

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

IN THE MATTER OF THE REPORT OF THE MARKET CONDUCT EXAMINATION OF RICHLAND FARM MUTUAL INSURANCE, COMPANY, <p style="text-align:center">Respondent.</p>	CASE NO. INS-2010-106 AMENDED FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER ADOPTING THE MARKET CONDUCT EXAMINATION REPORT OF DECEMBER 31, 2009
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Having fully considered the proposed Report of Market Conduct Examination of Richland Farm Mutual Insurance Company dated July 12, 2010, the Commissioner of Securities and Insurance, Montana State Auditor, hereby makes the following amended 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 Montana Commissioner of Securities and Insurance, Office of the State Auditor, (CSI) conducted an examination of the affairs, transactions, and records of Richland Farm Mutual Insurance Company 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 12, 2010, together with a notice giving Richland Farm Mutual Insurance Company 30 days to make written submission or rebuttal with respect to any matters contained in the Report.
3. Written submission and rebuttal were received from Richland Farm Mutual Insurance Company within the 30 day period, and were taken into consideration

by the addition of several words to the Examination Report.

4. Additional rebuttal to recommendation #8 on page ten of the Examination Report was received and was taken into consideration by the Commissioner resulting in a change to that recommendation and this amended order.

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

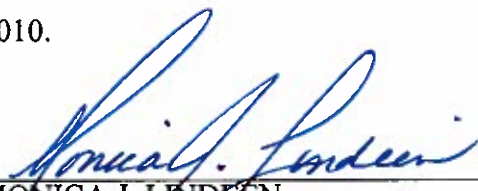
Having carefully and thoroughly reviewed and considered the examination report, relevant examiner workpapers, and any written submissions and rebuttals in this matter, IT IS ORDERED:

1. The Market Conduct Examination Report of Richland Farm Mutual Insurance Company as of December 31, 2009, attached hereto as Exhibit A, is hereby adopted in full.
2. Richland Farm Mutual Insurance Company shall submit a corrective action plan to the CSI in regard to the Recommendations for Correction Action by September 27, 2010.
3. Richland Farm Mutual Insurance Company shall comply with the corrective action plan, after its approval by the CSI, by February 27, 2011. By February 27, 2011, Richland Farm Mutual Insurance Company shall file with CSI a letter

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 Richland Farm Mutual Insurance Company'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 26th day of October, 2010.




MONICA J. LINDZEN
Commissioner of Securities and Insurance
Office of the Montana State Auditor

CERTIFICATE OF SERVICE

I hereby certify that on the 27th day of October, 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, to the following address:

Becky D. Reidle, PFMM, Secretary
Richland Farm Mutual Insurance Company
1405 4th St. SW
Sidney, MT 59270



Office of the Commissioner of Securities and Insurance



MARKET CONDUCT EXAMINATION REPORT

of

Richland Farm Mutual Insurance Company

SIDNEY, MONTANA

as of December 31, 2009

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SCOPE OF EXAMINATION

The Montana Insurance Department conducted a market conduct examination of Richland Farm 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 Montana State Auditor's Office.

The examination was conducted at the Company's home office located at 1405 4th Street SW, Ste 1. Sidney, Montana. The report of examination is respectfully submitted as follows:

