



MARKET CONDUCT EXAMINATION REPORT

of

CASCADE FARMERS MUTUAL INSURANCE COMPANY

GREAT FALLS, MONTANA

as of December 31, 2009

SCOPE OF EXAMINATION

The Montana Insurance Department conducted a market conduct examination of Cascade Farmers Mutual Insurance Company (hereinafter also referred to as the Company) that covered a four-year period from January 1, 2006, through December 31, 2009.

The examination was conducted pursuant to the provisions of Mont. Code Ann. §§ 33-1-401, *et seq.*, and 33-4-316, and in accordance with the procedures and guidelines outlined in the Market Conduct Examiners Handbook as adopted by the National Association of Insurance Commissioners and the Office of the Commissioner of Securities and Insurance, Montana State Auditor (CSI). The examination took place at the Company's home office located at 5000 9th Avenue South, Great Falls, MT 59405.

OPERATIONS AND MANAGEMENT

The Company's origins date to 1911 when Farmers in the Eden, Montana, area combined to form Eden Farmers Mutual Fire Insurance Company. The Company incorporated as Cascade County Farmers Mutual Insurance Company on January 20, 1913, pursuant to the statutes in existence at that time. The Company amended its Articles of Incorporation to reflect a change to a state farm mutual insurer on March 27, 1992. The amendment also altered the name of the Company to Cascade Farmers Mutual Insurance Company.

The Company is currently writing property and casualty insurance in accordance with its articles of incorporation and Montana law. In 2008 the Company negotiated a Managing General Agency (MGA) agreement with ProAg Management, Inc. of Amarillo, Texas, in order to re-enter the crop hail insurance marketplace in the 2009 crop year. The agreement, which has been extended through 2013, delegates the duties of solicitation, evaluation, acceptance and declination of risks, issuance of policies, collection of premium, agreements with producers, payment of producer commissions, supervision and training of producers, adjustment and payment of losses and reinsurance negotiation to ProAg Management, Inc. Mont. Code Ann. § 33-2-1603(3) requires an insurer to conduct an on-site review of the underwriting and claims process operations of the MGA at least two times per year. The Company manager has reviewed the MGA's operations in Amarillo, Texas, once each year since the Company began to sell crop hail insurance in 2009; however, due to the nature of crop hail insurance, the policies issued by the Company are in force for only six months each year.

Cascade Farmers Mutual Insurance Agency, Inc. (hereinafter referred to as the Agency) was licensed by the CSI to produce property and casualty business effective September 14, 2007. Life and disability lines were added October 8, 2009. It is a wholly-owned subsidiary of Cascade Farmers Mutual Insurance Company. Both the Agency and Company conduct operations at the

Company's home office location. Through its appointments with other insurers, the Agency is able to offer automobile insurance in addition to insurance products that are outside the scope of the Company's insuring authority.

The Company's Articles of Incorporation allow the number of directors to be between five and eleven. Director elections take place at the Company's annual meeting on the second Wednesday of March each year. During the time period covered by the exam, the Company has operated with five directors. The directors are elected to serve staggered three-year-terms. The minutes of the Company's annual membership meetings reflect the election of directors by acclamation. This practice is not consistent with the Company's Articles of Incorporation which stipulate the election of directors is to be accomplished by ballot.

The directors elect a president, vice president and secretary/treasurer from within their number to serve an annual term. The board of directors is responsible for the selection of a general manager to oversee the day-to-day operations of the Company.

The members of the board of directors during the time period covered by the examination are as follows:

<u>Director Name and Address</u>	<u>Term Expiration</u>	<u>Additional Term(s) Expiring</u>
William Thrasher Great Falls, MT 59401	2006	Resigned effective September 30, 2009
Jim Kulish Stanford, MT 59479		Appointed to fill unexpired term of William Thrasher
Richard Gasvoda Sun River, MT 59483	2006	2009
Herb Pasha Highwood, MT 59450	2007	2010 Resigned effective August 27, 2008
John Schipf Highwood, MT 59450		Appointed to fill unexpired term of Herb Pasha.
Charles F. Tesch Great Falls, MT 59401	2008	Resigned effective October 31, 2007.
Joe Barrett Augusta, MT 59410		Appointed to fill unexpired term of Charles F. Tesch. Mr. Barrett was re-elected in 2008 to a three-year term, expiring 2011.

