

**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 July 22, 2014

Table of Contents

Salutation.....	1
Executive Summary	2
Purpose and Scope of Examination.....	4
History and Profile	4
Insurance Product Explained.....	7
Methodology	8
Examination Results.....	9
I. Operations/Management/Governance.....	9
II. Statistical Plans.....	13
III. Data Collection and Handling	14
IV. Correspondence with Insurers and States.....	16
V. Reports, Report Systems, and Other Data Requests.....	19
VI. Ratemaking Function	20
VII. Classification and Appeal Handling	21
VIII. Form Development.....	21
IX. Operations/Management	22
Summary of Recommendations	25
Examiner's Signature and Acknowledgement	26

Salutation

March 2, 2015

Mr. Larry Deiter
Director
South Dakota Division of Insurance
124 South Euclid Avenue, 2nd Floor
Pierre, SD 57501-3185

Dear Director Deiter:

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

Executive Summary

The primary purpose of this comprehensive multi-state MCE was to determine if National Crop Insurance Services, Inc. is compliant with state laws and regulations governing its conduct and performance in its regulated functions. To determine this, NCIS's compliance with the applicable standards in Chapters 16 and 25 of the 2013 National Association of Insurance Commissioners ("NAIC") Market Regulation Handbook were reviewed. Chapter 16 contains general examination standards and Chapter 25 contains advisory organization examination standards.

This MCE was initiated by the Advisory Organization Examination Oversight (C) Working Group of the National Association of Insurance Commissioners. A total of 31 states participated in this MCE. South Dakota and Oklahoma served as the lead states with South Dakota acting as the supervisory lead state. The MCE reviewed applicable processes and procedures in use through July 22, 2014, the date the examiners arrived on site at the NCIS corporate headquarters in Overland Park, Kansas. Off-site fieldwork began July 28, 2014 and concluded August 29, 2014.

In total, 41 standards from the above-referenced chapters were reviewed. NCIS adequately met 38 of the 41 standards; however, NCIS failed 3 of the 41 standards. The failed standards are the following:

Operations/Management/Governance - Standard 13

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

- The procedures given to the examiners for protecting the integrity of computer information were developed for this examination. NCIS currently has appropriate controls and safeguards in place.
- The examiners strongly recommend that NCIS reviews these procedures on an on-going basis and update as needed.

Correspondence with Insurers and States - 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.

- NCIS does not include with each standard premium and loss report to the states a historical report listing insurers whose data for the state was excluded.
- The examiners recommend that future standard premium and loss reports to the state include a historical report listing insurers whose data for the state was excluded.

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.

- NCIS relies primarily on its member companies' anti-fraud initiatives for the Crop-Hail program and on the Federal Government for the Multi-Peril Crop Insurance ("MPCI") program. NCIS does not have its own anti-fraud initiatives in place.

- The examiners recommend NCIS review the statutes and regulations of the states in which they hold a Certificate of Authority to determine if a Fraud Plan is required and, if required, if it needs to be filed with the state Department of Insurance. NCIS should also develop their own antifraud initiatives in conjunction with and to augment the efforts of their member companies and the Federal Government.

The examiners also provided recommendations for some standards that NCIS passed. A summary of recommendations can be found on page 25 of this Report.

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 National Crop Insurance Services, Inc. to ensure it is compliant with state laws and regulation in performing its regulated functions.

Thirty-one states participated in this MCE, with South Dakota and Oklahoma acting as the Lead States. The other 29 states are the following:

Arizona	Louisiana	North Dakota
Arkansas	Maine	Pennsylvania
California	Maryland	Rhode Island
Colorado	Michigan	Tennessee
Connecticut	Mississippi	Utah
Delaware	Missouri	Vermont
Georgia	Montana	West Virginia
Hawaii	Nebraska	Wisconsin
Idaho	Nevada	Wyoming
Kentucky	New Jersey	

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

- Operations/Management/Governance
- 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

The MCE also included a review of applicable general examination standards in the following area:

- Operations/Management

History and Profile

National Crop Insurance Services, Inc. is an international not-for-profit organization representing the 19 crop insurance companies. NCIS is licensed in all states except Alaska and the District of Columbia. NCIS members write Crop-Hail insurance, Multi-Peril Crop insurance, the federally-supported risk management program, and privately developed crop insurance products. In 2013, NCIS members' premiums totaled more than \$12 billion, with insured value of nearly \$123 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.

