

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**FARMERS INSURANCE EXCHANGE  
MID-CENTURY INSURANCE COMPANY  
TRUCK INSURANCE EXCHANGE**

**AS OF**

**June 30, 2019**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
scc.virginia.gov

## STATE CORPORATION COMMISSION

### BUREAU OF INSURANCE

I, Gloria V. Warriner, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Farmers Insurance Exchange, Mid-Century Insurance Company, and Truck Insurance Exchange as of June 30, 2019, conducted at the Bureau of Insurance's office in Richmond, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2022-00051 finalizing this Report.

IN WITNESS WHEREOF, I have  
hereunto set my hand and affixed  
the official seal of this the Bureau  
at the City of Richmond, Virginia,  
this 8<sup>th</sup> day of June 2022.

---

Examiner in Charge

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**FARMERS INSURANCE EXCHANGE  
MID-CENTURY INSURANCE COMPANY  
TRUCK INSURANCE EXCHANGE**

**AS OF**

**June 30, 2019**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	1
INTRODUCTION .....	3
COMPANY PROFILES .....	3
SCOPE OF THE EXAMINATION .....	6
STATISTICAL SUMMARY .....	7
PART ONE – THE EXAMINERS’ OBSERVATIONS .....	9
RATING AND UNDERWRITING REVIEW.....	9
Automobile New Business Policies .....	9
Automobile Renewal Business Policies.....	10
Homeowner New Business Policies.....	11
Homeowner Renewal Business Policies .....	12
TERMINATION REVIEW .....	13
Company-Initiated Cancellations – Automobile Policies .....	13
Notice Mailed Prior to the 60 <sup>th</sup> Day of Coverage .....	13
Notice Mailed After the 59 <sup>th</sup> Day of Coverage .....	14
All Other Cancellations – Automobile Policies.....	14
Nonpayment of the Premium .....	14
Requested by the Insured .....	15
Company-Initiated Nonrenewals – Automobile Policies.....	16
Company-Initiated Cancellations – Homeowner Policies.....	16
Notice Mailed Prior to the 90 <sup>th</sup> Day of Coverage .....	16
Notice Mailed After the 89 <sup>th</sup> Day of Coverage .....	17
All Other Cancellations – Homeowner Policies .....	17
Nonpayment of the Premium .....	17
Requested by the Insured .....	18
Company-Initiated Nonrenewals – Homeowner Policies .....	19
Renters Policies .....	19

CLAIMS REVIEW .....	19
Private Passenger Automobile Claims .....	19
Homeowner Claims.....	23
FORMS REVIEW .....	25
Automobile Policy Forms .....	25
Policy Forms Used During the Examination Period .....	25
Policy Forms Currently Used .....	26
Homeowner Policy Forms .....	26
Policy Forms Used During the Examination Period .....	26
Policy Forms Currently Used .....	26
POLICY ISSUANCE PROCESS REVIEW .....	26
Automobile Policies.....	27
New Business Policies .....	27
Renewal Business Policies.....	27
Homeowner Policies .....	27
New Business Policies .....	27
Renewal Business Policies.....	27
STATUTORY NOTICES REVIEW .....	28
General Statutory Notices .....	28
Statutory Vehicle Notices .....	28
Statutory Property Notices .....	28
Other Notices.....	29
LICENSING AND APPOINTMENT REVIEW .....	29
Agency.....	29
Agent .....	29
COMPLAINT-HANDLING PROCESS REVIEW .....	29
PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW.....	29
PART TWO – CORRECTIVE ACTION PLAN .....	30

General.....	30
Rating and Underwriting Review .....	30
Termination Review .....	31
Claims Review .....	32
Forms Review.....	33
Policy Issuance Process Review.....	34
Statutory Notices Review .....	34
Complaint-Handling Process Review .....	34
PART THREE – RECOMMENDATIONS.....	35
RECOMMENDATIONS .....	35
Rating and Underwriting.....	35
Termination.....	35
Claims.....	35
Forms .....	36
Policy Issuance Process .....	36
Statutory Notices.....	36
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	36
ACKNOWLEDGEMENT.....	37

## EXECUTIVE SUMMARY

The examination included a detailed review of Farmers Insurance Exchange, Mid-Century Insurance Company, and Truck Insurance Exchange's private passenger automobile and homeowner lines of business in Virginia for the period beginning July 1, 2018 and ending June 30, 2019. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance, statutory notices, producer licensing and appointments, complaint-handling, and information security practices.

The examination was called as a result of the Market Conduct Annual Statement and market analysis. This is the fourth market conduct examination the Bureau of Insurance (Bureau) has performed on two of the companies; the last examination closed in 2012. This is the first market conduct examination of Truck Insurance Exchange.

The examination revealed significant violations. There were 565 total violations in this Report. The bulk of these were the 331 violations found in the rating and underwriting area. There were 70 terminations violations, in contrast to 127 violations in the area of claims, which included four general business practices for private passenger automobile and one general business practice for homeowner claims.

There were 19 private passenger automobile and seven homeowner forms violations, six policy issuance violations, four notice violations, and one complaint-handling violation. There were no violations found in the producer licensing and appointments area.

The Corrective Action Plan (CAP) for rating and underwriting requested that the companies file homeowner forms with the Bureau prior to use, properly represent coverage limits and discounts on the declarations page, provide convenient access to policy file information, properly assign Safe Driver Insurance Plan (SDIP) points to the driver's customary vehicle, file all rates and supplementary rating information with the Bureau prior to use, and use the rates and rules on file with Bureau.

The CAP for terminations requested that the companies send the cancellation

notice to the insured, calculate earned premium correctly, obtain a written request for cancellation from the insured as required by the companies' filed forms or rules, provide advance notice of cancellation as required by the statute, only cancel policies for reasons permitted by the statute, advise the insured of the right to review by the Commissioner of Insurance, advise the insured of the availability of other insurance, provide convenient access to policy file information, and use a binder for homeowner policies for 60 days or less.

The claims CAP requested that the companies properly disclose coverages and benefits to insureds, offer a fair and reasonable amount to insureds, provide repair estimates to the vehicle owner, and properly represent pertinent facts or insurance policy provisions. The companies were also requested to perform an internal audit for potential underpayments of Uninsured Motorist Property Damage (UMPD) claims for a three-year period.

In the forms CAP, the companies were requested to use the precise wording of the standard automobile forms, only use broadened automobile form language approved by the Bureau, and file homeowner forms with the Bureau prior to use. The CAP for policy issuance requested that the companies provide the Important Information Regarding Your Insurance notice with private passenger automobile renewal policies. In the notices CAP, the companies were requested to correct the Accident Point Surcharge and Earthquake Exclusion notices. The CAP for complaint-handling requested the companies to maintain a complete complaint register in compliance with the statute.

Finally, the CAP requested the companies to make restitution of \$21,681.83 to 52 Virginia consumers.

## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile and homeowner lines of business written by Farmers Insurance Exchange, Mid-Century Insurance Company, and Truck Insurance Exchange at their office in Cleveland, Ohio.

The examination commenced February 10, 2020 and concluded February 5, 2021. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, NuDasha P. Fludd, Ju'Coby D. Hendrick, Dan R. Koch, Melody R. Morrissette, Latitia L. Orange, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn Morton, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on December 18, 2018 and was assigned the Action Number of VA-VA177-13. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

## COMPANY PROFILES\*

Farmers Insurance Exchange was organized on March 28, 1928 under the Reciprocal or Inter-Insurance Act of California and commenced business on April 6, 1928 with the title Farmers Automobile Inter-Insurance Exchange. The present title was adopted May 1, 1947.

Mid-Century Insurance Company was incorporated on December 3, 1949, under the laws of California and began operations on February 17, 1953.

Truck Insurance Exchange was organized by interests identified with the Farmer Insurance Exchange of California under the Inter-Insurance Law of the California Code and commenced business on February 5, 1935.

---

\* Source: Best's Insurance Reports, Property & Casualty, 2020 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date the companies were licensed in Virginia except as noted in the table.

<b>GROUP CODE: 0069</b>	<b>Farmers Insurance Exchange</b>	<b>Mid-Century Insurance Company</b>	<b>Truck Insurance Exchange</b>
NAIC Company Number	21652	21687	21709
LICENSED IN VIRGINIA	05/21/1954	05/29/1975	12/13/1950
LINES OF INSURANCE			
Accident and Sickness			
Aircraft Liability	X		X
Aircraft Physical Damage			
Animal	10/30/2008	10/30/2008	
Automobile Liability	X	11/30/1992	X
Automobile Physical Damage	X	11/30/1992	X
Boiler and Machinery	11/01/1994	11/01/1994	11/30/1992
Burglary and Theft	11/01/1994	11/30/1992	11/30/1992
Commercial Multi-Peril	11/30/1992	11/30/1992	11/30/1992
Credit			
Farmowners Multi-Peril	11/30/1992	11/01/1994	11/30/1992
Fidelity	11/01/1994	11/30/1992	X
Fire	11/30/1992	11/30/1992	X
General Liability	X	11/30/1992	X
Glass	11/30/1992	11/30/1992	11/30/1992
Homeowner Multi-Peril	11/30/1992	08/28/2007	07/29/2015
Home Protection	12/30/1999		
Inland Marine	X	11/30/1992	X
Miscellaneous Property	11/30/1992	11/30/1992	X
Ocean Marine		11/01/1994	
Surety	11/01/1994	11/30/1992	X
Water Damage			X
Workers' Compensation	11/01/1994	X	X

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2019 for those lines of insurance included in this examination.\* This business was developed through independent agents.

<b>COMPANY AND LINE</b>	<b>PREMIUM VOLUME</b>	<b>MARKET SHARE</b>
<b>Farmers Insurance Exchange</b>		
Homeowner	\$11,996,978	0.50%
<b>Mid-Century Insurance Company</b>		
Private Passenger Automobile Liability	\$12,306,348	0.37%
Private Passenger Automobile Physical Damage	\$7,125,794	0.28%
<b>Truck Insurance Exchange</b>		
Homeowner	\$9,860,724	0.41%
Private Passenger Automobile Liability	\$10,109,440	0.30%
Private Passenger Automobile Physical Damage	\$5,551,326	0.22%

---

\* Source: The 2019 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile and homeowner lines of business written in Virginia for the period beginning July 1, 2018 and ending June 30, 2019. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance\*, statutory notices, agent/agency licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance laws that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued in Virginia. The Other Law Violations portion of Part One notes violations of other related laws that apply to insurers.

In Part Two, the Corrective Action Plan identifies the violations that are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

---

\* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

### **STATISTICAL SUMMARY**

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population  
Sample Requested**

AREA	21652	21687	21709	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<b>Private Passenger Auto</b>								
New Business	<u>0</u> 0	<u>0</u> 0	<u>2801</u> 10	<b><u>2801</u></b> <b>10</b>	10	0	2	20%
Renewal Business	<u>0</u> 0	<u>2243</u> 75	<u>11904</u> 20	<b><u>14147</u></b> <b>95</b>	95	0	80	84%
Co-Initiated Cancellations	<u>0</u> 0	<u>0</u> 0	<u>204</u> 23	<b><u>204</u></b> <b>23</b>	23	0	5	22%
All Other Cancellations	<u>0</u> 0	<u>2328</u> 20	<u>1630</u> 20	<b><u>3958</u></b> <b>40</b>	40	0	14	35%
Nonrenewals	<u>0</u> 0	<u>30</u> 5	<u>75</u> 5	<b><u>105</u></b> <b>10</b>	10	0	2	20%
<b>Homeowner</b>								
New Business	<u>1648</u> 30	<u>0</u> 0	<u>2673</u> 10	<b><u>4321</u></b> <b>40</b>	40	0	37	93%
Renewal Business	<u>10650</u> 50	<u>0</u> 0	<u>6016</u> 15	<b><u>16666</u></b> <b>65</b>	65	0	60	92%
Co-Initiated Cancellations	<u>27</u> 11	<u>0</u> 0	<u>353</u> 11	<b><u>380</u></b> <b>22</b>	22	0	15	68%
All Other Cancellations <sup>1</sup>	<u>907</u> 13	<u>0</u> 0	<u>1191</u> 20	<b><u>2098</u></b> <b>33</b>	31	0	11	35%
Nonrenewals	<u>77</u> 4	<u>0</u> 0	<u>37</u> 5	<b><u>114</u></b> <b>9</b>	9	0	0	0%
Renters <sup>2</sup>	<u>1711</u> 23	<u>0</u> 0	<u>0</u> 0	<b><u>1711</u></b> <b>23</b>	22	0	7	32%
<b>Claims</b>								
Auto <sup>3</sup>	<u>0</u> 0	<u>4078</u> 60	<u>2871</u> 60	<b><u>6949</u></b> <b>120</b>	119	0	59	50%
Property <sup>4</sup>	<u>575</u> 50	<u>0</u> 0	<u>587</u> 50	<b><u>1162</u></b> <b>100</b>	99	0	27	27%

Footnote <sup>1</sup> - Two files were duplicates and not reviewed.

Footnote <sup>2</sup> - One was not reviewed because the notice was not mailed to the insured.

Footnote <sup>3</sup> - One file was a duplicate and not reviewed.

Footnote <sup>4</sup> - One file was already handled as a BOI complaint and not reviewed.

## **PART ONE – THE EXAMINERS’ OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The examiners reviewed ten new business policy files. During this review, the examiners found no overcharges and undercharges totaling \$265.30.

- (1) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the Glass Deductible Buyback coverage on the declarations page when it was not applicable to the policy.
- (2) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring points.
- (3) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In one instance, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to use the correct symbol.
  - c. In one instance, the company failed to use the correct base and/or final rates.

