

PROCEEDINGS BEFORE MICHAEL D. RILEY
ACTING INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

IN RE: W. VA. FARMERS MUTUAL INSURANCE ASSOCIATION
NAIC #15431

ADMINISTRATIVE PROCEEDING
11-MAP-02006

AGREED ORDER ADOPTING REPORT OF
MARKET CONDUCT EXAMINATION, DIRECTING
CORRECTIVE ACTION AND ASSESSING PENALTY

NOW COMES, Michael D. Riley, Acting Insurance Commissioner of the State of West Virginia upon an Agreed Order which adopts the Report of Market Conduct Examination, directs corrective action and assesses a penalty as a result of findings in the Report of Market Conduct Examination for the examination of **W. VA. FARMERS MUTUAL INSURANCE ASSOCIATION** (hereinafter "FARMERS") for the examination period ending June 30, 2009 based upon the following findings, to wit:

PARTIES

1. Michael D. Riley is the Acting Insurance Commissioner of the State of West Virginia (hereinafter the "WVOIC") and is charged with the duty of administering and enforcing, among other duties, the provisions of Chapter 33 of the West Virginia Code, as amended.

2. FARMERS is a West Virginia domiciled farmer's mutual fire insurance company licensed in one state. The company principally writes personal fire, allied lines and farm owner's policies. Farmers presently has a twenty-five (25%) market share in farm owner's multi-peril premiums in West Virginia for the

year 2009. Farmers is presently licensed to transact lines of business as defined in Chapter 33, Article 22, Section 8 of the West Virginia Code.

3. Farmers is affiliated with a group of insurance companies which are located in Celina, Ohio. The principal insuring members of the group of companies are:

- The National Mutual Insurance Company (NMIC)
- The Celina Mutual Insurance Company (CMIC)
- Republic Mutual Insurance Company (RMIC)

4. The examination was based on the standards and tests for a Market Conduct Examination of a Property and Casualty Insurer set forth in chapters 16 and 17 of the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook and on applicable West Virginia statutes, rules and law.

FINDINGS OF FACT

1. The Market Conduct Examination covered the period of the Company's operations, as of June 30, 2009 and was conducted in accordance with West Virginia Code § 33-2-9 by examiners duly appointed by the Insurance Commissioner. The examination began on December 14, 2009 and concluded on June 16, 2011. The examination was conducted at West Virginia Farmers Mutual Insurance Association, Celina, Ohio.

2. On June 28, 2011, 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 June 30, 2011, a true copy of the Report of Market Conduct examination was sent to FARMERS by certified mail and was received by

FARMERS on July 7, 2011.

4. On June 30, 2011, FARMERS 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. On July 27, 2011, FARMERS responded to the Report of Market Conduct Examination, with one comment with regards to Standard G9 but essentially agreed with findings.

6. The examination covered thirty-five (35) standards and the Company passed thirty-four (34) standards and failed one (1) standard. Three (3) additional areas warranted a recommendation. The major area of concern is within Standard G-9. The Company provided a listing of eighty-three (83) claims closed without payment. A review was made of sixty (60) claims closed without payment. Six (6) of the sixty (60) files reviewed contained denial letters to the complainant and those letters did not contain contact information for the West Virginia Offices of the Insurance Commissioner, which is not in compliance with W. Va. Code St. R. §114-14-6.17.

7. It is recommended that FARMERS include West Virginia Offices of the Insurance Commissioner contact information in its communications with consumers when sending denial letters, pursuant to W. Va. Code St. R. §114-14-6.7.

8. It is recommended that FARMERS record all complaints, direct and WVOIC received, in the required format in the Company's complaint register, pursuant to W. Va. Code § 33-11-4(10).

9. It is recommended that FARMERS follow procedures now in place to

avoid errors noted above and to reconcile their agent list with that maintained by the West Virginia Offices of the Insurance Commission at least once a year.

10. It is recommended that the company retain copies of all termination notices to producers.

11. FARMERS hereby waives additional notice and review of the Report of Market Conduct Examination, notice of administrative hearing, any and all rights to an administrative hearing, and to appellate review of any matters contained herein this Agreed Order.

12. 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. The examination revealed That FARMERS has incurred violations of West Virginia Code §33-11-4(9)(e) and (n) and West Virginia Code St. R. § 114-14-6.3,6.4, and 6.17.

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 FARMERS as well as all other provisions of regulation that FARMERS 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 and adopted in the previous section.

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 FARMERS'S Response thereto, the Insurance Commissioner and FARMERS 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 and an administrative penalty against FARMERS as set forth below.

It is accordingly **ORDERED** as follows:

(A) The Report of Market Conduct Examination of FARMERS for the period ending June 30, 2009, is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner.

(B) It is **ORDERED** that FARMERS will comply with the statutes, rules and regulations of the State of West Virginia concerning any business so handled in this State and more specifically the provisions enumerated herein this Order and/or the Report of Market Conduct Examination adopted herein where applicable.

(C) It is further **ORDERED** that FARMERS shall continue to monitor its compliance with the West Virginia Code, the West Virginia Code of State Rules and all laws it is subject thereto.

(D) It is further **ORDERED** that within thirty (30) days of the next regularly scheduled meeting of its Board of Directors, FARMERS 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, DIRECTING CORRECTIVE ACTION AND ASSESSING PENALTY.

(E) It is further **ORDERED** that FARMERS shall ensure compliance with the West Virginia Code and the Code of State Rules. FARMERS shall specifically cure those violations and deficiencies identified in the Report of Market Conduct including providing appropriate restitution (where applicable) or other handling of the issue so as to bring the violations into compliance and conformity with the Commissioner's recommendations and any applicable law(s).

