Illinois Department of Insurance

JB PRITZKER
Governor

DANA POPISH SEVERINGHAUS
Director

TO: All Farm Mutuals Writing Property and Casualty Insurance in Illinois

FROM: Dana Popish Severinghaus, Director dps

DATE: November 17, 2023

RE: Company Bulletin 2023-15 Farm Mutual Coverage

This Bulletin serves as notice that the Governor has signed SB 765 into law with immediate effect. Accordingly, all companies subject to the Farm Mutual Insurance Company Act of 1986 (215 ILCS 120/10), reinsurance companies operating under Article XI of the Insurance Code, and reinsurance brokers should proceed expeditiously in securing reinsurance contracts and coverage compliant with the requirements set forth in the Act.

This Bulletin provides further clarification to the changes to the Farm Mutual Insurance Company Act. Farm mutual insurance companies insuring against the perils of wind or hail must have and maintain adequate catastrophic reinsurance. The forthcoming Act defines "adequate catastrophic reinsurance[1]" as reinsurance in an amount no less than that required for a 500-year event, based on an actuarially sound catastrophe model that limits the company's exposure on any one loss occurrence to 20% of its policyholders' surplus or an amount authorized by the Director of Insurance.

The Act provides that a farm mutual insurance company must additionally have and maintain aggregate reinsurance[2] coverage in an amount no less than that required for a 250-year event, based on an actuarially sound catastrophe model.

The reinsurance permitted or required under the provisions must be provided by (i) a farm mutual insurance company, (ii) an insurance company authorized to write the kinds of insurance described in the Illinois Insurance Code pertaining to casualty, fidelity, surety, fire, marine, and other types of insurance, or (iii) a reinsurer and reinsurance program meeting the standards set forth in Article XI of the Illinois Insurance Code that permit a domestic company to take credit for reinsurance.
The new law also provides a sunset provision of five years, at which time all new language will revert back to the original FMA of 1986 language unless further legislative action is taken.

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[1] Catastrophe excess reinsurance protects catastrophe insurers from financial ruin in the event of a large-scale natural disaster. It indemnifies the ceding company for the accumulation of losses in excess of a stipulated sum arising from a single catastrophic event or series of events.

[2] Aggregate stop-loss reinsurance caps the aggregate amount of losses for which a ceding company is responsible during the contract period. Once losses go above the attachment point (specified cap), the reinsurance company is responsible for excess losses.

I. Amount of Required Surplus

Pursuant to the discretion provided by Section 120/10(a)(2) of the Code, a company may apply to increase the permissible limits of the company's exposure. A company shall submit a request to the Director and provide necessary documents information to support the reasonableness of the request.

II. Notice to Policyholders

Within 30 days of this notice, a farm mutual shall issue notice to its policyholders of its conversion (if applicable) from unlimited catastrophic reinsurance to adequate catastrophic reinsurance under Section 120/10(a)(2) of the Code. The notice shall include, but not be limited to, the following language: "In accordance with recent changes by the Illinois General Assembly through SB 765, (INSERT FARM MUTUAL NAME) will be transferring its reinsurance coverages from unlimited occurrence coverage to adequate catastrophic reinsurance pursuant to Section 120/10(a)(2) of the Code." The complete form of notice is subject to approval by the Director. Policyholders may be notified by the farm mutual via U.S. mail, email, or appropriate electronic means.

Questions about this Bulletin may be directed to DOI.InfoDesk@illinois.gov.