

## **2007 Examination by the Kansas Insurance Department**

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During the fourth quarter of 2006, the Kansas Insurance Department conducted an examination of NCIS to verify compliance with Kansas insurance regulations applicable to advisory organizations.

The Department issued the an order adopting the examination report on February 20, 2007. The office order adopting the examination report follows this cover sheet.

As required by the Kansas Insurance Department, the adopted examination report has been provided to all NCIS Directors, who have, in turn, filed affidavits stating that they have received a copy of the adopted report.

The adopted examination report has also been provided to the National Association of Insurance Commissioners (NAIC).



# Kansas Insurance Department

**Sandy Praeger** COMMISSIONER OF INSURANCE

February 22, 2007

Robert W. Parkerson, President  
National Crop Insurance Services, Inc.  
8900 Indian Creek Parkway, Ste. 600  
Overland Park, KS 66210

Re: Report of Examination  
National Crop Insurance Services, Inc.  
As of November 30, 2006

Dear Mr. Parkerson:

Enclosed please find the order adopting the examination report for the captioned company, as per K.S.A. 40-222.

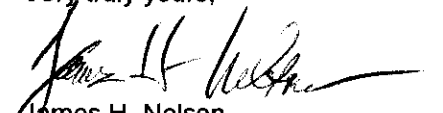
Upon the adoption of the examination report, the Commissioner shall hold the content of the examination report as private and confidential information for a period of 30 days except to the extent that nothing shall prevent or be construed as prohibiting the Commissioner from disclosing the content of an examination report, preliminary examination report or results, or any matter relating thereto, to the insurance department of this or any other state or country, or to law enforcement at any time, so long as such agency or office receiving a report or matters relating thereto agrees in writing to hold it confidential. Should your company wish to waive this requirement, please indicate in writing that you wish to have the requirement waived.

Your company needs to comply with the following requirements to finalize this examination report:

1. Within 30 days of the adoption of this report, the company shall file affidavits executed by each of its directors, stating under oath that they have received a copy of the adopted report and related orders. **Please provide this information to this Department no later than 30 days from the date of this letter.**
2. The examiners may have made comments and/or recommendations regarding various areas within the examination report. Please respond to each of the examiners comments and/or recommendations. Your reply should specify what action has been or will be taken with respect to each of the examiners comments and/or recommendations. **Please provide this information to this Department no later than 30 days from the date of this letter.**
3. It will not be necessary for your company to send a certified copy of this report to each state in which the company is licensed. The Kansas Insurance Department distributes report copies electronically through a system made available by the NAIC.

We wish to take this opportunity to thank your company for the cooperation afforded the Department representative while he was at your office.

Very truly yours,

  
James H. Nelson  
Manager of Financial Examinations

Cc: Thomas P. Zacharias  
420 SW 9TH STREET  
TOPEKA, KANSAS 66612-1678  
PHONE 785.296.3071  
FAX 785.296.2283

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1.800.432.2484

WEBSITE  
www.ksinsurance.org

# ***CERTIFICATE***

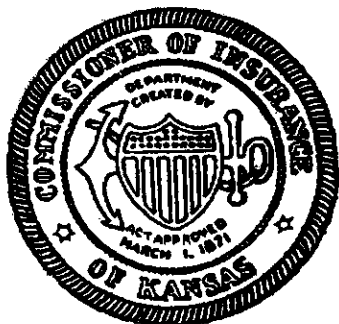
I, SANDY PRAEGER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

**REPORT OF EXAMINATION  
OF  
NATIONAL CROP INSURANCE SERVICES, INC.  
OVERLAND PARK, KANSAS  
AS OF NOVEMBER 30, 2006**

**FILED**  
**FEB 20 2007**  
**SANDY PRAEGER**  
Commissioner of Insurance

the original of which is now on file and a matter of record in this office.

*In Witness Whereof*, I, SANDY PRAEGER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 20th day of February, 2007.



