

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

**IN RE: MARKET CONDUCT EXAMINATION OF
W. VA. INSURANCE COMPANY**

ADMINISTRATIVE PROCEEDING NUMBER 07-AP-048

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

NOW COMES Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Market Conduct Examination for the examination of W. Va. Insurance Company for the examination period ending December 31, 2006 based upon the following findings, to wit:

PARTIES

1. Jane L. Cline is the Insurance Commissioner of the State of West Virginia (the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. W. Va. Insurance Company is a Farmers' Mutual Fire Insurance Company authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Article 22, Chapter 33 of the West Virginia Code.

FINDINGS OF FACT

1. A Market Conduct Examination of the methods of doing business of W. Va. Insurance Company for the three year period ending December 31, 2006 was conducted in accordance with West Virginia Code Section 33-2-9(c) by examiners duly appointed by the Insurance Commissioner.

2. On July 21, 2007, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code Section 33-2-9(j)(2), a Report of Market Conduct Examination.

3. On July 26, 2007, a true copy of the Report of Market Conduct Examination (attached hereto as Exhibit A) was sent to W. Va. Insurance Company by certified mail, return receipt requested, and was received by W. Va. Insurance Company on July 26, 2007.

4. On July 26, 2007, W. Va. Insurance Company was notified that, pursuant to West Virginia Code Section 33-2-9(j)(2), it had thirty (30) working days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner.

5. On August 17, 2007, W. Va. Insurance Company responded to the Report of Market Conduct Examination ("W. Va. Insurance Company's Response"). W. Va. Insurance Company's Response is attached hereto as Exhibit B.

6. W. Va. Insurance Company's Response did not dispute any facts pertaining to findings, comments, results, observations, or recommendations contained in the Report of Market Conduct Examination.

7. The findings contained in the Report of Market Conduct Examination reveal violations of West Virginia Code Sections 33-12-18, and West Virginia Code of State Rules Section 114-14-6.17

8. The Insurance Commissioner has determined that the violations of the West Virginia Code and Rule sections referenced in paragraph 7 above were unintentional.

9. By entering into this Agreed Order, W. Va. Insurance Company and reserves all rights and defenses regarding liability or responsibility in any proceedings regarding W. Va. Insurance Company other than proceedings, administrative or civil, to enforce this Order.

10. W. Va. Insurance Company waives notice of administrative hearing, any and all rights to an administrative hearing and to judicial review of this matter.

11. Any Finding of Fact that is more properly a Conclusion of Law is hereby adopted as such.

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 Section 33-2-9.

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

ORDER

Pursuant to West Virginia Code Section 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and W. Va. Insurance Company's Response, the Insurance Commissioner and W. Va. Insurance Company have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination. The Insurance Commissioner and W. Va. Insurance Company

have further agreed to the imposition of an administrative penalty against W. Va. Insurance COMPANY.

It is accordingly **AGREED** and **ORDERED** as follows:

The Report of Market Conduct Examination of W. Va. Insurance Company is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner;

That, within thirty (30) days of the entry date of this Agreed Order, W. Va. Insurance Company shall file with the Insurance Commissioner, in accordance with West Virginia Code Section 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 **AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION, DIRECTING CORRECTIVE ACTION AND ASSESSING PENALTY**;

That W. Va. Insurance Company shall ensure compliance with the West Virginia Code and the Code of State Rules. W. Va. Insurance Company shall specifically cure those violations and deficiencies identified in the Report of Market Conduct Examination. W. Va. Insurance Company is hereby ordered to file a Corrective Action Plan which will be subject to the approval of the Insurance Commissioner. The Corrective Action Plan shall detail W. Va. Insurance Company's 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 examiner and address all violations specifically cited in the Report of Market Conduct Examination;

That 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. W. Va. Insurance Company shall implement reasonable changes to the Corrective Action Plan if suggested by the Insurance Commissioner and the Insurance Commissioner will provide notice

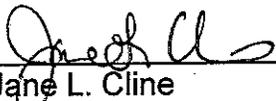
to W. Va. Insurance Company when the Corrective Action Plan has been approved; and

The Insurance Commissioner has determined that W. Va. Insurance Company shall pay an administrative penalty to the State of West Virginia in the amount of Six Thousand Dollars (\$6,000.00) for non-compliance with the West Virginia Code as described herein. The payment of this administrative penalty is in lieu of any other regulatory penalty or remedy.

THE PARTIES SO AGREE:

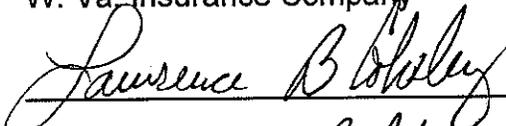
OFFICE OF THE INSURANCE COMMISSIONER
FOR THE STATE OF WEST VIRGINIA

Dated this 31st day of October, 2007.



