



# **Market Conduct Examination**

Farmers Insurance Company of  
Flemington

Flemington, New Jersey

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND  
INSURANCE

Office of Consumer Protection Services

Market Conduct Examination and Anti-Fraud Compliance  
Section

Date Report Adopted: July 1, 2009

MARKET CONDUCT EXAMINATION

of the

Farmers Insurance Company of Flemington

located in

Flemington, New Jersey

As of

December 12, 2007

BY EXAMINERS

of the

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF CONSUMER PROTECTION SERVICES  
MARKET CONDUCT EXAMINATION AND ANTI-FRAUD COMPLIANCE  
SECTION

**Date Report Adopted: July 1, 2009**

# TABLE OF CONTENTS

---

I. INTRODUCTION.....	<b>1</b>
A. SCOPE AND PURPOSE OF THE EXAMINATION .....	1
B. ERROR RATIOS .....	1
C. COMPANY PROFILE .....	2
II. CLAIMS.....	<b>3</b>
A. INTRODUCTION.....	3
B. ERROR RATIOS.....	3
C. EXAMINERS' FINDINGS.....	3
III. UNDERWRITING AND RATING.....	<b>7</b>
A. INTRODUCTION.....	7
B. ERROR RATIOS .....	7
C. EXAMINERS' FINDINGS .....	8
D. OTHER FINDINGS .....	9
IV. TERMINATION REVIEW .....	<b>10</b>
A. INTRODUCTION .....	10
B. ERROR RATIOS .....	10
C. EXAMINERS' FINDINGS .....	11
D. MISCELLANEOUS ERRORS.....	13
V. RECOMMENDATIONS.....	<b>15</b>
A. GENERAL INSTRUCTIONS.....	15
B. CLAIMS.....	16
C. UNDERWRITING AND RATING REVIEW .....	17
D. TERMINATION REVIEW .....	17
APPENDIX A – CLAIM ERRORS .....	<b>19</b>
APPENDIX B – UNDERWRITING AND RATING ERRORS.....	<b>20</b>
APPENDIX C – TERMINATION ERRORS.....	<b>22</b>
VERIFICATION PAGE .....	<b>24</b>

# I. INTRODUCTION

---

## A. SCOPE AND PURPOSE OF THE EXAMINATION

---

This is a report of the Market Conduct activities of the Farmers Insurance Company of Flemington, hereinafter referred to as (Farmers) or the Company. In this report, examiners of the New Jersey Department of Banking and Insurance (NJDOBI) present their findings, conclusions and recommendations as a result of their market conduct examination. The Market Conduct Examiners included Examiner-in-Charge Robert J. Only, Richard Segin, William Sonntag, and John Sivon. Marleen Sheridan performed as team supervisor.

The scope of the examination included homeowner and dwelling fire insurance sold by the Company in New Jersey. The examiners evaluated Farmers' compliance with the regulations and statutes that pertain to homeowner and dwelling fire insurance claims, rating, underwriting and terminations. The review period for the examination was July 1, 2006 through June 30, 2007. The examiners completed their fieldwork at the Company's Flemington, New Jersey office between October 22, 2007 and November 30, 2007. On various dates thereafter, the examiners completed additional review work and report writing.

The examiners randomly selected files and records from computer listings and documents provided by the Company. The random selection process is in accordance with the National Association of Insurance Commissioner's (NAIC) Market Regulation Handbook. In addition, the examiners used the NAIC Handbook, Chapters 16 (General Examination Standards) and 17 (Conducting the Property and Casualty Examination) as a guide to examine the Company and write this report.

## B. ERROR RATIOS

---

Error ratios are the percentage of files reviewed which an insurer handles in error. A file is counted as an error when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. If a file contains multiple errors, the examiners will count the file only once in calculating error ratios. However, any file containing more than one error will be cited more than once in the report. In the event that the insurer corrects an error as a result of a consumer complaint or due to the examiners' findings, the error will be included in the error ratio. If the insurer corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios.

Whenever the examiners find that a company commits a type of error with sufficient frequency, they will cite the errors as an improper general business practice. If an error constitutes an improper general business practice, the examiners have stated this in the report that follows.

The examiners sometimes find improper general business practices of an insurer that may be technical in nature or which did not have an impact on a consumer. Even though such a practice would not be in compliance with applicable law, the examiners do not count each of these files as an error in determining error ratios. Whenever such business practices do have an impact on the consumer, each of the files in error will be counted in the error ratio. The examiners indicate in the report that follows whenever they did not count any particular files in the error ratio.