Harold Britton
Cascade, MT 59421

2008

2011

At the reorganizational meeting of the board in March 2006, William Thrasher was elected to serve as president, Herb Pasha as vice president, and Charles F. Tesch as secretary/treasurer.

At the reorganizational meeting of the board in March 2007, William Thrasher was elected to serve as president, Herb Pasha as vice president, and Charles F. Tesch as secretary/treasurer until his resignation October 31, 2007, at which time Richard Gasvoda was appointed to serve as interim secretary/treasurer.

At the reorganizational meeting of the board in March 2008, William Thrasher was elected to serve as president. Herb Pasha was elected to serve as vice president, and Richard Gasvoda as secretary/treasurer. Herb Pasha tendered his resignation on August 27, 2008. Harold Britton was appointed interim vice president at the October 29, 2008, board of directors meeting.

At the reorganizational meeting of the Board in March 2009, William Thrasher was elected to serve as President, Harold Britton as Vice President and Richard Gasvoda as secretary/treasurer. Upon the resignation of William Thrasher on September 30, 2009, the board of directors reorganized. Harold Britton began serving as president, Richard Gasvoda as vice president, and John Schipf as secretary/treasurer. These officers were elected to serve in their respective positions in 2010. Glenn Lambert has served as general manager during the time period covered by the examination.

The Company contracts the services of a CPA firm to perform an annual audit and prepare annual statements. The Company has also found it beneficial to obtain an annual financial stability rating from Demotech, Inc. The Company is currently rated as "A, Exceptional" by Demotech, Inc.

The Company utilizes a computer software application in the conduct of its day-to-day insurance operations. This software, known as APPS, is a product of IMT Computer Services Co., a division of The IMT Group. APPS performs and retains information backup on a nightly basis. The Company performs nightly system backup and the tape is taken off-site. The Company also contracts with a local IT service provider. The system in use by the Company utilizes password protection. During the time examiners were on-site, the Company's IT provider initiated password protection on the backup tapes utilized by the Company. The Company has a verbal agreement with other local businesses for contingency operations of the physical plant, should the need arise. Remote log-in enables access for functions to be performed without having to be on-site. Since 2008, documents have been scanned into the Company's "Docuware" system and are retrievable electronically. The Company also retains the original paper copies for five years.

The Company provides a privacy notice at time of application and annually, along with the notice of membership meeting. The Company's privacy notice contains an opt-out feature should an insured choose not to have non-public information shared between the Company's "family of companies." Should an insured opt-out, a warning is created in the consumer's electronic record to prevent disclosure. The examiners did not note any privacy notices on which the consumer exercised the opt-out right.

Several losses are discussed and recorded in the minutes of board meetings. The losses reference the insured's surname. Recorded board minutes also contain discussion of the inability of certain named employees to qualify for key-man coverage due to unspecified health issues. Disclosures of this nature are in violation of Mont. Code Ann. § 33-19-306(1).

COMPLAINT HANDLING

During the time period covered by the examination, the Company did not maintain a complaint record in compliance with Mont. Code Ann. § 33-18-1001. The Company does have adequate procedures in place to address, resolve and respond to complaints. The Company developed and instituted the use of a complaint register, the contents of which comply with the provisions of Mont. Code Ann. § 33-18-1001, prior to the examiners leaving the site.

There were 22 complaints lodged against the Company with the CSI during the time period covered by the examination. The majority of complaints involved delays in claims handling.

