DEPARTMENT OF INSURANCE
STATE OF NORTH DAKOTA

Jim Poolman
Commissioner of Insurance

BULLETIN 2005-3

TO: All Property and Casualty Insurance Companies Writing Crop Hail Insurance in North Dakota

FROM: Jim Poolman, Commissioner of Insurance

DATE: October 24, 2005

SUBJECT: Marketing of Crop Hail Insurance in North Dakota 2006

SCOPE AND APPLICABILITY

This bulletin pertains to all insurance companies seeking to market policies for the coverage of crop hail insurance in the State of North Dakota for the 2006 season. Crop hail insurance includes policies providing crop hail coverage, companion hail coverages and supplemental crop products not subsidized by the Federal Crop Insurance Corporation.

CROP FILING PROGRAM CHANGE – BACKGROUND

The Department is no longer requiring companies to use only National Crop Insurance Service (NCIS) Final Average Loss Cost (FALC) without modification for rate making. The Department will give consideration to rate filings that propose to modify NCIS FALCs or to file independently.

FILING DEADLINE

All new or revised crop hail, companion hail, and supplemental crop product rate filings for use in 2006 are due no later than February 1, 2006 (postmarked).

All new product (policy and form) filings, as well as revisions to existing products intended for use in 2006, are due no later than February 1, 2006 (postmarked).

The Department encourages companies to file in advance of the deadline if they are able. This will avoid potential delays and expedite the process.

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FILING PROCEDURES

The North Dakota Insurance Department will review crop form and rate filings according to the criteria set forth in this bulletin. Except as otherwise provided herein, forms and loss costs for crop hail insurance shall be as filed by the National Crop Insurance Services (NCIS). Companies may file form and rate/rule filings as one filing or may file them separately, the department will accept them in either format.

Filing Fee- Retaliatory Only

North Dakota does not require a filing fee for form and rate filings. However, if a company is domiciled in a state that requires filing fees of North Dakota companies, we do retaliate by requiring those companies pay the same fee when filing in North Dakota.

Use of Filing Transmittal Forms

A general filing transmittal form is required on all filings. Companies may use either the North Dakota Policy, Form, and Rate Filing Transmittal Form – ND1000 – SFN 51679 (11/03) or the National Association of Insurance Commissioner's (NAIC) Uniform Filing Transmittal Form – Property and Casualty Transmittal Document PD TD-1. Do not send both.

The forms can be downloaded from the following websites:

ND1000 www.state.nd.us/eforms/Doc/SFN51679.pdf

PC TD-1 www.naic.org/industry_rates_terms_trans_docs.htm

In addition to the general filing transmittal form, Crop Insurance Rate Filing - NDPC200 – SFN51682 (12/2004) is required with all rate filings and can be downloaded from this website:

www.state.nd.us/eforms/Doc/SFN51682printable.pdf

Any company who needs assistance in preparing either of these forms can call Mike Andring at (701) 328-4937.

Form Filing

Forms once filed by a company need not be refiled. Companies who are filing new forms, form changes, and new product forms must adhere to the following steps:

1. Companies proposing to use NCIS forms must file by reference, indicating by memorandum a list of forms they will use (to include name, form number, and edition date).

2. Companies proposing to use independent policy forms can file a copy of each form along with a memorandum explaining how the policy differs from the NCIS form and what impact it makes on coverage and rate.

3. Companies proposing to use a deviated or modified NCIS form must file a copy of the form along with the memorandum explaining the change and how it affects the coverage and the rate.

Rate Filing

Biennial filing of loss costs by NCIS – NCIS has filed loss cost revisions in October 2005 for use in the 2006-2007 seasons.

Biennial filing of company rates – Under the NCIS biennial filing procedures the Department requires all companies to file rate filings for use in the 2006 season.

Companies will not be required to file rates for the 2007 season (off year) unless the company is making a change in rates/rules for the 2007 season.

