



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF MARKET CONDUCT EXAMINATION

OF

**FARMERS INSURANCE COMPANY OF OREGON
TIGARD, OREGON**

NAIC COMPANY CODE 21636

AS OF

DECEMBER 31, 2001

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February 25, 2003

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street, NE, Room 440
Salem, OR 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs of

**Farmers Insurance Company of Oregon
13333 SW 68th Parkway
Tigard, Oregon 97223**

NAIC Company Code 21636

hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The market conduct examination of the Company was conducted as of December 31, 2001, covering the period of January 1, 2001 through December 31, 2001, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

A follow-up market conduct examination was performed. The examination was limited to a review of the items on which recommendations were made during the market conduct examination for the examination period ending June 30, 1998. Eight recommendations were made during that market conduct examination.

The recommendations from the prior examination referenced above can be found in the Appendix immediately following this report.

The examination of the Company was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines established by the Oregon Insurance Division Market Conduct Program. The program generally follows the Market Conduct Examination Handbook as adopted by the National Association of Insurance Commissioners to the extent that it is consistent with Oregon law. The purpose was to determine the Company's ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, whether it has given proper treatment to policyholders, and its compliance with the Oregon Insurance Code and Administrative Rules.

In order to determine the practices and procedures of the Company's operations, one or more of the following procedures was performed in each phase:

1. A sample of files was selected from listings provided by the Company. The examiner then reviewed each file.
2. The procedure manuals and/or memorandum were evaluated.
3. The Company responded to a series of questions regarding the phase being examined.

The examination was comprised of the following phases:

Underwriting

Claims

The Company's underlying data was measured against an established standard. A list of all recommendations considered can be found in Appendix at the end of the report. The examiner used the following three classifications to disclose the examination results:

Passed without Comment	The recommendations the Company passed are displayed in a chart at the beginning of the Findings section of each phase. Items included in this category passed the recommendation and the examiner did not find it necessary to comment on the findings.
Passed with Comment	Recommendations the Company passed with some errors noted are included in this classification. Items in this category are not considered to be indicative of a general business practice of noncompliance. Usually, a recommendation is not warranted, but in certain instances a recommendation might be made.
Failed	The Company has not demonstrated compliance with recommendations that fall into this category. A recommendation for compliance is usually made for each recommendation the Company fails.

Information regarding some items might be noted in the examination report without remarks.

Other areas of concern discovered during the examination that do not fall within the scope of the recommendations might appear in the report as the last section of each phase and titled Additional Findings and Procedures.

Certain unacceptable or noncomplying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific Company practices does not constitute acceptance or approval by the Oregon Insurance Division. Examination findings may result in administrative action or further inquiry.

UNDERWRITING

The Company provided population runs of new business issued, non-renewed, and cancelled during the examination period from which random samples were drawn. The chart below illustrates the size of the original population as well as the size of the sample selected.

POPULATION REVIEWED	TOTAL POPULATION	INITIAL RANDOM SAMPLE	% TO TOTAL
New Business Issued	88,634	100	0.11%
Policies non-renewed	1,860	50	2.7%
Policies cancelled	10,445	100	0.96%

For the review of Recommendation #1, the examiner extracted a population of policies issued for which the Bodily Injury and Uninsured/Underinsured Motorist coverage limits did not match. This process yielded a total population of 256 policies. The examiner reviewed 50 (20%) of these cases.

Findings

The Company passed the following recommendations without comment:

RECOMMENDATION	
<u>Recommendation #2</u>	- I recommend the Company's records accurately document all forms used with policies at the time of issuance in order to determine if the forms were filed and approved at the time of use in compliance with ORS 742.003.
<u>Recommendation #7</u>	- I recommend the Company maintain its policy rating documentation and rate pages in such a manner that the rates for each policy can be easily and readily verified as filed rates in accordance with ORS 733.170.

The following exceptions were noted.

Recommendation #1 - I recommend the Company maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).

Findings: Failed. 42% compliance. Twenty-nine (58%) files failed this recommendation for the reasons shown below.

