

MARKET CONDUCT EXAMINATION REPORT

OF

**VIRGINIA FARM BUREAU FIRE AND CASUALTY
INSURANCE COMPANY**

**VIRGINIA FARM BUREAU MUTUAL INSURANCE
COMPANY**

AND

**VIRGINIA FARM BUREAU TOWN AND COUNTRY
INSURANCE COMPANY**

AS OF

AUGUST 31, 2015

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

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Andrea Baytop, Principal Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Virginia Farm Bureau Town & Country Insurance Company, Virginia Farm Bureau Fire and Casualty Insurance Company, and Virginia Farm Bureau Mutual Insurance Company as of August 31, 2015, conducted at the companies' 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-2017-00062 finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of the Bureau
at the City of Richmond, Virginia,
this 20th day of June, 2017.

Andrea Baytop
Examiner in Charge

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger automobile and homeowner lines of business written by Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town & Country Insurance Company at their office in Richmond, Virginia.

The examination commenced February 1, 2016, and concluded October 12, 2016. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Property and Casualty Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 11, 2015 and was assigned the examination number of VA097-M18. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

COMPANY PROFILES*

Virginia Farm Bureau Fire and Casualty Insurance Company (VFCIC) was incorporated under the laws of Virginia as Early Settlers Insurance Company on December 7, 1961 and commenced business on January 28, 1962. The current title was adopted effective April 6, 1993.

Virginia Farm Bureau Mutual Insurance Company (VMIC) was incorporated under the laws of Virginia on November 28, 1949 and commenced business on September 15, 1950.

* Source: Best's Insurance Reports, Property & Casualty, 2016 Edition.

Virginia Farm Bureau Town and Country Insurance Company (VTCIC) was incorporated under the laws of Virginia on April 5, 1993 and commenced business on January 1, 1995.

All companies are based in Richmond, Virginia.

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 dates the companies were licensed except as noted in the table.

GROUP CODE: 0203	VFCIC	VMIC	VTCIC
NAIC Company Number	26026	26034	10086
LICENSED IN VIRGINIA	1/18/62	9/15/50	10/13/94
LINES OF INSURANCE			
Accident and Sickness		X	X
Aircraft Liability	X	X	X
Aircraft Physical Damage		4/28/80	X
Animal	12/09/13	4/28/80	X
Automobile Liability	X	X	X
Automobile Physical Damage	X	X	X
Boiler and Machinery	X	X	X
Burglary and Theft	X	X	X
Commercial Multi-Peril	X	X	X
Credit			X
Farmowners Multi-Peril	X	X	X
Fidelity		4/28/80	X
Fire	X	X	X
General Liability	X	X	X
Glass	X	X	X
Homeowner Multi-Peril	X	X	X
Inland Marine	X	X	X
Legal Services			X
Miscellaneous Property	X	X	X
Ocean Marine		X	X
Surety		4/28/80	X
Water Damage	X	X	X
Workers' Compensation	X	4/28/80	X

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2015 for the lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Virginia Farm Bureau Fire and Casualty Insurance Company		
Private Automobile Liability	\$5,712,044	.21%
Private Automobile Physical Damage	\$4,668,986	.22%
Homeowner Multiple Peril	\$10,774,295	.52%
Virginia Farm Bureau Mutual Insurance Company		
Private Automobile Liability	\$22,017,497	.81%
Private Automobile Physical Damage	\$15,534,212	.74%
Homeowner Multiple Peril	\$36,394,086	1.77%
Virginia Farm Bureau Town and Country Insurance Company		
Private Automobile Liability	\$32,496,077	1.19%
Private Automobile Physical Damage	\$25,834,767	1.23%

* Source: The 2015 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 September 1, 2014 through August 31, 2015. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent 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. The Report is by test, and all tests applied during the examination are reported.

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 statutes and regulations 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 on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

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.

*Policies reviewed under this category reflected the companies' 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	VFCIC	VMIC	VTCIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<u>Private Passenger Auto</u>								
New Business	<u>5749</u> 30	<u>0</u> 0	<u>0</u> 0	<u>5749</u> 30	30	0	19	63%
Renewal Business ¹	<u>4777</u> 10	<u>48026</u> 25	<u>75515</u> 35	<u>128318</u> 70	68	0	66	97%
Co-Initiated Cancellations ²	<u>68</u> 22	<u>51</u> 15	<u>27</u> 13	<u>146</u> 50	45	0	18	40%
All Other Cancellations ²	<u>1629</u> 9	<u>5193</u> 11	<u>6127</u> 11	<u>12949</u> 31	28	0	4	14%
Nonrenewals ²	<u>55</u> 3	<u>255</u> 5	<u>232</u> 6	<u>542</u> 14	12	0	6	50%
Premium Finance	<u>5</u> 5	<u>1</u> 1	<u>0</u> 0	<u>6</u> 6	6	0	6	100%
<u>Homeowner</u>								
New Business ³	<u>121</u> 10	<u>2631</u> 20	<u>0</u> 0	<u>2752</u> 30	29	0	14	48%
Renewal Business ⁴	<u>4802</u> 20	<u>40395</u> 50	<u>0</u> 0	<u>45197</u> 70	66	0	41	62%
Co-Initiated Cancellations ²	<u>8</u> 7	<u>71</u> 19	<u>0</u> 0	<u>79</u> 26	18	0	7	39%
All Other Cancellations ²	<u>590</u> 8	<u>4099</u> 11	<u>0</u> 0	<u>4689</u> 19	17	0	5	29%
Nonrenewals	<u>92</u> 4	<u>896</u> 7	<u>0</u> 0	<u>988</u> 11	11	0	1	9%
Premium Finance ⁵	<u>0</u> 0	<u>4</u> 4	<u>0</u> 0	<u>4</u> 4	0	0	0	0%
<u>Claims</u>								
Auto	<u>1748</u> 39	<u>9064</u> 50	<u>15048</u> 54	<u>25860</u> 143	143	0	48	34%
Property ⁶	<u>213</u> 27	<u>1469</u> 73	<u>0</u> 0	<u>1682</u> 100	99	0	27	27%

Footnote ¹-Two files were not reviewed. One file was a commercial auto policy and one policy was a new business policy that had been reinstated with a lapse in coverage.

Footnote ²-The companies were unable to provide accurate termination population data. The files in these categories were mislabeled by the companies and were either not reviewed or moved to be reviewed in the appropriate category.

Footnote ³-One policy insured a mobile home and was not reviewed.

Footnote ⁴-Four policies insured mobile homes and were not reviewed.

Footnote ⁵-The companies were unable to provide accurate termination population data. Two files were cancelled by the companies after the 89th day of coverage and reviewed within that category. Two files were cancelled by the insured and reviewed within that category.

Footnote ⁶-One policy insured a mobile home and was 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 Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$611.76 and undercharges totaling \$977.27. The net amount that should be refunded to insureds is \$611.76 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page misrepresented discounts that were not applicable.
- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured that the policy was surcharged for an at-fault accident.
- (3) The examiners found 41 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 nine instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In 29 instances, the company failed to use the correct symbol.

- d. In one instance, the company failed to use the correct territory.
- e. In one instance, the company failed to follow its driver assignment rule.

Automobile Renewal Business Policies

The Bureau reviewed 68 renewal business policy files. During this review, the examiners found overcharges totaling \$1,286.86 and undercharges totaling \$2,561.31. The net amount that should be refunded to insureds is \$1,286.86 plus six percent (6%) simple interest.

- (1) The examiners found 59 violations 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 list the Uninsured Motorists form on the declarations page.
- (2) The examiners found 111 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 four instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In 96 instances, the company failed to use the correct symbol.
 - d. In three instances, the company failed to use the correct territory.
 - e. In two instances, the company failed to use the correct driver classification.
 - f. In four instances, the company failed to follow its driver assignment rule.

Homeowner New Business Policies

The Bureau reviewed 29 new business policy files. During this review, the examiners found overcharges totaling \$117.00 and undercharges totaling \$65.00. The net amount that should be refunded to the insured is \$117.00 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 declarations page included coverages that were not applicable to the policy.
- (2) The examiners found 16 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 base and/or final rates.
 - c. In one instance, the company failed to follow its minimum premium rule.
 - d. In five instances, the company failed to use the correct public protection class.
 - e. In seven instances, the company failed to use the correct increased limits factor.
 - f. In one instance, the company failed to follow its Protector Program rule.

Homeowner Renewal Business Policies

The Bureau reviewed 66 renewal business policy files. During this review, the examiners found overcharges totaling \$3,684.00 and undercharges totaling \$1,695.00. The net amount that should be refunded to insureds is \$3,684.00 plus six percent (6%) simple interest.

- (1) The examiners found eight violations 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 declarations page failed to accurately reflect the address of the insured location.
- (2) The examiners found 63 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 17 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In four instances, the company failed to use the correct territory.
 - c. In three instances, the company failed to use the correct base and/or final rates.
 - d. In 22 instances, the company failed to use the correct public protection class.
 - e. In nine instances, the company failed to apply the correct increased limits factor.
 - f. In one instance, the company failed to follow its interpolation rule.
 - g. In four instances, the company failed to follow its rounding rule.
 - h. In three instances, the company failed to rate the policy with updated credit information.

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 60TH DAY OF COVERAGE**

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.
 - a. In one instance, the company failed to provide adequate days' notice of cancellation to the insured.
 - b. In one instance, the company failed to provide adequate days' notice of cancellation to the lienholder.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed 29 automobile cancellations that were initiated by the companies where the companies mailed the notice on or after the 60th 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 overcharges totaling \$5.00 and no undercharges. The net amount that should be refunded to insureds is \$5.00 plus six percent (6%) simple interest.

- (1) 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.
- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In one instance, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found five violations of § 38.2-2212 D of the Code of Virginia.
 - a. In four instances, the company cancelled the insured's motor vehicle policy after the 59th day of coverage for a reason not permitted by the statute.
 - b. In one instance, the company cancelled the insured's motor vehicle policy for a license suspension or revocation that was not supported by the Motor Vehicle Report.
- (4) The examiners found six violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to mail the cancellation notice to the address shown on the policy.
 - b. In five instances, the company failed to advise the insured of his right to

request a review by the Commissioner of Insurance.

- (5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 14 private passenger 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.

- (1) The examiners found two violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to send the insured written notice of cancellation of his motor vehicle policy.
 - b. In one instance, the company failed to mail the cancellation notice to the address shown on the policy.

REQUESTED BY THE INSURED

The Bureau reviewed 14 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 no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals – Automobile Policies

The Bureau reviewed 12 automobile nonrenewals that were initiated by the companies.

- (1) The examiners found three violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.
- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain valid proof of mailing the nonrenewal notice to the lienholder.
 - b. In one instance, the company failed to send the nonrenewal notice to the lienholder.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

Premium Finance Requested Cancellations

The Bureau reviewed six automobile cancellations that were initiated by a premium finance company under a power of attorney. During this review, the examiners found overcharges totaling \$5.52 and no undercharges. The net amount that should be refunded to insureds is \$5.52 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of 14 VAC 5-390-40 D.
 - a. In six instances, the company failed to include all of the required information in its affirmation of cancellation.
 - b. In one instance, the company failed to verify that the premium finance company had a power of attorney authorizing cancellation of the policy.
- (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.

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau reviewed 14 homeowner cancellations that were initiated by the companies where the notices were mailed prior to the 90th 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 § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to mail the cancellation notice to all of the named insureds shown on the declarations page.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The Bureau reviewed four homeowner cancellations that were initiated by the companies where the notices were mailed on or after the 90th 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 one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD).

- (2) The examiners found four violations of § 38.2-2113 C of the Code of Virginia.
- a. In one instance, the company failed to retain a copy of the notice of cancellation for the lienholder.
 - b. In two instances, the company failed to retain proof of mailing the cancellation notice to the insured.
 - c. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found two violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.
- (4) The examiners found seven violations of § 38.2-2114 C of the Code of Virginia.
- a. In two instances, the company failed to provide 30 days' notice of cancellation to the insured when the company cancelled the policy after the 89th day of coverage.
 - b. In two instances, the company failed to provide the specific reason for cancellation of a policy insuring an owner-occupied dwelling.
 - c. In two instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - d. In one instance, the company failed to advise the insured of the availability of other insurance with the Virginia Property Insurance Association (VPIA).