*Sandy Praeger*

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Commissioner of Insurance

**REPORT ON EXAMINATION**  
**OF**  
**NATIONAL CROP INSURANCE SERVICES, INC.**  
**OVERLAND PARK, KANSAS**  
**AS OF**  
**NOVEMBER 30, 2006**

**FILED**  
**FEB 20 2007**  
**SANDY PRAEGER**  
*Commissioner of Insurance*

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Topeka, Kansas  
December 18, 2006

Honorable Sandy Praeger  
Commissioner of Insurance  
Kansas Insurance Department  
420 South West Ninth Street  
Topeka, Kansas 66612

Dear Commissioner:

In accordance with your authorization and pursuant to *K.S.A 40-222 Examination of condition of company* and *K.S.A. 40-956 Rating organizations; examinations*, an examination has been made of the

**NATIONAL CROP INSURANCE SERVICES, INC.  
8900 INDIAN CREEK PARKWAY, SUITE 600  
OVERLAND PARK, KANSAS 66210**

hereinafter referred to as "NCIS" or "Company" and the following report is respectfully submitted. The examination was made in Topeka, Kansas and at the offices of NCIS.

#### **SCOPE OF EXAMINATION**

Representatives of the Georgia Insurance and Fire Commissioner conducted the previous examination of NCIS, as of December 31, 1995. The current examination commenced on December 4, 2006, to determine NCIS's compliance with *K.S.A. 40-956, Rating Organizations*.

A review was undertaken of the items listed below to assess their impact on NCIS's compliance with related Kansas statutes and regulations as of November 30, 2006:

NCIS History  
Statistical Procedures

Management and Control

## **HISTORY**

### **General**

The Western Hail and Adjustment Association (WHAA) was organized in 1915. In 1947, WHAA changed its name to Hail Insurance Adjustment and Research Association (HIARA) and established the Crop Hail-Insurance Actuarial Association (CHIAA). In 1974, HIARA changed its name to National Crop Insurance Association (NCIA).

NCIS was formed on April 1, 1989, through the consolidation of two related organizations, CHIAA and NCIA. NCIS relocated from Chicago, Illinois to Overland Park, Kansas in 1988 and has been at its current address since May 2004.

NCIS is a not-for-profit corporation established to deliver information services and products to member companies in order to provide risk management to those who grow crops or are exposed to weather perils.

### **Management**

NCIS's articles of incorporation were filed with the Kansas Secretary of State on February 6, 1989. The articles of incorporation consist of 8 articles establishing the name and purpose of the Company. It was established with a perpetual duration. It has no capital stock and the articles of incorporation provide that no dividends or pecuniary profits shall be paid to the member companies. The articles of incorporation provide that the Company shall be managed by a board of directors (board) as provided in the bylaws of the Company.

The bylaws of the Company provide for four separate class of members; full members, service members, international insurance company service members and associate members. To become a member, an entity must submit an application

prescribed by the board and be accepted by a majority vote of the board. At November 30, 2006, NCIS had 25 full members, which are listed below:

Ag Security Insurance Co.	Oklahoma City, OK
American Alternative Insurance Corp.	Findlay, IL
American Farm Bureau Insurance	Schaumburg, IL
American Omni Crop LLC	Moorhead, MN
Argo National LLC	Council Bluffs, IA
ARMtech Insurance Services	Lubbock, TX
Austin Mutual	Jacksonville, IL
CropUSA Insurance Agency	Overland Park, KS
Farm Bureau Mutual of Arkansas	Little Rock, AR
Farm Bureau Mutual of Idaho	Pocatello, ID
Farm Bureau Mutual Insurance Co.	West Des Moines, IA
Farmers Mutual Hail of Iowa	West Des Moines, IA
Great American Insurance Companies	Cincinnati, OH
Grinnell Mutual Reinsurance	Grinnell, IA
Heartland Crop Insurance	Topeka, KS
John Deere Risk Protection, Inc.	Johnston, IA
NAU Country Insurance Co.	Eau Claire, WI
North Carolina Farm Bureau Mutual	Raleigh, NC
Nodak Mutual Insurance Co.	Fargo, ND
Producers Agricultural Insurance Group	Amarillo, TX
Rain & Hail LLC	Johnston, IA
Rural Community Insurance	Anoka, MN
Square Deal Insurance	Des Moines, IA
Triangle Insurance Group, Inc.	Smithfield, NC
United Farm Family Mutual Insurance Co.	Indianapolis, IN

Five service members on the examination date are listed below:

Butte Mutual Insurance Company	Las Cruces, NM
Country Mutual Insurance Company	Bloomington, IL
Producers Protective Association	Denver, CO
Rural Mutual Insurance Company	Madison, WI
Farm Bureau Mutual of Virginia	Richmond, VA

On November 30, 2006, there were also 6 International Insurance company service members and 20 organizational associate members.