The examiners submitted written inquiries to Company representatives on the errors cited in this report. This provided Farmers Insurance Company of Flemington the opportunity to respond to the examiners' findings and to provide exception to the statutory and/or regulatory errors or mishandling of files reported herein. In response to these inquiries, the Company agreed with some of the errors cited in this report. On those errors with which the Company disagreed, the examiners evaluated the individual merits of each response and gave due consideration to all of its comments. In some instances, the examiners did not cite the files due to the Company's explanatory responses. In others, the errors remained as cited in the examiners' inquiries.

## **C. COMPANY PROFILE**

---

The Farmers Mutual Fire Assurance Association of New Jersey was created by a special act of the State legislature on March 3, 1856. Its purpose was to insure houses, farms, schoolhouses, and houses for religious worship against loss by lighting or fire. In 1960, Farmers began writing liability insurance and in 1984 worker's compensation policies. The Company now offers coverage for many other perils. The Company presently contracts with 80 independent agents throughout New Jersey.

## II. CLAIMS REVIEW

---

### A. INTRODUCTION

---

This review covers paid and denied homeowners claims closed during the review period of July 1, 2006 to June 30, 2007. During this period, the Company closed 714 claims, of which 480 were paid and 234 were denied. From this total, the examiners randomly selected and reviewed 100 paid and denied claims.

In reviewing each claim, the examiners checked for compliance with all applicable statutes and regulations that govern timeliness requirements in settling first party claims. The examiners conducted specific reviews, placing particular emphasis on **N.J.S.A. 17:29B-4(9)** and **N.J.A.C. 11:2-17** (Unfair claim and settlement practices). These requirements relate to NAIC Market Conduct standards outlined in Chapters 16 and 17 of the Market Regulation Handbook.

### B. ERROR RATIOS

---

The examiners calculated the error ratios by applying the procedure outlined in the introduction of this report. The chart below itemizes all randomly selected paid and denied claims reviewed along with total files in error and error ratio.

<b><u>Type of Claim</u></b>	<b><u>Files Reviewed</u></b>	<b><u>Files in Error</u></b>	<b><u>Error Ratio</u></b>
Paid	50	12	24%
Denied	50	4	8%
Total	100	16	16%

### C. EXAMINERS' FINDINGS

---

#### **1. Failure to Issue 60 - Day Holdback Letter on Replacement Cost Claim Settlements – 9 Files in Error (Improper General Business Practice)**

**N.J.A.C. 11:2-17.8(e)** states that, “If a claimant is actively negotiating with an insurer for settlement of a claim, and the claimant’s rights may be affected by a statute of limitations or a policy time limit, the insurer shall provide the claimant with written notice that the time limit may be expiring and may affect the claimant’s rights. Such notice shall be given to

claimants 60 calendar days before the date on which such time limit may expire.”

Contrary to this regulation, the examiners found nine files where the Company failed to issue the 60-day holdback letter on claims involving replacement cost. In response to an inquiry, the Company stated that they do not send 60-day letters to the insureds. The examiners note on these files, however, that Farmers did not deny payment on costs associated with the holdback where additional payments were warranted.

**SEE APPENDIX A-1 FOR A LIST OF FILES IN ERROR**

**2. Failure to Provide Adequate Reason(s) for Denial - 3 Files in Error**

**N.J.A.C. 11:2-17.8(a)** states that “No insurer shall deny or offer to compromise a claim because of a policy provision, including any concerning liability, a condition, or an exclusion without providing a specific reference to such language and a statement of the facts which make that language operative.” This is relative to Chapter 17 of the NAIC Market Regulation Handbook which addresses the need to handle claims in accordance with policy provisions and state law.

Contrary to **N.J.A.C. 11:2-17.8(a)**, the examiners found on three claims that the Company referenced an outdated policy form on the denial letters as the reason for denial. This policy form was no longer in use. The Company agreed with this error.

The examiners also found that the letter itself did not state the facts that made the language operative. As an example, on claim number A7-0066R the denial notice simply stated “...coverage is excluded by one or more of the perils listed in paragraph 9.A, 9B and 9C...of ...your policy.” A review of that language (that addresses wear, tear and other unrelated exclusions) revealed no reference to the factual circumstances (as an example, rainstorm as purported cause of claim) that invoked the policy exclusion (actual damage caused over time due to repeated leakage or seepage). Failure to include this information results in an incomplete notice of the reason for denial, which is further contrary to **N.J.A.C. 11:2-17.8(a)**.