**Automobile Renewal Business Policies**

The examiners reviewed 95 renewal business policy files. During this review, the examiners found overcharges totaling \$398.42 and undercharges totaling \$1,772.96. The net amount that should be refunded to insureds is \$398.42 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to include the garaging address in the policy.
- (2) The examiners found 22 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page incorrectly indicated the Early Shopper Discount was applied to the policy premium.
- (3) The examiners found four violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company did not provide a copy of the insured's payment history screen.
- (4) The examiners found three violations of § 38.2-1905 C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring points.
- (5) The examiners found 80 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file with the Bureau all rates and supplementary rate information including fees.
- (6) The examiners found 52 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In three instances, the company failed to use the correct discounts and/or surcharges.

- b. In one instance, the company failed to apply accident and conviction surcharge points under its SDIP correctly.
- c. In two instances, the company failed to use the correct symbol.
- d. In one instance, the company failed to use the correct tier eligibility criteria.
- e. In one instance, the company failed to use the correct base and/or final rates.
- f. In 44 instances, the company failed to use the correct Uninsured Motorist (UM) rates.

### **Homeowner New Business Policies**

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$90.16 and undercharges totaling \$4,770.71. The net amount that should be refunded to insureds is \$90.16 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to show the total policy premium on the declarations page.
- (2) The examiners found two violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, and conditions or terms of the insurance policy. The company displayed an incorrect coverage limit on the declarations page for the Backup of Sewers and Drain coverage.
- (3) The examiners found six violations of § 38.2-1906 A of the Code of Virginia. The company failed to file with the Bureau all rates and supplementary rate information including fees.
- (4) The examiners found 65 violations of § 38.2-1906 D of the Code of Virginia. The

company failed to use the rules and/or rates on file with the Bureau.

- a. In 23 instances, the company failed to use the correct discounts and/or surcharges.
- b. In four instances, the company failed to use the correct base and/or final rates.
- c. In two instances, the company failed to use the correct public protection class.
- d. In seven instances, the company failed to properly calculate the Unit Owners Building Property coverage.
- e. In 29 instances, the company failed to properly calculate for the Contents Replacement Cost coverage.

### **Homeowner Renewal Business Policies**

The examiners reviewed 65 renewal business policy files. During this review, the examiners found overcharges totaling \$162.49 and undercharges totaling \$4,770.30. The net amount that should be refunded to insureds is \$162.49 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to include accurate information in the policy.
- (2) The examiners found three violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.
- (3) The examiners found 27 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, and conditions or terms of the insurance policy. The declarations page incorrectly indicated the Home Security

Discount was applied to the policy premium.

- (4) The examiners found 11 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file with the Bureau all rates and supplementary rate information including fees.
- (5) The examiners found 48 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In 13 instances, the company failed to use the correct discounts and/or surcharges.
  - b. In two instances, the company failed to use the correct public protection class.
  - c. In seven instances, the company failed to properly calculate the Unit Owners Building Property coverage.
  - d. In 26 instances, the company failed to properly calculate the Contents Replacement Cost coverage.

#### **TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

#### **Company-Initiated Cancellations – Automobile Policies**

##### **NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

The examiners reviewed 20 automobile cancellations that were initiated by the companies where the notice was mailed prior to the 60<sup>th</sup> day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$46.28 and no undercharges. The net amount that should be refunded to insureds is \$46.28 plus six percent (6%) simple interest.

The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as violations of other Virginia laws.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

#### NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE

The examiners reviewed three automobile cancellations that were initiated by the companies where the notices were mailed on or after the 60<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found three violations of § 38.2-2212 D of the Code of Virginia. The company cancelled the policy for a reason not permitted by the statute.
- (2) The examiners found six violations of § 38.2-2212 E of the Code of Virginia.
  - a. In three instances, the company failed to advise the insured of the right to request a review by the Commissioner of Insurance.
  - b. In three instances, the company failed to advise the insured of the availability of other insurance.

#### **All Other Cancellations – Automobile Policies**

##### NONPAYMENT OF THE PREMIUM

The examiners reviewed 20 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners

found no overcharges and no undercharges.

The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the insured.

#### REQUESTED BY THE INSURED

In addition, the examiners reviewed 20 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$35.00 and undercharges totaling \$62.39. The net amount that should be refunded to insureds is \$35.00 plus six percent (6%) simple interest.

- (1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel the policy.
- (3) The examiners found seven occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to retain evidence of the insured's request for cancellation of the policy.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as violations of other Virginia laws.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

**Company-Initiated Nonrenewals – Automobile Policies**

The examiners reviewed ten automobile nonrenewals that were initiated by the companies.

The examiners found two violations of § 38.2-2212 E of the Code of Virginia.

- a. In one instance, the company failed to advise the insured of the right to request a review by the Commissioner of Insurance.
- b. In one instance, the company failed to advise the insured of the availability of other insurance.

**Other Law Violations**

Although not a violation of Virginia insurance laws, the examiners noted the following as violations of other Virginia laws.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

**Company-Initiated Cancellations – Homeowner Policies****NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE**

The examiners reviewed 13 homeowner cancellations that were initiated by the companies where the notice was mailed prior to the 90<sup>th</sup> day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found two violations of § 38.2-304 A of the Code of Virginia. The company used a binder for more than 60 days.
- (2) The examiners found four violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business declarations page.

- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide the insured with the correct number of days' notice of cancellation.

#### NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

In addition, the examiners reviewed nine homeowner cancellations that were initiated by the companies where the notice was mailed on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found nine violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89<sup>th</sup> day of coverage for a reason not permitted by the statute.
- (2) The examiners found two violations of § 38.2-2114 C of the Code of Virginia. The company failed to provide 30 days' notice to the insured when the company cancelled the policy after the 89<sup>th</sup> day of coverage.

#### **All Other Cancellations – Homeowner Policies**

##### NONPAYMENT OF THE PREMIUM

The examiners reviewed 15 homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$27.41 and no undercharges. The net amount that should be refunded is \$27.41 plus six percent (6%) simple interest.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.

REQUESTED BY THE INSURED

In addition, the examiners reviewed 16 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$13.49 and no undercharges. The net amount that should be refunded to insureds is \$13.49 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of an insurance policy. The declarations page did not reflect the correct effective date or policy term.
- (2) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (3) The examiners found one violation of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.
- (4) The examiners found seven occurrences where the company failed to comply with the provisions of the insurance policy.
  - a. In one instance, the company failed to use the cancellation date requested by the insured.
  - b. In six instances, the company failed to retain evidence of the insured's request for cancellation of the policy.

**Company-Initiated Nonrenewals – Homeowner Policies**

The examiners reviewed nine homeowner nonrenewals that were initiated by the companies.

The examiners found no violations in this area.

**Renters Policies**

The examiners reviewed 22 termination notices of policies that do not insure owner-occupied dwellings. During this review, the examiners found overcharges totaling \$13.77 and undercharges totaling \$38.67. The net amount that should be refunded to insureds is \$13.77 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to send the cancellation notice to the address listed on the policy.

**CLAIMS REVIEW****Private Passenger Automobile Claims**

The examiners reviewed 119 automobile claims for the period of July 1, 2018 through June 30, 2019. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$33,890.42 and underpayments totaling \$19,219.74. The net amount that should be paid to claimants is \$19,219.74 plus six percent (6%) simple interest.

- (1) The examiners found four violations of 14 VAC 5-400-30 C. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.
- (2) The examiners found 13 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages, or provisions of an insurance policy to the insured.
  - a. In one instance, the company failed to inform an insured of the physical damage deductible when the file indicated the coverage was applicable to the loss.
  - b. In two instances, the company failed to inform an insured of the Medical Expense Benefits (MEB) coverage when the file indicated the coverage was applicable to the loss.
  - c. In three instances, the company failed to inform an insured of the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
  - d. In seven instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the UMPD coverage and/or Underinsured Motorist (UIM) coverage when the file indicated the coverage was applicable to the loss.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing and/or failed to keep a copy of the written denial in the claim file.

- (4) The examiners found 20 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In four instances, the company failed to pay the insured's UMPD claim properly when Collision and UMPD coverages applied to the loss.
  - b. In six instances, the company failed to pay the insured's rental benefits available under policy when UMPD and/or UIM coverages applied to the claim.
  - c. In seven instances, the company failed to pay the proper sales and use tax, title fee, and/or license fee on a first party total loss settlement.
  - d. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's MEB coverage.
  - e. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
  - f. In one instance, the company failed to pay the insured's Uninsured Motorist Bodily Injury claim properly.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found nine violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- a. In six instances, the company failed to provide a copy of the repair estimate to the insured.
  - b. In three instances, the company failed to provide a copy of the repair

estimate to the claimant.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found one violation of § 38.2-236 B of the Code of Virginia. The company failed to use the required language in its notification to the claimant of a settlement payment issued to the claimant's attorney or representative.
- (7) The examiners found 15 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found one violation of § 38.2-510 A 2 of the Code of Virginia. The company failed to acknowledge and act reasonably promptly to communications.
- (9) The examiners found one violation of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (10) The examiners found one violation of § 38.2-510 A 4 of the Code of Virginia. The company unreasonably paid or refused to pay the claim.
- (11) The examiners found four violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
  - a. In one instance, the company unreasonably delayed the settlement of a claim.
  - b. In two instances, the company failed to promptly process the insured's UMPD deductible.

- c. In one instance, the company failed to pay the claimant for the rental expenses properly.
- (12) The examiners found two violations of § 38.2-2201 D of the Code of Virginia. The company failed to obtain a valid Assignment of Benefits (AOB) authorizing the company to make MEB payments directly to the medical provider.
- (13) The examiners found one violation of § 38.2-2206 A of the Code of Virginia. The company applied the UMPD deductible when no deductible applied to the loss.
- (14) The examiners found 20 occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In three instances, the company paid an insured more than the insured was entitled to receive under the terms of the policy.
  - b. In 15 instances, the company failed to pay the UM claim properly.
  - c. In two instances, the company failed to pay the claim under the correct coverage.

### **Homeowner Claims**

The examiners reviewed 99 homeowner claims for the period of July 1, 2018 through June 30, 2019. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found no overpayments and underpayments totaling \$442.89. The net amount that should be paid to claimants is \$442.89 plus six percent (6%) simple interest.

- (1) The examiners found two violations of 14 VAC 5-400-30 C. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.
- (2) The examiners found six violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages, or provisions of an insurance policy to

- the insured.
- a. In three instances, the company failed to inform the insured of the benefits under the Additional Living Expense (ALE) coverage of the policy.
  - b. In two instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.
  - c. In one instance, the company failed to inform the insured of the replacement cost benefits under the Contents coverage of the policy.
- (3) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing and/or failed to keep a copy of the written denial in the claim file.
- (4) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to properly pay the claim under the insured's Dwelling Replacement Cost coverage.
- (5) The examiners found 21 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverage at issue.
- a. In four instances, the company failed to properly represent the Backup of Sewers and Drains coverage.
  - b. In 17 instances, the company failed to properly represent the replacement cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found one violation of § 38.2-510 A 10 of the Code of Virginia. The

- company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.
- (7) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to include the lienholder on the check.

### **FORMS REVIEW**

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Policy Issuance Process Review section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

### **Automobile Policy Forms**

#### **POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The companies provided copies of 74 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found 16 violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise

language filed and adopted for use by the Bureau.

- (2) The examiners found three violations of § 38.2-2223 of the Code of Virginia. The company used a version of a form filed as a broadening that was not in the precise language as the form approved by the Bureau.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

### **Homeowner Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 97 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found seven violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

### **POLICY ISSUANCE PROCESS REVIEW**

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified

that the coverages on the new business policies were the same as those requested on the applications for those policies.

### **Automobile Policies**

The companies provided three new business policies sent on the following dates: July 2, August 5 and 26, 2019. In addition, the companies provided six renewal business policies sent on the following dates: May 28, July 10 and 25, and September 5 and 11, 2019.

#### NEW BUSINESS POLICIES

The examiners found no violations in this area.

#### RENEWAL BUSINESS POLICIES

The examiners found six violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

### **Homeowner Policies**

The companies provided six new business policies sent on the following dates: July 17, 19, and 31, August 22, and September 11, 2019. In addition, the company provided six renewal business policies sent on the following dates: July 2, 9, 23, and 30, and August 7 and 28, 2019.

#### NEW BUSINESS POLICIES

The examiners found no violations in this area.

#### RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

**STATUTORY NOTICES REVIEW**

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

**General Statutory Notices**

The examiners found no violations in this area.

**Statutory Vehicle Notices**

The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The company's Accident Point Surcharge notice did not include all of the information required by the statute.

**Statutory Property Notices**

The examiners found two violations of § 38.2-2129 of the Code of Virginia. The company's Earthquake Exclusion notice did not include all of the information

required by the statute.

### **Other Notices**

The companies provided copies of 28 other notices (including applications) that were used during the examination period.

The examiners found no violations in this area.

### **LICENSING AND APPOINTMENT REVIEW**

A review was made of the private passenger automobile and homeowner new business policies to verify the agent of record. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

### **Agency**

The examiners found no violations in this area.

### **Agent**

The examiners found no violations in this area.

### **COMPLAINT-HANDLING PROCESS REVIEW**

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found one violation of § 38.2-511 of the Code of Virginia. The company failed to maintain a complete complaint register in compliance with the statute.

### **PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW**

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

## **PART TWO – CORRECTIVE ACTION PLAN**

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to violations of the unfair claims handling statutes and regulations. Any error ratio above this threshold for claims indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero-tolerance standard. This section identifies the violations of Virginia insurance statutes and regulations that are subject to a monetary penalty.

### **General**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

Provide a Corrective Action Plan (CAP) with their response to the Report.

### **Rating and Underwriting Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the

- companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) File all homeowner forms with the Bureau prior to use.
  - (5) Properly represent the benefits, coverages, advantages, and conditions of the policy. Particular attention should be given to coverage limits and discounts shown on the declarations page.
  - (6) Provide convenient access to files, documents, and records relating to the examination.
  - (7) Properly assign points under the SDIP to the vehicle customarily driven by the operator incurring the points.
  - (8) File all rates and supplementary rating information with the Bureau prior to use.
  - (9) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, symbols, tier eligibility, public protection classes, UM rates, Unit Owners Building Property coverage, Contents Replacement Cost coverage, and base and/or final rates.

