

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

<p>IN THE MATTER OF THE REPORT OF MARKET CONDUCT EXAMINATION OF FARMERS UNION MUTUAL INSURANCE COMPANY,</p> <p style="text-align:right">Respondent.</p>	<p>CASE NO. INS-2015-156</p> <p style="text-align:center">FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER ADOPTING THE MARKET CONDUCT EXAMINATION REPORT FOR THE PERIOD JANUARY 1, 2010 THROUGH DECEMBER 31, 2014</p>
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Having fully considered the proposed Report of the Market Conduct Examination of Farmers Union Mutual Insurance Company (Company), dated December 28, 2015, 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. Thomas McIntyre, Kim Hewitt and David Dachs, the Examiners representing the Office of the Montana State Auditor, Commissioner of Securities and Insurance (CSI), conducted an examination of the Company's affairs, transactions, and records and prepared a Market Conduct Examination Report (Report) covering the period from January 1, 2010 through December 31, 2014.

2. The verified written Report was completed on December 28, 2015, and served on January 4, 2016, together with a notice giving the Company 30 days to make written submission or rebuttal with respect to any matters contained in the Report.

3. The Company submitted a written request for clarification, which the CSI provided in writing to the Company.

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 the examinations 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

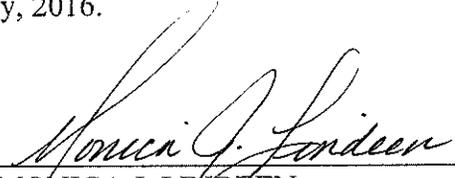
Having carefully and thoroughly reviewed and considered the Report, relevant examiner workpapers, and any written submissions in this matter, IT IS ORDERED:

1. The Market Conduct Examination Report of Farmers Union Mutual Insurance Company for the period January 1, 2010 through December 31, 2014, attached hereto as Exhibit A, is hereby adopted in full.

2. Within 30 days of the mailing of this Order, each of the 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.

3. 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 same.

DATED this 9th day of February, 2016.

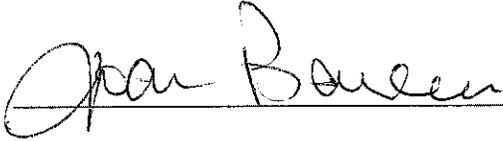


MONICA J. LINDEEN
Commissioner of Securities and Insurance
Office of the Montana State Auditor

CERTIFICATE OF SERVICE

I hereby certify that on the 10th day of February, 2016, I served a true and accurate copy of the foregoing Findings of Fact, Conclusions of Law and Order Adopting the Market Conduct Examination Report for the Period January 1, 2010 through December 31, 2014, by U.S. mail, postage prepaid, to the following address:

Robert L. Fields, President & CEO
Farmers Union Mutual Insurance Company
300 River Drive North
P O Box 2169
Great Falls, MT 59403-2169



Montana State Auditor's Office

COMMISSIONER: MONICA LINDEEN



REPORT OF THE
MARKET CONDUCT EXAMINATION

OF

FARMERS UNION MUTUAL INSURANCE COMPANY
(NAIC #28436)

GREAT FALLS, MONTANA

AS OF DECEMBER 31, 2014

EXHIBIT

A

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December 28, 2015

The Honorable Monica Lindeen
Office of the Montana State Auditor
Commissioner of Securities and Insurance
840 Helena Avenue
Helena, Montana 59601

Dear Commissioner Lindeen:

Pursuant to your authority delegated under the provisions of MCA § 33-1-401 and in accordance with your instructions, a market conduct examination of the business practices and affairs has been conducted on:

Farmers Union Mutual Insurance Company
300 River Drive North
Great Falls, Montana 59403

The Company is a Montana domiciled property and casualty insurer, hereinafter referred to as "FUMIC" or the "Company." The examination was performed as of December 31, 2014, at the home office in Great Falls, Montana.

The report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This market conduct examination of the Company covered a five year period from January 1, 2010 through December 31, 2014.

This examination was conducted pursuant to the provisions of MCA§ 33-1-401 and in accordance with procedures and guidelines outlined in the Market Conduct Examiners Handbook as adopted by the National Association of Insurance Commissioners ("NAIC") and/or agreed upon procedures approved by the Office of the Montana State Auditor, Commissioner of Securities and Insurance ("CSI").

In order to determine the practices and procedures of the Company's operations, the following procedures were performed in each phase:

1. Samples files were selected from various populations and each file was then tested, and the results of testing various attributes were recorded in the examination workpapers.
2. The Company was requested to respond to a series of memorandum requests and inquiries regarding the testing of its contracts/policies, files, and Company practices and procedures.

This examination was comprised of the following seven phases:

1. Company Operations and Management;
2. Complaint Handling;
3. Marketing and Sales;
4. Producer Licensing;
5. Policyholder Service;
6. Underwriting: Applications, Issued files, Declined files, Nonrenewal files & Cancelled files; and
7. Claims: Paid and Denied

The Market Conduct Examination consisted of a review of information, materials, documents, and files requested by the examiners and supplied by the Company. Upon review of the documents, any concerns, discrepancies or questions were noted and the Company was notified in writing with a "request" or "inquiry" form. The inquiry form provided space for the Company to respond in writing, either in agreement with the findings or to explain or justify the Company's action regarding the issue raised by the examiners. After consideration of the Company's responses, any invalid or non-issue comments were eliminated from the final report findings.

The Report of Examination contains an explanation of the procedures performed and the findings, and conclusions reached in each phase of the examination. Examination report

recommendations that do not reference specific insurance laws, rules and bulletins may be presented to encourage improvement of company practices and operations and to ensure consumer protection.

All unacceptable or non-complying practices may not have been discovered during the course of the examination. Additionally, findings may not be material to all areas that would assist the Insurance Commissioner of Montana. Failure to identify specific Company practices does not constitute acceptance of such practices. Additionally, a report of examination should not be construed to endorse or discredit any insurance company or insurance product.

COMPANY OPERATIONS AND MANAGEMENT

HISTORY & PROFILE

In 1915, Toole County Farmers Union Mutual Insurance Company was organized to write farm property business with the principal place of business being in Shelby, Montana. In 1924, the Company became authorized to write farm property business in the entire State of Montana. Correspondingly, the Company name was changed to Montana Farmers Union Mutual Fire Insurance Company and the principal place of business changed from Shelby, Montana to Billings, Montana. In 1939, the principal place of business was moved to Lewistown, Montana and in 1957 moved to Conrad, Montana. During 1959, Farmers Union Mutual Insurance Company was organized and began writing non-farm property and the principal place of business was Great Falls, Montana, where it remains today. In 1983, Montana Farmers Union Mutual Fire Insurance Company was merged into Farmers Union Mutual Insurance Company. By order dated January 17, 1984, the Company was granted permission to write non-assessable insurance policies.

While there is no formal affiliation, the Company has a number of affiliations with both domestic and foreign insurance companies through its membership in the Montana Mutual Insurance Association, National Association of Mutual Insurance Companies, and association through the agricultural organizations of the Montana Farmers Union, and the National Farmers Union.

The Company writes both property and casualty lines of business. The current NAIC Annual Statement lines of business written by the Company are: Fire, Allied Lines, Farmowners, Homeowners, Commercial Multi-Peril, Inland Marine, Other Liability – Occurrence, Commercial Auto Liability (from Garageowners) and Auto Physical Damage (from Garageowners). In 2009, the Company ceased writing private passenger automobile insurance and instead entered into a quota share agreement with the National Farmers Union Property and Casualty Company to provide auto insurance coverage. The Company accepts reinsurance premium for all private passenger and commercial auto premium written in the State of Montana by National Farmers Union Property and Casualty Company (“NFU”). The Company assumes the NAIC Annual Statement Lines of business of: Private Passenger Auto Liability, Commercial Auto Liability and Auto Physical Damage through its Quota Share Reinsurance Contract with NFU.