**SEE APPENDIX A-2 FOR A LIST OF FILES IN ERROR**

**3. Failure to Settle Claims Timely and Failure to Issue Delay Notices –2 Files in Error**

**N.J.A.C. 11:2-17.7(c)1** and **N.J.A.C. 11:2-17.7(e)** state that unless clear justification exists, or unless otherwise provided by law, the maximum payment period for property damage claims shall be 30 calendar days from receipt by the insurer of properly executed proofs of loss. If the

insurer is unable to settle the claim within the time periods specified, the insurer must send the claimant written notice of delay at the expiration of the 30-day settlement period and every 45 days thereafter until all elements of the claim are either honored or rejected.

Farmers failed to settle two claims in a timely manner and further failed to issue the appropriate settlement delay letter, contrary to the above regulations. In response to an inquiry, the Company agreed with the examiners' findings.

**SEE APPENDIX A-3 FOR A LIST OF FILES IN ERROR**

**4. Failure to Inspect Damages within Ten Days - 1 File in Error**

**N.J.A.C. 11:2-17.10(a)14** requires the insurer to inspect damages within 10 working days following receipt of notification of claim. This is relative to Chapters 16 and 17 of the NAIC Market Regulation Handbook which addresses the need to handle claims in accordance with policy provisions and applicable statutes, rules and regulations.

Farmers was notified of paid claim 43442006 on October 9, 2006. The Company inspected the insured's damages on December 15, 2006, 46 working days after the claim was reported. This represents a delay of 36 working days. The Company agreed with the examiners' findings.

**THIS FILE IS ALSO LISTED IN APPENDIX A-4**

**5. Failure to Pay Replacement Cost Holdback in a Timely Manner- 1 File in Error**

On paid claim 38882006, the Company failed to pay the holdback amount in 30 calendar days from receipt of the properly executed proofs of loss as set forth in **N.J.A.C. 11:2-17.7(c)1**. The insured submitted the contractor's paid receipt with the Proof of Loss on October 12, 2006. The Company issued a check for the holdback amount on May 30, 2007, 230 calendar days after the date of Proof of Loss. The Company agreed with the examiners' finding.

**THIS FILE IS ALSO LISTED IN APPENDIX A-5**

**6. Failure to Include Fraud Warning Statement on Proof of Loss - 2 Files in Error**

**N.J.A.C. 11:16-1.2(a)** states that insurers must either place on or attach to all claims forms the following warning: "Any person who knowingly files a statement of claim containing any false or misleading information is



subject to criminal and civil penalties.” Alternatively, **N.J.A.C. 11:16-1.2(c)** permits an insurer to use language that is substantially similar to that language quoted in **N.J.A.C. 11:16-1.2 (a)**. The sworn statement in proof of loss on paid claim number 44332006 did not contain any fraud warning. In response to an inquiry, the Company agreed with this finding. The examiners found this same error on denied claim number 49352007.

**THESE FILES ARE ALSO LISTED IN APPENDIX A-6**

# III. UNDERWRITING AND RATING

---

## A. INTRODUCTION

---

The examiners reviewed randomly selected homeowner and combination dwelling policy files from Farmers' book of business that was in force during the review period July 1, 2006 to June 30, 2007. The Company reported 11,909 homeowner policies and 4,087 combination dwelling (fire) policies and 620 New Business policies for a total of 16,616 in-force contracts. The examiners checked for compliance with all applicable New Jersey statutes and regulations including N.J.S.A. 17:29A-6 and 15 (filed and approved rating methodologies), N.J.S.A. 17:23A-4 (Notice of Information Practices) and N.J.S.A. 17:29A-4(d) (rate reductions for structures equipped with operative smoke detection devices).

## B. ERROR RATIOS

---

The examiners calculated error ratios for each random sample by applying the procedure outlined in the introduction of this report. Separate error ratios are determined for each review sample as indicated in the chart that follows.

<b>Review Category</b>	<b>Files Reviewed</b>	<b>Files in Error</b>	<b>Error Ratio</b>
<b>New Business:</b>			
HO	24	22	92%
CD	<u>2</u>	<u>2</u>	100%
Random Sample Totals	26	24	92%
<b>Renewals:</b>			
HO	51	51	100%
CD	<u>24</u>	<u>23</u>	96%
Random Sample Totals	75	74	99%

<b>New/Renewal Totals</b>	<b>101</b>	<b>98</b>	<b>97%</b>
---------------------------	------------	-----------	------------

## **C. EXAMINERS' FINDINGS**

---

Excluding select mail review samples, the examiners randomly selected and reviewed 75 homeowner and 26 combination dwelling fire policies to verify that the Company followed its written underwriting guidelines. The examiners also reviewed for proper assignment to protective classification codes, as well as proper application of protective device premium discounts. The results of this review are as follows.

