

# Montana Department of Insurance



## EXAMINATION REPORT

WESTLAND FARM MUTUAL INSURANCE  
COMPANY

GREAT FALLS, MONTANA

As of December 31, 2007

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## Operations and Management:

Westland Farm Mutual Insurance Company (Westland) was incorporated in Montana on December 28, 1960 as an alternative market for local Montana farmers trying to purchase crop-hail insurance. The company is managed by a five member Board of Directors and a Secretary. The board members are elected by the general membership to serve staggered three year terms. The Secretary is hired by the Board of Directors to serve a one year term. The elected directors on December 31, 2007 and the Secretary were as follows:

<u>Director Name</u>	<u>Term Expires</u>	<u>Secretary</u>
Bruce Richter (President)	2009	Allan Fossen
Dick Hansen (Vice President)	2006	
Bob Lange	2010	
Dave Christman	2008	
Jr. Scheuerman	2008	

Westland wrote crop-hail policies and assumed risk until early 1996 when they opted to become a "fronting company" for American Agricultural Insurance Company (American Ag). Westland entered into a Managing General Agent contract with American Ag NAIC #10103 and reinsured 100% of their business with American Ag so that no risk would be assumed by Westland Farm Mutual Insurance Company. Westland was paid a policy issuing fee by American Ag for the privilege of using Westland's name and policy forms. In 2003 American Ag was having financial difficulties and Westland elected not to renew the MGA contract with American Ag for the 2003 crop year. Westland was unable to find a replacement crop-hail insurer in time for the 2003 crop season so they did not write any crop-hail business for that year.

In 2004 Westland entered into an MGA contract with Farmers Crop Insurance Alliance, Inc. and reinsured 100% of their crop-hail business with Farmers Alliance Mutual Insurance Company NAIC # 19194. Westland renewed both of these contracts for the 2005 crop season and received a policy issuing fee for both years according to the terms of the MGA agreement.

In late Fall of 2005 American Financial Group, Inc. (Great American) purchased Farmers Crop Insurance Alliance, Inc (Farmers) from Farmers Alliance Mutual Insurance Company (Farmers Alliance). In 2006 Great American offered to renew the MGA contract between Westland and Farmers with minor modifications. Westland accepted Great American's offer and renewed the amended MGA contract with Farmers and continued the existing reinsurance contract with Farmers Alliance for the 2006 crop year; Westland received a policy issuing fee for 2006 according to the terms of the MGA agreement.

In 2007 Westland discontinued their MGA relationship with Farmers and Farmers Alliance (Great American). Westland entered into a new MGA contract with NAU Country Insurance Company for the 2007 crop season and reinsured 100% of their crop-hail business with NAU Country Insurance Company NAIC # 25240. Westland received a policy issuing fee for 2007 according to the terms of the new MGA agreement.

In July of 2004 the Westland Board of Directors resolved to enter the traditional P&C market and offer Homeowner, Mobile Homeowner and Farm/Ranch insurance policies (P&C) to its membership. It took Westland a considerable amount of time to research and develop their P&C product line and recruit an office manager with enough farm mutual experience to run the new P&C business. In April of 2007 Westland entered the traditional P&C market and issued its first homeowners policy. By years end Westland had placed a total of 33 P&C insurance policies on their books.

### **Complaint Handling:**

Westland did not receive any complaints in 2007 concerning their new P&C book of business and they do not keep complaint files on their MGA produced crop-hail policies. Westland did receive verbal confirmation from their current and former MGA's that there were no complaints filed against the company during the time period covered by this examination.

### **Marketing & Sales:**

The Westland Board of Directors entered into a General Agency Insurance Agreement with Double Eagle Insurance Services, Inc. (Double Eagle) on October 17, 2006. This agreement appears to be a Managing General Agent contract which authorizes Double Eagle to supervise and conduct the writing of Westland's P&C business including the authority to appoint and remove local agents; solicit and evaluate applications for insurance; accept and decline risk; collect, receive and account for premiums; deliver and countersign policies; make endorsements, changes, assignment, transfers and modifications to policies as authorized by the Company; effect cancellation and non-renewal of policies; and, appraise, adjust, compromise and pay losses and expenses including legal expenses.

The agreement also stipulates the General Agent shall be deemed an independent contractor and the Company reserves no authority or right to control and General Agents method of performance; the General Agent can transfer money from the Westland RBC Dain Rauscher savings account to fund the operations of the General Agent and the General Agent does not have to re-pay the funds until such time as the P&C business net profits exceeds \$20,000.

Double Eagle and Westland operate out of the same office located at 1111 14th Street, Suite C Great Falls, Montana. The Double Eagle Registered Agent oversees the daily operations of Westland's marketing and sales activities and is responsible for paying Westland's bill's which include payroll, advertising and marketing expenses.

Westland does not actively participate in the marketing or sale of their crop-hail insurance business.

## **Producer Licensing:**

Montana Code Annotated 33-4-312 reads as follows: **Officers, agents, and employees not licensed -- exception for liability insurance.** (1) Except as provided in subsection (2), an agent of an insurer is not required to obtain a license or authority from any public official to transact business for the insurer. The insurer or its officers, agents, or employees are not required to pay any fee for a license for the transaction of the business of the insurer, except as provided in this chapter.

