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# REPORT ON EXAMINATION

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**\*Modified\***

**(Limited Scope Market Conduct)**

of

**FARMERS INSURANCE COMPANY, INC**

NAIC COMPANY CODE: 21628

NAIC GROUP CODE: 0212

as of

**December 31, 2006**

**(Property and Casualty)**

**By Representatives of the  
Oklahoma Insurance Department**



# **TABLE OF CONTENTS**

SALUTATION	i
FOREWORD	1
SCOPE OF EXAMINATION	1
PRIOR EXAMINATION REPORT	2
COMPANY OPERATIONS AND MANAGEMENT	5
History and Profile	5
Affiliated Parties	5
Direct Written Premium	6
COMPLAINT HANDLING	6
Complaint History	6
Functional Cause of Complaints	7
Complainant Time Studies	7
Complaints Compliance Review	7
MARKETING AND SALES	8
Marketing	8
PRODUCER LICENSING	8
Producer Licensing and Appointments	8
Terminated Agents	8
Adjusters Licensing	8
POLICYHOLDER SERVICE	8
COMPANY FORMS	8
UNDERWRITING AND RATING	8
Application of Rates and Underwriting	8
Active Automobile Policies	9
All Other Automobile Cancellation	9
Active Homeowner Policies	9
Mid-Term Cancelled Policies	9
Homeowner Cancelled Policies	9
CLAIMS	10
Claim Time Studies	10
Claim Practices	10
Automobile Collision Claims	11
Automobile Comprehensive Claims	11
Dwelling Fire Claims	11
All Other Homeowner Claims	11
Homeowner Theft Claims	11
Homeowner Large Fire Claims	12
Subrogation Claims	12
COMMENTS	13
ACKNOWLEDGMENT	14
AFFIDAVIT	15

## **SALUTATION**

Oklahoma City, Oklahoma  
March 26, 2009

Honorable Kim Holland  
Insurance Commissioner  
State of Oklahoma  
2401 N W 23<sup>rd</sup> Street, Suite 28  
Oklahoma City, Oklahoma 73107

Commissioner Holland:

Pursuant to instructions and in compliance with the provisions of Title 36 of the Oklahoma Statutes, rules, regulations and procedures of the Oklahoma Insurance Department, and the procedures established by the National Association of Insurance Commissioners, a limited scope examination of the market conduct activities has been conducted of:

### **FARMERS INSURANCE COMPANY, INC**

**Statutory Home Office  
17000 West 119<sup>th</sup> Street  
Olathe, Kansas 66061**

The following Report of Examination (Limited Scope Market Conduct), as of December 31, 2006, is hereby respectfully submitted.

## **FOREWORD**

This limited scope market conduct examination report, as of December 31, 2006 reflects certain Oklahoma insurance activities of Farmers Insurance Company, hereafter referred to as “Farmers” or the “Company.” The examination was conducted in the Company’s office at 17000 West 119<sup>th</sup> street, Olathe, Kansas. The examination is, in general, a report by test, wherein each test applied during the examination is stated and the results are reported, whether the results are favorable or unfavorable.

## **SCOPE OF EXAMINATION**

This examination covers the period July 1, 2004, through December 31, 2006.

The purpose of the examination was to determine compliance by the Company with provisions of the law, and any other facts relative to its business methods, management or equity of its dealings with its policyholders.

The examination was conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC), rules, regulations and directives of the Oklahoma Insurance Department and pursuant, but not limited to, Title 36 O.S. §§ 309.1 – 309.7, 1204 – 1220, 1250.1, 1250.10, 1435.14.A, 1435.15A, and 3636.

In reviewing material for this report, the examiners relied primarily on records and material furnished by the Company.

File sampling was based on a review of randomly selected, unless otherwise indicated, samples of underwriting and claim files by category.

During the course of this examination, the Company’s operations were reviewed, including, but not limited to, the following:

- Operations and Management;
- Complaint Handling;
- Producer Licensing;
- Underwriting
- Policyholder Service; and
- Claims.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Oklahoma Insurance Department. Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process. This report should not be construed to endorse or discredit any insurance company or insurance product. This report is prepared for a particular audience and for a particular use. The materials contained in it are not necessarily suitable for any other purpose.