### **1. Deficiency in Abbreviated Notice of Information Practices - 98 Files in Error (Improper General Business Practice)**

**N.J.S.A. 17:23A-4c** permits an insurer to utilize an abbreviated Notice of Insurance Information Practices. **N.J.S.A. 17:23A-4c(1)** specifies that such a notice must inform the applicant or policyholder that personal information may be collected from persons other than those proposed for coverage. **N.J.S.A. 17:23A-4c(2)** further states that this information, as well as other information subsequently collected, may in certain circumstances be disclosed to third parties without authorization. Contrary to **N.J.S.A. 17:23A-4c(2)**, the examiners found that Farmers' notice failed to state that collected information may be disclosed to others without authorization. Since this notice was used on mostly all policies in which this disclosure was made, the examiners cited this error as an improper general business practice. In response to the examiners' inquiries, the Company advised that it would review the contents of this notice.

### **SEE APPENDIX B-1 FOR A LIST OF POLICIES IN ERROR**

### **2. Failure to Provide Smoke Detector Discount - 2 Files in Error**

**N.J.S.A. 17:29A-4(d)** requires insurers to provide rate reductions on fire insurance for structures equipped with operative smoke detectors. On renewal policy H112764, Farmers' inspection report identified the presence of smoke detectors. On policy number H139369, the application revealed the presence of smoke detectors. Contrary to **N.J.S.A. 17:29A-4(d)**, Farmers failed to provide the applicable protective device discount as required, resulting in premium overcharges.

### **THESE FILES ARE ALSO LISTED IN APPENDIX B-2**

## **D. OTHER FINDINGS**

---

### **1. Fuel Oil Storage Tank Exclusion and Buyback Option**

Based on its current underwriting guidelines, Farmers deems new business applicants with in-ground oil tanks to be ineligible. The Company does, however, offer fuel oil and storage tank liability coverage on homeowner and dwelling combination renewal business. The premium, with liability coverage up to \$100,000, is based on the type of storage tank and its location (aboveground or underground). During this review, the examiners found no rating or underwriting errors involving fuel oil storage tanks.

## **E. MAIL REVIEW**

---

The examiners conducted a mail review at Farmers' Flemington, NJ location. The examiners checked the Company's outgoing mail operation to verify that new business and renewal packages were sent in a timely fashion, and to determine if the Company included all required notices and informational disclosures. With the exception of the previously referenced deficiency in Abbreviated Notice of Information Practices, the examiners found no errors.

# IV. TERMINATIONS REVIEW

---

## A. INTRODUCTION

---

During the review period July 1, 2006 to June 30, 2007 Farmers cancelled 39 new business policies within the first 60 days and cancelled 1753 policies beyond the first 60 days. In the same period, the Company non-renewed 67 policies. The examiners randomly selected and reviewed 50 non-renewals, 50 midterm cancellations and 39 first 60-day cancellations for a total of 139 files reviewed. The examiners checked for compliance with applicable statutes and regulations including N.J.A.C. 11:1-20.2 (non-renewal and cancellation notice requirements), N.J.A.C. 11:1-20.3 (policy provisions relating to cancellation or nonrenewal) and N.J.A.C. 11:1-20.4 (cancellation and non-renewal underwriting guidelines).

## B. ERROR RATIOS

---

The examiners calculated error ratios for the termination review by applying the procedure outlined in the introduction of this report. The following chart itemizes the review sample, the number of errors and the error ratio by type of termination.