### **Termination Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Cancel policies only for the reasons permitted by the statute.
- (5) Send a notice of cancellation to the insured.
- (6) Calculate earned premium in accordance with filed rules and policy provisions.
- (7) Obtain a written request when the insured requests cancellation of the policy as required by the insurance policy.
- (8) Provide advance notice of cancellation as required by the statute.
- (9) Advise the insured of the right to review by the Commissioner of Insurance.
- (10) Advise the insured of the availability of other insurance.
- (11) Provide convenient access to files, documents, and records related to an examination.
- (12) Use binders for no more than 60 days.

### **Claims Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Correct the errors that caused the overpayments and underpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount sent to insureds and claimants.
- (3) Complete and submit to the Bureau the attached file titled "Claim Underpayments Cited During the Examination." By returning the completed file to the Bureau, the

- companies acknowledge that they have made the underpayments listed in the file.
- (4) Document the claim file to indicate that all applicable coverages have been disclosed to the insured. Particular attention should be given to deductibles, rental benefits under UMPD, MEB coverage, and Transportation Expenses coverage.
  - (5) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
  - (6) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.
  - (7) Properly represent pertinent facts or insurance policy provisions relating to coverage(s) at issue.
  - (8) Conduct an internal audit of all automobile collision claims in the past three years to determine if any UMPD coverage benefits are owed to insureds. The companies should then prepare an Excel spreadsheet indicating the payments made as a result of the internal audit. This spreadsheet should be in the same format as the Restitution Spreadsheet sent by the Bureau for the Claims Underpayments.

### **Forms Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Use the precise language of the standard automobile forms as adopted by the Bureau.
- (2) Use forms filed as broadenings of the standard automobile forms in the precise language approved by the Bureau.
- (3) File all homeowner forms with the Bureau prior to use.

**Policy Issuance Process Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

Provide the Important Information Regarding Your Insurance notice as required by  
the statute.

**Statutory Notices Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (2) Amend the Earthquake Exclusion notice to comply with § 38.2-2129 of the Code of Virginia.

**Complaint-Handling Process Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

Maintain a complete and compliant complaint register.

### **PART THREE – RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices.

#### **RECOMMENDATIONS**

We recommend that the companies take the following actions:

#### **Rating and Underwriting**

- Include the policy fee in the total policy premium on endorsed/revised declarations pages.
- Reflect the full policy term period on endorsed declarations pages.

#### **Termination**

- Only send the SR-26 form to the Department of Motor Vehicles (DMV) after the policy has cancelled.
- After cancellation, file the SR-26 with DMV within 15 days.
- Prevent policies from being issued without the consent of the insured and/or without receiving an initial payment.
- Retain evidence of the insured's request for cancellation.

#### **Claims**

- Document the claim file so that all events and pertinent dates can be reconstructed.
- Make all claim denials in writing and keep a copy in the claim file.
- Properly apply the UMPD deductible when Collision coverage also applies.
- Adopt and implement reasonable standards for the prompt investigation of claims.
- Pay no more than an insured is entitled to receive under the terms of the policy.
- Obtain a valid AOB before making MEB payments directly to a medical provider.

**Forms**

- Correct any grammatical and typographical errors as recommended by the Bureau.

**Policy Issuance Process**

- Only list forms that have been filed and approved by the Bureau in the specified Forms section of the declarations page. The forms list on the declarations page included several notices.

**Statutory Notices**

- Remove the reference to the BOI's TDD number on the Important Information Regarding Your Insurance notice.

**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

The Bureau conducted three prior market conduct examinations of the private passenger automobile and homeowner lines of business of Farmers Insurance Exchange and Mid-Century Insurance Company.

During the most recent examination of 2012, the companies violated §§ 38.2-304, 38.2-305 A, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 10, 38.2-511, 38.21-517 A 3, 38.2-610 A, 38.2-1318, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2112 A, 8.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 B, 38.2-2114 C, 38.2-2114 E, 38.2-2118, 38.2-2126 A, 38.2-2208 A, 38.2-2008 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2223, 38.2-2234 A and 38-2234 B of the Code of Virginia; as well as 14 VAC 5-400-30, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "Gloria Warriner". The signature is fluid and cursive, with a prominent initial "G" and a long, sweeping tail.

Gloria Warriner  
Senior Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[scc.virginia.gov](http://scc.virginia.gov)

April 2, 2021

## VIA E-MAIL DELIVERY

Ms. Kristina Ceja  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

RE: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC # 21652  
Mid-Century Insurance Company, NAIC # 21687  
Truck Insurance Exchange, NAIC # 21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Ceja:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above-referenced companies for the period of July 1, 2018 through June 30, 2019. The preliminary examination report (Report) has been drafted for the companies' review.

Attached with this letter is a copy of the Report and copies of review sheets that have been added, withdrawn, or revised since February 5, 2021. Also attached are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Due to the number of Virginia insurance law violations cited in the Report, I would urge you to closely review the Report. Please provide a written response. The companies do not need to respond to any particular item with which they agree. If the companies disagree with an item or wish to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the companies provide written documentation to support their position. When the companies respond, please do not include any personal identifiable or privileged information (names, policy numbers, claim numbers, addresses, etc.). The companies should use exhibits or appendices to reference such information. In addition, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report.

Secondly, the companies must provide a corrective action plan that addresses all the issues identified in the examination, again using the same headings and numberings as are used in Part Two of the Report. The companies will receive additional details regarding the internal audit requested for auto claims in the next two weeks.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

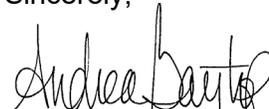
Finally, we have attached an Excel file that the companies must complete and return to the Bureau with their response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by June 4, 2021.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by June 4, 2021.

Sincerely,



Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
Office: (804) 371-9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Attachments



**Kristina Ceja, AINS, MCM, AIS, ACS**  
*Regulatory Affairs Specialist II*  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
Office 818-965-0299  
Kristina.ceja@farmersinsurance.com

June 4, 2021

Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property and Casualty Division  
Bureau of Insurance  
P. O. Box 1157 (23218)  
1300 East Main Street  
Richmond, VA 23219  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

**Confidential Pursuant to Code of Virginia § 38.2-1320.5**

Re: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC #21652  
Mid-Century Insurance Company, NAIC #21687  
Truck Insurance Exchange, NAIC #21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Baytop:

On behalf of Farmers Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company, please accept this letter and the following enclosures to serve as our response to the preliminary report dated April 2, 2021. We have reviewed the report and respectfully submit the following for your consideration:

1. Preliminary report response and exhibits Part One
2. Corrective action plan Part Two
3. Remediation spreadsheet

Per your request, we have followed the same formatting (i.e. heading and numbering) as found in the preliminary report. Please note that for Part One, we have only provided responses to those items we respectfully disagree with.

## **PART ONE – THE EXAMINERS’ OBSERVATIONS**

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

- (1) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the Homeowner discount and Glass Deductible Buyback coverage on the

declarations page that were not applicable to the policy.

**Company Response:**

The Company respectfully partially disagrees. The examiners removed the finding related to the Homeowner discount. Please see examiners' 4/9/20 response to RPA006/Review Sheet R&UBPPA1581542052.

Please see Exhibit 1 (R&UBPPA1581542052 Response).

- (2) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring points.

**Company Response:**

The Company respectfully disagrees. The Company's practice is to assign points to the vehicle customarily driven by the operator responsible for incurring points.

Please see Exhibit 2 (VA Auto Test Quote for Primary Driver Assignment) which shows a sample flow of how agents quote an auto policy. In the first screen of the quoting process, the agent must assign a primary driver (designate who the vehicle is customarily driven by) for each vehicle that is to be insured. The agent cannot proceed with the quote until this assignment is completed.

Please also see Exhibit 2a (Express Screen of VA Auto Policies with Primary Drivers). These are screen shots from our system which show: (a) the rated driver column indicating the primary driver and (b) the vehicle assignment to the same primary driver. RPA003/Review Sheet 1254221390.

- (3) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

b. In one instance, the company failed to use the correct symbol.

**Company Response:**

The Company respectfully disagrees and refers to the Company's response submitted on 1/29/21 RPA003/Review Sheet 313865571 supporting the Company's use of the correct symbol. However, the examiners have not yet acknowledged the Company's 1/29/21 response to this review sheet.

Please see Exhibit 3 (Truck Ins Exchange Auto Symbols, HLDI 313865571 and R&UNBPPA-313865571 Response).

**Automobile Renewal Business Policies**

The examiners reviewed 95 renewal business policy files. During this review, the examiners found overcharges totaling \$636.57 and undercharges totaling \$4,057.76. The net amount that should be refunded to insureds is \$636.57 plus six percent (6%) simple interest.

**Company Response:**

The Company respectfully disagrees with the overcharge amount and refers the examiners to the Restitution spreadsheet for additional information.

- (3) The examiners found four violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company did not provide a copy of the insured's payment history screen.

**Company Response:**

The Company respectfully disagrees with the following violations. The Company provided the insured's payment history screens and provided the subsequently requested information including the credit history.

RPA041/Review Sheet 1312206829: The Company provided the payment history screen on 4/3/20 and provided the credit history on 11/6/20.

Please see Exhibit 4 (R&URBPPA-1312206829 payment history Response 4.3.20 and R&URBPPA-1312206829 – P#XXXXXX 11.6.20)

RPA047/Review Sheet 1863819385: The Company provided the payment history screen on 4/3/20 and the credit history on 11/6/20.

Please see Exhibit 4a (R&URBPPA1863819385 Response 4.3.20 and R&URBPPA1863819385 Response 11.6.20)

RPA083/Review Sheet 1422320924: The Company provided the payment history screen on 4/3/20 and the credit history on 11/6/20.

Please see Exhibit 4b (R&URBPPA-1422320924 Response 4.3.20 and R&URBPPA-1422320924 Response 4.3.20 11.6.20)

- (4) The examiners found three violations of § 38.2-1905 C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring points.

**Company Response:**

The Company respectfully disagrees. The Company's practice is to assign points to the vehicle customarily driven by the operator responsible for incurring points.

Please see Exhibit 5 (VA Auto Test Quote for Primary Driver Assignment) which shows a sample flow of how agents quote an auto policy. In the first screen of the quoting process, the agent must assign a primary driver (designate who the vehicle is customarily driven by) for each vehicle that is to be insured. The agent cannot proceed with the quote until this assignment is completed.

Please also see Exhibit 5a (Express Screen of VA Auto Policies with Primary Drivers). These are screen shots from our system which show: (a) the rated driver column indicating the primary driver and (b) the vehicle assignment to the same primary driver. RPA053/Review Sheet 976362989 and RPA025/Review Sheet 1110556212.

- (6) The examiners found 71 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In five instances, the company failed to use the correct discounts and/or surcharges.

**Company Response:**

The Company respectfully disagrees with respect to the following two review sheets:

RPA033/Review Sheet 1706161418: The Company submitted additional information on 8/31/20. However, the examiners have not yet acknowledged the Company's 8/31/20 response to this review sheet.

Please see Exhibit 6 (1706161418-P#XXXXXX Screen Print and R&URBPPA-1706161418 response 8.31.20).

RPA039/Review Sheet 6888294: The Company submitted additional information on 11/11/20. However, the examiners have not yet acknowledged the Company's 11/11/20 response to this review sheet.

Please see Exhibit 6a (R&URBPPA-6888294 Response 11.11.20).

- c. In nine instances, the company failed to use the correct symbol.

**Company Response:**

The Company respectfully disagrees to the following findings:

RPA023/Review Sheet 710539274: On 3/9/20, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.

Please see Exhibit 7 (R&URBPPA-710539274 Response and Symbol Manual)

RPA025/Review Sheet 31404482: On 3/12/20, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.

Please see Exhibit 7a (R&URBPPA31404482 Response, 2001 Chevy Express Sym man, and 2001 Chevy Express VIN)

RPA035/Review Sheet 1868396187: There were 2 violations for 2 different cars. One violation was removed. On 4/20/20, the Company responded to the other violation showing the correct symbol. However, the examiners have not yet acknowledged the Company's 4/20/20 response to this review sheet.

See Exhibit 7b (R&URBPPA-1868396187 Removal, R&URBPPA-1868396187 Response and page 627 VA Mid Century Insurance)

RPA079/Review Sheet 547551539: On 3/30/20, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.

Please see Exhibit 7c (R&URBPPA-547551539 Response)

RPA083/Review Sheet 171286011: On 3/30/20, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.

Please see Exhibit 7d (R&URBPPA-171286011 Reason)

RPA091/Review Sheet 1872011915: On 3/30/20, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.  
Please see Exhibit 7e (R&URBPPA-1872011915 Response)

RPA103/Review Sheet 810704099: On 3/30/20, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.  
Please see Exhibit 7f (R&URBPPA-810704099 Response)

RPA039/Review Sheet 1980270493: On 1/29/21, the Company provided evidence of the correct symbol for the specific vehicle. However, the examiners have not yet acknowledged the Company's response to this review sheet.  
See Exhibit 7g (R&URBPPA1980270493 Response2 and 1980270493 Screen Prints – vehicle speci)

d. In seven instances, the company failed to use the correct eligibility criteria.

**Company Response:**

The Company respectfully disagrees to the following findings:

RPA012/Review Sheet 731794658: The Company applied the correct tier eligibility criteria consistent with Rule P03/Underwriting Tier of SERFF filing FARM-130240805 which states that "Underwriting Tier placement is re-evaluated and adjusted upon any credit re-ordering initiated by the customer or the company"

RPA015/Review Sheet 1442648488: The Company submitted additional information on 1/28/21. However, the examiners have not yet acknowledged the Company's 1/28/21 response to this review sheet.  
Please see Exhibit 8 (RS144268488 Screen Print and R&URBPPA-1442648488 Response).

