

**REPORT ON EXAMINATION**  
**OF**  
**NATIONAL CROP INSURANCE SERVICES, INC.**  
**8900 INDIAN CREEK PARKWAY, SUITE 600**  
**OVERLAND PARK, KANSAS**  
**AS OF**  
**DECEMBER 31, 2020**

**FILED**

**DEC 21 2022**

**VICKI SCHMIDT**  
Commissioner of Insurance

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Topeka, Kansas  
April 20, 2022

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead Rd  
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-956(d), an examination has been conducted of the financial condition and business affairs of:

**NATIONAL CROP INSURANCE SERVICES, INC.**

with its statutory home and main administrative office at:

**8900 INDIAN CREEK PARKWAY, SUITE 600  
OVERLAND PARK, KANSAS**

hereinafter referred to as the "Company" or "NCIS". The following report on such examination is respectfully submitted.

**SCOPE OF EXAMINATION**

The examiner performed a single-state financial examination of NCIS, a Kansas domiciled rating organization. The last examination covered the four-year period from January 1, 2008, through December 31, 2011. This examination covers the nine-year period from January 1, 2012, through December 31, 2020.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department ("Department"). During this examination, the affairs and activities of the Company were reviewed and analyzed to determine compliance with applicable Kansas statutes, regulations, and directives.

This examination report includes significant findings of fact and general information

about the rating organization and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### **Independent Audit Reports**

Financial statements of the Company were audited by RubinBrown LLP of Kansas City, Missouri, for the most recent five-year period ending December 31, 2016 through December 31, 2020. In each of the years under examination, the auditors concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2020, and the results of its operations and its cash flows for the years then ended are in conformity with the accounting practices generally accepted in the United States of America.

The examination relied wholly on the independent auditor's workpapers underlying the Company's financial statements, as the financial statements were prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), which is different from the statutory accounting principles used in insurance accounting due to the nature of the Company as a rating agency.

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the exam.

### **COMPANY HISTORY**

#### **General**

In 1915, the Western Hail and Adjustment Association ("WHAA") was organized by the stock fire insurance companies who entered the crop-hail insurance field. In 1947,

WHAA changed its name to Hail Insurance Adjustment and Research Association (“HIARA”) and established the Crop-Hail Insurance Actuarial Association (“CHIAA”). CHIAA’s original purpose was to operate as a statistical and advisory organization to the state fire insurance rating bureaus giving advice as to crop-hail insurance rates and forms. In 1953, the constitution of HIARA was amended to permit it to act as a rating organization on a national scale. In 1959, the scope of HIARA was further expanded to permit the rating of rain insurance on public events, business ventures, and private proceedings.

In 1974, HIARA formed the National Crop Insurance Association (“NCIA”). In 1989, CHIAA and NCIA merged to form NCIS. NCIS operates as a rating organization under the authority of K.S.A. 40-956.

On July 12, 2000, Ag International Insurance Research Services, Inc (“Ag”), a wholly owned subsidiary of NCIS was incorporated.

The Company is an international non-profit corporation representing the interests of private crop insurance companies. NCIS members are the direct link to production agriculture in America. NCIS is organized for the following objectives:

- To collect, analyze and report relevant statistics acquired by, from, or on behalf of members from year-to-year in its capacity as an insurance advisory organization and as an insurance statistical organization.
- To furnish statistical, and actuarial analyses, loss adjustment procedures, insurance forms, and similar information to members and qualified purchasers.
- To consult and meet with groups or individuals having an interest in agriculture and weather-related insurance, including, but not limited to, state

and federal government officials and other trade associations.

- To conduct research, training, and education activities in order to promote improved knowledge and understanding of agricultural and weather-related insurance, including advocacy of members' common interests.
- To provide support and related services to members when interests of multiple members are involved.