<u>Review Category</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
<b>Nonrenewals</b>			
HO	36	18	50%
CD	<u>11</u>	<u>5</u>	45%
Sub-total	47	23	49%
<b>Cancellations</b>			
<b>First 60 Day</b>			
HO	28	0	0%
CD	<u>10</u>	<u>0</u>	0%
<b>Sub-total</b>	38	0	0%

## Midterm

HO	41	1	2%
CD	<u>9</u>	<u>0</u>	0%
Sub total	50	1	2%
<b>Overall Random Totals</b>	135	24	18%

## C. EXAMINERS' FINDINGS

---

Excluding files randomly selected from the Company's mail room, the examiners reviewed 105 homeowner and 30 combination dwelling fire policies to confirm that the Company adhered to its filed underwriting guidelines and applicable regulations governing cancellations and non-renewals. The examiners note that the Information Practices error outlined in Section III.C.1 above also occurred in this section as an improper general business practice. However, the examiners did not include this finding in the error ratios since this error was previously addressed in Section III.C.1 above. The results of this review are as follows:

### **1. Vague and Arbitrary Underwriting Guideline Regarding Unacceptable Dog Breeds -2 Files in Error (Improper General Business Practice)**

Pursuant to N.J.A.C. 11:1-20.4(a), no insurer may cancel or nonrenew a policy based upon underwriting guidelines that are arbitrary, capricious or unfairly discriminatory. The examiners also checked for adherence with Chapters 16 and 17 of the NAIC Market Regulation Handbook, which addresses the need for cancellation/nonrenewal and declination notices to comply with policy provisions, state laws and company guidelines.

The examiners found two policies that Farmers terminated due to the insured's ownership of unacceptable dog breeds. Farmers cancelled policy number H20006068 at midterm due to a Chow. On policy number C112717, the Company nonrenewed coverage due to a Siberian Husky.

The examiners reviewed Farmers' underwriting guidelines and found that prohibited dogs include "...German Shepherds, Doberman Pinchers, Pit Bulls and/or similar dogs." In response to the examiners' inquiries that would equate, for example, a Siberian Husky as a breed similar to a Doberman Pincher, the Company stated that, "German Shepherds, Doberman Pinchers and Pit Bulls are traditionally characterized as large, strong jawed animals used by many people as guard dogs ... and generally ... not good with children...Our guidelines simply refer to 'similar dogs' as

those that have or display similar characteristics without a need to be breed specific.” The examiners are unaware of, and the Company did not provide examples, of instances where a Siberian Husky is utilized as a guard dog. With respect to the Chow on policy number 20006068, Farmers could have included this animal in its prohibited dog list to avoid any uncertainty, as the phrase “similar dogs” is vague to the extent that it permits broad decisions that are based on underwriter opinion and bias, leading potentially to arbitrary application of this underwriting guideline in a manner that is inconsistent with N.J.A.C. 11:1-20.4(a).

The examiners also found that, contrary to N.J.A.C. 11:1-20.2(g), the termination notice issued on policy number 20006068 failed to include the name of the breed (Chow) that resulted in termination. Accordingly, the Company failed to include the factual basis upon which it relied in its determination to terminate this policy.

**SEE APPENDIX C-1 FOR A LIST OF POLICIES IN ERROR**

**2. Failure to Notify Policyholders of the Right to Continue Coverage on Agency Termination Nonrenewals - 21 Files in Error (Improper General Business Practice)**

Where an insurer nonrenews or cancels coverage due to termination of the insured’s agent, N.J.A.C. 11:1-20.4(b)13(i) requires insurers to notify policyholders of the right to continue coverage with the insurer. This regulation also requires insurers to document that replacement coverage at comparable rates and terms has been provided to the insured. Farmers failed to comply with each of these requirements.

In response to an inquiry, Farmers disagreed with this error, stating that its insured termination notice advises insureds to contact their agent for continued coverage, or to contact the Company through its website or by telephone for another Farmers agent. The examiners note that these are independent agents that write for several insurers. As such, this language does not affirmatively offer coverage with Farmers.

**SEE APPENDIX C-2 FOR A LIST OF POLICIES IN ERROR**

**3. Invalid Policy Termination - 1 File in Error**

Pursuant to N.J.A.C. 11:1-20.2(a), no policy shall be non-renewed upon its expiration date unless a valid notice of non-renewal has been mailed or delivered to the insured in accordance with provisions of this subchapter.

On policy H129478, the insured failed to remove a trampoline from his property at the Company’s request. Farmers’ agent sent the insured a cancellation request/policy release which the insured refused to sign.

However, the Company did not follow up with a termination notice; thus, Farmers never actually terminated this policy. In response to an inquiry, the Company agreed with this finding.

**THIS FILE IS ALSO LISTED IN APPENDIX C-3**

**D. MISCELLANEOUS ERRORS**

---

**1. Failure to Record a Complaint - 1 File in Error**

**N.J.S.A. 17:29B-4(10)** requires the Company to maintain a complete record of all the complaints that it has received since the date of its last examination. On policy H129478 the insured filed a complaint with the Company regarding the nonrenewal of her policy. Contrary to the statute, the Company failed to record the insured's complaint in its 2007 complaint register.

