



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Theodore K. Nickel, Commissioner

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

FARMERS INSURANCE EXCHANGE
4680 WILSHIRE BLVD
LOS ANGELES CA 90010-3807

dated June 17, 2010, and served upon the company on June 22, 2011, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 9th day of November, 2011.


Theodore K. Nickel
Commissioner of Insurance

**STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE**

MARKET CONDUCT EXAMINATION

OF

**FARMERS INSURANCE EXCHANGE
LOS ANGELES CALIFORNIA**

JUNE 7 – 17, 2010

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June 17, 2010

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Honorable Sean Dilweg
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted June 7, 2010 to June 17th, 2010 of:

FARMERS INSURANCE EXCHANGE
Los Angeles, California

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Farmers Insurance Exchange was founded in 1928 in Los Angeles, California as Farmers Automobile Inter Insurance Exchange Company. The company is part of the Farmers Insurance Group of Companies that offer a range of insurance and financial service products. The company is currently licensed to sell insurance in 45 states, and the District of Columbia but reports business in only 37 states. The Company's website reports they acquired the Foremost Company in 1952 and was acquired by Zurich Financial Services in 1998. In 2007, they purchased Bristol West Insurance Companies and in 2009, the 21st Century Companies. The Farmers Group consists of twenty-one (21) companies, Foremost's group has six (6) companies, Bristol West's group consists of five (5) companies. The 21st Century group includes seventeen (17) companies

The company has been licensed to do business in Wisconsin since January 7, 1954 as a fire & casualty company and primarily offers personal lines coverage in homeowners and

private passenger automobile marketed through both exclusive and independent agents. The company also writes other lines including commercial lines coverage and workers compensation insurance.

In 2009 and 2008, the company reported written premium in thirty-seven (37) states. The company reported written premium in Alabama, Arizona, Arkansas, California, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming. The following table summarizes the total direct national premium written in 2009 and 2008 as compared to the total direct premium written in Wisconsin.

National Direct Premium Written to Wisconsin Direct Premium Written

| Year | Wisconsin DPW | Total DPW |
|-------------|----------------------|------------------|
| 2009 | 61,653,811 | 3,198,477,866 |
| 2008 | 59,878,994 | 3,470,072,620 |

The majority of the premium earned by the company in 2008 and 2009 was for private passenger automobile.

In both 2009 and 2008 the next leading amount of premium written for the company was for the homeowners/farmowners line of business.

The following tables summarize the premium earned and incurred losses in Wisconsin for 2009 and 2008 broken down by line of business.

Wisconsin Direct Premium and Loss Summary

| Line of Business | 2009 | |
|---------------------------|-------------------|-------------------|
| | Premium Earned | Losses Incurred |
| Fire & Allied Lines | 1,428 | -54 |
| Homeowners/Farmowners | 9,281,859 | 5,991,034 |
| Commercial Multiple Peril | 2,308,857 | 1,690,229 |
| Worker's Compensation | 585,072 | 302,238 |
| Private Passenger Auto | 44,523,983 | 21,462,659 |
| Commercial Auto | 711,749 | 337,554 |
| All Others | 2,028,043 | 307,140 |
| Total | 59,440,991 | 30,090,800 |

| Line of Business | 2008 | |
|---------------------------|-------------------|-------------------|
| | Premium Earned | Losses Incurred |
| Fire & Allied Lines | 1,288 | -55 |
| Homeowners/Farmowners | 5,206,887 | 6,384,306 |
| Commercial Multiple Peril | 2,258,261 | 2,804,808 |
| Worker's Compensation | 494,825 | 210,590 |
| Private Passenger Auto | 44,642,222 | 29,880,222 |
| Commercial Auto | 684,099 | 229,461 |
| All Others | 19,958,888 | -242,869 |
| Total | 55,246,470 | 39,266,463 |

In 2009, the company ranked as the 11th largest writer of private passenger automobile insurance in Wisconsin with 2.0% of the market share as a result of \$44,879,216 of written premiums. In 2008, the company ranked as the 8th largest writer with 2.1% of the market share as a result of \$46,285,470 of written premiums.

OCI received forty-eight (48) complaints against the company from July 1, 2008 through December 31, 2009. A complaint is defined as 'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.'

During the year of 2009, OCI received thirty-one (31) complaints against the company. In addition, the company received a total of thirty-two (32) complaints in 2008. As of March 1, 2010, seven (7) complaints were received against the company.

The majority of complaints received in 2010 concerned homeowner's coverage problems and policyholder service, including one similar complaint for commercial property and

liability insurance. Private passenger automobile complaints came in second with three (3) complaints involving premium and rating issues.

In 2009, OCI received the highest percentage of 54.8% of complaints for private passenger automobile, with homeowners coming in second place with 37.5% of the complaints received. The highest number of complaint reason received in 2009 was claim related followed closely by marketing & sales.

In 2008, OCI received the highest percentage of 65.6% of complaints for private passenger automobile with homeowners in second with 31.2% of the complaints received. The major reason given for complaints in 2008 was related to marketing & sales. Tied for second for complaint reasons in 2008 were related to claims and policyholder service.

OCI records show the company was on the above average complaints lists for both private passenger automobile and homeowners/farowner's coverage. The most recent list from 2009 ranks the company as the second highest for receiving complaints for homeowners/farowners insurance. Also, in 2009, the company ranked seventeen (17) for private passenger automobile. In 2008 the company once again was the second highest for receiving complaints for homeowners/farowners insurance. The company was not listed on the prior year's list for homeowners/farm owner's coverage complaints. The company was ranked twenty-two (22) in 2008 for private passenger automobile down from the eleventh (11) rank shown on the 2007 complaint summary list. In 2006, the company was also ranked fourteenth (14) for above average complaints for private passenger automobile coverage.

The following table summarizes the complaints received broken down by coverage type and reason type.

