MARKET CONDUCT EXAMINATION

FARMERS INSURANCE EXCHANGE

TRUCK INSURANCE EXCHANGE

4680 WILSHIRE BLVD
LOS ANGELES, CA 90010

JANUARY 1, 2004-DECEMBER 31, 2004

Exhibit A
Order No. G06-7

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler,

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

Farmers Insurance Exchange	NAIC #21652
Truck Insurance Exchange	NAIC #21709

In this report, the above entities are collectively referred to as "the Companies". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Farmers Companies during the course of this market conduct examination, including those people assigned to us that provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Companies' commercial operations from January 1, 2004 through December 31, 2004. The examination was performed in the Companies' regional office in Tigard, OR and in the Seattle office of the OIC. This was the first examination of the Farmers Insurance Exchange and the Truck Insurance Exchange Companies.

Matters Examined

The examination included the following areas:

Operations and Management
General Examination Standards
Agent Licensing
Complaints
Rate & Form Filings
Underwriting and Rating
Cancellations and Non-Renewals
Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

	92%	Confidence Level
+/-	5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY

Company Name	Domiciled State	Incorporation Date	Admitted to WA
Farmers Insurance Exchange	CA	March 28, 1928	May 11, 1931
Truck Insurance Exchange	CA	February 5, 1935	April 6, 1936

Farmers Insurance Exchange commenced business in 1928 as the Farmers Automobile Inter-Insurance Exchange. The present name was adopted May 1, 1947. Farmers Insurance Exchange is a subsidiary of the Farmers Insurance Group. Paul N. Hopkins is President of the Company.

Truck Insurance Exchange commenced business in 1935, and is a subsidiary of the Farmers Insurance Group. Stanly R. Smith is President of the Company.

The Farmers Insurance Group is owned by Zurich Financial Services of Switzerland.

The Companies wrote the following lines of business during the exam period:

Commercial Auto	Commercial Monoline
Commercial Package	Commercial Umbrella

OPERATIONS AND MANAGEMENT

Operations and Management Standard #2 is not applicable to this examination as it applies only to domestic insurers.

Findings

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	**The Companies are required to hold a certificate of authority from the Office of the Insurance Commissioner prior to transacting insurance in the State of Washington.**	**RCW 48.05.030(1)**

GENERAL EXAMINATION PRACTICES

Findings

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	**The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.**	**RCW 48.03.030(1)**

3	**The Companies maintain full and accurate records and accounts.**	**RCW 48.05.280**
4	**The Companies filed an antifraud plan with the Office of Insurance Commissioner and filed annual anti-fraud reports with Office of the Insurance Commissioner.**	**RCW 48.30A.045 RCW 48.30A.060**

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	**The Companies do business in their own legal name.**	**RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06**

Standard #2:

- Approximately four hundred (400) checks for claims on Farmers Insurance Exchange policies were issued on Truck Exchange check stock between January 1, 2004 and August 31, 2005.

- Five (5) claims contained correspondence that did not identify the insuring company or identified the wrong insuring company.

See Appendix 1 for detail.

Subsequent event: The Companies advised that a systems change to be implemented March 6, 2006 will print the underwriting company on all checks. In the interim, staff was instructed to include a separate page identifying the contracting company with all correspondence.

AGENT ACTIVITIES

Agent license and appointment records for agents who wrote the policies selected for the underwriting sample were reviewed by the examiners. The examiners also reviewed a sample of records from the list of active agents provided by the Companies. As part of the review, the examiners compared the Companies' agent licensing records with the OIC records to ensure that agents were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

The following Agent Activity Standard Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	**The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington**	**RCW 48.17.060(1) and (2)**

#	AGENT ACTIVITY STANDARD	REFERENCE
	prior to allowing them to solicit business or represent the Companies in any way.	
2	**The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies.**	**RCW 48.17.160**
3	**The Companies must notify the Office of the Insurance Commissioner when an agent's appointment is revoked.**	**RCW 48.17.160(3)**
4	**The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.**	**RCW 48.17.591(2)**

COMPLAINTS

The examiners reviewed all fourteen complaints filed with the OIC between January 1, 2002 and February 28, 2005.

