

MARKET CONDUCT EXAMINATION REPORT

OF

FARMERS INSURANCE EXCHANGE

MID-CENTURY INSURANCE COMPANY

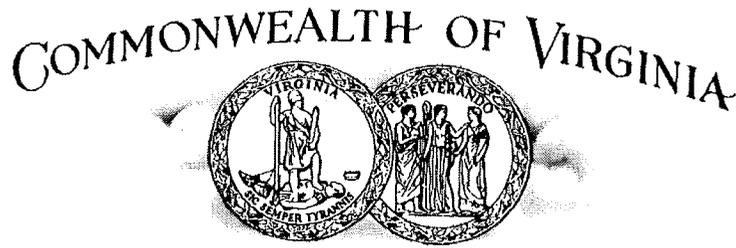
AS OF

DECEMBER 31, 2009

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

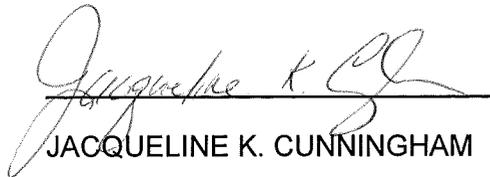


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**STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of **Farmers Insurance Exchange** and **Mid-Century Insurance Company** as of December 31, 2009, which took place at the companies' office in Austin, Texas is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' final response to the findings set forth therein, and of the Bureau's letter and the Order of the State Corporation Commission finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this 28th day of March, 2012.

A handwritten signature in black ink, appearing to read "Jacqueline K. Cunningham", is written over a horizontal line. The signature is fluid and cursive.

JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

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TABLE OF CONTENTS

INTRODUCTION	1
COMPANY PROFILES	1
SCOPE OF THE EXAMINATION	4
STATISTICAL SUMMARY	5
PART ONE - THE EXAMINERS' OBSERVATIONS.....	7
RATING AND UNDERWRITING REVIEW	7
Automobile New Business Policies	7
Automobile Renewal Business Policies	9
Homeowner New Business Policies.....	10
Homeowner Renewal Business Policies	12
TERMINATION REVIEW.....	13
Company-Initiated Cancellations – Automobile Policies.....	13
Notice Mailed Prior to the 60 th Day of Coverage.....	13
Notice Mailed After the 59 th Day of Coverage.....	14
All Other Cancellations – Automobile Policies.....	16
Nonpayment of the Premium.....	16
Requested by the Insured	17
Company-Initiated Non-renewals – Automobile Policies	18
Company-Initiated Cancellations – Homeowner Policies	19
Notice Mailed Prior to the 90 th Day of Coverage.....	19
Notice Mailed After the 89 th Day of Coverage.....	20
All Other Cancellations – Homeowner Policies	22
Nonpayment of the Premium.....	22
Requested by the Insured	23
Company-Initiated Non-renewals – Homeowner Policies.....	24
CLAIMS REVIEW.....	25
Automobile Claims.....	25

Homeowner Claims	30
REVIEW OF FORMS	32
Automobile Policy Forms	32
Policy Forms Used During the Examination Period	32
Policy Forms Currently Used.....	33
Homeowner Policy Forms.....	33
Policy Forms Used During the Examination Period	33
Policy Forms Currently Used.....	33
REVIEW OF THE POLICY ISSUANCE PROCESS.....	33
Automobile Policies	34
New Business Policies	34
Renewal Business Policies.....	34
Homeowner Policies	34
New Business Policies	34
Renewal Business Policies.....	35
REVIEW OF STATUTORY NOTICES	35
General Statutory Notices.....	35
Statutory Vehicle Notices.....	36
Statutory Property Notices	36
Other Notices.....	36
LICENSING AND APPOINTMENT REVIEW	37
Agent.....	37
Agency	37
REVIEW OF THE COMPLAINT-HANDLING PROCESS.....	37
REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES.....	38
PART TWO – CORRECTIVE ACTION PLAN	39
General.....	39
Rating and Underwriting Review.....	39

Termination Review	40
Claims Review	42
Forms Review.....	43
Review of Policy Issuance Process.....	44
Review of Statutory Notices	44
Licensing and Appointment Review	45
Review of the Complaint-Handling Process	45
PART THREE – EXAMINERS’ NOTES	46
Rating and Underwriting	46
Termination.....	46
Claims	46
Notices	47
RECOMMENDATIONS	47
Rating and Underwriting	47
Terminations.....	47
Claims	48
Forms	48
Policy Issuance Process.....	49
Statutory Notices	49
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	49
ACKNOWLEDGEMENT	51

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger automobile and homeowner lines of business written by Farmers Insurance Exchange and Mid-Century Insurance Company at their office in Austin, Texas.

The examination commenced October 18, 2010 and concluded January 3, 2011. Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Richard L. Howell, Edwin N. Millan, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joy M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on December 15, 2009 and was assigned the examination number of VA199-M13. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Farmers Insurance Exchange was organized on March 28, 1928, under the Reciprocal or Inter-Insurance Act of California and commenced business on April 6, 1928 with the title Farmers Automobile Inter-Insurance Exchange. The present title was adopted on May 1, 1947. Farmers Insurance Exchange is a reciprocal insurer owned by its policyholders. Farmers Group, Inc. DBA Farmer Underwriters Association is the attorney-in-fact for Farmers Insurance Exchange. Farmers Insurance Exchange is licensed in the District of Columbia and 45 states.

Mid-Century Insurance Company was incorporated on December 3, 1949, under the laws of California and began operations on February 17, 1953. The company is licensed in the District of Columbia and 47 states.

* Source: Best's Insurance Reports, Property & Casualty, 2010 Edition.

The companies are based in Los Angeles, California.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date the companies were licensed in Virginia except as noted in the table.

GROUP CODE: 0212	FARMERS	MID-CENTURY
NAIC Company Number	21652	21687
LICENSED IN VIRGINIA	05/21/1954	05/29/1975
LINES OF INSURANCE		
Accident and Sickness		
Aircraft Liability	X	
Aircraft Physical Damage		
Animal	10/30/2008	10/30/2008
Automobile Liability	X	11/30/1992
Automobile Physical Damage	X	11/30/1992
Boiler and Machinery	11/01/1994	11/01/1994
Burglary and Theft	11/01/1994	11/30/1992
Commercial Multi-Peril	11/30/1992	11/30/1992
Credit		
Farmowners Multi-Peril	11/30/1992	11/01/1994
Fidelity	11/01/1994	11/30/1992
Fire	11/30/1992	11/30/1992
General Liability	X	11/30/1992
Glass	11/30/1992	11/30/1992
Home Protection	12/30/1999	
Homeowner Multi-Peril	11/30/1992	08/28/2007
Inland Marine	X	11/30/1992
Miscellaneous Property	11/30/1992	11/30/1992
Ocean Marine		11/01/1994
Surety	11/01/1994	11/30/1992
Water Damage		
Workers' Compensation	11/01/1994	X

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2009 for the lines of insurance included in this examination.* This business was developed through captive agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Farmers Insurance Exchange		
Private Automobile Liability	\$20,091,569	0.86%
Private Automobile Physical Damage	\$11,807,678	0.69%
Homeowner	\$30,934,154	1.99%
Mid-Century Insurance Company		
Private Automobile Liability	\$5,664,492	0.45%
Private Automobile Physical Damage	\$2,239,156	0.24%
Homeowner	\$7,053,889	0.13%

* Source: The 2009 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile and homeowner lines of business written in Virginia for the period beginning January 1, 2009 and ending December 31, 2009. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent licensing, complaint-handling and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with the public interest. The Report is by test and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Examiners' Notes. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice. These violations are the basis for any settlement offer that is made by the Bureau of Insurance (Bureau) as a result of this Report.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the companies' practices that are not violations of Virginia insurance laws, but require some

* Policies reviewed under this category reflected the companies' current practices and, therefore, fell outside of the examination period.

action by the companies. This section does not form the basis of any settlement offer made by the Bureau.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	Population Sample Requested			FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	Farmers	Mid- Century	TOTAL				
Private Passenger Auto							
New Business ¹	<u>6973</u> 20	<u>2168</u> 15	<u>9141</u> 35	32	0	31	97%
Renew al Business ¹	<u>89471</u> 25	<u>13907</u> 25	<u>103378</u> 50	41	0	30	73%
Co-Initiated Cancellations ²	<u>458</u> 15	<u>97</u> 10	<u>555</u> 25	21	0	19	90%
All Other Cancellations ²	<u>17408</u> 20	<u>5051</u> 20	<u>22459</u> 40	41	0	25	61%
Nonrenew als ²	<u>611</u> 5	<u>125</u> 5	<u>736</u> 10	9	0	6	67%
Homeowner							
New Business ³	<u>51</u> 10	<u>5571</u> 15	<u>5622</u> 25	21	0	21	100%
Renew al Business ³	<u>26894</u> 25	<u>4185</u> 15	<u>31079</u> 40	39	0	17	44%
Co-Initiated Cancellations ²	<u>669</u> 15	<u>621</u> 20	<u>1290</u> 35	33	0	30	91%
All Other Cancellations ²	<u>3699</u> 21	<u>1299</u> 15	<u>4998</u> 36	35	0	19	54%
Nonrenew als ²	<u>493</u> 5	<u>32</u> 5	<u>525</u> 10	11	0	9	82%
Claims							
Auto ⁴	<u>7937</u> 75	<u>1690</u> 60	<u>9627</u> 135	134	0	79	59%
Property	<u>2873</u> 53	<u>439</u> 34	<u>3312</u> 87	87	0	40	46%

Footnote ¹ Some policies were not reviewed because they were flat cancelled, rewritten, or were not private passenger automobile policies.

Footnote ² The companies were unable to provide accurate population files and the cancellations were mislabeled and shown in incorrect categories; as such some files were moved to and reviewed in the correct category and others were not reviewed.

Footnote ³ Some policies were not reviewed because they were flat cancelled.

Footnote ⁴ One claim was from a Minnesota policy and was not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau requested 35 new business policy files for review. The examiners reviewed 32 of these files. Two policies were cancelled flat and not reviewed. One policy insured an antique automobile was not reviewed. As a result of this review, the examiners found overcharges totaling \$2,109.69 and undercharges totaling \$407.20. The net amount that should be refunded to insureds is \$2,109.69 plus six percent (6%) simple interest.

- (1) The examiners found 35 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute.
 - a. In nine instances, the company failed to include all applicable information on the declarations page.
 - b. In 19 instances, the company failed to list all forms applicable to the policy on the declarations page.
 - c. In seven instances, the company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found 17 violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company failed to include the policy fee in the Total

Premium Amount shown on the declarations page.

- (3) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured written Notice of an Adverse Underwriting Decision (AUD). The company issued the policy with a higher premium based upon information that differed from that which the insured furnished on the application.
- (4) The examiners found 21 violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application and/or the confirmation of coverage form.
- (5) The examiners found 31 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In nine instances, the company failed to use the correct discounts and/or surcharges.
 - b. In seven instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In five instances, the company failed to use the correct symbols.
 - d. In one instance, the company failed to use the correct driver classification factor.
 - e. In seven instances, the company failed to use the correct base and/or final rates.
 - f. In one instance, the company failed to charge its filed SR-22 fee.
 - g. In one instance, the company failed to follow its filed rules when rating a trailer.

- (6) The examiners found 22 violations of § 38.2-2234 A of the Code of Virginia. The company failed to provide the credit score disclosure notice at the time of application.
- (7) The examiners found two violations of § 38.2-2234 B of the Code of Virginia. The company failed to properly rate the policy as required using the credit information obtained.

Automobile Renewal Business Policies

The Bureau requested 50 renewal business policy files for review. The examiners reviewed 41 of these files. Six policies were cancelled flat or rewritten and not reviewed. Three policies were motorcycle policies and were not reviewed. As a result of this review, the examiners found overcharges totaling \$3,100.00 and undercharges totaling \$916.00. The net amount that should be refunded to insureds is \$3,100.00 plus six percent (6%) simple interest.

- (1) The examiners found 30 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute.
 - a. In 11 instances, the company failed to include all applicable information on the declarations page.
 - b. In 16 instances, the company failed to list all forms applicable to the policy on the declarations page.
 - c. In three instances, the company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found two violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information. The company failed to file a rule to cap renewal premiums.

- (3) The examiners found 32 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In two instances, the company failed to use the correct discounts and/or surcharges.
 - b. In six instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In two instances, the company failed to use the correct symbols.
 - d. In one instance, the company failed to use the correct territory.
 - e. In four instances, the company failed to use the correct tier eligibility criteria.
 - f. In one instance, the company failed to use the correct driver classification factor.
 - g. In 14 instances, the company failed to use the correct base and/or final rates.
 - h. In two instances, the company failed to use the correct deductible factors.

Homeowner New Business Policies

The Bureau requested 25 new business policy files for review. The examiners reviewed 21 of these files. Four files were cancelled by the insured before the policy came into effect and not reviewed. As a result of this review, the examiners found overcharges totaling \$366.09 and undercharges totaling \$1,379.54. The net amount that should be refunded to insureds is \$366.09 plus six percent (6%) simple interest.

- (1) The examiners found 20 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute.

- a. In seven instances, the company failed to include all applicable information on the declarations page.
 - b. In 13 instances, the company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company failed to include the policy fee in the Total Premium Amount shown on the declarations page.
- (3) The examiners found 11 violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application and/or the confirmation of coverage form.
- (4) The examiners found 34 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In two instances, the company failed to use the correct discounts and/or surcharges.
 - b. In nine instances, the company failed to use the correct base and/or final rates.
 - c. In three instances, the company failed to use the correct construction type.
 - d. In seven instances, the company failed to follow its filed premium determination rule.
 - e. In eight instances, the company failed to charge its filed policy fee.
 - f. In five instances, the company failed to use the filed rules when rating its Market Value Program policies.
- (5) The examiners found five violations of § 38.2-2112 A of the Code of Virginia.

The company used a binder for more than 60 days after the effective date of coverage.

- (6) The examiners found 12 violations of § 38.2-2126 A of the Code of Virginia. The company failed to provide the credit score disclosure notice at the time of application.

Homeowner Renewal Business Policies

The Bureau requested 40 renewal business policy files for review. The examiners reviewed 39 of these files. One policy was cancelled flat and not reviewed. As a result of this review, the examiners found overcharges totaling \$134.73 and undercharges totaling \$2,703.44. The net amount that should be refunded to insureds is \$134.73 plus six percent (6%) simple interest.

- (1) The examiners found 14 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by the statute. The company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of its insurance policy. The company failed to show the liability coverage on the declarations page.
- (3) The examiners found 14 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In four instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct territory.
 - c. In seven instances, the company failed to use correct base and/or final

rates.

- d. In one instance, the company failed to use the correct public protection classification.
- e. In one instance, the company failed to use the filed rules when rating the Other Structures coverage.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau requested ten automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. The examiners reviewed nine of these files. One cancellation was requested by the insured and was not reviewed. As a result of this review, the examiners found no overcharges and undercharges totaling \$7.96.

- (1) The examiners found five violations of § 38.2-304 of the Code of Virginia. The company used a binder for longer than 60 days after the effective date of coverage.
- (2) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (3) The examiners found two violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the

insured.

- (4) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain a copy of the cancellation notice sent to the insured.
 - b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.
- (5) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to send the cancellation notice to the insured when coverage had been in effect less than 60 days.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested 15 automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. The examiners reviewed 17 of these files. One file cancelled for nonpayment of premium and was not reviewed. One file cancelled flat and was not reviewed. One file was moved and reviewed under the Insured Requested Cancellation category. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-304 of the Code of Virginia. The company used a binder for longer than 60 days after the effective date of coverage.
- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (3) The examiners found three violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

- (4) The examiners found six violations of § 38.2-2208 B of the Code of Virginia.
- a. In two instances, the company failed to retain a copy of the cancellation notice sent to the insured.
 - b. In three instances, the company failed to retain proof of mailing the cancellation notice to the insured.
 - c. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
- (5) The examiners found three violations of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy for a reason not permitted by the Code of Virginia.
- (6) The examiners found 13 violations of § 38.2-2212 E of the Code of Virginia.
- a. In one instance, the company failed to send the insured written notice of cancellation of his motor vehicle policy prior to the effective date of cancellation.
 - b. In three instances, the company failed to mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.
 - c. In one instance, the company failed to state the specific reason for canceling the policy.
 - d. In four instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - e. In four instances, the company failed to advise the insured of the availability of other insurance through his agent, another insurer or the Virginia Automobile Insurance Plan (VAIP).

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following is a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days after canceling the policy as required by the Virginia Motor Vehicle Code.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested 20 automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all of these files. As a result of this review, the examiners found overcharges totaling \$360.00 and no undercharges. The net amount that should be refunded to insureds is \$360.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (3) The examiners found eight violations of § 38.2-2208 B of the Code of Virginia.
 - a. In three instances, the company failed to retain proof of mailing the cancellation notice to the insured.
 - b. In three instances, the company failed to provide proper notice of cancellation to the lienholder.
 - c. In one instance, the company failed to retain a copy of the cancellation notice sent to the lienholder.
 - d. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.

- (4) The examiners found six violations of § 38.2-2212 E of the Code of Virginia.
- a. In one instance, the company failed to send the insured written notice of cancellation of his motor vehicle policy.
 - b. In two instances, the company failed to send the cancellation notice to the address listed on the policy.
 - c. In three instances, the company failed to mail the notice of cancellation at least 15 days prior to the effective date of cancellation.

REQUESTED BY THE INSURED

In addition, the Bureau requested 20 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all of these files. The examiners reviewed one additional file moved from the Notice Mailed After the 59th Day of Coverage category. As a result of this review, the examiners found no overcharges and undercharges totaling \$188.20.

- (1) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found 13 violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.
- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to honor the date of cancellation requested by the insured.
 - b. In one instance, the company failed to obtain advance written notice of cancellation from the insured.

Company-Initiated Non-renewals – Automobile Policies

The Bureau requested ten automobile nonrenewals that were initiated by the company. The examiners reviewed nine of these files. One cancellation was requested by the insured and not reviewed.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the refusal to renew notice to the insured.
- (3) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain a copy of the refusal to renew notice sent to the insured.
 - b. In one instance, the company failed to retain proof of mailing the refusal to renew notice to the insured.
- (4) The examiners found eight violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to state the effective date of the nonrenewal.
 - b. In one instance, the company failed to state the specific reason for refusing to renew the policy.
 - c. In three instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - d. In three instances, the company failed to advise the insured of the availability of other insurance through his agent, another insurer or the VAIP.

Company-Initiated Cancellations – Homeowner PoliciesNOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau requested 15 homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. The examiners reviewed all of these files. The examiners reviewed one additional file moved from the Notice Mailed After the 89th Day of Coverage category. As a result of this review, the examiners found overcharges totaling \$86.50 and no undercharges. The net amount that should be refunded to insureds is \$86.50 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of an insurance policy. The company misrepresented its name on the cancellation notice to the insured.
- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company was unable to provide a copy of the declarations page applicable to the policy period in which the policy was terminated.
- (4) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (5) The examiners found three violations of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

- (6) The examiners found 12 violations of § 38.2-2113 C of the Code of Virginia.
- a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In one instance, the company failed to retain a copy of the notice of cancellation to the lienholder.
 - c. In one instance, the company failed to retain a copy of the proof of mailing the cancellation notice to the insured.
 - d. In one instance, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
 - e. In seven instances, the company failed to retain a copy of the proof of mailing the cancellation notice to the lienholder.
 - f. In one instance, the company failed to retain a copy of the notice of cancellation to the insured.
- (7) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to send the cancellation notice to the address listed on the policy.
 - b. In one instance, the company failed to send the insured a cancellation notice when the policy had been in effect less than 90 days.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The Bureau requested 20 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. The examiners reviewed 17 of these files. One cancellation was a non-renewal and was not reviewed. One cancellation was requested by the insured and not reviewed. One file was moved to and reviewed under the Notice Mailed Prior to the 90th Day of

Coverage category. As a result of this review, the examiners found overcharges totaling \$20.84 and undercharges totaling \$20.76. The net amount that should be refunded to insureds is \$20.84 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (2) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (3) The examiners found 16 violations of § 38.2-2113 C of the Code of Virginia.
 - a. In four instances, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In one instance, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
 - c. In 11 instances, the company failed to retain a copy of the proof of mailing the cancellation notice to the lienholder.
- (4) The examiners found 14 violations of § 38.2-2114 A of the Code of Virginia.
 - a. In one instance, the company failed to send the insured written notice of cancellation of his owner-occupied dwelling policy.
 - b. In one instance, the company failed to send the cancellation notice to the name and/or address listed on the policy.
 - c. In 11 instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.
 - d. In one instance, the company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.

- (5) The examiners found 23 violations of § 38.2-2114 C of the Code of Virginia.
- a. In six instances, the company failed to provide at least 30 days' notice to the insured when the company cancelled the policy after the 89th day of coverage.
 - b. In one instance, the company failed to provide the specific reason for the cancellation of a policy insuring an owner-occupied dwelling.
 - c. In eight instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - d. In eight instances, the company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested 20 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all of these files. As a result of this review, the examiners found overcharges totaling \$31.22 and undercharges totaling \$257.69. The amount that should be refunded to insureds is \$31.22 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found 18 violations of § 38.2-2113 C of the Code of Virginia.
- a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In eight instances, the company failed to retain a copy of the proof of

- mailing the cancellation notice to the insured.
- c. In one instance, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
 - d. In eight instances, the company failed to retain a copy of the proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found five violations of § 38.2-2114 C of the Code of Virginia.
- a. In three instances, the company failed to provide at least ten days' notice to the insured when the company cancelled the policy for nonpayment of premium.
 - b. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - c. In one instance, the company failed to advise the insured of the availability of insurance through the VPIA.
- (4) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide at least ten days' notice to the lienholder when the company cancelled the policy for nonpayment of premium.

REQUESTED BY THE INSURED

The Bureau requested 16 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed 15 of these files. One file was moved to and reviewed under the Company-Initiated Non-renewals category. As a result of this review, the examiners found no overcharges and undercharges totaling \$5.97.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

- (2) The examiners found two violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.
- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to honor the date of cancellation requested by the insured.

Company-Initiated Non-renewals – Homeowner Policies

The Bureau requested ten homeowner nonrenewals that were initiated by the company. The examiners reviewed all of these files. The examiners reviewed one additional file moved from the Insured Requested Cancellation category.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (2) The examiners found three violations of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the refusal to renew notice to the insured.
- (3) The examiners found six violations of § 38.2-2113 C of the Code of Virginia.
 - a. In one instance, the company failed to retain the proof of mailing the refusal to renew notice to the insured.
 - b. In one instance, the company failed to obtain valid proof of mailing the refusal to renew notice to the lienholder.
 - c. In four instances, the company failed to retain the proof of mailing the refusal to renew notice to the lienholder.
- (4) The examiners found one violation of § 38.2-2114 B of the Code of Virginia. The company failed to send the insured a written refusal to renew notice.
- (5) The examiners found eight violations of § 38.2-2114 C of the Code of Virginia.

- a. In one instance, the company failed to provide the specific reason for nonrenewal of a policy insuring an owner-occupied dwelling.
- b. In four instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- c. In three instances, the company failed to advise the insured of the availability of insurance through the VPIA.

CLAIMS REVIEW

Automobile Claims

The examiners reviewed 134 automobile claims for the period of January 1, 2009 through December 31, 2009. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found overpayments totaling \$3,202.83 and underpayments totaling \$6,316.35 during the review of these files. The net amount that should be paid to claimants is \$5,889.35 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found nine violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
 - a. In one instance, the company failed to inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was

- applicable to the loss.
- b. In six instances, the company failed to inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
 - c. In one instance, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).
 - d. In one instance, the company failed to inform the insured of his Personal Effects coverage when the file indicated the coverage was applicable to the loss.
- (3) The examiners found ten violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- These findings occurred with such frequency as to indicate a general business practice.
- (4) The examiners found five violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (5) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (6) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial

of the claim.

- (7) The examiners found 13 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.
- a. In two instances, the company failed to pay the insured's UMPD claim properly when Collision and UMPD coverages applied to the claim.
 - b. In two instances, the company failed to pay the insured's UMPD claim properly.
 - c. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
 - d. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expense coverage.
 - e. In four instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found 11 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- a. In ten instances, the company failed to provide a copy of the estimate to the insured.

- b. In one instance, the company failed to provide a copy of the estimate to the claimant.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found eight violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

- a. In one instance, the company incorrectly informed the insured of the procedures to obtain a rental vehicle when there was no Transportation Expense coverage on the policy.

- b. In two instances, the company misinformed the insured regarding prior damage and its relationship to the lienholder.

- c. In one instance, the company failed to properly inform the insured of coverage for permanently installed stereo equipment.

- d. In one instance, the company failed to properly inform the insured of his rights with regard to the vehicle estimate and repair process.

- e. In two instances, the company misinformed the insured regarding bill reductions under the Medical Expense Benefits coverage.

- f. In one instance, the company failed to properly inform the claimant of her right to rental reimbursement.

- (10) The examiners found seven violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

- (11) The examiners found six violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and

equitable settlement of a claim in which liability was reasonably clear.

- (12) The examiners found 81 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (13) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

- (14) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company set unreasonable and/or arbitrary limits on what it would allow for reimbursement of paint and materials to repair a vehicle.

- (15) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy.

a. In three instances, the company paid an insured more than he was entitled to receive under the terms of his policy.

b. In two instances, the company issued payments under an incorrect coverage.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

- (1) The examiners found two violations of § 8.01-425.1 of the Code of Virginia. The company failed to provide the right of rescission when the claimant or insured

was not represented by an attorney.

- (2) The examiners found four violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Homeowner Claims

The examiners reviewed 87 homeowner claims for the period of January 1, 2009 through December 31, 2009. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found no overpayments and underpayments totaling \$5,057.07 during the review of these files. The net amount that should be paid to claimants is \$ 5,057.07 plus six percent (6%) simple interest.

- (1) The examiners found one violation of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.
- (2) The examiners found five violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
 - a. In two instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.
 - b. In one instance, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.
 - c. In one instance, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

- d. In one instance, the company failed to inform the insured of the benefits under the Debris Removal coverage of the policy.
- (3) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in the written denial of the claim.
 - (4) The examiners found two violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
 - a. In one instance, the company failed to pay the entire claim under the insured's Dwelling Replacement Cost coverage.
 - b. In one instance, the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.
 - (5) The examiners found 35 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverages at issue.
 - a. In one instance, the company failed to properly represent the time frame to complete repairs.
 - b. In 34 instances, the company failed to properly represent the replacement cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found six violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under policies.