Rates for independent supplemental MPCI products – Independent supplemental MPCI/Federal Crop product rates filed prior to the date of this bulletin need not be refiled unless they are being revised. Companies wishing to file revised rates for these products may do so subject to the filing deadline.

Use of NCIS Final Average Loss Costs – NCIS Final Average Loss Costs (FALCs) are recognized by the industry and the Department as the most reliable (true historical) estimate of claim costs over time. Companies seeking to file deviations or modifications to NCIS FALCs must support any such requests with credible and actuarially sound data.

Rate filings based on NCIS FALCs must include the following:

1. Crop Insurance Rate Filing - NDPC200 cover page – Adoption of Advisory Organization Loss Costs. Only one cover page is necessary to summarize the overall filing impact.

2. The company's three-year pure loss experience and expenses. The use of the most recent year's experience is optional.

   Use Crop Insurance Rate Filing - NDPC200, Page 4, Historical Expense Exhibit.

3. The company's proposed loss cost multiplier for each product and/or tier of loss costs, including the development and support for the multiplier. Separate multipliers may be filed based upon product (i.e., crop hail versus companion hail), marketing type (i.e., agent, direct marketing, internet marketing), rating tiers (i.e., loss cost ranges, loss cost modification, production expense, fixed expenses).

   Use Crop Insurance Rate Filing - NDPC200, Page 2, Development of Loss Cost Multiplier if the filing does not include fixed expense components. Use one page for each separate loss cost multiplier you are filing.

   Use Crop Insurance Rate Filing - NDPC200, Page 3, Development of Loss Cost Multiplier with Fixed Expense Component if the filing includes a fixed expense component. Use one page for each separate loss cost multiplier you are filing.

4. Crop Insurance Rate Filing - NDPC200, Page 5, Summary of Loss Cost Multipliers. Use appropriate number of forms needed to summarize all loss cost multipliers.

5. A cover letter and actuarial memorandum detailing the rationale for your request.

6. A copy of the proposed rates.

7. An actuarial memorandum with supporting documents is required for those filings seeking approval for deviations or modifications to NCIS FALCs or for new non-NCIS products.

Rate filings not based upon NCIS FALCs must include the following:

1. Crop Insurance Rate Filing Form NDPC 200. Pages 1, 2, and 3 may not be appropriate for an independently filed rating program; however, to the extent possible, please use them. Pages 4 and 5 should be submitted.

2. A cover letter and actuarial memorandum detailing the rationale for your request.

3. A copy of the proposed rates and rules.

Rounding rules - Each company is required to file the rounding procedures/rule that it uses in its ratemaking process.

DISCOUNTS PERMITTED

Cash Discounts

The Insurance Department recognizes cash discounts offered for receipt of premium before July 1 or for payment in full with application for new policies written after July 1, provided the discount does not exceed 5%. The Department will consider payment plans (cash discount/surcharge) that deviate from the traditional July 1 cut-off date. Any payment plan that deviates from the traditional July 1 cut off date must be properly documented and supported.

The cash discount will be allowed on policy changes after the cut-off date, if the original policy was paid on a cash discount basis and payment is received with the change.

The purchaser of a crop hail insurance policy is entitled to a cash discount in the event the company provides one, therefore, applications for crop hail insurance based upon filings providing the cash discount shall include notice to the purchaser specifically waiving his or her option to elect a cash discount in the event the purchaser declines to pay the premium by the cut-off date.

If the purchaser has been properly informed, waives the cash discount, and does not make full payment at the time of application, the agent can take advantage of the cash discount by submitting full payment with the application to the company. The agent and the purchaser would, however, be in violation of the rebate statute if the agent were to subsequently pass on a cash discount to the purchaser in an agency billing.

DISCOUNTS NOT PERMITTED

The following discounts are not permitted: total limit of liability, total premium volume, MPCI (federal crop) package, claims free history, tie ins with other lines of insurance (i.e., farmowners, autos, etc.), and direct marketing. (Any request for a direct marketing or internet type expense reduction must be filed and justified in the same manner as any other loss cost multiplier request.)