All Other Cancellations – Homeowner PoliciesNONPAYMENT OF THE PREMIUM

The Bureau reviewed eight homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

- (1) 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.
- (2) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (3) The examiners found three violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

REQUESTED BY THE INSURED

The Bureau reviewed nine 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 no overcharges and undercharges totaling \$34.52.

- (1) 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.
- (2) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.
 - a. In one instance, the company backdated the cancellation effective date contrary to its filed rule.

- b. In one instance, the company failed to honor the date of cancellation requested by the insured.

Company-Initiated Non-renewals – Homeowner Policies

The Bureau reviewed 11 homeowner nonrenewals that were initiated by the companies.

The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 143 automobile claims for the period of September 1, 2014 through August 31, 2015. 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 \$72.00 and underpayments totaling \$12,059.89. The net amount that should be paid to claimants is \$12,047.89 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of 14 VAC 5-400-30. 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 two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
 - a. In one instance, the company failed to inform an insured of the Transportation Expenses coverage when the file indicated the coverage

was applicable to the loss.

- b. In one instance, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage (UM) when the file indicated the coverage was applicable to the loss.
- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
 - (4) The examiners found four violations 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.
 - (5) The examiners found 14 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 one instance, the company failed to pay the proper sales and use tax, title fee, and/or license fee on first-party total loss settlements.
 - b. In three instances, the company failed to pay the insured's Medical Expense Benefits claim properly.
 - c. In six instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
 - d. In four instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other Than Collision coverage.

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

- (6) The examiners found 13 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 nine instances, the company failed to provide a copy to the insured.
 - b. In four instances, the company failed to provide a copy to the claimant.

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

- (7) The examiners found one violation of § 38.2-236 A of the Code of Virginia. The company failed to notify the claimant within five days when the company issued a settlement payment of \$5,000.00 or greater to the claimant's attorney or other representative.
- (8) The examiners found two violations 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.
- (9) The examiners found two 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 the claim in which liability was reasonably clear.
- a. In one instance, the company unreasonably prohibited the insured from retaining his salvaged vehicle.
 - b. In one instance, the company failed to reimburse the insured's Uninsured Motorist Property Damage (UMPD) deductible without unreasonable delay.

- (10) The examiners found three violations 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.
- (11) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company set arbitrary or unreasonable limits on the reimbursement for paint and/or materials.
- (12) The examiners found five violations of § 38.2-2201 of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.
- (13) The examiners found eight occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In seven instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.
 - b. In one instance, the company failed to pay the UM claim under the correct coverage.

Homeowner Claims

The examiners reviewed 99 homeowner claims for the period of September 1, 2014 through August 31, 2015. 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 \$738.79 and underpayments totaling \$9,294.89. The net amount that should be paid to claimants is \$9,294.89 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were

pertinent to the claim.

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

- (2) The examiners found two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim. The company failed to inform the insured of the benefits under the Additional Living Expense coverage when the file indicated the coverage was applicable to the loss.
- (3) The examiners found two violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (4) The examiners found five 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 one instance, the company failed to pay the claim properly under the insured's Building Replacement Cost coverage.
 - b. In one instance, the company failed to pay the claim properly under the insured's Additional Living Expenses coverage.
 - c. In three instances, the company failed to pay the claim properly under the insured's Personal Property Replacement Cost coverage.
- (5) The examiners found six 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. The company failed to properly represent the

replacement cost provisions of the policy.

- (6) The examiners found two violations 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.
- (7) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (8) The examiners found four violations 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.
- (9) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy.
 - a. In three instances, the company failed to include the lienholder on the check.
 - b. In two instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.

REVIEW OF FORMS

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 Review of the Policy Issuance Process 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 77 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia. The company failed to have available for use the standard forms for Suspension of Insurance and Reinstatement of Insurance.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

The companies provided copies of 64 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

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 mailed on the following dates: October 28, 2015. In addition, the companies provided nine renewal business policies mailed on the following dates: October 28 and 29, 2015.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

Homeowner Policies

The companies provided six new business policies mailed on October 29, and 30, 2015 and November 2, and 17, 2015. In addition, the companies provided six renewal business policies mailed on October 29, and 30, 2015.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

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

- (1) The examiners found six violations of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (2) The examiners found five violations of § 38.2-604 C of the Code of Virginia. The company's short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.

- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.

Statutory Vehicle Notices

- (1) The examiners found three violations of § 38.2-517 A of the Code of Virginia. The company's Glass Script did not properly disclose the use of a Third Party Administrator.
- (2) The examiners found one violation of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day Cancellation Warning notice on or attached to the first page of the application.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company's notice summarizing the replacement cost provisions for owner-occupied dwellings did not contain all of the information required by the statute.
- (2) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The company's Flood Exclusion notice did not contain all of the information required by the statute.

Other Notices

The companies provided four other notices and documents 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 new business private passenger automobile and homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. 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 companies.

Agent

The examiners found one violation of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Agency

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

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 three violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

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 standards set forth by the NAIC. The threshold applied to claims handling was seven percent (7%). Any error ratio above this threshold 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 that were found to be business practices of Virginia insurance statutes and regulations.

General

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company and
Virginia Farm Bureau Town and County Insurance Company shall:

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

Rating and Underwriting Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company and
Virginia Farm Bureau Town and County Insurance Company 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) Specify accurate information in the policy by listing endorsements that are applicable to the policy and showing the correct coverage limits on the declarations page.
- (5) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, territories, driver assignments, base and/or final rates, public protection classes, increased limit factors, rounding rules, and credit information.

Termination Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company 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 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) Calculate earned premium according to the filed rules and policy provisions.
- (5) Obtain valid proof of mailing the notice of cancellation and nonrenewal to the insured and lienholder.
- (6) Retain proof of mailing the notice of cancellation and nonrenewal to the insured and lienholder.

- (7) Provide a notice of cancellation or nonrenewal to the insured and lienholder.
- (8) Cancel motor vehicle policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.
- (9) Cancel owner-occupied dwelling policies when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.
- (10) Send the cancellation notice to the address shown on the policy.
- (11) Send the cancellation notice for an owner-occupied dwelling policy at least 30 days before the cancellation effective date when the notice is mailed after the 89th day of coverage.
- (12) Provide the specific reason for cancellation to the insured.
- (13) Advise the insured of his right to review by the Commissioner of Insurance.
- (14) Advise the insured of the availability of other insurance with the VPIA.
- (15) Include all required information in the affirmation of cancellation for a premium finance requested cancellation.

Claims Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

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

- to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
 - (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 companies to insureds and claimants.

Forms Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Use the required Suspension of Insurance and Reinstatement of Insurance standard automobile forms adopted by the Bureau.

Review of Statutory Notices

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (4) Amend the Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.

- (5) Amend the Glass Script notice to comply with § 38.2-517 A 3 of the Code of Virginia.
- (6) Amend the 60-Day Warning Cancellation notice to comply with § 38.2-2210 of the Code of Virginia.
- (7) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.

Licensing and Appointment Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Appoint agents within 30 days of the date of application.

Review of the Complaint-Handling Process

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

PART THREE – RECOMMENDATIONS

The companies should carefully scrutinize the following errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

RECOMMENDATIONS

We recommend the companies take the following actions:

Termination

- Provide adequate days' notice of cancellation to the lienholder as required by the policy.
- Use the term "cancels" instead of "expires" when the cancellation occurs midterm.
- Correct the right to review language on the termination notices used for owner-occupied dwelling policies.
- Amend the expiration notices to correctly represent when coverage ceases and the premium due date to reinstate the policy during the grace period.

Claims

- Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to the Additional Living Expense coverage and replacement cost benefits under fire policies.
- Make all claim denials in writing and keep a copy in the claim file.
- Properly represent pertinent facts or policy provisions relating to coverages at issue.
- Include the correct statement of coverage under which payments are made with all claim payments made to insureds.
- Obtain an assignment of benefits from insureds authorizing the companies to make payments directly to the medical provider for Medical Expense Benefits claims.

- Pay insureds and claimants no more than what they are entitled to receive under the terms of the policy.
- Include the lienholder on payments made to insureds when applicable.
- Obtain the Explanation of Benefits from the health insurance carrier and pay the amount due from the insured without repricing the medical bill.

Statutory Notices

- Amend the Important Information Regarding Your Insurance notice to state assistance also can be obtained from the company and/or agent.
- Amend the Accident Point Surcharge notice to indicate insureds only have a right to appeal accident surcharges.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted four prior market conduct examinations of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company.

During the private passenger automobile, commercial automobile, homeowner, commercial multi-peril, and workers' compensation examination of Virginia Farm Bureau Mutual Insurance Company and Early Settlers Insurance Company (VFCIC) as of December 31, 1983, the companies violated §§ 38.2-510, 38.2-610, 38.2-1906, 38.2-2014, and 38.2-2212 of the Code of Virginia, as well as the Commission's Rules Governing Unfair Claim Settlement Practices adopted in Case No. 19961 and Administrative Order 7707 issued by the Commission to amend the rates and rules for writing uninsured motorist coverage. A cease and desist order was entered by the State Corporation Commission against the companies in case number INS860107.

During the private passenger automobile, commercial automobile, homeowner, farmowner, dwelling fire, commercial multi-peril and general liability, and workers' compensation examination of Virginia Farm Bureau Fire and Casualty Insurance Company and Virginia Farm Bureau Mutual Insurance Company as of August 31, 1993,

Virginia Farm Bureau Mutual Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-502, 38.2-511, 38.2-610, 38.2-1906, 38.2-2104, 38.2-2113, 38.2-2114, 38.2-2124, 38.2-2208, 38.2-2220 of the Code of Virginia, as well as Section 4.4 of the Commission's Rules Governing Insurance Premium Finance Companies; and Virginia Farm Bureau Fire and Casualty Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-502, 38.2-511, 38.2-1906, 38.2-2014, 38.2-2212 and 38.2-2220 of the Code of Virginia, as well as Section 4.4 of the Commission's Rules Governing Insurance Premium Finance Companies. A cease and desist order was entered by the State Corporation Commission against the companies in case number INS940201.

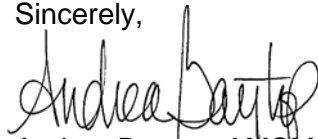
During the private passenger automobile, commercial automobile, homeowner, dwelling fire, farmowner, commercial property and liability, workers' compensation and Virginia Automobile Insurance Plan examination of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company as of September 30, 1998, Virginia Farm Bureau Mutual Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-305 A, 38.2-510 A 10, 38.2-612, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2124 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code; Virginia Farm Bureau Fire and Casualty Insurance Company violated §§ 38.2-231, 38.2-305, 38.2-510 A 10, 38.2-610 A, 38.2-1906 D, 38.2-2014 and 38.2-2114 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code; and Virginia Farm Bureau Town and Country Insurance Company violated §§ 38.2-510 A 10 and 38.2-1906 D of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

During the private passenger automobile, motorcycle, commercial automobile, homeowner and farmowner examination of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company as of June 30, 2001, the companies violated § 38.2-2220 of the Code of Virginia. Due to the minimal number of violations found, this examination did not result in a settlement order or monetary penalty.

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 "Andrea Baytop". The signature is written in a cursive style with a large initial "A".

Andrea Baytop, AMCM
Principal Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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November 30, 2016

VIA UPS 2nd DAY DELIVERY

Sam Rooks
Vice President of Underwriting and Policy Services
Virginia Farm Bureau
12580 West Creek Parkway
Richmond, VA 23238

RE: Market Conduct Examination
Virginia Farm Bureau Town & Country Insurance Company (NAIC #10086)
Virginia Farm Bureau Fire and Casualty Insurance Company (NAIC# 26026)
Virginia Farm Bureau Mutual Insurance Company (NAIC #26034)

Dear Mr. Rooks:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of September 1, 2014, through August 31, 2015. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the Report and copies of review sheets that have been added, withdrawn or revised since November 9, 2016. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, 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). If the companies need to reference any of this information please use exhibits or appendices. 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 of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

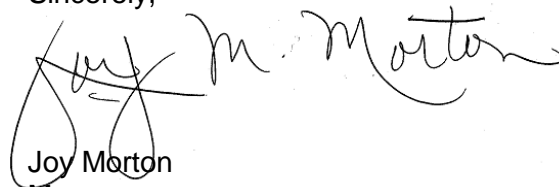
Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline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

Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with the companies' 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 January 9, 2017.