Complaints Received

| February 10, 2010 | | Reason | | | | |
|--------------------|--------|----------------|-------------------|--------|----------------------|-------|
| Coverage Type | Total. | Under-writing. | Marketing & Sales | Claims | Policyholder Service | Other |
| Personal Auto | 2 | 2 | | | | |
| Commercial Vehicle | | | | | | |

| February 10, 2010 | | Reason | | | | |
|----------------------|--------|----------------|-------------------|--------|----------------------|-------|
| Coverage Type | Total. | Under-writing. | Marketing & Sales | Claims | Policyholder Service | Other |
| Com Prop & Liability | 1 | | | | 1 | |
| Home/Farmowners | 4 | 1 | | 3 | | |
| Commercial Liability | | | | | | |
| Worker's Comp | | | | | | |
| Fidelity & Surety | | | | | | |
| All Others | | | | | | |
| Total | 7 | 3 | 0 | 3 | 1 | 0 |

| 2009 | | Reason | | | | |
|----------------------|--------|----------------|-------------------|--------|----------------------|-------|
| Coverage Type | Total. | Under-writing. | Marketing & Sales | Claims | Policyholder Service | Other |
| Personal Auto | 16 | 1 | 4 | 7 | 4 | |
| Commercial Vehicle | | | | | | |
| Com Prop & Liability | | | | | | |
| Home/Farmowners | 12 | 5 | 3 | 2 | 2 | |
| Commercial Liability | | | | | | |
| Worker's Comp | 1 | | | | 1 | |
| Fidelity & Surety | | | | | | |
| All Others | 2 | | 1 | 1 | | |
| Total | 31 | 6 | 8 | 10 | 7 | 0 |

| 2008 | | Reason | | | | |
|----------------------|--------|----------------|-------------------|--------|----------------------|-------|
| Coverage Type | Total. | Under-writing. | Marketing & Sales | Claims | Policyholder Service | Other |
| Personal Auto | 21 | 4 | 5 | 6 | 6 | |
| Commercial Vehicle | | | | | | |
| Com Prop & Liability | | | | | | |
| Home/Farmowners | 10 | 1 | 6 | 1 | 2 | |
| Commercial Liability | | | | | | |
| Worker's Comp | | | | | | |
| Fidelity & Surety | | | | | | |
| All Others | 1 | | | 1 | | |
| Total | 32 | 5 | 11 | 8 | 8 | 0 |

II. PURPOSE AND SCOPE

A targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from July 1, 2008 through December 31, 2009. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination included, but was not limited to, a review of company Operations & Management, including Privacy, Ecommerce, Policy Forms & Rates, Policyholder Service & Complaints, Producer Licensing, Claims and Underwriting & Rating. The review of the private passenger automobile and homeowners lines of business in Wisconsin included sampling of claim and underwriting files.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. CURRENT EXAMINATION FINDINGS

Company Operations

The examiners analyzed the company's business practices and procedures by reviewing the Company Operations & Management, Privacy, Marketing & Sales, and Policyholder Service & Complaints interrogatories' response. No exceptions were noted.

Underwriting

The examiners reviewed the company's response to underwriting interrogatories, including both homeowners and private passenger automobile lines of business. No exceptions were noted.

The examiners also reviewed new and terminated business through sample files for both homeowners and private passenger automobile coverages. One hundred (100) homeowners and one hundred (100) private passenger automobile new business files were reviewed and fifty (50) homeowners and one hundred (100) private passenger automobile terminated files were reviewed. The following exceptions were noted.

The examiners found two (2) new private passenger automobile policies issued after November 1, 2009, that were issued with uninsured motorist (UM) limits of \$50,000 per person/\$100,000 per accident and \$100,000 per person/\$200,000 per accident, respectively. Section 632.32 (4) (a) 1, Wis. Stat., states, in part, that every policy of insurance that insures with respect to any owned motor vehicle registered or principally garaged in this state against loss resulting from liability imposed by law for bodily injury or death suffered by any person arising out of the ownership, maintenance, or use of a motor vehicle shall contain a provision for uninsured motorist coverage, in limits of at least \$100,000 per person and \$300,000 per accident.

1. **Recommendation:** It is recommended that the company issue private passenger automobile coverage with uninsured motorist coverage, in limits of at least \$100,000 per person and \$300,000 per accident, to ensure compliance with s. 632.32 (4) (a) 1, Wis. Stat.

The examiners found two (2) new business private passenger automobile policies issued after November 1, 2009 that were issued with underinsured motorist (UIM) coverage limits of \$50,000 per person/\$100,000 per accident and \$100,000 per person/\$200,000 per accident, respectively. Section 632.32 (4) (a) 2m, Wis. Stat., states in part, that every policy of insurance that insures with respect to any owned motor vehicle registered or principally garaged in this state against loss resulting from liability imposed by law for bodily injury or death suffered by any person arising out of the ownership, maintenance, or use of a motor vehicle shall contain a provision for underinsured motorist coverage, in limits of at least \$100,000 per person and \$300,000 per accident.

2. **Recommendation:** It is recommended that the company issue private passenger automobile coverage with underinsured motorist coverage in limits of at least \$100,000 per person and \$300,000 per accident to ensure compliance with s. 632.32 (4) (a) 2m, Wis. Stat.

The examiners found twenty two (22) new business private passenger automobile policies issued after November 1, 2009, that contained medical payments coverage limits of less than \$10,000 per person. Section 632.32 (4) (a) 3m, Wis. Stat., states in part, that every policy of insurance that insures with respect to any owned motor vehicle registered or principally garaged in this state against loss resulting from liability imposed by law for bodily injury or death suffered by any person arising out of the ownership, maintenance, or use of a motor vehicle shall contain medical payments coverage in the amount of at least \$10,000 per person.

3. **Recommendation:** It is recommended that the company issue private passenger automobile coverage with medical payments coverage in limits of at least \$10,000 per person to ensure compliance with s. 632.32 (4) (a) 3m, Wis. Stat.

The examiners found one (1) private passenger automobile file where the company's proof of mailing showed the cancellation was not sent within ten days. Section 631.36 (2) (b), Wis. Stat, states in part, that no cancellation under this paragraph is effective until at least 10 days after the 1st class mailing or delivery of a written notice to the policyholder.

The examiners found two (2) homeowner's files missing a notice regarding available coverage through the Wisconsin Insurance Plan (WIP). The examiners also found one (1) file that contained the wrong address to the WIP. Section 631.36 (2), Wis. Stat., states in part, that notice of cancellation or nonrenewal required under sub. (2) (b) or (4) is not effective unless the notice contains adequate instructions to the policyholder for applying for insurance through a risk sharing plan.

4. **Recommendation:** It is recommended that the company provide a ten day notice of cancellation with adequate instructions to the policyholder for applying for insurance through the Wisconsin Insurance Plan and that the notice contain the Plan's correct address in order to comply with ss. 631.36 (2) (b) and (7), Wis. Stat.

The examiners found three (3) homeowner's cancelled policies where the cancellation notice address did not correspond to the address documented in the electronic policy file and the policy file did not indicate an address change had been requested by the insured. Section 631.36 (2), Wis. Stat., states in part, 'no cancellation under is effective until at least 10 days after the 1st class mailing or delivery of a written notice to the policyholder.

5. **Recommendation:** It is recommended that the company revise its procedures to verify an insured's address is correct when canceling a policy to ensure proper notice is given to the policyholder at their correct address in order to demonstrate compliance with s. 631.36 (2), Wis. Stat.