Jane L. Cline
Insurance Commissioner

W. Va. Insurance Company



Name Lawrence B. Coker
Title Sec'y
Date 10/22/07

Report of Market Conduct Examination

As of December 31, 2006



W. VA. INSURANCE COMPANY

Route 16 N
Harrisville, WV 26362

NAIC COMPANY CODE 11003
Examination Number WV014-M6

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July 21, 2007

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 December 31, 2006 of the business affairs of

W. VA. INSURANCE COMPANY
Route 16 N
Harrisville, WV 26362

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

EXECUTIVE SUMMARY

This examination is the first market conduct examination of W. Va. Insurance Company by the State of West Virginia. The examination fieldwork began March 28, 2007 and concluded on May 17, 2007. Forty three (43) standards were tested during the examination, the Company passed forty (40) and failed three (3). Six (6) additional areas warranted a recommendation. The major areas of concern are:

- The Company does not perform internal audits
- The Company issued coverage that exceeded their Certificate of Authority
- The Company does not record complaints received directly from consumers
- The Company does not have a procedure to ensure producers are properly appointed
- The Company was not including Insurance Commissioner contact information in claim denial notices

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

- A. Company Operations and 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 guidance, 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.

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

West Virginia Insurance Company (hereinafter referred to as the "Company") was incorporated on July 21, 1923 and began business on September 1, 1923. The Company is authorized to transact business as a Farmer's Mutual Fire Insurance Company under the provisions of Article 22 of the W. Va. Insurance Code. There were no predecessor organizations and the Company is not affiliated with or a member of a group of insurers. The Company mainly writes standard fire insurance and homeowners insurance.

The Company is governed by a nine member Board of Directors. Directors serving as of December 31, 2006 were as follows:

Name and Address	Business Affiliation	Board Member Since
George A. Cokeley Route 1, Box 407 St Mary's West Virginia 26170	President West Virginia Insurance Company	January 1960
Joe L. Lambert 315 East Main Street Harrisville, West Virginia 26362	Vice President and Treasurer West Virginia Insurance Company	July 1970
Warren R. Haught P.O. Box 2 Smithville, West Virginia 26178	Oil and Gas Producer	July 1977
Michael J. Krupa 3610 Keene Pike Nicholasville, Kentucky 40356	Pharmacist and Minister	January 1983
James E. Starr 614 Wigner Avenue Harrisville, West Virginia 26362	Owner Starr Woodworking, Inc.	April 1983
Lawrence B. Cokeley RR 2 Box 86 Pensboro, West Virginia 26415	Secretary West Virginia Insurance Company	January 1989
Mark A. Spiker 304 Masonic Avenue Pensboro, West Virginia 26415	Dentist	January 1989
Edward R. Cokeley HC 80 Box 10 Harrisville, West Virginia 26362	Owner and CPA Cokeley and Associates	October 1991
Raymond W. Jones 1 Meadowcrest Harrisville, West Virginia 26362	President West Union Bank	October 1993

METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a property and casualty insurer found in Chapter VIII of the NAIC Market Conduct Examiners Handbook and on applicable West Virginia statutes and rules.

Some of the 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 selected using automated sampling software. The sampling techniques used are based on 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 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 tests utilized are set forth in the NAIC Market Conduct Examiners 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 Conduct Examiners 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, examiner's "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

Comments: 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. Many troubled companies have become so because management has not been structured to adequately 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

NAIC Market Conduct Examiners Handbook – Chapter VIII, § 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 has a direct statutory requirement as it pertains to annual audited financial 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 with recommendation

Observations: The Company's financial statements, expenses and investment portfolio are audited annually in accordance with W.Va. Code §33-3-14; the last such audit was conducted by S.R. Snodgrass, A.C., for the year ending December 31, 2005. The Board of Directors reviews the auditors 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 has no internal audit procedures in place and performs no internal audits.

Recommendations: It is recommended the Company adopt and implement internal audit procedures. The procedures should entail audits for claims including all claims submitted

by employees and members of the Board of Directors. Additionally, underwriting files including declined applications and cancelled policies should be audited.

Standard A 2 NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 2
The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

W.Va. Code St. R. §114-62-1, et seq.

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. Appropriate safeguards for protecting the integrity of computer information are a public protection issue. Appropriate controls, safeguards and procedures for protecting the integrity of computer files is an indicator of the competency of management that the Commissioner may consider in the review of an insurer.

Results: Pass

Observations: The Company has up-to-date security firewalls to safeguard their computer information. Computer access is password protected. The Company also maintains compatible computer equipment off site.

Recommendations: None

Standard A 3 NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 3
The company has an antifraud plan in place.

W.Va. Code §§33-41-1, et seq.

Comments: The review methodology for this standard is generic. The standard does not have 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 no written procedures for handling potential fraud. The claim handling manual does require adjusters to report any potential fraudulent activity.

Recommendations: None

Standard A 4 NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 4
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

Observations: Company backup procedures require the information system to be backed up daily. Quarterly information backups are kept off site. The Company also maintains compatible computer equipment off site.

Recommendations: None

Standard A 7

NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 7

Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

W.Va. Code St. R. § 114-15-1, et seq.

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: Files are retained in accordance with State record retention requirements. Policy files contained all pertinent information from which to make an underwriting decision. There were several claim files in which documentation could have been improved, but the examiners did not believe that these instances rose to a level of a violation.

Recommendations: None

Standard A 8

NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 8

The company is licensed for the lines of business that are being written.

W. Va. Code § 33-22-1, et seq.

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 conformance with the Company's certificate of authority.

Results: Pass with recommendation

Observations: The Company's certificate of authority was reviewed and writings were compared with authorized lines and the NAIC annual statement. The Company's current forms which are in use were reviewed. Although the ML311 (Farm Employers Liability) has presumably been approved by the Insurance Commissioner, it contains a provision which exceeds the Company's Certificate of Authority. The policy contains coverage for claims that an employee may pursue as a result of an automobile accident. Coverage of incidents arising out of the ownership and maintenance of motor vehicles is specifically prohibited by W. Va. Code §33-2-8.