In response to an inquiry Farmers disagreed, stating that one error does not constitute a violation of this statute. The examiners disagree, as Farmers failed to maintain its complaint handling procedures by not logging this complaint in its complaint register.

**2. Incorrect New Jersey Department of Banking and Insurance Address on Non-Renewal and Cancellation Notices - 135 Files in Error**

**N.J.A.C. 11:1-20.2 (h)** states that all non-renewal and cancellation notices, except those for nonpayment of premium, must inform the insured of the right to file a written complaint about the cancellation or non-renewal with the New Jersey Department of Banking and Insurance, Consumer Protection Services, PO Box 325, Trenton, New Jersey 08625-0325. The examiners found 135 notices in which Farmers included an incomplete zip code (08625 versus correct 08625-0325) and mislabeled Post Office Box 0325 as CN 325. The examiners did not include these errors in the error ratios.

**SEE APPENDIX C-4 FOR A LIST OF POLICIES IN ERROR**

**E. MAIL REVIEW**

---

The examiners conducted a mail review at Farmers' Flemington, NJ location. The examiners checked the Company's outgoing mail operation to verify that termination packages were sent in a timely fashion, and to determine if the Company included all required notices and informational



disclosures. With the exception of the previously referenced deficiency in Abbreviated Notice of Information Practices, the examiners found no errors.

## V. RECOMMENDATIONS

---

Farmers Insurance Company of Flemington should inform all responsible personnel and third party entities that handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures that follow in the report sections indicated. The examiners also recommend that Farmers establish procedures to monitor compliance with these measures.

Throughout this report, the examiners cite and/or discuss all errors found. If the report cites a single error, the examiners often include a "reminder" recommendation because if a single error is found, more errors may have occurred.

Various non-compliant practices were identified in this report, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to New Jersey law and regulations. When applicable, corrective action for other jurisdictions should be addressed.

The examiners acknowledge that during the examination, Farmers agreed and had already complied with, either in whole or in part, some of the recommendations. For the purpose of obtaining proof of compliance and for the Company to provide its personnel with a document they can use for future reference, the examiners have listed all recommendations below.

### A. GENERAL INSTRUCTIONS

---

All items requested for the Commissioner and copies of all written instructions, procedures, recommended forms, etc., should be sent to the Commissioner, c/o Clifton J. Day, Manager of the Market Conduct Examinations and Anti-Fraud Compliance Unit, Mary Roebling Building, 20 West State Street, PO Box 329, Trenton, NJ 08625, within thirty (30) days of the date of the adopted report.

On files reopened as recommended, the letter that offers coverage should be sent to the insured with an accompanying cover letter containing the following first paragraph (variable language is include in parentheses):

#### Offer of Coverage

"During a recent review of our policy files by market conduct examiners of the New Jersey Department of Banking and Insurance, they found that we should not have canceled your (homeowner/ dwelling fire insurance). We are now offering you a new policy to correct our error."

## B. CLAIMS

---

1. The Company should develop and implement a homeowners claims manual. In response to the call letter, the Company advised that such a manual is currently not in use.
2. In order to comply with **N.J.A.C. 11:2-17.7(c)1** and **N.J.A.C. 11:2-17.7(e)**, the Company must remind all appropriate personnel to settle all first party claims within 30 days from notice of loss or receipt of proof of loss, unless a delay notice is sent at the expiration of the 30-day settlement period and every 45 days thereafter until all elements of the claim have been honored.
3. In order to comply with **N.J.A.C. 11:2-17.8(e)**, the Company must provide written instruction to all appropriate personnel stating that insurers must send written notice to insureds, not represented by an attorney, advising that their rights may be affected by a policy time limit on the settlement of a claim. Specifically, in instances where payment is made based on ACV, this notice must state that the policy provides up to 180 days from notice of loss for the insured to make claim for additional liability which includes depreciation holdback, in the event that a claim is settled on an actual cash value basis where replacement or repair costs exceed the actual replacement cost. The notice must be sent 60 calendar days before expiration of the 180-day time limit. If ACV payment is made under the Replacement Cost Provision endorsement, the company must notify the policyholder of contractual time limits for pursuing replacement cost reimbursement.
4. In order to comply with **N.J.A.C. 11:2-17.8(a)**, the Company must remind all appropriate personnel that denials must be confirmed in writing and that a copy of the written denial notice must be retained in the claim file.
5. In order to comply with **N.J.A.C. 11:16-1.2 (a)**, the Company must issue written instructions to all appropriate personnel that an approved fraud warning must appear on all claim forms.
6. In order to comply with **N.J.A.C. 11:2-17.10(a)14**, the Company must remind all appropriate personnel that the inspection of damages is required within 10 working days of receipt of notification of claim.