Files were reviewed to determine if the Companies responded to complaints filed with the OIC within time frames stated in its procedures and those required by Washington regulations. Files were reviewed for adverse trends. The examiners also reviewed the Companies' complaint handling procedures.

Findings

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	**Response to communication from the Office of the Insurance Commissioner must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.**	**WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4**

UNDERWRITING AND RATING

The examiners selected 100 of 18,239 policies that were either new or renewed during the examination period.

Files were reviewed to determine if the Companies:

- Followed the filed rating plans
- Followed the underwriting rules

- Were in compliance with Washington laws

Standards #9, #10, and #11 are not applicable to this examination. The Companies did not use credit scoring during the exam period.

Findings

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
2	**The Companies require an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.**	**RCW 48.22.030(3) and (4)**
3	**The Companies require an insured to reject Personal Injury Protection (PIP) in writing.**	**RCW 48.22.085(2)**
4	**During underwriting, the Companies use only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.**	**RCW 48.30.310, Bulletin 79-3, RCW 46.52.130 WAC 308-104-145**
6	**The Companies retain all documentation related to the development and use of (a) rates.**	**WAC 284-24-070**
7	**The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.**	**WAC 284-30-574**
8	**Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.**	**WAC 284-30-560(2)(a)**
12	**No insurer may alter an application for insurance without the insured's written permission.**	**RCW 48.18.070**

The following Underwriting Standards Passed with Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	**Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.**	**RCW 48.18.230(1), WAC 284-30-560**
5	**The Companies apply schedule rating plans to all policies as applicable in its filing.**	**WAC 284-24-100**

Standard #1:

- One (1) binder (policy # 602468312) did not identify the insuring company.

Standard #5:

- One (1) policy (#600758710) contained information that indicated the policy premium was being priced through the use of schedule rating credits without the required supporting documentation and underwriting analysis.

RATE AND FORM FILING

The examiners selected forms that were attached to new and renewal policies used in the underwriting sample for the rate and form filings review. The purpose was to determine if the Companies were complying with the laws regarding rate and form filing.

Rate and Form Filing Standard #1 applies to personal lines form filing. Therefore it is not applicable to this examination.

Findings

One policy was referred to underwriting management for review. There was information obtained in a company survey that indicated the building had a sprinkler system. Prior to allowing a sprinkler credit, it is a preferred, but not required, underwriting practice to request an inspection by the Washington Survey and Rating Bureau (WSRB) to confirm the system is adequate for the building. The Company has agreed that they will refer this risk to WSRB for review.

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM FILING STANDARD	REFERENCE
3	**The policy must identify all forms that make up the policy. The policy will identify all coverage limits.**	**RCW 48.18.140(2)(a)-(f)**
4	**The policy must contain all endorsements and forms.**	**RCW 48.18.190**
5	**Policy forms for commercial policies are filed within 30 days of use.**	**RCW 48.18.103(2)**
6	**Personal Injury Protections forms issued by the Companies contain coverage definitions and limits that conform to Washington law.**	**RCW 48.22.095 RCW 48.22.005**
7	**Rates for commercial policies must be filed within 30 days of use.**	**RCW 48.19.043(2)**

The following Rate and Form Filing Standard Failed:

#	RATE AND FORM FILING STANDARD	REFERENCE
2	**Where required, the Companies have filed with the Office of the Insurance Commissioner classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.**	**RCW 48.19.040(1) and (6)**

Standard #2:

- One (1) policy was rated incorrectly. The corrected rating produced no change in premium.

- One (1) policy was rated based on information received from the agent. When the risk was surveyed the corrected information was not incorporated into the next two policy periods. This resulted in undercharging the insured.

- One (1) policy in the sample was not rated correctly because of an error in the rating program. The Companies were asked to identify all the policies that were affected by the error. Sixty four (64) policies were rated incorrectly resulting in refunds totaling $10,743.50 to the insureds.

