

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**FARMERS MUTUAL FIRE INSURANCE
COMPANY OF MARBLE, PENNSYLVANIA**
Marble, Pennsylvania

**AS OF
September 23, 2008**

COMMONWEALTH OF PENNSYLVANIA

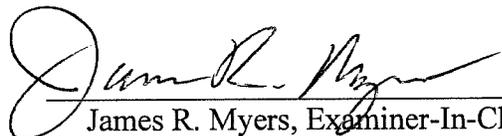


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 27, 2008

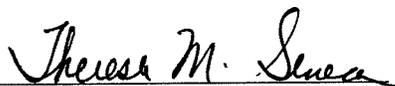
VERIFICATION

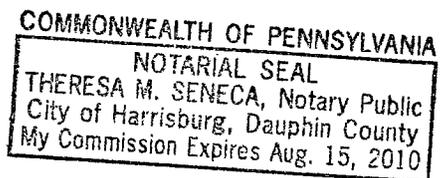
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 4 Day of *September*, 2008


Notary Public



**FARMERS MUTUAL FIRE INSURANCE COMPANY OF
MARBLE, PENNSYLVANIA**

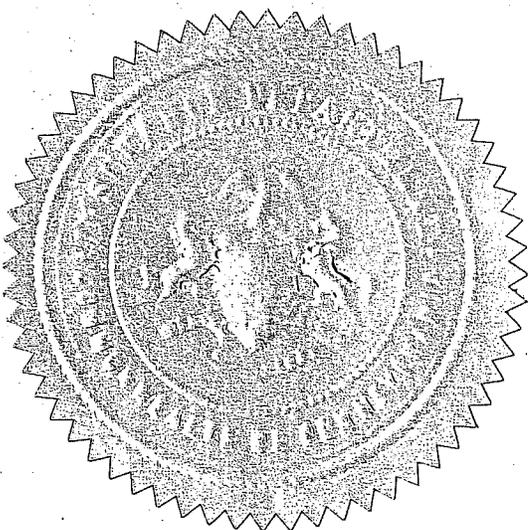
TABLE OF CONTENTS

Order		
I.	Introduction.....	1
II.	Scope of Examination.....	3
III.	Company History/Licensing.....	5
IV.	Underwriting Practices and Procedures.....	6
V.	Underwriting	
	A. Property.....	7
	B. Commercial Property.....	11
VI.	Rating	
	A. Homeowners.....	15
	B. Tenant Homeowners.....	16
	C. Dwelling Fire.....	17
VII.	Claims.....	19
VIII.	Forms.....	21
IX.	Advertising.....	22
X.	Consumer Complaints.....	23
XI.	Licensing.....	25
XII.	Recommendations.....	27
XIII.	Company Response.....	29

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22nd day of July, 2008, 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 Ronald A. Gallagher, 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.





Joel S. Ario
Insurance Commissioner

Farmers Mutual Fire Insurance Company
Of Marble, Pennsylvania
Market Conduct Examination as of the
close of business on September 23, 2008

Docket No.
MC08-10-008

ORDER

A market conduct examination of Farmers Mutual Fire Insurance Company Of Marble, Pennsylvania (referred to herein as "Respondent") was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. §323.1, et seq., for the period January 1, 2007 through December 31, 2007. 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:

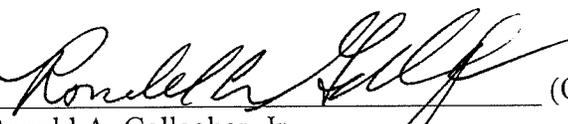
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania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

3. Respondent shall comply with the recommendation 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



Ronald A. Gallagher, Jr. (October 27, 2008)
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Farmers Mutual Fire Insurance Company of Marble, Pennsylvania's office located in Marble, Pennsylvania, from May 27, 2008, through June 12, 2008. 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%.

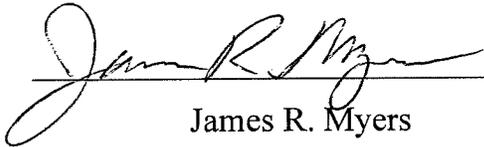
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel 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.

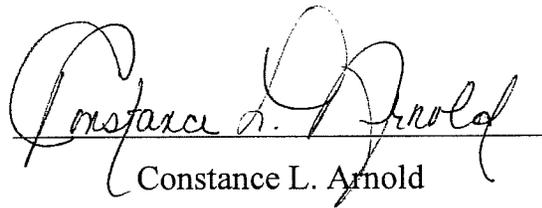
The undersigned participated in this examination and in preparation of this Report.



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



James R. Myers
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Farmers Mutual Fire Insurance Company of Marble, Pennsylvania, hereinafter referred to as “Company,” at their office located in Marble, 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 January 1, 2007, through December 31, 2007, 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. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and renewals.
3. Claims
4. Forms
5. Advertising

6. Complaints

7. Licensing

III. COMPANY HISTORY AND LICENSING

Farmers Mutual Fire Insurance Company of Marble, Pennsylvania was incorporated on June 23, 1884, under the laws of the Commonwealth of Pennsylvania as the Farmer's Mutual Insurance Company of Jamestown, Clarion County, Pennsylvania. On November 12, 1947, the current title was adopted.

