

Nebraska Department of Insurance
Guidance Document
IGD - - C13

Title: Filing Procedures for Crop-Hail and Crop-Hail Production Plan Rating Systems

Issue Date: October 20, 2022

Previously: Issued as CB-142, January 14, 2021

Notice: This guidance document is advisory in nature but is binding on an agency until amended by such agency. A guidance document does not include internal procedural documents that only affect the internal operations of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules and regulations made in accordance with the Administrative Procedure Act. If you believe that this guidance document imposes additional requirements or penalties on regulated parties, you may request a review of the document.

The Nebraska Department of Insurance (NDOI) amended what is now IGD - - C14 in 2019 with the purpose of updating the cash discount receipt date. Specifically, this guidance document extends the transition period of +/- 25% deviations from the National Crop Insurance Services (NCIS) Final Average Loss Costs (FALCs) until further notice. This extended transition period is intended to ease the transition of premium increases further and allow further data collection. This amendment excludes any deviations from the NCIS FALCs for corn-wind, green snap, and extra harvest expense from the cumulative 25% calculation. The NDOI continues to analyze this issue and will make further adjustments as necessary, but until otherwise amended, these requirements will remain in place. Please note: Companies may file rates outside of the +/- 25% deviation, but will be required to provide actuarial justification showing these rates are not inadequate.

NEB.REV.STAT. § 44-7507 requires the Director to monitor competition and the availability of insurance in commercial insurance markets.

NEB.REV.STAT. § 44-7508 requires insurers to provide all supporting documentation related to rating systems. As a result, the Director requires the following filing procedures for companies issuing policies for private crop coverages ("Crop-Hail") for which the NCIS develops FALCs. For purposes of this guidance document, Crop-Hail coverages include independently developed variations or modifications of the NCIS-supported products.

This guidance document does not apply to state-regulated independent supplemental Multiple Peril Crop Insurance (MPCI) products, except that rates and forms for these products are subject to the same filing deadline as Crop-Hail.

Filing Procedure

Substantially completed rate and form filings for Crop-Hail insurance must be submitted no later than January 15 of the year in which the filing will go into effect. Late submissions will not be accepted.

Incomplete filings submitted as a placeholder to comply with the filing deadline will also not be accepted.

Companies wishing to use independent or modified NCIS forms must file these along with a memorandum explaining the change and how it affects the coverage and the rate.

All companies writing Crop-Hail insurance must submit a new rate filing annually. As described further in depth below, each Crop-Hail rate filing must include:

1. A certification signed by a company officer confirming that the company's rates and rules comply with the requirements stated in this guidance document. This certification must be in the form of the attached Exhibit A;
2. The Crop-Hail Insurance Rate Filing Form, Exhibit B; and
3. The Nebraska Rate Supporting Exhibits, Loss Cost Exhibits C and D; and
4. An exhibit summarizing the company's annual historical experience on a direct basis for Nebraska and countrywide, showing written premium and earned premium, with ratios to an earned premium of incurred losses and adjustment expenses, and ratios to a written premium of expenses as specified below. Five years' history with total should appear, or the rate filer's available history if shorter than five years.

In addition to items 1-4 above, actuarial justification must be provided whenever:

- A rate filing seeks to modify NCIS FALCs such that for any individual rate or policy, the cumulative loss cost modification exceeds 25% up or down; or
- A rate filing seeks to utilize alternative loss costs (i.e., other than the NCIS FALCs) or independent rates; or
- The rates or rating factors filed are for independent or modified NCIS forms.

Actuarial Justification

"Actuarial Justification" in a rate filing means evidence supporting a conclusion that the insurer's revenue expectation, based partly on the file rates and rating system, is materially equal to the insurer's expected future costs.

Comparing proposed rates to competitors' rates is not an actuarial justification. Competitors' rates may not be actuarially justified, or the rate filer's expected losses and expenses may differ. Using competitor's data to estimate expected future costs involves obtaining each competitor's actuarial justification and making appropriate adjustments.

Expected future costs include losses and expenses. Actual future costs will differ since they depend on future events. A reasonable profit provision reflects insurance risk and the insurer's cost of capital.

When estimating future insurance costs, important variables include the applicable coverage provisions (forms), prospective policyholders' various exposures to covered losses, and the anticipated expenses to achieve the insurer's business plan. The American Academy of Actuaries provides guidance regarding future cost estimates for prospective property & casualty risk transfer in Actuarial Standards of Practice.

