

SOUTH DAKOTA DIVISION OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT
OF

FOREMOST INSURANCE GROUP
(NAIC GROUP CODE 0069)

FOREMOST INSURANCE COMPANY GRAND RAPIDS, MICHIGAN
(NAIC COMPANY CODE 11185)
5600 Beech Tree Lane
Caledonia, Michigan 49316-0050

FOREMOST PROPERTY AND CASUALTY INSURANCE COMPANY
(NAIC COMPANY CODE 11800)
5600 Beech Tree Lane
Caledonia, Michigan 49316-0050

FARMERS INSURANCE GROUP
(NAIC GROUP CODE 0069)

FARMERS INSURANCE EXCHANGE, FARMERS GROUP INC.
(NAIC COMPANY CODE 21652)
4680 Wilshire Boulevard
Los Angeles, CA 90010

FIRE INSURANCE EXCHANGE, FIRE UNDERWRITERS ASSOCIATION
(NAIC COMPANY CODE 21660)
4680 Wilshire Boulevard
Los Angeles, CA 90010

MID-CENTURY INSURANCE COMPANY
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SALUTATION

March 25, 2015

Honorable Larry Deiter
Insurance Director
State of South Dakota
124 S. Euclid Avenue, 2nd Floor
Pierre, South Dakota 57501

Dear Director Deiter:

In compliance with the instructions contained in the Order for Examination, dated August 3, 2012, and pursuant to statutory provisions including SDCL Ch. 58-3, a Market Conduct Examination has been conducted of the affairs and practices of:

FOREMOST INSURANCE GROUP

Foremost Insurance Group, hereinafter referred to as the "Foremost Companies" or "Foremost Group", is incorporated under the laws of the State of Michigan. The Group consists of Foremost Insurance Company Grand Rapids, Michigan and Foremost Property and Casualty Insurance Company. This examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Group location:

5600 Beech Tree Lane, Caledonia, MI 49316

The off-site examination phase was performed at the offices of the South Dakota Division of Insurance, hereinafter referred to as the "Division" or and other appropriate locations.

FARMERS INSURANCE GROUP

Farmers Insurance Group, hereinafter referred to as the "Farmers Companies" or "Farmers Group", is incorporated under the laws of the State of California. The Group consists of Farmers Insurance Exchange, Fire Insurance Exchange and Mid-Century Insurance Company. This examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Group locations:

15700 Long Vista Drive, Austin, TX 78728

17000 W. 119th Street, Olathe, KS 66061

The off-site examination phase was performed at the offices of the South Dakota Division of Insurance, hereinafter referred to as the "Division" or and other appropriate locations.

The report of examination thereon is respectfully submitted.

FOREWORD

This examination reflects the insurance activities of Foremost Insurance Group and Farmers Insurance Group in the State of South Dakota. This Market Conduct Examination Report is, in general, a report by exception. Some of the information reviewed by the examiners, however, may not be referenced in this written report regarding practices, procedures, or files that did not result in any errors or irregularities. Failure to comment on specific products, procedures or files does not constitute approval thereof by the South Dakota Division of Insurance.

In performing this examination the Division selected a portion of the Group's operations for review. This report does not fully reflect a review of all of the practices and activities of the Group.

Where used in the report:

"Group" refers to Foremost Insurance Group and Farmers Insurance Group

"Company" or "Companies" refer either collectively or individually to Foremost Insurance Company Grand Rapids, Michigan or Foremost Property and Casualty Insurance Company, Farmers Insurance Exchange, Fire Insurance Exchange and Mid-Century Insurance Company

"Division" refers to the South Dakota Division of Insurance

"SDCL" refers to the Statutes of South Dakota

"ARSD" refers to South Dakota's Administrative Rules

SCOPE OF EXAMINATION

The South Dakota Division of Insurance has authority to perform this examination pursuant to, but not limited to, SDCL Ch. 58-3. This examination of the Foremost Insurance Group and the Farmers Insurance Group began September 24, 2012, and covered the period of January 1, 2009 through June 30, 2012, unless otherwise noted. This examination focused on a review of the Group's Operations and Management, Complaint Handling, Sales and Marketing, Producer Licensing, Underwriting and Rating, and Claims.

This examination was performed in accordance with Market Regulation standards established by the Division and examination procedures established by the NAIC. While the examiner's report discusses errors found in individual files, the examination also reviewed general business practices of the Group.

EXECUTIVE SUMMARY

This Market Conduct Examination focused on the business practices of Foremost Insurance Group and the Farmers Insurance Group. The Group writes both personal and commercial lines of business.

One of the primary goals of the examination on the Foremost Group and the Farmers Group was to determine if claims were handled and paid properly. To that end, the examiners reviewed claim files, company procedures, and the nature and results of internal company audits. The examiners found instances of untimely claim investigations, inadequate communication in claim denials, incomplete files, lack of required notices, and failure to promptly and accurately settle claims.

The results of the Quality Assurance Audits indicated a number of claims that were both overpaid and underpaid during the examination period. The Group advised the underpaid claims were readjusted and the underpayments were provided to the claimants. Upon further request for proof of payment, it was determined that 65 of the underpayments were not paid timely during the examination period. The payments were made on January 14, 2014, prompted by the examiners inquiries.

An additional focus of the examination was to inquire about the Group's activity in South Dakota during the examination period that may be similar in nature to the activity that was the basis of a Consent Order issued by the Commissioner of Insurance for the State of North Dakota dated June 27, 2007. The examiners were tasked to determine if there were goals, incentives, benchmarks, bonuses, policies or other programs that may influence claim payments other than paying each claim on its individual merits. The examiners found no indications the Group utilizes goals, incentives, benchmarks, bonuses, policies or other programs that may influence claim payments other than paying each claim on its individual merits.

The examiners also reviewed the Companies' procedures and practices in the areas of Operations and Management, Producer Licensing, Underwriting and Rating and noted deficiencies in each. The details of these findings are provided in the respective Company chapters and sections of the report. In summary, the examiners noted the following:

CHAPTER 1: FOREMOST INSURANCE COMPANY OF GRAND RAPIDS, MICHIGAN

- 8 Exceptions - Failure to provide prompt and accurate records during the examination process
- 7 Exceptions - Providing the Division of Insurance inaccurate or incomplete information
- 119 Exceptions - Failure to retain records (applications) for the required five year period
- 60 Exceptions - Issuance of policies contrary to form filings
- 1 Exception - Issuance of policy with incorrect rate below filed and approved rate
- 8 Exceptions - Company accepted business from producers without verifying valid licensing and appointments

- 6 Exceptions - Unfair and deceptive claim practices, consisting of failure for prompt claim settlement, misapplication of depreciation and lack of disclosure and application of fees on use of debit card for claim payment

CHAPTER 2: FOREMOST PROPERTY AND CASUALTY INSURANCE COMPANY

- 3 Exceptions - Failure to provide prompt and accurate records during the examination process
- 2 Exceptions - Providing the Division of Insurance with inaccurate or incomplete information
- 1 Exception - Unfair and deceptive claim practices for failure to maintain complete claim file documentation

CHAPTER 3: FARMERS INSURANCE EXCHANGE

- 19 Exceptions - Failure to provide prompt and accurate information during the examination process
- 17 Exceptions - Providing the Division of Insurance inaccurate or incomplete information
- 2 Exceptions - Accepted business from producers without verifying a valid appointment
- 2 Exceptions - Issued a notice of nonrenewal between June 1, 2001 and September 1, 2011 to an insured in a county prohibited from cancellation
- 3 Exceptions - Failure to provide the examiners with the requested files due to lack of proper file maintenance
- 1 Exception - Issued a new business policy using an incorrect territory
- 408 Exceptions - Applied an incorrect rating factor to underinsured motorist coverage on commercial automobile policies that was not in accordance with their filed and approved rates
- 1 Exception - Failure to be prompt in its investigation of a claim
- 2 Exceptions - Failure to provide an explanation of the basis for which the claim was denied
- 38 Exceptions - Failure to provide appropriate disclosures for paintless dent repair
- 2 Exceptions - Failure to maintain complete claim file documentation
- 1 Exception - The Company underpaid a claim because numbers were transposed during the check issuing process
- 6 Exceptions - Failure to pay sales tax to third party claimants on 6 total loss claims where the owners retained salvage; and failure to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the failure to pay the tax
- 2 Exceptions - Failure to maintain a copy of the claim denial letter in the claim files; unable to verify the content of the letter
- 5 Exceptions - Failure to adhere to prompt final investigation and payments by failing to take reasonable initial steps to ensure proper claim handling

- 1 Exception - Failure to maintain claim information for all claims subject to reinspection in 2009 and to perform necessary back-up procedures to ensure that the information was properly maintained
- 3 Exceptions - Failure to provide notice to the claimant that the claim was to be closed without payment; no denial letters were sent

CHAPTER 4: FIRE INSURANCE EXCHANGE

- 37 Exceptions - Failure to provide prompt and accurate information during the examination process
- 35 Exceptions - Providing the Division of Insurance with inaccurate or incomplete information
- 1 Exception – Issuance of a notice of nonrenewal from June 1, 2011 to September 1, 2011, in counties prohibited from cancellation
- 2 Exceptions - Failure to promptly and properly pay claims (The Company utilizes a “Quality Reinspection” program to make sure that claims arising out of specified perils are handled properly. The Company failed to follow its own guidelines for prompt investigation and payment of claims.)
- 6 Exceptions - Failure to adhere to prompt final investigation and payment of claims by failing to take reasonable initial steps to ensure proper claim handling
- 1 Exception - Failure to maintain claim information for all claims subject to reinspection in 2009 and to perform necessary back-up procedures to ensure that information was properly maintained
- 2 Exceptions - Failure to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of claim

CHAPTER 5: MID-CENTURY INSURANCE COMPANY

- 4 Exception - Failure to provide prompt and accurate information during the examination process
- 3 Exceptions - Providing the Division of Insurance with inaccurate or incomplete information
- 2 Exceptions – Issuance of a notice of nonrenewal from June 1, 2011 to September 1, 2011 in counties prohibited from cancellation
- 76 Exceptions - Failure to rate the underinsured motorist coverage on commercial automobile policies in accordance with the Company’s filed and approved rates
- 17 Exceptions - Failure to provide appropriate disclosures for paintless dent repair
- 1 Exceptions - Failure to provide detailed documentation in the claim file in order to permit reconstruction of the insurer’s claim
- 9 Exceptions - Failure to pay sales tax to third party claimants on total loss claims where the owners retained salvage; and failure to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the failure to pay the tax
- 1 Exception - Failure to adhere to reasonable standards for the prompt investigation of a claim by failing to make initial contact with the claimant

EXPLANATION OF THE EXAMINATION PROCESS

COMPANY OPERATIONS

The examiners review the operations and management of the Group. The examiners also determine whether the Group facilitates the examination process by providing complete, accurate and timely records and data.

COMPLAINT HANDLING

The examiners review the complaints the Group receives directly from consumers, the complaints submitted by the Division to the Group and the complaints received by the Division directly from consumers. The purpose of the review is to determine the accuracy of handling and the resolution of the complaint along with the timeliness of the response.

MARKETING AND SALES

The examiners evaluate the representations made by the Group about its products or services through a review of the Company's advertising materials and media.

PRODUCER LICENSING

The examiners review the Group's compliance with the State's producer licensing and appointment laws. The Group's list of licensed producers is compared to the Division's licensing records and producers listed on the applications in the underwriting sections of the review are verified for proper licensing and appointment.

UNDERWRITING AND RATING

The examiners review the Group's and individual Company's underwriting and rating practices, which includes the use of policy forms, adherence to underwriting guidelines and company manuals, assessment of premium and termination procedures to determine if they are in compliance with the statutes and regulations. The examiners determine if the procedures assist the Companies in meeting their compliance obligations, its contractual obligations and business effectiveness. The examiners also look at the oversight utilized by the Group to ensure its procedures are being followed and performing as intended.

The examiners review the Companies' policy forms and underwriting guidelines to determine compliance with filing requirements, to ensure the contract language is not ambiguous, and that the provisions of the policies adequately protect insureds. In addition, the examiners review active and terminated policy files to determine if the Companies are adhering to their own underwriting guidelines and procedures.

CLAIMS

The examiners review the claim practices of the Group in order to determine efficiency of handling, accuracy of payment, adherence to contract provisions and compliance with South Dakota regulations.

The types of practices considered to be an error include, but are not limited to, the failure to timely investigate and settle claims; the failure of the Company to correctly calculate claim benefits; or the failure of the Group to comply with South Dakota regulations regarding claim settlement practices.

SAMPLING OF FILES

The examiners conduct a census review of the total population of files where practical. In instances where the total population of a specific set of files is prohibitive to conducting the review in an expedient manner, the examiners use a scientific sampling of the universe of files. Samples may be selected by one of the following methods:

Systematic - a sample obtained by taking every *n*th unit from a list containing the total population. The size of the sample, *n*, is calculated by dividing the desired sample size into *N*, the population size. For example, if one wants 50 files drawn from 5,000 you may select every hundredth file after a random start number—say the third file. There are other methods for systematic sampling, such as changing the interval, so that, on average, every one-hundredth file is selected.

Random - selecting a sample for study from a population so that each unit is chosen entirely by chance; every member of the population has an equal probability of being included. No items or units have been “preselected” out of the field. One approaches “random” through many methods when developing a sample. Random selections may be attained through use of a random numbers table or a random numbers generator in computer software.

CHAPTER 1: FOREMOST INSURANCE COMPANY GRAND RAPIDS, MICHIGAN

BACKGROUND INFORMATION

A. HISTORY

Foremost Insurance commenced business on June 12, 1952, under the laws of the State of Michigan to provide insurance for buyers of house trailers. The words "Grand Rapids, Michigan" were added in to its name in 1963. The Company was the first to provide specialized protection for travel trailers and subsequently added insurance for motor homes as well.

Foremost Insurance Company Grand Rapids, Michigan is the lead member of Foremost Corporation Group. The Foremost Corporation Group consists of: Foremost Insurance Company Grand Rapids, Michigan, Foremost Property and Casualty Insurance Company, Foremost Signature Insurance Company, American Federation Insurance Company, Foremost Lloyds of Texas, and Foremost County Mutual Insurance Company.

B. PROFILE

The Company's operations are coordinated from its home office in Grand Rapids, Michigan. Support services are provided through its own network of claim administration centers and marketing offices. The company is licensed in 50 United States and the District of Columbia.

The Company's total direct earned premiums are:

Year	National Total	South Dakota
2009	\$1,005,383,870	\$2,491,141
2010	\$1,091,273,218	\$2,665,104
2011	\$1,215,216,664	\$2,854,849

EXAMINATION FINDINGS

I. COMPANY OPERATIONS AND MANAGEMENT

This examination focused on the Company's Complaint Handling, Underwriting and Rating, and Claims. A review of the Company's Operations and Management was also conducted. The examiners reviewed the Company's practices and procedures for providing complete, accurate and timely data throughout the course of the examination.

The examiners asked for and reviewed the following information:

- A. Current organizational charts outlining relationships of subsidiaries, branch offices and divisions/departments to the overall corporate management structure;
- B. Current organizational charts outlining the structure of South Dakota operations; including any specialty operations conducted separately;
- C. Description of the management structure of the Company;
- D. Description of all fines, penalties and recommendations from any state for the last 3 years; copies of all Financial and Market Conduct Examination reports conducted during the last 3 years;
- E. Copy of the Company's last annual report to the shareholders;
- F. Copies of the annual statements for the prior three years and any property and casualty related schedules or statements;
- G. Copies of all Management Agreements or Vendor Agreements including agreements between affiliates or private contractors for the examination period; list of all Third Party Administrators contracted with the Company to process South Dakota business during the examination period and a copy of the contracts;
- H. Internal Audits – Copies of all internal audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years;
- I. A copy of the Company's South Dakota Certificate(s) of Authority for the period under examination;
- J. Anti-Fraud Procedures and annual reports; and
- K. Privacy Procedures – Provide a copy of the Company's Privacy Procedures.

Finding 1: Regarding the request for internal audits, the Company initially did not provide any internal audits or audit procedures. The Company believed this was a request for internal audits conducted by the Farmers Group, Inc.'s "Internal Audit department which has general oversight responsibility for the enterprise's financial reporting process, risk management and internal controls,

and conducts audits on a national level. The Company stated that the Company did not have "internal audits," as it understood that term, that involve South Dakota. Subsequent to the on-site examination review and as a result of further interrogatories, it was determined that internal audits (Quality Assurance Audits) were conducted on the Company's claims handling process. The Company responded to this finding and provided a copy of the Quality Assurance Audit that was provided to the examiners on October 22, 2012, that was included in the list of claims data. The previously provided Audit contained 4 claim files for both Foremost Companies. The Quality Assurance Audit provided as a result of the interrogatories contained reference to 125 Claims subjected to audit for the Foremost Insurance Company Grand Rapids, Michigan. Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 1: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

Finding 2: The results of the Quality Assurance Audits indicated a number of claims that were both overpaid and underpaid during the examination period. On October 8, 2013, the Group advised that it is their policy to review all findings of underpayments, determine if subsequent payment is appropriate, and pay if owed. The Group stated that they could furnish cancelled checks as proof of payment upon request. Upon request for proof of payment, it was determined that in 7 claims the Group had not paid underpayments. The total payments including interest of \$816.12 were made on January 14, 2014, prompted by the examiners inquiries. The company provided inaccurate or incomplete information to the Division during the examination process in violation of SDCL § 58-3-7 and ARSD 20:06:12:09.