OPERATIONS AND MANAGEMENT

The Company was originally incorporated as Farmer Mutual Fire and Lightning Insurance Company of Dawson County, Montana, a county farm mutual insurer, on May 31, 1913, under the provisions of then existing Montana statutes. The Company restated its Articles of Incorporation and an amended Certificate of Authority was issued June 30, 1914, reflecting a change in name to Mutual Fire and Lightning Insurance Company of Dawson County, Montana. Effective May 31, 1915, the Company restated its Articles of Incorporation and an amended Certificate of Authority was issued reflecting the change in name to Mutual Fire and Lightning Insurance Company of Richland County, Montana. The Company restated its Articles of Incorporation and an amended Certificate of Authority was issued January 1, 1932, reflecting the change in name to Mutual Rural Insurance Company of Richland County. The Company once again restated its articles of incorporation on March 27, 2004, to change from a county mutual insurer to a state mutual insurer and effect a change in name to Richland Farm Mutual Insurance Company. An amended Certificate of Authority reflecting these changes was issued on April 7, 2004. Effective March 19, 2005, the Company amended its articles of incorporation to reflect the address of the Company. The Company further amended and clarified its articles of incorporation, filing them with the CSI on December 15, 2005. The Commissioner of Securities and Insurance (CSI) approved the filing on January 3, 2006.

The Company insures property and liability risks within the state of Montana in accordance with its articles of incorporation and Mont. Code Ann. § 33-4-501. The Company conducts business on the cash premium plan.

Effective June 1, 2009, the Company's Board of Directors made the decision to raise the membership fee from \$ 3.00 to \$30.00. The membership fee is charged per policy.

The annual meeting of the Company is held in March of each year. The Company is managed by a seven member board of directors serving staggered three-year terms. 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 Expires</u>	<u>Additional Term Expiring</u>
Pam Kilen Lambert, MT	2008	2011
Charles Prevost Lambert, MT	2008	2011
Andy Carda Lambert, MT	2006	2009
James R. Buckley Culbertson, MT	2006	2009
Carol Fatzinger Poplar, MT	2007	2010
Thomas Hackley Culbertson, MT	2007	2010
Ray Franz Sidney, MT	2008	retired
Teresa Pedersen Sidney, MT	2011	

Thomas Hackley and Pam Kilen served as President and Vice President, respectively, during the time period covered by the examination.

Becky Reidle served as Secretary and Manager during the time period covered by the examination.

David Reidle served as Treasurer during the time period covered by the examination. The financial records of the Company are reviewed by a Company director(s) at regular intervals. The Company undergoes an annual audit performed by the local accounting firm of Brenner, Averett and Co.

The Company has no formal anti-fraud procedures in place. The Company utilizes the services of independent adjusters for losses other than theft losses under \$1000. Police reports are obtained on all theft losses and the Company is aware of the CSI Investigations unit as a resource.

The Company has developed a privacy policy and obtains a signature on an authorization to collect and disclose information at the time of application. A Notice of Information Practices is provided at the time of application and each year thereafter with the notice of annual meeting. The Company is diligent in its efforts to comply with the provisions of Mont. Code Ann. Title 33, Chapter 19.

COMPLAINT HANDLING

The Company did not maintain a complaint register pursuant to Mont. Code Ann. § 33-18-1001 during the time period covered by the examination. The Company has had only one written complaint during the time period covered by the examination. The complaint was handled promptly and was well documented; it involved no wrong-doing by the Company. The Company prepared a complaint register for future use prior to the examiners' departure.

MARKETING AND SALES

The Company has prepared advertising for local print media and radio. The Company participates in the sponsorship of a local charity golf event, provides donations to area charities and participates as an educator in Homebuyer Education Workshops. Advertising materials were reviewed by the examiners and no exceptions were found within the content of the materials.

PRODUCER LICENSING

The Company relies upon a limited number of captive agents to produce business. The Company does offer liability insurance and each producer utilized by the Company during the time period covered by the examination has been appropriately licensed and appointed pursuant to Mont. Code Ann. § 33-4-312 and Mont. Code Ann. Title 33, Chapter 17. The Company has notified the CSI of any producer terminations occurring during the time period of the examination pursuant to the provisions of Mont. Code Ann. § 33-17-237.