COMPANION HAIL PRODUCTS

Endorsement 2002-NCIS 653 is intended to be used in conjunction with the crop hail policy form to provide optional and supplemental coverage to the underlying MPCI or FCIC policy. Since the marketing of this form as a stand-alone policy is contrary to its intended usage, such marketing will not be permitted. This prohibition extends to other non-standard companion hail type policies as well.

MARKETING IN ADVANCE OF RATE FILING APPROVAL

The company can market previously approved contracts prior to the new season rates being approved by the Department, if they provide the purchaser with appropriate disclosures indicating that the rates that will be applied to the contract will be those approved for this season, not the prior season and provide a procedure by which the purchaser can cancel the contract without penalty AFTER notification of the approved rate. Note: Companies that are not filing a rate revision during an off year are not subject to this condition and may use the previously filed rates.

CONTINUOUS POLICY

Some companies market contracts which are termed "Continuous Policies". The policy generally provides automatic coverage at last year's levels to new crops early in the season but require confirmation by a certain date and the creation of a new policy, in order to continue the coverage. Since a continuous policy provides for an automatic renewal of the contract, companies intending to nonrenew an account must take steps to see that all criteria set forth in the contract and in statute are followed, making sure the policyholder receives sufficient advance notice of termination.

DIVIDENDS

N.D. Admin. Code § 45-05-02-03 permits dividends but prohibits the use of dividends in the marketing of crop hail insurance.

PREVIOUS BULLETINS

Effective October 24, 2005, this bulletin supersedes the following Department bulletin:

Bulletin 2004-3

The following forms are attached to this bulletin:

Crop Insurance Rate Filing – NDPC200 – SFN 51682 (12/2004)

Page 1 – Adoption of Advisory Organization Loss Cost
Page 2 – Development of Loss Cost Multiplier
Page 3 – Development of Loss Cost Multiplier With Fixed Expense Component
Page 4 – Historical Expense Exhibit
Page 5 – Summary of Loss Cost Multipliers

JP/njb
Attachment

CROP INSURANCE RATE FILING - NDPC200

NORTH DAKOTA INSURANCE DEPARTMENT

SFN 51682 (12/2004)

Adoption of Advisory Organization Loss Costs

Date:

1. Insurer Name
2. Advisory Organization:
3. Advisory Organization Reference Filing Number:

4. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the loss costs in the captioned Reference Filing.

   The insurer's rates will be the combination of the prospective loss costs, the loss cost multipliers, and if utilized, the fixed expense component specified in the attachments.

5. A. Rate Change due to Advisory Organization's revised Loss Costs:	%
B. Rate Change due to Insurer's revised Loss Cost Multipliers:	%
C. Total Rate Change:	%
D. Proposed Effective date of Rate Change:	

6. Cash Discount:	%

7. Indicate below which of the supplemental pages of form NDPC200 are included with this filing.
_____ A. Page 2 - Development of Loss Cost Multiplier is required for each separate tier or product. Use this form if not filing a fixed expense component. If filing multiple tiers or products, use one form (page 2) for each tier or product filed.
_____ B. Page 3 - Development of Loss Cost Multiplier with Fixed Expense Component is required for each separate tier or product. Use in place of page 2 if filing a fixed expense component. If filing multiple tiers or products, use one form (page 3) for each tier or product filed.
_____ C. Page 4 - Historical Expense Exhibit
_____ D. Page 5 - Summary of Loss Cost Multipliers

Development of Loss Cost Multiplier

Insurer Name
1. Description of Crop Insurance Product for which this page applies (Product type, Market Type, rate tier, etc.)
2. Loss Cost Modification A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing CHECK ONE ☐ Without Modification. ☐ With the following modification. **Cite the nature and percent of modification, and attach supporting data and/or rationale for the modification.**
B. Loss Cost Modification Expressed as a Factor (see examples below)

Current Modifier		Proposed Modifier

3. Development of Expected Loss Ratio

Attach 3 year insurer expense history and any other additional supporting information.
This filing will not be considered unless the completed expense history form is attached.

