



**MARKET CONDUCT EXAMINATION REPORT**

**of**

**FLATHEAD FARM MUTUAL INSURANCE COMPANY**

**KALISPELL, MONTANA**

**as of December 31, 2009**

## **SCOPE OF EXAMINATION**

The Montana Insurance Department conducted a market conduct examination of Flathead 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 24 1<sup>st</sup> Ave. East, Suite #E, Kalispell, MT 59901

## **OPERATIONS AND MANAGEMENT**

The Company was incorporated as a county farm mutual insurer on May 14, 1907, under the statutes in existence at that time. The Company operated in the counties of Flathead, Lincoln, Lake, Sanders, Glacier, Pondera, Teton, Lewis and Clark, Powell and Missoula. On March 12, 1998, the Company amended its articles of incorporation to change from a county farm mutual to a state farm mutual. A change in name from Flathead Farmers Mutual Insurance Company to Flathead Farm Mutual Insurance Company was also accomplished at this time. These amendments were filed in accordance with Mont. Code Ann. § 33-4-203 and approved by the Secretary of State on April 3, 1998. The Company is currently writing property and casualty insurance in accordance with its articles of incorporation and Montana law. The Company ceased writing Crop Hail insurance in 2002.

The Company and Ellingson Agency, Inc. have a longstanding relationship. During the time period covered by the examination the Company had entered into management agreements with Ellingson Agency, Inc. The management agreements cover five- year intervals, beginning January 1, 2004, through December 31, 2008, and January 1, 2009, through December 31, 2013. The responsibilities assumed by Ellingson Agency, Inc. via the management agreement include, but are not limited to, accounting; recordkeeping; marketing; selection, appointment and payment of producers; placement of reinsurance; underwriting and rating; billing and collection of premium; administration and payment of claims; and management of Company assets.

Pursuant to a previous recommendation made by CSI financial examiners, the Company amended its by-laws in 2006 to set forth a specific date for the annual membership meeting. The Company's annual membership meeting is now being held each year on the second Wednesday of April. The Company's board of directors, in accordance with its by-laws, is made up of seven members who are elected from the membership. A minimum of one board member is to be elected at each annual meeting. Vacancies occurring on the board are filled by

appointment of the board to serve until the next annual meeting at which a director is elected by the members to fill the un-expired term.

The members of the board of directors during the time period covered by the examination are as follows:

<b><u>Director Name and Address</u></b>	<b><u>Term Expires</u></b>	<b><u>Additional Term(s) Expiring</u></b>
Mark Brewer Kalispell, Montana	2006	2009 and 2012
Brent Johnson Kalispell, Montana	2006	2009 and 2012
Ken Yachechak Kalispell, Montana	2007	Resigned August 2006
Chuck Eble Kalispell, Montana	2007	Appointed to fill vacancy left by the resignation of Ken Yachechak *
Gerald Parker Bigfork, Montana	2007	Retired at culmination of 2007 term
Wes Parker Big Fork, Montana	2010	Elected to fill position of retiring Director, Gerald Parker
Steve Streich Kalispell, Montana	2007	2010
Karl Schrade Kalispell, Montana	2008	2011
Charles White Kalispell, Montana	2008	2011

\* Chuck Eble was appointed to the Board in November, 2006. The minutes of the membership meeting of April 11, 2007, reflect the introduction of Chuck Eble; however, the minutes speak only to the election of Wes Parker and Steve Streich. Mr. Eble has served as a director for the 2007- 2010 term and was reelected in 2010 to an additional three-year term.