- (7) The examiners found 38 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 36 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found five violations of § 38.2-2223 of the Code of Virginia. The company used a version of a form filed as a broadening that was not in the precise language as the form approved by the Bureau.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 90 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found nine violations of § 38.2-317 A of the Code of Virginia. The company used a form that had not been filed with the Bureau at least 30 days prior to its use.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Automobile Policies

The companies provided three new business policies mailed on the following dates: August 16, and 19, 2010. In addition, the companies provided eight renewal business policies mailed on the following dates: July 21, 22, and 23, 2010; and August 10, 12, and 17, 2010.

NEW BUSINESS POLICIES

The examiners found three violations of § 38.2-305 A of the Code of Virginia.

The company failed to specify in the insurance policy accurate information required by this statute. The company failed to list all forms applicable to the policy on the declarations page.

RENEWAL BUSINESS POLICIES

The examiners found eight violations of § 38.2-305 A of the Code of Virginia.

The company failed to specify in the insurance policy accurate information required by this statute. The company failed to list all forms applicable to the policy on the declarations page.

Homeowner Policies

The companies provided three new business policies mailed on the following dates: August 4, 10, and 30, 2010. In addition, the companies provided eight renewal business policies mailed on the following dates: July 15, 21, 22, and 30, 2010 and August 5, and 18, 2010.

NEW BUSINESS POLICIES

(1) The examiners found three violations of § 38.2-305 A of the Code of Virginia.

The company failed to specify in the insurance policy accurate information required by this statute. The company failed to list all forms applicable to the

policy on the declarations page.

- (2) The examiners found three violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the replacement cost notice as required by the Code of Virginia.

RENEWAL BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found eight violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the replacement cost notice as required by the Code of Virginia.

REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the companies are required to provide to insureds and used by the companies for the lines examined, the examiners used the same new business policy and renewal business policy mailings that were previously described. The details of these policies have been set forth previously under the Review of the Policy Issuance Process section of the Report. The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

The examiners found 14 violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially the same language as that of the prototype set forth in Administrative Letter 1981-16.

Statutory Vehicle Notices

- (1) The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The company failed to include in its point surcharge notice the reason for the notice and the action taken as a result of an at fault accident.
- (2) The examiners found five violations of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day cancellation warning notice on or attached to the first page of the application.
- (3) The examiners found six violations of § 38.2-2234 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Credit Score Disclosure notice.

Statutory Property Notices

The examiners found three violations of § 38.2-2126 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Credit Score Disclosure notice.

Other Notices

The company provided copies of 37 other notices including applications that were used during the examination period.

The examiners found ten violations of § 38.2-517 A 3 of the Code of Virginia. The company failed to properly disclose the use of a third party administrator that handles glass breakage claims on behalf of the companies.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found seven violations of § 52-40 B of the Code of Virginia. The

company failed to include the insurance fraud statement on the application.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business private passenger automobile and homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found 39 violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.

Agency

The examiners found five violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found one violation of § 38.2-511 of the Code of Virginia. The company failed to maintain a complete register in compliance with this statute.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information. The companies submitted their security information as required by § 38.2-613.2 of the Code of Virginia.

The company provided its information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. A seven percent (7%) error criterion was applied to the claims handling review. Any error ratio above this threshold indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations and subject to a monetary penalty.

General

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

Provide a Corrective Action Plan (CAP) with the response to this Report.

Rating and Underwriting Review

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by showing the UMPD limit, garaging

address, correct named insureds, and listing and attaching only forms applicable to the policy on the declarations page.

- (5) Properly represent the benefits, coverage, advantages and conditions of the policy by showing the policy fee as a part of the total policy premium.
- (6) Maintain a copy of all new business applications.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, deductible factors, tier eligibility, base and/or final rates, construction type, filed fees and premium determination rules.
- (8) Use a binder for no more than 60 days after the effective date of coverage.
- (9) Provide the Credit Score Disclosure notice as required by §§ 38.2-2126 A and 38.2-2234 A of the Code of Virginia.
- (10) Submit to the Bureau a report showing the policy number and the corresponding restitution made to insureds as a result of the Auto/Rent/Life discount and Deductible factor refund projects initiated by the companies. Evidence of the restitution should be provided to the Bureau by December 12, 2011.

Termination Review

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Use a binder for no more than 60 days after the effective date of coverage.
- (5) Provide the insured with a written notice of an AUD when canceling a homeowner policy prior to the 90th day of coverage.
- (6) Calculate earned premium according to the filed rules and policy provisions.
- (7) Retain a copy of the cancellation and non-renewal notices sent to the insured and/or lienholder.
- (8) Provide proper notice of cancellation to the lienholder when canceling a policy.
- (9) Obtain and retain valid proof of mailing cancellation and non-renewal notices to the insured and lienholder.
- (10) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.
- (11) Obtain a record of the change in the deed of trust indicating the sale of the insured property when cancellation is due to foreclosure.
- (12) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.
- (13) Send the cancellation notice for a motor vehicle policy at least 45 days before the effective date of cancellation when it is mailed after the 59th day of coverage.
- (14) Send the cancellation notice for a motor vehicle policy for nonpayment of premium at least 15 days prior to the effective date of cancellation.

- (15) Send the cancellation notice for an owner-occupied dwelling policy for nonpayment of premium at least ten days before the effective date of cancellation.
- (16) Provide the insured notice of his right to have the termination of his policy reviewed by the Commissioner of Insurance.
- (17) Send the cancellation notice for an owner-occupied dwelling policy at least 30 days before the effective date of cancellation when it is mailed after the 89th day of coverage.
- (18) Provide the insured with notice of the availability of other insurance through his agent, another insurer or the VAIP in the cancellation notice of a private passenger automobile policy.
- (19) Send the cancellation notice to the address listed on the policy.
- (20) Obtain written notice when the insured requests cancellation of the policy.
- (21) Provide the insured with notice of the availability of insurance through the VPIA in the cancellation notice of an owner-occupied dwelling policy.

Claims Review

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayments to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to

the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

- (4) Document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- (5) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (7) Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.
- (8) Include a correct statement of coverage under which payments are made with all claim payments made to insureds.

Forms Review

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

- (1) Use the precise language of private passenger automobile forms approved by the Bureau.
- (2) File all homeowner forms with the Bureau at least 30 days prior to their use in Virginia.

Review of Policy Issuance Process

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

- (1) Specify accurate information in the policy by listing forms applicable to the policy on the declarations page.
- (2) Provide the Replacement Cost coverage notice with all new and renewal policies of fire and fire in combination with other insurance coverages.

Review of Statutory Notices

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

- (1) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 A of the Code of Virginia.
- (2) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (3) Provide the 60-day Cancellation Warning Notice on or attached to the first page of the application to comply with § 38.2-2210 A of the Code of Virginia.
- (4) Amend the Credit Score Disclosure notice to comply with §§ 38.2-2126 A and 38.2-2234 A of the Code of Virginia.
- (5) Amend the Glass Scripts to comply with § 38.2-517 A of the Code of Virginia.

Licensing and Appointment Review

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

Provide convenient access to the files, documents, and records relating to the
examination.

Review of the Complaint-Handling Process

Farmers Insurance Exchange and
Mid-Century Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of
the Code of Virginia.

PART THREE – EXAMINERS' NOTES

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

Rating and Underwriting

- Failure to provide the insured a written notice of an AUD when required by the statute.
- Failure to properly rate policies with credit information obtained in accordance with § 38.2-2234 B of the Code of Virginia.

Termination

- Failure to send the cancellation or refusal to renew notice to the insured.
- Failure to honor the date of cancellation requested by the insured.
- Failure to file an SR-26 with the Department of Motor Vehicles within 15 days of the cancellation of a motor vehicle policy.
- Failure to provide the specific reason for cancellation or non-renewal on the notice of cancellation or refusal to renew.

Claims

- Failure to inform the insured of all applicable coverages pertinent to the claim. Particular emphasis should be given to Transportation Expense coverage, Building and Personal Property Replacement Cost, as well as Additional Living Expense and Debris Removal.
- Failure to notify the insured, in writing, every 45 days of the reason for the companies' delay in completing the investigation of the claim.
- Failure to make all claim denials in writing and keep a copy in the claim file.
- Failure to comply with the provisions of the insurance contract.
- Failure to adopt and implement reasonable standards for the prompt

investigation of claims.

- Failure to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability is reasonably clear.
- Failure to include the fraud statement on claim forms required by the company as a condition of payment.

Notices

- Failure to include the fraud statement on the application.

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- The companies should update their filed private passenger auto and homeowner manuals to reflect the companies' current practices.
- The companies should update the Client/Driver Information screen to reflect accurate prior policy information.
- The companies should include the accident dates in their Accident Point Surcharge Notices.
- The companies should use the term "Fire Policy Fee" instead of "Membership Fee" on the declarations page.
- The companies should file all rates and supplementary rate information prior to use of the rates.

Terminations

- The companies had significant difficulties producing accurate copies of cancellation notices in a timely manner. The companies should correct their process for maintaining and producing accurate copies of cancellation notices.
- The companies should remove the Right to Review language from the cancellation notice when the notice is mailed within the first 59 days of coverage for private passenger auto policies and within the first 89 days of coverage for homeowner policies.

- The companies should change the title of the termination notices to “Cancellation or Non-renewal Notice” so the companies’ action is not misrepresented. All of these notices are currently titled “Fair Credit Reporting Act Notice” when the policy did not cancel due to the insured’s credit.
- The companies should not issue a revised declarations page with the reinstatement date shown as the effective date of the policy when it is reinstated without a lapse in coverage. The declarations page should reflect the actual effective and expiration dates of the policy term.
- The companies should revise the language in its cancellation notice issued for terminations after the 90th day of coverage for policies insuring an owner-occupied dwelling. In particular, the company should remove the paragraph advising the insured that temporary coverage provided by the application was being canceled.
- The companies should record and report its cancellations accurately and not label cancellations for foreclosure as insured requested cancellations. Those should be labeled and cancelled as company-initiated cancellations.

Claims

- The companies should use the term “Other Than Collision” coverage instead of the term “Comprehensive” on their checks.
- The companies should use the term “Medical Expense Benefits” coverage instead of the term “Michigan No-Fault/PIP” in their letters.
- The companies should use the term “Transportation Expense” coverage instead of the term “Rental” on their checks.

Forms

- The companies should maintain accurate records regarding which forms are approved and used for policies issued in Virginia.
- The companies should contact the Rates and Forms section to file the Rate Shield (J6564/93-6564) private passenger automobile form.

Policy Issuance Process

- The companies should identify who should be a named insured and who should be named as a household member.
- The companies should include the occupation of "Accountant/CPA" on their Affinity Discount Form. The form should also include other professions and/or groups who are eligible for the related Affinity Discount.
- The companies should identify the correct policy type on their Credit Notice of Underwriting Decision and their Memorandum of Fire Insurance.

Statutory Notices

- The company should correct the Bureau's contact information and formatting errors in the Important Information Regarding Your Insurance notice.
- The companies should correct the typographical errors in the Medical Expense Benefits and Uninsured Motorists Coverage Important Notices to be in the precise language required by § 38.2-2202 of the Code of Virginia.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted two prior market conduct examinations of the private passenger automobile and homeowner lines of business of Farmers Insurance Exchange and Mid-Century Insurance Company.

During the examination as of March 31, 2002, Farmers Insurance Exchange violated and was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-305, 38.2-510 A 10, 38.2-604.1, 38.2-610, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1905 A, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2120, 38.2-2202, 38.2-2206 A, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-2223, or 38.2-2230 of the Code of Virginia, or 14 VAC 5-400-70 D; and Mid-Century Insurance Company violated and was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-304, 38.2-305, 38.2-510 A 10, 38.2-510 C, 38.2-604.1, 38.2-610, 38.2-1822, 38.2-1905

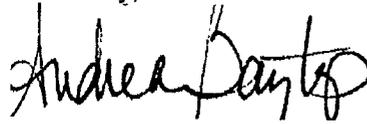
A, 38.2-1906 D, 38.2-2014, 38.2-2202, 38.2-2206 A, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-2220, 38.2-2223, or 38.2-2230 of the Code of Virginia, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, or 14 VAC 5-400-70 D.

During the examination as of December 31, 1997, Farmers Insurance Exchange violated and was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-304, 38.2-305 A, 38.2-305 B, 38.2-510 C 1, 38.2-511, 38.2-610, 38.2-1906 B, 38.2-2113, 38.2-2114, 38.2-2118, 38.2-2120, 38.2-2202 A, 38.2-2208, 38.2-2212, 38.2-2213, 38.2-2220, 38.2-2223, and 38.2-2230 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D, or 15 VAC 5-400-80 D; and Mid-Century Insurance Company violated and was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-305 A, 38.2-305 B, 38.2-510 C 1, 38.2-511, 38.2-1905, 38.2-1906 B, 38.2-2014, 38.2-2202 A, 38.2-2208, 38.2-2212, 38.2-2220, 38.2-2223, and 38.2-2230 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D, or 14 VAC 5-400-80 D.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive style with a large, prominent initial "A".

Andrea D. Baytop
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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March 7, 2011

Sent via E-mail on 3/7/2011

Joanna Benko, CPCU, CIC
Legislative and Regulatory Affairs
Farmers Insurance Exchange
15700 Long Vista Drive
Austin, TX 78728

Re: Market Conduct Examination
Farmers Insurance Exchange (NAIC # 21652)
Mid Century Insurance Company (NAIC 21687)
Examination Period: 01/01/09 – 12/31/09

Dear Ms. Benko:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of January 1, 2009 through December 31, 2009. The Preliminary Market Conduct Examination Report has been drafted for the companies' review.

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since January 3, 2011. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the Report. Please provide a written response. If the companies disagree with an item(s) or wish to further comment on an item(s), please respond to the items in Part I of the Report using the format of the Report. The companies do not need to respond to any particular item in Part I if it agrees with the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the companies provide written documentation to support their position. If the companies use the same format (headings and numbering) as found in the Report, it is much easier to follow the companies' points.

Secondly, the companies should respond to the corrective action plan (CAP) outlined in Part II of the Report. In some cases, the issues that should be addressed may be broader than those that are in the CAP. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

Thirdly, if the companies have comments they wish to make regarding the Examiners' Notes in Part III of the Report, please use the same headings and numbering for the comments. Of course, should the companies wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

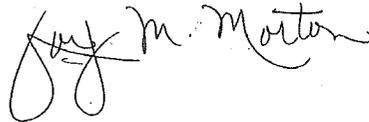
Finally, we have enclosed a CD containing an Excel spreadsheet that the companies must complete and return to the Bureau with the companies' response. This spreadsheet lists the files in which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by April 4, 2011.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by April 4, 2011.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with the first name "Joy" being particularly prominent.

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9731
joy.morton@scc.virginia.gov



FARMERS

Burt Garavaglia
AVP, Regulatory Affairs
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April 7, 2011

Common Wealth of Virginia
Bureau of Insurance
P&C Market Conduct, 5th Floor
1300 E. Main Street
Richmond, VA 23219
Attn: Joy M. Morton
Supervisor
Market Conduct Section
Property Casualty Division



RE: Market Conduct Examination
Farmers Insurance Exchange (NAIC #21652)
Mid-Century Insurance Company (NAIC #21687)
Examination Period: 01/01/09 – 12/31/09

Dear Ms. Morton:

We have received the Preliminary Market Conduct Examination Report of Farmers Insurance Exchange and Mid-Century Insurance Company. The following is our response to the findings, comments and concerns contained in the preliminary report. First, we wish to thank you and your exam team for the cooperation shown to us during the examination process.

Before we address particular areas of the preliminary report, we wish to point out that the member Companies and Exchanges of the Farmers Insurance Group of Companies seriously consider all insurance department examinations and the recommendations of the examiners. Therefore, we have thoroughly reviewed each of the findings and comments.

Our response includes those areas where procedures have been or will be amended or where we respectfully dispute the findings of the examiners. We ask that further considerations be given to any disputed items in the course of drafting a final report. Unless otherwise noted, the response tracks with the order and sequence of the findings in the preliminary report.

Please note that neither these comments nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Bureau or any other party as constituting any admissions. Please further note that we are providing these comments and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connections with the information provided.

Rating and Underwriting Review

Automobile New Business Policies

1a.

We do not dispute the six violations concerning UMPD limits not listed on the declarations page.

We do not dispute the one violation concerning the garaging address.

We respectfully disagree with the issue concerning interest assignment of the vehicle and ask that violation 1370620592 be withdrawn. We do not believe that removing the non-driver from the interest assignment of the vehicle is appropriate or consistent with our duties. The individual may retain a legitimate financial interest in the vehicle without being a driving exposure in the household. We rate for driving exposures, not whether an individual maintains a financial interest. We cannot assume that because a driver has left the household for rating purposes that they have also relinquished a financial interest in the vehicle.

1b.

We do not dispute the 19 violations concerning automobile policy form PP 00 01 01 05 not being listed on the declarations.

1c.

We do not dispute the 7 violation concerning form VA065 being listed on the declarations when it did not apply.

2.

We do not dispute the 17 violations concerning that the policy fee was not listed on the declarations page in the total premium amount.

3a.

We respectfully disagree with the one violation concerning a notice of Adverse Underwriting Decision not being provided for declined coverage for a trailer. The coverage for the owned trailer is governed by the Personal Auto Policy Endorsement PP 00 01 01 05. Item I and J on page 1 of the endorsement defines trailer and what is defined as "Your Covered Auto". As for itemizing the premium, a project has been established to itemize the utility trailer premium and we are targeting implementation as of December 19, 2011 for all policies going forward. Exhibit 1

3b.

We do not admit to any wrong doing on this one violation. However, we understand your concern with the lack of an adverse underwriting decision notice or a cancellation notice to the insured in this situation. We have implemented a process on April 19, 2010 with the consent of the insured to pull all the necessary investigative reports so that proper rate and eligibility can be determined prior to the submission of the application. In addition, a notice of adverse underwriting action will be triggered and sent to the customer if the rating is adversely affected after the application is submitted.

4.

We do not dispute the 21 violations for being unable to provide copies of the memorandum of insurance for the policy files in question.

5a.

We do not dispute the two violations concerning the incorrect auto/home discount factor to the BIPD premium.

We do not dispute the one violation concerning the new household discount applied in error.

We respectfully disagree and request violation 1534724196 be withdrawn. The company used the correct discount. For RPA022, the policy was set up on EFT at New Business and a down payment was made on 1/26/09 to initiate the policy. Exhibit 2

We do not dispute the one violation that High Performance Surcharge should have been applied to this policy.

We do not dispute the one violation concerning the multi car discount not being applied correctly.

We respectfully disagree with this one violation concerning the rating of a principal unmarried male. It is our business practice not to surcharge mock rated policies, and we apply any appropriate surcharges to the rated driver policy. This household had three vehicles and 2 drivers on 10-30-2009. Policy [REDACTED] is a Farmers policy on a 1995 Pathfinder which is rated for [REDACTED] (DOB [REDACTED]). Policy [REDACTED] is a MCA policy on a 91 Previa which is rated for [REDACTED] (DOB [REDACTED]). Policy [REDACTED] is a Farmers policy on a 99 Alero which is mock rated for [REDACTED] (DOB [REDACTED]).

We do not dispute the one violation concerning the affinity discount.

We respectfully disagree and request violation 819699270 be withdrawn. The company used the correct discount. For RPA028, the policy was submitted as new business with the prior insurance discount indicated; however, the system was not able to validate the policy information that was input and the discount was removed effective the new business date and notification was sent to the customer. Exhibit 3

We do not dispute the one violation concerning the issue that we were unable to provide the required proof for the YES discount.

5b.

We respectfully disagree and request violation 1390153230 be withdrawn. The correct points are listed on the policy, based on the motor vehicle report (MVR) ordered on 8/11/2009, the occurrence date for the 6/11/07 conviction is 5/25/2007. MVR report attached as Exhibit 4.

We do not dispute the seven violations concerning application of points for accidents and/or convictions.

5c.

We do not dispute the five violations concerning incorrect car symbols.

5d.

We respectfully disagree with this one violation concerning driver classification discrepancy. Commuter use mileage for vehicle 1 is displayed on the policy declarations page due to the vehicle's designation as a commuter vehicle; all others as excess vehicles are pleasure use and therefore do not require a commuter mileage notation. We do not collect daily mileage for non commuter vehicles and would not seek to list this non-essential information on the declarations page of the policy. Annual mileage data is not used in the Legacy auto policy rating criteria, and therefore would not be noted on the declarations page. FA2 is now active for VA with its established rating procedure. There will be no new business Legacy auto policies beyond the FA2 roll out date of 04/19/2010.

5e.

We do not dispute this one violation concerning the K coverage discrepancy.

We do not dispute the violation concerning the Household composition factor discrepancy.

We do not dispute the violations concerning the deductible factors.

5f.

We do not dispute the one violation that we failed to charge for the filed SR 22 fee.

5g.

We do not dispute the one violation concerning using the filed rules when rating a trailer.

6.

We respectfully disagree with the violation that the company failed to obtain a signed written rejection of higher Uninsured Motorist limits. Our records indicate that since a signed written rejection was not received, the coverage was added to the policy effective the new business date of 8/31/09. Please see Exhibit 5.

7.

We respectfully disagree, while we could not provide a copy of the memorandum of insurance, at the point of sale, the credit disclosure notice is always generated and appears on the agent's screen with instructions to read the notice to the customer. (Exhibit 6) If either the agent or the customer requests a written copy, the credit disclosure notice can also be printed and provided to the applicant in a hard copy. The disclosure contained in the MOI is actually the second or possibly, the third time the disclosure is provided. For this reason, we believe that we are compliant with the mandated credit disclosure without regard to the maintenance of the MOI.

8.

We respectfully disagree and request violation 643919456 be withdrawn. Although, a systems error caused the score not to display on the Client/Driver screen on the 3/26/09 new business policy, both the Change Summary screen on that date as well as subsequent version of the Client/Driver screen shows that credit score of "O" was applied to the policy. Attached are screen shots which show the FARA code in the client/driver screen. Exhibit 7

We respectfully disagree and request violation 404295719 be withdrawn. At the time of the examination, we had only single vehicle policies. As a result, when the insured added a new vehicle to the household, we would write a new policy for that vehicle with its own contract, and

policy number. Since we are writing a new contract and there were no new credit score ordered within 90 days of inception of this policy, under our rules, we would order a new credit score for this policy. As stated in our manual, we ordered the score on the head of the household. If the new score provided an advantage to the customer relative to other policies in the household, we would apply the better credit score to those policies as they renewed. However, if the new credit score ordered is worse, the compare logic for the existing policies in the household will apply the previously ordered credit score which was better. Since the new policy does not have previous score ordered for that policy, the new ordered credit score was applied.

We respectfully disagree and request violation 431763533 be withdrawn. At the time of the examination, we had only single vehicle policies. As a result, when the insured added a new vehicle to the household, we would write a new policy for that vehicle with its own contract, and policy number. Since we are writing a new contract and there were no new credit score ordered within 90 days of inception of this policy, under our rules, we would order a new credit score for this policy. As stated in our manual, we ordered the score on the head of the household. If the new score provided an advantage to the customer relative to other policies in the household, we would apply the better credit score to those policies as they renewed. However, if the new credit score ordered is worse, the compare logic for the existing policies in the household will apply the previously ordered credit score which was better. Since the new policy does not have previous score ordered for that policy, the new ordered credit score was applied.

Automobile Renewal Business Policies

1a.

We do not dispute the 11 violations concerning UMPD limits not being listed on the declarations page.

1b.

We do not dispute the 16 violations that we did not display the automobile policy form number on the declaration.

1c.

We do not dispute the three violations regarding form VA065 being listed on the declarations when it does not apply.

2.

We do not dispute this filing issue as pertains to the renewal rate cap.

3a.

We respectfully disagree and request violation 1391787151 be withdrawn. EFT was applied on this account on 5/12/2009 and the discount was appropriately applied based on the rate and rules filed in effect at that time. On page 510 of our filed manual page, it describes the rules surrounding EFT rule. In addition, the rating worksheet on pg 804 shows how the rates are to be applied and lastly, the EFT Discount rate factor is provided as Discount and Surcharge Factors, Exhibit 8, on Page 810 of our filed manual. Exhibit 8 shows the discount applied on the policy.

We respectfully disagree and request violation 977663455 be withdrawn. This policy is an annual policy that was incepted on 11/05/2007. The policy was subsequently renewed on 11/5/2008 and set up to renew on 11/5/2009. However, the agent cancelled the policy per the customer's request on 9/26/2009 which made it ineligible for the 8/13/2009 rate revision. As for the display of Auto/Rent and Auto/Rent/Life Discount on the declaration page this may have been confusing, but with the new Farmers Auto 2.0 product that was launched in April 2010, each discount will be listed independently to mitigate any confusion.

We do not dispute the one violation concerning the application of the anti-lock brake discount.

3b.

We do not dispute this issue concerning the Additive Point Surcharge.

3c.

We do not dispute the two violations concerning correct auto symbols.

3d.

We do not dispute the one violation concerning the territory base rate.

3e.

We do not dispute this issue concerning tier eligibility.

3f.

We do not dispute the one violation concerning driver classification/rate class discrepancy.

3g.

We do not dispute the 12 violations concerning household composition factor and base rates.

We respectfully disagree and request violation 110996746 be withdrawn, as the household composition factor is correct.

HH with Policy # [REDACTED]

- a. We processed renewal effective 1-16-09 on 12-3-08 for policy # [REDACTED]
- b. There were 4 vehicles in-force when we processed the renewal.
- c. Effective 1-16-09 processed on 12-6-08 policy # [REDACTED] cancelled for nonpayment of premium.
- d. This changed the number of vehicles to 3.

We respectfully disagree and request violation 272118592 be withdrawn, as the household composition factor is correct.

HH with Policy # [REDACTED]

- a. We processed renewal on 12-17-08 effective 1-31-09.
- b. Four cars were in-force when the renewal was processed.
- c. There were 5 cars in-force on 12-16-08.
- d. Three cancelled for nonpayment of premium.
- e. 1986 Ford cancelled for non-pay effective 12-6-08 through a transaction processed on 12-17-08.
- f. 1976 Chevy cancelled effective 12-06-08 through a transaction processed on 12-18-08.
- g. 1997 Pontiac cancelled for non-pay effective 1-3-09 through a transaction processed on 1-14-09.

h. This left two vehicles in force.

3h.

We do not dispute the issue concerning deductible factors.

4.

We respectfully disagree and request that violation 221130080 be withdrawn as we did properly rate using the credit information obtained. When the policy was incepted on November 21, 2008, a credit score was ordered on the head of the household resulting in a score of "L". The same score was used to rate the 5/21/2009 renewal since the customer has not requested an updated order on credit score. On subsequent renewal on November 21, 2009, a new credit score was ordered resulting in a better credit score of "K". Since the new score provided an advantage to the customer, we applied the better credit score to the policies in the household as they renewed. However, we have no evidence that the score was ordered by the company and therefore, we are assuming that the new score was ordered at the request of the customer. We have rules in place requiring agents to keep copies of forms or information that they receive from the customer in a customer file for the appropriate record retention period. We have to assume that the agent has the reason for the order in the customer's file. We will implement additional re-enforcement training about the ordering of a new score and documenting files appropriately with our Agents by October 17, 2011.

