

**COMMISSIONER OF SECURITIES AND INSURANCE  
MONTANA STATE AUDITOR  
STATE OF MONTANA**

<b>IN THE MATTER OF THE REPORT OF THE MARKET CONDUCT EXAMINATION OF FARMERS MUTUAL FIRE INSURANCE COMPANY, INC.,  Respondent.</b>	<b>CASE NO. INS-2010-121  FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER ADOPTING THE MARKET CONDUCT EXAMINATION REPORT OF DECEMBER 31, 2009</b>
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Having fully considered the proposed Report of Market Conduct Examination of Farmers Mutual Fire Insurance Company, Inc. dated July 27, 2010, the Commissioner of Securities and Insurance, Montana State Auditor, hereby makes the following findings of fact, conclusions of law and order adopting the market conduct examination report:

**FINDINGS OF FACT**

1. David Drynan and Kimberlee Hewitt, the Examiners representing the Commissioner of Securities and Insurance, Office of the Montana State Auditor (CSI), conducted an examination of the affairs, transactions, and records of Farmers Mutual Fire Insurance Company, Inc. and prepared a Market Conduct Examination Report (Report) covering the period from January 1, 2006, through December 31, 2009.
2. The verified written Report was completed and served on July 27, 2010, together with a notice giving Farmers Mutual Fire Insurance Company, Inc. 30 days to make written submission or rebuttal with respect to any matters contained in the Report.
3. Written submission was received from Farmers Mutual Fire Insurance Company, Inc. within the 30 day period, but no changes were made to the Report as a result of the submission.

## **CONCLUSIONS OF LAW**

1. The Commissioner has jurisdiction over this matter pursuant to Mont. Code Ann. § 33-1-311, which charges the Commissioner with the duty of administering and enforcing the Montana Insurance Code, and pursuant to sections in Mont. Code Ann., Title 33, Chapter 1, Part 4, which govern examination of insurers by the CSI and Mont. Code Ann. § 33-4-315 which governs examination of farm mutual insurers.
2. Pursuant to Mont. Code Ann. § 33-1-409, the CSI has authority to issue a final agency determination with respect to this Report.

## **ORDER**

Having carefully and thoroughly reviewed and considered the examination report, relevant examiner workpapers, and any written submissions and rebuttals in this matter, IT IS ORDERED:

1. The Market Conduct Examination Report of Farmers Mutual Fire Insurance Company, Inc. as of December 31, 2009, attached hereto as Exhibit A, is hereby adopted in full.
2. Farmers Mutual Fire Insurance Company, Inc. shall submit a corrective action plan to the CSI in regard to the Proposed Correction Action by October 24, 2010.
3. Farmers Mutual Fire Insurance Company, Inc. shall comply with the corrective action plan, after its approval by the CSI, by December 1, 2010, and shall file with the CSI a letter by that date regarding and confirming the actions taken to comply with the list of recommendations.
4. Within 30 days of the mailing of this Order, each of Farmers Mutual Fire Insurance Company, Inc.'s directors shall file affidavits with the CSI stating under oath that they have received a copy of the adopted Report and related Order.

5. Pursuant to Mont. Code Ann. § 33-1-409(5), this Order and the adopted Market Conduct Examination Report (Exhibit A) shall remain confidential for 30 days following the issuance of the same.

DATED this 24<sup>th</sup> day of September, 2010.

MONICA J. LINDEEN  
Commissioner of Securities and Insurance  
Montana State Auditor

By:   
WALTER SCHWEITZER  
Deputy State Auditor

**CERTIFICATE OF SERVICE**

I hereby certify that on the 24 day of September, 2010, I served a true and accurate copy of the foregoing Findings of Fact, Conclusions of Law and Order Adopting the Market Conduct Examination Report as of December 31, 2009, by U.S. mail, postage prepaid, certified, to the following address:

Donna Brekke, Secretary Manager  
Farmers Mutual Fire Insurance Company, Inc.  
572 West First Ave.  
Plentywood, MT 59254

  
Office of the Commissioner of Securities and Insurance



**MARKET CONDUCT EXAMINATION REPORT**

of

**FARMERS MUTUAL FIRE INSURANCE COMPANY, INC.  
PLENTYWOOD, MONTANA**

as of

December 31, 2009

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## SCOPE OF EXAMINATION

The Montana Insurance Department conducted a market conduct examination of Farmers Mutual Fire Insurance Company, Inc. (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 Montana State Auditor's Office. The examination took place at the Company's home office located at 527 West 1<sup>st</sup> Ave. Plentywood, Montana.