The Officers elected at the Company's annual Reorganization Meeting are as follows:

2006 - Karl Schrade - President, Gerald Parker - Vice President and Greg Ellingson - Secretary/Treasurer

2007 - Karl Schrade - President, Mark Brewer- Vice President and Greg Ellingson - Secretary/Treasurer

2008 - Mark Brewer - President, Steve Streich - Vice President and Greg Ellingson - Secretary/Treasurer

2009 - Mark Brewer - President, Steve Streich - Vice President and Greg Ellingson - Secretary/Treasurer

The Company contracts the services of a CPA firm to perform audits and prepare annual statements. The Company has also found it beneficial to obtain an annual financial stability rating from Demotech, Inc. The Company is currently rated as "A, Exceptional" by Demotech, Inc.

The Company utilizes a computer software application, known as APPS, in the conduct of its day-to-day insurance operations. APPS is a product of IMT Computer Services Co., a division of The IMT Group. The Company also contracts with a local IT service provider. The IT service contract includes on-going virus protection and proactive advisement of security threats. The system in use by the Company utilizes password protection. A nightly backup is performed with a password protected disc being stored at a secure off-sight location. APPS also performs and retains a weekly back-up of information.

The Company markets its products through a network of independent agents. The independent agents appointed by the Company do not provide quotes and are not granted binding authority until a risk has been underwritten and quoted by the Company. Mont. Code Ann. § 33-4-508 requires all persons desiring insurance with a Farm Mutual insurer to make written application to the insurer. The application form in use by the Company contains a section which serves as a notice of insurance information practices and authorization for collection and disclosure of personal information. This section includes a signature line whereby an applicant authorizes collection of personal and credit information and acknowledges receipt of information practices. During the time period covered by the examination, the Company has relied upon the producing agent to obtain an applicant's permission to collect personal and credit information in order to process a quote. This permission is not always obtained in written form as required by the provisions of Mont. Code Ann. §§ 33-18-607(1) and § 33-19-206(1). It has been the Company's practice to require an applicant's signature only when coverage is to be bound upon acceptance of a quote. The Company further relies upon the producing agent to convey a declination of coverage or counter offer to an applicant. The Company is therefore unable to demonstrate compliance with Mont. Code Ann. § 33-19-303.

The adverse action notification in use by the Company during the time period covered by the examination was conveyed to the agent and was not delivered directly to the applicant by the insurer in violation of Mont. Code Ann. §§ 33-18-608(1) and 33-19-303(1)(a)&(b). The Company was unable to demonstrate that adverse action notifications, when generated and delivered to agents, ever reached the affected consumers.

The content of the adverse action notification in use by the Company during the time period covered by the examination does not comply with the provisions of Mont. Code Ann. § 33-18-608(2) in that it does not provide up to four factors that were the primary influences of the adverse action. The adverse action notice does not contain the content necessary to comply with the provisions of Mont. Code Ann. § 33-19-303(1)(a) and (b) nor does it contain language advising a consumer of the insurers obligation under Mont. Code Ann. § 33-18-606 should the consumer prevail in the dispute resolution and error correction process.

The Company has maintained an electronic record of denied applications for each year during the time period under examination. Not all denied applications were contained within the electronic record. The electronic record includes a form entitled, "DENIAL OF QUOTE." This form includes the applicants name and the reason or reasons the Company is declining to offer coverage. The "DENIAL OF QUOTE" form is transmitted to the producing agent by fax or E-mail. The examiners reviewed three hundred fifteen completed "DENIAL OF QUOTE" forms, of which, sixty six (approximately twenty-one percent) contained one of the following reasons for declination; "Information obtained in a Credit Report," "Information found in a Credit Report," "Information obtained on The Credit Report," or "Information Obtained in The Clue/Credit Report."

During the time period covered by the examination, in an effort to protect private customer information, the practice of the Company was to shred denied applications, along with any accompanying consumer reports obtained as part of the underwriting process. Due to this practice, examiners were unable to review denied applications. The failure to maintain these records is a violation(s) of Mont. Code Ann. § 33-3-401 which requires records of the insurer's operations and other financial records reasonably related to its insurance operations for the preceding five years to be maintained and available to the commissioner or the commissioner's examiner. The Company's failure to retain copies of denied applications also violates Mont. Code Ann. § 33-19-206(4). Due to destruction of the records the examiners were unable to determine compliance with the provisions of Mont. Code Ann. § 33-19-202.