On behalf of its members, NCIS collects and manages data and information, conducts research and analysis, serves as a licensed statistical agency for the Crop-Hail program, and conducts extensive educational activities on claims adjustment, ethics, policies, and procedures.

NCIS members range in size from one-state companies to national writers, as well as international company members.

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 elect 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 and Statistics Committee
- Crop-Hail Policy, Procedure, and Loss Adjustment Committee

- MPC Policy, Procedure, and Loss Adjustment Committee
- Nominating Committee
- Program Development Committee
- Technology and Information Processing Committee
- Training and Education Committee
- Underwriting and Operations Committee

These committees are made up of member company 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 fifty employees at their corporate headquarters in Overland Park, Kansas, which is their sole 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 the following areas:

- 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
- Data reporting requirements directly related to the federal crop insurance program

Ag International Research Services, Inc. also provides independent development or evaluation of new or modifications of current policies or plans of insurance to be offered as federally reinsured crop insurance.

Insurance Products Explained

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

- Multi-Peril Crop insurance
- Crop-Hail insurance

MPCI covers loss of crop yields from all types of natural causes including hail, drought, excessive moisture, freeze, flood, fire, insect, disease, and wildlife. 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.

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 of the areas in Chapters 16 and 25 of the 2013 Market Regulation Handbook were the primary basis of review. Chapter 16 contains general examination standards and Chapter 25 contains advisory organizations standards. The specific areas reviewed 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 operations 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. The result of the examiners' review of each standard is either "Pass" or "Fail."

Examination Results

I. Operations/Management/Governance

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.

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 Company which explains their process. The Company meets this standard.

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 Company and spoke with NCIS staff regarding their process. 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).

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, rates, policy forms, endorsements, factors, classifications or rating rules manuals.

Result: Pass

Examiners' Observations: The examiners reviewed documentation supplied by the Company which explains their process and spoke with NCIS staff. The examiners' review found that the Company is in compliance with this standard.

NCIS staff develops new forms. The forms must be approved by various industry committees and 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). Section I, Standard 2 explains the Company's process for developing a rate filing and ensuring it is actuarially sound.

Filings are made on the System for Electronic Rate and Form Filing ("SERFF") or other state approved filing system. The Company's staff periodically checks the status of the SERFF filing process and also maintains an Excel worksheet to track filing status. NCIS follows mandated time requirements and are responsive to state filing analysts' questions regarding the filings.

The loss costs, forms, and rules distributed by the Company are the same as those filed with the applicable state insurance departments.

Standard 6

The advisory organization has policies and procedures in place to develop sound, understandable, and appropriate risk classifications.

Result: Pass

Examiners' Observations: The examiners reviewed documents and the manual supplied by the Company. Through their review, the examiners determined that the classifications and accompanying manual provide clear guidance to aid the Company in selecting the appropriate classification to ensure consistency.

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. The Company's procedures include the following:

- NCIS has a staff member whose role is to review state websites, SERFF, and other sites to ensure the Company is capturing any recent changes in laws, regulations, or bulletins in states in which NCIS is doing business.
- NCIS communicates changes to its member companies through bulletins and at training meetings conducted during the year.

Standard 11

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

Result: Pass

Examiners' Observations: The examiners reviewed documentation supplied by the Company and information on its website. NCIS appears to have a thorough understanding of its product and provides thorough and objective viewpoints to its member companies.

Standard 12

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 IT reports related to the audit process 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 company also had a 2012-2013 examination of their Consolidated Financial Statement conducted by KPMG LLP, which the examiners reviewed.

Standard 13

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

Result: Fail

Examiners' Observations: NCIS has appropriate controls and safeguards in place for the integrity of computer information, which are maintained on a departmental basis. The procedures given to the examiners were developed for this examination. A procedural review, which included a review of the computer facility at NCIS, found the Company's newly implemented controls and safeguards were satisfactory.

Examiners' Recommendation: The examiners strongly recommend that NCIS reviews these procedures on an on-going basis and update as needed.