## OPERATIONS AND MANAGEMENT

The Company was originally authorized to conduct business in Montana under the name Farmers Mutual Fire Insurance Company on July 8, 1909. The Company was originally authorized to conduct business as a county farm mutual. Effective August 2, 1984, the Company's certificate of authority was amended to reflect a change to the name currently in use. The Company amended its articles of incorporation on November 30, 1993, to change status from a county mutual insurer to a state mutual insurer.

The Company is managed by a board of directors consisting of nine members serving staggered three-year terms. Elections are held at the annual meeting of the Company in October of each year. The Directors during the time period of the examination are as follows:

<u>Director Name and Address</u>	<u>Term Expires</u>	<u>Additional Term(s) Expires</u>
Kermit Sorensen Dagmar, Montana	2007	2010
Duane Halland Redstone, Montana	2006	2009 & 2012
Gail Sundsted Antelope, Montana	2008	2011

James Bolstad Homestead, Montana	2006	2009 & 2012
Ronald K. Olsen Culbertson, Montana	2007	2010
Charlotte Qualley Brockton, Montana	2006	2009 & 2012
Dale Soderquist Plentywood, Montana	2008	2011
Donald Thueson Dagmar, Montana	2008	(Retired 8/2008) replaced by Rod Smith
Rod Smith Dagmar, Montana	2008	2011
Carl Odegard Outlook, Montana	2007	2010 (Retired 11/09) replaced by Jonathan Keil
Jonathan Keil Plentywood, Montana	2010	

Kermit Sorensen, Duane Halland and Gail Sundsted served as President, Vice President and Board Secretary, respectively, during the time period covered by the exam. Donna Brekke has been employed by the Company as Manager, Treasurer and Secretary during the time period covered by the exam.

The Company employs a local accounting firm. The accountant regularly reviews the Company's financial records and prepares the annual statement. He also attends and reports at board and annual meetings..

The amended articles of incorporation of the Company as filed with the Montana Secretary of State on November 29, 2005, are entitled *AMENDED ARTICLES OF INCORPORATION OF THE FARMERS MUTUAL FIRE INSURANCE COMPANY*. Article I states, "This corporation shall be known as **The FARMERS MUTUAL FIRE INSURANCE COMPANY, INC.**", Plentywood, MT 59254, Sheridan County Montana. (Emphasis added.) The name of the Company appears as Farmers Mutual Fire Insurance Company in the amended by-laws. The Company seal contains the following words, "THE FARMERS MUTUAL FIRE INSURANCE COMPANY CORPORATE SEAL, Plentywood Montana." (Emphasis added.) Farmers Mutual Fire Insurance Company, Inc., as the name appears on the certificate of authority, is authorized, as a farm mutual insurer, to write property insurance against loss or damage by fire or other casualty and is also authorized to insure against liability risks provided in Mont. Code Ann. § 33-1-206(1)(b).

Article III of the Company's Amended Articles of Incorporation state, in part, "The purpose for which this corporation is formed is to insure the property of the members of the corporation, against loss or damage by fire and lightening or the elements or any such agencies as are commonly specified in extended coverage insurance and to provide liability and casualty insurance."

Farmers Mutual Fire Insurance Company, Inc. is also acting as an insurance agency. The insurance agency is licensed under the name Farmers Mutual Fire Insurance Company. The insurance agency was licensed for life and disability on August 10, 1994.

During the time period covered by the examination, the insurance agency has held appointments with Time Insurance Company, Usable Life and Blue Cross and Blue Shield of Montana. Blue Cross and Blue Shield of Montana has a direct billing agreement with the insurance agency; therefore, the insurance agency does not collect policyholder premiums on behalf of Blue Cross and Blue Shield of Montana. Commissions paid to the insurance agency from Blue Cross and Blue Shield of Montana are deposited into the checking account used by the Company. The Company's financial statements did not reflect commission from either Time Insurance Company or Usable Life.

