

**Market Conduct Examination Report  
of National Crop Insurance Services, Inc.**

(NAIC Company Code 98003)

8900 Indian Creek Parkway #600

Overland Park, Kansas 66210

As of December 5, 2019

## Table of Contents

Salutation .....	1
Executive Summary.....	2
Purpose and Scope of Examination .....	3
History and Profile .....	4
Methodology.....	7
Examination Results.....	8
A. Advisory Organizations Operations Management .....	8
B. Statistical Plans .....	17
C. Data Collection and Handling .....	19
D. Correspondence with Insurers and States.....	22
E. Reports, Report Systems, and Other Data Requests .....	25
F. Ratemaking Function .....	26
G. Classification and Appeal Handling .....	27
H. Form Development.....	27
I. Inspection Services .....	28
J. Residual Market Functions-Plan Administration .....	29
K. Residual Market Functions-Reinsurance Administration .....	29
Operations/Management .....	30
Summary of Recommendations.....	35
Examiner’s Signature and Acknowledgement .....	37

## Salutation

February 28, 2020

Larry D. Deiter, Director  
South Dakota Division of Insurance  
124 S Euclid Ave  
Pierre, SD 57501

Scott A. White, Commissioner  
Bureau of Insurance  
Tyler Building, 6th floor  
1300 E. Main St.  
Richmond, Virginia 23219

Dear Director Deiter and Commissioner White:

Pursuant to your instructions and in accordance with SDCL § 58-24-59, SDCL Ch. 58-3, and § 38.2-1925 of the Code of Virginia a market conduct examination (“MCE”) of National Crop Insurance Services, Inc. (“Company” or “NCIS”) has been conducted. The following draft report on the findings of this examination is herewith respectfully submitted.

## Executive Summary

The primary purpose of this comprehensive multi-state market conduct exam was to determine if NCIS is compliant with state laws and regulations governing its conduct and performance in its regulated functions. The exam reviewed applicable processes and procedures in use January 1, 2014 through December 31, 2018. Off-site fieldwork began September 16, 2019 and concluded November 30, 2019.

The following areas from Chapters 20 and 29 of the 2019 National Association of Insurance Commissioners (“NAIC”) Market Regulation Handbook were reviewed:

- Advisory Organizations Operations/Management
- Statistical Plans
- Data Collection and Handling
- Correspondence with Insurers and States
- Reports, Report Systems, and Other Data Requests
- Ratemaking Functions
- Classification and Appeal Handling
- Form Development
- Residual Market Functions-Plan Administration
- Residual Market Functions-Reinsurance Administration
- Operations/Management

In total, 58 standards in the above-referenced areas were reviewed. NCIS adequately met 57 of the 58 standards; however, NCIS failed 1 of the 58 standards. The failed standard is listed below:

### **Correspondence with Insurers and States-Standard 5**

Each NCIS statistical summary document includes an exhibit summarizing the accepted data for each individual company. However, the report provided does not include an exhibit of the excluded data for each company *for the current and prior two annual reports*, as required in section 2.4 (b) of the NAIC Statistical Handbook of Data.

### **Subsequent Company Action**

After the finding was presented to the Company and based on conversations with the lead states, the Company modified the exhibit to include the missing excluded data for each company. The Company agreed to use the modified exhibit to disclose all companies with any excluded data in the annual statistical summaries submitted to the states going forward.

## **Purpose and Scope of Examination**

The Advisory Organization Examination Oversight (C) Working Group of the National Association of Insurance Commissioners initiated a comprehensive multi-state MCE of the National Crop Insurance Services, Inc. to ensure it is compliant with state laws and regulation in performing its regulated functions.

South Dakota and Virginia took the lead role for this examination on behalf of all other NAIC participating states.

The scope of the MCE focused on examination standards for advisory organizations in the following areas:

- Advisory Organizations Operations/Management
- Statistical Plans
- Data Collection and Handling
- Correspondence with Insurers and States
- Reports, Report Systems, and Other Data Requests
- Ratemaking Functions
- Classification and Appeal Handling
- Form Development
- Inspection Services
- Residual Market Functions-Plan administration
- Residual Market Functions-Reinsurance Administration
- Operations/Management

## History and Profile

National Crop Insurance Services, Inc. (“NCIS”) is an international not-for-profit organization representing the interests of private crop insurance companies. “NCIS’ members” are the direct link to production agriculture in America. NCIS is licensed in all states except Alaska and the District of Columbia. In 2018, “NCIS’ members’ sold 1.1 million policies with an insured value of nearly \$136 billion.

NCIS has served agriculture through its member companies since 1915. In 1989, its role in the industry was enhanced when two organizations, the Crop-Hail Insurance Actuarial Association (“CHIAA”) and the National Crop Insurance Association (“NCIA”), merged to form the modern-day NCIS structure.

Today, private-sector NCIS member companies, in partnership with the government, provide a complex risk management safety net to every producer in America choosing to participate.

NCIS members write Crop-Hail Insurance, Multi-Peril Crop Insurance (“MPCI”), the federally-subsidized risk management program, and privately developed risk management products.

Extensive data collection and information management is the backbone of NCIS’s ability to respond to member needs. NCIS assists the crop industry in meeting the regulatory requirements of the states. On behalf of its members, NCIS collects and manages data and information, conducts research and analysis, and serves as a licensed statistical agency for the Crop-Hail program.

NCIS is often challenged with the task of analyzing proposed legislative changes to determine industry effectiveness. Developing actuarial scenarios, testing the data and reporting the findings to the Federal government assist with the decision-making process and helps prevent unintended risk to production agriculture.

NCIS’ education arm conducts educational and professional forums for its members. More than 3,500 individuals attend these annual sessions on claims adjustment, ethics, policy and procedures.

NCIS has four separate classes of membership:

- A Full Member consists of either an insurance company writing primary coverage for crop insurance or rain insurance; an affiliated group of insurance companies that write primary coverage for crop insurance or rain insurance under common management in their general insurance operations; or a managing general agent for one or more insurance companies that write primary coverage for crop insurance or rain insurance.

- A Service Member is the same as a Full Member but elected to subscribe for some, but not all, of the assessment-based services offered by NCIS.
- International Insurance Company Service Members are those organizations that are engaged in the writing of primary coverage outside the United States as their principal activity related to the crop insurance industry.
- Organizational Associate Members are organizations not engaged in the writing of primary coverage but have an interest in crop insurance or rain insurance.