Recommendation 2: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

II. COMPLAINT HANDLING

The examiners requested all complaints received by the Company and direct complaints to the South Dakota Division of Insurance. The Company reported 3 complaints were received through the South Dakota Division of Insurance and 1 was received directly from the insured.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 3: No exceptions were noted.

III. MARKETING AND SALES

The Company was requested to provide a list of all Advertising and Marketing Material utilized during the experience period. The Company provided a list of 935 pieces of advertising utilized by the Foremost Insurance Group in the State of South Dakota. The list contained 846 pieces of

Independent Agent advertising material and 89 pieces of Exclusive Agent material. The advertising consisted of Letters, Direct Mailers, Brochures, Presentations, Cards, Illustrations, Product Guides, and Product Manuals. The Company also provided a list of 16 websites associated with advertising of Company products to prospective policyholders and prospective agents. A sample of the 110 Independent Agent pieces of advertising and all 89 Exclusive Agent advertising pieces were requested, totaling 199 pieces of advertising material. This advertising material and the Company's web sites were reviewed to determine compliance with SDCL Ch. 58-33.

Field Size:	935
Sample Size:	110 & 89
Sample Type:	Random & Census
Number of Files with Errors:	0

Finding 4: No exceptions were noted.

IV. PRODUCER LICENSING

The Company was requested to provide a list of all producers licensed in South Dakota to solicit business during the examination period. In addition, the Company was requested to provide policies and procedures regarding the following activities:

- Licensing, Appointment and Termination Procedures
- Producer Product and Compliance Training
- Allegations of Misconduct Producer Reports

The producer licensing lists and Company policies and procedures were received and reviewed. All new business (NB) files were reviewed for license and appointment compliance.

Finding 5: The Company accepted new business from 5 producers who did not have appropriate appointments with the Company at the time of application pursuant to SDCL §§ 58-30-171 and 58-30-176.

Recommendation 5: It is recommended that the Company adopt and adhere to policies and procedures to ensure all producers are appointed appropriately pursuant to SDCL §§ 58-30-171 and 58-30-176.

Finding 6: The Company accepted new business from 1 producer who was not licensed at the time of application pursuant to SDCL §§ 58-30-92 and 58-30-171.

Recommendation 6: It is recommended that the Company adopt and adhere to policies and procedures to ensure all producers are licensed appropriately before accepting new business pursuant to SDCL §§ 58-30-92 and 58-30-171.

Finding 7: The Company accepted and issued new business without appropriately identifying the 2 producers pursuant to SDCL § 58-30-92.

Recommendation 7: It is recommended that the Company adopt and adhere to policies and procedures to ensure producers are identified and licensed appropriately before accepting new business pursuant to SDCL § 58-30-92.

V. UNDERWRITING AND RATING

The examiners reviewed the Company's underwriting and rating practices for compliance. In underwriting, the examiners reviewed the following files:

- A. Midterm Cancellations
- B. Nonrenewals
- C. Declinations

In rating, the examiners reviewed the following files:

- D. New Business
- E. Renewals

Throughout the review of the Company's underwriting and rating practices, the emphasis was placed on adherence to underwriting guidelines/manuals, termination/cancellation procedures, the risk characteristics, adherence with Company filings and the accuracy in the development of the policy premium.

Finding 8: No exceptions were noted.

A. Midterm Cancellations

The examiners requested all midterm cancellations issued by the Company. The Company provided a universe of midterm cancellations for the following lines of business:

Motorcycles/Off Road Vehicles

Field Size:	46
Sample Size:	34
Sample Type:	Random
Number of Files with Errors:	0

Finding 9: No exceptions were noted.

Antique and Modified Vehicle

Field Size:	54
Sample Size:	38
Sample Type:	Random
Number of Files with Errors:	0

Finding 10: No exceptions were noted.

Mobile Home

Field Size: 9
Sample Size: 9
Sample Type: Census
Number of Files with Errors: 0

Finding 11: No exceptions were noted.

Specialty Dwelling

Field Size: 122
Sample Size: 61
Sample Type: Random
Number of Files with Errors: 0

Finding 12: No exceptions were noted.

Commercial Mobile Home

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 13: No exceptions were noted.

Travel Trailers

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

Finding 14: No exceptions were noted.

B. Nonrenewals

The examiners requested all nonrenewals issued by the Company. The Company provided a universe of nonrenewals for the following lines of business:

Motorcycles/Off Road Vehicles

Field Size: 15
Sample Size: 15
Sample Type: Census
Number of Files with Errors: 0

Finding 15: No exceptions were noted.

Mobile Home

Field Size:	28
Sample Size:	28
Sample Type:	Census
Number of Files with Errors:	0

Finding 16: No exceptions were noted.

Specialty Dwelling

Field Size:	30
Sample Size:	30
Sample Type:	Census
Number of Files with Errors:	0

Finding 17: No exceptions were noted.

C. Declinations

The examiners requested all declinations issued by the Company. The Company provided a universe of declinations for the following lines of business.

Motorcycle/Off Road Vehicles

Field Size:	12
Sample Size:	12
Sample Type:	Census
Number of Files with Errors:	0

Finding 18: No exceptions were noted.

Mobile Home

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 19: No exceptions were noted.

Specialty Dwelling

Field Size:	18
Sample Size:	18

Sample Type: Census
Number of Files with Errors: 0

Finding 20: No exceptions were noted.

Commercial Mobile Home

Field Size: 3
Sample Size: 3
Sample Type: Census
Number of Files with Errors: 0

Finding 21: No exceptions were noted.

Motor Home

Field Size: 3
Sample Size: 3
Sample Type: Census
Number of Files with Errors: 0

Finding 22: No exceptions were noted.

FISC/AARP Mobile Home

Field Size: 21
Sample Size: 21
Sample Type: Census
Number of Files with Errors: 0

Finding 23: No exceptions were noted.

FISC/AARP Specialty Dwelling

Field Size: 25
Sample Size: 25
Sample Type: Census
Number of Files with Errors: 0

Finding 24: No exceptions were noted.

D. New Business

Motorcycle/Off Road Vehicles

The examiners requested a listing of all new business for the Motorcycle/Off Road Vehicle policies. The Company provided a universe of 3,674 files.

Field Size: 3,674
Sample Size: 108
Sample Type: Random
Number of Files with Errors: 26

Finding 25: The Company failed to retain 4 new business applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05.

Recommendation 25: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Finding 26: The Company issued 22 policies without uninsured motorist coverage contrary to the Company's filing with the Division. The Company is in violation of SDCL § 58-24-25.

Recommendation 26: It is recommended that the Company adopt and adhere to policies and procedures to ensure policies are not issued contrary to the Company's filings with the Division.

Antique Auto and Modified Auto Collectors Program

The examiners requested a listing of all new business for the Antique Auto and Modified Auto Collectors program. The Company provided a universe of 105 files.

Field Size: 105
Sample Size: 57
Sample Type: Random
Number of Files with Errors: 0

Finding 27: No exceptions were noted.

Mobile Home

The examiners requested a listing of all new business for the Mobile Home program. The Company provided a universe of 1,457 files.

Field Size: 1,457
Sample Size: 106
Sample Type: Random
Number of Files with Errors: 23

Finding 28: The Company failed to retain 23 new business applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05.

Recommendation 28: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Specialty Home Owners and Dwelling Fire

The examiners requested a listing of all new business for the Specialty Home Owners and Dwelling Fire program. The Company provided a universe of 961 files.

Field Size:	961
Sample Size:	105
Sample Type:	Random
Number of Files with Errors:	24

Finding 29: The Company failed to retain 24 new business applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05.

Recommendation 29: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Commercial Mobile Home

The examiners requested a listing of all new business for the Commercial Mobile program. The Company provided a universe of 307 files.

Field Size:	307
Sample Size:	78
Sample Type:	Random
Number of Files with Errors:	11

Finding 30: The Company failed to retain 11 new business applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05.

Recommendation 30: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Motor Home

The examiners requested a listing of all new business for the Motor Home program. The Company provided a universe of 109 files.

Field Size:	109
Sample Size:	58
Sample Type:	Random
Number of Files with Errors:	1

Finding 31: The Company issued one policy without using the rating plan filed with the Division. The result was an undercharge of \$1383.00. The Company is in violation of SDCL § 58-24-25.

Recommendation 31: It is recommended that the Company ensure that all policies are issued utilizing the rating plans filed with the Division.

Travel Trailer

The examiners requested a listing of all new business for the Travel Trailer program. The Company provided a universe of 132 files.

Field Size:	132
Sample Size:	63
Sample Type:	Random
Number of Files with Errors:	0

Finding 32: No exceptions were noted.

E. Renewals

Motorcycles/Off Road Vehicles

The examiners requested a listing of all renewals for the Motorcycle/Off Road Vehicle program. The Company provided a universe of 9,301 files.

Field Size:	9,301
Sample Size:	109
Sample Type:	Random
Number of Files with Errors:	41

Finding 33: The Company failed to retain 3 applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05.

Recommendation 33: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Finding 34: The Company issued 38 policies without uninsured motorist coverage contrary to the Company's filing with the Division. The Company is in violation of SDCL § 58-24-25.

Recommendation 34: It is recommended that the Company adopt and adhere to policies and procedures to ensure policies are not issued contrary to the Company's filings with the Division.

Antique Auto and Modified Auto Collectors Program

The examiners requested a listing of all renewals for the Antique Auto and Modified Auto Collectors program. The Company provided a universe of 2,417 files.

Field Size:	2,417
Sample Size:	107
Sample Type:	Random
Number of Files with Errors:	0

Finding 35: No exceptions were noted.

Mobile Home

The examiners requested a listing of all renewals for the Mobile Home program. The Company provided a universe of 5,242 files.

Field Size:	5,242
Sample Size:	109
Sample Type:	Random
Number of Files with Errors:	0

Finding 36: No exceptions were noted.

Specialty Home Owners and Dwelling Fire

The examiners requested a listing of all renewals for the Specialty Home Owners Dwelling Fire program. The Company provided a universe of 1,693 files.

Field Size:	1,693
Sample Size:	106
Sample Type:	Random
Number of Files with Errors:	25

Finding 37: The Company failed to retain 25 applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05.

Recommendation 37: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Commercial Mobile Home

The examiners requested a listing of all renewals for the Commercial Mobile Home program. The Company provided a universe of 431 files.

Field Size:	431
Sample Size:	82
Sample Type:	Random
Number of Files with Errors:	17

Finding 38: The Company failed to retain 17 applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05

Recommendation 38: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

Motor Home

The examiners requested a listing of all renewals for the Motor Home program. The Company provided a universe of 90 files.

Field Size: 90
Sample Size: 52
Sample Type: Random
Number of Files with Errors: 0

Finding 39: No exceptions were noted.

Travel Trailer

The examiners requested a listing of all renewals for the Travel Trailer program. The Company provided a universe of 133 files.

Field Size: 133
Sample Size: 64
Sample Type: Random
Number of Files with Errors: 12

Finding 40: The Company failed to retain 12 applications for 5 years. The Company is in violation of SDCL § 58-1-26 and ARSD 20:06:01:05

Recommendation 40: It is recommended that the Company adopt and adhere to policies and procedures to ensure the proper maintenance of the application for the required 5 year period.

VI. CLAIMS

The purpose of the review was to ascertain the Company's compliance with the claim practices rules and regulations of the South Dakota Division of Insurance. Throughout the review, the emphasis was placed on items such as the timeliness of claim handling, file documentation and claim payment. The claim files additionally were reviewed to ensure compliance with the paintless dent repair (PDR) requirements of SDCL §§ 58-12-16 through 58-12-18. Property claims were reviewed to ensure compliance with the total loss requirements of SDCL § 58-10-10.

The examiners reviewed the Company's Vehicle and Property Claim practices in the following categories:

Vehicle Claims

- A. Motorcycle/Off Road Vehicle Uninsured Motorist/Underinsured Motorist Paid
- B. Motorcycle/Off Road Vehicle Bodily Injury Paid
- C. Motorcycle/Off Road Vehicle Bodily Injury Denied
- D. Motorcycle/Off Road Vehicle Medical Payments Paid
- E. Motorcycle/Off Road Vehicle Comprehensive Paid
- F. Motorcycle/Off Road Vehicle Comprehensive Denied

- G. Motorcycle/Off Road Vehicle Collision Paid
- H. Motorcycle/Off Road Vehicle Collision Denied
- I. Motorcycle/Off Road Vehicle Property Paid
- J. Motorcycle/Off Road Vehicle Property Denied
- K. Motorcycle/Off Road Vehicle Optional Equipment Paid
- L. Motorcycle/Off Road Vehicle Towing Paid
- M. Antique Auto Collision Paid
- N. Antique Auto Comprehensive Paid
- O. Commercial Auto Collision Paid
- P. Commercial Auto Comprehensive Paid
- Q. Motor Home Bodily Injury Paid
- R. Motor Home Collision Paid
- S. Motor Home Comprehensive Paid
- T. Motor Home Other Than Collision Paid
- U. Motor Home Property Paid
- V. Motor Home Secure Travel Paid
- W. Motor Home Added Living Expense Paid
- X. Motor Home Towing Paid
- Y. Motor Home Other Than Collision Denied
- Z. Motor Home Added Living Expense Denied
- AA. Travel Trailer Added Living Expense Paid
- BB. Travel Trailer Collision Paid
- CC. Travel Trailer Comprehensive Paid
- DD. Travel Trailer Content with Theft Paid
- EE. Travel Trailer Hail Deductible Paid
- FF. Travel Trailer Towing Paid
- GG. Travel Trailer All Other Loss Paid
- HH. Travel Trailer All Other Loss Denied

Property Claims

- A. Mobile Home Paid
- B. Mobile Home Denied
- C. Mobile Home Comprehensive Personal Liability BI Paid
- D. Mobile Home Comprehensive Personal Liability BI Denied
- E. Mobile Home Comprehensive Personal Liability Property Damage Paid
- F. Mobile Home Personal Property Paid
- G. Mobile Home Personal Property Denied
- H. Rental Mobile Home Adjacent Structure Broad Form Paid
- I. Rental Mobile Home Comprehensive Paid
- J. Rental Mobile Home Named Peril Paid

- K. Rental Mobile Home Comprehensive Denied
- L. Specialty Dwelling Added Living Expense Paid
- M. Specialty Dwelling Comprehensive Personal Liability Property Damage Paid
- N. Specialty Dwelling Actual Cash Value Paid
- O. Specialty Dwelling DF1 Paid
- P. Specialty Dwelling DF3 Paid
- Q. Specialty Dwelling HO3 Paid
- R. Specialty Dwelling Other Structures Paid
- S. Specialty Dwelling Comprehensive Personal Liability Paid
- T. Specialty Dwelling Personal Property Paid
- U. Specialty Dwelling Premises Landlord Liability Paid
- V. Specialty Dwelling ACV Denied
- W. Specialty Dwelling DF1 Denied
- X. Specialty Dwelling DF3 Denied
- Y. Specialty Dwelling HO3 Denied
- Z. Specialty Dwelling Personal Property Denied
- AA. CRN System Paid Claims
- BB. CRN System Denied Claims
- CC. Litigated Claims
- DD. Hail Damage Claims Paid
- EE. Hail Damage Claims Closed Without Payment (CWOP)
- FF. Hail Damage Claims Denied
- GG. CRN System Hail Damage Claims Paid
- HH. CRN System Hail Damage Claims Closed Without Payment (CWOP)
- II. CRN System Hail Damage Claims Denied

Vehicle Claims

A. Motorcycle/Off Road Vehicle Uninsured/Under Insured Motorist (UM/UIM) Liability Paid

The examiners requested a listing of all motorcycle/off road vehicle uninsured/underinsured motorist liability paid claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 41: No exceptions were noted.

B. Motorcycle/Off Road Vehicle Bodily Injury Paid

The examiners requested a listing of all motorcycle/off road vehicle bodily injury paid claims. The Company provided a universe of 4 claims.

Field Size: 4
Sample Size: 4
Sample Type: Census
Number of Files with Errors: 0

Finding 42: No exceptions were noted.

C. Motorcycle/Off Road Vehicle Bodily Injury Denied

The examiners requested a listing of all motorcycle/off road vehicle bodily injury denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 1

Finding 43: The Company violated SDCL § 58-33-67(3) by failing to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of a claim by erroneously advising the third party claimant that its insured must be 100% responsible for the claimant to recover.

Recommendation 43: It is recommended that the Company adopt and adhere to policies and procedures that provide reasonable explanations for claim denials on the basis in the insurance policy in relation to the facts or applicable law.

D. Motorcycle/Off Road Vehicle Medical Payments Paid

The examiners requested a listing of all motorcycle/off road vehicle medical payments paid claims. The Company provided a universe of 23 claims.

Field Size: 23
Sample Size: 23
Sample Type: Census
Number of Files with Errors: 0

Finding 44: No exceptions were noted.

E. Motorcycle/Off Road Vehicle Comprehensive Paid

The examiners requested a listing of all motorcycle/off road vehicle comprehensive paid claims. The Company provided a universe of 14 claims.

Field Size: 14
Sample Size: 14
Sample Type: Census
Number of Files with Errors: 0

Finding 45: No exceptions were noted.

F. Motorcycle/Off Road Vehicle Comprehensive Denied

The examiners requested a listing of all motorcycle/off road vehicle comprehensive denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 46: No exceptions were noted.

G. Motorcycle/Off Road Vehicle Collision Paid

The examiners requested a listing of all motorcycle/off road vehicle collision paid claims. The Company provided a universe of 78 claims.

