



MARKET CONDUCT EXAMINATION REPORT

of

WHEAT GROWERS FARM MUTUAL INSURANCE COMPANY

GREAT FALLS, MONTANA

as of December 31, 2009

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SCOPE OF EXAMINATION

The Montana Insurance Department conducted a market conduct examination of Wheat Growers 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 took place at the Company's home office located at 8 Fifth Street North, Great Falls, MT 59401 and at the local office of the Company's managing general agent, Rain and Hail L.L.C., 300 River Drive North, Ste. 2, Great Falls, MT 59401

OPERATIONS AND MANAGEMENT

The Company was incorporated as a state farm mutual insurer on December 13, 1955, under the provisions of Montana statutes in existence at the time.

The Company is authorized to insure for property and liability risks in keeping with the provisions of Mont. Code Ann. § 33-4-501. During the time period covered by the examination, the Company has been writing only crop/hail in accordance with its articles of incorporation. The Company's insurance product and program are not subject to federal regulation.

The Company's board of directors in accordance with its by-laws is made up of five members, three of whom are elected to three-year terms; two directors are elected to one-year terms. Directors are elected to fill expiring terms at the annual membership meeting of the Company in January of each year. 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(s) Expiring</u>
Fred Schafer Dutton, Montana	January, 2006 (one year term)	January 2009 (three year term) and January 2012 (three year term)
Willard Michels Plentywood, Montana	January, 2006 (one year term)	January, 2007, 2008, 2009 & 2010 (additional one year terms)

Dick Schuler Great Falls, Montana	January, 2006	Replaced by Larry Cline in January, 2006
Larry Cline Fort Benton, Montana	January, 2009 (three year term)	January, 2012 (three year term)
Alan Larsen Tempe, Arizona	January 2006	Replaced by Mike McIntosh in January 2007
Mike McIntosh Great Falls, Montana	January 2007 (one year term)	January 2008, 2009 & 2010 (additional one year terms)
John McIntosh Great Falls, Montana	January 2009 (three year term)	January 2009 (three year term) and January 2012 (three year term)

Fred Schafer, Larry Cline and John McIntosh have each served concurrent one year terms as President, Vice- President and Secretary/Treasurer, respectively, from January of 2006 to present.

Beginning in 2002, the Company contracted with Rain and Hail, L.L.C. of Johnston, Iowa, to act as the Company's managing general agent (hereinafter referred to as MGA). The MGA's contractual duties include sales, underwriting, policy issuance, collection of premium, policyholder service and loss adjustment. The MGA also handles all other administrative and service matters related to the crop hail business insured by the Company, including the placement of reinsurance and the filing of policy forms intended for use by the Company with the CSI.

The Company and its MGA have adequate internal controls and internal, as well as external, audit procedures in place. The Secretary/Treasurer of the Company, John McIntosh, is also a producer for the Company and is actively involved in necessary oversight of the MGA on behalf of the Company.

The Company, through its MGA, has thorough written disaster recovery and information security procedures. Paper documents are scanned and stored off-site. Computer back-up is performed nightly, with support provided by the MGA's regional office in Spokane, WA and national office in Des Moines, IA.

Due to the nature of the business insured by the Company, it is exempt from the provisions of Mont. Code Ann. § 33-19-202, in that Mont. Code Ann. § 33-19-104(14) defines "Insurance Transaction" as a transaction involving insurance primarily for personal, family, or household needs, rather than for business or professional needs.

COMPLAINT HANDLING

The Company has had no written complaints during the time period covered by the examination. The Company is aware of the provisions of Mont. Code Ann. § 33-18-1001 and maintains an electronic complaint/compliance record in accordance with the statute, should the need for an entry be necessary.

MARKETING AND SALES

All forms of advertising and marketing materials for use by producers requires the approval of the MGA prior to use. The MGA also makes pre-approved advertising materials available to its producers. The copyrighted logo of the Company appears on these materials. The advertising materials were reviewed by examiners and no exceptions were found within their content.

Producer training materials and communications were reviewed for compliance with Montana statutes and the provisions of the insurance contract. Producer training materials accurately reflect underwriting guidelines and contract provisions. The MGA communicates the newly established rates each year to the Company's producers in a timely manner.

PRODUCER LICENSING

The Company is not insuring for liability exposures; therefore, in accordance with Mont. Code Ann. § 33-4-312, producers are not required to be licensed by the Commissioner of Securities and Insurance (CSI) and/or be appointed by the Company.