Policy direction and overall responsibility for NCIS affairs rests with its Board of Directors. The following standing committees assist the Board of Directors:

- Audit Committee
- Communications and Outreach Committee
- Crop-Hail Actuarial & Statistics Committee
- Crop-Hail Policy, Procedure and Loss Adjustment Committee
- MPCI Policy, Procedure and Loss Adjustment Committee
- Nominating Committee
- Program Development Committee
- Technology & Information Processing Committee
- Training & Education Committee
- Underwriting and Operations

These committees are made up of member company's personnel who are appointed on the basis of their particular experience and expertise. Standing committee recommendations are presented to the Board of Directors for final action.

In addition to the standing committees, eighteen regional and state crop insurance committees help NCIS stay in touch with local developments in agriculture and insurance. They meet periodically and make recommendations to the Board of Directors based on the specific needs in their areas.

Although the Board of Directors sets the general policy of NCIS, the president and staff are responsible for implementing the Board of Directors' policies. NCIS has approximately forty employees at its Corporate Headquarters in Overland Park, Kansas, which is its only office.

NCIS also has a wholly owned subsidiary, Ag International Insurance Research Services, Inc., which was incorporated on July 12, 2000. Ag International Insurance Research Services, Inc. is a taxable corporation formed to utilize NCIS expertise in actuarial, statistical, and economic analysis, agricultural production practices and risk management, agronomic research, legislative and program requirements, existing policies and plans of insurance, underwriting and loss adjustment procedures, and data reporting requirements directly related to the federal crop insurance program, to provide independent development or evaluation of new or modifications of current policies or plans of insurance to be offered as federally reinsured crop insurance.

Two types of crop insurance are available to farmers in the United States:

- Multi-Peril Crop Insurance (MPCI), available through the Federal Government; and
- Crop-Hail insurance, available from private carriers.

MPCI covers loss of crop yields from all types of natural causes including hail, drought, excessive moisture, freeze, and disease. Newer coverage options combine yield protection and price protection to protect farmers against potential loss of revenue, whether due to low yields or changes in market price. MPCI is federally supported and regulated and is sold and serviced by private sector crop insurance companies and agents. The Federal government also subsidizes the farmer-paid premiums to reduce the cost to farmers. They also reimburse private insurers to offset operating and administrative costs that would otherwise be paid by farmers as part of the premium.

Crop-Hail insurance policies are not part of the Federal crop insurance program. These are provided directly to farmers by private sector insurers and are regulated by individual state insurance departments. Many farmers purchase Crop-Hail coverage because hail has the unique ability to totally destroy a significant portion of a planted field while leaving the rest undamaged. These losses are often not indemnified under MPCI policies because the damages fail to exceed the MPCI policy deductible.

## **Methodology**

The MCE was conducted in accordance with the standards and procedures established by the NAIC. Forty-one standards from 9 areas shown in Chapters 20 and 29 of the 2019 Market Regulation Handbook were the primary basis of review. These specific areas are listed in the preceding Purpose and Scope of Examination section.

The examiners relied heavily on the review of documents and procedures, walkthroughs of processes, and interviews with key administrative and operational personnel. Most of the MCE was conducted off-site. Sampling criteria, when applicable, is detailed in the relevant Examination Results section.

This Report lists those scope areas and the relevant standards reviewed. Some standards are applicable to more than one scope area and reference is made accordingly.

The result of the examiners' review of each standard can be either "Pass" or "Fail."

## Examination Results

### A. Advisory Organizations Operations Management

The evaluation of standards in this area is based on a review of NCIS's responses to document requests, questions, interviews, and presentations made to the examiners. This portion of the MCE is designed to verify that NCIS maintains procedures for providing regulated services that are in accordance with applicable statutes, rules, and regulations.

#### Standard 1

The advisory organization has implemented written policies and procedures to prevent anti-competitive practices in the insurance marketplace, as related to its services and communications to insurers.

**Result:** Pass

**Examiners' Observations:** The examiners reviewed documentation and presentations on anti-competitive practices supplied by the Advisory Organization to ensure compliance and no exceptions were noted.

The examiners noted the following controls were in place to address the requirement and verified their use:

- NCIS Antitrust Compliance Manual
- Antitrust Compliance in the Trade Association World
- Federal Sentencing Guidelines – Effective Compliance and Ethics Program
- Antitrust Notice
- Trade Association Antitrust Compliance
- U&O and Claims Managers Antitrust presentation

#### Standard 2

The advisory organization uses sound actuarial principles for the development of prospective loss costs.

**Result:** Pass

**Examiners' Observation:** The examiners reviewed documentation supplied by the Advisory Organization and interviewed NCIS staff to determine compliance. The NCIS process is as follows:

- New Final Average Loss Costs (“FALCs”) are developed by NCIS staff and then in most cases reviewed by the Crop-Hail Actuarial and Statistics Committee. The responsibility of the committee is to ensure that the FALCs are calculated accurately and are consistent with the methodologies approved by the Committee. NCIS’s senior staff also performs spot checks of the FALCs as needed. FALCs are then reviewed by the Program Development Committee, and finally by the Board of Directors. NCIS anti-trust procedures are followed throughout this process. Once the FALCs have been accepted, the vice president of actuarial applications and insurance filings prepare and submit the filing to the state insurance department(s).

Documents reviewed include rate filings and papers written by NCIS senior management on rate making. They are the following:

- Crop-Hail Insurance Rate Making
- Development of Policy Form Factors
- Rain Insurance 2018 Filing Memorandum
- Production Plan Adjustment for Trended and Excluded Yields

### **Standard 3**

The advisory organization prepares, submits filings as necessary, adheres to applicable state filing and/or approval requirements and written procedures prior to distribution of prospective loss costs, policy forms, endorsements, factors, classifications or rating rules manuals.

**Result:** Pass

**Examiners’ Observations:** The examiners reviewed documentation supplied by the Advisory Organization which explains their process and spoke with NCIS staff. No exceptions were noted.

- New forms are developed by NCIS staff and must be approved by various industry committees, including the Crop-Hail Policy, Procedure, and Loss Adjustment Committee, the Program Development Committee, and finally by the Board of Directors. Once it receives final approval, the form is provided to the vice president of actuarial applications and insurance filings, who prepares and submits the filing to the state insurance department(s).
- Filings are made on the System for Electronic Rate and Form Filing (“SERFF”) or other state approved filing system. NCIS has implemented SERFF in any jurisdiction in which it is available. SERFF is used in all states except Florida where the state proprietary filing system, I-File is used.
- Staff periodically checks the status of the SERFF filing process, often several times a day. Staff also maintains an Excel worksheet to track filing status and to use as a communication tool with member companies.

- NCIS follows mandated time requirements, if applicable. The Advisory Organization advised the examiners that they file loss costs, forms and rules with sufficient time to meet the desired approval date.
- NCIS is responsive to state filing analysts' questions regarding the filings.
- The loss costs, forms and rules distributed by the Advisory Organization are the same as those filed with the applicable state insurance departments.
- NCIS provides accurate information to its member companies related to the status of the state's approval of the filing and approved usage date of prospective loss costs, rules and forms, factors, or classifications in a timely manner.
- Instructions are included in the Advisory Organization's manual for all prospective loss costs, policy forms, endorsements, factors, classifications, or rating rules.

