
1996	\$4,400,111	\$320,261
1995	1,713,796	207,840
1994	847,867	173,673
1993	758,117	30,726
1992	429,257	50,406
1991	523,108	
Total	\$8,672,256	\$782,906

The schedule below presents the fiscal year-end balance of the fire and tornado fund and bonding fund since 1991:

Fiscal Year Ending	Fire and Tornado Fund¹	Bonding Fund²
1996	\$14,546,818	\$3,722,552
1995	13,384,455	3,477,185
1994	20,557,570	5,966,324
1993	23,883,277	6,391,757
1992	21,995,864	6,019,814
1991	18,526,923	5,444,202
¹ Estimated income of the fire and tornado fund for the 1997-99 biennium includes:		
Premium collections	\$5,260,000	
Investment income	1,200,000	
Boiler inspection fees	200,000	
Reinsurance recovery	1,000,000	
Loss claims recovery	<u>15,000</u>	
Total	\$7,675,000	
² Estimated income of the bonding fund for the 1997-99 biennium includes:		
Investment income	\$378,690	
Claims collections	50,000	
Other income	<u>5,000</u>	
Total	\$433,690	

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