Expenses

Companies must furnish a minimum of five years of expense data for Nebraska and countrywide. Expense data must include total production expenses, general expenses, loss adjustment expenses, taxes, licenses and fees, and other expenses. The expense data provided must include the company's expenses and expenses incurred by its managing general agent (if any), if not included with the company's expense information.

The company should explain any difference between its historical expenses and the selected expense loadings used in its filing. The company should also provide a rationale for the underwriting profit and contingencies provision included in its rates. In doing so, investment income on policyholders' funds may be considered negligible, due to Crop-Hail insurers' very brief opportunity to invest such funds.

Expense Multiplier

An expense multiplier is used to include the rate filer's provisions for expenses and profit in its filed rates when using advisory loss costs. The filer must document the calculation of its expense multiplier based on the expense data and the profit and contingencies provision submitted with the filing. The company may separate fixed from variable expenses and use an expense constant. Still, it must provide an analysis that identifies the different categories of expenses and demonstrates that the aggregate premium will be unchanged by the separation.

Expense multipliers may differ by product (i.e., Crop-Hail versus companion hail), marketing type (i.e., agent versus direct marketing), crop (i.e., corn versus soybeans), or other distinctions, provided these differences can be justified based on differences in expenses (i.e., different commission rates across business segments). The company must provide actuarial support for the differentiation in expenses and profit provisions. Therefore, submit separate documentation for each separate expense multiplier.

Deviations or Loss Cost Modifications

The effect of any loss cost modifications or deviations is separate and distinct from the expense multiplier. A company may modify or deviate from the NCIS FALCs and rating factors without actuarial support provided that the cumulative effect of the company's loss cost modifications on an individual rate (NCIS FALCs, crop factors, policy form factors, production plan rating factors, and all other rating factors) does not exceed a maximum of 25% up or down. This limitation must be applied before any rounding rule that the company may use in the development of its rates. A company must provide actuarial justification whenever the cumulative loss cost modification underlying an individual rate exceeds 25% up or down.

The Loss Cost Exhibits C and D identified above are designed for a single broadly applicable loss cost modification factor. If there will be more than one modification, it is acceptable to put the average loss cost modification factor on the form. While the Loss Cost Exhibits C and D forms call for justification when the loss cost modification factor is not equal to 1.000, NDOI will require actuarial

justification for Crop-Hail rate filings with one or more cumulative modifications exceeding 25% up or down.

When the loss cost modifications are not uniform, an exhibit is required showing every variation in loss cost modification factors, disclosing how each variation will apply to the NCIS FALCs, showing the modifications' cumulative percent effect on individual rates, and showing the calculation of the average modification. Provide the company's rationale for the average modification and reasons for any variations. For each cumulative effect greater than +/- 25%, provide actuarial justification. For each variation, the filed rate must equal the product of the loss cost and loss cost multiplier. For each rate, the loss cost multiplier equals the expense multiplier times the loss cost modification factor. NDOI will require actuarial justification for Crop-Hail rate filings with one or more cumulative modifications exceeding 25% up or down.

Suppose the company chooses to develop rates on a territorial basis other than by township. In that case, the company must first determine the indicated FALC for each of its territories as the weighted average of the NCIS township FALCs within that territory with the corresponding NCIS cumulative liabilities for those same townships. The company may deviate from the indicated FALC in a manner consistent with the above procedure.

Independent Rates, Alternative Loss Costs, and Other Guidance

Companies seeking to use alternative loss costs (i.e., other than NCIS FALCs) or to file independent rates must provide actuarial justification.

Rates or rating factors for independent forms or modified NCIS forms (i.e., DXS30 or a Production Plan with a 10% minimum loss provision) must be accompanied by actuarial justification using current data whenever NCIS submits a new FALC filing. The company must provide an exhibit demonstrating that the rates or rating factors for these forms are reasonably consistent with the NCIS factors for policy forms having a similar or identical indemnity payout profile. Forms with an identical payout profile will be deemed to be the NCIS equivalent form, regardless of the company's name to describe the coverage. This provision applies not only to Crop-Hail forms, but to additional forms for companion hail coverage, production plan coverage, corn, green snap and wind coverage, and any additional coverages for which NCIS may produce loss costs in future years.

A company may use a minimum rate on a statewide basis. The filing must specify how this minimum was established. It should be based on the expense necessary to issue a policy. A maximum rate is not allowed.