The checking account used by the Company and insurance agency is held in the name of FARMERS MUTUAL FIRE INSURANCE. Property and Liability applications used by the Company during the time period covered by the examination contained the heading, FARMERS MUTUAL FIRE INSURANCE COMPANY. Premium notices for Property and Casualty insurance are prepared on letterhead with the heading, FARMERS MUTUAL FIRE INSURANCE COMPANY. A logo as described in the Marketing and Sales section of this report also appears on the premium notice. Policyholders of the Farm Mutual are instructed to make checks payable to "FARMERS MUTUAL FIRE INSURANCE COMPANY."

Property & Casualty was added to the agency license on March 30, 2007; however, the agency is not appointed by any Property or Casualty insurers.

During the time period covered by the examination the Company identified the need for a valid disaster recovery plan. This also entailed upgrading computer equipment and installing security and privacy protections. The Company contracted with a local IT firm to assist in identifying and accomplishing these goals. The contractor provides the Company with continuing IT service.

The minutes of the Board of Directors meetings contain discussions of potential changes to privacy laws. The Company provides policyholders with a Privacy Notice at the time of application. The notice of annual meeting contains a privacy notice printed on the reverse side. In spite of providing timely notice of information practices and privacy notices to its customers, the Company records personally-identifiable, non-public financial information in the meeting minutes of the Board of Directors. This practice presents a violation of Mont. Code Ann. § 33-



19-306 in the event the minutes are disseminated beyond the board members or employees of the Company.

The comments section of the policy declarations page contains individually-identifiable, non-public financial information of the insured in the form of a claims history. This information appears on the declarations page provided to mortgagees in violation of Mont. Code Ann. § 33-19-306.

## **COMPLAINTS**

The Commissioner of Securities and Insurance, Office of the Montana State Auditor (CSI) received and resolved several complaints involving the Company during the time period covered by the examination. The Company did not maintain a complaint register as required by Mont. Code Ann. § 33-18-1001 during the time period covered by the examination.

## **MARKETING AND SALES**

The Company and the insurance agency use the same logo on advertising materials. The logo bears the name FARMERS MUTUAL FIRE INSURANCE CO. Hats displaying this logo have been placed into use by the Company. This logo also appears in some print advertising along with the statement, "At Farmer's Mutual, we offer lines of farm and ranch insurance but in town property as well, & Blue Cross Blue Shield of MT health insurance." In other print media advertisements the Blue Cross Blue Shield of Montana logos appear. The logo of the Company/insurance agency does not appear in this type of advertising. The contact name used in this type of advertising is "Farmers Mutual Fire Insurance Co." Blue Cross and Blue Shield of Montana co-ops certain forms of advertising.

## **PRODUCER LICENSING**

Four Directors of the Company acted as producers during the time period covered by the examination. The Company manager and one independent agent also produce business for the Company. Each of these individuals is appropriately licensed for the lines of business written by Farmers Mutual Fire Insurance Company, Inc. These six producers are directly appointed by Farmers Mutual Fire Insurance Company, Inc.

Marianne K. Becker is an employee in the home office of the Company. The scope of her employment with Farmers Mutual Fire Insurance Company, Inc. is such that it was necessary for her to obtain a property and casualty producers license. She did so in 2007, at which point she was added to the license of Farmers Mutual Fire Insurance Company (the insurance agency), instead of being directly appointed by Farmers Mutual Fire Insurance Company, Inc. (the Farm

Mutual Insurer). Farmers Mutual Fire Insurance Company (the insurance agency) does not hold any Property or Casualty appointments.

Kermit Sorensen and Donna Brekke are listed as life and disability producers on the insurance agency license. In addition to being a Director and President of Farmers Mutual Fire Insurance Company, Inc., Kermit Sorensen individually holds appointments with a variety of life and disability insurers.

## **POLICYHOLDER SERVICE**

The Company's practice is to provide policyholders with a notice of premium due 30 days prior to a due date. In the event the premium is not received, a cancellation notice is prepared and mailed approximately five days after the original due date. This notice advises the insured of policy cancellation in the event payment is not received within 17 days after the original due date. The notice also provides the insured with the option to contact the Company to arrange an extension, if necessary, and sets forth a date after which the policy is ineligible for reinstatement. The Company works with its policyholders to prevent lapses in coverage, however, policyholders cancelled for non-payment must satisfy a two-year waiting period before they are eligible to reapply for coverage.

