

REPORT ON

MARKET CONDUCT EXAMINATION

of the

ALAMANCE FARMERS' MUTUAL INSURANCE COMPANY

Graham, North Carolina

BY REPRESENTATIVES OF THE

NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

May 16, 2012

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Raleigh, North Carolina
May 16, 2012

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a general examination has been made of the market conduct activities of

ALAMANCE FARMERS' MUTUAL INSURANCE COMPANY
(NAIC #13190)

NAIC Exam Tracking System Exam Number: NC094-M49
Graham, North Carolina

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Alamance Farmers' Mutual Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This examination commenced on February 20, 2012 and covered the period of January 1, 2008 through December 31, 2010 with analyses of certain operations of the Company being conducted through May 7, 2012. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, underwriting practices, terminations and claims practices.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

This market conduct examination revealed no concerns with Company procedures and practices in the following areas: policyholder treatment, marketing, underwriting practices, terminations and claims practices.

All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “INSURANCE DIVISIONS” then “LEGISLATIVE SERVICES”.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company’s practices and ensure consumer protection.

COMPANY OVERVIEW

History and Profile

Alamance Farmers’ Mutual Insurance became incorporated as the Alamance County Branch of the Farmers’ Mutual Fire Insurance Association of North Carolina in 1892. The Company was reincorporated under the North Carolina Insurance Law to write fire, lightning, wind and tornado insurance on August 31, 1917.

Prior to 2006, the Company was known as Alamance Farmers’ Mutual Fire Insurance Association. The Company changed its name to Alamance Farmers’ Mutual Insurance Company on August 2, 2006.

Alamance Farmers’ Mutual Insurance Company expanded from a county mutual insurance company to a statewide assessable mutual insurance company in 2008.

Alamance Farmers’ Mutual Insurance Company merged with Cabarrus Mutual Insurance Company, with Alamance Farmers’ Mutual Insurance Company being the surviving Company in August of 2010.

Company Operations and Management

The Company is a writer of personal lines and commercial coverages. The Company is licensed only in North Carolina.

Direct written premium for the Company in 2010 was \$2,292,916. Premium writings in North Carolina between 2008 and 2010 increased approximately 70.6 percent. The charts below outline the Company's mix of business for selected lines in 2010 and loss ratios for the examination period.

Line of Business	Written Premium	Percentage
Homeowners	\$ 553,169	24.1
Farmowners	\$ 653,477	28.5
Fire	\$ 343,372	15.0
Commercial Multiple Peril	\$ 28,842	1.3
Other Liability	\$ 714,056	31.1
Total	\$2,292,916	100.0

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$1,344,363	\$1,281,457	\$ 341,968	26.7
2009	\$2,341,752	\$1,947,898	\$ 513,458	26.4
2010	\$2,292,916	\$1,807,019	\$1,082,497	59.9

Certificate of Authority

The Certificates of Authority issued to the Company were reviewed for the period under review. These certificates were reviewed to determine compliance with the provisions of NCGS 58-7-15. The Company's writings in North Carolina were deemed to be in compliance with the authority granted.

Disaster Recovery Procedures

The Company has a business recovery plan in place that details the backup and recovery of its critical business functions and operations in the event of business interruptions

that could affect the Company's information systems processing. The Company contracts with Automated Insurance Management Systems in Norfolk, Virginia to provide offsite policy/claims information production until full system recovery has been established. All electronic data on the company server is backed-up daily and stored offsite.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules. The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department.

The 2 complaints contained in the Department's listing were selected and received for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	2
Total	2

The Company's response to each complaint was deemed to be appropriate to the circumstances.