On January 1, 2004 the Company acquired Montana Farmers Union Insurance Agency, Inc. (“MFUIAI”) from the Montana Farmers Union. MFUIAI is the exclusive sales agency in Montana for the Company and has been an agency for the National Farmers Union Insurance Companies since 1951.

Year	Gross Premiums Written	Net Premiums Written	Underwriting Income (Loss)	Net Income (Loss)
2010	18,140,968	14,626,236	(2,873,317)	(895,567)
2011	17,755,510	14,533,921	(761,688)	1,878,765
2012	18,723,566	15,412,239	(3,393,181)	(768,768)
2013	20,560,059	16,988,780	(1,269,245)	269,038
2014	22,450,787	18,322,572	2,707,041	2,889,053

BOARD OF DIRECTORS

Williams Downs	Chairman of the Board
Keith Good	Vice-Chairman of the Board
Karl Hertel	Board Member
David Hunter	Board Member
Jon Redlin	Board Member
Dore Schwinden	Board Member
Delbert Styren	Board Member

Company Operations Standard #1: The regulated entity has an up-to-date, valid internal or external audit program.

The Company provided its external audits for 2013 and 2014. The Company also provided its internal claims audits, and indicated it does not perform underwriting audits. The internal claim audit program, implemented during 2014, tests a random sample of claims for each adjuster and provides a good evaluation of claims handling and settlement of those claims. Review of the claims and external audits was completed.

Company Operations Standard #2: The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

The Company has controls for computer information that mitigate its risks by having: daily full system save, DR hot-site and annual recovery exercise, Vims protection software, a firewall, VPN for all user connections from outside the network; VPN connections are only created by IT, no sharing of the pre-shared key, SSL & secure FTP communications with business partners, monthly vulnerability scans and requirements for changing user passwords. The Company transfers risk by having credit card processing completed by a third party and it purchases identity theft protection insurance.

However, it appears one (1) Company employee has substantial control over the Company's computer systems, which appears to allow for potential fraud or manipulation of the systems.

Company Operations Standard #3: The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.

The Company did not have a written antifraud plan; however, it stated it adheres to the requirements under MCA § 33-1-1205. It is recommended the Company develop a written antifraud plan in an attempt to detect and prevent fraudulent acts against it, and possible internal fraud.

Company Operations Standard #4: The regulated entity has a valid disaster recovery plan.

The Company had a formal written disaster recovery plan which revolves around its daily full system save and DR hot-site. There is also an annual recovery exercise performed by the Company. The Company's disaster recovery plan appears adequate for maintaining insurance operations if a disaster were to occur; however, the Company maintains paper

underwriting files, and if a fire were to occur this paper information could be lost. Therefore, it is recommended the Company either start a scanning program for information received from producers and insureds to be stored electronically, including off-site, or maintain duplicate underwriting files off-site.

Company Operations Standard #5: Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, managing general agents (MGAs), general agents (GA), third-party administrators (TPAs) and management agreements, must comply with applicable licensing requirements, statutes, rules and regulations.

Montana Farmers Union Insurance Agency Inc. ("MFUIAI") has entered into written agreements with other producing insurance agencies to provide producers who are affiliated on MFUIAI's license with access to coverage for risks that do not meet FUMIC's underwriting guidelines, or when certain lines of coverage are not offered by FUMIC. FUMIC and MFUIAI refer to these producing insurance agencies as "General Agencies". The process of submitting business to several of these producing insurance agencies originates with a producer (who is affiliated on the MFUIAI license) gathering information from an insurance prospect. The producer then reduces the information to an application form (Accord form) and submits the application to a producing insurance agency which has a written agreement in place with MFUIAI. The producing insurance agency then submits the application to an insurer or insurers with whom the producing insurance agency is appointed. If an insurer chooses to offer a quote the quote is conveyed to the producing insurance agency. The producing insurance agency then shares the quote with the MFUIAI producer; who in turn, presents it to the prospect. In the event the prospect accepts the quote the MFUIAI producer notifies the producing insurance agency of the prospect's acceptance of the quote. The MFUIAI producer collects any premium due for the coverage to be provided and forwards the premium to MFUIAI, who in turn, forwards the premium to the producing insurance agency. Once the insurer issues a policy it is presented to the producing insurance agency who forwards it to the MFUIAI producer for delivery to the insured. The MFUIAI producer is responsible for the handling of servicing requests presented by the insured as well as receipt of claim reports. It is then the MFUIAI producer's responsibility to convey requests, claim forms, and any accompanying materials to the producing insurance agency for processing or submission to the insurer.

The entire process outlined above occurs without benefit of an affiliation between the producing insurance agency and the individual MFUIAI producer or an appointment from the insurer to MFUIAI and/or an appointment from the insurer to the individual MFUIAI producer. The lack of appointments from these insurers to MFUIAI and the lack of affiliation of the individual MFUIAI producers on the producing insurance agency's license in Montana does not comply with MCA §§ 33-17-231 or 33-17-236.

The only TPA utilized by the Company, aids in the administration of its employee 401(k) Pension Plan. The Company does not act as a TPA for other insurers.

Company Operations Standard #6: The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.

The Company does not have other entities assuming any of its business functions or acting on behalf of the Company, including MGAs, GAs or TPAs.

Company Operations Standard #7: Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

The Company had underwriting and claims records in a mixture of paper and electronic files. The records are generally accessible, but the Company could eliminate paper files by scanning all materials in order to make all records electronically accessible.

In addition, the Company's underwriting system was missing seven (7) applications for the sampled newly issued homeowner files. The Company was asked if they were lost or could be recreated. The Company attempted to recreate the applications and it was determined that five (5) of the premium quotes for the newly created applications were not the same as the premium amounts shown when bound in the system. It appeared the application discrepancies were only occurring when an application had Coverage A. The Company's response stated in part, ". . . when original applications are deleted off the Company's system and then recreated by IT, it appears we cannot always recreate the document as originally submitted. We are working towards system changes to eliminate deletion of applications off of the isolated drive . . ." The Company's system does not appear to allow it and its producers to provide all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the Company being examined in the form originally prepared. Therefore, the Company was not able to provide some files in compliance with MCA § 33-1-408.

The Company failed to retain one (1) paper underwriting file as noted below, in Underwriting Standard #6.

Examiners issued a data call to the Company; requesting paid and denied claims. Examiners requested the Company provide the reason(s) for claim denial; such as duplicate claim, no coverage per contract, etc. The Company's response stated in part, "*The lack of a denied claim indicator and an associated denied claim reason code is a short coming of our legacy system. Because of the shortcoming the report is a listing of claims that were closed without any payment I expect the claims department can assist in determining which of these were actual denials . . .*"

Company Operations Standard #8: The regulated entity is licensed for the lines of business that are being written.

The Company is licensed and authorized to write all lines of business currently being written by the Company.

Company Operations Standard #9: The regulated entity cooperates on a timely basis with examiners performing the examinations.

The Company was very cooperative throughout the examination.

Company Operations Standard #10: The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

The Company has procedures for the collection and use of application and transaction information. In addition, it stated it does not disclose nonpublic financial or personal information of its applicants and policyholders. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel. Applicants and policyholders' personal confidential data is only accessible by authorized personnel.

Company Operations Standard #11: The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.

As noted above, the Company has procedures for the collection and use of application and transaction information. It stated it does not disclose nonpublic financial or personal information of its applicants and policyholders. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel. Applicants and policyholders' personal confidential data is only accessible by authorized personnel.

Company Operations Standard #12: The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

The Company stated that it did not disclose nonpublic information of its customers. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel.

Company Operations Standard #13: The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

The Company provided its Privacy Notice, which accompanies each policy issued by the Company. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel.

Company Operations Standard #14: If the regulated entity discloses information subject to an opt-out right, the regulated entity has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the regulated entity provides opt-out notices to its customers and other affected consumers.