Recommendations: It is recommended the Company discontinue writing Farm Employers Liability coverage until they are properly licensed.

Standard A 9	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 9</i>
The Company cooperates on a timely basis with examiners performing the examinations.	
<i>W. Va. Code § 33-22-9 & 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 is aimed at assuring that the Company is cooperating with the State in the completion of an open and cogent 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 conducive to completing the examination in a timely fashion and minimizing cost.

Results: Pass

Observations: The Company was cooperative and the examination proceeded in a cordial atmosphere. Data provided was responsive and timely.

Recommendations: None

Standard A 12	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 12</i>
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.	
<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 with recommendation

Observations: The Company does not have formal or written procedures for the management, 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.

Recommendations: It is recommended the Company adopt written procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers. The procedures should include specific procedures for all employees who may handle nonpublic personal information.

B. COMPLAINT HANDLING

Comments: Evaluations of the standards in this business area are based on Company responses to various information requests and the review of 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 Conduct Examiners Handbook -- Chapter VIII, § 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 recommendation

Observations: The Company registered nineteen (19) complaints for the exam period. The complaint register listed the policy number, insured name, complainants name, date received, reason for complaint, resolution status and resolution date. The Company complaint register was reconciled with the Insurance Commission's register without exception.

The Company indicated it only registers complaints received from the Insurance Commission. The Company does not register complaints received directly from consumers.

Recommendations: It is recommended the Company record all written complaints in its complaint register including those received directly from consumers.

Standard B 2*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 2***The company 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 an adequate complaint handling procedure and whether the Company communicates complaint handling procedures to its policyholders.

Results: Pass

Observations: The Company does not have written complaint handling procedures in place. W. Va. Code § 33-11-4(10) requires all insurers to maintain a complete record of all complaints it has received since its last examination. The Company did maintain a complete record of complaints received from the Commissioner’s Office. The Company’s procedure is to begin processing complaints within twenty four (24) hours of receipt and to provide a response within fifteen (15) working days as required by W. Va. Code St. R. § 114-14-5.2.

Recommendations: None**Standard B 4***NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 4***The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.***W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.2*

Comments: The review methodology for this standard is sample. The standard does not have a direct statutory requirement however, timeliness is inferred. In the case of complaints concerning claims, direct time requirements are found in regulation. This standard is concerned with whether the Company responded to complaints timely. West Virginia’s complaint handling section uses a fifteen (15) working day standard for responses to complaints.

Results: Pass

Observations: The Company responded within fifteen (15) working days to the Insurance Commission for all complaints received during the exam period.

Table B 4 Complaints Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2004-2006 Complaints	19	0	19	0	100%

Recommendations: None

C. MARKETING AND SALES

Comments: 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 evaluate the representations made by the Company about its products. It is not typically based on sampling techniques, but can be. The areas to be considered in this kind of review include all media, written and verbal advertising and sales material.

Standard C 1

NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 1

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

W. Va. Code § 33-11-4(1), (2) & W. Va. Code St. R. §114-14-1, et seq.

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 with recommendation

Observations: The Company was requested to provide copies of their print and radio advertising. The Company indicated they do not do any radio advertising and they do not maintain copies of their print advertising. The Company did provide some copies of advertising that were submitted to the Company for approval. All such advertising was for name recognition purposes only. The advertising listed the Company's name and phone number.

Recommendations: It is recommended the Company maintain copies of their advertising to ensure compliance with applicable statutes, rules and regulations.

Standard C 2

NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 2

Company internal producer training materials are in compliance with applicable statutes, rules and regulations.

W. Va. Code §33-11-4 & W. Va. Code St. R. §114-14-1, et seq.

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

Standard C 3 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 3*
Company communications to producers are in compliance with applicable statutes, rules and regulations.

W. Va. Code § 33-11-4 & W. Va. Code St. R. §114-14-1, et seq.

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: Communication between the Company and producers is mainly over the telephone. Written communication in the form of bulletins and correspondence in policy files was reviewed for adherence to both the West Virginia Unfair Trade Practices Act and the West Virginia Unfair Claims Settlement Practices Act; no exceptions were noted.

Recommendations: None

D. PRODUCER LICENSING

Comments: The evaluation of standards is based on a review of Insurance Commission 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 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 1*
Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

W. Va. Code § 33-12-3 & W. Va. Code St. R. § 114-2-1, et seq.

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."

Results: Fail

Observations: The Company's list of current appointed producers was reconciled with the records of the West Virginia Insurance Commission. Three (3) agents shown as active on the Company agent list were actually not renewed and were determined to be terminated by the Insurance Commission. This resulted in 1711 policies being produced by non-appointed agents.

Recommendations: It is recommended the Company adopt and implement a procedure to reconcile their agent list with that maintained by the Insurance Commission at least once a year.

Standard D 2 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 2.*
The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.
W. Va. Code § 33-12-18.

Comments: Review methodology for this standard is 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: Fail

Observations: The Company utilizes independent agents to market and solicit insurance products in West Virginia. A review of sixty (60) new business policy files determined that sixteen policies were written by non-appointed producers.