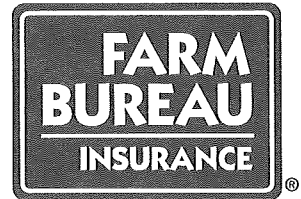
After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, stylized initial "J".

Joy Morton
Manager

Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov



January 9, 2017

Joy M. Morton
Market Conduct Section
Property & Casualty Section
Commonwealth of Virginia
Bureau of Insurance

RE: Market Conduct Examination Preliminary Report Response
Virginia Farm Bureau Town & Country Ins. Co. (NAIC # 10086)
Virginia Farm Bureau Fire & Casualty Ins. Co. (NAIC # 26026)
Virginia Farm Bureau Mutual Ins. Co. (NAIC # 26034)

Dear Ms. Morton:

We are in receipt of the market conduct examination preliminary report regarding the three companies cited above. We respectfully submit this letter as the company's response to the report. Per your request, the attached response follows the same format found in the report. You will also find exhibits with supporting documentation as well as spreadsheets containing the refunds/overpayments that have been processed.

On behalf of the company, I thank you for the professional courtesy extended by you and your audit team during this examination. We look forward to reaching a mutually agreeable resolution of the examination. If you have any questions regarding our response, please let me know.

Sincerely,

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

Sam Rooks, CPCU, AU, CIC
Vice President of Underwriting and Policy Services

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 Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$611.76 and undercharges totaling \$977.27. The net amount that should be refunded to insureds is \$611.76 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page misrepresented discounts that were not applicable.

Company response- *The discount field was incorrectly populated and has been corrected. This has been addressed with staff.*

- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured that the policy was surcharged for an at-fault accident.

Company response- *The subsequent 1/13/2016 renewal contained the proper notification of the accident surcharge thus correcting the deficiency. This has been addressed with staff.*

- (3) The examiners found 41 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 nine instances, the company failed to use the correct discounts and/or surcharges.

Company response- *The premier driver discount system calculation error was corrected in February 2016.*

- b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.

Company response- *The company acknowledges it failed to apply the correct surcharge points. The policy has been corrected and the issue has been addressed with staff.*

- c. In 29 instances, the company failed to use the correct symbol.

Company response- *The company acknowledges there was a temporary programming error regarding vehicle symbols. This error was corrected in December 2015.*

- d. In one instance, the company failed to use the correct territory.

Company response- *The territory has been corrected. This has been addressed with staff.*

- e. In one instance, the company failed to follow its driver assignment rule.

Company response- *The driver assignment error has been corrected. This has been addressed with staff.*

Automobile Renewal Business Policies

The Bureau reviewed 68 renewal business policy files. During this review, the examiners found overcharges totaling \$1,286.86 and undercharges totaling \$2,561.31. The net amount that should be refunded to insureds is \$1,286.86 plus six percent (6%) simple interest.

- (1) The examiners found 59 violations 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 indicate the limit per disablement for Towing and Labor and Transportation Expenses coverages on the declarations page.

Company response- *The company respectfully disagrees that the limit per disablement for Towing and Labor coverages were not indicated on the cited policies. The observations cited under this section pertain to "The Company failed to list the Uninsured Motorist Coverage- Virginia form (PP14030105) on the declarations page. The Uninsured Motorist coverage limits appeared on the declarations page for these policies yet the form number did not. This UM form number programming error was corrected in August 2015.*

(2) The examiners found 111 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 four instances, the company failed to use the correct discounts and/or surcharges.

Company response- *The company respectfully disagrees with the cite and observation on review sheet R&URBPPA-17424496 (BOI reference number RPA093). The company submits that the wrong manual page was referenced by the BOI at the time of review. Please see exhibit A which provides the review sheet and the manual page in effect at the time of the review. The manual page that applied to the policy had an edition date of 04-14. This policy was issued on 5-16-14 with an effective date of 5-16-14. According to the Personal Auto Multivariate Manual Edition 04-14 'The number of Advance Purchase days is the difference between the prior carrier's policy expiration date and the date the accepted quote is processed by VFB.' The prior carrier's policy expiration was 11-21-14. The date the quote was processed by VFB was 5-16-14. The difference is 189 days. The factor for 189 days is 0.680086. It appears the BOI used the rating rule Personal Auto Multivariate Manual Second Ed 07-14 (also attached) which states the advanced purchase date is the difference between the new business policy effective date and the initial quote date. This rule was not in effect at the time this policy was issued. The company submits the policy is rating correctly.*

The observation regarding the application of the good student discount under 673441554 has been corrected. This has been addressed with staff.

The company is revising the filed manual rule cited in the observation regarding surcharge points. This will bring the company into compliance.

- b. In two instances, the company failed to apply the correct surcharge points for accidents and/or convictions.

Company response- *The company acknowledges it failed to apply the correct surcharge points according to the filed manual rule. The filed manual rule is being revised and refiled to bring the company into compliance.*

- c. In 96 instances, the company failed to use the correct symbol.

Company response- *The company acknowledges there was a temporary programming error regarding vehicle symbols. This error was corrected in December 2015.*

- d. In three instances, the company failed to use the correct territory.

Company response- *The territories have been corrected. This issue has*

been addressed with staff.

- e. In two instances, the company failed to use the correct driver classification.

Company response- *The driver classification errors have been corrected. This has been addressed with staff.*

- f. In four instances, the company failed to follow its driver assignment rule.

Company response- *The company agrees with the observations and the assignment errors have been corrected. This has been addressed with staff.*

Homeowner New Business Policies

The Bureau reviewed 29 new business policy files. During this review, the examiners found overcharges totaling \$117.00 and undercharges totaling \$65.00. The net amount that should be refunded to the insured is \$117.00 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 declarations page included coverages that were not applicable to the policy.

Company response- *This violation was the result of a keying error. This has been addressed with staff.*

- (2) The examiners found 16 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.

Company response- *The programming error that caused this error was corrected in November 2016.*

- b. In one instance, the company failed to use the correct base and/or final rates.

Company response - *The violation was the result of human error. The policy has been corrected and the issue has been addressed with staff.*

- c. In one instance, the company failed to follow its minimum premium rule.

Company response - *There was a programming error in the legacy system. The policy was corrected when it renewed into our new system on 11/7/2015.*

- d. In five instances, the company failed to use the correct public protection

class.

Company response - *The policies have been corrected. Proper PPC classification has been reviewed with staff.*

- e. In seven instances, the company failed to use the correct increased limits factor.

Company response - *In May 2016, the company filed a corrected increase limit rating page to correct the typographical error.*

- f. In one instance, the company failed to follow its Protector Program rule.

Company response - *The company is in the process of revising the filed manual rule to correct this issue.*

Homeowner Renewal Business Policies

The Bureau reviewed 66 renewal business policy files. During this review, the examiners found overcharges totaling \$5,773.00 and undercharges totaling \$1,387.00. The net amount that should be refunded to insureds is \$5,773.00 plus six percent (6%) simple interest.

- (1) The examiners found eight violations 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 declarations page failed to accurately reflect the address of the insured location.

Company response - *The addresses have been corrected. This issue has been addressed with staff.*

- (2) The examiners found 64 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 17 instances, the company failed to use the correct discounts and/or surcharges.

Company response - *The manual rule is being revised and filed to address this citation.*

- b. In four instances, the company failed to use the correct territory.

Company response - *The company corrected the location addresses which corrected the territories.*

- c. In three instances, the company failed to use the correct base and/or final rates.

Company response - *This citation occurred as a result of converting the*

policy to our new processing system. The policy has been corrected and we have verified the system is functioning properly.

- d. In 23 instances, the company failed to use the correct public protection class.

Company response - *VFB respectfully disagrees with the Review sheet R&URBHO1058466979, BOI Reference Number RHO043. This review sheet indicates a protection class of 6 should be used in rating this policy. The town of Floyd is protection class 6. However, the company contends this risk is not located in the town of Floyd and the writing agent had this knowledge. The original application indicates the distance to the fire department is 13 miles and the property is over 1000' to a hydrant. We ordered a PPC report to verify the risk location and the distance to the responding fire station. Per this report (see exhibit B), the location of the property is Riner, Virginia. Please note the risk is greater than 11 to 12 miles from the responding fire station of Floyd County FS 2 (Indian Valley community). Per the risk location, protection class 10 is and has been the correct PPC for this risk. In addition to the original application and the risk location report, we are including the protection class rule and pages with the exhibit.*

The other protection classes have been corrected. Proper PPC classification has been reviewed with staff.

- e. In nine instances, the company failed to apply the correct increased limits factor.

Company response - *In May 2016, the company filed a corrected increase limit rating page to correct the typographical error.*

- f. In one instance, the company failed to follow its interpolation rule.

Company response - *This violation was the result of human error on a manually rated policy. With our new system, manually rating policies is no longer necessary. All policies have renewed into the new system as of October 2015. The system is interpolating per the filed manual rule.*

- g. In four instances, the company failed to follow its rounding rule.

Company response - *This violation was the result of human error on a manually rated policy. With our new system, manually rating policies is no longer necessary. All policies have renewed into the new system as of October 2015. The system is rounding per the filed manual rule.*

- h. In three instances, the company failed to rate the policy with updated credit information.

Company response - *The violations were the result of human error. This has been addressed with staff.*

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 60TH DAY OF COVERAGE

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2208 A of the Code of Virginia.

The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company response - *In each of these instances, our mailing pre-sort company postage was on the certificate of mailing list but the post office stamp was missing or not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

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

Company response - *This was an isolated instance of failing to retain the POM for the lienholder notice. Our electronic notification service provided by LexisNexis retains the POM for lienholders. We have verified POM to the lienholder is being obtained.*

- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company failed to provide adequate days' notice of cancellation to the insured.

Company response - *This cancellation notice was entered into the system on February 12 and should have been mailed on Friday, February 13 which would have met the required 10 days notice. An unknown human error delayed the mailing.*

- b. In one instance, the company failed to provide adequate days' notice of cancellation to the lienholder.

Company response - *The issue that caused inadequate lienholder notification has been resolved.*

NOTICE MAILED AFTER THE 59th DAY OF COVERAGE

The Bureau reviewed 29 automobile cancellations that were initiated by the companies where the companies mailed the notice on or after the 60th 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 overcharges totaling \$5.00 and no undercharges. The net amount that should be refunded to insureds is \$5.00 plus six percent (6%) simple interest.

- (1) 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.

Company response - *The company has corrected the error. This issue has been addressed with staff.*

- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.

Company response - *The issue that caused this error has been corrected.*

- b. In one instance, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

Company response - *This appears to be an isolated incident. We have verified POM to the lienholder is being obtained.*

- (3) The examiners found five violations of § 38.2-2212 D of the Code of Virginia.
 - a. In four instances, the company cancelled the insured's motor vehicle policy after the 59th day of coverage for a reason not permitted by the

statute.

- b. In one instance, the company cancelled the insured's motor vehicle policy for a license suspension or revocation that was not supported by the Motor Vehicle Report.

Company response (a & b) - *The company agrees with the examiner's observations. These issues have been addressed with staff.*

- (4) The examiners found six violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to mail the cancellation notice to the address shown on the policy.

Company response - *The company has corrected the error. This issue has been addressed with staff.*

- b. In five instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Company response- *The company agrees with the examiner's observations. These instances involved human error and have been addressed with staff.*

- (5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

Company response- *The issue that caused inadequate lienholder notification has been resolved.*

All Other Cancellations - Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 14 private passenger 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.

- (1) The examiners found two violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.

Company response- *These were isolated instances of failing to retain the POM for the lienholder notice. Our electronic notification service provided by LexisNexis retains the POM for lienholders. We have verified POM to the lienholder is being obtained.*

- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to send the insured written notice of cancellation of his motor vehicle policy.
 - b. In one instance, the company failed to mail the cancellation notice to the address shown on the policy.

Company response (a & b) - *The company agrees with the examiner's observations. These issues have been addressed with staff.*

REQUESTED BY THE INSURED

The Bureau reviewed 14 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 no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals - Automobile Policies

The Bureau reviewed 12 automobile nonrenewals that were initiated by the companies.