Homeowners New Business Policies

1a.

We do not dispute the 7 violations concerning the policy type on the declarations page indicates policy "unknown".

1b.

We initially disagreed with these 13 violations; however, after further review we understand the Bureau's desire for us to add the policy form number 56-5559 to the declarations.

2.

We do not dispute on the two violations that the policy fee was not listed on the declarations page.

3.

We do not dispute the 11 violations concerning our inability to obtain copies of the memorandum of insurance for the policy files in question.

4a.

We do not dispute the two violations concerning the rating factor of 0.86 used for the auto/home discount as opposed to the filed factor of 0.95.

4b.

We do not dispute the 8 violations concerning the Combination B filing issue.

We do not dispute one violation concerning the rating of the carport issue.

4c.

We do not dispute the three violations concerning the issue of construction type.

4d.

We do not dispute the seven violations concerning issue filed rules when rating Market Value program policies.

4e.

We do not dispute the eight violations concerning the policy fee filing.

4f.

We do not dispute the five violations concerning the use of our filed rules when rating Market Value program policies.

5.

We respectfully disagree and request violation 204909816 be withdrawn, as the company did not use a binder for more than 60 days after the effective date of coverage. A policy was issued on 4/15/09 for the effective date of 4/13/09. See Exhibit 9

We respectfully disagree and request violation 1900915454 be withdrawn as the company did not use a binder for more than 60 days after the effective date of coverage. The policy was rewritten from another policy on 4/6/09 (transaction date) with an effective date of 5/4/09. For this reason, the policy was printed on 4/9/09, prior to the policy effective date of 5/4/09. See Exhibit 10

We respectfully disagree and request violation 169588956 be withdrawn as the company did not use a binder for more than 60 days. A policy was issued on 9/16/09. See Exhibit 11

6.

We respectfully disagree, while we could not provide a copy of the memorandum of insurance, at the point of sale, the credit disclosure notice is always generated and appears on the agent's screen with instructions to read the notice to the customer. (Exhibit 6) If either the agent or the customer wishes, the credit disclosure notice can also be printed and provided to the applicant in a hard copy. The disclosure contained in the MOI is actually the second or possibly, the third time the disclosure is provided. For this reason, we believe that we are compliant with the mandated credit disclosure without regard to the maintenance of the MOI.

Homeowners Renewal Business Policies

1.

We initially disagreed with the 14 violations; however, after further review we understand the Bureau's desire for us to add the policy form number 56-5559 to the declarations.

2.

We do not dispute the one violation concerning the declaration page indicates 'NIL' under liability. We did extend liability coverage and this is indicated on the secondary policy; however, the agent did not follow proper procedure to list the secondary policy on the primary policy. We will publish communication providing instructions to all Virginia agents to properly document the extension of Liability coverage from a primary policy to a secondary policy. Additionally,

we will directly address this specific policy with the agent to ensure it is properly documented. This will be done on or before 5/16/2011.

3a.

We do not dispute the one violation concerning not applying the central fire alarm discount.

We do not dispute the two violations concerning the use of correct deductible factors.

We do not dispute the one violation concerning the Combination D factor.

3b.

We do not dispute the one violation that the company did not use the correct territory. We will update manual page 131 to include the zip code 23453 in territory 21. This will be done on or before May 16, 2011.

3c.

We respectfully disagree and request that violation 867802888 be withdrawn. The policy carried increased Separate Structures coverage, increased Personal Property Coverage, and Increased Loss of Use coverage these figures were not included in the rating spreadsheet for RH0038. Exhibit 12

We do not dispute seven violations concerning the Combination B filing issue.

3d.

We do not dispute the one violation concerning the correct public protection classification.

3e.

We do not dispute that we failed to use filed rules when rating the other structures coverage.

Termination Review

Automobile Polices

Notices Mailed Prior to the 60th Day of Coverage

1.

We do not dispute the five violations concerning the use of a binder for longer than 60 days.

2.

We respectfully disagree and request violation 1509882253 be withdrawn as the company calculated the return premium correctly. Please see Exhibit 13

3.

We do not dispute the one violation that we were unable to provide a USPS stamped proof of mail.

4a.

We do not dispute the typographical error on violation 175926129 on the reconstructed cancellation.

We respectfully request that the violation for 2017033886 be withdrawn; we have attached a copy of the cancellation and proof of mailings as Exhibit 14

4b.

We respectfully request that the violation 1829622029 be withdrawn. A proof of mailing could not be obtained as the policy was reinstated the same day. Transactions screenshots have been provided in Exhibit 15

5.

We do not dispute that the cancellation and proof of mailing were not provided.

Auto Notices Mailed After the 59th Day of Coverage

1.

We do not dispute the one violation that the company used a binder for longer than 60 days.

2.

We do not dispute the one violation that the company failed to send an adverse underwriting action when rewriting this policy.

3.

We respectfully request that violation 805358599 for earned premium discrepancy, be withdrawn from this report and the restitution report. TPA048 was account billing and a refund in the amount of \$27.59 was sent from the account due to the 1/15/09 cancellation. Screenshots are attached in Exhibit 16.

We respectfully request that the violation 2045365772 for refund discrepancy, be withdrawn. The refund calculation has been verified. A premium breakdown and screenshots of the transactions are attached in Exhibit 17.

We respectfully request that the violation 2063412960 for refund discrepancy be withdrawn. The refund calculation has been verified. A premium breakdown and screenshots of the transaction are attached in Exhibit 18.

4.

We do not dispute the three violations that the proof of mail notice did not include a legible USPS stamp.

5a.

We do not dispute the two violations that we did not retain a copy of the cancellation notice sent to the insured.

5b.

We respectfully request that violation 1970762903 be withdrawn, proof of mail has been provided as Exhibit 19.

5c.

We do not dispute the one violation that we did not provide proper notice of cancellation to the lien holder.

6a.

We respectfully disagree and request that violation 1469127724 be withdrawn. Policy records show Deborah's license was suspended in the policy term for which the cancellation was processed. The Declarations page for verification of policy term and policy records showing that the license was suspended as of 5/13/09 are attached as Exhibit 20.

We respectfully disagree and request that violation 392808539 be withdrawn. Policy records show Jerry Howington's license was suspended in the policy term for which the cancellation was processed. Attached Exhibit 21.

6b.

We respectfully disagree and request violation 810544454 be withdrawn. Policy 175752599 was out of force with a cancellation effective 11/27/08. The policy was then reinstated effective 1/28/09 for a new term; however, the policy was declined by underwriting on 2/23/09 with a cancellation date of 4/19/09. The cancellation was mailed on 2/24/09 which was 27 days after the effective date of 1/28/09. The cancellation was mailed within the first 59 days of coverage; therefore, the reason stated was one that is permitted. It appears the data sample provided included this policy in the category 'Notice mailed after the 59th day of coverage' based on the effective date of the cancellation, not based on the date the notice was mailed. The Termination Samples provided shows Policy 175752599 had a policy inception date of 2/6/08; however, the effective date of the policy term for the cancellation date of 4/19/09 shows to be 1/28/09. Attached Exhibit 22.

7a.

We do not dispute the one violation that the incorrect company was listed on the notice of cancellation.

7b.

We respectfully disagree and request violation 2082466288 be withdrawn. The company did send the cancellation notice to the address listed on the policy. Please see Exhibit 23 for policy records that verify the address.

7c.

We respectfully disagree and request violation 128516616 be withdrawn. The cancellation was mailed 45 days prior to the cancellation effective date. Exhibit 24

7d.

We do not dispute the one violation that the Company should have drafted and sent an AUD when rewriting the Farmers policy to Mid Century.

7e.

We do not dispute the four violations for failing to provide the notice of right to review by the Commissioner.

7f.

We do not dispute the four violations that we failed to provide the notice of availability of other insurance.

Auto Other Law Violations

We do not dispute the two violations concerning the filing of the SR-26 within 15 days after cancelling the policy.

Auto Nonpayment of the Premium

1.

We do not dispute the one violation concerning earned premium calculation.

2.

We respectfully request violation 650727878 be withdrawn. A valid proof of mailing has been provided. Exhibit 25

3a.

We do not dispute the three violations that we failed to retain proof of mailing the cancellation notice to the insured.

3b.

We respectfully disagree and request that violation 139974520 be withdrawn for failure to provide proper notice to the lienholder. There was a car change made effective 7/30/09 and the replacement vehicle did not have a lienholder at the time of cancellation. See Exhibit 26.

3c.

We do not dispute the one violation that we failed to retain a copy of the cancellation notice sent to the lienholder.

3d.

We do not dispute the one violation that we failed to retain proof of mailing the cancellation noticed to the insured.

4a.

We do not dispute one violation that we failed to send the insured a written notice of cancellation.

4b.

We respectfully disagree and request that violation 1541119676 be withdrawn. The cancellation was sent to correct address on the policy. See Exhibit 27.

4c.

We do not dispute the three violations that we failed to mail the notice of cancellation at least 15 days prior to the effective date of the cancellation.

Auto Requested by the Insured

1.

We respectfully disagree and request that violation 1893469609 be withdrawn. The earned premium was calculated correctly. See Exhibit 28.

2.

We do not dispute the 13 violations on the issue of obtaining the insured's written request to cancel their policy mid-term.

3a.

We do not dispute this one violation where we failed to honor the date of cancellation requested by the insured.

3b.

We respectfully disagree with the one violation for failing to obtain advanced written notice to cancel this policy. We agree the cancellation for this policy was processed with an effective date in the past; however, in this particular instance, the insured missed listing policy [REDACTED] on their original request for cancellation that was received on 3/4/09. A subsequent request to cancel this policy due to the oversight of the insured was received on 5/26/09.

Auto Company Initiate Non-renewals Automobile Policies

1.

We do not dispute this one violation that the company failed to provide the insured with a notice of an adverse underwriting decision.

2.

We do not dispute the one violation that we failed to obtain a valid proof of mailing.

3a.

We do not dispute the one violation that we failed to retain a copy of the refusal to renew notice.

3b.

We do not dispute the one violation that we failed to retain proof of mail.

4a.

We do not dispute the one issue that the cancellation notice did not state the effective date.

4b.

We do not dispute the one violation that we failed to provide the specific reason for refusing to renew.

4c.

We do not dispute the three violations that we failed to provide the notice of right to review by the Commissioner.

4d.

We do not dispute the three violations that we failed to provide the notice of availability of other insurance.

Homeowners Policies

Company Initiated Cancellations

Notice Mailed Prior to the 90th Day of Coverage

1.

We do not dispute the one violation that the incorrect company name was listed on the cancellation notice to the insured.

2a.

We respectfully disagree and request violation 1222303534 be withdrawn. As stated in our previous response for this item, the incorrect cancellation copy was initially provided for 938002007. The policy was flat cancelled effective 11/17/08 as it was issued in error and we did not receive premium payment. The cancellation was coded insured's unsigned request/all other reasons. As the policy was issued in error, the AUD was not included. Please see the policy records showing no payment was made in consideration for this policy and the policy records showing the agent requested the cancellation as the policy was submitted in error. See Exhibit 29.

We respectfully disagree and request that violations, 657443058, 587263862, and 1616848164 be withdrawn, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

2b.

We do not dispute one violation that we failed to provide the specific reason on the cancellation.

3.

We do not dispute the one violation that we were unable to provide a declarations page applicable to the policy period.

4.

We respectfully disagree and request that violation 1637931744 be withdrawn. The return premium was calculated correctly. Please see Exhibit 30.

We respectfully disagree and request that violation 853824944 be withdrawn. Policy [REDACTED] was initially cancelled effective 1/26/09; however, the agent advised that this policy should not have been issued and a subsequent flat cancellation effective 11/17/08 was processed. Please see Exhibit 31.

5.

We do not dispute the four violations that the USPS stamp was not legible on the proof of mail notice to the insured. We submit to the Bureau; however, that the procedure used by the federal USPS is beyond control of the Company.

6a.

We respectfully disagree and request that violations 1763235788 and 1350153446 be withdrawn, as we are able to provide documentation of notice to the lienholder. Please see attached Exhibits 32 and 33, respectively.

6b.

We do not dispute the one violation that we were unable to provide a copy of the cancellation notice to the lienholder.

6c.

We do not dispute the one violation that we failed to retain a copy of the proof of mail to the insured.

6d.

We do not dispute the four violations that the USPS stamp was not legible on the proof of mail notice to the lien holder. We submit to the Bureau; however, that the procedure used by the federal USPS is beyond control of the Company.

6e.

We do not dispute the five violations that we failed to retain a copy of the proof of mailing the cancellation notice to the lienholder.

6f.

We respectfully disagree and request that violation 1120384317 be withdrawn. The policy records show policy [REDACTED] was declined with an effective date of 5/18/09 in the first 89 days of coverage; however, on the same transaction date of 3/24/09 effective 5/18/09, the agent processed a policy rewrite. Since this was processed on the same transaction date, the Underwriting cancellation was not generated. Please see Exhibit 34 for the correct cancellation effective 3/14/09 due to a rewrite.

7a.

We respectfully disagree and request that these violations be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

7b.

We do not dispute these violations 1502425639 (Exhibit 35), 1556923324 (Exhibit 36), 408782371 (Exhibit 37), and 1506704641 (Exhibit 38). Although we were unable to provide the requested documentation we were able to obtain screen shots of the policy address to provide

verification of the address for the cancellation. We would respectfully request; however, that the report be amended to reflect the Bureau's inability to verify this information rather than it stating that the Company failed to comply.

7c.

We do not dispute the one violation that the cancellation file was incomplete and the examiners could not validate that a cancellation notice was sent to the insured when the policy had been in effect less than 90 days. We would respectfully request; however, that the report be amended to reflect the Bureau's inability to verify this information rather than it stating that the Company failed to comply.

Home Notice Mailed After the 89th Day of Coverage

1.

We respectfully disagree and request that these violations be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

2.

We respectfully disagree and request that violation 713021401 be withdraw. The company calculated the return premium correctly. Please see Exhibit 39.

3a.

We do not dispute the four violations that we failed to provide the documents (memorandum of insurance) to validate the proper notice of cancellation to the lienholder.

3b.

We do not dispute the one violation that we failed to obtain valid proof of mailing the cancellation to the lienholder.

3c.

We do not dispute the 11 violations that we failed to retain a copy of the proof of mailing the cancellation notice to the lienholder.

4a.

We do not dispute the one violation that we indicated that the cancellation in question was mailed as a non-renewal as opposed to a mid-term cancellation.

4b.

We do not dispute the one violation that an incorrect policy number was used on the cancellation, which resulted in the company failing to send the cancellation notice to the address listed on the policy.

4c.

We respectfully disagree and request that violations 1615511815, 466684767, 746721957, and 949371158 be removed as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

4d.

We do not dispute this one violation, as the intent was to decline the risk within the first 90 days of coverage.

4e.

We respectfully disagree and request that these two violations be removed as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

5a.

We respectfully request these violations (282885238, 2094823082, 1559841641, 1521026196, 93547461, 2108543258, 705714150, and 315549085) be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

5b.

We do not dispute the one violation that we failed to provide the specific reason on the cancellation.

5c.

We respectfully request these violations (759716363, 1657827175, 139418316, 1801467251, 560873096, 1759268791, and 368061787) be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of

foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

5d.

We respectfully request these violations (2107787792, 1183178980, 2022063579, 1381058762, 426824215, 115839700, 1941420800, and 1071107547) as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

Home All Other Cancellations

Homeowners Policies

Nonpayment of the Premium

1.

We respectfully disagree and request that violation 1665491602 be withdrawn. The return premium was calculated correctly. Please see Exhibit 40.

We respectfully disagree and request that violation 1318978361 be withdrawn. The return premium was calculated correctly. Please see Exhibit 41.

2a.

We do not dispute the one violation that we failed to provide documentation of proper notice of the cancellation to the lienholder.

2b.

We do not dispute the eight violations that we failed to retain a copy of the proof of mailing to the insured.

2c.

We do not dispute the one violation that the proof of mailing did not include a USPS stamp.

2d.

We do not dispute the eight violations that we failed to retain a copy of the proof of mailing to the lienholder.

3a.

We respectfully disagree and request that violation 114565934 be withdrawn. The company did provide at least 10 days notice for the cancellation effective 5/17/09. Our records indicate the notice of cancellation effective 5/17/09 was mailed on 4/23/09. Please see Exhibit 42.

3b.

We respectfully disagree and request violation 849268484 be withdrawn. For this policy, the notice was not included since the cancellation was mailed prior to the 89th day of coverage. THO069 was new business effective 2/25/09 and the cancellation was mailed on 4/23/09. See Exhibit 43.

We respectfully disagree and request violation 226089811 be withdrawn. For this policy, the notice was not included since the cancellation was mailed prior to the 89th day of coverage. THO062 was new business effective 11/30/08 and the cancellation was mailed on 1/20/09. See Exhibit 44.

We respectfully disagree and request violation 1024549559 be withdrawn. The company did advise the insured of his right to request a review by the Commissioner of Insurance. For this policy, the notice was included in the cancellation effective 6/24/09. Please see Exhibit 45.

3c.

We respectfully disagree and request violation 1249983446 be withdrawn. The company did advise the insured of the availability of insurance through the VPIA. For this policy, the notice was included in the cancellation effective 6/24/09. Please see Exhibit 46.

We respectfully disagree and request violation 1329078166 be withdrawn. The company did not advise the insured of the availability of insurance through the VPIA, as the cancellation was mailed prior to the 89th day of coverage. THO062 was new business effective 11/30/08 and the cancellation was mailed on 1/20/09. See Exhibit 47.

We respectfully disagree and request violation 571761172 be withdrawn. The company did advise the insured of the availability of insurance through the VPIA. For this policy, the notice was included in the cancellation effective 4/14/09. Please see Exhibit 48.

We respectfully disagree and request violation 1088945077 be withdrawn. The company did not advise the insured of the availability of insurance through the VPIA, as the cancellation was mailed prior to the 89th day of coverage. THO069 was new business effective 2/25/09 and the cancellation was mailed on 4/23/09. See Exhibit 49.

4.

We do not dispute the one violation that we did not provide documentation to the examiners to show that a cancellation was mailed to the lienholder within a 10 day period.

Home Requested by the Insured

1.

We respectfully disagree and request that violation 255601295 be withdrawn. The return premium was calculated incorrectly for THO073. The policy converted from a monthly billing

account to standard billing on 9/17/09 with a balance of \$1146.16. The policy cancelled effective 10/29/09 with a credit of \$929.15 leaving a balance due of \$217.01. A payment of \$1146.16 was received on 11/23/09. The policy was reinstated effective 11/20/09 at \$929.15 plus a \$25.00 reinstatement fee. The policy was then cancelled per insured's request effective 11/30/09 with a cancellation credit of \$875.90 leaving a credit balance of \$850.90 which was refunded to the insured on 12/23/09. See Exhibit 50.

2.

We respectfully disagree and request that violation 1488268210 be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

3.

We do not dispute these two violations, as these appear to have been an input error by the employee handling the transactions.

Home Company Initiated Non-Renewals

1.

We do not dispute the one violation that we failed to provide the insured with written notice of an adverse underwriting decision.

2.

We do not dispute the three violations that the USPS stamp was not legible on the proof of mail. We would respectfully request; however, that the report be amended to reflect the Bureau's inability to verify this information rather than it stating that the Company failed to comply.

3a.

We do not dispute the one violation that we failed to maintain a copy of the proof of mail.

3b.

We do not dispute the one violation that the USPS stamp was not legible on the proof of mail for the lien holder. We would respectfully request; however, that the report be amended to reflect the Bureau's inability to verify this information rather than it stating that the Company failed to comply.

3c.

We do not dispute the four violations that we did not retain proof of mail to the leinholder.

4.

We do not dispute the one violation that we selected the incorrect reason for a cancellation processed within the first 90 days of coverage.

5a.

We do not dispute the one violation that the specific reason was not included in the cancellation notice.

5b.

We respectfully disagree and request that violation 799564336 be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

5c.

We respectfully disagree and request that violation 1154507377 be removed, as the Bureau approved the contract language permitting the mortgagee to request cancellation of the policy in the event of foreclosure. The Company obtained evidence of the change in the deed of trust by way of the mortgagee's correspondence noting the foreclosure. We have taken into consideration the Bureau's remarks going forward – effective 12/20/2010 the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead- the Company should not be held liable for adhering to its policy language which was approved by the Bureau after thorough review. To reflect our new practice the Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

Claims Review

We have no disputes with the Claims violations. There is an issue concerning the restitution listing that applies to the following comment:

We respectfully disagree and request that violation CPA036 Claim Number [REDACTED] be withdrawn. We disagree with the underpayment of \$803.96 because the "Consent for Medical/Financial Treatment", which is signed by the insured, expressly states "I agree to assign all benefits from these insurance companies/agencies to this healthcare facility and any contracted group providing professional services." We were unable to find any authority holding that the language used in the consent/assignment was not valid.

In the Bureau's response, it is stated that the company's position is not valid because it is "not an AOB from the insurer that the insured signed authorizing the insurer to release the MED payment directly to the medical provider." There is no explanation as to why the assignment is not valid. Presumably the Bureau is taking the position that the AOB must be provided by the insurer. However, there is no support for this position. In fact, in *Helmick v. State Farm*, attached, the Court upheld an assignment that was contained in a "Consent to Admission". Attachments are contained the Restitution response.

Review of Forms

Automobile Policy Forms

Policy Forms Used During the Examination Period

We do not dispute the violation that we failed to use the precise language on form VA6470/94-1105.

We do not dispute the violation that we failed to use the precise language on form VA6471.

We do not dispute the violation that we failed to use the precise language on form VA6469.

We do not dispute the violation that we failed to use the precise language on form VA045/94-0705.

Homeowners Policy Forms

Policy Forms Used During the Examination Period

We respectfully disagree and request violation 1776592178 for the use of E6170 be withdrawn. The E6170 is utilized for Farmers Insurance Exchange and the VA059 is utilized for Mid Century Insurance Company policies. Both endorsements have language that provides coverage for the stated personal property when this "property is not on or in any premises owned, rented, occupied or controlled by you." Exhibit 51

We respectfully request violation 161669436 for the use of S6803, be withdrawn, it appears when we provided the form S6803 we provided a 2nd Edition that is currently not in use. We utilize the 1st Edition of this form, copy of which is attached as Exhibit 52.

We respectfully request violation 2011654206 for the use of S6837, be withdrawn, it appears we inadvertently provided this form. This policy form is applicable only to our non-owner occupied Landlord Protector form.

We respectfully request violation 1350837140 for the use of HO82 Form 98-6024 Ed 5/1/97 and HO 24 82 04 92, Form HO 82 (93-7-14 1st Ed 5/97), be withdrawn, these forms were inadvertently submitted and do not apply in Virginia.

We do not dispute this violation that form J6143 (93-6143 1st Ed 8-97) has not been filed. Upon further review, we note the language in the J6143 does not match with the ISO HO3, HO4, and HO6 policy forms. We will fix the form so that it matches up with the policy language and then file the updated forms by 6/3/11.

We respectfully request violation 436531368 of form J6467 1st Ed (93-6467 1st Ed 3-07 be withdrawn, the endorsement was inadvertently submitted and does not apply in Virginia. We do not dispute this violation of form E4158 1st Ed 91-4158 9-95. We will file E4158 as of April 15, 2011.

We do not dispute this violation of form E0158 1st Ed 91-0158 5-91. We will file E0158 as of April 15, 2011.

We do not dispute this violation of form HO-290. As we have been advised that there are no active policies with this endorsement, we respectfully request the violation be withdrawn.

We do not dispute this violation of form HO 23 54 04 91 (97-0061 8-97) "Earthquake - Virginia" used by the Company during the audit period was superseded on 8/1/98 by form HO 23 54 08 98. We will have the form updated to be filed as of 6/3/11.

We respectfully request that violation 76642720 for form # HO-322 (Ed. 9-87) be withdrawn. The endorsement was inadvertently submitted and does not apply in Virginia.

We do not dispute this violation of form HO 01 45 04 99 Special Provision. The form will be filed as of 6/3/11.

We do not dispute the violations on the form 56-5559.

We do not dispute the violation on form HO 0003 4-91. We have amended the form Exhibit 53, attached to read: Appraisal, first line, it reads "If you and we fail to agree..."

Review of Policy Issuance Process

Automobile Policies

New Business Policies

We do not dispute the finding that we did not display the automobile policy form on the declaration.

Renewal Business Policies

We do not dispute the finding that we did not display the automobile policy form on the declaration.

We respectfully disagree and request that these violations on rental reimbursement cost be withdrawn. We have attached as Exhibit 54, a document labeled "56-5602 2ND EDITION 6-10" indicated by the number C5602214 in the lower right hand corner. Above the section entitled "COVERAGE DESIGNATIONS," please find the following language:

"IF ANY VEHICLE ON THIS POLICY HAS COLLISION OR OTHER THAN COLLISION YOU HAVE THE OPTION OF PURCHASING TRANSPORTATION EXPENSE COVERAGE FOR THAT VEHICLE WHICH REIMBURSES YOU FOR CERTAIN TEMPORARY TRANSPORTATION EXPENSES, INCLUDING RENTAL REIMBURSEMENT, INCURRED FOLLOWING A COVERED LOSS TO YOUR COVERED VEHICLE, AS DESCRIBED IN YOUR POLICY. PLEASE SEE YOUR AGENT FOR DETAILS."

Review of Policy Issuance Process

Homeowners Policies

New Business Policies

We initially disagreed with the violation to add the form number 56-5559 to the declarations; however, after further review we understand the Bureau's position.

We do not dispute the violation to provide a replacement cost notice. We will create a Replacement Cost Notice in project F-11-045 with an effective date of implementation of 12/16/11.

Renewal Business Policies

We initially disagreed with the violation; however, after further review we understand the Bureau's position to add the policy form number to the declarations.

We do not dispute the violation to provide a replacement cost notice. We will create a Replacement Cost Notice in project F-11-045 with an effective date of implementation of 12/16/11.

Review of Statutory Notices

General Statutory Notices

31-5364 4-10 Important Information Regarding Your Insurance.

31-5276 10-08 Important Information Regarding Your Insurance.

We agree that there were some words from the suggested language in the code section missing from the forms. However, we disagree that leaving off the words resulted in the language not being substantially similar to the code. The intent of using substantially similar language when seen in a code section is that when words are altered, they should still mean the same thing. Our notices had the exact same meaning without the words. We also believe that it is necessary to exclude the words that we did. The words excluded state that "if no agent was involved in the sale of this insurance." The words are excluded so as not to confuse or mislead our customers since customers cannot get one of our policies except through an agent.