The examiner found four (4) homeowner's cancelled files where the company's file cancellation reason did not correspond with the cancellation code in the company's electronic system. The examiners found five (5) private passenger automobile cancelled files that were coded in the company's system as cancellation by the insureds. However, the company was unable to provide documentation to support the insureds requested the policies canceled. Section 631.36 (2), Wis. Stat., states in part, that no cancellation is effective until at least 10 days after the 1st class mailing or delivery of a written notice to the policyholder.' Section Ins 6.80 (5) (a), Wis. Adm. Code, states in part; 'Records with regard to insurance company operations in the state of Wisconsin for the preceding 3 years shall be maintained in the form

specified under sub. (4) and be available to the commissioner, or the insurance regulatory agency of the insurer's state of domicile.

6. Recommendation: It is recommended that the company accurately document company operations to verify and confirm the company's system cancellation reason (cancellation code) corresponds to the documented policy cancellation reason in order to ensure compliance with s. 631.36, Wis. Stat.

7. Recommendation: It is recommended that when an insured requests a cancellation that the company document and maintain its records for its policy files as required by s. Ins 6.80 (5) (a), Wis. Adm. Code, in order to be able to provide documentation that the company is complying with s. 631.36, Wis. Stat.

The examiners found when reviewing the new business private passenger automobile files, the declarations pages provided to the examiners for review do not contain information regarding underinsured motorists (UIM) coverage. The declaration clearly stipulates the other coverage parts, their limits, and premium but there is no column to include the UIM coverage limit or the premium paid by the insured for UIM coverage. It is misleading not to clearly show the UIM coverage limit and resulting premium charge on the declarations page along with the other coverages, limits, and premiums. Section 628.34 (1) (a), Wis. Stat., states in part, that no person may make or cause to be made any communication relating to an insurance contract, the insurance business, any insurer or any intermediary which contains false or misleading information, including information misleading because of incompleteness.

8. Recommendation: It is recommended that the company change its private passenger automobile declaration form so it will clearly and correctly list the Underinsured Motorist coverage, its limit and premium in order to demonstrate compliance with s. 628.34 (1) (a), Wis. Stat.

The examiners found forty (40) new business private passenger automobile files and forty three (43) new business homeowner's files where the Memorandum of Auto Insurance or Memorandum of Fire Insurance application form, whichever was applicable, contained the following language or something similar:

'Binder – The insurance has been applied for and is bound for 60 days from the Effective Date pending issuance of a policy to the Named Insured.'

The Wisconsin Supreme Court decision, Terry v. Mongin, 105 Wis. 2d 575, provides that binders are subject to the same terms and conditions as the policy. Indicating a policy term less than that provided by the policy does not follow the court's decision.

9. **Recommendation:** It is recommended that the company revise its binder language in its Memorandum of Auto Insurance and Memorandum of Fire Insurance forms to provide for the same policy term as the policy to ensure compliance with the Wisconsin Supreme Court decision, Terry v. Mongin, 105 Wis. 2d 575.

The examiners found the company was unable to provide sixteen (16) new business private passenger automobile files and twelve (12) new business homeowner's files. The examiners found three (3) homeowner's files where the company was unable to provide proof of a proper cancellation as they could not produce the cancellation notices. Section Ins 6.80 (5) (a), Wis. Adm. Code, states in part, 'Records with regard to insurance company operations in the state of Wisconsin for the preceding 3 years shall be maintained in the form specified under sub. (4) and be available to the commissioner, or the insurance regulatory agency of the insurer's state of domicile.

10. **Recommendation:** It is recommended the company develop, implement and follow a procedure to ensure its records are properly retained and retrievable to enable the company to demonstrate compliance with ss. 601.42, Wis. Stat and Ins 6.80 (5) (a), Wis. Adm. Code.

The examiners found eleven (11) renewed private passenger automobile policies where it is the company's practice to advise the insured to renew with the insured's declaration page, which includes language that states in part, 'To renew your policy and assure continuous coverage, you may pay the paid in full amount shown.' Section 631.36 (4) (a), Wis. Stat., states, in part, that a policyholder has a right to have the policy renewed, on the terms then being applied by the insurer to similar risks, for an additional period of time equivalent to the expiring term if the agreed term is one year or less, or for one year if the agreed term is longer than one year, with respect to failure timely to pay a renewal premium, a

notice is given, not more than 75 days nor less than 10 days prior to the due date of the premium, which states clearly the effect of nonpayment of premium by the due date. The company's notice states what will happen if payment is made, not what will happen if payment is not made.

11. **Recommendation:** It is recommended that when offering to renew a policy, the company amend its renewal offer by including language that states clearly the effect of nonpayment of premium by the due date in order to comply with s. 631.36 (4) (a), Wis. Stat.

Rating

Twenty-five (25) new business private passenger automobile sample files were reviewed for the proper application of the company's filed rates and rules. The rate review included the review and use of the rating manuals and applied the filed rates for the period of review for the twenty five (25), file samples. The company uses independently filed company rates and rules, which were applied to determine if the company's rates and rules were implemented as filed. The following exceptions were noted.

The examiners found the company's 'Policy Term Factor Table' was omitted from its rate filings submitted to OCI prior to July 1, 2009. It was found the company was using factors contained in the table prior to June 1, 2009. Also, it was found that the rating factors for Combined Single Limits (CSL) Property Damage, CSL Uninsured Motorist, and CSL Underinsured Motorist were omitted from any rate filings submitted to OCI prior to the examination period, but were being used by the company. In addition, an Accident Free Rate was omitted from the Rate Factor tables submitted to OCI through its rate filings, but was being used by the company. The examiners also found that the company's 'Rule' manual defines 'Pleasure Use' as:

'automobiles which are used for personal and social purposes including driving to and from work or school, but which are not required for nor customarily involved in any business, occupation, or profession.'

The definition does not include vehicles in storage even though the company rates stored vehicles as pleasure use. In addition, the examiners found the company offers a 'Farmers Auto Risk Assessment' (FARA) code discount. The company's rule defines the discount as applicable to 'Specialty Vehicles'. A 'Specialty Vehicle' is defined as:

'A vehicle which has the suspension raised or lowered, or the steering geometry changed, or the engine or drive train changed for the purpose of increasing speed or acceleration, or has been assembled from a kit.'