## **MANAGEMENT AND CONTROL**

### **Members**

Article IV paragraph 1 of the bylaws provides that: "There shall be four separate classes of Members: Full Members, Service Members, International Insurance Company Service Members and Associate Members." Article IV paragraph 1 of the bylaws further provides that: "Each Full Member (company, affiliated group of companies, or managing general agent) shall be entitled to one vote." As of December 31, 2020, NCIS had 13 Full Members, 14 Associate Members, and 7 International Insurance Company Service Members, who are all Canadians.

Article V paragraph 1 of the bylaws provides that: "The Annual Meeting of NCIS shall be held during the first quarter of each calendar year at the hour, date and place fixed by the Board of Directors, notice of which shall be sent to the Members at their last known address by the President not less than 1 nor more than 60 days in advance of such date."

### **Board of Directors**

Article VI paragraph 1 of the bylaws provides that: "The property and business of NCIS shall be controlled and managed by the Board of Directors."

Paragraph VI paragraph 2 of the bylaws provides that: “Except for two directors who may be from the public, and the President; other Directors shall be accredited representatives of Full Members. Each Full Member may have only one representative serving on the Board.”

Article VI paragraph 3 of the Bylaws provides that: “The Board of Directors shall consist of not less than four nor more than fourteen persons (with the exact number being determined at the Annual Meeting of Members). Board Members shall be elected at the Annual Meeting of the Members of NCIS.”

Article VI paragraph 4 of the bylaws provides that: “As nearly as possible, one-half of the Members of the Board of Directors shall be elected each year in alternate years for terms of two years ending at the second Annual Meeting of NCIS following their election and until their successors shall be elected.”

Article VI paragraph 7 of the bylaws provides that: “The Board of Directors shall hold an Organizational Meeting each year following the Annual Meeting of the Members of NCIS.”

Article VI paragraph 8 of the bylaws provides that: “The Board of Directors shall elect at the Organizational Meeting the officers of NCIS, who shall consist of a Chairman, Vice Chairman, Second Vice Chairman, and such other officers as the Board of Directors shall determine. The officers shall hold office for a term of one year or until their successors are elected, provided that no officer shall hold the same office for more than two consecutive terms. The President may not be nominated or elected to be Chairman, Vice Chairman, or Second Vice Chairman of the Board. In the event of death, disability, or resignation of a Board officer, the Board of Directors shall elect, at its next meeting,

another qualified person to serve in that office until the next Organizational Meeting.”

As of December 31, 2020, the Board members serving, their official positions, and respective representation and term were as follows:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>	<b><u>Member Represented</u></b>	<b><u>Term Exp.</u></b>
Kendall Jones, Chairman	CEO and President	ProAg	2022
Michael Smith, Vice Chairman	CEO and President	ArmTech Insurance Services	2021
Tim Weber, 2 <sup>nd</sup> Vice Chairman	CEO and President	Great American Insurance Company	2021
Scott Arnold	CEO and President	Rain and Hail	2021
Michael Day	CEO and President	Rural Community Insurance Services	2021
Tim Green	CEO and President	American Farm Bureau Insurance Services, Inc.	2022
Jim Korin	CEO and President	NAU Country Insurance Company	2022
Brad Leighton	CEO and President	CGB Enterprises, Inc.	2021
Ron Rutledge	CEO and President	Farmers Mutual Hail Insurance Company of Iowa	2022
Tom Zacharias,	CEO and President NCIS		2021

### **Committees**

Article VI paragraph 9 of the bylaws provides that: “The Executive Committee shall consist of the Chairman, the Vice Chairman, the Second Vice Chairman, the immediate past Chairman (for one year) and the President. The Executive Committee shall have and may exercise any or all powers of the Board of Directors in management of NCIS, except as expressly limited by the Board of Directors. The Executive Committee shall, on a regular basis, report to the Board of Directors concerning actions taken by the



Executive Committee in management of NCIS.”

Article VII of the bylaws provides that: “There shall be committees of three types: Board Committees, Standing Committees (as determined from time to time by the Board of Directors), and Regional/State Crop Insurance Committees (also as determined from time to time by the Board).”