MARKETING AND SALES

The name of the Company as represented by its Articles of Incorporation and By-Laws is "Cascade Farmers Mutual Insurance Company." The Company utilizes a logo containing the heading "Cascade Mutual." In some applications, a sub-heading appears which further identifies "Cascade Farmers Mutual Insurance Company." Certain signage in use by the Company identifies only "Cascade Mutual." The representation by the Company of its name in an abbreviated form such as "Cascade Mutual" or "Cascade Mutual Insurance" as it appears on signage or other print media, is not consistent with the Company's Articles of Incorporation, Company By-Laws, Certificates of Fact or Existence issued by the Montana Secretary of State, or the Certificate of Authority issued by the CSI.

The Company engages in print and radio media advertising. The Company also maintains a website and engages in social media networking such as "Facebook." Information found on the Company's website, in brochures, and in certain print media developed and utilized by the Company represents the Company as offering automobile insurance. The Company, as a farm mutual insurer, is not authorized to sell automobile insurance. Automobile insurance and other insurance products that are outside the scope of the Company's insuring authority are actually

sold through the Agency entity and underwritten by authorized insurers who have appointed the Agency to represent them. The misrepresentations contained in the advertising materials are misleading and violate Mont. Code Ann. § 33-18-203.

The Company relies upon its general manager and a network of independent agents to produce business. Communications to the Company's independent Agency force accurately represent the Company's underwriting guidelines, policyholder service and claims procedures. These communications are provided via electronic mail. The Company utilizes an acceptance acknowledgement to verify receipt by producers. Independent agents are able to view information specific to policies they have produced and continue to service through log-in access on the Company's website.

PRODUCER LICENSING

The Company's general manager and employees who are entering into insurance transactions are appropriately licensed and appointed in accordance with Mont. Code Ann. § 33-4-312(2).

In accordance with Mont. Code Ann. § 33-4-312(1), there is no licensing requirement of producers writing crop/hail business for a farm mutual insurer. The MGA agreement negotiated with ProAg Management, Inc. of Amarillo, Texas, stipulates the Company will appoint ProAg Management, Inc. as exclusive general agent to supervise and conduct the writing of crop hail insurance in the State of Montana. During the time period covered by the examination, the Company had not appointed ProAg Management, Inc. as an MGA in accordance with the provisions of their MGA Agreement and Mont. Code Ann. § 33-2-1603(5). The Company submitted the appropriate Insurance Appointment Request to the CSI on November 25, 2010.

Commission payments to producers are not always remitted to the individual or entity identified in the producer agreement. Examiners identified several agencies that were producing business for the Company without having been appointed, in violation of Mont. Code Ann. §§ 33-17-231 and 33-17-236; however, the individual producers affiliated with these agencies were appointed by the Company.

Cascade Farmers Mutual Insurance Company utilizes a number of individual producers who are also appointed by Farmers Union Mutual Insurance Company. Cascade Farmers Mutual Insurance Company has properly appointed each of these individual producers and each has signed a producer agreement with Cascade Farmers Mutual Insurance Company.

Cascade Farmers Mutual Insurance Company has also appointed Montana Farmers Union Insurance Agency, Inc. as a producer. The producer agreement between Cascade Farmers Mutual Insurance Company and Montana Farmers Union Insurance Agency, Inc. contains a clause which is unique to this agreement. The clause states, "All FUI commissions are to be

paid in one check to FUI. FUI will distribute those commissions according to the itemized business for each agent and attached to the check. FUI is responsible for withholding any administrative fees, etc. per their agreement with each individual producer in their group.” The individual producers whose commissions are being remitted to Montana Farmers Union Insurance Agency, Inc. are not affiliated on the license issued to Montana Farmers Union Insurance Agency, Inc. by the CSI.

The Company’s practice of remitting the individual producers’ earned commissions to Montana Farmers Union Insurance Agency, Inc. is in violation of Mont. Code Ann. § 33-17-214(4) because the Company failed to confirm the individual producers’ affiliations on the Agency license issued to Montana Farmers Union Insurance Agency, Inc. The Company’s practice of remitting commissions to Montana Farmers Union Insurance Agency, Inc. in the manner described is also contradictory to a provision contained in the individuals’ producer agreements with the Company. The individuals’ producer agreements contain a provision stating, “Neither this Agreement nor your commissions may be assigned by you and any attempted assignment in contravention of this paragraph shall be null and void and of no legal effect.”