Table D 2 Producer Licensing Sample Results

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	44	16	73%

Recommendations: It is recommended the Company adopt and implement a procedure to ensure producers writing business for the Company are properly appointed.

Standard D 3 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 3.*
Termination of producers complies with statutes regarding notification to the producer and notification to the state if applicable.
W.Va. Code § 33-12-25 & W. Va. Code St. R. §114-2-1, et seq.

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: N/A

Observations: The Company did not terminate any producers during the examination period.

Recommendations: None

Standard D 4	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 4.</i>
The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.	
	<i>W. Va. Code § 33-11-4(7)</i>

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. The Company products are marketed in under-served areas. No unfair discrimination against policyholders can be inferred by the Company's producer appointment and termination records.

Recommendations: None

E. POLICYHOLDER SERVICE

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 2	<i>NAIC Market Conduct Examiners Handbook - Chapter XVII, § H, Standard 2</i>
Policy issuance and insured requested cancellations is timely.	

Comments: Review methodology for this standard is generic and sample. There is no direct statutory requirement. This standard is intended to provide insureds 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 issued the policy within fifteen days for the entire sample tested. No exceptions were noted.

Table E 2 (a) Policy Holder Service Sample Results

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

A sample of sixty (60) insured requested cancellations was reviewed to determine if the cancellations were timely and did not require excessive paperwork. All policies were cancelled timely. Fifty-nine (59) policies were cancelled on the same day requested.

Table E 2 (b) Policy Holder Service Sample Results

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 Insured Requested Cancellations	4775	60	0	60	0	100%

Recommendations: None

F. UNDERWRITING AND RATING

Comments: 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.

<p>Standard F 1: Rating Practices <i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 1</i> The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan. <i>W. Va. Code § 33-11-4(7) & W. Va. Code § 33-22-9</i></p>

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 West Virginia Insurance Commission. Although Farmers Mutual Fire Insurance Companies are not required to file rates with the Insurance Commission, 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: 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 guidelines. No exceptions were noted.

Table F 1 Underwriting and Rating Practices

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 2: Rating Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 2.
Disclosures to insured concerning rates and coverage are accurate and timely.
W. Va. Code § 33-11-4(7) & W. Va. Code § 33-30-1et seq.

Comments: Review methodology for this standard is sample. This standard does not 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. Concerns tested included accuracy of producer quotations as well as properly executed offers of mine subsidence coverage (Farmers Mutual Fire Insurance Companies may, but are not required to, offer mine subsidence coverage).

Results: Pass

Observations: A sample of sixty (60) new issue policy files was reviewed to determine if cost of coverage was accurately quoted. Quotations were reasonable and accurate, no exceptions were noted. Rate changes were made at renewal dates and insureds were provided adequate advance notice.

Table F 2 Underwriting and Rating Practices

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 3: Rating Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 3.
Company does not permit illegal rebating, 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	5432	60	0	60	0	100%

Recommendations: None

Standard F 5: Rating Practices *NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 5*
 Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.
W. Va. Code § 33-11-4(7)(e)

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

Results: Pass

Observations: Company underwriting guidelines were not unfairly discriminatory and were in accordance with State statute and regulations. A review of the sixty (60) new business policy files did not indicate any deviation from the Company underwriting guidelines.

Table F 5 Underwriting and Rating Practices

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 11: Underwriting *NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 11*
 The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.
W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is generic, sample, and electronic. 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: A sample of sixty (60) new issue policy files was reviewed to ensure underwriting information used to make decisions was not unfairly discriminatory. It was determined the Company was selecting risks and assigning rates according to Company guidelines and no unfair discriminatory practices were detected.

Table F 11 Underwriting Risk Selection

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 14: Underwriting Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 14. 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.

Comments: Review methodology for this standard is sample and generic. This standard does not have a direct insurance statutory requirement. In order to properly underwrite property insurance, an insurer is expected to gather accurate information upon submission of the application including perfected applications, photographs, and inspection reports.

Results: Pass

Observations: A sample of sixty (60) underwriting files was reviewed to determine if decisions were based on information received at inception of the policy rather than through audits or post claim. The Company uses inspections and photographs to supplement applications. Premiums are calculated by the agent in the field and indicated on the application. Once the application is received by the home office it is re-calculated to verify its accuracy. All applications contained the correct premium quote. The Company obtained sufficient information to underwrite policies at inception; there was no evidence of post claim underwriting.

Table F 14 Underwriting Information at Inception

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 15: Underwriting NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 15. File documentation adequately supports decisions made.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Proper documentation of files reduces the likelihood of unfair discrimination.

Results: Pass

Observations: A review of sixty (60) new issue policy files indicated the Company had adequate documentation to support underwriting decisions. Underwriting files contained applications, photographs and inspections. Documentation was sufficient to determine risk and all applications were complete.

Table F 15 Underwriting File Documentation

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 19: Underwriting Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 19.
The company does not engage in collusive or anti-competitive underwriting practices.
W. Va. Code § 33-11-4(4)

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure 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: A review of the sample of sixty (60) new issue policy files and underwriting guidelines did not reveal any evidence of collusive or anti-competitive practices on the part of the Company. All policies were underwritten according to Company guidelines.