# Units	Reason
1	The Company indicated the policy was transferred in from another state; the agent made the address change and transferred in with matching limits. However, the documentation provided by the Company also indicates the limits were changed by the service center. It appears a waiver should have been obtained at the time the lower limits were elected. (Unit 24)
9	The Company has indicated the limits match. These are policies with combined single limits for some coverages. Since not all of the coverages were issued with a combined single limit, but with split limits, even though the limit amounts might be the same, they do not match since some are combined and some are split. Waivers should have been obtained at the time these limits were chosen by the applicant.
1	The Company stated the policy was submitted and cancelled the same day. Since coverage was issued, the waiver should have been obtained at the time the application was taken.
13	The Company indicated the underwriter changed the limits. The regulations require the Company or agent to obtain a signed waiver from the applicant at the time the lower limits are selected.
1	The Company provided a signed waiver, but it is not for the correct policy number. The signed waiver is for policy number 159095562. The review unit is policy number 159055562. Additionally, the list provided by the Company does not indicate a waiver was obtained for this unit, but that the

	change was made by the service center.
1	The waiver was not signed at the time the lower limits were elected and the premium amount for the rejected coverage is not on the form.
<u>3</u>	The waiver was not signed.
<u>29</u>	Total

I recommend the Company obtain and maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).

Subsequent to the examination, The Company informed the examiner that it would be adjusting its business practice to comply with ORS 742.502(2)(a) and OAR 836-054-0000(2).

Recommendation #3 - I recommend the Company's documentation adequately support all decisions made by the underwriters and underwriting decisions made by agents in accordance with ORS 733.170.

Findings: Passed with comment. 98% compliance. Four files (2%) failed this recommendation for the reasons shown below.

# Units	Reason
1	Underwriting file does not contain documentation for basis or reason for policy reinstatement.
1	Underwriting file does not contain documentation for basis or reason for non-renewal.
1	Documentation in file does not support decision to reinstate with a lapse in coverage.
<u>1</u>	Documentation in file does not support the need for a Restrictive Endorsement.
<u>4</u>	Total

Population Reviewed	Number Units	Number Passed Standard	Number Failed Standard
New Business Issued	100	100	0
Cancellations	100	99	1

Policies non-renewed	<u>50</u>	<u>47</u>	<u>3</u>
Total	<u>250</u>	<u>246</u>	<u>4</u>

A failure rate of 2% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Recommendation #4 - I recommend the Company maintain documentation regarding its underwriting decisions to sufficiently demonstrate its underwriting practices are not unfairly discriminatory in accordance with ORS 746.015, ORS 746.018 and OAR 836-081-0030.

Findings: Passed with comment. 98% compliance. Four files (2%) failed this recommendation for the reasons shown below.

# Units	Reason
1	Underwriting file does not contain documentation for basis or reason for policy reinstatement.
1	Underwriting file does not contain documentation for basis or reason for non-renewal.
1	Documentation in file does not support decision to reinstate with a lapse in coverage.
<u>1</u>	Documentation in file does not support the need for a Restrictive Endorsement.
<u>4</u>	Total

Population Reviewed	Number Units	Number Passed Standard	Number Failed Standard
New Business Issued	100	100	0
Cancellations	100	99	1
Policies non-renewed	<u>50</u>	<u>47</u>	<u>3</u>
Total	<u>250</u>	<u>246</u>	<u>4</u>

A failure rate of 2% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Recommendation #5 - I recommend the Company provide the applicant or policyholder with the specific reason for an adverse underwriting decision in accordance with the provisions of ORS 746.650.

Findings: Passed with comment. 98% compliance. Two files (2%) failed this recommendation for the reasons shown below.

# Units	Reason
1	The Company failed to notify the insured of the cancellation.
<u>1</u>	The Company cancelled the policy in error and failed to reinstate it. The file does not indicate a cancellation notice was mailed to the insured.
<u>2</u>	Total

A failure rate of 2% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Recommendation #6 - I recommend the Company provide the insured at least 30 days advance notice of non-renewal and include the specific reason for non-renewal in accordance with the provisions of ORS 753.566.