	Previous	Proposed
A. Total Regular Commissions:	%	%
B. Other Acquisition Expense: (including Contingent Commissions)	%	%
C. General Expense:	%	%
D. Loss Adjustment Expense:	%	%
E. Taxes, Licenses & Fees:	%	%
F. Underwriting Profit:	%	%
G. Other (Explain):	%	%
H. Total:	%	%
4. Expected Loss Ratio: ELR = 100% - 3H	%	%
5. Company Formula Loss Cost Multiplier = (Proposed 2B / Proposed #4)		

6. Total Rate level change for the coverages to which this page applies ____ %

Example If your company's loss cost modification is -10%, a factor (1.00 - .10) = .90 should be used.

Example If your company's loss cost modification is +15%, a factor (1.00 + .15) = 1.15 should be used.

Development of Loss Cost Multiplier with Fixed Expense Component

Insurer Name

1. Description of Crop Insurance Product for which this page appli (Product type, Market type, rate tier, etc.)

2. Loss Cost Modification

A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing

CHECK ONE

☐ Without Modification.

☐ With the following modification. **Cite the nature and percent of modification, and attach supporting data and/or rationale for the modification.**

B. Loss Cost Modification Expressed as a Factor (see examples below)

Current Modifier		Proposed Modifier

3. Development of Expected Loss Ratio

Attach 3 year insurer expense history and any other additional supporting information.
This filing will not be considered unless the completed expense history form is attached.

		Expense Provisions	
	Overall	Variable	Fixed
A. Total Regular Commissions:			
B. Other Acquisition Expense: (including Contingent Commissions)			
C. General Expense:			
D. Loss Adjusting Expense:			
E. Taxes, Licenses & Fees:			
F. Underwriting Profit:			
G. Other (Explain)			
H. Total			

4A. Expected Loss Ratio: ELR = 100% - Overall 3H

4B. Variable Expected Loss Ratio = 100% - Variable 3H

5. Formula Expense Constant: [(1.00 / 4A) - (1.00 / 4B)] x Average Underlying Loss Cost

6. Formula Variable Loss Cost Multiplier:(2B / 4B)

7. Total Rate level change for the coverages to which this page applies

%

Example 1 If your company's loss cost modification is -10%, a factor (1.00 - .10) = .90 should be used.

Example 2 If your company's loss cost modification is +15%, a factor (1.00 + .15) = 1.15 should be used.

Historical Expense Exhibit

Insurer Name:

	Countrywide						North Dakota						
Year													**3 Year Historical Avg % of Premium**
	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	$ Amount	% of Prem	
Crop Hail Premiums *		100%		100%		100%		100%		100%		100%	100%
Actual Losses **													
Regular Commissions													
Other Acquisition (incl Cont. Commissions)													
General Expense													
Loss Adjustment Expense													
Taxes, Licenses & Fees													
Other Expense (Explain)													
Profit(Loss)													

* Includes premium from Crop Hail and Companion Hail policies.
** Does not include any Loss Adjustment Expense

Summary of Loss Cost Multipliers

Insurer Name:

Crop Hail Products

Rate/Loss Cost Tier	Regular Commission Level	Expense Ratio	Fixed Expense Component	Profit Load	Loss Cost Modification Factor
	%	%		%	
	%	%		%	
	%	%		%	
	%	%		%	
	%	%		%	

Companion Hail Products

Rate/Loss Cost Tier	Regular Commission Level	Expense Ratio	Fixed Expense Component	Profit Load	Loss Cost Modification Factor
	%	%		%	
	%	%		%	
	%	%		%	
	%	%		%	
	%	%		%	