## **PRIOR EXAMINATION REPORT**

*The prior Oklahoma Insurance Department Examination Report, as of June 30, 2004 contained in the Summary of Important Points the following:*

### **All Open Claims**

*Claim Number U9100801-(31): The Company failed to include one (1) contents item that was reported on January 2, 2002 and was not paid until March 27, 2003, 447 days later, in the amount \$1003.24. Reference Title 36, O.S. § 1250.5 (4).*

*Claim Number U9 098181-(37): Was reported to the agent on May 30, 2001. The agent did not report the claim to the Company for 143 days. Reference Title 36, O.S. § 1250.6 (A & B).*

*Claim number U9-105094-(33): The AUTHORIZATION FOR REPAIRS AND PAYMENT form with Company logo, did not contain a fraud warning. Reference Title 36, O.S. § 3613.1.*

### **Fire and Other Homeowner Claims**

*Claim number U9-105626-(9): The Company failed to offer or pay additional coverage up to 5%, of policy limits as stated in the policy for debris removal on a total loss fire. Reference Title 36, O.S. § 1250.5 (1).*

*CRN claim number 1001828914-(38): The file did not reflect that extended replacement cost coverage was explained to the policyholder. Reference Title 36, O.S. § 1250.4 (A).*

### **Homeowner Theft Claims**

*CRN Claim number 1002746565-(29): The Company took 75% depreciation on carpet cleaning only. Company agreed that depreciation should not have been taken, but has yet to refund the policyholder the depreciation amount of \$65.01. Reference Title 36, O.S. § 1250.5 (4).*

*CRN Claim number 1002671661(34-2): The Company failed to include one (1) contents item (jumper cables) for payment when transferring the items from the policyholders listing to the Company listing. Reference Title 36, O.S. § 1250.5 (4).*

*CRN Claim number 1002723517-(28-2): It appears that the Company is using excessive depreciation when applying it to content losses, and not taking into consideration the condition and age of the property at time of loss. This claim included a set of tools, less than two (2) months old that had a life-time warranty. The Company paid for the tools, less 10% (\$390.29) depreciation. Reference Title 36, O.S. § 1250.5 (4).*

*CRN Claim number 1001715299-(25): The Replacement Cost Agreement form did not contain a fraud warning. Reference Title 36, O.S. § 3613.1.*

### **Comprehensive Claims**

*CRN claim number 1002372277-(13): Could not be pulled and reviewed from the Company claims computer system. Reference Title 36, O.S. § 1250.4 (A).*

### **Auto Collision Claims**

*CRN claim number 1001647220-(44): The claim file provided did not have supporting documentation for a \$300.00 payment. Reference Title 36, O.S. § 1250.4 (A).*

*Claim number 08-170758-(48): The form letter referred to as "the 10 day letter," to be signed and returned by the insured, did not contain a fraud warning. Reference Title 36, O.S. § 3613.1.*

*Claim number 08-242659-(58): The form referred to as FINAL BILLS ATTACHED, dated August 19, 2004 did not contain a fraud warning. Reference Title 36, O.S. § 3613.1.*

### **Total Auto Loss Claims**

*Claim number 08-161399-(20): The adjuster's activity log showed that offers of settlement were made on May 1, 2002 and May 2, 2002, but did not reflect the amounts offered. Reference Title 36, O.S. § 1250.4 (A).*

*Claim number 08-160556-(21): The adjusters claim file lacked complete details of what took place, such as; were there any injuries, did a law enforcement agency respond, etc. Reference Title 36, O.S. § 1250.4 (A).*

*Claim number 08-210511-(61): The Company received a medical bill from the insured in the amount of \$55.00 that was never paid. Reference Title 36, O.S. § 1250.7.*

*Claim number 08-188389-(62): The Company failed to pay the tag, tax and transfers fees. The Company agreed and paid \$487.49 to the policyholder. Reference Title 36, O.S. § 1250.8 (A1).*

*Claim number 08-213507-(79): The insured vehicle was a total loss. The vehicle was recovered but not drivable. The comprehensive coverage provides transportation coverage. The transportation coverage does not appear to have been offered. Reference Title 36, O.S. § 1250.5 (1 & 4).*

*CRN claim number 1003183870-(78): The policyholder had incurred medical expenses and the Company failed to properly investigate and pay medical expenses. Reference Title 36, O.S. § 1250.5(4).*

