

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**THE FARMERS FIRE INSURANCE COMPANY**  
York, Pennsylvania

**AS OF  
June 20, 2005**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: July 18, 2005**

VERIFICATION

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

*M. Katherine Sutton*

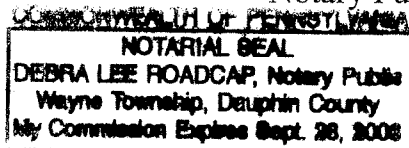
M. Katherine Sutton

Sworn to and Subscribed Before me

This *1<sup>st</sup>* Day of *April*, 2005

*Debra Lee Roadcap*

Notary Public



# THE FARMERS FIRE INSURANCE COMPANY

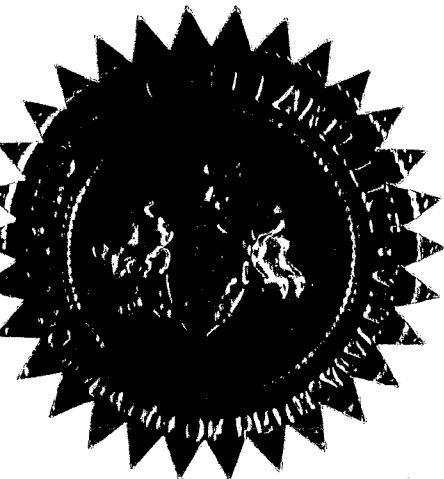
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



M. Diane Koken  
M. Diane Koken  
Insurance Commissioner

The Farmers Fire Insurance Company

Docket No.  
MC05-06-027

Market Conduct Examination as of the  
close of business on June 20, 2005

**ORDER**

A market conduct examination of The Farmers Fire Insurance Company was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, et seq., for the period July 1, 2003 through June 30, 2004. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

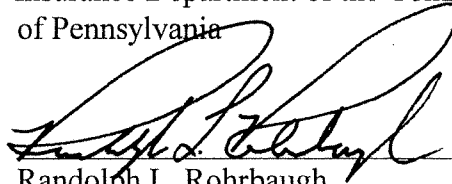
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with all recommendations contained in the attached Report.

4. Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth  
of Pennsylvania



(July 18, 2005)

Randolph L. Rohrbaugh  
Deputy Insurance Commissioner

## I. INTRODUCTION

The market conduct examination was conducted at The Farmers Fire Insurance Company's office located in York, Pennsylvania, from January 13, 2005, through January 27, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

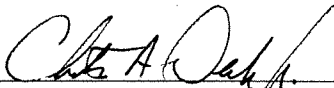
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

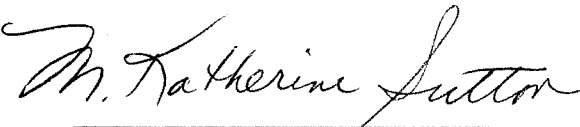
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

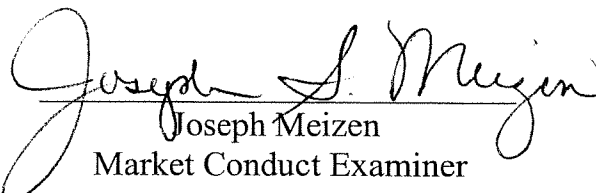
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

The undersigned participated in this examination and in preparation of this Report.

  
\_\_\_\_\_  
Chester A. Derk, Jr., AIE, HIA  
Market Conduct Division Chief

  
\_\_\_\_\_  
M. Katherine Sutton  
Market Conduct Examiner

  
\_\_\_\_\_  
Joseph Meizen  
Market Conduct Examiner



## **II. SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted on The Farmers Fire Insurance Company, hereinafter referred to as “Company,” at their office located in York, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2003, through June 30, 2004, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property
  - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and rescissions.
  - Rating – Proper use of all classification and rating plans and procedures.
2. Owner Occupied Dwelling Fire
  - Rating – Proper use of all classification and rating plans and procedures.
3. Commercial Property (Tenant Occupied Dwelling Fire)
  - Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations and renewals.
4. Claims
5. Forms

6. Advertising

7. Complaints

8. Licensing

### III. COMPANY HISTORY AND LICENSING

The Farmers Fire Insurance Company was organized April 6, 1853 under the title The Farmers' Mutual Fire Insurance Company on a cooperative basis and under an act of incorporation which provided for a continuation of twenty-four years. The name was changed to The Farmers' Mutual Fire Insurance Company of Pennsylvania on May 5, 1864. The present title was adopted on April 28, 1874. A perpetual charter was obtained on May 20, 1876.