The bylaws prescribe that the board shall consist of 9 members. At November 30, 2006, there were 9 board members as shown on the following page.

#### **NCIS Board of Directors**

<b>Name</b>	<b>Company</b>	<b>Address</b>
Roger Swartz	American Farm Bureau Insurance Service	1501 E. Woodfield Road Ste. 300 W Schaumburg, IL 60173
Ted Etheredge	ARMtech	7101 82nd St Lubbock, TX 79424
Steve Rutledge	Farmers Mutual Hail Insurance Company of Iowa	6785 Westown Parkway West Des Moines, IA 50266
Ronald J. Brichler	Great American Insurance	49 E. Fourth St., 4th Floor Dixie Terminal North Cincinnati, OH 45202
Robert Parkerson	National Crop Insurance Services, Inc.	8900 Indian Creek Parkway Ste. 600 Overland Park, KS 66210
Greg Burger	NAU Country Insurance Company	200 Riverfront Terrace Suite 400 Eau Claire, WI 54703
Ben Latham	ProAg Insurance	PO Box 229 2025 S. Hughes St. Amarillo, TX 79102
Steve Harms	Rain & Hail LLC	9200 Northpark Drive Ste. 300 Johnston, IA 50131
Randy Tronnes	Rural Community Insurance Services	3501 Thurston Avenue Anoka, MN 55303

The bylaws prescribe that the board shall appoint a president who shall be the chief executive officer of the Company. The president may hire officers and employees in accordance with the policies established by the board.

At November 30, 2006, the president was Mr. Robert Parkerson.

NCIS adequately disclosed the above members to the Kansas Insurance Department (KID) as required by K.S.A. 40-956.

**Territory and Plan of Operation**

NCIS is licensed in 49 states as reflected in the following table:

<u>STATE</u>	<u>TYPE OF LICENSE</u>	<u>RENEWAL REQUIRED</u>	<u>TERM MONTHS</u>	<u>EXPIRED MONTH</u>	<u>EXPIRED YEAR</u>
AL	Rating Organization	Yes	12	June	2007
AK	No License	No License	N/A	None	0
AZ	Rating Organization	No	Continuous	None	0
AR	Advisory Organization	Yes	12	January	2007
CA	Advisory Organization	No	Continuous	None	0
CO	Rating Organization	Yes	36	January	2009
CT	Rating Organization	No	Continuous	None	0
DE	Certificate of Authority	Yes	12	June	2007
FL	Rating Organization	Yes	12	September	2007
GA	Rating Organization	Yes	12	June	2007
HI	Rating Organization	Yes	36	August	2008
ID	Rating Organization	Yes	12	March	2007
IL	Advisory Organization	Yes	12	December	2007
IN	Rating Organization	Yes	36	January	2009
IA	Advisory Organization	Yes	12	June	2007
KS	Rating Organization	Yes	12	April	2007
KY	Advisory Organization	Yes	12	March	2007
LA	Certificate of Authority	Yes	12	November	2007
ME	Advisory Organization	Yes	24	January	2008
MD	Rating Organization	Yes	36	June	2008
MA	Rating Organization	Yes	36	August	2008
MI	Rating Organization	Yes	36	June	2008
MN	Rating Organization	Yes	36	May	2008
MS	Advisory Organization	Yes	Continuous	None	0
MO	Rating Organization	Yes	36	September	2008
MT	Rating Organization	Yes	12	October	2007
NE	Certificate of Authority	Yes	12	April	2007
NV	Certificate of Authority	Yes	12	March	2007
NC	Statistical Organization	Yes	12	March	2007

