



**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

MARKET CONDUCT  
EXAMINATION REPORT

OF

**FARMERS FIRE  
INSURANCE COMPANY**  
YORK, PA

As of: October 25, 2021  
Issued: December 1, 2021

**BUREAU OF MARKET ACTIONS  
PROPERTY AND CASUALTY DIVISION**



PENNSYLVANIA INSURANCE DEPARTMENT
EXAMINATION VERIFICATION

I, Nanette R. Soliday, Market Conduct Examiner II from
(Name of Examiner) (Title of Examiner)

The Pennsylvania Insurance Department, certify that I was the Examiner-In-Charge of the Report of
(Name of Vendor/Department)

Examination of Farmers Fire Insurance Company made as of 10/22/21
(Name of Examined Company) (Date)

The last date of examination file review was 9/20/21 and the written Report
(Date)

of Examination was reviewed and accepted by Paul E. Towsen, III
(Chief of Market Conduct Examiner)

on 10/22/21
(Date)

I have reviewed the completed written Report of Examination and certify that the facts and figures recited therein are true and accurate, according to the records, documents and other evidence obtained during the course of the examination.

Nanette R. Soliday
(Examiner-in Charge)

Pennsylvania Insurance Department
(Name of Vendor/Department)

Bureau of Market Actions, 1321 Strawberry Square Harrisburg, PA 17120
(Address of Vendor/Department)

Nanette Soliday
(Examiner in Charge Signature)

10/22/21
(Date)

IN ORDER TO SATISFY SECTION 40 P.S. § 323.5(b), THAT PROVIDES FOR NO LONGER THAN SIXTY (60) DAYS FROM THE COMPLETION OF THE EXAMINATION, THE EXAMINER IN CHARGE SHALL FILE WITH THE DEPARTMENT A VERIFIED WRITTEN REPORT OF EXAMINATION UNDER OATH.

**FARMERS FIRE INSURANCE COMPANY**  
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

**ORDER**

AND NOW, this \_\_3rd\_\_ day of \_September, 2021, 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 David J. Buono Jr., Acting 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.



*Jessica K. Altman*

\_\_\_\_\_  
Jessica K. Altman  
Insurance Commissioner



2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

### FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Farmers Fire Insurance Company, and maintains its address at 2875 Eastern Blvd, York, PA 17402.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2020 through December 31, 2020.
- (c) On October 25, 2021, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on November 15, 2021.

- (e) The Market Conduct Examination of Respondent revealed violations of the following:
- (i) 40 P.S. §323.3(a), requires every company subject to examination to keep all books, records, accounts, papers, documents and any computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require in order that its representatives may readily ascertain whether the company has complied with the laws of this Commonwealth;
  - (ii) 40 P.S. §1171.5(a)(8), states that “Unfair Methods of Competition” and “Unfair or Deceptive Act or Practices” prohibits unfairly discriminating by means except as otherwise expressly provided by law, knowingly permitting or offering to make or making any contract of insurance, or agreement as to such contract other than as plainly expressed in the insurance contract issued thereon, or paying or allowing, or giving or offering to pay, allow or give as inducement to such insurance, any rebate of premiums payable on the contract, or any special favor or advantage in the dividends or other benefits thereon, or any valuable consideration, inducement or anything of value whatsoever which is not specified in the contract;
  - (iii) 40 P.S. §1171.5(a)(9), prohibits cancellation of 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;

- (iv) 40 P.S. §1171.5(a)(9)(ii), prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
  
- (v) 40 P.S. §1224(a)&(i), 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, except as to inland marine risks, 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;

- (vi) 31 Pa. Code §59.9(b), requires an insurer give at least 30 days notice of termination and give that notice no later than the 60th day;

#### CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of 40 P.S. §§1171.5(a)(8), 1171.5(a)(9), and 1171.5(a)(9)(ii) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):
  - (i) cease and desist from engaging in the prohibited activity;
  - (ii) suspension or revocation of the license(s) of Respondent.
- (c) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
  - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (d) Violations of 1224(a)&(i) are punishable by the following under the Fire and Marine Insurance Act (40 P.S. §1235):
- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such willful violation;
  - (ii) suspension of the license of any rating organization or insurer, which fails to comply with an order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

### ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall pay Eight Thousand Dollars (\$8,000.00) in settlement of all violations contained in the Report.
- (c) Payment of this matter shall be made to the Commonwealth of Pennsylvania. Payment should be directed to Paul Townsen, Insurance Department, Bureau of Market Actions, 1209 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.
- (d) 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.
- (e) Respondent shall comply with all recommendations contained in the attached Report.

6. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Department may enforce the provisions of this Order in an

administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegate is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained

herein, and this Consent Order is not effective until executed by the Insurance  
Commissioner or a duly authorized delegee.

BY: FARMERS FIRE INSURANCE COMPANY  
Respondent

DocuSigned by:  
*Craig Ludwick*  
02904E09CA6144A  
\_\_\_\_\_  
President / Vice President

DocuSigned by:  
*Gregory W. Cullerton*  
AF9C7EA9871520B  
\_\_\_\_\_  
Secretary / Treasurer

*David Buono*  
\_\_\_\_\_  
DAVID BUONO  
Acting Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## **I. INTRODUCTION**

The Market Conduct Examination of Farmers Fire Insurance Company, hereinafter referred to as “Company”, was conducted at the Pennsylvania Insurance Department beginning August 4, 2021. There was no onsite portion of the exam.

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 following examiners participated in this examination and in preparation of this Report.

Paul Towsen, MCM  
Market Conduct Division Chief  
Pennsylvania Insurance Department

Joshua Gotwalt, MCM  
Market Conduct Examiner II  
Pennsylvania Insurance Department

David Kelly, MCM  
Market Conduct Examiner I  
Pennsylvania Insurance Department

Vern Schmidt, MCM  
Market Conduct Examiner II  
Pennsylvania Insurance Department

Nanette Soliday, MCM  
Market Conduct Examiner II, EIC  
Pennsylvania Insurance Department

## **II. SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted on Farmers Fire Insurance Company, at the Pennsylvania Insurance Department, located in Harrisburg, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act of 1921 and covered the experience period of January 1, 2020, through December 31, 2020, 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 Property
  - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations, and rescissions.
  - Rating – Proper use of all classification and rating plans and procedures.
  
2. Complaints
  
3. Forms
  
4. Data Integrity
  
5. MCAS Reporting
  - Personal Property

### **III. COMPANY HISTORY**

The Farmers Mutual Fire Insurance Company was chartered by an act of legislature of the Commonwealth of Pennsylvania on April 6, 1853. The business of the company was prescribed to be the insurance of the members' homes, barns and other buildings and their household and personal property against loss or damage by fire in the counties of York, Cumberland, Perry, Dauphin, Lebanon, and Lancaster. In 1870, Farmers Fire began to write insurance in other states. As the company grew, the word "Mutual" was dropped from the company name. In 1940 a period of considerable expansion began, and the company wrote business in 33 states through general agencies. By the early 1960's, business produced was found to be less profitable. Farmers Fire left the general agency side of the market during the 1960's and concentrated on the states of Pennsylvania and New York, writing business exclusively produced by appointed independent agencies.

### **LICENSING**

Farmers Fire Insurance Company's last Certificate of Authority to write business in the Commonwealth was last issued on May 16, 1853. The Company is licensed in Pennsylvania and New York. The Company's 2020 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$19,332,137. Premium volume related to the areas of this review were: Homeowners Multiple Peril \$6,862,832.

## **IV. UNDERWRITING**

### **A. Personal Property**

#### 1. 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 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.

From the universe of 215 property policies which were nonrenewed during the experience period, 72 files were selected for review. The property policies reviewed consisted of 50 homeowners, seven manufactured homeowners, nine tenant homeowners, and six owner occupied dwelling fire policies. All 72 files requested were received and reviewed. There were no violations noted.

#### 2. Mid-term Cancellations

A mid-term cancellation is any policy that terminates at any time other than the normal 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 2,929 property policies which were cancelled midterm during the experience period, 210 files were selected for review. The property files consisted of 75 homeowners, 50 manufactured homeowners, 50 tenant homeowners, and 35 owner occupied dwelling fire policies. All 210 files were received and reviewed. Of the 210 homeowner files reviewed, two files were identified as a property nonrenewals. The entire universe of property midterm non-pay cancellations with no payment received (281) was also reviewed. The overall sample was 451. The 403 violations noted were based on 205 files, resulting in an error ratio of 45%.

The following findings were made:

*198 Violations 40 P.S. §1171.5(a)(8)*

States that “Unfair Methods of Competition” and “Unfair or Deceptive Act or Practices” prohibits unfairly discriminating by means except as otherwise expressly provided by law, knowingly permitting or offering to make or making any contract of insurance, or agreement as to such contract other than as plainly expressed in the insurance contract issued thereon, or paying or allowing, or giving or offering to pay, allow or give as inducement to such insurance, any rebate of premiums payable on the contract, or any special favor or advantage in the dividends or other benefits thereon, or any valuable consideration, inducement or anything of value whatsoever which is not specified in the contract. The Company provided coverage past the termination date without receiving payment for the 198 files noted.