Standard 14

The advisory organization has a valid disaster recovery plan.

Result: Pass

Examiners' Observations: The examiners reviewed the Company's disaster recovery plan, which is titled Disaster Recovery Plan, Information Systems. The plan was created in 2001 but not reviewed again until reviewed in 2014. The Company told the examiners more significant upgrades will be occurring in late 2014 and early 2015, so changes to the plan will be updated at that time.

Examiners' Recommendation: Although not required by this standard, NCIS should regularly review their disaster recovery plan for continued accuracy, increased comprehensiveness, and update, as needed, to ensure its validity.

Standard 16

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

Result: Pass

Examiners' Observations: NCIS informed the examiners that it does not have a written record retention policy. However, the Company's philosophy is not to destroy anything. The Company utilizes premium and loss data back to the mid 1940's to assist in developing loss costs.

Examiners' Recommendation: Although not explicitly required by this standard, NCIS should develop a written record retention policy.

Standard 17

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. The Company meets this standard.

Standard 18

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

Result: Pass

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

Standard 19

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

Result: Pass

Examiners' Observations: NCIS stated that the Company does not collect personally identifiable information. If any personally identifiable information is accidentally received, it is destroyed and not retained.

The Company has a contract with Media Services, LLC to store their media and tape. For security reasons, the contract includes a provision that NCIS must provide a list of authorized agents who are allowed to examine the stored property.

II. Statistical Plans

The evaluation of standards in this area is designed to verify that NCIS maintains adequate statistical plans and 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 examiners conducted interviews at NCIS to discuss the statistical plan. The Company informed the examiners that the 2014 Crop-Hail 200-CHI

Manual is filed in accordance with applicable statutes, rules, and regulations in all states in which it is doing business. The filed statistical plan that was in place during the examination period was filed with the states in June 2014.

Standard 2

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

Result: Pass

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

Standard 3

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

Result: Pass

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

III. 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: The examiners confirmed that NCIS's series of edits catch material errors submitted by insurance companies.

Standard 2

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

Result: Pass

Examiners' Observations: The examiners confirmed that data collected pursuant to the statistical plan is run through the editing process.

Standard 3

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

Result: Pass

Examiners' Observations: The examiners confirmed that all databases are updated as needed with all accepted company data.

Standard 4

Determine that statistical 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: Crop-Hail is filed in Allied Lines, so the statistical data cannot be reconciled to the annual statement as it is only a portion of the total premium and loss data.

Standard 5

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

Result: Pass

Examiners' Observations: The examiners obtained and reviewed the statistical plan compilation procedures and sample reports. The examiners reviewed the procedure from when the data is received, returned for edits, finally accepted, and the state was closed for the year.

Insurance company personnel submit data though the test environment to ensure data is being entered correctly. Once the data has been submitted, NCIS personnel will spot

check data to ensure no errors are identified in the transmission. If an error is identified, it is either sent back to the insurance company for correction or NCIS will correct.

Any revisions to the NCIS database are identified and released with the latest stat manual, generally in early June. This allows sufficient time to process insurance company test data and determine if corrections need to be made to the database prior to the actual data submission.

Standard 6

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

Result: Pass

Examiners' Observations: An insurance company submits detailed crop-hail policy premium and loss data files via NCIS's FTP. NCIS has an automated program that checks for new files every ten minutes. When a file is found it is loaded into the NCIS validation program. The file contents undergo a series of detailed tests and edits developed using the criteria set forth in the NCIS 200-CHI Manual. The validation process is conducted to ensure the data is properly formatted, complete, and accurate per the guidelines provided in the 200-CHI.

If a policy does not pass all validations, it is included in an error data file. These files, as well as a Crop-Hail Status Report, are emailed to the insurance company's Error Resolution Point of Contact and posted to their company's folder on the NCIS FTP.

If a policy does pass all validations, it is moved into the Crop-Hail edit database, where it is included in daily totals and then loaded to the year-to-date database. From there, a variety of reports are generated. These reports allow internal and external tracking of data that is accepted, rejected, submitted, and projected for the current year. Accepted data for policies selected for review or audit is extracted from the year-to-date database to a point in time audit database. Accepted data is also added to the NCIS Crop-Hail master database. After the state closing procedure is complete for a given state, accepted policy data is moved into a history database, and a separate tracking database for use in various data analysis and processes.

