

STATE OF MICHIGAN

DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES



MARKET CONDUCT EXAMINATION

NUMBER 2014C-0079

April 14, 2015

LIMITED MARKET CONDUCT RE-EXAMINATION REPORT

OF

*FARMERS MUTUAL FIRE INSURANCE COMPANY OF BRANCH
COUNTY*

COLDWATER, MICHIGAN

NAIC COMPANY CODE 33448

*of findings and recommendations from
Market Conduct Examination Number 2013C-0051
dated March 3, 2014*

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I. EXECUTIVE SUMMARY

Farmers Mutual Fire Insurance Company of Branch County (the Company) is an authorized Michigan domiciled company. This examination was conducted by DIFS in conformance with the National Association of Insurance Commissioners (NAIC) *Market Regulation Handbook* (2012) (*Handbook*) and the Michigan Insurance Code, MCL 500.100 et. seq. (the Code). The scope of this market conduct re-examination was limited to the Company's actions to address specific recommendations DIFS made with regards to Cancellation and Non-Renewal Practices for the Homeowners line of business.

This summary of this limited market conduct re-examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, findings, DIFS recommendations, and Company responses.

DIFS considers a substantive issue one in which a "finding" or violation of the Code was found to have occurred, or one in which corrective action on the part of the Company is deemed advisable.

Findings, Recommendations, and Observations as a result of this limited re-examination:

There are no findings from this limited re-examination. The Company appears to have addressed all previous Findings, Recommendations, and Observations to the satisfaction of the Examiner-in-Charge.

II. OBJECTIVES, SCOPE AND METHODOLOGY

This report is based on a limited Market Conduct Re-Examination of Farmers Mutual Fire Insurance Company of Branch County. The examination was conducted at the DIFS home office located at 611 W. Ottawa St., Lansing, MI 48909. The contact for this exam was John Parks, President. DIFS conducted this examination in accordance with statutory authority of MCL 500.222 et seq. All Michigan laws, regulations and bulletins cited in this report may be viewed on the DIFS website at www.michigan.gov/difs.

The purpose of the exam is to evaluate the compliance of the Company with applicable Michigan statutes, NAIC Guidelines and DIFS regulations.

This re-examination was conducted under the supervision of Sherry J. Bass-Pohl, Manager of the Market Conduct Company Examination Unit. The examination team consisted of Zachary Dillinger, MCM and David Haddad, CPCU, MCM.

This re-examination was limited to a review of the Company's compliance with the proposed corrective action plan as described in DIFS' Market Conduct Examination Report 2013C-0051. Since the adoption of the corrective action plan, the Company had 18 Company-initiated Cancellations and 26 Underwriting Non-Renewals in the Homeowners line of business. From this population, the examination team requested the ten (10) most recent files each for both Cancellations and Non-Renewals. The examination team also requested Company responses to

interrogatory questions in the areas of Operations Management and Policyholder Services. The analysis and examination of these files and questions form the basis upon which this limited re-examination is based.

III. COMPANY PROFILE

Farmers Mutual Fire Insurance Company of Branch County began operations in 1863, as a Michigan domiciled company. It is a mutual company and is currently licensed to market its products in Michigan. The Company markets and sells its products through independent producers and its top lines of business are Homeowners and Farm Owners insurance.

IV. EXAMINATION FINDINGS AND RECOMMENDATIONS

In the previous targeted Market Conduct examination of the Company, Examination 2013C-0051, dated March 3, 2014, the examiners had the following seven (7) Findings. To address the Findings, DIFS made seven (7) individual Recommendations to the Company. In response to those findings, the Company provided the following response which was included in the previous examination report.

There were seven findings listed in your report which dealt with cancellations, non-renewals, and declinations of policies, and all of these findings revealed deficiencies in the manner in which The Company recorded these functions. The Company has instituted two changes which will address all seven findings. We have created a checklist procedure which should eliminate any of these deficiencies in the future. Any time that The Company cancels a policy it is required that a copy of the properly executed checklist be attached to the policy file as well as a copy of the request form if applicable and a standardized cancellation notice, we are also preparing the same protocol for all non-renewals. I have attached copies of these checklists as well as a copy of the standardized cancellation form for your benefit.

The issue pertaining to the Administration System being able to differentiate between active or cancelled policies is being addressed by the IT firm that developed the system initially. We are also evaluating the form numbering system to address the noted deficiency in that area.

I believe that these changes appropriately address the issues that you noted in your report.

Upon closing the previous examination, DIFS acknowledged this corrective action plan and scheduled this limited examination to verify that the changes had been made. Below, each Finding is paired with the relevant Recommendation and is followed by an analysis of the efficacy of the corrective action plan to comply with each Recommendation.

Finding 1: Of the 50 cancelled files randomly selected by the examination team, five (5) files provided insufficient notice for cancellation. MCL 500.2123(1) requires that the cancellation notice be mailed at least 30 days prior to the effective date of the cancellation. The following files showed that the cancellation notice was mailed on or after the effective date of cancellation: 1201097, 430035, 911032, 611033 and 415030.

Recommendation: The Company must ensure that all notices of cancellation be mailed no less than 30 days prior to the effective date of the cancellation. It is vitally important that the insured be given adequate time to obtain replacement coverage.

It appears that the Company's effort to utilize a checklist has achieved the intended purpose of ensuring proper notice for cancellations. Within the sample selected, no file showed evidence of inadequate prior notice of cancellation. Based on the sample reviewed, DIFS is satisfied that the Company has complied with this Recommendation and has no additional concerns with improper notice at this time.

