

**PROCEEDING BEFORE THE HONORABLE JANE L. CLINE
INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA**

**IN RE:
FARMERS & MECHANICS FIRE and CASUALTY INSURANCE CO.
NAIC #12611**

**ADMINISTRATIVE PROCEEDING
10-MAP-02002**

**AGREED ORDER ADOPTING REPORT OF
MARKET CONDUCT EXAMINATION AND DIRECTING
CORRECTIVE ACTION**

NOW COMES The Honorable Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Agreed Order which adopts the Report of Market Conduct Examination and directs corrective action as a result of findings in the Report of Market Conduct Examination for the examination of **FARMERS & MECHANICS FIRE and CASUALTY INSURANCE CO.** (hereinafter "F&MF&CIC") for the examination period ending June 30, 2008 based upon the following findings, to wit:

PARTIES

1. The Honorable Jane L. Cline is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing, among other duties, the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.
2. **F&MF&CIC** is licensed under West Virginia Code Chapter 33, as an Article 1 insurance company in fire and casualty in the State of West Virginia

authorized by the Insurance Commissioner to transact its business holding a Certificate of Authority #DO43.

3. This statutory market conduct examination was conducted and instituted as result and per the authority of West Virginia Code § 33-2-9.

FINDINGS OF FACT

1. A Market Conduct Examination concerning the operational affairs of **F&MF&CIC** for the period ending as of June 30, 2008 was conducted in accordance with West Virginia Code § 33-2-9(c) by examiners duly appointed by the Insurance Commissioner.

2. On August 19, 2010, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code § 33-2-9(j)(2), a Report of Market Conduct Examination.

3. On August 23, 2010, a true copy of the Report of Market Conduct Examination was sent to **F&MF&CIC** by certified and electronic mail and was received by **F&MF&CIC** on August 25, 2010.

4. On August 25, 2010, **F&MF&CIC** was notified pursuant to West Virginia Code § 33-2-9(j) (2) that it had thirty (30) days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner.

5. The Report of Market Conduct Examination included findings including, but not limited to, the following:

(i.) Recommendation A- Operations and Management – Standard 4

It is recommended that the Company conduct a mock disaster

exercise. The Company should develop a formalized disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster.

(ii.) Recommendation B – Complaint Handling – Standard 2

The Company should issue a guideline to all company divisions informing them of the definition of a "complaint" and requiring each division to report any written communication received directly by them that meet the above definition for inclusion on the company's direct complaint log.

6. On August 31, 2010 (received by Commissioner on September 7, 2010), **F&MF&CIC** responded to the Report of Market Conduct Examination ("**F&MF&CIC's** Response") and essentially did not dispute certain facts pertaining to findings, comments, results, observations, or recommendations contained in the Report of Market Conduct Examination.

7. **F&MF&CIC** herein accepts the Report of Market Conduct Examination and corrective action concerning the same.

8. **F&MF&CIC** hereby waives additional time for examination report review, notice of administrative hearing, any and all rights to an administrative hearing, and to judicial appellate review of any matters contained herein this Agreed Order.

9. Any Finding of Fact that is more properly a Conclusion of Law is

hereby adopted as such and incorporated in the next section.

CONCLUSIONS OF LAW

1. The Insurance Commissioner has jurisdiction over the subject matter of and the parties to this proceeding.

2. This proceeding is pursuant to and in accordance with West Virginia Code § 33-2-9.

3. That **F&MF&CIC** has incurred no violations of West Virginia Code as a result of the Report of Examination.

4. The Commissioner is charged with the responsibility of verifying continued compliance with West Virginia Code and the West Virginia Code of State Rules by **F&MF&CIC** as well as all other provisions of regulation that **F&MF&CIC** is subjected to by virtue of their Certificate of Authority to operate in the State of West Virginia.

5. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

ORDER

Pursuant to West Virginia Code § 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and **F&MF&CIC's** Response thereto, the Insurance Commissioner and **F&MF&CIC** have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination. The Parties have further agreed to the imposition of corrective action to the extent they have not already complied against **F&MF&CIC** as set forth below.

It is accordingly **ORDERED** as follows:

(A) The Report of Market Conduct Examination of **F&MF&CIC** for the period ending June 30, 2008, is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner.

(B) It is further **ORDERED** that **F&MF&CIC** shall continue to monitor its compliance with the West Virginia Code, West Virginia Code of State Rules, and all other laws it is subject thereto.

(C) It is further **ORDERED** that within thirty (30) days of the next regularly scheduled meeting of its Board of Directors, **F&MF&CIC** shall file with the West Virginia Insurance Commissioner, in accordance with West Virginia Code § 33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION and DIRECTING CORRECTIVE ACTION.

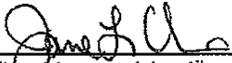
(D) It is further **ORDERED** that **F&MF&CIC** shall ensure compliance with the West Virginia Code and the Code of State Rules. **F&MF&CIC** shall specifically cure those deficiencies identified in the Report of Market Conduct that warranted a recommendation to **F&MF&CIC**.

(E) The Insurance Commissioner has determined that an administrative penalty is not warranted as a result of the Report of Examination.

(F) It is finally **ORDERED** that all such review periods, statutory notices, administrative hearings and appellate rights are herein waived concerning this Report of Market Conduct Examination and Agreed Order. All such rights are preserved by the Parties regarding any future action taken, if any,

on such Order by the Commissioner against F&MF&CIC.

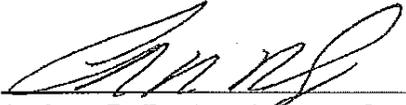
Entered this 13th day of October, 2010.



The Honorable Jane L. Cline
Insurance Commissioner

REVIEWED AND AGREED TO BY:

On Behalf of the INSURANCE COMMISSIONER:



Andrew R. Pauley, Attorney Supervisor, APIR

Dated: 10/13/10

On Behalf of F&MF&CIC:

By: E. Dennis McCormick
[Print Name]

Its: President/CEO

Signature: E. Dennis McCormick

Date: October 7, 2010



STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner

JOE MANCHIN III
Governor

JANE L. CLINE
Insurance Commissioner

August 19, 2010

CERTIFIED MAIL

7009 3410 0000 4505 0286

Edwin Dennis McCormick, President
Farmers & Mechanics Fire and Casualty Insurance Co.
25 Administrative Drive
Martinsburg, WV 25401

RE: Report of Market Conduct Examination as of June 30, 2008

Dear Mr. McCormick:

Enclosed is a copy of the Report of Market Conduct Examination of Farmers & Mechanics Fire and Casualty Insurance Co. This examination was performed in accordance with the provisions of Chapter 33, Article 2, and Section 9 of the West Virginia Code of 1931 as amended. The Report reflects the business and operational affairs of Farmers & Mechanics Fire and Casualty Insurance Co. for the period ending June 30, 2008.

Pursuant to West Virginia Code §33-2-9(j)(2), you are hereby notified that you have thirty (30) days from receipt of this report to make written submission or rebuttals with respect to any matter contained in the Report of Market Conduct Examination. If an exception is taken it must be filed within the statutory time period. Please direct any questions you may have to Mark A. Hooker at 558-6279, ext. 1176.