(F) It is further **ORDERED** that FARMERS shall file a Corrective Action Plan which will be subject to the approval of the Insurance Commissioner. The Corrective Action Plan shall detail FARMERS' changes to its procedures and/or internal policies to ensure compliance with the West Virginia Code and incorporate all recommendations of the Insurance Commissioner's examiners and address all violations specifically cited in the Report of Market Conduct Examination. The Corrective Action Plan outlined in this Order must be submitted to the Insurance Commissioner for approval within thirty (30) days of the entry date of this Agreed Order. FARMERS shall implement reasonable changes to the Corrective Action Plan if requested by the Insurance Commissioner within thirty (30) days of the Insurance Commissioner's receipt of the Corrective Action Plan. The Insurance Commissioner shall provide notice to FARMERS if the Corrective Action Plan is disapproved and the reasons for such disapproval within thirty (30) days of the Insurance Commissioner's receipt of the Corrective Action Plan.

(G) The Insurance Commissioner has determined and it has been agreed by FARMERS and therefore, it is hereby **ORDERED** that FARMERS shall

pay an administrative penalty to the State of West Virginia in the amount of Five Hundred dollars (\$500.00) for noncompliance with the West Virginia Code as described herein. The payment of this administrative penalty is in lieu of any other regulatory penalty, and is due within **THIRTY (30) calendar days** upon execution of this Order.

(H) 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 **W.VA. FARMERS MUTUAL INSURANCE ASSOCIATION**.

ENTERED THIS 11th DAY OF October, 2011



Michael D. Riley, Acting Commissioner
West Virginia Offices of the Insurance Commissioner

REVIEWED AND AGREED TO BY:
WEST VIRGINIA OFFICE OF THE INSURANCE COMMISSIONER:



Andrew R. Pauley, Associate Counsel
Attorney Supervisor, APIR

Date: 10/7/11

W. VA. FARMERS MUTUAL INSURANCE ASSOCIATION

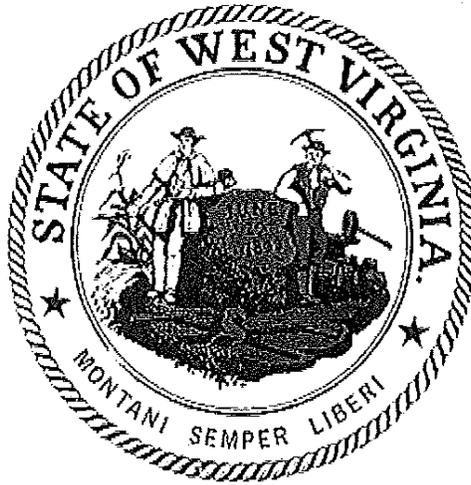
BY: William W. Montgomery

ITS: (PRINT NAME) President & CEO

SIGNATURE: William W. Montgomery

DATE: 10.3.11

REPORT OF MARKET CONDUCT EXAMINATION



W. VA. FARMERS MUTUAL INSURANCE ASSOCIATION

CELINA, OHIO

AS OF JUNE 30TH, 2009

NAIC COMPANY CODE: 15431

EXAMINATION NUMBER: WV014-M21

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June 28, 2011

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 30th, 2009 of the business affairs of

West Virginia Farmers Mutual Insurance Association
1 Insurance Square
Celina, Ohio 45822

hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

PREVIOUS EXAMINATION

The Offices of the West Virginia Insurance Commission previously conducted a comprehensive market conduct examination of the Company as of December 31, 2003 pursuant to the Insurance Commissioner's statutory obligation to examine each West Virginia domestic insurance company every five (5) years. Business areas reviewed and tested included Company Operations/Management, Complaint Handling, Marketing/Sales, Producer Licensing, Policyholder Services, Underwriting and Claims.

There were five (5) recommendations from the following areas:

- Operations and Management—two (2)
- Complaints- one (1)
- Underwriting- two (2)

In this previous examination, the following was noted:

Recommendation A-7

It appears the Company has complied with this recommendation.

Recommendation A-8

It appears the Company has complied with this recommendation.

Recommendation B-2

It appears the Company has substantially complied with this recommendation, however during review of claim files it was noted a written complaint to the Company was included in the claim file, but was not included in the Complaint Listing as recommended by the previous examination.

Recommendations D-2

It appears the Company has complied with this recommendation.

Recommendations D-3

It appears the Company has complied with this recommendation.

EXECUTIVE SUMMARY

West Virginia Farmers Mutual Insurance Association is a property and casualty insurer primarily writing personal and commercial property insurance in the state of West Virginia. Thirty-five (35) standards were tested during the examination; the Company passed thirty-four (34) and failed one (1). Three (3) additional areas warranted a recommendation. The major area of concern is:

- The Company was not including Insurance Commissioner contact information in claim denial notices.

A small number of non-compliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the West Virginia insurance laws and regulations.

SCOPE OF EXAMINATION

The examination field work began December 14, 2009. 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. Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and still others have contractual guidelines.

The basic business areas that were examined under this examination were:

- Operations and Management
- Complaints
- Marketing and Sales
- Producer Licensing
- Policyholder Services
- Underwriting
- Claims

The examination included an analysis of how the Company communicates its instructions and intentions to its operating units, 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 measurement and monitoring activities. The examination is also designed to determine whether this process is dynamic and results in enhanced compliance activities. Most areas are tested to see if the Company is in compliance with West Virginia statutes and rules.