POLICYHOLDER SERVICE

The Examiners conducted a review of 90 policies, selected at random, in order to determine the timeliness of delivery of premium, billing, cancellation and non-renewal notices as well as the Company’s response time in dealing with policyholder requests and the processing of policy transactions.

The Company services the property and casualty business it insures, with the exception of crop hail policies, which are serviced by ProAg Management, Inc. in accordance with the management agreement between the Company and ProAg Management, Inc.

The Company processes and delivers premium and billing notices in a timely manner; consistent with policy provisions and established Company guidelines. The language contained in the Company’s renewal premium notice and notice of cancellation for non-payment of premium is ambiguous in that it does not clearly state the effect of non-payment of premium on or before the due date. In the event a loss was to occur beyond the premium due date, the ambiguities may prevent the insurer from successfully asserting that coverage was out of force.

Policy renewal documents and change requests are processed and delivered in an accurate and timely manner, pursuant to policy provisions. Those policies renewing with a change in terms are also delivered in a timely manner, in accordance with policy provisions.

In the event the Company made the underwriting decision to mid-term cancel a policy of insurance, the Company’s practice was to deliver NOTICE OF CANCELLATION ten days prior to the effective date of cancellation. This practice is in compliance with Mont. Code Ann. § 33-4-

507(2); however, in accordance with the terms of the insurance contracts issued by the Company, the NOTICE OF CANCELLATION must be delivered at least 45 days before cancellation is to take effect. In mid- 2008 the Company recognized their error and adjusted procedures to ensure delivery of the NOTICE OF CANCELLATION at least 45 days before cancellation is to take effect.

When the Company determines a risk no longer meets its eligibility criteria, a notice of non-renewal is delivered at least 45 days prior to the end of the policy period. This practice is consistent with the terms of the insurance contracts issued by the Company.

Unearned premium refunds are calculated on a pro-rata basis and returned to the remitting party in a timely manner. The Company considers all premium surcharges to be fully earned. The Company does not always advise applicants of this practice in writing at the time of application.

UNDERWRITING AND RATING

The Examiners also reviewed the random selection of 90 policies to determine the accuracy of rating, use of proper forms and endorsements, adherence to consistent and nondiscriminatory underwriting practices, timely processing of applications and compliance with all other applicable provisions of Title 33, Montana Code Annotated.

The Company utilizes policy forms designed and provided by AAIS. AAIS files these forms with the CSI on behalf of the Company. The Company also makes use of and has appropriately filed forms of its own design with the CSI. The policy forms used in the issuance of the Company's crop hail insurance policies are filed with the CSI by ProAg Management, Inc., pursuant to the Company's management agreement with ProAg Management, Inc.

The cover page of the crop hail insurance policies issued by the Company for crop years 2009 and 2010 represented the Company's address as Amarillo, Texas. This was brought to the Company's attention and arrangements were made to correct the cover page in order to accurately reflect the home address of the Company while examiners were on-site. The corrected cover page will appear on policies issued in the 2011 crop year.

The Company's By-Laws are printed on the policy jacket, which has been filed for use with the CSI in accordance with Mont. Code Ann. § 33-4-509. The policy jacket also contains a provision entitled "OTHER INSURANCE." The "OTHER INSURANCE" provision set forth in the policy jacket is significantly more restrictive than a similar provision contained in the body of the insurance contracts issued by the Company. This provision, which is entitled, "Insurance Under More Than One Policy," is found in AAIS forms under the heading, "HOW MUCH WE PAY FOR LOSS OR CLAIM."

Montana Code Annotated § 33-4-303 requires the Company's By-Laws to be part of the contracts of insurance. The Company's By-Laws were not included in the crop hail insurance policies issued during the time period covered by the exam.

The Company did not use credit information or CLUE in the underwriting or rating process during the time period covered by the examination.