Notice of Information Practices, SRN # 25-2480

We respectfully disagree that our Notice of Information Practices, SRN # 25-2480, does not satisfy VA Code Section 38.2-604.1, Subsection B, 6. and request that this violation be withdrawn.

VA Code Section 38.2-604.1, Subsection G expressly provides: "An insurance institution or agent may satisfy the notice requirements of 38.2-604 and this section through the use of separate notices or a combined notice."

Our analysis is as follows:

VA Code Section 38.2-604.1, Subsection B, 6 provides, "Any notice required by subsection A of this section shall be in writing or, if the applicant or policyholder agrees, in electronic format, and shall state: 6. A description of the policies and practices for protecting the confidentiality and security of financial information."

Based solely on the Notice of Information Practices, the VA BOI has concluded that "the company's notice does not notify the insured of the company's policies regarding Subsection B, 6 and thus is not in compliance with this statute. We provided to the VA BOI Farmers Privacy Policy, form 25-7660, which each insured receives, which expressly contains a section entitled "How we protect your information" in satisfaction of the requirements set forth in VA Code 38.2-604.1, Subsection B, 6. It provides: "At Farmers, our customers are our most

valued assets. Protecting your privacy is important to us. We restrict access to personal information about you to those individuals, such as our employees and agents, who provide you with our products and services. We require those individuals to whom we permit access to your customer information to protect it and keep it confidential. We maintain physical, electronic, and procedural safeguards that comply with applicable regulatory standards to guard your nonpublic personal information. We do not disclose any nonpublic information about you, as our customer or former customer, except as described in this notice."

VA Code Section 38.2-604.1, Subsection G expressly provides: "An insurance institution or agent may satisfy the notice requirements of § 38.2-604 and this section through the use of separate notices or a combined notice."

Because we are permitted by statute to satisfy these requirements by two separate notices, and because Farmers Privacy Notice clearly satisfies the requirement imposed by VA Code 38.2-604.1, Subsection B, 6, Farmers is fully compliant with VA Code 38.2-604.1, Subsection B, 6.

3.

We do not dispute the issue as the AUD notice did not contain prototype language. We will revise our Adverse Underwriting Decision notices in accordance with the prototype notice from the Bureau. Forms to be revised: 25-7582 6-03, 25-7704 2-10, 25-4324 1-07, 25-4300 5-06, 25-4285 12-07, 25-4270 7-05 as of Release 8. (Form 25-7674 6-03 Fair Credit Reporting Act Notification will become obsolete and will be replaced by 25-8430 for Auto and 25-8431 for Home in Release 8 2011.)

We respectfully disagree with the inclusion of the 25-4476 1-09 Declining Deductible form as an AUD notice. We do not consider the Declining Deductible as an AUD under the law. It is not given to decline, terminate, apply for coverage, placement with residual market, or to charge a higher rate based on information that differs from that provided. It is for coverage purchased with the policy that was only intended to remain on the policy if the policyholder remained free of chargeable accidents per terms of the policy. Although this form is not a required form per VA Code, it is part of our general business practice to advise customers whenever they have or perceive they have a reduction in their benefits. We have identified for our customer that a deductible coverage is being removed and have also given them an opportunity to dispute removal with us. We have agreed to look at any information they provide us that differs from our assessment so that if our information is incorrect, we can correct their policy. While this form may in some ways mimic what the Code requires for AUD notices, it was intended as a customer notification.

Statutory Vehicle Notices

1.

25-2853 10-97 Important Notice Re Point Change And/or Premium Increase.

We agree that there were some words from the suggested language in the code section missing from the forms. However, we disagree that leaving off the words resulted in the language not being substantially similar to the code. The intent of using substantially similar language when seen in a code section is that when words are altered, they should still mean the same thing. Our notices had the exact same meaning without the words. We also believe that it is necessary to

exclude the words that we did. The words excluded state that "if no agent was involved in the sale of this insurance." The words are excluded so as not to confuse or mislead our customers since customers cannot get one of our policies except through an agent.

2.

We do not dispute that the code requires the cancellation language to be printed on the first page of the form in the instance that a written application is used. Although the Memorandum is not a written application, we will undertake to move this language to page one as of December 2011.

3.

We are in agreement with your review and per 38.2-22343A we will alter the word "may" to "shall." We will also add the language "You may request that your credit information be updated and if you question the accuracy of the credit information, we will, upon your request, reevaluate you based on corrected credit information from a consumer reporting agency." To be effective on or before December 2011.

Statutory Property Notices

We are in agreement with your review and per 38.2-22343A we will alter the word "may" to "shall." We will also add the language "You may request that your credit information be updated and if you question the accuracy of the credit information, we will, upon your request, reevaluate you based on corrected credit information from a consumer reporting agency." To be effective on or before November 2011.

Other Notices

We do not dispute the wording on the glass scripts.

Other Law Violations

Auto: We do not dispute this issue for the language on forms 31-5277 4-08, 31-5364 4-10, 31-5261 6-09, and 31-5276 1008. We have addressed this issue for our FA2 product as of December 2010 with the completion of the project scheduled on or before October 2011.

Home: We respectfully disagree that the language on forms 31-6094 1-09 and 31-6093 1-09 does not meet the substance of the requirement since we have identified the crime they will be committing along with indicating that there are criminal penalties. Taking the examiner's comments into consideration, we agree to change the language on the form to the language specified in VA Code 52-40B. The change will be implemented as of October 2011.

Licensing and Appointment Review

We do not dispute the fact that we were unable to obtain copies of the memorandum of insurance for the policy files in question. We are drafting new controls that will require the insured's signed MOI to be scanned to the Image Center; failure to provide proof of this documentation will result in policy cancellation within the discovery period.

Review of the Complaint-Handling Process

We respectfully disagree with the violation that a complete complaint log was not maintained. The examiner's observations indicated there was one automobile and one homeowner policy complaint on record with the Bureau which do not appear on the company's complaint log. Our response to the observation was: One complaint that was not listed was received in our office in January 2010. The date of the letter from the Bureau was 2009. We have moved the complaint from the 2010 log to the 2009 log. The second policy was listed under the name of the name of our policyholder Amy Youngman, not the complainant's name Hedi M Hessler-Allen. This complaint was on the original listing provided for the examination.

Review of Privacy and Information Security Procedures

No violations reported.

Part Two-Corrective Action Plan

General

Farmers Insurance Exchange and Mid-Century Insurance Company

Rating and Underwriting Review

(1)(2)(3) Remedial Action - Company Response - Underpayments:

We respectfully submit the Farmers Insurance Exchange/Mid-Century Insurance Company Restitution worksheet which reflects payments for a total of \$6,051.64 including six percent (6%) simple interest.

We offer the following explanation as reason for the differences between the worksheet we are submitting and the amount requested to be paid.

Line 13 RPA 025, on the Rating Tab of the Restitution Worksheet. The policy cancelled effective 12/23/2010 and as such, the refund which includes simple interest of 6% was pro-rated in the amount of \$647.07. Screenshots of the policy are included in Exhibit 67.

Line 14 RPA028, on the Rating Tab of the Restitution Worksheet. The policy cancelled effective 7/15/2009, and as such the refund which includes simple interest of 6% was pro-rated in the amount of \$32.77. A screenshot of the policy cancellation are included in Exhibit 68.

Line 15 RPA 030, on the Rating Tab of the Restitution Worksheet. The policy cancelled effective 10/6/2009, and as such the refund which includes simple interest of 6% was pro-rated in the amount of \$15.65. A screenshot of the policy cancellation are included in Exhibit 69.

Line 16 RPA031, on the Rating Tab of the Restitution Worksheet. The policy was cancelled effective June 19, 2009 and as such, no refund was generated as the policy was cancelled on the date of inception. See Exhibit 70.

Line 19 RPA038 on the Rating Tab of the Restitution Worksheet. We respectfully disagree with the refund amount. In rating this policy, it has been determined that calculations for the increased limits for Separate Structures, increased limits for Personal Property, and increased

Loss of Use coverage were not included in the examiner's rating worksheet. For this policy, the Separate Structures coverage included is only 10% of Coverage A or \$90,000; however, the insured selected coverage in the amount of \$96,000. The Personal Property coverage amount included is 75% of Coverage A or \$675,000; however, the insured selected \$713,000. The Loss of Use coverage included is 50% of Coverage A or \$450,000; however, the insured selected \$476,000. In addition, there was a discrepancy in the premium amount for the Personal Liability coverage; the examiner worksheet showed \$26.00; however, the amount should be \$21.00. Please see exhibit 12 for this information.

Line 31 RPA070 on the Rating Tab of the Restitution Worksheet. We respectfully disagree with the refund amount of \$7.53. The renewal offer included four vehicles in the household, and was rated as such. An auto in the household was cancelled effective 12/6/08; however, this was after the offer to renew had been made. At the time of the offer the renewal rating was correct. See Exhibit 71.

Specify accurate information in the policy by showing the UMPD limit, garaging address, correct named insured, and listing and attaching only forms applicable to the policy on the declarations page.

Auto: UMPD limits are not listed on the declarations page. The New Farmers Auto 2.0 that was filed FARM-126380685 and approved 12/8/2009, lists the UMPD limits on the declarations page. Exhibit 55

Auto: A corrective program was implemented in September 2010 to display the garaging zip of the insured's vehicle on the declarations page when the zip code designated in the insured's Name and Address section is different than the garaged zip of the vehicle(s). A copy of the declarations page indicating the garaging zip. Exhibit 56

Auto: A project has been established to remove endorsement from VA065, Other Than Collision form if it is not a selected coverage for the policy as of December 19, 2011.

Auto: A project has been established to implement system changes that will display endorsement form PP 00 01 01 05 in the endorsement list on the declarations page for both Farmers Insurance Exchange and Mid Century Insurance Company as of October 17, 2011.

Auto: We do not dispute that the exclusionary forms (PP0301, PP0327, PP1348) were not listed on the renewal. This appears to be a one-time system error that occurred for this particular policy renewal. These endorsements are included in all of the subsequent renewals. Exhibit 57.

Home: We do not dispute the violation that the policy type on the declarations page indicates policy "unknown". This violation pertains to our new business transactions and only for the term under audit. We will formally notify the Bureau that we will no longer accept New Business into this policy form as of June 16, 2011. Additionally, we will implement a process to non-renew this policy form with the agent providing an offer of coverage via our Next Generation policy effective August 16, 2011.

Home: We have established project F-11-045 to add the policy form 56-5559 to the declarations page.

This will be implemented in August 2011.

Home: We do not dispute the finding that the declaration page indicates 'NIL' under liability. We did extend liability coverage and this is indicated on the secondary policy; however, the agent did not follow proper procedure to list the secondary policy on the primary policy. We will publish communications reminding Virginia agents to properly document the extension of Liability coverage from a primary policy to a secondary policy. Additionally, we will directly address this specific policy with the agent to ensure it is properly documented. This will be done on or before 5/16/2011.

Properly represent the benefits, coverage, advantages, and conditions of the policy by showing the policy fee as part of the total policy premium.

Auto: A project has been established to incorporate the Policy fee as part of the total Policy Premium as of October 17, 2011.

Home: It is our business practice to list the policy fee on the declarations page. We have established a defect project TD454122 with a corrective action date of June 18, 2011.

Maintain a copy of all new business applications.

Auto/Home: We are drafting new controls that will require the insured's signed MOI to be scanned to the Image Center.

Use the rules and rates on file with the Bureau.

Auto: We did in fact apply the Renewal Rate Cap that was in place and contained in the manual, however, we inadvertently placed the guidelines for the renewal rate cap in the manual section that is not filed. Since the noted calculation benefited the customer, we will not pursue charging the existing customer the difference in premium. We have since filed the renewal rate cap rule for our FA2 product.

Home: (Market Value program policies) This appears to be an old summary document that does not reflect our current underwriting guidelines. We will formally notify the Bureau that this manual page is not a part of our Customer Selections Guidelines. This will be done on or before May 16, 2011.

Home: We will update manual page 131 to include the zip code 23453 in territory 21. This will be done on or before May 16, 2011.

Home: We will update and file page 61 and 1801 to distinguish between increased Coverage B and increase Specified Coverage B (Endorsement HO 0448). This will be done on or before May 16, 2011.

Auto: We do not dispute the one violation using the filed rules when rating a trailer. A project has been established to program system edits that will ensure the Other than Collision and Collision deductible on the trailer is the same as the deductible on the vehicle as of December 19, 2011.

Auto: We do not dispute the one violation concerning the use of the correct tier eligibility. By April 30, 2011, we will file a modified rule to specify that 30/60 eligibility is based on the rated driver assigned to the policy.

Auto: We do not dispute the one violation concerning the territory base rate. A project has been established to refund the premium that was overcharged to this policy by October 17, 2011.

Auto: We do not dispute the one violation concerning driver classification/rate class discrepancy. The driver assignment was manually overridden by our Service Point Representative based on Insured's request on June 29th renewal. However, the service representative did not re-allocate the driving percentage to reflect that Michael is driving the Civic majority of the time and Brian is driving the Mountaineer majority of the time. On March 21st, we have re-allocated the driving percentage of the drivers to reflect the appropriate vehicle they drive.

Home: We do not dispute the one violation concerning the correct public protection classification. In reviewing policy [REDACTED] it appears our system is working correctly. However, the address was inputted incorrectly. We have checked USPS, Google Maps, and MapInfo and have consistently been unable to locate this particular street, city & ZIP combination. We have worked with our account underwriters to fix the address and this issue was resolved with the correct premium group on 3/31/2011.

Auto: We do not dispute the two violations concerning the incorrect auto/home discount factor to the BIPD premium. A project has been established to adjust and refund any premium for these policies that were adversely affected due to the incorrect BIPD factor for the Auto/Home discount as of October 17, 2011.

Auto: We do not dispute the one violation concerning the new household discount applied in error. Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them.

Auto: We do not dispute the two violations concerning the application of the EFT discount. Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them.

Auto: We do not dispute the two violations concerning the good student discount. Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them.

Auto: We do not dispute the one violation concerning the multi-car discount not applied correctly. A project has been established to adjust the premium to reflect the discount this multi-car policy should have received as of October 17, 2011.

Auto: We do not dispute the one violation concerning the affinity discount. By April 30, 2011, we will file a modified description of the affinity discount page 813 to list "Farmers and Mid-Century Company Employees and Retirees".

Auto: We do not dispute the one violation concerning the issue that we were unable to provide the required proof for the YES discount. The discount was applied to the policy based on the discount from a prior out-of-state policy. Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them.

Auto: We do not dispute the one violation concerning the anti-lock brake discount not applied. When the vehicle was placed on this policy (May 30, 2006), the application of Anti-Lock Brake Discount was based on Insured's indication if the vehicle has Anti-lock brake. For this policy, the insured did not indicate that the vehicle has anti-lock brake as a result; the anti-lock brake discount was not applied.

Auto: We made system changes in April 2010, that automatically apply vehicle specific discounts (i.e. Anti-lock brake Discount) when the policy is inception or vehicle is placed in the policy.

Home: We will file a manual page correction noting that Market Value policies receive a factor of 0.86 for the auto/home discount. The filing will be made on or before May 16, 2011.

Auto: We will file the manual page with the proper steps to calculate the Additive Point Surcharge for Mid Century Insurance Company by April 30, 2011.

Auto: We do not dispute the one violation that High Performance Surcharge should have been applied to this policy. Due to system error, the High Performance Surcharge was not applied to this policy. However, this policy is rated with High Performance Factor as it converts to Farmers Auto 2.0 Rating Program as filed April 19, 2010 (SERFF# FARM-126561911).

Auto NB: Since April 19th, 2010, we have migrated to new VIN Decoding program provided by Highway Loss Data Institute which provides much more extensive database as well as updated database to match the vehicle to the appropriate make and model trim for symbol to be assigned by the system.

Auto RNWL: Since April 19th, 2010, we have migrated to new VIN Decoding program provided by Highway Loss Data Institute which provides much more extensive database as well as updated database to match the vehicle to the appropriate make and model trim for symbol to be assigned by the system. Review Sheet 85515307: The system inadvertently assigned a make and model code for this VIN that corresponded to a symbol V. This was fixed on August 20, 2010 renewal which assigned the correct symbol Y as filed effective February 15, 2010.

Auto: As the \$725 deductible was not available, a project has been established to apply the factor for the approved \$1000 deductible to adjust and refund any premium for policies that were adversely affected as of October 17, 2011. A project has also been established to adjust and refund any premium for policies that were adversely affected due to incorrect factor for 750 deductible as of October 17th, 2011.

Auto: As of April 15, 2011, we will file a modified rule to specify that 30/60 eligibility rule is based on the rated driver assigned to the policy.

Auto: Programming concerning the K coverage discrepancy was corrected as of December 18, 2010.

Auto: For Farmers Insurance Exchange, we will file the appropriate logic that determines the Household Composition Rate factor as recommended by April 30, 2011. For Mid Century Insurance Company policies, the new FA2 program does not have a Household Composition factor.

Home: We do not dispute the Combination B filing issue. In the creation of the Combination B manual pages an oversight was made in not listing those who do not receive the Fifty Plus discount (0-49). We filed SERFF#: FARM-126878927 on November 14, 2010 with an effective date of December 16, 2010, to address this issue.

Home: We regard carports as detached from the primary structure as they are not built into the primary building structure and regarded as separate structures; however, we note the examiners observations that we do not define this in our manual. We filed SERFF#: FARM-126878927 on November 14, 2010 with an effective date of December 16, 2010 to address this issue.

Home: We have eliminated the issue through a programming change that matches the exterior wall selection with the construction type. This program was fixed in two stages through project F-10-049 effective August 16, 2010 and Project F-10-104 effective December 16, 2010.

Home: We do not dispute the finding that the policy fee should be charged based on our current filing; however, the transactions in question are for policies that were rewritten and we do not intend to continue with the policy fee charge on these transactions. We will update the manual page indicating that rewrites will not be charge the new business policy fee. This will be done effective on or before May 16, 2011.

Auto: We do not dispute the one violation that we failed to charge for the filed SR 22 fee. As this policy is no longer in force, we will not pursue charging the customer the additional fee for the filing. We will establish training by April 30, 2011 to educate the Agent and Service Point personnel to ensure they understand the SR-22 and FR-44 rules as filed.

Home: We will create a separate Market Value rating sequence page to bring our manual in sync with our system. This will be done on or before May 16, 2011.

Use a binder for no more than 60 days after the effective date of coverage

Auto: Policies were not cancelled within the first 60 days because a transactional error was made in servicing the policy. The policy should not have been reinstated and cancelled again as this is not our accepted business practice. Due to policy eligibility changes now in effect for auto business in Virginia, this issue should no longer arise due to FA2 guidelines.

Home: We have also, introduced stricter transaction requirements that prevent an agent from backdating coverage, contributing to a discrepancy between the new business effective date and the date the policy became available for underwriting review.

Provide the credit score disclosure notice.

While we could not provide a copy of the memorandum of insurance, at the point of sale, the credit disclosure notice is always generated and appears on the agent's screen with instructions to read the notice to the customer. (See attached screen print.) If either the agent or the customer's wishes, the credit disclosure notice can also be printed and provided to them applicant in a hard copy. The disclosure contained in the MOI is actually a second time or possibly the third time that the disclosure is provided. For this reason, we believe that we are compliant with the mandated credit disclosure without regard to the maintenance of the MOI. Please see Exhibit 6

Properly rate policies when credit information is obtained.

Auto NB/RNWL: We will implement additional re-enforcement training about the ordering of a new score and documenting files appropriately with our Agents by October 17, 2011.

Termination Review

We respectfully submit the Farmers Insurance Exchange/Mid-Century Insurance Company Restitution Termination listing which reflects refunds for a total of \$495.38, including six percent (6%) simple interest.

We offer the following explanation as reason for the differences between the worksheet we are submitting and the amount requested to be paid.

Line 9, TPA008, on the Termination Tab of the Restitution Worksheet: We respectfully disagree with the overcharge of \$187.00. The policy was one of several policies billed on account [REDACTED] for this insured. The account records show there was previous earned premium in the amount of \$160.01 at the time the policy was reinstated effective 1/28/09. The reinstatement premium for the policy was \$340.10 plus the policy fee of \$25.00. Adding this amount to the earned premium equals a total due of \$525.11. The policy canceled effective 4/19/09. The earned premium on the account was in the amount of \$334.65. Please see Exhibit 18 for the policy records and premium breakdown.

Line 10, TPA009, on the Termination Tab of the Restitution Worksheet: We respectfully disagree with the overcharge of \$108.50. The policy renewed effective 7/4/09 for a premium of \$144.20; however, company records show a change was made effective 7/6/09 to add a driver with a required SR-22 Filing for an increase of \$92.52. The policy was then rewritten and the credit balance was transferred to the new policy. Please see Exhibit 17 for a premium breakdown for this policy.

Line 11, TPA048, on the Termination Tab of the Restitution Worksheet: We respectfully disagree with the overcharge of \$59.25. The policy was one of several policies billed on account [REDACTED] for this insured. The policy renewed 7/23/08 for \$1,353.60. A homeowner's policy on this account was cancelled effective 5/28/08 which caused the loss of the auto/home discount and increased the annual premium on the automobile policy to \$1621.40. Another automobile policy on the account cancelled effective 9/8/08 which caused the loss of the multi-car discount and increased the annual premium to \$2,028.80. There were a few changes made to the policy in using new lower Loss of Use Rate with the final renewal premium at \$2023.90. The policy cancelled effective 1/15/09 and a cancellation credit was applied to the account of \$80.97. Copies of the policy screens and an account breakdown with copies of invoices paid are attached in Exhibit 16.

Use a binder for more than 60 days after the effective date of coverage.

Auto: Policies were not cancelled within the first 60 days because a transactional error was made in servicing the policy. The policy should not have been reinstated and cancelled again as this is not our accepted business practice. Due to policy eligibility changes now in effect for auto business in Virginia, this issue should no longer arise due to FA2 guidelines.

Home: We have also, introduced stricter transaction requirements that prevent an agent from backdating coverage, contributing to a discrepancy between the new business effective date and the date the policy became available for underwriting review.

Provide the insured with a written notice of an AUD when canceling a homeowner policy prior to the 90th day.

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Calculate earned premium according to filed rules and policy provisions

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Auto: A project has been established to incorporate the Policy fee as part of the total Policy Premium as of October 17, 2011.

Home: Include policy fee on policy and as a part of the total premium. A project has been established TD454122 with a corrective action date of June 18, 2011.

Retain a copy of the cancellation and non-renewal notices sent to the insured and lien holder.

Operations team met in February 2011 to review procedures for cancellation and non-renewal insured and mortgagee notices. Quarterly quality audits will be performed for compliance.

Provide proper notice of cancellation to the lien holder when cancelling a policy.

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Obtain and retain valid Proof of Mail cancellations for the insured and lienholder.

Effective June 2010 a new electronic data base was implemented, that replaces the paper system for proof of mail. Also meeting was held in February 2011, between company representatives and the Post Office to discuss the USPS stamp on Proof of Mail documents. There is a requirement that the customer meter strip is to be at least partially covered by the USPS round stamp to ensure the customer is not able to reuse the stamp; however, the USPS stamp will be

applied near the edge of the company meter strip in order to avoid overlapping which can cause illegibility. In addition, a new process has been implemented that requires the employee responsible for taking the mail to the post office for USPS round stamp application to also verify the stamps applied are legible. If the stamp is not legible, the employee must request an additional clear legible stamp to be added to the impacted listing.

Cancel a policy insuring an owner occupied dwelling after the 89th day of coverage for permitted reasons.

We have taken into consideration the Bureau's remarks and the Company has ceased cancelling mid-term on these foreclosure instances and has adopted a non-renewal action instead. This new procedure was fully implemented on 12/20/2010. The Company will remove the mortgagee cancellation clause from the contract, scheduled for implementation in mid-October 2011.

Cancel a private passenger auto when the notice is mailed after 59 days for valid reasons.

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Send cancellation notice for auto 45 days before effect date of cancellation when mailed after the 59th day.

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Send cancellation notice for auto for nonpayment at least 15 days before the cancellation date.

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Send cancellation for home for nonpayment at least 10 days before the effective date of cancellation.

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Provide insured notice of right to review by Commissioner

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained

on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Send cancellation notice for home at least 30 days before effect date of cancellation when mailed after 89th day

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Provide specific reason for cancellation or nonrenewal on notice

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Provide insured with notice of other insurance or VAIP on auto

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Send cancellation notice to address on policy

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Obtain advance written notice when insured requests cancellation of policy

As of December 17, 2010 we have published agency bulletin B-10-0942, attached as Exhibit 59 that requires agents to retain written record in their files or in the Company Image Center.

Send home cancellation 10 days before when mailed prior to 90th day

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Provide insured notice of other insurance though VAIP home

Additional training was completed in September of 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum on underwriting actions at the same time, thereby; ensuring employees new to the transactions would be trained on them. In February of 2010, we completed the updating of our reference material employees use. An announcement was sent to all affected employees on February 1, 2010. Exhibit 58

Claims review

(1)(2)(3) Remedial Action - Company Response - Underpayments:

We respectfully submit the Farmers Insurance Exchange/Mid-Century Insurance Company Restitution underpayments which reflect payments for a claims total of \$11,433.35 including six percent (6%) simple interest.

We offer the following explanation as reason for the differences between the worksheet we are submitting and the amount requested to be paid.

Line 3, CPA036 ClaimVehPPA355783325, Audit #2, on the Claims Tab of the Restitution Worksheet: We respectfully disagree with the underpayment of \$803.96 because the "Consent for Medical/Financial Treatment", which is signed by the insured, expressly states "I agree to assign all benefits from these insurance companies/agencies to this healthcare facility and any contracted group providing professional services." We were unable to find any authority holding that the language used in the consent/assignment was not valid.

In the Department's response, it is stated that the company's position is not valid because it is "not an AOB from the insurer that the insured signed authorizing the insurer to release the MED payment directly to the medical provider." There is no explanation as to why the assignment is not valid. Presumably the Department is taking the position that the AOB must be provided by the insurer. However, there is no support for this position. In fact, in *Helmick v. State Farm*, attached, the Court upheld an assignment that was contained in a "Consent to Admission". A copy of the Assignment of Benefits is also attached for consideration once more. Exhibits 60 and 61

Line 6, CPA092 ClaimVehPPA1264231305, Audit #7, on the Claims Tab of the Restitution Worksheet indicates a "Net to Customer with Interest" of \$938.00 The Review Sheet advises us: "The date of loss was 4/26/09. The company received the letter from the adverse carrier and same was uploaded on 5/7/09 into the CRN system. The claimant had been identified prior and the insured should have been reimbursed this \$750 collision deductible under the UM coverage. However, the company-to date-has not released the \$750 deductible. Thus, an underpayment of \$750 resulted." We have made payment based on the \$750 stated on the Review Sheet plus interest or \$795.00. The review sheet is attached. Exhibit 62

Line 9, CPA100 ClaimVehPPA-198179391, Audit #8, on the Claims Tab of the Restitution Worksheet was WITHDRAWN on 2/18/11. It is attached for your review. Exhibit 63

Line 16, CHO021 ClaimPropHO-1807175874, Audit #15, on the Claims Tab of the Restitution Worksheet was paid previously. We paid the interest as agreed at the time we responded to the Review Sheet. The review sheet is attached. Exhibit 64

Document the claim file so that all events and dates pertinent to the claim can be reconstructed.