HISTORY AND PROFILE

The West Virginia Farmers Mutual Insurance Association (WVFMIA) is a West Virginia domiciled farmers mutual fire insurance company licensed in one state. The company principally writes personal fire and allied lines and farm owner's policies. WVFMIA presently enjoys a twenty-five percent (25%) market share in farm owner's multi-peril premiums in West Virginia for the year 2009.

The Company was incorporated under the laws of the State of West Virginia on March 24, 1909 as a mutual assessable company and commenced writing business on the same date. In 1961, the bylaws were amended to make the Company a perpetual mutual. It is presently licensed to transact lines of business as defined in Chapter 33, Article 22, Section 8 of the West Virginia Code.

The Company is affiliated with a group of insurance companies which are located in Celina, Ohio. The principal insuring members of the group of companies are:

- The National Mutual Insurance Company (NMIC)
- The Celina Mutual Insurance Company (CMIC)
- Republic Mutual Insurance Company (RMIC)

The Company and the above companies collectively are known as "the Celina Group". WVFMIA has a long standing service agreement with the Celina Group companies. Specifically, NMIC provides all personnel and data processing services to perform underwriting, claims adjusting, accounting, investment and other services to conduct day-to-day operations for WVFMIA.

METHODOLGY

This examination is based on the standards and tests for a Market Conduct Examination of a Property and Casualty Insurer set forth in Chapters 16 and 17 of the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook and on applicable West Virginia statutes and rules.

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

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 selected using automated sampling software. The sampling techniques used are based on a ninety-five percent (95%) confidence level with *Poisson* distribution---meaning sample sizes are generally the same without regard to population. For evaluation purposes, an error tolerance level of seven percent (7%) was used for claims and a ten percent (10%) tolerance was used for other types of review.

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

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

Standards were measured using tests designed to adequately measure how the Company met certain benchmarks. 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 applied is described and the result of testing is provided under the appropriate standard. Each standard is accompanied by a "Comment" describing the purpose or reason for the standard; Examiner "Observations" are noted; "Results" are indicated; and in some cases, a "Recommendation" is made.

A. OPERATIONS AND MANAGEMENT

The 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 provide a view of what the Company is and how it operates and is not based on sampling techniques, but rather the Company's structure. This review is not intended to duplicate a financial examination review but is important in establishing an understanding of the examinee. 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 these processes or the ineffective application of them is often reflected in failure of the various Standards tested throughout the examination. Many companies have become troubled because management has not been structured to adequately recognize and address problems that can arise. 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

NAIC Market Regulation Handbook – Chapter XVI, § A Standard 1

The company has an up-to-date, valid internal or external audit program.

W.Va. Code §§ 33-33-3 & 33-33-4

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. A company that has no internal audit function lacks the ready means to detect structural problems until after 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 has developed a policy of conducting claims audits. In addition, their reinsurers perform claims and underwriting audits on an annual basis, reviewing a sample of policies under each line of business. The Company also creates an internal financial operating statement each month, accompanied by a synopsis and report.

Recommendations: None.

Standard A 3*NAIC Market Regulation Handbook – Chapter XVI, § A, Standard 3***The company has antifraud initiatives which are reasonably calculated to detect, prosecute and prevent fraudulent acts.***W.Va. Code §§33-41-1, et seq.*

Comments: The review methodology for this standard is generic and sample. 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 anti-fraud 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 developed and implemented antifraud initiatives which are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts. The review of the Company's Fraud Prevention Policy determined the Company has procedures in place to provide information regarding fraudulent insurance acts. The written antifraud plans are sufficient in detail and does enable the employees to perform their functions in accordance with the goals and direction of management. The plans are up-to-date, and in compliance with statutes, rules, and regulations. The Company's antifraud plans have been submitted to the Commissioner.

Recommendations: None.

Standard A 4*NAIC Market Regulation Handbook – Chapter XVI, § A, Standard 4***The company has a valid disaster plan in place.***W.Va. Code §§33-41-1, et seq.*

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. Written procedural guides should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management in the event of a disaster. Appropriate assignment of disaster duties 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.

Results: Pass.

Observations: The Company has developed and implemented a disaster plan including detailed assignment of duties that are reasonably calculated to aid, protect, and assist both the insured and the Company in the event of a disaster. The review of the Company's Disaster Policy determined the Company has procedures in place to protect Company assets and the ability of the Company to assist its insured. The written disaster plans are sufficient in detail and does enable the employees to perform their functions in accordance with the goals and direction of management. The plans are up-to-date, and in compliance with statutes, rules, and regulations. The off-site record backup system is also part of the disaster plan as well.

Recommendations: None.

Standard A 7 Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.	<i>NAIC Market Regulation Handbook – Chapter XVI, § A, Standard 7</i> <i>W. Va. Code § 33-11-4 & W. Va. Code St. R. § 114-14</i>
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Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. This standard is intended 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:

Records are found to be generally adequate, accessible, consistent and orderly. Length of record retention complies with state statutes; however some exceptions were noted in Standards B1, D1 and D-3.

Recommendations: See recommendations B1, D1 and D 3.

Standard A 8 The company is licensed for the lines of business that are being written.	<i>NAIC Market Regulation Handbook – Chapter XVI, § A, Standard 8</i> <i>W. Va. Code § 33-22-8</i>
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Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is intended to assure that the Company operations are in conformity with the Company's certificate of authority.

Results: Pass.