<u>STATE</u>	<u>TYPE OF LICENCE</u>	<u>RENEWAL REQUIRED</u>	<u>TERM MONTHS</u>	<u>EXPIRED MONTH</u>	<u>EXPIRED YEAR</u>
ND	Advisory Organization	Yes	12	May	2007
NH	Rating Organization	Yes	12	October	2007
NJ	Advisory Organization	No	Continuous	None	0
NM	Rating Organization	Yes	12	May	2007
NY	Rating Organization	No	Continuous	None	0
OH	Rating Organization	Yes	36	June	2008
OK	Advisory Organization	Yes	12	January	2008
OR	Rating Organization	Yes	36	March	2007
PA	Rating Organization	Yes	36	December	2008
RI	Rating Organization	Yes	36	May	2008
SC	Rating Organization	Yes	12	March	2007
SD	Rating Organization	Yes	12	April	2007
TN	Rating Organization	No	Continuous	None	0
TX	Advisory Organization	No	Continuous	None	0
UT	Rating Organization	Yes	12	March	2007
VT	Rating Organization	No	Continuous	None	0
VA	Rating Organization	No	Continuous	None	0
WA	Rating Organization	Yes	36	September	2007
WV	Rating Organization	Yes	36	October	2008
WI	Rating Organization	Yes	12	February	2007
WY	Advisory Organization	Yes	36	June	2007

### **Statistical Procedures**

Member companies submit their data to NCIS via NCIS's file transfer utility. Members submitting data are provided an Edit Submission Report. The data undergoes a variety of edit checks. Once the data has gone through the edit checks, the members are provided a Submission Status Report and a Crop-Hail Error Report.

Once the data is processed, there are two verification reports that the members must complete. The first is the Crop-Hail Premium Verification Report and the second is the Crop-Hail Final Verification Report. The Crop-Hail Premium Verification Report is

a report of premiums submitted and processed. The Crop-Hail Final Verification Report is a report of premium and losses accepted and processed.

NCIS's actuarial staff applies various actuarial techniques to the processed data. From that, it provides reports to the members, as well as to the states in which it is licensed, that provide, by state, by county and by township and by type of crop the liability amount written, the premium, the losses, loss ratio, average rate and the loss cost.

### **Ratemaking Procedures**

NCIS has filed no rates on behalf of its membership with the KID during the examination period. Instead, NCIS files Final Average Loss costs (FALCS)(also referred to as the pure premium) with the KID. NCIS also submits the Crop-Hail Insurance Statistics Report with the KID annually. Although the statistical summary contained in this report does include historical average rates, the reports generated by NCIS do not include any prospective rates.

NCIS's members use the reports received from NCIS to help determine the rates that each individual company will use.

### **FINANCIAL INFORMATION**

NCIS derives operating revenue from various annual assessments made to its members. NCIS is exempt from reporting financially to the Kansas Insurance Department on a statutory accounting basis. Their accounting records are maintained on a basis consistent with generally accepted accounting principles in the United States. As such, no independent attempt was made by this examination to determine the financial condition of NCIS. Reliance, instead, was placed upon the December 31,

2005, annual audit performed by KPMG LLP (KPMG).


Key financial information found in the December 31, 2005, KPMG audit is presented below:

Total assets, December 31, 2005	\$5,310,173
Total equity, December 31, 2005	3,680,242
Total operating revenues, year ending December 31, 2005	8,389,184
Net income, year ending December 31, 2005	573,549

### CONCLUSION

The examiner wishes to express his appreciation for the courteous cooperation and assistance extended by the officers and employees of NCIS during the course of the examination.

Respectively submitted,



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William J. Wood, CFE  
Insurance Company Examiner

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

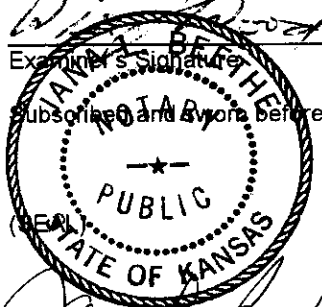
William J. Wood, CFE, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of National Crop Insurance Services, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of National Crop Insurance Services, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

William J. Wood  
Examiner's Signature

Subscribed and sworn before me by William J. Wood on this 15<sup>th</sup> day of FEB 2007



Jana L. Decker  
Notary Public

My commission expires 2-8-11 [date].

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF KANSAS**

In the Matter of the Proposed Adoption	)	
of the Financial Condition Examination	)	
Report as of November 30, 2006	)	Docket No. 0619-ER
<b>National Crop Insurance Services, Inc.</b>	)	

**ORDER**

NOW COMES on for formal disposition the matter of the proposed adoption of the financial condition examination report as of November 30, 2006, of National Crop Insurance Services, Inc., a Kansas corporation. This matter is brought before the Commissioner of Insurance for adoption, rejection, or modification pursuant to the provisions of Kansas Statutes Annotated (K.S.A.) 40-222.