## C. UNDERWRITING AND RATING REVIEW

---

7. In order to comply with N.J.S.A.17:23A-4c(2) on new and renewal business underwriting, the Company must issue written instructions to all appropriate personnel stating that the abbreviated Notice of Insurance Information Practices must inform the applicant or policyholder that personal information may be collected from persons other than those proposed for coverage and that this information may be disclosed to others without the insured's authorization.

8. The Company must issue written instructions to all appropriate personnel stating that N.J.S.A. 17:29A-4(d) requires a rate reduction on fire insurance premium where structures are equipped with operative smoke detectors. Farmers should either credit or refund policies H112764 and H139369 from inception for the appropriate discount.

## D. TERMINATION REVIEW

---

9. The Company must issue a written reminder to all appropriate personnel stating that, pursuant to N.J.A.C. 11:1-20.2(g), "No nonrenewal or cancellation shall be valid unless the notice contains the standard or reason upon which the termination is premised and specifies in detail the factual basis upon which the insurer relies." In order to comply with this regulation, the Company must issue written reminders to all appropriate personnel stating that the breed of dog must be included on termination notices when terminating due to a dog that is included on a prohibited underwriting list.

10. In order to assure accurate new and renewal business underwriting that complies with written guidelines as outlined in N.J.A.C. 11:1-20.4(e) and (f), and to avoid arbitrary and capricious application rejections and policy terminations prohibited by N.J.A.C. 11:1-20.4(a), the Company should reevaluate and more specifically outline its current prohibited dog list to assure that underwriter discretion does not exceed normative underwriting practice.

11. Farmers should issue written instructions to applicable personnel stating that N.J.A.C. 11:1-20.8(a) and N.J.A.C. 11:1-20.4(b)13i require insurers to notify policyholders of the right to continue coverage with the insurer that is terminating a policy. These instructions should also state that, where applicable, N.J.A.C. 11:1-20.8(a) also requires insurers to document that replacement coverage at comparable rates and terms has been provided to the insured.

12. In order to comply with N.J.A.C. 11:1-20.2(a), the Company must remind all appropriate personnel that no policy shall be non-renewed upon its expiration date unless a valid notice of non-renewal has been mailed or delivered to the insured.

13. In order to comply with **N.J.S.A. 17:29B-4(10)**, the Company must remind all appropriate personnel that all complaints/grievances received by the Company must be logged into its complaint register.

Accordingly, Farmers should add policy number H129478 to its complaint register. A copy of the updated register should be provided to the Commissioner.

14. In order to comply with **N.J.A.C. 11:1-20.2(h)** the Company must remind the appropriate personnel that all cancellation and non-renewal notices, except those for nonpayment of premium, must state DOBI's correct mailing address which is: New Jersey Department of Banking and Insurance, Consumer Protection Services, PO Box 325, Trenton, New Jersey 08625-0325.

## APPENDIX A – CLAIM ERRORS

### 1. Failure to Issue 60-Day Holdback Letter on Replacement Cost Claim Settlements – 9 Files in Error (Improper General Business Practice)

<u>Claim Number</u>	<u>Claim Number</u>
37782006	41412006
44252006	42002006
29232005	42502006
38622006	44612006
38882006	

### 2. Failure to Provide Adequate Reason for Denial – 3 Files in Error

<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>
43002006	46362007	47492007

### 3. Failure to Settle Claims Timely and Failure to Issue Delay Notices – 2 Files in Error

<u>Claim Number</u>	<u>Settlement Type</u>	<u>Proof of Loss Date</u>	<u>Settlement Date</u>	<u>Days to Settle</u>
41192006	Paid	1/6/06	3/8/07	61
39112006	Paid	6/7/06	10/4/06	119

### 4. Failure to Inspect Damages within Ten Days – 1 File in Error

#### Claim Number

43442006

### 5. Failure to Pay Replacement Cost on Holdback in a Timely Manner – 1

#### Claim Number

38882006

### 6. Failure to Include Fraud Warning Statement on Proof of Loss – 2 Files in Error

<u>Claim Number</u>	<u>Claim Number</u>
434332006	49352007

## APPENDIX B – UNDERWRITING AND RATING ERRORS

### 1. Deficiency of Abbreviated Notice of Information Practices- 98 Underwriting Files in Error (Improper General Business Practice)

