

## **Bulletin 95-1**

### **1995 crop hail insurance guidelines**

January 11, 1995

Bulletin 95-1 replaces all previous crop hail insurance Bulletins issued by the South Dakota Division of Insurance.

South Dakota will fully implement Loss Cost Rating for crop hail insurance effective the 1995 crop growing season.

1. All crop hail rate *filings, including independent* filings, and loss cost multiplier filings for the current growing season must be received in the office of the Director of the Division of Insurance no later than March 1, 1995. No additional filings will be accepted beyond that date.
2. Final Average Loss Cost formulated by the National Crop Insurance Services (NCIS) and approved by the Division of Insurance will be considered the benchmark for South Dakota crop hail insurance rates. The NCIS Final Average Loss Cost includes catastrophe redistribution.
3. The Division will not permit premium deviations, discounts or individual risk credits applied to any crop hail insurance products. Discounts and/or deviations of up to 10%, and cash discounts of up to 6% approved in prior years will not be permitted.
4. Loss cost multipliers and independent (non NCIS) programs filed by insurers for approval by the Division may be subject to review by our Consulting Actuary at the discretion of the Director and at the expense of the submitting insurer.
5. Insurers will be required to file a loss cost multiplier for the 1995 crop season. NCIS will no longer file final rates and will only file average loss cost.
6. A minimum of the preceding five (5) consecutive year's actual expenses must be attached to all loss cost multiplier filings. The Division will provide with this Bulletin a loss cost multiplier worksheet. This worksheet must be completed in its entirety and submitted with your filing.
7. Companion hail insurance plans which are intended to supplement Multi-Peril Crop Insurance or Federal Crop Insurance, may only be written as a supplement to FCIC reinsured policies and may only be sold or written with the underlying coverage. Therefore, companion or supplement plans may be filed for approval at any time.

### **LOSS COST AND FINAL RATE FILING GUIDELINES CROP HAIL INSURANCE**

The Division encourages competitive rating and therefore, no caps or cups applicable to loss cost multipliers will be mandated. However, insurers will be

required to justify the loss cost multiplier filed for approval. The Division may at its own discretion and at the insurers expense, request an opinion from a Consulting Actuary.

### **FILING DEADLINE**

The March 1 filing deadline is not applied to form revisions.

If March 1 falls on a Saturday, Sunday or legal holiday, a crop hail or loss cost rate filing otherwise due on March 1 shall be considered to have been made on a timely basis if it is made on the next business day.

Your filing postmarked on or before March 1 (or such later date as described in the previous paragraph) shall be deemed to be timely. The U.S. postmark or the registration with an express mail service (i.e. Federal Express) shall be considered sufficient evidence of timely submission. A postal meter date will not be considered sufficient evidence of timely filing.

### **DISCOUNTS AND/OR DEVIATIONS**

The Division will not permit cash discounts and/or deviations in premiums.

The only modifications permitted will be that of a filed and approved loss cost multiplier filed by or on behalf of each insurer.

In the interest of cash flow, insurers are permitted to provide agents with an additional commission percentage in return for early remittance of the agents net premium account balance. The agents account would normally be due the insurer by October 1. This commission incentive may only be allowed the agent, if the net amount due the insurer is remitted by the agent to the insurer or MGA within *a minimum of 30 days* of the inception date of each policy. This commission incentive may not be passed on to the policyholder as this would constitute rebating.

*Insurers are reminded that this type of commission incentive must be reflected in the loss cost multiplier worksheet and shown as an expense item.*

### **DIVIDEND PLANS**

Dividend plans in the crop hail insurance business are permitted in South Dakota. We do not however, permit dividends to be paid "upfront" in the form of a premium discount based on anticipated dividends. Also, dividends must be declared by the insurers board of directors, after the policy period expires or all anticipated losses are paid for the crop growing season.

The following guidelines are established for the proper or improper use of dividend plans for crop insurance:

1. Dividends cannot be guaranteed. As such, it is a violation of insurance law to represent any dividend as being either guaranteed or certain.

2. Dividends may be declared by the board of directors of the insurer *after* the period of exposure to loss is substantially over and never prior to issuance. In other words, a dividend declared in June would constitute rebating rather than a dividend. We will not permit dividends to be declared until after October 1 of the current crop growing season. Dividends must be paid or credited to the policyholder by December 31 of the same crop growing season.

3. Dividends shall be on an across-the-board basis for all South Dakota policyholders. There shall be no discrimination between policyholders on the basis of geographic area, agent, commission, company within a company group or companies controlled by an MGA.

4. Discrimination between policyholders based on whether or not they have had a loss will not be permitted.

5. Your filing must indicate if a dividend plan will be offered and no dividends will be permitted if the insurer does not file for a dividend plan prior to the March 1 crop hail insurance filing deadline.

### **LOSS COST FILING INSTRUCTIONS**

To determine the applicable loss cost multiplier for your company or group of companies, you will need to file Form SDCH95-1 which can be found in this Bulletin. (South Dakota Bulletin 95-1)

Changes in company expenses will effect your loss cost multiplier and therefore, crop hail insurance loss cost multipliers must be filed annually prior to March 1.