Observations: W. Va. Code § 33-22-8(a)-(c) as amended, specifies any company subject to the provisions of this article may issue the following types of policies of insurance:

(a)(1) Fire insurance, which is insurance on real or personal property of every kind and interest therein, against loss or damage from any or all hazard or cause and against loss consequential upon such loss or damage, other than non-contractual liability for the loss or damage;

(2) Loss or damage by insects or disease to farm crops or products and loss of rental value of land used in producing those crops or products;

(3) Loss or damage to domestic farm animals by dogs or wild animals;

(4) Loss or damage to property by burglary, theft, larceny, robbery, vandalism, malicious mischief or wrongful conversion, or any attempt at any of the foregoing;

(5) Personal property floater insurance, which is insurance upon personal effects against loss or damage from any cause; and

(6) Glass insurance, which is insurance against loss or damage to glass, including its ornamentation and fittings.

(b) In addition to the policies of insurance permitted by subsection (a) of this section, a company may apply to the commissioner for an extension of its license and upon complying with reasonable standards established by the commissioner to assure the solvency of the company and the protection of its policyholders, may, in the discretion of the commissioner, be granted an extension of its license upon such conditions and for such period as the commissioner may prescribe to permit the company to issue policies of insurance on risks insuring against one or more of the following:

Legal liability for the death, injury or disability of any human being, or for damage to property, excluding liability resulting from the ownership, maintenance or use of vehicles or aircraft; and provisions for medical, hospital, surgical and disability benefits to injured persons and funeral and death benefits to dependents, beneficiaries or personal representatives of persons killed, irrespective of legal liability of the insured, when issued as an incidental coverage with or supplemental to the liability coverage. For the purposes of this subsection, the term "vehicle" does not include a "farm tractor", "implement of husbandry", as defined in section one, article one, chapter seventeen-a of this code; a "wheelchair", as defined in section sixty-five,

article one, chapter seventeen-c of this code and any similar vehicle used by persons with disabilities; a "golf cart" while used for golfing; or other motorized vehicle used to service the premises.

(c) The commissioner may, for good cause shown or on application of the company, limit the license of a company to make insurance to any one or more of the perils or coverage's set forth in subsection (a) or (b) of this section.

Issues of noncompliance reported in the last examination report have been cured as a result of subsequent changes to the law. Policy coverage's appear to be within the Company's certificate of authority.

Recommendations: None.

Standard A 9 The company cooperated with the examiners during the course of the examination.	<i>NAIC Market Regulation Handbook – Chapter XVI, § A, Standard 9</i> <i>W. Va. Code § 33-22-8</i>
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Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. Cooperation between the examiners and Company personnel is imperative when conducting an examination. Any direction on the part of the Company to the contrary would be detrimental to the process and the statutory duty of the Commissioner.

Results: Pass.

Observations: The Company personnel were cooperative and assisted the examiners in the examination process as requested. There was no evidence of the Company not cooperating during the field work phase of the examination or at any other time.

Recommendations: None.

Standard A 12 The company has policies protecting privacy of information.	<i>NAIC Market Regulation Handbook – Chapter XVI, § A, Standard 12</i> <i>W. Va. Code § 33-22-8</i>
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Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. A company that has no internal controls or safeguards for its data function lacks the ready means to detect structural problems until after problems have

occurred. A valid program of controls and safeguards is a key indicator of competency of management, which the Commissioner may consider in the review of an insurer.

Results: Pass.

Observations: The Company has developed a policy of establishing and maintaining current up-to-date safeguards for computer data and systems. In addition, they establish firewalls and required passwords at various levels to ensure security. Central backup and security measures include state of the art technology and include off-site real-time backup systems. Changes in the system cannot be made without approval of a staff committee.

Recommendations: None.

B. COMPLAINT HANDLING

Evaluations of the standards in this business area are based on Company responses to various information requests and complaint files at the Company. In this business area, "complaints" include "grievances." W. Va. Code § 33-11-4(10) requires the Company to "...maintain a complete record of all the complaints which it has received since the date of its last examination." The statute also requires that "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." The definition of a complaint is: "...any written communication primarily expressing a grievance."

Standard B 1

NAIC Market Regulation Handbook – Chapter XVI, § B, Standard 1

All complaints are recorded in the required format on the company complaint register.

W. Va. Code § 33-11-4(10)

Comments: The review methodology for this standard is sample and generic. 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 with recommendations

Observations: Complaints and grievances are received at the Company’s home office and the Offices of the Insurance Commissioner (OIC). During this examination, it was noted that, as required, the Company maintains a spreadsheet of complaints it receives from the OIC. However, the Company failed to record or maintain a complaint register for all of the complaints it received directly (“direct Company complaints”). The review determined the Company failed to record one (1) direct Company complaint. It must also be noted that complaints found in the general claim file review did not appear as noted on the Company Complaint Log. The claim file in question was not one of the three (3) claims files supplied by the Company for review, but part of the general claim review process.

Table B 1 - Complaints Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Personal Lines	3	0	3	0	100

Recommendations: It is recommended that the Company record all complaints, direct and DOI received, in the required format in the Company’s complaint register, pursuant to W. Va. Code §33-11-4(10).

<p>Standard B 2 The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.</p>	<p><i>NAIC Market Regulation Handbook – Chapter XVI, § B, Standard 2</i> <i>W. Va. Code §33-11-4(10) & W. Va. Code St. R. § 114-14-5. 3</i></p>
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Comments: The review methodology for this standard is generic. This standard is implied in the statutes. This standard is concerned with whether the Company has an adequate complaint handling procedure and whether the Company communicates complaint handling procedures to its members.

Results: Pass.

Observations: The Company has a well-stated process and procedure for handling complaints. Communication of the process is made at the time that a complaint is made and not as a form of notice in the insurance contract. All correspondence appears to be clear, concise and appropriately recorded.