POLICYHOLDER SERVICE

The insurance policies issued by the Company renew and are billed annually. Each policy is subject to a five-year review. The Company does not offer payment plans. Electronically-

generated premium notices are sent no more than 30 days prior to the date the premium is due. In the event payment is not received by the 14th day after the due date, the Company's system generates a reminder notice. Once 30 days has elapsed beyond the original due date, a cancellation notice is generated and delivered to the insured via certified mail. This notice advises the insured that coverage will terminate effective with the original premium due date unless premium is received by the Company within the next 30 days, effectively allowing an extended payment period of 60 days from the original due date.

Insured-requested coverage changes, cancellations and correspondence are processed in a timely and accurate manner. The Company calculates and returns unearned premiums in a manner that is consistent with its By-Laws and industry standards. In the event an insured requests cancellation due to the sale of an insured property, the Company will calculate the insured's refund on a pro-rata basis (as opposed to the usual short rate basis) in the event the Company is able to rewrite the existing policy for the new buyer, thereby retaining the business.

UNDERWRITING AND RATING

During the time period covered by the exam, the Company has offered coverage on dwelling and farm properties as well as a homeowner and farmowner program.

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 nonrenewal or renewal with altered terms. The Company's practices relative to nonrenewal and renewal with altered terms comply with the Company's By-Laws and the provisions of the contracts it issues.

The Company's rating process is computer-generated and the Company's agents use laptops to generate quotes in the marketplace. Rates were being applied in accordance with the rating plans used by the company during the time period covered by the examination. The Company uses a "request for quote" form to evaluate property risks. Information obtained on this form and through discussion with the applicant produces a quote form that serves as an application should the insured choose to accept the terms of the quote.

During the time period covered by the examination there were 14 declinations of "Home Insurance quote requests." All were well documented as to the reasons for denial. Denials were pursuant to underwriting guidelines and did not appear to be discriminatory.

A separate form is used to apply for liability coverage. The liability application used by the Company during the time period covered by the examination has not been filed with the CSI in violation of Mont. Code Ann. § 33-4-509 which requires all forms of application for insurance and of policies proposed to be used by an insurer to be filed with the CSI at least 30 days in advance of any use.

The Declarations pages issued by the Company contain the initial heading, LOCATION OF PROPERTY COVERED. Under this heading appears a numeric, line-by-line listing of property location(s), including the occupancy status of each. Beneath this section is an additional section containing the heading, INSURED ITEMS – PROPERTY COVERAGES. Under this heading appears a numeric, line-by-line listing of the property being insured, identified by the type of property. To the right of each entry appears a coverage limit and corresponding premium charge. There is sometimes an indication of the form used to insure the item and the individual perils chosen from within the form. The numerical listings are not necessarily sequential. In some instances a numerically listed INSURED ITEM is actually an endorsement, such as WATER DAMAGE SEWER/DRAINS, rather than an item of property.

The numerical listing of INSURED ITEMS on the Declarations Page does not contain a cross reference to tie the INSURED ITEM to one of the numerically listed locations set forth under the heading LOCATIONS OF PROPERTY COVERED.

The AAIS policy forms used by the Company during the time period covered by the examination utilize lettering to identify property coverages. **Coverage A** refers to the “residence,” **Coverage B** to “related private structures,” **Coverage C** to “personal property,” and **Coverage D** to “additional livings costs and loss of rent.” AAIS form FO-6 1.0, used by the Company to provide Farm Coverage, references **Coverage E** as “Farm Barns, Buildings and Structures,” **Coverage F** as “Scheduled Farm Personal Property,” and **Coverage G** as “Unscheduled Farm Personal Property.” The Company’s practice of numerically listing INSURED ITEMS on the declarations page is not consistent with the lettering and terminology contained within the AAIS policy forms used by the Company.

The manner in which AAIS designs forms may result in more than one edition of a particular form. The listing of forms on the Declarations Pages issued by the Company does not **always** include the edition number of a particular form.