Article VII paragraph 1 of the bylaws provides that: “In addition to the Executive Committee, the Board of Directors shall establish an Audit Committee, a Nominating Committee and may establish other committees, determine their duties and responsibilities, and provide for its appointment of members. The President shall be an ex-officio member of all committees of the Board established by the Board of Directors (other than the Audit Committee).”

Board members appointed and serving in each of the committees at year-end, 2020, were as follows:

**Executive Committee**

Kendall Jones, Chairman  
Michael Smith  
Tim Weber  
Tom Zacharias (ex-officio)

**Audit Committee**

Michael Smith, Chairman  
Tim Green  
Ron Rutledge

**Nominating Committee**

Jim Korin, Chairman  
Jordan Roach  
Ron Rutledge  
Tom Zacharias (ex-officio)

**Officers**

Article VI paragraph 10 of the bylaws provides that: “The Board of Directors shall appoint a President who shall serve at the pleasure of the Board. The President shall be a Member of the Board of Directors. The President shall be the chief executive officer of NCIS.” “The President shall have the authority to hire officers and employees of NCIS, in accordance with policies established by the Board of Directors.”

The following is a listing of officers and their position(s) held as of December 31,

2020:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Tom Zacharias	CEO and President
Sherri Scharff	Executive Vice President, Member Services and Chief of Staff
Chuck Lee	Corporate Counsel
Matt South	Chief Actuary
Therese Stom	Vice President, Crop Hail Actuarial and Statistics
Dean Strasser	Vice President, Insurance Services and Operations
Lori Hankins	Staff Accountant

### **Conflict of Interest**

NCIS has a formal conflict of interest policy statement that requires reporting to the Board of any possible conflict of interest on the part of its directors regarding activities within and outside of the Company. Additionally, at each Board meeting, the Board members are asked to review and observe the Antitrust Statement prior to the discussion of the agenda items.

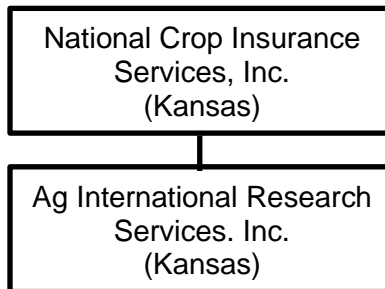
### **Corporate Records**

The Company's bylaws were reviewed for the period under examination. The bylaws were last amended on December 13, 2013.

The minutes of the meetings of the Board of Directors and committee meetings were reviewed for proper approval of corporate transactions.

## **ORGANIZATIONAL STRUCTURE**

The organizational chart below illustrates the identities of the rating organization and its subsidiary as of December 31, 2020.



Ag, a wholly owned subsidiary of NCIS, was incorporated on July 12, 2000. Ag is a research entity formed to utilize NCIS's expertise to provide independent development and evaluation of new or modifications of current policies or plans of insurance to be offered as federally reinsured crop insurance. Ag has been dormant since its inception and no written related party agreement currently exists between NCIS and Ag.

## **TERRITORY AND PLAN OF OPERATION**

As noted under the Company History section, NCIS operates as a rating organization under K.S.A. 40-956 *et seq.* The Company is an international non-profit corporation representing the interests of private crop insurance companies. NCIS members are the direct link to production agriculture in America. As of December 31, 2020, the Company is authorized to transact business in forty-nine (49) states.

### **Statistical Procedures**

Member companies submit their data to NCIS via NCIS's file transfer utility and the file transfer protocol. Members submitting data are provided an Edit Submission Report.

The data undergoes a variety of edit checks. Once the data has underwent 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 report is the Crop-Hail Premium Verification Report, and the second report 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 premiums and losses accepted and processed.

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

### **Ratemaking Procedures**

The Company generates two statistical reports that are filed annually with the Department: Final Average Loss Costs and the Crop-Hail Insurance Statistics. NCIS's members utilize these reports to help determine the premium rates that each individual company will charge its policyholders.

### **Market Conduct Examination**

Every five years The Advisory Organization Examination Oversight (D) Working Group of the National Association of Insurance Commissioners ("NAIC") initiates a comprehensive multi-state market conduct examination to determine if NCIS is compliant with state laws and regulations. The most recent examination covered the five-year period from January 1, 2014 to December 31, 2018. South Dakota and Virginia took the

lead role on behalf of all other NAIC participating states. There were no examination findings identified that would impact the financial condition of the Company.