Auto Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area was completed at meetings throughout VA held on February 17th in Stafford, February 18th in Richmond, February 24th in Roanoke and February 25th in Virginia Beach. Specifics which were addressed:

- Reviewed Audit results with team
- Reviewed 'Common Problems' found during MCE's from the VA BOI website and will continue to review with staff quarterly
- Reviewed §38.2-510. Unfair claim settlement practices with entire team.
- Review of APD Field Handling guidelines on File documentation (page 2)
- Review of Liability Field handling guidelines on Documentation (page 8)

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively. §38.2-510. Unfair claim settlement practices will be reviewed with entire team quarterly.

Home Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area will be completed by 4-15-11. Specifics which will be addressed:

- We will review the results and findings of this MCE Report with all staff handling claims in VA
- Reinforce the need to properly document the sequential steps taken to handle claims to conclusion.
- Review Title 14 of the Virginia Administrative Code, specifically 14 VAC 5-400-30/1 bi-annually and with all New Hires as a part of the New Hire Training curriculum.
- Review Audit Results Quarterly.
- Review Title 14 of the Virginia Administrative Code every January and June.

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively.

Properly represent pertinent facts or insurance provisions relating to the coverage at issue

Auto Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area was completed at meetings throughout VA held on February 17th in Stafford, February 18th in Richmond, February 24th in Roanoke and February 25th in Virginia Beach. Specifics which were addressed:

- Reviewed Audit results with team
- Reviewed 'Common Problems' found during MCE's from the VA BOI website and will continue to review with staff quarterly
- Reviewed §38.2-510. Unfair claim settlement practices with entire team.
- Review of APD Field Handling guidelines on File documentation (page 2)
- Review of Liability Field handling guidelines on Documentation (page 8)

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively. §38.2-510. Unfair claim settlement practices will be reviewed with entire team quarterly.

Home Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims

representative. Follow up training in this area will be completed by 4-15-11. Specifics which will be addressed:

- We will review the results and findings of this MCE Report with all staff handling claims in VA
- Reinforce the need to properly document the sequential steps taken to handle claims to conclusion.
- Review Title 14 of the Virginia Administrative Code, specifically 14 VAC 5-400-30/1 bi-annually and with all New Hires as a part of the New Hire Training curriculum.
- Review Audit Results Quarterly.
- Review Title 14 of the Virginia Administrative Code every January and June.
- Revise our correspondence to reflect an appropriate and more accurate reflection of the policy timeframes. Instead, those letters and estimates will contain the following: *Your policy provides that once you actually repair or replace the damaged property, you may make a claim under replacement cost settlement for the withheld depreciation, subject to coverage limits. Please refer to the Conditions section of your policy for specific time limitations that may apply when making a claim for any recoverable depreciation under replacement cost settlement. Any depreciation shown as non-recoverable does not qualify for reimbursement.*

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively.

Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 10 business days.

Auto Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area was completed at meetings throughout VA held on February 17th in Stafford, February 18th in Richmond, February 24th in Roanoke and February 25th in Virginia Beach. Specifics which were addressed:

- Reviewed Audit results with team
- Reviewed 'Common Problems' found during MCE's from the VA BOI website and will continue to review with staff quarterly
- Reviewed §38.2-510. Unfair claim settlement practices with entire team.
- Review of APD Field Handling guidelines on File documentation (page 2)
- Review of Liability Field handling guidelines on Documentation (page 8)

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively. §38.2-510. Unfair claim settlement practices will be reviewed with entire team quarterly.

Home not applicable.

Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

Auto Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative.

Follow up training in this area was completed at meetings throughout VA held on February 17th in Stafford, February 18th in Richmond, February 24th in Roanoke and February 25th in Virginia Beach. Specifics which were addressed:

- Reviewed Audit results with team
- Reviewed 'Common Problems' found during MCE's from the VA BOI website and will continue to review with staff quarterly
- Reviewed §38.2-510. Unfair claim settlement practices with entire team.
- Review of APD Field Handling guidelines on File documentation (page 2)
- Review of Liability Field handling guidelines on Documentation (page 8)

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively. §38.2-510. Unfair claim settlement practices will be reviewed with entire team quarterly.

Home Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area will be completed by 4-15-11. Specifics which will be addressed:

- We will review the results and findings of this MCE Report with all staff handling claims in VA
- Revise our correspondence to reflect an appropriate and more accurate reflection of the policy timeframes with respect to Dwelling and Personal Property.
- Review Title 14 of the Virginia Administrative Code, specifically 14 VAC 5-400-30/1 bi-annually and with all New Hires as a part of the New Hire Training curriculum.
- Review Audit Results Quarterly.
- Review Title 14 of the Virginia Administrative Code every January and June.

Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.

Auto Only Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area was completed at meetings throughout VA held on February 17th in Stafford, February 18th in Richmond, February 24th in Roanoke and February 25th in Virginia Beach. Specifics which were addressed:

- Reviewed Audit results with team
- Reviewed 'Common Problems' found during MCE's from the VA BOI website and will continue to review with staff quarterly
- Reviewed §38.2-510. Unfair claim settlement practices with entire team.
- Review of APD Field Handling guidelines on File documentation (page 2)
- Review of Liability Field handling guidelines on Documentation (page 8)

This area of concern will be included as part of the Supervisor file reviews and any deficiencies will be addressed individually and collectively. §38.2-510. Unfair claim settlement practices will be reviewed with entire team quarterly.

Failure to adopt and implement reasonable standards for the prompt investigation of claims.

Home Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area will be completed by 4-15-11. Specifics which will be addressed:

We will review the results and findings of this MCE Report with all staff handling claims in VA
Review the Unfair Claims Settlement Practices Act, specifically, § 38.2-510 A-3/1 bi-annually and with all New Hires as a part of the New Hire Training curriculum.
Review Subrogation Training with all Claim Reps.
Review Audit Results Quarterly.

Failure to make all claim denials in writing and keep a copy in the claim file.

Home Remedial Action: The Companies continue to reinforce claim best practices with all claims representatives. Individual infractions were addressed with the respective claims representative. Follow up training in this area will be completed by 4-15-11. Specifics which will be addressed:

We will review the results and findings of this MCE Report with all staff handling claims in VA.
Review Title 14 of the Virginia Administrative Code, specifically 14 VAC 5-400-70 B/1 bi-annually and with all New Hires as a part of the New Hire Training curriculum.
Review Audit Results Quarterly.
Review Title 14 of the Virginia Administrative Code every January and June.

Include a correct statement of coverage under which payments are made with all claim payments made to insureds.

(Auto and Home) A change to the check system has been requested. We anticipate an early September implementation. In the interim, training sessions are in progress with claims personnel to ensure they manually type on the check, through the system, the correct coverage the related to the payment.

Forms review

Precise language on Auto/Home forms.

We failed to use the precise language on form VA6470/94-1105 2nd Ed 2-08 The VA6470 which was filed, approved, and replaced with the J6562. The J6562 was inadvertently not filed. The coverage provided is the same under both endorsements. Filing will take place under project 11-A-UP-08401473.

We failed to use the precise language on form VA6471 which was filed, approved, and replaced with the J6563. The J6563 was inadvertently not filed. The coverage provided is the same under both endorsements. Filing will take place under project 11-A-UP-08401473.

We failed to use the precise language on form VA6469 which was filed, approved, and replaced with the J6561. The J6561 was inadvertently not filed. The coverage provided is the same under both endorsements, with the exception of the coverage for a utility trailer not owned by you or a family. Filing will take place under project 11-A-UP-08401473.

We failed to use the precise language on form VA045/94-0705 2nd Ed 2-08. Filing will take place under project 11-A-UP-08401473.

We failed to use the precise language on form 56-5559.

Exhibit 65 is attached which indicated the following changes:

Page 3	definition of Hurricane.
Page 17	nuclear reaction wording has been amended
Page 20	project has been implemented to amend the mortgagee endorsement
Page 21	Deductible clause has been amended

Form J6143 (93-6143 1st Ed 8-97) has not been filed. Upon further review, we note the language in the J6143 does not match with the ISO HO3, HO4, and HO6 policy forms. We will fix the form so that it matches up with the policy language and then file by June 2011.

We will file E4158 1st Ed 91-4158 9-95 as of April 15, 2011.

We will file E0158 1st Ed 91-0158 5-91 as of April 15, 2011

We do not dispute this violation of form HO-290. We have been advised that there are no active policies with this endorsement and as such it is not an active endorsement.

We do not dispute this violation of form HO 23 54 04 91 (97-0061 8-97) "Earthquake - Virginia" used by the company during the audit period was superseded on 8/1/98 by form HO 23 54 08 98. We will have the form updated to be filed as of 6/3/11.

Form HO 01 45 04 99 Special Provision will be filed as of June 2011.

We have amended the form HO 0003 4-91, as of April 15, 2011.

Policy Issuance

Auto: A project has been established to implement system changes that will display endorsement form PP 00 01 01 05 in the endorsement list on the declarations page for both Famers Insurance Exchange and Mid Century Insurance Company as of October 17, 2011.

Auto: We do not dispute that the exclusionary forms (PP0301, PP0327, PP1348) were not listed on the renewal. This appears to be a one-time systems error that occurred for this particular policy renewal. These endorsements are included in all of the subsequent renewals. Please see Exhibit 57, showing subsequent renewals with the forms listed on the declarations.

Home: The policy type on the "Market Value" declarations page indicates policy "unknown". This violation pertains to our new business transactions and only for the term under audit. We will formally notify the Bureau that we will no longer accept New Business into this policy form as of June 16, 2011. Additionally, we will implement a process to non-renew this policy form with the agent providing an offer of coverage in our Next Generation policy effective August 16, 2011.

Home: We do not dispute this violation and have established project F-11-045 to add the policy form 56-5559 to the declarations page. This will be implemented in August 2011.

Home: It is our business practice to list the total annual premium on the declarations page. We have established a defect project TD454122 with a corrective action date of June 18, 2011.

Home: We do not dispute the finding that the declaration page indicates 'NIL' under liability. We did extend liability coverage and this is indicated on the secondary policy; however, the agent did not follow proper procedure to list the secondary policy on the primary policy. We will publish communication reminding all Virginia agents to properly document the extension of Liability coverage from a primary policy to a secondary policy. Additionally, we will directly address this specific policy with the agent to ensure it is properly documented. This will be done on or before May 16, 2011.

Home: We will create a Replacement Cost Notice in project F-11-045 with an effective date of implementation of December 16, 2011 for new and renewal policies.

Review of Statutory Notices

Amend the Important Information Regarding Your Insurance notice

31-5364 4-10 Important Information Regarding Your Insurance.

31-5276 10-08 Important Information Regarding Your Insurance.

We agree that there were some words from the suggested language in the code section missing from the forms. However, we disagree that leaving off the words resulted in the language not being substantially similar to the code. The intent of using substantially similar language when seen in a code section is that when words are altered, they should still mean the same thing. Our notices had the exact same meaning without the words. We also believe that it is necessary to exclude the words that we did. The words excluded state that "if no agent was involved in the sale of this insurance." The words are excluded so as not to confuse or mislead our customers since customers cannot get one of our policies except through an agent.

Amend the Financial Information Collection and Disclosure Practices notice

Notice of Information Practices, SRN # 25-2480

We respectfully disagree that our Notice of Information Practices, SRN # 25-2480, does not satisfy VA Code Section 38.2-604.1, Subsection B, 6. and request that this violation be withdrawn.

VA Code Section 38.2-604.1, Subsection G expressly provides: "An insurance institution or agent may satisfy the notice requirements of 38.2-604 and this section through the use of separate notices or a combined notice."

Our analysis is as follows:

VA Code Section 38.2-604.1, Subsection B, 6 provides, "Any notice required by subsection A of this section shall be in writing or, if the applicant or policyholder agrees, in electronic format, and shall state: 6. a description of the policies and practices for protecting the confidentiality and security of financial information."

Based solely on the Notice of Information Practices, the VA BOI has concluded that "the company's notice does not notify the insured of the company's policies regarding Subsection B, 6 and thus is not in compliance with this statute. We provided to the VA BOI Farmers Privacy Policy, form 25-7660, which each insured receives, which expressly contains a section entitled

"How we protect your information" in satisfaction of the requirements set forth in VA Code 38.2-604.1, Subsection B, 6. It provides: "At Farmers, our customers are our most valued assets. Protecting your privacy is important to us. We restrict access to personal information about you to those individuals, such as our employees and agents, who provide you with our products and services. We require those individuals to whom we permit access to your customer information to protect it and keep it confidential. We maintain physical, electronic, and procedural safeguards that comply with applicable regulatory standards to guard your nonpublic personal information. We do not disclose any nonpublic information about you, as our customer or former customer, except as described in this notice."

VA Code Section 38.2-604.1, Subsection G expressly provides: "An insurance institution or agent may satisfy the notice requirements of § 38.2-604 and this section through the use of separate notices or a combined notice."

Because we are permitted by statute to satisfy these requirements by two separate notices, and because Farmers Privacy Notice clearly satisfies the requirement imposed by VA Code 38.2-604.1, Subsection B, 6, Farmers is fully compliant with VA Code 38.2-604.1, Subsection B, 6.

Amend the Adverse Underwriting Decision notice

We do not dispute the issue as the AUD notice did not contain prototype language. We will revise our Adverse Underwriting Decision notices in accordance with the prototype notice from the Bureau. Forms to be revised: 25-7582 6-03, 25-7704 2-10, 25-4324 1-07, 25-4300 5-06, 25-4285 12-07, 25-4270 7-05 as of Release 8. (Form 25-7674 6-03 Fair Credit Reporting Act Notification will become obsolete and will be replaced by 25-8430 for Auto and 25-8431 for Home August 2011.)

We respectfully disagree with the inclusion of the 25-4476 1-09 Declining Deductible form as an AUD notice. We do not consider the Declining Deductible as an AUD under the law. It is not given to decline, terminate, apply for coverage, placement with residual market, or to charge a higher rate based on information that differs from that provided. It is for coverage purchased with the policy that was only intended to remain on the policy if the policyholder remained free of chargeable accidents per terms of the policy. Although this form is not a required form per VA Code, it is part of our general business practice to advise customers whenever they have or perceive they have a reduction in their benefits. We have identified for our customer that a deductible coverage is being removed and have also given them an opportunity to dispute removal with us. We have agreed to look at any information they provide us that differs from our assessment so that if our information is incorrect, we can correct their policy. While this form may in some ways mimic what the Code requires for AUD notices, it was intended as a customer notification.

Amend the Accident Point Surcharge Notice

25-2853 10-97 Important Notice Re Point Change And/or Premium Increase.

We agree that there were some words from the suggested language in the code section missing from the forms. However, we disagree that leaving off the words resulted in the language not being substantially similar to the code. The intent of using substantially similar language when seen in a code section is that when words are altered, they should still mean the same thing. Our notices had the exact same meaning without the words. We also believe that it is necessary to exclude the words that we did. The words excluded state that "if no agent was involved in the

sale of this insurance." The words are excluded so as not to confuse or mislead our customers since customers cannot get one of our policies except through an agent.

Provide the 60th day cancellation warning notice to the first page of the application

Although the Memorandum is not a written application, we will undertake to move this language to page one as of December 2011.

Amend the Credit Score Disclosure Notice

We will include the language change in the project scheduled for December 2011.

Amend the Glass Scripts

The following information is the layout of the call menu verbiage for the Farmers HelpPoint Fas Glas routing.

When a customer calls 800-344-8844, calls are broken up by an adjustable percentage between Farmers and Safelite for handling. All calls hear the following:

Safelite/HelpPoint Glass Service 800-344-8844

You have reached the Farmers Insurance Fas Glass customer service line. (In Spanish - to hear this message in Spanish please press 9)

If you are calling in regards to auto glass replacement press or say 1

If you are calling in regards to auto windshield repair press or say 2

If you are calling in regards to property glass replacement or emergency board up press or say 3.

Thank you for calling Farmers Insurance Fas Glass customer service line please make your selection now.

If you would like to hear the selections again please stay on the line. (Repeats once if not selection is made.)

If the call is sent to Safelite for handling the following greeting is played.

"Thank you for calling the HelpPoint Glass Service. Your call is being answered and recorded by Safelite Solutions. Your Insurance Company has an agreement with Safelite Solutions under which Safelite processes automobile glass claims. Safelite Solutions is not owned by your insurance company but provides services for them. We will need to ask you some questions to open a claim; we can then assist you in scheduling an appointment."

A copy of the 2011 script is attached as Exhibit 66.

Licensing and Appointment Review

We do not dispute the fact that we were unable to obtain copies of the memorandum of insurance for the policy files in question. We are drafting new controls that will require the insured's signed MOI to be scanned to the Image Center; failure to provide proof of this documentation will result in policy cancellation within the discovery period.

Review Complaint-Handling Process

We respectfully disagree with the violation that a complete complaint log was not maintained. The examiner's observations indicated there was one automobile and one homeowner policy complaint on record with the Bureau which do not appear on the company's complaint log. Our response to the observation was: One complaint that was not listed was received in our office in January 2010. The date of the letter from the Bureau was 2009. We have moved the complaint from the 2010 log to the 2009 log. The second policy was listed under the name of the name of

our policyholder Amy Youngman, not the complainant's name Hedi M Hessler-Allen. This complaint was on the original listing provided for the examination.

Recommendations

Rating and Underwriting

Update revised filed private passenger auto and homeowner manuals to reflect current practices

Recommendations have been noted by the Product Team.

Update the client/driver information screen

Include accident dates in accident point and surcharge notice

Use the term "Fire Policy Fee" instead of "Membership Fee"

Based on the recommendation of the Bureau, in using the terminology "fire policy fee" and "membership fee" we will modify our Memorandum of Insurance to reference simply "fee". The MOI will be changed via B-11-057 effective 10/16/2011.

File all rates and supplementary rate information prior to use of rates

Recommendations have been noted by the Product Team.

Terminations

Remove the right to review language from cancellation notice in first 59 and 89 days

Change the title of the termination notices to cancellation or non-renewal, currently these notices are titled "Fair Credit Reporting Act Notice"

Based on the recommendation of the Bureau, the Termination Notice has been revised so that it is easily identified as a Cancellation or Non-Renewal Notice. The revised notice was put into production on November 1, 2010.

Should not issue a revised declaration page with the reinstatement date shown as the effect date.

Company should remove language advising the insured that temporary cover provided by the application is being cancellation.

Should record and reports its cancellation accurately ie. Foreclosures are company initiated cancellation.

Recommendation has been noted.

Claims

Use term other than collision instead of comprehensive on checks

Based on the recommendations a change to the check system has been requested. We anticipate an Early September implementation. In the interim, training sessions are in progress with claims personnel to ensure they manually type on the check, through the system, the correct coverage the related to the Forms review payment.

Use the term medical expense benefits instead of Michigan no-fault PIP on letters

Use the term transportation expense instead of the term rental on checks.

Should maintain accurate records regarding which forms are approved.

Contact the rates and forms section to file rate shield (J6564/93 -6564 auto form.

Policy Issuance Process

Identify who should be a named insured and who should be named as a household member

Include the occupation of "Accountant/CPA" on the affinity discount form.

Based the recommendation of the Bureau, we have initiated a project to add CPA to the affinity form.

Identify the correct policy type on the credit notice of underwriting declaration and MOI

Statutory Notices

Company should correct Bureau contact information

Based on the recommendation of the Bureau we will update contact information.

Company should correct typo in Medical expense benefit and UM Coverage Important Notice

As set forth in this letter, we have attempted to address the concerns, comments, and recommendations outlined in the Market Conduct Examination Report in an expeditious and responsible manner. We ask that these comments be considered and the draft report be revised accordingly. We do not waive our right to invoke any other administrative remedies.

We await the release of the final report. Please feel free to contact JoAnna Benko at 512-233-3412, or myself, if there is anything further your might need.

Very truly yours,



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

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
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August 12, 2011

VIA UPS 2nd DAY DELIVERY

Joanna Benko, CPCU, CIC
Legislative and Regulatory Affairs
Farmers Insurance Exchange
15700 Long Vista Drive
Austin, TX 78728

Re: Market Conduct Examination
Farmers Insurance Exchange (NAIC # 21652)
Mid-Century Insurance Company (NAIC # 21687)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Benko:

The Bureau of Insurance (Bureau) has reviewed the Farmers Insurance Exchange and the Mid-Century Insurance Company's (Companies) April 7, 2011, response to the Preliminary Market Conduct Report (Report) of the above referenced companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

The Companies included policy numbers in their April 7, 2011, response to the Preliminary Report. Policy numbers are considered personal information and we will redact them from the published version of the Companies' response. The Companies must refrain from including personal information in their response to the Revised Report.

PART ONE – EXAMINERS' OBSERVATIONS

Automobile New Business Rating

- (1a) This violation remains in the Report. It appears the Company is responding to review sheet -304375274 for RPA004 instead of the review sheet (1370620592) for RPA017 that is referenced in the Company's response. The violation for RPA004 is for a non-rated driver shown as a Named Insured on the declarations page when she was no longer in the household. For reconsideration the Company must provide documentation that the daughter had a financial interest in the vehicle that would allow her to be the named insured at the time the policy was issued.

The violation for RPA016 under Item 3a has been rewritten to this Item. The declarations page did not show the Trailer Physical damage coverage or deductibles.

- (3a) After further review, the violation for the RPA016 has been withdrawn from the Report.
- (3b) The violation for RPA027 remains in the Report. The Company rated the policy correctly, but should have sent an AUD notice to the insured. The Company issued the insured's policy in a less favorable Company than the one requested, with lower limits, added conviction surcharge points, and charged additional premium. The underwriting notes indicated the Company initiated this change due to the convictions found for the insured after the application was submitted. The Report has been amended to make this Item 3 because Item 3a was withdrawn.
- (5a) After further review, the violation for RPA022 has been withdrawn from the Report.
- The violation for RPA020 remains in the Report. The Company's Principal Unmarried Male Drivers Age 25 through 29 Rule did not state this surcharge was not applied to "mock rated" policies. The filed rule for the Farmers policy states, "If there is equal usage of two or more automobiles by the same driver (age 25 through 29), the applicable surcharge is assigned to the policy developing the most premium," which was the Farmers policy. This surcharge was not filed for and was not applied to the Mid-Century policy.
- After further review, the violation for RPA028 has been withdrawn from the Report.
- (5b) After further review, the violation for RPA025 has been withdrawn from the Report.
- (5d) The violation for RPA031 remains in the Report. The Company's Adult Rate Class rule has two different rate classes for Pleasure Use vehicles, Rate Class 7 and 9. The annual mileage is required to select the correct class. The rule did not state Rate Class 9 was used for excess vehicles, regardless of annual mileage.
- (6) The violation for RPA002 remains in the Report. The Company did not increase the UMPD limits back to the inception date of August 31, 2009. The screen prints provided by the Company show the Uninsured Motorist Property Damage (UMPD) limit was increased effective September 12, 2009, after the policy effective date. The declarations page provided showing the increased limit was effective September 14, 2009.
- (7) These violations remain in the Report. Please explain the application process when the agent provides a verbal script, but the insured signs a written application. The screen print provided by the Company was a 2011 version of the Company's system. Please provide a screen print of the software used during the examination period to verify that the credit disclosure notice was provided in the earlier version of the agent system.
- (8) After further review, the violation for RPA008 has been withdrawn from the Report.
- The violation for RPA015 remains in the Report. The Company has not provided any additional information for us to reconsider this violation. The underwriting notes state there was a current score and a new score. Please provide the dates the two credit scores were obtained.

The violation for RPA032 remains in the Report. The Company has not provided any additional information for us to reconsider this violation. The underwriting notes state there was a current score and a new score. Please provide the dates the two credit scores were obtained.

Automobile Renewal Business Rating

- (3a) The violation for RPA040 remains in the Report. The Company has not provided any documentation that the EFT discount was applied on the policy effective date of April, 10, 2009. Exhibit 8 shows a policy effective date of May 31, 2009, and a transaction date of May 14, 2009. The Company has not explained why it would have applied the EFT discount after the policy effective date.

The violation for RPA053 remains in the Report. This was not an annual policy. The policy term under review was effective August 8, 2009 and expired on February 8, 2010. The Company indicated it used an Auto/Renter/Life discount factor of .08, which was not applicable to policies effective prior to August 13, 2009.

- (3g) The violation for RPA075 remains in the Report. The Company has not provided documentation that the Company processed a cancellation for the fourth policy on December 6, 2008 for nonpayment of premium effective January 16, 2009. Please provide the cancellation notices and proof of mailing documentation for the policies cancelled per the Company's response.

The violation for RPA070 remains in the report. The policy file indicates there were three policies in force when the renewal processed on December 17, 2008. The Company has not provided any documentation that it only cancelled one policy and left the insured with four policies in force, especially since these cancellations appear to have been backdated.

- (4) The violation for RPA044 remains in the Report. The Company is unable to determine why or how the second credit score was obtained. The Company must provide documentation of the dates both credit scores were obtained for reconsideration.

Homeowner New Business Rating

- (5) The violations for RHO003, RHO012 and RHO021 remain in the Report. The Company failed to retain copies of the declarations page in the format sent to the insured. The Company recreated the declarations (by manually retyping) for the Market Conduct Examination. The information provided in these recreated declarations was inaccurate and changed several times during our review. The Companies' actions caused the audit process to be unverifiable.

- (6) These violations remain in the Report. Please explain the application process when the agent provides a verbal script, but the insured signs a written application. The screen print of Exhibit 6A provided by the Company was a 2011 version of the Company's system. Please provide screen print of the software used during the

examination period to verify the credit disclosure notice was provided in the earlier version of the agent system.

Homeowner Renewal Business Rating

The overcharges have been revised in the Report.

- (3c) After further review, this violation for RHO038 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

Automobile Notices Mailed Prior to the 60th Day of Coverage

- (2) After further review, the violation for TPA044 has been withdrawn from the Report.
A violation for TPA004 has been added to the Report.
- (3) A violation under this section has been added for TPA044 because the Company did not provide valid proof of mailing. The cancellation notice is dated August 26, 2009, but the proof of mailing is dated October 13, 2009. The Company must provide the corresponding proof of mailing for reconsideration.
- (4a) After further review, the violation for TPA004 has been withdrawn from the Report. However, a violation of § 38.2-1906 D of the Code of Virginia has been added. The Company has responded that the policy was cancelled flat. If this is a flat cancellation, the Company must refund the entire premium to the insured and the information provided does not indicate the Company refunded the entire premium.
- (4b) The violation for TPA003 remains in the Report. The records provided by the Company indicate the cancellation notice was mailed on April 23, 2009, after the April 21, 2009, reinstatement date indicated by the Company. The Company must explain why a cancellation notice was generated with an April 23, 2009 date, if the policy was reinstated on April 21, 2009.