Recommendations: None.

<p>Standard B 3 The company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.</p>	<p><i>NAIC Market Regulation Handbook – Chapter XVI, § B, Standard 3</i> <i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5. 2</i></p>
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Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement, however reasonable disposition is inferred by the fact that disposition information is required to be noted in the complaint log. This standard is concerned with whether the Company deals with the subject matter in a complaint/grievance.

Results: Pass.

Observations: All three (3) complaints received through the OIC and reported in the Company's complaint log for the exam period were reviewed. The review tested the quality of the handling of the subject matter in the complaint and whether issues raised were fully addressed by responses. The review determined the Company fully addressed all issues raised in the three (3) complaints.

Table B 3 - Complaints Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009	3	0	3	0	100

Recommendations: None.

<p>Standard B 4 The time frame of a response was within statutes, rules and regulations, company requirements and contract language.</p>	<p><i>NAIC Market Regulation Handbook – Chapter XVI, § B, Standard 4</i> <i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.2</i></p>
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Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement, however reasonable disposition is inferred by the fact that disposition information is required to be noted in the complaint log. This standard is concerned with whether the Company deals with the subject matter in a complaint/grievance.

Results: Pass.

Observations: All three (3) complaints received through the OIC and reported in the Company's complaint log for the exam period were reviewed. The review tested the time frame of the responses. The review determined the Company fully complied within the required timelines.

Recommendations: None.

C. MARKETING AND SALES

The evaluation of standards is based on review of Insurance Commission and Company responses to information requests, questions, interviews, and presentations made to the examiners. 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 may be tested through sampling. The areas to be considered in this kind of review include all media, written and verbal advertising and sales material.

Standard C 1 Advertising and sales materials comply with statutes and rules.	<i>NAIC Market Regulation Handbook – Chapter XVI, § C, Standard 1</i> <i>W. Va. Code § 33-11-4(1), (2) & W. Va. Code St. R. § 114-14-1 et seq.</i>
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Comments: Review methodology for this standard is sample and 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: The Company provided a copy of all advertising material used during the examination period. Advertising material included brochures describing the different coverages the Company offers and brochures educating insureds of ways to safeguard their property.

The Company does no "invitation to contract" advertising. Specific references or identification of policy benefits, costs, exceptions or limitations are not included in the advertising used by the Company. The advertising material made no unfair or incomplete comparisons with other policies. The advertising materials did not make any false, deceptive or misleading statements or representations

Recommendations: None.

Standard C 2 Company internal producer training materials are in compliance with applicable statutes, rules and regulations.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 2</i> <i>W. Va. Code § 33-11-4 & W. Va. Code St. R. § 114-14-1, et seq.</i>
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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: The Company has no formal training materials or manual for producers. Agent training includes direction on the use of underwriting guidelines and policy rating. The Company requires all producer prepared advertising material be approved by the Company prior to use. Training materials were in compliance with statutes and rules. No exceptions were noted.

Recommendations: None.

<p>Standard C 3 Company communications to producers are in compliance with applicable statutes, rules and regulations.</p>	<p>NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 3 <i>W. Va. Code § 33-11-4 & 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. 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. No errors were noted here.

Results: Pass

Observations: Communications between the Company and its agents are normally accomplished through bulletins. The examiners reviewed these types of communications including those found in the policy files for adherence to both the West Virginia Unfair Trade Practices Act and the West Virginia Unfair Claims Settlement Practices Act; no exceptions were noted here.

Recommendations: None.

D. PRODUCER LICENSING

The evaluation of standards is based on a review of OIC 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 Company records of licensed and appointed (if applicable) producers agree with department of insurance records.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 1</i> <i>W. Va. Code § 33-12-3 & W.Va. Code St. R. § 114-2-1, et seq.</i>
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Comments: 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 states, “No person shall in West Virginia act as or hold himself out to be an agent, broker or solicitor nor shall any person in any manner solicit, negotiate, make or procure insurance covering subjects of insurance resident, located or to be performed in West Virginia, unless then licensed therefore pursuant to this article.” The section further states, “No insurer shall accept any business from any agent who does not then hold an appointment as agent for such insurer pursuant to this article.”

Table D 1 - Agents Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009	62	0	62	0	100

Results: Pass with recommendation

Observations: The Company’s list of currently appointed producers was reconciled with the records of the OIC. One agent shown as active on the Company agent list was actually not renewed and was shown as terminated by the OIC. This producer never received notice of termination from the Company.

Recommendation: It is recommended the Company follow procedures now in place to avoid errors noted above and to reconcile their agent list with that maintained by the Insurance Commission at least once a year.

Standard D 2 The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 2.</i> <i>W. Va. Code § 33-12-18</i>
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Comments: Review methodology for this standard is sample. This standard has a direct statutory requirement. It 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 Company utilizes independent agents to market and solicit insurance products in West Virginia. A review of sixty-two (62) new business policy files determined that no policies were produced by non-appointed agents.

Table D 2 - Producer Licensing Sample Results						
Type	Population	Sampled	N/A	Pass	Fail	% P ass
2008-2009 New Business Policies	289	62	0	62	0	100%

Recommendations: None.

<p>Standard D 3 Termination of producers complies with statutes regarding notification to the producer and notification to the state, if applicable.</p>	<p><i>NAIC Market Conduct Examiners Handbook - Chapter VIII, § D, Standard 3.</i> <i>W. Va. Code § 33-12-25 & W. Va. Code St. R. §114-2-1, et seq.</i></p>
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Comments: Review methodology for this standard is generic. 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 with recommendation.