*2 Violations 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 whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner. The Company failed to provide a valid reason for midterm cancellation for the two files noted.

*5 Violations 40 P.S. §1171.5(a)(9)(ii)*

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 whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. (ii) - 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 issued a cancellation notice that did not provide 30 days mailing notice prior to the the cancellation effective date for the five files noted.

*198 Violations 40 P.S. §1224(a)&(i)*

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 failed to issue policies in accordance with the Company's filed and approved rating

plan. The Company provided coverage past the termination date without receiving payment for the 198 files noted.

**CONCERN:** The Company is sending a Notice of Cancellation with no address and phone number to contact The Fair Plan. The Company should add the telephone number and address of The Fair Plan so the insured can contact if needed.

### 3. 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 384 property policies which were cancelled within the first 60 days of new business, 140 files were selected for review. The property files consisted of 75 homeowners, 25 manufactured homeowners, 25 tenant homeowners, and 15 owner occupied dwelling fire policies. All 140 files requested were received and reviewed. The entire universe of property 60-day non-pay cancellations with no payment received (28) was also reviewed. The overall sample was 157. The 57 violations noted were based on 29 files, resulting in an error ratio of 18%.

The following findings were made:

*1 Violation 31 Pa. Code §59.9(b)*

The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel a policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The Company issued a notice of cancellation that did not provide 30 days mailing notice prior to the cancellation effective date for the file noted.

*28 Violations 40 P.S. §1171.5(a)(8)*

States that "Unfair Methods of Competition" and "Unfair or Deceptive Act or Practices" prohibits unfairly discriminating by means except as otherwise expressly provided by law, knowingly permitting or offering to make or making any contract of insurance, or agreement as to such contract other than as plainly expressed in the insurance contract issued thereon, or paying or allowing, or giving or offering to pay, allow or give as inducement to such insurance, any rebate of premiums payable on the contract, or any special favor or advantage in the dividends or other benefits thereon, or any valuable consideration, inducement or anything of value whatsoever which is not specified in the contract. The Company provided coverage past the termination date without receiving payment for the 28 files noted.

*28 Violations 40 P.S. §1224(a)&(i)*

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 failed to issue policies in accordance with the Company's filed and approved rating plan. The Company provided coverage past the termination date without receiving payment for the 28 files noted.

The following concern was noted:

**CONCERN:** The Company is sending a Notice of Cancellation with no address and phone number to contact The Fair Plan. The Company should add the telephone number and address of The Fair Plan so the insured can contact if needed.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

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

The universe of 31 property declinations was selected for review. All 31 files requested were received and reviewed. There were no violations noted.

#### 5. Rescissions

A rescission is any policy which was void ab initio by the Company.

The primary purpose of the review was to determine compliance with Act 205, which establishes conditions under which action by the insurer is prohibited. The review also determines compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

There were no homeowner property rescissions for the experience period.

## V. RATING

### **A. Personal Property**

#### 1. New Business

New business, for the purpose of this examination, is 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 247, the Fire, Marine, and Inland Marine Rate Regulatory Act, Sections 4(a) and (i) (40 P.S. §1224(a), (i)), 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 1,084 homeowner policies identified as new business without surcharges by the Company, 75 files were selected for review. All 75 policy files requested were received and reviewed. There were no violations noted.

#### Homeowner Rating – New Business with Surcharges

The universe of 33 homeowners policies identified as new business with surcharges by the Company was selected for review. All 33 policy files requested were received and reviewed. There were no violations noted.

Tenant Homeowners Rating – New Business without Surcharges

From the universe of 179 tenant homeowner policies identified as new business without surcharges by the Company, 30 files were selected for review. All 30 policy files requested were received and reviewed. There were no violations noted.

Tenant Homeowners Rating – New Business with Surcharges

The universe of two tenant homeowner policies identified as new business with surcharges by the Company was selected for review. Both policy files requested were received and reviewed. There were no violations noted.

Dwelling Fire Owner Occupied Rating – New Business

From the universe of 49 owner occupied dwelling fire policies identified as new business by the Company, 25 files were selected for review. All 25 files requested were received and reviewed. There were no violations noted.