- One (1) policy was rated with an un-filed rate for the liability limits.

See Appendix 2 for detail.

RENEWAL, CANCELLATION AND NON-RENEWAL

The examiners selected 50 of 5,060 policies that were either canceled or non-renewed during the exam period. The files were reviewed to determine if the Companies were in compliance with state laws governing policy cancellation and non-renewal. Renewal policies selected in the Underwriting section of the examination were also considered in this section of the examination.

Findings

The following Renewal, Cancellation and Non-renewal Standards Passed without Comment:

#	RENEWAL CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
1	**The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the Companies.**	**RCW 48.17.591**

The following Renewal, Cancellation and Non-renewal Standards Failed:

#	RENEWAL CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
2	**The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.**	**RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292**
3	**The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.**	**WAC 284-30-570 Bulletin 96-2**

Standard #2:

- The Companies did not send any notice to the insured to advise of increases in premium due to a change in rates as required. The expectation was that the insured could compare the old policy and the new policy to identify changes in premium. The Company determined there were 7,397 policies with premium increases because of rate changes. .The Companies did send a complete set of policy documents at every renewal with a cover letter that pointed out changes in policy provisions.

Standard #3:

- Three (3) files did not contain sufficient information for the insured to understand the Company's decision to cancel or non-renew the policy.

See Appendix 3 for detail.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 75 of 2,842 claims that were closed during the exam period. They also reviewed 20 of 107 claims that contained settlements of first party total losses. The primary claims department for Washington claims is in Kirkland, Washington.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total losses
- Documentation of claim files

Findings

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
1	**The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.**	**WAC 284-30-330**
3	**The Companies provided an explanation of all pertinent coverage to first party claimants.**	**WAC 284-30-350**
6	**The Companies must accept or deny coverage within 15 days after receiving proof of claim.**	**WAC 284-30-380**

#	CLAIM STANDARD	REFERENCE
8	**The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.**	**WAC 284-30-395(1)**
9	**The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required.**	**RCW 46.12.070, WAC 308-56A-460**

The following Claims Standards Passed with Comment:

#	CLAIM STANDARD	REFERENCE
2	**The Companies claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file.**	**WAC 284-30-340**
4	**The Companies acknowledge receipt of a claim within 10 days, and respond to all communications on a claim file within the time frames prescribed.**	**WAC 284-30-360(1), (3) and (4)**
5	**The Companies comply with requirement for prompt investigation of claims.**	**WAC 284-30-370**
7	**The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.**	**WAC 284-30-390, WAC 284-30-3901-3916**

Standard #2:

- Three (3) claim files (CV047169, CV 48587, and CV 45153) did not contain enough detail in the log notes to determine the claim handler's activities and the dates of those activities.

Standard #4:

- One (1) claim (1004547999) was reported to the agent on October 1, 2003. The agent did not report the loss to the Company until March 3, 2004.

Standard #5:

- One (1) claim (CV047169) was received in December. There was not enough information in the file to determine when coverage was confirmed. The balance of the claim was not handled until February.

Standard #7:

- One (1) claim (4730063) was originally paid as a collision loss. When the investigation was concluded it was determined that the at-fault vehicle was not insured, however the Company failed to reimburse the insured the difference between the collision and the

uninsured motorist property damage deductible. $400 was returned to the insured at the direction of the examiners.

SUMMARY OF STANDARDS

Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies are required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Companies are required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies. (RCW 48.07.070)	N/A		

General Examination Practices:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	7	X	
2	The Companies do business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8		X
3	The Companies maintain full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner (RCW 48.30A.045) and filed annual anti-fraud reports with the Office of the Insurance Commissioner. (RCW 48.30A.060)	8	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way. (RCW 48.17.060(1) and (2))	8	X	
2	The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies. (RCW 48.17.160)	8	X	
3	The companies must notify the Office of the Insurance Commissioner when an agent's appointment is revoked. (RCW 48.17.160 (3))	9	X	