A Notice of Privacy Policy is provided to insureds in concert with the renewal declarations page each year. The Privacy Policy is also available for viewing on the Company's website.

The Company requires a new application to be completed every five years as part of a re-underwriting process. The renewal applications filed for use by the Company do not contain an authorization or notice of information practices; however, the Company does not use personal information from any source other than the applicant in the five year re-underwriting process.

The Company's practices relative to the use of personal and credit information is further addressed in this report under the heading **UNDERWRITING AND RATING**.

## **COMPLAINT HANDLING**

During the time period covered by the examination, the Company did not maintain a complaint record in compliance with Mont. Code Ann. § 33-18-1001. The Company does have adequate procedures in place to address, resolve and respond to complaints. The Company developed and instituted the use of a complaint register, the contents of which comply with the provisions of § 33-18-1001, prior to the examiners leaving the site.

## **MARKETING AND SALES**

The Company engages in print and radio media advertising and maintains a website. Examiners reviewed the content of the Company's advertising materials and no exceptions were noted.

Communications to the Company's independent agency force accurately represent the Company's underwriting guidelines and policyholder service procedures. Producers are able to view information specific to policies they have produced and continue to service through login access to the Company's website. The Company's communications and training of its agency force in regard to the Company's responsibilities surrounding the collection, use and disclosure of personal or credit information and resulting adverse action are not in compliance with the pertinent provisions of Mont. Code Ann. Title 33, Chapters 18 and 19 as specified in other portions of this examination report.

## **PRODUCER LICENSING**

During the time period covered by the exam the Company did not maintain up-to-date agency agreements. The agency agreements negotiated by the Company did not accurately reflect changes such as agency purchases, consolidations, changes in name or the opening of additional geographic locations. The Company had agent/agency agreements in place that did not accurately reflect the names of individual(s) or business entities as they appeared on the insurance licenses issued by the CSI.

The Company did not always notify the CSI of terminations of appointments pursuant to Mont. Code Ann. § 33-17-237 when producers ceased writing business and had no renewal business with the agency.

Several agents were producing business for the Company without having been appointed in violation of Mont. Code Ann. §§ 33-17-231 and 33-17-236.

The Company began efforts to obtain accurate, up-to-date agency agreements and file written notice of appointment(s) and terminations with the CSI in accordance with the provisions of Mont. Code Ann. §§ 33-17-231 and 33-17-236 prior to examiners leaving the site. The Company is aware its efforts in this area must be ongoing.

## **POLICYHOLDER SERVICE**

The Company processes policy renewals in an accurate and timely manner. Policies renewing with altered terms are delivered in accordance with policy provisions. The Company clearly communicates any change in terms by means of a cover letter delivered with the renewal declarations page. It is the practice of the Company to short-rate insured requested cancellations occurring in the first policy year. Insured requested cancellations processed in subsequent policy years are pro-rated. Company initiated mid-term cancellations are also prorated. Refunds are accurately calculated and promptly returned to the insured or financial institution responsible for payment of the premium on behalf of the insured.

Premium notices are mailed in a timely manner in accordance with policy provisions and Company guidelines. The Company allows for annual, semi-annual and quarterly payment of premium. Insureds are able to pay premiums by credit card through a program offered on the Company's website.

Premium notices contain the statement, "AMOUNT DUE MUST BE RECEIVED BY DUE DATE TO CONTINUE UNINTERRUPTED COVERAGE." In the event the premium is not received by the due date the Company sends a cancellation notice. The cancellation notice is dated and mailed on the 7<sup>th</sup> working day after the original due date. The cancellation notice advises the insured that the policy may be reinstated without lapse in coverage, conditioned upon receipt of premium and a statement of no losses. The amount due and statement of no losses must be received by the Company no later than 20 days from the date of the notice. The cancellation notice advises the effective time and date of cancellation; however, the Company is backdating the effective date of cancellation to the original due date. The premium and cancellation notices utilized by the Company do not contain language in accordance with the cancellation provisions contained in the policy, which state, "If ""we"" cancel this policy for nonpayment of premium, ""we"" will give ""you"" notice at least ten days before cancellation is effective."