Table F 19 Underwriting Practices

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	5432	60	0	60	0	100%

Recommendations: None

Standard F 22: Termination Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 22.
Rejections and declinations are not unfairly discriminatory.
W. Va. Code § 33-11-4(7) (c)

Comments: Review methodology for this standard is generic, sample and electronic. This standard does not have a direct insurance statutory requirement. Farmers' Mutual Fire Insurance Companies are not subject to W.Va. Code §33-17A-6, however they are subject to W.Va. Code §33-11-4(7)(c). Consistent application of the Company's underwriting rules is the primary method used to avoid unfair discrimination.

Results: Pass

Observations: A sample of sixty (60) declined applicant files was reviewed to determine if the reason for rejection was valid and not unfairly discriminatory. In addition, the files were reviewed to determine if the rejection reason was properly documented.

One (1) application was withdrawn and twelve (12) applications were not pursued by the applicant. The Company declined forty four (44) applications because the property or the coverage did not meet underwriting guidelines. All rejections based on underwriting guidelines were valid and properly documented, no exceptions were noted.

Table F 22 Underwriting - Declinations

Type	Population	Sampled	N/A	Pass	Fail	%Pass
2004-2006 New Business Policies	468	60	1	59	0	100%

Recommendations: None

Standard F 23: Termination Practices *NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 23*
Cancellation/non-renewal and Declination notices comply with policy provisions and state laws and company guidelines. *W. Va. Code § 33-11-4(7) (c)*

Comments: Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement. As a Farmers' Mutual Fire Insurance Company, the Company is not subject to W.Va. Code §33-17A-4(a) and (b). Therefore, the Company has no direct statutory requirement to delineate reasons for declinations or cancellations on their notices. Conversely, this requirement may be implied in order to assure compliance with W.Va. Code §33-11-4(7)(c) which prohibits unfair discrimination.

Results: Pass

Observations: A sample of sixty (60) Company initiated cancelled policy files was reviewed for compliance with W. Va. Code § 33-22-15 and the Company's policy provisions. According to policy provisions the Company may, within the first 60 days cancel for any reason, after 60 days because: a) the premium is not paid; b) the policy was obtained through fraud, material misrepresentation or omission of fact; or c) there has been a material change or increase in hazard of the risk.

The Company cancelled fifty nine (59) policies properly and according to policy provisions. One (1) cancellation was not documented sufficiently and thus failed testing. No other exceptions were noted.

Table F 23 Underwriting-Cancellations

Type	Population	Sampled	N/A	Pass	Fail	%Pass
Cancelled Policies	770	60	0	59	1	98%

Recommendations: None

Standard F 24: Termination Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 24
Cancellation/non-renewal 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 § 33-22-15(c)

Comments: Review methodology for this standard is sample and electronic. This standard has a direct insurance statutory requirement. W. Va. Code §33-22-15(c) requires Farmers’ Mutual Fire Insurance Companies to give each policyholder five (5) days notice of cancellation. Policyholders need sufficient time in the event of a cancellation or non-renewal to replace coverage.

Results: Pass

Observations: A sample of sixty (60) Company initiated cancelled policy files was reviewed to determine if the notice for cancellation was timely and contained a valid reason. Fifty nine (59) files contained valid and timely cancellation notices. One (1) underwriting file did not contain the cancellation notice and thus the reason for cancellation could not be tested for compliance with policy provisions and State law.

Table F 24 Underwriting-Notice of Cancellation

Type	Population	Sampled	N/A	Pass	Fail	%Pass
Cancelled Policies	770	60	0	59	1	98%

Recommendations: None

Standard F 25: Termination Practices NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 25.
Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

Comments: Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement as Farmers Mutual Fire Insurance Companies are not required to file rates. On the other hand, the Company has a contractual obligation to the policyholder to charge and refund the appropriate premium.

Results: Pass

Observations: A random sample of sixty (60) terminated policy files was reviewed to determine if the Company provided the appropriate refund amount. The Company owed refund of premium in thirty eight (38) files reviewed and no premium in twenty two (22) files. The Company refunded the correct premium and refunds were timely, no exceptions were noted.

Table F 25 Underwriting-Unearned Premium

Type	Population	Sampled	N/A	Pass	Fail	%Pass
Cancelled Policies	770	60	0	60	0	100%

Recommendations: None

Standard F 26: Terminations NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 26.
Rescissions are not made for non-material misrepresentation.

Comments: Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement. A large number of rescissions can reflect inadequate underwriting practices.

Results: Not applicable

Observations: The Company does not rescind policies or coverage. The Company issues coverage and if it later determines the insured does not meet underwriting guidelines or makes any material misrepresentations the Company cancels the policy and returns the entire premium.

Recommendations: None

G. CLAIMS PRACTICES

Comments: 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 NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 1
The initial contact by the company with the claimant is within the required time frame.
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 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: Random samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were selected using Audit Command Language (ACL) software with a 95% confidence level. The samples each included 60 first-party claims and 60 third party claims. The claims were reviewed to determine if the Company made timely contact with claimants. The Company's procedure is to have the adjuster contact the claimant within twenty four (24) hours unless the volume of new claims is so great that this is not possible. Company

contact times were in compliance with State statutes, rules and regulations. No exceptions were noted.