It is the practice of the Company to issue policies providing property coverage on a form FL-1 Ed. 1.0 which insures **COVERAGES A, B, C AND D** against named perils. Peril #1 being **Fire or Lightning** and #2 **Explosion**. Perils numbered 3 through 9 are Optional Perils – Extended Coverage. These additional named perils apply subject to additional premium and only if coverage for Extended Coverage is shown on the Declarations Page.

There is one additional **Optional Peril; #10 Vandalism**. This peril (Number 10) is subject to an additional premium charge and applies only if coverage for Vandalism is shown on the

Declarations. The Company offers coverage for the **Optional Peril of Vandalism**. However, rather than providing coverage consistent with the limits assigned to **Coverage A through G** by the Declarations page, the Company allows the selection of a coverage limit in thousand dollar increments up to \$10,000, specific only to the peril of Vandalism.

The Company offers LIMITED THEFT COVERAGE on AAIS form FL-35 Ed 1.0. Coverage provided by this form is offered in thousand dollar increments up to \$10,000. Form FL-35 Ed 1.0 does allow for the designation of a coverage limit that may differ from the limits otherwise applicable to **Coverage C**.

The Company sometimes insures a structure for the perils of fire and extended coverage while limiting the coverage on contents in said structure to the peril of fire only. Modifications of this type are accomplished solely by means of a statement(s) on the Declarations Page. These statements sometimes contain acronyms that are not defined within the policy forms.

The language in the AAIS policy forms FL-1 Ed 1.0, FL-6 Ed 1.0 and other property forms used by the Company during the time period covered by the examination does not anticipate or accommodate the Company's practice of choosing and assigning varying perils from within the policy form to each individual coverage (**Coverages A, B, C, D, E, F and G**) or INSURED ITEM; nor do the forms anticipate or accommodate a specific coverage limit to be assigned to the optional peril of vandalism.

The manner in which certain items of personal property are listed 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 contents coverage limit, (**Coverage C**). Further ambiguity is created when LIMITED THEFT COVERAGE is provided by Endorsement FL-35 Ed 1.0 and the personal property itemized on the declarations page is the type of property, such as guns, that are excluded by the language of the endorsement.

Certain items of personal property listed on the Declarations Page, such as watercraft, are subject to a limit of coverage within the policy form that may be significantly less than the amount referenced on the Declarations Page. The premium charge is based upon the higher of the two amounts.

The ambiguities set forth in the previous twelve paragraphs are compounded by the Company's usual practice of issuing one policy per member, which insures multiple physical locations, each of which may represent differentiated exposures, requiring a variety of policy forms and endorsements that sometimes contain conflicting provisions. The construction of the declarations page sometimes makes it difficult to determine which coverage forms, coverage parts of coverage forms and/or endorsements apply to each line item being insured and the physical location associated with each line item insured.

The issue of ambiguity created by the construction of an insurance contract has been dealt with 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 and 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 expose the Company to civil litigation and administrative action based upon Mont. Code Ann. §§ 33-18-201(1), (7) and 33-18-212 and applicable case law.

CLAIMS

During the time period covered by the examination 154 property and casualty insurance claims were submitted to the Company. The examiners reviewed each of the 154 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.

Richland Farm Mutual Insurance Company utilized the services of independent adjusters to investigate and evaluate the majority of its property damage claims. Those claims involving losses that appeared easy to investigate, document and evaluate were handled directly by the Company. The examiners found that claims adjusted by independent adjusters provided the Company with a high degree of accuracy and consistency. These files also contained excellent documentation for the scope of damage and final settlement amount determination. Claims handled directly by the Company did not always contain the same degree of support. Some claims handled by the Company lacked adequate documentation necessary to determine the extent of the damage or the amount of the final settlement.