## **UNDERWRITING AND RATING**

The Company implemented the use of credit and loss history information in the underwriting process beginning in 2002. The credit scoring model in use by the Company during the time period under examination has been filed with the CSI by the vendor and is compliant with the provisions of Mont. Code Ann. Title 33, Chapter 18, Part 6.

The Company uses credit information to determine eligibility. Credit may be a factor in the Company's decision to offer a policy with terms differing from those originally sought by the applicant or to deny an offer of coverage. During the time period covered by the examination, the Company has had no definitive underwriting criteria in place to be used in establishing how information obtained in a credit report determines or affects the eligibility of a risk. The absence of guidelines regarding the use of credit information precludes the Company from demonstrating compliance with Mont. Code Ann § 33-18-210(3).

During the time period covered by the exam the Company's rate structure was straight forward and not affected by credit factors.

It is the Company's practice to proceed with the collection of personal information in order to provide a quote prior to obtaining the applicants written authorization on the application. The Company then prepares and communicates a quote for the producing agent. Binding authority is granted to the producing agent at this time and is valid for 90 days. In the event the Company determines the risk to be ineligible or undesirable a DENIAL OF QUOTE is delivered to the producing agent. The DENIAL OF QUOTE forms provided to producing agents during the time period covered by the examination evidence the use of credit information to deny applications for personal insurance without consideration of any other applicable factor independent of credit information in violation of Mont. Code Ann. § 33-18-605(1)(b).

The Company has made provisions for compliance with Mont. Code Ann. § 33-18-605(1)(g) by reevaluating an insured risk when the terms of coverage as initially applied for were altered adversely due to information contained in a credit report.

In some circumstances the Company has allowed agents to bind coverage on a risk before receiving all underwriting information necessary to issue the policy. In the event the agent fails to submit the information to the Company within 20 days the Company returns the application to the agent and relies upon the agent to advise the insured that coverage is "unbound." The Company does not consider coverage having ever been in force in spite of an effective date appearing on the application. This practice is in conflict with Mont. Code Ann. § 33-4-507 and the cancellation provisions of the insurance contracts issued by the Company.

Information obtained on an application is sometimes altered without benefit of being initialed by either applicant or agent. Some applications lacked necessary signatures.

The Company utilizes policy forms which are designed, supplied and filed for use by AAIS on behalf of the Company in combination with forms of its own design which are filed with the CSI. The by-laws of a farm mutual insurer 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. The Company did not include its by-laws as part of the insurance contract during the time period covered by the examination. Therefore, the Company's by-laws have not been filed with the CSI as a policy form in accordance with Mont. Code Ann. § 33-4-509 which requires all forms of applications and of policies to be filed with the CSI at least 30 days in advance of use.

The policy Declarations Page issued by the Company is provided and designed by APPS. The Declarations Page contains a sequential numerical listing. This appears in a vertical column on the left side of the Declarations Page, under the heading, "COVERAGES." The numerical listing creates ambiguity by appearing to insure by numbered line item rather than by coverage in accordance with the language contained in the body of the contract.

Coverage endorsements such as Water Dmg, Sewer and Drains and Identity Fraud are identified on the Declarations Page by the letters E and L, respectively. This manner of lettering does not correspond with the lettering of Coverages contained in the body of the contract.

The Company sometimes limits coverage on outbuildings to the peril of fire only, depending upon the condition of the structure. This reduction in coverage is accomplished only by means of a statement on the declarations page. The Company does not utilize an exclusionary endorsement to modify the terms of the contract. This practice creates an ambiguity that would be construed in favor of the insured, should a question of coverage arise after a loss.

