

JUN 01 2011

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT OF INSURANCE  
BY MS

In the Matter of:	)	Docket No. 11A-053_INS
	)	
<b>FARMERS INSURANCE EXCHANGE,</b>	)	<b>CONSENT ORDER</b>
	)	
NAIC # 21652,	)	
	)	
Respondent.	)	

Examiners for the Department of Insurance (the "Department") conducted a target market conduct examination of Farmers Insurance Exchange ("FIE"). In the Report of Target Market Conduct Examination of the Market Conduct Affairs of Farmers Insurance Exchange, the examiners allege that Farmers Insurance Exchange violated A.R.S. §§20-443, 20-466.03 and 20-1652.

Farmers Insurance Exchange wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, neither admits nor denies the following Conclusions of Law and consents to the entry of this Order.

**FINDINGS OF FACT**

1. Farmers Insurance Exchange is authorized to transact property and casualty insurance pursuant to a Certificate of Authority issued by the Director.

2. The Director authorized the examiners to conduct a target market conduct examination of Farmers Insurance Exchange. The examination covered the time period from July 1, 2009 through June 30, 2010 and concluded on March 4, 2011. Based on their findings, the examiners prepared the "Report of Target Market Conduct Examination of Farmers Insurance Exchange" dated June 30, 2010.

3. The examiners reviewed 100 of 70,690 homeowners new and renewal files issued during the time frame of the examination and found that FIE issued 30

1 homeowner policies in which the effective time/dates on the homeowner declarations  
2 page differed from the effective time/dates on the cancellation/expiration notices.

3 4. The examiners reviewed 50 of 232 homeowner policies non-renewed  
4 during the time frame of the examination and found that FIE failed to provide an  
5 additional 30-days notice to remedy the identified conditions prior to sending the non-  
6 renewal notice based on "condition of premises" to 3 policyholders.

7 5. The examiner found 2 claim forms (Exhibit A) used by the Company  
8 during the time frame of the examination that failed to contain a compliant fraud  
9 warning notice.

#### 10 **CONCLUSIONS OF LAW**

11 1. FIE violated A.R.S. §20-443(A) by issuing new and renewal homeowner  
12 policies where the effective time/dates on the declarations pages differ from the  
13 effective time/dates on the cancellation and/or expiration notices.

14 2. FIE violated A.R.S §20-1652(B) by failing to provide an additional 30-  
15 days notice to remedy the identified conditions prior to sending the non-renewal notice  
16 based on "condition of premises."

17 3. FIE violated A.R.S §20-466.03 by using claim forms that failed to contain  
18 a compliant fraud warning notice.

#### 19 **ORDER**

#### 20 **IT IS HEREBY ORDERED THAT:**

- 21 1. Farmers Insurance Exchange shall:
- 22 a. use homeowner declaration pages that display the correct expiration  
23 time of 12:01AM in Arizona.
- 24 b. shall provide an additional 30-days notice to remedy the identified  
25

1 conditions prior to sending the non-renewal notice based on "condition of  
2 premises."

3 c. use claim forms that contain a compliant fraud warning notice.

4 2. Within 90 days of the filed date of this Order, Farmers Insurance  
5 Exchange shall submit to the Arizona Department of Insurance, for approval, evidence  
6 that FIE implemented corrections and communicated these corrections to the  
7 appropriate personnel, regarding the issues outlined in Paragraph 1 of the Order  
8 section of this Consent Order. Evidence of corrective action and communication  
9 thereof includes, but is not limited to, memos, bulletins, E-mails, correspondence,  
10 procedures manuals, print screens, and training materials.

11 3. The Department shall through authorized representatives, verify that FIE  
12 has complied with all provisions of this Order.

13 4. FIE shall pay a civil penalty of \$10,000.00 to the Director for remission to  
14 the State Treasurer for deposit in the State General Fund in accordance with A.R.S.  
15 §20-220(B). FIE shall submit the civil penalty to the Market Oversight Division of the  
16 Department prior to the filing of this Order.

17 5. The Report of Target Market Conduct Examination of Farmers Insurance  
18 Exchange of June 30, 2010, including the letter with their objections to the Report of  
19 Examination, shall be filed with the Department upon the filing of this Order.

20 DATED at Arizona this 31<sup>st</sup> day of May, 2011.

21  
22  
23   
24 Christina Urias  
25 Director of Insurance

**CONSENT TO ORDER**

1  
2 1. Farmers Insurance Exchange has reviewed the foregoing Order.

3 2. Farmers Insurance Exchange admits the jurisdiction of the Director of  
4 Insurance, State of Arizona, admits the foregoing Findings of Fact, neither admits nor  
5 denies the Conclusions of Law, and consents to the entry of the Order.

6 3. Farmers Insurance Exchange is aware of the right to a hearing, at which  
7 it may be represented by counsel, present evidence and cross-examine witnesses.  
8 Farmers Insurance Exchange irrevocably waives the right to such notice and hearing  
9 and to any court appeals related to this Order.

10 4. Farmers Insurance Exchange states that no promise of any kind or  
11 nature whatsoever was made to it to induce it to enter into this Consent Order and that  
12 it has entered into this Consent Order voluntarily.

13 5. Farmers Insurance Exchange acknowledges that the acceptance of this  
14 Order by the Director of the Arizona Department of Insurance is solely for the purpose  
15 of settling this matter and does not preclude any other agency or officer of this state or  
16 its subdivisions or any other person from instituting proceedings, whether civil, criminal,  
17 or administrative, as may be appropriate now or in the future.

18 6. Denise Ruggiero, who holds the office of  
19 VP- Research Policy Regulatory Counsel of Farmers Insurance Exchange, is authorized to enter  
20 into this Order for them and on their behalf.

21  
22 **FARMERS INSURANCE EXCHANGE**

23  
24  
25 5-23-11  
Date

By 

1 COPY of the foregoing mailed/delivered  
2 this 1st day of June , 2011, to:

3 Gerrie Marks  
4 Deputy Director  
5 Mary Butterfield  
6 Assistant Director  
7 Consumer Affairs Division  
8 Helene I. Tomme  
9 Market Examinations Supervisor  
10 Market Oversight Division  
11 Dean Ehler  
12 Assistant Director  
13 Property and Casualty Division  
14 Steve Ferguson  
15 Assistant Director  
16 Financial Affairs Division  
17 David Lee  
18 Chief Financial Examiner  
19 Alexandra Shafer  
20 Assistant Director  
21 Life and Health Division  
22 Chuck Gregory  
23 Special Agent Supervisor  
24 Investigations Division

16 DEPARTMENT OF INSURANCE  
17 2910 North 44th Street, Suite 210  
18 Phoenix, AZ 85018

19 Burt H. Garavaglia  
20 Assistant Vice President – Regulatory Affairs  
21 Farmers Group, Inc.  
22 4680 Wilshire Blvd., 2nd Floor  
23 Los Angeles, CA 90010

24   
25 \_\_\_\_\_

## **EXHIBIT A**

**Fraud Warning Statement.** The Company failed to include the Fraud Warning Statement, in at least twelve-point type, on 2 claim forms, an apparent violation of A.R.S. § 20-466.03.

### **Forms without a compliant Fraud Warning Statement**

- Hotel Assistance Agreement
- Building Loss Report