**Standard 4**

Experience rating factors are developed in a correct and timely manner.

**Result:** N/A

**Examiners' Observations:** Experience rating is not used in the crop insurance program.

**Standard 5**

The advisory organization performs thorough and meaningful inspections and research when required for individual insured rating classification.

**Result:** N/A

**Examiners' Observations:** NCIS develops loss costs for individual crops. See Standard 6 for a more in-depth response on how the Advisory Organization develops loss costs.

**Standard 6**

The advisory organization develops sound, understandable and appropriate risk classifications.

**Result:** Pass

**Examiners' Observations:**

- Crop classifications are the closest analogue to rating classifications in the crop insurance program.
- NCIS develops loss costs for individual crops.
- In certain cases, crops may be grouped together into classes for the analysis of loss cost experience. A listing of the crops in each class is included in the NCIS Final Average Loss Cost Manuals filed with the states.

- Crop classes are based on the similarity of their agronomic characteristics as established by the Advisory Organization staff agronomists.
- An example of two separate crop classes that are now in a single loss chart are early and mid-season white potatoes and late season white potatoes.

**Standard 7**

Loss control services are effective and based on valid risk management, engineering and scientific evidence.

**Result:** N/A

**Examiners' Observations:** NCIS does not provide loss control services.

**Standard 8**

The advisory organization conducts ongoing research and review of state insurance laws and insurance related case law in order to be responsive to necessary changes in prospective loss costs, policy forms, endorsements, factors, classifications or manuals, as applicable.

**Result:** Pass

**Examiners' Observations:** The examiners confirmed through their review of documents and discussions with NCIS that procedures and protocols are in place to monitor the regulatory environment for actions that may require changes.

- NCIS has a staff member whose role is to review state websites, SERFF, and other sites to ensure the Advisory Organization is capturing any recent changes in laws, regulations, or bulletins in states in which NCIS is doing business.
- In addition, NCIS reviews any information obtained by member companies.
- NCIS communicates changes to its member companies through bulletins and at training meetings conducted during the year.
- NCIS provided an industry "train the trainer" presentation outlining nationwide form changes. This presentation took place at the 2018 Spring Train the Trainer Conference.
- Various samples were provided for review between 2016-2019.

**Standard 9**

The advisory organization uses objective and established procedures when administering assigned risk.

**Result:** N/A

**Examiners' Observations:** NCIS does not have assigned risk.

**Standard 10**

When performing analysis and impact studies of proposed legislation, the advisory organization presents thorough and objective information.

**Result:** N/A

**Examiners' Observations:** NCIS has not prepared legislative impact studies during the past five years due to the absence of any recent legislative changes affecting the Crop-Hail program.

**Standard 11**

The advisory organization has an up-to-date, valid internal or external audit program.

**Result:** Pass

**Examiners' Observations:** A procedural review including a process walk through with NCIS key employees was conducted. The examiners reviewed various audit related documents including IT reports, annual Comprehensive Annual Analysis (CAA) Information Requests, as well as Crop Hail reports.

- NCIS reviews IT reports to ensure state data received in the File Transfer Protocol server matches the final data that is loaded onto the production data base once the majority of the data has been loaded and the state has closed its data file for the year.

The following reports were reviewed:

- Four Kansas CAA reports between 2016- 2019.
- Global IT Risk Vendor Assessment Questionnaire
- 2015 Target Market Conduct Exam Final Report
- 2016 Crop Hail Data Review Results

**Standard 12**

The advisory organization has appropriate controls, safeguards, and procedures for protecting the integrity of computer information.

**Result:** Pass

**Examiners' Recommendation:** Examiners reviewed the NCIS Information Systems Policy and feel the Advisory Organization has adequate controls in place.

**Examiners' Observations:** NCIS has appropriate controls and safeguards in place for the integrity of computer information, which are maintained on a departmental basis. A procedural review, which included a review of the facility at NCIS, confirmed the following:

### **Physical Security**

- All servers are housed in a secure computer room. The room is locked at all times. Network switches and communication equipment are in a locked room within the computer room. Server consoles are locked with password protection. Access is limited to IT personnel only.
- The computer room is equipped with two supplemental HVAC units, separate from the building HVAC system, to maintain optimum temperatures for server performance. The computer room is also equipped with a standard sprinkler system for protection against fire.

### **Software Security**

- NCIS uses a CISCO firewall to protect servers from unauthorized outside access.
- Servers are kept up to date with the most current security patches.
- NCIS uses anti-virus and anti-spam software on all servers that members use for uploading and downloading data.
- NCIS does not allow staff to set up a File Transfer Protocol ("FTP") site on any workstation. Because of the strict router configuration staff who need to use FTP to retrieve files from FTP sites on the WEB must use Passive File Transfer Protocol. NCIS has a freeware package called WSFTP that works for accessing FTP sites safely.
- SQL Server security is utilized and only authorized NCIS employees have access to Administrator passwords.

### **Access Security**

Password policies are in place. All users have usernames and passwords. Access from outside the NCIS network is restricted and limited to specific servers by username and password protection.

### **Database and Program Security**

- Each database is monitored by a Database Administrator ("DBA"). Only DBAs can change databases. Users have permission to change data within a database according to business needs.
- File and share level permissions are used to control access to files and data on NCIS servers.
- Programs are developed on test servers before being moved to production servers. All code is saved to secured production libraries. Programmers develop code in a

testing environment. Users and programmers test each new application. Upon completion of testing, management approves deployment. Developers work with the IT staff to deploy the final product. All changes to a finished application must be authorized and documented.

### **File and Data Backup**

- **File servers:** Weekly full backup and daily incremental backup.  
**Databases:** Daily full backup and weekly image backup. Critical databases are backed up every 2 hours.  
**Email:** Daily full backup.  
**User computers:** Weekly full backup and daily incremental backup.
  - Weekly backups are made to tape and are stored on-site. Daily incremental backups are made to an on-site hard drive. On the 1st and 15th of each month, a full set of backup tapes is transferred to off-site storage in climate-controlled caves near Kansas City, Kansas.
  - Backup tapes and files are regularly test-restored.

<p style="text-align: center;"><b>Standard 13</b></p>
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<p style="text-align: center;">The advisory organization has a valid disaster recovery plan.</p>
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**Result:** Pass

**Examiners' Recommendation:** There is no time requirement around when to review the disaster recovery plan. However, NCIS should regularly review its disaster recovery plan for continued accuracy, increased comprehensiveness and update, as needed, to ensure its validity.