Each company must file the rounding procedures it uses to establish its rates. The rounding procedures must round both upwards and downwards. Rates outside of the deviation boundaries established in this guidance document that result solely from the application of the company's standard rounding rule are not considered to violate the deviation provisions of this guidance document.

The company filing must include an exhibit summarizing its most recent five years' historical experience for Nebraska and countrywide. The filing must also include an actuarial memorandum

describing the development of the proposed rates and rating factors, as well as any additional information needed to explain the company's filing, along with a copy of the proposed rates.

Discounts

Cash discounts not to exceed three percent will be permitted if the premium is postmarked or received by August 30. The discount percentage amount must be stated in the company's rate filing and policy form.

No other discounts are permitted. This includes discounts for claims-free history, package discounts for the purchase of MPCl supplemental policies or any other non-crop insurance policies in combination with a Crop-Hail policy, discounts based on membership in the company or any other company or entity, as well as discounts based upon the insured acreage, the limit of liability, or premium volume of the policy.

(Exhibits A, B, C, & D follow on subsequent pages)

**CERTIFICATION FORM
STATE OF NEBRASKA
Exhibit A**

I hereby certify that I am familiar with the attached rate filing, including the development and justification of the rates and deviations included. I further certify that the rates and rules contained in this filing are in compliance with Nebraska Insurance Laws, Regulations, and Bulletins and that the premiums are not inadequate, excessive, or unfairly discriminatory. Furthermore, I certify that the rating plan filed will generate premium rates that do not deviate by more than 25% up or down when the filed company loss cost multiplier(s) and other company rating factors are applied to the approved NCIS FALC and factor structure. **Any exceptions to this are clearly indicated in the filing and include actuarial justification.**

Officer's Signature

Date

Name - Typed or Printed

Title

Company Name

CROP-HAIL INSURANCE RATE FILING FORM
STATE OF NEBRASKA
Exhibit B

Name of Company: _____

Effective Date of Filing: _____

Overall Effect of Rate Change: _____

Check all of the following boxes that apply:

1. Deviations from NCIS FALCs and Rating Factors

- We have used the NCIS FALCs with NO modifications or deviations.
- We are using our own territorial definitions with indicated FALCs based on the NCIS township FALCs.
- We are using an alternative set of loss costs or rates. Actuarial justification is provided.
- We have modified or deviated from the FALCs by a uniform _____%. Actuarial justification is provided for changes exceeding +/-25%.
- We have modified or deviated from NCIS FALCs in some, but not all, territories. A list of those territories and deviations is attached. Actuarial justification is provided for modifications or deviations exceeding +/-25%.
- The transition rule applies to some of our rates.
- The combined effect of our modifications or deviations from the NCIS FALCs, crop factors, policy form factors, production plan rating factors, and all other rating factors do not exceed +/-25%, from the NCIS FALCs modified by the corresponding NCIS factors.
- We have included actuarial justification for any cumulative modifications or deviations exceeding +/-25% from the NCIS FALCs modified by the NCIS crop factors and policy form factors. A listing of the territories, crops, and policy form factors with modifications or deviations exceeding the +/-25% range, unless the transition rule applies, along with their modifications or deviations from the NCIS level is attached.
- We have attached a complete list of independent program rates for which NCIS does not produce FALCs. **Note:** Coverages for which NCIS produces FALCs or factors, including crop-hail insurance, companion hail, production plan, and green snap and wind coverage for field corn and seed corn, are not considered to be independent programs.
- We offer company-specific variations of the NCIS policy language (i.e., DXS30 or a Production Plan with a 10% minimum loss provision). **Note:** These are not considered to be independent coverages. Whenever the company revises its rates or NCIS revises its FALCs, the company must provide actuarial support showing how the rates or rating factors were developed.
- We have modified or deviated from the NCIS policy form factors or NCIS crop factors. A listing of policy forms and/or crop factors with the corresponding modifications or deviations is attached. Actuarial justification is provided for changes exceeding +/-25%.
- We have used a minimum rate. We have included an explanation of how the minimum rate was established.
- Other. (Attach a complete explanation of the rates and methodology).

2. Expense Exhibit

- An expense exhibit providing five years of expense ratios for Nebraska and countrywide is attached.

3. Experience Exhibit

- An exhibit showing five years of premium, loss, and loss ratios for Nebraska and countrywide is attached.