The design of exclusionary endorsements used by the Company, with the exception of an endorsement restricting coverage on previously damaged roofing material, is such that the applicant or insured must acknowledge the limitation(s) of coverage by an acceptance signature. This practice has eliminated any questions of ambiguity or allegations surrounding lack of adequate notice to policyholders.

## **CLAIMS**

During the time period covered by the examination, 904 property and casualty insurance claims were submitted to the Company. The examiners reviewed 200 claim files in order to ascertain the Company's compliance with the Laws, Rules and Regulations of Montana. The examiners also reviewed the 200 claim file samples in order to determine if the Company was adjusting claims per the terms and conditions of the insured's policy.

Flathead Farm Mutual Insurance Company employed independent adjusters to investigate and evaluate the majority of the 904 claims submitted to the Company. Claims involving losses that appeared easy to investigate, document and evaluate were handled directly by the Company.

The examiners found that claims adjusted by independent adjusters provided the Company with a high degree of accuracy and consistency. These claim files also contained excellent documentation regarding the amount of damage and final settlement evaluation. Claims handled directly by the Company did not always contain the same degree of documentation. Some claims handled by the Company lacked adequate support to determine the extent of the damage, the final settlement evaluation or the policy provisions affording coverage for the loss.

The Company's standard claim handling practice was to assign a new claim to an independent adjuster within 24 hours of receipt of the claim notice. The Company would then issue a partial ACV (actual cash value) claim payment based upon the independent adjuster's initial evaluation and a final RC (replacement cost) payment when the Company received a signed "Proof of Loss" form from the policyholder stating the amount of the claim and attesting to the fact that repairs and or replacement of the property had been completed. Although this was the Company's standard practice, the examiners found many instances when independent adjusters would obtain a "Proof of Loss" for an ACV or partial claim adjustment by the Company. Some claim files contained as many as four or five "Proof of Loss" forms but none of these forms were for the total amount of the claim and many "Proof of Loss" forms reviewed by the examiners did not have the required policyholder signature.

The examiners also noticed that some independent adjusters appeared to be authorizing repair or replacement of damaged property belonging to the policyholder. This practice could cause the Company additional loss exposure after the claim is paid in full due to faulty workmanship or negligence on the part of the contractor.

The claim file review by the examiners suggested the Company did not exercise adequate oversight of its independent adjusters activities; the Company did not consistently apply depreciation on all claims; the Company did not make re-inspections to determine if claims were being adjusted properly and repairs of damaged property were actually completed; the Company did not always protect the Mortgagee's interest when paying property claims; the Company did not adequately protect its own interest by taking "cash in lieu of repairs" when payments were made prior to the repair or replacement of the damaged property.

The examiners did note that most claims were paid in a timely manner and in compliance with the Laws, Rules and Regulations of Montana. The majority of the above findings deal primarily with the Company's claim handling practices and the impact they could have on the successful operation of the Company.

## SUMMARY OF SIGNIFICANT FINDINGS

During the time period covered by the examination:

The minutes of the April 11, 2007, annual membership meeting do not indicate the election of Chuck Eble as a director.

The Company did not comply with the provisions of Mont. Code Ann. §§ 33-18-607(1) or 33-19-206(1) in obtaining authorizations to collect personal and credit information.

The Company cannot demonstrate compliance with the provisions of Mont. Code Ann. § 33-19-303 which requires, in part, the insurance institution responsible for the adverse underwriting decision to provide the applicant the reason or reasons for the adverse underwriting decision in writing or advise the person that upon written request, the person may receive the specific reason or reasons in writing; and of the rights established under Mont. Code Ann. § 33-10-301-303(2).

The Company's practices relative to delivery of adverse action notification were in violation of Mont. Code Ann. §§ 33-18-608(1) and 33-19-303(1)(a) and (b).