#	STANDARD	PAGE	PASS	FAIL
4	The companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract. (RCW 48.17.591(2))	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the Office of the Insurance Commissioner must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	9	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	10	X	
2	The Companies require an insured to reject or request lower limits, in writing, for underinsured motorist coverage (UIM). (RCW 48.22.030(3) and (4))	10	X	
3	The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	10	X	
4	During underwriting, the Companies obtain and use only the personal driving record for personal insurance and only the employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, Bulletin 79-3, WAC 308-104-145)	10	X	
5	The Companies apply schedule rating plans to all policies as applicable in its filing. (WAC 284-24-100)	10	X	
6	The Companies retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10	X	
7	The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date & time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	10	X	
9	An insurer, when using credit scoring to underwrite, may not	N/A		

#	STANDARD	PAGE	PASS	FAIL
	use the following factors: the number of credit inquiries; collections identified with medical industry code; the purchase of a new vehicle or home (some exceptions); or insurer cannot use total available line of credit to set rates or deny coverage. (WAC 284-24A-065)(1) through (6)) *Effective 06/30/03*			
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. WAC 284-24A-010(1) and (2). *Effective 06/30/03*	N/A		
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003. (WAC 284-24A-015(1))	N/A		
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	10	X	

Rate and Form Filing:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the Office of the Insurance Commissioner prior to use. (RCW 48.18.100)		N/A	
2	Where required, the Companies have filed with the Office of the Insurance Commissioner classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	11		X
3	The policy identifies all forms that make up the policy. The policy will identify all coverage limits. (RCW 48.18.140(2)(a)-(f))	11		
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	11	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	11	X	
6	Personal Injury Protections forms issued by the Companies contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	11	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	11	X	

Renewal, Cancellation and Non-Renewal:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	12	X	
2	The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	12		X
3	The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	12		X

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	13	X	
2	The Companies' claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	14	X	
3	The Companies provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	13	X	
4	The Companies acknowledge receipt of a claim within 10 days, and respond to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	14	X	
5	The Companies comply with requirement for prompt investigation of claims. (WAC 284-30-370)	14	X	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	13	X	
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390, WAC 284-30-3901-3916)	14	X	
8	The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395(1))	13	X	
9	The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	13	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

	INSTRUCTION	PAGE NUMBER
1	The Companies are instructed to comply with RCW 48.05.190(1) and ensure that all checks and correspondence identify the full name of the insurer.	8
2	The Companies are instructed to comply with RCW 48.19.040(1) and (6) and ensure that all policies are rated according to the filed rates.	11
3	The Companies are instructed to comply with RCW 48.18.2901 and ensure that policyholders are notified of a change in rates that affect the premium or changes in contract provisions at renewal.	12
4	The Companies are instructed to comply with WAC 284-30-570 and ensure that all cancellation or non-renewal notices give sufficient information so that the insured does not need to do additional research to understand the Company's decision.	12

APPENDIX 1

General Examination Standards

The Company does business in its own legal name. Reference: RCW 48.05.190(1)	
Policy or Claim Number	Comments
Approximately 400 checks issued between Jan 1, 2004 and Aug 31, 2005	All claim checks for Farmers Insurance Exchange claims were issued on check stock showing Truck Exchange as the insuring Company.
PJ 2421	Correspondence did not identify the insuring Company.
PJ 003527	Correspondence identified the wrong insuring Company in the signature block.
PJ 004139	Correspondence did not identify the insuring Company.
PJ 002895	Correspondence did not identify the insuring Company.
602468312	Correspondence did not identify the insuring Company