Observations: The Company terminated sixty (60) producers during the exam period. Only one (1) file did not contain a copy of a termination notification letter to the individual producer as required by W.Va. Code § 33-12-25(d) (1).

Table D 3 Producer Terminations Letters					
Type	Population	N/A	Pass.	Fail	% Pass
Producer Termination	60	0	59	1	98%

Recommendations: It is recommended that the Company retain copies of all termination notices to producers.

Standard D 4 The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholder.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 4.</i> <i>W. Va. Code § 33-11-4(7)</i>
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Comments: 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: The Company's agents can be found throughout the State of West Virginia. No unfair discrimination against policyholders can be inferred by the Company's producer appointment and termination records.

Recommendations: None.

E. POLICYHOLDER SERVICE

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 Premium and billing notices sent out with advance notice.	<i>NAIC Market Conduct Examiners Handbook – Chapter XVII, § II, Standard 2</i>
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Comments: Review methodology for this standard is generic and sample. There is no direct statutory requirement. This standard is intended to provide the insured with information in a timely fashion so they can make informed decisions.

Results: Pass.

Observations: A sample of sixty (60) newly issued policy files was reviewed to determine the time required by the Company to issue policies. The date the application was signed by the producer and the date the Company issued the policy were captured. The Company sent out premium and billing notices with advance notice in all cases reviewed.

Recommendations: None.

Standard E 2 Policy issuance is timely.	NAIC Market Conduct Examiners Handbook - Chapter XVII, § H, Standard 2
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Comments: Review methodology for this standard is generic and sample. There is no direct statutory requirement. This standard is intended to provide the insured with information in a timely fashion so they can make informed decisions.

Results: Pass.

Observations: The Company provided a listing of 578 policies issued within the timeframe of the examination. A sample of sixty (60) newly issued policy files was reviewed to determine the time required by the Company to issue policies. The date the application was signed by the producer and the date the Company issued the policy were captured. The Company issued the policy within thirty (30) days in fifty eight (58) of the sixty (60) policy files tested.

Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 New Business Policies	60	0	58	2	97%

Recommendations: None.

Standard E 3 All correspondence to the Company is responded to timely.	NAIC Market Conduct Examiners Handbook - Chapter XVII, § H, Standard 2
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Comments: Review methodology for this standard is generic and sample. There is no direct statutory requirement. This standard is intended to provide the insured with information in a timely fashion so they can make informed decisions.

Results: Pass.

Observations: During the review of records, the examiners found that the company responded to all correspondence in a timely manner.

Recommendations: None.

Standard E 5 Policy transactions are processed accurately and timely.	<i>NAIC Market Conduct Examiners Handbook - Chapter XVII, § H, Standard 5</i>
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Comments: Review methodology for this standard is generic and sample. There is no direct statutory requirement. This standard is intended to provide the insured with information in a timely fashion so they can make informed decisions.

Results: Pass.

Observations: No delays were noted during the review process of policy records.

Recommendations: None.

F. UNDERWRITING AND RATING

The evaluation of standards in this business area is 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 is in compliance 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 The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.	<i>NAIC Market Conduct Examiners Handbook - Chapter VIII, § F, Standard 1</i>
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W. Va. Code § 33-11-4(7) & W. Va. Code § 33-22-9

Comments: This standard is not a direct statutory requirement. It is file specific. It is necessary to determine if the Company is in compliance with the rating systems, which have been filed with and approved by the OIC. Although Farmers Mutual Fire Insurance Companies are not required to file rates with the OIC, rates should not be unfairly discriminatory. 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: The Company provided a listing of 578 policies issued within the timeframe of the examination. A sample of sixty (60) new issue policy files was reviewed and the premium re-calculated to determine if the Company was following their underwriting guidelines. The Company consistently followed its underwriting and rating guidelines. No exceptions were noted.

Recommendations: None.

Standard F 3 *NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 2*
 Company does not permit illegal rebates, commission cutting or inducements. *W. Va. Code § 33-11-4(8)*

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: A review of sixty (60) new issue policy files, as well as the agents' commission files, found no evidence of rebating or commission cutting. All agents are paid the same percentage commission on all premiums received by the Company no matter the type of policy or coverage.

Table F 3 Underwriting and Rating Practices						
Type	Population	Sampled	N/A	Pass	Fail	% Pass
2004-2006 New Business Policies	578	60	0	60	0	100%

Recommendations: None.

Standard F 6 *NAIC Market Regulation Handbook – Chapter 17, § F, Standard 6*
Policies, forms and endorsements are issued correctly and timely.

Comments: Review methodology for this standard is generic and sample. There is no direct statutory requirement. This standard is intended to provide the insured with information in a timely fashion so they can make informed decisions.

Results: Pass.

Observations: Policies, forms and endorsements were issued correctly and timely in the files reviewed.

Table F 6 Underwriting and Rating Practices						
Type	Population	Sampled	N/A	Pass	Fail	% P ass
2008-2009 New Business Policies	578	60	0	60	0	100%

Recommendations: None.

Standard F 7 *NAIC Market Regulation Handbook – Chapter 17, § F, Standard 7*
Rejections and declinations are not unfairly discriminatory.
W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. Insurers must apply their field rules for rejections and declinations on a non-discriminatory basis. Consistency is the key in avoiding the appearance or actuality of unfair discrimination.

Results: Pass.

Observations: No evidence of illegal discrimination was found in the review of the declinations and rejections.

Recommendations: None.