I, Sandy Praeger, the duly elected, qualified, and acting Commissioner of Insurance, having fully considered and reviewed the financial condition examination report, together with all written submissions, applicable rebuttals, and all relevant portions of the examiners' work papers, and further, being fully advised on all premises, hereby find:

**Policy Reasons**

It is stated policy of the State of Kansas that whenever the Commissioner of Insurance deems it necessary, an examination of the affairs and financial condition of any insurance company in the process of organization, applying for admission, or doing business in this State can be undertaken. In all cases, such an examination must occur once every five (5) years. Through the examination process, the insurance consuming public will be well served and protected.

**Findings of Fact**

1. The Commissioner of Insurance has jurisdiction over this matter pursuant to K.S.A. 40-956 and 40-222.
2. An examination of National Crop Insurance Services, Inc. was undertaken by the Kansas Insurance Department and was completed on January 11, 2007.
3. The examiner-in-charge tendered and filed with the Kansas Insurance Department a verified written report of the examination within thirty (30) days following completion of the examination, to wit; December 18, 2006.

4. Following receipt of the verified report, the Kansas Insurance Department transmitted the report to National Crop Insurance Services, Inc. on January 11, 2007, with a duly executed notice advising the company of its opportunity to prepare and submit to the Kansas Insurance Department a written submission or rebuttal with respect to any and all matters contained in the report. National Crop Insurance Services, Inc. was further advised that any written submission or rebuttal needed to be filed with the Kansas Insurance Department no later than thirty (30) days after receipt of the verified report.

5. National Crop Insurance Services, Inc. filed a written rebuttal of the verified report on January 18, 2007.

6. Following receipt of the rebuttal, the Kansas Insurance Department agreed to make certain revisions and transmitted the revised report to National Crop Insurance Services, Inc. on February 13, 2007, with a duly executed notice advising the company of its opportunity to prepare and submit to the Kansas Insurance Department a written submission or rebuttal with respect to any and all matters contained in the report. National Crop Insurance Services, Inc. was further advised that any written submission or rebuttal needed to be filed with the Kansas Insurance Department no later than ten (10) days after receipt of the verified report.

7. National Crop Insurance Services, Inc. filed a written acceptance of the verified report on February 15, 2007.

8. Based upon the written submission tendered by National Crop Insurance Services, Inc., the company took no exceptions to matters contained in the verified report.

9. Within thirty (30) days of the end of the time period allowed for written submission or rebuttal, the Commissioner of Insurance fully reviewed the report, together with all written submissions and rebuttals provided by National Crop Insurance Services, Inc. The Commissioner of Insurance further reviewed all relevant workpapers.

10. No other written submissions or rebuttals were submitted by National Crop Insurance Services, Inc.

#### **Conclusion of Law**

11. K.S.A. 40-222(k)(2) provides:

"Within 30 days of the end of the period allowed for the receipt of written submissions or rebuttals, the commissioner shall fully consider and review the report, together with any

written submissions or rebuttals and any relevant portions of the examiners workpapers and enter an order:

- (A) Adopting the examination report as filed or with modification or corrections. If the examination report reveals that the company is operating in violation of any law, regulation or prior order of the commissioner the commissioner may order the company to take any action the commissioner considers necessary and appropriate to cure such violations; or
- (B) rejecting the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information, and refiling pursuant to subsection (k); or
- (C) call and conduct a fact-finding hearing in accordance with K.S.A. 40-281 and amendments thereto for purposes of obtaining additional documentation, data, information and testimony."

12. Based upon the Finding of Fact enumerated in paragraphs #1 through #10 above, the financial condition examination report as of November 30, 2006, of National Crop Insurance Services, Inc. should be adopted.

**IT IS THEREFORE, BY THE COMMISSIONER OF INSURANCE, ORDERED THAT:**

1. The financial condition examination report as of November 30, 2006, of National Crop Insurance Services, Inc., hereby is adopted.

2. The Commissioner of Insurance retains jurisdiction over this matter to issue any and all further Orders deemed appropriate or to take such further action necessary to dispose of this matter.

IT IS SO ORDERED THIS 20th DAY OF FEBRUARY, 2007, IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANSAS.



Sandy Praeger  
Commissioner of Insurance

BY:

John W. Campbell

General Counsel