Manufactured Homeowner Rating – New Business without Surcharges

From the universe of 269 manufactured homeowner policies identified as new business without surcharges by the Company, 35 files were selected for review. All 35 policy files requested were received and reviewed. There were no violations noted.

Manufactured Homeowner Rating – New Business with Surcharges

The universe of five manufactured homeowners policies identified as new business with surcharges by the Company was selected for review. All five policy files requested were received and reviewed. There were no violations 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 measure compliance with Act 247, the Fire, Marine, and Inland Marine Rate Regulatory Act, Sections 4(a) and (i) (40 P.S. §1224(a), (i)), 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 5,873 homeowner policies identified as renewal without surcharges by the Company, 75 files were selected for review. All 75 policy files requested were received and reviewed. There were no violations noted.

### Homeowner Rating – Renewals with Surcharges

From the universe of 672 homeowner policies identified as renewal with surcharges by the Company, 50 files were selected for review. All 50 policy files requested were received and reviewed. There were no violations noted.

### Tenant Homeowner Rating – Renewals without Surcharges

From the universe of 345 tenant homeowner policies identified as renewal without surcharges by the Company, 40 files were selected for review. All

40 policy files requested were received and reviewed. There were no violations noted.

Tenant Homeowner Rating – Renewals with Surcharges

The universe of seven tenant homeowner policies identified as renewal with surcharges by the Company was selected for review. All seven policy files requested were received and reviewed. There were no violations noted.

Dwelling Fire Owner Occupied Rating – Renewals

From the universe of 234 owner occupied dwelling fire policies identified as renewals by the Company, 30 files were selected for review. All 30 policy files requested were received and reviewed. The two violations noted were based on two files, resulting in an error ratio of 7%.

The following findings were made:

*2 Violations 40 P.S. §323.3(a)*

*40 P.S. §1224(a)&(i)*

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. In addition, every insurer shall 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 failed to retain the new business application and accurate rating could not be determined for the two files noted.

Manufactured Home Rating – Renewals without Surcharges

From the universe of 452 manufactured homeowner policies identified as renewal without surcharges by the Company, 50 files were selected for review. All 50 policy files requested were received and reviewed. There were violations noted.

Manufactured Home Rating – Renewals with Surcharges

The universe of 16 manufactured homeowner policies identified as renewal with surcharges by the Company was selected for review. All 16 policy files requested were received and reviewed. There were no violations noted.

**VI. 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 17 consumer complaints received during the experience period and provided all consumer complaint logs requested. From the universe of 17 complaint files, all 17 files were selected for review.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, (40 P.S. §§1171.1 – 1171.5). Section 5(a)(11) of the Act (40 P.S. §1171.5(a)(11)), 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 individual complaint files were reviewed for the relevancy to applicable statutes and to verify compliance with 31 Pa. Code §146.5(b)(c). There were no violations noted.

The following synopsis reflects the nature of the 17 complaints that were received.

7	Cancellation/Nonrenewal	41%
3	Claims Related	18%
5	Agent Complaint/Underwriting	29%
1	Agency Complaint	6%
<u>1</u>	Inspection	<u>6%</u>
100		100%

## **VII. 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 and supplements were furnished for homeowners, renters, condominium, and manufactured homes. 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. There were no violations 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 the 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 75 Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage and 18 Pa. C.S. §4117(k)(1), which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claim forms.

The following concern was noted:

**CONCERN:** All applications for insurance shall contain or have attached thereto the following notice: Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company used a fraud warning that was not verbatim per statute on new business applications.

## **IX. DATA INTEGRITY**

As part of the examination, the Company was sent a preliminary examination packet in accordance with NAIC uniformity standards and provided specific information relative to the exam. The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the Department reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act of 1921, Section 904(b) (40 P.S. §323.3(a)). Some data integrity issues were found during the exam.

The data integrity issue of each area of review is identified below.

### Property Midterm Cancellations

**Situation:** As the examiners reviewed the midterm cancellation files of the property underwriting sections of the exam, it was noted that not all files selected for review were property midterms.

**Finding:** Of the 210 midterm cancellations reviewed, two files were identified as being homeowner nonrenewal cancellations.

### *General Violation 40 P.S. §323.3(a)*

Requires every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documentations and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such manner and for such time

periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The violation was the result of a failure to exercise sufficient due diligence to ensure compliance with Insurance Department Act of 1921.