Field Size:	78
Sample Size:	48
Sample Type:	Random
Number of Files with Errors:	0

Finding 47: No exceptions were noted.

H. Motorcycle/Off Road Vehicle Collision Denied

The examiners requested a listing of all motorcycle/off road vehicle collision denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 48: No exceptions were noted.

I. Motorcycle/Off Road Vehicle Property Paid

The examiners requested a listing of all motorcycle/off road vehicle property paid claims. The Company provided a universe of 12 claims.

Field Size:	12
Sample Size:	12
Sample Type:	Census
Number of Files with Errors:	0

Finding 49: No exceptions were noted.

J. Motorcycle/Off Road Vehicle Property Denied

The examiners requested a listing of all motorcycle/off road vehicle e property denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 50: No exceptions were noted.

K. Motorcycle/Off Road Vehicle Optional Equipment Paid

The examiners requested a listing of all motorcycle/off road vehicle optional equipment paid claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 51: No exceptions were noted.

L. Motorcycle/Off Road Vehicle Towing Paid

The examiners requested a listing of all motorcycle/off road vehicle towing paid claims. The Company provided a universe of 4 claims.

Field Size: 4
Sample Size: 4
Sample Type: Census
Number of Files with Errors: 0

Finding 52: No exceptions were noted.

M. Antique Auto Collision Paid

The examiners requested a listing of all antique auto collision paid claims. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

Finding 53: No exceptions were noted.

N. Antique Auto Comprehensive Paid

The examiners requested a listing of all antique auto comprehensive paid claims. The Company provided a universe of 6 claims.

Field Size: 6
Sample Size: 6
Sample Type: Census
Number of Files with Errors: 0

Finding 54: No exceptions were noted.

O. Commercial Auto Collision Paid

The examiners requested a listing of all commercial auto collision paid claims. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

Finding 55: No exceptions were noted.

P. Commercial Auto Comprehensive Paid

The examiners requested a listing of all commercial auto comprehensive paid claims. The Company provided a universe of 4 claims.

Field Size: 4
Sample Size: 4
Sample Type: Census
Number of Files with Errors: 0

Finding 56: No exceptions were noted.

Q. Motor Home Bodily Injury Paid

The examiners requested a listing of all motor home bodily injury paid claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 57: No exceptions were noted.

R. Motor Home Collision Paid

The examiners requested a listing of all motor home collision paid claims. The Company provided a universe of 13 claims.

Field Size:	13
Sample Size:	13
Sample Type:	Census
Number of Files with Errors:	0

Finding 58: No exceptions were noted.

S. Motor Home Comprehensive Paid

The examiners requested a listing of all motor home comprehensive paid claims. The Company provided a universe of 17 claims.

Field Size:	17
Sample Size:	17
Sample Type:	Census
Number of Files with Errors:	0

Finding 59: No exceptions were noted.

T. Motor Home Other Than Collision Paid

The examiners requested a listing of all motor home other than collision paid claims. The Company provided a universe of 14 claims.

Field Size:	14
Sample Size:	14
Sample Type:	Census
Number of Files with Errors:	0

Finding 60: No exceptions were noted.

U. Motor Home Property Paid

The examiners requested a listing of all motor home property paid claims. The Company provided a universe of 2 claims.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 61: No exceptions were noted.

V. Motor Home Secure Travel Paid

The examiners requested a listing of all motor home secure travel paid claims. The Company provided a universe of 7 claims.

Field Size:	7
Sample Size:	7
Sample Type:	Census
Number of Files with Errors:	0

Finding 62: No exceptions were noted.

W. Motor Home Added Living Expense Paid

The examiners requested a listing of all motor home added living expense paid claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 63: No exceptions were noted.

X. Motor Home Towing Paid

The examiners requested a listing of all motor home towing paid claims. The Company provided a universe of 6 claims.

Field Size:	6
Sample Size:	6
Sample Type:	Census
Number of Files with Errors:	0

Finding 64: No exceptions were noted.

Y. Motor Home Other Than Collision Denied

The examiners requested a listing of all motor home other than collision denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 65: No exceptions were noted.

Z. Motor Home Added Living Expense Denied

The examiners requested a listing of all motor home motor home added living expense denied claims. The Company provided a universe of 2 claims.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 66: No exceptions were noted.

AA. Travel Trailer Added Living Expense Paid

The examiners requested a listing of all travel trailer added living expense paid claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 67: No exceptions were noted.

BB. Travel Trailer Collision Paid

The examiners requested a listing of all travel trailer collision paid claims. The Company provided a universe of 6 claims.

Field Size:	6
Sample Size:	6
Sample Type:	Census
Number of Files with Errors:	0

Finding 68: No exceptions were noted.

CC. Travel Trailer Comprehensive Paid

The examiners requested a listing of all travel trailer comprehensive paid claims. The Company provided a universe of 16 claims.

Field Size:	16
Sample Size:	16
Sample Type:	Census
Number of Files with Errors:	0

Finding 69: No exceptions were noted.

DD. Travel Trailer Content with Theft Paid

The examiners requested a listing of all travel trailer content with theft paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 70: No exceptions were noted.

EE. Travel Trailer Hail Deductible Paid

The examiners requested a listing of all travel trailer hail deductible paid claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 71: No exceptions were noted.

FF. Travel Trailer Towing Paid

The examiners requested a listing of all travel trailer towing paid claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 72: No exceptions were noted.

GG. Travel Trailer All Other Loss Paid

The examiners requested a listing of all travel trailer all other loss paid claims. The Company provided a universe of 14 claims.

Field Size:	14
Sample Size:	14
Sample Type:	Census
Number of Files with Errors:	0

Finding 73: No exceptions were noted.

HH. Travel Trailer All Other Loss Denied

The examiners requested a listing of all travel trailer all other loss denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 74: No exceptions were noted.

Property Claims

A. Mobile Home Paid

The examiners requested a listing of all mobile home paid claims. The Company provided a universe of 377 claims.

Field Size:	377
Sample Size:	78
Sample Type:	Random
Number of Files with Errors:	1

Finding 75: The Company violated SDCL § 58-33-67(1) by failing to adopt and adhere to reasonable standards for the prompt investigation of claims. The date of loss for the claim was August 7, 2011, and the claim was settled August 8, 2011, after an adjuster field inspection. The insured subsequently found additional damage not noted by the initial field inspection. After many delays and confusion in the amount of damage, the Company reinspected the property on December 19, 2011 and the Company made additional payments for damage on February 14, 2012 and July 12, 2012.

Recommendation 75: It is recommended that the Company adopt and adhere to reasonable standards for the prompt investigation of claims.

B. Mobile Home Denied

The examiners requested a listing of all mobile home denied claims. The Company provided a universe of 68 claims.

Field Size:	68
Sample Size:	44
Sample Type:	Random
Number of Files with Errors:	0

Finding 76: No exceptions were noted.

C. Mobile Home Comprehensive Personal Liability Bodily Injury Paid

The examiners requested a listing of all mobile home comprehensive personal liability Bodily Injury paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 77: No exceptions were noted.

D. Mobile Home Comprehensive Personal Liability Bodily Injury Denied

The examiners requested a listing of all mobile home comprehensive personal liability Bodily Injury denied claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 78: No exceptions were noted.

E. Mobile Home Comprehensive Personal Liability Property Damage Paid

The examiners requested a listing of all mobile home comprehensive personal liability property damage paid claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 79: No exceptions were noted.

F. Mobile Home Personal Property Paid

The examiners requested a listing of all mobile home personal property paid claims. The Company provided a universe of 19 claims.

Field Size:	19
Sample Size:	19
Sample Type:	Census

Number of Files with Errors: 1

Finding 80: The Company violated SDCL §§ 58-33-2 and 58-33-67(1) by engaging in an unfair act or practice in the business of insurance by misapplying depreciation and by failing to adopt and adhere to reasonable standards for the prompt investigation of claims.

Recommendation 80: It is recommended that the Company adopt and adhere to policies and procedures to ensure proper application of depreciation in the processing of claims. Additionally, it is recommended that the Company adopt policies and procedures to ensure the prompt investigation of claims.

G. Mobile Home Personal Property Denied

The examiners requested a listing of all mobile home personal property denied claims. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

Finding 81: No exceptions were noted.

H. Rental Mobile Home Adjacent Structure Broad Form Paid

The examiners requested a listing of all rental mobile home adjacent structure broad form paid claims. The Company provided a universe of 11 claims.

Field Size: 11
Sample Size: 11
Sample Type: Census
Number of Files with Errors: 0

Finding 82: No exceptions were noted.

I. Rental Mobile Home Comprehensive Paid

The examiners requested a listing of all rental mobile home comprehensive paid claims. The Company provided a universe of 66 claims.

Field Size: 66
Sample Size: 43
Sample Type: Random
Number of Files with Errors: 0

Finding 83: No exceptions were noted.

J. Rental Mobile Home Named Peril Paid

The examiners requested a listing of all rental mobile home named peril paid claims. The Company provided a universe of 3 claims.

Field Size: 3
Sample Size: 3
Sample Type: Census
Number of Files with Errors: 0

Finding 84: No exceptions were noted.

K. Rental Mobile Home Comprehensive Denied

The examiners requested a listing of all rental mobile home comprehensive denied claims. The Company provided a universe of 7 claims.

Field Size: 7
Sample Size: 7
Sample Type: Census
Number of Files with Errors: 0

Finding 85: No exceptions were noted.

L. Specialty Dwelling Added Living Expense Paid

The examiners requested a listing of all specialty dwelling added living expense paid claims. The Company provided a universe of 4 claims.

Field Size: 4
Sample Size: 4
Sample Type: Census
Number of Files with Errors: 0

Finding 86: No exceptions were noted.

M. Specialty Dwelling Comprehensive Personal Liability Property Damage Paid

The examiners requested a listing of all specialty dwelling comprehensive personal liability property damage paid claims. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

Finding 87: No exceptions were noted.

N. Specialty Dwelling Actual Cash Value Paid

The examiners requested a listing of all specialty dwelling actual cash value paid claims. The Company provided a universe of 7 claims.

Field Size:	7
Sample Size:	7
Sample Type:	Census
Number of Files with Errors:	0

Finding 88: No exceptions were noted.

O. Specialty Dwelling DF1 Paid

The examiners requested a listing of all specialty dwelling DF1 paid claims. The Company provided a universe of 34 claims.

Field Size:	34
Sample Size:	27
Sample Type:	Random
Number of Files with Errors:	0

Finding 89: No exceptions were noted.

P. Specialty Dwelling DF3 Paid

The examiners requested a listing of all specialty dwelling DF3 paid claims. The Company provided a universe of 32 claims.

Field Size:	32
Sample Size:	25
Sample Type:	Random
Number of Files with Errors:	0

Finding 90: No exceptions were noted.

Q. Specialty Dwelling HO3 Paid

The examiners requested a listing of all specialty dwelling HO3 paid claims. The Company provided a universe of 13 claims.

Field Size:	13
Sample Size:	13
Sample Type:	Census
Number of Files with Errors:	0

Finding 91: No exceptions were noted.

R. Specialty Dwelling Other Structures Paid

The examiners requested a listing of all specialty dwelling other structure paid claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 92: No exceptions were noted.

S. Specialty Dwelling Comprehensive Personal Liability Paid

The examiners requested a listing of all specialty dwelling comprehensive personal liability paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 93: No exceptions were noted.

T. Specialty Dwelling Personal Property Paid

The examiners requested a listing of all specialty dwelling personal property paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 94: No exceptions were noted.

U. Specialty Dwelling Premises Landlord Liability Paid

The examiners requested a listing of all specialty dwelling premises landlord liability paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 95: No exceptions were noted.

V. Specialty Dwelling ACV Denied

The examiners requested a listing of all specialty dwelling actual cash value denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 96: No exceptions were noted.

W. Specialty Dwelling DF1 Denied

The examiners requested a listing of all specialty dwelling DF1 denied claims. The Company provided a universe of 12 claims.

Field Size:	12
Sample Size:	12
Sample Type:	Census
Number of Files with Errors:	0

Finding 97: No exceptions were noted.

X. Specialty Dwelling DF3 Denied

The examiners requested a listing of all specialty dwelling DF3 denied claims. The Company provided a universe of 5 claims.

Field Size:	5
Sample Size:	5
Sample Type:	Census
Number of Files with Errors:	0

Finding 98: No exceptions were noted.

Y. Specialty Dwelling HO3 Denied

The examiners requested a listing of all specialty dwelling HO3 denied claims. The Company provided a universe of 2 claims.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 99: No exceptions were noted.

Z. Specialty Dwelling Personal Property Denied

The examiners requested a listing of all specialty dwelling personal property denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 100: No exceptions were noted.

AA. CRN System Paid Claims

The examiners requested a listing of all CRN System paid claims. The CRN System contains mobile home property claims. The Company provided a universe of 69 claims.

Field Size:	69
Sample Size:	43
Sample Type:	Random
Number of Files with Errors:	2

Finding 101: The Company compelled two insureds to accept less than the amount due to them in violation of SDCL § 58-33-67(3) and (4) by issuing debit cards for claim payments that were subject to fees without giving the insureds an option to receive claim checks that were not subject to fees. Application of these fees would reduce the amount that an insured would receive for payment of a claim.

Recommendation 101: It is recommended that the Company stop issuing debit cards for claim payments that are subject to fees without obtaining the insured's informed consent.

BB. CRN System Denied Claims

The examiners requested a listing of all CRN System denied claims. The CRN System contains mobile home property claims. The Company provided a universe of 12 claims.

Field Size:	12
Sample Size:	12
Sample Type:	Census
Number of Files with Errors:	0

Finding 102: No exceptions were noted.

CC. Litigated Claims

The examiners requested a listing of all litigated claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 103: No exceptions were noted.

DD. Hail Damage Claims Paid

The examiners requested a listing of all hail damage paid claims. The Company provided a universe of 296 claims.

Field Size: 296
Sample Size: 50
Sample Type: Random
Number of Files with Errors: 1

Finding 104: The Company failed to adopt and adhere to reasonable standards for the prompt investigation of claims in violation of SDCL§ 58-33-67(1) by failing to settle a claim in a reasonable period of time. The claim involved hail damage to the insured dwelling. The date of loss was Aug 18, 2011. The initial claim payment in the amount of \$13,973.30 was dated October 4, 2011. In the settlement letter the Company requested that the insured send in estimates for the air conditioner damage. The insured sent the estimate by email on October 17, 2011, showing replacement costs of \$1683.00. The claim file shows no activity relating to this information until the settlement check was issued on December 2, 2011 in the amount of \$673.00.

Recommendation 104: It is recommended that the Company adopt and adhere to adopt and adhere to reasonable standards for the prompt investigation of claims.

EE. Hail Damage Claims Closed Without Payment (CWOP)

The examiners requested a listing of all hail damage closed without payment (CWOP) claims. The Company provided a universe of 31 claims.

Field Size: 31
Sample Size: 31
Sample Type: Census
Number of Files with Errors: 0

Finding 105: No exceptions were noted.

See Table Below for Hail Damage Claim Closed without Payment Reason and Coverage Details:

CWOP Close Reason and Coverage Type	# of Claims
Loss Withdrawn (Various reasons e.g. under deductible, no damage found etc.) - 14 Claims	
• Building	9

• Motorcycle	2
• Travel Trailer	1
• Motorhome	0
• Boat	2
Loss Below Deductible- 12 Claims	
• Building	8
• Motorcycle	0
• Travel Trailer	2
• Motorhome	1
• Boat	1
Coverage Elsewhere- 4 Claims	
• Building	1
• Motorcycle	1
• Travel Trailer	1
• Motorhome	1
• Boat	0
No Damage (Building) 1 Claim	

FF. Hail Damage Claims Denied

The examiners requested a listing of all hail damage denied claims. The Company provided a universe of 12 claims.

Field Size: 12
Sample Size: 12
Sample Type: Census
Number of Files with Errors: 0

Finding 106: No exceptions were noted.

GG. CRN System Hail Damage Claims Paid

The examiners requested a listing of all CRN System hail damage paid claims. The Company provided a universe of 35 claims.

Field Size: 35
Sample Size: 35
Sample Type: Census
Number of Files with Errors: 0

Finding 107: No exceptions were noted.

HH. CRN System Hail Damage Claims Closed Without Payment (CWOP)

The examiners requested a listing of all CRN System hail damage closed without payment (CWOP) claims. The Company provided a universe of 9 claims.

Field Size: 9
Sample Size: 9
Sample Type: Census
Number of Files with Errors: 0

Finding 108: No exceptions were noted.

See the Table Below for Hail Damage Claims Closed without Payment Reason and Coverage Details:

CWOP Close Reason (All building coverage for homes)	TOTAL # of Claims
Loss Withdrawn (Various reasons e.g. under deductible, policy terminated etc.)	3
Loss Below Deductible	3
Unable to reach insured/failure to send info by insured	2
No Damage	1

II. CRN System Hail Damage Claims Denied

The examiners requested a listing of all CRN System hail damage denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 109: No exceptions were noted.

CHAPTER 2: FOREMOST PROPERTY AND CASUALTY INSURANCE COMPANY

BACKGROUND INFORMATION

A. HISTORY

Foremost Property and Casualty Insurance Company was organized in 1984 under the laws of Michigan. In July 1992 Foremost Insurance Company Grand Rapids, Michigan purchased Foremost Property and Casualty Insurance Company from Foremost Life Insurance Company.