The content of the adverse action notification in use by the Company does not comply with the provisions of Mont. Code Ann. §§ 33-18-608(2) and 33-19-303(1)(a) and (b).

The adverse action notification in use by the Company does not contain language advising consumers of the insurer's obligation under Mont. Code Ann. § 33-18-606, should the consumer prevail in the dispute resolution process.

The Company's electronic record of denied applications was not inclusive of all declined applications. The Company did not maintain copies of all denied applications in violation of Mont. Code Ann. §§ 33-3-401 and 33-19-206(4). Due to destruction of records, the Company was unable to demonstrate compliance with Mont. Code Ann. § 33-19-202.

The Company did not maintain a complaint record in accordance with Mont. Code Ann. § 33-18-1001.

The Company's communications to its independent agency force did not accurately represent the responsibilities of the Company in regard to the collection, use and disclosure of personal or credit information and any resulting adverse action.

During the time period covered by the exam the Company did not maintain up-to-date agency agreements. The agency agreements negotiated by the Company did not accurately reflect changes such as agency purchases, consolidations, changes in name or the opening of additional geographic locations. The Company had agent/agency agreements in place that did

not accurately reflect the names of individual(s) or business entities as they appeared on the insurance licenses issued by the CSI.

The Company did not always notify the CSI of terminations of appointments pursuant to Mont. Code Ann. § 33-17-237 when producers ceased writing business and had no renewal business with the agency.

Several agents were producing business for the Company without having been appointed in violation of Mont. Code Ann. §§ 33-17-231 and 33-17-236.

The non-payment cancellation notice used by the Company did not comply with language contained in the policy and Mont. Code Ann. § 33-4-507(2) which requires the Company to provide notice of cancellation at least ten days before cancellation is to be effective.

The absence of definitive underwriting guidelines to be used in determining the effect of information contained in a credit report precluded the Company from demonstrating compliance with Mont. Code Ann. § 33-18-210(3).

The Company denied some applications for insurance based solely on information obtained in a credit report, in violation of Mont. Code Ann. § 33-18-605(1)(b).

Information obtained on an application was sometimes altered without being initialed by either the applicant or agent. Some applications lacked necessary signatures.

The Company has allowed agents to bind coverage on a risk before receiving all underwriting information necessary to issue the policy. When this occurs and the necessary underwriting information is not forthcoming, the Company returns the application to the agent and relies upon the agent to advise the insured that no coverage has been in force. This practice is in conflict with Mont. Code Ann. § 33-4-507(2) and the cancellation provisions of the insurance contracts issued by the Company.

The Company did not include its by-laws in the insurance contracts it issued in violation of Mont. Code Ann. § 33-4-303; therefore, the Company's by-laws have not been filed with the CSI as a policy form in accordance with Mont. Code Ann. § 33-4-509.

The Declarations Page in use by the Company contains language that is inconsistent with language appearing in the body of the insurance contract. This creates unintended ambiguities that would be construed in favor of the insured, should a question of coverage arise after a loss.

The Company did not consistently apply the terms of the policy to every claim. Some policyholders received payment for the replacement cost of their damages while other policyholders received payment for the actual cash value of their damaged property.

The Company did not pay the mortgagee when a loss was deemed payable under either coverage A or B of the policy.

The Company did not exercise effective oversight over their independent adjusters nor did it consistently employ sound claim handling practices.

## **CONCLUSION**

The Market Conduct Examination Report of Flathead 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 Company and its MGA during the course of the examination.

## **RECOMMENDATIONS FOR CORRECTIVE ACTION**

The Company must research the recorded notes of the April 11, 2007, annual membership meeting to determine whether or not Chuck Eble was duly elected to serve as a director. The recorded minutes must be amended accordingly and approved at the next annual membership meeting.

The Company must retain records of all transactions related to its insurance operations pursuant to Mont. Code Ann. § 33-3-401 and be able to produce such records upon examiners request.

