

EXECUTIVE SUMMARY

The Kansas Insurance Department performed a targeted market conduct examination of Farmers Insurance Company, Inc. and Mid-Century insurance Company, hereafter referred to as FIG. The examination was conducted by reviewing the company's third party property damage claims. The exam team reviewed the claims at the company's processing center in Overland Park, KS. Several meetings were held with the FIG claims management staff that focused on their current claim operations. To supplement and verify the understanding of how the company adjusts a third party claim, a series of samples were selected for review to verify their procedures and practices in claims handling.

The company had just converted to a new electronic claims processing system. All documents will now be scanned into their claims system and the claims representatives will view the entire claim on-line. The new system will give FIG more control over their claim processing and provide immediate documentation when any document is received in their office. For our purposes the period of review was under their old system, and the exam team reviewed paper files.

The company passed all tests; and in terms of delivering good service to its insureds, the examiners were impressed with the overall professional performance by the FIG staff and the overall timely handling of the claims. The exam team has made recommendations on several issues.

LIST OF RECOMMENDATIONS

1. FIG claim files show a lack of consistent investigation. The files at times showed inconsistent or incomplete claim procedures as spelled out in the company's manuals. KID recommends that FIG strive to maintain a consistent standard for investigation for all of their claims in the area of contact, investigation and evaluation. Per KAR 40-1-34, Sections 4, 6a, 7 and 8a & b.
2. There was a lack of consistent file documentation, and consequently the examiners had difficulty at times determining what activity was being done on the file or what was the status of the claim. KID recommends that FIG maintain a consistent standard of documentation on their claim files in the areas of contact, investigation and evaluation. This would include determining the ACV of a vehicle and any deduction for salvage if the owner is retaining the car. Per KAR 40-1-34, Section 4 and 9a3.
3. As a result of the exam conducted in 2000 by KID on FIG, the following recommendation was made:

Recommendation 4: - FIC, Inc. needs to review their claim handling procedures for settling a total automobile loss. This would include establishing a cost of a comparable automobile in the local market area if available or securing quotes from a qualified dealer(s) in the local market area per the requirements of K.A.R. 40-1-34 Sec. 9.

From the sample reviewed in this exam, it does not appear that FIG has changed its practice and is still relying on a third party vendor to establish the ACV of a total automobile. This evaluation does not necessarily take into account a local market survey. FIG had 10 cases where they did not try and establish the value of a car by looking for a comparable automobile in the local market area or securing quotes from a qualified dealer(s) in that local market.

The company is still in violation of the various Sections of KAR 40-1-34 Section 9 and should immediately correct its procedures on evaluating the total loss of an automobile to bring FIG into compliance with this regulation.