Findings: Passed with comment. 96% compliance. Two files (4%) failed this recommendation for the reason shown below.

# Units	Reason
2	File does not contain documentation that page two of the non-renewal notice was provided to the insured.

A failure rate of 4% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Additional Findings and Procedures

Forms

When reviewing the New Business Issued sample population for this examination, the examiner captured the form numbers issued for each policy. From this population, a list of 20 forms issued during the examination period was developed. The examiner asked the Company to provide evidence that each of these forms was filed with and approved for use by the Oregon Insurance Division. The Company was able to provide the requested documentation for 70% (14) of the forms selected for review. The reasons the forms are not in compliance are referenced in the chart below:

# Units #	Reason for Non-compliance
<u>5</u>	Approval not recorded in Insurance Division records and Company unable to provide copy of perforated approval from Insurance Division.
<u>1</u>	Approval not recorded in Insurance Division records and approval form provided by Company is for another company, not Farmers Insurance Company of Oregon.
<u>6</u>	Total

I recommend the Company file for approval by the Oregon Insurance Division all forms and endorsements forming a part of the contract in accordance with ORS 742.003.

The Company maintains that all of the forms currently used as part of the contract were approved by the Oregon Insurance Division. However, the Company was unable to provide documentation showing the approval dates for the forms referenced above. The Company informed the examiner that it is working with the Insurance Division on this matter and will re-file any form necessary in order to comply with ORS 742.003.

Motorcycle Policies

The population of policies issued for which the Bodily Injury and Uninsured/Underinsured Motorist coverage limits did not match that was provided by the Company included motorcycle policies that were issued with matching limits. These motorcycle policies were included because the Company's computer system does not allow the Company to show matching limits for this type of vehicle. The Company indicated that even though the system does not reflect the correct coverage, should a loss occur, the correct benefits would be allowed. The Company also informed the examiners that one of its affiliates is redeveloping the Company's motorcycle product and part of this redevelopment process includes programming to correct this problem. The Company expects this issue to be resolved when its new motorcycle product is introduced later in 2003.

Compliance with ORS 742.562(2)

When reviewing the sample population of policies canceled during the examination period, the examiner found that the Company's procedures allowed for cancellation of reinstated policies within the first 60 days following reinstatement. ORS 742.562(2) allows for termination within the first 60 days only for coverage which has been in effect for less than 60 days at the time notice of cancellation is mailed. The Company indicated this issue has been referred to senior management to implement corrective action. The Company anticipates its procedures will be changed by December 2003.

I recommend the Company cancel policies in accordance with the provisions of ORS 742.562.

CLAIMS

Since the last Market Conduct Examination as of June 30, 1998 the Company has made changes in the way it handles claims. While the changes are significant, it appears they remain transparent to both insureds and claimants. The Customer Restoration Network (CRN) was implemented effective August 15, 2001. CRN includes a paperless claims system, two Help Point Claim Centers in Oklahoma City, OK and Olathe, KS, and several Centers of Excellence (COE).

This system moves the claim process forward by directing loss reports to the Help Point Center. The initial loss report is handled by a Customer Service Associate (CSA). The CSA performs triage and makes transfers to vendors such as Circle of Dependability repair shops, Farmtow, and Fasglas. The CSA verifies coverage and has the claim assigned to a Claims Representative. The Help Point Centers operate 24 hours a day, seven days a week, and are staffed with Office Claims Representatives (OCR).

There are several classes of claims that OCR's do not handle, including auto thefts, fires, mold, water damage, earth movement, roof losses, and commercial losses. The Help Point Center directs these types of losses to Field Claim Representatives electronically for prompt handling.

The Company provided a population of 4,643 total loss claims paid during the examination period from which a random sample of 50 claims (1.08%) was drawn.

Findings

The following exception was noted:

Recommendation #8 - I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).