The Company stated that it did not disclose nonpublic personal financial information of its customers. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel.

Company Operations Standard #15: The regulated entity's collection, use and disclosure of nonpublic personal financial information is in compliance with applicable statutes, rules and regulations.

The Company stated that it did not disclose nonpublic personal financial information of its customers. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel.

The Company's use of non-public personal financial information is not in compliance with MCA § 33-18 part 6 as specified in *Policyholder Service Standard #8*, paragraph two (2).

Company Operations Standard #16: In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed, except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

The Company provided its claims handling procedures for personal health information gathered from insureds and claimants. The claims adjuster handling the file and the claims supervisor are the only persons able to view the medical notes. If a lawsuit is then filed, the defense attorney and the defenses' medical experts are allowed to view the medical notes. The adjusters have been made aware of the privacy issues. The medical notes stay within the adjuster's and supervisor's file. Once the file is closed, the adjuster's file and the supervisor's file are combined and then stored in a secured offsite storage facility. The procedures appeared adequate for maintaining personal health information

Company Operations Standard #17: Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

The Company has implemented procedures for the protection of nonpublic customer information. Non-public confidential data is to be encrypted when stored in Company databases and only decrypted when in use by authorized personnel.

COMPLAINT HANDLING

Complaint Handling Standard #1: The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders in compliance with MCA § 33-18-1001.

During testing it was determined the Company was efficient at recording into its log, the assigned complaint number received from the CSI, and all other pertinent data for retention and responding to those complaints. The Company documents its responses, received dates, nature of the complaint, and the disposition of the complaint in compliance with MCA § 33-18-1001 . The Company's complaint log was compared to the CSI complaint log and it was determined the Company complaint log contained all the complaints assigned to it by the CSI.

Complaint Handling Standard #2: The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.

The Company documents its responses, received dates, nature of the complaint, and the disposition of the complaint in compliance with MCA § 33-18-1001. The Company has procedures in place to finalize and dispose of CSI complaints in accordance with Montana law.

Complaint Handling Standard #3: The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

For all the complaints tested, the Company responded in less than ten (10) days, and in compliance with Montana law.

MARKETING AND SALES

Marketing and Sales Standard #1: All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

The Company stated it marketed or advertised by use of four (4) flyers during the time period under examination. The only other place it marketed its products was on the Company's website. Testing of the four (4) flyers determined the flyers provided accurate information to the public.

The Company's website indicated FUMIC sells automobile plans in Montana. The website stated, "*Farmers Union Insurance has several options available to clients that are looking for auto insurance. The choices vary from preferred rates to substandard rates. There are many factors used to determine what your final auto rate may be. Your rate is based on the information you provide the agent.*" The language was inaccurate and misleading; which was not in compliance with MCA §§ 33-18-102 & 33-18-202. The Company agreed to change the website language during the examination. The Company indicated the first sentence will be changed to state, Montana Farmers Union Insurance Agency, Inc., has several options available to clients that are looking for auto insurance. The website was reviewed, and the correction has been implemented. The Company has eliminated the inaccurate and misleading language.

PRODUCER LICENSING

Producer Licensing Standard #1: Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

Testing was completed using the Company's listing and the CSI's listing of appointed producers, and there were no producers on the Company's appointed list that were not on the CSI listing. No errors were noted during this testing.

Producer Licensing Standard #2: The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.

MFUIAI is the exclusive sales agency for the Company. The Company and MFUIAI have negotiated cost sharing and production agreements. Commissions earned on business written by the Company are paid to MFUIAI. In turn, MFUIAI pays commissions to the producers responsible for generating and servicing the business written through the Company. In 2010, the CSI became aware that MFUIAI had never affiliated these producers on the MFUIAI agency license; as required by the CSI. MFUIAI cooperated with the CSI by affiliating the individual producers to the agency license. These affiliations were accomplished by March, 2011.

During testing, it was noted that FUMIC had not appointed MFUIAI as a producing agency, which was not in compliance with MCA § 33-17-236. The Company submitted a request during the examination to the CSI, appointing MFUIAI effective April 13, 2015.

MFUIAI has been accepting business and paying commissions to a producer who is licensed by the CSI as a Non-Resident producer. The producer was appointed by the Company; however, MFUIAI had not affiliated the producer on the MFUIAI agency license. Therefore, MFUIAI's actions were not in compliance with MCA § 33-17-236. MFUIAI submitted a request to the CSI to affiliate this producer to the MFUIAI agency license during the examination, effective April 15, 2015.

Producer Licensing Standard #3: Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

MFUIAI was unable to provide a comprehensive list of producers who had been terminated by the Company during the period under examination. MFUIAI was also unable to provide documentation to support timely reporting of terminated producers to the CSI as well as the

reason(s) for producer termination. In addition, MFUIAI was unable to provide documentation to support delivery of a notice of termination to those producers terminated by the Company. Therefore, the Company's actions were not in compliance with MCA §§ 33-17-236(3)(4) & 33-17-237(1)(2). MFUIAI recognized the deficiency in compliance in late 2010. Testing verified compliance with the applicable statutory provisions beginning January 2013.

Producer Licensing Standard #4: Records of terminated producers adequately document reasons for terminations.

As noted above in Standard #3, MFUIAI was unable to provide documentation to support delivery of a notice of termination to producers terminated by the Company. Therefore, the Company's actions were not in compliance with MCA §§ 33-17-236(3)(4) & 33-17-237(1)(2). MFUIAI recognized the deficiency in compliance in late 2010. Testing verified compliance with the applicable statutory provisions beginning January 2013.

POLICYHOLDER SERVICE

Policyholder Service Standard #1: Premium notices and billing notices are sent out with an adequate amount of advance notice.

During testing of all files, and the Company's practices and procedures it was determined the Company provided premium and billing notices with an adequate amount of advance notice.

Policyholder Service Standard #2: Policy issuance and insured-requested cancellations are timely.

During testing of all files, and the Company's practices and procedures it was determined the Company was generally issuing policies and processing insured-requested cancellations in a timely manner.

Policyholder Service Standard #3: All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.

During testing of all files, and the Company's practices and procedures it was determined the Company responded to all CSI correspondence in a timely manner.

Policyholder Service Standard #4: Policy transactions are processed accurately and completely.

During testing of all files, and the Company's practices and procedures it was determined the Company processed transactions completely and timely in most cases, but as indicated below it did not always calculate and process premium accurately, or in compliance with its state rate filings, contracts, or guidelines.

Policyholder Service Standard #5: Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

The Company was not always calculating unearned premium accurately or timely as identified in the Underwriting and Rating portion of the examination. There were issues cancelling and returning unearned premium to parties that no longer had an insurable interest associated with the property. The Company was generally calculating unearned premium accurately and returning unearned premium timely.

The Company had guidelines, which allowed premium to be waived for collection up to fifteen dollars (\$15) and twenty dollars (\$20), during the period under examination. The Company was issuing return of unearned premium for amounts over three dollars (\$3). However, it appeared those practices contradicted the Company's filed rating guidelines, which indicated there was a minimum premium, and that unearned premium would be calculated pro-rata. For one (1) file tested, the applicant was not billed for an amount greater than the fifteen dollars (\$15), which was the standard in place at that time. There were several instances where an amount of greater than three dollars (\$3) was not refunded in accordance with its rating guidelines filed with the CSI. The Company response stated it agreed that premium should have been refunded in several cases, and it is filing new rating guidelines, and it will adhere to the newly established rules as filed.

Policyholder Service Standard #6: All forms, including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.

The Company's Vacant Dwelling Property Endorsement was filed to be used on a 12 (twelve) month basis and the Company used the Endorsement on a six (6) month term basis. Therefore, the Endorsement was not filed and used in compliance with MCA §§ 33-1-501 and 33-15-303. The Company stated, "*The Company does not have an SAO dwelling filing for the six month term on a vacant building.*" The Company agreed the Endorsement had not been filed appropriately and re-filed the form during the examination to include the appropriate language for a six (6) month term. The Company supplied a copy of the approved CSI Endorsement DW-25 (REV. 4-15).