### **Closed Without Payment**

*Claim number 08-156583-(6): The Company used an AUTHORIZATION TO OBTAIN INFORMATION form that did not contain a Fraud Warning. Reference Title 36, O.S. § 3613.1.*

*Claim number 08-189226-(64): The Company failed to pay a pro-rated share of the subrogation deductible collected. The Company agreed and paid \$510.00 to the insured on March 12, 2005. Reference Title 36, O.S. § 1250.8 (E).*

*Claim number 08-231651-(71): The file did not provide a breakdown of how the \$6,458.73 in medical bills was paid. Reference Title 36, O.S. § 1250.4 (A).*

*Claim number 08-183791-(72-2): The Company failed to pay medical expense coverage for funeral expense in the amount of \$2,000. There also were medical expenses incurred by the surviving spouse in the amount of \$1988.20 that was not addressed. Reference Title 36, O.S. § 1250.5 (4).*

*Claim number 08-166895-(76): The file included five (5) medical bills totaling \$290.00 that were not paid under the medical expense coverage. Reference Title 36, O.S. § 1250.5 (4).*

### **Subrogation Claims**

*Claim number 08-158439-(18): The TELEPHONE REPORT OF ASSIGNMENT. COD TRAKER 11 form, signed by the customer, did not contain a fraud warning. Reference Title 36, O.S. § 3613.1.*

*Claim number 08-160119-(45): The APPLICATION FOR BENEFITS form did not contain a fraud warning. Reference Title 36, O.S. § 3613.1.*

*CRN Claim number 1002763891-(82): The Company has collected \$909.12 in their subrogation demand, but has not refunded the policyholder the pro-rata share of the \$500.00 deductible. Reference Title 36, O.S. § 1250.8.*

*CRN Claim number 1003125591-(83): The Company has collected \$602.60 in their subrogation demand, but has not refunded the policyholder the pro-rata share of the \$500.00 deductible. Reference Title 36, O.S. § 1250.8.*

*CRN Claim number 1001683239-(86): The Company collected the subrogation money demanded, but failed to refund the policyholder the pro-rata share of the \$500.00 deductible collected. Company agreed and paid the policyholder the pro-rata share of the money collected in the amount of \$348.78. Reference Title 36, O.S. § 1250.8.*

*CRN Claim number 1002067580-(84): The Company collected \$1650.00 in their subrogation demand, but has not refunded the policyholder the pro-rata share of the \$500.00 deductible. Reference Title 36, O.S. § 1250.8.*

*Claim Number 08-075301-(22) : This is a 1993 claim where it appears that the Company has subrogated and collected several thousand dollars from the third party and have yet to return a pro-rata share of the policyholder's \$500.00 deductible. Reference Title 36, O.S. § 1250.8.*

## **COMPANY OPERATIONS AND MANAGEMENT**

### **History and Profile**

The Company was incorporated May 28, 1955 under the Laws of the State of Kansas, and commenced business July 16, 1955.

The Company is licensed in the states of Arkansas, California, Iowa, Kansas, Missouri and Oklahoma.

### **Affiliated Parties**

The Company and its affiliates are members of an Insurance Holding Company System as defined in Title 36, O.S. § 1651 (d).

The following abbreviated description of the organizational chart depicts the Company's ownership: Farmers Insurance Company, Inc. is owned as follows:

Farmers Insurance Exchange	70%
Truck Insurance Exchange	20%
Fire Insurance Exchange	10%

Farmers Insurance Exchange was formed and organized pursuant to California Insurance Code Section 1280, et seq., and is managed by its attorney-in-fact, Farmers Group, Inc., d/b/a Farmers Underwriters Association.

Truck Insurance Exchange was formed and organized pursuant to California Insurance Code Section 1280, et seq., and is managed by its attorney-in-fact, Truck Underwriters Association.

Fire Insurance Exchange was formed and organized pursuant to California Insurance Code Section 1280, et seq., and is managed by its attorney-in-fact, Fire Underwriters Association.

- ❖ During the course of this examination the Company denied the examiner's request for access to the Company's Board of Director meeting minutes for review. Reference: Title 36 O.S. § 309.3.B.