#### LICENSING

The Farmers Fire Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on May 16, 1853. The Company is licensed in Pennsylvania and New York. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$10,454,306. Premium volume related to the areas of this review were: Fire \$1,843,525; Homeowners' Multiple Peril \$4,860,658; Commercial Multiple Peril (non-liability portion) \$1,853,581 and Commercial Multiple Peril (liability portion) \$728,060.

#### IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for personal and commercial property. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following finding was made:

*1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]*

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company required supporting business on all seasonal homeowner risks in their underwriting guide.

## V. UNDERWRITING

### **A. Personal Lines Property**

#### 1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

From the universe of 177 personal lines property policies, which were cancelled within the first 60 days of new business, 82 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 82 files selected were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 5%.

The following findings were made:

#### *3 Violations Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]*

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of

insurance. The 3 policies were cancelled due to lack of supporting business.

*1 Violation Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]*

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company refused to write a policy based on occupation.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which

cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 1,506 personal lines property policies, which were cancelled midterm during the experience period, 313 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 313 files requested were received and reviewed. The 11 violations noted were based on 9 files, which resulted in an error ratio of 3%.

The following findings were made:

*4 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company did not provide a proper reason for cancellation on the 4 files noted.

*2 Violations Insurance Company Law, Section 506.1 [40 P.S. §636.1]*

After-Death Continuation of Basic Property Insurance. Basic property insurance shall be continued one hundred and eighty days after the death of the named insured on the policy or until the sale of the property, whichever event comes first, provided that the premiums for the coverage are paid. The Company canceled the policies within 180 days of the insured's death.

*5 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]*

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The 5 violations noted were the result of cancellation notices being issued without the required information.

3. Nonrenewals

A nonrenewal is considered to be any policy, which was not renewed, for a specific reason, at the normal twelve-month anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

The universe of 42 personal lines property policies, which were nonrenewed during the experience period was selected for review. The



property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. Of the 42 files requested, 41 were received and reviewed. The 28 violations noted were based on 25 files, resulting in an error ratio of 60%.

The following findings were made:

*21 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 21 violations were due to an improper reason to nonrenew the policy.

*1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]*

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the

Department may readily verify whether the Company has complied with the laws of this Commonwealth. The file noted was not produced by the Company.

*3 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]*

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The 3 violations noted were the result of cancellation notices being issued without the required information.

*3 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]*

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”. The 3 violations noted were the result of cancellation notices being issued without the required information.

4. Rescissions

A rescission is any policy, which was void *ab initio*.

The primary purpose of the review was to determine compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes conditions under which cancellation of a policy is permissible along with the form requirements of the rescission notice.

The universe of 45 personal lines property policies, which were rescinded, was selected for review. The files selected were received and reviewed. The files consisted of homeowners and tenant homeowners. No violations were noted.

## **B. Commercial Property**

### **1. 60-Day Cancellations**

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60<sup>th</sup> day unless the policy provides for a longer period of notification.

The universe of 56 tenant occupied policies, which were cancelled within the first 60 days was selected for review. All 56 files were received and reviewed. No violations were noted.

### **2. Midterm Cancellations**

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

From the universe of 765 tenant occupied dwelling fire policies, which were cancelled during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 11 violations noted were based on 8 files, resulting in an error ratio of 8%.

The following findings were made:

*2 Violations Act 86, Section 2 [40 P.S. §3402]*

Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The 2 files noted were cancelled for other than permitted reasons.

*1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]*

Requires that a cancellation notice shall state the specific reasons for cancellation. The reasons shall identify the condition, factor or loss experience, which caused the cancellation. The notice shall provide sufficient information or data for the insured to correct the deficiency. The file noted was absent any evidence this requirement was complied with.

*8 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]*

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured,

whichever is less. The 8 files noted were absent any evidence this requirement was complied with.

### 3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

The universe of 16 tenant occupied dwelling fire policies identified as nonrenewals by the Company was selected for review. All 16 files selected were received and reviewed. The 26 violations were based on 16 files, resulting in an error ratio of 100%.

The following findings were made:

#### *10 Violations Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)]*

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The 2 files noted were absent any evidence this requirement was complied with.

#### *16 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]*

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured,

whichever is less. The 16 files noted were absent any evidence this requirement was complied with.