The policy declarations page issued by the Company is designed and produced by APPS. The declarations page contains a sequential numerical listing. This appears in a vertical column on the left side of the declarations page under the heading "COVERAGES." The numerical listing creates ambiguity by appearing to insure by numbered line item rather than by coverage in accordance with the language contained in the body of the contract. Prior to completion of this report, the examiners were notified of a software adjustment by APPS which removes the numerical listing on declarations pages.

The Company sometimes attempts to exclude coverage to perils which are otherwise afforded by the language found in the body of the contract. The Company attempts to reduce coverage by means of a statement on the declarations page which reads, "THIS INSURANCE IS PROVIDED ONLY WITH RESPECT TO THOSE PERILS WHICH ARE SPECIFICALLY INDICATED. THE LIMITS OF THE COMPANY'S LIABILITY FOR EACH ITEM COVERED SHALL BE THE AMOUNT OF COVERAGE SPECIFICALLY INDICATED HEREIN SUBJECT TO ALL THE TERMS OF THE POLICY HAVING REFERENCE HERETO." The limitation to perils specifically indicated for each item covered may appear as "WIND AND HAIL PERILS EXCLUDED," "FIRE," "FIRE ONLY," or the acronym "F/EC." The Company does not utilize an exclusionary endorsement to modify the terms of the contract. This practice creates an ambiguity that would be construed in favor of the insured, should a question of coverage arise after a loss.

The Company has made an underwriting decision to issue policies covering property in some counties with a minimum deductible of \$1000, applicable to the perils of wind and hail. The insured may choose a separate minimum deductible of \$500, applicable to all other covered perils afforded by the contract. When an insured chooses a "split deductible." for example \$500/\$1000, the policy declarations page inaccurately displays the separate minimum deductible applicable to perils other than wind and hail as "\$500-F." The deductible applicable to the perils of wind and hail is displayed as "\$1000 – EC," "SPLIT DEDUCTIBLE UNLESS OTHERWISE NOTED." The use of initials or acronyms such as F and EC is not consistent with the terminology appearing in the body of the contract. An even greater ambiguity is created when a policy insures property under Coverage A or Coverage B for all risks of direct physical loss, with named exclusions. This would be the case with policy forms HO 3, HO 4 or HO 6.

During the time period covered by the examination, the declarations pages issued by the Company displayed a breakdown of premium charges under the headings of "FIRE," "WIND/HAIL," "LIABILITY," and "INLAND MARINE." The breakdown of premium in this manner created ambiguity on those policies that afforded coverage on insured property for perils in

addition to those of "FIRE" or "WIND/HAIL." Further ambiguity was created by the Company's use of the "INLAND MARINE" heading when the Company was insuring for the optional perils of theft or vandalism. When the Company issued a policy with property scheduled on an Inland Marine Endorsement form, the premium charged for the inland marine endorsement was not displayed under the "INLAND MARINE" heading. The Company recognized the ambiguities created by this practice and declarations pages issued on or after January 1, 2010, no longer display premium in this manner.

The Company has compiled two separate sets of underwriting guidelines. In addition to setting forth eligibility requirements, the underwriting guidelines establish premium surcharges, such as those applicable to risks with woodstoves or structures held for rental. The amount of the premium surcharges differ between subjects of insurance that are covered for like perils and that possess substantially the same risk characteristics. This also holds true for the Company's rating plan. The differentiation in rate and/or the amount of premium surcharge which is applied to like risks is solely dependent upon whether the business was generated by an independent producer, rather than a captive producer. The dollar amounts of established premium surcharges, the rates established in certain territories for equivalent property coverages and the established premium charges for liability insurance applicable to policies generated by independent producers are higher than those applicable to business generated by the Company's captive producer. This rating practice violates Mont. Code Ann. §§ 33-4-510(1) and 33-18-210(3).

CLAIMS

During the time period covered by the examination, 1343 property and casualty insurance claims were submitted to the Company. The examiners reviewed a random selection of 110 claim files to determine if the Company was compliant with the Laws, Rules and Regulations of Montana. The examiners also reviewed the files to determine if the Company was adjusting claims per the terms and conditions of the insured's policy.