POLICYHOLDER SERVICE

The examiners reviewed 40 policyholder files for compliance with statute and the MGA's established policyholder service, underwriting and rating guidelines. This sample of 40 files is representative of approximately ten percent of the Company's book of business on an annual basis. No exceptions were found within the sample.

The MGA utilizes highly automated policyholder service and rating processes. These processes, in combination with consistent and well communicated procedures, result in timely and accurate policy issuance and subsequent policyholder service transactions.

UNDERWRITING AND RATING

Rates are established each year by the Company prior to the growing season. The rates used are uniform and nondiscriminatory in nature. The Company is not required to file its rates with the CSI pursuant to Mont. Code Ann. § 33-4-510. Applications for insurance are completed in great detail, inclusive of required information and necessary signatures. The MGA's use of an automated rating program ensures accuracy in premium calculations.

The Company has not initiated rescission or cancellation of any in-force policies during the time period covered by the examination.

The Company's by-laws are required to be a part of the contracts of insurance between the insurer and its members pursuant to Mont. Code Ann. § 33-4-303. Mont. Code Ann. § 33-4-509 requires all forms of applications and of policies to be filed with the CSI at least 30 days in advance of use. During the time period covered by the examination, the Company did not include its by-laws as part of the insurance contract; therefore, the by-laws had not been filed with the CSI as a policy form. This oversight evidenced violations of the aforementioned statutes within this paragraph.

The application form filed for use with the CSI is identified as WG-655-2001. During the time period covered by the examination other application forms in use by the MGA, on behalf of the Company, bear the form identifiers RH-655-2006, or 2007, 2008, 2009, 2009 (Rev.01-2009), or 2009 (Rev.05-2009), depending upon the timing of application. The MGA has not filed these application forms with the CSI for use by the Company in violation of Mont. Code Ann. § 33-4-509.

The declarations page, entitled Summary of Coverage, is identified as form RH 1866-92. The MGA has not filed this form with the CSI for use by the Company in violation of Mont Code Ann. § 33-4-509.

CLAIMS

The examiners randomly selected and reviewed 40 claim files from a population of 461 claims submitted to the Company during the time period covered by the examination. Claims were assigned to an adjuster in a timely manner. Contact with the policyholder by the adjuster usually occurred within 48 hours after receipt of the assignment. Each claim file contained a Report of Loss form, meticulous documentation as to the cause, value and extent of the loss and a signed Proof of Loss attesting to the cause of the loss and value of the amount claimed. Claims were promptly paid or credited to the next year's premium per the policyholders request and established company procedures as adopted by the Board of Directors.

No exceptions or claim settlement violations were noted by the examiners.

SUMMARY OF SIGNIFICANT FINDINGS

During the time period covered by the examination:

The Company did not include its by-laws as part of the insurance contract as required by Mont. Code Ann. § 33-4-303.

The Company did not file its by-laws as a policy form in accordance with Mont. Code Ann. § 33-4-509.

Various application forms and the declarations page form used by the MGA on behalf of the Company during the time period covered by the examination have not been filed with the CSI in accordance with Mont. Code Ann. § 33-4-509.

CONCLUSION

The Market Conduct Examination Report of Wheat Growers 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 and its MGA during the course of the examination.

RECOMMENDATIONS FOR CORRECTIVE ACTION

The Company must file its by-laws as a policy form with the CSI in accordance with Mont Code Ann. § 33-4-509 and include the by-laws as part of the insurance contract to be delivered to its insureds pursuant to Mont Code Ann. § 33-4-302.

The Company must file any policy forms currently in use or intended for use in accordance with Mont. Code Ann. § 33-4-509. The filing should include, but not be limited to, the application form and declarations page, (Summary of Coverage) form currently in use.

ADDITIONAL COMMENTS AND SUGGESTIONS

The Company charges a membership fee of \$10.00 per member. The declarations page issued to insureds refers to the \$10.00 membership fee as a "policy fee" while the application form used by the Company contains a section for a "charge" or "fee" that is separate and in addition to the premium charge. The terminology on the application form and declarations page should be changed to reflect the intent and ability of the Company as a farm mutual insurer to charge a "membership fee."

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 Wheat Growers Farm Mutual Insurance Company, Great Falls, 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 3rd day of November, 2010.



David Drynan, AIE, MCM



Kimberlee Hewitt, CIE, MCM

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