4. FALC Multiplier

- We have used a loss cost multiplier of _____ for all FALCs. An exhibit developing the loss cost multiplier is attached.
- We have used a loss cost multiplier of _____ and an expense constant of _____. An exhibit identifying the fixed and variable expenses used in developing the loss cost multiplier and expense constant is attached.
- We have used different loss cost multipliers for different business segments. We have included exhibits that provide the loss cost multiplier for each business segment and identify and justify the expenses that vary by business segment. **Note:** Select this if your company also uses more than one combination of loss cost multiplier with expense constant.
- Other. (Attach a complete explanation & analysis).

5. Discounts

- We are filing a cash discount of _____% for payments postmarked or received by August 30 (not to exceed 3%).

Nebraska Crop-Hail Loss Cost Exhibit C

Space Reserved for Insurance Department Use

Date: _____

**INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION
PROSPECTIVE LOSS COSTS
REFERENCE FILING ADOPTION FORM**

1. Insurer Name _____

Address _____

Person Responsible for Filing _____

Title _____ Telephone No. _____

2. Insurer NAIC No. _____

3. Line of Insurance _____

4. Advisory Organization _____

5. Advisory Organization Reference Filing No. _____

6. 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 (deemed to have been independently submitted as its own filing) the prospective loss costs in the captioned Reference Filing.

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

7. Proposed Rate Level Change _____% Effective Date: _____

8. Prior Rate Level Change _____% Effective Date: _____

9. Attach "Summary of Supporting Information Form".
- a. When the insurer selects expense multipliers that differ within the filing's scope, use a separate Summary Form for each different expense multiplier.
 - b. If loss cost modification factors vary within segments associated with a given expense multiplier, the rate filer may use a separate Summary Form for each variation, or show average loss cost modification factors on one or more Summary Forms with appropriate labels of explanations.
 - c. Summary Forms with average loss cost modification factors should be supported by one or more exhibits, disclosing the amount of each variation, how it will apply to the loss costs, justification of the average and variations from it, and showing how each variation contributed to the average.

Nebraska Crop-Hail Loss Cost Exhibit D

Insurer Name: _____ Date: _____

NAIC No. _____ Group No. _____

**INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION PROSPECTIVE LOSS COSTS
SUMMARY OF SUPPORTING INFORMATION FORM
CALCULATION OF COMPANY LOSS COST MULTIPLIER**

1. Line, Subline, Coverage, Territory, Class, etc. combination to which this page applies:

2. Loss Cost Modification:

A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing: (Check One)

Without modification (factor = 1.000).

With the following modification(s). Cite the nature and percent modification, and attach supporting data and/or rationale for the modification. When the loss cost modifications will not be uniform, an exhibit is required showing every variation in loss cost modification factors, disclosing how each variation will apply to the NCIS FALCs, showing the modifications' cumulative percent effect on individual rates, and showing calculation of the average modification. Provide your rationale for the average modification and reasons for any variations. For each cumulative effect greater than +/-25%, provide actuarial justification.

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

NOTE: IF EXPENSE CONSTANTS ARE UTILIZED, ATTACH "EXPENSE CONSTANT SUPPLEMENT" OR OTHER SUPPORTING INFORMATION. DO NOT COMPLETE ITEMS 3-7 BELOW.

3. Development of Expected Loss Ratio. Attach exhibit detailing insurer expense data and/or other supporting information.

	<u>Selected Provisions</u>
A. Total Production Expense	_____ %
B. General Expense	_____ %
C. Taxes, Licenses & Fees	_____ %
D. Underwriting Profit & Contingencies	_____ %
E. Other (explain)	_____ %
F. TOTAL	_____ %

- 4. A. Expected Loss Ratio: $ELR=100\%-3F=A$ _____ %
- B. ELR in Decimal Form = _____ %
- 5. Company Formula Loss Cost Multiplier: (2B divided by 4B) = _____ %
- 6. Company Selected Loss Cost Multiplier = _____ %
 Attach an explanation of any differences between 5 and 6.
- 7. Rate level change for the coverages to which this page applies. _____ %

Example 1: Loss Cost Modification Factor: If your company's loss cost modification is -10%, a factor of .90 (1.000 - .100) should be used.

Example 2: Loss Cost Modification factor: If your company's loss cost modification is +15%, a factor of 1.15 (1.000 + .150) should be used.