Cascade Farmers Mutual Insurance Company employs the services of independent adjusters to investigate and evaluate the majority of their liability and property damage claims. The Company assigns a new claim to an independent adjuster within 48 hours of receiving the claim notice. The independent adjuster would then inspect the loss, determine the extent of the loss, prepare an estimate to repair or replace the damaged property and submit a recommended settlement to the company. Claims involving losses that appeared easy to investigate, document and evaluate were handled directly by the company. The examiners found that claim files submitted to the company by independent adjusters provided a high degree of accuracy. These files also contained excellent documentation regarding the scope of damage and final settlement recommendation.

During the course of their claim files review, the examiners noted the Company did not pay all claims per the terms of their contract and their adjuster's settlement recommendations. The Company elected to pay replacement cost on all claims that were less than \$2,500 and actual cash value on claims that exceeded \$2,500. The contract states the Company will pay actual cash value and withhold the recoverable depreciation until such time as repairs or replacement is completed.

The examiners also noted that while most claims were settled accurately and timely, there were several areas of concern noted during the course of this examination. Some claim files did not contain a signed/sworn "Proof of Loss" when required by the contract; some claim files did not contain adequate documentation; some claim files were not resolved in a timely manner; and, due to a misinterpretation of the coverage limit and total loss provisions of the contract, the Company settled several claims for less than the amount required by the terms and conditions of the contract.

The examiners noted that claims paid or denied incorrectly were re-examined by the Company and paid per the terms of the contract and to the satisfaction of the policyholder prior to the completion of this report.

The Company did not routinely perform re-inspections to determine if policyholders actually repaired or replaced their damaged property.

SUMMARY OF SIGNIFICANT FINDINGS

During the time period covered by the examination:

The Company's practice of electing directors by acclamation was not consistent with the Company's Articles of Incorporation, which stipulate the election of directors is to be accomplished by ballot.

The recorded minutes of the board of directors meetings contained disclosures of individually identifiable, non-public information in violation of Mont. Code Ann. § 33-19-306.

The Company did not maintain a complaint record in compliance with Mont. Code Ann. § 33-18-1001.

The Company incurred a significant number of complaints in comparison to premium volume. These complaints primarily dealt with delays involving the handling of claims.

Representations of the Company's name in an abbreviated form such as "Cascade Mutual" or "Cascade Mutual Insurance" which appears on signage or other print media is not consistent with the Company's Articles of Incorporation, Company By-Laws, Certificates of Fact or

Existence issued by the Montana Secretary of State, or the Certificate of Authority issued by the CSI.

Representations contained in the Company's advertising materials are misleading in that they do not adequately distinguish between the roles of the Company and the Agency. The representations produce violations of Mont. Code Ann. § 33-18-203.

The Company had not appointed ProAg Management, Inc. as an MGA, in accordance with the provisions of the contract negotiated with ProAg Management, Inc. and Mont. Code Ann. § 33-2-1603(5).

Commission payments to producers were not always remitted to the individual or entity identified in the producer agreement.

Examiners identified several agencies producing business for the Company without having been appointed, in violation of Mont. Code Ann. §§ 33-17-231 and 33-17-236.

The Company remitted commissions to Montana Farmers Union Insurance Agency, Inc. for business written by producers who are not affiliated on the license issued to Montana Farmers Union Insurance Agency, Inc. by the CSI. This practice violates Mont. Code Ann § 33-17-214(4) and is contradictory to a provision contained in the producer agreements negotiated with the individual producers in question.

The language contained in the Company's renewal premium notice and notice of cancellation for non-payment of premium is ambiguous in that it does not clearly state the effect of non-payment of premium on or before the due date.

Until mid-2008 the Company's practice of delivering NOTICE OF CANCELLATION ten days prior to the effective date of a mid-term cancellation was more restrictive than allowed by the language contained in the Company's policies.