Sincerely,

Jane L. Cline
Insurance Commissioner

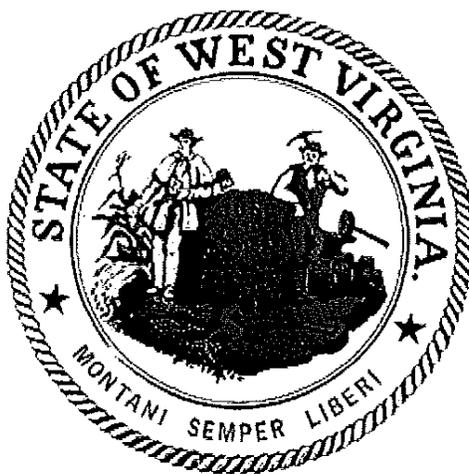
Enc: Copy of Report of Market Conduct Examination as of June 30, 2008

cc: Mary Jane Pickens, General Counsel
Andrew R. Pauley, Associate Counsel, Supervisor-Regulatory Compliance
Mark A. Hooker, Chief Market Conduct Examiner



Report of Market Conduct Examination

As of June 30, 2008



**Farmers & Mechanics
Fire & Casualty Insurance Company
Of
West Virginia**
25 Administrative Drive
P. O. Box 1917
Martinsburg, West Virginia 25402-1917

NAIC COMPANY CODE 12611
Examination Number WV014-M17

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August 18, 2010

The Honorable Jane L. Cline
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Dear Commissioner Cline,

Pursuant to your instructions and in accordance with W.Va. Code §33-2-9, an examination has been made as of June 30, 2008 of the business affairs of

Farmers & Mechanics
Fire & Casualty Insurance Company of West Virginia
25 Administrative Drive
P. O. Box 1917
Martinsburg, West Virginia 25402-1917

Hereinafter referred to as the "Company" or "Farmers and Mechanics Fire and Casualty." The following report of the findings of this examination is herewith respectfully submitted.

EXECUTIVE SUMMARY

This examination is the first market conduct examination of Farmers and Mechanics Fire and Casualty Insurance Company. The examination fieldwork began February 2, 2009 at the Company Home Office in Martinsburg, West Virginia, and remotely in the Offices of the Insurance Commissioner (OIC) in Charleston, West Virginia. The examination continued in Charleston from March 2, 2009 to conclusion of the data review on May 18, 2009. Of the Sixty-Four (64) standards tested, the Company passed all sixty-four (64). Recommendations were made by the examiner with regard to two (2) standards in which the "pass" was marginal or which the severity of the exception warranted a comment or recommendation.

SCOPE OF EXAMINATION

The basic business areas examined under this examination were:

- A. Company Operations/Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Licensing
- E. Policyholder Service
- F. Underwriting and Rating
- G. Claims

Each business area has standards that the examination measured. Some standards have specific statutory guidelines, others have specific company guidelines, and yet others have contractual guidelines.

The focus of the examination was on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are tested to see if the Company is in compliance with West Virginia statute and rules.

Since this examination was the first market conduct examination of the Company, all business areas addressed by the NAIC 2008 Market Regulation Handbook were tested.

This examination report is a report by test, rather than a report by exception, and all standards tested are described and the results indicated.

HISTORY AND PROFILE

Farmers & Mechanics Fire and Casualty Insurance Inc. was granted a Certificate of Authority to write property and casualty insurance in the state of West Virginia July 21, 2006. Farmers and Mechanics Fire and Casualty is wholly owned by Farmers and Mechanics Mutual Insurance Company and began writing new business for West Virginia Automobiles on August 1, 2006. The Company had its beginning by writing more than \$2.5 million of the business from the insolvency of the Shelby Insurance Company. The Company's Board of Director's consists of eight (8) members and E. Dennis McCormick is the President/CEO of the Company. As of December 31, 2008 Farmers & Mechanics Fire and Casualty had a total surplus of \$2.4 million, assets of \$3.7 million and a direct written premium of \$2,570,194.

METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a property and casualty insurer found in Chapters 16 and 17 of the NAIC 2008 Market Regulation Handbook and in accordance with West Virginia statutes and rules.

Some standards were measured using a single type of review, while others used a combination, or all types of review. The types of review used in this examination fall into three general categories: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files using automated sampling software. For statistical purposes, an error tolerance level of 7% was used for claims and a 10% tolerance was used for other types of review. The sampling techniques used are based on a 95% confidence level.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records provided by the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the Company met certain benchmarks. The various test utilized are set forth in the NAIC Market Regulation Handbook for a property and casualty insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under West Virginia law, and its source in the NAIC Market Regulation Handbook are stated and contained within a bold border.

Each standard is accompanied by a "Comment" describing the purpose or reason for the Standard. "Results" are indicated, examiners "Observations" are noted, and in some cases, a

“Recommendation” is made. Comments, Results, Observations and Recommendations are kept with the appropriate standard.

A. COMPANY OPERATIONS/MANAGEMENT

The Operations/Management portion of the examination is designed to provide a view of what the regulated entity is and how it operates. It is not based on sampling techniques; it is more concerned with structure. This review is not intended to duplicate a financial examination review, but is important in providing the market conduct examiner with an understanding of the examinee. Many troubled companies have become so because management has not been structured to recognize and address the problems that can arise. Well-run companies generally have processes that are similar in structure. While these processes vary in detail and effectiveness from company-to-company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution; and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

Standard A 1: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 1</i>
The company has an up-to-date, valid internal or external audit program.	<i>W.Va. Code §§ 33-33-3 & 33-33-4</i>

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement as it pertains to annual audited statements. A company that has no audit function lacks the ready means to detect structural problems until problems have occurred. A valid internal or external audit function and its use is a key indicator of competency of management, which the Commissioner may consider in the review of an insurer.

Results: Pass

Observations: The Company’s financial statements are audited by the firm of Buffamante Whipple Buttafaro, P.C. in accordance with W.Va. Code §33-3-14. The last audit was conducted for the year ending December 31, 2008. Loss reserves are certified by the firm of Kufera, Inc. Reinsurance is currently provided through Guy Carpenter & Company. The Board of Directors reviews the auditor’s report and approves it at their Director’s meetings. The Company has an investment committee that reviews investments prior to each Board meeting.

The Company instituted a rule requiring any claim of a Board member or employee or family member of such be handled by an independent adjuster in order to avoid any appearance of

impropriety. The Company did not have any claims involving directors or employees during the examination time frame.

Recommendations: None

Standard A 3: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 3</i>
The company has antifraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.	
<i>W. Va. Code §§33-41-1, et seq.</i>	

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. Appropriate antifraud activity is important for asset protection as well as policyholder protection and is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer. Further, the insurer has an affirmative responsibility to report fraudulent activities of which it becomes aware.

Results: Pass

Observations: The Company has an Anti-Fraud plan that acknowledges that it is the policy of Farmers and Mechanics Mutual Insurance Company of West Virginia to prevent, detect, and investigate both internal and external fraud. The policy applies to all lines of business that the Company writes. The Company's Special Investigation Unit (SIU) was organized on March 29, 2004 by their parent company, Farmers and Mechanics Mutual Insurance Company of West Virginia and is composed of an investigator. The investigator is actively involved in the investigation of cases arising from multiple lines of business.

Recommendations: None

Standard A 4: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 4</i>
The company has a valid disaster recovery plan.	

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. It is essential that the Company have a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. Appropriate disaster recovery planning is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer.

Results: Pass with recommendations

Observations: The Company has a disaster recovery plan, although some aspects are informal. This involves a verbal agreement with Centra Bank, in Martinsburg. The Company is currently working with attorneys for both Company and Centra Bank to work out a written agreement whereby the Company can set up a static system and have it available at all times. As of the date

It includes a tape drive for updating and backup of the Company's personal computers. The Company is confident it could be back online within two (2) days. The Company is also in the process of securing an agreement with a software vendor where the Company will have its software housed electronically at one of its sites on a server that the Company can access remotely.

Recommendations: It is recommended that the Company continue to formalize its disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster. The plan should be valid, specific and operational, with procedures for implementation and revised as appropriate, periodically and be maintained current to address potential risks at all times.

Standard A 7: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 7</i>
Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.	
	<i>W. Va. Code § 33-2-9, W.Va. Code St. R. §§ 114-14-1, et seq. & 114-15-1, et seq.</i>

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. This standard is to assure that an adequate and accessible record exists of the Company's transactions. The focus is on the records and actions considered in a market conduct examination, such as, but not limited to, trade practices, claim practices, policy selection and issuance, rating, and complaint handling, etc. Inadequate, disorderly, inconsistent and inaccessible records can lead to inappropriate rates and other issues, which can provide harm to the public.