**Examiners' Observations:** The examiners reviewed the Business Continuity Plan ("BCP") which included a disaster recovery plan. The plan was created in January 2018 and updated on January 30, 2019. The plan will be reviewed and updated in Q1 of each year going forward. Objectives and highlights of the current plan include:

BCP Objectives

- Protect NCIS personnel, visitors, and members
- Maintain command, control, and direction during emergencies
- Reduce disruptions to operations
- Protect essential facilities, equipment, records, and other assets
- Assess and minimize damage and losses
- Provide organizational and operational stability
- Facilitate decision-making during an emergency

- Achieve an orderly recovery from emergency operations
- Provide for the line of succession to critical management and technical positions
- Provide resources and capabilities to develop plans for restoring or reconstituting regular activities, depending upon the scope, severity, and nature of the incident

Highlights

- The BCP describes the actions that will be taken to activate a viable BCP capability within 3 business days of an emergency event. The BCP can be activated during duty and non-duty hours, both with and without warning.
- The BCP supports the performance of essential functions from alternate locations and provides for continuity of management and decision-making throughout the organization, if senior management or technical personnel are unavailable during an event.
- Annual testing and training are prioritized and completed accordingly. All participating personnel are familiarized with the plan and mission critical employees are formally trained to ensure service levels are met.
- Files related to Agronomic Research studies have been completed in 2 tranches and are separated between those within roughly the last 20 years and those prior. The research completed within the last 20 years are in electronic as well as paper form and are thus backed up appropriately. The older documents have not all been backed up electronically due to resource limitations but there is an ongoing process where individual documents are scanned and loaded into the NCIS network.

**Standard 14**

The advisory organization is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the advisory organization.

**Result:** N/A

**Examiners' Recommendation:** NCIS does not utilize any 3<sup>rd</sup> party entities to conduct any business functions.

**Standard 15**

Records are adequate, accessible, consistent and orderly, and comply with state record retention requirements.

**Result:** Pass

**Examiners' Recommendation:** No recommendation; NCIS has a comprehensive records retention process.

**Examiners' Observations:** NCIS provided a document entitled Document Retention and Destruction Policy, dated 2/27/2015. The document was comprehensive and clearly outlined its policies related to document retention. Highlights of the policy include:

- Clearly defined responsibilities for the administration of the policy.
- Process for maintaining documents that may require a litigation hold.
- Standards for maintaining the integrity of electronic documents.
- Emergency planning
- Definition of the types of documents and for how long to maintain them.

**Standard 16**

The advisory organization is appropriately licensed.

**Result:** Pass

**Examiners' Observations:** Certificates of Authority and, if applicable, renewal letters, were reviewed for the 49 states in which NCIS operates. No exceptions were noted.

**Standard 17**

The advisory organization cooperates on a timely basis with examiners performing the examinations.

**Result:** Pass

**Examiners' Observations:** NCIS has cooperated with the examiners throughout all phases of the examination.

**Standard 18**

The advisory organization has developed and implemented written policies, standards, and procedures for the management of insurance information.

**Result:** Pass

**Examiners' Observations:** NCIS does not sell insurance. Member companies do not send any information to NCIS that includes Personally Identifiable Information (PII). However, NCIS does have a PII policy which addresses its members' sensitive, proprietary information. All NCIS vendors and employees are required to sign Non-disclosure Agreements which are reviewed annually.

## B. Statistical Plans

The evaluation of standards in this area is designed to verify that NCIS maintains adequate statistical plans in accordance with applicable statutes, rules, and regulations and that data is reported in accordance with the statistical plans. This standard is also intended to measure NCIS's compliance regarding the filing and approval of statistical plans.

### Standard 1

The statistical agent has filed its statistical plans in accordance with applicable statutes, rules, and regulations.

**Result:** Pass

**Examiners' Observations:** The Advisory Organization provided documentation demonstrating that the 2018 Crop-Hail 200-CHI Manual has been filed in all states in which it is doing business in accordance with applicable statutes, rules, and regulations. The filed statistical plan that was in place during the examination period was filed with the states in June 2018.

The Crop-Hail Insurance Reporting Procedures and Codes (200 manual) is emailed to Massachusetts, Oregon and Washington and sent via SERFF to Arizona, Michigan, Missouri, Montana, Oklahoma, Rhode Island and Utah. The 200 manual is mailed to all other states. Examples of receipt documentation were provided.

### Standard 2

The statistical plans are reviewed and updated in accordance with applicable statutes, rules, and regulations.

**Result:** Pass

**Examiners' Observations:** The statistical plans are reviewed and updated as needed, in accordance with applicable statutes, rules, and regulations.

The NCIS Crop-Hail Insurance Reporting Procedures and Codes (200-CHI Manual) are updated annually to clarify instructions to member companies for data submission and edit guidelines as follows:

- To provide explanations of reports and return files provided.
- To provide the most current NCIS policy form crop and policy form code information
- To add examples of select data submission scenarios.

- The 200-CHI Manual does not reflect any insurance policy documentation or mandatory state-mandated disclosure statements to applicants. The manual is instructional to member companies submitting data. The 200-CHI Manual does reflect changes NCIS makes to data collection, processing, and completeness based on guidance from the NAIC.

**Standard 3**

The statistical agent verifies that companies submit data in accordance with the appropriate statistical plan.

**Result:** Pass

**Examiners' Observations:** Examiners confirmed that NCIS member companies receive specific instructions to enable proper data reporting requirements on an annual basis from NCIS.

- The examiners confirmed that NCIS statistical reporting insurers receive specific directions regarding proper data reporting requirements on an annual basis from NCIS.
- The Insurer transmits the data through the NCIS FTP server in the prescribed method required by the NCIS 200-CHI Manual. The data is validated by an automated system designed to check the data for errors and omissions.
- Insurers receive follow-up weekly updates from NCIS via a Crop Hail Status Report. The report includes outstanding error percentages until the errors are resolved.
- NCIS completes quality reviews of any reports issued, verifying the data pulled from tables, in fact what appears on each report.
- NCIS requests verification from each member company confirming that the aggregate total values from the premium and loss records that NCIS has stored in its systems are consistent with what the company transmitted.
- Each time a member company submits data for a policy, all of the premium and loss lines for that policy are replaced with the new information.
- An assessment warning procedure is in place to identify any anomalies prior to each state's closing date.
- After each state's closing date, the data is copied into a second database and reviewed through NCIS' Statistical Summary review process in order to ensure data accuracy.
- NCIS conducts random data reviews where policies are selected, source documents collected from companies, and the values on those documents are compared to the values received by NCIS and stored in NCIS's databases.
- Any errors found through this process are corrected and included in the NCIS database. As needed, NCIS will impose further data quality measures prior to including the data in its actuarial analyses to ensure the integrity of its statistical work.