IV. Correspondence with Insurers and States

The evaluation of standards in this area is designed to verify that NCIS promptly notifies their 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 has a Crop-Hail Manual that details their efforts to comply with the five standards in this section. The Company's Crop-Hail Statistical Reporting Assessment Report tracks those companies who have missed deadlines.

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 timely correct and resubmit data that fails to pass the submissions edits. Companies with error resolution questions direct their inquiries to a dedicated staff position at 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: Refer to Standard 2 above.

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: NCIS imposes a Statistical Reporting Assessment on member companies that fail to meet the data reporting standards outlined in their manual. There are two types of assessments, one for late reporting and the other for reopening the state due to company reporting error. Member companies are billed after all states have closed. The assessment notice is sent to the reporting organization president and the Crop-Hail manager. A summary of assessments by company is periodically provided to the NCIS Board.

A premium verification report is sent 15 weeks prior to the first state closing. A final verification report is generated a minimum of 5 weeks prior to the state's scheduled closing date and sent to the Crop-Hail manager. A copy of this report is sent to the company's claims manager, who would notify NCIS of pending losses. This final verification report must be certified and returned to NCIS within 7 calendar days of receipt. The Crop-Hail manager of the reporting organization, or their designee, must sign the final verification report.

After all states have closed processing for the year, a final Certification Report, which lists totals by state, will be sent to the reporting organization. The president of the reporting organization must certify in writing that these totals accurately reflect their Company's Crop-Hail writings in each of these states, and that all required Crop-Hail policies, including endorsement data, has been reported to NCIS as indicated on this report.

NCIS also holds a quarterly Crop-Hail processing update conference call during the processing season, whose purpose is the consistent and timely sharing of Crop-Hail processing information. Attendees include NCIS and its member companies' Crop-Hail managers, Crop-Hail IT staff, error resolution staff and Technology and Information Processing ("TIP") Committee members. This is a forum to address challenges and answer common Crop-Hail processing questions, and gives NCIS and member companies adequate time to address and correct any problems before the scheduled state closing dates.

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' Observations: Each NCIS statistical summary document includes an exhibit summarizing the accepted data for each individual company. It does not include an exhibit of the excluded data for each company. However, 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.

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.

V. 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 2014 Crop-Hail 200 Chi-Manual and the statistical development and procedures were reviewed. Through this review the examiners confirmed that the Company processes 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 Company.

Section II, "Statistical Plans," and Section III, "Data Collection," reviewed the process by which NCIS systems verify the accuracy of the data received from the insurance companies.

Data is processed and accepted or rejected on a policy basis as established through a unique contract key, which includes state, company, policy number, and crop year.

Therefore all premium and loss lines are submitted or resubmitted each time data is reported for any given policy.

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.

Result: Pass

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

VI. Ratemaking Function

The evaluation of the standard in this area is designed to review the timeliness of NCIS's ratemaking submissions and filings.

Standard 1

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

Result: Pass

Examiners' Observations: The examiners reviewed documentation supplied by the Company and spoke with NCIS staff regarding its process for submitting filings/submissions to the states within the established timeframes. Refer to Section I, Standard 3 for a detailed review of the entire filing process.

VII. 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.

VIII. 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

NCIS has processes in place to identify and provide subscribers with necessary changes (by virtue of changes in state laws or case laws) to advisory forms, rules, or loss costs.

Result: Pass

Examiners' Observations: NCIS has suitable processes in place to meet this standard. 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, the subscribers, so they are aware of the changes 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, the subscribers, so they are aware of the changes throughout the process.

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, rates, loss costs, or other submissions 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 by the Board of Directors. Once a form has received 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).

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).

IX. 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, but 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.

Please note that Section I, "Operations/Management/Governance," specifically concerns advisory organizations standards found in Chapter 25 of the 2013 NAIC Market Regulation Handbook. The standards in this section are general examination standards from Chapter 16 of the 2013 Market Regulation Handbook. Some standards that are duplicative of Section I have been omitted. Other standards in this section were omitted as they were not applicable to an advisory organization.