Table G 1 Claims-Initial Contact

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	60	0	100%
First Party Claims closed without payment	2564	60	0	60	0	100%
Third Party Claims closed without payment	195	60	0	60	0	100%
Totals	7305	240	0	240	0	100%

Recommendations: None

Standard G 2	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 2.</i>
Timely investigations are conducted.	<i>W. Va. Code § 33-11-4(9) (c) & W. Va. Code St. R. § 114-14-6.1</i>

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. West Virginia requires a claim investigation within fifteen (15) working days of receipt of a notice of a claim. W. Va. Code St. R 114-14-6.1 requires that the investigation be initiated within 15 working days from receiving notice of the claim.

According to W. Va. Code St. R.114-14-6.7 regarding notice of necessary delay in investigating claims, if the insurer needs more than thirty (30) calendar days from the date that a proof of loss from a first party claimant or notice of claim from a third-party claimant is received to determine whether a claim should be accepted or denied, it shall so notify the claimant in writing within fifteen (15) working days after the thirty-day period expires. If the investigation remains incomplete, the insurer shall provide written notification of the delay to the claimant every forty five (45) calendar days thereafter until the investigation is complete.

Results: Pass

Observation: Random samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were reviewed to determine if the Company initiated investigations prompt and in accordance with statute. The Company did not evidence timely investigation in one (1) third party paid claim.

Table G 2 Claims-Timely Investigation

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	59	1	98%
First Party Claims closed without payment	2564	60	0	60	0	100%
Third Party Claims closed without payment	195	60	0	60	0	100%
Totals	7305	240	0	239	1	99%

Recommendations: None

Standard G 3 Claims are resolved in a timely manner	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 3</i> <i>W. Va. Code §33-11-4(9)(l)&(m) & W. Va. Code St. R. §114-14-6.2, 6.5 & 6.9</i>
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Comments: Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. Failure to timely resolve claims can lead to “bad faith” actions.

Results: Pass

Observations: The samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were tested and a time study performed to determine if claims were resolved timely. Resolution time was measured in working days. Resolution time began once the claimant provided all necessary information to investigate and settle the claim. The Company did not timely resolve one (1) third party paid claim, no other exceptions were noted.

Table G 3 Claims Resolution

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	59	1	98%
First Party Claims closed without payment	2564	60	0	60	0	100%
Third Party Claims closed without payment	195	60	0	60	0	100%
Totals	7305	240	0	239	1	99%

Recommendations: None

Standard G 4 The company responds to claim correspondence in a timely manner.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 4</i> <i>W. Va. Code § 33-11-4(9)(b) & W. Va. Code St. R. §114-14-5</i>
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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 samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were reviewed to determine if the Company promptly responded to correspondence received. The Company did not evidence prompt response to correspondence received in one (1) third party paid claim, no other exceptions were noted.

Table G 4 Claims Correspondence

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	59	1	98%
First Party Claims closed without payment	2564	60	0	60	0	100%
Third Party Claims closed without payment	195	60	0	60	0	100%
Totals	7305	240	0	239	1	99%

Recommendations: None

Standard G 5	NAIC Market Conduct Examiners Handbook – Chapter VIII, §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 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 with recommendation

Observations: The samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were reviewed to determine if documentation supported the ultimate claim determination. One (1) third party paid claim did not include pertinent facts and one (1) first party paid claim did not indicate how settlement value was determined.

There was a plethora of claim files in which documentation could have been improved. However, the examiners do not believe that these instances rose to a level of a violation. The files were not specific enough when identifying communication and coverages.

Table G 5 Claim Documentation

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	59	1	98%
Third Party Paid claims	209	60	0	59	1	98%
First Party Claims closed without payment	2564	60	0	60	0	100%
Third Party Claims closed without payment	195	60	0	60	0	100%
Totals	7305	240	0	238	2	99%

Recommendations: It is recommended the Company adopt and implement procedures to ensure claim files are sufficiently documented to support claim decisions including pertinent claim events and the timing of the events.

Standard G 6*NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 6***Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.***W. Va. Code § 33-11-4(9) & W. Va. Code St. R. § 114-14-1, et seq.*

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 sales tax payment, correct payees, improper 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: The sample of one hundred twenty (120) paid claims was reviewed and determined to be in accordance with State law and policy provisions including settlement times and settlement amounts.

Table G 6 Claim Settlement

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	60	0	100%
Totals	4546	120	0	120	0	100%

Recommendations: None

Standard G 7*NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 7***Company uses the reservation of rights and excess of loss letters, when appropriate.***W. Va. Code § 33-11-4(9) (e) & W. Va. Code St. R. § 114-14-6. 5*

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

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

Results: Pass

Observations: The samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were reviewed to determine if the Company advised claimants, when necessary, of it's reservation of rights or the potential of a claim being in excess of loss allowed under policy provisions. Claims requiring a reservation of rights letter or an excess of loss letter were referred to the Company's General

Counsel. The Company issued reservation of rights and excess of loss letters where appropriate, no exceptions were noted.

Recommendations: None

Standard G 8 Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 8</i> <i>W. Va. Code § 33-11-4(9) (b)</i>
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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 Company had a small number of claims involving subrogation. None of these claims had deductibles paid. No exceptions were noted.

Recommendations: None

Standard G 9 Company claim forms are appropriate for the type of product.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 9.</i>
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Comments: Review methodology for this standard is generic and sample. This standard does not have a direct statutory requirement.

Results: Pass

Observations: The samples of one hundred twenty (120) paid claims and one hundred twenty (120) closed without payment claims were reviewed and it was determined there were no inappropriate claim forms used.