APPENDIX 2

Rate & Form Filing Standards

Standard #2: Where required the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates and rating rules prior to use and does not issue policies that are not in accord with their filings.	
Policy #	**Comments**
350499950004	The policy was rated with incorrect factors. Re-rating the policy resulted in no change in premium.
35077368	One policy in the sample was rated incorrectly due to an error in the rating program. The examiners asked for the Company to identify all the policies that were rated incorrectly. The error in the rating program affected a small group of policies with high policy limits in the habitation risks. The Company reviewed all habitational risks written with limits that were affected by the programming error between January 1, 2002 and October 20, 2005. 64 policies were rated incorrectly resulting in refunds of $10,743.50 including 10% interest that the Company added to the refund payments.
35007021	The policy was not rated correctly. Premium is based, in part, on the number of buildings on the premises grounds. The underwriter did not correct the information when it was received from a loss control survey. The policy was undercharged for two policy periods.
600277463	The policy was rated with an un-filed rate for the liability limits

APPENDIX 3

Cancellation & Non-Renewal Standards

Standard #2: The Company sends offers to renew, or cancellation or non-renewal notices, according to the requirements prior to policy termination.	
Policy #	**Comments**
7,397 policies	The Companies did not notify the insured when rates changed. They relied on the insured to compare their old policy with the renewal policy without pointing out the change in premium.

Standard #3: The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	
Policy #	**Comments**
601052674	Notice did not contain sufficient information for the insured to understand the reason for the Company's decision.
601203696	Notice did not contain sufficient information for the insured to understand the reason for the Company's decision.
35023453	Notice did not contain sufficient information for the insured to understand the reason for the Company's decision.

FARMERS

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January 20, 2005

RECEIVED
JAN 2 4 2005
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
State of Washington
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Farmers Insurance Exchange & Truck Insurance Exchange Market Conduct Examination

Dear Mr. Odiorne:

We have received the draft report of the Market Conduct Examination of Farmers Insurance Exchange and Truck Insurance Exchange. Enclosed is our response to the draft.

We would like to commend your office and your exam team for their professionalism, cooperation and the courtesies shown to our department and our employees at the Northwest Service Center during the examination process.

We would like 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.

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 consideration 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 draft report.

Standard #2 – Page 8:

- Approximately four hundred (400) checks for claims on Farmers Insurance Exchange policies were issued on Truck Exchange check stock between January 1, 2004 and August 31, 2005.
- Five (5) claims contained correspondence that did not identify the insuring company or identified the wrong insuring company.

Company Response:
We are in the process of making the necessary changes to our systems to print the underwriting company on all settlement checks. The projected completion date is March 6, 2006. In the interim, a cover memo identifying the insurer will accompany all settlement checks. This issue has been addressed individually with each Claims Representative as well as in local Branch Claims Office meetings. Claims employees have been instructed to verify checks and correspondence before they are mailed out. Also, a review for compliance has been added to the check audit review.

Standard #1 – Page 10:

- One (1) binder (policy #60246-83-12) did not identify the insuring company.

Company Response:
To address this concern, an article was published and distributed to all Farmers Insurance Group agents in Washington, advising them of the requirements of RCW 48.18.230(1) and WAC 284-30-560. Additionally, our service teams have been reminded to verify the company name on all applications and binders.

Standard #5 – Page 10

- One (1) policy (#60075-58-10) contained information that indicated the policy premium was being priced through the use of schedule rating credits without the required supporting documentation and underwriting analysis.

Company Response:
In evaluating the risk, the underwriter determined that the property no longer merited that credit previously applied. In order to lessen the impact to the insured, the underwriter chose to "step-down" the reduction in credits. The policy has since been rewritten to another policy type and no longer qualifies for schedule rating modification. The correct policy number in question is #60075-87-13.

Standard #2 – Page 11-12

- One (1) policy was rated incorrectly. The corrected rating produced no change in premium.

Company Response:
Upon issuance, this policy was rated using an incorrect territory code. The error was subsequently identified and corrected prior to the Market Conduct Examination.

Standard #2 – Page 12

- One (1) policy was rated based on information received from the agent. When the risk was surveyed the corrected information was not incorporated into the next two policy periods. This resulted in undercharging the insured.

Company Response:
The new business application indicated a total of 24 buildings. A subsequent Loss Control inspection report indicated a total of 17 buildings. Due to an oversight, this rating detail was not communicated to policy rating. The policy has been documented, and the correction will be made upon the next renewal.