- (1) The examiners found three violations of § 38.2-2208 A of the Code of Virginia.

The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain valid proof of mailing the nonrenewal notice to the lienholder.

Company response- *This was an isolated instance of failing to retain the POM for the lienholder notice. Our electronic notification service provided by LexisNexis retains the POM for lienholders. We have verified POM to the lienholder is being obtained.*

- b. In one instance, the company failed to send the nonrenewal notice to the lienholder.

Company response- *The issue that caused inadequate lienholder notification has been resolved.*

- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

Company response- *The issue that caused inadequate lienholder notification has been resolved.*

Premium Finance Requested Cancellations

The Bureau reviewed six automobile cancellations that were initiated by a premium finance company under a power of attorney. During this review, the examiners found overcharges totaling \$5.52 and no undercharges. The net amount that should be refunded to insureds is \$5.52 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of 14 VAC 5-390-40 D.
 - a. In six instances, the company failed to include all of the required information in its affirmation of cancellation.

Company response- *The company is currently programming the system to correct this defect.*

- b. In one instance, the company failed to verify that the premium finance company had a power of attorney authorizing cancellation of the policy.

Company response- *The violation was the result of human error. This has been addressed with staff.*

- (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.

Company response- *The violation was the result of human error. This has been addressed with staff.*

Company-Initiated Cancellations - Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau reviewed 14 homeowner cancellations that were initiated by the companies where the notices were mailed prior to the 90th 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 § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to mail the cancellation notice to all of the named insureds shown on the declarations page.

Company response- *The company is currently programming the system to correct this defect.*

NOTICE MAILED AFTER THE 89th DAY OF COVERAGE

The Bureau reviewed four homeowner cancellations that were initiated by the

companies where the notices were mailed on or after the goth 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 one violation of § 38.2-610 of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD).

Company response- *The violation was the result of human error. This has been addressed with staff.*

- (2) The examiners found four violations of § 38.2-2113 C of the Code of Virginia.
 - a. In one instance, the company failed to retain a copy of the notice of cancellation for the lienholder.

Company response- *This appears to be an isolated incident.*

- b. In two instances, the company failed to retain proof of mailing the cancellation notice to the insured.

Company response- *We are now using IMb tracking as our proof of mailing which corrects this issue going forward.*

- c. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.

Company response- *This appears to be an isolated incident.*

- (3) The examiners found two violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.

Company response- *The violations were the result of human error. The issues have been addressed with staff.*

- (4) The examiners found seven violations of § 38.2-2114 C of the Code of Virginia.
 - a. In two instances, the company failed to provide 30 days' notice of cancellation to the insured when the company cancelled the policy after the 89th day of coverage.

- b. In two instances, the company failed to provide the specific reason for cancellation of a policy insuring an owner-occupied dwelling.

Company response -

- c. In two instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- d. In one instance, the company failed to advise the insured of the availability of other insurance with the Virginia Property Insurance Association (VPIA).

Company response (a – d) - *The violations were the result of human error. The issues have been addressed with staff.*

All Other Cancellations - Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed eight homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

- (1) 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.

Company response- *The company is currently programming the system to correct this defect.*

- (2) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (3) The examiners found three violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the

lienholder.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

REQUESTED BY THE INSURED

The Bureau reviewed nine 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 no overcharges and undercharges totaling \$34.52.

- (1) 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.

Company response- *The violation was the result of human error. This has been addressed with staff.*

- (2) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company backdated the cancellation effective date contrary to its filed rule.

Company response- *The company is revising the filed form cited in the observation. This will bring the company into compliance.*

- b. In one instance, the company failed to honor the date of cancellation requested by the insured.

Company response- *The violation was the result of human error. This has been addressed with staff.*

Company-Initiated Non-renewals - Homeowner Policies

The Bureau reviewed 11 homeowner nonrenewals that were initiated by the companies.

The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the

insured.

Company response- *In this instance, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 143 automobile claims for the period of September 1, 2014 through August 31, 2015. 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 \$72.00 and underpayments totaling \$12,154.37. The net amount that should be paid to claimants is \$12,142.37 plus six percent (6%) simple interest.

Company response - *The Company's Restitution spreadsheet and exhibits are attached. (See Restitution Report and Exhibits)*

- (1) The examiners found seven violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Company response- *The Company understands the Bureau's position on the 7 violations.*

- (2) The examiners found two violations of 14 VAC 5-400-40 A The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
 - a. In one instance, the company failed to inform an insured of the Transportation Expenses coverage when the file indicated the coverage

was applicable to the loss.

- b. In one instance, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage (UM) when the file indicated the coverage was applicable to the loss.

Company response- *The Company understands the Bureau's position on these 2 violations.*

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Company response- *The Company understands the Bureau's position on this violation.*

- (4) The examiners found four violations 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (5) The examiners found 14 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 one instance, the company failed to pay the proper sales and use tax, title fee, and/or license fee on first-party total loss settlements.
- b. In three instances, the company failed to pay the insured's Medical Expense Benefits claim properly.
- c. In seven instances, the company failed to pay the claim in accordance with

the policy provisions under the insured's Transportation Expenses coverage.

- d. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other Than Collision coverage.

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

Company response- *The Company understands the Bureau's position on thirteen of these violations. It is the Company's understanding that the Bureau will withdraw the violation on CPA126, 772898154, VFBF&C. The Transportation Expense policy limit was \$600 and the \$600 limit was paid prior to the Market Conduct Examination. The corroborating documentation was sent to the Bureau via email on 12/16/16. (See Claims Exhibit 1)*

- (6) The examiners found 13 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 nine instances, the company failed to provide a copy to the insured.
- b. In four instances, the company failed to provide a copy to the claimant.

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

Company response- *The Company understands the Bureau's position on one violation. The Company respectfully disagrees on the following twelve violations:*

- CPA034 1644772456 VFBMIC
- CPA043 544489918 VFBMIC
- CPA047 403025546 VFBMIC
- CPA079 1695427664 VFBT&C
- CPA091 1149666712 VFBT&C
- CPA126 826798501 VFBF&C
- CPA138 141245621 VFBF&C
- CPA141 675282281 VFBF&C
- CPA143 232673379 VFBF&C
- CPA058 2069173596 VFBF&C
- CPA093 512728658 VFBT&C
- CPA107 719866893 VFBF&C

These files were assigned to a third party administrator (TPA). The TPA manages the repair process for Company. In that process, the repair shops within the

program provide a final repair cost invoice to the vehicle owner. This process is specifically set forth in the Business Rules Agreement with the TPA. (See Claims Exhibit 2)

However, since the Market Conduct Examination, at the Company's request, the TPA has changed the final repair documentation to include a statement that the vehicle owner was provided with a copy of the repair estimate. This ensures that each claim file is documented properly. (See Claims Exhibit 3)

- (7) The examiners found one violation of § 38.2-236 A of the Code of Virginia. The company failed to notify the claimant within five days when the company issued a settlement payment of \$5,000.00 or greater to the claimant's attorney or other representative.

Company response- *The Company understands the Bureau's position on this violation.*

- (8) The examiners found two violations 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (9) The examiners found two 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 the claim in which liability was reasonably clear.

- a. In one instance, the company unreasonably prohibited the insured from retaining his salvaged vehicle.

Company response- *The Company respectfully disagrees with the violation on file CPA035 1454594556 VFBMIC. This claim was submitted for damage due to water in the engine compartment of the vehicle. The Company deemed the vehicle a total loss. The Company is not aware of any policy and/or statutory requirement to allow or offer the owner to retain the salvage of a total loss vehicle.*

- b. In one instance, the company failed to reimburse the insured's Uninsured Motorists Property Damage (UMPD) deductible without unreasonable delay.

Company response- *The Company understands the Bureau's position on this violation.*

- (10) The examiners found three violations 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (11) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company set arbitrary or unreasonable limits on the reimbursement for paint and/or materials.

Company response- *The Company understands the Bureau's position on this violation.*

- (12) The examiners found five violations of § 38.2-2201 of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.

Company response- *The Company understands the violation and is now ensuring that all AOBs are compliant with the statute and contain the necessary language prior to issuing medical expense payment.*

- (13) The examiners found eight occurrences where the company failed to comply with the provisions of the insurance policy.

a.. In seven instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.

Company response- *The Company understands the Bureau's position on these violations and took immediate corrective action in updating our Standard Operating Procedures Manual as a result. The Company no longer pays the title/tag fees of \$12.00 when a vehicle owner retains the salvage. (See Claims Exhibit 4)*

b. In one instance, the company failed to pay the UM claim under the correct coverage.

Company response- *The Company understands the Bureau's position on this violation.*

Homeowner Claims

The examiners reviewed 99 homeowner claims for the period of September 1, 2014 through August 31, 2015. 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 \$738.79 and underpayments totaling \$39,478.77. The net amount that should be paid to claimants is \$39,478.77 plus six percent (6%) simple interest.

Company response - *The Company's Restitution spreadsheet and exhibits are attached. (See Restitution Report and Exhibits)*

- (1) The examiners found 13 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

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

Company response - *The Company understands the Bureau's position on seven of these violations. The Company respectfully disagrees on the following six violations:*

- **CHO026 1982157244 VFBMIC**
BOI's observation: There is no evidence in the file to support the FCR allowing for \$75 for additional electricity. The Company respectfully disagrees. The FCR's letter of 1/21/15, located in the file, clearly explains to the insured that the \$75 allowance credited toward the deductible was "for the increase in your electric bill from the fans" used following the water loss on the insured property. (See Claims Exhibit 5)
- **CHO040 1104024892 VFBMIC**
BOI's observation: Claim file does not indicate that Joseph Smith is the contractor, and there is no w-9 in the file. The Company respectfully disagrees. While not specifically giving a name, the FCR's log note of 5/12/15 indicates that he's paying the insured and contractor per his Simsol estimate. The estimate was for \$7,663.85 and the check in this amount was issued jointly to

the insureds and Joseph Smith. A reading of the log notes makes clear that the contractor was Joseph Smith, and his tax ID is indicated on the check (See Claims Exhibit 6). As for the W-9 form, these may or may not be kept in the individual claim files. They are all kept in a file accessible only to VFB's Audit Dept., so a form can be provided upon request at any time (some FCRs will place a copy in the imaged file). Once the w-9 form is received by an auditor, she notes the vendor's tax ID number on a screen that all FCRs can access. This is done because numerous adjusters may be in need of one particular vendor's tax ID number (as that vendor could be involved in many different claims), and the FCRs simply go to these screens when needing to locate a tax ID. The IRS has no objection to our procedure, as long as the w-9 forms can be produced – which they can. (See Claims Exhibit 7)

- **CHO082 26071733 VFBFCIC**

*BOI observation item 1): File lacked documentation as to how the company determined depreciation for check issued in the amount of \$4,095.17. The Company respectfully disagrees with this item. After the insured submitted invoices for replacement of items previously paid under ACV, the replacement cost information was plugged into the BrightClaim spreadsheet. (See Claims Exhibit 8) This spreadsheet automatically calculates depreciation hold back owed on each item and the total amount due the insured (was \$4,095.17). Also enclosed is a letter to the insured dated 7/23/15 with the list attached and indicating that the check would be sent under separate mailing. (See Claims Exhibit 9)
The Company understands the Bureau's position on items 2) and 3).*

- **CHO085 1741728753 VFBFCIC**

BOI's observation: A copy of the Rights & Duties letter sent to the insured was not found in the claim file. The Company respectfully disagrees. At the time this file was reviewed by the examiner, the claim was open; thus, certain items were still in the FCR's file in her possession and not yet in imageright. The Rights & Duties letter was mailed to the insured on 2/13/15 and then again on 2/27/15 after the insured advised that she lost her copy. This letter was in the FCR's file at the time of the market conduct exam and the manager provided a copy on 2/19/16 to the examiners. (See Claims Exhibit 10)

- **CHO090 1203656789 VFBFCIC**

BOI's observation item 2): The file did not include the w-9 form from the NI. Company's response: We respectfully disagree. The w-9 forms may or may not be kept in the individual claim files. They are all kept in a file accessible only to VFB's Audit Dept., so a form can be provided upon request (some FCRs will place a copy in the imaged file). Once the w-9 form is received by an auditor, she notes the vendor's tax ID number on a screen that all FCRs can access. This is done because numerous adjusters may be in need of one particular vendor's tax ID number (as that vendor could be involved in many different claims), and the FCRs simply go to these screens when needing to locate a tax ID. The Company has provided a copy of the W-9 form to confirm that we had the proper

documentation on file. (See Claims Exhibit 11)

The Company understands the Bureau's position on items 1), 3), 4) and 5).