For the policies manually rated, the discount was applied to all the policies even though the insured vehicles did not meet the rule definition for the 'FARA' discount. Section 625.13 (1), Wis. Stat., states in part, that every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

12. Recommendation: It is recommended that the company file all rates and complete supplementary rating information and issue policies using only rates that have been filed with the commissioner in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found the company's filed rule for its Accident Free Discount states on page 501: 'Reduced rates under BIPD, Collision and Medical Expense will be allowed policyholders or new applicants who have been accident free during the experience period. Rate pages show these rates as Accident Free rates'. The company also refers to the 'Accident Free Rate' under the Method Of Rating section of the rule. However, there are no filed rate pages specifically for Accident Free rates. Instead, all of the filed base rates already reflect risks that are accident free and none of the filed base rate pages are labeled as Accident Free rates. The language in the rule is confusing as the Accident Free rate is the same as the base rate and the rule calls it a discount. Therefore, the filed rule and rate pages are misleading and constitutes an incomplete filing. Section 628.34 (1), Wis. Stat., states, in part, that no communication relating to the insurance business may contain false or misleading information, including information misleading because of incompleteness. Section 625.13 (1), Wis. Stat.

states, in part, that every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

13. Recommendation: It is recommended that the company discontinue referring to the Accident Free rates as a discount and revise its rate pages and rule to clearly identify the Accident Free rates as the same as its base rates, in order to comply with s. 628.34 (1), Wis. Stat. It is also recommended that the company file the revised rule and rates with the Commissioner in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found the company's filed rule for its Accident Free Discount and Multiple Accident Surcharge Plan state that a risk with one accident during the experience period shall be charged the 'Standard Rate'. There are three rate factors depending on the age of the accident. Although the company's filed rating (engine) algorithm also refers to such as the 'Standard Rate', the corresponding rate factors are located on the company's filed rate page 805 under the 'Surcharge' section and are not labeled as the 'Standard Rate'. There is a footnote under the factor table stating: 'Note: The Multi-Accident Surcharge is added to the Standard Surcharge'. This is the only time these factors are referred to as the 'Standard Surcharge'. The inconsistent labeling between the filed rule and rate factor page is confusing. Therefore, the filed rule and rate pages are misleading, which violates s. 628.34 (1), Wis. Stat. which states in part, no communication shall contain misleading information. They also constitute an incomplete filing which violates s. 625.11, Wis. Stat. which states in part, all rates and rules must be filed with the Commissioner's office. In addition, the filed rule states: 'The Standard rate for BIPD, Collision or Medical Payments is 25% above the Accident Free rates for the first year of the experience period following the accident, 20% higher in the second year and 15% higher in the third year.' However, the corresponding rate factors located on the company's filed rate page 805 under the 'Surcharge' section do not match the rates under the rule. The conflicting rates in the filed rule and rate page are misleading. Section 628.34 (1), Wis. Stat., states, in part, that no communication relating to the insurance business may contain

false or misleading information, including information misleading because of incompleteness. Section 625.13 (1), Wis. Stat. states, in part, that every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective. The company advised the examiners it would correct the conflicting rates under the rule.

14. Recommendation: It is recommended that the company consistently name its surcharge factor(s) for risks with one accident and correct the conflicting rate factors in its rule and rate filing and file the revised rule and rate with the Commissioner in order to comply with ss. 628.34 (1) and 625.13 (1), Wis. Stat.,

15. Recommendation: It is recommended that the company ensure all rating factors are included in the rate tables filed with all rate and rule filings and that the 'Product & Underwriting Guide' provide complete supplementary rating information in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found that the company's Classification and Rating rules indicates a driver be assigned to the 'Commuter Adult Rate Class' based on the one-way distance to work or school. A driver is assigned to rate class 1 if the one-way distance is less than 10 miles and a rate class 4 if the one-way distance is more than 10 miles. One policy was found where the distance was exactly ten (10) miles and the company assigned it to rate class 4. There is no rating rule to indicate which class applies if the distance is exactly ten (10) miles. Section 625.13 (1), Wis. Stat., states in part, that every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

16. Recommendation: It is recommended that the company revise its definition for its Commuter Adult Rate Class in the Classification and Rating rules to include a one-way distance of 10 miles to work or school in order to demonstrate compliance with s. 625.13 (1), Wis. Stat.

The examiners found the company's policy processing software uses the Vehicle Identification Number (VIN), associated with the vehicle that indicates if the vehicle has antilock brakes. According to the company's rate rule filing, the anti-lock brake discount may be acceptable for a discount on BIPD (bodily injury property damage) and collision coverages. It

was found that the discount was inappropriately applied to a policy with only comprehensive coverage that was not in accordance with the filed rate rule. Section 625.13 (1), Wis. Stat., states in part, 'that every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

17.Recommendation: It is recommended that the company ensure its policy processing software accurately uses vehicle identification number information to apply the appropriate discounts to the applicable coverage in accordance with its filed rules in order to comply with s. 625.13 (1), Wis. Stat.

Producer Licensing

An analysis of the company's producer licensing procedures and practice included review of the response to the producer licensing interrogatories. No report exceptions were found.

The company markets its insurance products using exclusive and independent agents. To review the company's obligation to notify the Commissioner of producers that are appointed or terminated, the examiners requested that the company provide a list consisting of all producers appointed to represent the company. The company's list was then compared to the Commissioner's database of producers appointed to represent the company as of the end of the examination period (December 31, 2009).

In addition, the examiners reviewed fifty (50) appointed agent files and twenty five (25) terminated agent files to determine if the company's practices and procedures related to appointments and terminations comply with Wisconsin insurance statutes and rules. The following exceptions were noted.

To review the company's obligation to notify the Commissioner of producers that are appointed the examiners requested the company provide a list of agents that were appointed on or prior to the end of the exam period. The examiners found according to OCI records the company submitted incorrect appointment dates for three (3) of its appointed agents. The

company also submitted agent appointments for four (4) of its agents that were appointed with the company Farmers New World Life but not appointed with the company. The examiners found three (3) agents where the company provided agency files reflecting appointment dates and signed appointment contracts more than fifteen (15) days before the OCI appointment's effective date. Section Ins 6.57 (1), Wis. Adm. Code, states, in part, that submission of an application for an intermediary-agent appointment shall initiate the appointment of an agent in accordance with s. 628.11, Stats. The application shall be submitted to the office of the commissioner of insurance and entered in the OCI licensing system in a format specified by the commissioner within 15 days after the earlier of the date the agent contract is executed or the first insurance application is submitted,

- 18. Recommendation:** It is recommended that the company amend its agent appointment procedures and record keeping to accurately report its agent's appointment in accordance with s. Ins 6.57 (1), Wis. Adm. Code.

The examiners found the company was unable to provide an explanation for not reporting one hundred-sixty five (165) agents as appointed with the company when responding to the producer licensing data call. Section 628.11, Wis. Stat., states, in part, that an insurer shall report to the Commissioner at such intervals as the Commissioner establishes by rule all appointments, including renewals of appointments and all terminations of appointments of insurance agents to do business in this state.