The Company's farm and ranch, homeowner and dwelling policies stated nonrenewal and cancellations will be provided with at least thirty (30) days before the expiration date. However, when an insured is residing in the dwelling property, MCA § 33-23-401 mandates the insured be provided with forty-five (45) days notice for both nonrenewal and Company cancellations. The Company agreed its policy language was not in compliance with MCA § 33-23-401, and stated it was going to file three (3) new or revised endorsements (HO, DW and FR) at the end of the examination to update its language for compliance with Montana law. The Company supplied copies of the revised contract language that will be submitted.

The Company's homeowner, dwelling, and farm and ranch policies stated when an insured failed to pay premium it would notify the insured at least thirty (30) days before the date cancellation takes effect. It also provided that when the policy had been in effect for less than sixty (60) days and was not a renewal, it could cancel for any reason by notification at least thirty (30) days prior to the date cancellation takes effect. The Company procedures did not appear to follow its' contract language requirements. The Company agreed it had not been providing notification of cancellation for non-payment in compliance with its policy language, and indicated it had prepared endorsements to be sent to the CSI for approval. The new endorsements will provide insureds that are not residing in the insured dwelling with twenty (20) days advance notice of cancellation for non-payment. Insureds that reside in the insured dwelling will be provided with forty-five (45) days notice of cancellation.

Policyholder Service Standard #7: Policies, riders and endorsements are issued or renewed accurately, timely and completely.

During testing of all files, and the Company's practices and procedures it was determined the Company generally issued and renewed policies, riders and endorsements timely, but as indicated below it did not always process and calculate premium accurately, and it issued endorsements in an untimely manner; resulting in altered coverage, which was not in compliance with Montana law.

Policyholder Service Standard #8: Rejections and declinations are not unfairly discriminatory.

During testing of the Company's practices and procedures it was determined the Company underwriting guidelines had the potential for discrimination: where the Company's Underwriting Guidelines stated in part, ". . . *Do Not Bind the Following: Unemployed persons (this does not include retired persons); . . .*" This underwriting practice provided guidelines that could unfairly discriminate against persons based on disabilities, which would not be in compliance with the American Disabilities Act and MCA § 33-18-210(10). The Company's response stated in part, "*The guidelines have been in place for a number of years. . . We will remove from the Do Not Bind list. . . It will be removed when we*

make our other filings” Therefore, the Company has agreed to eliminate this underwriting practice going forward.

It was the Company’s business practice to utilize credit scoring to determine eligibility for personal insurance products. The Company required its producers to obtain a potential applicant’s credit score. The credit score was used to determine the potential applicant’s eligibility for coverage. The Company did not utilize credit information to rate risks that were determined to be eligible for coverage. In some instances the Company’s use of a credit score was the sole reason for adverse action. The Company’s utilization of a credit score was not in compliance with MCA § 33-18-605 (1)(b)&(e); furthermore, the Company’s use of a credit score as the sole reason for “Adverse Action” was not in compliance with MCA § 33-18, Part 6.

The Company did not have procedures in place as required by MCA §§ 33-18-608 & 33-19-303; in order to notify an applicant when the applicant became the subject of an “Adverse Action”. The Company’s response stated in part, “. . . *effective today, the Company will no longer use credit scoring in our underwriting process.*” The Company also advised the examiners that its’ producers had been notified to no longer request or use credit scoring during the application process.

Policyholder Service Standard #9: Cancellation/nonrenewal, discontinuance and declination notices comply with policy provisions, state laws and the regulated entity’s guidelines.

During testing of all files, as well as the Company’s practices and procedures it was determined the Company’s notices generally provided language in compliance with Montana law; however, the Company’s procedure and practice of providing insureds with only ten (10) days notice of cancellation for homeowner, dwelling, and farm and ranch policies allowed for cancellations in violation of MCA § 33-23-401 when the insured resided in the dwelling affected by the cancellation. This practice affected insureds whose coverage was being declined within the initial sixty (60) days of coverage, insureds whose coverage was being cancelled when the Company had determined there was a material misrepresentation, and insureds who represented a substantial change in the risk assumed. The Company agreed its practice for cancellation was not valid during the period under examination, and not in compliance with MCA § 33-23-401. It also agreed to update its’ guidelines and procedures going forward to ensure compliance with MCA § 33-23-401.

In five (5) of the files tested the Company provided a notice of cancellation with an incorrect policy period concerning cancellation and time frame of unearned premium. Therefore, the notices were not issued in compliance with the requirements of MCA §§ 33-18-210 & 33-15-1103. In each case, the return of unearned premium was processed correctly. The Company agreed the notices were incorrect, and it was occurring due to a system failure and the system would be updated to correct such occurrences in the future.

In four (4) of the cancellation files tested the Company provided thirty-four (34) days, thirty-six (36) days, thirty-seven (37) days, and forty-four (44) days notice of cancellation. All the insured's occupied the dwelling properties being insured. The Company was not permitted to cancel coverage unless it provided at least forty-five (45) days notice from date of cancellation. Therefore, the Company failed to act in compliance with MCA § 33-23-401 for those cases. The Company's response stated in part, "*We have instructed staff to make sure and use the forty-five (45) days' plus mailing on all cancellations that are applicable . . .*"

UNDERWRITING

Underwriting Standard #1: The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.

The Company was allowed to exclude partial roofs and siding on dwellings by endorsement. However, the Company failed to account for those exclusions in its rating guidelines. The Company stated, "*You will not find language in the rates that allows the Company to deny a section of a roof or where it is allowed to reduce risk and exposure by elimination of some coverage without a reduction in premium.*" This Company's failure to file for rating approval of this practice was not in compliance with MCA § 33-16-203. The Company agreed the rating methodology for partials roofs and siding exclusions should have been filed with the CSI, and indicated it will be filed immediately after the examination is completed.

The Company updated its underwriting guidelines during 2012, with the addition of the New Policyholder Credit. The Company supplied a document from the underwriting guidelines indicating its intent to make the New Policyholder Credit effective on 7/1/10. For compliance with MCA §§ 33-16-203 & 33-18-212, the Company should have filed the new rating credit methodology. In addition, the Company had a Wood Stove Credit in place prior to, and during the period under examination. The Company produced a memo to its producers and the underwriting staff, dated 7/12/12, stating changes had occurred for this credit. The memo stated the effective date of the change was during January, 2012. However, the Company could not produce the new rate filing methodology for the alteration of this credit. The credit amount remained the same, but the applicability of the credit changed. Therefore, in order to comply with MCA §§ 33-16-203 & 33-18-212, the Company should have filed the new credit methodology. The Company response stated, "*The Company agrees both the New Policyholder Credit and the Wood Stove Credit for all Homeowners and Farm and Ranch policies should have been filed with the CSI. The Company also agrees to file both of these credits with its updated filing with the CSI slated for the end of the examination.*"

In one (1) sampled cancellation file, the Company wrote coverage with a Vacancy Endorsement on a six (6) month term. However, the premium calculation at the time of cancellation was not accurate. The Company response stated in part, ". . . *Our system did*

the calculation based on the pro-rata calculation of 498 when in fact 183 days of coverage generates a pro-rata factor of 501 which would have generated a premium of. We will be immediately addressing the calculation differences with our IT department for correction(s) We refunded three dollars (\$3) inappropriately based on our calculation errors." This was a systems error that is being corrected by the Company.