Standard #2 – Page 12

- One (1) policy in the sample was not rated correctly because of an error in the rating program. The Companies were asked to identify all the policies that were affected by the error. Sixty-four (64) policies were rated incorrectly resulting in refunds totaling $10,743.50 to the insureds.

Company Response:

The programming error has been corrected and refunds, including 10% interest, have been sent to all subject policies.

Standard #2 – Page 12

- One (1) policy was rated with an un-filed rate for the liability limits.

Company Response:
A request was received to increase the coverage to a non-published limit. The requested limit was allowed in error, using the rate applicable for the next lower limit. To address this concern, our service teams have been reminded to follow the established procedure for such requests. The policy has since non-renewed; no adjustment is necessary.

Standard #2 – Page 12

- The Companies did not send any notice advising of increases in premium due to a change in rates or changes in contract provisions. The Companies advised that a complete set of policy documents was sent at every renewal. The expectation was that the insured could compare the old policy and the new policy to identify changes. The Company determined there were 7,397 policies where changes had occurred.

Company Response:
We respectfully disagree with the examiner's finding. It has been our interpretation that a complete set of renewal declarations satisfies the requirements of the applicable RCWs. The declaration pages detail coverages and associated premiums. When contract provisions change upon renewal, a policyholder letter accompanies the declarations. However, as recommended (Page 19), a statement will be added to our renewal declarations effective August 2006 renewals, to better comply with RCW 48.18.2901.

Standard #3 – Page 13

- Three (3) files did not contain sufficient information for the insured to understand the Company's decision to cancel or non-renew the policy.

Company Response:
All three examples used the same scripted wording regarding losses. To address the examiners concerns, our service teams have been instructed to address the specific date and type of loss/losses that resulted in the decision to cancel or non-renew. Additionally, to help ensure full compliance with WAC 284-30-570, an audit has been established to review all underwriting cancellations prior to mailing.

Standard #2 – Page 14:

- Three (3) claim files (CV047169, CV 48587, and CV 45153) did not contain enough detail in the log notes to determine the claim handler's activities and the dates of those activities.

Company Response:
We have reviewed the examiner's comments for the three files referenced above. We have discussed the importance of documentation in the log notes with the Claims Representatives during case reviews and Branch Claims Office meetings.

Standard #4 – Page 14:

- One (1) claim (100454-79-99) was reported to the agent on October 1, 2003. The agent did not report the loss to the Company until March 3, 2004.

Company Response:
We have reviewed the examiner's comments for the file referenced above. We have followed-up with the agent in question regarding the time frames outlined in WAC 284-30-360 (1) (3) and (4).

Standard #5 – Page 14:

- One (1) claim (CV047169) was received in December. There was not enough information in the file to determine when coverage was confirmed. The balance of the claim was not handled until February.

Company Response:
We have reviewed the examiner's comment for the file referenced above. We have discussed the importance of documentation during case review and during Branch Claims Office meetings.

Standard #7 – Page 14:

- One (1) claim (4730063) was originally paid as a collision loss. When the investigation was concluded it was determined that the at-fault vehicle was not insured, however the Company failed to reimburse the insured the difference between the collision and the uninsured motorist property damage deductible. $400 was returned to the insured at the direction of the examiners.

Company Response:
We have reviewed the examiner's comments for the file referenced above. A check in the amount of $400.00 was sent to the insured. We also corrected the insured's claim file to reflect this as an uninsured motorist claim.

As explained in this letter, we have attempted to address the concerns, comments and recommendations outlined in the Market Conduct Examination Report in an expedient and responsible manner. We ask that these comments be considered and the draft report be revised accordingly.

Once again, we wish to thank you and your exam team for your professionalism throughout the examination of our market conduct practices. Please feel free to contact Angela Wedel (323) 932-3776, or me, if there is anything further that we can provide.

Sincerely,

Bennett Katz
Assistant Vice President
Regulatory Affairs