

## **EXECUTIVE SUMMARY**

A market conduct examination of Farmers Insurance Company, Inc. also referred to as the “Company”, was conducted pursuant to, but not limited to K.S.A. 40-222. The examination period was from July 1, 2010 through June 30, 2012. The focus of the exam was operations and management, complaint handling, claim processing, underwriting and rating related to both private passenger automobile and homeowners insurance.

There were some issues noted in the handling of complaints and claim files. The main issue for both of these areas is the inconsistency of date stamping and being able to recreate the files to determine when correspondence is received by the Company. There were also delays in responding to consumers on complaints, though many of these are not violations of Kansas law, but rather beyond Company guidelines. Prior to the review of claim files the company disclosed an error they had discovered with a fee that was inadvertently being left out in total loss settlements. With regards to underwriting, violations were discovered in the nonrenewals of a large number of auto policies for reasons not allowed by Kansas law.

The significant issues to note are the many inconsistencies found in the Company’s rating practices. The Company had filed a new auto rating system in the fall of 2010 and there were several areas that the Company failed to use the rates and rules as filed or failed to put all rating elements into the new filings until brought to their attention by the exam team. Other issues of concern included applications being used that were not on file with the Kansas Insurance Department as required. Some of the issues were with filing errors and some were other business practices that had been addressed prior to the examination, while other issues have been updated during the course of the examination. The Company had disclosed to the Kansas Insurance Department in the fall of 2012 that they had implemented a rate filing prior to approval. This affected a large number of policyholders and refunds for most of those overcharged have been processed, while the Company is continuing to complete the refund process. There have been many updated rate and rules filed, especially on the automobile line of insurance over the past few years. With the number of errors noted in the implementation of new auto rate filings, a follow-up examination is recommended to ensure compliance in this area.

The exam team has made several recommendations based on the violations found during the examination, regardless of whether the standard was passed or failed. Additional details on each standard including percentages of compliance are found within the individual sections of this report.

### **Recommendations**

#### **OPERATIONS AND MANAGEMENT**

1. The Company should review their audit procedures to ensure future compliance with Kansas statutes and regulations as well as ensure consistencies in following business practices set by the company.

## **COMPLAINT HANDLING**

1. The Company should ensure all incoming correspondence is date stamped on the day received in order to have adequate documentation of the files. The Company should also put procedures in place to ensure the dates received on the complaint log are accurate.
2. The Company should take steps to ensure all complaints are responded to within the timeframes specified by Kansas regulations or within Company guidelines when legal requirements are not applicable.

## **CLAIM HANDLING**

1. The Company should maintain procedures to ensure documents are scanned into the system on the day they are received. When this is not possible, it should be clear to the examiners when the documents were received in order to recreate the claim files.
2. It was noted on the homeowner claims review that there were instances in which claim payments were made using a debit card. While we have no laws in Kansas prohibiting this practice, there are fees and requirements associated with the use of the cards that are not presented until after issuance. It appears if a person refuses the card the Company will send a check, however it is not clear if both options are discussed. The Company should disclose stipulations involved in using the card and should give the option of receiving payment by check along with the offer of receiving payment by debit card.

## **UNDERWRITING AND RATING**

1. The Company must do a thorough review of their rating practices to ensure they coincide with the rules and rates filed and approved with the Kansas Insurance Department prior to and during implementation of each new rate and rule filing.
2. The Company must ensure procedures are in place to file all required forms with the Kansas Insurance Department.
3. The Company must review the allowable reasons to cancel and nonrenew policies as indicated by Kansas statute and ensure the Company's procedures comply.