The Company's homeowner, farm and ranch, and farm liability contract language contradicted its CSI rate filing. The contracts stated all premiums earned and unearned are to be kept and returned on a pro-rata basis, and the filed rating procedures stated there was an applicable minimum premium. The Company practices and procedures for the period under examination have not followed its' filed rating methodology, in that it had not retained minimum premium on its cancelled policyholders when earned premium was less than sixty dollars (\$60). In addition, the Company did not have filed rating procedures concerning amounts to be waived for the collection of earned premium (other than when the policy was endorsed) and the amounts waived for when it returned unearned premium. The policy is to contain the entire contracting agreement, as noted at MCA §§ 33-15-302 and in 33-15-303(1)(f). The insured is to fully understand at all times, the applicable coverage for his/her property and the limits of their coverage, and the premium amount being paid for the transfer of risk to the Company. The Company response stated in part, *"The company has eliminated minimum premium. . The company's procedures for waiving earned premium and returning unearned premium will be updated to \$3 . "*

The Company's filed rate procedures allowed for coverages to be altered thirty-five (35) days prior to renewal, and Montana law mandates a minimum of forty-five (45) days for renewal with altered terms. The procedures were not in compliance with MCA § 33-15-1106. In addition, the Company's filed rate procedures allowed for terms to be altered thirty (30) days after notification. This wording was not in compliance with MCA §§ 33-23-401 or 33-15-1106. The Company has agreed to enact new practices and procedures going forward by updating its practices and underwriting guidelines. The Company stated in part, *"The company's procedures for altering renewal policies will be 50 days prior to renewal. the company's procedures for altering new policies will be to either cancel with a 45 day notice or keep the bound application as submitted or alter the policy only with a signed changed from the insured effective the date of the signed change We will refile once the audit is completed."*

Testing of one (1) homeowner file determined the Company utilized the inboard boat table versus the outboard table when rating and issuing the policy. The premium difference was five dollars (\$5). In order to comply with MCA § 33-18-210(5), the Company should rate and charge premium amounts equally for all applicants similarly situated. The Company agreed, and stated, *"Underwriting and processing will review endorsements that required checking of the appropriate coverage description boxes by the agent to verify the proper rate for the risk insured."*

Testing of one (1) newly issued farm and ranch policy determined the Company underwrote the dwelling with frame construction although it was a log home. The Company had different rating factors for frame versus log construction. The rating was

incorrect and allowed for a \$100 difference in premium. Therefore, the Company's actions did not appear to comply with MCA § 33-18-210(5).

Underwriting Standard #2: All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.

The Company did not have procedures in place to notify an applicant when the applicant became the subject of an "Adverse Action", as required by MCA §§ 33-18-608 & 33-19-303.

Underwriting Standard #3: The regulated entity does not permit illegal rebating, commission-cutting or inducements.

During testing of all files and the Company's practices and procedures it was determined the Company did not permit illegal rebating, commission-cutting or inducements.

Underwriting Standard #4: The regulated entity's underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.

As noted in *Policyholder Service Standard #8*, (above), and in other sections of Underwriting, the Company had practices and procedures in place which appeared to allow for unfairly discriminatory practices and in each case the Company has agreed to correct those noted practices and procedures going forward.

Underwriting Standard #5: Credits, debits and deviations are consistently applied on a non-discriminatory basis.

The Company had a New Dwelling, New Policyholder, Wood Stove, Policyholder, Approved Roof, and various Mobile Home credits. In addition, it had surcharges for some exposures, such as Wood Shake Roofs and Log Homes. For several newly issued files for homeowners, and farm and ranch policies tested, it was determined the Company was not consistent in applying applicable credits and surcharges on a non-discriminatory basis. Therefore, the Company's underwriting procedures, practices and its actions were not in compliance with MCA § 33-18-210, because it allowed credits and surcharges when not applicable, in accordance with its underwriting guidelines, and it was denying credits and surcharges when applicable, in accordance with its underwriting guidelines. In addition, the Company did not have notes to support the allowances and non-allowance of the credits and surcharges.

Underwriting Standard #6: Cancellation/nonrenewal, discontinuance and declination comply with policy provisions, state laws and the regulated entity's guidelines.

In one (1) cancellation file, the insured had coverage cancelled due to underwriting reasons during the first sixty (60) days of coverage. However, the Company performed an inspection approximately six (6) months after the notice of cancellation. The Company response stated it agreed that performing an inspection six (6) months after cancellation was not in compliance with its guidelines.

For one (1) cancellation file, the Company could not produce the paper file. The Company failed to retain the file information in compliance with MCA § 33-1-408. The Company's response stated in part, "*the Company agrees it cannot locate the paper file . . . the Company cannot locate the insured's request for cancellation . . .*"

In one (1) cancellation file, the insured was sent a notice of nonrenewal and wrote to the Company concerning the nonrenewal of the policy. The Company's file did not contain a letter to support delivery of a response to the insured within twenty-one (21) days as required by MCA § 33-15-1107. The Company's response stated in part, "*No, there is no reply letter to the insured. . . .*"

In one (1) cancellation file, there was a letter from the mortgage holder stating it had taken possession of title for the insured's property. The named insured no longer had an insurable interest concerning the property. Upon notice in writing the Company should have cancelled coverage on the date the mortgage holder took possession. However, the Company retained unearned premium for a period of approximately five (5) months after it was known the insured no longer had an insurable interest in the policy. Therefore, the Company's actions did not appear to be in compliance with its policy language and MCA §§ 33-18-206, 33-18-210 and 33-18-212. The Company's response stated in part, "*According to the facts of this file, the return should have been completed and dated in January and not May of 2014. . . . This type of thing should not happen in the future.*"

The Company failed to apply underwriting credits for two (2) cancelled insureds. All credits and discounts should be applied equitably for fairness to all insureds. Therefore, the Company's actions were not in compliance with its guidelines and MCA §§ 33-18-102 & 33-18-210(5). The Company's responses stated it was the agents' responsibility. However, the Company owes a duty to every applicant and insured to apply all applicable discounts and credits fairly. The Company also stated in part, ". . . *In our processing of the new application, we failed to recognize the policy was eligible for that credit.*"

In addition, there were two (2) nonrenewal files in which the Company's producers received phone calls requesting cancellation of coverage. There was information supporting the insureds no longer had an insurable interest in the property covered. The Company mandated a signed insured's request from the producer. However, an insurer must return unearned premium when applicable. Neither the producer, nor the Company

made valid efforts to return the unearned premium after the insureds had called. An insurer should not retain or accept premium without risk as noted at MCA §§ 33-18-210 and 33-18-206. The Company's response stated in part, ". . . *We agree we have a duty to return the proper unearned premium to the insured. We will be changing our procedures going forward to recognize requests from the insured, agent, or other parties having an interest in the policy (mortgage holders, etc) if the insured no longer has an insurable interest in the property without requiring the signed cancellation document. We will document attempts to return the unearned premiums.*"

It was the Company's practice to nonrenew policyholders when a producer failed to complete a timely underwriting review. However, for one (1) insured the Company allowed renewal for two years prior to nonrenewing for this reason, and there were no underwriter notes to support the renewal of the property during either of those years. Therefore, it appears the Company failed to follow its underwriting guidelines, and therefore allowed for actions which were not in compliance with MCA §§ 33-18-101 & 33-18-102. The Company agreed, and stated the insured should not have been allowed renewal during either of those years.

In several declined and cancelled policies the producers bound coverage in the form applied for, and the Company altered the terms without a valid written agreement for alteration. For changes within the first sixty (60) days, the Company has to provide written notice to the insured. The policy is applied for, and can either be declined, accepted as applied for, or the Company can make a counter offer. Chapter 15 requires the policy to contain the entire agreement: as noted at MCA §§ 33-15-302 and in 33-15-303(1)(f). The insured is to fully understand at all times, the applicable coverage for his/her property and the limits of their coverage, and the premium amount being paid for the transfer of risk to the Company. This must be accomplished in writing. In addition, the Company's actions did not appear to be in compliance with MCA §§ 33-18-102, 33-18-202, 33-18-210(5) & 33-18-212. The Company's response stated in part, ". . . *We agree We will make an offer to the insured to correct the policy going forward. If they decline the offer, we will send 45 day notice of cancellation.*"

In addition, there were several cases where the insureds requested cancellation back to the effective date, and the Company allowed. In each of these cases, the Company had a period of taking on risk, and an insurer is not allowed to provide coverage without receipt of premium. If the insured had filed a claim(s) during the period from inception until the request for cancellation, the Company would have been legally obligated to provide claim services in compliance with the insured's policy. The Company agreed to amend its procedures and not allow periods of coverage without receipt of premium. The Company also agreed it should issue forty-five (45) days notice of cancellation when cancellation is for reasons other than non-payment of premium, and to not cancel coverage back to the inception date after coverage has been bound, unless in compliance with Montana law.