The Company's underwriting guidelines stipulate "Extended Coverage policy is issued for one year." The same statement applies to the Company's Fire Insurance Policies. The Company allows for payment to be made on a quarterly, semi-annual or annual basis. When a quarterly or semi-annual payment term is selected, the APPS system utilized by the Company generates a declarations page illustrating a policy period that is consistent with the mode of payment. This effectively creates a book of business with policies renewing on a quarterly, semi-annual and annual basis. The Company is working with the software provider to correct this problem.

During the time period covered by the examination, the Board of Directors made the decision to consider the initial annual premium of newly-issued policies as fully earned. This rule is not disclosed in the Company's contract or By-Laws which are to be made part of the contract pursuant to Mont. Code Ann. § 33-4-303. In the event the Company issues a new policy on a quarterly or semi-annual policy period, the Company has no means of collecting 12 months worth of premium should the policyholder elect not to renew for the additional policy period(s) necessary to constitute a full year. In comparison, a policyholder who purchases and pays for an annual policy period and then requests cancellation prior to the end of the policy period is prevented from receiving even a short-rate refund. This practice creates violations of Mont. Code Ann. § 33-18-210(3).

## UNDERWRITING AND RATING

The Company utilizes policy forms designed and provided by AAIS. During the time period covered by the examination, AAIS introduced a form titled *Montana Amendatory Endorsement Form*. This form provides for 45-day notice to an insured in the event of non-renewal or renewal with altered terms and is intended to comply with the provisions of Mont. Code Ann § 33-15-1105 and 1106. As a Farm Mutual Insurer, the Company is not subject to the provisions of Mont. Code Ann. Title 33, Chapter 15; therefore, the Company made a decision not to incorporate this most recent version of the *Montana Amendatory Endorsement Form* into the insurance contracts it issues. The AAIS form in use by the Company provides for a 30-day notice in the event of non-renewal or renewal with altered terms. The Company's practices relative to non-renewal and renewal with altered terms comply with the Company's By-Laws and the provisions of the contracts it issues.

The Company has not rescinded any policies during the time period covered by the examination, nor have any written applications been rejected or declined. The Company non-renewed a total of four policies during the time period covered by the examination. In each circumstance the decision to nonrenew was in keeping with the Company's underwriting guidelines and did not appear to be discriminatory.

The Company's underwriting guidelines contain content written in a manner that attempts to limit coverage otherwise afforded by the terms of the policy rather than establishing criteria to be used as guidelines in determining the eligibility and rating of a risk.

During the time period covered by the examination, the Company used AAIS property policy forms FL-20 accompanied by the perils section, (P-1) of form FL-1 and form FL -6. Under the heading PROPERTY COVERAGES on form FL-20 appears references to **Coverage A, B, C, D** and so forth. **Coverage A** refers to the "Residence"; **Coverage B** to "Related Private Structures on the Premises"; **Coverage C** to "Personal Property"; and **Coverage D** to "Additional Living Expense and Loss of Rent Coverage." This form also describes **Coverage E** as "Farm Personal Property" and **Coverage F** as "Farm Structures." Similar language appears in AAIS form FL-6 relating to **Coverages E** and **F**. The **Coverage** letter assigned to Insured items on the declarations page often does not accurately reflect the type of property being insured in a manner that is consistent with language found in the policy forms used by the Company.

The declarations pages issued by the Company provide a numeric, line-by-line listing of coverage limits. To the right of the coverage limit appears a letter from **A** to **F** which should correlate with the PROPERTY COVERAGES as explained in the previous paragraph. The entry also contains a description of the type of property to which the coverage limit applies and an acronym indicating the covered peril(s) applicable to the listed item. The acronyms appear as **F**, (fire, lightning and explosion) or **F/EC** (fire, lightning, explosion and extended coverages as set

forth by the policy language). Each line representing an item of insured property is individually assigned a peril(s) as represented by the varying acronyms.

Endorsements, such as WATER DAMAGE SEWER/DRAINS or an additional peril such as THEFT AND VANDALISM also appear as a numbered line item.