- **CHO098 1457726692 VFBFCIC**

BOI's observation: The file did not speak to the industrial hygienist, nor did the mold remediation firm indicate the home was habitable (although it did indicate the home had an elevated level of mold). The Company respectfully disagrees. On 3/15/16, the manager provided to the examiner pages from the hygienist's mold report of 8/15/15 – which was present in the imaged file – in which the hygienist outlined the proper remediation protocol. The first bullet noted in this report states as follows: "Isolate the basement bathroom/hallway according to IICRC S250 standards and U.S. EPA guidelines including the use of HEPA filtered air scrubbers and/or negative air machines." The manager emphasized to the examiner that had the home been uninhabitable, the hygienist would have clearly stated such in his report and would have recommended that the insured/homeowner leave the premises. (See attached Review Sheet with manager's comments.) – (See Claims Exhibit 12)

- **CHO098 524653067 VFBFCIC**

BOI's observation: The file did not include invoices from Geller Environmental Labs totaling \$1,360. The claim file did include an invoice in the amount of \$765. The Company respectfully disagrees. There were three (3) invoices in the file from Geller Environmental Labs, totaling \$2,125; the manager provided these to the examiner on 2/18/16. According to the manager's comments, the insured had previously paid the first invoice from Geller in the amount of \$765; the FCR (who had just started working with VFB in April of 2015) was planning on applying that payment toward the insured's deductible – which would have left a balance owed to Geller of \$1,360 (two invoices, each for \$680). The manager, however, had to instruct the FCR (per file note dated 9/28/15) that environmental bills are to be issued as expense, rather than loss payments and would thus not apply toward the insured's deductible. The FCR then issued payment to Geller for the balance owed them, or \$1360, and VFB issued payment to the insured for the \$765. The deductible was then applied to the invoice submitted by Purofirst in the amount of \$7,649.28, which brought VFB's payment issued to them to \$6,649.28 after the deductible. (See attached Review Sheet with manager's comments.) – (See Claims Exhibit 13)

- (2) The examiners found four violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In two instances, the company failed to inform the insured of the benefits
VFB response to preliminary report

under the Additional Living Expense coverage of the policy.

Company response- *The Company understands the Bureau's position on two of these violations.*

- b. In one instance, the company failed to inform the insured of the replacement cost benefits under the Building coverage of the policy.

Company response- *The Company respectfully disagrees with this violation:*

- **CHO063 1334614682 VFBMIC**

The insured informed the FCR upfront he was replacing the carpet with hardwood flooring, which would not qualify as like kind and quality. Thus, replacement cost would not apply, and this is why the FCR did not send the letter.

- c. In one instance, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

Company response- *The Company respectfully disagrees with this violation:*

- **CHO085 2082387522 VFBF&CIC**

There is a file note on pg.67, indicating that the RCV of the contents was offered and explained. This information was provided to the insured's brother; this was per the insured's repeated instruction to the FCR, because she did not understand what the FCR was trying to explain to her (this was also noted in the log). Given this insured's lack of ability to understand the claims process, it is unlikely she would have wanted to send anything in writing to the FCR authorizing him to deal directly with her brother. (See Claims Exhibit 14)

- (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.

Company response- *The Company respectfully disagrees with this violation.*

- **CHO079 1769243471 VFBF&CIC**

The FCR sent an email dated May 12, 2015 to the insured, advising him of the denial of coverage for the sink and the boiler anti-freeze. (See Claims Exhibit 15).

- (4) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of

the claim.

Company response- *The Company understands the Bureau's position on this violation (the email to the insured denying coverage did not quote the specific policy language).*

(5) The examiners found nine 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 two instances, the company failed to pay the claim properly under the insured's Building Replacement Cost coverage.

Company response- *The Company understands the Bureau's position on one of these violations.*

The Company respectfully disagrees with the following violation:

- **CHO063 1054795730**

After the claim was filed, Mr. Insured advised the FCR immediately that the insureds were going to replace the carpet with hardwood flooring, which does not qualify as LKQ. Because of this, replacement cost would not apply and the insured would not be entitled to the holdback of \$186.79. Because of this initial conversation with the insured, during which replacement cost concerning the flooring was discussed, the FCR did not send the letter to the insured addressing this.

b. In two instances, the company failed to pay the claim properly under the insured's Additional Living Expenses coverage.

Company response- *The Company understands the Bureau's position on one of these violations.*

The Company respectfully disagrees with the following violation: The Bureau's observation was that the Company did not offer ALE to the insured for the additional expenses incurred by her relative while she stayed with the relative after the loss occurred. Our insured stayed with her daughter. The insured's daughter did not charge her anything for staying with her. Please see the attached claims log documenting this. ALE was offered and declined. We do not owe anything additional on this file. (See Claims Exhibit 16)

c. In five instances, the company failed to pay the claim properly under the insured's Personal Property Replacement Cost coverage.

Company response- *The Company understands the Bureau's position on three of these violations.*

The Company respectfully disagrees with the following two violations:

- **CHO013 2040963032 VFBMIC**

The Bureau observed that the Company did not apply reasonable depreciation on each tool listed on Personal Property List, in that it applied 70% depreciation on power and hand tools where the depreciation guide indicated 5% (some of these tools were high-end and others had a life time warranty). After the BOI's initial findings, the FCR sent the Personal Property List to a vendor, BrightClaim, to review the depreciation taken by the Company and advise. This was done, and BrightClaim came back with even higher depreciation and a smaller amount of ACV: Company's ACV paid was \$17,421, whereas BrightClaims' ACV was \$16,637.78. Based upon the vendor's analysis, the Company applied a more-than-reasonable depreciation percentage on the tools. (See attached Schedule C from BrightClaim – Claims Exhibit 17)

- **CHO087 1640168209 VFBFCIC**

The BOI observed that the Company did not apply appropriate depreciation percentage on items on the Personal Property List. The FCR did not use a depreciation guide; however, he depreciated the items based on his experience, knowledge, and expertise. His ACV came to \$4504.94, which is what the Company paid the insured before his deductible. Company has since sent the personal property forms to a vendor, Enservio, which calculated ACV of the contents at \$3631.63, which is less than the value arrived at by our FCR. Based on this, it is our position that we adjusted the personal property claim reasonably, fairly and properly, and that we would not owe anything additional to the insured. (See Claims Exhibit 18)

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

(6) The examiners found seven 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.

a. In one instance, the company failed to properly represent the provisions of the policy.

Company response- *The Company respectfully disagrees with this violation:*

- **CHO084 1619170983 VFBF&CIC**

The Bureau observed that the FCR did not advise the insured that his deductible could be subrogated under the companion policy.

However, the specific cause of the fire could not be determined, and thus the letter advising the insured of subrogation for his deductible was not sent. Whenever a determination can be made to indicate another party's negligence caused the loss, we do pursue subrogation and, if successful, reimburse the insured his deductible.

- b. In six instances, the company failed to properly represent the replacement cost provisions of the policy.

Company response- *The Company understands the Bureau's position on these violations.*

- (7) 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (8) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

Company response- *The Company understands the Bureau's position on this violation.*

- (9) The examiners found four violations 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.

Company response- *The Company understands the Bureau's position on these violations.*

- (10) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In three instances, the company failed to include the lienholder on the check.

Company response- *The Company understands the Bureau's position on these violations.*

- b. In two instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.

Company response- *The Company understands the Bureau's position on these violations.*

REVIEW OF FORMS

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 Review of the Policy Issuance Process 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 77 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia. The company failed to have available for use the standard forms for Suspension of Insurance and Reinstatement of Insurance.

Company response- *The company is currently programming the system to correct this issue.*

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

The companies provided copies of 64 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

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 mailed on the following dates: October 28, 2015. In addition, the companies provided nine renewal business policies

mailed on the following dates: October 28 and 29, 2015.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

Homeowner Policies

The companies provided six new business policies mailed on October 29, and 30, 2015 and November 2, and 17, 2015. In addition, the companies provided six renewal business policies mailed on October 29, and 30, 2015.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

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

- (1) The examiners found six violations of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (2) The examiners found five violations of § 38.2-604 C of the Code of Virginia. The company's short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.

Company response to items 1, 2, & 3 above- *The company is amending the forms to contain the information required by statute.*

Statutory Vehicle Notices

- (1) The examiners found three violations of § 38.2-517 A of the Code of Virginia. The company's Glass Script did not properly disclose the use of a Third Party Administrator.

Company Response- *The Company revised the glass script and obtained approval from the Bureau via email on July 1, 2016. (See Claims Exhibit 19)*

- (2) The examiners found one violation of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day Cancellation Warning notice on or attached to the first page of the application.

Company Response- *The company partially disagrees. The 60 day cancellation warning notice appears on the application. However, it does not appear in all caps or in bold. The company is in the process of making this revision.*

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company's notice summarizing the replacement cost provisions for owner-occupied dwellings did not contain all of the information required by the statute.

Company response- *The company is amending the notice to contain the information required by statute.*

- (2) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The company's Flood Exclusion notice did not contain all of the information required by the statute.

Company response- *The company is amending the notice to contain the information required by statute.*

Other Notices

The companies provided four other notices and documents 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 policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. 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 companies.

Agent

The examiners found one violation of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Company response- *This violation is the result of a clerical error. It was discovered during an internal quarterly audit and corrected at that time (June 9, 2015).*

Agency

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

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 three violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

Company response- *The company respectfully disagrees. The company maintains complaint logs as required by statute. The company admits the complete log was not submitted by the deadline established by the BOI. The claims logs was inadvertently left off of the complaint file provided. The claims complaint log was provided on March 9, 2016.*

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

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 standards set forth by the NAIC. The threshold applied to claims handling was seven percent (7%). Any error ratio above this threshold 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 that were found to be business practices of Virginia insurance statutes and regulations.

General

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company and
Virginia Farm Bureau Town and County Insurance Company shall:

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

Company response- *For each of the instances cited in part one, the company has included the corrective action taken. For responses indicating items have been addressed with staff, the company held group meetings and training to remedy the observations. The majority of these sessions were held while the BOI audit team was still on site.*

Rating and Underwriting Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company and
Virginia Farm Bureau Town and County Insurance Company 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 corrected the errors cited on all undisputed files. Refunds have been mailed or credits applied to insured's accounts.*

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

Company response- *The refunds/credits above include 6% interest as required.*

- (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 acknowledges the overcharges on all undisputed files have been refunded or credited. (Please see the attached excel file.)*

- (4) Specify accurate information in the policy by listing endorsements that are applicable to the policy and showing the correct coverage limits on the declarations page.

Company response- *The company has corrected the programming error that caused this citation.*

- (5) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, territories, driver assignments, base and/or final rates, public protection classes, increased limit factors, rounding rules, and credit information.

Company response- *The company will pay closer attention to the items listed. The company monitors the system regularly for accuracy and conducts routine quality audits to monitor for compliance.*

Termination Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company 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 the date the error first occurred.

Company response- *The company has corrected the errors cited on all undisputed files. Refunds have been mailed or credits applied to insured's accounts.*

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

Company response- *The refunds/credits above include 6% interest as required.*

- (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 acknowledges the overcharges on all undisputed files have been refunded or credited. (Please see the attached excel file.)*

- (4) Calculate earned premium according to the filed rules and policy provisions.

Company response- *When calculating return premium, the company will apply the filed manual rules and policy provisions.*

- (5) Obtain valid proof of mailing the notice of cancellation and nonrenewal to the insured and lienholder.

Company response- *The company has procedures in place to obtain valid proof of mailing as stated in Part One.*

- (6) Retain proof of mailing the notice of cancellation and nonrenewal to the insured and lienholder.

Company response- *The company has procedures in place to retain valid proof of mailing as stated in Part One.*

- (7) Provide a notice of cancellation or nonrenewal to the insured and lienholder.