On April 30, 1980, the Company assumed the assets, liabilities and other obligations of the Jamestown Mutual Windstorm Insurance Company.

On January 1, 1986, the Company assumed the management and control of Clarion County Mutual of Clarion, Pennsylvania. The Company was not merged into the Farmers Mutual Fire Insurance Company, but maintained as a separate company under common management.

On December 31, 2002, the Farmers Mutual Fire Insurance Company obtained the assets and liabilities of the Freehold Mutual Insurance company of Bear Lake in a reinsurance assumption transaction.

LICENSING

Farmers Mutual Fire Insurance Company of Marble, Pennsylvania's Certificate of Authority to write business in the Commonwealth was issued on January 23, 1884. The Company is licensed in Pennsylvania. The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$10,244,366. Premium volume related to the areas of this review were: Fire \$3,327,505; Farm Owners Multiple Peril \$1,190,666; Homeowners Multiple Peril \$4,834,132; Commercial Multiple Peril (Non-liability portion) \$375,763 and Inland Marine \$130,217.

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. Agency bulletins and underwriting guides were furnished for homeowners, dwelling fire and commercial lines. 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.

No violations were noted.

V. UNDERWRITING

A. 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 62 property policies which were cancelled within the first 60 days of new business, 43 files were selected for review. The property files consisted of homeowner, mobile homeowner, tenant homeowner and owner occupied dwelling fire. All 43 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 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 1,674 property policies which were cancelled midterm during the experience period, 45 files were selected for review. The property files consisted of homeowner, mobile homeowner, tenant homeowner and owner occupied dwelling fire. All 45 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 7%.

The following findings were made:

1 Violation Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)]

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective.

The Company cancelled the policy for an improper reason.

The reason for cancellation was: “Does not meet underwriting requirements – three aggressive dogs”.

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

Requires that 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 occurs first provided that the premiums for the coverage are paid. The Company cancelled the policy within 180 days of the death of the named insured for the 2 files noted.

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 9 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowner and owner occupied dwelling fire. All 9 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 33%.

The following findings were made:

3 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 nonrenewed

the 3 files noted for an improper reason. The reason for nonrenewal was: "Agent no longer represents the Company".

The following concern was made:

Concern: The Company writes vacant and unoccupied dwellings as an accommodation to their producers. Should the vacancy or unoccupancy go for an extended period of time, it is the Company's practice to issue a nonrenewal notice well in advance of the time required. It is recommended that the Company notify the insured directly by letter at least 6 months in advance that if the vacancy or unoccupancy continues it will be considered an increase in hazard and a notice of nonrenewal will be issued prior to the expiration date of the policy.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

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)], discriminatory reasons.

From the universe of 102 personal property applications declined during the experience period, 31 files were selected for review. The files consisted of homeowner, mobile homeowner, tenant homeowner and inland marine. All 31 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

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 cannot decline to write the policy based on lack of supporting coverage.

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 60th day unless the policy provides for a longer period of notification.

The universe of 26 commercial property policies cancelled within the first 60 days of new business was selected for review. The files consisted of commercial package, commercial fire and tenant occupied dwelling fire. All 26 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 605 commercial property policies cancelled midterm during the experience period, 41 files were selected for review. The commercial property files consisted of commercial package, commercial inland marine, commercial fire, farm owners and tenant occupied dwelling fire. All 41 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 15%.

The following findings were made:

1 Violation 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 file noted was cancelled for other than permitted reasons. The reason for cancellation was: "Does not meet underwriting requirements".

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

Requires that a cancellation notice must be forwarded to the named insured or insureds at least 60 days in advance of the effective date of termination. The Company did not provide at least 60 days notice of cancellation for the 5 files noted.

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.

From the universe of 107 commercial property policies nonrenewed during the experience period, 6 files were selected for review. The commercial property files consisted of tenant occupied dwelling fire, commercial fire and farm owners. All 6 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 33%.

The following findings were made:

2 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 Company did not provide at least 60 days notice of nonrenewal for the 2 files noted.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices.

The universe of 23 commercial property declinations reported by the Company during the experience period was selected for review. The commercial property files consisted of commercial fire, commercial package and farm owners. All 23 files were received and reviewed. No violations were noted.

5. 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 4,522 commercial property policies renewed during the experience period, 50 files were selected for review. The commercial property files consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine and commercial package. All 50 files 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.

Homeowner Rating – New Business Without Surcharges

From the universe of 1,005 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files 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 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 Rating – Renewals Without Surcharges

From the universe of 9,958 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Tenant 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.

Tenant Homeowner Rating – New Business Without Surcharges

From the universe of 105 tenant homeowner policies written as new business without surcharges during the experience period, 25 files were selected, 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 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.

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 468 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. 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.