Declarations pages issued by the Company list **Theft and Vandalism** as a combined peril. The Company's underwriting guidelines set forth the rules and rates applicable to coverage for **Theft and Vandalism**. AAIS Forms FL-6 and P-1 of FL-1 allow for the selection of coverage for the optional peril of **Vandalism**. Coverage for a loss resulting from the peril of **Vandalism** (No. 10) in form FL-6 and #8 in P-1 of FL-1 is subject to an additional premium charge and applies only if coverage for **Vandalism** is shown on the declarations. The perils sections of these AAIS policy forms refer only to **Vandalism**. They do not provide coverage for loss as a result of **Theft**. During the time period covered by the exam, the Company used form #PMTV-9 09/92 which was replaced by form #PMTV-1-07 to offer coverage for **Theft and Vandalism**. These forms were designed by the Company and were filed with the CSI pursuant to Mont. Code Ann. § 33-4-509. Form #PMTV-1-07 is prepared on letterhead and appears identical in format and content to an informational letter sent to policyholders offering theft and vandalism coverage. The policy form incorporates underwriting guidelines that are used to determine the eligibility of property to be covered. The form uses terms such as "'high risk' items" which are undefined. The form does not contain language identifying it as an endorsement modifying the provisions of the contract.

It is the practice of the Company to allow for the selection of a coverage limit specific to the perils of **Theft and Vandalism** rather than providing coverage in an amount that is consistent with the coverage limits applicable to **Coverages A through F**, as anticipated by the policy language. Coverage for **Theft and Vandalism** applies in increments of \$1,000 up to a maximum coverage of \$20,000. When it is necessary to satisfy a lien holder listed on a specific piece of machinery, the maximum coverage limit is waived by the Company and the insured is able to purchase coverage for the perils of **Theft and Vandalism** up to the limits necessary to satisfy the lien holder.

The language in the AAIS policy forms used by the Company during the time period covered by the examination does not anticipate or accommodate the Company's practice of selecting and assigning varying perils from within the policy form to each individual coverage, (**Coverage A, B, C, D, E, F**) or line item of property; nor do the AAIS forms anticipate or accommodate a separate specific coverage limit to be assigned to the optional peril of **Vandalism**.

Declarations pages issued by the Company often segregate and identify personal property by the structure in which the property is usually located rather than relying on the terms of the contract. This results in a multitude of line items representing the contents of a variety of structures all of which should merely be included in the overall limit applicable to **Coverage C**.

The manner in which the Company lists individual items of personal property on the declarations page creates the appearance of scheduling, when, in fact, the item(s) are afforded no additional coverage than had their value been included in the overall coverage limit (**Coverage C**).

Certain types of individually-listed personal property contain the statement, "COVERED ONLY WHILE STORED" following the item description. The type of property listed, usually a **motorized vehicle, motor vehicle or watercraft**, as defined by the policy language, is actually excluded by the language of the AAIS policy forms.

Declarations pages sometimes contain statements regarding property condition, claims and underwriting activity, and policyholder correspondence, all of which are better suited to containment in a policyholder file. Declarations pages also contain the statement "This policy is continuous providing the premium is paid when due and nothing questionable occurs."

The ambiguities set forth in the previous paragraphs are compounded when more than one location is insured per policy. The issue of ambiguity created by the construction of an insurance contract has been addressed by the courts in cases such as *Walker v. Fireman's Fund Insurance Company*, 268 F Supp. 899, 901 (D. Mont. 1967), in which the Court held that an ambiguous provision in an insurance policy is construed against the insurance company and a clause in an insurance policy is ambiguous when different persons looking at it in the light of its purpose cannot agree upon its meaning. In the case of *Aetna Ins. Co. v Cameron*, 194 Mont. 219, 222, 633 P.2d 1212, 1214 (1981), the Montana Supreme Court stated, "Exclusions and words of limitation must be strictly construed against the insurer." (Citation omitted.) In *Lindell v. Ruthford*, 183 Mont. 135, 140, 598 P.2d 616, 618 (1979), the Court held that if the policy language is ambiguous as applied to the facts of a case, the construction most favorable to the insured should be adopted. Such construction applies particularly to exclusionary clauses.

No consumer harm has resulted from the ambiguities created by the Company's practices as identified in this section of the examination report. However, they may expose the Company to civil litigation and administrative action based upon Mont. Code Ann. §§ 33-18-201(1) and (7), 33-18-212 and case law.

## CLAIMS

During the time period covered by the examination, 405 property and casualty insurance claims were submitted to the company. The examiners reviewed all 405 claim files in order to determine if the Company was compliant with Montana law. The examiners also reviewed these claim files to determine if the Company was adjusting claims per the terms and conditions of the insured's policy.