Results: Pass

Observations: The examiners found the Company claim and underwriting files were orderly and allowed for the reconstruction of pertinent events from the documents, correspondence, and note pad entries.

Recommendations: None

Standard A 8: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 8</i>
The company is licensed for the lines of business that are being written.	
	<i>W. Va. Code §33-3-1</i>

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard intends to assure that the Company operations are in conformance with the Company's certificate of authority.

Results: Pass

Observations: During the time frame of the examination, the Company had two thousand nine hundred ninety-three (2,993) automobile policies in force. The business written conforms to the license issued by the Department.

Recommendations: None

Standard A 9: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 9</i>
The Company cooperates on a timely basis with examiners performing the examinations.	<i>W. Va. Code § 33-2-9 & W. Va. Code St. R. §§ 114-15-1, et seq.</i>

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard assures that the Company is cooperating with the State in the completion of an open and on-going review of the company's operations in West Virginia. Cooperation with examiners in the conduct of an examination is not only required by statute, it is essential in completing the examination in a timely fashion and minimizing cost.

Results: Pass

Observations: The Company was cooperative in all respects and responded promptly to all requests for information. The examination proceeded in a cordial atmosphere.

Recommendations: None

Standard A 10: Operations & Management	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 10</i>
The company 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.	<i>W. Va. Code St. R. §§ 114-57-1, et seq.</i>

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company asserts that all information gathered during the application process is maintained in the ImageRight Desktop system which is security controlled by job description. Once the scanning is complete, the information is Transition filed for thirty (30) days and locked in a storage area accessible by the Support Services Supervisor and the Vice President of Underwriting. On the thirty-first (31st) day, the documentation is shredded using a vendor service that shreds on site. The examiners find these procedures and safe-guards to be adequate.

Recommendations: None

Standard A 11: Operations & Management — NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 11
The company has developed and implemented written policies, standards and procedures for the management of insurance information.

W. Va. Code St. R. §§ 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company has developed systems to store and insure the confidentiality of consumer's personal information. The systems have security levels for each employee position. Security levels are set by the IT department and reviewed by the Department's Vice President. Employees are properly trained on the handling of nonpublic information gathered during the underwriting process and claims investigations. The examiners found that the Company's methods for handling, disclosing, storing and disposing of insurance information are adequate to maintain the confidentiality of consumer's personal information.

Recommendations: None

Standard A 12: Operations & Management — NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 12
The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

W. Va. Code St. R. §§ 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: Farmers and Mechanics have a well defined policy for the collection and use of information compiled in connection with insurance transactions. All employees must use a logon ID and password to access any information from the Company's automation facilities. Additionally, the Company requires properly executed releases of information prior to releasing any policyholder information.

Recommendations: None

Standard A 13: Operations & Management — NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 13
The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

W. Va. Code St. R. §§ 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company does receive credit reports during the underwriting process and the applicants may not become customers or consumers of the insurance policies offered. The credit reports are not utilized for underwriting the risk and are reviewed to determine if there may be reason for concern in collecting premiums when due leading to repeated requests to reinstate policies cancelled for non-payment. All information received during the application process is maintained in the Company system that is security controlled by job description and if not relative to policies issued to customers and consumers is shredded using a vendor that shreds on site. Notices provided to customers and consumers relative to financial information secured were found to be clear and conspicuous and accurately reflected the Company's privacy policies and practices.

Recommendations: None

<p>Standard A 15: Operations & Management NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 15 The company's collection, use and disclosure of nonpublic personal financial information is in compliance with applicable statutes, rules and regulations. W. Va. Code St. R. §§ 114-57-1, et seq.</p>

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: During the course of the examination, there was no documentation to indicate that the Company disclosed nonpublic personal financial information gathered during the underwriting process to nonaffiliated third parties or to anyone in violation of applicable statutes, rules and regulations.

Recommendations: None

B. COMPLAINT HANDLING

Comments: Evaluation of the standards in this business area is based on Company responses to various information requests and complaint files at the Company. In this business area, "complaints" includes "grievances." W. Va. Code § 33-11-4(10) requires the Company to

“...maintain a complete record of all the complaints which it has received.” The statute also requires that “this record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.” West Virginia statutes define a complaint as “...any written communication primarily expressing a grievance.”

Standard B 1: Complaint Handling

NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 1.

All complaints are recorded in the required format on the regulated entity’s complaint register.

W. Va. Code § 33-11-4(10)

Comments: The review methodology for this standard is generic and electronic. The standard has a direct statutory requirement. This standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

Results: Pass

Observations: The Company maintains a complaint log for those received through the WVOIC. However, the Company does not include written complaints received directly by the Company. This does not comply with the requirements of W. Va. Code § 33-11-4(10) see standard B-2.

Recommendations: See Recommendation B 2

Standard B 2: Complaint Handling

NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 2.

The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

W. Va. Code § 33-11-4(10) & W. Va. Code St. R. §114-14-5.2

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is concerned with whether the Company has sufficient procedures to require satisfactory handling of complaints received, as well as analysis in areas developing complaints. The Company is required to have a method for distribution of, obtaining and recording responses to complaints. An insurer is required to maintain a complete record of all complaints received in the format prescribed by the statute.

Results: Pass with recommendation

Observations: When a WVOIC complaint is received, it is recorded on the complaint log and referred to the appropriate division supervisor for response. The company reported that it had no complaints that were received directly from consumers, furthermore it did not appear that the company had a procedure to handle those complaints.

Recommendations: It is recommended that the Company maintain a complete complaint log. The complaint log maintained by the company provides a record of only those complaints received directly from the West Virginia Offices of Insurance Commissioner's Consumer Service Division. The company should acknowledge as a "complaint" any written communications received directly from consumers expressing a grievance and include them in their complaint records as required by W. Va. Code §33-11-4(10).

Standard B 3: Complaint Handling	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 3.</i>
The company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.	
<i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.2</i>	

Comments: The review methodology for this standard is sample. The standard has a direct statutory requirement. This standard is concerned with whether the Company has made a timely response to complaints/grievances. In the case of complaints concerning claims, direct time requirements are found in W. Va. Code St. R. § 114-14-5.3. West Virginia's Consumer Service section uses fifteen (15) working days as the standard timeframe for responses to complaints.

Results: Pass

Observations: The Company responds timely to complaints received directly from the West Virginia Consumer Service section. The company reported that it had no complaints that it received directly from consumers; furthermore, it did not appear that the company had a procedure to handle those complaints.

Recommendations: See recommendation B 2

Standard B 4: Complaint Handling	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 4.</i>
The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.	
<i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.3</i>	

Comments: The review methodology for this standard is sample. The standard has a direct statutory requirement. This standard is concerned with whether the Company has made a timely response to complaints/grievances. In the case of complaints (grievances) concerning claims, direct time requirements are found in W. Va. Code St. R. § 114-14-5.3. West Virginia's Consumer Service section uses fifteen (15) working days as the standard timeframe for responses to complaints.

Results: Pass

Observations: The Company responds as required to complaints received directly from the Consumer Services section.

Recommendations: None

C. MARKETING AND SALES

Comments: Evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to evaluate the representations made by the Company about its products. It is not typically based on sampling techniques, but can be. The areas considered in this kind of review include all media, written and verbal advertising and sales material.

Standard C 1: Marketing & Sales	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, § C, Standard 1.</i>
All advertising and sales materials are in compliance with applicable statutes, rules and regulations.	
<i>W. Va. Code § 33-11-4(1), (2) & W. Va. Code St. R. § §114-14-1, et seq.</i>	

Comments: Review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with all forms of media (print, radio, television, etc.).