Findings: Failed. 32% compliance. Thirty-four files (68%) failed this recommendation for the reasons shown below.

# Files	Reason
2	Company unable to provide original claim documentation for the examiner's review.
1	Company did not pay full amount of claim, did not include payment of registration fees in the resolution of the claim, and it appears the Company did not use a comparable vehicle when calculating the actual cash value of the loss vehicle.
1	Company did not pay registration fees and file doesn't contain documentation to explain how the Company arrived at the actual cash value of the loss vehicle.
1	Company used a vehicle older than the loss vehicle in its valuation of the loss vehicle and did not include payment of registration fees in the resolution of the claim.
<u>29</u>	Company did not include payment of registration fees in the resolution of the claim.
<u>34</u>	Total

I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).

Subsequent to the examination, the Company confirmed that it hasn't paid the cost of registration fees when processing total loss settlements. The Company explained that it did not believe it was required to include this reimbursement on total losses because, according to the Company's interpretation of OAR 836-080-0240(1), the registration fee is not incident to the transfer of ownership of a vehicle in the State of Oregon. As a matter of compromise, the Company has agreed to begin payment of the unused portion of registration fees when resolving total loss claims.

The Company indicated that the claims- related record keeping issues have been resolved with the implementation of CRN where all files are stored electronically and can be quickly retrieved. The Company stated the other claim processing deficiencies noted above have been addressed through meetings between the Oregon State Claims Manager and the five Oregon Claims offices. The Company indicated these issues would be reinforced through continuous training during office meetings, case reviews, and file audits.

CONCLUSIONS/RECOMMENDATIONS

	RECOMMENDATION	PAGE
1	I recommend the Company obtain and maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).	8
2	I recommend the Company file for approval by the Oregon Insurance Division all forms and endorsements forming a part of the contract in accordance with ORS 742.003.	11
3	I recommend the Company cancel policies in accordance with the provisions of ORS 742.562.	12
4	I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).	14

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during this examination is hereby acknowledged and appreciated.

A special thanks is extended to the Examination Coordinator for his courtesy and assistance providing, correlating, or coordinating all requested documents and statistics necessary to ensure a smooth transition during the overall Examination process. The responsibilities that were undertaken during this examination were in addition to the scope of his regular assigned duties.

In addition to the undersigned, Kathleen Kalk, AIE and Gary M. Stephenson, AIE, AIRC participated in this examination.

Respectfully submitted,

Gayle L. Woods, AIE
Chief Market Conduct Examiner
Market Conduct Section
Insurance Division
Department of Consumer and Business Services
State of Oregon

APPENDIX

Farmers Insurance Company of Oregon Market Conduct Follow-up Examination

Underwriting

Rec. #	Phase	Recommendation	Findings
1	Underwriting	I recommend the Company maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).	Failed
2	Underwriting	I recommend the Company's records accurately document all forms used with policies at the time of issuance in order to determine if the forms were filed and approved at the time of use in compliance with ORS 742.003.	Passed
3	Underwriting	I recommend the Company's documentation adequately support all decisions made by the underwriters and underwriting decisions made by agents in accordance with ORS 733.170.	Passed with comment
4	Underwriting	I recommend the Company maintain documentation regarding its underwriting decisions to sufficiently demonstrate its underwriting practices are not unfairly discriminatory in accordance with ORS 746.015, ORS 746.018 and OAR 836-081-0030.	Passed with comment
5	Underwriting	I recommend the Company provide the applicant or policyholder with the specific reason for an adverse underwriting decision in accordance with the provisions of ORS 746.750.	Passed with comment
6	Underwriting	I recommend the Company provide the insured at least 30 days advance notice of non-renewal and include the specific reason for non-renewal in accordance with the provisions of ORS 742.566.	Passed with comment
7	Underwriting	I recommend the Company maintain its policy rating documentation and rate pages in such a manner that the rates for each policy	Passed

		can be easily and readily verified as filed rates in accordance with ORS 733.170.	
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Claims

8	Claims	I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).	Failed
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