#### 4. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 4,735 tenant occupied dwelling fire policies, which were renewed during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

## VI. RATING

### **A. Homeowners**

#### 1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

From the universe of 2,923 homeowner policies written as new business without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following finding was made:

*1 Violation Act 246, The Casualty and Surety Rate Regulatory Act,  
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in

accordance with filings or rates, which are in effect at the time of issue. The Company did not apply proper rates in the file noted. This resulted in undercharge of \$20.

## 2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

### Homeowner – Renewals Without Surcharges

From the universe of 11,589 homeowner policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

### Homeowner – Renewals With Surcharges

The universe of 28 homeowner policies renewed with surcharges during the experience period was selected for review. All 28 files selected were received and reviewed. No violations were noted.



## **B. Dwelling Fire**

### **1. New Business**

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

From the universe of 97 dwelling fire policies written as new business during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

### **2. Renewals**

A renewal is considered to be any policy which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The Company did not report any dwelling fire renewals during the experience period.

## VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Dwelling Fire Claims

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

### **A. Homeowner Claims**

From the universe of 895 homeowner claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 3%.

The following findings were made:

*1 Violation Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such

investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violation noted was absent any evidence this requirement was complied with.

*2 Violations Title 31, Pa. Code, Section 146.7(a)(1)*

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 2 violations noted resulted from failure to reference the specific policy provision, condition or exclusions as required in the denial letter.

**B. Dwelling Fire Claims**

From the universe of 280 dwelling fire claims reported during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 4%.

The following findings were made:

*1 Violation Title 31, Pa. Code, Section 146.5(a)*

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made

in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

*1 Violation Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violation noted was absent any evidence this requirement was complied with.

*1 Violation Title 31, Pa. Code, Section 146.7(a)(1)*

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The violation noted resulted from failure to provide a denial letter to the claimant within 15 working days.

### **VIII. FORMS**

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Act 6 of 1990 [75 Pa. CS §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. No violations were noted.

## **IX. ADVERTISING**

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 54 pieces of advertising which included brochures, agency appointment kits and magazine advertising. Internet advertising was also reviewed. No violations were noted.

## **X. CONSUMER COMPLAINTS**

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 24 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 24 complaints reported, were selected and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. 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 following findings were made:

### *2 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any

premium when due or for any other reasons approved by the Commissioner. The 2 violations noted were due to an improper reason for cancellation.

The following synopsis reflects the nature of the 24 complaints that were reviewed.

• 17	Cancellation/Nonrenewal	71%
• 6	Claims Related	25%
• 1	Premium Related	4%
<hr/> 24		<hr/> 100%



## *XI. LICENSING*

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files, applications, agency contracts and commission statements were also checked to verify proper licensing and appointment.

The following findings were made:

*2 Violations Insurance Department Act, No. 147, Section 641.1A*

*[40 P.S. §310.41a]*

(a) Any insured entity or licensee accepting applications or orders for insured or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5,000.00 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

The following producers were found to be writing and/or soliciting policies, but was not found in Insurance Department records as holding a Pennsylvania producer license.

H. Dean Allison  
Gordon-Smith Insurance Agency

*3 Violations Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)*

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineate the services to be provided; and

(2) Provide full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Insurance Service of Pitt  
S & S Financial Services  
Homer Martin

## *XII. RECOMMENDATIONS*

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
2. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.
3. The Company must review Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.
4. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, claim acceptance and denials as noted in the Report do not occur in the future.
5. The Company must review Act 246, Section 4 [40 P.S. §1184] and take appropriate measures to ensure the homeowner rating violation listed in the report does not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2 and 3 [40 P.S. §§3402 and 3403], so that the violations noted in the Report do not occur in the future.
  
7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1-A [40 P.S. §310.41a] and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from a producer.

**XIII. COMPANY RESPONSE**

# *The Farmers Fire Insurance Company*

2875 Eastern Boulevard, P.O. Box 20189

York, Pennsylvania 17402-0140

Ph. 717-751-4435 Fax 717-840-3738

www.farmersfire.com

**Pioneers in Protection**

**Incorporated- 1853**

July 14, 2005

Commonwealth of Pennsylvania  
Insurance Department  
Bureau of Enforcement  
Attn: Chester A. Derk, Jr., AIE, HIA  
1321 Strawberry Square  
Harrisburg, PA 17120

RE: Examination Warrant Number: 04-M17-046

Dear Mr. Derk:

I would like to thank the Pennsylvania Insurance Department's Market Conduct Division for the professionalism and expedient examination of The Farmers Fire Insurance Company with respect to Examination Warrant Number: 04-M17-046.