Results: Pass

Observations: Company advertising was very limited in nature. The examiners reviewed all advertising materials. The Company produced a limited number of brochures for distribution to both current and prospective clients, describing available products. The Company's Newspaper ads are limited in nature and placed mostly in the Saturday religion section of the local paper. The Company occasionally ran a front-page sticker which included the Company logo, location, and contact information. The Company does not allow producer created advertising content. The only web-based advertising found was on the Company's homepage, FMIwv.com. There were no errors in the content..

Recommendations: None

Standard C 2: Marketing & Sales	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, § C, Standard 2.</i>
Regulated entity internal producer materials are in compliance with applicable statutes, rules and regulations.	
<i>W. Va. Code § 33-11-4(1), (2) & W. Va. Code St. R. § §114-14-1, et seq.</i>	

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with training or instructional representations made by the Company to its producers.

Results: Pass

Observations: Company submitted manuals were reviewed and found to be in compliance with West Virginia statutes, rules, and regulations. Only company prepared and approved materials are allowed. Company approved materials also include Acord and ISO forms.

Recommendations: None

Standard C 3: Marketing & Sales	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § C, Standard 3.</i>
Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.	
	<i>W. Va. Code § 33-11-4(1), (2) & W. Va. Code St. R. §§114-14-1, et seq.</i>

Comments: Review methodology for this standard is generic and sample. The standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentations. It is concerned with representations made by the Company to its producers other than in a training mode.

Results: Pass

Observations: Review of letters, notepad entries, email, and website raised no issues or concerns. Manuals were available to appointed producers for review and use, and updated to include references to new rates, rules, and regulations. E-mails in underwriting and new-business files sent to individual producers and agencies were found to be in compliance.

Recommendations: None

D. PRODUCER LICENSING

Comments: The evaluation of standards is based on a review of the Insurance Commissioner's records and Company responses to information requests, questions, interviews, and presentations made to the examiners. This portion of the examination is designed to test the Company's compliance with West Virginia producer licensing laws and rules.

Standard D 1: Producer Licensing	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § D, Standard 1.</i>
Regulated entity records of licensed and appointed (if applicable) producers agree with department of insurance records.	
	<i>W. Va. Code §§ 33-12-3, 33-12-18 & W. Va. Code St. R. §§ 114-2-1, et seq.</i>

Comments: Review methodology for this standard is electronic. This standard has a direct statutory requirement. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. Such producers are presumed to be qualified, having met the test for such license. W.Va. Code §33-12-3 (b) states, "No person shall in West Virginia act as or hold himself or herself out to be an individual insurance producer or insurance agency or solicitor unless then licensed therefor pursuant to this article." W.Va. Code §33-12-3

(d) further states, "No insurer shall accept any business from any producer who does not then hold an appointment as producer for such insurer pursuant to this article."

Results: Pass

Observations: The list of licensed producers provided by the Company was reconciled with the corresponding insurance department lists. There were no discrepancies. The list consisted of four hundred ten (410) producers.

Recommendations: None

Appointed Producers

Type	Sampled	N/A	Pass	Fail	%Pass
Appointed Producers 7/24/06 to 6/30/08	410	0	410	0	100%

Standard D-2: Producer Licensing	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, § D, Standard 2.</i>
The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.	
<i>W. Va. Code §§ 33-12-1et seq.</i>	

Comments: Review methodology for this standard is electronic and sample. This standard has a direct statutory requirement. As applied in this section the test is file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed for business solicited in West Virginia. The Company must appoint the producer within fifteen (15) days of the date the producer submits their first application to the Company.

Results: Pass

Observations: The procedures followed by the company are in compliance with WVOIC requirements. Examiners reviewed the entire list of four hundred ten (410) producers.

Appointed Producers

Type	Sampled	N/A	Pass	Fail	%Pass
Appointed Producers 7/24/06 to 6/30/08	410	0	410	0	100%

From the total population of two thousand nine hundred and ninety-three (2,993) automobile policies in effect, a sample of sixty (60) was selected for detail review. All Farmers and Mechanics Fire and Casualty Insurance Company producers were licensed and appointed.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	5	55	0	100%

The majority of the automobile policies were acquired from Shelby Insurance Companies. Five (5) of the producers on those existing policies were not appointed by Farmers and Mechanics Fire and Casualty Insurance Company and are not currently appointed by the Company.

Recommendations: None

Standard D 3: Producer Licensing *NAIC Market Regulation Handbook 2008 – Chapter 16 § D, Standard 3.*
Termination of producers complies with applicable statutes, rules and regulations regarding notification to the producer and notification to the state if applicable.
W.Va. Code § 33-12-25, W. Va. Co de St. R. §§114-2-1, et seq. & 114-15-1 et seq.

Comments: Review methodology for this standard is electronic. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. W.Va. Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer’s authority. The same code section further requires the producer to be notified simultaneously. Furthermore, W.Va. Code §33-12-25 requires the Company to notify the Commissioner if the termination is for cause.

Results: Pass

Observations: Termination notices to individually appointed produces and agencies were reviewed and found in compliance. Fifty-six (56) producers were terminated during the time frame of the examination. Twelve (12) of the producers were terminated when they changed agency affiliation or the agency was sold. They were re-appointed with a different identification number. No producers were terminated for cause. When the producer or agency is terminated, the policyholder is notified of their policy's non-renewal based on the producer no longer being an appointed representative of the company. Therefore, renewal commissions are not earned. The company's list was tested against the WVOIC's list. After verification, the company was found to be in compliance.

Terminated Producers

Type	Sampled	N/A	Pass	Fail	%Pass
Terminated Producers 7/24/06 to 6/30/08	56	0	56	0	100%

Recommendations: None

Standard D 4: Producer Licensing *NAIC Market Regulation Handbook 2008 – Chapter 16, § D, Standard 4.*
The company’s policy of producer appointments and terminations does not result in unfair discrimination against policyholders.
W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is generic and sample. This standard does not have a direct statutory requirement. It is generally not file specific. This standard is concerned with potential geographical discrimination through the insurer's selection and instructions to its producers. The tests are intended to expose indicators of such practice but may not be conclusive.

Results: Pass

Observations: Producers representing the Company are located throughout the State of West Virginia. Over four hundred (400) producers market company products throughout the State. The Company's producer appointment and termination records do not infer any unfair discrimination against policyholders.

Terminated Producers

Type	Sampled	N/A	Pass	Fail	%Pass
Terminated Producers 7/24/06 to 6/30/08	56	0	56	0	100%

Appointed Producers

Type	Sampled	N/A	Pass	Fail	%Pass
Appointed Producers 7/24/06 to 6/30/08	410	0	410	0	100%

Recommendations: None

Standard D 5: Producer Licensing NAIC Market Regulation Handbook 2008 – Chapter 16, §D, Standard 5.
Records of terminated producers adequately document reasons for termination.
W.Va. Code §33-12-25, W. Va. Code St. R. § 114-2-1 et seq. & 114-15-1 et seq.

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. W.Va. Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer's authority. The same code section further requires the producer to be notified simultaneously. Furthermore, W.Va. Code §33-12-25 requires the Company to notify the Commissioner if the termination is for cause.

Results: Pass

Observations: If termination is not for cause, then the WVOIC does not require supporting documentation. Fifty-six (56) producers were terminated, twelve (12) were terminated when they changed agency affiliation or the agency was sold. They were re-appointed with a different identification number. None were terminated for cause.

Terminated Producers

Type	Sampled	N/A	Pass	Fail	%Pass
Terminated Producers 7/24/06 to 6/30/08	56	0	56	0	100%

Recommendations: None

E. POLICYHOLDER SERVICES

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner and file sampling during the examination process. The policyholder service portion of the examination is designed to test a Company's compliance with statutes regarding notice/billing, delays/no response, premium refund and coverage questions.

Standard E 1: Policyholder Services *NAIC Market Regulation Handbook 2008 – Chapter 16, § E, Standard 1.*
 Premium notices and billing notices are sent out with an adequate amount of advance notice. *W. Va. Code §§ 33-11-4 et seq.*

Comments: Review methodology for this standard is generic. This standard is intended to assure that the company procedures for handling renewals, billing, and processing endorsements are timely and in accordance with state guidelines.