<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
*C400003093	H120269	H110136	C101291	*H200008348
*H200008253	C144568	H112113	C90362	H200006606
*H200008242	C400000032	H112764	C400000270	H200007313
*H200008180	C123903	H114667	H110169	*H200008387
*H200008166	H128015	H117717	C400002915	C63342
*H200008091	H124383	H119805	H105832	C80908
*H200008083	C141699	H120263	H135096	H200008098
*H200008031	H123147	H124332	H200003245	C128484
*H200008328	H131452	H124759	C126187	H116261
*H200008351	H115389	H128402	C141902	H139255
*H123737	H124257	H139217	C136366	*H200008325
*H200008063	C400001203	C116965	C107920	H200005541
*H200008238	C400001888	C400002190	H200006719	H200007130
*H200008345	C47607	H104987	C142125	H200005425
*H200008351	H114926	H106246	H114828	*H200008258
*H200008209	H107337	H109326	H142023	H200003703
*H200008365	H136812	H139369	H111412	H200006606
*H200007946	H141050	H20000918	H112358	H144799
*C400003150	H200000090	H200003245	C400002834	
*H200008181	H200000174	H200005664	C400001736	

\* New Policy

All other policies are Renewals

**2. Failure to Provide Smoke Detector Discount – 2 Files in Error**

<b><u>Policy Number</u></b>	<b><u>Policy Number</u></b>
H112764	H139369



## APPENDIX C – TERMINATIONS ERRORS

**1. Vague and Arbitrary Underwriting Guideline Regarding Unacceptable Dog Breeds – 2 Files in Error ((Improper General Business Practice)**

<u>Termination Type</u>	<u>Policy Number</u>
Midterm	H200006068
Non-renewal	C112717

**2. Failure to Notify Policyholders of the Right to Continue Coverage on Agency Termination Nonrenewals - 21 Files in Error (Improper General Business Practice)**

<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
C144918	H107862	H200003393	H200003116
H132994	H113162	H200001274	C139106
H137566	H122544	C140818	H103841
H200000684	H142141	H100225	H139652
H200003292	H140293	H106392	C144136
H143761			

**3. Invalid Policy Nonrenewal – 1 File in Error**

<u>Policy Number</u>
H129478

**4. Incorrect DOBI address on Cancellation and Non-renewal Notices - 135\* Files in Error (Improper General Business Practice)**

<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
H200008023	H200007875	H200000087	H133059	H137355
H200007701	C400003082	H143110	H137444	H142141
H200007329	H200008137	H138174	H113632	H139652
H200007293	H200008179	H128084	H138910	H103841
C400003148	H200007978	H123222	H124121	C139106

C400003100	H200008024	H112419	H14740	C126277
C400002911	H200008025	H109623	C74637	C112717
H200008072	H200008062	C76233	H200003001	C139748
H200008006	H200008163	C400001881	H200001873	C400002440
H200007994	H200007920	H200003502	H200003393	H108802
H200007829	H200007911	H109690	H200003292	H12824
H200007646	C96773	H200003896	H200000684	H107862
C400003149	H200007771	H200007800	H137566	H200006758
C400003119	H200006567	C143288	H200001274	C132668
H200007872	H200005285	C400002793	C144918	C400001512
C400002934	H143627	C130426	H129478	H104028
C400002933	H138613	H200003083	H127560	H116329
C400003134	H200006068	H124440	H111061	H125836
H200007361	H123386	H105726	H108127	h106392
H200008060	H200002835	H200007562	C145138	C144136
H200007889	H200007418	H111358	H139339	H113162
C400003020	H200004941	H200003405	H100225	H122544
H200007304	H132265	H102359	H132994	H140293
H200008229	H200006065	C400002588	H134842	H143761
H400003135	H200003271	C108817	H200003444	H200003116
H200007305	H200003389	H130163	H200006213	H200002581
H200007740	H129642	H132377	H200005872	C140818

\*These policies are not included in the Error Ratio Charts

**VERIFICATION PAGE**

---

I, Robert J. Only, am the Examiner-in-Charge of the Market Conduct Examination of Farmers Insurance Company of Flemington conducted by examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of Farmers Insurance Company of Flemington as of December 12, 2007.

I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

-----  
Date

-----  
Robert J. Only  
Examiner-In-Charge  
New Jersey Department  
of Banking and Insurance