



FARMERS

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December 22, 2011

Office of the Commissioner of Insurance  
State of Wisconsin  
125 South Webster  
Madison, WI 53707-7873

ATTN: Susan Ezalarab, CIE, CPCU, FMLI, MCM  
Director, Bureau of Market Regulation

RE: Market Conduct Examination  
Farmers Insurance Exchange  
July 1, 2008 – December 31, 2009

Dear Ms. Ezalarab:

Thank you for the opportunity to provide OCI with our response to the final report for the above examination. Per your letter dated November 9, 2011, we wish to have OCI include this response on its website as a separate document to the final report.

Set forth below in bold print are the specific recommendations in the report followed by our comments in regular type.

**Recommendation #1: Page 7 - It is recommended that the company issue private passenger automobile coverage with uninsured motorist cover, in limits of at least \$100,000 per person and \$300,000 per accident to ensure compliance with s. 632.32 (4) (a), Wis. Stat.**

Response: Coverage has been updated on the two policies cited. However, the Company notes that this provision was repealed by Act 14 of 2011 and the issuance of policies with uninsured limits less than \$100,000 are now in compliance with current Wisconsin law.

**Recommendation #2: Page 8 - 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.**

Response: Coverage has been updated on the two policies cited. However, the Company notes that this provision was repealed by Act 14 of 2011 and the issuance of policies with uninsured limits less than \$100,000 are now in compliance with current Wisconsin law.

**Recommendation #3: Page 8 - 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.**

Response: Coverage has been updated. However, the Company notes that this provision was repealed by Act 14 of 2011 and the issuance of policies with medical payments coverage limits less than \$10,000 are now in compliance with current Wisconsin law.

**Recommendation #4: Page 9 - 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. 631.35 (2) (b) and (7), Wis. Stat.**

Response: It is the Company's practice to provide a ten day notice of cancellation, when appropriate, with adequate instructions to the policyholder for applying for insurance through the Wisconsin Insurance Plan. The Company has updated the address for the Wisconsin Insurance Plan as of April 2010.

**Recommendation #5: Page 9 - 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.**

Response: Procedures have been validated and are in place to require verification of an insured's address.

**Recommendation #6: Page 10 - 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. 632.36, Wis. Stat.**

Response: System modifications have been validated to confirm that system cancellation reason codes correspond to the documented policy cancellation reasons.

**Recommendation #7: Page 10 - 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.**

Response: The Company has reinforced document retention protocol with our agency force via Breaking News Bulletin 10-0942, December 2010.

**Recommendation #8: Page 10 - 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.**

Response: The Company agrees to amend the declaration form for Underinsured Motorist coverage.

**Recommendation #9: Page 11 - 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.**

Response: The Company will reinsert the language in the binder, as of April 2012, indicating that the 60 day period of coverage does not apply in Wisconsin.

**Recommendation #10: Page 11 - 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. Stats. And Ins 6.80 (5) (a), Wis. Adm. Code.**

Response: The Company has reinforced our record keeping protocol.

**Recommendation #11: Page 12 - 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.**

Response: The Company will provide the required statement at the time of renewal.

**Recommendation #12: Page 13 - 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.**

Response: The Company agrees to follow our normal business practice to file all rates and complete supplementary rating information.

**Recommendation #13: Page 14 - 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.**

Response: The Company has revised the rate and rule pages as of November 2011.

**Recommendation #14: Page 15 - 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.**

Response: The Company has corrected the rate factors in the rule and rate filing as of November 2011.

**Recommendation #15: Page 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 information in order to comply with s. 625.13 (1), Wis. Stat.**

Response: The Company has filed the supplementary information as of August 2010.

**Recommendation #16: Page 15 - 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.**

Response: The Company has revised its definition for Commuter Adult Rate Class as of August 2010.

**Recommendation #17: Page 16 - 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.**

Response: The Company ensures its policy processing software accurately uses vehicle identification number information to accurately apply the appropriate discounts.

**Recommendation #18: Page 17 - 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.**

Response: The Company has reviewed its appointment and record keeping procedures for accuracy. Our agency appointment/termination operations have well trained licensing coordinators that follow the specific appointment and termination procedures as applies to the State of Wisconsin OCI. We firmly believe we have remained consistent in following both our internal and state compliance procedures and rules.

**Recommendation #19: Page 17 - 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 appointment and terminations in order to demonstrate compliance with s. 628.11. Wis. Stat.**

Response: The Company has reviewed reporting practices to ensure accurate data reporting.

**Recommendation #20: Page 18 - 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.

Response: The Company agrees to maintain a file of approved forms.

**Recommendation #21: Page 19 - 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 WWI EZReader Car to reflect the company's current procedures for calculating a prorate premium refund to ensure compliance with the requirements of s. 625.13 (1) Wis. Stat.**

Response: The Company has scheduled revision of this language in our Auto lines as of November 2011 and our Home lines as of June 2012.

**Recommendation #22: Page 19 - 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 WWI EZReader Car to reflect its current rules in use to ensure compliance with s. 625.13 (1), Wis. Stat.**

Response: The Company has scheduled the inclusion of this language in our Auto lines as of November 2011 and our Home lines as of June 2012.

**Recommendation # 23: Page 21 - It is recommended that the company revise form WI013 Wisconsin 2<sup>nd</sup> Editions/94-1921 2<sup>nd</sup> 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 refuel the revised policy forms with the commissioner.**

Response: The Company has scheduled the revision of this language as of November 2011.

**Recommendation #24: Page 22 - In lieu of revising form WI014 Wisconsin 2<sup>nd</sup> Edition/94-1922 2<sup>nd</sup> 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.**

Response: The Company has developed a procedure to ensure claims are adjusted correctly for policies issued or renewed on or after November 1, 2009 and before November 1, 2011.

**Recommendation # 25: Page 23 - It is recommended that the company revise its policy forms WI013 Wisconsin 2<sup>nd</sup> Edition.94-1921 2<sup>nd</sup> Edition 9-09 and WI014 Wisconsin 2<sup>nd</sup> Edition/94-1922 2<sup>nd</sup> Edition 9-09 to amend its definitions of a motor vehicle in order to comply with s. 632.32 (2) (a) Wis. Stat., as modified by 2009 WI Act 342, and 340.01 (35), Wis. Stat.**

Response: The Company has amended the forms as of November 2011.

**Recommendation #26: Page 24 - 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.**

Response: The Company acknowledges this recommendation and has procedures in place to ensure compliance.

**Recommendation #27: Page 24 - 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.**

Response: The Company acknowledges this recommendation and has procedures in place to ensure compliance.

Thank you for the opportunity to provide our comments. We also wish to thank you for your cooperativeness and reasonableness during discussions throughout the entire process.

Very truly yours,

Burt H. Garavaglia  
Assistant Vice President  
Regulatory Affairs  
Farmers Group, Inc.