RPA017/Review Sheet 1410886468: The Company submitted additional information on 1/28/21. However, the examiners have not yet acknowledged the Company's 1/28/21 response to this review sheet.  
Please see Exhibit 8a (1410886468 Screen Print and R&URBPPA1410886468 Response).

RPA023/Review Sheet 798433656: The Company submitted additional information on 1/14/21. However, the examiners have not yet acknowledged the Company's 1/14/21 response to this review sheet.  
Please see Exhibit 8b (RS798433656 Screen Print and R&URBPPA-798433656 - Response).

RPA024/Review Sheet 99434022: The Company submitted additional information on 1/15/21. However, the examiners have not yet acknowledged the Company's 1/15/21 response to this review sheet.  
Please see Exhibit 8c (RS 99434022 UW Tier Components and R&URBPPA99434022 Response).

RPA057/Review Sheet 877041619: The Company submitted additional information on 7/23/20. However, the examiners have not yet acknowledged the Company's 7/23/20 response to this review sheet.

Please see Exhibit 8d (Policy#XXXXXXX and R&URBPPA877041619 – P#XXXXXX Response).

e. In one instance, the company failed to use the correct driver classification factor.

**Company Response:**

The Company respectfully disagrees and refers to the Company's response submitted on 3/19/20 for RPA049/Review Sheet 574859350. However, the examiners have not yet acknowledged the Company's 3/19/20 response to this review sheet. Please see Exhibit 9 (R&URBPPA-574859350 Response).

f. In four instances, the company failed to use the correct base and/or final rates.

**Company Response:**

The Company respectfully disagrees with the following findings:

RPA022/Review Sheet 29236969: The Company refers to two Exhibits, Exhibit 10 (P#XXXXXX 7.1.18 RN) is the 7.1.18 renewal offer to this customer and Exhibit 10a (P#XXXXXX VA FSPA Manual ROC Exhibit) is the completed manual rating of the policy. As seen in the yellow highlighted row for Driver Age x Points, the factor of .9900 is used for PD, UMPD and Collision coverage. Each manually calculated premium per coverage matches the renewal offer. The Company respectfully requests the examiner's calculations for comparison.

RPA075/Review Sheet 1078738984: The Company submitted additional information on 1/28/21. However, the examiners have not yet acknowledged the Company's 1/28/21 response to this review sheet. Please see Exhibit 10b (Explanation, Screen Prints and R&URBPPA-1078738984 Response).

RPA085/Review Sheet 2132336652: The Company submitted additional information on 1/28/21. However, the examiners have not yet acknowledged the Company's 1/28/21 response to this review sheet. Please see Exhibit 10c (2132336652-P#XXXXXX Explanation and R&URBPPA-2132336652 – P#XXXXXX Response).

(7) The examiners found four violations of § 38.2-2234 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three-year period or when requested by the insured.

**Company Response:**

The Company respectfully requests that the examiners change the nature of this violation. The Company ran credit as required by the statute but applied an unfiled rule which permitted the customer to retain the better score:

RPA085/Review Sheet 1472144378  
RPA090/Review Sheet 460860780  
RPA096/Review Sheet 2107519952  
RPA097/Review Sheet 1534546418

## Homeowner New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$90.16 and undercharges totaling \$4,652.93. The net amount that should be refunded to insureds is \$90.16 plus six percent (6%) simple interest

### Company Response:

The company respectfully disagrees with the overcharge amount and refers the examiners to the Restitution spreadsheet for additional information.

- (4) The examiners found 66 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

b. In one instance, the company failed to use the correct tier eligibility criteria.

### Company Response:

The Company respectfully disagrees with this finding. RHO034/Review Sheet 2065481665; Please see Exhibit 11 screen shots from our system reflecting the OTC claim from 4/18/16, its payout its chargeable designation and loss description.

d. In two instances, the company failed to use the correct public protection class.

### Company Response:

The Company respectfully disagrees with the following finding:

RHO022/Review Sheet 883901697: The Company submitted additional information on 5/4/20. However, the examiners have not yet acknowledged the Company's 5/4/20 response to this review sheet.

Please see Exhibit 12 (5.4.20 R&UNBHO-883901697 Response).

## Homeowner Renewal Business Policies

The examiners reviewed 65 renewal business policy files. During this review, the examiners found overcharges totaling \$324.38 and undercharges totaling \$4,884.24. The net amount that should be refunded to insureds is \$324.38 plus six percent (6%) simple interest.

### Company Response:

The Company respectfully disagrees with the overcharge amount and refers the examiners to the Restitution spreadsheet for additional information.

- (5) The examiners found 50 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In 15 instances, the company failed to use the correct discounts and/or surcharges.

### Company Response:

The Company respectfully disagrees with the following findings:

RHO058/Review Sheet 872337422: Please see Exhibit 13 which is a screenshot of our system reflecting that the life policy numbers were invalid or unknown.

RHO071/Review Sheet 769578312: Please see Exhibit 13a which is the Policy Issue Status for the life insurance policy in question.

b. In two instances, the company failed to use the correct public protection class.

- (6) The examiners found two violations of § 38.2-2126 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three-year period or when requested by the insured.

**Company Response:**

The Company respectfully requests that the examiners change the nature of this violation. The Company ran credit as required by the statute but applied an unfiled rule which permitted the customer to retain the better score:

RHO053/Review Sheet 1185125193

RHO056/Review Sheet 707216619

**TERMINATION REVIEW**

**All other cancellations – Automobile Policies**

**REQUESTED BY THE INSURED**

- (1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.

**Company Response:**

The Company respectfully disagrees with the following finding:

TPA059/Review Sheet 1413998544: Service fees for installments, bad check fees, SR-22/FR-44 fees, and other fees not charged for the procurement of insurance may be fully earned. (See §§ 38.2-100 and 38.2-310 of the Code of Virginia.) The financial responsibility fee was fully earned. There is no overcharge.

**Company-Initiated Nonrenewals – Automobile Policies**

- (1) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the insured.

**Company Response:**

The Company respectfully disagrees: TPA073/Review Sheet 748085018: On 4/23/20, the Company provided proof of mailing the cancellation notice to the insured. Please see Exhibit 14 (TermNRPPA 748085018 and POM).

## **Company-Initiated Cancellations – Homeowner Policies**

### **NOTICE MAILED PRIOR TO THE 90<sup>th</sup> DAY OF COVERAGE**

- (1) The examiners found three violations of § 38.2-304 of the Code of Virginia. The company used a binder for more than 60 days.

#### **Company Response:**

The company respectfully requests that a duplicate violation be withdrawn. There are two review sheets for the same policy number: THO003/Review Sheet 1170054370 and THO004/Review Sheet 1585337861.

- (2) The examiners found six violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business declarations page

#### **Company Response:**

The company respectfully requests that a duplicate violation be withdrawn. There are two review sheets for the same policy number: THO003/Review Sheet 1289705594 and THO004/Review Sheet 1765812595.

## **CLAIMS REVIEW**

### **Private Passenger Automobile Claims**

The examiners reviewed 119 automobile claims for the period of July 1, 2018 through June 30, 2019. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$33,890.42, and underpayments totaling \$19,515,05. The net amount that should be paid to claimants is \$19,458.63 plus six percent (6%) simple interest.

#### **Company Response Underpayments:**

In the case of Line 16, CPA056, ClaimVehPPA-469434441 on the Restitution Excel Worksheet we request consideration of a revised response. In our initial review of the Recommendation we missed the fact that on the Supplemental Estimate 01, Line 53 documents that the \$95.31 was a result of 40% betterment taken on the replacement of the \$226.29 tire. The 40% applied was based on 7/32 treadwear. A copy of Supplemental Estimate 01 is attached for your review and consideration.

Please see Exhibit 15 (Line 16, CPA056, ClaimVehPPA-469434441 Supplemental Estimate).

In the case of Line 18, CPA060, ClaimVehPPA-635609733 we ask reconsideration of our response. The license plate number provided by the insured did not make the tortfeasor identifiable in that the VA DMV advised it was not a valid plate number. A copy of the 6/5/2019 File Note re the license plate request is attached for your review and consideration.

Please see Exhibit 15a (Line 18 CPA060ClaimVehPPA-635609733 Copy of File Notes Requests For Reconsideration).

- (4) The examiners found 21 violations of 14 VAC 5-400-70 D. The company failed to offer the

insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- f. In one instance, the company failed to pay the insured's Collision or Other Than Collision (OTC) claim properly.

**Company Response:**

Per the request in [Company Response Underpayments](#) above: In the case of Line 16, CPA056, ClaimVehPPA-469434441 on the Restitution Excel Worksheet we request consideration of a revised response. In our initial review of the Recommendation we missed the fact that on the Supplemental Estimate 01, Line 53 documents that the \$95.31 was a result of 40% betterment taken on the replacement of the \$226.29 tire. The 40% applied was based on 7/32 treadwear. A copy of Supplemental Estimate 01 is attached for your review and consideration. If in agreement, please remove this one instance.  
Please see Exhibit 16 (Line 16, CPA056, ClaimVehPPA-469434441 Supplemental Estimate).

- (13) The examiners found two violations of § 38.2-2206 A of the Code of Virginia. The company applied the UMPD deductible when no deductible applied to the loss.

**Company Response:**

Per the request in [Company Response Underpayments](#) above: In the case of Line 18, CPA060, ClaimVehPPA-635609733 we ask reconsideration of our response. The license plate number provided by the insured did not make the tortfeasor identifiable in that the VA DMV advised it was not a valid plate number. A copy of the 6/5/2019 File Note re the license plate request is attached for your review and consideration. If you are in agreement, please remove one violation.  
Please see Exhibit 17 (Line 18 CPA060ClaimVehPPA-635609733 Copy of File Notes Requests for Reconsideration)

**Homeowner Claims**

The examiners reviewed 99 homeowner claims for the period of July 1, 2018 through June 30, 2019. The findings below appear to be contrary to the standards set forth by the Virginia insurance statutes and regulations. During this review, the examiners found no overpayments and underpayments totaling \$3,153.69. The net amount that should be paid to claimants is \$3153.69 plus six percent (6%) simple interest.

**Company Response:**

In the case of Line 28, CHO040, ClaimPropHO-356309274 we ask reconsideration. In our original response in February 2020 we stated: "\$2710.80 was paid to FXXXX MXXX on the customer's behalf and makes up a portion of the \$7731 of the prior payments we noted. The amount reflects ½ of their bill and the amount we pay them up front per our agreement with FXXXX MXXX. The final portion will be paid once the work is completed. FXXXX MXXX bill is attached, the amount is 5421.68."  
Please see Exhibit 18 (Line 28 ChO040 ClaimPropHO-356309274 Copy of FXXXX MXXX Invoice).

We received the Certificate of Completion in January 2021 plus a revised estimate from FXXXX MXXX. The remainder, \$2,710.00 was paid on 1/8/2021 when we issued the RCV payment of

\$10,341.77 to the insured. A copy of the payment screen is attached for your review and consideration. If you are in agreement, please remove this violation.

Please see Exhibit 18 (Line 28 CHO040 ClaimPropHO-356309274: Copy FXXXX MXXX Invoice, Copy of Estimate, Copy of FXXX MXXX Certificate of Satisfaction, Copy of FXXXX MXXX Final Estimate, and Copy of Replacement Cost Holdback Payment to Insured).

- (5) The examiners found two violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to properly pay the claim under the insured's Dwelling Replacement Cost coverage.

**Company Response:**

In the case of Line 28, CHO040, ClaimPropHO-356309274 we ask reconsideration. In our original response in February 2020 we stated: "\$2710.80 was paid to FXXXX MXXX on the customer's behalf and makes up a portion of the \$7731 of the prior payments we noted. The amount reflects ½ of their bill and the amount we pay them up front per our agreement with FXXXX MXXX. The final portion will be paid once the work is completed. FXXXX MXXX bill is attached, the amount is 5421.68."

Please see Exhibit 18 (Line 28 ChO040 ClaimPropHO-356309274 Copy of FXXXX MXXX Invoice).

We received the Certificate of Completion in January 2021 plus a revised estimate from Furniture Medic. The remainder, \$2,710.00 was paid on 1/8/2021 when we issued the RCV payment of \$10,341.77 to the insured. A copy of the payment screen is attached for your review and consideration. If you are in agreement, please remove one violation.

Please see Exhibit 18 (Line 28 CHO040 ClaimPropHO-356309274: Copy FXXXX MXXX Invoice, Copy of Estimate, Copy of FXXX MXXX Certificate of Satisfaction, Copy of FXXX MXXX Final Estimate, and Copy of Replacement Cost Holdback Payment to Insured).

**FORMS REVIEW**

Automobile Policy Forms

**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

- (1) The examiners found 21 violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.

**Company Response:**

The Company respectfully disagrees with the following findings:

FPA063, Review Sheet 1207248247, Policy Form 97-063 – This Review Sheet incorrectly references Form 97-063 but is intended for Form 97-0435. The examiners have already identified this issue in FPA059, Review Sheet 1370219453, Form 97-0435 for the same company. Please withdraw FPA063, Review Sheet 1207248247, Policy Form 97-063.

FPA069, Review Sheet 1212328579 should refer to Form 97-0643 and not Form 97-0649.

## Homeowner Policy Forms

### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found eight violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

#### Company Response:

The Company respectfully disagrees with the following finding:

FHO069, Review Sheet 413015743, Policy Form 91-6146 – on 10/13/20, the Company provided the blue box version of this form. However the examiners have yet to acknowledge the Company's 10/13/20 response.

Please see Exhibit 19 (October 2020 company response- FormsFrmHO-413015743).

### **PART TWO – CORRECTIVE ACTION PLAN**

#### **Rating and Underwriting Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

#### Company Response:

The Company has reviewed the errors identified by the examiners and is in the process of issuing refunds or credits to the insureds., subject to its responses in Part 1.