Standard 3

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

Result: Fail

Examiners' Observations: NCIS does not have antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts. The Company relies primarily on its member companies' anti-fraud initiatives for the Crop-Hail program and on the Federal Government for the MPCCI program. The Company has worked cooperatively with RMA on anti-fraud activities on behalf of the industry and has a link on their website titled "Report Fraud and Abuse". NCIS has also been involved in public relations activity to make individuals aware of the ability to report fraud. NCIS produces and distributes a variety of anti-fraud posters, presents a session on program integrity at all of their adjuster schools, whether Crop Hail or MPCCI, and provides the Standard of Professional Conduct to all attendees. NCIS also discusses program integrity and fraud, waste and abuse at the regional/state annual meetings held in the spring of each year.

Examiners' Recommendations: NCIS should undertake a review of the statutes and regulations of the states in which they hold a certificate of authority to determine if a fraud plan is required and, if required, if it needs to be filed with the state department of insurance. NCIS should also develop their own antifraud initiatives in conjunction with and to augment the efforts of their member companies and the Federal Government.

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 company does not collect personal identifying information. If any of this information is accidentally received it is destroyed and not retained. Refer to Section I, Standard 19 for a 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: The examiners reviewed examples of claims handling procedures and the loss adjustment handbook. These are training guidelines for adjusters to properly adjust a crop claim in the various stages of growth.

As the Company is a rating organization, it does not have direct contact with insurance company insureds and, as mentioned above, 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: See response to Standard 11 above.

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.

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 is closed to ensure that the statistical summary totals match the totals in the State Closing Report.

Summary of Recommendations

Operations/Management/Governance - Standard 13

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

- It is strongly recommended that NCIS review its controls, safeguards, and procedures on an on-going basis and update as needed.

Operations/Management/Governance - Standard 14

The advisory organization has a valid disaster recovery plan.

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

Operations/Management/Governance - Standard 16

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

- It is recommended that NCIS develop a written record retention policy.

Correspondence with Insurers and States - 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.

- It is recommended that future NCIS standard premium and loss reports to states include a historical report listing insurers whose data for the state was excluded.

Operations/Management - Standard 3

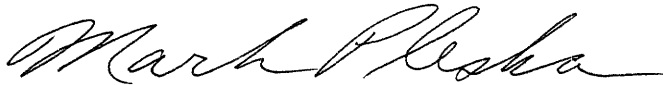
The regulated entity has anti-fraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

- It is recommended that NCIS undertake a review of the statutes and regulations of the states in which they hold a Certificate of Authority to determine if a Fraud Plan is required and, if required, if it needs to be filed with the state department of insurance. It is also recommended that NCIS also develop their own antifraud initiatives in conjunction with and to augment the efforts of their 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, Lucinda Woods, CPCU, CIE, ARM, ARC, also of INS Regulatory Insurance Services, Inc., participated in this Market Conduct Examination.

A handwritten signature in cursive script, reading "Mark Plesha". The signature is written in dark ink and is positioned above a horizontal line.

Mark Plesha, CPCU, AIE, MCM, IR, AIS, CWCP
Examiner-in-Charge
INS Regulatory Insurance Services, Inc.

Company Response

A World Of Information

National Crop Insurance Services

®

May 18, 2015

Matthew Ballard, Market Conduct Manager
South Dakota Division of Insurance
124 South Euclid Ave., 2nd Floor
Pierre, SD 57501

U.S. DIVISION OF INSURANCE

MAY 18 2015

124 SOUTH EUCLID AVE., 2ND FLOOR, PIERRE, SD 57501

AMERICAN CROP INSURANCE SERVICES, INC.

In re: Market Conduct Examination Report of National Crop Insurance Services, Inc. as of July 22, 2014

Dear Mr. Ballard:

We have received and reviewed the referenced Market Conduct Examination Report (the "Report"). We were gratified to note that NCIS adequately met 38 of the 41 standards that were considered in the Report. We understand that in relation to the three standards in respect to which NCIS procedures were considered deficient, the deficiencies were not considered to be material.