In two (2) declined files, the Company's producers received phone calls to cancel coverage by indicating the insured no longer had an insurable interest in the property covered. Neither the producer, nor the Company made valid efforts to return the

unearned premium after the insured had called. The Company response stated in part, “. . . We agree we have a duty to return the proper unearned premium to the insured. We will be changing our procedures going forward to recognize requests from the insured, agent, or other parties having an interest in the policy (mortgage holders, etc) if the insured no longer has an insurable interest in the property without requiring the signed cancellation document We will document attempts to return the unearned premiums.”

Underwriting Standard #7: The regulated entity adheres to applicable statutes, rules and regulations and the regulated entity’s guidelines in the selection of risks.

In several newly issued files tested, it was noted during the period under examination the Company was invalidly and improperly altering the terms of coverage for homeowner, dwelling, farm and ranch and farm liability contracts; and backdating coverage and premium amounts to the inception date of coverage. Insurance is a contract generated from an offer and acceptance. The Company’s producers had binding authority, and once coverage was bound by the producer the Company was responsible for issuing coverage under the terms in the signed application. The policy is to contain the entire contracting agreement, as noted at MCA §§ 33-15-302 and in 33-15-303(1)(f). The insured is to fully understand at all times, the applicable coverage for his/her property and the limits of their coverage, and the premium amount being paid for the transfer of risk to the Company. The Company’s practice of altering coverage in the manner identified by examiners did not comply with MCA §§ 33-18-102, 33-18-202, 33-18-210(5) and 33-18-212. The Company agreed the underwriting practices and procedures identified by examiners were not in compliance with Montana law and has agreed to correct its procedures, and to update its practices and processes based on those new procedures.

During testing of the sampled newly issued homeowner, and farm and ranch files it was determined the Company failed to act in compliance with MCA § 33-18-210(5) in several cases. The Company’s actions were unfairly discriminatory, because it allowed credits when not applicable in accordance with its underwriting guidelines, and it was denying credits when applicable in accordance with its underwriting guidelines. In addition, it allowed coverage for applicants when the guidelines stated coverage was not to be bound, such as when there was a potential vicious dog, trampoline on the premises, unfenced pool, steps without railings over thirty (30) inches, asbestos siding, single-wide trailers covered as dwellings, age of homes, roofs in poor condition and other exposures wherein the guidelines note these as “ineligible risks” or “do not bind” conditions. Producers and underwriters failed to provide notes when the guidelines were not followed; therefore it could not be determined if they mistakenly issued coverage not in compliance with the guidelines, discussed acceptance for the conditions and risks associated with the property, or simply ignored the guidelines. Without documentation to support its actions, the Company allowed similarly situated individuals to be treated differently, and these actions were not in compliance with MCA § 33-18-210(5).

In addition, the Company had required a signed wood stove credit document from its insureds; to be obtained through the producer in order for a credit to be applied to the insured's policy. The producer(s) was not always requesting the credit or obtaining the document when applicable. Through discussions with the Company, it was determined by the Company to eliminate the need for a signed wood stove credit document going forward to help eliminate the potential for applicants and insureds that are similarly situated from not receiving the credit when applicable, or receiving the credit when not applicable.

In several cases, the Company failed to complete inspections in compliance with its guidelines, and in a manner that would have allowed the underwriter to make an informed decision on certain conditions at renewal. One (1) Company response stated in part. ". . . *The inspection noted the chimney and assumed a woodstove. The inspection was incorrect.*" There were other responses similar to this.

Testing of files also revealed that timeliness of underwriting inspections was an issue for the Company. One (1) Company response stated, "*The inspection was completed . . . The inspector did not enter the "Inspection Complete" comment into our system because of workload situations To this date underwriting has not viewed the inspection . Corrective action to include working with inspector(s) and underwriters to have more efficient timelines for completing inspections, recording inspections, and viewing and responding to inspections.*" Another response stated, "*The underwriter does not order most inspections it is up to the Director of Property Loss Prevention to set these up. It appears an inspection was not done. The underwriter was anticipating an inspection as a FR is normally inspected.*"

For one (1) newly issued homeowner policy, the Company determined the dwelling was vacant, and the producer had written a dwelling policy in addition to retaining coverage on the initial policy. It appeared the producer disagreed the dwelling was vacant, noting the insured was there four (4) to five (5) days a week. However, when the Company issued notice of cancellation it only allowed thirty-two (32) days notice. Therefore, the Company failed to provide notice in compliance with MCA § 33-23-401, which mandates forty-five (45) days notice. The Company agreed it should provide forty-five (45) days notice for cancellation on any private residence occupied as a domicile in order to comply with MCA § 33-23-401.

During testing it was determined the Company's procedure was to terminate coverage when a dwelling was determined to be vacant. In some cases, the Company allowed endorsement with six (6) months of coverage. However, the Company allowed some insureds to maintain coverage, while not allowing others. Underwriting files did not always contain notes to support why such allowances were made. Therefore, in those cases it did not appear the Company acted in compliance with MCA § 33-18-210(5). The Company agreed it should be consistent during underwriting of vacant risks, and it should provide notes to support its' decisions and actions.

For one (1) newly issued homeowner policy, the applicant requested coverage for an effective date of 3/26/13. The previous owner of the same property was insured with the

Company through the same producer. Six months later the producer stated they had not received notice to cancel, but apparently the house sold during May. The producer knew the date the property was sold, because they wrote the other policy when the new owners bought the property. The Company should not retain premium when it is not taking on risk, and/or when an insured no longer has an insurable interest in the property. The Company should have cancelled coverage effective 3/26/13 and returned the unearned premium. The Company's response stated, "*Going forward the company will review cancellation procedures with all underwriters and processors to make sure to verify when insurable interests cease for the policyholder and the company will attempt to refund any unearned premiums to the parties.*" Therefore the Company's actions were not in compliance with MCA § 33-18-210(5). The Company was instructed to attempt to locate the previous owner and refund the unearned premium. The Company contacted the agency, and the producer and the current owners only knew the insured had moved to Arizona, and the current address was unknown.

The Company had an underwriting rule to not bind coverage for three (3) or more claims and that was changed during the exam period to two (2) or more claims during the past three (3) years. In addition, any water claims and claims over \$10,000 were to have underwriter approval. However, since producers have binding authority, there were times when coverage was bound without regard to these underwriting guidelines. There were also times when the application was submitted with more claims than allowed, or over the dollar threshold and it was not addressed by the underwriter. All similarly situated individuals should be treated in the same manner, and when there were no underwriter notes to support the Company's actions when claims were over the guideline limits, or over the thresholds, the Company's actions were not in compliance with MCA § 33-18-210(5).

During testing of homeowner, and farm and ranch policies there were several cases identified where dwellings were either under new construction or having major renovations, and the producers or underwriters bound coverage prior to completion of construction. The Company's guidelines state that dwellings under construction are an ineligible risk, and must be written under a builders risk policy until completed. The guidelines also state, dwellings in the process of major renovations are not to have coverage bound. In each case where the Company allowed coverage outside its guidelines, and failed to document the reason for allowance, the Company actions were not in compliance with MCA § 33-18-210(5).