### **SELECT FINANCIAL INFORMATION**

The exhibit below shows the Company's financial results for the most recent five-year period, through December 31, 2020. The financial amounts were obtained from the audited financial statements.

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>(in thousands)</i>					
Total Assets	\$13,455	\$10,483	\$ 9,851	\$11,201	\$13,140
Total Liabilities	5,914	2,551	2,375	2,231	2,093
Total Equity	7,541	7,932	7,476	8,970	11,047
Operating Income (Loss)	512	(3,860)	(170)	303	1,258
Net Income (Loss)	119	(3,623)	208	1,440	2,021
Total Revenue	11,693	12,253	12,282	12,561	12,744

### **FINANCIAL STATEMENTS**

The following financial statements are based on the consolidated audited GAAP financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. Any accompanying comments on the consolidated GAAP audited financial statements reflect any examination adjustments to the amounts reported in the consolidated GAAP audited financial statements and should be considered an integral part of the financial statements.

**NATIONAL CROP INSURANCE SERVICES, INC.  
CONSOLIDATED STATEMENT OF ASSETS  
AS OF DECEMBER 31, 2020**

	Net Admitted Assets
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 3,696,297
Accounts Receivable	145,727
Investments	7,254,546
Forms and Supplies	26,967
Prepaid Expenses	196,733
<b>Total Current Assets</b>	<b>11,320,270</b>
 <b>Fixed Assets and Leasehold Improvements</b>	
Office furniture and equipment	564,942
Leasehold improvements	665,730
Construction in process	60,529
Computer hardware	587,675
Less: Accumulated depreciation and amortization	534,360
<b>Fixed Assets and Leasehold Improvements, Net</b>	<b>1,344,516</b>
 <b>Other Noncurrent Assets</b>	
Computer software, net of accumulated amortization	21,270
Cash surrender value of life insurance contracts	453,780
<b>Total Other Noncurrent Assets</b>	<b>475,050</b>
<b>Total Assets</b>	<b>\$ 13,139,836</b>

**NATIONAL CROP INSURANCE SERVICES, INC.  
CONSOLIDATED STATEMENT OF LIABILITIES AND EQUITY  
AS OF DECEMBER 31, 2020**

**Current Liabilities**

Accounts payable and accrued expenses	\$ 610,802
Accrued postretirement benefits	34,000
Capital lease	45,487
Accrued vacation	321,402
Unearned revenue	-
Deferred lease incentive	55,566
<b>Total Current Liabilities</b>	<u>1,067,257</u>

**Noncurrent Liabilities**

Accrued postretirement benefits	219,927
Accrued deferred compensation liability	315,667
Deferred lease incentive	472,311
Deferred rent	17,568
Capital lease	-
<b>Total Noncurrent Liabilities</b>	<u>1,025,473</u>
<b>Total Liabilities</b>	<u>\$ 2,092,730</u>

**Equity**

Retained earnings	10,949,786
Accumulated other comprehensive income	97,310
<b>Total Equity</b>	<u>\$11,047,106</u>
<b>Total Liabilities and Equity</b>	<u><u>\$13,139,836</u></u>

**NATIONAL CROP INSURANCE SERVICES, INC.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Operating Revenues**

General membership assessments	\$ 4,922,175
Crop-hail assessments	2,354,025
Multiple peril crop insurance assessments	2,288,746
Loss adjustment assessments	1,703,925
Associate and Canadian assessments	313,319
Government grants	561,854
Annual meeting	380,855
Revenue from other services including special assessments	218,785
<b>Total Operating Revenues</b>	<u>12,743,684</u>

**Operating Expenses**

Salaries, wages, and employee benefits	7,233,386
Printing	124,602
Rent	535,438
Depreciation and amortization	235,090
Travel	358,643
Legal and professional fees	1,532,558
Other operating expenses	1,465,824
<b>Total Operating Expenses</b>	<u>11,485,541</u>