## C. Data Collection and Handling

The evaluation of standards in this area is designed to verify that NCIS adequately tests reported data for validity, completeness, and reasonableness.

### Standard 1

The statistical agent's series of edits are sufficient to catch material errors in data submitted by a company.

**Result:** Pass

**Examiners' Observations:** Examiners confirmed that NCIS's series of edits catch material errors submitted by the member companies.

- Each crop year, NCIS works with member companies to resolve errors and discover minor areas of improvement in edits that will better catch data submission errors.
- NCIS recently rewrote its crop-hail data validation system in a more modern, standard programming language, adding a new internal-testing interface and an internal processing progress dashboard. Member companies were given details of the changes over a two-year period prior to implementation. The new validation system was in place for editing and accepting or rejecting data from policies written for the 2018 crop year.
- The new validation system has automated previous manual processes improving accuracy and making the process more efficient.
- The new validation system is optional for 2018 data reporting and will become mandatory in 2019.

### Standard 2

All data that is collected pursuant to the statistical plan is run through the editing process.

**Result:** Pass

**Examiners' Observations:** Examiners confirmed that data collected pursuant to the statistical plan is run through an editing process prior to submission.

The examiners reviewed NCIS's data reporting requirements which are as follows:

- The insurer transmits the data through the NCIS FTP server in the prescribed method required by the NCIS 200-CHI Manual. The data is validated by an automated system as described in Standard 1 of this section, which is designed to check the data for errors and omissions. NCIS reconciles the policy level detail information submitted by

its member companies with each company's aggregate verified totals to ensure that the information processed by NCIS is complete.

- Companies are notified 4 weeks prior to their scheduled closing date of minimum data reporting requirements. Companies that fail to provide timely data are assessed a penalty.
- All premium and loss data must be submitted without errors before the applicable state closing date, within the allowable tolerances for each state. An individual insurer must accurately report at least 85% of their reportable premium and losses and collectively all insurers in the state must accurately report at least 95% of their reportable premium and losses before the state will be closed from accepting additional data edits.
- If the 85% individual reporting percentage tolerance level is not achieved by the scheduled state closing date, the insurer may be subject to an assessment.
- NCIS follows the standard set of procedures set forth in the 200-CHI Manual to determine when to cease acceptance of additional data for each state.

### **Standard 3**

Determine that all databases are updated as needed with all accepted company data.

**Result:** Pass

#### **Examiners' Observations:**

- NCIS follows the procedures set forth in its statistical plan, which is annually filed with each state insurance department and distributed to all member companies.
- NCIS performs quality reviews of reports issued weekly, monthly, and annually prior to release to its member companies.
- NCIS also requires each company to respond to a request to verify that the aggregate total values that NCIS has stored in its systems are consistent with what the company transmitted.
- NCIS conducts random data reviews where policies are selected, source documents collected from companies, and the values on those documents are compared to the values received by NCIS and stored in its databases.
- Results of these reviews have been successful and in instances where errors were found, data and processes have been corrected.

### **Standard 4**

Determine that financial data is reconciled to the State Page- Exhibit of Premiums and Losses, Statutory Page 14, of the NAIC annual statement on an annual basis.

**Result:** Pass

**Examiners' Observations:**

- Prior to 2016, it was not possible to reconcile Crop Hail on Statutory Page 14 of the NAIC annual statement.
- Reconciliation is now possible as Statutory Page 14 includes a line for Private Crop, which accounts for crop-hail and supplemental products.
- The NCIS Board of Directors approved a motion to have companies, not the NCIS, reconcile crop-hail with Private Crop data.
- NCIS reviews member company data for accuracy and prepares an industrywide report. This information is shared with the NCIS Board of Directors, CH A&S Committee, NAIC and state regulators.

**Standard 5**

Determine that all calculations associated with the database have been accurately applied.

**Result:** Pass

**Examiners' Observations:**

- The NCIS databases include only information reported by its member companies.
- NCIS does not introduce calculated results into these databases.
- Data edits are used to verify that the data being reported is consistent with NCIS' statistical reporting requirements and any approved proprietary member company calculations on record with NCIS.
- Among these are tests to verify the consistency of calculated fields in the data records submitted by member companies.

**Standard 6**

Where applicable, determine that the statistical agent employs use of data completeness tests as outlined in the *Statistical Handbook of Data Available to Insurance Regulators*.

**Result:** Pass

**Examiners' Observations:**

- NCIS compares company submitted data (that has passed edits) with verified totals to ensure completeness of data prior to state closing.
- If company submitted data (that has passed edits) compared to verified totals is less than 95%, the difference is published as "uncorrected totals."

- NCIS publishes companies’ “uncorrected totals” in the annual state statistics (Crop-Hail Insurance Statistics – Direct Writings).

## D. Correspondence with Insurers and States

The evaluation of standards in this area is designed to verify that NCIS promptly notifies its member companies and regulators, as requested or required, when a problem with the data is found or a question about the data arises and follows-up if the member company does not respond within the appropriate time-frame.

**Standard 1**

The statistical agent keeps track of companies that fail to meet deadlines.

**Result:** Pass

**Examiners’ Observations:**

- NCIS annually issues by-state crop-hail scheduled state closing dates via bulletin, giving all member companies and NCIS a clear set of dates by which reporting minimums explained in 200-CHI Manual narrative section II and Exhibit 6 must be met.
- A copy of the 2018 scheduled state closing date bulletin (18031) was provided.
- NCIS reconciles the policy level detail information submitted by its member companies with each company’s aggregate verified totals to ensure that the information processed by NCIS is complete.
- NCIS releases assessment warning notifications to its member companies starting four weeks prior to each state’s scheduled closing date.
- Companies are assessed a penalty if they fail to meet the minimum data reporting requirement prior to the state’s scheduled closing date.
- NCIS issues uncorrected data warnings to member companies, beginning one week before the schedule state closing date, if the company is below the state closing minimum reporting threshold.
- Various examples were provided to demonstrate the management of this process with member companies. Documents reviewed included a Special Assessment Notice to a member company that did not meet the 85% reporting threshold, Assessment Reports for each state/member, Uncorrected Totals Report, as well as other documents issued within the experience period.

### Standard 2

The statistical agent has established procedures for notifying companies (and regulators, as requested or required) of material errors and for correcting those errors.

**Result:** Pass

**Examiners' Observations:** Companies submit individual policy and loss data to NCIS in accordance with the statistical reporting requirements described in the NCIS 200-CHI Manual. NCIS processes the data through its edit procedures. If errors are found, the company's Error Resolution Point of Contact is notified and the rejected records from the submission are placed in a pending status. Companies are instructed to make timely corrections and resubmit data that fails to pass the submissions edits. Companies with error resolution questions direct their inquiries to a dedicated employee of NCIS. Companies agree to research and resolve processing and reporting inconsistencies that were detected by edits or any post-submission review of the data.