Results: Pass

Observations: Review of files in the company's ImageRight Desktop system confirmed that renewals were handled in accordance with guidelines. Reviewed the company's mailroom procedures with department staff and found them to be in compliance.

Recommendations: None

Standard E 2: Policyholder Services *NAIC Market Regulation Handbook 2008 – Chapter 16, §E, Standard 2.*
 Policy issuance and insured-requested cancellations are timely. *W. Va. Code§ § 33-6A-4(d) & 33-11-4 et seq.,*

Comments: Review methodology for this standard is sample. This standard is intended to determine if policy issuance and insured-requested cancellations are handled in a timely manner without excessive paperwork requirements for the insured. Providing insured with information in a timely fashion enables them to make informed decisions. Cancellation notices must provide the detailed information mandated by state statutes.

Results: Pass

Observations: From the total population of two thousand nine hundred and ninety-three (2,993) automobile policies in effect, a sample of sixty (60) was selected for detail review. Policies were issued timely.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

From the total population of two hundred sixteen (216) automobile policies cancelled at the insured's request sixty (60) were selected for detail review.

Automobile Policies Cancelled (Insured's Request)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	0	60	0%

Recommendations: None

Standard E 3: Policyholder Services *NAIC Market Regulation Handbook 2008 – Chapter 16, § E, Standard 3.*
 All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.
W. Va. Code §§ 33-11-4 et seq. & W. Va. Code St. R. § 114-14-5.3

Comments: Review methodology for this standard is generic. This standard is intended to ensure that a response to correspondence is made timely and by the appropriate department. The company should provide applicants with the specific reason(s) for adverse underwriting decisions.

Results: Pass

Observations: Review of files in the company's ImageRight Desktop system confirmed that correspondence was handled by the appropriate personnel. The company normally responded within 24 hours by phone, and responded within 48 hours of receipt of a question with a response. Responses addressed the specific reason(s) for adverse underwriting decisions.

Recommendations: None

Standard E 5: Policyholder Services *NAIC Market Regulation Handbook 2008 – Chapter 16, § E, Standard 5.*
 Policy transactions are processed accurately and completely.
W. Va. Code §§ 33-6A-1 et seq. & 33-6B-1 et seq.

Comments: Review methodology for this standard is generic. This standard is intended to confirm that documentation is maintained to verify bank draft acceptance and clearance and that policyholder requests are processed as soon as reasonably possible.

Results: Pass

Observations: The Company's Point system contains the database of checks issued and payments received, which confirmed that the company was in compliance. Policy transactions are processed accurately and completely. Refunds were tested in both cancellations and non-renewals, where it was noted that the company complied with their pro-rated refunding method.

Recommendations: None

Standard E 6: Policyholder Services NAIC Market Regulation Handbook 2008 – Chapter 16, § E, Standard 6.
Reasonable attempts to locate missing policyholders or beneficiaries are made.

Comments: Review methodology for this standard is generic. This standard intends to verify that reasonable attempts are made to locate policyholders and claimants and any persons who were due funds and checks were returned.

Results: Pass

Observations: The review of files in the company's ImageRight Desktop system confirmed that the company made reasonable attempts to locate the party upon receipt of returned mail or checks.

Recommendations: None

Standard E 7: Policyholder Services NAIC Market Regulation Handbook 2008 – Chapter 16, § E, Standard 7.
Unearned premiums are correctly calculated and returned to appropriate parties in a timely manner and in accordance with applicable statutes, rules and regulations. W. Va. Code § 33-11-4(8)(a)

Comments: Review methodology for this standard is sample. There is a direct statutory requirement. This standard is intended to assure that unearned premiums are calculated properly and returned in a timely manner.

Results: Pass

Observations: The Company employs the pro-rated method to calculate unearned premium and returns funds to the appropriate party in a timely manner. Refunds of premiums are made directly to the payee, insured, mortgagee or lien holder on auto loans, if they were the payee.

From the total of all policies cancelled at the request of the Company pursuant to W.Va. Code §33-6A-1 a total of sixty (60) policies were selected for review and unearned premiums were calculated. Unearned premium was calculated correctly and refunded.

Automobile Policies Cancelled Company Request

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

F. UNDERWRITING AND RATING

Comments: The evaluation of standards in this business area are based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment complies with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. Testing is concerned with compliance issues.

Standard F-1: Underwriting & Rating	NAIC Market Regulation Handbook 2008 - Chapter 16, § F, Standard 1.
The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.	W. Va. Code §§ 33-11-4(7) & 33-20-4

Comments: Review methodology for this standard is sample. This standard is not a direct statutory requirement. It is file specific. It is necessary to determine if the Company complies with the rating systems filed and approved by the WVOIC. Wide scale application of incorrect rates by a company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

Results: Pass

Observations: Detail review determined the Company had properly charged rates on all sampled policies in accordance with the rates filed with and approved by the WVOIC and the Company's rating plan. Reviewed the company's new business sample of sixty (60) files, testing rate charges on the company's supplied rating form. No errors were found. The application provides information on the types/amounts of coverage that the proposed insurer is requesting. Underwriting rating guidelines were followed.

A random sample of sixty (60) files were selected for detailed review from the total of two thousand nine hundred ninety-three (2,993) policies in force.

New Business (Auto)						
Type	Sampled	N/A	Pass	Fail	%Pass	
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%	

Recommendations: None

Standard F 2: Underwriting & Rating	NAIC Market Regulation Handbook 2008 - Chapter 16, § F, Standard 2.
All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.	
W. Va. Code §§ 33-6-8, 33-6-31 & 33-6-31(c)	

Comments: Review methodology for this standard is sample. This standard does have a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions.

Results: Pass

Observations: The Company provides a contact telephone number on both its web site and its forms. It also references WVOIC contact information on forms and letters as requested. The company notified the insured as well as other parties of changes in coverage and basis in a timely manner. Changes normally occur at the policy renewal date, based on data received by the company or a change requested by the insured. Guidelines submitted and used by the company were found to be acceptable. The producer is supplied with underwriting and ratings data for their quotations. The producer may contact the company directly if there are any questions. Based on review, quotations are made in a timely manner. Changes in policy rates and effective dates are timely transmitted to producers. Changes that apply to insureds are sent to the insured as part of the renewal notice approximately forty-five (45) days prior to the renewal date.

A random sample of sixty (60) files were selected for detailed review from the total of two thousand nine hundred ninety-three (2,993) policies in force.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 3: Underwriting & Rating	NAIC Market Regulation Handbook 2008 - Chapter 16, § F, Standard 3.
The Company does not permit illegal rebating, commission cutting or inducements.	
W. Va. Code §§ 33-11-4(8)(g) & 33-12-23	

Comments: Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting or other illegal inducements are a form of unfair discrimination.

Results: Pass

Observations: It was determined the Company does not permit illegal rebating, commission cutting or inducements based on the detail review of the sampled policies. There were no concerns found in the limited amount of advertising material that the company has generated.

A random sample of sixty (60) files were selected for detailed review from the total of two thousand nine hundred ninety-three (2,993) policies in force.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

<p>Standard F 4: Underwriting & Rating <i>NAIC Market Regulation Handbook 2008 - Chapter 16, § F, Standard 4.</i> The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules, regulations, and company guidelines in the selection of risks. <i>W. Va. Code §§ 33-6-31(b) & 33-11-4(7)</i></p>
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Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protection from unfair discrimination. Inconsistent handling of rating or underwriting practices, including request for supplemental information, even if not intended, can result in unfair discrimination.