The Directors, Employees and Producers of Farmers Mutual Fire Insurance Company, Inc. investigate and evaluate the majority of the company's claims. On occasion the company will employ the services of an independent adjuster to investigate and evaluate a specific claim when circumstances are deemed warranted. The examiners found that claims adjusted by independent adjusters provided the company with a high degree of accuracy and consistency. Those files also contained excellent documentation regarding the scope of damage and final settlement determination.

Claims handled directly by the Company Director/Producers did not always contain the same degree of support. The Company's standard claim settlement practice, as noted by the examiners, was to allow the Director/Producer for a particular geographical area to adjust claims originating in that area. The Director/Producer would inspect and evaluate the claim and report the loss information to the company. This information was recorded on a "Proof of Loss" form that was also used to record additional information received by the Company during the course of the claims settlement process. The Company issued a partial ACV (actual cash value) claim payment based upon the initial claim evaluation and a final payment when the Company received notice repairs or replacement had been completed.

The claim files as noted by the examiners did not always contain a Loss Notice indicating the date, time and type of loss; documentation demonstrating when the claim was actually reported to the company; photographs, estimates or statements supporting the extent of damage or amount of the loss; or dates when the repairs or replacement of the damaged property was completed. Also, due to a Company misunderstanding about when, and in what order, to apply depreciation and the policy deductible, some claims were paid incorrectly. It was noted by the examiners that no policyholders were harmed because of this misunderstanding.

The Company did not routinely perform claim re-inspections of repaired or replaced property.

## **SUMMARY OF SIGNIFICANT FINDINGS**

During the time period covered by the examination:

The Company conducts operations under name(s) that are inconsistent with the certificate of authority, its Articles of Incorporation, By-Laws and Company Seal.

The Company was licensed and acting as an insurance agency, holding appointments with Life and Disability insurers as well as acting in its statutorily-recognized capacity as a Farm Mutual Insurer.

The Company recorded personally-identifiable, non-public financial information in the meeting minutes of the Board of Directors. This practice presents a violation of Mont. Code Ann. § 33-

19-306 in the event the minutes are disseminated beyond the board members or employees of the Company.

The declarations pages issued by the Company contained personally-identifiable, non-public financial information in the form of claims history and or underwriting action. These were disseminated to policyholder's mortgagees in violation of Mont. Code Ann. § 33-19-306.

The Company did not maintain a complaint register as required by Mont. Code Ann. § 33-18-1001.

When offering quarterly or semi-annual payment modes, the APPS software used by the Company was generating declarations pages containing policy periods matching the payment mode instead of retaining the annual policy period as established by the Company's underwriting guidelines and utilizing a separate payment arrangement.

The Company's decision to consider the initial annual premium of newly-issued policies as fully earned created a practice that conflicts with Mont. Code Ann. § 33-18-201(3) because the Company would have no means to collect 12 months of premium for a policy set up on a quarterly or semi-annual payment basis if that policy should mid-term cancel within the first year, yet a policyholder who paid an annual premium under the same circumstances receives no refund.

The Company's underwriting guidelines, declarations pages and policy forms create ambiguities which might expose the Company to civil litigation and administrative action based upon Mont. Code Ann. §§ 33-18-201(1) and (7), 33-18-212 and case law.

Claim files did not contain a Loss Notice, Repair or Replacement Estimates, Written or Recorded Statements, Damages Assessments, Photographs or Proof of Payment.

"Proof of Loss" forms were altered by company staff after being signed and submitted to the company by the policyholder.

Depreciation and Deductibles were not always applied accurately and consistently.

Re-inspections of repaired or replaced property resulting from a covered loss were not always performed.

## **CONCLUSION**

The Market Conduct Examination Report of Farmers Mutual Fire Insurance Company, Inc. 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 officers and employees of the Company during the course of the examination.

### **PROPOSED CORRECTIVE ACTION**

The Company must maintain a complaint register as required by Mont. Code Ann. § 33-18-1001.

The Company must cease the practice of recording individually-identifiable, financial information within meeting minutes or declarations pages in order to comply with Mont. Code Ann. § 33-19-306.

The Company must follow through with APPS to ensure the annual policy period set forth on the Declarations Page is not altered when a quarterly or semi-annual payment mode is selected.

The terminology used on Declarations Pages issued by the Company must be consistent with terminology contained in policy forms used by the Company.

The Company must issue insurance contracts using forms that contain language consistent with the intent of coverage set forth by the Declarations Page.