Company response- *As stated under Part One, the company has addressed this issue.*

- (8) Cancel motor vehicle policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.

Company response- *As stated under Part One, the company has addressed this issue.*

- (9) Cancel owner-occupied dwelling policies when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.

Company response- *As stated under Part One, the company has addressed this issue.*

- (10) Send the cancellation notice to the address shown on the policy.

Company response- *As stated under Part One, the company has addressed this issue.*

- (11) Send the cancellation notice for an owner-occupied dwelling policy at least 30 days before the cancellation effective date when the notice is mailed after the 89th day of coverage.

Company response- *As stated under Part One, the company has addressed this issue.*

- (12) Provide the specific reason for cancellation to the insured.
Company response- *As stated under Part One, the company has addressed this issue.*
- (13) Advise the insured of his right to review by the Commissioner of Insurance.
Company response- *As stated under Part One, the company has addressed this issue.*
- (14) Advise the insured of the availability of other insurance with the VPIA.
Company response- *As stated under Part One, the company has addressed this issue.*
- (15) Include all required information in the affirmation of cancellation for a premium finance requested cancellation.
Company response- *As stated under Part One, the company is addressing this issue.*

Claims Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
Company response- *The Company has issued payments to the insureds/claimants on all undisputed claims where underpayments were identified during the market conduct examination.*
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
Company response- *The Company included six percent (6%) simple interest when making restitution to claimants and/or insureds.*
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

Company response- *The Company is returning a completed copy of the Claims Underpayments cited during the examination. The report will be sent as a separate file exhibit from this letter. The Company acknowledges that it has made payments to the insureds and claimants referenced in this file.*

- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

Company response- *The Company has appropriate policies, plans and procedures in place to help ensure that all events and dates pertinent to the claim are appropriately documented in the claim file. These policies, plans and procedures were recommunicated to the claims staff at a department meeting in June, 2016.*

- (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 Company has appropriate policies, plans and procedures in place to help ensure that all employees with claim-handling responsibilities settle matters for a fair and reasonable amount as shown by the claim investigation, pursuant to the applicable policy provisions. The Company recommunicated to all employees with claim-handling responsibilities these requirements at a department meeting in June, 2016.*

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

Company response- *The Company has appropriate policies, plans and procedures in place to help ensure that all employees with claim-handling responsibilities provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants.*

Forms Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Use the required Suspension of Insurance and Reinstatement of Insurance standard automobile forms adopted by the Bureau.

Company response- *As stated in Part One, the company is currently programming the system to correct this issue.*

Review of Statutory Notices

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (4) Amend the Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.
- (5) Amend the Glass Script notice to comply with § 38.2-517 A 3 of the Code of Virginia.
- (6) Amend the 60-Day Warning Cancellation notice to comply with § 38.2-2210 of the Code of Virginia.
- (7) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.

Company response to items 1 - 7 above- *The company is amending the necessary notices as stated in Part One.*

Licensing and Appointment Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Appoint agents within 30 days of the date of application.

Company response - *The company has addressed this issue as stated in Part One.*

Review of the Complaint-Handling Process

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

Company response- *The company maintains complaint logs as required by statute (see Part One).*

PART THREE - RECOMMENDATIONS

The companies should carefully scrutinize the following errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

RECOMMENDATIONS

We recommend the companies take the following actions:

Termination

- Provide adequate days' notice of cancellation to the lienholder as required by the policy.

Company response- *The company has addressed this issue with staff.*

- Use the term "cancels" instead of "expires" when the cancellation occurs midterm.

Company response- *The company is in the process of making this recommended change.*

- Correct the right to review language on the termination notices used for owner-occupied dwelling policies.

Company response- *The company is in the process of making this recommended change.*

- Amend the expiration notices to correctly represent when coverage ceases and the premium due date to reinstate the policy during the grace period.

Company response- *The company respectfully disagrees with the observation cited. The company submits that the expiration notice clearly and specifically represents when the premium is due as well as the date by which the premium may still be paid to keep coverage in force.*

Claims

Company response- *With regard to the following recommendations of the Bureau, these practices are all included in the Company's Standard Operating Procedures manual. The Claims Department's compliance with these practices is routinely and regularly monitored by the Company's internal Audit Unit. Further, the issues addressed by the Bureau in its Market Conduct Examination of the Company were reviewed with the entire Claims Department at its Statewide Meeting in June 2016:*

- Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to the Additional Living Expense coverage and replacement cost benefits under fire policies.
- Make all claim denials in writing and keep a copy in the claim file.
- Properly represent pertinent facts or policy provisions relating to coverages at issue.
- Include the correct statement of coverage under which payments are made with all claim payments made to insureds.
- Pay insureds and claimants no more than what they are entitled to receive under the terms of the policy.
- Include the lienholder on payments made to insureds when applicable.

The Company wishes to address the following recommendations as follows:

- Obtain an assignment of benefits from insureds authorizing the companies to make payments directly to the medical provider for Medical Expense Benefits claims.

Company response- *The Company is now ensuring that all AOBs are compliant with the statute and contain the necessary language prior to issuing medical expense payment.*

- Obtain the Explanation of Benefits from the health insurance carrier and pay the amount due from the insured without repricing the medical bill.

Company response- *The Company respectfully disagrees with this recommendation. The Company's interpretation of the medical expense statute is that any motor vehicle insurer is prohibited from reducing medical expense benefits because of any benefits paid, payable, or provided by a health insurance contract or health services plan. We interpret this to mean that we cannot reduce our bill payment by any payment made by a health insurance carrier. As such, we do not coordinate benefits with health insurance but rather handle payment of insureds' medical bills as per the policy language. We pay usual and customary expenses, regardless of whether or not health insurance applies. Some of our insureds either do not have health insurance or choose not to use the health insurance they have. Additionally, health insurance typically reduces bills far more than any reductions made for "usual and customary". It is our position that this interpretation of the medical expense statute is correct, that we handle all medical expense claims in accordance with this interpretation, and that our adjustment of the medical expense claims inures to the benefit of our insureds, and not to their detriment.*

Statutory Notices

- Amend the Important Information Regarding Your Insurance notice to state assistance also can be obtained from the company and/or agent.

Company response- *The company is amending the notice as recommended.*

- Amend the Accident Point Surcharge notice to indicate insureds only have a right to appeal accident surcharges.

Company response- *The company amended the notice as recommended. This change was effective 1/1/2017.*

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted four prior market conduct examinations of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company.

During the private passenger automobile, commercial automobile, homeowner, commercial multi-peril, and workers' compensation examination of Virginia Farm Bureau Mutual Insurance Company and Early Settlers Insurance Company (VFCIC) as of December 31, 1983, the companies violated §§ 38.2-510, 38.2-610, 38.2-1906, 38.2-2014, and 38.2-2212 of the Code of Virginia, as well as the Commission's Rules Governing

Unfair Claim Settlement Practices adopted in Case No. 19961 and Administrative Order 7707 issued by the Commission to amend the rates and rules for writing uninsured motorist coverage. A cease and desist order was entered by the State Corporation Commission against the companies in case number INS860107.

During the private passenger automobile, commercial automobile, homeowner, farmowner, dwelling fire, commercial multi-peril and general liability, and workers' compensation examination of Virginia Farm Bureau Fire and Casualty Insurance Company and Virginia Farm Bureau Mutual Insurance Company as of August 31, 1993, Virginia Farm Bureau Mutual Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-502, 38.2-511, 38.2-610, 38.2-1906, 38.2-2104, 38.2-2113, 38.2-2114, 38.2-2124, 38.2-2208, 38.2-2220 of the Code of Virginia, as well as Section 4.4 of the Commission's Rules Governing Insurance Premium Finance Companies; and Virginia Farm Bureau Fire and Casualty Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-502, 38.2-511, 38.2-1906, 38.2-2014, 38.2-2212 and 38.2-2220 of the Code of Virginia, as well as Section 4.4 of the Commission's Rules Governing Insurance Premium Finance Companies. A cease and desist order was entered by the State Corporation Commission against the companies in case number INS940201.

During the private passenger automobile, commercial automobile, homeowner, dwelling fire, farmowner, commercial property and liability, workers' compensation and Virginia Automobile Insurance Plan examination of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company as of September 30, 1998, Virginia Farm Bureau Mutual Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-305 A, 38.2-510 A 10, 38.2-612, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2124 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code; Virginia Farm Bureau Fire and Casualty Insurance Company violated §§ 38.2-231, 38.2-305, 38.2-510 A 10, 38.2-610 A, 38.2-1906 D, 38.2-2014 and 38.2-2114 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code; and Virginia Farm Bureau Town and Country Insurance Company violated §§ 38.2-510 A 10 and 38.2-1906 D of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

During the private passenger automobile, motorcycle, commercial automobile, homeowner and farmowner examination of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company as of June 30, 2001, the companies violated § 38.2-2220 of the Code of Virginia. Due to the minimal number of violations found, this examination did not result in a settlement order or monetary penalty.

ACKNOWLEDGEMENT

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

ne1y,

x . /



Andrea Baytop, AMC
Principal Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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March 17, 2017

VIA UPS 2nd DAY DELIVERY

Mr. Sam Rooks, CPCU, AU, CIC
Vice President of Underwriting and Policy Services
Virginia Farm Bureau Insurance
12580 West Creek Parkway
Richmond, Virginia 23238

Re: Market Conduct Examination
Virginia Farm Bureau Town & Country Insurance Company (NAIC #10086)
Virginia Farm Bureau Fire and Casualty Insurance Company (NAIC# 26026)
Virginia Farm Bureau Mutual Insurance Company (NAIC #26034)
Examination Period: September 1, 2014 – August 31, 2015

Dear Mr. Rooks:

The Bureau of Insurance (Bureau) has reviewed your January 9, 2017 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.

The Bureau appreciates the Companies' prompt and comprehensive procedural changes in response to the examination.

PART ONE – EXAMINERS' OBSERVATIONS

Automobile Renewal Business Rating

- (1) The Report has been revised to indicate the Uninsured Motorists form was not listed on the declarations page.
- (2a) The violation for RPA093 remains in the Report. The May 16, 2014 policy term referenced by the Company was effective before the examination period. The renewal policy term reviewed by the Bureau was effective November 16, 2014. The Rule Manual page applicable to the policy term under review was filed under SERFF tracking number VRFB-129534931, which had a renewal effective date of August 1,

2014. The Advance Purchase Days calculation used by the Company was no longer filed for its use because it was superseded by the aforementioned filing. The Company should file a manual revision to include both Advance Purchase Days calculations and specify when each calculation should be used.

The Company stated it would revise its manual regarding surcharge points. The only surcharge point observation concerned not-at-fault accidents, which cannot be surcharged when discovered after the new business policy effective date. Therefore, the Company is unable to file a revision to allow such a surcharge.

- (2b) Please provide the estimated completion date for filing the surcharge points revision for accidents and convictions.

Homeowner Renewal Business Rating

- (2d) After further review, the violation for RHO043 has been withdrawn from the Report.

Premium Finance Requested Cancellations

- (1a) Please provide the estimated completion date for correcting the affirmation of cancellation.

Homeowner Cancellation Notice Mailed Prior to the 90th Day of Coverage

- (3) Please provide the estimated completion date to address all named insureds with a cancellation notice.

Homeowner Nonpayment of Premium Cancellations

- (1) Please provide the estimated completion date to calculate earned premium correctly.

Homeowner Insured Requested Cancellations

- (2a) Please provide the estimated completion date for submitting the form revision.

Automobile Claims

- (5c) After further review, the violation for CPA126 has been withdrawn from the Report. The Company incorrectly addressed this violation under Item (5d).

- (6a & 6b) These violations remain in the Report. The claim files were not documented to indicate the vehicle owner was given a copy of the estimate. By the Companies' own admission, the Third Party Administrator (TPA) is working as a representative of the Companies. As such, their actions in this capacity are actions performed by the Companies. Additionally, the TPA universal agreement does not comply with this

requirement as there is no documentation that connects the agreement to the specific repair estimates.