The average service time to respond to a Departmental complaint was 6.0 calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	2	100.0
Total	2	100.0

Privacy of Financial and Health Information

The Company provided privacy of financial and health information documentation for the examiners' review. The Company exhibited policies and procedures in place so that nonpublic

personal financial or health information is not disclosed unless the customer or consumer has authorized the disclosure. The Company was found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. Emphasis of the review was placed on the following lines of business:

1. Homeowners
2. Dwelling Fire
3. Mobile Homeowners
4. Farmowners

Policy form filings for the dwelling fire line of business were made to the Department directly by the Company. Policy form filings for the farmowners line of business were made by American Association of Insurance Services on behalf of the Company. For the homeowners and mobile homeowners lines of business, American Association of Insurance Services forms are utilized and filed independently by reference.

The provisions stipulated under Title 11 of the North Carolina Administrative Code (NCAC), Chapter 10, Section 1102(10)(f) exempt the Company from having to submit rate filings to the Department. The Company promulgates its own rates.

Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15. The Company does not conduct any form of advertising.

Producer Licensing

The Company's procedures for appointment and termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules. The

entire population of 23 appointed producer files were selected and received for review. There were no producers terminated during the exam period.

All appointment forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40 and 58-33-56.

Agency Management

The Company conducts its business through licensed independent producers. The Company is currently represented by 4 independent agencies and 1 captive agency in North Carolina. The marketing effort in North Carolina is the responsibility of the President located in the home office. The President is responsible for producer appointments, terminations and licensing.

The President is responsible for the activities of the independent agencies. There are currently no performance reviews. The Company offers a standard agency contract to its agencies.

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina focuses on personal and commercial lines. The Company provided the examiners with listings of the following types of active policies for the period under examination:

1. Homeowners
2. Dwelling Fire
3. Mobile Homeowners
4. Farmowners

A random selection of 200 policies was made from a total population of 861. Each policy was reviewed for adherence to underwriting guidelines, file documentation and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

Homeowners

The Company provided a listing of 251 active homeowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's homeowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines.

All policy files contained sufficient documentation to support the Company's classification of the risk. All premiums charged were deemed correct.

Dwelling Fire

The Company provided a listing of 386 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's dwelling fire policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines.

All policy files contained sufficient documentation to support the Company's classification of the risk. All premiums charged were deemed correct.

Mobile Homeowners

The Company provided a listing of 96 active mobile homeowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's mobile homeowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines.

All policy files contained sufficient documentation to support the Company's classification of the risk. All premiums charged were deemed correct.

Farmowners

The Company provided a listing of 128 active farmowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's farmowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines.

All policy files contained sufficient documentation to support the Company's classification of the risk. All premiums charged were deemed correct.

TERMINATIONS

Overview

The Company's termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions and the applicable policy manual rules. The review focused on the following lines of business:

1. Homeowners
2. Dwelling Fire
3. Mobile Homeowners
4. Farmowners

Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable) and documentation of the policy file. A total of 183 policies were terminated during the period under examination. The examiners randomly selected 140 terminations for review.

Homeowners Cancellations

Fifty cancelled homeowners policies were randomly selected and received for review from a population of 55.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	28	56.0
Insured's request	13	26.0
Underwriting reasons	5	10.0
Rewritten	4	8.0
Total	50	100.0

The Company was not required to issue cancellation notices for 17 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. Cancellation notices for the remaining 33 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Dwelling Fire Cancellations

Fifty cancelled dwelling fire policies were randomly selected and received for review from a population of 88.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	18	36.0
Insured's request	27	54.0
Coverage rewritten	4	8.0
Underwriting reasons	1	2.0
Total	50	100.0

The Company was not required to issue cancellation notices for 31 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 19 policies stated the specific reason for cancellation.