Standard F 9 *NAIC Market Regulation Handbook – Chapter 17, § F, Standard 9*
Recessions are not made for non material misrepresentations.
W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. Insurers must apply their field rules for recessions with no consideration for non material misrepresentations. As part of the claim review, no post claim underwriting activity was noted which would indicate recessions were being done.

Results: Pass.

Observations: No evidence of illegal recessions was noted in the review. The Company advised the examiners that recessions were not done by the Company, but rather the policy would be set up for underwriting review and possible cancelation upon the expiration date of the policy.

Recommendations: None.

G. CLAIMS PRACTICES

The evaluation of standards in this business area is based on Company responses to information items requested by the examiner, discussions with Company staff, electronic testing of claim databases, and 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 is in compliance with applicable statutes and rules.

Standard G 1 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. § 114-14-5.3</i>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 1</i>
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Comments: Review methodology for this standard is generic, sample, and electronic. 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 claims review indicated contact was made timely with the claimant within the required time frame.

Recommendations: None.

Standard G 2
Timely investigations are conducted.

NAIC Market Regulation Handbook – Chapter XVI, § G, Standard 2

W. Va. Code § 33-11-4(9) (C) & W. Va. Code St. R. § 114-14-6.1

Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. West Virginia requires claim investigation be initiated within fifteen (15) working days of receipt of notice of claim.

Results: Pass.

Observation: The Company provided a listing of 340 paid claims and 83 claims closed without payment for the timeframe of the examination. A sample of sixty (60) paid claims and sixty (60) claims closed without payment determined that all claim investigations commenced within the proper timeframe.

Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Claims paid	60	0	60	0	100
2008-2009 Claims not paid	60	0	60	0	100
Totals	120	0	120	0	100

Recommendations: None.

Standard G 3
Claims are resolved in a timely manner.

NAIC Market Regulation Handbook – Chapter 16, § G, Standard 3

W. Va. Code § 33-11-4(9)(L)&(M) & W. Va. Code St. R. § 114-14-6.2 & 6.9

Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. Failure to timely resolve claims can invite “bad faith” actions. In a company setting, failure to timely resolve claims can result in a migration of providers from the network with resultant disruption of service to members.

Results: Pass.

Observations: The Company provided a listing of 340 paid claims and 83 claims closed without payment for the timeframe of the examination. A sample of sixty (60) paid claims and sixty (60) claims closed without payment determined that all claims were resolved within the proper timeframe. A time study was performed to determine the time it took the Company to resolve the claim. No exceptions were noted.

Table G 3 - Claims Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Claims paid	60	0	60	0	100
2008-2009 Claims not paid	60	0	60	0	100
Totals	120	0	120	0	100

Recommendations: None.

Standard G 4	NAIC Market Regulation Handbook – Chapter 16, § G, Standard 4
The company responds to claim correspondence in a timely manner.	
	W. Va. Code § 33-11-4(9)(b) & W. Va. Code St. R. § 114-14-5.3

Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. West Virginia requires a response to claim communications within fifteen (15) working days of receipt of the communication.

Results: Pass.

Observations: The Company provided a listing of 340 paid claims and 83 claims closed without payment for the timeframe of the examination. A sample of sixty (60) paid claims and sixty (60) claims closed without payment determined that all claims' correspondence met state requirements without exception. The Company's claim procedures manual, as well as other procedures, requires that claim correspondence be handled in a timely manner. The Company's claims handling procedures are in compliance with state requirements. No exceptions were noted.

Table G 4 - Claims Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Claims paid	60	0	60	0	100
2008-2009 Claims not paid	60	0	60	0	100
Totals	120	0	120	0	100

Recommendations: None.

Standard G 5	NAIC Market Regulation Handbook – Chapter 16, § G, Standard 5
Claim files are adequately documented.	
	W. Va. Code St. R. § 114-14-3.1

Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. Without adequate documentation, the various

timeframes required by statute and/or regulation cannot be demonstrated. West Virginia requires that an insurer's claim files 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.

Result: Pass.

Observations: The Company provided a listing of 340 paid claims and 83 closed without pay claims for the timeframe of the examination. A sample of sixty (60) paid claims and sixty (60) claim files closed without payment contained adequate file documentation. However, one claim within the first-party sample did not contain sufficient information regarding the claim's payment resolution.

Table G 5 - Claims Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2002-2007 First-party	60	0	59	1	98
2002-2007 Third-party	60	0	60	0	100
Totals	120	0	119	1	99

Recommendations: None.

<p>Standard G 6 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.</p>	<p>NAIC Market Regulation Handbook – Chapter 16, § G, Standard 6 W. Va. Code § 33-11-4(9)</p>
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Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement.

Result: Pass.

Observations: The Company provided a listing of 340 paid claims and 83 claims closed without payment for the timeframe of the examination. A sample of sixty (60) paid claims and sixty (60) claim files closed without payment determined the claims handling process meets state-specific statutes and regulations as applied to total loss evaluations, sales tax payment, disposition of salvage, correct payees, improper release of claims, proper payment of non-disputed claims and proper referral of suspicious claims. The review determined the claims coverage was verified for proper application of deductible or appropriate exclusionary language. No exceptions were noted.

Table G 6 - Claims Sample Results					
Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Claims paid	60	0	60	0	100
2008-2009 Claims not paid	60	0	60	0	100
Totals	120	0	120	0	100

Recommendations: None.

Standard G 9 Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.	<i>NAIC Market Regulation Handbook – Chapter 16, § G, Standard 9</i> <i>W. Va. Code § 33-11-4(9) (e) & (n) & W. Va. Code St. R. § 114-14-6.3, 6.4 & 6.17</i>
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Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement.

Results: Fail.