(2) A farm mutual insurer that offers liability insurance is required to have an insurance producer licensed by the state of Montana to transact liability insurance. A person may not sell, solicit, negotiate, or take applications for, procure, or place for others liability insurance for a farm mutual insurer unless that person is licensed under Title 33, chapter 17.

Westland Farm Mutual Insurance Company did not offer or sell **liability** insurance products prior to February 2007 and had no need to employ licensed producers before that date. When Westland began marketing their P&C liability insurance products in 2007 the office manager and corporate secretary began actively recruiting producers and agencies to represent the company. By the end of 2007 Westland had appointed two insurance producers and six insurance agencies. All of the Westland P&C business for 2007 was placed by a licensed and appointed insurance producer/agency.

Westland Farm Mutual Insurance Company's agency license and Westland affiliated individual producer licenses were conspicuously displayed on the company's main office walls as required by MCA 33-17-1101.

## **Policyholder Services:**

Policyholder service for Westland's crop hail business is provided by the MGA; policyholder service for the P&C business is provided by Westland Farm Mutual Insurance Company.

A review of the 33 new P&C policies issued in 2007 was completed. All of these policies were mailed to the insured member in a timely manner; within three weeks of the date the company receiving a signed application. A privacy notice for all new P&C policyholders was provided to the named insured as required by code.

Company representatives indicated all renewal notices will be mailed to the insured member at least 30 days prior to the renewal date.

## **Underwriting and Rating:**

A review of Westland's P&C policies 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 MCA.

The Company wrote 33 new P&C insurance policies in 2007. Each policy was accurately rated and underwritten according to the company's adopted guidelines. And each policy was issued on a form previously filed with the Commissioner. The average time from receipt of application to issue of policy was 9 days.

The company does not use credit history or credit scores in their underwriting and rating process, nor do they employ criteria other than those contained in their adopted underwriting standards.

All declined P&C applications for 2007 were reviewed and no exceptions were noted.

## **Claims:**

Westland does not have any crop-hail claim records for the years 2004 and 2005. The MGA company responsible for the safe-keeping of Westland's crop-hail records was sold in 2005 and Westland's crop-hail records were lost or misplaced when the MGA's Great Falls office closed and the resident agents moved to other locations.

Westland's crop-hail claim records for the year 2006 are located at Great American's office in Cincinnati Ohio. A sampling of the claim records was reviewed during the course of the examination. All claims were paid within a reasonable period of time with an average of 30.4 days from date of loss to date of payment. No exceptions were noted.

Westland's crop-hail claim records for the year 2007 are located at NAU Country Insurance Company's regional office in Missoula, Montana. A sampling of the claim records was reviewed during the course of the examination. All claims were paid within a reasonable period of time with an average of 32 days from date of loss to date of payment. No exceptions were noted.

Westland did not receive any P&C claims for the time period covered by the examination.

## Summary of Significant Findings

Westland does not currently have a Disaster Recovery Plan. *Standard #4 O/M*

Westland does not actively monitor the activities of their MGA nor are they actively involved in the daily operations of the Westland crop-hail insurance business. *Standard #6 O/M*

Westland does not have any business records for the years 2004 & 2005. *Standard #7 O/M*

Westland does not have a system in place to monitor complaints or disputed claim activity regarding their crop-hail business. *Standard #1 CH*

Westland does not maintain a rate calculation/documentation worksheet in their P&C files. *Standard #4 vol.2 UandR*

Westland does not maintain any records of their crop-hail business. *Standard #5 CI*

Westland's Articles of Incorporation and By-Laws are not consistent with or reflective of their current business practices.

Westland entered into a prohibited loan arrangement with one of their employees.

*Montana Code Annotated 33-3-308 prohibits an officer, director or employee of a domestic insurer from borrowing the insurer's funds. Double Eagle is owned by an officer/employee of Westland and the Dain Rauscher savings account transfer of funds from Westland to Double Eagle constitutes a loan transaction.*

The Honorable John Morrison  
State Auditor and Commissioner of  
Insurance and Securities

Dear State Auditor Morrison:

Pursuant to your instructions and in accordance with the practices and procedures of the National Association of Insurance Commissioners (NAIC), a Market Conduct examination of

**WESTLAND FARM MUTUAL INSURANCE COMPANY  
GREAT FALLS, MONTANA**

was completed on July 31, 2008.

SCOPE OF EXAMINATION

This report covers the period from January 1, 2003 through December 31, 2007, and includes a review and analysis of the company's operations and management, complaint handling, marketing and sales, producer licensing, policyholder services, underwriting and rating, and, claims handling business practices. This examination was conducted in accordance with guidelines prescribed by the NAIC and encompasses a review for compliance with Montana insurance statutes and administrative rules. The company was examined as a farm mutual insurance company pursuant to Section 33-1-401, MCA.

The report of examination is herewith respectfully submitted.

  
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David Drynan, AIE