Automobile Notices Mailed After the 59th Day of Coverage

- (3) The violation for TPA048 remains in the Report. The Company has not provided sufficient accounting documentation to determine the payments and service charges applicable to this policy.

After further review, the violation for TPA009 has been withdrawn from the Report. The Company provided the missing documentation necessary to calculate the return premium.

After further review, the violation for TPA008 has been withdrawn from the Report.

- (5b) After further review, the violation for TPA008 has been withdrawn from the Report.
- (6a) The Company provided additional information, as such the violations for TPA012 and TPA047 have been withdrawn from the Report.

- (6b) After further review, the violation for TPA008 has been withdrawn from the Report.
- (7b) The Company provided additional information, as such the violation for TPA014 has been withdrawn from the Report.
- (7c) The Company provided additional information, as such the violation for TPA008 has been withdrawn from the Report.

Automobile Nonpayment of Premium Cancellations

- (2) The Company provided additional information, as such the violation for TPA024 has been withdrawn from the Report.
- (3b) The Company provided additional information; as such the violation for TPA054 has been withdrawn from the Report.
- (4b) The violation for TPA025 remains in the Report. The declarations page submitted with the Company's response verifies that the notice was mailed to the insured's correct address. However, the policy was issued to two named insureds. The cancellation notice was addressed to only one of the named insureds. Although the Company has demonstrated that the notice was mailed to the correct address, the Company did not send the cancellation notice to all named insureds on the policy.

Automobile Insured Requested Cancellations

- (1) The violation for TPA034 remains in the Report. The Company has not provided sufficient documentation to accurately calculate the return premium.
- (3b) The violation for TPA061 remains in the Report. The policy provisions require advance written notice of a request for cancellation. The Company has agreed that it failed to obtain advance written notice. If it is the Company's intention to accommodate requests for cancellation other than advance written notice the Company should file a broadening to the standard form.

Homeowner Notices Mailed Prior to the 90th Day of Coverage

- (2a) After further review, the violation for THO041 has been withdrawn from the Report. The Company incorrectly labeled this insured requested cancellation as a company-initiated cancellation in the population file provided to the Bureau.

After further review, the violations for THO045, THO047 and THO049 have been withdrawn from the Report. The Company should send an AUD notice for any cancellation not requested by the insured or his attorney-in-fact.
- (4) After further review, the violation for THO005 has been withdrawn from the Report. The Company provided accounting screens to verify the correct premium was refunded.

After further review, the violation for THO041 has been withdrawn from the Report. The insured never paid any premium for this policy.

- (5) After further review, this violation for THO041 has been withdrawn from the Report.
- (6a) After further review, the violation for THO044 has been withdrawn from the Report. The Company provided a copy of the notice of cancellation to the lienholder. A violation under § 38.2-2113 C of the Code of Virginia has been added to Item 6d of the Report. The Company did not provide proof of mailing the notice to the lienholder on April 8, 2009.

After further review, the violation for THO046 has been withdrawn from the Report. The Company provided a copy of the notice of cancellation to the lienholder. A violation under § 38.2-2113 C of the Code of Virginia has been added to Item 6d of the Report. The Company did not provide proof of mailing the notice to the lienholder on September 1, 2009.

- (6e) Violations for THO044 and THO046 have been added for not retaining the proof of mailing the cancellation notices to the lienholder.
- (6f) The violation for THO002 remains in the Report. The cancellation effective date indicated in the Company's population data file was May 18, 2009. The Company has not explained why it provided proof of mailing a cancellation notice on May 8, 2009. The documentation provided by the Company indicates it mailed a cancellation notice on May 8, 2009, to be effective May 18, 2009.
- (7a) After further review, the violations for THO045, THO047 and THO049 have been withdrawn from the Report. The Company should abide by § 38.2-2114 C1 of the Code of Virginia when cancellation is not requested by the insured or his attorney-in-fact.
- (7b) After further review, the violations for THO001, THO041, THO047 and THO050 have been withdrawn from the Report.
- (7c) This violation remains in the Report. The Company has been unable to provide a copy of the cancellation notice or the proof of mailing the notice.

Homeowner Notices Mailed After the 89th Day of Coverage

- (1) After further review, the violations for THO051, THO055, and THO058 have been withdrawn from the Report. The Company should provide an AUD notice for all cancellations not requested by the insured or his attorney-in-fact.

The violations for THO009, THO010, THO013, THO014 and THO015 remain in the Report. These policies were issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

(2) After further review, the violation for THO054 has been withdrawn from the Report. The policy did not cancel on the date reviewed and therefore no return premium was due.

(4c) The violations for THO009, THO013, THO014 and THO015 remain in the Report. These policies were issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

(4e) The violations for THO051 and THO055 remain in the Report. The Company has not provided a copy of the mortgagee's request to cancel or a copy of the change in the deed of trust.

(5a) After further review, the violations for THO051, THO055, and THO058 have been withdrawn from the Report. The Company should abide by subsection C1 of this statute when the insured does not cancel the policy.

The violations for THO009, THO010, THO013, THO014, and THO015 remain in the Report. These policies were issued by Farmers Insurance Exchange, which did not file the mortgagee provisions referenced by the Company.

(5c) After further review, the violations for THO051, THO055 and THO058 have been withdrawn from the Report. The Company should abide by subsection C3 of this statute when the insured does not cancel the policy.

The violations for THO009, THO010, THO013, THO014, and THO015 remain in the Report. These policies were issued by Farmers Insurance Exchange, which did not file the mortgagee provisions referenced by the Company.

(5d) After further review, the violations THO051, THO055, and THO058 have been withdrawn from the Report. The Company should abide by subsection C4 of this statute when the insured does not cancel the policy.

The violations for THO009, THO010, THO013, THO014, and THO015 remain in the Report. These policies were issued by Farmers Insurance Exchange, which did not file the mortgagee provisions referenced by the Company.

Homeowner Nonpayment of Premium Cancellations

(1) The violation for THO066 remains in the Report. Please explain the following amounts: \$169.72 of Exhibit 40B, and \$2.53 and \$7.60 of Exhibit 40C. The Company should provide a copy of the amended declarations pages if the amounts represent endorsements. With the documentation provided, the Company undercharged the policy \$69.02. For 194 days (PRE .532), the Company earned \$570.94 in premium, including the pro-rated policy fee. The Company earned fees of \$45 for five \$5 installments and two \$10 late fees. The insured paid a total of \$486.81. The insured owed \$129.13, but the Company only charged \$60.11.

The violation for THO067 remains in the Report. The Company should provide the amended declaration pages for the three endorsements on February 23, 2009, April

23, 2009, and May 23, 2009 for reconsideration. With the documentation provided, the Company overcharged the policy \$17.60. For 108 days (PRE .296), the Company earned \$151.24 in premium, including the pro-rated policy fee. The Company earned fees of \$20 for two \$5 installments and one \$10 late fee. The insured paid a total of \$164.04. The insured owed \$7.20, but the Company charged \$24.80.

(3a) After further review, the violation for THO069 has been withdrawn from the Report. The Company provided valid proof of mailing the cancellation notice on April 23, 2009 to be effective May 17, 2009.

(3b) After further review, the violation for THO069 has been withdrawn from the Report.

After further review, the violation for THO062 has been withdrawn from the Report.

After further review, the violation for THO066 has been withdrawn from the Report. The Company provided a copy of the insured's notice for review.

A violation for THO022 has been added to this item for informing the insured of 15 days notice instead of ten days notice for the right to review by the Commissioner.

(3c) After further review, the violation for THO066 has been withdrawn from the Report. The Company provided a copy of the insured's notice for review.

After further review, the violation for THO062 has been withdrawn from the Report.

The violation for THO022 remains in the Report. The Company's notice incorrectly informs the insured of the Virginia Automobile Insurance Plan instead of the Virginia Property Insurance Association.

After further review, the violation for THO069 has been withdrawn from the Report.

Homeowner Insured Requested Cancellations

(1) After further review, the violation for THO073 has been withdrawn from the Report. The Company provided documentation showing the insured was refunded the unearned premium. However, the Company should not indicate the amount of refunded premium on the mortgagee's notice of cancellation.

(2) After further review, the violation for THO072 has been withdrawn from the Report. The Company incorrectly labeled this cancellation as insured requested when it was company-initiated through a mortgage company.

Homeowner Company-Initiated Non-renewals

(2) These violations remain in the Report. The Company failed to provide valid proof of mailing.

- (3b) This violation remains in the Report. The Company failed to provide valid proof of mailing.
- (5b) The violation for THO031 remains in the Report. This policy was issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.
- (5c) The violation for THO031 remains in the Report. This policy was issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

Claims

- (15) After further review, the violation for CPA036 has been withdrawn from the Report. Although the Assignment of Benefits in question was vague, the assignment could be considered valid. A Recommendation has been added to the Report.

Forms

The violation for FHO014 remains in the Report. The E6170 form was not filed for use in Virginia. The form filed by the Farmers Insurance Exchange was 91-6170 1st Edition 9-83 151-SH/500.

After further review, the violation for FHO052 has been withdrawn. The Company has now provided a copy of the form used during the examination period as was originally requested in the Data Call August 3, 2010.

After further review, the violation for FHO061 has been withdrawn. The Company erroneously provided this form as used during the examination period.

After further review, the violation for FHO047 has been withdrawn. The Company erroneously provided this form as used during the examination period.

After further review, the violation for FHO078 has been withdrawn. The Company erroneously provided this form as used during the examination period.

After further review, the violation for FHO045 has been withdrawn. The Company erroneously provided this form as used during the examination period.

Automobile Renewal Business Policy Issuance

- (2) This violation stays in the Report. The rental reimbursement language is not found in this policy issuance which includes the policy document, "56-5602 2nd Edition 6-10" with "C5602214" listed in the lower right corner. The Company indicated in its response that a document with the same identifier was attached with its response that contained the rental reimbursement language. However, the Company actually provided "56-5602 1st Edition 7-08" as Exhibit 54. Regardless of what the Company provides, this policy issuance did not contain a notice to the insured regarding rental

reimbursement. The Data Call Manual, as well as our discussion during the conference calls, advised the Company that any information that was not sent with the initial submission of the policy issuance documents would not be accepted at a later date.

General Statutory Notices

- (1) After further review, these violations have been withdrawn from the Report.
- (2) After further review, this violation has been withdrawn from the Report.
- (3) After further review, the violation for NGS009 has been withdrawn from the Report. The number of violations has been revised from 16 to 14.

Statutory Vehicle Notices

- (1) This violation stays in the Report. The Company's response does not appear to be relevant to this particular violation and therefore, without any new information from the Company this violation cannot be reconsidered.

Other Law Violations

The violations regarding the fraud language found on the Memorandum(s) of Fire Insurance stay in the Report. Although the Company disagreed with these violations regarding the fraud language, the Company has indicated in its response that the language will be revised to comply with § 52-40 of the Code of Virginia.

Complaints

The violation involving Mid-Century's complaint log has been withdrawn from the Report. The number of violations has been reduced to one.

The violation involving the Farmer's complaint log remains in the Report. There were two complaints missing from the complaint log.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (3) The overcharge for RPA025 has been decreased to \$690. The full term overcharge was revised to \$1,773.10 after withdrawing review sheet 1390153230. The policy was in effect for 134 days when it cancelled on December 23, 2009. The 12 month pro rata factor was .367. The earned overcharge was \$650.95 before adding the six percent simple interest of \$39.05.

The overcharge for RPA028 has been decreased to \$2.86. The full term overcharge was revised to \$10.10 after withdrawing review sheet 819699270. The policy was in

effect for 49 days when it cancelled on July 15, 2009. The six month pro rata factor was .268. The earned overcharge was \$2.70 before adding the six percent simple interest of \$.16.

The overcharge for RPA030 has been decreased to \$23.57. The full term overcharge was \$37.00. The policy was in effect for 110 days when it cancelled on October 6, 2009. The six month pro rata factor was .601. The earned overcharge was \$22.24 before adding the six percent simple interest of \$1.33.

The overcharge for RPA031 has been withdrawn. The Company refunded all premiums when the insured requested the Company to flat cancel his policy.

The overcharge for RHO038 has been withdrawn with the corresponding violation.

The overcharge for RPA070 remains in the Report. As addressed in Part One, the Company has not provided sufficient evidence that there were four vehicles having coverage when the renewal was processed. The screen print provided by the Company shows the fourth vehicle's policy was effective on December 6, 2008, but not as of December 17, 2008.

- (4) The declarations page provided by the Company does not include the UMPD limit. The declarations page states the UMPD coverage is included, but the limit is incorrectly shown as blank. Please correct by adding the applicable limit per accident for the UMPD coverage.
- (6) Please provide the estimated completion date when the Companies will have controls to maintain a copy of the every insured's application.
- (7) Please provide the BOI filing number and filing effective dates pertaining to the 30/60 Program eligibility rule filing.

Terminations

The overcharge for TPA008 has been withdrawn from the Report and Restitution spreadsheet.

The overcharge for TPA009 has been withdrawn from the Report and Restitution spreadsheet.

The Company has not provided sufficient documentation to reconsider the overcharge amount for TPA048.

For THO049 and THO055, the Company should have refunded the overcharge to the insured. The Company incorrectly sent premium refunds to the mortgagee. The mortgagee is not entitled to this restitution. The Company must send notice to the insureds that their refunds have been sent to the mortgagee.

Claims

- (1) The Company did not explain why it only paid \$596.48 for CPA064 when the restitution requested was \$636.00, including six percent interest. Please make the additional \$39.52 restitution or explain why the Company disagrees with the amount owed.

The underpayment for CPA036 has been withdrawn from the Restitution Spreadsheet.

It is acknowledged that the Company paid \$750 of the restitution amount owed. However, there was also an underpayment of \$134.91 indicated in review sheet 343058818 for CPA092. The Company must make this restitution, including the six percent interest, or explain why it disagrees with the amount owed.

The underpayment for CPA100 has been withdrawn from the Restitution Spreadsheet.

- (5) The Companies' replacement cost notice should also state the insured has six months to assert a replacement cost claim upon receiving the last actual cash value payment or the date a final court order is entered.

Policy Issuance

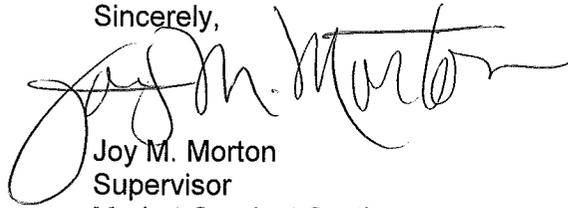
The Company's response to this section included corrective actions only relevant to the Rating and Underwriting section of this Report.

Notices

- (1) The corrective action previously shown as Item 1 has been withdrawn from the Report.
- (2) The corrective action previously shown as Item 2 has been withdrawn from the Report.
- (4) Please advise when the Accident Point Surcharge notice will be revised to comply with § 38.2-1905 A of the Code of Virginia.
- (7) The Company indicated in its response regarding the glass script that calls are divided between the Company and Safelite Solutions. For those calls made directly to Safelite Solutions, the script quoted in the Company's response and the script labeled as Exhibit 66 both fail to disclose to the insured **prior** to being referred to the third party representative that the third party representative is not the insurer and is acting on behalf of the insurer. The Company should revise its auto glass handling procedures to comply with § 38.2-517 A 3 of the Code of Virginia.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added, or altered as a result of this review. We look forward to your response by August 31, 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Joy M. Morton". The signature is fluid and cursive, with a large initial "J" and "M".

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM/sb

Enclosures



FARMERS[®]

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September 2, 2011

Common Wealth of Virginia
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P&C Market Conduct, 5th Floor
1300 E. Main Street
Richmond, VA 23219
Attn: Joy M. Morton
Supervisor
Market Conduct Section
Property Casualty Division

RE: Market Conduct Examination
Farmers Insurance Exchange (NAIC #21652)
Mid-Century Insurance Company (NAIC #21687)
Examination Period: 01/01/09 – 12/31/09

Dear Ms. Morton:

The following is our response to the findings, comments and concerns contained in the Bureau's August 12, 2011 correspondence. Before we address particular areas of this report, we wish to point out that the member Companies and Exchanges of the Farmers Insurance Group of Companies continue to seriously consider all insurance department examinations and the recommendations of the examiners. Therefore, we have thoroughly reviewed each of the findings and comments.

Our response includes those areas where procedures have been or will be amended or where we respectfully dispute the findings of the examiners. We ask that further considerations be given to any disputed items in the course of drafting a final report. Unless otherwise noted, the response tracks with the order and sequence of the findings in the August 12, 2011 correspondence.

Please note that neither these comments nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Bureau or any other party as constituting any admissions. Please further note that we are providing these comments and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connections with the information provided.

Automobile New Business Rating

1a.

This violation remains in the report. It appears the Company is responding to review sheet 304345274 for RPA004 instead of the review sheet 1370620592 for RPA107 that is referenced in the Company’s response. The violation for RPA004 is for a nonrated driver shown as a Named Insured on the declarations page when she was no longer in the household. For reconsideration the Company must provide documentation that the daughter had a financial interest in the vehicle that would allow her to be the named insured at the time the policy was issued.

We do not dispute this violation.

Violation RPA016 under item 3a has been rewritten to this item. The declarations page did not show the Trailer Physical damage coverage or deductibles.

We do not dispute that we are unable to provide a declarations page that show the Trailer physical damage coverage or deductibles; however, the utility trailer is defined in the policy as “your covered auto” and will have the same physical damage coverage or deductibles as the covered auto. Attached is a policy sample, indicating the utility trailer is covered under **Exhibit 1c** and the definition of covered auto under **Exhibit 1d**.

3b.

The violation for RPA027 remains in the report. The Company rated the policy correctly, but should have sent an AUD notice to the insured. The Company issued the insured’s policy in a less favorable company than the one requested, with lower limits, added conviction surcharge points, and charged additional premium. The underwriting noted indicated the company initiated this change due to the convictions found for the insured after the application was submitted.

We do not dispute the AUD notice. We have currently validated our systems that the AUD notice is produced for the insured when premium is impacted due to additional information obtained within the discovery period.

5a.

The violation for RPA020 remains in the report. The Company’s Principal Unmarried Male Drivers Age 25 through 29 Rule did not state this surcharge was not applied to “mock rated” policies. The filed rule for the Farmers policy states, “if there is equal usage of two or more automobiles by the same driver (age 25 through 29), the applicable surcharge is assigned to the policy developing the most premium,” which was the Farmers policy. This surcharge was not filed for and was not applied to the Mid-Century policy.

We do not dispute that our filed rule for the Farmers policy did not state this surcharge was not applied to “mock rated” policies. It is not our business practice to surcharge the customer twice, and we did not clarify that it is not applicable in our filed rule. For our Farmers Auto 2.0 program, we no longer utilize “mock rated” policies and have eliminated this surcharge discrepancy. We are in the process of updating our filing for Farmers Insurance Exchange.

5d.

The violation for RPA031 remains in the report. The Company's adult rate class rule has two different rate classes for Pleasure Use vehicles, Rate Class 7 and 9. The annual mileage is required to select the correct class. The rule did not state Rate Class 9 was used for excess vehicles, regardless of annual mileage.

We do not dispute the Company's adult rate class rules have two different rate classes for Pleasure Use vehicles. For our Farmers Auto 2.0 program we have eliminated the use of mileage to determine eligibility. We are in the process of updating our filing for Farmers Insurance Exchange.

6.

The violation RPA002 remains in the report. The Company did not increase the UMPD limits back to the inception date of August 31, 2009. The screen prints provided by the Company show the UMPD limit was increased effective September 12, 2009, after the policy effective date. The declarations page provided showing the increased limits was effective September 14, 2009.

We respectfully disagree, the UMPD coverage was increased as of August 31, 2009. Screen shots and change notice to insured are provided as **Exhibit 2**.

7.

These violations remain in the Report. Please explain the application process when the agent provides a verbal script, but the insured signs a written application. The screen print provided by the Company was a 2011 version of the Company's system. Please provide a screen print of the software used during the examination period to verify that the credit disclosure notice was provided in the earlier version of the agent system.

The process of applying for an automobile policy involves the agent entering into the agent screens and in doing so, all of the underwriting questions that need to be asked to issue a policy and all of the notices that need to be read will appear on the screen for the agent to ask or read as appropriate. This includes the NCOIL credit disclosure statement. The agent will receive prompts to read certain statements during the process and will do so at that time. We do not believe that this process is much different from most insurers. You indicated in your response to us that the "insured signs a written application." This is not correct. Once the agent completes the entry of all information for the auto policy, a Memorandum of Insurance is printed out and the agent provides this to the customer to sign. The system has taken all of the verbal responses from the customer and placed them onto what is a summary of the information including name, address, policy effective date, vehicles insured, drivers covered, coverages selected, premiums and fees being charged along with other disclosures and warnings. This is printed out for the customer to review and sign. The customer does not receive an application with all of the questions and answers filled out to sign. The Memorandum is a form that shows the customer who and what is being insured and to some extent serves as a receipt of what was purchased until the customer receives the policy documents. We are unable to supply the 2009 screens showing the NCOIL disclosure.

8.

The violation for RPA015 remains in the report. The Company has not provided any additional information for us to reconsider this violation. The underwriting notes state there was a current score and a new score. Please provide the dates the two credit scores were obtained.

We respectfully disagree and request violation RPA 015 be withdrawn. Screen shots are being provided showing the date the previous score was ordered, December 2006 and July 30, 2009.

Exhibit 3.

The violation for RPA032 remains in the report. The Company has not provided any additional information for use to reconsider this violation. The underwriting notes state there was a current score and a new score. Please provide the dates the two credit scores were obtained.

We respectfully disagree and request violation RPA032 be withdrawn. RPA0332 was processed as a rewrite so our compare logic did not apply and a credit score was ordered and applied as of August 7, 2009. A screen shot is being provided of the policy that was rewritten and the new score being applied as **Exhibit 4.**

Automobile Renewal Business Rating

3a.

The violation for RPA040 remains in the report. The Company has not provided any documentation that the EFT discount was applied on the policy effective date of April 10, 2009. Exhibit 8 shows a policy effective date of May 31, 2009, and a transaction date of May 14, 2009. The company has not explained why it would have applied the EFT discount after the policy effective date.

We respectfully disagree and request violation RPA040 be withdrawn. The EFT discount is available at the auto policy's inception, upon renewal, and mid-term. Manual page attached as **Exhibit 5.**

The violation for RPA053 remains in the Report. This was not an annual policy. The policy term under review was effective August 8, 2009 and expired on February 8, 2010. The Company indicated it used an Auto/Rent/Life discount factor of .08, which was not applicable to policies effective prior to August 13, 2009.

We inadvertently responded to the incorrect policy in last response. We do not dispute violation RPA053 on the use of the Auto/Rent/Life discount factor. We have established a project to adjust and refund premium as of December 2011 for policies that were adversely affected due to the use of the incorrect Auto/Rent/Life factor.

3g.

The violation for RPA075 remains in the report. The Company has not provided documentation that the Company processed a cancellation for the fourth policy on December 6, 2008 for nonpayment of premium effective January 16, 2009. Please provide the cancellation notices and proof of mailing documentation for the policies cancelled per the Company's response.

The renewal for RPA 075 was processed on December 3, 2008 indicating four vehicles. In our original response, we inadvertently referred to the incorrect policy version. The fourth policy

expired on the renewal date of November 13, 2008. Attached are as screen shot of the transactions **Exhibit 6**, the fourth policy renewal declarations **Exhibit 6A**, and the policy expiration notice **Exhibit 6B**.

The violation for RPA070 remains in the report. The policy file indicates there were three policies in force when the renewal processed on December 17, 2008. The Company has not provided any documentation that it only cancelled one policy and left the insured with four policies in force, especially since these cancellations appear to be backdated.

We do not dispute the violation for RPA070.

4.

The violation for RPA044 remains in the report. The Company is unable to determine why or how the second credit score was obtained. The Company must provide documentation of the dates both credit scores were obtained for reconsideration.

We respectfully request violation RPA044 be withdrawn. Screen shots are attached for FARA scores ordered in November 2008 and November 2009. **Exhibit 7**, attached.

Homeowners New Business Rating

5.

The violations for RHO003, RHO012, and RHO021 remain in the report. The Company failed to retain copies of the declarations page in the format sent to the insured. The Company recreated the declarations (by manually retyping) for the Market Conduct Examination. The information provided in these recreated declarations was inaccurate and changed several times during our review. The Companies' actions caused the audit process to be unverifiable.

We do not dispute these violations. Additional training was completed in September 2009 for all employees processing this type of transaction. This training was incorporated into our training curriculum.

6.

These violations remain in the report. Please explain the application process when the agent provides a verbal script, but the insured signs a written application. The screen print of Exhibit 6A provided by the company was a 2011 version of the Company's system. Please provide screen print of the software used during the examination period to verify the credit disclosure notice was provided in the earlier version of the agent system.

The process of applying for a homeowners policy involves the agent entering into the agent screens and in doing so, all of the underwriting questions that need to be asked to issue a policy and all of the notices that need to be read will appear on the screen for the agent to ask or read as appropriate. This includes the NCOIL disclosure statement. The agent will receive prompts to read certain statements during the process and will do so at that time. We do not believe that this process is much different from most insurers. You indicated in your response to us that the "insured signs a written application." This is not correct. Once the agent completes the entry of all information for the home policy, a Memorandum of Insurance is printed out and the agent provides this to the customer to sign. The system has taken all of the verbal responses from the

customer and placed them onto what is a summary of the information including name, address, policy effective date, coverages selected, premiums and fees being charged along with other disclosures and warnings. This is printed out for the customer to review and sign. The customer does not receive an application with all of the questions and answers filled out to sign. The Memorandum is a form that shows the customer who and what is being insured and to some extent serves as a receipt of what was purchased until the customer receives the policy documents. We are unable to supply the 2009 screens showing the NCOIL disclosure.

Automobile Notices Mailed Prior to the 60th Day of Coverage

3.

A violation under this section has been added for TPA044 because the Company did not provide a valid proof of mailing. The cancellation notice is dated August 26, 2009, but the proof of mailing is dated October 13, 2009. The Company must provide the corresponding proof of mailing for reconsideration.

We respectfully disagree with the violation TPA044 in that the proof of mail provided is correct. The cancellation was incorrectly recreated. We have submitted a corrected cancellation with the proof of mailing. **Exhibit 8.**

4a.