B. PROFILE

The Company's operations are coordinated from its home office in Grand Rapids, Michigan. Support services are provided through its own network of claim administration centers and marketing offices. The Company is licensed in 48 United States and the District of Columbia.

The Company's total direct earned premiums are:

Year	National Total	South Dakota
2009	\$122,112,908	\$423,880
2010	\$125,305,356	\$409,072
2011	\$127,374,064	\$365,159

EXAMINATION FINDINGS

I. COMPANY OPERATIONS AND MANAGEMENT

This examination focused on the Company's Complaint Handling, Underwriting and Rating, and Claims. A review of the Company's Operations and Management was also conducted. The examiners reviewed the Company's practices and procedures for providing complete, accurate and timely data throughout the course of the examination.

The examiners asked for and reviewed the following information:

- A. Current organizational charts outlining relationships of subsidiaries, branch offices and divisions/departments to the overall corporate management structure;
- B. Current organizational charts outlining the structure of South Dakota operations; including any specialty operations conducted separately;
- C. Description of the management structure of the Company;
- D. Description of all fines, penalties and recommendations from any state for the last 3 years; copies of all Financial and Market Conduct Examination reports conducted during the last 3 years;
- E. Copy of the Company's last annual report to the shareholders;
- F. Copies of the annual statements for the prior three years and any property and casualty related schedules or statements;
- G. Copies of all Management Agreements or Vendor Agreements including agreements between affiliates or private contractors for the examination period; list of all Third Party Administrators contracted with the Company to process South Dakota business during the examination period and a copy of the contracts;
- H. Internal Audits – Copies of all internal audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years;
- I. A copy of the Company's South Dakota Certificate(s) of Authority for the period under examination;
- J. Anti-Fraud Procedures and annual reports; and
- K. Privacy Procedures – Provide a copy of the Company's Privacy Procedures.

Finding 1: Regarding the request for internal audits, the Company initially did not provide any internal audits or audit procedures. The Company believed this was a request for internal audits conducted by Farmers Group, Inc.'s "Internal Audit" department which has general oversight responsibility for the enterprise's financial reporting process, risk management and internal controls, and conducts audits on a national level. The Company stated that the Company did not have "internal audits," as it understood that term, that involve South Dakota. Subsequent to the on-site examination review and as a result of further interrogatories, it was determined that internal

audits (Quality Assurance Audits) were conducted on the Company's claims handling process. The Company responded to this finding and provided a copy of the Quality Assurance Audit that was provided to the examiners on October 22, 2012, that was included in the list of claims data. The previously provided Audit contained 4 claim files for both Foremost Companies. The Quality Assurance Audit provided as a result of the interrogatories contained reference to 31 Claims subjected to audit for the Foremost Property and Casualty Insurance Company. Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 1: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

Finding 2: The results of the Quality Assurance Audits indicated a number of claims that were both overpaid and underpaid during the examination period. On October 8, 2013, the Group advised that it is their policy to review all findings of underpayments, determine if subsequent payment is appropriate, and pay if owed. The Group stated that they can furnish cancelled checks as proof of payment upon request. Upon request for proof of payment, it was determined that in 2 claims the Group had not paid underpayments. The total payments including interest of \$276.99 were made to consumers on January 14, 2014, prompted by the examiners inquiries. The company provided inaccurate or incomplete information to the Division during the examination process in violation of SDCL § 58-3-7 and ARSD 20:06:12:09.

Recommendation 2: It is recommended that the Company clarify and confirm requests, and if applicable adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

II. COMPLAINT HANDLING

The examiners requested all complaints received by the Company and direct complaints to the South Dakota Division of Insurance. The Company reported 3 complaints were received through the South Dakota Division of Insurance and 1 was received directly from the insured.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 3: No exceptions were noted.

III. MARKETING AND SALES

The advertising and sales material provided by the Company was utilized by both Foremost Companies. The review is addressed in the Marketing and Sales Section of the Report on Foremost Insurance Company of Grand Rapids, Michigan. The results of that review indicated no exceptions were noted.

Finding 4: No exceptions were noted.

IV. PRODUCER LICENSING

The Company was requested to provide a list of all producers licensed in South Dakota to solicit business during the examination period. In addition, the Company was requested to provide policies and procedures regarding the following activities:

- Licensing, Appointment and Termination Procedures
- Producer Product and Compliance Training
- Allegations of Misconduct Producer Reports

The producer licensing lists and policies and procedures were received and reviewed. All new business (NB) files were reviewed for license and appointment compliance.

Finding 5: No exceptions were noted.

V. UNDERWRITING AND RATING

The examiners reviewed the Company's underwriting and rating practices for compliance. In underwriting, the examiners reviewed the following files:

- A. Midterm Cancellations
- B. Nonrenewals
- C. Declinations

In rating, the examiners reviewed the following files:

- D. New Business
- E. Renewals

Throughout the review the Company's underwriting and rating practices, the emphasis was placed on adherence to underwriting guidelines/manuals, termination procedures, the risk characteristics, adherence with Company filings and the accuracy in the development of the policy premium.

Finding 6: No exceptions were noted.

A. Midterm Cancellations

The examiners requested all midterm cancellations issued by the Company. The examiners were provided a universe of 2 midterm cancellations.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 7: No exceptions were noted.

B. Nonrenewals

The examiners requested all nonrenewals issued by the Company. The Company reported 7 non-renewals for Mobile Home coverage.

Field Size:	7
Sample Size:	7
Sample Type:	Census
Number of Files with Errors:	0

Finding 8: No exceptions were noted.

C. Declinations

The examiners requested a listing of all policies and applications that were declined by the Company. The Company provided a universe of 16 declinations for AARP Mobile Home coverage.

Field Size:	16
Sample Size:	16
Sample Type:	Census
Number of Files with Errors:	0

Finding 9: No exceptions were noted.

D. New Business

Motorcycle/Off Road Vehicles

The examiners requested a listing of all new business for the Motorcycle/Off Road Vehicle policies. The Company provided a universe of 156 files.

Field Size:	156
Sample Size:	68
Sample Type:	Random
Number of Files with Errors:	0

Finding 10: No exceptions were noted.

Mobile Home

The examiners requested a listing of all new business for the Mobile Home policies. The Company provided a universe of 204 files.

Field Size:	204
Sample Size:	76
Sample Type:	Random

Number of Files with Errors: 0

Finding 11: No exceptions were noted.

E. Renewals

Motorcycles/Off Road Vehicles

The examiners requested a listing of all Motorcycle/Off Road Vehicle policies renewed during the examination period. The Company reported a universe of 208 policies.

Field Size: 208
Sample Size: 77
Sample Type: Random
Number of Files with Errors: 0

Finding 12: No exceptions were noted.

Mobile Home

The examiners requested a listing of all policies for Mobile Home renewed during the examination period. The Company reported a universe of 2,086 policies.

Field Size: 2,086
Sample Size: 107
Sample Type: Random
Number of Files with Errors: 0

Finding 13: No exceptions were noted.

VI. CLAIMS

The purpose of the review was to ascertain the Company's compliance with the statutes and administrative rules of South Dakota relating to claim settlement practices. Throughout the review, the emphasis was placed on items such as the timeliness of claim handling, file documentation and claim payment. The Claim files additionally were reviewed to ensure compliance with the paintless dent repair (PDR) requirements of SDCL §§ 58-12-16 through 58-12-18. Property claims were reviewed to ensure compliance with the total loss requirements of SDCL § 58-10-10.

The examiners reviewed the Company's Vehicle and Property Claim practices in the following categories:

Vehicle Claims

- A. Motorcycle/Off Road Vehicle Medical Payments Paid
- B. Motorcycle/Off Road Vehicle Collision Paid

- C. Motorcycle/Off Road Vehicle Property Damage Paid
- D. Motor Home Collision Paid
- E. Motor Home Other than Collision Claims Paid
- F. Motor Home Medical Payment Paid
- G. Motor Home Additional Living Expense Paid
- H. Motor Home Towing Paid
- I. Motor Home Other than Collision Denied
- J. Travel Trailer Collision Paid
- K. Travel Trailer Replacement Cost Contents Paid
- L. Travel Trailer Hail Deductible Paid
- M. Travel Trailer Secure Travel Paid
- N. Travel Trailer All Other Loss Paid

Property Claims

- A. Mobile Home Paid
- B. Mobile Home Denied
- C. Mobile Home Comprehensive Personal Liability Bodily Injury Paid
- D. Mobile Home Comprehensive Personal Liability Bodily Injury Denied
- E. Mobile Home Comprehensive Personal Liability Medical Payments Denied
- F. Mobile Home Personal Property Paid
- G. Mobile Home Personal Property Denied
- H. CRN System Mobile Home Property Paid
- I. CRN System Mobile Home Property Denied
- J. Property Hail Claims Paid
- K. Property Hail Claims Closed With Out Payment
- L. Property Hail Claims Denied
- M. CRN System Property Hail Claims Paid
- N. CRN System Property Hail Claims Closed With Out Payment

Vehicle Claims

A. Motorcycle/Off Road Vehicle Medical Payment Paid

The examiners requested a listing of all motorcycle/off road medical payment paid claims. The Company provided a universe of 2 claims.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 14: No exceptions were noted.

B. Motorcycle/Off Road Vehicle Collision Paid

The examiners requested a listing of all motorcycle/off road vehicle collision paid claims. The Company provided a universe of 3 claims.

Field Size: 3
Sample Size: 3
Sample Type: Census
Number of Files with Errors: 0

Finding 15: No exceptions were noted.

C. Motorcycle/Off Road Vehicle Property Damage Paid

The examiners requested a listing of all motorcycle/off road vehicle property damage paid claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 16: No exceptions were noted.

D. Motor Home Collision Paid

The examiners requested a listing of all motor home collision paid claims. The Company provided a universe of 7 claims.

Field Size: 7
Sample Size: 7
Sample Type: Census
Number of Files with Errors: 0

Finding 17: No exceptions were noted

E. Motor Home Other than Collision Paid

The examiners requested a listing of all motor home other than collision paid claims. The Company provided a universe of 13 claims.

Field Size: 13
Sample Size: 13
Sample Type: Census
Number of Files with Errors: 0

Finding 18: No exceptions were noted.

F. Motor Home Medical Payments Paid

The examiners requested a listing of all motor home medical payments paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 19: No exceptions were noted.

G. Motor Home Additional Living Expense Paid

The examiners requested a listing of all motor home additional living expense paid claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 20: No exceptions were noted.

H. Motor Home Towing Paid

The examiners requested a listing of all motor home towing paid claims. The Company provided a universe of 3 claims.

Field Size:	12
Sample Size:	12
Sample Type:	Census
Number of Files with Errors:	0

Finding 21: No exceptions were noted.

I. Motor Home Other than Collision Denied

The examiners requested a listing of all motor home other than collision denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 22: No exceptions were noted.

J. Travel Trailer Collision Paid

The examiners requested a listing of all travel trailer collision paid claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 23: No exceptions were noted.

K. Travel Trailer Replacement Cost Contents Paid

The examiners requested a listing of all travel trailer replacement cost contents paid claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 24: No exceptions were noted.

L. Travel Trailer Hail Deductible Paid

The examiners requested a listing of all travel trailer hail deductible paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 25: No exceptions were noted.

M. Travel Trailer Secure Travel Paid

The examiners requested a listing of all travel trailer secure travel paid claims. The Company provided a universe of 6 claims.

Field Size:	6
Sample Size:	6
Sample Type:	Census
Number of Files with Errors:	0

Finding 26: No exceptions were noted.

N. Travel Trailer All Other Loss Paid

The examiners requested a listing of all travel trailer all other loss paid claims. The Company provided a universe of 10 claims.

Field Size:	10
Sample Size:	10
Sample Type:	Census
Number of Files with Errors:	0

Finding 27: No exceptions were noted.

Property Claims

A. Mobile Home Paid

The examiners requested a listing of all mobile home paid claims. The Company provided a universe of 192 claims.

Field Size:	192
Sample Size:	75
Sample Type:	Random
Number of Files with Errors:	0

Finding 28: No exceptions were noted.

B. Mobile Home Denied

The examiners requested a listing of all mobile home denied claims. The Company provided a universe of 45 claims.

Field Size:	45
Sample Size:	33
Sample Type:	Random
Number of Files with Errors:	0

Finding 29: No exceptions were noted.

C. Mobile Home Comprehensive Personal Liability Bodily Injury Paid

The examiners requested a listing of all mobile home comprehensive personal liability bodily injury paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 30: No exceptions were noted.

D. Mobile Home Comprehensive Personal Liability Bodily Injury Denied

The examiners requested a listing of all mobile home comprehensive personal liability bodily injury denied claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	1

Finding 31: The Company failed to provide a copy of the denial letter in the claim file in order to permit reconstruction of the insurer's activities relative to each claim pursuant to SDCL § 58-3-7.4(2).

Recommendation 31: It is recommended that the Company adopt and adhere to reasonable standards to provide detailed documentation in each claim file in order to permit reconstruction of the insurer's activities relative to each claim and ensure compliance with SDCL § 58-3-7.4 (2).

E. Mobile Home Comprehensive Personal Liability Medical Payments Denied

The examiners requested a listing of all mobile home comprehensive personal liability medical payments denied claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 32: No exceptions were noted.

F. Mobile Home Personal Property Paid

The examiners requested a listing of all mobile home personal property paid claims. The Company provided a universe of 14 claims.

Field Size:	14
Sample Size:	14
Sample Type:	Census
Number of Files with Errors:	0

Finding 33: No exceptions were noted.

G. Mobile Home-Personal Property Denied

The examiners requested a listing of all mobile home personal property denied claims. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

Finding 34: No exceptions were noted.

H. CRN System Mobile Home Property Paid

The examiners requested a listing of all CRN System mobile home property paid claims. The Company provided a universe of 28 claims.

Field Size: 28
Sample Size: 28
Sample Type: Census
Number of Files with Errors: 0

Finding 35: No exceptions were noted.

I. CRN System Mobile Home Property Denied

The examiners requested a listing of all CRN System mobile home property denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 36: No exceptions were noted.

J. Hail Damage Claims Paid

The Company was asked to provide a list of all hail damage claim files reported during the examination period. The Company identified a universe of 85 hail damage paid claims.

Field Size: 85
Sample Size: 35
Sample Type: Random
Number of Files with Errors: 0

Finding 37: No exceptions were noted.

K. Hail Damage Claims Closed With Out Payment

The examiners requested a listing of all hail damage claims closed without payment. The Company provided a universe of 5 claims.

Field Size: 5

Sample Size: 5
Sample Type: Census
Number of Files with Errors: 0

See Table Below for Hail Damage Claims Closed without Payment Reason and Coverage Details:

CWOP Close Reason and Coverage Type	# of Claims
Loss Withdrawn - Mobile Home Building	3
Loss Below Deductible - Mobile Home Building	2

Finding 38: No exceptions were noted.

L. Hail Damage Claims Denied

The examiners requested a listing of all hail damage denied claims. The Company identified a universe of 6 claims.

Field Size: 6
Sample Size: 6
Sample Type: Census
Number of Files with Errors: 0

Finding 39: No exceptions were noted.

M. CRN System Hail Claims Paid

The examiners requested a listing of all CRN System hail damage paid claims. The Company provided a universe of 9 claims.

Field Size: 9
Sample Size: 9
Sample Type: Census
Number of Files with Errors: 0

Finding 40: No exceptions were noted.

N. CRN System Hail Damage Claims Closed without Payment

The examiners requested a listing of all CRN System hail damage claims closed without payment. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 0

See Table Below for Hail Damage Claims Closed without Payment Reason and Coverage Details:

CWOP Close Reason and Coverage Type	# of Claims
Claim Withdrawn - Mobile Home Building	1
Claim Amount Below Deductible - Mobile Home Building	1

Finding 41: No exceptions were noted.

CHAPTER 3: FARMERS INSURANCE EXCHANGE

BACKGROUND INFORMATION

A. HISTORY

Farmers Insurance Exchange was organized on March 28, 1928, under the Reciprocal or Inter-Insurance Act of California and commenced business on April 6, 1928, with the title Farmers Automobile Inter-Insurance Exchange. The present title was adopted on May 1, 1947. The Company is currently licensed in 48 states including South Dakota.

Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange, along with their various subsidiaries and affiliates, comprise the Farmers Insurance Group, which is based in Los Angeles, California. Each of the three reciprocal insurers is owned by its respective policyholders. The policyholders of each Exchange appoint an exclusive attorney-in-fact to provide certain non-claims management services to each Exchange.

Farmers Group, Inc., dba Farmers Underwriters Association, is the attorney-in-fact for Farmers Insurance Exchange and the parent company of the Fire Underwriters Association (attorney-in-fact of Fire Insurance Exchange) and Truck Underwriters Association (attorney-in-fact of Truck Insurance Exchange).

Farmers Insurance Group is one of the largest writers of both private passenger automobile and homeowners insurance. The Farmers Insurance Group distributes their property and casualty insurance products in all states through a network of direct writing agents, district managers, independent agents and the direct distribution channel.

B. PROFILE

The Company was organized under the Reciprocal and Inter-Insurance Act of the State of California on March 28, 1929. , and began operations on February 17, 1953. The Company is currently licensed in all 48 continental United States.

Farmers Insurance Exchange is licensed to write the following lines in South Dakota: Fire & Allied Lines, Inland & Open Marine, Workers' Compensation, Auto Bodily Injury, Auto Property Damage, Auto Physical Damage, Fidelity & Surety, Glass, and Burglary & Theft.