The Company must cease the practice of varying perils, (F or F/EC) between **Coverages A, B, C, D, E and F** on AAIS form FL-20, FL-1, P-1 and FL-6 solely by using an acronym or statement on the Declarations Page.

The Company must review and amend its underwriting guidelines to more accurately represent eligibility and rating criteria and remove language that attempts to restrict coverage that is afforded by the policy language.

When a single policy is issued insuring multiple locations or line items which require policy forms containing conflicting language, the Declarations Page must clearly illustrate the policy forms and endorsements applicable to each line item being insured.

The practice of retaining the initial annual premium of newly-issued policies should be disclosed at the time of application and be set forth in the Company's By-Laws. An annual premium should be collected on all newly-issued policies to avoid violations of Mont. Code Ann. § 33-18-210(3).

The Company must utilize the correct forms for reporting and adjusting claims and maintain the documentation within the insured's claim file.



The Company must obtain adequate support for all claim determinations and settlements and maintain the documentation within the insured's claim file.

The Company must pay claims per the terms and conditions found within the policy.

The Company must refrain from altering any signed "Proof of Loss" form.

The Company must perform re-inspections of repaired or replaced property to ensure they do not pay for the same damaged property more than once.

### **RECOMMENDED ACTIONS**

The Company should consistently conduct all aspects of operations as a farm mutual insurer as set forth in Article I of the Amended Articles of Incorporation and the Company seal which states, "This corporation shall be known as The FARMERS MUTUAL FIRE INSURANCE COMPANY, INC., and request the appropriate change of name be made to the Company's Certificate of Authority; **OR** amend the Company's Articles of Incorporation, By-Laws and any other business documents necessary to consistently conduct all farm mutual insurer operations under the name granted by the current Certificate of Authority. (Emphasis added.)

Farmers Mutual Fire Insurance Company, INC. should conduct farm mutual insurance operations consistent with the provisions and intent of Mont. Code Ann. §33-4-501 and Article III of its Amended Articles of Incorporation. In keeping with the provisions and intent of Mont. Code Ann. § 33-4-501 and Article III of its Amended Articles of Incorporation, the Company should strongly consider the creation of a separate legal entity under which to conduct the operations of the insurance agency, differing the names in some manner. By doing so, the assets of the Farm Mutual Insurer would be better protected from a judgment as the result of civil litigation in the event of an error or omission accrued to the insurance agency operation or its life and disability producers. Creation of a fiduciary account for the agency operation would also eliminate any appearance of impropriety or potential conflict with the provisions of Mont. Code Ann. § 33-17-613.

Farmers Mutual Fire Insurance Company, INC., the Company, should directly appoint Marianne K. Becker as a property-casualty producer.

The statement "THIS POLICY IS CONTINUOUS PROVIDING THE PREMIUM IS PAID WHEN DUE AND NOTHING QUESTIONABLE OCCURS," should be removed from the Declarations Page. (Emphasis added.)

The Company should review and amend form PMTV-1-07 in an effort to clearly identify it as an Endorsement that amends the contract. Eligibility and underwriting conditions affecting the purchase of the Endorsement which are contained within the current form should be incorporated into the Company's underwriting guidelines and the language within the revised form should be limited to policy provisions.

**AFFIDAVIT OF EXAMINERS**

STATE OF MONTANA )  
 ) ss.  
COUNTY OF LEWIS AND CLARK )

David Drynan, AIE, MCM and Kimberlee Hewitt, CIE, MCM, being first duly sworn, depose and say:

That they are examiners representing the State Auditor and Commissioner of Securities and Insurance, state of Montana; that pursuant to authority vested in them by the Commissioner, they examined the market conduct of Farmers Mutual Fire Insurance Company, Inc., Plentywood, Montana, for the period from January 1, 2006, to December 31, 2009.

That to the best of their information, knowledge and belief, the attached report of the examination is a true and correct report of the proposed market conduct affairs and operations of Farmers Mutual Fire Insurance Company, Inc. as of December 31, 2009.

DATED this 27<sup>th</sup> day of July, 2010.

David Drynan  
David Drynan, AIE, MCM

Kimberlee Hewitt  
Kimberlee Hewitt, CIE, MCM

SUBSCRIBED AND SWORN to before me this 27<sup>th</sup> day of July, 2010.

Tl Nyland

