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Office of the Commissioner of Securities and Insurance,  
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Attorney for the CSI

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

IN THE MATTER OF: ) Case No.: INS-2012-263  
FARMERS INSURANCE EXCHANGE, )  
Respondent. ) **CONSENT AGREEMENT AND FINAL**  
 ) **ORDER**  
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This Consent Agreement and Final Order (Agreement) is entered into by the Office of the Commissioner of Securities and Insurance, Montana State Auditor (CSI), acting pursuant to the authority of the Montana Insurance Code, Mont. Code Ann. § 33-1-101, et seq. (Code), and Farmers Insurance Exchange (Respondent).

**RECITALS**

WHEREAS, the CSI received information from the Respondent that the Respondent was treating customer-initiated credit orders differently than company-initiated credit orders;

WHEREAS, the Respondent admitted that, in the case of customer-initiated credit orders, it did not send adverse action notices when an insured’s premium increased due to credit information, but the insured’s score did not drop below neutral credit rating;

WHEREAS, the CSI also received information from the Respondent that the Respondent was automatically transferring business to a corporate subsidiary, Mid-Century Insurance Company (Mid-Century);

WHEREAS, the CSI conducted an investigation, which revealed that in some instances, the Respondent automatically increased uninsured and underinsured motorist coverages, and premiums for the same, if the insured failed to submit an election agreement selecting a lower amount of coverage;

WHEREAS, the CSI's investigation revealed that the Respondent impermissibly characterized the move to Mid-Century as both a non-renewal and renewal;

WHEREAS, the above issues were memorialized in three letters the CSI sent to Respondent: (1) Administrative Action Letter, dated 11/16/12, (2) Administrative Action Letter, dated 11/21/12 and (3) Administrative Action Letter, dated 12/5/12; and

WHEREAS, the CSI alleged that the Respondent violated Mont. Code Ann. §§ 33-16-201(1)(a); 33-18-604(1); 33-15-1105(1)(a); 33-23-203(3); and 33-23-201(2).

NOW, THEREFORE, in consideration of the following mutual undertakings, the CSI and the Respondent enter into the following:

#### **STIPULATIONS AND CONSENTS**

1. Without admitting or denying any of the CSI's allegations, the Respondent stipulates and agrees to the following:

A. Within 30 days from the execution of this Agreement, the Respondent shall pay a fine of \$50,000. The fine must be made payable to the State of Montana and sent to the Office of the Commissioner of Securities and Insurance, Montana State Auditor, c/o Legal Bureau, 840 Helena Avenue, Helena, MT 59601.

B. The Respondent shall refund all Montana insureds who were charged more premium as a result of the customer initiating a credit order since 2007, plus 10 percent simple interest. The Respondent shall provide a copy to the CSI of the cover letter to be sent to these insureds. After issuing all of the refunds, the Respondent shall provide written verification to the CSI that the insureds have been refunded, along with a table summarizing which insureds were sent refunds and the amount of each refund.

C. For six months from the date of execution of this Agreement, the Respondent will not increase premiums based on a customer-initiated credit order. The Respondent must also treat customer initiated credit orders the same as company initiated credit orders unless changes in the law permit Respondent to do otherwise.

D. The Respondent must send adverse action notices whenever an existing insured's premium increases as a result of his or her newly acquired credit information.

E. Regarding its moving of business, the Respondent must take reasonable measures to ensure that its insureds are informed of the move in business to Mid-Century. This includes, but is not limited to, consulting with the CSI to ensure continuing compliance with the Code regarding the business transfer before it takes any corrective action.

2. All parties to this Agreement stipulate and agree as follows:

A. The Respondent acknowledges that its authorized representative signing this Agreement has read and understands each term of this Agreement and that it enters into this Agreement voluntarily and without reservation.

B. The Respondent and the CSI agree that this Agreement resolves the alleged violations set forth in the Recitals and in the three administrative action letters described herein.

C. With respect to the Recitals, the Respondent specifically and affirmatively waives a contested case hearing and its right to appeal under the Montana Administrative Procedures Act, including Title 2, chapter 4, part 7, and elects to resolve this matter on the terms and conditions set forth therein.

D. The Respondent fully and forever releases and discharges the CSI from any and all actions, claims, causes of action, demands, or expenses for damages or injuries, whether asserted or unasserted, known or unknown, foreseen or unforeseen, arising out of the Recitals.

E. This Agreement is entered without adjudication of any issue, law or fact. It is entered solely for the purpose of resolving the CSI's investigation and allegation and is not intended to be used for any other purpose.

F. This Agreement constitutes the entire agreement between the parties and no other promises or agreements, either express or implied, have been made by the CSI or by any member, officer, agent, or representative of the CSI to induce the Respondent to enter into this Agreement.

G. This Agreement may not be modified orally, and any subsequent modifications to this Agreement must be mutually agreed upon in writing to be effective.

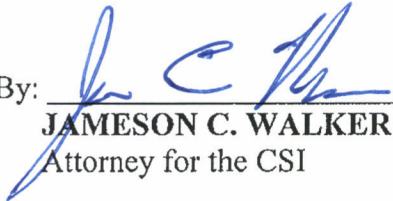
H. This Agreement shall be incorporated into and made part of the attached Final Order issued by the Commissioner of Securities and Insurance, Montana State Auditor (Commissioner) herein.

- I. This Agreement shall be effective upon signing of the Final Order.
- J. This Agreement and Final Order are public records under Montana law

and as such may not be sealed or otherwise withheld from the public.

DATED this 28<sup>th</sup> day of January, 2013

**OFFICE OF THE COMMISSIONER OF  
SECURITIES AND INSURANCE,  
MONTANA STATE AUDITOR**

By:   
**JAMESON C. WALKER**  
Attorney for the CSI

DATED this 24 day of January, 2013

**FARMERS INSURANCE EXCHANGE**

By:   
Title: AVP - REGULATORY AFFAIRS

**FINAL ORDER**

Pursuant to the authority vested by Mont. Code Ann. §§ 2-4-603 and 33-1-101, et seq., and upon review of the foregoing Consent Agreement and good cause appearing,

IT IS HEREBY ORDERED that the foregoing Consent Agreement between the Office of the Commissioner of Securities and Insurance, Montana State Auditor, and the Respondent Farmers Insurance Exchange is adopted as set forth fully herein.

DATED this 28<sup>th</sup> day of January, 2013.

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

By: \_\_\_\_\_

  
**ADAM SCHAFFER**  
Deputy State Auditor

cc. Jameson C. Walker  
Farmers Insurance Exchange