Dwelling Fire Rating – New Business Without Surcharges

From the universe of 559 dwelling fire policies written as new business without surcharges, 25 files were selected for review. All 25 files 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 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.

Dwelling Fire Rating – Renewals Without Surcharges

From the universe of 3,443 dwelling fire policies renewed without surcharges, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

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 598 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall

be advised of the acceptance or denial of the claim by the insurer. The Company failed to accept or deny the claim within 15 working days of receipt of the proof of loss in 2 of the claim files noted. The Company failed to deny the claim in writing for the remaining claim file noted.

B. Dwelling Fire Claims

From the universe of 173 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

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)] , which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

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).

The Company provided 2 pieces of advertising in use during the experience period, which included an ad layout and an annual statement to policyholders. The Company's internet web site 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 16 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 16 complaints were requested, received 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:

5 Violations Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)]

Requires an insurer to maintain a complete record of all the complaints, which it has 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 time it took to process each complaint. The Company did not maintain complete complaint records for 2003, 2004, 2005, 2006 and 2007. The complaint logs failed to reflect the disposition of each complaint.

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 Company did not provide a timely status letter for the claim noted.

The following synopsis reflects the nature of the 16 complaints that were reviewed.

13	Cancellation/Nonrenewal	81%
3	Claims	19%
<hr/>		<hr/>
16		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

The following findings were made:

4 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) Delineates the services to be provided; and
 - (2) Provides 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.

East Lake Insurance, Inc.
Nesmith Insurance Agency, LLC
Spectrum Insurance Services, Inc.
First National Insurance Agency, LLC

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 that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
2. 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.
3. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.
4. 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.
5. 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.

6. The Company must ensure all producers are properly appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

7. The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)], to ensure that the violations relative to complaint records noted in the Report does not occur in the future.

IX. COMPANY RESPONSE



Farmers Mutual Fire Insurance Company

of Marble, PA

Phone: 814-354-7315

Fax: 814-354-7347

October 21, 2008

Mr. Chester A. Derk, Jr., AIE, HIA
Market Conduct Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1227 Strawberry Square
Harrisburg, PA 17120

RE: Examination Warrant Number: 08-M22-002

Dear Mr. Derk:

This is in response to your Report of Examination dated September 23, 2008.

All of the recommendations listed have been responded to by way of strengthened procedures and education of the staff. The following provides specific steps taken:

Response:

1. The Company has reviewed Act 205 Section 5 (a) (9) [40 P.S. §1171.5(a)(9)] and corrected our internal procedures regarding cancellation and non-renewal; has reinforced such with our underwriting department; and will be continuing audits of their work. Some of these violations were for acceptable reasons that were not listed correctly on the notices. In response to the recommendation, the Company has instituted a procedure wherein a letter is being mailed to the insured and the agent six months prior to the non-renewal of a vacant dwelling to advise the insured that the Company intends to non-renew the vacant dwelling.
2. Prior to the commencement of the examination, the Company had reviewed Insurance Company Law, Section 506.1 and corrected internal procedures as per regarding the cancellation of property insurance after the death of the insured. At the time the law was enacted, the company interpreted it to mean that only basic coverages must be maintained. As soon as the Company learned that the intention was to continue the existing broader coverage, we amended our procedures to comply. The noted violations were during the time period prior to our correction.
3. Prior to the commencement of the examination, the Company had reviewed Act 205, Section 5(a)(4) [40 P.S. § 1171.5(a)(4)] and corrected internal procedures to remove any reference to supporting coverage being required to write what were considered to be



Farmers Mutual Fire Insurance Company

of Marble, PA

Phone: 814-354-7315

Fax: 814-354-7347

accommodation lines. The noted violations were during the time period prior to our correction.

4. The Company has revised procedures to ensure compliance relative to commercial cancellation and non-renewal requirements of Act 86, Sections 2 and 3 [P.S. §§3402 and 3403]; has reinforced such with our underwriting department; and will be continuing audits of their work.
5. The Company reviewed and has corrected internal procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices, so that violations relating to status letters and claim acceptance and denials as noted in the report do not occur in the future.
6. To ensure that all producers are properly appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer the Company has revised internal procedures as follows. We have received a report from Sircon to compare the license information our company has on file with the Department with our records to insure that the two lists are identical. This procedure will be done on a regular basis in the future.
7. The Company has reviewed Act 205, Section 5(a)(11) [40 P.S. § 1171.5(a)(11)], and corrected our complaint records to show the correct disposition of the complaint. We had misinterpreted what was required under this heading.

We were pleased with the efficiency and professionalism of James R. Myers, your market conduct examiner.

Farmers Mutual strives to do what is fair for all those associated with us. We have a strong focus on compliance with the laws and regulations of the state. We are pleased that our employees were responsive to the needs of your examiner and that the violations found were mostly errors of days for required notices and none where incorrect premiums were charged or loss adjustments in dispute. We are committed to eliminate the type of violations that were found.

Sincerely,

Farmers Mutual Fire Insurance Company
Of Marble, Pennsylvania

Robert A. Fitzsimmons, President/CEO