In one (1) newly issued farm and ranch policy the applicant was an individual. The named insured for the previous policy covering the same premises was an estate. The producer requested the Company apply the refund of unearned premium owed to the estate to the new applicant's policy. There were underwriter notes indicating the Company knew the estate had several potential heirs besides the new individual applicant. The Company allowed the refund owed to the estate to be credited towards the new applicant's premium. The transfer of this money did not appear to comply with the Company's policy and contractual obligations owed to the previous insured (estate). Contractually, the Company was obligated to return the unearned premium to the named insured (estate). The Company

agreed it needed a power of attorney statement to transfer the premiums and it did not have one. Therefore, the Company's actions did not comply with MCA § 33-18-210(5).

Underwriting Standard #8: All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).

During testing of all files it was determined the forms and endorsements were listed on the declarations pages. The forms were filed with the CSI with the exception of one (1) form, as identified in *Policyholder Service Standard #6*, which was used to provide coverage on vacant dwellings.

Underwriting Standard #9: The regulated entity does not engage in collusive or anti-competitive underwriting practices.

During testing of all files, as well as the Company's practices and procedures there was no indication the Company had engaged in collusive or anti-competitive underwriting practices.

Underwriting Standard #10: Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports decisions made.

The applications were generally accurate and fully completed, including required signatures and information to support the underwriting decisions made.

CLAIMS PAID AND DENIED

Claims Standard #1: The initial contact by the regulated entity with the claimant is within the required time frame.

The Company makes initial contact with the claimant in a reasonable time period after receipt of the notice of loss.

Claims Standard #2: Timely investigations are conducted.

The Company investigates claims in a timely manner.

Claims Standard #3: Claims are resolved in a timely manner.

The Company resolves claims in a timely manner.

Claims Standard #4: The regulated entity responds to claims correspondence in a timely manner.

The Company responds in a timely manner to claims correspondence.

Claims Standard #5: Claim files are adequately documented.

The Company's claim files were generally sufficient to determine appropriate and timely payment or denial of claims.

Claims Standard #6: Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

Denial letters issued by the Company to third party claimants did not always provide a reasonable explanation of the basis for the denial of the claim as required by MCA § 33-18-201(14).

Denial letters issued by the Company to insureds did not always provide a reasonable explanation of the basis for the denial of the claim, which had been presented by a third party claimant as required by MCA § 33-18-201(14).

In one (1) paid claim, the Company indicated the cause of loss was wind damage to the insured's dwelling. The Company issued ACV payment of \$1,713.78. The payment issued was not for the full amount of damages from the loss. The Adjuster's notes indicated only the portion of the roof with three tab shingles was covered. There was rolled roofing that was also damaged, which resulted in water leaking into the dwelling. Coverage for the rolled roofing and resulting interior damage was denied, because the rolled roofing was indicated as worn out. It appeared that prior to the windstorm the rolled roofing was a functional roof. The Company could not produce evidence of an intervening event that would have excluded the damage to the rolled roofing and resulting interior water damage. Therefore, the Company failed to cover the damaged rolled roofing and interior water damage in compliance with the policy language and MCA §33-18-201(1). The Company initially disagreed, and later agreed to reopen the claim to avoid the appearance of compelling an insured to institute litigation to recover amounts due under an insurance policy, which would not have been in compliance with MCA § 33-18-201(7). It also

avoided the appearance of post-claims underwriting, as the Company had underwriting tools in place to avoid coverage of worn out roofs and failed to utilize those tools prior to the insured's claim. In addition, the Company failed to issue ACV payment within 15 days of receiving the loss information in compliance with its claims guidelines. The Company agreed. The Company also failed to provide a letter to the insured explaining the partial denial of the claim. The letter and estimate sent to the insured did not address the denial of a portion of the claim. Therefore, the Company failed to provide notice of the denied portion of the claim in compliance with MCA § 33-18-201(14). The Company agreed.

In one (1) paid claim, the Company withheld \$1045.25 from the initial claim settlement. The amount withheld represented a portion of the cost for labor necessary to remove damaged material in order to accomplish repair. The Company asserted that payment for these labor costs was contingent upon the insured actually incurring the expense. The underlying insurance policy was written with ACV claim settlement terms. The Company's assessment of ACV in this claim was not in keeping with relevant case law or the settlement terms of the insurance contract. Therefore, the Company's handling of this claim did not comply with MCA § 33-18-201(1)(6). The Company agreed to pay the amount of \$1045.25 owed to the insured. The Company also agreed to cease withholding unincurred labor costs which are necessary for removal and tear off when settling the ACV portion of future claims.

Nine (9) claims were identified in which the underlying policies had been issued with altered policy terms or coverage(s) as described in *Underwriting Standard #7, paragraph one*. The inception date of coverage associated with these underlying policies was within the time period covered by the examination. The Company agreed to revisit these claims to determine whether or not they warranted additional payment(s). The Company made additional payments to insureds on six (6) of the nine (9) claims. The additional claim payments totaled \$15,894.55. In addition to the payments made, the Company acknowledged one (1) of the six (6) claims is eligible for payment of recoverable depreciation in the amount \$925.67 upon timely completion of repair to the covered property.

Claims Standard #7: Regulated entity claim forms are appropriate for the type of product.

The claims forms used by the Company were appropriate for the type of product.

Claims Standard #8: Claim files are reserved in accordance with the regulated entity's established procedures.

The Company's procedure is to establish the claim reserve within fifteen days upon receipt of a notice of loss. In some instances the Company did not adhere to this procedure.

Claims Standard #9: Denied and closed without payment claims are handled in accordance with policy provisions and state law.

In one (1) denied claim, the Company had contractually excluded coverage to a portion of the dwelling roof from wind and hail. However, there was no exclusion extended to interior damage caused by water leaking from the excluded portion of the roof, which occurred during a covered peril. Therefore, it appeared the Company failed to act in compliance with MCA § 33-18-201(4). Examiners suggested the Company reopen and consider additional payment for the cost to repair the interior damage. It was also noted the Company had not provided the insured a written denial for the excluded portion of damages, which was not in compliance with MCA § 33-18-201(14). The Company initially disagreed; however, later agreed to reopen the claim. The Company response stated in part, "*Our adjuster has been in contact with the insured we received a copy of the bill The repair cost was \$240.00. After the \$100 00 deductible, we paid the insured \$140.00.*"

Claims Standard #10: Canceled benefit checks and drafts reflect appropriate claim handling practices.

The Company did not always ensure Mortgagees and additional owners named on the policy were listed on checks for claim payments as required by the policy.

Claims Standard #11: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Testing of claims files did not indicate claim handling practices that compelled claimants to institute litigation.

Claims Standard #12: Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.

The Company uses reservation of rights and excess of loss letters when appropriate.

Claims Standard #13: Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

The Company reimbursed deductibles timely to insureds upon successful subrogation recoveries.

RECOMMENDATIONS

1. MFUIAI must maintain a list of producers who have been terminated by the Company.
2. MFUIAI must maintain documentation to support timely reporting of terminated producers to the CSI as well as the reason(s) for producer termination.
3. MFUIAI must maintain documentation to support delivery of a notice of termination to terminated producers.
4. The Company's practices and procedures for retaining earned premium and returning unearned premium must be in agreement with its filed CSI rating guidelines, underwriting guidelines and its policy language.
5. The Company must update its practices and procedures to provide insureds with twenty (20) days notice of cancellation for non-payment of premium, and process other dwelling cancellations with forty-five (45) days' notice in compliance with the new suggested policy language to be filed immediately after completion of the examination.
6. The Company agreed to eliminate the use of credit scoring. The Company must establish practices and procedures to ensure compliance with this standard and Montana law.
7. The Company agreed to eliminate altering coverage, after coverage has been bound without new conditions agreed upon in writing between the Company and the insured. The Company must establish practices and procedures to ensure compliance with this standard and Montana law.
8. The Company must implement practices and procedures, and update its system to ensure that cancellation notices are provided with the correct policy period.
9. The Company must establish practices and procedures in policyholder services to ensure that all insureds being cancelled are provided forty-five (45) days' notice when applicable. The Company was failing to meet this standard at times, even when it was understood that such a time frame was applicable.
10. The Company agreed its filed rating guidelines and methodology failed to account for partial roof and siding exclusions. The Company must establish practices and procedures to ensure compliance with its new CSI rating filing for these exclusions.
11. The Company must establish practices and procedures for its updated underwriting guidelines to ensure that all credits and surcharges are provided for all similarly situated individuals in a manner that does not allow for impropriety or an unfairly discriminatory practice.
12. The Company must establish practices and procedures within its systems to ensure that the calculation of earned premium is in a manner that allows for compliance with its policy language, which states earned premium is to be calculated pro-rata.
13. The Company must establish rating practices and procedures to ensure premium rating of all lines of coverage are completed in compliance with its CSI rate filings.

