



REPORT ON

MARKET CONDUCT EXAMINATION

of the

CENTRAL FARMERS MUTUAL INSURANCE COMPANY

Robbins, North Carolina

BY REPRESENTATIVES OF THE

NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 21, 2013

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Raleigh, North Carolina  
February 21, 2013

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 through NCGS 58-2-134, a general examination has been made of the market conduct activities of

**CENTRAL FARMERS MUTUAL INSURANCE COMPANY  
(NAIC #14009)**

NAIC Exam Tracking System Exam Number: NC299-M19  
Robbins, 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 Central 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 October 22, 2012 and covered the period of January 1, 2007 through December 31, 2011 with analyses of certain operations of the Company being conducted through February 14, 2013. 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](http://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 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

Central Farmers Mutual Insurance Company is a local farm mutual company doing business in Moore and adjoining counties. The Company was duly chartered and incorporated on January 1, 1994. There have been no changes in the Company's name, management, or market lines since it was formed.

### Company Operations and Management

The Company is a writer of personal lines insurance coverage and is licensed only in North Carolina.

Direct written premium for the Company in 2011 was \$576,993. Premium writings in North Carolina between 2007 and 2011 decreased approximately 0.05 percent. The charts below outline the Company's line of business in 2011 and loss ratios for the examination period.

Line of Business	Written Premium	Percentage
Standard Fire	\$576,993	100.0
<b>Total</b>	<b>\$576,993</b>	<b>100.0</b>

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2007	\$577,264	\$577,771	\$224,352	38.8
2008	\$569,859	\$576,178	\$337,832	58.6
2009	\$566,097	\$571,964	\$108,979	19.1
2010	\$567,575	\$564,327	\$130,767	23.2
2011	\$576,993	\$573,801	\$210,652	36.7

#### Certificate of Authority

The Certificates of Authority issued to the Company were reviewed for the period under examination. 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 maintains 3 data back-up tapes. One is in use in the office, 1 is stored in a fireproof vault in the office, and 1 is located off site. The 3 tapes are rotated on a daily basis.

### **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 in compliance with the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103. No complaints were reported to the Department for the period under examination.



### 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 standard fire line of business. Policy form filings for the standard fire line of business were made to the Department directly by the Company.

The provisions stipulated under 11 NCAC 10.1102(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.

### Social Media

The Company reported it does not currently use social media outlets for marketing or advertising purposes.

### 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 Company reported no producers were appointed or terminated during the examination period.

### Producer Management

Producer management is a function performed by the Secretary/Treasurer who is responsible for all aspects of the Company's operation and is the only licensed producer in the Company. Procedures are in place for corrective actions should concerns arise regarding non-compliance or violation of Company contractual requirements and procedures.

## **UNDERWRITING PRACTICES**

### Overview

The Company's marketing philosophy in North Carolina focuses on the standard fire line of business.

The policies were 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.

### Standard Fire

The Company provided a listing of 87 active standard fire policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's standard fire policies were written on an annual basis. Coverage was 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 reviewed contained sufficient documentation to support the Company's application of its rates and premiums charged.

## 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 line of business: standard fire.

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 106 policies were terminated during the period under examination. The examiners randomly selected 50 terminations for review.

### Standard Fire Cancellations

Fifty cancelled standard fire policies were randomly selected and received for review from a population of 106.

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

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Insured's request	37	74.0
Coverage rewritten	13	26.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for any of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten.

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.

Standard Fire Nonrenewals

The Company reported there were no standard fire nonrenewals for the period under examination.

Declinations/Rejections

The Company reported that no applications were declined/rejected during the period under examination.

**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, closed without payment, subrogated and litigated claims.

Claims service in North Carolina is provided through the home office in Robbins, North Carolina. When claims are reported, they are assigned to an independent adjuster in closest geographic proximity to the claimant. Liability claims may be handled by either the independent adjuster or by adjusters from the carrier providing liability coverage under the Company's dual masthead policy. Eighty-five claims were randomly selected for review from a population of 237.

Paid Claims

The examiners randomly selected and received 50 of the 202 first 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 type of claim was reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
First party property damage	15.6

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. The review of paid claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

#### Closed Without Payment Claims

All 35 closed without payment claims were selected and received for review. 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 13.4 calendar days during the examination 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 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.
NCGS 58-7-15	Kinds of insurance authorized.
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.
11 NCAC 19.0103	Complaint Records.

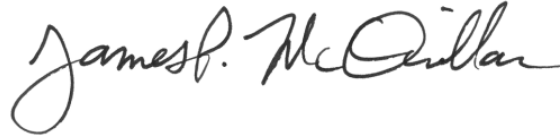
### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Central Farmers Mutual Insurance Company for the period January 1, 2007 through December 31, 2011 with analyses of certain operations of the Company being conducted through February 14, 2013.

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.

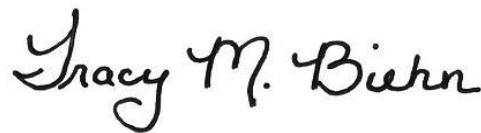
In addition to the undersigned, Gary Jones and Gina Abate, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, looped 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, looped initial 'T'.

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