Results: Pass

Observations: Company underwriting guidelines (manuals) were reviewed to ensure they conformed to State law and were not unfairly discriminatory. The files were re-rated and the premium re-calculated to ensure the Company was following its underwriting guidelines. A sample of sixty (60) new business policy files were randomly selected using Audit Command Language. The review showed no discrepancies. Company underwriting guidelines (manuals) were reviewed to ensure they conformed to State law and were not unfairly discriminatory. The files were re-rated and the premium re-calculated to ensure the Company was following its underwriting guidelines. Review of company's ImageRight Desktop system found no evidence of anti-competitive behavior. Suspected fraud is reported and forms provide the required fraud statement.

A random sample of sixty (60) files were selected for detailed review from the total of two thousand nine hundred ninety-three (2,993) policies in force.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 5: Underwriting & Rating

NAIC Market Regulation Handbook 2008 – Chapter 16, § F, Standard 5.

All forms, including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.

W. Va. Code § 33-6-8

Comments: The review methodology for this standard is sample and generic. The review is necessary to determine if the Company complies with the requirement that insurance policy forms, application forms, riders, endorsements or other forms to be attached to any policy delivered or issued for delivery in the State were filed with and approved by the Commissioner.

Results: Pass

Observations: Filings were made and approved by the WVOIC as required. The policy's declaration page lists the forms applicable to the policy. Applications and supporting information were reviewed in the new business underwriting files.

A random sample of sixty (60) files were selected for detailed review from the total of two thousand nine hundred ninety-three (2,993) policies in force.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 6: Underwriting & Rating

NAIC Market Regulation Handbook 2008 – Chapter 16, § F, Standard 6.

Policies, riders and endorsements are issued or renewed accurately, timely and completely.

W. Va. Code §§ 33-6-31(b) & 33-11-4(7)

Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protection from unfair discrimination. Inconsistent handling of rating or underwriting practices, including request for supplemental information, even if not intended, can result in unfair discrimination.

Results: Pass

Observations: The Company properly issued all policies, riders, and endorsements accurately and completely on a timely basis on all automobile policies in the sample selected.

A random sample of sixty (60) files were selected for detailed review from the total of two thousand nine hundred ninety-three (2,993) policies in force.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 7: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 16, § F, Standard 7.
Rejections and declinations are not unfairly discriminatory. W. Va. Code §§ 33-11-4(7)(c); & 33-6A-1

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. W. Va. Code § 33-6A-1 outlines specific reasons for which companies may cancel policies. Consistent application of the Company’s underwriting rules is the primary method used to avoid unfair discrimination.

Results: Pass

Observations: All applications are included in the new business file. This includes both applications that were accepted and policies issued as well as applications that were rejected or declined. A review of the new business sample file confirmed that the company provided the producer and the proposed insured with a valid reason for rejection or declination of initial coverage. The review confirmed that the producer and the applicant were notified of any specific reasons for any adverse underwriting decision. No reviewed files identified decisions based on previously adverse decisions. Decisions to reject or decline coverage were based on data submitted and obtained at the start of coverage, and the producer and proposed insured were notified of the reason, which was based on valid guidelines. The company used its underwriting guidelines as its basis for decisions. The agency has no right to reject or decline coverage. Review of the company's Point system confirmed that refunds to the applicant were appropriate.

From the data submitted indicating new business applications a random sample of sixty (60) files were selected for review.

New Business Applications (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Applications 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 8: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 16, § F, Standard 8.
Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and the Company guidelines. W. Va. Code §§ 33-6A-1, 33-6A-3, & 33-6A-4

Comments: Review methodology for this standard is sample and electronic. This standard has a direct insurance statutory requirement. W. Va. Code § 33-6A-3 requires companies to give each policyholder thirty (30) days notice of cancellation if the policy has been in force for sixty (60) days. Policyholders need sufficient time in the event of a cancellation or non-renewal to replace coverage.

Results: Pass

Observations: A random sample of sixty (60) files were selected for review. Reasons cited for cancellation or non-renewal were co. The company's guidelines were followed. The company's initiated cancellations sample was reviewed. There were no discriminatory practices noted. Producers are not authorized to issue declination notices on behalf of the company. The company issues declinations based on underwriting guidelines.

Auto Policies Cancelled at Insured's Request

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Cancellations 7/24/06 to 6/30/08 -- Valid Reason	60	0	60	0	100%

Recommendations: None

Standard F-17: Underwriting & Rating	<i>NAIC Market Regulation Handbook 2008 - Chapter 17, § F, Standard 11:</i>
All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).	
<i>W. Va. Code §§ 33-6-31(b) & 33-11-4(f)</i>	

Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement. All forms and endorsements require filing and approval by the Commissioner. Forms and endorsements forming a part of the contract are to be listed on the declaration page. Applications are required to provide the required fraud warning statement.

Results: Pass

Observations: The declaration page listed all applicable forms and endorsements. The Company had filed all forms and endorsements listed as required.

A random sample of sixty (60) files was selected from the two thousand nine hundred ninety-three (2,993) policies in force for detailed review.

New Business Applications (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Applications 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F-18: Underwriting & Rating	<i>NAIC Market Regulation Handbook 2008 - Chapter 17, § F, Standard 13:</i>
The company does not engage in collusive or anti-competitive underwriting practices.	
<i>W. Va. Code §§ 33-11-4(d) & 33-11-4(f)(c)</i>	

Comments: Review methodology for this standard is generic. This standard does not have a direct insurance statutory requirement. This standard is intended to ensure that any practice

suggesting anti-competitive behavior is not tolerated. This includes engaging in collusive underwriting practices that may inhibit competition, e.g., entering into an agreement with other companies to divide the market within West Virginia by territory.

Results: Pass

Observations: There was no indication the Company engaged in collusive or anti-competitive underwriting practices in the review of the underwriting guidelines or the sample of issued policies.

Recommendations: None

Standard F 19: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, § F, Standard 16.
 Cancellation/nonrenewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.
 W. Va. Code §§ 33-6A-1 et seq.

Comments: The review methodology for this standard is sample and electronic. This standard is intended to determine if the notice of cancellation/nonrenewal was valid according to policy provisions and state law and included the specific reasons for cancellation where required.

Results: Pass

Observations: The review of cancellations and non-renewals confirmed that such notices were valid. The review of cancellation notices in the company's ImageRight Desktop system confirmed that the notice contained a statement of specific reason. The notice to the proposed insured includes the basis of the decision based on guidelines. Guidelines were reviewed and found compliant. Forms filed with the WVOIC were reviewed. No misleading statements or formats were found.

The company reported that sixty-two (62) automobile policies were cancelled/non-renewed during the time frame of the examination. All of the files were reviewed.

Auto Policies Cancelled/Non-renewed

Type	Sampled	N/A	Pass	Fail	%Pass
Auto Policies Cancelled/Non-renewed 7/24/06 to 6/30/08	62	0	62	0	100%

Recommendations: None

Standard F 20: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, § F, Standard 17.
 All policies are correctly coded.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Policy coding should conform to the coding reported by the producer. Insurers should correctly code all policies according to current codes. Audits should detect data errors, and changes.

Results: Pass

Observations: Review of the new business sample verified that everything was correctly coded. Review of underwriting files for new business in the company's ImageRight Desktop system confirmed that the Underwriting division had confirmed that the producer's coding was correct.

A random sample of sixty (60) files was selected from the two thousand nine hundred ninety-three (2,993) policies in force for detailed review.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 21: Underwriting & Rating	NAIC Market Regulation Handbook 2008 - Chapter 17, § F, Standard 18.
Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports the decisions made.	
W. Va. Code §§ 33-11-4(1) & 33-41-1 et seq.	

Comments: Review methodology for this standard is sample. This standard is intended to determine if applications are complete and signed and contain the information necessary for the company to accurately underwrite the risk.

Results: Pass

Observations: The application was reviewed in the new business sample, and was found to require a signature from the proposed insured. The review of underwriting files for new business in the company's ImageRight Desktop system confirmed that the file contained the necessary information to confirm the company's coverage and exposure. In all new business files reviewed, the company obtained the underwriting information to include ISO claims history to confirm exposure and premium basis.