- 19. Recommendation:** It is recommended that the company revise its agent licensing reporting practices to OCI to ensure it has accurate data when responding to requests for data for its agent licensing appointments and terminations in order to demonstrate compliance with s. 628.11, Wis. Stat.

Policy Forms & Rates

The company provides coverage to its policyholders using independently filed company policy forms and endorsements. The company is a subscriber to Insurance Services Organization (ISO), and has adopted and uses ISO forms as well. The examiners reviewed the policy forms and rates interrogatory response. In response to the policy forms interrogatory, the

company provided a list and copies of all personal and commercial lines forms used in Wisconsin. The examiner's review verified if the forms were approved for use in Wisconsin and, if applicable, filed for use under the new form submissions file and use laws. The forms were reviewed for compliance with Wisconsin regulations. The examiners found the following exceptions.

The examiners found when provided a list of all personal and commercial lines policy forms (i.e. policies, riders, endorsements, applications, reinstatement applications, et al.), used in Wisconsin at any time during the period of review, the company reported having no filing information available for many of the forms due to the age of the forms. Section Ins 6.05 (5), Wis. Adm. Code, states, in part, that each insurer shall maintain a file of all forms approved for use in Wisconsin until all exposure on the risks insured against has terminated. The file is subject to examination and the commissioner may request that any portion of the file be available for review within ten days of a written request.

20. Recommendation: It is recommended that the company maintain a file of all forms approved for use in Wisconsin until all exposure on the risks insured against have terminated in order to ensure compliance with s. Ins 6.05 (5), Wis. Adm. Code.

The examiners found that the company used or made available for use in Wisconsin the following forms during all or a portion of the period under review:

- 56-5270 Special Form Homeowners
- 56-5272 Townhouse and Condominium Owners
- 56-5273 Broad Form Renters Policy
- 56-5274 Protector Plus Homeowners
- 56-5548 Farmers Next Generation Homeowners Policy
- 56-5083 EZReader Motorcycle Policy
- 56-5275 Auto Policy
- 56-5052 WI EZReader Car

The following three recommendations apply to the forms listed above.

The forms contain language that defines if the insured cancels the policy, the refund will be computed in accordance with the customary short rate table. The examiners found that concurrent with introduction of its 'FA2' auto policy product in Wisconsin on or about June 14, 2010, the company began calculating all refunds of unearned premium on auto policies pro rata. Section 628.34 (1) (a), Wis. Stat., states, in part, that no insurer may make or cause to be made any communication relating to the insurance business which contains false or misleading information.

- 21. Recommendation:** It is recommended that the company revise forms 56-5270 Special Form Homeowners, 56-5272 Townhouse and Condominium Owners, 56-5273 Broad Form Renters Policy, 56-5274 Protector Plus Homeowners, 56-5548 Farmers Next Generation Homeowners Policy, 56-5083 EZReader Motorcycle Policy, 56-5275 Auto Policy and 56-5052 WI EZReader Car to reflect the company's current procedures for calculating a prorata premium refund to ensure compliance with the requirements of s.628.34 (1) (a), Wis. Stat.

The forms contain language that defines if the insured cancels the policy, the refund will be computed in accordance with the customary short rate table. The examiners found that concurrent with introduction of its 'FA2' auto policy product in Wisconsin on or about June 14, 2010, the company began calculating all refunds of unearned premium on auto policies pro rata. Further, the examiners found the company began calculating all refunds of unearned premium for its homeowner's products pro rata in the year 2000. However, the examiners found that the homeowners manual rules pages were not updated and filed with OCI to reflect the change in how premium refunds are calculated. Section 625.13 (1), Wis. Stat., states in part, that every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

- 22. Recommendation:** It is recommended that the company file its current rate and manual pages for forms 56-5270 Special Form Homeowners, 56-5272 Townhouse and Condominium Owners, 56-5273 Broad Form Renters Policy, 56-5274 Protector Plus Homeowners, 56-5548 Farmers Next Generation

Homeowners Policy, 56-5083 EZReader Motorcycle Policy, 56-5275 Auto Policy and 56-5052 WI EZReader Car, to reflect its current rules in use to ensure compliance with s. 625.13 (1), Wis. Stat.

Effective November 1, 2009, statutory changes were made to s. 632.32, Wis. Stat., that affected every policy of insurance issued or delivered in Wisconsin against an insured's liability for loss or damage resulting from an accident caused by any motor vehicle, whether the loss or damage is to property or to a person. The policy forms used on and after November 1, 2009, were reviewed for compliance with the newly enacted laws. The following exceptions were noted.

The examiners found that policy form Form WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09, Endorsement Amending Part II - Uninsured Motorist, contains language that provides an additional definition of uninsured motor vehicle that lists vehicles which are not included within the definition: owned by or furnished or available for the regular use of you or any family member and owned by a governmental unit or agency. By excluding these vehicles, the company is narrowing the statutory definition of an uninsured motor vehicle. Section 632.32 (2) (g), Wis. Stat., as modified by 2009 WI Act 342 effective May 27, 2010, defines an "uninsured motor vehicle" as a motor vehicle that is involved in an accident with a person who has uninsured motorist coverage and with respect to which, at the time of the accident, a bodily injury liability insurance policy is not in effect and the owner or operator has not furnished proof of financial responsibility for the future under subch. III of ch. 344 and is not a self-insurer under any other applicable motor vehicle law. 'Uninsured motor vehicle' also includes any of the following motor vehicles involved in an accident with a person who has uninsured motorist coverage: 1. an insured motor vehicle, or a motor vehicle with respect to which the owner or operator is a self-insurer under any applicable motor vehicle law, if before or after the accident the liability insurer of the motor vehicle, or self-insurer, is declared insolvent by a court of

competent jurisdiction, 2. except as provided in subd. 3., an unidentified motor vehicle, provided that an independent 3rd party provides evidence in support of the unidentified motor vehicle's involvement in the accident, or 3. an unidentified motor vehicle involved in a hit-and-run accident with a person. 2011 WI Act 14 revises the definition of an uninsured motor vehicle regarding unidentified motor vehicles by replacing s. 632.32 (2) (g) 2., Wis. Stat. in its entirety to read: 2. A phantom motor vehicle, if all of the following apply: a. The facts of the accident are corroborated by competent evidence that is provided by someone other than the insured or any other person who makes a claim against the uninsured motorist coverage as a result of the accident; b. Within 72 hours after the accident, the insured or someone on behalf of the insured reports the accident to a policy, peace, or judicial office or to the department of transportation or, if the accident occurs outside of Wisconsin, the equivalent agency in the state where the accident occurs; c. Within 30 days after the accident occurs, the insured or someone on behalf of the insured files with the insurer a statement under oath that the insured or a legal representative of the insured has a cause of action arising out of the accident for damages against a person whose identity is not ascertainable and setting forth the facts in support of the statement. 2011 WI Act 14 is effective for newly issued and renewed policies on or after November 1, 2011.