Table G 9 Claims Forms

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	60	0	100%
First Party Claims closed without payment	2564	60	0	60	0	100%
Third Party Claims closed without payment	195	60	0	60	0	100%
Totals	7305	240	0	240	0	100%

Recommendations: None

Standard G 11 Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 11</i> <i>W. Va. Code § 33-11-4(9) (e) & (n) & W. Va. Code St. R. § 114-14-6. 3, 6. 4 & 6. 7</i>
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Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement. Concerns tested for this standard include:

- Denied and closed-without-payment claims are based on policy provisions and comply with West Virginia statutes and regulations.
- Notices of claim denials reference specific policy provisions or exclusions.
- Claimants are provided with a reasonable basis for the denial when required by statute or regulation.

Results: Fail

Observations: A random sample of one hundred twenty (120) claims that were either denied or closed-without-payment during the examination period was reviewed for the above listed criteria.

According to written Company procedures and State regulations, in notices rejecting any element of a claim, the Company is required to provide specific contact information for both the Company and the Offices of the Insurance Commissioner.

The Company's claim handling manual with an effective date of July 2, 2005, states the following: *Denial letters must include information so that the insured may contact the Insurance Commissioner's office to file a complaint. This information must include the Commissioner's phone number, address and web site. Also included must be the policy number, claim number, and address of W. VA. Insurance Company.*

The above noted Company procedure is in compliance with Rule § 114-14- 6.17 which states the following: *Any notice rejecting any element of a claim shall contain the identity and the claims processing address of the insurer and the claim number. The notice must state that the claimant has the option of contacting the Commissioner. The notice must provide the Commissioner's mailing address, telephone number and website address.*

Sixteen (16) third party claim denial notices did not contain the required contact information and thus were not in accordance with Company procedures, five (5) of these were also in violation of Rule § 114-14- 6.17. Seventeen (17) first party claims denial notices were not in accordance with Company procedures, three (3) were also in violation of Rule § 114-14- 6.17.

Table G 11 Claims Denied or Closed Without Payment

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party closed without payment	2564	60	0	43	17	72%
Third Party closed without payment	195	60	0	44	16	73%
Totals	2759	120	0	87	33	73%

Recommendations: It is recommended that the Company include in all claim denial letters the contact information required by West Virginia Code State Rule § 114-14 -6.17 and the Company's revised claim manual dated 7/1/2005.

Standard G 12 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § G, Standard 12*
Canceled benefit checks and drafts reflect appropriate claim handling practices.
W. Va. Code § 33-11-4(9) & W. Va. Code St. R. § 114-14-1, et seq.

Comments: Review methodology for this standard is electronic and sample. This standard has a direct statutory requirement.

Results: Pass

Observations: The sample of one hundred twenty (120) paid claims was reviewed. The concerns tested for this standard include:

- That cancelled benefit checks include the correct payee and are for the correct amount.
- That payment checks do not indicate the payment is “final” when such is not the case.
- That checks or drafts do not purport to release the insurer from total liability when such is not the case.

Checks were in the correct amount and included the correct payee. No exceptions were noted.

Table G 12 Claims Sample Result

Type	Population	Sampled	N/A	Pass	Fail	%Pass
First Party Paid claims	4337	60	0	60	0	100%
Third Party Paid claims	209	60	0	60	0	100%
Totals	4546	120	0	120	0	100%

Recommendations: None

Standard G 13 *NAIC Market Conduct Examiners Handbook – Chapter VIII, § G, Standard 13*
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.
W. Va. Code § 33-11-4(9)(g)

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. The primary concern tested was that the Company processes and handles the claim appropriately and does not compel the claimant to institute a lawsuit to effect an appropriate settlement of the claim.

Results: Pass

Observations: The Company provided sixteen (16) litigated claim files for the exam period. The claim files were reviewed to determine if the claim handling was problematic or indicated that the handling compelled the claimants to institute litigation in order to collect benefits due under policies, fifteen (15) of the claims involved third party litigation.

Litigated claim testing did not indicate any problematic claim handling practices. No exceptions were noted.

Table G 13 Litigated Claims

Type	Population	Sampled	N/A	Pass	Fail	%Pass
Litigated claims	16	16	0	16	0	100%

Recommendations: None

SUMMARY OF RECOMMENDATIONS

Recommendation A-1

It is recommended the Company adopt and implement internal audit procedures. The procedures should entail audits for claims including all claims submitted by employees and members of the Board of Directors. Additionally, underwriting files including declined applications and canceled policies should be audited.

Recommendation A-8

It is recommended the Company discontinue writing Farm Employers Liability coverage until they are properly licensed.

Recommendation A-12

It is recommended the Company adopt written procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers. The procedures should include specific procedures for all employees who may handle nonpublic personal information.

Recommendation B-1

It is recommended the Company record all written complaints in its complaint register including those received directly from consumers.

Recommendation C-1

It is recommended the Company maintain copies of their advertising to ensure compliance with applicable statutes, rules and regulations.

Recommendation D-1

It is recommended the Company adopt and implement a procedure to reconcile their agent list with that maintained by the Insurance Commission at least once a year.

Recommendation D-2

It is recommended the Company adopt and implement a procedure to ensure producers writing business for the Company are properly appointed.

Recommendation G-5

It is recommended the Company adopt and implement procedures to ensure claim files are sufficiently documented to support claim decisions including pertinent claim events and the timing of the events.