## **Direct Written Premium**

The Company's reported total direct written premium for Oklahoma for the period under review was as follows:

<b>Lines of business</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Federal flood	\$ 780,791	\$ 712,393	\$ 676,267
Homeowners multiple peril	142,198,221	140,721,519	143,539,993
Commercial multiple peril (non-liability)	12,009,061	10,115,323	9,494,677
Commercial multiple peril (liability)	85,115	147,842	252,436
Inland marine	959,392	941,230	945,690
Earthquake	77,303	76,899	80,566
Private passenger auto no-fault	0	27	0
Other private passenger auto liability	132,435,177	129,343,208	127,243,616
Private passenger auto physical damage	106,781,877	109,884,534	110,314,824
<b>Total</b>	<b>\$395,326,937</b>	<b>\$391,942,975</b>	<b>\$392,548,069</b>

The Company's reported total direct written premium for the period under review was as follows:

<b>Lines of business</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Allied lines	\$ 1,712,223	\$ 1,488,453	\$ 1,361,815
Homeowners multiple peril	247,419,505	239,752,205	237,131,267
Commercial multiple peril	22,399,648	19,086,105	17,202,646
Inland marine	2,380,963	2,228,968	2,126,650
Earthquake	362,556	353,992	356,596
Private passenger auto liability	316,764,381	302,523,526	293,331,769
Auto physical damage	271,344,216	278,931,809	281,018,008
<b>Total</b>	<b>\$862,383,492</b>	<b>\$844,365,058</b>	<b>\$832,528,751</b>

## **COMPLAINT HANDLING**

In the review of the Company's complaint handling, attention was given to the Company's analysis of the complaint, the candor of the response, comparison of the response and actual file contents. The Company's own complaint records and the complaint listing maintained by the Oklahoma Insurance Department were utilized in this review.

### **Complaint History**

<b>Years</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Number of Complaints	365	408	353	255	211	194

The Company's complaint history has been reduced by 53% from the year 2001. In that review, no exceptions were noted.

### **Functional Cause of Complaints**

<b>Cause of Complaint</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Unsatisfactory Settlement	80	162	116	71	53	46
Denial of Claims	58	41	52	51	51	41
Delays	46	18	48	36	40	43
Coverage Question	45	12	3	2	2	0
Premium & Rating	30	65	8	9	8	9
Premium Notice/Billing	25	15	53	37	18	12
Non-renewals	15	12	8	5	0	1
Cancellation	15	32	23	5	8	4
Premium Refund	12	16	12	8	5	7
Credit Report	0	0	0	6	1	0
Agent Handling	6	3	1	6	3	2
All Others	33	32	29	19	22	29
<b>OID: Total Number of Complaints</b>	<b>365</b>	<b>408</b>	<b>353</b>	<b>255</b>	<b>211</b>	<b>194</b>

### **Complainant Time Studies**

For this study, time was measured from date the Company received the complaint until the date of response. No exceptions were noted.

<b>Days</b>	<b>Number of Complaints</b>	<b>Percentage</b>
0-20	50	100.0%
Over 20	0	0.0%
<b>Total</b>	<b>50</b>	<b>100.0%</b>

### **Complaint Compliance Review**

In this study fifty (50) complaint files were reviewed from a population 405 complaints. In this sample, no errors were noted.

## **MARKETING AND SALES**

### **Marketing**

The Company's products are marketed through captive agents/agencies.

## **PRODUCER LICENSING**

### **Produces Licensing and Appointments**

The Company's listing of agent's commissions paid was compared to the Oklahoma Insurance Department listing of appointed agents. No exceptions were noted.

### **Terminated Agents**

Twenty-five (25) terminated agent files were reviewed from a population 490 agents. In that sample, no errors were noted.

### **Adjuster Licensing**

The Company's claims are handled for the most part by the Company's adjusters. On each claim reviewed the adjuster's license was checked against the Oklahoma Insurance Department listing of adjusters. In this study, no exceptions were noted.

## **POLICYHOLDER SERVICE**

The policyholder service portion is designed to test the Company's compliance with statutes regarding notice/billing, delays, no response and premium refunds. In that study one hundred twenty-six (126) mid-term, automobile and homeowner policies were reviewed from a population of 187,191 cancelled policies. In this study, no errors were noted.