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

#### Company Response:

The Company will include six percent (6%) simple interest in the amount refunded and/or credited to the insureds.

- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

#### Company Response:

The Company has reviewed the errors identified by the examiners and is in the process of issuing refunds and/or credits to the insureds, subject to its responses in Part 1.

- (4) File all homeowner forms with the Bureau prior to use.

**Company Response:**

The Company will file all homeowner forms with the Bureau prior to use.

- (5) Properly represent the benefits, coverages, advantages, and conditions of the policy. Particular attention should be given to coverage limits and discounts.

**Company Response:**

The Company will correct the coverage limits and discount errors identified by the examiners and will properly represent the benefits, coverages, advantages, and conditions of the policy.

- (6) Provide convenient access to files, documents, and records relating to the examination.

**Company Response:**

The Company remains committed to work with the Bureau and provide convenient access to files, document, and records relating to the examination.

- (7) Properly assign points under the SDIP to the vehicle customarily driven by the operator incurring the points.

**Company Response:**

The Company respectfully disagrees with the violation cited by the examiners. Please see our response in Part I to RPA015/Review Sheet 1906602830.

- (8) File all rates and supplementary rating information with the Bureau prior to use.

**Company Response:**

The Company will file all rates and supplementary rating information with the Bureau prior to use.

- (9) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, symbols, tier eligibility, public protection class, UM rates, Unit Owners Building Property coverage, Contents Replacement Cost coverage, and base and/or final rates.

**Company Response:**

The Company will use the rules and rates on file with the Bureau. The Company has reviewed all violations and has made or is in the process of making filings to clarify or amend its manual or update its processes accordingly.

- (10) Update insureds' credit information at least once every three years.

**Company Response:**

The Company respectfully disagrees with the violation cited by the examiners. Please see our response in Part I to the following review sheets:

RPA085/Review Sheet 1472144378  
RPA090/Review Sheet 460860780  
RPA096/Review Sheet 2107519952  
RPA097/Review Sheet 1534546418

RHO053/Review Sheet 1185125193  
RHO056/Review Sheet 707216619

The Company is no longer using the unfiled rule.

## **Termination Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

### **Company Response:**

The Company has reviewed the errors identified by the examiners and is in the process of issuing refunds or credits to the insureds.

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

### **Company Response:**

The Company will include six percent (6%) simple interest in the amount refunded and/or credited to the insureds.

- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

### **Company Response:**

The Company has reviewed the errors identified by the examiners and is in the process of issuing refunds and/or credits to the insureds.

- (4) Cancel policies only for the reasons permitted by the statute.

### **Company Response:**

The Company will cancel policies consistent with the statutorily permitted reasons.

- (5) Send a notice of cancellation to the insured.

**Company Response:**

Cancellation notices are properly sent to the insured. The Company agrees to add language to its cancellation notices regarding payment of premium clearing in order to reinstate the policy.

- (6) Calculate earned premium in accordance with filed rules and policy provisions.

**Company Response:**

The Company agrees to update or otherwise clarify its filings regarding its calculation rules.

- (7) Obtain a written request when the insured requests cancellation of the policy as required by the insurance policy.

**Company Response:**

The Company agrees to obtain a written request to cancel the policy in accordance with the insurance policy.

- (8) Provide advance notice of cancellation as required by the statute.

**Company Response:**

The Company has and will continue to provide advance notice of cancellation as required by statute.

- (9) Advise the insured of the right to review by the Commissioner of Insurance.

**Company Response:**

The Company has and will continue to advise the insured of the right to review by the Commissioner of Insurance when required.

- (10) Advise the insured of the availability of other insurance.

**Company Response:**

The Company has and will continue to advise the insured of the availability of other insurance when required.

- (11) Provide convenient access to files, documents, and records related to an examination.

**Company Response:**

The Company remains committed to work with Bureau and provide convenient access to files, document, and records relating to the examination.

- (12) Use binders for no more than 60 days.

**Company Response:**

The Company will provide the initial new business dec to the insured as required by statute.

**CLAIMS REVIEW**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Correct the errors that caused the overpayments and underpayments and send the amount of the underpayment to insureds and claimants.

**Company Response:**

Please see response to #3 below for detailed explanation.

- (2) Include six percent (6%) simple interest in the amount sent to insureds and claimants.

**Company Response:**

The Company will include six percent (6%) simple interest in the amount sent to insureds and claimants.

- (3) Complete and submit to the Bureau the attached file titled "Claim Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have made the underpayments listed in the file.

**Company Response:**

We respectfully submit the Restitution underpayments which reflects payments for a claims total of \$20,843.38 including 6% simple interest.

We offer the following explanation as reason for the differences between the Claims Restitution Worksheet we are submitting and the amount requested to be paid.

In the case of Line 16, CPA056, ClaimVehPPA-469434441 on the Restitution Excel Worksheet we request consideration of a revised response. In our initial review of the Recommendation we missed the fact that on the Supplemental Estimate 01, Line 53 documents that the \$95.31 was as a result of 40% betterment taken on the replacement of the \$226.29 tire. The 40% applied was based on 7/32 treadwear. A copy of Supplemental Estimate 01 is attached for your review and consideration.

In the case of Line 18, CPA060, ClaimVehPPA-635609733 we ask reconsideration of our response. The license plate number provided by the insured did not make the tortfeasor identifiable in that the VA DMV advised it was not a valid plate number. A copy of the 6/5/2019 File Note re the license plate request is attached for your review and consideration.

In the case of Line 28, CHO040, ClaimPropHO-356309274 we ask reconsideration. In our original response in February 2020 we stated: "\$2710.80 was paid to FXXXX MXXX on the customer's behalf and makes up a portion of the \$7731 of the prior payments we noted. The amount reflects ½ of their bill and the amount we pay them up front per our agreement with

FXXXX MXXX. The final portion will be paid once the work is completed. FXXXX MXXX bill is attached, the amount is 5421.68.”

Please see Exhibit 18 (Line 28 ChO040 ClaimPropHO-356309274 Copy of FXXXX MXXX Invoice).

We received the Certificate of Completion in January 2021 plus a revised estimate from Furniture Medic. The remainder, \$2,710.00 was paid on 1/8/2021 when we issued the RCV payment of \$10,341.77 to the insured. A copy of the payment screen is attached for your review and consideration.

- (4) Document the claim file to indicate that all applicable coverages have been disclosed to the insured. Particular attention should be given to deductibles, rental benefits under UMPD, MEB coverage, and Transportation Expenses coverage.

**Company Response:**

The Companies continue to reinforce claim best practices with all claim representatives. Individual infractions were addressed with the respective claims representatives who remain in position. Supervisors were advised of UMPD errors starting in February 2020. An email outlining the UMPD payment process was sent to all supervisors on February 27, 2020. A UM handling workshop was held on April 21, 2020. Supervisors have been reviewing files specific to these areas since February 2020. Individual feedback has been provided to claim handlers and will continue until all deficiencies have been addressed. Supervisors were provided a copy of the Preliminary Report with the Findings on April 16, 2021 and conducted an office meeting on April 29, 2021 to reinforce expectations.

- (5) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

**Company Response:**

The Companies continue to reinforce claim best practices with all claim representatives. Individual infractions were addressed with the respective claims representatives who remain in position. Sewer and Drain coverage training to all claim representatives concluded May 21, 2021. We intend to conduct 5 audits per team specific to the sewer and drain endorsement to measure effectiveness and provide coaching for claim representatives where necessary.

- (6) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.

**Company Response:**

The Companies continue to reinforce claim best practices with all claim representatives. We reinforced with all claim representatives that copies of repair estimates and supplements must be provided to insureds and claimants. We will continue to reinforce during team meetings and file reviews.

- (7) Properly represent pertinent facts or insurance policy provisions relating to coverage(s) at issue.

**Company Response:**

The Companies continue to reinforce claim best practices with all claim representatives. Individual infractions were addressed with the respective claims representatives who remain in position. Change to the ACV/RCV settlement letters was made during the exam. We intend to conduct two audits per person and address any deficiencies individually and collectively.

- (8) Make MEB payments directly to the insured unless a valid AOB has been received.

**Company Response:**

The Companies continue to reinforce claim best practices with all claim representatives. Individual infractions were addressed with the respective claim representatives who remain in position. We will conduct an internal audit for claims handled from 7/1/19 – 4/30/21 to be completed no later than June 30, 2021.

- (9) Properly apply the UM deductible when no other coverage applies to the loss.

**Company Response:**

The Companies continue to reinforce claim best practices with all claim representatives. Individual infractions were addressed with the respective claims representatives who remain in position. Supervisors were advised of UMPD errors starting in February 2020. An email outlining the UMPD payment process was sent to all supervisors on February 27, 2020. A UM handling workshop was held on April 21, 2020. Supervisors have been reviewing files specific to these areas since February 2020. Individual feedback has been provided to claim handlers and will continue until all deficiencies have been addressed. Supervisors were reminded of the Findings on April 16, 2021 and conducted an office meeting on April 29, 2021 to reinforce expectations.

- (10) Conduct an internal audit of all automobile collision claims in the past three years to determine if any Uninsured Motorist Property Damage coverage benefits are owed to insureds. The companies should then prepare an Excel spreadsheet indicating the payments made as a result of the internal audit. This spreadsheet should be in the same format as the Restitution Spreadsheet sent by the Bureau for the Claims Underpayments.

**Company Response:**

We will respond to the requirements outlined in Regulatory Action # 933 at the conclusion of the file reviews.

**FORMS REVIEW**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Use the precise language of the standard automobile forms as adopted by the Bureau.

**Company Response:**

The Company will make the necessary modifications to the forms identified by the examiners

so that they contain the precise language of the forms adopted by the Bureau.

- (2) Use forms filed as broadenings of the standard automobile forms in the precise language approved by the Bureau.

**Company Response:**

The Company will use the precise language of the standard automobile forms as adopted by the Bureau.

- (3) File all homeowner forms with the Bureau prior to use.

**Company Response:**

The Company will file all homeowner forms with the Bureau prior to use.

**Policy Issuance Process Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

Provide the Important Information Regarding Your Insurance notice as required by the statute

**Company Response:**

The Company will make the necessary changes to its ID cards.

**Statutory Notices Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

- (1) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.

**Company Response:**

The Company will amend this notice to include the necessary information.

- (2) Amend the Earthquake Exclusion notice to comply with § 38.2-2129 of the Code of Virginia.

**Company Response:**

The Company will amend this notice to include the necessary information.

## **Complaint-Handling Process Review**

Farmers Insurance Exchange,  
Mid-Century Insurance Company, and  
Truck Insurance Exchange shall:

Maintain a complete and compliant complaint register.

### **Company Response:**

The Company regrets this one error and met directly with the employee who made the error and counselled them about the importance of inputting correct information in our complaint database. The Company also discussed this with the entire team and emphasized the importance of data integrity and ensuring that information is correct in our complaint database.

## **PART THREE – RECOMMENDATIONS**

### **Rating and Underwriting**

- Include the policy fee in the total policy premium on endorsed/revised declarations page.

#### **Company Response:**

The Company accepts the Bureau's recommendation.

- Include the full policy term on endorsed declarations pages.

#### **Company Response:**

The Company accepts the Bureau's recommendation.

### **Termination**

- Only send the SR-26 form to the Department of Motor Vehicles after the policy has cancelled.

#### **Company Response:**

The Company accepts the Bureau's recommendation.

- Prevent policies from being issued without the consent of the insured and/or without receiving an initial payment.

#### **Company Response:**

The Company accepts the Bureau's recommendation.

### **Claims**

- Document the claim file that all events and pertinent dates can be reconstructed.

**Company Response:**

It is the Companies general business practice to document claim files so that all events and dates pertinent to the claim can be reconstructed. The Company will remind Claim Handlers periodically of what information must be documented in the file.

- Make all claim denials in writing and keep a copy in the claim file.

**Company Response:**

It is the Companies general business practice to reply to and maintain a copy of a written denial in the claim file. The Company will remind Claim Handlers periodically in addition to addressing any training needs individually or collectively as a result of a file review.

- Properly apply the UMPD deductible when Collision coverage also applies.

**Company Response:**

It is the Companies general business practice to correctly apply the UMPD deductible. The Company will remind Claim Handlers periodically in addition to addressing any training needs individually or collectively as a result of a file review.

- Adopt and implement reasonable standards for the prompt investigation of claims.

**Company Response:**

The Companies have a general business practice for the prompt investigation of claims. The Company will remind Claim Handlers periodically in addition to addressing any training needs individually or collectively as a result of a file review.

- Include the lienholder on checks where applicable.

**Company Response:**

It is the Companies general business practice to include the lienholder on payments where applicable. The Company will remind Claim Handlers periodically in addition to addressing any training needs individually or collectively as a result of a file review.

- Pay no more than an insured is entitled to receive under the terms of the policy.

**Company Response:**

It is the Companies general business practice to pay the amount owed under the terms of the policy. The Company will remind Claim Handlers periodically in addition to addressing any training needs individually or collectively as a result of a file review.

**Forms**

- Correct any grammatical and typographical errors as recommended by the Bureau.

**Company Response:**

The Company accepts the Bureau's recommendation.

**Policy Issuance Process**

- Only list forms that have been filed and approved by the Bureau in the specified Forms section of the declarations page. The forms list on the declarations page included several notices.

**Company Response:**

The Company accepts the Bureau's recommendation.

**Statutory Notices**

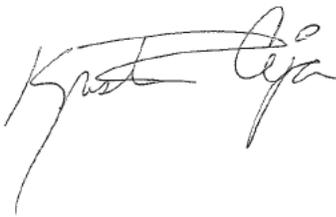
- Remove the reference to the BOI's TDD number on the Important Information Regarding Your Insurance notice.

**Company Response:**

The Company accepts the Bureau's recommendation.

Should you have any questions or require any additional information, please do not hesitate to contact me.

Respectfully,

A handwritten signature in black ink, appearing to read "Kristina Ceja". The signature is fluid and cursive, with a long horizontal stroke across the top.

