

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

<b>IN THE MATTER OF THE REPORT OF THE MARKET CONDUCT EXAMINATION OF TRI-COUNTY FARMER'S MUTUAL INSURANCE COMPANY,</b>  <b>Respondent.</b>	<b>CASE NO. INS-2010-30</b>  <b>FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER ADOPTING THE MARKET CONDUCT EXAMINATION REPORT OF DECEMBER 31, 2007</b>
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Having fully considered the proposed Report of Market Conduct Examination of Tri-County Farmer Mutual Insurance Company (Tri-County) completed in December 2008, the Commissioner of Securities and Insurance, Office of the State Auditor, hereby makes the following findings of fact, conclusions of law and order adopting the revised market conduct examination report:

**FINDINGS OF FACT**

1. David Drynan, the Examiner representing the Montana Commissioner of Securities and Insurance, Office of the State Auditor (CSI), conducted an examination of the affairs, transactions, and records of Tri-County and prepared a Market Conduct Examination Report (Report) covering the period from January 1, 2004, through December 31, 2007.
2. The written Report was completed and served on January 6, 2009, together with a notice giving Tri-County 30 days to make written submissions or rebuttals with respect to any matters contained in the Report.
3. Tri-County did not provide any written submissions or rebuttals, with respect to matters contained in the Report.

**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 Title 33, Chapter 1, Part 4, Mont. Code Ann. 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 revised Market Conduct Examination Report of Tri-County Farmers Mutual Insurance Company as of December 31, 2007, attached hereto as Exhibit A, is hereby adopted in full.
2. Tri-County shall correct the deficiencies noted in the Summary of Significant Findings in the adopted Report (Exhibit A) by May 3, 2010.
3. By May 3, 2010, Tri-County shall file with CSI a letter regarding the actions taken to correct the significant findings in the Examination Report.
4. Within 30 days of the mailing of this Order, each of Tri-County'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 4<sup>th</sup> day of March, 2010.

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

**CERTIFICATE OF SERVICE**

I hereby certify that on the 4<sup>th</sup> day of March, 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, 2007, by U.S. mail, postage prepaid and certified, receipt # 70090080000243442632 to the following address:

Ross Simser, Manager  
Tri-County Farmers Mutual Insurance Company  
139 1<sup>st</sup> Avenue East  
Malta, MT 59538

  
Susan Paulson-Navis  
Montana State Auditor's Office



# **MARKET CONDUCT EXAMINATION REPORT**

of

**TRI-COUNTY FARMER'S MUTUAL INSURANCE  
COMPANY**

**MALTA, MONTANA**

*As of December 31, 2007*

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## Scope of Examination

The Montana Insurance Department conducted a market conduct examination of Tri-County Farmer's Mutual Insurance Company (Tri-County) that covered a four-year period from January 1, 2004, through December 31, 2007.

The examination was conducted pursuant to the provisions of Mont. Code Ann. §§ 33-1-401 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.

Tri-County sells Crop Hail, Named Peril Crop, Casualty, Fire and Extended Coverage property insurance. All lines of business sold by Tri-County were included in this examination.

## Operations and Management

Tri-County Farmers Mutual Insurance Company (Tri-County) was incorporated in 1928 under the name Tri-County Farmer's Fire Insurance Company and licensed to do business as a County Mutual Insurance Company by the state of Montana on March 12, 1929. On June 28, 1989, the Company changed its name from Tri-County Farmer's Fire Insurance Company to Tri-County Farmer's Mutual Insurance Company. On May 23, 1997, Tri-County amended its certificate of authority and changed from a County Mutual Insurance Company to a State Mutual Insurance Company.

The Company is managed by a five-member Board of Directors who serve staggered, three-year terms and a Secretary who is selected by the Board to serve for one year and manage the daily operations of the Company. New board members are selected each March during the Annual Meeting by a vote of the current members of the Board. The Secretary and Directors serving during the time period covered by this examination were as follows:

<b>Director/Officer Name</b>	<b>Office</b>	<b>Terms</b>		
James Sintler, Jr.	President	3/02 - 3/05	3/05 - 3/08	3/08 - 3/11
Dave Skiff	Vice President	3/01 - 3/04	3/04 - 3/07	3/07 - 3/10
Gary Knudson	Director	3/01 - 3/04	3/04 - 3/07	3/07 - 3/10
Roy Baeth	Director	3/01 - 3/04	3/04 - 3/07	
Tim Bruckner	Director			3/07 - 3/10
Butch Matovich	Director	3/01 - 3/03	3/03 - 3/06	
Vincent Schmoeckel	Director			3/06 - 3/09
Ross Simser	Secretary	3/02	Annually	3/08

It was noted during the course of the examination that Tim Bruckner was never formally elected to the Board in 2007. The official minutes of Tri-County's 2007 Annual meeting do not reflect any new board members being elected to the Board at that time. It was also noted the board members serving during the time period covered by the examination were never elected to the Board by the members. The By-laws of Tri-County require that board members be elected by the members, but the board members serving during the time period covered by the examination were appointed to the board by a vote of the existing board only.

### **Complaint Handling**

The Montana Insurance Department received one consumer complaint during the time period covered by this examination. The Department requested information concerning the handling of the claim in question and received a timely and satisfactory explanation.

Tri-County did not maintain a complaint log during the time period covered by this examination.