The Company calculated the return premium incorrectly for 4 policies (8.0 percent error ratio) resulting in an overstatement of refunds to the insureds. The remaining premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Mobile Homeowners Cancellations

The entire population of 19 cancelled mobile homeowners policies was selected and received for review.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	12	63.1
Insured's request	6	31.6
Underwriting reasons	1	5.3
Total	19	100.0

The Company was not required to issue cancellation notices for 6 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 13 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Farmowners Cancellations

The entire population of 18 cancelled farmowners policies was selected and received for review.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	10	55.5
Insured's request	7	38.9
Coverage rewritten	1	5.6
Total	18	100.0

The Company was not required to issue cancellation notices for 8 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 10 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Homeowners Nonrenewals

The entire population of 1 nonrenewed homeowners policy was selected and received for review.

The reason for the nonrenewal was deemed valid for the policy reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	1	100.0
Total	1	100.0

The nonrenewal notice for the policy reviewed stated the specific reason for nonrenewal. The insured and loss payee were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Dwelling Fire Nonrenewals

The entire population of 1 nonrenewed dwelling fire policy was selected and received for review.

The reason for nonrenewal was deemed valid for the policy reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	1	100.0
Total	1	100.0

The nonrenewal notice for the policy reviewed stated the specific reason for nonrenewal. The insured and loss payee were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Mobile Homeowners Nonrenewals

The Company informed the examiners that it did not nonrenew any mobile homeowners policies during the period under examination.

Farmowners Nonrenewals

The entire population of 1 nonrenewed farmowners policy was selected and received for review.

The reason for nonrenewal was deemed valid for the policy reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	1	100.0
Total	1	100.0

The nonrenewal notice for the policy reviewed stated the specific reason for nonrenewal. The insured and loss payee were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Declinations/Rejections

No applications were declined/rejected during the exam period.

CLAIMS PRACTICES

Overview

The Company's claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, first and third party bodily injury and closed without payment claims.

The Vice President of Claims oversees the Company's claims operations. Independent adjusters are engaged on an as-needed basis and do not hold any draft authority. The Company's agency force does not adjust any claims.

One hundred ten claims were randomly selected for review from a population of 360.

Paid Claims

The examiners randomly selected and received 55 of the 164 first party property damage and third party property damage claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation and accuracy of payment.

The following types of claims were reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
First party property damage	14.9
Third party property damage	14.8

All payments issued by the Company were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

All claim files reviewed contained documentation to support the Company's payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings.

First and Third Party Bodily Injury Claims

The entire population of 5 first and third party bodily injury claims was selected and received for review. The claim files were reviewed to determine whether the Company had engaged in any unfair claims practices. The review of first and third party bodily injury claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected and received for review from a population of 191. The claims were reviewed to determine if the Company's reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Company's reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 14.7 calendar days for the 3-year period. The review of closed without payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

Subrogated Claims

The Company informed the examiners that it did not have any subrogated claims during the period under examination.

Litigated Claims

The Company informed the examiners that it did not have any litigated claims during the period under examination.

SUMMARY

The Market Conduct examination revealed no areas of concern.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-7-15	Kinds of insurance authorized.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-39-25	Notice of insurance information practices.
NCGS 58-39-26	Federal privacy disclosure notice requirements.
NCGS 58-39-27	Privacy notice and disclosure requirement exceptions.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 10.1102	Applicability.

CONCLUSION

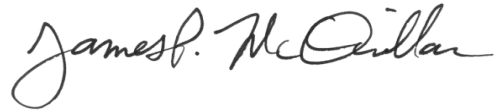
An examination has been conducted on the market conduct affairs of Alamance Farmers' Mutual Insurance Company for the period January 1, 2008 through December 31, 2010 with analyses of certain operations of the Company being conducted through May 7, 2012. The Company's response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation

Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, marketing, underwriting practices, terminations and claims practices.

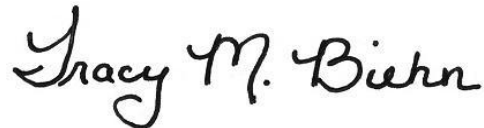
In addition to the undersigned, Gina Abate and Gary Jones, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large initial 'J'.

James P. McQuillan, CPCU, AIT
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large initial 'T'.

Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina