



Market Conduct Examination

Farmers Mutual Fire Insurance Company of Salem County

Salem, 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: October 19, 2009

MARKET CONDUCT EXAMINATION

of the

Farmers Mutual Fire Insurance Company of Salem County

located in

Salem, New Jersey

As of

June 17, 2009

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

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I. INTRODUCTION

A. SCOPE AND PURPOSE OF THE EXAMINATION

This is a report of the Market Conduct activities of the Farmers Mutual Fire Insurance Company of Salem County, 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 and William Sonntag.

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 January 1, 2008 through December 31, 2008. The examiners completed their fieldwork at the Company's Salem, New Jersey office between April 27, 2009 and May 29, 2009. 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 Market Regulation 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 Mutual Fire Insurance Company of Salem County 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

Farmers Mutual Fire Insurance Company of Salem County was incorporated in 1851 under the laws of New Jersey and began writing policies as a mutual company that same year in Salem County. The Company writes personal lines insurance, dwelling fire, and commercial insurance for small and medium size businesses. The Company's products are currently sold through 165 independent agents.

II. CLAIMS REVIEW

A. INTRODUCTION

This review covers paid and denied homeowners claims closed during the review period of January 1, 2008 to December 31, 2008. During this period, the Company closed 1,155 claims, of which 845 were paid and 310 were denied. From this total, the examiners randomly selected and reviewed 45 paid and 45 denied claims, for a total random sample review of 90 files.

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.

<u>Type of Claim</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
Paid	45	4	9%
Denied	<u>45</u>	<u>3</u>	7%
Total	90	7	8%

C. EXAMINERS' FINDINGS

1. Delayed Issuance of 60-Day Holdback Letters and Failure to Issue 60-Day Holdback Letter on Recoverable Depreciation Claim Settlements – 4 Files in Error

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 the above regulations, the examiners found three files where the 60-day holdback letters were issued after the required time frame and one file where the Company failed to issue the appropriate 60-day holdback letter. The Company agreed with the examiners' findings.

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

2. Failure to Pay Replacement Cost Holdback in a Timely Manner – 1 File in Error

On paid claim 1562008, the Company failed to pay the holdback amount in 30 calendar days from receipt of properly executed proofs of loss as set forth in **N.J.A.C. 11:2-17(c)1**. The insured's representative submitted the required proof of loss on May 27, 2008 and the invoices for the holdback payment on November 21, 2008 to Farmers' adjuster. Contrary to **N.J.A.C. 11:2-17(c)1**, the Company issued a check for the holdback amount on April 21, 2009, 151 days after the proof of loss date, which is contrary to the regulation. The Company agreed with the examiners' finding.

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

3. Failure to Issue Denial Letter – 1 File in Error

N.J.A.C. 11:2-17.8(b) requires insurers to confirm all denials or offers of compromise to the claimant in writing and to maintain a copy in the appropriate claim file. On claim 8982008 the examiners did not find the required written denial letter in the Company's claim file. The Company agreed with the examiners' finding.

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

4. Failure to Give Notice of a Claim Within Three Working Days -1 File in Error

N.J.A.C. 11:2-17.6(a) states that all claims must be reported to the designated insurer by a broker no later than three working days following receipt of notification of claim by the broker. On claim 6172008, Farmers' agent faxed a property loss notice dated April 30, 2008 to the Company on May 13, 2008. Contrary to the regulation, this loss was reported to the Company nine working days after the agent had knowledge of this claim. The Company agreed with the examiners' finding.

SEE APPENDIX A-4 FOR A LIST OF FILES IN ERROR

5. Failure to Issue Delay Notice – 1 File in Error

N.J.A.C. 11:2-17.7(e) states that 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.

On claim 4632008, Farmers failed to issue the appropriate settlement delay letter, contrary to the above regulation. The Company agreed with the examiners' finding.

SEE APPENDIX A-5 FOR A LIST OF FILES IN ERROR

6. Citing an Incorrect New Jersey Administrative Code on Denial Letter - 1 File in Error

On claim 4632008, Farmers' independent adjuster's denial letter to the insured stated, "If you disagree with their determination, please be advised that pursuant with N.J.A.C. 11:12-17 litigation must be instituted within 12 months of the date of this letter." The Company failed to reference the correct New Jersey administrative code, N.J.A.C. 11:2-17 since N.J.A.C. 11:12-17 deals with insurers authorized to transact the business of legal insurance. The Company agreed with the examiners' finding. The examiners did not include this error in the error ratios.

SEE APPENDIX A-6 FOR A LIST OF FILES IN ERROR

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 January 1, 2008 to December 31, 2008. The Company reported 20,270 homeowner policies and 1,921 combination dwelling (fire) policies and 1,442 new business policies for a total of 23,633 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.

<u>Review Category</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
New Business:			
HO	15	4	27%
CD	<u>10</u>	<u>3</u>	30%
Random Sample Sub Totals	25	7	28%
Renewals:			
HO	15	0	0
CD	<u>10</u>	<u>5</u>	50%
Random Sample Sub Totals	25	5	20%
New/Renewal Totals	50	12	24%

C. EXAMINERS' FINDINGS

Excluding select mail review samples, the examiners randomly selected and reviewed 30 homeowner and 20 combination dwelling fire policies to verify that the Company followed its written underwriting guidelines. The examiners also reviewed for proper assignment of protective classification codes, as well as proper application of protective device premium discounts. The results of this review are as follows.

1. Failure to Provide Smoke Detector Discount – 11 Files in Error (Improper General Business Practice)

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 11 homeowner policies the applications 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 on five renewal policies and six new business policies, resulting in overall premium overcharges of \$212. The Company agreed with the examiners' finding.

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

2. Failure to Comply With Underwriting Guidelines and Approved Rating Plan -1 File in Error

N.J.S.A. 17:29A-6 and 15 requires an insurer to file its rating system with the Department and to observe those rates. However, the examiners found that one new business policy did not reflect the correct premium of \$1,290.00. Farmers' agent quoted policy CDP40001293 with a premium of \$1,238.00 which included an automatic sprinkler system discount. This quote was accepted by the Company without the sprinkler certification. Further inspection by the Company revealed that this system was nonexistent. The Company elected not to bill the insured for the additional premium of \$52.00 and indicated that at renewal only the smoke detector credit would be applied to the policy. Farmers failed to follow its filed and approved rating plan which is contrary to the above statute. The Company agreed with the examiners' finding.

THIS POLICY IS 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 a separate fuel oil and storage tank liability endorsement on homeowner and dwelling combination new business policies. The limit of liability is \$100,000.00 for above ground or basement fuel oil tanks. During this review, the examiners found no rating or underwriting errors involving fuel oil storage tanks.

2. Citing Incorrect New Jersey Administrative Code on the Company's Personal Lines Underwriting Guidelines

The examiners reviewed Farmers' filed personal lines underwriting guidelines and found under Deposit Premiums that the Company stated, "all premium funds shall be remitted to Farmers within five business days after receipt as defined in section **11:17.6-22**, Remittance Standards of the New Jersey Administrative Code." The correct cite for this section is **N.J.A.C. 11:17C-2.2(a)**. Furthermore under the personal lines cancellation/non-renewal reasons the Company states, "Existence of moral hazard, as defined in **N.J.A.C. 11:1-20(f)**." This cite should be corrected to read **N.J.A.C. 11:1-20.2(f)**. The Company agreed with this finding. The examiners did not include this error in the error ratio.

E. MAIL REVIEW

The examiners conducted a mail review at Farmers' Salem, 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. The examiners found no errors.

IV. TERMINATIONS REVIEW

A. INTRODUCTION

During the review period January 1, 2008 to December 31, 2008, Farmers cancelled 79 new business policies within the first 60 days and cancelled 3,154 policies beyond the first 60 days. In the same period, the Company declined 96 policies and non-renewed 98 policies. The examiners randomly selected and reviewed 25 declinations, 26 non-renewals, 25 first 60-day cancellations, eight pieces of mail (60-day cancellation notices not derived from the random sample) and 25 midterm cancellations for a total of 109 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). The examiners also utilized the NAIC Market Regulation Handbook, Chapters 16 and 17, as a guide to conduct this review.

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>
Declinations			
HO	22	0	0%
CD	<u>3</u>	<u>0</u>	0%
Sub-total	25	0	0%
Nonrenewals			
HO	16	1	6%
CD	<u>10</u>	<u>0</u>	0%

Sub-total	26	1	4%
Cancellations:			
<i>First 60 Day</i>			
HO	15	13	87%
CD	<u>10</u>	<u>10</u>	100%
Sub-total	25	23	92%
<i>Midterm</i>			
HO	15	0	0%
CD	<u>10</u>	<u>0</u>	0%
Sub-total	25	0	0%
Overall Random Totals	101	24	24%
Mail Review			
HO	6	1	17%
CD	<u>2</u>	<u>2</u>	100%
Overall Mail Review	8	3	38%

C. EXAMINERS' FINDINGS

Excluding eight (six homeowner and two combination dwelling fire) files selected from the Company's mail room, the examiners randomly selected and reviewed 68 homeowner and 33 combination dwelling fire policies from the Company's overall termination population to confirm that the Company adhered to its filed underwriting guidelines and applicable statutes and regulations governing cancellations and non-renewals. The results of this review are as follows:

1. Failure to Provide Standard, Reason and Factual Basis for 60-Day Cancellation - 26 Files In Error (23 Random and 3 Mail Review) - Improper General Business Practice

N.J.A.C. 11:1-20.2(g) requires the insurer to provide a cancellation notice which contains the standard or reason upon which the termination is premised and specifies in detail the factual basis upon which the insurer

relies. The examiners conducted this examination in accordance with Chapters 16 and 17 of the NAIC Market Regulation Handbook.

Farmers terminated 26 first 60-day policies contrary to notice reason and specificity requirements outlined in **N.J.A.C.11:1-20.2(g)**. These notices merely stated the following: “Cancellation Reason: Company Request.” In response to an inquiry, the Company disagreed with this error, stating that **N.J.A.C. 11:1-20.3(a)** makes notice specificity requirements outlined in **N.J.A.C. 11:1-20.2(g)** inapplicable to policies cancelled within the first 60 days. Farmers relies on the following language in **N.J.A.C. 11:1-20.3(a)**: “This provision shall not apply to any policy which has been in effect for less than 60 days... (emphasis added)”

The examiners note, however that the “provision” outlined in **N.J.A.C. 11:1-20.3(a)** refers to a specific prohibition for terminations based on arbitrary, capricious or unfairly discriminatory reasons or underwriting guidelines. While the first 60-day exclusion language does indeed apply to the underlying reason for termination (an error type that the examiners have not cited), it does not supersede **N.J.A.C. 11:1-20.2(g)**, which requires that an insurer provide the insured with the specific reason and factual basis for termination. The two are distinct requirements.

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

2. Failure to Provide Standard or Reason and Factual Basis for Nonrenewal -1 File in Error

N.J.A.C. 11:1-20.2(g) states that, 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.

On nonrenewed policy number HOP241320, the stated reason for termination was “Increased hazard or material change in the risk assumed which could not have been contemplated by the parties at the time of assumption of the risk. Breed of dog now owned by insured is not eligible under our personal underwriting guidelines.” Contrary to **N.J.A.C. 11:1-20.2(g)**, the notice failed to identify the breed of dog included on the Company’s prohibited dog list. The Company agreed with the examiners’ findings.

THIS POLICY IS ALSO LISTED IN APPENDIX C-2

D. MISCELLANEOUS ERRORS

1. **Incorrect New Jersey Department of Banking and Insurance Address on Nonrenewal and Cancellation Notices – 84 Files in Error (76 Random Policies and 8 Mail Review Policies)**

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 84 notices in which Farmers included the incorrect Division of Licensing and Enforcement, incorrect PO Box 329, and incomplete zip code 08625. The examiners did not include these errors in the error ratios.

The examiners note, however, that during the post-field and draft report period, the Department issued Bulletin 09-24 that advised all “...carriers, licensees and other regulated persons...” that consumer banking and insurance complaints and inquiries should be submitted to the Consumer Inquiry and Case Preparation Unit. The Department intends to propose rule amendments to **N.J.A.C. 11:1-20.2(h)** to reflect this change.

SEE APPENDIX C-3 FOR A LIST OF POLICIES IN ERROR

E. MAIL REVIEW

The examiners conducted a mail review at Farmers’ Salem, 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. The examiners found three first 60-day cancellations in which the Company did not provide the reason and factual basis for termination. This error is addressed in Section IV.C1 above.

V. RECOMMENDATIONS

Farmers Mutual Fire Insurance Company of Salem 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 Roebing 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):

Premium Refund/Adjustment

"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 failed to provide a protective device discount for your smoke detector. Enclosed is our (payment/credit) in the amount of (\$000.00) to correct our error."

B. CLAIMS

1. 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. This 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.

2. In order to comply with **N.J.A.C. 11:2-17.7(c) 1**, the Company must remind all appropriate personnel that first party property claims are to be paid within 30 calendar days from receipt of a properly executed Proof of Loss.

3. In order to comply with **N.J.A.C. 11:2-17.8(b)**, 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.

4. In order to comply with **N.J.A.C. 11:2-17.6(a)**, the Company must remind all appropriate personnel that all claim reports must be reported to the Company within three working days.

5. In order to comply with **N.J.A.C. 11:2-17.7(e)**, the Company must remind all appropriate personnel that a delay notice must be sent at the expiration of the 30-day settlement period and every 45 days thereafter until all elements of the claim have been honored.

6. The company must remind all appropriate personnel that all denial letters must reference the correct New Jersey Administrative Code.

C. UNDERWRITING AND RATING REVIEW

7. 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 issue refunds or credits to all policies listed in Appendix B.1 from inception date of the error to the current policy period. Similarly, the company should research its in-force population to determine if additional exposures qualify for this discount. See General Instructions for cover letter.

8. The Company must issue written instructions to all appropriate personal and its agents stating that, pursuant to **N.J.S.A. 17:29A-6** and **15**, insurers are required to follow their filed and approved rating plan.

9. Farmers should remove all reference to the incorrect citation **N.J.A.C. 11:17.6-22** and **N.J.A.C. 11:1-20(f)**.

D. TERMINATION REVIEW

10. Pursuant to **N.J.A.C. 11:1-20.2(g)**, “No 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 instructions to all appropriate personnel stating that:

- a. the use of the phrase “Company Request,” is not an acceptable standard or reason and lacks the relevant factual specifics required on a 60-day cancellation notice;
- b. the specific breed of a vicious dog or pet must be included on the nonrenewal notice.

11. Nonrenewal Notices, in addition to stating the standard or reason, must explain the specific reasons and relevant facts which were the basis for the termination. The breed of dog must be included on the Notice when terminating due to a dog that is included on a prohibited underwriting list.

12. The Company must amend its cancellation and nonrenewal notices to comply with Bulletin 09-24 as outlined in section IV.D.1 of this report.

APPENDIX A – CLAIM ERRORS

1. Delayed Issuance of 60-Day Holdback Letters and Failure to Issue 60-Day Holdback Letter on Recoverable Depreciation Claim Settlement – 4 Files in Error

<u>Claim Number</u>	<u>Settlement Date</u>	<u>Date 60 Day Letter Due</u>	<u>Holdback Expiration Date</u>	<u>Date of Holdback Letter</u>	<u>Notice Time</u>
6972008	06/24/08	10/22/08	12/21/08	10/31/08	51 days
1562008	05/30/08	09/27/08	11/26/08	10/01/08	56 days
1012008	02/07/08	06/06/08	08/05/08	06/10/08	56 days
12722007#	10/11/07	02/08/08	04/08/08	0	0

#60-day holdback letter was not sent

2. Failure to Pay Replacement Cost Holdback in a Timely Matter – 1 File in Error

Claim Number

1562008

3. Failure to Issue Denial Letter – 1 File in Error

Claim Number

8982008

4. Failure to Give Notice of a Claim Within Three Working Days – 1 File in Error

Claim Number

6172008

5. Failure to Issue Delay Notice – 1 File in Error

Claim Number

4632008

6. Citing an Incorrect New Jersey Administrative Code on Denial Letter – 1 File in Error

Claim Number

4632008

APPENDIX B – UNDERWRITING AND RATING ERRORS

1. Failure to Provide Smoke Detector Discount – 11 Files in Error (Improper General Business Practice)

<u>Policy Number</u>	<u>Protective Device Discount</u>
CDP40000691*	\$24.00
CDP40000924*	\$31.00
CDP40000343*	\$9.00
CDP40000115*	\$21.00
CDP40000158*	\$14.00
HOP20025496+	\$5.00
HOP239090*	\$12.00
CDP40001117+	\$30.00
HOP20024892+	\$2.00
CDP40001158+	\$38.00
HOP20025078+	\$26.00
Total	\$212.00

*Renewal Policy

+New Policy

2. Failure to Comply With Underwriting Guidelines and Approved Rating Plan -1 File in Error

Policy Number

CDP40001293

APPENDIX C – TERMINATIONS ERRORS

1. Failure to Provide Standard or Reason and Factual Basis for 60-Day Cancellation 26 Files in Error (23 Random Sample and 3 Mail Review Files) - Improper General Business Practice

<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
CDP40000939	CDP40001135	HOP20024082	HOP20024539
CDP40000947	CDP40001196	HOP20024148	HOP20024782
CDP40000969	CDP40001213	HOP20024174	HOP20024946
CDP40000983	CDP40001278	HOP20024285	HOP20025180
CDP40001016	HOP20023962	HOP20024383	HOP20025469
CDP40001053	HOP20023979	HOP20024385	
CDP40001473*	CDP40001474*	HOP20013513*	

* Mail Review

2. Failure to Provide Standard or Reason and Factual Basis for Nonrenewal -1 File in Error

Policy Number

HOP241320

3. Incorrect New Jersey Department of Banking and Insurance Address on Nonrenewal and Cancellation Notices – 84 Files in Error (76 Random Sample and 8 Mail Review)

60 Day Cancel	Midterm Cancel	Nonrenewal
<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
CDP40000939	CDP40000884	CDP11174
CDP40000947	CDP40000896	CDP411881
CDP40000969	CDP40001024	CDP412931
CDP40000983	CDP40001076	CDP413678
CDP40001016	CDP401812	CDP413736
CDP40001053	CDP410203	CDP414690
CDP40001135	CDP414315	CDP416186
CDP40001196	CDP415668	CDP416537

CDP40001213	CDP415669	CDP417074
CDP40001278	CDP417396	CDP417377
HOP20023962	HOP110264	HOP111823
HOP20023979	HOP20008292	HOP20000520
HOP20024082	HOP20012772	HOP20002346
HOP20024139	HOP20018219	HOP20003371
HOP20024148	HOP20020735	HOP20007511
HOP20024170	HOP20022586	HOP218061
HOP20024174	HOP20022823	HOP218607
HOP20024285	HOP20023585	HOP221676
HOP20024383	HOP20023610	HOP224931
HOP20024385	HOP20024678	HOP226693
HOP20024539	HOP20033766	HOP234716
HOP20024782	HOP234284	HOP240700
HOP20024946	HOP247758	HOP241320
HOP20025180	HOP304972	HOP309512
HOP20025469	HOP314818	HOP312071
CDP40001473*	HOP20000361*	HOP315386
CDP40001474*	HOP20025353*	HOP20023190*
HOP20013513*	HOP225543*	HOP247103*

These policies are not included in Error Ratio Charts.

* Mail Review.

VERIFICATION PAGE

I, Robert J. Only, am the Examiner-in-Charge of the Market Conduct Examination of Farmers Mutual Fire Insurance Company of Salem County 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 Mutual Fire Insurance Company of Salem County as of June 17, 2009.

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