Kristina Ceja, AINS, MCM, AIS, ACS  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

Enclosures

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[scc.virginia.gov](http://scc.virginia.gov)

September 24, 2021

## VIA E-MAIL DELIVERY

Ms. Kristina Ceja  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

RE: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC # 21652  
Mid-Century Insurance Company, NAIC # 21687  
Truck Insurance Exchange, NAIC # 21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Ceja:

The Bureau of Insurance (Bureau) has reviewed the June 4, 2021 response to the Preliminary Market Conduct Report (Report) of the above-referenced companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – EXAMINERS' OBSERVATIONS

### Automobile New Business Rating

- (1) The violation for RPA006 remains in the Report. The Glass Deductible Buyback coverage violation remains. The Bureau removed the homeowner discount wording from the violation.
- (2) The violation for RPA003 remains in the Report. The Company provided a demonstration showing that each insured/driver had to be assigned to a different vehicle. The demonstration failed to show that the insured indicated which vehicle each driver customarily operates. The Company was unable to

show how the system captures when two drivers customarily operate the same vehicle. In the state of Virginia, points are assigned to the vehicle that the driver customarily operates; if more than one driver customarily operates the same vehicle, then all the points must be rated on that vehicle.

- (3b) The violation for RPA003 remains in the Report. The Company provided the symbol pages for a 2017 Subaru Outback SW 4WD W/EYESGHT 2.5I LIMITED VDC NAVI. However, the declarations page and policy file states that the vehicle was a 2017 Subaru Outback Sw 4wd 2.5I Ltd NA. The Company failed to have symbols on file with the Bureau for the vehicle description stated on the declarations page and in the policy file.

### **Automobile Renewal Business Rating**

The Restitution Spreadsheet is adjusted to reflect the withdrawal of review sheet 1442648488 and the revised overcharge provided in review sheet 1906602830 for RPA015.

- (3) The violations for RPA041, RPA047, and RPA083 remain in the Report. The Company provided the credit score used to rate the policy; however, the Company failed to provide the credit scores for each time the credit was obtained for the Bureau to verify that the best credit score was used to rate the policy.
- (4) The violation for RPA053 remains in the Report. The Company provided a demonstration showing that each insured/driver had to be assigned to a different vehicle. The demonstration failed to show that the insured indicated which vehicle each driver customarily operates. The Company was unable to show how the system captures the customary operator when two drivers customarily operate the same vehicle. In the state of Virginia, points are assigned to the vehicle that the driver customarily operates; if more than one driver customarily operates the same vehicle, then all the points must be rated on that vehicle.
- (5) Violations for RPA085, RPA090, RPA096, and RPA097 have been added to the Report under this item for the Company failing to file with the Bureau all rates and supplementary rate information. The Company used the insured's prior credit score when the updated credit score was worse. However, this methodology was not indicated in any filed rule. Section 38.2-2234 B of the Code of Virginia does allow the Company to continue using a past credit score without modification if the insured has reached the best credit tier. In each of these situations the insured had not been placed in the best tier.
- (6a) The violation for RPA033 remains in the Report. The Company rated the policy with the Liability Months with Immediate Prior Carrier of 48 Months. However, the screen prints provided show that the insured had 78 months with the prior carrier. The Company should have rated the policy with a Continuous Insurance Code "H," which directly correlates to the characteristic "Liability Months with Immediate Prior Carrier."

The violation for RPA039 remains in the Report. The Company rated the policy with the Liability Months with Immediate Prior Carrier of 48 Months. However, the screen prints provided show that the insured had 62 months with the prior carrier. The Company should have rated the policy with a Continuous

Insurance Code “H,” which directly correlates to the characteristic “Liability Months with Immediate Prior Carrier.”

- (6c) After further review, the violation for RPA023 has been withdrawn from the Report. The Company provided evidence to support the set of symbols used to rate the policy.

The violation for RPA025 remains in the Report. The Company provided a screen print showing a set of symbols for a 2001 Chevrolet Truck Express Van 1500 4x2. However, the policy file states the vehicle was a 2001 Chevrolet Truck Chevan/Exp Cargo 1500 2WD. The Company failed to file with the Bureau a set of symbols that match the description indicated in the policy file.

After further review, the violation for RPA035 has been withdrawn from the Report. The examiner and Company used the same factor when rating the vehicle.

The violation for RPA039 remains in the Report. The Company failed to provide evidence of what set of symbols were used to rate the 2012 Cadillac Escalade Esv 1/2T 4D 4x4. Based on the symbols on file with the Bureau, there were three sets available; however, the policy file failed to stipulate whether the vehicle was LUXURY/NO DATA/PLATINUM/PREMIUM.

After further review, the violation for RPA079 has been withdrawn from the Report. The examiner and Company used the same set of symbols when rating the vehicle.

After further review, the violation for RPA083 has been withdrawn from the Report. The Company provided the correct set of symbols to rate the vehicle on the policy.

After further review, the violation for RPA091 has been withdrawn from the Report. The Company provided sufficient documentation for the set of symbols used to rate the vehicle.

The violation for RPA103 remains in the Report. The Company indicated in its response that the vehicle was a 3LT Turbo. However, the declarations page stated that the vehicle was a 2LT Turbo.

- (6d) The violation for RPA012 remains in the Report. The Company’s filed tiering calculations do not involve the use of credit. The examiners acknowledge Rule P03 in the Company’s filed manual; however, this issue does not involve the use of credit. At renewal, the insured moved into another age group; therefore, their tier should have been updated to reflect this change.

After further review, the violations for RPA015, RPA017, RPA023, RPA024, and RPA057 have been withdrawn from the Report. The Company provided sufficient documentation to show the “Length of time at current residence.” This characteristic supported the underwriting tier used by the Company to rate the policy.

- (6e) The violation for RPA049 remains in the Report. The Company indicated that the driver class factors used by the Bureau were also used by the Company. However, the Company failed to divide the total of the two driver factors for each coverage by the number of drivers. Based on the policy file, the Company used the driver class factors of the insured classed as “SM47” to rate the policy.

- (6f) After further review, the violation for RPA022 has been withdrawn from the Report. The Company provided documentation supporting its position that the Age/Points factors were applied correctly when rating the policy.
- After further review, the violations for RPA075 and RPA085 have been withdrawn from the Report. The Company provided a detailed explanation and documentation to support the number of vehicles and drivers used to rate the policy.
- (7) After further review, the violations for RPA085, RPA090, RPA096, and RPA097 have been withdrawn from the Report. These violations have been moved to item (5) of the Report for failing to file a rule that the Company would continue using the insured's better credit score if the updated credit score was worse. The Report has been renumbered to reflect this change.

### **Homeowner New Business Rating**

The Restitution Spreadsheet is adjusted to reflect the additional payment made to RHO009 outside the Regulatory Action #619 payment.

- (4b) After further review, the violation for RHO034 has been withdrawn from the Report. The Company provided evidence of the insured's comprehensive claim from April 8, 2016. The Report has been renumbered and the Restitution Spreadsheet has been adjusted to reflect this change.
- (4d) The violation for RHO022 remains in the Report. The ISO documentation provided by the Company was for a different address than the one shown on the declarations page. For reconsideration, provide the ISO report for the address shown on the declarations page under review.

### **Homeowner Renewal Business Rating**

The Restitution Spreadsheet is adjusted to reflect the additional payment made to RHO082 outside the Regulatory Action #619 payment.

- (3) One violation for RHO053 has been added to the Report under this item for the Company failing to file with the Bureau all rates and supplementary rate information. The Company applied a rule, not filed with the Bureau, that allows insureds to retain the better insurance score if a lower credit score is returned when the insured's credit score is updated at least once in a three-year period. Section 38.2-2126 B of the Code of Virginia does allow the Company to continue using a past credit score without modification if the insured has reached the best credit tier. In this situation the insured had not been placed in the best tier.
- (5a) After further review, the violations for RHO058 and RHO071 have been withdrawn from the Report. The Company provided evidence of the life insurance status.

- (6) After further review, the violation for RHO053 has been removed from the Report. This violation has been moved to item (3) of the Report for failing to file a rule that permits the insured to retain the better insurance score if a lower credit score is returned.

After further review, the violation for RHO056 has been withdrawn from the Report. The policy was rated using the best FPRA tier factor and therefore, an updated insurance credit score was not required.

### **Automobile Cancellations Requested by the Insured**

- (1) The violation for TPA059 remains in the Report. The Company's response indicates that the financial responsibility fee was fully earned. However, the Company has not filed a flat financial responsibility fee. The financial responsibility charge was filed as a factor that would make it part of the premium and not a fully earned fee.

### **Automobile Non-renewals**

- (1) The violation for TPA073 remains in the Report. The proof of mailing provided by the Company was dated July 8, 2019. However, the mail date on the notice was May 4, 2018, and the nonrenewal effective date was July 20, 2018, which corresponds with the information provided on the termination sample list. In addition, a July 8th proof of mailing would not have given the required days' notice of nonrenewal for a July 20th effective date.

### **Homeowner Notice Mailed Prior to the 90<sup>th</sup> Day of Coverage**

- (1) After further review, the violation for THO004 has been withdrawn from the Report. The Company's response indicates that a duplicate violation applies to THO003 and THO004 for the same policy number. However, the Company provided two separate cancellation notices initiated for the same policy number in the termination sample list.
- (2) After further review, the violations for THO003 and THO004 have been withdrawn from the Report. This issue has been appropriately cited as a violation of § 38.2-304 of the Code of Virginia.

### **Automobile Claims**

The Restitution Spreadsheet has been adjusted to reflect the removal of CPA056 and CPA060.

- (4f) After further review, the violation for CPA056 has been withdrawn from the Report. The Company provided documentation showing the correct payment was made to the insured. The Report has been renumbered to reflect this change.

- (13) After further review, the violation for CPA060 has been withdrawn from the Report. The Company provided evidence showing the license plate was not valid.

### **Homeowner Claims**

The Restitution Spreadsheet is adjusted to reflect the removal of CHO040.

- (4) After further review, the violation for CHO040 has been withdrawn from the Report. The Company provided evidence that the Company paid the correct RCV amount. The Company incorrectly referenced this violation under item (5) of its response.

### **Automobile Policy Forms**

- (1) After further review, the violations for FPA053, FPA063, FPA064, FPA068, and FPA069 have been withdrawn from the Report. The forms violations referenced the wrong forms and were already addressed in other review sheets.

### **Homeowner Policy Forms**

After further review, the violation for FHO069 has been withdrawn from the Report. The Company provided a copy of the requested Loss Payable Clause Endorsement, 91-6146.

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating**

- (3) Please provide the requested payment information for the outstanding restitution highlighted within the Restitution Spreadsheet.
- (7) The Corrective Action for RPA015 has been addressed in Part One of the response.
- (10) This item has been removed and has been addressed in Part One of the response.

### **Terminations**

- (3) Please define “automatic write-off” and provide corresponding documentation for THO023 and THO043. The Companies used this term within the Restitution Spreadsheet for the aforementioned files.

### **Claims**

- (3) CPA056, CPA060 and CHO040 were addressed in Part One of the response.

We have made the changes noted above to the Market Conduct Examination Report. Attached with this letter is a revised version of the Report, technical reports and Restitution spreadsheet, and any review sheets withdrawn, added, or altered as a result of this review.

Once we have received and reviewed the Company's responses to these items, we will be in a position to make a settlement offer. We look forward to your response by November 5, 2021.

Sincerely,



Andrea Baytop, AMCM  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 592-0245  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Attachments



**Kristina Ceja, AINS, MCM, AIS, ACS**  
*Regulatory Affairs Specialist II*  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
Office 818-965-0299  
Kristina.ceja@farmersinsurance.com

November 12, 2021

Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property and Casualty Division  
Bureau of Insurance  
P. O. Box 1157 (23218)  
1300 East Main Street  
Richmond, VA 23219  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

**Confidential Pursuant to Code of Virginia § 38.2-1320.5**

Re: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC #21652  
Mid-Century Insurance Company, NAIC #21687  
Truck Insurance Exchange, NAIC #21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Baytop:

On behalf of Farmers Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company, please accept this letter and the following enclosures to serve as our response to the Farmers Response letter dated September 24, 2021. We have reviewed the letter and respectfully submit the following for your consideration:

1. Preliminary report response and exhibits Part One
2. Corrective action and exhibits Part Two
3. Remediation spreadsheet

Per your request, we have followed the same formatting (i.e. heading and numbering) as found in the preliminary report. Please note that for Part One, we have only provided responses to those items we respectfully disagree with.

## **PART ONE – THE EXAMINERS' OBSERVATIONS**

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Rating**

- (2) The violation for RPA003 remains in the Report. The Company provided a demonstration showing that each insured/driver had to be assigned to a different vehicle. The demonstration failed to show that the insured indicated which vehicle each driver customarily operates. The Company was unable to show how the system captures when two drivers customarily operate the same vehicle. In the state of Virginia, points are assigned to the vehicle that the driver

customarily operates; if more than one driver customarily operates the same vehicle, then all the points must be rated on that vehicle.

Company Response:

The Company respectfully disagrees. Agents are trained to ask the customer about vehicle use and in turn input the information provided by the customer in the system. If there are two drivers/1 vehicle the agent would ask the customer 'which person drives the vehicle the most?' in order to identify a primary and secondary designation.

Please See Exhibit 1 (VA Auto Test Quote for Primary Driver Assignment 2 Driver 1 Vehicle). In this exhibit, we demonstrate with screen shots of a mock quote how the agents assign the primary driver in the system, after consulting with the customer about who drives the vehicle customarily when there are 2 rated drivers and 1 vehicle.

Please also see Exhibit 1a (Policy XXXXXXXX Demo of 2 Drivers 1 Car). In this PDF, we show an active policy that has 2 drivers and 1 vehicle, with one rated driver having an accident on their record. As you can see, the accident for the driver is factored into the vehicle premium.