- (9a) The violation for CPA035 remains in the Report. There is no law that allows insurers to retain the salvage of a total loss vehicle when the owner chooses to retain the vehicle. Further, the claim file includes a note that indicates the Companies do permit owners to retain water damaged insured vehicles. According to § 46.2-1603 A of the Code of Virginia, "The owner of any vehicle titled in the Commonwealth may declare such vehicle to be a salvage vehicle and apply....and obtain a salvage certificate..." The insured is the owner of the salvage until such time as he relinquishes ownership to the Company. In addition, there is no prohibition against owner retained water damaged vehicles in Virginia. The DMV form VSA58 titled "Notification of Owner-Retained Late Model and/or Water Damaged Vehicle" allows owners to retain water damaged vehicles.

Homeowner Claims

- (1) After further review, the violation for CHO026 has been withdrawn from the Report.

The violation for CHO040 remains in the Report. The Company did not properly document the file. The contractor's name only appeared on the check. The log notes did not name the contractor. The Company accepted an estimate placed in the claim file without identifying who prepared the estimate. After further review, the violation relating to the W-9 has been withdrawn.

The violation for CHO082 was withdrawn on February 22, 2016. The Company acknowledged the additional violations numbered 2 and 3 in the review sheet.

After further review, the violation for CHO085 has been withdrawn from the Report.

After further review, the referenced violation for CHO090 has been withdrawn from the Report. The Company acknowledged the additional violations numbered 1, 3, 4, and 5.

After further review, the violations for CHO098 have been withdrawn from the Report.

- (2b) The violation for CHO063 remains in the Report. The insured should have been informed of Replacement Cost coverage. The policy states that a loss will be initially settled at actual cash value (ACV) and the insured may then make a claim to recover withheld depreciation upon replacement up to the estimated replacement cost value (RCV). The insured was under no obligation to replace damaged building items with like, kind and quality materials. This insured chose to replace the carpet flooring with hardwood flooring. The Company owed the RCV for the carpet and any additional expense related to the hardwood upgrade was the insured's responsibility.
- (2c) After further review, the violation for CHO085 has been withdrawn from the Report.

- (3) The violation for CHO079 has been moved to a violation of 14 VAC 5-400-70 B, under item (3) of the Revised Report. Although the email on May 12, 2015 advised the insured of no coverage for the indicated items, the Company was required to provide an explanation for the basis of the denial with specific reference to the policy provisions.
- (5a) The violation for CHO063 remains in the Report. The insured should have been informed of Replacement Cost coverage. The policy states that a loss will be initially settled at ACV and the insured may then make a claim to recover withheld depreciation upon replacement up to the estimated RCV. The insured was under no obligation to replace damaged building items with like, kind and quality materials. This insured chose to replace the carpet flooring with hardwood flooring. The Company owed the RCV for the carpet and any additional expense related to the hardwood upgrade was the insured's responsibility. The Company should pay the insured the RCV of the carpet.
- (5b) After further review, the violation for CHO020 has been withdrawn from the Report. However, a new violation for CHO020 has been added to the Report under Item (6) of the Revised Report for a violation of § 38.2-510 A 3 of the Code of Virginia.
- (5c) After further review, the violation for CHO013 has been withdrawn from the Report.

After further review, the violation for CHO087 has been withdrawn from the Report.
- (6a) After further review, the violation for CHO084 has been withdrawn from the Report.

Automobile Policy Forms

Please provide the estimated completion date for having the Suspension of Insurance and Reinstatement of Insurance standard automobile forms available for use.

General Statutory Notices

- (1) Please provide the estimated completion date for adding the rights provided by § 38.2-608 and 609 to its long form Notice of Information Collection and Disclosure Practices notice.
- (2) Please provide the estimated completion date to revise this notice.
- (3) Please provide the estimated completion date for adding the categories of companies that information may be disclosed to under a joint marketing agreement.

Statutory Vehicle Notices

- (1) Although notices are not approved in Virginia, the Bureau reviewed the Companies' revised Glass Script and found it to be compliant with the current statute.

- (2) The violation for NSV002 remains in the Report. The statute provides the notice wording in all caps and it specifically requires the notice to be in boldface type. Please provide the estimated completion date for revising this notice.

Statutory Property Notices

- (1) Please provide the estimated implementation date of this notice.
- (2) Please provide the estimated implementation date of this notice.

Review of the Complaint Handling Process

These violations remain in the Report. The Companies' complaint register did not include all complaints filed during the examination period.

PART TWO – CORRECTIVE ACTION PLAN

Terminations

- (3) Please provide the date the check was issued for the refund on THO026.

Claims

- (2) The Company should make the outstanding restitution indicated in the revised restitution spreadsheet.

PART THREE – RECOMMENDATIONS

Termination

- Please provide the estimated completion date for changing the term “expires” to “cancels” on mid-term cancellation notices.
- Please provide the estimated completion date for correcting the right to review language on cancellation notices used for owner-occupied dwellings.
- This item has been revised in the Report. However, the Companies should allow policies to expire when the insured has not paid any money towards the renewal policy. The Companies' current notice provides coverage for claims into the renewal term without receiving any payment. Once an insurer extends coverage, the insurer may not retroactively cancel the policy. The expiration notice can provide a grace period for the insured to have the policy reinstated without a lapse, instead of extending coverage without payment. The Companies should note that they would be required to pay claims presented on the renewal policy, but would not be able to demand payment of the premium first.

Claims

- The Companies have a duty to ensure that any bill reductions made for usual and customary expenses are not below the reductions made by the health insurance company. Obtaining the Explanation of Benefits from the health insurance company is a reliable method to make sure the Medical Expense Benefit payments are compliant. The Companies should also note that the health insurance company is the primary policy and in-network medical providers must submit medical claims in accordance with § 8.01-27.5 B of the Code of Virginia.

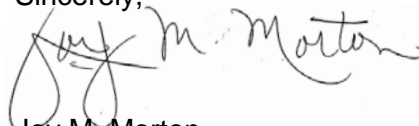
Statutory Notices

- The Companies provided a copy of its revised notice that now includes the requested amendment.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed 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.

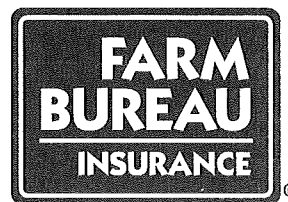
Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by April 21, 2017.

Sincerely,



Joy M. Morton
Manager
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures



April 13, 2017

Joy M. Morton
Market Conduct Section
Property & Casualty Section
Commonwealth of Virginia
Bureau of Insurance

RE: Market Conduct Examination Preliminary Report Response
Virginia Farm Bureau Town & Country Ins. Co. (NAIC # 10086)
Virginia Farm Bureau Fire & Casualty Ins. Co. (NAIC # 26026)
Virginia Farm Bureau Mutual Ins. Co. (NAIC # 26034)

Dear Ms. Morton:

We are in receipt of the market conduct examination follow-up report regarding the three companies cited above. We respectfully submit this letter as the company's response. Per your request, the attached response follows the same format found in the report. You will also find exhibits with supporting documentation as well as spreadsheets containing the refunds/overpayments that have been processed.

We look forward to reaching a mutually agreeable resolution of the examination. If you have any questions regarding our response, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Sam Rooks". The signature is written in a cursive style and is followed by a horizontal line.

Sam Rooks, CPCU, AU, CIC
Vice President of Underwriting and Policy Services

MARKET CONDUCT EXAMINATION REPORT

OF

VIRGINIA FARM BUREAU FIRE AND CASUALTY
INSURANCE COMPANY

VIRGINIA FARM BUREAU MUTUAL INSURANCE
COMPANY

AND

VIRGINIA FARM BUREAU TOWN AND COUNTRY
INSURANCE COMPANY

AS OF

AUGUST 31, 2015

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

Property and Casualty Division
Market Conduct Section

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger automobile and homeowner lines of business written by Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town & Country Insurance Company at their office in Richmond, Virginia.

The examination commenced February 1, 2016, and concluded October 12, 2016. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Property and Casualty Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 11, 2015 and was assigned the examination number of VA097-M18. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

COMPANY PROFILES*

Virginia Farm Bureau Fire and Casualty Insurance Company (VFCIC) was incorporated under the laws of Virginia as Early Settlers Insurance Company on December 7, 1961 and commenced business on January 28, 1962. The current title was adopted effective April 6, 1993.

Virginia Farm Bureau Mutual Insurance Company (VMIC) was incorporated under the laws of Virginia on November 28, 1949 and commenced business on September 15, 1950.

* Source: Best's Insurance Reports, Property & Casualty, 2016 Edition.

Virginia Farm Bureau Town and Country Insurance Company (VTCIC) was incorporated under the laws of Virginia on April 5, 1993 and commenced business on January 1, 1995.

All companies are based in Richmond, Virginia.

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 dates the companies were licensed except as noted in the table.

GROUP CODE: 0203	VFCIC	VMIC	VTCIC
NAIC Company Number	26026	26034	10086
LICENSED IN VIRGINIA	1/18/62	9/15/50	10/13/94
LINES OF INSURANCE			
Accident and Sickness		X	X
Aircraft Liability	X	X	X
Aircraft Physical Damage		4/28/80	X
Animal	12/09/13	4/28/80	X
Automobile Liability	X	X	X
Automobile Physical Damage	X	X	X
Boiler and Machinery	X	X	X
Burglary and Theft	X	X	X
Commercial Multi-Peril	X	X	X
Credit			X
Farmowners Multi-Peril	X	X	X
Fidelity		4/28/80	X
Fire	X	X	X
General Liability	X	X	X
Glass	X	X	X
Homeowner Multi-Peril	X	X	X
Inland Marine	X	X	X
Legal Services			X
Miscellaneous Property	X	X	X
Ocean Marine		X	X
Surety		4/28/80	X
Water Damage	X	X	X
Workers' Compensation	X	4/28/80	X

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2015 for the lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Virginia Farm Bureau Fire and Casualty Insurance Company		
Private Automobile Liability	\$5,712,044	.21%
Private Automobile Physical Damage	\$4,668,986	.22%
Homeowner Multiple Peril	\$10,774,295	.52%
Virginia Farm Bureau Mutual Insurance Company		
Private Automobile Liability	\$22,017,497	.81%
Private Automobile Physical Damage	\$15,534,212	.74%
Homeowner Multiple Peril	\$36,394,086	1.77%
Virginia Farm Bureau Town and Country Insurance Company		
Private Automobile Liability	\$32,496,077	1.19%
Private Automobile Physical Damage	\$25,834,767	1.23%

* Source: The 2015 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 September 1, 2014 through August 31, 2015. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent 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. The Report is by test, and all tests applied during the examination are reported.

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 statutes and regulations 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 on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

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.

*Policies reviewed under this category reflected the companies' 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	VFCIC	VMIC	VTIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	RATIO
Private Passenger Auto								
New Business	5749	vQ	Q	5749	30	0	19	63%
	30	0	0	30				
Renewal Business ¹	4111	48026	5515	128318	68	0	66	97%
	10	25	35	70				
Co-Initiated Cancellations ²	00	111	27	146	45	0	18	40%
	22	15	13	50				
All Other Cancellations ²	1029	5195		12949	28	0	4	14%
	9	11	11	31				
Nonrenewals ²			232	542	12	0	6	50%
	3	5	6	14				
Premium Finance	4		Q	8	6	0	6	100%
	5		0	6				
Homeowner								
New Business ³	111	2001	Q	2752	29	0	14	48%
	10	20	0	30				
Renewal Business ⁴	4802	40395	Q	45197	66	0	41	62%
	20	50	0	70				
Co-Initiated Cancellations ²	.11	27	Q	79	18	0	7	39%
	7	19	0	26				
All Other Cancellations ²	590	4099	Q	4689	17	0	5	29%
	8	11	0	19				
Nonrenewals	4		Q	988	11	0		9%
	4	7	0	11				
Premium Finance ⁵	Q	4	Q	4	0	0	0	0%
	0	4	0	4				
Claims								
Auto	1748	9064	15048	25860	143	0	48	34%
	39	50	54	143				
Property ⁶	27	73	Q	1682	99	0	28	28%
	27	73	0	100				

Footnote ¹-Two files were not reviewed. One file was a commercial auto policy and one policy was a new business policy that had been reinstated with a lapse in coverage.

Footnote ²-The companies were unable to provide accurate termination population data. The files in these categories were mislabeled by the companies and were either not reviewed or moved to be reviewed in the appropriate category.

Footnote ³-One policy insured a mobile home and was not reviewed.