14. The Company must retain all documents associated with underwriting an applicant or cancelling an insured, to ensure compliance with Montana law.
15. The Company must not allow flat cancellation of a policy, unless completed fairly and in compliance with Montana law.
16. The Company must return all unearned premium to the named insured, and must attempt to return all unearned premium from the known time that an insured no longer had an insurable interest in the property.
17. The Company's new underwriting guidelines must establish practices and procedures, where applicants with noted risks that have been determined to be "ineligible," or indicated as "do not bind," are underwritten in a manner where all similarly situated individuals are treated the same, to eliminate the potential for an unfairly discriminatory practice.
18. The Company's new underwriting guidelines must establish practices and procedures to ensure all vacant dwelling properties are underwritten in a manner where all similarly situated individuals are treated the same, to eliminate the potential for an unfairly discriminatory practice.
19. The Company's new underwriting guidelines must establish practices and procedures to ensure all applicants with a certain number of claims, and claims over a threshold amount for certain perils are underwritten in a manner where all similarly situated individuals are treated the same, to eliminate the potential for an unfairly discriminatory practice.
20. The Company's new underwriting guidelines must establish practices and procedures to ensure all applicants with dwelling properties under construction or under major renovations are underwritten in a manner where all similarly situated individuals are treated the same, to eliminate the potential for an unfairly discriminatory practice.
21. The Company must pay all claims in compliance with its policy language and Montana law.
22. The Company must deny all claims in compliance with its policy language and Montana law.
23. When settling the ACV portion of a claim(s) the Company must not withhold payment for the unincurred costs of labor which are necessary for removal and tear off.

EXAMINER'S AFFIDAVIT

State of Montana
County of Lewis and Clark

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN
THE EXAMINATION**

I, Thomas McIntyre, being duly sworn, states as follows:

1. I have the authority to represent Montana in the examination of FUMIC.
2. I have reviewed the examination work papers and examination report, and the examination of FUMIC was performed in a manner consistent with the standards and procedures required by Montana.

The affiant says nothing further.



Thomas McIntyre, CH, MCMI, CCP, CICS, R, CPCU, FIML, AIRC, APA, ARA, ACS, CWCP

Subscribed and sworn before me by Thomas McIntyre on this 29th day of December,
2015

Notary Public



EXAMINER'S AFFIDAVIT

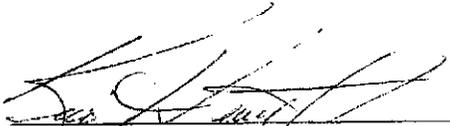
State of Montana
County of Lewis and Clark

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN
THE EXAMINATION**

I, Kim Hewitt, being duly sworn, states as follows:

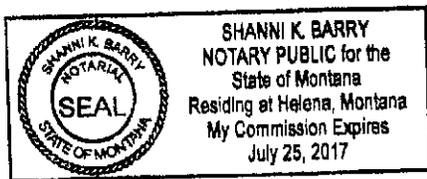
1. I have the authority to represent Montana in the examination of FUMIC.
2. I have reviewed the examination work papers and examination report, and the examination of FUMIC was performed in a manner consistent with the standards and procedures required by Montana.

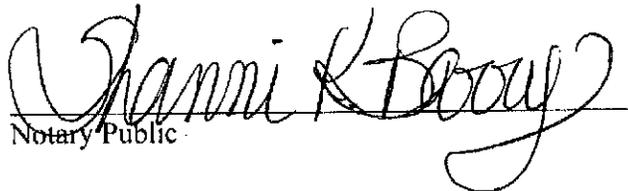
The affiant says nothing further.



Kim Hewitt, CIE, AMCM

Subscribed and sworn before me by Kim Hewitt on this 31st day of December, 2015.





Notary Public

EXAMINER'S AFFIDAVIT

State of Montana
County of Lewis and Clark

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN
THE EXAMINATION**

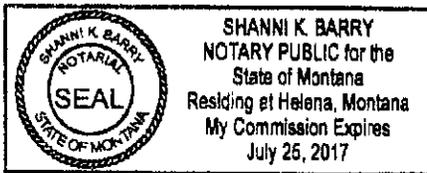
I, David Dachs, being duly sworn, states as follows:

1. I have the authority to represent Montana in the examination of FUMIC.
2. I have reviewed the examination work papers and examination report, and the examination of FUMIC was performed in a manner consistent with the standards and procedures required by Montana.

The affiant says nothing further.


David Dachs, PIR, AMCM

Subscribed and sworn before me by David Dachs on this 31st day of December, 2015.




Notary Public

APPENDIX A – MANAGEMENT LETTER OF REPRESENTATION

1. The Company should perform internal audits on underwriting files to determine if its guidelines are being followed.
2. Because one individual appears to have substantial control over the Company systems, the Company should implement checks on the system during implementation and redesign of systems to off-set potential fraud risks.
3. The Company should eliminate or duplicate paper files by scanning all underwriting materials into a driver or server to make all records accessible electronically. These records would then be duplicated off-site through its disaster recovery plan.
4. The Company should retain all electronic applications to eliminate the need for recreation. It should restrict the 'modify' option in the electronic record so the electronic application can't be altered, and separate folders for the electronic applications it rejects and accepts.
5. The Company should update its systems to have a denied claim reason code to meet data request requirements, as records should be adequate and accessible for sorting data to determine the number of claims denied in certain categories, such as duplicate claims, excluded from coverage, no coverage per contract, coverage cancelled at time of claim, etc.
6. The Company's stated it is going to file its rating guidelines to indicate non-return or unearned premium and non-collection of earned premium when the amount is three dollars (\$3) or less. The Company should establish practices and procedures for implementation and verification of this proposed CSI rate filing standard.
7. The Company agreed to eliminate language in its underwriting guidelines, which appeared to allow for discrimination for disabled applicants. The Company should establish practices and procedures to ensure compliance with its new guidelines concerning those applicants.
8. The Company should ensure its rate filing with the CSI eliminates a minimum premium. The Company should also establish practices and procedures to allow for the new standard of three dollars (\$3) or less for waiving earned premium and returning unearned premium.
9. The Company should establish underwriting and rating, practices and procedures to ensure the type of construction is accurate in accordance with its underwriting guidelines, for premium rating in compliance with its CSI rate filings.
10. The Company should establish practices and procedures to ensure its underwriting inspections are completed timely, accurately, and in a manner consistent with underwriting needs, to ensure compliance with its renewal underwriting guidelines.
11. The Company should establish practices and procedures to ensure when a producer fails to complete a mandatory underwriting review, that all insureds are provided nonrenewal in compliance with those guidelines.
12. The Company should establish practices to ensure its claims guidelines standards for timeliness, except for during a catastrophic event, are met by:
 - Making contact within 24 hours,
 - Providing inspection within 3 days of initial contact,
 - Providing estimates within 48 hours of inspection,

- Setting reserves within 15 days, and
 - Making ACV payments within 15 days.
13. The Company's claim files should clearly identify the following:
- Date of initial contact with insured or claimant
 - Date of inspection