The Farmers Insurance Group distributes their property and casualty insurance products in all states through a network of direct writing agents, district managers, independent agents and the direct distribution channel.

The Company's total direct earned premiums are:

Year	National Total	South Dakota
2009	\$3,240,016,877	\$23,398,814
2010	\$3,042,394,908	\$24,784,012
2011	\$2,860,961,030	\$23,303,597

EXAMINATION FINDINGS

I. COMPANY OPERATIONS AND MANAGEMENT

This examination focused on the Company's Complaint Handling, Underwriting and Rating, and Claims. A review of the Company's Operations and Management was also conducted, including a review of the Company's practices and procedures for providing complete, accurate and timely data throughout the course of the examination in compliance with the South Dakota statutes and administrative rules.

The examiners requested and reviewed the following information:

- A. Current organizational charts outlining relationships of subsidiaries, branch offices and divisions/departments to the overall corporate management structure;
- B. Current organizational charts outlining the structure of South Dakota operations; including any specialty operations conducted separately;
- C. Description of the management structure of the Company;
- D. Description of all fines, penalties and recommendations from any state for the last 3 years; copies of all Financial and Market Conduct Examination reports conducted during the last 3 years;
- E. Copy of the Company's last annual report to the shareholders;
- F. Copies of the annual statements for the prior three years and any property and casualty related schedules or statements;
- G. Copies of all Management Agreements or Vendor Agreements including agreements between affiliates or private contractors for the examination period; list of all Third Party Administrators contracted with the Company to process South Dakota business during the examination period and a copy of the contracts;
- H. Internal Audits – Copies of all internal audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years;
- I. A copy of the Company's South Dakota Certificate(s) of Authority for the period under examination;
- J. Anti-Fraud Procedures and annual reports; and
- K. Privacy Procedures – Provide a copy of the Company's Privacy Procedures.

Finding 1: In the initial stages of the exam, the Company was requested to provide all audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years.

The Company provided a consolidated worksheet of internal claim audits conducted by the Quality Assurance Department during the exam period. Subsequent to the on-site examination review and as a result of the claim file review and further interrogatories, it was determined that additional internal audits known as the National Reinspection Audit Program were conducted on the Company's claims handling process and were not disclosed as internal audits in response to the requests made by the examiners pursuant to the Coordinators Handbook. The Company adjusted claims based on this program. The Company indicated that the audits performed under the National Reinspection Audit Program is an internal training tool used by Claims management to determine the quality of file handling by Farmers Claim personnel and is not considered by the Company as an "Internal Audit" within the meaning set forth in the Coordinators Handbook. Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 1: It is recommended that the Company clarify and confirm requests to ensure that all responses provided during the examination process are accurate and complete.

Finding 2: On October 22, 2012, the Company provided a consolidated worksheet of internal claim audits conducted by the Quality Assurance Department during the exam period. The worksheet reflected 188 total claims audited during the examination period. Of the 188 audited claims, 169 were Farmers Insurance Exchange claims and 19 were Fire Insurance Exchange claims. There were no claim entries for Mid-Century Insurance Company.

Subsequent to additional interrogatories made by the examiners concerning the Company's use of claim audits, the Company provided a more complete audit summary. In the complete audit summary, the Quality Assurance Department indicated there were internal audits on 2,751 claims. Of the 2,751 audited claims, 1,496 were Farmers Insurance Exchange claims.

Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 2: It is recommended that the Company clarify and confirm requests to ensure that all responses provided during the examination process are accurate and complete.

Finding 3: The results of the Quality Assurance Audits indicated a number of claims that were both overpaid and underpaid during the examination period. On October 8, 2013, the Group advised that it is their policy to review all findings of underpayments, determine if subsequent payment is appropriate, and pay if owed. The Group stated that they can furnish cancelled checks as proof of payment upon request. Upon request for proof of payment, it was determined that in 17 claims the Group had not paid underpayments. The total payments including interest of \$2,941.08 were made to consumers on January 14, 2014, prompted by the examiners inquiries. The company provided inaccurate or incomplete information to the Division during the examination process in violation of SDCL § 58-3-7 and ARSD 20:06:12:09.

Recommendation 3: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

II. COMPLAINT HANDLING

The examiners requested all complaints received by the Company. The Company reported 56 complaints received during the examination period. Of the 56 complaints received, 43 were received from the Division and 13 were received directly from consumers.

Field Size:	56
Sample Size:	56
Sample Type:	Census
Number of Files with Errors:	0

Finding 4: No exceptions were noted.

III. MARKETING AND SALES

The examiners requested all copies of advertising and marketing materials used during the examination period. The Company provided 453 pieces of print, radio and television material that is utilized for all Farmers Group Companies.

Field Size:	453
Sample Size:	50
Sample Type:	Random
Number of Files with Errors:	0

Finding 5: No exceptions were noted.

IV. PRODUCER LICENSING

The Company was requested to provide a list of all producers licensed in South Dakota to solicit business during the examination period. In addition, the Company was requested to provide policies and procedures regarding the following activities:

- Licensing, Appointment and Termination Procedures
- Producer Product and Compliance Training
- Allegations of Misconduct Producer Reports

The producer licensing lists and policies and procedures were received and reviewed. All new business (NB) files were reviewed for license and appointment compliance.

Finding 6: Two producers were found to be writing new business policies but did not have a current appointment with the Company at the time of effective date of business pursuant to SDCL §§ 58-30-171 and 58-30-176.

Recommendation 6: It is recommended that the Company adopt and adhere to procedures to ensure that all producers are properly licensed and appointed to conduct business in the State of South Dakota.

V. UNDERWRITING AND RATING

The examiners reviewed the Company's underwriting and rating practices for compliance with the South Dakota statutes and administrative rules. In underwriting, the examiners reviewed the following files:

- A. Personal Automobile Midterm Cancellations
- B. Commercial Automobile Midterm Cancellations
- C. Property Midterm Cancellations
- D. Personal Automobile Nonrenewals
- E. Property Nonrenewals
- F. Commercial Automobile Nonrenewals
- G. Personal Automobile Declinations
- H. Property Declinations
- I. Commercial Declinations

In rating, the examiners reviewed the following files:

- J. Personal Automobile New Business
- K. Property New Business
- L. Commercial Automobile New Business
- M. Personal Automobile Renewals
- N. Property Renewals
- O. Commercial Automobile Renewals

Throughout the review of the Company's underwriting and rating practices, the emphasis was placed on adherence to underwriting guidelines/manuals, termination procedures, the risk characteristics, adherence with Company filings and the accuracy in the development of the policy premium.

A. Personal Automobile Midterm Cancellations

The examiners requested a listing of all personal automobile midterm cancellations. The Company provided a universe of 125 midterm cancellations.

Field Size:	125
Sample Size:	61
Sample Type:	Random
Number of Files with Errors:	12

Finding 7: The Company issued formal notices of cancellation for reasons that are not compliant with SDCL § 58-11-46.

Recommendation 7: It is recommended that the Company adopt and adhere to procedures in the cancellation of policies for the proper reasons.

B. Commercial Automobile Midterm Cancellations

The examiners requested a listing of all commercial automobile midterm cancellations. The Company reported they had none.

C. Personal Property Midterm Cancellations

The examiners requested a listing of personal property midterm cancellations. The Company provided a universe of 68 midterm cancellations.

Field Size:	68
Sample Size:	44
Sample Type:	Random
Number of Files with Errors:	0

Finding 8: No exceptions were noted.

D. Personal Automobile Nonrenewals

The examiners requested a listing of personal automobile nonrenewals. The Company provided a universe of 158 personal automobile nonrenewals.

Field Size:	158
Sample Size:	69
Sample Type:	Random
Number of Files with Errors:	1

Finding 9: The Company issued a notice of nonrenewal between June 1, 2011 and September 1, 2011 to an insured in a county prohibited from cancellation by Bulletin 11-5 and Order.

Recommendation 9: It is recommended that the Company adhere to bulletins issued by the South Dakota Division of Insurance relative to prohibited cancellations.

E. Personal Property Nonrenewals

The examiners requested a listing of personal property nonrenewals. The Company provided a universe of 93 personal property nonrenewals.

Field Size:	93
Sample Size:	53
Sample Type:	Random
Number of Files with Errors:	1

Finding 10: The Company issued a notice of nonrenewal between June 1, 2011 and September 1, 2011, to an insured in a county prohibited from cancellation by Bulletin 11-5 and Order.

Recommendation 10: It is recommended that the Company adhere to bulletins issued by the South Dakota Division of Insurance relative to prohibited cancellations.

F. Commercial Automobile Nonrenewals

The examiners requested a listing of all commercial automobile nonrenewals. The Company reported a universe of 7 commercial automobile nonrenewals.

Field Size:	7
Sample Size:	7
Sample Type:	Census
Number of Files with Errors:	0

Finding 11: No exceptions were noted.

G. Personal Automobile Declinations

The examiners requested a listing of all personal automobile declinations. The Company reported a universe of 250 declinations.

Field Size:	250
Sample Size:	76
Sample Type:	Random
Number of Files with Errors:	0

Finding 12: No exceptions were noted.

H. Personal Property Declinations

The examiners requested a listing of all personal property declinations. The Company reported a universe of 218 declinations.

Field Size:	218
Sample Size:	76
Sample Type:	Random
Number of Files with Errors:	3

Finding 13: The Company failed to provide the examiners with the three requested files in order to determine compliance in violation of SDCL § 58-3-7. The Company stated it was unable to locate the files.

Recommendation 13: It is recommended that the Company adopt and adhere to proper recordkeeping to ensure that all documents are available.

I. Commercial Automobile Declinations

The examiners requested a listing of all commercial automobile declinations. The Company provided a universe of 1 declination.

Field Size:	1
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Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 14: No exceptions were found.

J. Personal Automobile New Business (Rating)

The examiners requested a listing of all personal automobile new business policies. The Company provided a universe of 9,008 policies.

Field Size: 9,008
Sample Size: 109
Sample Type: Random
Number of Files with Errors: 0

Finding 15: No exceptions were noted.

K. Personal Property New Business (Rating)

The examiners requested a listing of all personal property new business issued by the Company during the examination period. The Company provided a universe of 8,144 new business policies. The new business policies consisted of Next Generation Homeowners (NGHO), Home Renter, Landlord Protective (LP), Next Generation Tenant Homeowners (NGTH), Homeowners in the Course of Construction with Contents (COC3), and Homeowners in the Course of Construction without Contents (COC4). The universe, sample size, sample type and number of files with errors for each category are summarized in the following table:

Category	Field Size	Sample Size	Sample Type	Number of Files with Errors
Home NGHO	5,978	109	Random	0
Home Renter	1,535	106	Random	1
Home LP	407	82	Random	0
Home NGTH	116	60	Random	0
Home COC4	77	47	Random	0
Home COC3	31	25	Random	0
Totals	8,144	429		1

Finding 16: The Company issued a Home Renter new business policy using an incorrect territory pursuant to SDCL §§ 58-33-26 and 58-24-10 relating to unfair trade practices and use of proper insurance rates.

Recommendation 16: It is recommended that the Company adopt and adhere to the use of proper rating procedures and provide proper training to ensure incorrect rating errors do not occur.

L. Commercial Automobile New Business

The examiners requested a listing of all commercial automobile new business policies issued during the examination period. The Company provided a universe of 154 new business policies.

Field Size: 154
Sample Size: 25
Sample Type: Random
Number of Files with Errors: 76*

* During the rating process of the policies, the Company indicated a system rating error occurred with the underinsured motorist coverage during the examination period of January 1, 2009 through June 30, 2012 and extended past the examination period from July 1, 2012 through June 30, 2013. The system error resulted in an undercharge of premium. Subsequently, the Company was requested to provide a list of all policies that were affected by the rating error with their underinsured motorist coverage, the total amount of undercharge for each policy and confirmation the system rating error was corrected. The Company provided the data as requested and advised the rating error had been corrected in their system. The table below provides the policy year, number of policies, number of units and the total amount of undercharges. The figures in the table reflect the total number of policies affected by the systems rating error which extended beyond the examination period as noted above.

Policy Year	Number of Policies	Number of Commercial Automobile Units	Total Amount of Undercharge
2009	6	7	\$24.00
2010	22	39	\$150.00
2011	18	32	\$126.00
2012	20	36	\$135.00
First half of 2013	10	14	\$54.00
TOTALS	76	128	\$489.00

Finding 17: The Company applied an incorrect rating factor to underinsured motorist coverage that was not in accordance with their filed and approved rates in violation of SDCL § 58-24-10. The rating error resulted in undercharges totaling \$489.00.

Recommendation 17: It is recommended that the Company adopt and adhere to policies and procedures to ensure all rating components are applied as filed and approved.

M. Personal Automobile Renewals

The examiners requested a listing of all personal automobile renewal policies issued during the examination period. The Company reported a list of 90,245 renewal policies.

Field Size: 90,245
Sample Size: 109
Sample Type: Random

Number of Files with Errors: 0

Finding 18: No exceptions were found.

N. Personal Property Renewals

The examiners requested a listing of all personal property renewals issued by the Company during the examination period. The Company provided a universe of 19,534 new business policies. The new business policies consisted of Next Generation Homeowners (NGHO), Home Renter, Landlord Protective (LP), Home Special Form (SPF) and Next Generation Tenant Homeowners (NGTH). The universe, sample size, sample type and number of files with errors for each category are summarized in the following table:

Category	Field Size	Sample Size	Sample Type	Number of Files with Errors
Home NGHO	14,953	109	Random	0
Home Rent	2,801	107	Random	0
Home LP	1,097	105	Random	0
Home SPF	460	82	Random	0
Home NGTH	223	86	Random	0
Totals	19,534	489		0

Finding 19: No exceptions were noted.

O. Commercial Automobile Renewals

The examiner requested a listing of all commercial automobile renewal policies issued during the examination period. The Company provided a list of 980 commercial automobile renewal policies.

Field Size: 980
Sample Size: 100
Sample Type: Random
Number of Files with Errors: 332*

* During the rating process of the policies, the Company indicated a system rating error occurred with the underinsured motorist coverage during the examination period of January 1, 2009 through June 30, 2012, and extended past the examination period from July 1, 2012 through June 30, 2013. The system error resulted in an undercharge of premium. Subsequently, the Company was requested to provide a list of all policies that were affected by the rating error with their underinsured motorist coverage, the total amount of undercharge for each policy and confirmation the system rating error was corrected. The Company provided the data as requested and advised the rating error had been corrected in their system. The table below provides the policy year, number of policies, number of units and the total amount of undercharges. The figures in the table reflect the total number of policies affected by the systems rating error which extended beyond the examination period as noted above.

Policy Year	Number of Policies	Number of Commercial Automobile Units	Total Amount of Undercharge
2009	32	55	\$213.00
2010	56	99	\$383.00
2011	83	170	\$663.00
2012	107	216	\$840.00
First Half of 2013	54	121	\$473.00
TOTALS	332	661	\$2,572.00

Finding 20: The Company applied an incorrect rating factor to underinsured motorist coverage that was not in accordance with their filed and approved rates in violation of SDCL § 58-24-10. The rating errors resulted in undercharges of \$2,572.00.

Recommendation 20: It is recommended that the Company adopt and adhere to policies and procedures to ensure all rating components are applied as filed and approved.

VI. CLAIMS

The purpose of the review was to ascertain the Company's compliance with the claim practices rules and regulations of the South Dakota Division of Insurance. Throughout the review, the emphasis was placed on items such as the timeliness of claim handling, file documentation and claim payment. The claim files additionally were reviewed to ensure compliance with the paintless dent repair (PDR) requirements of SDCL §§ 58-12-16 through 58-12-18. Property claims were reviewed to ensure compliance with the total loss requirements of SDCL § 58-10-10.

The examiners reviewed the Company's Vehicle and Property claim practices in the following categories:

PERSONAL AUTOMOBILE CLAIMS

- A. Uninsured Motorist Paid
- B. Underinsured Motorist Paid
- C. Uninsured Motorist Denied
- D. Bodily Injury Liability Paid
- E. Bodily Injury Liability Denied
- F. Medical Payments Paid
- G. Medical Payments Denied
- H. Comprehensive Paid
- I. Comprehensive Denied
- J. Collision Paid
- K. Property Damage Liability Paid
- L. Property Damage Liability Denied
- M. Hail Damage Paid
- N. Hail Damage No Payment
- O. Hail Damage Denied

HOMEOWNER CLAIMS

- A. Homeowner Paid
- B. Homeowner Denied
- C. Homeowner Hail Damage Paid
- D. Homeowner Hail Damage No Payment
- E. Homeowner Hail Damage Denied
- F. Homeowner Claims Reinspected
- G. Total Loss Claims

COMMERCIAL AUTOMOBILE CLAIMS

- A. Collision Paid
- B. Comprehensive Paid
- C. Property Damage Liability Paid
- D. Bodily Injury Paid
- E. Medical Payments Paid
- F. Collision Denied
- H. Property Damage Liability Denied
- I. Uninsured Motorist Denied
- J. Subrogated
- K. Salvage

LITIGATED CLAIMS

The examiners requested a listing of all litigated claims. The Company provided a universe of 50 claims.

Field Size:	50
Sample Size:	36
Sample Type:	Random
Number of Files with Errors	0

Finding 21: No exceptions were noted.

PERSONAL AUTOMOBILE CLAIMS

A. Uninsured Motorist Paid

The examiners requested a listing of all uninsured motorist paid claims. The Company provided a universe of 68 claims paid.