- (3b) The violation for RPA003 remains in the Report. The Company provided the symbol pages for a 2017 Subaru Outback SW 4WD W/EYESGHT 2.5I LIMITED VDC NAVI. However, the declarations page and policy file states that the vehicle was a 2017 Subaru Outbck Sw 4wd 2.5I Ltd NA. The Company failed to have symbols on file with the Bureau for the vehicle description stated on the declarations page and in the policy file.

Company Response:

The Company respectfully disagrees. The vehicle description is derived from the Vehicle Identification System (VIN), the complete VIN # is displayed in our system. The model field on the 'Private Passenger' screen has a numeric space limitation. If the model description exceeds the maximum allotted spaces the viewer can depress the F4 key to view the complete vehicle description. The **2017 Subaru Outbck Sw 4wd 2.5I Ltd NA** exceeded the maximum field limitation.

Please See Exhibit 2 for complete vehicle description.

### **Automobile Renewal Business Rating**

- (4) The violation for RPA053 remains in the Report. The Company provided a demonstration showing that each insured/driver had to be assigned to a different vehicle. The demonstration failed to show that the insured indicated which vehicle each driver customarily operates. The Company was unable to show how the system captures the customary operator when two drivers customarily operate the same vehicle. In the state of Virginia, points are assigned to the vehicle that the driver customarily operates; if more than one driver customarily operates the same vehicle, then all the points must be rated on that vehicle.

Company Response:

The company respectfully disagrees. Please see response to violation RPA003; Automobile New Business Rating (2) above.

- (6a) The violation for RPA033 remains in the Report. The Company rated the policy with the Liability Months with Immediate Prior Carrier of 48 Months. However, the screen prints

provided show that the insured had 78 months with the prior carrier. The Company should have rated the policy with a Continuous Insurance Code "H," which directly correlates to the characteristic "Liability Months with Immediate Prior Carrier."

Company Response:

When the company evaluates the continuous insurance factor pertaining to the customer's prior insurance the third-party vendor will return the customer's entire insurance history. However, the company's calculation of the continuous insurance factor is based on the number of months with the last insurance carrier the customer had before coming to Farmers. Our customer has a total of 78 months of continuous insurance, and the last insurance carrier had 48 of those 78 months. Consistent with the filed rule, the company uses the 48 months to determine the value of the continuous insurance factor.

See Exhibit 3 (Rule Number: 59 Rule Description: Continuous Insurance Factor)

The violation for RPA039 remains in the Report. The Company rated the policy with the Liability Months with Immediate Prior Carrier of 48 Months. However, the screen prints provided show that the insured had 62 months with the prior carrier. The Company should have rated the policy with a Continuous Insurance Code "H," which directly correlates to the characteristic "Liability Months with Immediate Prior Carrier."

Company Response:

When the company evaluates the continuous insurance factor pertaining to the customer's prior insurance the third-party vendor will return the customer's entire insurance history. However, the company's calculation of the continuous insurance factor is based on the number of months with the last insurance carrier the customer had before coming to Farmers. Our customer has a total of 62 months of continuous insurance, and the last insurance carrier had 48 of those 62 months. Consistent with the filed rule the company uses the 48 months to determine the value of the continuous insurance factor.

See Exhibit 3 (Rule Number: 59 Rule Description: Continuous Insurance Factor)

- (6c) The violation for RPA039 remains in the Report. The Company failed to provide evidence of what set of symbols were used to rate the 2012 Cadillac Escalade Esv 1/2T 4D 4x4. Based on the symbols on file with the Bureau, there were three sets available; however, the policy file failed to stipulate whether the vehicle was LUXURY/NO DATA/PLATINUM/PREMIUM.

Company Response:

Please see Exhibit 4 (Private Passenger screen print – 2012 Cadillac) Showing the vehicle is luxury.

The violation for RPA103 remains in the Report. The Company indicated in its response that the vehicle was a 3LT Turbo. However, the declarations page stated that the vehicle was a 2LT Turbo.

Company Response:

The company respectfully disagrees. On 1/4/19 the company mailed the 3/1/19 renewal offer with declarations page that shows the 2013 Chevrolet Malibu as a 2Lt Turbo. Then on 1/29/19, the insured added their son, MXXX BXXXX, to the policy which generated a policy change notice and a new declaration page. The new declarations page showing the newly added driver and the 2013 as a 3Lt Turbo. We surmise that between the renewal offer being mailed and

the policy change being processed, we incurred a vehicle VIN update from our vendor that changed the model type. The symbols filed in SERFF # FARM-131706052 for all 2013 Chevy Malibu models are the same, no change in rating occurred because all symbols are the same.

Please see Exhibit 5 (3/1/2019 Renewal offer)

Exhibit 5a (3/1/2019 Change declaration – son added to the policy)

Exhibit 5b (Filed symbols for 2013 Chevrolet Malibu as a 3Lt Turbo)

- (6d) The violation for RPA012 remains in the Report. The Company's filed tiering calculations do not involve the use of credit. The examiners acknowledge Rule P03 in the Company's filed manual; however, this issue does not involve the use of credit. At renewal, the insured moved into another age group; therefore, their tier should have been updated to reflect this change.

Company Response:

The company respectfully disagrees. On 9/11/2015, the company submitted SERFF filing FARM-1302480805 to introduce Farmers Smart Plan Auto program under Truck Insurance Exchange.

In an objection letter, dated 11/4/2015, the examiner PXXXXXX OXXXX filed objection 2 over the above captioned rule P03 Underwriting Tier.

Please see Exhibit 6 (Objection 2)

The company acknowledged the use of tiering in rating and opted to re-tier once every 3 years. As a result of this objection, the last paragraph of the rule was added:

*Underwriting Tier placement is re-evaluated and adjusted upon any credit re-ordering initiated by the customer or the company.*

FARM-1302480805 filing was approved on 5/27/2016.

Each portion of the underwriting tier, numbered 1 through 6, is completed utilizing third party reports. The added reference to re-tiering is not a condition of the 6<sup>th</sup> rule regarding PNI age. Re-tiering is a stand-alone function, which simply coincides with when credit is re-ordered every 36 months.

Therefore, we are following our rule as approved by the department.

- (6e) The violation for RPA049 remains in the Report. The Company indicated that the driver class factors used by the Bureau were also used by the Company. However, the Company failed to divide the total of the two driver factors for each coverage by the number of drivers. Based on the policy file, the Company used the driver class factors of the insured classed as "SM47" to rate the policy.

Company Response:

The company respectfully disagrees. Per the filed and approved Mid-Century Insurance Company Auto Rules effective 6/11/18, the company averages the highest ranked drivers up to the number of vehicles. The rank is determined by the BI factor for each driver. On this policy, only one vehicle is rated, thus the highest BI factor, belonging to SM47 - CXXXXXX TXXXXX, is the selected set of factors used in determining the premium.

Please see Exhibit 7 (Rule D09)

### **Automobile Cancellations Requested by the Insured**

- (1) The violation for TPA059 remains in the Report. The Company's response indicates that the financial responsibility fee was fully earned. However, the Company has not filed a flat financial responsibility fee. The financial responsibility charge was filed as a factor that would make it part of the premium and not a fully earned fee.

Company Response:

The Company respectfully disagrees. It is a surcharge for SR-22/FR-44 for those drivers required to file an SR-22 or FR-44, due to their driving experience and pursuant to §46.2-316 of the Code of Virginia, which has been filed as a rating factor; see FARM-13024800805 page 954. Refunds of any surcharge are paid on a pro rata basis. However, the Company charges a flat fee of \$35 for the service of completing and filing with the VA DMV such required SR-22/FR-44 form on behalf of the policyholder. It is this fee which is fully earned. We have included this fee in our Rule manual as Rule D-10; see FARM-132470353 page 27. The fee is communicated to the affected policyholders as reflected on their declaration pages.

Please see Exhibit 8 (Declaration page)

### **Automobile Non-Renewals**

- (1) The violation for TPA073 remains in the Report. The proof of mailing provided by the Company was dated July 8, 2019. However, the mail date on the notice was May 4, 2018, and the nonrenewal effective date was July 20, 2018, which corresponds with the information provided on the termination sample list. In addition, a July 8th proof of mailing would not have given the required days' notice of nonrenewal for a July 20th effective date.

Company Response:

The company respectfully disagrees. Please see Exhibit 9 (5.4.18 Proof of mail)

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating**

- (2) Please provide the requested payment information for the outstanding restitution highlighted within the Restitution Spreadsheet.

Company Response:

Please see attached Farmers Restitution 11.12.21 worksheet containing the requested payment information.

## Terminations

- (3) Please define “automatic write-off” and provide corresponding documentation for THO023 and THO043. The Companies used this term within the Restitution Spreadsheet for the aforementioned files.

### Company Response:

An automatic write-off occurs when the billing account is updated to \$0.00 balance 1 Year after the cancellation effective or process date (whichever is greater). The company’s collections vendor will continue to attempt to collect the premium for an additional 3 years.

- The Earned Premium Balance is still due
- The customer can make payment to either Farmers or the vendor

See Exhibit 10 for account breakdown (SXXXX PXXXXXXXX7)

See Exhibit 10a for account breakdown (KXXXXXXXX PXXXXXXXX8)

Should you have any questions or require any additional information, please do not hesitate to contact me.

Respectfully,



Kristina Ceja, AINS, MCM, AIS, ACS  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

Enclosures

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

March 4, 2022

## VIA E-MAIL DELIVERY

Ms. Kristina Ceja  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

RE: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC # 21652  
Mid-Century Insurance Company, NAIC # 21687  
Truck Insurance Exchange, NAIC # 21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Ceja:

The Bureau of Insurance (Bureau) has reviewed the November 12, 2021 response to the Revised Market Conduct Report (Report) of the above-referenced companies. The Bureau has referenced only those items where the Companies have disagreed with the Bureau's findings or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – EXAMINERS' OBSERVATIONS

### Automobile New Business Rating

- (2) The violation for RPA003 remains in the Report. The Company provided a demonstration on December 3, 2021 showing that each driver had to be assigned to a different vehicle. The demonstration failed to verify that the insured indicated which car each driver customarily operates. Section 38.2-1905 C of the Code of Virginia requires the surcharge of points for a conviction or at-fault accident be applied to the vehicle the at-fault driver customarily operated. If more than one driver customarily operates any

vehicle on the policy, the Company must be able to assign points for more than one driver to any vehicle with multiple customary operators.

- (3b) The violation for RPA003 remains in the Report. The Company provided a screen print reflecting 2017 Subaru Outback SW 4WD W/EYESGHT 2.5I LIMITED VDC NAVI as a vehicle. However, this documentation did not correspond to a VIN to verify it as the vehicle under review. The declarations page and policy file states that the vehicle was a 2017 Subaru Outback Sw 4wd 2.5I Ltd NA. The declarations page doesn't include the word "W/EYESIGHT." The declarations page and the policy file should accurately state the type of vehicle symbols used to rate the policy.

### **Automobile Renewal Business Rating**

- (4) The violation for RPA053 remains in the Report. The Company provided a demonstration on December 3, 2021 showing that each driver had to be assigned to a different vehicle. The demonstration failed to verify that the insured indicated which car each driver customarily operated. Section 38.2-1905 C of the Code of Virginia requires the surcharge of points for a conviction or at-fault accident be applied to the vehicle the at-fault driver customarily operated. If more than one driver customarily operates any vehicle on the policy, the Company must be able to assign points for more than one driver to any vehicle with multiple customary operators.
- (6a) The violation for RPA033 remains in the Report. The Bureau acknowledges that Rule 59 used the number of months with the last insurance carrier before Farmers. However, the Company's system calculated 78 months, but it did not reflect the actual policy term dates used. For reconsideration, the Company must provide documentation that specifies the exact time period (dates) the customer was insured with the last insurance carrier.
- The violation for RPA039 remains in the Report. The Bureau acknowledges that Rule 59 used the number of months with the last insurance carrier before Farmers. However, the Company's system calculated 62 months, but it did not reflect the actual policy term dates used. For reconsideration, the Company must provide documentation that specifies the exact time period (dates) the customer was insured with the last insurance carrier.
- (6c) After further review, the violations for RPA039 and RPA103 have been withdrawn from the Report. The Company provided sufficient supporting documentation.
- (6d) After further review, the violation for RPA012 has been withdrawn from the Report. SERFF filing FARM-130240805 stated the Underwriting Tier is re-evaluated when the credit is updated.
- (6e) After further review, the violation for RPA049 has been withdrawn from the Report. The Company provided sufficient supporting documentation.

### **Automobile Insured Requested Cancellations**

- (1) The violation for TPA059 remains in the Report. The Company's response indicates that the financial responsibility fee was filed via SERFF tracking

number FARM-132470353. However, this filing was not effective until August 13, 2020 and the effective date of the policy file was December 20, 2018.

### **Automobile Nonrenewals**

- (1) After further review, the violation for TPA073 has been withdrawn from the Report. The Company has provided the proof of mailing for the notice that was dated May 4, 2018.

### **PART TWO – CORRECTIVE ACTION PLAN**

#### **Rating**

- (3) The Company should make the outstanding restitution for RPA039.

#### **Terminations**

- (3) The Company's explanation of automatic write-offs in its letter conflicts with the information in Exhibits 10 and 10a for THO023 and THO043. Please confirm that the insureds have not paid the write-off amount to a collections agency and the Company is not pursuing the insureds through collections for the write-off amounts of restitution. Please address whether restitution was applied as an account credit to the outstanding debt of the insured.

We have made the changes noted above to the Market Conduct Examination Report. Attached with this letter is a revised version of the Report, technical reports and Restitution spreadsheet, and any review sheets withdrawn, added, or altered as a result of this review.

Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by March 28, 2022.