### Standard 3

The statistical agent maintains a follow-up procedure with companies that have reporting errors or questions.

**Result:** Pass

**Examiners' Observations:** Some of the ways NCIS maintains a follow-up procedure with companies with data errors or questions is as follows:

- Provides uncorrected data reports and memorandums to impacted member companies.
- Provides late reporting assessment warning notifications to its member companies starting four weeks prior to each state's scheduled closing date.
- Issues Status Reports showing liability, premium, and loss amounts by state and company and providing the percentage of each value that has been accepted or is pending/rejected, data that has been verified, and comparisons to prior years.
- Issues submission status and error reports to the member company for every data submission that a member company provides to NCIS for processing.

### Standard 4

Review any additional data quality programs maintained by the statistical agent pertaining to data collected pursuant to the statistical plan.

**Result:** Pass

**Examiners' Observations:** In addition to data edits as outlined in the NCIS 200 CHI Manual, NCIS performs data quality checks when reviewing the Crop-Hail Insurance Statistics – Direct Writings for each state.

**Standard 5**

With each standard premium and loss report to the states, the statistical agent provides a listing of companies whose data is included in the compilations and a historical report listing insurers whose data for the state was excluded, as set forth in Section 2.4 of the NAIC *Statistical Handbook of Data Available to Insurance Regulators*.

**Result:** Fail

**Examiners' Recommendation:** Future standard premium and loss reports to the state should include a historical report listing insurers whose data for the state was excluded for the current and the two prior annual reports and should include an indication of the premium volume of the excluded insurer.

**Examiners' Observations:** Each NCIS statistical summary document includes an exhibit summarizing the accepted data for each individual member company. The report provided does not include an exhibit of the excluded data for each company for the current and prior two annual reports, however, as required in section 2.4 (b) of the NAIC Statistical Handbook of Data Available to Insurance Regulators, as noted below:

“2.4 Reports to the State from the Statistical Agent

Each statistical agent shall provide with its standard premium and loss reports two lists, which together comprise the entire set of companies that report data to the statistical agent:

- (a) A listing of companies whose data is included in the compilations; and
- (b) A historical report listing those insurers whose data for the state was excluded from the compilation because it fell outside of the statistical agent's tolerances for missing or invalid data, or because the insurer was unable to reconcile its statistical and financial data within the statistical agent's tolerances, or for any other reason. **The report will list such excluded companies by year for the current and the two prior annual reports and will include an indication of the premium volume of the excluded insurer.** For those lines of insurance where an Annual Statement line of business is a good approximation of the statistical submission premiums (such as homeowners insurance), the Annual Statement written premium will be the indication. For those lines of insurance where Annual Statement line of business is not a good approximation of the statistical submission premiums (such as commercial fire), the indication will be the state

written premium ranking for the related Annual Statement line (in this example, fire) for the insurer.”

Since this information is listed in the Crop-Hail Status Reports that are regularly provided to the individual companies, it should be relatively simple for NCIS to include this information in future statistical summaries to the states.

### **Subsequent Company Action**

After the finding was presented to the Company and based on conversations with the lead states, the Company modified the exhibit to include the missing excluded data for each company. The Company agreed to use the modified exhibit to disclose all companies with any excluded data in the annual statistical summaries submitted to the states going forward.

## **E. Reports, Report Systems, and Other Data Requests**

The evaluation of standards in this area is designed to review NCIS’s reports and other statistical compilations prepared for the states, as well as its internal procedures for preparing reports and responding to data requests, including the timeliness and quality of the response.

### **Standard 1**

All calculations used to develop the database have been performed accurately.

**Result:** Pass

**Examiners’ Observations:** The examiners performed a review and discussed the process with NCIS personnel. The 2018 NCIS Crop-Hail 200 CHI-Manual and the statistical development and procedures were reviewed. Through this review the examiners confirmed that the member companies process their data through the editing systems and other calculations.

### **Standard 2**

The statistical agent has accurately extracted the appropriate information from the statistical database.

**Result:** Pass

**Examiners’ Observations:** The examiners performed a review of the documentation provided by the Advisory Organization.

The process is as follows: The FALC or any other data extract is compared to the statistical summary for data verification. The FALC analyses are also compared to prior years' analyses. The statistical summary is compared to source totals as well as prior year statistical summaries.

**Standard 3**

Any data extracted from the statistical database has been accurately reviewed with any additional data obtained directly from a company in preparing a response to a data request.

**Results:** Pass

**Examiners' Observations:** The standard was discussed with the Advisory Organization and the examiners determined that there were no additional data requests made during the period of the examination.

**Standard 4**

Data collected, in addition to the data collected under the statistical plan, was adequately reviewed for quality and compiled according to applicable statutes, rules and regulations.

**Result:** Pass

**Examiners' Observations:** The standard was discussed with the Advisory Organization and the examiners determined that there were no additional data requests made during the period of the examination.

## F. Ratemaking Function

The evaluation of the standard in this area is designed to review NCIS's ratemaking, reports and reporting systems, if any, as well as their internal procedures for preparing related reports and responding to data requests, including the timeliness and quality of the response.

**Standard 1**

The advisory organization submits filings and/or submissions to the state within the established time frame.

**Result:** Pass

**Examiners' Observations:** The examiners reviewed documentation supplied by the Advisory Organization and spoke with NCIS staff regarding its process for submitting filings/submissions to the states within the established timeframes. No exceptions were

noted. Refer to Operations/ Management – Standard 3 for a detailed review of the entire filing process.

## G. Classification and Appeal Handling

The evaluation of the standard in this area is designed to review NCIS’s classification and appeal process, where applicable.

### Standard 1

NCIS takes adequate steps to finalize and dispose of the classification appeal in accordance with applicable statutes, rules and regulations, and written manuals and procedures.

**Result:** Pass

**Examiners’ Observations:** NCIS has never had a classification appeal. However, if any would arise, they would be handled on a case-by-case basis.

## H. Form Development

The evaluation of the standards in this area is designed to review NCIS’s processes for development, maintenance and filing of forms for insurance programs.

### Standard 1

The advisory organization has processes in place to identify and provide subscribers with necessary changes (by virtue of changes in state laws or case law) to advisory forms.

**Result:** Pass

**Examiners’ Observations:** NCIS has suitable processes in place. Whenever new forms are developed by NCIS staff, they are submitted to various industry committees and the Board of Directors for approval. These committees and the Board are composed of member companies who are involved throughout the process.