The expense section of Form SDCH95-1 shall show the following classes of anticipated expenses:

- a. Average commissions expenses,
- b. Other acquisition expenses,
- c. Loss adjustment expenses,
- d. Taxes, licenses and fees (not including income taxes),
- e. All other expenses (not including interest on borrowed funds)

Attach separately, a five year history of the above mentioned expenses representing your actual expenses for the immediate past five year period.

*A statewide loss cost multiplier will be applicable.* Therefore, if you use a sliding commission scale, you will need to determine your average commission expense.

Filings which include any of the following will automatically be rejected:

1. Renewal discounts or multi-policy discounts as no discounts whatsoever are permitted.
2. Filings which simply state the filer wants to have the lowest rate filed. Insurers must provide the actual loss cost multiplier, not a multiplier or rate request based on the actions of other insurers.

### **ROUNDING RULE**

To insurer consistency, the Division feels it necessary to require that each insurer use the same rounding scheme in the ratemaking process. Therefore, we will require each insurer to round their rates in the following manner:

Base rates less than \$4.00: Round to nearest \$0.25

Base rates in the \$4.00 — \$16.00 range: Round to nearest \$0.50

Base rates greater than \$16.00: Round to nearest \$1.00

Final rates: Round to nearest \$.10

### **NATIONAL CROP INSURANCE SERVICES INFORMATION**

Increase or decrease limitations in the final rate after application of the loss cost multiplier are not mandated although are permissible. The maximum increase/decrease limitation is 20%.

NCIS publishes a Final Average Loss Cost (FALC) Manual for South Dakota which is made available to all insurers.

NCIS will also provide custom Policy Form Comparison Analyses and Crop Comparison Analyses and will prepare rates from the FALC analysis for a fee. When requesting a custom rate analysis the ALR, any applicable increase/decrease limits and previous rates must be specified to NCIS.

To order a Final Average Loss Cost Manual or for information pertaining to the services offered by NCIS, please contact the following:

Theresa M. Stom  
Actuarial Applications Coordinator  
National Crop Insurance Services (NCIS)  
7301 College Boulevard, Suite 170  
Overland Park, KS 66210  
Phone (913) 451-0980 or  
Fax (913) 469-2490

\*\*\*\* Material Omitted Here \*\*\*\*

Any questions regarding guidelines for crop hail insurance filings should be directed to the Division of Insurance, 445 East Capitol, Pierre, SD 57501-3940, (605) 773-3563.

Darla L. Lyon  
Director of Insurance

**SOUTH DAKOTA DIVISION OF INSURANCE  
CROP HAIL INSURANCE  
LOSS COST MULTIPLIER WORKSHEET**

Date: \_\_\_\_\_

Insurer Name and Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Insurer NAIC # : \_\_\_\_\_

Contact Person: \_\_\_\_\_

Phone Number: \_\_\_\_\_ Fax: \_\_\_\_\_

Advisory Organization: National Crop Insurance Services (NCIS)

NCIS Reference Filing # : \_\_\_\_\_

The above insurer hereby declares that it is member, subscriber or service purchaser of the National Crop Insurance Services advisory organization. The insurer hereby files to be deemed to have independently submitted as its own filing the loss costs in the captioned Reference Filing.

Retaliatory Filing Fee:

Form \$ \_\_\_\_\_ Rate/Rule \$ \_\_\_\_\_

State of Domicile: \_\_\_\_\_

Note Due Date: \_\_\_\_\_

Are you filing a Dividend Plan? \_\_\_\_ Yes \_\_\_\_ No

(If yes, attach a copy of the Dividend Plan.)

Are you offering a commission incentive to your agents for early remittance of net premiums? \_\_\_\_ Yes \_\_\_\_ No

(If yes, advice percentage of commission: \_\_\_\_\_ %)

**CROP HAIL INSURANCE LOSS COST FILING  
ADOPTION OF NCIS FINAL AVERAGE LOSS COSTS  
SUMMARY OF SUPPORTING INFORMATION**

**CALCULATION OF COMPANY LOSS COST MULTIPLIER**

**1. DEVELOPMENT OF ANTICIPATED EXPENSE RATIO FOR THIS GROWING SEASON**

Attach preceding 5 year expense history. This filing will not be considered unless the 5 year expense history is attached.

- a. Average commission expense : \_\_\_\_\_ %
- b. Other acquisition expense : \_\_\_\_\_ %
- c. Loss adjustment expense : \_\_\_\_\_ %
- d. Taxes, licenses and bureau fee : \_\_\_\_\_ %  
(Not including income taxes)
- e. Underwriting profit & contingencies : \_\_\_\_\_ %
- f. All other expenses (explain) : \_\_\_\_\_ %  
(Not including interest on borrowed funds)

**TOTAL** \_\_\_\_\_ %

**2. EXPECTED LOSS RATIO OR ALR** \_\_\_\_\_ %  
(100% Minus Total # 1)

**3. NCIS FINAL AVERAGE LOSS COST RATIO :** 1.00  
(Includes catastrophe redistribution) \_\_\_\_\_

**4. FINAL LOSS COST MULTIPLIER :** \_\_\_\_\_  
(100 divided by Expected Loss Ratio 2)

**5. Provide a listing of all Managing General Agents with which you are contracted and have authorized to transact crop hail insurance business in South Dakota:**

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