Field Size:	68
Sample Size:	24
Sample Type:	Random
Number of Files with Errors:	1

Finding 22: The Company failed to promptly investigate one claim. The claim occurred on 10/1/2007. There was a ten month gap in communications with the insured from October of 2008 until August of 2009. This failure to promptly investigate this claim is in violation of SDCL § 58-33-67(1).

Recommendation 22: It is recommended that the Company adopt and adhere to the practice of prompt and timely communications with all claimants during their investigation of claims.

B. Underinsured Motorist Paid

The examiners requested a listing of all underinsured motorist paid claims. The Company provided a universe of 24 claims.

Field Size:	24
Sample Size:	24
Sample Type:	Census
Number of Files with Errors:	0

Finding 23: No Exceptions were noted

C. Uninsured Motorist Denied

The examiners requested a listing of all uninsured motorist denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 24: No exceptions were noted.

D. Bodily Injury Liability Paid

The examiners requested a listing of all bodily injury liability paid claims. The Company provided a universe of 554 claims.

Field Size:	554
Sample Size:	83
Sample Type:	Random
Number of Files with Errors:	0

Finding 25: No exceptions were noted.

E. Bodily Injury Liability Denied

The examiners requested a listing of all bodily injury denied claims. The Company provided a universe of 24 claims.

Field Size:	24
Sample Size:	24
Sample Type:	Census
Number of Files with Errors:	2

Finding 26: The Company failed to provide an explanation of the basis for which the claim was denied. The claim handlers failed to send a denial letter in 2 claims in violation of SDCL § 58-33-67(3).

Recommendation 26: It is recommended that the Company adopt and adhere to claim handling procedures that provide proper documentation of denial of claims to include the basis in the insurance policy for which the denial is being made.

F. Medical Payments Paid

The examiners requested a listing of all medical payments paid claims. The Company provided a universe of 898 claims.

Field Size:	898
Sample Size:	100
Sample Type:	Random
Number of Files with Errors:	0

Finding 27: No exceptions were noted.

G. Medical Payments Denied

The examiners requested a listing of all medical payments denied claims. The Company provided a universe of 8 claims.

Field Size:	8
Sample Size:	8
Sample Type:	Census
Number of Files with Errors:	0

Finding 28: No exceptions were noted.

H. Comprehensive Paid

The examiners requested a listing of all comprehensive paid claims. The Company provided a universe of 3,682 claims.

Field Size: 3,682
Sample Size: 108
Sample Type: Random
Number of Files with Errors: 36

Finding 29: The Company failed to include the mandatory disclosure language in 36 files when the written estimate was based in whole or in part upon the paintless dent repair method in violation of SDCL § 58-12-16(3) and South Dakota Insurance Division Bulletin 98-03, Paintless Dent Repair for Hail Claims.

Recommendation 29: It is recommended that the Company adhere and adopt procedures to ensure that all the proper disclosures are provided on written claim estimates for paintless dent repairs.

I. Comprehensive Denied

The examiners requested a listing of all comprehensive denied claims. The Company provided a universe of 2 claims.

Field Size: 2
Sample Size: 2
Sample Type: Census
Number of Files with Errors: 1

Finding 30: The Company's failure to maintain a copy of the claim denial letter in the claim file is in violation of SDCL §§ 58-3-7.4 and 58-1-26.

Recommendation 30: It is recommended that the Company adopt and adhere to claim handling procedures that provide proper documentation of the claim denial.

J. Collision Paid

The examiners requested a listing of all collision paid claims. The Company provided a universe of 2,559 claims.

Field Size: 2,559
Sample Size: 107
Sample Type: Random
Number of Files with Errors: 1

Finding 31: The Company underpaid a claim because numbers were transposed during the check issuing process, in violation of SDCL § 58-33-67(3). The Company has issued a check to the claimant for the amount of the underpayment and proof of payment was supplied to the examiners.

Recommendation 31: It is recommended that the Company adopt and adhere to policies and procedures in the issuance of claim checks to make sure errors as described above do not occur in the future.

K. Property Damage Liability Paid

The examiners requested a listing of all property damage liability paid claims. The Company provided a universe of 2,524 claims.

Field Size:	2,524
Sample Size:	107
Sample Type:	Random
Number of Files with Errors:	6

Finding 32: The Company failed to pay sales tax to third party claimants on 6 total loss claims where the owners retained salvage; and failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the failure to pay the tax pursuant to SDCL § 58-33-67(3).

Recommendation 32: It is recommended that the Company adhere and adopt procedures to ensure that all claims are properly paid for total loss claims where the owner retains salvage and that the sales tax is included for third party claimants.

L. Property Damage Liability Denied

The examiners requested a listing of all property damage liability denied claims. The Company provided a universe of 61 claims.

Field Size:	61
Sample Size:	41
Sample Type:	Random
Number of Files with Errors:	2

Finding 33: The Company failed to maintain a copy of the claim denial letter in the claim files in violation of SDCL § 58-1-26. The Company was unable to verify compliance of the content of the letter pursuant to SDCL § 58-33-67(3).

Recommendation 33: It is recommended that the Company adopt and adhere to claim handling procedures that provide proper documentation of denial of claims and include the basis of the insurance policy for which the denial is being made.

M. Hail Damage Paid

The examiners requested a listing of all hail damage paid claims. The Company provided a universe of 2,089 claims. The selection criteria for the hail damage paid claims were taken from the comprehensive paid claims found in the Personal Automobile section. The selections are duplicative of the comprehensive paid claims that were previously reviewed.

Field Size:	2,089
Sample Size:	58

Sample Type:	See above explanation
Number of Files with Errors	0

Finding 34: No additional exceptions were found.

N. Hail Damage No Payment

The examiners requested a listing of all hail damage claims where no payment was made. The Company provided a universe of 264 claims.

Field Size:	264
Sample Size:	76
Sample Type:	Random
Number of Files with Errors:	0

Finding 35: No exceptions were noted.

O. Hail Damage Denied

The examiners requested a listing of all hail damage denied claims. The Company reported none.

Finding 36: No exceptions were noted.

HOMEOWNER CLAIMS

A. Homeowner Paid

The examiners requested a listing of all homeowner paid claims. The Company provided a universe of 1,638 claims.

Field Size:	1,638
Sample Size:	106
Sample Type:	Random
Number of Files with Errors	0

Finding 37: No exceptions were noted.

B. Homeowner Denied

The examiners requested a listing of all homeowner denied claims. The Company provided a universe of 177 claims.

Field Size:	177
Sample Size:	72
Sample Type:	Random
Number of Files with Errors	0

Finding 38: No exceptions were noted.

C. Hail Damage Paid

The examiners requested a listing of all hail damage paid claims. The Company provided a universe of 976 claims. The selection criteria for the hail damage paid claims were taken from the homeowner paid claims found in the Homeowner Claims section. The selections are duplicative of the homeowner paid claims that were previously reviewed.

Field Size:	976
Sample Size:	66
Sample Type:	See above explanation
Number of Files with Errors:	0

Finding 39: No additional exceptions were noted.

D. Hail Damage No Payment

The examiners requested a listing of all hail damage claims not paid. The Company provided a universe of 201 claims.

Field Size:	201
Sample Size:	76
Sample Type:	Random
Number of Files with Errors:	1

Finding 40: The Company failed to maintain claim data that is accessible and retrievable for examination. The notes from the claim file indicated that an estimate of damage and a letter indicating the damage was below the deductible was presented to the policyholder by the claim representative. The Company's document list notes that a repair estimate and closure letter are available but the documents were not available for review, in violation of SDCL §§ 58-1-26 and 58-3-7.4.

Recommendation 40: It is recommended that the Company adopt and adhere to claim record retention requirements to ensure all claim documents are available for examination.

E. Hail Damage Denied

The examiners requested a listing of all hail damage denied claims. The Company provided a universe of 13 claims.

Field Size:	13
Sample Size:	13
Sample Type:	Census
Number of Files with Errors:	0

Finding 41: No exceptions were noted.

F. Homeowner Claims Reinspected

The "Quality Reinspection Program" aka, "National Reinspection Program" was initially discovered by the examiners in their review of the property claim files of Fire Insurance Exchange. Two claim files indicated substantial adjustments were made to the original claims, as a result of a "Quality Reinspection Program". The finding prompted a series of requests for the Company to provide a complete explanation of the "Quality Reinspection Program". The initial request and the Company's response to a series of questions included policy & procedures for the "National Reinspection Program", claim selection criteria, lines of coverage and companies subject to the reinspection program. The Company provided the "National Reinspection Team Expectations, Guidelines and Dispute Resolution Process" and Reinspection Program Worksheet.

After receipt of the initial information request concerning the program, additional questions developed and examiners requested further clarification. The Company indicated in their subsequent email response that since records for 2009 were lost in a transfer of computer data, they could not identify why the two claims found in the claim review for Fire Insurance Exchange were part of the reinspection program, nor could they provide any records of the number of claims reinspected as part of the reinspection program. The Company also indicated for both Farmers Insurance Exchange and Fire Insurance Exchange, no claims were reinspected in 2010, 24 claims were reinspected in 2011 and 3 claims were reinspected in the first half of 2012.

The 27 claims identified by the Company as part of the reinspection program, were reviewed and prompted further information requests on their criteria selection, reasons for adjustments or no adjustments, amounts of adjustments and payment timelines. In a series of further information requests, the Company had expressed that all of the files pulled for reinspection during 2011 were the result of an August 18, 2011, hail storm and closed between August 27 and September 5, 2011. The reinspections were completed between September 3, 2011 and September 11, 2011, within guidelines.

In 2012, although the guidelines were still in place, the focus shifted to address training needs of specific claims representatives. In order to find files that were available for reinspection, in some cases it was necessary to select files that were outside of the guidelines. The known 2009 reinspections were also outside of the guidelines, however since the damages at neither home had been repaired at the time of the reinspection, it was still possible to give appropriate feedback from the reinspection.

The Company utilizes a Quality Reinspection Program to ensure a proper inspection of claim damage is performed on claims that had previously been paid and closed. The Company advises that the Quality Reinspection Program is used to ensure that all claims have been adjusted properly as a result of certain weather related perils. Those perils include wind and hail.

As part of several requests by the examiners for audit listings of property claims subject to reinspection, it was determined that the Company had thought they provided a completed list on a reinspection audit worksheet but had only initially provided a sample worksheet template. The

Company provided a universe 27 claims. Of the 27 claims, 12 were Farmers Insurance Exchange claims.

Field Size:	12
Sample Size:	12
Sample Type:	Census
Number of Files with Errors:	5

Finding 42: The Company failed to adhere to prompt final investigation and payment of 5 claims by failing to take reasonable initial steps to ensure proper claim handling pursuant to SDCL § 58-33-67(1) and (3).

Recommendation 42: It is recommended that the Company adopt and adhere to proper training of claim representatives in the handling of property claims involving wind and hail damage to ensure that prompt and accurate payment is made without the need for a reinspection process by the Company.

Finding 43: The Company failed to maintain claim information for all claims subject to reinspection in 2009 and to perform necessary back-up procedures to ensure that information is properly maintained pursuant to SDCL § 58-3-7.4 pertaining to file maintenance and the insurers ability to make all files available for examination.

Recommendation 43: It is recommended that the Company adopt and adhere to policies and procedures to ensure that claim information is maintained and backed-up properly.

COMMERCIAL AUTOMOBILE CLAIMS

A. Collision Paid

The examiners requested a listing of all comprehensive denied claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 44: No exceptions were noted.

B. Comprehensive Paid

The examiners requested a listing of all comprehensive paid claims. The Company provided a universe of 8 claims.

Field Size:	8
Sample Size:	8
Sample Type:	Census
Number of Files with Errors:	2

Finding 45: The Company failed to include the mandatory disclosure language in the 2 files when the written estimate was based in whole or in part upon the paintless dent repair method pursuant to SDCL § 58-12-16(3) and South Dakota Insurance Division Bulletin 98-03, Paintless Dent Repair for Hail Claims.

Recommendation 45: It is recommended that the Company adhere and adopt procedures to ensure that all the proper disclosures are provided on written claim estimates for paintless dent repairs.

C. Property Damage Liability Paid

The examiners requested a listing of all property damage liability paid claims. The Company provided a universe of 5 claims.

Field Size:	5
Sample Size:	5
Sample Type:	Census
Number of Files with Errors:	0

Finding 46: No exceptions were noted.

D. Bodily Injury Paid

The examiners requested a listing of all bodily injury paid claims. The Company provided a universe of 2 claims.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 47: No exceptions were noted.

E. Medical Payments Paid

The examiners requested a listing of all medical payment paid claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 48: No exceptions were noted.

F. Collision Denied

The examiners requested a listing of all collision denied claims. The Company provided a universe of 3 claims.

Field Size: 3
Sample Size: 3
Sample Type: Census
Number of Files with Errors: 0
Finding 49: No exceptions were noted.

G. Comprehensive Denied

The examiners requested a listing of all uninsured motorist denied claims. The Company provided a universe of 8 claims.

Field Size: 8
Sample Size: 8
Sample Type: Census
Number of Files with Errors: 3

Finding 50: The Company failed to provide notice to the claimant that the claim was to be closed without payment. No denial letters were sent pursuant to SDCL § 58-33-67(3).

Recommendation 50: It is recommended that the Company adopt and adhere to claim practices in that a letter of denial or closed without payment letter be sent to the claimant.

H. Property Damage Liability Denied

The examiners requested a listing of all property damage liability denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 51: No exceptions were noted.

I. Uninsured Motorist Denied

The examiners requested a listing of all uninsured motorist denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 52: No exceptions were noted.

J. Subrogated

The examiners requested a listing of all subrogated claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 53: No exceptions were noted.

K. Salvage

The examiners requested a listing of all salvage claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 54: No exceptions were noted.

CHAPTER 4: FIRE INSURANCE EXCHANGE

BACKGROUND INFORMATION

A. HISTORY

Fire Insurance Exchange was organized on March 28, 1928, under the Reciprocal or Inter-Insurance Act of California and commenced business on April 6, 1928, with the title Farmers Automobile Inter-Insurance Exchange. The present title was adopted on May 1, 1947. The Company is currently licensed in 48 states including South Dakota.

Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange, along with their various subsidiaries and affiliates, comprise the Farmers Insurance Group, which is based in Los Angeles, California. Each of the three reciprocal insurers is owned by its respective policyholders. The policyholders of each Exchange appoint an exclusive attorney-in-fact to provide certain non-claims management services to each Exchange.

Farmers Group, Inc. dba Farmers Underwriters Association is the attorney-in-fact for Farmers Insurance Exchange and the parent company of the Fire Underwriters Association (attorney-in-fact of Fire Insurance Exchange) and Truck Underwriters Association (attorney-in-fact of Truck Insurance Exchange).

Farmers Insurance Group is one of the largest writers of both private passenger automobile and homeowners insurance. The Farmers Insurance Group distributes their property and casualty insurance products in all states through a network of direct writing agents, district managers, independent agents and the direct distribution channel.

B. PROFILE

The Company was organized under the Reciprocal and Inter-Insurance Act of the State of California on March 28, 1929, and began operations on February 17, 1953. The Company is currently licensed in all 48 continental United States.

Fire Insurance Exchange is licensed to write the following lines in South Dakota: Fire & Allied Lines, Inland & Open Marine, Workers' Compensation, Auto Bodily Injury, Auto Property Damage, Auto Physical Damage, Fidelity & Surety, Glass, and Burglary & Theft.

The Farmers Insurance Group distributes their property and casualty insurance products in all states through a network of direct writing agents, district managers, independent agents and the direct distribution channel.

Year	National Total	South Dakota
2009	\$1,677,030,851	\$8,980,247
2010	\$1,617,730,145	\$8,283,264

2011	\$1,522,024,836	\$7,668,931
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EXAMINATION FINDINGS

I. COMPANY OPERATIONS AND MANAGEMENT

This examination focused on the Company's Complaint Handling, Underwriting and Rating, and Claims. A review of the Company's Operations and Management was also conducted, including a review of the Company's practices and procedures for providing complete, accurate and timely data throughout the course of the examination in compliance with the South Dakota statutes and administrative rules.

The examiners requested and reviewed the following information:

- A. Current organizational charts outlining relationships of subsidiaries, branch offices and divisions/departments to the overall corporate management structure;
- B. Current organizational charts outlining the structure of South Dakota operations; including any specialty operations conducted separately;
- C. Description of the management structure of the Company;
- D. Description of all fines, penalties and recommendations from any state for the last 3 years; copies of all Financial and Market Conduct Examination reports conducted during the last 3 years;
- E. Copy of the Company's last annual report to the shareholders;
- F. Copies of the annual statements for the prior three years and any property and casualty related schedules or statements;
- G. Copies of all Management Agreements or Vendor Agreements including agreements between affiliates or private contractors for the examination period; list of all Third Party Administrators contracted with the Company to process South Dakota business during the examination period and a copy of the contracts;
- H. Internal Audits – Copies of all internal audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years;
- I. A copy of the Company's South Dakota Certificate(s) of Authority for the period under examination;
- J. Anti-Fraud Procedures and annual reports; and
- K. Privacy Procedures – Provide a copy of the Company's Privacy Procedures.

Finding 1: In the initial stages of the exam, the Company was requested to provide all audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years. The Company provided a consolidated worksheet of internal claim audits conducted by the Quality Assurance Department during the exam period. Subsequent to the on-site examination review and as a result of the claim file review and further

interrogatories, it was determined that additional internal audits known as the National Reinspection Audit Program were conducted on the Company's claims handling process and were not disclosed as internal audits in response to the requests made by the examiners pursuant to the Coordinators Handbook. The Company adjusted claims based on this program. The Company indicated that the audits performed under the National Reinspection Audit Program is an internal training tool used by Claims management to determine the quality of file handling by Farmers Claim personnel and is not considered by the Company as an "Internal Audit" within the meaning set forth in the Coordinators Handbook. Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 1: It is recommended that the Company clarify and confirm requests to ensure that all responses provided during the examination process are accurate and complete.