23. Recommendation: It is recommended that the company revise form WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09, Endorsement Amending Part II - Uninsured Motorist to amend its definition of uninsured motor vehicle for policies newly issued and renewed on or after November 1, 2011, in order to comply with s. 632.32 (2) (g) 2, Wis. Stat. of 2011 WI Act 14 and refile the revised policy forms with the commissioner.

The examiners found that policy form WI014 Wisconsin 2nd Edition/94-1922 2nd edition 9-09, Coverage C-1 Underinsured Motorist Coverage, contains language that provides an additional definition of underinsured motor vehicle that lists vehicles that are not included within the definition: owned by any government unit or agency. By excluding these vehicles, the company is narrowing the definition as provided by the statute. Section 632.32 (2) (e), Wis.

Stat., as modified by 2009 WI Act 342 effective May 27, 2010, states, in part, that an underinsured motor vehicle means a motor vehicle to which all of the following apply: 1. the motor vehicle is involved in an accident with a person who has underinsured motorist coverage, 2. at the time of the accident, a bodily injury liability insurance policy applies to the motor vehicle or the owner or operator of the motor vehicle has furnished proof of financial responsibility for the future under subch. III of ch. 344 and it is in effect or is a self-insurer under another applicable motor vehicle law, 3. the limits under the bodily injury liability insurance policy or with respect to the proof of financial responsibility or self-insurance are less than the amount needed to fully compensate the insured for his or her damages. 2011 WI Act 14 repeals s. 632.32 (2) (e), Wis. Stat., in its entirety, effective for newly issued and renewed policies on or after November 1, 2011.

24. Recommendation: In lieu of revising form WI014 Wisconsin 2nd Edition/94-1922 2nd edition 9-09, Coverage C-1 Underinsured Motorist Coverage to amend its definition of underinsured motor vehicle in order to comply with 2009 WI Act 28, as modified by 2009 WI Act 342, it is recommended that the company develop and implement a written procedure to ensure claims for automobile policies newly issued or renewed on or after November 1, 2009 and before November 1, 2011 are adjusted using the definition of underinsured motor vehicle in compliance with s. 632.32 (2) (e), Wis. Stat.

The examiners found that policy form WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09, Endorsement Amending Part II – Uninsured Motorist and form WI014 Wisconsin 2nd Edition/94-1922 2nd edition 9-09, Coverage C-1 Underinsured Motorist Coverage, both have Additional Definitions that state: 'Motor vehicle means a land motor vehicle or a trailer but does not mean a vehicle: a. Operated on rails and crawler-treads.' and 'c. Located for use as a residence or premise. By excluding these vehicles, the company is narrowing the definition as provided by the statute. Section 632.32 (2) (at), Wis. Stat., as modified by 2009 WI Act 342 effective May 27, 2010, defines a motor vehicle as a self-propelled land motor vehicle designed for travel on public roads and subject to motor vehicle registration under ch 341. A trailer or semitrailer that is designed for use with and connected to a motor vehicle shall be considered a

single unit with the motor vehicle. 'Motor vehicle' does not include farm tractors, well drillers, road machinery, or snowmobiles. Chapter 341 uses definitions set forth in ch. 340. Section 340.01 (35), Wis. Stat., defines a 'motor vehicle' as a vehicle, including a combination of two or more vehicles or an articulated vehicle, which is self-propelled, except a vehicle operated exclusively on a rail. The company's exemption to the definition is not limited to vehicles that are operated exclusively on a rail.

25. Recommendation: It is recommended that the company revise its policy forms WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09 and WI014 Wisconsin 2nd Edition/94-1922 2nd edition 9-09 to amend its definition of a motor vehicle in order to comply with s. 632.32 (2) (at), Wis. Stat., as modified by 2009 WI Act 342, and 340.01 (35), Wis. Stat.

Claims

The examiners reviewed the company's claims practices and procedures for compliance in part, by review of the company's Claims interrogatory responses. No exceptions were found.

When settling claims the company's first contact to report a claim is their HelpPoint Claim Service, which is available at all times. They advised the Milwaukee Field Claims Center is responsible for the investigation and disposition of personal automobile claims for the state of Wisconsin. This department processes first (insured) physical damage and third (claimant) party property damage automobile claims in Wisconsin, as well as third party bodily injury claims and first party UM and UIM claims involving personal lines policies. Responsibilities for auto damage claims include: customer contact, inspection and estimation of vehicle damages, explanation of coverage and benefits to customers, and payment of claims. Responsibilities for liability/injury claims include coverage investigations, liability investigations, explanation of coverage and benefits to customers, and evaluation of first party UM and UIM and third party BI claims.

Further, the Milwaukee Field Claims Center is responsible for handling property claims that are reported and fit pre-defined criteria which require the need for field handling.

The company's National Property Claims (NPC), National Theft, Large Property Center Of Excellence and Advanced Property Centers Of Excellence sections all handle homeowners' property claims in the state of Wisconsin.

The examiners reviewed both homeowners and private passenger automobile claim files. The files consisted of one hundred (100) homeowner's closed with payment claim files, fifty (50) homeowners closed without pay claim files, fifty (50) private passenger automobile closed with payment, and fifty (50) private passenger automobile closed without payment claim files were reviewed. Fifty (50) subrogation claim files were also reviewed. The following exceptions were noted.

The examiners found two (2) subrogation files where the company received and retained payment when subrogating the claims and the insured was not reimbursed their deductible before the company retained the subrogation payments that were collected. The Wisconsin Supreme Court decision of Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263, provides in part, an insurer has the right to subrogation collections after the insured is made whole.

26. Recommendation: It is recommended the company first pay back an insured's deductible when a claim is subrogated before the company retains collected subrogation payments in accordance with the Wisconsin Supreme Court decision of Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

The examiners found three (3) claim files where a claim, or portion thereof, was not paid within 30 days after the insurer was furnished written notice of a covered loss and the amount of the loss. Section 628.46, Wis. Stat., states, in part, that a claim shall be overdue if not paid within 30 days after the insurer is furnished written notice of the facts of a covered loss and of the amount of the loss. All overdue payments shall bear simple interest at the rate of 12% per year.

27. Recommendation: It is recommended that the company develop and implement an audit procedure to make certain interest is paid on all overdue claims in order to ensure compliance with s. 628.46, Wis. Stat.