A similar process is employed for new FALCs. Once developed by NCIS staff, they are reviewed by the Crop-Hail Actuarial and Statistics Committee Program, the Development Committee, and the Board of Directors. Again, these committees and the Board are composed of member companies so they are aware of the changes throughout the process.

NCIS staff periodically checks the status of the SERFF filing process. Staff also maintains an Excel worksheet to track filing status and as a means to communicate with member companies.

If a rule change is included with the form or FALC filing, that rule change is also included in either of the above processes.

Once approval is secured, NCIS issues a bulletin to member companies and the Crop-Hail managers.

**Standard 2**

The advisory organization has quality assurance processes in place to review submissions of forms prior to filing or submitting to the applicable state.

**Result:** Pass

**Examiners' Observations:** NCIS has quality assurance processes in place. New forms are developed by NCIS staff and must be approved by various industry committees and the Board of Directors. Once a form has received final approval from the various committees and the Board of Directors, the form is provided to the Vice President of Actuarial Applications and Insurance Filings, who prepares and submits the filing to the state insurance department(s).

New FALCs are developed by NCIS staff and then reviewed by the Crop-Hail Actuarial and Statistics Committee. The responsibility of the Committee is to ensure that the FALCs are calculated accurately and are consistent with the methodologies approved by the committee. Senior staff at NCIS also performs spot check of the FALCs as needed. FALCs are then reviewed by the Program Development Committee and finally by the Board of Directors. NCIS anti-trust procedures are followed throughout this process. Once the FALCs have been accepted, the Vice President of Actuarial Applications and Insurance Filings prepares and submits the filing to the state insurance department(s).

## **I. Inspection Services**

The evaluation of the standards in this area is designed to review NCIS's processes for ensuring proper classification of risks that are subject to inspection, and to report the results of this review to carriers and insureds.

**Standard 1**

The advisory organization conducts inspection services in accordance with applicable statutes, rules and regulations, and written procedures.

**Result:** N/A

**Examiners' Observations:** This standard applies to workers' compensation. NCIS is not an advisory organization for workers' compensation.

## **J. Residual Market Functions-Plan Administration**

Evaluate all advisory organizations acting as a residual plan administrator in regard to the implementation of rules, procedures, manuals, policy forms, endorsements, pricing programs, application processing procedures, carrier selection, compensation and oversight.

### **Standard 1**

The advisory organization uses objective and established procedures when administering assigned risk plans.

**Result:** N/A

**Examiners' Observations:** NCIS does not act as a residual plan administrator.

### **Standard 2**

The advisory organization uses objective and established procedures when administering residual market or pool assessments.

**Result:** N/A

**Examiners' Observations:** NCIS does not act as a residual plan administrator.

## **K. Residual Market Functions-Reinsurance Administration**

Evaluate the advisory organization's processes for preparing and publishing manuals, procedures and/or information for such reinsurance administration.

### **Standard 1**

The advisory organization uses established procedures when administering residual market pool assessments or reinsurance pooling mechanisms.

**Result:** N/A

**Examiners' Observations:** NCIS does not act as a residual plan administrator.

## Operations/Management

The evaluation of standards in this area is based on a review of NCIS's responses to document requests, questions, interviews, and presentations made to the examiners. This portion of the MCE is designed to provide a view of what NCIS is, how it operates, and how it is managed. It is not based on a sampling technique; it is more concerned with structure. This review is not intended to duplicate a financial examination review. It is important in providing the market conduct examiners with an understanding of NCIS. Many troubled companies have become so because management has not been structured to recognize and address the problems that can arise.

### Standard 1

The regulated entity has an up-to-date, valid internal or external audit program.

**Result:** Pass

Refer to the "Advisory Organizations Management" section of the report- Standard 11 for a complete description of internal/external audit program.

### Standard 2

The regulated entity has appropriate controls, safeguards, and procedures for protecting the integrity of computer information.

**Result:** Pass

Refer to the "Advisory Organizations Operations Management" sections- Standard 12 and 18 for a description of the computer security measures.

### Standard 3

The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

**Result:** Pass

**Examiners' Recommendations:** No recommendations.

**Examiners' Observations:** The Advisory Organization provided their Antifraud Policy Statement that includes a zero-tolerance policy and defines fraud for the organization and outlines organizational responsibilities.

NCIS relies primarily on its member companies' anti-fraud initiatives for the Crop-Hail program and on the Federal Government for the MPCl program. The Risk Management Agency ("RMA"), which supervises the Federal MPCl program, invests extensive resources in detecting and preventing fraud. Farmers who have engaged in fraudulent activities are prohibited from future participation in the MPCl program. Similarly, the government has the ability to prohibit agents, adjusters, and company personnel engaging in fraudulent activities from working in the MPCl program. Cases of fraud are publicized on RMA's website to discourage others from similar actions and there is a hotline that allows people who become aware of fraud to report it to the government.

**Standard 4**

The regulated entity has a valid disaster recovery plan.

**Result:** Pass

Refer to the "Advisory Organizations Operations Management" section of the report-Standard 13 for the complete description of the disaster plan.

**Standard 5**

Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to managing general agents (MGAs) general agents (GA's), third-party administrators (TPAs) and management agreements, must comply with applicable licensing requirements, statutes, rules and regulations.

**Result:** N/A

**Examiners' Observations:** NCIS does not utilize any 3<sup>rd</sup> party entities to conduct a business function. In addition, as they are an advisory organization, they do not utilize agents.

**Standard 6**

The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.

**Result:** N/A

**Examiners' Observations:** NCIS does not utilize any 3<sup>rd</sup> party entities to conduct any business functions.

**Standard 7**

Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

**Result:** Pass

Refer to the "Advisory Organizations Operations Management" section of the report-Standard 15 for complete description on record retention.

**Standard 8**

The regulated entity is licensed for the lines of business that are being written.

**Result:** Pass

Refer to the "Advisory Organizations Operations Management" section of the report – Standard 16 for complete description on licensing.

**Standard 9**

The regulated entity cooperates on a timely basis with examiners performing the examinations.

**Result:** Pass

Refer to the "Advisory Organizations Operations Management" section of the report–Standard 17 for response.

**Standard 10**

The regulated entity has procedures for the collection, use, and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

**Result:** Pass

**Examiners' Observations:** NCIS indicated to the examiners that the Advisory Organization does not collect personal identifying information. If any of this information is accidentally received it is destroyed and not retained. Refer to the "Advisory Organizations Operations Management" section of the report- Standard 18 for complete response.

**Standard 11**

The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.

**Result:** Pass

**Examiners' Observations:** Training guidelines for adjusters to properly adjust claims have been created by NCIS which includes standards and procedures for managing insurance information.

As the company is an advisory organization, it does not have direct contact with insurance company insureds and does not capture personal identifiable information.

**Standard 12**

The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers, and consumers that are not customers.