A random sample of sixty (60) files was selected from the two thousand nine hundred ninety-three (2,993) policies in force for detailed review.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 23: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, § F, Standard 12.
Regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.
W. Va. Code §§ 33-11-4(11) & 33-41-1 et seq.

Comments: Review methodology for this standard is sample.

This standard is intended to:

- determine if the company checks the validity of the vehicle identification number (VIN) on the application,
- if the correct symbol is used in underwriting, and,
- if the company reports and investigates suspected fraud as required.

Results: Pass

Observations: The company maintains a Special Investigations Unit. The Company orders an APLUS report that includes a motor vehicle report, credit score, verification of the VIN and loss report. The credit score is not used in underwriting.

A random sample of sixty (60) files was selected from the two thousand nine hundred ninety-three (2,993) policies in force for detailed review.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

Standard F 24: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, § F, Standard 8.
Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.
W. Va. Code §33-11-4(7)(c)

Comments: The review methodology for this standard is sample. This standard is intended to determine if decisions are made, based on information that was developed at the inception of the policy and during initial underwriting phase.

Results: Pass

Observations: Review of the sample selected indicated that the underwriting decisions were based on information included in the application and developed in the underwriting process at the inception of the policy. There was no indication of any post claim underwriting activity.

A random sample of sixty (60) files was selected from the two thousand nine hundred ninety-three (2,993) policies in force for detailed review.

New Business (Auto)

Type	Sampled	N/A	Pass	Fail	%Pass
Automobile Policies 7/24/06 to 6/30/08	60	0	60	0	100%

Recommendations: None

G. CLAIMS

Comments: The evaluation of standards in this business area are based on Company responses to information requested by the examiner, discussions with Company staff, electronic testing of claim databases, and claim file sampling during the examination process. This portion of the examination is designed to provide a view of how the Company treats claimants and whether that treatment complies with applicable statutes and rules.

Standard G 1: Claims	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 1.</i>
The initial contact by the company with the claimant is within the required time frame.	
<i>W. Va. Code § 33-11-4(9)(b) & W. Va. Code St. R. § 114-14-6</i>	

Comments: Review methodology for this standard is generic and sample. This standard derives directly from W.Va. Code §33-11-4(9) (b) which prohibits, “failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies.” West Virginia requires responses to claim communications within fifteen (15) working days of receipt of the communication.

Results: Pass

Observations: The Company's manuals and website were reviewed to determine if acceptable standards existed. The review found no exceptions. WV Code St R §114-14-5.1 requires the initial contact to be within fifteen (15) working days. Sixty (60) claims were reviewed in first and third party paid claims, sixty-seven (67) in first party closed without payment (CWOP), and thirty-eight (38) in third party CWOP. The results comply with the state-mandated fifteen (15) day requirement and W. Va. Code §33-11-4(9)(c) and W. Va. Code St R §114-14-6.1. The company's manual complies with state-mandated fifteen (15) day requirement and W. Va. Code §33-11-4(9)(c) and W. Va. Code St R §114-14-6.1.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	3	57	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	0	67	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G 2: Claims

Timely investigations are conducted.

NAIC Regulation Handbook 2008 – Chapter VIII, § G, Standard 2.

W. Va. Code § 33-11-4(9)(c) & W. Va. Code St. R. § 114-14-6

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. West Virginia requires a claim investigation be initiated within fifteen (15) working days of receipt of a notice of a claim. The concern tested is that initial contact with the claimants meets the required contact standards.

Results: Pass

Observations: The company adjuster attempts to make initial contact within 24-48 hours of notification of the loss. Initial contact is by telephone call with follow-up correspondence to insureds or claimants if necessary. The company's manual complies with the state-mandated fifteen (15) day requirement and W.Va. Code §33-11-4(9)(c) and W.Va. Code St R §114-14-6.1.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	3	57	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	0	67	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G-3: Claims Claims are resolved in a timely manner	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 3.</i> <i>W. Va. Code §33-11-4(9)(l)&(m) & W. Va. Code St. R. § 114-14-6</i>
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Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Failure to timely resolve claims can invite “bad faith” actions.

Results: Pass

Observations: These claims were reviewed for compliance with the company's standards and whether standards complied with state statutes. The company's standards and guidelines were found to be in compliance. These claims were reviewed for compliance with the company's standards and whether standards complied with state statutes.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	50	0	100%

From a total of one-thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	5	55	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	3	64	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G: 4: Claims *NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 4.*
The regulated entity responds to claim correspondence in a timely manner. *W. Va. Code § 33-11-4(9)(b) & W. Va. Code St. R. §114-14-5*

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. This standard derives directly from W. Va. Code §33-11-4(9)(b) which prohibits, “failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies.” West Virginia requires responses to claim communications within fifteen (15) working days of receipt of the communication.

Results: Pass

Observations: The company contacts the claimant within 24-48 hours unless there is an excessive volume of new claims to be handled; correspondence normally equates to a phone call. Response was timely, and notes in the claim file were briefly summarized and verified by documents in the company's ImageRight Desktop system.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	3	57	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	2	65	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G 5: Claims

Claim files are adequately documented.

NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 5.

W. Va. Code St. R. § 114-14-3. 1

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Without adequate documentation, the various time frames required by statute and/or regulation cannot be demonstrated. West Virginia requires that an insurer's claim files shall contain all notes and work papers pertaining to the claim in such detail such that pertinent events and the dates of such events can be reconstructed.

Results: Pass

Observations: Claim procedures require claim files to include pictures of the damaged property if the adjuster goes to the claim site. The review of claim files on the company's ImageRight system confirmed that the company was compliant. The company's standards and guidelines

were found to be in compliance. Documentation in claim files was sufficient to support or justify the ultimate claims determination.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	3	57	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	2	65	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G 6: Claims	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, §-G, Standard 6.</i>
Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	
	<i>W. Va. Code § 33-11-4(9) & W. Va. Code St. R. § 114-14-1 et seq.</i>

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Concerns tested with this standard include:

- That claim handling meets West Virginia statutes and rules as applied to payment of sales tax on total loss automobiles, correct payees, proper release of claims and proper payment of non-disputed claims.
- That coverage was checked for proper application of deductible or appropriate exclusionary language.

- That appropriate disclosures are given when a claim nears the applicable statute of limitations.

Results: Pass

Observations: Company procedures, training manuals and claim bulletins comply with state statutes and rules. The company has an SIU unit and fraudulent or potentially fraudulent insurance acts would be reported to the Commissioner. There were no claims involving suspected fraud during the time frame of the review.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	1	59	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	4	56	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	2	65	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G.7: Claims	NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 7.
Regulated entity claim forms are appropriate for the type of product.	W. Va. Code §33-11-4(9)

Comments: Review methodology for this standard is generic and sample. This standard does not have a direct statutory requirement. Claim forms should have appropriate content and should be used appropriately. Claim forms should provide the required fraud warning statement.

Results: Pass

Observations: There were no inappropriate forms used. Claim forms noted in file reviews included appropriate content and are used appropriately. Claim forms included required fraud warning statement.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	3	57	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	1	66	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

<p>Standard G 8: Claims <i>NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 8.</i> Claim files are reserved in accordance with the regulated entity's established procedures.</p>
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Comments: Review methodology for this standard is sample and generic. This standard is intended to determine if individual reserves are evaluated and posted and adjustments made as warranted. Examples would be noted if reserves were found to be excessive and/or inadequate.

Results: Pass

Observations: The company manual outlines the basic reserving procedures. The company provided initial reserving guides. The company's standards and guidelines for reserving claims was found to be in compliance. Claim reserves are adjusted as necessary to more accurately reflect the amount of loss. The initial reserve is determined by the company's past loss data. When actual loss was compared to the calculated reserve, it was considered acceptable.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid, sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	3	57	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	1	66	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations: None

Standard G-9: Claims	NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 9.
Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.	
	W. Va. Code § 33-11-4(9) & W. Va. Code St. R. § 114-14-6.3, 6.4 & 6.7

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Concerns tested for this standard include:

- That denied and CWOP claims are based on policy provisions and comply with West Virginia statutes and regulations.
- That notices of claim denials reference specific policy provisions or exclusions.
- That claimants are provided with a reasonable basis for the denial when required by statute or regulation.