After further review, the violation for TPA004 has been withdrawn from the report. However, a violation of Sections 38.2-1906 D of the Code of Virginia has been added. The Company has responded that the policy cancelled flat. If this is a flat cancellation, the Company must refund the entire premium to the insured and the information provided does not indicate the Company refunded the entire premium.

We respectfully request the violation for TPA004 be withdrawn. The policy was not cancelled flat, but in force from June 2, 2009-August 9, 2009. A payment of \$643.80 was received when the term premium was \$663.20, for a difference of \$19.40. The \$405.05 that was refunded was not the total renewal amount as the insured had 67 days of coverage. Screen shots provided as **Exhibit 9.**

4b.

The violation for TPA003 remains in the report. The records provided by the Company indicate the cancellation notice was mailed on April 23, 2009, after the April 21, 2009, reinstatement date indicated by the Company. The Company must explain why a cancellation notice was generated with an April 23, 2009 date, if the policy was reinstated on April 21, 2009.

We respectfully request that violation TPA003 be withdrawn. The policy in question cancelled and was reinstated within a day. However, the processing of the cancellation and the reinstatement took place on different dates and through different processing methods. The cancellation was effective on April 20, but was not processed through the system until April 23. Since there was a cancellation generated on the 20th of April, this was already set within the system to process on April 23. As it is legally required to be sent, we cannot stop the processing of the notice, despite what may occur after a cancellation is set up in the system. The reinstatement did take place on April 21, 2009, a day after the cancellation. Because the

reinstatement was a manual process, and not system generated, the processing for the reinstatement was done at the same time as the reinstatement.

Automobile Notices Mailed After the 59th Day of Coverage

3.

The violation for TPA048 remains in the report. The Company has not provided sufficient accounting documentation to determine the payments and service charges applicable to the policy.

We respectfully request that violation TPA048 be withdrawn. The insured paid premium through July 4, 2009 and the \$686.98, crediting the policy through the July 20, 2009 renewal. The insured was refunded \$533.23. Screen shots are attached as **Exhibit 10**.

Automobile Nonpayment of the Premium Cancellations

4b.

The violation for TPA025 remains in the report. The declarations page submitted with the Company's response verifies that the notice was mailed to the insured's correct address. However, the policy was issued to two named insureds. The cancellation notice was addressed to only one of the named insureds. Although the Company has demonstrated that the notice was mailed to the correct address, the Company did not send the cancellation notice to all named insureds on the policy.

We respectfully disagree with your analysis and request that the violation TPA025 be withdrawn. We did send cancellations notices to each named insured and have included copies of the additional Cancellation Notice and Proof of Mailing, **Exhibit 11**.

Although we did send separate notices to each of the insureds, we disagree with the Bureau's position that the statute requires a notification to list each insured or that it requires separate notifications be sent to each individual insured and can find no case law to support this position. The legislature clearly used the singular "named insured" and not the plural "all named insureds" or even "named insureds. Even in commercial insurance where the named insureds may be unrelated and not located at the same mailing address, it is understood that providing a cancellation notice to the primary/first named insured terminates coverage as to all insureds, named or otherwise. This is even more true in personal insurance where there is no separate address provided for the other named insureds. (Note that for both commercial and personal insurance there is an exception only for insureds named in an endorsement that specifically provides them the right to obtain notice of cancellation.)"

Automobile Insured Requested Cancellations

1.

The violation for TPA034 remains in the report. The Company has not provided sufficient documentation to accurately calculate the return premium.

We respectfully disagree and request that violation 1893469609 be withdrawn. The earned premium was calculated correctly. See **Exhibit 12**.

3b.

The violation for TPA061 remains in the report. The policy provisions require advance written notice of a request for cancellation. The Company has agreed that it failed to obtain advance written notice. If it is the Company's intention to accommodate requests for cancellation other than advance written notice the Company should file a broadening to the standard form.

We do not dispute this issue and have restricted the capability for the agent to backdate transaction requests that will allow us to send the advance written notice as required by the policy provision.

Homeowner Notices Mailed Prior to the 90th Day of Coverage

6e.

The violation for THO044 has been withdrawn from the report. The Company provided a copy of the notice of cancellation to the lienholder. A violation under Section 38.2-2113 C Code of Virginia has been added to Item 6D of the report. The Company did not provide proof of mailing the notice to the lienholder on April 8, 2009.

The violation for THO046 has been withdrawn from the report. The Company provided a copy of the notice of cancellation to the lienholder. A violation under Section 38.2-2113 C Code of Virginia has been added to Item 6D of the report. The Company did not provide proof of mailing the notice to the lienholder on September 1, 2009.

We do not dispute these violations.

6f.

The violation for THO002 remains in the report. The cancellation effective date indicated in the Company's population data file was May 18, 2009. The Company has not explained why it provided a proof of mailing a cancellation notice on May 8, 2009. The documentation provided by the Company indicates it mailed a cancellation notice on May 8, 2009 to be effective May 18, 2009.

We do not dispute this violation.

7c.

The violation remains in the report. The Company has been unable to provide a copy of the cancellation notice or the proof of mailing the notice.

We do not dispute this violation.

Homeowner Notice Mailed After the 89th Day of Coverage

1.

The violations for THO051, THO055, and THO058 have been withdrawn. The violations for THO009, THO010, THO013, THO014, and THO015 remain in the report. These policies were

issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute these violations for Farmers Insurance Exchange.

4c.

The violations for THO009, THO010, THO013, THO014, and THO015 remain in the report. These policies were issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute these violations for Farmers Insurance Exchange.

4e.

The violations for THO051 and THO055 remain in the report. The Company has not provided a copy of the mortgagee's request to cancel or a copy of the change in deed of trust.

We respectfully request that violations THO051 and THO055 be withdrawn. Attached are the mortgagee requests to cancel the policies. **Exhibit 13.**

5a.

The violations for THO051, THO055, and THO058 have been withdrawn. The violations for THO009, THO010, THO013, THO014, and THO015 remain in the report. These policies were issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute these violations for Farmers Insurance Exchange.

5c.

The violations for THO051, THO055, and THO058 have been withdrawn. The violations for THO009, THO010, THO013, THO014, and THO015 remain in the report. These policies were issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute these violations for Farmers Insurance Exchange.

5d.

The violations for THO051, THO055, and THO058 have been withdrawn. The violations for THO009, THO010, THO013, THO014, and THO015 remain in the report. These policies were issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute these violations for Farmers Insurance Exchange.

Homeowner Nonpayment of Premium Cancellations

1.

The violation for THO066 remains in the report. Please explain the following amounts: \$169.72 of Exhibit 40B and \$2.53 and \$7.60 of Exhibit 40C. The Company should provide a copy of the amended declarations pages if the amounts represent endorsements. With the documentation provided, the Company undercharged the policy \$69.02. For 194 days (PRE .532) the Company

earned \$570.94 in premium, including the prorated policy fee. The Company earned fees of \$45 for five \$5 installments and tow \$10 late fees. The insured paid a total of \$486.81. The insured owed \$129.13, but the company only charged \$60.11.

We respectfully disagree and request violation THO066 be withdrawn. The policy was effective 1/9/09 with a term premium of \$1017.82 plus \$25 policy fee. The \$169.72 is the initial 60 day premium charged up front (+ any odd cents). The \$2.53 and \$7.60 amounts are broken down amounts (since the policy was on monthly billing) coming from an increase of \$30.37 effective 1/9/09. The amount of \$30.37 + NB amount of \$1017.82 = a term premium of \$1048.19. We billed \$501.92 + \$45.00 in fees for a total of \$546.92. Total payment received was \$486.81, with Earned Premium due to Farmers at \$60.11. Screen shots and declarations pages with change are attached as **Exhibit 14**.

The violation for THO067 remains in the report. The Company should provide the amended declaration pages for the three endorsements on Feb 23, 2009, April 23, 2009 and May 23, 2009 for reconsideration. With the documentation provided the Company overcharged the policy \$17.60. For 108 days (PRE .296), the Company earned \$151.24 in premium, including the prorated policy fee. The Company earned fees of \$20 for two \$5 installments and one \$10 late fee. The insured paid a total of \$164.04. The insured owed \$7.20, but the Company charged \$24.80.

We respectfully disagree and request violation THO067 be withdrawn. Premium breakdown and screen shots are attached as **Exhibit 15**.

3b.

A violation for THO022 has been added to this item for informing the insured of 15 days notice instead of ten days notice for the right to review by the Commissioner.

We do not dispute this violation. We will amend the form as of February 2012.

3c.

The violation for THO022 remains in the report. The Company's notice incorrectly informs the insured of the Virginia Automobile Insurance Plan instead of the Virginia Property Insurance Association.

We do not dispute the violation for THO022, incorrectly informing the insured of the Virginia Automobile Insurance Plan instead of the Virginia Property Insurance Association. We will amend the form as of February 2012.

Homeowner Company Initiated Non-Renewals

2.

These violations remain. The Company failed to provide valid proof of mailing.

We do not dispute this violation.

3b.

This violation remains. The Company failed to provide valid proof of mailing.

We do not dispute this violation.

5b.

The violation for THO013 remains. This policy was issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute this violation.

5c.

The violation for THO013 remains. This policy was issued by Farmers Insurance Exchange which did not file the mortgagee provisions referenced by the Company.

We do not dispute this violation.

Forms

The violation for FHO014 remains. The E6170 form was not filed for use in Virginia. The form filed by the Farmers Insurance Exchange was 91-6170 1st Edition 9-83 151-SH/500.

We do not dispute this violation; we are in the process of filing the corrected form.

Automobile Renewal Business Policy Issuance

2.

This violation stays in the report. The rental reimbursement language is not found in this policy issuance which includes the policy document "56-5602 2nd Edition 6-10" with "C5602214" listed in the lower right corner. The Company indicated in its response that a document with the same identifier was attached with its response that contained the rental reimbursement language. However, the Company actually provided "56-5602 1st Edition 7-08" as Exhibit 54. Regardless of what the Company provides, this policy issuance did not contain a notice to the insured regarding rental reimbursement. The Data Call Manual, as well as our discussion during the conference calls, advised the Company, that any information that was not sent with the initial submission of the policy issuance documents would not be accepted as a later date.

We respectfully disagree that the policy issuance did not contain a notice to the insured regarding rental reimbursement. A copy of the renewal submission that was sent with the original request is attached as **Exhibit 16**. The form 56-5602 2nd Edition 6-10 is noted in the submission.

Statutory Vehicle Notices

1.

25-2853 10-97 Important Notice Re Point Change And/or Premium Increase.

This violation stays in the report. The Company's response does not appear to be relevant to this particular violation and therefore, without any new information from the Company this violation cannot be reconsidered.

We have modified 25-2853 10-97 Important Notice Re Point Change And/Or Premium Increase to notify the insured that he can appeal to Commissioner of Insurance. In addition, we have modified supplemental Declaration page 56-5787 to reflect the specifics of insured's Accidents and Violations that triggered the surcharge.

Complaints

The violation involving the Farmer's complaint log remains in the report. There were two complaints missing from the complaint log.

We do not dispute this violation.

Part Two-Corrective Action Plan

Rating and Underwriting Review

3.

The overcharge for RPA025 has been decreased to \$690. The full term overcharge was revised to \$1,773.10 after withdrawing review sheet 1390153230. The policy was in effect for 134 days when it cancelled on December 23, 2009. The 12 month pro rata factor was .367. The earned overcharge was \$650.95 before adding the 6 percent simple interest of \$39.05.

We agree the amount is owed and have paid. Please see Restitution Worksheet.

The overcharge for RPA028 has been decreased to \$2.86. The full term overcharge was revised to \$10.10 after withdrawing review sheet 819699270. The policy was in effect for 49 days when it cancelled on July 15, 2009. The six month pro rata factor was .268. The earned overcharge was \$2.70 before adding the six percent simple interest of \$.16.

We agree the amount owed and have paid. Please see Restitution Worksheet.

The overcharge for RPA030 has been decreased to \$23.57. The full term overcharge was \$37.00. The policy was in effect for 110 days when it cancelled on October 6, 2009. The six month pro rata factor was .601. The earned overcharge was \$22.24 before adding the 6 percent simple interest.

We agree the amount is owed and have paid. Please see Restitution Worksheet.

The overcharge for RPA070 remains on the report. As addressed in Part One, the Company has not provided sufficient evidence that there were four vehicles having coverage when the renewal was processed. The screen print provided by the Company shows the fourth vehicle's policy was effective on December 6, 2008, but not as of December 17, 2008.

We agree the amount is owed and have paid. Please see Restitution Worksheet.

4.

The declarations page provide by the Company does not include the UMPD limit. The declaration page state the UMPD coverage is included, but the limit is incorrectly shown as blank. Please correct by adding the applicable limit per accident for the UMPD coverage.

Attached are auto declarations pages for Mid Century Insurance Company and Farmers Insurance Exchange with UMPD limits. **Exhibit 17.**

Home: We do not dispute the violation that the policy type on the declarations page indicates policy "unknown". This violation pertains to our new business transactions and only for the term under audit. We have formally notified the Bureau that we no longer accept New Business into this policy form as of June 16, 2011. We have not implemented a process to non-renew this policy form as of this date.

6.

Please provide the estimated completion date when the Companies will have controls to maintain a copy of every insured's application.

We are in the development phases of implementing an application program for our Personal Lines of business. There is no estimated completed date at this time.

7.

Please provide the BOI filing number and filing effective dates pertaining to the 30/60 Program eligibility rule filing.

FARM-217170514, submitted on May 17, 2010 and received approval on June 22, 2010.

Terminations

Line 11, TPA048, on the Termination Tab of the Restitution Worksheet

The Company has not provided sufficient documentation to reconsider the overcharge amount for TPA048.

We agree the amount is owed and have paid. Please see Restitution Worksheet.

For THO049 and THO055, the Company should have refunded the overcharge to the insured. The Company incorrectly sent premium refunds to the mortgagee. The mortgagee is not entitled to this restitution. The Company must send notice to the insureds that their refunds have been sent to the mortgagee.

We respectfully disagree as both THO049 and THO055 were issued as Next Gen policies in our Mid-Century Insurance Company. In our approved filing at the time, the Mortgage Clause states the refund will be sent to the mortgagee in the event of a foreclosure: "If the dwelling is foreclosed upon under the deed of trust or through any other legal means, the mortgagee may cancel this policy of insurance. The mortgagee will then be entitled to any unearned premiums from this policy."

Claims

1.

The Company did not explain why it only paid \$596.48 for CPA064 when the restitution requested was \$636.00, including 6 percent interest. Please make the additional \$39.52 restitution or explain why the Company disagrees with the amount owed.

We do not agree the restitution amount requested by the VA BOI is correct. CPA064 Observation states ".....The system was valued at \$562.72 not including tax." The Restitution Worksheet listed the underpaid value with tax as \$600. The actual loss is:

stereo		567.72
sales tax (4.5%) +		25.32
Total =		588.04
6% interest	+	35.28
Total		623.32
Less paid		-596.48
Balance Due:		26.84

It is acknowledged that the Company paid \$750 of the restitution amount owed. However, there was also an underpayment of \$134.91 indicated in review sheet 343058818 for CPA092. The Company must make this restitution, including the 6 percent interest, or explain why it disagrees with the amount owed.

We agree the amount is owed and have paid. Please see Restitution Worksheet for the particulars.

5.

The Companies' replacement cost notice should also state the insured has six months to assert a replacement cost claim upon receiving the last actual cash value payment or the date a final court order is entered.

We have revised our correspondence to reflect an appropriate and more accurate reflection of the policy time frames. The previously submitted and agreed wording: *"Your policy provides that once you actually repair or replace the damaged property, you may make a claim under replacement cost settlement for the withheld depreciation, subject to coverage limits. Please refer to the Conditions section of your policy for specific time limitations that may apply when making a claim for any recoverable depreciation under replacement cost settlement. Any depreciation shown as non-recoverable does not qualify for reimbursement."* We respectfully request you reconsider the addition of a statement regarding specific time frames to assert a replacement cost claim. We have multiple policies with different time frames and in order to avoid any confusion, we prefer to refer the customer to the policy. The policy provides the limit information and the previously submitted wording above refers the customer to the policy.

Notices

4.

Please advise when the Accident Point Surcharge notice will be revised to comply with Section 38.2-1905 A of the Code of Virginia.

We respectfully disagree that leaving off words resulted in the language not being substantially similar to the code; however, we will be revising the form to more closely follow that language of the statute as of December 2011.

7.

The Company indicated in its response regarding the glass script that calls are divided between the Company and Safelight Solutions. For those calls made directly to Safelight Solutions, the script quoted in the Company's response and the script labeled as Exhibit 66 both fail to disclose to the insured prior to being referred to the third party representative that the third party representative is not the insurer and is acting on behalf of the insurer. The Company should revise its auto glass handling procedures to comply with Sections 38.2-517 A 3 of the Code of Virginia.

We respectfully disagree we are not in compliance with § 38.2-517 A 3 of the Code of Virginia. We believe there is a misunderstanding of the glass reporting process/procedures submitted to you. The routing process for the incoming calls for glass claims/losses does notify the use of a third party vendor "prior" to Safelite Solutions answering the call. When the call is received, the reporting party, after choosing the glass prompts and being routed to glass claims, is transferred to a Farmers representative who utilizes the glass scripting provided in Exhibit 66 or the call is transferred to Safelite Solutions. There is no human intervention in this process. When the call is transferred to Safelite Solutions the customer hears a message advising them the claim is going to be handled by someone other than Farmers before anyone answers the phone. We believe that recording to be the "prior" notice. We are of the opinion the message clearly states the requirements of disclosure: "Thank you for calling the HelpPoint Glass Service. Your call is being answered and recorded by Safelite Solutions. Your Insurance Company has an agreement with Safelite Solutions under which Safelite processes automobile glass claims. Safelite Solutions is not owned by your insurance company but provides services for them. We will need to ask you some questions to open a claim; we can then assist you in scheduling an appointment."

Amended Corrective Actions

Auto: We do not dispute the one violation concerning the territory base rate. We had noted that we would establish a project to refund the premium that was overcharged by October 17, 2011. **Our review indicates that this is a single policy violation; overcharges have been processed on this policy in question.**

Auto: We do not dispute the two violations concerning the incorrect auto/home discount factor or the BIPD premium. A project has been established to adjust and refund any premium for these policies that were adversely affected due to the incorrect BIPD factor for the Auto/Home discount, the project date has been amended to **December 2011.**

Auto: We do not dispute the one violation concerning the multi-car discount not applied correctly. A project has been established to adjust the premium to reflect the discount this multi-car policy should have received as of October 17, 2011. **Our review indicates that this is a single policy violation; overcharges have been processed on this policy in question.**

Auto: As the \$725 deductible was not available, a project has been established to apply the factor for the approved \$1000 deductible to adjust and refund any premium for policies that were adversely affected. A project has also been established to adjust and refund any premium for policies that were adversely affected due to incorrect factor for \$750 deductible. **Both project dates have been amended to December 2011.**

Home: We have eliminated the issue through a programming change that matches the exterior wall section and the construction type. This program was fixed in two stages through projects effective August 2010 and December 2010. Additional corrective programming will be implemented in **December 2011.**

Home: We do not dispute the violation that the policy type on the declarations page indicates policy "unknown". This violation pertains to our new business transactions and only for the term under audit. We have formally notified the Bureau that we no longer accept New Business into this policy form as of June 16, 2011. **We have not implemented a process to non-renew this policy form as of this date.**

We do not dispute the issue as the AUD notice did not contain prototype language. We will revise our Adverse Underwriting Decision notices in accordance with the prototype notice from the Bureau. Forms to be revised: 25-7582 6-03, 25-7704 2-10, 25-4324 1-07, 25-4300 5-06, 25-4285 12-07, 25-4270 7-05 as of Release 8. (Form 25-7674 6-03 Fair Credit Reporting Act Notification will become obsolete and will be replaced by 25-8430 for Auto and 25-8431, the Home date has been amended to **December 2011.**

As set forth in this letter, we have attempted to address the concerns, comments, and recommendations outlined in the Market Conduct Examination Report in an expeditious and responsible manner. We ask that these comments be considered and the draft report be revised accordingly. We do not waive our right to invoke any other administrative remedies.

We await the release of the final report. Please feel free to contact JoAnna Benko at 512-233-3412, or myself, if there is anything further your might need.

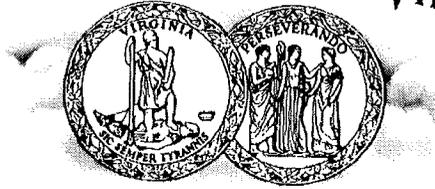
Very truly yours,



Burt H. Garavaglia
Assistant Vice President
Regulatory Affairs
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COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
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November 4, 2011

VIA UPS 2nd DAY DELIVERY

Ms. Joanna Benko CPCU, CIC
Legislative and Regulatory Affairs
Farmers Insurance Exchange
15700 Long Vista Drive
Austin, TX 78728

Re: Market Conduct Examination
Farmers Insurance Exchange (NAIC # 21652)
Mid-Century Insurance Company (NAIC # 21687)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Benko:

The Bureau of Insurance (Bureau) has reviewed the Farmers Insurance Exchange and the Mid-Century Insurance Company's (Companies) September 2, 2011, response to the Revised Market Conduct Report (Report) of the above referenced companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Automobile New Business Rating

The overcharge amounts have been revised.

- (1a) The violation for RPA016 remains in the Report. Instead of a checkbox, the trailer should be specified on the declarations page per Exclusion 7a in Part D of the policy. The policy does not state the trailer's deductible automatically matches that of another covered auto. Item A of the Insuring Agreement of Part D of the policy states the highest applicable deductible will apply if a loss to more than one "your covered auto" results from the same collision. Additionally, the company required the insured to pay a separate premium to obtain Physical Damage coverage for each owned trailer. The filed manual did not state the trailer's deductible must match that of a private passenger auto; therefore, any deductible could have been selected for the trailer separately. The trailer must have its own deductible if a loss occurs to the trailer while it is not attached to a private passenger auto.

- (5a) Please provide the date the company anticipates the Farmers Auto 2.0 Program updates will be completed.
- (6) After further review, the violation for RPA002 has been withdrawn.
- (7) These violations remain in the Report. In response to the Data Call that requested a copy of all statutory notices, the company did not provide copies of screen prints showing the Credit Score Disclosure script. The company is unable to confirm the Credit Score Disclosure notice was provided to applicants prior to 2011.
- (8) The violation for RPA015 remains in the Report. The company's filed FARA Code Discount rule states the scores will be updated at least once every three years. It does not state the company will continue to use the better score. Upon receiving a violation for not using the most current credit score, the company stated it used the best of either the score already on file or the most current score. As a result of the company's response, that violation was withdrawn. Additionally, the examiners did not cite at least five new business policies where the company used the insured's credit score that was pulled more than 90 days prior to the inception date because it was better than the new score. Therefore, the company has not followed its filed rule, or its internal rule regarding the application of credit scores.

The violation for RPA032 remains in the Report. The company should have used the better score on file if the policy was rewritten. Exhibit 4 shows the company used the adverse FARA F score for the rewritten policy instead of FARA D, which was already on file for the insured. The company's "compare logic" was not filed with the Bureau and its application was inconsistent. The company must file its "compare logic" into the FARA Code Discount rule to ensure consistency in its application.

Automobile Renewal Business Rating

The undercharge amounts have been revised.

- (3a) After further review, the violation for RPA040 has been withdrawn. The company correctly applied the EFT discount mid-term. The insured's first EFT payment was not submitted until May, after the April policy effective date.

Item (10) has been added to the Rating Corrective Action Plan regarding the companies' project for refunding the Auto/Rent/Life discount overcharges.
- (3g) The violation for RPA075 remains in the Report. The fourth policy had already expired on 11/13/2008 since the company had not received any premium for that renewal before the RPA075 renewal was processed on 12/05/2008. The company should have rated the policy based upon the policies in effect. If the company intends to provide a grace period to insureds to submit payment and allow account discounts based upon expired policies, the company should file a revision to its filed manual. Additionally, if the company developed the Household Composition considering the fourth policy, then only one of the four drivers should have been rated on the 1994 Camry instead of two drivers, which would result in a new driver classification violation.
- (4) After further review, the violation for RPA044 has been withdrawn. The company used the correct credit score for the 5/21/2009 policy term. Item (4) no longer appears in the Report.

Homeowners New Business Rating

- (6) These violations remain in the Report. In response to the Data Call that requested a copy of all statutory notices, the company did not provide copies of screen prints showing the Credit Score Disclosure script. The company is unable to confirm the Credit Score Disclosure notice was provided to applicants prior to 2011.

Automobile Notices Mailed Prior to the 60th Day of Coverage

- (2) The violation for TPA004 remains in the Report. The policy was effective for 68 days from 6/2/2009 to 8/9/2009. The six month policy premium was \$663.20, of which the company earned \$246.71 (pro-rata factor .372). The insured paid \$643.80, which resulted in \$397.09 due to the insured. The company incorrectly refunded \$405.05, which resulted in an undercharge of \$7.96.
- (3) The violation for TPA044 remains in the Report. The company must correct its record keeping process for cancellation notices. As required by § 38.2-2208 of the Code of Virginia, the company must maintain a copy of all cancellation notices sent to insureds for at least one year after cancellation. The company was unable to provide accurate copies of the majority of cancellation notices during the examination process.
- (4a) The violation for TPA004 has been addressed in Item (2) above. The company could not provide a copy of a declarations page and the population file submitted by the company incorrectly indicated an effective date of 8/9/2009.
- (4b) The violation for TPA003 remains in the Report. Virginia law does not require the company to send a cancellation notice for a policy it does NOT intend to cancel. It appears from the company's response that the cancellation notice was mailed, but the company also sent a reinstatement letter. Since the company's system indicated a cancellation notice was mailed, the company should have maintained a copy of the proof of mailing. The company should not have sent a reinstatement notice prior to sending a cancellation notice. If the insured received the cancellation notice after the reinstatement notice, the cancellation would still be effective.

Automobile Notices Mailed After the 59th Day of Coverage

- (3) After further review, the violation for TPA048 has been withdrawn. The cancellation date under review was 1/15/2009. From the company's response, it appears this policy did not cancel until 5/15/2009, after the cancellation date under review. The Report has been renumbered since this was the only violation under Item (3).

Automobile Nonpayment of Premium Cancellations

- (4b) After further review, the violation for TPA025 has been withdrawn. The company should have provided a copy of the cancellation notice sent to the second named insured during the examination. The statute does not state the company is only required to send the cancellation notice to one of several named insureds. The Bureau's position has always required the cancellation notice to be addressed to all named insureds. The company's own process of sending a notice of

cancellation to all named insureds indicates the company understands the importance of notifying all named insureds of an impending cancellation. The company failed to provide this second notice when fulfilling the Bureau's request for termination information.