Finding 2: On October 22, 2012, the Company provided a consolidated worksheet of internal claim audits conducted by the Quality Assurance Department during the exam period. The worksheet reflected 188 total claims audited during the examination period. Of the 188 audited claims, 169 were Farmers Insurance Exchange claims and 19 were Fire Insurance Exchange claims. There were no claim entries for Mid-Century Insurance Company.

Subsequent to additional interrogatories made by the examiners concerning the Company's use of claim audits, the Company provided a more complete audit summary. In the complete audit summary, the Quality Assurance Department indicated there were internal audits on 2,751 claims. Of the 2,751 audited claims, 490 were Fire Insurance Exchange claims.

Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 2: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

Finding 3: The results of the Quality Assurance Audits indicated a number of claims that were both overpaid and underpaid during the examination period. On October 8, 2013, the Group advised that it is their policy to review all findings of underpayments, determine if subsequent payment is appropriate, and pay if owed. The Group stated that they can furnish cancelled checks as proof of payment upon request. Upon request for proof of payment, it was determined that in 35 claims the Group had not paid underpayments. The total payments including interest of \$5,480.83 were made to consumers on January 14, 2014, prompted by the examiners inquiries. The company provided inaccurate or incomplete information to the Division during the examination process in violation of SDCL § 58-3-7 and ARSD 20:06:12:09.

Recommendation 3: It is recommended that the Company adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

II. COMPLAINT HANDLING

The examiners requested all complaints received by the Company. The Company reported 15 complaints. Of the 15 complaints reported, all were received from the Division.

Field Size:	15
Sample Size:	15
Sample Type:	Census
Number of Files with Errors:	0

Finding 4: No exceptions were noted.

III. MARKETING AND SALES

The examiners requested all copies of advertising and marketing materials used during the examination period. The Company provided 453 pieces of print, radio and television material that is utilized for all Farmers Group Companies. The results of the review are addressed in the Farmers Insurance Exchange Chapter of the Report.

Finding 5: No exceptions were noted.

IV. PRODUCER LICENSING

The Company was requested to provide a list of all producers licensed in South Dakota to solicit business during the examination period. In addition, the Company was requested to provide policies and procedures regarding the following activities:

- Licensing, Appointment and Termination Procedures
- Producer Product and Compliance Training
- Allegations of Misconduct Producer Reports

The producer licensing lists and policies and procedures were received and reviewed. All new business (NB) files were reviewed for license and appointment compliance.

Finding 6: No exceptions were noted.

V. UNDERWRITING AND RATING

The examiners reviewed the Company's underwriting and rating practices for compliance with the South Dakota statutes and administrative rules. In underwriting, the examiners reviewed the following files:

- A. Cancellations within 60 Days
- B. Midterm Cancellations
- C. Nonrenewals
- D. Declinations

In rating, the examiners review the following files:

- E. New Business
- F. Renewals

Throughout the review of the Company's underwriting and rating practices, the emphasis was placed on adherence to underwriting guidelines/manuals, termination procedures, the risk characteristics, adherence with Company filings and the accuracy in the development of the policy premium.

A. Cancellations within 60 Days

The examiners requested a listing of all cancellations within 60 days of new business issuance from the Company. The Company reported none.

Finding 7: No exceptions were noted.

B. Midterm Cancellations

The examiners requested a listing of all midterm cancellations issued by the Company. The examiners were provided a universe of 129 midterm cancellations.

Field Size:	129
Sample Size:	63
Sample Type:	Random
Number of Files with Errors:	0

Finding 8: No exceptions were noted.

C. Nonrenewals

The examiners requested a listing of all nonrenewals issued by the Company. The examiners were provided a universe of 285 nonrenewals.

Field Size:	285
Sample Size:	76
Sample Type:	Random
Number of Files with Errors:	1

Finding 9: The Company issued a notice of nonrenewal from June 1, 2011 to September 1, 2011 in counties prohibited from cancellation by Bulletin 11-05 and Order.

Recommendation 9: It is recommended that the Company adhere to bulletins issued by the Division of Insurance referencing prohibited moratorium periods relating to cancellations and nonrenewals.

D. Declinations

The examiners requested a listing of all policies and applications that were declined by the Company. The Company provided a universe of 30 declinations.

Field Size: 30
Sample Size: 30
Sample Type: Census
Number of Files with Errors: 0

Finding 10: No exceptions were noted.

E. New Business - (Rating)

The examiners requested a listing of all new business issued by the Company during the examination period. The Company provided a universe of 2,274 new business policies. The new business policies consisted of Home Renters, Landlord Protective (LP), Townhouse/Condominium Rented to Others (TCR), Townhouse/Condominium Owners (TC), and Homeowners Protector Plus (PTC). The universe, sample size, sample type and number of files with errors for each category are summarized in the following table:

Category	Field Size	Sample Size	Sample Type	Number of Files with Errors
Home Renters	1,786	107	Random	0
Home LP	335	78	Random	0
Home TCR	21	21	Census	0
Home TC	131	63	Random	0
Home PTP	1	1	Census	0
Totals	2,274	270		0

Finding 11: No exceptions were noted.

F. Renewals (Rating)

The examiners requested a listing of all renewal policies, other than worker's compensation, issued by the Company during the examination period. The Company reported a universe of 40,849 policies. The policies consisted of Home Renters, Landlord Protective (LP), Townhouse/Condominium Rented to Others (TCR), Townhouse/Condominium Owners (TC), Home Protector Plus (PTP), Special Form/Townhouse Special (SPF) and Townhouse Protector (TP). The universe, sample size, sample type and number of files with errors for each category are summarized in the following table:

Category	Field Size	Sample Size	Sample Type	Number of Files with Errors
Home Renters	4,644	108	Random	0

Home LP	3375	108	Random	0
Home TCR	84	90	Random	0
Home TC	822	63	Random	0
Home PTP	24,672	109	Random	0
Home SPF	7,015	108	Random	0
Home TP	237	76	Random	0
Totals	40,849	662		0

Finding 12: No exceptions were noted.

VI. CLAIMS

The purpose of the review was to ascertain the Company's compliance with the statutes and administrative rules of South Dakota relating to claim settlement practices. Throughout the review, the emphasis was placed on items such as the timeliness of claim handling, file documentation and claim payment. Additionally, property claims were reviewed to ensure compliance with the total loss requirements of SDCL § 58-10-10. The examiners reviewed the Company's property claim practices in the following categories:

- A. Homeowners Paid
- B. Homeowners Denied
- C. Hail Damage Claims Paid
- D. Hail Damage Claims No Payment
- E. Hail Damage Claim Denied
- F. Homeowner Claims Reinspected
- G. Total Loss Claims

A. Homeowners Paid

The examiners requested a listing of all home paid claims. The Company provided a universe of 2,937 claims.

Field Size: 2,937
Sample Size: 107
Sample Type: Random
Number of Files with Errors: 2

Finding 13: The Company failed to promptly and properly pay claims in two files. The Company utilizes a "Quality Reinspection" program to make sure that claims arising out of specified perils are handled properly.

In claim number 1, the policyholder reported a hail damage claim on 7/21/2009. The Company inspected the property on 7/31/2009, estimated the damages at \$376 and issued a denial letter the same day because the estimate was below the deductible. On 9/24/2009, the Company conducted a Quality Reinspection, this time estimating the hail damage to the roof and guttering to be \$8,224.61, and after subtracting the deductible and recoverable depreciation paid \$3,570.79. On 5/28/2010 the Company paid recoverable depreciation of \$3,131.22. The

Company failed to adhere to prompt final investigation and payment of this claim by failing to take reasonable initial steps to handle the claim appropriately.

In claim number 2, the policyholder reported a hail damage claim on 7/20/2009. The Company inspected the property on 7/23/2009, estimated the damages at \$2,264.38, and after subtracting the \$500 deductible issued a check to the policyholder for \$1,764.38. On 9/30/2009, the Company conducted a Quality Reinspection and estimated the hail damage to the building at \$11,487.57. After subtracting the deductible, prior payment and recoverable depreciation, the Company paid \$7,008.49 on 10/1/2009. The Company failed to adhere to prompt final investigation and payment of this claim by failing to take reasonable initial steps to handle the claim appropriately.

The Company failed to provide for the prompt investigation and payment of claims pursuant to SDCL § 58-33-67(3).

Recommendation 13: It is recommended that the Company adopt and adhere to policies and procedures to ensure reasonable standards for the prompt investigation of claims.

B. Homeowners Denied

The examiners requested a listing of all homeowners denied claims. The Company provided a universe of 313 claims.

Field Size:	313
Sample Size:	78
Sample Type:	Random
Number of Files with Errors:	1

Finding 14: The Company failed to provide a denial letter indicating an explanation of the basis for the denial of the claim pursuant to SDCL § 58-33-67(3).

Recommendation 14: It is recommended that the Company adopt and adhere to policies and procedures to ensure that the reasonable explanation of the basis in the insurance policy in relation to the facts or law is provided for a denial of a claim or offer of a compromised settlement.

C. Hail Damage Claims Paid

The examiners requested a listing of all hail damage claims paid. The Company provided a universe of 1,565 claims.

Field Size:	1,565
Sample Size:	63
Sample Type:	Random
Number of Files with Errors:	0

Finding 15: No exceptions were noted.

D. Hail Damage Claims No Payment

The examiners requested a listing of all hail damage claims where no payment was made. The Company reported a universe of 298 claims.

Field Size:	298
Sample Size:	78
Sample Type:	Random
Number of Files with Errors:	1

Finding 16: The Company failed to provide a denial letter indicating an explanation of the basis for the denial of the claim pursuant to SDCL § 58-33-67(3).

Recommendation 16: It is recommended that the Company adopt and adhere to policies and procedures to ensure that the reasonable explanation of the basis in the insurance policy in relation to the facts or law is provided for a denial of a claim or offer of a compromised settlement.

E. Hail Damage Claims Denied

The examiners requested a listing of all hail damage claims denied. The Company provided a universe of 41 claims.

Field Size:	41
Sample Size:	41
Sample Type:	Census
Number of Files with Errors:	0

Finding 17: No exceptions were noted.

F. Homeowner Claims Reinspected

The "Quality Reinspection Program" aka, "National Reinspection Program" was initially discovered by the examiners in their review of the property claim files of Fire Insurance Exchange. Two claim files indicated substantial adjustments were made to the original claims, as a result of a "Quality Reinspection Program". The finding prompted a series of requests for the Company to provide a complete explanation of the "Quality Reinspection Program". The initial request and the Company's response to a series of questions included policy & procedures for the "National Reinspection Program", claim selection criteria, lines of coverage and companies subject to the reinspection program. The Company provided the "National Reinspection Team Expectations, Guidelines and Dispute Resolution Process" and Reinspection Program Worksheet.

After receipt of the initial information request concerning the program, additional questions developed and examiners requested further clarification. The Company indicated in their subsequent email response that since records for 2009 were lost in a transfer of computer data, they could not identify why the two claims found in the claim review for Fire Insurance

Exchange were part of the reinspection program, nor could they provide any records of the number of claims reinspected as part of the reinspection program. The Company also indicated for both Farmers Insurance Exchange and Fire Insurance Exchange, no claims were reinspected in 2010, 24 claims were reinspected in 2011 and 3 claims were reinspected in the first half of 2012.

The 27 claims identified by the Company as part of the reinspection program, were reviewed and prompted further information requests on their criteria selection, reasons for adjustments or no adjustments, amounts of adjustments and payment timelines. In a series of further information requests, the Company had expressed that all of the files pulled for reinspection during 2011 were the result of an August 18, 2011, hail storm and closed between August 27 and September 5, 2011. The reinspections were completed between September 3, 2011 and September 11, 2011, within guidelines.

In 2012, although the guidelines were still in place, the focus shifted to address training needs of specific claims representatives. In order to find files that were available for reinspection, in some cases it was necessary to select files that were outside of the guidelines. The known 2009 reinspections were also outside of the guidelines, however since the damages at neither home had been repaired at the time of the reinspection, it was still possible to give appropriate feedback from the reinspection.

The Company utilizes a Quality Reinspection Program to ensure a proper inspection of claim damage is performed on claims that had previously been paid and closed. The Company advises that the Quality Reinspection Program is used to ensure that all claims have been adjusted properly as a result of certain weather related perils. Those perils include wind and hail.

As part of several requests by the examiners for audit listings of property claims subject to reinspection, it was determined that the Company had thought they provided a completed list on a reinspection audit worksheet but had only initially provided a sample worksheet template. The Company provided a universe 27 claims. Of the 27 claims, 15 were Fire Insurance Exchange claims.

Field Size:	15
Sample Size:	15
Sample Type:	Census
Number of File with Errors:	6

Finding 18: The Company failed to adhere to prompt final investigation and payment of the following claims by failing to take reasonable initial steps handle the claim appropriately in 6 claim files pursuant to SDCL § 58-33-67(1) and (3).

Recommendation 18: It is recommended that the Company adopt policies and procedures to ensure all claims representatives are properly trained to settle claims in a prompt and efficient manner.

Finding 19: The Company failed to maintain claim information for reinspection claims in 2009 and to perform necessary back-up procedures to ensure that information is properly maintained pursuant to SDCL §§ 58-3-7.4 and 58-1-26.

Recommendation 19: It is recommended that the Company adopt and adhere to policies and procedures to ensure that claim information is maintained and backed-up properly.

CHAPTER 5: MID-CENTURY INSURANCE COMPANY

BACKGROUND INFORMATION

A. HISTORY

Mid-Century Insurance Company ("Company") was incorporated under the laws of the State of California on December 3, 1949, and began operations on February 17, 1953. Currently, the company is licensed in 49 states.

All of the Company's outstanding capital stock is held by Farmers Insurance Exchange (80%), Truck Insurance Exchange (7.5%) and Fire Insurance Exchange (12.5%) (collectively, the "Exchanges"). The Exchanges, along with their various subsidiaries and affiliates, comprise the Farmers Insurance Group, which is based in Los Angeles, California.

B. PROFILE

Mid-Century Insurance Company ("Company") was incorporated under the laws of the State of California on December 3, 1949, and began operations on February 17, 1953. The Company is currently licensed in all states except AK.

Mid-Century Insurance Company is licensed to write the following lines in South Dakota: Fire & Allied Lines, Inland & Open Marine, Workers' Compensation, Auto Bodily Injury, Auto Property Damage, Auto Physical Damage, Fidelity & Surety, Glass, and Burglary & Theft.

The Farmers Insurance Group distributes their property and casualty insurance products in all states through a network of direct writing agents, district managers, independent agents and the direct distribution channel.

Year	National Total	South Dakota
2009	\$2,497,949,865	\$5,039,118
2010	\$2,535,277,847	\$4,714,848
2011	\$2,604,476,121	\$6,509,335

EXAMINATION FINDINGS

I. COMPANY OPERATIONS AND MANAGEMENT

This examination focused on the Company's Complaint Handling, Underwriting and Rating, and Claims. A review of the Company's Operations and Management was also conducted, including a review of the Company's practices and procedures for providing complete, accurate and timely data throughout the course of the examination in compliance with the South Dakota statutes and administrative rules.

The examiners requested and reviewed the following information:

- A. Current organizational charts outlining relationships of subsidiaries, branch offices and divisions/departments to the overall corporate management structure;
- B. Current organizational charts outlining the structure of South Dakota operations; including any specialty operations conducted separately;
- C. Description of the management structure of the Company;
- D. Description of all fines, penalties and recommendations from any state for the last 5 years; copies of all Financial and Market Conduct Examination reports conducted during the last 5 years;
- E. Copy of the Company's last annual report to the shareholders;
- F. Copies of the annual statements for the prior three years and any property and casualty related schedules or statements;
- G. Copies of all Management Agreements or Vendor Agreements including agreements between affiliates or private contractors for the examination period; list of all Third Party Administrators contracted with the Company to process South Dakota business during the examination period and a copy of the contracts;
- H. Internal Audits – Copies of all internal audit schedules, internal audit reports and internal audit procedures conducted by the Company or any entity within the last three years;
- I. A copy of the Company's South Dakota Certificate(s) of Authority for the period under examination;
- J. Anti-Fraud Procedures and annual reports; and
- K. Privacy Procedures – Provide a copy of the Company's Privacy Procedures.

Finding 1: Regarding the request for internal audits, On October 22, 2012, the Company provided a consolidated worksheet of internal claim audits conducted by the Quality Assurance Department during the exam period. The worksheet reflected 188 total claims audited during the examination period. Of the 188 audited claims, 169 were Farmers Insurance Exchange claims

and 19 were Fire Insurance Exchange claims. There were no claim entries for Mid-Century Insurance Company.

Subsequent to additional interrogatories made by the examiners concerning the Company's use of claim audits, the Company provided a more complete audit summary. In the complete audit summary, the Quality Assurance Department indicated there were internal audits on 2,751 claims. Of the 2,751 audited claims, 452 were Mid-Century Insurance claims.

Failure to provide prompt and accurate information during the examination process is a violation of SDCL § 58-3-7.