Results: Pass

Observations: These claims were reviewed for compliance with the company's standards and whether standards complied with state statutes. The company's standards and guidelines were found to be in compliance. The notices stated the reason(s) for denial. Reasons for denial were reasonable and were based on lack of coverage or liability. Denial letters provided information for contacting both the company and the WVOIC. No claims involving suspected fraudulent activity were in the sample reviewed.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	7	60	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	0	38	0	100%

Recommendations:

<p>Standard G 10: Claims Canceled benefit checks and drafts reflect appropriate claim handling practices.</p>	<p><i>NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 10.</i> <i>W.Va. Code § 33-11-4(9) & W. Va. Code St. R. § 114-14-1, et seq.</i></p>
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Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement.

Results: Pass

Observations: The review confirmed that the company promptly mailed or delivered checks. In a few cases, the check was FedEx'd or mailed next-day delivery when the claimant requested prompt delivery; otherwise, checks were delivered first-class mail. The review of files in the company's Point system confirmed that checks include the correct payee and were for the correct

amount. The review confirmed that the checks were not listed as "final" when it was not the case. The review confirmed that the endorsements were consistent with the payee listed on the check. Checks are issued from the company's checking account, held at a local bank.

From a total of one thousand sixty-seven (1,067) first party claims paid, sixty (60) were selected for review.

First Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	0	60	0	100%

From a total of one thousand eighty-three (1,083) third party claims paid sixty (60) were selected for review.

Third Party Paid Claims

Type	Sampled	N/A	Pass	Fail	%Pass
Paid Claims 7/24/06 to 6/30/08	60	2	60	0	100%

A total of sixty-seven (67) first party closed without payment (CWOP) claims were reviewed. This represents all of the first party CWOP claims during the time frame of the examination.

First Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	67	55	12	0	100%

A total of thirty-eight (38) third party closed without payment (CWOP) claims were reviewed. This represents all of the third party CWOP claims during the time frame of the examination.

Third Party Closed Without Payment (CWOP) Claims

Type	Sampled	N/A	Pass	Fail	%Pass
CWOP Claims 7/24/06 to 6/30/08	38	14	24	0	100%

Recommendations: None

<p>Standard G 11: Claims <i>NAIC Market Regulation Handbook 2008- Chapter 16, § G, Standard 11.</i> 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. <i>W. Va. Code § 33-11-4(9)(g)</i></p>
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Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement although compliance with this standard is usually judgmental rather than objective, especially as it pertains to third party claimants. The primary concern tested was that the Company processes and handles the claim in a way that does not compel the claimant to institute a lawsuit to effect an appropriate settlement of the claim.

Results: Pass

Observations: From a total of two thousand one hundred fifty (2,150) claims a total of two hundred twenty-five (225) were selected for review. None of the files reviewed involved litigation.

Recommendations: None

Standard G-12: Claims	NAIC Market Regulation Handbook 2008 – Chapter 17, § G, Standard 1
Company uses the reservation of rights and excess of loss letters, when appropriate.	
W. Va. Code § 33-11-4(9)(a) & W. Va. Code St. R. § 114-14-4	

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement although compliance with this standard is usually judgmental rather than objective, especially as it pertains to third party claimants.

Results: Pass

Observations: The Company procedures manual provides guidelines for the use of the reservation of rights letter and notice of excess of loss. Reservation of rights letters are forwarded in instances where there is reason to question coverage. Reservation of rights letters are forwarded where it is apparent that the amount of loss will exceed policy limits. There were no exceptions noted or instances where procedures raised concerns.

Recommendations: None

Standard G-13: Claims	NAIC Market Regulation Handbook 2008 – Chapter 17, § G, Standard 2
Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.	
W. Va. Code § 33-11-4(9) & W. Va. Code St. R. § 114-14-7.3(a)	

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement.

Results: Pass

Observations: Files involving subrogation were reviewed and whenever the deductible was recovered, it was promptly remitted to the insured.

Recommendations: None

Standard G-14: Claims	NAIC Market Regulation Handbook 2008 – Chapter 17, § G, Standard 3
Loss statistical coding is complete and accurate.	

Comments: Review methodology for this standard is generic. The Company codes the correct loss data onto draft copies and their computer system.

Results: Pass

Observations: Coding manuals and programs are promptly updated and loss amounts are maintained separate from loss expense amounts. No exceptions were noted in the files reviewed.

Recommendations: None

LIST OF RECOMMENDATIONS

Recommendation A- Operations and Management – Standard 4

It is recommended that the Company conduct a mock disaster exercise. The Company should develop a formalized disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster.

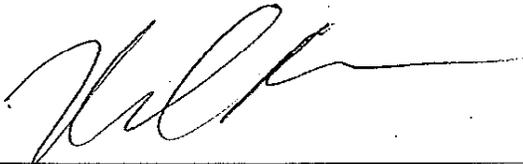
Recommendation B- Complaint Handling – Standard 2

The Company should issue a guideline to all company divisions informing them of the definition of a “complaint” and requiring each division to report any written communication received directly by them that meet the above definition for inclusion on the company’s direct complaint log.

EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, Robert D. Flege, CIE, CFE, ARA, AIRC, FLMI, ALHC, CCP, LPCS, of Clayton Consulting LLC served as Examiner-in-Charge and was assisted by Charles L. Swanson, MCM and Joe Bradford Beam, MCM who also participated in the examination.



Mark A. Hooker, CIE, CPCU, MCM, CWCP, AAI, AU, AIS, LUTCF
Chief Market Conduct Examiner
Legal Services
State of West Virginia
Offices of the Insurance Commissioner

EXAMINER'S AFFIDAVIT

State of

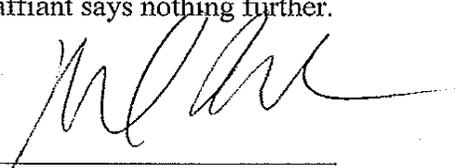
County of

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

Mark A. Hooker, being duly sworn, states as follows:

1. I have the authority to represent West Virginia in the examination of Farmers and Mechanics Fire and Casualty Insurance Company.
2. I have reviewed the examination work papers and examination report, and the examination of Farmers and Mechanics Fire and Casualty Insurance Company was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.

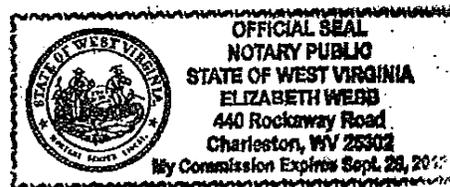


Mark A. Hooker, CIE,CPCU,MCM,CWCP,AAIAU,AIS,LUTCF
Chief Market Conduct Examiner

Subscribed and sworn before me by Mark A. Hooker, on this 18th day of August, 2010.


Notary Public

My commission expires Sept. 26, 2012 (date).





August 31, 2010

Jane L. Cline
West Virginia Insurance Commission
P. O. Box 50540
Charleston, WV 25305-0540

Dear Ms. Cline:

In regard to the Report of Market Conduct Examination of Farmers & Mechanics Fire and Casualty Insurance Company, in accordance with the provisions of Chapter 33, Article 2, and Section 9 of the West Virginia Code of 1931 as amended, this Report reflects the business and operational affairs of Farmers & Mechanics Fire and Casualty for the period ending June 30, 2008, accurately.

Pursuant to West Virginia Code 33-2-9(j)(2), we take no exception to the report as filed.

Sincerely,

E. Dennis McCormick, CPCU
President/CEO

cc. Mark A. Hooker, Chief Market Conduct Examiner



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