The Company must develop procedures to ensure compliance with the provisions of Title 33, Chapter 18, Part 6 and Title 33, Chapter 19 of the Montana Code Annotated in their entirety.

The Company must develop and distribute communications to its independent agency force which accurately represent the Company's responsibilities in regard to the collection, use and disclosure of personal or credit information and any resulting adverse action.

The Company must remain diligent in its efforts to maintain accurate, up-to-date agency agreements and provide timely notification of producer appointments and terminations to the CSI in accordance with the provisions of Mont. Code Ann. §§ 33-17-231, 236 and 237.

The Company must develop a "notice of cancellation" and procedures for its delivery to insureds that are in compliance with the language of the insurance contract it issues and Mont.

Code Ann. § 33-4-507(2). This recommendation applies to cancellation due to non-payment of premium and company-initiated cancellations occurring within the first 60 days of the effective date of a newly bound application.

The Company must file its by-laws pursuant to Mont. Code Ann. § 33-4-509 and include the by-laws in the insurance contracts it issues in accordance with Mont. Code Ann. § 33-4-303.

The Company must develop and place into use the guidelines to be used in determining the effect information contained in a credit report will bear upon the selection of risks to be insured.

The Company must cease the practice of denying any applications for insurance based solely on information obtained in a credit report in accordance with Mont. Code Ann. § 33-18-605(1)(b).

The Company must cease the practice of altering original information on an application without obtaining the consent of the applicant or producer. The Company must also obtain all necessary signatures on an application.

The Company must cease the practice of altering the terms of the contract merely by a statement on the Declarations Page and without benefit of an exclusionary endorsement.

The Company must consistently apply the Replacement Value and Actual Cash Value provisions of the policy when paying claims.

The Company must make payment to the mortgagee and the insured per the terms and conditions of the policy.

## **COMMENTS AND SUGGESTIONS**

The Company should request APPS remove the numerical listing appearing in the left-hand column of the Declarations Page.

The Company should cease the practice of assigning a letter to optional endorsements listed on the Declarations page.

The Company should obtain the insured's signature on the exclusionary endorsement used to limit coverage to a previously damaged or aged roof.

The Company should obtain their insured's signature on all Proof of Loss forms submitted to the Company.

The Company should exercise more oversight over its independent adjusters.

The Company should conduct re-inspections to determine if claims are being adjusted correctly per the terms of the policy and that repairs and/or replacement of the damaged property have actually been completed.

The Company should obtain a Cash in Lieu form from its insureds whenever it makes a claim payment prior to the actual repair or replacement of the damaged property.

**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 Flathead Farm Mutual Insurance Company, Kalispell, Montana, for the period from January 1, 2006, to December 31, 2009.

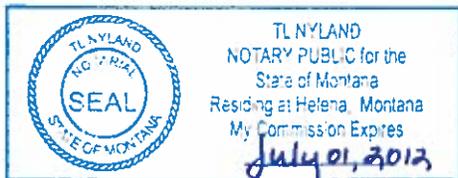
That to the best of their information, knowledge and belief, the attached report of the examination is a true and correct report of the proposed market conduct affairs and operations Flathead Farm Mutual Insurance Company as of December 31, 2009.

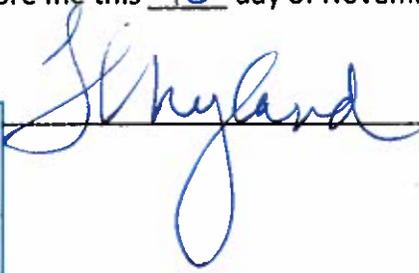
DATED this 15<sup>th</sup> day of November, 2010.

  
\_\_\_\_\_  
David Drynan, AIE, MCM

  
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Kimberlee Hewitt, CIE, MCM

SUBSCRIBED AND SWORN to before me this 15<sup>th</sup> day of November, 2010.



  
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