Recommendation G-11

It is recommended that the Company include in all claim denial letters the contact information required by West Virginia Code State Rule § 114-14 -6.17 and the Company's revised claim manual dated 7/1/2005.

EXAMINER'S AFFIDAVIT

State of West Virginia

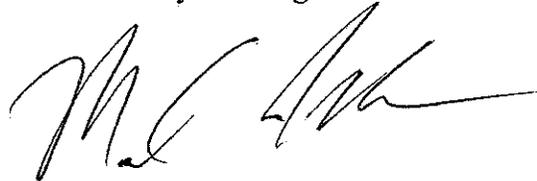
County of Kanawha

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

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

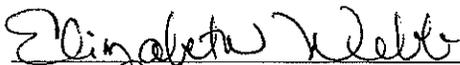
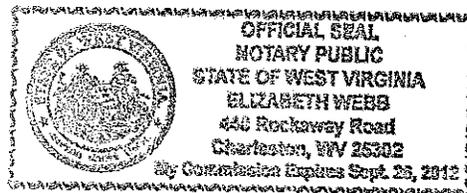
1. I have the authority to represent West Virginia in the examination of W. Va. Insurance Company.
2. I have reviewed the examination work papers and examination report, and the examination of West Virginia Insurance Company was performed in a manner consistent with the standards and procedures required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

The affiant says nothing further.



Mark A. Hooker, AIE, CPCU
Examiner in Charge

Subscribed and sworn before me by Mark A. Hooker on this 20th day of July 20, 2007.


Notary Public

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

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, Timothy R. Nutt, CIE and Charles L. Swanson also participated in the examination.

A handwritten signature in black ink, appearing to read 'M. Hooker', written over a horizontal line.

Mark A. Hooker, AIE, CPCU
Examiner-in-Charge



W. Va. Insurance Company

P. O. Box 196 ● Harrisville, WV 26362 ● 304-643-2772

RECEIVED

AUG 20 2007

August 17, 2007

WVIC LEGAL DIVISION

JANE L. CLINE
INSURANCE COMMISSIONER
POST OFFICE BOX 50540
CHARLESTON, W.V. 25305-0540

RE: DEC. 31, 2006 MARKET CONDUCT EXAM.

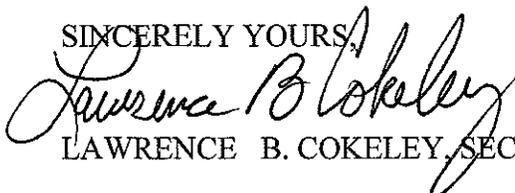
DEAR COMMISSIONER CLINE,

I HAVE RECEIVED THE COPY OF REPORT OF MARKET CONDUCT AS OF DECEMBER 31, 2006 FOR W. VA. INSURANCE COMPANY. I HAVE GONE OVER THE REPORT WITH MR. HOOKER AND UNDERSTAND ALL THE FINDINGS IN THE REPORT. I DO NOT DISAGREE WITH ANY OF THE INFORMATION IN THE REPORT.

I WOULD LIKE TO GIVE SOME MORE DETAILS TO SECTION **D PRODUCER LICENSING**. MR. HOOKER AND I HAVE DISCUSSED THIS AND UNDERSTAND WHAT HAPPENED. THE THREE AGENTS THAT WERE NOT COMPANY APPOINTED FOR A PORTION OF THE EXAM PERIOD HAD BEEN APPOINTED AND WERE LICENSED AGENTS DURING THE ENTIRE PERIOD. THE THREE AGENTS WERE REMOVED FROM W.VA.INSURANCE COMPANY APPOINTMENT LIST DUE TO PROBLEMS WITH INFORMATION ON THEIR CONTINUING EDUCATION. ALL WERE REINSTATED QUICKLY AS AGENTS BUT NOT ON THE COMPANY APPOINTMENT LIST. I CANNOT FIND RECORD OF BEING NOTIFIED THAT THESE AGENTS WERE REMOVED FROM OUR APPOINTMENT LIST. I HAD DISCOVERED THAT ONE OF THE AGENTS WAS NOT ON THE LIST IN JANUARY OF 2007 AND CORRECTED THAT. THE OTHER TWO WERE DISCOVERED WHILE THE EXAMINERS WERE HERE. ALL WERE CORRECTED IMMEDIATELY. I UNDERSTAND THAT I SHOULD HAVE CHECKED THE LIST OF APPOINTED AGENTS FOR EACH AGENT WHEN I SENT IN THE APPOINTMENT RENEWALS AND IT IS MY FAULT, BUT THIS WAS NOT DONE INTENSIONAL. WE DO TRY TO OPERATE AS INSTRUCTED BY THE INSURANCE CODE. IF YOU HAVE ANY QUESTION ABOUT THIS PLEASE FEEL FREE TO CALL ME.

I WOULD LIKE TO SAY THAT MARK HOOKER, TIM NUTT AND CHARLES SWANSON WERE GOOD TO WORK WITH AND THAT THEY WERE VERY CONSIDERATE OF THE COMPANY EMPLOYEES AND DID NOT DISRUPT THE DAILY OPERATIONS OF W.VA. INSURANCE COMPANY.

SINCERELY YOURS,


LAWRENCE B. COKELEY, SEC'Y/CEO

RECEIVED

AUG 20 2007

AGENTS LIC. & EL
WV INS COMM