The examiners were able to determine that the Company's standard practice was to assign a new claim to an independent adjuster within 24 hours of receiving the claim notice. The Company would then issue a partial ACV (actual cash value) claim payment based upon receipt of the independent adjuster's initial evaluation and recommendation and issue a final RC (replacement cost) claim payment when the insured submitted a "Proof of Loss" form stating the amount of the claim and attesting to the fact that repairs and or replacement of the property had been completed. Most claims were settled accurately and timely; however, two issues were noted by the examiners during the course of this examination. Claims filed with the company in 2009 were not always inspected and settled in a timely manner due to the large

number of storm claims that year and the lack of qualified independent adjusters available to handle the claims. Also, due to a misreading of certain coverage limit/total loss provisions in the contract, the Company settled some claims for less than the amount required by the terms and conditions of the policy. The Company corrected these underpayments while the examiners were on-site and policyholders received an additional payment equal to the deductible amount that was subtracted from their original total loss claim settlement.

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 did not maintain a complaint register pursuant to Mont. Code Ann. § 33-18-1001.

The Company failed to file the Liability Application form with the CSI as required by Mont. Code Ann. § 33-4-509.

The ambiguities created by the construction and language of the Company's insurance contracts expose the Company to civil litigation and administrative action based upon Mont. Code Ann. §§ 33-18-201(1), (7) and 33-18-212 and case law.

The Company's exposure to litigation is exacerbated by the practice of insuring multiple physical locations representing different exposures on a single policy.

The Company's usual practice of issuing one policy per member results in an inaccurate reflection of the Company's business activity when measured by the number of policies in force; however, the Company appears to have adequate staffing and policyholder service is not adversely affected.

Claims adjusted by the company did not always contain documentation necessary to accurately determine the extent of damage or amount of the final settlement.

Claims filed with the Company in 2009 were not always assigned to an independent adjuster or handled by the Company in a timely manner.

The Company did not routinely perform re-inspections of repaired or replaced property resulting from a covered loss.

CONCLUSION

The Market Conduct Examination Report of Richland Farm 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 officers and employees of the Company during the course of the examination.

RECOMMENDATIONS FOR CORRECTIVE ACTION

For

Richland Farm Mutual Insurance Company

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

The Company must file its application for liability insurance with the CSI pursuant to Mont. Code Ann. § 33-4-509.

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 include edition numbers, when appropriate, in identifying forms on a Declarations Page.

The Company must cease the practice of selecting perils from within the AAIS forms and assigning varying perils to each **Coverage A, B, C, or D** on form FL-1, Coverage E, F or G on form FL-6 or an INSURED ITEM solely by means of statement(s) on the Declarations Page.

When insuring for the optional peril of vandalism, the Company cannot reduce or differ the coverage limitation for said peril from the limit applicable to **Coverage A, B, C or D**, to which all other covered perils apply, solely by means of a statement on the Declarations Page.

The policy Declarations Page must clearly illustrate the coverage applicable to each location insured.

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

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 assign and handle all claims in a timely manner.

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

ADDITIONAL COMMENTS AND SUGGESTIONS

For

Richland Farm Mutual Insurance Company

The Company should refrain from including prior loss information, statement of condition of property, indications of improvements to be undertaken or things of like nature on the Declarations Page.

When insuring recreational vehicles for either property or liability coverage, a serial or identification number should be obtained and set forth in the policy.

The Company should insure multiple locations on one policy only if the locations represent the same exposure.

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:

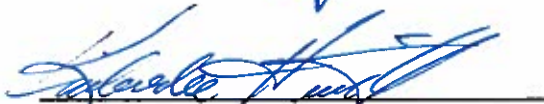
That they are examiners representing the State Auditor and Commissioner of Securities and Insurance, state of Montana; that pursuant to authority vested in them by the Commissioner, they examined the market conduct of Richland Farm Mutual Insurance Company, Sidney, Montana, for the period from January 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 Richland Farm Mutual Insurance Company as of December 31, 2009.

DATED this 26th day of October, 2010.



David Drynan, AIE, MCM



Kimberlee Hewitt, CIE, MCM

SUBSCRIBED AND SWORN to before me this 26th day of October, 2010.