Sincerely,



Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Enclosures



**Kristina Ceja, AINS, MCM, AIS, ACS**  
*Regulatory Affairs Specialist II*  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
Office 818-965-0299  
Kristina.ceja@farmersinsurance.com

March 28, 2022

Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property and Casualty Division  
Bureau of Insurance  
P. O. Box 1157 (23218)  
1300 East Main Street Richmond,  
VA 23219  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

**Confidential Pursuant to Code of Virginia § 38.2-1320.5**

Re: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC #21652  
Mid-Century Insurance Company, NAIC #21687  
Truck Insurance Exchange, NAIC #21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Baytop:

On behalf of Farmers Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company, please accept this letter and the following enclosures to serve as our response to the Farmers Response letter dated March 4, 2022. We have reviewed the letter and respectfully submit the following for your consideration:

1. Preliminary report response and exhibits Part One
2. Corrective action and exhibits Part Two
3. Remediation spreadsheet

Per your request, we have followed the same formatting (i.e. heading and numbering) as found in the preliminary report. Please note that for Part One, we have only provided responses to those items we respectfully disagree with.

## **PART ONE – THE EXAMINERS’ OBSERVATIONS**

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile Renewal Business Rating**

- (6a) The violation for RPA033 remains in the Report. The Bureau acknowledges that Rule 59 used the number of months with the last insurance carrier before Farmers. However, the Company’s

system calculated 78 months, but it did not reflect the actual policy term dates used. For reconsideration, the Company must provide documentation that specifies the exact time period (dates) the customer was insured with the last insurance carrier.

Company Response:

Thank you for the opportunity to provide further documentation. We also would like to clarify prior statements. The 78 months, displayed on the screen shots previously provided, is a tally of all of the months of prior insurance, without a lapse, returned from our third-party vendor and is used to determine whether a customer is eligible to be written as new business. This 78 - months is not used in rating. In addition, we would like to direct you to Mid-Century Insurance Company Rule P52 – Exception Farmers as Prior. See Exhibit 1 for Rule 52 (SERFF No. FARM-126561911 effective 4/19/10). Under Rule 52, prior insurance with a Farmers company, is not used as proof of prior insurance for eligibility or for the calculation of the Continuous Insurance Factor (CIF). The Rule lists a few exceptions. One such exception is a policy with Bristol West. Accordingly, for this policy, under Rule 52 only the length of prior insurance with Bristol West Casualty was used to calculate the CIF. See Exhibit 1 for list of all prior carriers and the full system screen print to demonstrate 48 months with Bristol West Casualty.

The violation for RPA039 remains in the Report. The Bureau acknowledges that Rule 59 used the number of months with the last insurance carrier before Farmers. However, the Company's system calculated 62 months, but it did not reflect the actual policy term dates used. For reconsideration, the Company must provide documentation that specifies the exact time period (dates) the customer was insured with the last insurance carrier.

Company Response:

Thank you for the opportunity to provide further documentation. We also would like to clarify prior statements. The 62 months, displayed on the screen shots previously provided, is a tally of all of the months of prior insurance, without a lapse, returned from our third-party vendor and is used to determine whether a customer is eligible to be written as new business. This 62 - months is not used in rating. In addition, we would like to direct you to Mid-Century Insurance Company Rule P52 – Exception Farmers as Prior. See Exhibit 1a for Rule 52 (SERFF No. FARM-126561911 effective 4/19/10). Under Rule 52, prior insurance with a Farmers company, is not used as proof of prior insurance for eligibility or for the calculation of the Continuous Insurance Factor (CIF). Accordingly, for this policy, under Rule 52 only the length of prior insurance with Travelers Home Mar was used to calculate the CIF. See Exhibit 1a for list of all prior carriers and the full system screen print to demonstrate 48 months with Travelers Home Mar.

**PART TWO – CORRECTIVE ACTION PLAN**

**Rating**

- (3) The Company should make the outstanding restitution for RPA039.

Company Response:

Review sheet R&URBPPA-560292651 (RPA039) has been Withdrawn. 12/22/2021 Examiner comments state 'based on the revision to review sheet 1960270493 (RPA039) the overcharge has been removed'. Review sheet R&URBPPA1640199979 (RPA039) states there is now an undercharge.

Please see Exhibit 2 and Farmers Restitution 3.28.22 workbook attached.

## Terminations

- (3) The Company's explanation of automatic write-offs in its letter conflicts with the information in Exhibits 10 and 10a for THO023 and THO043. Please confirm that the insureds have not paid the write-off amount to a collections agency and the Company is not pursuing the insureds through collections for the write-off amounts of restitution. Please address whether restitution was applied as an account credit to the outstanding debt of the insured.

### Company Response:

THO023: The Company confirms that the write-off amount was not sent to a collection agency and that the Company is not pursuing the customer through collections for the write-off amount of restitution. The restitution amount (identified as 'Payment Transfer' in Exhibit 3) was applied as an account credit to the outstanding debt of the customer.

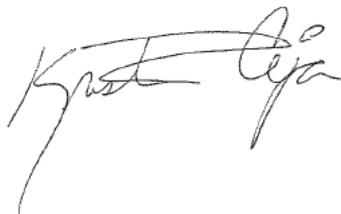
Please see Exhibit 3 and Farmers Restitution 3.28.22 workbook attached.

THO043: The Company called the collection vendor verifying the customer did not submit any payments to the vendor. The collection vendor account was closed on 6/8/21 due to a credit received by the company (this is the restitution credit). The restitution amount (identified as 'Payment Transfer' in Exhibit 3a) was applied as an account credit to the outstanding debt of the customer.

Please see Exhibit 3a and Farmers Restitution 3.28.22 workbook attached.

Should you have any questions or require any additional information, please do not hesitate to contact me.

Respectfully,



Kristina Ceja, AINS, MCM, AIS, ACS  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

Enclosures

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

April 28, 2022

## VIA E-MAIL DELIVERY

Ms. Kristina Ceja  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

RE: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC # 21652  
Mid-Century Insurance Company, NAIC # 21687  
Truck Insurance Exchange, NAIC # 21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Ceja:

The Bureau of Insurance (Bureau) has reviewed the March 28, 2022 response to the Revised Market Conduct Report (Report) of the above-referenced companies. The Bureau has referenced only those items where the Companies have disagreed with the Bureau's findings or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – EXAMINERS' OBSERVATIONS

### Automobile Renewal Business Rating

(6a) After further review, the violations for RPA033 and RPA039 have been withdrawn from the Report. The Company provided the prior insurance reports to support the number of months used to rate the policies.

## PART TWO – CORRECTIVE ACTION PLAN

### Rating

- (3) The Restitution Spreadsheet has been updated to remove the overcharge regarding RPA039.

### Termination

- (3) The Company confirmed that the insureds did not pay the write-off amounts, it is no longer pursuing the insureds through collections, and the requested restitution was applied to the outstanding debts for THO023 and THO043.

We have made the changes noted above to the Market Conduct Examination Report. The withdrawn review sheets and the technical reports have been uploaded to the secure portal.

The pre-settlement letter and a copy of the Final report will be sent within the next week.

Sincerely,



Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Enclosures

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[scc.virginia.gov](http://scc.virginia.gov)

May 13, 2022

## VIA E-MAIL DELIVERY

Ms. Kristina Ceja  
Regulatory Affairs Specialist II  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
[Kristina.ceja@farmersinsurance.com](mailto:Kristina.ceja@farmersinsurance.com)

RE: Market Conduct Examination Preliminary Report  
Farmers Insurance Exchange, NAIC # 21652  
Mid-Century Insurance Company, NAIC # 21687  
Truck Insurance Exchange, NAIC # 21709  
Examination Period: July 1, 2018 – June 30, 2019

Dear Ms. Ceja:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of March 28, 2022. Based upon the Bureau's review of the companies' correspondence, we are now in a position to conclude this examination. Attached is the final Market Conduct Examination Report of Farmers Insurance Exchange, Mid-Century Insurance Company, and Truck Insurance Exchange (Report). This Report reflects the changes resulting from the Bureau's correspondence of April 28, 2022.

Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-304 A; 38.2-305 B; 38.2-317 A; 38.2-502 1; 38.2-510 A 1; 38.2-511; 38.2-1318 C; 38.2-1905 A; 38.2-1905 C; 38.2-1906 A; 38.2-1906 D; 38.2-2114 A; 38.2-2114 C; 38.2-2129; 38.2-2212 D; 38.2-2212 E; 38.2-2212 F; 38.2-2220; 38.2-2223 of the Code of Virginia and 14 VAC 5-400-40 A; 14 VAC 5-400-70 D; and 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive, flowing style.

Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
Office: (804) 371-9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Enclosure



Victoria McCarthy  
6301 Owensmouth Avenue  
Woodland Hills, CA 91367  
Office: (818) 965-0433  
victoria.mccarthy@farmersinsurance.com

May 24, 2022

Rebecca Nichols  
Deputy Commissioner Property and Casualty  
Virginia Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer  
Ecase/Docket Number: INS-2022-00051

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of Insurance's letter dated May 16, 2022, concerning the above-referenced matter.

We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-304 A; 38.2-305 B; 38.2-317 A; 38.2-502 1; 38.2-510 A 1; 38.2-511; 38.2-1318 C; 38.2-1905 A; 38.2-1905 C; 38.2-1906 A; 38.2-1906 D; 38.2-2114 A; 38.2-2114 C; 38.2-2129; 38.2-2212 D; 38.2-2212 E; 38.2-2212 F; 38.2-2220; 38.2-2223 of the Code of Virginia and 14 VAC 5-400-40 A; 14 VAC 5-400-70 D; and 14 VAC 5-400-80 D of the Virginia Administrative Code to indicate a general business practice.

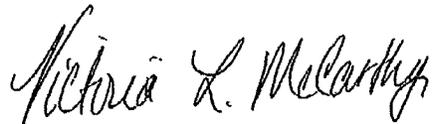
1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$86,400.
2. We agree to comply with the corrective action plan set forth in the companies' letters of June 4 and November 12, 2021, and March 28, 2022.
3. We confirm that restitution was made to 52 consumers for \$21,681.83 in accordance with the companies' letters of June 4 and November 12, 2021, and March 28, 2022.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor

should it be construed as, an admission of any violation of law.

Sincerely,

Farmers Insurance Exchange, NAIC # 21652  
Mid-Century Insurance Company, NAIC # 21687  
Truck Insurance Exchange, NAIC # 21709

A handwritten signature in black ink that reads "Victoria L. McCarthy". The signature is written in a cursive style with a large initial "V".

Victoria L. McCarthy

Vice President and Head of Regulatory Strategy and Analytics of Farmers Group Inc.,  
Attorney in Fact of Farmers Insurance Exchange  
Vice President of Mid-Century Insurance Company  
Vice President of Truck Underwriters Association, Attorney in Fact for Truck Insurance  
Exchange

May 24, 2022

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 8, 2022

SCC-CLERK'S OFFICE  
DOCUMENT CONTROL CENTER

2022 JUN -8 A 9 24

720010150

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2022-00051

FARMERS INSURANCE EXCHANGE,  
MID-CENTURY INSURANCE COMPANY,  
TRUCK INSURANCE EXCHANGE,  
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Farmers Insurance Exchange, Mid-Century Insurance Company and Truck Insurance Exchange (collectively, the "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), violated § 38.2-304 A of the Code of Virginia ("Code") by using a written binder for a period exceeding sixty (60) days; § 38.2-305 B of the Code by failing to provide the required notice to insureds; § 38.2-317 A of the Code by failing to obtain approval for policy forms available for use; § 38.2-502 (1) of the Code by misrepresenting the benefits, advantages, conditions, or terms of an insurance policy; § 38.2-510 A 1 of the Code by failing to represent pertinent facts or insurance policy provisions relating to coverages at issue with such frequency as to indicate a general business practice; § 38.2-511 of the Code by failing to maintain a complete record of written complaints received by the Defendants as required by statute; § 38.2-1318 C of the Code by failing to provide Commission personnel with convenient access to files, documents and records during an examination; §§ 38.2-1905 A and 38.2-2129 of the Code by failing to include all required information in notices provided to insureds;

§ 38.2-1905 C of the Code by failing to properly assign points under the Safe Driver Insurance Plan; § 38.2-1906 A of the Code by failing to file with the Commission all rates and supplementary rate information for use in Virginia on or before the date they became effective; § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information in effect for the Defendants; §§ 38.2-2114 A, 38.2-2114 C, 38.2-2212 D, 38.2-2212 E and 38.2-2212 F of the Code by failing to terminate insurance policies properly; § 38.2-2220 of the Code by failing to use the precise language of standard automobile forms filed and adopted by the Commission; § 38.2-2223 of the Code by including additional provisions or more favorable coverage in standard automobile forms without obtaining approval from the Commission prior to use; as well as 14 VAC 5-400-40 A of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.* of the Virginia Administrative Code by failing to fully disclose to an insured all pertinent coverages of an insurance policy under which a claim is presented; Rule 14 VAC 5-400-70 D by failing to offer to a first party claimant a fair and reasonable amount as shown by the investigation of the claim; and Rule 14 VAC 5-400-80 D by failing to provide copies of the Defendants' prepared repair estimates to the vehicle owner with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of the right to a hearing in this matter whereupon the Defendants, without admitting or denying any violation of Virginia law, have made an offer of

settlement to the Commission wherein the Defendants have agreed to comply with the corrective action plan outlined in company correspondence dated June 4, 2021, November 12, 2021, and March 28, 2022; have confirmed restitution was made to 52 consumers in the amount of Twenty-one Thousand Six Hundred Eighty-one Dollars and Eighty-three Cents (\$21,681.83); have tendered to the Treasurer of Virginia the sum Eighty-six Thousand Four Hundred Dollars (\$86,400); and have waived the right to a hearing.

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.
- (2) This case is dismissed.

A COPY of this order shall be sent by the Clerk of the Commission by electronic mail to: Kristina Ceja, Regulatory Affairs Specialist II, at [kristina.ceja@farmersinsurance.com](mailto:kristina.ceja@farmersinsurance.com), 6301 Owensmouth Avenue, Woodland Hills, California 91367; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Rebecca Nichols.