**Result:** Pass

**Examiners' Observations:** As the company is an advisory organization, it does not capture personal identifiable information.

**Standard 13**

The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

**Result:** Pass

**Examiners' Observations:** There is a privacy information/form available to NCIS member companies that was developed by the Federal Government. The privacy form title is Approved Insurance Provider Non-Disclosure Statement. In addition, in Standard Reinsurance Agreements there is a document titled Appendix I-Regulatory Duties and Responsibilities, Section XV, which provides guidance on dealing with protected information. However, it is important as the company is an advisory organization, it does not have direct contact with insurance company insureds.

**Standards 14-17 have been excluded as they are related to handling of personal privacy information. As the company is an advisory organization, it does not have direct contact with insurance company insureds and does not capture personal identifiable information. Therefore, these Standards do not apply.**

**Standard 18**

All data required to be reported to departments of insurance is complete and accurate.

**Result:** Pass

- **Examiners' Observations:** NCIS's State Closing Report provides control totals that are used to balance each state's Statistical Summary. This report is generated at the time each state has ceased acceptance of additional data edits to ensure that the statistical summary totals match the totals in the State Closing Report.

## Summary of Recommendations

### 1) Correspondence with Insurers and States: Standard 5:

**This is a repeat recommendation from the 2015 exam of the Advisory Organization.**

With each standard premium and loss report to the states, the statistical agent provides a listing of companies whose data is included in the compilations and a historical report listing insurers whose data for the state was excluded, as set forth in Section 2.4 of the NAIC Statistical Handbook of Data Available to Insurance Regulators.

**Result:** Fail

**Examiners' Recommendation:** Future standard premium and loss reports to the state should include a historical report listing insurers whose data for the state was excluded for the current and the two prior annual reports, and include an indication of the premium volume of the excluded insurer as set forth in Section 2.4 of the NAIC Statistical Handbook of Data Available to Insurance Regulators.

**Examiners' Observations:** Each NCIS statistical summary document includes an exhibit summarizing the accepted data for each individual company. The report provided does not include an exhibit of the excluded data for each company for the current and prior two annual reports, however, as required in section 2.4 (b) of the NAIC Statistical Handbook of Data Available to Insurance Regulators, as noted below:

#### 2.4 Reports to the State from the Statistical Agent

Each statistical agent shall provide with its standard premium and loss reports two lists, which together comprise the entire set of companies that report data to the statistical agent:

(a) A listing of companies whose data is included in the compilations; and

(b) A historical report listing those insurers whose data for the state was excluded from the compilation because it fell outside of the statistical agent's tolerances for missing or invalid data, or because the insurer was unable to reconcile its statistical and financial data within the statistical agent's tolerances, or for any other reason. **The report will list such excluded companies by year for the current and the two prior annual reports and will include an indication of the premium volume of the excluded insurer.** For those lines of insurance where an Annual Statement line of business is a good approximation of the statistical submission premiums (such as homeowners insurance), the Annual Statement written premium will be the indication. For those lines of insurance where Annual Statement line of business is not a good approximation of the statistical submission premiums (such as commercial fire), the indication will be the state

written premium ranking for the related Annual Statement line (in this example, fire) for the insurer.

### **Subsequent Company Action**

After the finding was presented to the Company and based on conversations with the lead states, the Company modified the exhibit to include the missing excluded data for each company. The Company agreed to use the modified exhibit to disclose all companies with any excluded data in the annual statistical summaries submitted to the states going forward.

- 2) Advisory Organizations Operations Management Standard 12 and Operations/Management Standard 2:** The advisory organization/regulated entity has appropriate controls, safeguards, and procedures for protecting the integrity of computer information. (Pass)

Examiners recommend going forward that NCIS reviews these procedures on an on-going basis and update as needed.

- 3) Advisory Organizations Operations Management Standard 13 and Operations/Management Standard 4:** The advisory organization/regulated entity has a valid disaster recovery plan. (Pass)

Although there is no requirement that a disaster recovery plan be reviewed in a certain timeframe, NCIS should regularly review their disaster recovery plan for continued accuracy, increased comprehensiveness, and update as needed to ensure its validity.

- 4) Operations/Management Standard 3:** The regulated entity has anti-fraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts. (Pass)

NCIS should undertake a review of the statutes and regulations of the states in which it holds a Certificate of Authority to determine if a Fraud Plan is required and, if it needs to be filed with the state department of insurance. NCIS should also develop its own antifraud initiatives in conjunction with and to augment the efforts of its member companies and the Federal Government.

## Examiner's Signature and Acknowledgement

The examiner would like to acknowledge the cooperation and assistance extended by NCIS during the course of the Market Conduct Examination.

In addition to the undersigned, George Kalagyros, MCM also of INS Regulatory Insurance Services, Inc., participated in this Market Conduct Examination.



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Lucinda Woods, CPCU, CIE, MCM, ARM, ARC  
Examiner-in-Charge  
INS Regulatory Insurance Services, Inc.



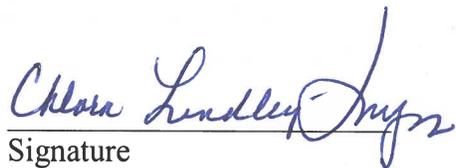
Shelly Schuman, ACS, AIE, AMCM, CICS, FLMI, HIA  
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INS Regulatory Insurance Services, Inc.

The Missouri Department of Commerce and Insurance, pursuant to its authority under §374.205 RSMo. conducted an evaluation of National Crop Insurance Services, Inc. (NCIS) for market regulation purposes in July of 2019.

The evaluation consisted of: a review of the Organization's processes and procedures in place during the period of the Examination, including but not limited to, the preparation of loss cost filings; rules, forms; operations/management; statistical plans; regulatory licenses or other authorization; data receipt and controls; processing, editing and compilation procedures; error handling and related correspondence with reporting insurers; report submissions to regulators, as well as compliance with Chapter 29 and its Appendices F and G, and selected sections of Chapter 20 of the NAIC Market Regulation Handbook ("the Handbook").

Based on the results of the procedures performed, as documented in Chapter 29 of the NAIC's Market Regulation Handbook, and the knowledge and experience of its staff, SDDOI and VBOI found one actionable item for NCIS to address under Correspondence with Insurers and States-Standard 5. Subsequently, NCIS made corrections to their reporting procedures to the satisfaction of SDDOI and VBOI. The Missouri Department of Commerce and Insurance reserves the right to revisit these conclusions and perform additional review in light of new information.

I hereby certify the above information is accurate and that I am authorized to execute this document on behalf of the Missouri Department of Commerce and Insurance.

  
Signature

Chlora Lindley-Myers  
Print Name

Director  
Title

July 21, 2020  
Date