## **X. PROPERTY MCAS REPORTING**

In Pennsylvania, insurers are required annually to submit a Market Conduct Annual Statement (MCAS) to the National Association of Insurance Commissioners (NAIC). The review of MCAS data was conducted pursuant to the authority granted by Section 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the Market Conduct Annual Statement (MCAS) reporting for 2020.

The examination team reviewed the Company's 2020 MCAS Submissions. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the property sections that were reviewed.

A.	Number of dwellings which have policies in-force at the end of the period,
B.	Number of policies in-force at the end of the period.
C.	Number of new business policies written during the period.
D.	Dollar amount of direct written premium during the period.
E.	Number of Company-Initiated nonrenewals during the period.
F.	Number of cancellations for non-pay, nonsufficient funds or insured's request.
G.	Number of Company-Initiated cancellations that occur in the first 59 days after effective date, excluding rewrites to a related Company.
H.	Number of Company-Initiated cancellations that occur 60 or more days after effective date, excluding rewrites to a related Company.
I.	Number of Complaints received directly from the consumer.

The review consisted of three phases, as noted below.

### **Phase 1**

The Company was asked to provide the policy data listings that support the 2020 MCAS filing. Each list contained the policy numbers for each category. The 2020 data submitted was validated to ensure the information was accurate and consistent with the information provided to the NAIC.

The following findings were made:

#### *2 Violations 40 P.S. §323.3(a)*

Requires every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documentations and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. The Company did not provide 2020 Homeowner data that was consistent with the information provided to the NAIC for two underwriting categories.

### **Phase 2**

The Company was asked to provide a record of all policy data listings which supported the 2020 MCAS filings. From each universe list of 2020 data, a random sample of five property homeowners was requested, received and reviewed. The

files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. There were no violations noted.

### **Phase 3**

A review was performed on various underwriting and rating files provided in the Market Conduct portion of the exam to ensure the MCAS data was inclusive of all the policies applicable to each line item. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. There were no violations noted.

## **XI. 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 31 Pa. Code §59.9(b) to ensure it provides the proper number of days notice prior to cancellation effective date so that violation noted in the report does not occur in the future.
2. The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. §323.3(a), so that violations noted in the Report do not occur in the future.
3. The Company must review 40 P.S. §1171.5(a)(8) and take appropriate measures to make sure coverage is not provided past the termination date without receiving payment.
4. The Company must ensure it issues notices of cancellations with a valid reason for cancellation in compliance with 40 P.S. §1171.5(a)(9), so that the violations noted in the report do not occur in the future.
5. The Company must review 40 P.S. §1171.5(a)(9)(ii) to ensure that a 30 days notice is provided, prior to cancellation so violations noted in the report do not occur in the future.

B. The Company must review 40 P.S. §1224 and take appropriate measures to ensure the homeowner rating violations listed in the report do not occur in the future.

**XII. COMPANY RESPONSE**



# THE FARMERS FIRE

## Insurance Company

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Pennsylvania Insurance Department

Attn: Paul Townsen

P&C Market Conduct Division Chief

Date: 11/15/21

Re: Exam Warrant Number: 21-M43-016

Mr. Townsen,

We are in receipt of the Report of Examination dated October 25, 2021. Please accept the following as our formal reply to the report.

We are very pleased that, by-in-large, the findings of the exam demonstrate that the business conducted by The Farmers Fire Insurance Company is well executed, documented, and adherent to the requirements of Pennsylvania insurance department regulation. We do note that in the process of your examination you have identified some areas requiring correction by The Farmers Fire Insurance Company and we are pleased to advise that we have either already fully implemented corrective action to address these items, or the corrective action is in progress to bring about a full resolution. The remainder of this reply will note the corrective action taken or in progress on the findings of the examination.

### Mid-term Cancellations

*198 Violations 40 P.S. §1171.5(a)(8) & 198 Violations 40 P.S. §1224(a)&(i)*: These violations pertain to timing of the notice of cancellation issued for renewal policies. We acknowledge the violations and have outlined below our plan to correct these items, however, we respectfully submit that the duplicative nature of the 198 violations should be consolidated to a single violation per occurrence instead of two sets of 198 violations, as the violations listed under both statutes are the same individual occurrences, not two occurrences. The following corrective action, which has previously been reviewed with the examiners to ensure its acceptability, is underway to resolve this concern:

- The renewal policy and invoice will continue to be sent to the insured 60 days in advance of the renewal date, providing adequate time for payment of the renewal premium. (No change)
- If payment is not received by the due date / renewal effective date, the insured will receive a renewal reminder notice advising them that their renewal did not take effect because their renewal premium had not been paid.