We appreciate this opportunity to provide a response to the Report. The identified items of concern related to Operations/Management/Governance - Standard 13; Correspondence with Insurers and States - Standard 5; and Operations/Management - Standard 3. We will address each in turn.

Operations/Management/Governance - Standard 13. The advisory organization has appropriate controls, safeguards, and procedures for protecting the integrity of computer information.

In respect to this standard, NAIC observed the following:

- *The procedures given to the examiners for protecting the integrity of computer information were developed for this examination. NCIS currently has appropriate controls and safeguards in place. (Emphasis supplied).*

NATIONAL CROP INSURANCE SERVICES
8900 Indian Creek Parkway - Suite 600
Overland Park, KS 66210-1567
VOICE 913.685.5409 (Direct)
FAX 913.685.3080
www.ag-risk.org

- *The examiners strongly recommend that NCIS reviews these procedures on an on-going basis and update as needed.*

As a threshold matter, we note that it is not entirely accurate to say that the “procedures given to the examiners for protecting the integrity of computer information were developed for this examination.” In fact, the security procedures (passwords, firewalls, backups, locked doors, IT use policy, etc.) have been in place for many years, and were, in the interest of expediting the audit process, provided in a format that addressed the specific areas of interest to the auditors.

More substantively, it is important to note that the auditors expressed no concerns about our current controls other than stating that they need to be reviewed on a regular basis. We propose to develop a protocol to review our procedures annually to confirm and ensure material compliance with the standard.

Correspondence with Insurers and States - 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.

In respect to this standard, NAIC noted:

- *NCIS does not include with each standard premium and loss report to the states a historical report listing insurers whose data for the state was excluded.*
- *The examiners recommend that future standard premium and loss reports to the state include a historical report listing insurers whose data for the state was excluded.*

NCIS presently provides annual Statistical Summaries to each state. Each Statistical Summary includes an exhibit providing a summary of the data accepted through our edits, separately by company.

We propose to address the noted deficiency by including a summary of the totals from the uncorrected records for each company. We are also able to include an exhibit of updated totals for prior years that indicate whether companies have subsequently resubmitted corrected data that originally failed to pass our edits.

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

In respect to this standard, NAIC offered the following commentary:

- *NCIS relies primarily on its member companies’ anti-fraud initiatives for the Crop-Hail program and on the Federal Government for the Multi-Peril Crop Insurance (“MPCI”) program. NCIS does not have its own anti-fraud initiatives in place.*
- *The examiners recommend NCIS review the statutes and regulations of the states in which they hold a Certificate of Authority to determine if a Fraud Plan is required and, if required, if it needs to be filed with the state Department of Insurance. NCIS should also develop their own antifraud initiatives in conjunction with and to augment the efforts of their member companies and the Federal Government.*

As a general observation, given our business environment and status as a trade association, it is unclear how we would satisfy this requirement. We can confirm that NCIS is in full compliance in relation to those states that require anti-fraud statements in claims and/or application forms. Consistent with the admonition in the NAIC comments, we will additionally undertake an effort to assess any additional anti-fraud requirements in the various states.

As would be to some degree apparent from recitations in the audit, the Federal crop insurance program is a unique, public/private collaboration. It is a distinctive hybrid of Federal administration and private insurance company delivery of risk management products and services to American farmers and ranchers. Working collaboratively with NCIS and its member companies, the Risk Management Agency (RMA) devotes substantial resources to issues related to program integrity and efforts to detect, deter, and prevent fraud, waste, and abuse within the Federal crop insurance program.

For example, RMA has created a single, centralized "data warehouse" of all crop insurance-related data collected in RMA databases. Investigators and other RMA staff use this centralized data warehouse to search, or "mine," all existing data records to compare policies and/or detect individual producers whose policies demonstrate atypical patterns. Data mining is also used to analyze and uncover larger national patterns that may indicate schemes for fraud, waste, and abuse. NCIS representatives are extensively engaged with the data mining effort.

Given the safeguards developed by our member companies and in view of these comprehensive program integrity initiatives, we believe the need for a separate NCIS anti-fraud practice is significantly ameliorated.

Thank you again for your efforts and for allowing us the opportunity to comment upon the Report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Thomas P. Zacharias".

THOMAS P. ZACHARIAS
President