### **Marketing and Sales**

During the time period covered by this examination, Tri-County actively sold Casualty, Fire and Extended Coverage property insurance in three Montana counties: Phillips, Blaine and Valley. It sold Crop Hail and Named Peril Crop insurance throughout the entire state of Montana. Tri-County's Crop Hail and Named Peril Crop insurance business was managed and marketed under a General Agency Crop Insurance Agreement with Rural Community Insurance Services (RCIS). Tri-County reinsured 100% of its Crop Hail and Named Peril Crop insurance with Rural Community Insurance Company (RCIC) and received an issuing fee from RCIS equal to 1.0% of the net gross premiums written.

Tri-County marketed its Casualty, Fire and Extended Coverage property insurance business through local agencies located in Phillips, Blaine and Valley counties. It advertised by word of mouth only and occasionally it promoted its business by purchasing livestock from a local 4H club or merchandise from the local Ducks Unlimited club.

There were no marketing violations noted.

### **Producer Licensing**

Tri-County appointed five independent agencies to market its Casualty, Fire and Extended Coverage property insurance products. All five agencies held a valid license to do business in Montana and all five agencies had a valid agent agreement contract with Tri-County during the time period covered by the examination

There were no producer licensing violations noted.

## **Policyholder Services**

Policyholder services for Tri-County's Crop Hail and Named Peril Crop insurance business are provided by RCIS per a General Agency Crop Insurance Agreement between Tri-County and RCIS. Policy records are maintained by RCIS and located at its office in Anoka, Minnesota.

Policyholder services for Tri-County's Casualty, Fire and Extended Coverage property insurance business are provided by Ross Simser per a General Agent contract between Tri-County and Ross Simser, President of Phillips County Insurance of Malta, Montana. The Phillips County Insurance staff process applications, renewals and cancellations per accepted guidelines and standards adopted by Tri-County. No underwriting or rating exceptions were noted.

During the time period covered by this examination Tri-County did not issue an Information and Privacy notice to its policyholders as required by Mont. Code Ann. § 33-19-202.

## **Underwriting and Rating**

A review of Tri-County's Casualty, Fire and Extended Coverage property insurance business was conducted to determine 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.

A sample of 50 policy files was reviewed. All 50 policies were accurately rated and underwritten according to the Company's adopted guidelines. Each policy was issued on a form previously filed with the Commissioner and processed within 30 days from receipt of the original application.

The Company does not use credit history or credit scores in its underwriting and rating process, nor does it employ criteria other than those contained in its adopted underwriting standards.

Tri-County writes a five-year Casualty, Fire and Extended Coverage property insurance policy. However, when the policy is issued, the deck page received by the policyholder shows a policy term for only one year. Also, the premium calculation is based on a five-year policy term, but the annual premium charged the policyholder contains a 10% service fee for paying the premium on an annual basis.

## **Claims**

Tri-County experienced a large number of claims due to a severe hail storm that occurred June 16, 2007. The Company Secretary, who also acts as the Company's adjuster, handled all of the 2007 hail loss claims. The Secretary inspected the damaged property; wrote an estimate for the repair/replacement of the damaged property; completed the proof of loss and submitted the claim settlement paperwork to the insured for their approval and signature; and issued a check for full and final settlement of the claim upon receipt of the signed proof of loss.



A sample of 25 claim files was selected for review by the examiner. Two files were found to contain incorrect deductible calculations and all of the files reviewed lacked proper documentation and support for the claim settlement payment. The claim files did not contain any support for the amount of damages, cost of repairs or replacement costs other than the Secretary's hand-written scope and estimate consisting of the amount paid for each portion of the loss.

### **Summary of Significant Findings**

During the time period covered by this examination, the following was found:

- Tri-County did not have any record of Tim Bruckner's election to the Board of Directors in 2007.
- Tri-County did not conduct board of director elections in accordance with its by-laws and the requirements of Mont. Code Ann. § 33-4-309.
- Tri-County did not maintain a complaint log as required by Mont. Code Ann. § 33-18-1001.
- Tri-County did not issue an Information and Privacy notice to its policyholders as required by Mont. Code Ann. § 33-19-202.
- Tri-County did not issue a deck page that accurately reflects the term of the policy.
- Tri-County did not accurately calculate the deductible amount on all claims.
- Tri-County did not collect and maintain sufficient documentation to support or justify the ultimate claim determinations.

### **Conclusion**

The Market Conduct Examination Report of Tri-County Farmer's Mutual Insurance Company is respectfully submitted to the Honorable Monica J. Lindeen, State Auditor and Commissioner of Insurance and Securities of the state of Montana.

The examiner wishes to express his appreciation for the courteous and prompt cooperation and assistance of the officers and employees of the Company during the course of the examination.

**AFFIDAVIT OF EXAMINERS**

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

David Drynan, AIE, being first duly sworn, deposes and says:

That he is an examiner representing the State Auditor and Commissioner of Insurance and Securities, state of Montana;

That pursuant to authority vested in him by the Commissioner, he examined the market conduct of Tri-County Farmer's Mutual Insurance Company of Malta, Montana for the period from January 1, 2004, to December 31, 2007;

That to the best of his 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 Tri-County Farmer's Mutual Insurance Company as of December 31, 2007.

DATED this 3rd day of March, 2010.

David Drynan, AIE  
David Drynan, AIE

SUBSCRIBED AND SWORN to before me this 3rd day of March, 2010.

Susan Paulson - Davis