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- If payment is received within a short period after the renewal effective date, consideration will be made for reinstatement of their policy with no lapse in coverage.
- If payment is not promptly received, the insured will receive confirmation that their policy renewal did not take effect and that the policy cancelled flat on the renewal date.

*2 Violations 40 P.S. §1171.5(a)(9):* Personal lines underwriters have been reminded and retrained on the need to send required repair letters direct to the insured instead of to the independent agent.

*5 Violations 40 P.S. §1171.5(a)(9)(ii):* The date calculation algorithms executed by Farmers Fire's policy administration system have been corrected to ensure that these exceptions do not occur in the future.

**CONCERN:** The Company is sending a Notice of Cancellation with no address and phone number to contact The Fair Plan. The Company should add the telephone number and address of The Fair Plan so the insured can contact if needed.

Farmers Fire has added the recommended contact information noted in the above concern to the Notice of Cancellation document.

### 60-Day Cancellations

*1 Violation 31 Pa. Code §59.9(b):* The date calculation algorithms executed by Farmers Fire's policy administration system have been corrected to ensure that these exceptions do not occur in the future.

*28 Violations 40 P.S. §1171.5(a)(8) & 28 Violations 40 P.S. §1224(a)&(i):* These violations pertain to timing of the notice of cancellation issued for renewal policies. We acknowledge the violations and have outlined below our plan to correct these items, however, we respectfully submit that the duplicative nature of the 28 violations should be consolidated to a single violation per occurrence instead of two sets of 28 violations, as the violations listed under both statutes are the same individual occurrences, not two occurrences. The following corrective action, which has previously been reviewed with the examiners to ensure its acceptability, is underway to resolve this concern:

- The renewal policy and invoice will continue to be sent to the insured 60 days in advance of the renewal date, providing adequate time for payment of the renewal premium. (No change)
- If payment is not received by the due date / renewal effective date, the insured will receive a renewal reminder notice advising them that their renewal did not take effect because their renewal premium had not been paid.
- If payment is received within a short period after the renewal effective date, consideration will be made for reinstatement of their policy with no lapse in coverage.
- If payment is not promptly received, the insured will receive confirmation that their policy renewal did not take effect and that the policy cancelled flat on the renewal date.

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**CONCERN:** The Company is sending a Notice of Cancellation with no address and phone number to contact The Fair Plan. The Company should add the telephone number and address of The Fair Plan so the insured can contact if needed.

Farmers Fire has added the required documentation noted in the above concern to the Notice of Cancellation document.

### Dwelling Fire Owner Occupied Rating – Renewals

*2 Violations 40 P.S. §323.3(a) 40 P.S. §1224(a)&(i):* We recognize that these aged policies, which predated our paperless systems, had portions of the initial underwriting materials missing from the underwriting file, including the protection class (one time) and territory code (one time). Our new digital application process and paperless document management systems have alleviated this concern going forward and we are confident that new instances of this situation will not occur do to these modern and robust systems now in place.

### Forms

**CONCERN:** All applications for insurance shall contain or have attached thereto the following notice: Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company used a fraud warning that was not verbatim per statute on new business applications.

We acknowledge the minor variation in the fraud statement in place on the applications in use by the company and the statements have already been amended to alleviate the above noted concern and to match the required language verbatim.

### Data Integrity, Property Midterm Cancellations

*General Violation 40 P.S. §323.3(a):* We have reviewed the query logic used to identify these items for the department and made corrections to avoid similar future concerns.

### Property MCAS Reporting

*2 Violations 40 P.S. §323.3(a):* We acknowledge that the MCAS reporting for two categories was off by one due to the counting of the row header as a record. This reporting process has been revised to avoid this incorrect counting concern in the future so that accurate data can be provided to the regulator.

We have reviewed the recommendations noted in the exam report and are in agreement with the recommendations. We believe the manner in which all of the above noted violations and concerns have been dealt with acknowledges this and reflects the commitment of The Farmers Fire Insurance Company



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to resolve these items. Farmers Fire is committed to excellence in all aspects of our business and appreciates the department's assistance in identifying areas where improvement and correction is appropriate. We anticipate that the sources of all violations and concerns found have been either fully addressed or have a resolution in progress that will resolve the concern and prevent future occurrences from happening.

We trust this reply is to the satisfaction of the Pennsylvania Insurance Department. Should any further clarification or detail be desired, please contact the undersigned.

Sincerely,

*Matthew Holden*

Vice President

The Farmers Fire Insurance Company