## **COMPANY FORMS**

In a review of the Company's forms, no exceptions were noted.

## **UNDERWRITING AND RATING**

The Company's underwriting and rating practices were reviewed, including filing of forms in use during the period under examination.

### **Application of Rates and Underwriting**

The most appropriate statistic to measure accuracy is the number of files in error. An error is taken to be any failure of the Company to:

- Correctly calculate premium;
- Correctly code;
- Comply with statutes, regulations or policy provisions; or
- Properly issue.

**Active Automobile Policies**

Field Size	Type of Sample	Size of Sample
65,000	Random	100

In this study, no error was noted.

**All Other Automobile Cancellation**

Field Size	Type of Sample	Size of Sample
175,529	Random	50

In this study, no error was noted.

**Active Homeowners Policies**

Field Size	Type of Sample	Size of Sample
177,458	Random	100

In this study, no error was noted.

**Mid-Term Cancelled Policies**

Field Size	Type of Sample	Size of Sample
116	Random	26

In this study, no error was noted.

**Homeowners Cancelled Policies**

Field Size	Type of Sample	Size of Sample
9,617	Random	50

In this study, no error was noted.

## CLAIMS

- ❖ During the course of the examination a request was made for the internal claims audit records and they were denied by the Company. Their response was as follows: “In accordance with the self-audit, self-evaluative privilege, we are unable to provide you with our confidential internal audit reports.” This appears to be a violation Title 36 O.S. § 309.3.B.

### Claim Time Studies

For these studies, claim payments are measured from the following:

#### ACKNOWLEDGEMENT TIME:

From the date of receipt by the insurer or agent of notification of a claim to a company’s initial communication or acknowledgement to the claimant. Reference: Title 36 O.S. § 1250.6.A.

#### INVESTIGATION TIME:

From the date the company or agent receives notification of a claim to the date the investigation is completed. Reference: Title 36 O.S. § 1250.7.C.

#### ACCEPTANCE TIME:

From the date the company has received all necessary proof of loss information to the date of acceptance or denial. Reference: Title 36 O.S. § 1250.7.A.

The following three hundred fifty-five (355) claims were randomly selected for time studies. In that review no exceptions were noted.

<b>Lines of Business</b>	<b>Field Size</b>	<b>Sample Size</b>	<b>Error Noted</b>
Automobile Collision Damage Claims	18,685	50	0
Automobile Comprehensive Claims	20,991	100	0
Dwelling Fire Policy Claims	173	25	0
All Other Homeowner Claims	3,688	50	0
Homeowner Theft Claims	1,818	50	0
Homeowner Large Fire Claims	63	30	0
Subrogation Claims	2,763	50	0
<b>Total</b>	<b>48,181</b>	<b>355</b>	<b>0</b>

### Claim Practices

The claims practices of the Company were examined for efficiency of handling, accuracy of payment, compliance to Oklahoma Statutes and Regulations, and adherence to contract provisions. A claim is taken to be a demand for payment by an insured or claimant under a coverage against the insurer, which claim is:

**Paid by the Insurer as:**

1. Full recompense
2. Partial recompense

**Closed without payment by reason of:**

1. No relevant coverage
2. No liability
3. Recompense by other legal means

**Automobile Collision Claims**

Fifty (50) claims were selected for review from a population of 18,685 claims closed during the time frame of the examination. In this study, no errors were noted.

**Automobile Comprehensive Claims**

One (100) claims were selected for review from a population of 20,991 claims closed during the time frame of the examination. In that sample, two errors were noted which resulted in an error ratio of 2%. At a 97.4% level of confidence, the discovered error ratio of 2% will not exceed 7% when applied to the entire field. Following is a report of the error noted.

- ❖ Claim number 2C144873 and 2C152989: Could not be located by the Company to be reviewed. Reference Title 36, O.S. § 1250.4 (A)

**Dwelling Fire Claims**

Twenty-five (25) claims were selected for review from a population of 173 claims closed during the time frame of the examination. In this study, no errors were noted.

**All Other Homeowner Claims**

Fifty (50) claims were selected for review from a population of 3,688 claims closed during the time frame of the examination. In this study, no errors were noted.