**Income From Operations**

1,258,143

**Other Income (Expense)**

Investment Income	692,229
Net actuarial gain and amortization related to postretirement plan	67,444
Other income (expense)	3,412
<b>Total Other Income</b>	<u>763,085</u>

**Net Income**

\$ 2,021,228



**NATIONAL CROP INSURANCE SERVICES, INC.**  
**CONSOLIDATED EQUITY ACCOUNT**  
**RECONCILIATION OF EQUITY ACCOUNT SINCE LAST EXAMINATION**

Total Equity, December 31, 2015			<u>\$ 6,740,505</u>
Net income (loss)	2016	\$ 119,370	
	2017	(3,623,376)	
	2018	207,795	
	2019	1,439,711	
	2020	<u>2,021,228</u>	164,728
Change in net unrealized capital gains or (losses)	2016	\$ 256,369	
	2017	232,293	
	2018	(825,496)	
	2019	54,656	
	2020	<u>55,686</u>	(226,492)
Reclassification adjustment for amounts included in net income	2016	\$ (23,875)	
	2017	148,050	
	2018	138,229	
	2019	-	
	2020	<u>-</u>	262,404
Net gain (loss) related to defined benefit plan and postretirement benefit plans	2016	\$ 449,063	
	2017	(720,632)	
	2018	23,510	
	2019	-	
	2020	<u>-</u>	(248,059)
Reclassification of accumulated comprehensive loss to net income for terminated defined benefit pension plan	2016	\$ -	
	2017	4,354,020	
	2018	-	
	2019	-	
	2020	<u>-</u>	<u>4,354,020</u>
Total Equity, December 31, 2020			<u>\$ 11,047,106</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to equity as a result of this examination. The total equity of the Company as of December 31, 2020, was \$11,047,106, which was the same amount reported by the Company in its 2020 consolidated GAAP Audited Financial Statement.

## **COMMENTS ON FINANCIAL STATEMENTS**

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

## **SUBSEQUENT EVENTS**

In 2021, NCIS discovered and self-reported a coding error in its 2020 Final Average Loss Costs filings with 17 states. This error resulted in losses being inadvertently doubled relative to the exposures for a single policy form. As a result of this error, NCIS's member companies overcharged their policyholders. Based on NCIS's analytical review, the states that would be materially affected by the error are Iowa, Minnesota, and North Dakota. These states have determined to work directly with the NCIS's member companies to resolve the issue. The amount of premium refunds due to the affected policyholders has not yet been determined. The financial impact on NCIS cannot be determined at this time.

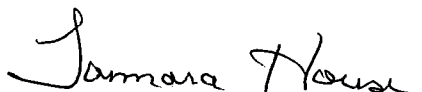
## **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

**CONCLUSION**

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated.

Respectfully submitted,

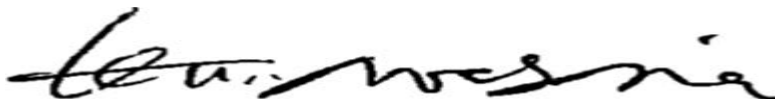


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Tamara House, CFE  
Examiner-in-Charge  
Kansas Insurance Department

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Examination procedures and guidelines as determined by the Kansas Insurance Department was utilized except where practices, procedures and applicable regulations and statutes of the State of Kansas prevailed.



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Levi Nwasoria, CPA, CFE  
Chief Examiner  
Kansas Insurance Department

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

State of Kansas,

County of Shawnee,

Tamara House, 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 Standards and Accreditation.
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. 40-956(d).

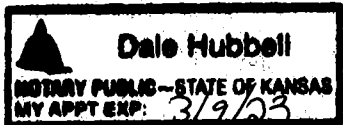
The affiant says nothing further.

Tamara House

Examiner's Signature

Subscribed and sworn before me by Tamara House on this 23 day of November, 2022.

(SEAL)



Dale Hubbell

Notary Public

My commission expires 3/9/2023  
(date)