Recommendation 1: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

Finding 2: The results of the Quality Assurance Audits indicated a number of claims that were both overpaid and underpaid during the examination period. On October 8, 2013, the Group advised that it is their policy to review all findings of underpayments, determine if subsequent payment is appropriate, and pay if owed. The Group stated that they can furnish cancelled checks as proof of payment upon request. Upon request for proof of payment, it was determined that in 3 claims the Group had not paid underpayments. The total payments including interest of \$492.79 were made on January 14, 2014, prompted by the examiners inquiries. The Company provided inaccurate or incomplete information to the Division during the examination process in violation of SDCL § 58-3-7 and ARSD 20:06:12:09.

Recommendation 2: It is recommended that the Company clarify and confirm requests, and if applicable, adopt and adhere to policies and procedures to ensure that all responses provided during the examination process are accurate and complete.

II. COMPLAINT HANDLING

The examiners requested all complaints received by the Company. The Company reported a universe of 9 complaints. Of the 9 complaints received, 6 were received from the Division.

Field Size:	9
Sample Size:	9
Sample Type:	Census
Number of Files with Errors:	0

Finding 3: No exceptions were noted.

III. MARKETING AND SALES

The examiners requested all copies of advertising and marketing materials used during the examination period. The Company provided 453 pieces of print, radio and television material that is utilized for all Farmers Group Companies. The results of the review are addressed in the Farmers Insurance Exchange Chapter of the Report.

Finding 4: No exceptions were noted.

IV. PRODUCER LICENSING

The Company was requested to provide a list of all producers licensed in South Dakota to solicit business during the examination period. In addition, the Company was requested to provide policies and procedures regarding the following activities:

- Licensing, Appointment and Termination Procedures
- Producer Product and Compliance Training
- Allegations of Misconduct Producer Reports

The producer licensing lists and policies and procedures were received and reviewed. All new business (NB) files were reviewed for license and appointment compliance.

Finding 5: No exceptions were noted.

V. UNDERWRITING AND RATING

The examiners reviewed the Company's underwriting and rating practices for compliance with the South Dakota statutes and administrative rules. In underwriting, the examiners reviewed the following files:

- A. Cancellations within 60 Days
- B. Midterm Cancellations
- C. Nonrenewals
- D. Declinations

In rating, the examiners review the following files:

- E. Personal Automobile New Business
- F. Commercial Automobile New Business
- G. Personal Automobile Renewals
- H. Commercial Automobile

Throughout the review of the Company's underwriting and rating practices, the emphasis was placed on adherence to underwriting guidelines/manuals, termination procedures, the risk characteristics, adherence with Company filings and the accuracy in the development of the policy premium.

P. Cancellations within 60 Days

The examiners requested a listing of all cancellations within 60 days of new business issuance from the Company. The Company reported none.

Finding 6: No exceptions were noted.

Q. Midterm Cancellations

The examiners requested a listing of all midterm cancellations issued by the Company. The examiners were provided a universe of 35 midterm cancellations.

Field Size:	35
Sample Size:	35
Sample Type:	Census
Number of Files with Errors:	0

Finding 7: No exceptions were noted.

R. Nonrenewals

The examiners requested a listing of all nonrenewals issued by the Company. The examiners were provided a universe of 48 nonrenewals.

Field Size:	48
Sample Size:	48
Sample Type:	Census
Number of Files with Errors:	1

Finding 8: The Company issued a notice of nonrenewal from June 1, 2011 to September 1, 2011, in counties prohibited from cancellation by Bulletin 11-05 and Order.

Recommendation 8: It is recommended that the Company adhere to bulletins issued by the Division of Insurance referencing prohibited moratorium periods relating to cancellations and nonrenewals.

D. Declinations

The examiners requested a listing of all policies and applications that were declined by the Company. The Company provided a universe of 38 declinations.

Field Size:	38
Sample Size:	38
Sample Type:	Census
Number of Files with Errors:	0

Finding 9: No exceptions were noted.

E. Personal Automobile New Business (Rating)

The examiners requested a listing of all new business issued by the Company during the examination period. The Company provided a universe of 33,404 new business policies.

Field Size: 33,404
Sample Size: 109
Sample Type: Random
Number of Files with Errors: 0

Finding 10: No exceptions were noted.

F. Commercial Automobile New Business (Rating)

The examiners requested a listing of commercial automobile new business issued by the Company during the examination period. The Company reported a universe of 19 policies.

Field Size: 19
Sample Size: 19
Sample Type: Census
Number of Files with Errors: 32*

* During the rating process of the policies, the Company indicated a system rating error occurred with the underinsured motorist coverage during the examination period of January 1, 2009 through June 30, 2012 and extended past the examination period from July 1, 2012 through June 30, 2013. The system error resulted in an undercharge of premium. Subsequently, the Company was requested to provide a list of all policies that were affected by the rating error with their underinsured motorist coverage, the total amount of undercharge for each policy and confirmation the system rating error was corrected. The Company provided the data as requested and advised the rating error had been corrected in their system. The table below provides the policy year, number of policies, number of units and the total amount of undercharges. The figures in the table reflect the total number of policies affected by the systems rating error which extended beyond the examination period as noted above.

Policy Year	Number of Renewal Policies	Commercial Automobile Units	Total Amount of Undercharge
2009	0	0	\$0.00
2010	4	6	\$19.00
2011	5	9	\$29.00
2012	20	24	\$65.00
First half of 2013	3	5	\$15.00
TOTALS	32	44	\$128.00

Finding 11: The Company failed to rate the underinsured motorist coverage in accordance with the Company's filed and approved rates in violation of SDCL § 58-24-10. The rating errors resulted in undercharges totaling \$128.00.

Recommendation 11: It is recommended that the Company adhere to its filed and approved rates and periodically perform testing to ensure their accuracy.

G. Personal Automobile Renewals (Rating)

The examiners requested a listing of all personal automobile renewals issued by the Company during the examination period. The Company reported a universe of 13,385 policies.

Field Size: 13,385
Sample Size: 109
Sample Type: Random
Number of Files with Errors: 0

Finding 12: No exceptions were found.

H. Commercial Automobile Renewals (Rating)

The examiners requested a listing of commercial automobile renewals issued by the Company during the examination period. The Company reported a universe of 32 policies.

Field Size: 32
Sample Size: 32
Sample Type: Census
Number of Files with Errors: 44*

* During the rating process of the policies, the Company indicated a system rating error occurred with the underinsured motorist coverage during the examination period of January 1, 2009 through June 30, 2012 and extended past the examination period from July 1, 2012 through June 30, 2013. The system error resulted in an undercharge of premium. Subsequently, the Company was requested to provide a list of all policies that were affected by the rating error with their underinsured motorist coverage, the total amount of undercharge for each policy and confirmation the system rating error was corrected. The Company provided the data as requested and advised the rating error had been corrected in their system. The table below provides the policy year, number of policies, number of units and the total amount of undercharges. The figures in the table reflect the total number of policies affected by the systems rating error which extended beyond the examination period as noted above.

Policy Year	Number of Renewal Policies	Commercial Automobile Units	Total Amount of Undercharge
2009	9	62	\$179.00
2010	5	37	\$97.00
2011	11	65	\$187.00
2012	12	40	\$113.00
First half of 2013	7	21	\$62.00
TOTALS	44	225	\$638.00

Finding 13: The Company failed to rate the underinsured motorist coverage in accordance with the Company's filed and approved rates in violation of SDCL § 58-24-10. The rating errors resulted in undercharges totaling \$638.00.

Recommendation 13: It is recommended that the Company adhere to its filed and approved rates and periodically perform testing for their accuracy.

VI. CLAIMS

The purpose of the review was to ascertain the Company's compliance with the claim practices rules and regulations of the South Dakota Division of Insurance. Throughout the review, the emphasis was placed on items such as the timeliness of claim handling, file documentation and claim payment. The claim files additionally were reviewed to ensure compliance with the paintless dent repair (PDR) requirements of SDCL §§ 58-12-16 through 58-12-18.

The examiners reviewed the Company's vehicle claim practices in the following categories:

PERSONAL AUTOMOBILE

- A. Uninsured Motorist Paid
- B. Underinsured Motorist Paid
- C. Bodily Injury Liability Paid
- D. Bodily Injury Liability Denied
- E. Medical Payments Paid
- F. Medical Payments Denied
- G. Comprehensive Paid
- H. Comprehensive Denied
- I. Collision Paid
- J. Collision Denied
- K. Property Damage Liability Paid
- L. Property Damage Liability Denied

COMMERCIAL AUTOMOBILE

- A. Collision Paid
- B. Comprehensive Paid
- C. Property Damage Liability Paid
- D. Bodily Injury Paid
- E. Collision Denied
- F. Property Damage Liability Denied
- G. Uninsured Motorist Denied
- H. Medical Payments Denied
- I. Subrogated
- J. Salvage
- K. Litigated

PERSONAL AUTOMOBILE CLAIMS

A. Uninsured Motorist Paid

The examiners requested a listing of all uninsured motorist paid claims. The Company did not report any uninsured motorist paid claims

Finding 14: No exceptions were noted.

B. Underinsured Motorist Paid

The examiners requested a listing of all underinsured motorist paid claims. The Company provided a universe of 5 claims.

Field Size:	5
Sample Size:	5
Sample Type:	Census
Number of Files with Errors:	0

Finding 15: No exceptions were noted.

C. Bodily Injury Liability Paid

The examiners requested a listing of all bodily injury liability paid claims. The Company provided a universe of 270 claims.

Field Size:	270
Sample Size:	77
Sample Type:	Random
Number of Files with Errors:	0

Finding 16: No exceptions were noted.

D. Bodily Injury Liability Denied

The examiners requested a listing of all bodily injury liability denied claims. The Company reported a universe of 20 claims.

Field Size:	20
Sample Size:	20
Sample Type:	Census
Number of Files with Errors:	0

Finding 17: No exceptions were noted.

E. Medical Payments Paid

The examiners requested a listing of all medical payments paid claims. The Company provided a universe of 311 claims.

Field Size: 311
Sample Size: 78
Sample Type: Random
Number of Files with Errors: 0

Finding 18: No exceptions were noted.

F. Medical Payments Denied

The examiners requested a listing of all medical payments denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 19: No exceptions were noted.

G. Comprehensive Paid

The examiners requested a listing of all comprehensive paid claims. The Company provided a universe of 754 claims.

Field Size: 754
Sample Size: 90
Sample Type: Random
Number of Files with Errors: 17

Finding 20: The Company failed to include the mandatory disclosure language in 16 files when the written estimate was based in whole or in part upon the paintless dent repair method pursuant to SDCL § 58-12-16(3) and South Dakota Insurance Division Bulletin 98-03, Paintless Dent Repair for Hail Claims.

Recommendation 20: It is recommended that the Company adhere and adopt procedures to ensure that all the proper disclosures are provided on written claim estimates for paintless dent repairs.

Finding 21: The Company failed to provide detailed documentation in one file in order to permit reconstruction of the insurer's claim activity pursuant to SDCL § 58-3-7.4(2).

Recommendation 21: It is recommended that the Company adhere and adopt procedures to ensure that all claim activity is documented and available for review during an examination.

H. Comprehensive Denied

The examiners requested a listing of all comprehensive denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 22: No exceptions were noted.

I. Collision Paid

The examiners requested a listing of all collision paid claims. The Company provided a universe of 675 claims.

Field Size: 675
Sample Size: 87
Sample Type: Random
Number of Files with Errors: 0

Finding 23: No exceptions were noted.

J. Collision Denied

The examiners requested a listing of all collision denied claims. The Company provided a universe of 1 claim.

Field Size: 1
Sample Size: 1
Sample Type: Census
Number of Files with Errors: 0

Finding 24: No exceptions were noted.

K. Property Damage Liability Paid

The examiners requested a listing of all property damage liability paid claims. The Company provided a universe of 1,198 claims.

Field Size: 1,198
Sample Size: 105
Sample Type: Random
Number of Files with Errors: 6

Finding 25: The Company failed to pay sales tax to third party claimants on total loss claims where the owners retained salvage; and failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the failure to pay the tax pursuant to SDCL § 58-33-67(3).

Recommendation 25: It is recommended that the Company adhere and adopt procedures to ensure that all claims are properly paid for total loss claims and that the sales tax is included for third party claimants.

L. Property Damage Liability Denied

The examiners requested a listing of all property damage liability denied claims. The Company provided a universe of 28 claims.

Field Size:	28
Sample Size:	28
Sample Type:	Census
Number of Files with Errors:	0

Finding 26: No exceptions were noted.

COMMERCIAL AUTOMOBILE CLAIMS

A. Collision Paid

The examiners requested a listing of all comprehensive denied claims. The Company provided a universe of 9 claims.

Field Size:	9
Sample Size:	9
Sample Type:	Census
Number of Files with Errors:	0

Finding 27: No exceptions were noted.

B. Comprehensive Paid

The examiners requested a listing of all comprehensive paid claims. The Company provided a universe of 14 claims.

Field Size:	14
Sample Size:	14
Sample Type:	Census
Number of Files with Errors:	1

Finding 28: The Company failed to include the mandatory disclosure language in the file when the written estimate was based in whole or in part upon the paintless dent repair method pursuant to SDCL § 58-12-16(3) and South Dakota Insurance Division Bulletin 98-03, Paintless Dent Repair for Hail Claims.

Recommendation 28: It is recommended that the Company adhere and adopt procedures to ensure that all the proper disclosures are provided on written claim estimates for paintless dent repairs.

C. Property Damage Liability Paid

The examiners requested a listing of all property damage liability paid claims. The Company provided a universe of 17 claims.

Field Size:	17
Sample Size:	17
Sample Type:	Census
Number of Files with Errors:	5

Finding 29: The Company failed to provide detailed documentation in one file necessary to permit reconstruction of the insurer's activity relative to the claim, in violation of SDCL § 58-3-7.4.

Recommendation 29: It is recommended that the Company adhere and adopt procedures to ensure that all claim files are properly documented in order to permit reconstruction of the claim.

Finding 30: Company failed to adhere to reasonable standards in one file for the prompt investigation of a claim by failing to make initial contact in a timely manner with the claimant pursuant to SDCL § 58-33-67(1).

Recommendation 30: It is recommended that the Company adhere and adopt procedures to ensure that all initial contact with claimants is prompt and that the claim file is well documented.

Finding 31: The Company failed to pay sales tax in three files to third party claimants on total loss claims where the owners retained salvage; and failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the failure to pay the tax pursuant to SDCL § 58-33-67(3).

Recommendation 31: It is recommended that the Company adhere and adopt procedures to ensure that all claims are properly paid for total loss claims and that the sales tax is included for third party claimants.

D. Bodily Injury Paid

The examiners requested a listing of all bodily injury paid claims. The Company provided a universe of 3 claims.

Field Size:	3
Sample Size:	3
Sample Type:	Census
Number of Files with Errors:	0

Finding 32: No exceptions were noted.

E. Collision Denied

The examiners requested a listing of all collision denied claims. The Company provided a universe of 7 claims.

Field Size:	7
Sample Size:	7
Sample Type:	Census
Number of Files with Errors:	0

Finding 33: No exceptions were noted.

F. Property Damage Liability Denied

The examiners requested a listing of all property damage liability denied claims. The Company provided a universe of 4 claims.

Field Size:	4
Sample Size:	4
Sample Type:	Census
Number of Files with Errors:	0

Finding 34: No exceptions were noted.

G. Uninsured Motorist Denied

The examiners requested a listing of all uninsured motorist denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 35: No exceptions were noted.

H. Medical Payments Denied

The examiners requested a listing of all medical payments denied claims. The Company provided a universe of 1 claim.

Field Size:	1
Sample Size:	1
Sample Type:	Census
Number of Files with Errors:	0

Finding 36: No exceptions were noted.

I. Subrogated

The examiners requested a listing of all subrogated claims. The Company provided a universe of 2 claims.

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	0

Finding 37: No exceptions were noted.

J. Salvage

The examiners requested a listing of all salvage claims. The Company provided a universe of 5 claims.

Field Size:	5
Sample Size:	5
Sample Type:	Census
Number of Files with Errors:	0

Finding 38: No exceptions were noted.

K. Litigated

The examiners requested a listing of all litigated claims. The Company provided a universe of 25 claims.

Field Size:	25
Sample Size:	25
Sample Type:	Census
Number of Files with Errors:	0

Finding 39: No exceptions were noted.

CONCLUSION

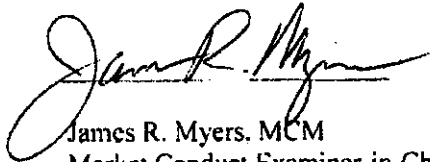
This Report is respectfully submitted to the South Dakota Division of Insurance. The courtesy and cooperation of the officers and employees of the Companies is acknowledged.

The Foremost Insurance Group Chapters of the Examination were completed by examiners Cynthia Amann, Linda Miller, Joe Cohen, Sean Connolly and Cyndy Campbell.



Cyndy Campbell. CIE, MCM, ACS, AIRC, AIAA.
API, AU, AIS, ACP, CCP, AINS
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The Farmers Group Insurance Chapters of the Examination were completed by examiners Cynthia Amann, Jim Myers, Cyndy Campbell, Sean Connolly, Linda Miller, Joe Cohen, Lisa Crump, Andre Ham, Donna Lee Williams and Mark Plesha.



James R. Myers, MCM
Market Conduct Examiner-in-Charge
INS Regulatory Insurance Services, Inc.



Daniel Stemcosky, AIE, FLMI, AIRC, MCM
Market Conduct Supervising Examiner
INS Regulatory Insurance Services, Inc.

Sworn to and subscribed before me
this 1st day of April 2015