**Homeowner Theft Claims**

Fifty (50) claims were selected for review from a population of 1,818 claims closed during the time frame of the examination. In that sample, one error was noted which resulted in an error ratio of 2%. At a 87.6% level of confidence, the discovered error ratio of 2% will not exceed 7% when applied to the entire field. Following is a report of the error noted.

- ❖ Claim number 1009317432-1-2 (5): The Company applied 75% depreciation to the policyholder used golf cart, which was purchased for \$2,113.31 only 7 months prior of the loss. The Company agreed that depreciation should not have been taken. Reference Title 36, O.S. § 1250.5 (4)

### **Homeowner Large Fire Claims**

Sixty (60) claims were selected for review from a population of 63 claims closed during the time frame of the examination. In this study, no errors were noted.

### **Subrogation Claims**

Fifty (50) subrogation files were selected for review from a population of 2,763 claims closed during the time frame of the examination. In this study, no errors were noted.

## COMMENTS

### Affiliated Parties

5

During the course of this examination the Company denied the examiner's request for access to the Company's Board of Director meeting minutes for review. Reference: Title 36 O.S. § 309.3.B.

### Claims

10

During the course of the examination a request was made for the internal claims audit records and they were denied by the Company. Their response was as follows: "In accordance with the self-audit, self-evaluative privilege, we are unable to provide you with our confidential internal audit reports." This appears to be a violation Title 36 O.S. § 309.3.B.

### Automobile Comprehensive Claims

11

One hundred (100) claims were reviewed and two (2) errors were noted resulting in an error ratio of 2%.

Claim number 2C144873 and 2C152989: Could not be located by the Company to be reviewed. Reference Title 36, O.S. § 1250.4 (A)

### Homeowner Theft Claims

11

Fifty (50) Claims were reviewed and one error was noted resulting in an error ratio of 2%.

Claim number 1009317432-1-2 (5): The Company applied 75% depreciation to the policyholder used golf cart, which was purchased for \$2,113.31 only 7 months prior of the loss. The Company agreed that no depreciation should have been taken. Reference Title 36, O.S. § 1250.5 (4)

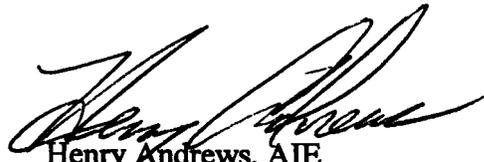
## **ACKNOWLEDGMENT**

The Market Conduct Examination Report of Farmers Insurance Company is respectfully submitted to the Honorable Kim Holland, Insurance Commissioner of the State of Oklahoma.

In addition to the undersigned, Mr. Jim Mitchell, AFE, participated in the examination.

The Examiners wish to express their appreciation for the courteous cooperation and assistance given by the officers and employees of the Company during the course of this examination.

Respectfully Submitted,

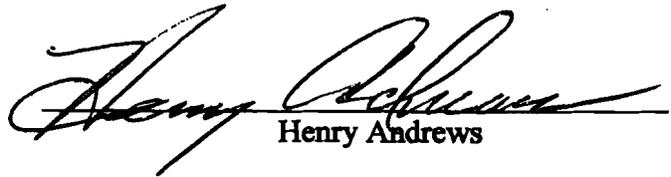
A handwritten signature in black ink, appearing to read "Henry Andrews", is written over the typed name.

Henry Andrews, AIE  
Examiner-in Charge, State of Oklahoma  
Midwestern Zone III, NAIC

**AFFIDAVIT**

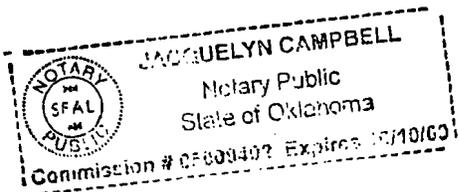
State of Oklahoma )  
  )ss  
County of Oklahoma )

I, Henry Andrews, of lawful age, being first duly sworn, upon oath state that I have been charged with examining Farmers Insurance Company, as of December 31, 2006, that I have prepared and read the foregoing Report of Examination, that I am familiar with the matters set forth therein, and I certify the Report is true and complete to the best of my knowledge and belief.

  
Henry Andrews

Subscribed and sworn to before me this 3<sup>rd</sup> day of April, 2007, by Henry Andrews.

[seal]



  
Notary Public

My commission expires: 10/10/09