IV. CONCLUSION

A total of twenty-seven (27) recommendations were produced as result of this targeted market conduct examination relating to the company's need to amend their procedures and practices in the areas of underwriting, rates & rate rules, producer licensing, forms, and claims.

A total of eighteen (18) recommendations were required to address the company's noncompliant response for its business practices in underwriting. Six (6) of the underwriting recommendations relate to the company's need to amend its rates and rules. Two (2) recommendations relate to the company's need to revise agent licensing reporting practices. Six (6) recommendations relate to the company's need to file and revise forms. Two (2) recommendations relate to the company's need to revise its claim practices.

The company needs to revise its implementation of underwriting rules and practices to ensure the company is issuing the correct limits for UM, UIM and MedPay to conform s. 632.32, Wis. Stat., that pertain to the higher UM, UIM, and MedPay limits for private passenger automobile coverage as well as the mandated requirement to issue UIM coverage.

The company needs to revise its procedure to ensure insureds are given a proper ten day notice of cancellation. The cancellation notice should include notice of the risk-sharing plan with adequate instructions on how to apply for the risk sharing plan that includes the risk sharing plan's correct address. The company needs to revise its business practices to correctly document its files to ensure a proper cancellation notice is sent to the insured's correct address and the cancellation reason(s) is verified to ensure the proper cancellation of coverage, which includes the need for proper verification and documentation in the company's electronic systems in order to demonstrate compliance with s. 631.36, Wis. Stat. and s. Ins 6.80 (5) (a), Wis. Adm. Code.

The company needs to revise its private passenger automobile declaration to clearly and correctly stipulate the coverage part 'underinsured motorist' UIM its UIM limit and premium to demonstrate compliance with 628.34, Wis. Stat.

The company needs to implement a practice to ensure it retains and can produce company files to ensure and demonstrate compliance with ss. 601.42, Wis. Stat. and Ins 6.80 (5) (a), Wis. Adm. Code.

The company needs to revise its procedures to ensure the company gives the proper notice when the policy is renewed to clearly state the effect of nonpayment of premium by the due date in accordance with s. 631.36 (4) (a), Wis. Stat.

The company needs to file all rates and complete supplementary rating information and issue policies using only rates that have been filed with the Commissioner: including discontinuing use of 'Accident Free" rates as a discount and revise its rate pages and rule to clearly indentify the Accident Free rate is the same as its base rate; naming its surcharge factor(s) for risk with one accident and correct the conflicting rate factors in its rule and rate filing then file the revised rule and rate; ensure the company includes all rating factors in its rate tables filed with all rates and rules filings and that the 'Product & Underwriting Guide' provide complete supplementary rating information; revise its definition of its 'Commuter Adult Rate Class in the Classification and Rating rules to include a one-way distance of ten (10) miles to work or school; and ensure its policy processing software accurately uses the vehicle identification number information to apply the appropriate discounts to the applicable coverage in accordance with its filed rules in order to comply with ss. 625.13, and 628.34 (1), Wis. Stat.

The company needs to amend its agent appointment procedures and record keeping to accurately report its agent's appointments; revise its agent licensing reporting practices to OCI to ensure it has accurate data when responding to requests for data for its agent licensing appointments and terminations; and report to OCI within fifteen (15) days after the earlier of the date the agent contract is executed or the first insurance application is submitted in order to

ensure that business is only accepted from licensed and appointed agents in order to comply with ss. Ins 6.57 (1), Wis. Adm. Code and s. 628.11, Wis. Stat .

The company needs to revise its form filing procedures to ensure the company is using only forms that comply with Wisconsin's regulations and is able to retain and retrieve its form filing submission until all exposure on the risks insured against are terminated in order to demonstrate compliance with s. Ins 6.05 (5), Wis. Adm. Code.

The company needs to amend its form WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09, Endorsement Amending Part II – Uninsured Motorist to amend its definition of uninsured motor vehicle to comply with s. 632.32 (2) (g) 2, Wis. Stat. The company needs to reform its form WI014 Wisconsin 2nd Edition/94-1922 2nd Edition 9-09, Coverage C-1 Underinsured Motorist Coverage to ensure claims for automobile policies newly issued or renewed on or after November 1, 2009 and before November 1, 2011 are adjusted using its the definition of underinsured motor vehicle in compliance with s. 632.32 (2) (e), Wis. Stat. Further both forms need to be amended to define a motor vehicle in accordance with s. 632.32 (2) (at), Wis. Stat., as modified by 2009 WI Act 342, and 340.01 (35), Wis. Stat.

The company needs to revise its business practice to ensure an insured is made whole and returns the insured's deductible when subrogating a claim to comply with the Wisconsin court decision of Rimes v State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

The company needs to provide prompt payment when settling claims or provide interest when due in accordance with claim files where a claim, or portion thereof, was not paid within 30 days after the insurer was furnished written notice of a covered loss in order to demonstrate compliance with s. 628.46, Wis. Stat.

V. SUMMARY OF RECOMMENDATIONS

UNDERWRITING & RATING

- Page 7 1. It is recommended that the company issue private passenger automobile coverage with uninsured motorist coverage, in limits of at least \$100,000 per person and \$300,000 per accident, to ensure compliance with s. 632.32 (4) (a) 1, Wis. Stat.
- Page 8 2. It is recommended that the company issue private passenger automobile coverage with underinsured motorist coverage in limits of at least \$100,000 per person and \$300,000 per accident to ensure compliance with s. 632.32 (4) (a) 2m, Wis. Stat.
- Page 8 3. It is recommended that the company issue private passenger automobile coverage with medical payments coverage in limits of at least \$10,000 per person to ensure compliance with s. 632.32 (4) (a) 3m, Wis. Stat.
- Page 9 4. It is recommended that the company provide a ten day notice of cancellation with adequate instructions to the policyholder for applying for insurance through the Wisconsin Insurance Plan and that the notice contain the Plan's correct address in order to comply with ss. 631.36 (2) (b) and (7), Wis. Stat.
- Page 9 5. It is recommended that the company revise its procedures to verify an insured's address is correct when canceling a policy to ensure proper notice is given to the policyholder at their correct address in order to demonstrate compliance with s. 631.36 (2), Wis. Stat.
- Page 10 6. It is recommended that the company accurately document company operations to verify and confirm the company's system cancellation reason (cancellation code) corresponds to the documented policy cancellation reason in order to ensure compliance with s. 631.36, Wis. Stat.
- Page 10 7. It is recommended that when an insured requests a cancellation that the company documents and maintains its records for its policy's files as required by s. Ins 6.80 (5) (a), Wis. Adm. Code, in order to be able to provide documentation that the company is complying with s. 631.36, Wis. Stat.
- Page 10 8. It is recommended that the company change its private passenger automobile declaration form so it will clearly and correctly stipulate the Underinsured Motorist coverage, its limit and premium in order to demonstrate compliance with s. 628.34 (1) (a), Wis. Stat.
- Page 11 9. It is recommended that the company revise its binder language in its Memorandum of Auto Insurance and Memorandum of Fire Insurance forms to provide for the same policy term as the policy to ensure compliance with the Wisconsin Supreme Court decision, Terry v. Mongin, 105 Wis. 2d 575.
- Page 11 10. It is recommended the company develop, implement and follow a protocol to ensure its records are properly retained and retrievable to enable the

company to demonstrate compliance with ss. 601.42, Wis. Stat and Ins 6.80 (5) (a), Wis. Adm. Code.