Observations: The Company provided a listing of 83 claims closed without payment. A review was made of sixty (60) claims closed without payment.

It was noted that six (6) of the sixty (60) files reviewed contained denial letters to the complainant and those letters did not contain contact information for the OIC. This is not in compliance with the W. Va. Code St. R. §114-14-6.17.

Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Claims not paid	60	0	54	6	90
Totals	60	0	54	6	90

Recommendations: It is recommended that the Company include the contact information for the OIC in all correspondence to complainants where a denial is included.

Standard G 12 Company uses the reservation of rights and excess of loss letters, when appropriate.	<i>NAIC Market Regulation Handbook – Chapter XVII, § G, Standard 12</i> <i>W. Va. Code § 33-11-4(9) (e) & W. Va. Code St. R. § 114-14-6.5</i>
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Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Concerns tested for this standard include:

- The Company has reason to question coverage and has the reservation of rights been sent.
- Has excess of loss letter been sent when it is apparent that loss will exceed policy limits.

Results: Pass.

Observations: A review was conducted to determine if Company guidelines exist for the use of the reservation of rights letter. The Company's procedure for the use of the reservation of rights letter is documented. The procedures direct the claims personnel to use the reservation of rights letter when there is doubt as to whether coverage is going to be an issue. It is the Company's standard operating procedure to proceed with the non-waiver or reservation of rights letter in claims that might involve a potential coverage issue.

The Company's procedures for sending the notice of excess loss letter determined guidelines exist. The Company sends the excess of loss letter if, during the course of a claim, investigation information is developed that indicates the coverage limit for the policy in question may not be sufficient to indemnify an injured party for the damages sustained. The procedures require that the "Excess Letter" is immediately prepared and forwarded to the insured via certified mail. The purpose of the "Excess Letter" is to notify the insured that personal assets may be at risk if the claim cannot be resolved within the policy limits as well as their right to hire personal counsel at their expense to monitor the claim.

No exceptions were noted. No instance of abuse or misuse of the excess loss letter was noted in the review.

Type	Sampled	N/A	Pass	Fail	% Pass
2008-2009 Claims paid	60	0	60	0	100
2008-2009 Claims not paid	60	0	60	0	100
Totals	120	0	120	0	100

Recommendation: None.

LIST OF RECOMMENDATIONS

Recommendation B 1- Complaint registers

It is recommended that the Company record all complaints, direct and DOI received, in the required format in the Company's complaint register, pursuant to W. Va. Code § 33-11-4(10).

Recommendation D 1 – Producer listing

It is recommended the Company follow procedures now in place to avoid errors noted above and to reconcile their agent list with that maintained by the Insurance Commission at least once a year.

Recommendation D 3 – Producer termination letters

It is recommended that the Company retain copies of all termination notices to producers.

Recommendation G 9 – Claims denials

It is recommended the Company include OIC contact information in its communications with consumers when sending denial letters.

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, John Stike and Diana Parsons of Smith Little and Company also participated in the examination.



T. L. Ballard, CIE, MCM, CFE, ALHC, FLMI,

Examiner-in-Charge

EXAMINER'S AFFIDAVIT

TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

I, T. L. Ballard, being duly sworn, state as follows:

1. I have the authority to represent West Virginia in the examination of West Virginia Farmers Mutual Insurance Association.
2. I have reviewed the examination work papers and examination report. The examination of West Virginia Farmers Mutual Insurance Association was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.

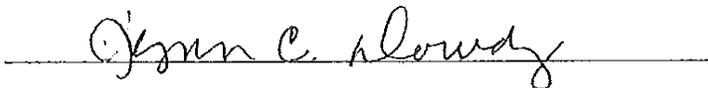


T. L. Ballard, CIE, MCM, CFE, ALHC, FLMI

Examiner-in-Charge

Subscribed to and sworn before me by

(SEAL)



Notary Public

My commission expires April 4, 2024

July 27, 2011

Mike Riley
Acting Insurance Commissioner
State of West Virginia
P.O. Box 50540
Charleston, WV 25305-0540



RE: Report of Market Conduct Examination as of June 30, 2009
West Virginia Farmers Mutual Insurance Association



Dear Acting Insurance Commissioner Riley,

We are in receipt of the above captioned report dated June 28, 2011. Thank you for the opportunity to respond. We have reviewed the report and have comments regarding one item.

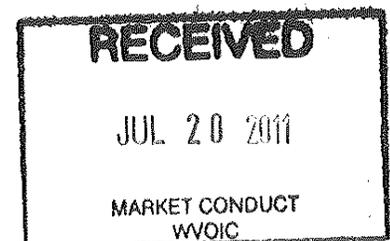
Under Standard G9, it was noted that the Company failed this standard with a pass rate of 90%. The Company would like the Commissioner to consider that during the examination review, when this item was presented to us under Request For Information #3, the Company immediately responded with a Corrective Action Plan that would procedurally prevent an occurrence of this type from happening in the future. We implemented that Corrective Action Plan during the examination review time period.

We were pleased to note that we achieved 100% passing rates on nearly all other Standards utilized during the examination review. We take pride in complying with both statutes and regulations, and strive for perfection whenever possible.

Thank you again for the opportunity to respond to the exam report and to work with your Department during the examination review process. Should you need anything further, please feel free to contact me at 800-552-5181.

Sincerely,
WEST VIRGINIA FARMERS MUTUAL INSURANCE ASSOCIATION

William W. Montgomery
President & CEO



Enc: Copy of Request For Information #3

cc: Philip Fullenkamp, Chief Financial Officer
Cathy Bigham, Senior Compliance Manager