The Company considers all premium surcharges to be fully earned; however, the Company does not always advise applicants of this practice in writing at the time of application.

The "OTHER INSURANCE" provision set forth in the policy jacket utilized by the Company is significantly more restrictive than a similar provision contained in the body of the insurance contracts issued by the Company.

The Company's By-Laws were not included in the crop hail insurance policies issued during the time period covered by the exam, in violation of Mont. Code Ann. § 33-4-303.

The Company sometimes attempts to exclude coverage for perils which are otherwise afforded by the language found in the body of the contract solely by means of a statement or statements on the declarations page.

The manner in which deductibles are displayed on the policy declarations page creates ambiguities that could be construed in a way that would be detrimental to the Company.

The Company's practice of applying increased premium surcharges and/or higher rates to insurance policies generated by independent producers, while those insureds sharing substantially the same risk characteristics, insured under the same type of policy providing coverage for the same perils, incur lower premium surcharges and/or rates by virtue of being generated by a captive producer violates Mont. Code Ann. §§ 33-4-510(1) and 33-18-210(3).

The Company did not always pay claims in accordance with the loss settlement provisions of their contracts.

The Company did not always obtain a signed/sworn "Proof of Loss" when required by the contract.

The Company did not always obtain the documentation necessary to support the claim settlement.

The Company did not resolve all claims in a timely manner.

CONCLUSION

The Market Conduct Examination Report of Cascade Farmers Mutual Insurance Company is respectfully submitted to the Honorable Monica J. Lindeen, State Auditor and Commissioner of Securities and Insurance of the State of Montana.

The examiners wish to express their appreciation for the courteous and prompt cooperation and assistance of the Company during the course of the examination.

RECOMMENDATIONS FOR CORRECTIVE ACTION

The Company must conduct director elections in accordance with the method set forth in its By-Laws.

The Company must comply with the provisions of Mont. Code Ann. § 33-19-306 by refraining from recording individually identifiable, non-public information in meeting minutes.

The Company must consistently utilize the Company name as it appears in the Company's Articles of Incorporation, Company By-Laws, Certificates of Fact or Existence issued by the Montana Secretary of State, and the Certificate of Authority issued by the CSI.

The Company must withdraw and amend written and electronic marketing material currently in use that does not clearly distinguish between the roles of the Company and the Agency. Oral representations must also be consistent with the provisions of Mont. Code Ann. § 33-18-203.

Producer agreements must accurately reflect the licensing status of producers as individuals versus incorporated agencies, and commissions must be remitted to the individual or agency entity identified in the producer agreement.

The Company must cease the practice of remitting commission to Montana Farmers Union Insurance Agency, Inc. for business produced by individuals who are not named on the Agency's license.

The Company must properly appoint each satellite office when an agency has multiple geographic locations.

The Company's By-Laws must be included in the crop hail policies it issues, in accordance with Mont. Code Ann. § 33-4-303.

The Company must cease the practice of limiting perils merely by using a statement or acronym on the declarations page.

The declarations page must accurately illustrate the coverages to which selected deductibles apply.

The Company must cease the practice of applying increased premium surcharges and/or charging higher rates on those policies generated by independent producers.

The Company must consistently apply the replacement value and actual cash value provisions of the insurance contract and accurately calculate the value of the amount owing on every claim.

The Company must obtain a signed/sworn "Proof of Loss" when required by the contract.

The Company must obtain adequate documentation to support all claim settlements.

The Company must resolve all claims in a timely manner.

COMMENTS AND SUGGESTIONS

Retention of the Company's paper records at a secure off-site location would provide an additional means of information re-creation should the need arise.

The management contract negotiated by the Company relative to its crop/hail business delegates the duty of record retention to ProAg Management Inc. The Company should make certain ProAg Management Inc's records retention practices are in compliance with Mont. Code Ann. §33-3-401.

The Company should provide written notice to applicants, prior to policy issuance, in regard to those premium charges which the Company considers fully earned and non-refundable.

The Company should make arrangements for removal of the "OTHER INSURANCE" provision contained in the policy jacket.