Finding 2: In four (4) files, it appeared that the Company retroactively cancelled the policy and then refunded the premium to the insured. This is not allowable, as it costs the Company earned premium, as well as harms the insured by potentially opening the insured to lawsuit should there have been any incidents that were incurred but not reported. These policy numbers were: 1227020, 626057, 719028 and 1223031.

Recommendation: The Company must not back-date cancellations. The cancellation cannot be effective prior to the date that the Company has determined a cancellation is necessary, even if a pro-rated refund of "unearned" premium is issued. To back-date would be a violation of the timely notice requirement found in MCL 500.2123(1).

Within the sample taken for this re-examination, no file showed evidence of backdating cancellations. Based on the sample reviewed, DIFS is satisfied that the Company has complied with this Recommendation and has no additional concerns with regards to backdated cancellations at this time.

Finding 3: Six (6) files failed to provide a specific reason that the policy was cancelled. For example, several policies were cancelled with the reason "Mail Came Back", which is not an allowable reason. According to MCL 500.2104(6), all cancellation notices must be written in such a way that a person of "ordinary intelligence" must be able to understand the specific reason why the policy was terminated. The examination team finds the Company to be in violation of the Michigan Insurance Code in the following policy numbers: 513031, 415030, 116032, 508035, 1201097 and 1227020.

Recommendation: Under MCL 500.2104(6), all cancellation notices must provide a clear reason why that policy has been cancelled. When unclear reasons are provided, the insured is forced to either accept the decision without complete information or to obtain clarification by additional contact. It is the duty of the Company to provide clarity within the notice itself. If a valid, clear reason cannot be listed, the file should not be cancelled.

Finding 4: One (1) file, policy number 911032, listed an improper reason for cancellation. The listed reason was that a claim over \$5,000 was made within the first year of the policy. This file is in violation of the Michigan Essential Insurance Act, MCL 500.2100 et. seq.

Recommendation: Under the Michigan Essential Insurance Act, having a \$5,000 claim in the first year of the policy is not a valid reason for cancellation. The Company should ensure in the future that any such policy is not cancelled.

All sample files reviewed in this limited re-examination showed a legitimate and specific reason for the cancellation of the policy. It appears that the Company's corrective action plan, as previously described, has addressed this concern by eliminating the possibility of an illegal reason for cancellation. Based on the sample reviewed, DIFS is satisfied that the Company has complied with these two (2) Recommendations and has no additional concerns with regards to reason for cancellation at this time.

Finding 5: Of the 50 non-renewed files randomly selected by the examination team, nine (9) files failed to provide a specific reason that the policy was non-renewed. For example, several files were non-renewed with the stated reason of "Non-Renew". According to MCL 500.2104(6), all cancellation and non-renewal notices must be written in such a way that a person of "ordinary intelligence" must be able to understand the specific reason why the policy was ended. The examination team finds the Company to be in violation of the Michigan Insurance Code in the following policy numbers: 304020, 425027, 723030, 1102017, 504024, 314043, 529015, 425032 and 311021.

Recommendation: Under MCL 500.2104(6), all cancellation notices must provide a clear reason why that policy has been non-renewed. When unclear reasons are provided, the insured is forced to either accept the decision without complete information or to obtain clarification by additional contact. It is the duty of the Company to provide clarity within the notice itself. If a valid, clear reason cannot be listed, the file should not be non-renewed.

Finding 7: One (1) file, policy number 1212030, listed an improper reason for non-renewal. The listed reason was that two (2) claims had been made in a three (3) year period. This file appears to be in violation of MCL 500.2117(2)e.

Recommendation: Claims history is a valid reason to non-renew a Homeowners policy. However, two (2) claims in a three (3) year period is not sufficient for non-renewal. According to MCL 500.2117(2)e, at least three (3) paid claims within a three (3) year period are required before non-renewal is possible, with additional requirements based on total value of the claim and the nature of the claim. It is recommended that the Company review MCL 500.2117(2)e and ensure that their underwriting practices are compliant with this section.

All files reviewed in this limited re-examination showed a clear and legal reason for the non-renewal of the policy. As with Cancellations, it appears that the Company's corrective action plan has addressed this concern by requiring a specific reason for the non-renewal and allows management to ensure the reason is legitimate before processing the non-renewal. Based on the sample reviewed, DIFS is satisfied that the Company has complied with this Recommendation and has no additional concerns with regards to reason for non-renewal at this time.

Finding 6: In two (2) files, 1114028 and 1109023, the examination team was unable to verify if a Non-Renewal notice had been sent. If no notice was sent, this would be a violation of MCL 500.2123(1).

Recommendation: It is vital that the Company maintain complete files on every policy. Being able to prove that a valid and timely non-renewal notice was sent is required to maintain compliance with the Michigan Essential Insurance Act, MCL 500.2100 et. seq. Please be sure to maintain this proof for every file in the future.

All sample files reviewed in this limited re-examination contained adequate information and documentation to verify that the Company sent proper notice to the insured, and that the Company's cancellation or non-renewal was proper. The Company's corrective action plan, as previously described, has addressed this concern by ensuring that the file contains all necessary information before it can be closed. Based on the sample reviewed, DIFS is satisfied that the Company has complied with this Recommendation and has no additional concerns with regards to retention of complete files at this time.

V. ACKNOWLEDGEMENT

This re-examination report of Farmers Mutual Fire Insurance Company of Branch County is respectfully submitted to the Director of the Department of Insurance and Financial Services, State of Michigan.

The courteous cooperation and assistance of the officers and employees of the Company extended to the examiners during the course of the examination is hereby acknowledged.

In addition to the undersigned, David Haddad, CPCU, MCM, Market Conduct Examiner participated in the examination.

Zachary J. Dillinger, MCM
Examiner-in-Charge
Department of Insurance and Financial Services
Market Conduct Section