Automobile Insured Requested Cancellations

- (1) The violation for TPA034 remains in the Report. The policy was effective on 9/06/2009 and cancelled on 11/05/2009. The six month policy premium was \$454.20, including the \$15 policy fee. The short rate earned factor for 60 days of coverage is .395 resulting in an earned premium of \$179.41. The insured paid \$228.60, which resulted in \$49.19 due to the insured. The company incorrectly refunded \$74.66, which resulted in an undercharge of \$25.47.

Homeowner Notices Mailed After the 89th Day of Coverage

- (4e) After further review, the violations for THO051 and THO055 have been withdrawn. Item (4e) no longer appears in the Report.

Homeowner Nonpayment of Premium Cancellations

- (1) The violation for THO066 remains in the Report. The company did not explain how it computed earned premium of \$501.92 instead of \$570.94. The company should have applied a pro rata factor of .532 to the total policy premium of \$1,073.19, which includes the \$25 policy fee.

The violation for THO067 remains in the Report. The company did not provide an explanation why the requested amended declarations pages were not attached to support the \$2.24 premium change. The policy was effective on 1/23/09 with a policy premium of \$485.95, plus a \$25 policy fee. The policy was cancelled on 5/11/09, 108 days. The pro rata earned factor was .296 for earned premium of \$151.24. The company earned \$20 in fees, which resulted in \$171.24 due to the company. The insured paid \$164.04, which left \$7.20 due to the company. The company incorrectly charged \$24.80, which resulted in an overcharge of \$17.60. In addition, the company response includes a line entry of \$40.56 shown as "premium carried over from standard." Please explain this amount and its reference.

Homeowner Policy Forms Used During the Examination Period

Please provide an estimated implementation date for form E6170.

Automobile Renewal Business Policy Issuance

- (2) After further review, the violation for MPA010 has been withdrawn. The declarations page did not contain the notice; however, the policy already provided Transportation Expenses coverage. The company incorrectly provided a copy of the declarations page for MPA008 and MPA009 in Exhibit 16. Item (2) no longer appears in the Report.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting

- (6) The companies should immediately require each agent to maintain, or send to the companies, a copy of the Memorandum of Insurance document the insured signs at the time of application.
- (7) The correct filing number is FARM-127170514, which was submitted on 5/17/2011 and approved on 6/22/2011. The company did not change this rule to indicate which driver's age would be used to determine the 30/60 factor per vehicle.
- (10) This item has been added to address the projects started by the companies to make refunds for overcharges due to the Auto/Rent/Life discount and Deductible factors. The companies should report its restitution for these policies in an Excel spreadsheet by December 12, 2011.

Terminations

The companies were aware that the policy provisions, involving mortgagee requested terminations, were in conflict with the minimum standards and were to be withdrawn before refunds were sent to the insureds. We did not require the companies to make any additional restitution to the insureds for the money sent to the mortgagees. However, since those overcharges included a penalty of six percent interest, the companies must inform the insureds that the restitution and six percent interest have been sent to the mortgage companies if the companies have not already done so.

Claims

- (1) The companies' restitution spreadsheet indicates the correct amount was refunded for CPA064.
- (5) The companies' claims adjusters must be aware of the time frame applicable to making a claim for the holdback of depreciation. The companies can either have their adjusters verbally inform insureds and document the claim accordingly, or create a notice specifying the policy's time frames. In Virginia, the Farmers policy only offers six months, but the Mid-Century policy offers 12 months.

Notices

- (7) The companies should provide the glass script to their insureds. This should not be done by the vendor. Currently, the insureds do not have the option to select their own vendor prior to being transferred to Safelite. The insureds must have this option provided to them.

Amended Auto Corrective Actions

The companies are required to send a notice to the affected insureds stating their deductibles are increasing from \$725 to \$1000 as required by § 38.2-602 2b of the Code of Virginia.

PART THREE – EXAMINERS’ NOTES

Rating and Underwriting Recommendations

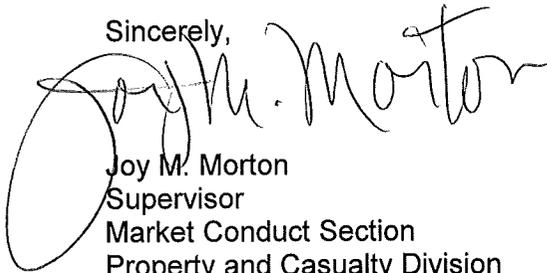
- The companies' FARM-127170514 filing did not include changes for the following items referenced in Review Sheet 1291137330: OTC \$50 Glass Deductible Buyback, Deer Strike Deductible Buyback, and the Premium Determination per \$100 rate chart.

Termination Recommendations

- A recommendation has been added to the Report regarding how the companies maintain and produce copies of cancellation notices sent to insureds.

Enclosed with this letter is a revised version of the Report, technical reports, and any review sheets withdrawn, added, or altered as a result of this review. We look forward to your response by November 28, 2011.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM

Enclosures



FARMERS®

Burt Garavaglia
AVP, Regulatory Affairs
Government & Industry Affairs
4680 Wilshire Boulevard
Los Angeles, CA 90010
(323) 930-4016 Phone
(323) 964-8095 Facsimile

December 2, 2011

Commonwealth of Virginia
Bureau of Insurance
P&C Market Conduct, 5th Floor
1300 E. Main Street
Richmond, VA 23219
Attn: Joy M. Morton
Supervisor
Market Conduct Section
Property Casualty Division

RE: Market Conduct Examination
Farmers Insurance Exchange (NAIC #21652)
Mid-Century Insurance Company (NAIC #21687)
Examination Period: 01/01/09 – 12/31/09

Dear Ms. Morton:

The following is our response to the findings, comments and concerns contained in the Bureau's November 4, 2011 correspondence. Our response includes those areas where procedures have been or will be amended or where we respectfully dispute the findings of the examiners. We ask that further considerations be given to any disputed items in the course of drafting a final report. Unless otherwise noted, the response tracks with the order and sequence of the findings in the November 4, 2011 correspondence.

Please note that neither these comments nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Bureau or any other party as constituting any admissions. Please further note that we are providing these comments and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connections with the information provided.

Automobile New Business Rating

1a.

The violation for RPA016 remains in the Report. Instead of a checkbox, the trailer should be specified on the declarations page per Exclusion 7a in Part D of the policy. The policy does not state the trailer's deductible automatically matches that of another covered auto. Item A of the Insuring Agreement of Part D of the policy states the highest applicable deductible will apply if a loss to more than one "your covered auto" results from the same collision. Additionally, the company required the insured to pay a separate premium to obtain Physical Damage coverage for each owned trailer. The filed manual did not state the trailer's deductible must match that of a private passenger auto; therefore, any deductible could have been selected for the trailer separately. The trailer must have its own deductible if a loss occurs to the trailer while not attached to a private passenger auto.

We do not dispute this violation and will establish a project to encompass the trailer deductible.

5a.

Please provide the date the company anticipates the Farmers Auto 2.0 Program updates will be completed.

The Farmers Auto 2.0 program, introduced March 2011 does not utilize "mock rated" policies. We will amend the filing for Farmers Insurance Exchange, as of November 2011.

8.

The violation for RPA015 remains in the report. The company's filed FARA Code Discount rule states the scores will be updated at least once every three years. It does not state the company will continue to use the better scores. Upon receiving a violation for not using the most current credit score, the company stated it use the best of either the score already on file or the most current score. As a result of the company's response, that violation was withdrawn. Additionally, the examiners did not cite at least five new business policies where the company used the insured's credit score that was pulled more than 90 days prior to the inception date because it was better than the new scores. Therefore, the company has not followed its filed rule, or its internal rule regarding the application of credit scores.

The violation for RPA032 remains in the report. The Company should have used the better score on file if the policy was rewritten. Exhibit 4 shows the company used the adverse FARA F score for the rewritten policy instead of FARA D, which was already on file for the insured. The company's "compare logic" was not filed with the Bureau and its application was inconsistent. The company must file its "compare logic" into the FARA Code Discount rule to ensure consistency in its application.

We do not dispute this violation and will amend this filing.

Automobile Insured Requested Cancellations

1.

The violation for TPA034 remains in the report. The policy was effective on 9/06/2009 and cancelled on 11/05/2009. The six month premium was \$454.20, including the \$15 policy fee. The short rate earned factor for 60 days of coverage is .395 resulting in an earned premium of \$179.41. The insured paid \$228.60, which resulted in \$49.19 due to the insured. The company incorrectly refunded \$74.66, which resulted in an undercharge of \$25.47.

We do not dispute this violation and are amending our policy contract to indicate our pro-rate procedure.

Homeowner Nonpayment of Premium Cancellations

1.

The violation for THO066 remains in the report. The company did not explain how it computed earned premium of \$501.92 instead of \$570.94. The company should have applied a pro rata factor of .532 to the total policy premium of \$1,073.19, which includes the \$25 policy fee.

We agree the system was not including the 25.00 policy fee into the cancellation credit as it should. However we disagree with the prorated factor indicated. Pages 1002-1005 in the Virginia Property Next Generation Rate Manual reflects the short rate factors. The prorated table is not reflected in this manual. A prorated factor, which is a calculation on premium day multiplied by number of days left in the term, of .545 was used determined as follows:
 $1048.19 * .545 = 571.26335$, system calculated 571.27.

The violation for THO067 remains in the report. The Company did not provide an explanation why the requested amended declarations pages were not attached to support the \$2.24 premium charge. The policy was effective on 1/23/09 with a policy premium of \$485.95, plus a \$25 policy fee. The policy was cancelled on 5/11/09, 108 days. The pro rata earned factor was .296 for earned premium of \$151.24. The company earned \$20 in fees, which resulted in \$171.24 due to the company. The insured paid \$164.04, which left \$7.20 due to the company. The company incorrectly charged \$24.80, which resulted in an overcharge of \$17.60. In addition, the company response includes a line entry of \$40.56 shown as "premium carried over from standard". Please explain this amount and its reference.

We respectfully disagree. The \$2.24 premium charge is the monthly billing for the Central Burglar and Central Fire alarm discounts, which were removed from the policy. Attached is a copy of the declarations page issued to the insured at the time the discounts were removed - Exhibit 1 and the screen shots for the monthly billing amount, Exhibit 2.

The \$40.56 listed as "premium carried over from standard" is the earned premium for January 23, 2009 to February 23, 2009, from the standard billing account transferred to the monthly billing account. ($31 \text{ days} = .085 \text{ prorated factor}$. $477.14 * .085 = 40.56$)

Homeowner Policy Forms Used During the Examination Period

Please provide an estimated implementation date for form E6170.

We re-filed form E6170 effective October 1, 2011.

Part Two-Corrective Action Plan

Rating and Underwriting Review

6.

The companies should immediately require each agent to maintain, or send to the companies, a copy of the Memorandum of Insurance document the insured signs at the time of application.

The Company has agency documentation guidelines to maintain copies of the memorandum of insurance or to place scanned copies in the company's Image Center. A project has been undertaken to develop an application, implementation for Virginia scheduled for February 2012.

7.

The correct filing number is FARM-127170514, which was submitted on 5/17/2011 and approved on 6/22/2011. The company did not change this rule to indicate which driver's age would be used to determine the 30/60 factor per vehicle.

We do not dispute this violation and will amend the filing.

10.

The item has been added to address the projects started by the companies to make refunds for overcharges due to the Auto/Rent/Life discount and Deductible factors. The companies should report its restitution for these policies in an Excel spreadsheet by December 12, 2011.

A restitution report will be provided by December 12, 2011.

Terminations

The companies were aware that the policy provisions, involving mortgagee requested terminations, were in conflict with the minimum standards and were to be withdrawn before refunds were sent to the insureds. We did not require the companies to make any additional restitution to the insureds for the money sent to the mortgagees. However, since those overcharges included a penalty of six percent interest, the companies must inform the insureds that the restitution and six percent interest have been sent to the mortgage companies if the companies have not already done so.

We acknowledge this recommendation and are in the process of contacting our customers.

Claims

5.

The companies' claims adjusters must be aware of the time frame applicable to making a claim for the holdback of depreciation. The companies can either have their adjusters verbally inform insureds and document the claim accordingly, or create a notice specifying the policy's time frame. In Virginia, the Farmers policy only offers six months, but the Mid-Century policy offers 12 months.

We acknowledge as recommended.

Notices

7.

The companies should provide the glass script to their insureds. This should not be done by the vendor. Currently, the insureds do not have the option to select their own vendor prior to being transferred to Safelite. The insureds must have this option provided to them.

We continue to respectfully disagree that our procedure is not in compliance with § 38.2-517 A 3 of the Code of Virginia. We believe there is a misunderstanding of the glass reporting process/procedures. When the call is received, the reporting party, after choosing the glass prompts and being routed to glass claims, is transferred to a Farmers representative who utilizes the glass scripting provided or the call is transferred to our third party administrator (TPA) Safelite Solutions. When the call is transferred to Safelite Solutions, acting as a TPA, the customer hears a message advising them the claim is going to be handled by someone other than Farmers before anyone answers the phone. We believe that recording to be the "prior" notice. We are of the opinion the message clearly states the requirements of disclosure: "Thank you for calling the HelpPoint Glass Service. Your call is being answered and recorded by Safelite Solutions. Your Insurance Company has an agreement with Safelite Solutions under which Safelite processes automobile glass claims. Safelite Solutions is not owned by your insurance company but provides services for them. We will need to ask you some questions to open a claim; we can then assist you in scheduling an appointment."

The use of Safelite Solutions is to manage the loss process. The policyholder is not selecting them as a glass shop. The customer is given a glass shop choice in the Farmers scripting by the TPA and the customer's choice is honored. In 2010 we processed 2,847 glass claims: 2,112 were managed by Farmers employees and 735 were managed by our TPA, Safelite Solutions. Of the total 2,847 claims processed, Safelite was the vendor of choice for 1,667 claims; over 1,180 claims were handled by other glass repair shops

Amended Corrective Actions

The companies are required to send a notice to the affected insureds stating their deductibles are increasing from \$725 to \$1000 as required by Sections 38.2-602 2b of the Code of Virginia.

The company did not change the affected policyholder's deductibles, during the time period 7/01/2009 through 8/13/2009. The company maintained the stated deductible on the policy and has initiated a project to refund overcharges due to the incorrect deductible factor.

Rating and Underwriting Recommendations

The companies' FARM-127170514 filing did not include changes for the following items reference in Review Sheet 1291137330: OTC \$50 Glass Deductible Buyback, Deer Strike Deductible Buyback, and the Premium Determination per \$100 rate chart.

We agree with the recommendations concerning the OTC \$50 Glass Deductible Buyback and Deer Strike Deductible Buyback and will amend our filing. We note that we did clarify the Premium Determination Amount in the filing by referencing on page 317, the rate tables located on pages 807 and 807a.

Termination Recommendations

A recommendation had been added to the Report regarding how the company maintains and produce copies of cancellation notices sent to insureds.

We are taking the Bureau's recommendation under advisement.

As set forth in this letter, we have attempted to address the concerns, comments, and recommendations outlined in the Market Conduct Examination Report in an expeditious and responsible manner. We ask that these comments be considered and the draft report be revised accordingly. We do not waive our right to invoke any other administrative remedies.

We await the release of the final report. Please feel free to contact JoAnna Benko at 512-233-3412, or myself, if there is anything further your might need.

Very truly yours,



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

Andrea Baytop

From: Andrea Baytop
Sent: Wednesday, January 18, 2012 5:26 PM
To: 'joanna.benko@farmersinsurance.com'
Cc: Joy Morton
Subject: Farmers Conference Call of 01/17/2012
Attachments: FINAL Farmers Restitution.xls; TermNPHO-1665491602.docx

Good Afternoon JoAnna,

Thank you for organizing the January 17, 2012 conference call so that we could discuss our outstanding issues with the company's items in the Farmers Response dated December 2, 2011. The following items are the last before concluding the Market Conduct Examination Report of Farmers Insurance Exchange and Mid-Century Insurance Company.

1. Farmers Insurance Exchange will revise the wording in its OTC \$50 Glass and Deer Strike Deductible Buyback rules to indicate the endorsement premiums are a percentage of the final OTC premium.
2. Farmers Insurance Exchange will also revise its filed manual to indicate which driver's age is used to determine the applicable 30/60 Program factor.
3. The company agreed to the earned premium violation for TH0067. We have reviewed the cancellation notice for TH0066 that was provided with your response to the Report and have re-calculated earned premium. As with TH0067, the company incorrectly fully earned the \$25 policy fee, which resulted in an overcharge of \$13.62. The amount of \$14.44, including 6% interest, should be refunded to the insured and documented in the attached Restitution file. We have also attached a copy of the revised review sheet.
4. Per the conference call on January 17th, the company stated it would provide the completed Project Restitution file with the check numbers that same evening. We have not yet received that file. Please advise when we will receive the completed file.
5. The companies will revise the glass claim process to ensure the Farmers group provides the glass script PRIOR to transferring the insured to a third party.

Sincerely,

Andrea Baytop

Senior Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance

Andrea Baytop

From: JoAnna Benko [joanna.benko@farmersinsurance.com]
Sent: Friday, January 20, 2012 2:59 PM
To: Andrea Baytop; Joy Morton
Cc: Sandra Beck; Mike Benschneider
Subject: RE: VA MCE - Farmers Response to Conference Call of 01/17/2012
Attachments: FINAL Farmers Restitution.xls

Andrea:

Responses to the questions reviewed during our January 17th conference call are below. Note we will not have an actual refund check number to report until Monday, January 23rd.

1. Farmers Insurance Exchange will revise the wording in its OTC \$50 Glass and Deer Strike Deductible Buyback rules to indicate the endorsement premiums are a percentage of the final OTC premium.

The Company response to RPA014 gave an overview on rating the Deductible Buyback for Glass as follows: "When the manual refers to the base rate for the main coverages, we write "Base Rate," with the first letters capitalized. On page 323, the rating rule pages for Deductible Buyback for Glass, the description uses the word "rate," without capital letters, and is meant to refer to the final charged premium, with discounts and surcharges applied. We agree that this description is easily misunderstood, however, and agree to revise these references to "final developed premium," as you recommend, with an upcoming filing." This criticism was withdrawn on March 4th, as we "agreed to clarify our manual for the OTC Glass Ded Buyback to refer to the OTC final premium instead of rate."

We have amended rate page 323 to remove the word "rate" and substituted "final developed premium" as recommended and submitted the SERF filing FARM-127856738. This filing has been subsequently approved.

2. Farmers Insurance Exchange will also revise its filed manual to indicate which driver's age is used to determine the applicable 30/60 Program factor.

We have filed an amended manual page 325 for the 30/60 program as of January 20, 2012.

3. The company agreed to the earned premium violation for THO067. We have reviewed the cancellation notice for THO066 that was provided with your response to the Report and have re-calculated earned premium. As with THO067, the company incorrectly fully earned the \$25 policy fee, which resulted in an overcharge of \$13.62. The amount of \$14.44, including 6% interest, should be refunded to the insured and documented in the attached Restitution file. We have also attached a copy of the revised review sheet.

We have refunded the amount of \$14.44 and updated the restitution work sheet. We will not have a copy of the refund check number until Monday, January 23, 2012.

4. Per the conference call on January 17th, the company stated it would provide the completed Project Restitution file with the check numbers that same evening. We have not yet received that file. Please advise when we will receive the completed file.

The consolidated restitution worksheet was submitted on January 19, 2012.

5. The companies will revise the glass claim process to ensure the Farmers group provides the glass script PRIOR to transferring the insured to a third party.

As requested, we reviewed the correspondence which was attached. We investigated and ascertained we are in compliance with Reg Action 357 - glass script - internet. We continue to respectfully disagree that our telephone reporting procedure is not in compliance with § 38.2-517 A 3 of the Code of Virginia. We believe there is a misunderstanding of the glass reporting process/procedures. When the call is received, the reporting party, after choosing the glass prompts and being routed to glass claims, is transferred to a Farmers representative who

utilizes the glass scripting provided or the call is transferred to our third party administrator (TPA) Safelite Solutions. When the call is transferred to Safelite Solutions, acting as a TPA, the customer hears a message advising them the claim is going to be handled by someone other than Farmers before anyone answers the phone. We believe that recording to be the "prior" notice.

Please know we are interested in resolution. In order to bring this matter to a close we are in the process of changing the routing for Virginia telephone glass reporting directly to a Farmers representative and will discontinue any routing to the third party administrator, Safelite Solutions.

JoAnna Benko, CPCU, CIC, MCM, AINS
Regulatory Affairs Manager
Farmers Insurance
15700 Long Vista Dr. Austin, TX 78728
Tel: 512-233-3412 / Cell: 512-740-0995
Joanna.Benko@farmersinsurance.com

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

January 26, 2012

VIA UPS 2nd DAY DELIVERY

Joanna Benko, CPCU, CIC
Legislative and Regulatory Affairs
Farmers Insurance Exchange
15700 Long Vista Drive
Austin, TX 78728

Re: Market Conduct Examination
Farmers Insurance Exchange (NAIC # 21652)
Mid-Century Insurance Company (NAIC # 21687)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Benko:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of December 2, 2011. Based upon the Bureau's review of the companies' letter of December 2, 2011 and subsequent emails of December 12, 20, 23, 30, 2011 and January 12, 17, 18, 19 and 20, 2012, we are now in a position to conclude this examination. Enclosed are the final Market Conduct Examination Report of Farmers Insurance Exchange and Mid-Century Insurance Company (Report) and the technical reports.

Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

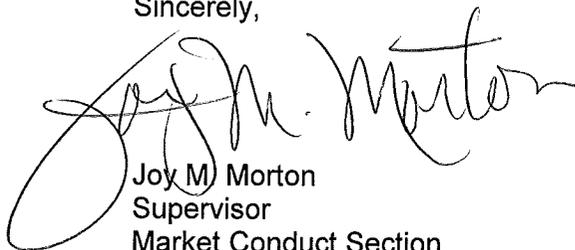
Sections 38.2-304, 38.2-305 A, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 10, 38.2-511, 38.2-517 A 3, 38.2-610 A, 38.2-1318, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2112 A, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 B, 38.2-2114 C, 38.2-2114 E, 38.2-2118, 38.2-2126 A, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2223, 38.2-2234 A, and 38.2-2234 B of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D and 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

Ms. Benko
January 26, 2012
Page 2

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Joy M. Morton". The signature is fluid and cursive, with a large loop at the beginning.

Joy M Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM/



FARMERS

STATE CORP COMMISSION
BUREAU OF INSURANCE

12 MAR -2 AM 9:46

Jeff Sauls
Vice President
Government & Industry Affairs
Farmers Group, Inc.
916-442-3672 (office)
916-446-7366 (fax)
916-812-1076 (cell)

March 1, 2012

Mary Bannister
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

400064

RE: Market Conduct Examination Settlement Offer

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated January 31, 2012, concerning the above referenced matter.

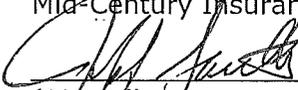
We wish to make a settlement offer on behalf of Farmers Insurance Exchange and Mid Century Insurance Company for the alleged violations of §§ 38.2-304, 38.2-305 A, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 10, 38.2-511, 38.2-517 A 3, 38.2-610 A, 38.2-1318, 38.2-1905 A, 38.2-1906 A, 38.2-1906D, 38.2-2112 A, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 B, 38.2-2114 C, 38.2-2114E, 38.2-2118, 38.2-2126 A, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2223, 38.2-2234 A, and 38.2-2234 B of the Code of Virginia; of the Code of Virginia and 14 VAC 5-400- 30, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D and 14 VAC 5-400-80 of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$174,200.00.
2. We agree to comply with the corrective action plan set forth in Farmers Insurance Exchange and Mid Century Insurance Company's letter of December 2, 2011.
3. We confirm that restitution was made to 10,190 consumers for \$380,930.06 in accordance with Farmers Insurance Exchange and Mid Century Insurance Company's letter of September 2, 2011 and email of January 19, 2012.
4. We further acknowledge Farmers Insurance Exchange and Mid Century Insurance Company's right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Farmers Insurance Exchange
Mid-Century Insurance Company



(Signed)

Jeff Sauls

(Type or Print Name)

Vice-President

(Title)

March 1, 2012

(Date)

Enclosure

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

Farmers Insurance Exchange and Mid-Century Insurance Company have tendered to the Bureau of Insurance the settlement amount of \$174,200.00 by their check numbered 3011158621 and dated February 28, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 20, 2012

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

FARMERS INSURANCE EXCHANGE
and
MID-CENTURY INSURANCE COMPANY,

Defendants

CASE NO. INS-2012-00027

CLERK'S OFFICE

2012 MAR 20 P 2:29

STATEMENT CONTROL

120320202

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendants, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required by statute in insurance policies; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of policies; violated §§ 38.2-1906 A and 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; violated § 38.2-2234 B of the Code by using credit information from a consumer report for tier placement or rating renewal policies of motor vehicle insurance issued in the Commonwealth of Virginia without updating the credit information at least once every three (3) years; violated §§ 38.2-304 and 38.2-2112 A of the Code by using a binder in excess of sixty (60) days; violated §§ 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 B, 38.2-2114 C, 38.2-2114 E, 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; violated § 38.2-317 A of the Code by delivering or issuing for delivery insurance policies or

endorsements without having filed such policy forms or endorsements with the Commission at least thirty (30) days prior to their effective date; violated § 38.2-2223 of the Code by using broadenings of standard forms without obtaining approval prior to use; violated §§ 38.2-517 A 3, 38.2-610 A, 38.2-1905 A, 38.2-2118, 38.2-2126 A, 38.2-2210 A, and 38.2-2234 A of the Code by failing to include accurate information in its notices; violated § 38.2-1318 C of the Code by failing to provide the Bureau of Insurance with convenient access to the Defendants' files, documents, and records; violated § 38.2-511 of the Code by failing to maintain a complete complaint register; and violated §§ 38.2-510 A 1 and 38.2-510 A 10 of the Code, as well as Rules 14 VAC 5-400-30, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D, *Rules Governing Unfair Claim Settlement Practices*, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code of Virginia to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke the Defendants' licenses upon a finding by the Commission, after notice and opportunity to be heard, that the Defendants have committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter, whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth of Virginia the sum of One Hundred Seventy-four Thousand Two Hundred Dollars (\$174,200), waived their right to a hearing, confirmed that restitution was made to ten thousand one hundred ninety (10,190) consumers in the amount of Three Hundred Eighty Thousand Nine Hundred Thirty Dollars and Six Cents (\$380,930.06), and agreed to comply with the Corrective Action Plan set forth in their letter to the Bureau of Insurance dated December 2, 2011.

The Bureau of Insurance has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code of Virginia.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau of Insurance, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted; and

(2) The papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Burt Garavaglia, Assistant Vice President, Regulatory Affairs, Government & Industry Affairs, Farmers Group, Inc., 4680 Wilshire Boulevard, Los Angeles, California 90010; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.