- Page 12 11. It is recommended that when offering to renew a policy, the company amend its renewal offer by including language that states clearly the effect of nonpayment of premium by the due date in order to comply with s. 631.36 (4) (a), Wis. Stat.
- Page 13 12. It is recommended that the company file all rates and complete supplementary rating information and issue policies using only rates that have been filed with the commissioner in order to comply with s. 625.13 (1), Wis. Stat.
- Page 14 13. It is recommended that the company discontinue referring to the Accident Free rates as a discount and revise its rate pages and rule to clearly identify the Accident Free rates as the same as its base rates, in order to comply with s. 628.34 (1), Wis. Stat. It is also recommended that the company file the revised rule and rates with the Commissioner in order to comply with s. 625.13 (1), Wis. Stat.
- Page 15 14. It is recommended that the company consistently name its surcharge factor(s) for risks with one accident and correct the conflicting rate factors in its rule and rate filing and file the revised rule and rate with the Commissioner in order to comply with ss. 628.34 (1) and 625.13 (1), Wis. Stat.
- Page 15 15. It is recommended that the company ensure all rating factors are included in the rate tables filed with all rate and rule filings and that the 'Product & Underwriting Guide' provide complete supplementary rating information in order to comply with s. 625.13 (1), Wis. Stat.
- Page 15 16. It is recommended that the company revise its definition for its Commuter Adult Rate Class in the Classification and Rating rules to include a one-way distance of 10 miles to work or school in order to demonstrate compliance with s. 625.13 (1), Wis. Stat.
- Page 16 17. It is recommended that the company ensure its policy processing software accurately uses vehicle identification number information to apply the appropriate discounts to the applicable coverage in accordance with its filed rules in order to comply with s. 625.13 (1), Wis. Stat.

PRODUCER LICENSING

- Page 17 18. It is recommended that the company amend its agent appointment procedures and record keeping to accurately report its agent's appointment in accordance with s. Ins 6.57 (1), Wis. Adm. Code.
- Page 17 19. It is recommended that the company revise its agent licensing reporting practices to OCI to ensure it has accurate data when responding to requests for data for its agent licensing appointments and terminations in order to demonstrate compliance with s. 628.11, Wis. Stat.

POLICY FORMS & RATES

- Page 18 20. It is recommended that the company maintain a file of all forms approved for use in Wisconsin until all exposure on the risks insured against have terminated in order to ensure compliance with s. Ins 6.05 (5), Wis. Adm. Code.
- Page 19 21. It is recommended that the company revise forms 56-5270 Special Form Homeowners, 56-5272 Townhouse and Condominium Owners, 56-5273 Broad Form Renters Policy, 56-5274 Protector Plus Homeowners, 56-5548 Farmers Next Generation Homeowners Policy, 56-5083 EZReader Motorcycle Policy, 56-5275 Auto Policy and 56-5052 WI EZReader Car to reflect the company's current procedures for calculating a prorata premium refund to ensure compliance with the requirements of s.628.34 (1) (a), Wis. Stat.
- Page 19 22. It is recommended that the company file its current rate and manual pages for forms 56-5270 Special Form Homeowners, 56-5272 Townhouse and Condominium Owners, 56-5273 Broad Form Renters Policy, 56-5274 Protector Plus Homeowners, 56-5548 Farmers Next Generation Homeowners Policy, 56-5083 EZReader Motorcycle Policy, 56-5275 Auto Policy and 56-5052 WI EZReader Car, to reflect its current rules in use to ensure compliance with s. 625.13 (1), Wis. Stat.
- Page 21 23. It is recommended that the company revise form WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09, Endorsement Amending Part II - Uninsured Motorist to amend its definition of uninsured motor vehicle for policies newly issued and renewed on or after November 1, 2011, in order to comply with s. 632.32(2) (g) 2, Wis. Stat. of 2011 WI Act 14 and refile the revised policy forms with the commissioner.
- Page 22 24. In lieu of revising form WI014 Wisconsin 2nd Edition/94-1922 2nd edition 9-09, Coverage C-1 Underinsured Motorist Coverage to amend its definition of underinsured motor vehicle in order to comply with 2009 WI Act 28, as modified by 2009 WI Act 342, it is recommended that the company develop and implement a written procedure to ensure claims for automobile policies newly issued or renewed on or after November 1, 2009 and before November 1, 2011 are adjusted using the definition of underinsured motor vehicle in compliance with s. 632.32 (2) (e), Wis. Stat.
- Page 23 25. It is recommended that the company revise its policy forms WI013 Wisconsin 2nd Edition/94-1921 2nd Edition 9-09 and WI014 Wisconsin 2nd Edition/94-1922 2nd edition 9-09 to amend its definition of a motor vehicle in order to comply with s. 632.32 (2) (at) Wis. Stat., as modified by 2009 WI Act 342, and 340.01 (35), Wis. Stat.

CLAIMS

- Page 24 26. It is recommended the company first pay back an insured's deductible when a claim is subrogated before the company retains collected subrogation payments in accordance with the Wisconsin Supreme Court decision of

Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

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27. It is recommended that the company develop and implement an audit procedure to make certain interest is paid on all overdue claims in order to ensure compliance with s. 628.46, Wis. Stat.

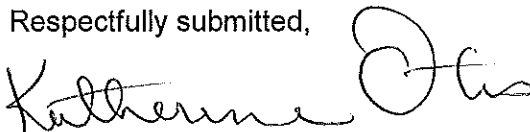
VI. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition, to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

| <u>Name</u> | <u>Title</u> |
|--------------------|--------------------|
| Karen Becker | Insurance Examiner |
| Barry Haney | Insurance Examiner |
| Ellen Schwartz MCM | Insurance Examiner |
| Gary Morris | Insurance Examiner |

Respectfully submitted,



Katherine Otis MCM
Examiner-in-Charge