I would also like to thank you for the knowledge you provided us in areas where we were not in compliance.

In the following paragraphs I will discuss the reasons why Farmers made the violations cited by the Market Conduct division and the actions implemented to correct these errors. In this summation I will make reference to the pages in the report of examination dated June 20, 2005 delivered to Farmers by UPS overnight delivery.

The response to the one violation on page six is as follows: Farmers has always maintained very conservative underwriting guidelines and believed that it had the right to accept only business within those parameters.

The response to the three violations on page seven and further defined on page eight is the same as previously stated in the prior violation. Corrections to both of these violations have been implemented in the companies underwriting guidelines.

The response to the midterm cancellations as defined on pages eight, nine and ten were done by human error. Corrective underwriting education has been given to current employees and will be given to all future employees.

The response to the nonrenewals as defined on page ten, and referred to by the specific violation located on page eleven have been addressed by the implementation of new and improved underwriting standards to make sure both current and future employees do not make similar errors.

The response to the violation on nonrenewals as described on page ten and further described on page eleven is that we agree with the Department's ruling and have implemented training for both current and future employees to avoid any future errors.

The response to the singular violation in this class described on the ending paragraph on page eleven and further described on the top paragraph of page twelve is that Farmers in good faith could simply not locate the file. In the insurance industry, it is unfortunate that this type of mistake happens, but almost inevitable due to large amounts of policies involved.

The response to the three violations on act 205, Section 5(a)(9)(v) 40 P.S.1171.5(a)(9)(v)} is that Farmers had changed the cancellation form from an outside contractor which contained boxes to be checked that were formerly part of the form. Therefore the employees completing the form did not check the appropriate boxes.

Though the information was there, it was not done as required. All current employees have been advised of this error and future employees will be advised of the proper manner to complete the required notice. Furthermore, Farmers has implemented a policy to review all forms from outside vendors to make sure it complies with current state regulation.

The response to the midterm cancellation as described on page thirteen and further expanded on page fourteen, with reference to Act 86, Section 3 {40 P.S. 3403} is as follows: Farmers has advised current employees and will advise all future employees of the unfortunate mistake made to insure that proper compliance will be made. With respect to Act 86, Section 3(a)(5) {40 P.S. 3403 (a)(5)} Farmers has advised current and will advise future employees of the proper manner to comply with current and future codes of regulation. The final noncompliance issue on page fourteen and expanded upon on page fifteen, under Act 86, Section 3(a)(6) {40 P.S. 3403(a)(6)} and Act 86, Section 3, was previously addressed as an error due to form change and has been addressed from a managerial standpoint.

The response to the rating error described on pages seventeen and eighteen were due to human error and were discussed with the Department and resolved as requested.

With respect the very few violations in the claims sections pages twenty, twenty-one and twenty-two is depicted in the following two paragraphs. Please note that we have made astronomical strides in this category since our last review and appreciate the guidance of the department to properly do business with our insureds.

We have reviewed and revised, where necessary, the internal controls regarding timely status letters, claim acceptance, and denials. Our independent adjusters are once again being advised of the importance of timely follow-ups on every claim submitted.



Furthermore, the program our company put in place with guidance from the Department after our previous review, has enabled our staff to implement methods of compliance that are much simpler and efficient from a company standpoint and much better serving to the consumer. This is evidenced by the drastic reductions in claims violations.

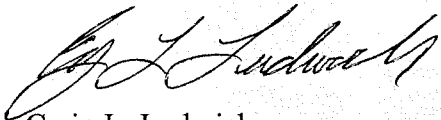
The response to the two violations on consumer complaints, pages twenty-five and twenty-six, is that we have again taken internal control measures to insure proper action in future events.

The response to the violations in reference to agency licensing on pages twenty-seven, twenty-eight and twenty-nine is that Farmers is currently addressing each entity for proper compliance and will continue to monitor each agency on a quarterly basis.

The recommendation section, pages thirty and thirty-one, have been addressed in the body of this response letter. If not specifically defined within this letter, be advised that we have reviewed the list and will implement the recommendations of the Department as requested.

Once again I thank you for the wisdom and guidance of the Department to provide Farmers with the ability to provide quality insurance to our insured within the terms of the law.

Sincerely,



Craig L. Ludwick  
Assistant Secretary/Underwriter