Footnote ⁴-Four policies insured mobile homes and were not reviewed.

Footnote ⁵-The companies were unable to provide accurate termination population data. Two files were cancelled by the companies after the 89th day of coverage and reviewed within that category. Two files were cancelled by the insured and reviewed within that category.

Footnote ⁶-One policy insured a mobile home and was 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 Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$611.76 and undercharges totaling \$977.27. The net amount that should be refunded to insureds is \$611.76 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page misrepresented discounts that were not applicable.

Company response- *The discount field was incorrectly populated and has been corrected. This has been addressed with staff.*

- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured that the policy was surcharged for an at-fault accident.

Company response- *The subsequent 1/13/2016 renewal contained the proper notification of the accident surcharge thus correcting the deficiency. This has been addressed with staff.*

- (3) The examiners found 41 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 nine instances, the company failed to use the correct discounts and/or surcharges.

Company response- *The premier driver discount system calculation error was corrected in February 2016.*

- b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.

Company response- *The company acknowledges it failed to apply the correct surcharge points. The policy has been corrected and the issue has been addressed with staff.*

- c. In 29 instances, the company failed to use the correct symbol.

Company response- *The company acknowledges there was a temporary programming error regarding vehicle symbols. This error was corrected in December 2015.*

- d. In one instance, the company failed to use the correct territory.

Company response- *The territory has been corrected. This has been addressed with staff.*

- e. In one instance, the company failed to follow its driver assignment rule.

Company response- *The driver assignment error has been corrected. This has been addressed with staff.*

Automobile Renewal Business Policies

The Bureau reviewed 68 renewal business policy files. During this review, the examiners found overcharges totaling \$1,286.86 and undercharges totaling \$2,561.31. The net amount that should be refunded to insureds is \$1,286.86 plus six percent (6%) simple interest.

- (1) The examiners found 59 violations 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 list the Uninsured Motorists form on the declarations page.

Company response- *The company acknowledges there was a temporary programming error which led to this violation. The programming error was corrected in August 2015.*

- (2) The examiners found 111 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 four instances, the company failed to use the correct discounts and/or surcharges.

Company response- *The company respectfully disagrees with the cite and observation on review sheet R&URBPPA-175424496 (BOI reference number RPA093).*

Regarding the specific policy term in question, we agree that the Advance Purchase rule in effect was, in fact, the one which was filed under SERFF tracking number VRFB-129534931 with a renewal effective date of August 1, 2014. That being said, the rule has both a new business policy term component (based on the initial quote date and new business policy effective date) and a renewal business policy term component (the premium adjustment applies to renewals up to 60 months from the policy's new business date provided no lapse occurs). As this policy's new business policy term component was already fulfilled in its prior new business policy term (which was subject to the Advance Purchase rule in effect prior to the above filing), only its renewal business policy term component would be subject to the newly filed rule which it, in fact, is.

See the attached policy table (Supplemental Underwriting Exhibit #1) showing the factors used when the advanced purchase date is calculated. These factors have not changed since the original filing effective 4-15-2014. They have been used during the policy periods in question both new business and renewal.

This policy was issued as new business on 5-16-2014 with an effective date of 5-16-2014. The advanced purchase discount manual rule in effect at the time the policy was dated 04-14 (see manual page below).

J. ADVANCE PURCHASE (Table POL-03)

1. Eligibility

This premium adjustment shall apply to all private passenger, farm, and utility type vehicles on a policy excluding antique automobiles and unlicensed farm use vehicles.

2. Coverages

This premium adjustment shall apply to the Bodily Injury Liability, Property Damage Liability, Medical Expense, Comprehensive and Collision coverages.

3. Premium Adjustment

A premium adjustment shall be applied when an applicant accepts a quote for new business in advance of the date on the expiring automobile policy with another carrier. The number of Advance Purchase days is the difference between the prior carrier's policy expiration date and the date the accepted quote is processed by VFB. This Premium Adjustment applies to new business and shall continue until the first renewal date after 60 months from the policy's new business effective date, provided there is no lapse in coverage during this time.

4. Refer to the table shown above in the Rating Factors section of this manual for the factors which apply.

K. LATE PAYMENT (Table POL-06)

1. Eligibility

This premium adjustment shall apply to all private passenger, farm, and utility type vehicles on a policy excluding antique automobiles and unlicensed farm use vehicles.

2. Coverages

The premium adjustment shall apply to the Bodily Injury Liability, Property Damage Liability, Medical Expense, Comprehensive and Collision coverages.

According to this rule, the number of advance purchase days is the difference between the prior carrier's policy expiration date and the date the accepted quote is processed by VFB. This difference is 189 days. The factor for 189 days is .0680086. This factor would carry forward on all subsequent renewal terms for a period of 5 years.

When the policy was renewed to the term of 5/16/2015 to 11/16/2015, which the BOI audit reviewed, the new business component had already been satisfied. The renewal component was applicable to renewals up to 60 months, which it is, and the rate factors that have not changed since the policy was written.

There was a change made to the manual renewal which affected new business policies effective 8/1/2014 and after, second edition date 07-2014 (see the manual page below). This revision would not have impacted the policy in question since the policy had been issued under the original manual rule, edition dated 4/2014.

J. ADVANCE PURCHASE (Table POL-03)

1. Eligibility

This premium adjustment shall apply to all private passenger, farm, and utility type vehicles on a policy excluding antique automobiles and unlicensed farm use vehicles.

2. Coverages

This premium adjustment shall apply to the Bodily Injury Liability, Property Damage Liability, Medical Expense, Comprehensive and Collision coverages.

3. Premium Adjustment

A premium adjustment shall be applied when a quote is created for an applicant (not currently insured with VFB) in advance of the new business policy effective date. The number of Advance Purchase days is the difference between the new business policy effective date and the initial quote date. This Premium Adjustment applies to new business and shall continue until the first renewal date after 60 months from the policy's new business effective date, provided there is no lapse in coverage during this time.

4. Refer to the table shown above in the Rating Factors section of this manual for the factors which apply.

K. LATE PAYMENT (Table POL-06)

1. Eligibility

This premium adjustment shall apply to all private passenger, farm, and utility type vehicles on a policy excluding antique automobiles and unlicensed farm use vehicles.

2. Coverages

The premium adjustment shall apply to the Bodily Injury Liability, Property Damage Liability, Medical Expense, Comprehensive and Collision coverages.

The company submits the policy is rated correctly.

- b. In two instances, the company failed to apply the correct surcharge points for accidents and/or convictions.

Company response- *The company acknowledges it failed to apply the correct surcharge points according to the filed manual rule. The filed manual rule was revised and will be filed effective February 1, 2017.*

- c. In 96 instances, the company failed to use the correct symbol.

Company response- *The company acknowledges there was a temporary programming error regarding vehicle symbols. This error was corrected in December 2015.*

- d. In three instances, the company failed to use the correct territory.

Company response- *The territories have been corrected. This issue has been addressed with staff.*

- e. In two instances, the company failed to use the correct driver classification.

Company response- *The driver classification errors have been corrected. This has been addressed with staff.*

- f. In four instances, the company failed to follow its driver assignment rule.

Company response- *The company agrees with the observations and the assignment errors have been corrected. This has been addressed with staff.*

Homeowner New Business Policies

The Bureau reviewed 29 new business policy files. During this review, the examiners found overcharges totaling \$117.00 and undercharges totaling \$65.00. The net amount that should be refunded to the insured is \$117.00 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 declarations page included coverages that were not applicable to the policy.

Company response- *This violation was the result of a keying error. This has been addressed with staff.*

- (2) The examiners found 16 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.

Company response- *The programming error that caused this error was corrected in November 2016.*

- b. In one instance, the company failed to use the correct base and/or final rates.

Company response - *The violation was the result of human error. The policy has been corrected and the issue has been addressed with staff.*

- c. In one instance, the company failed to follow its minimum premium rule.

Company response - *There was a programming error in the legacy system. The policy was corrected when it renewed into our new system on 11/7/2015.*

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

Company response - *The policies have been corrected. Proper PPC classification has been reviewed with staff.*

- e. In seven instances, the company failed to use the correct increased limits factor.

Company response - *In May 2016, the company filed a corrected increase limit rating page to correct the typographical error.*

- f. In one instance, the company failed to follow its Protector Program rule.

Company response - *The company revised the filed manual rule correcting this issue in February 2017.*

Homeowner Renewal Business Policies

The Bureau reviewed 66 renewal business policy files. During this review, the examiners found overcharges totaling \$3,684.00 and undercharges totaling \$1,695.00. The net amount that should be refunded to insureds is \$3,684.00 plus six percent (6%) simple interest.

- (1) The examiners found eight violations 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 declarations page failed to accurately reflect the address of the insured location.

Company response - *The addresses have been corrected. This issue has been addressed with staff.*

- (2) The examiners found 63 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 17 instances, the company failed to use the correct discounts and/or surcharges.
Company response - *The company has taken steps to correct these policies.*
- b. In four instances, the company failed to use the correct territory.
Company response - *The company corrected the location addresses which corrected the territories.*
- c. In three instances, the company failed to use the correct base and/or final rates.
Company response - *This citation occurred as a result of converting the policy to our new processing system. The policy has been corrected and we have verified the system is functioning properly.*
- d. In 22 instances, the company failed to use the correct public protection class.
Company response - *The protection classes have been corrected. Proper PPC classification has been reviewed with staff.*
- e. In nine instances, the company failed to apply the correct increased limits factor.
Company response - *In May 2016, the company filed a corrected increase limit rating page to correct the typographical error.*
- f. In one instance, the company failed to follow its interpolation rule.
Company response - *This violation was the result of human error on a manually rated policy. With our new system, manually rating policies is no longer necessary. All policies have renewed into the new system as of October 2015. The system is interpolating per the filed manual rule.*
- g. In four instances, the company failed to follow its rounding rule.
Company response - *This violation was the result of human error on a manually rated policy. With our new system, manually rating policies is no longer necessary. All policies have renewed into the new system as of October 2015. The system is rounding per the filed manual rule.*
- h. In three instances, the company failed to rate the policy with updated credit information.
Company response - *The violations were the result of human error. This has been addressed with staff.*

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 60TH DAY OF COVERAGE

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day

of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company response - *In each of these instances, our mailing pre-sort company postage was on the certificate of mailing list but the post office stamp was missing or not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

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

Company response - *This was an isolated instance of failing to retain the POM for the lienholder notice. Our electronic notification service provided by LexisNexis retains the POM for lienholders. We have verified POM to the lienholder is being obtained.*

- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company failed to provide adequate days' notice of cancellation to the insured.

Company response - *This cancellation notice was entered into the system on February 12 and should have been mailed on Friday, February 13 which would have met the required 10 days notice. An unknown human error delayed the mailing.*

- b. In one instance, the company failed to provide adequate days' notice of cancellation to the lienholder.

Company response - *The issue that caused inadequate lienholder notification has been resolved.*

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed 29 automobile cancellations that were initiated by the companies where the companies mailed the notice on or after the 60th 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 overcharges totaling \$5.00 and no undercharges. The net amount that should be refunded to insureds is \$5.00 plus six percent (6%) simple interest.

- (1) 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.

Company response - *The company has corrected the error. This issue has been addressed with staff.*

- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
- a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.

Company response - *The issue that caused this error has been corrected.*

- b. In one instance, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

Company response - *This appears to be an isolated incident. We have verified POM to the lienholder is being obtained.*

- (3) The examiners found five violations of § 38.2-2212 D of the Code of Virginia.
- a. In four instances, the company cancelled the insured's motor vehicle policy after the 59th day of coverage for a reason not permitted by the statute.
- b. In one instance, the company cancelled the insured's motor vehicle policy for a license suspension or revocation that was not supported by the Motor Vehicle Report.

Company response (a & b) - *The company agrees with the examiner's observations. These issues have been addressed with staff.*

- (4) The examiners found six violations of § 38.2-2212 E of the Code of Virginia.
- a. In one instance, the company failed to mail the cancellation notice to the address shown on the policy.
- Company response -** *The company has corrected the error. This issue has been addressed with staff.*
- b. In five instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- Company response-** *The company agrees with the examiner's observations. These instances involved human error and have been addressed with staff.*
- (5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.
- Company response-** *The issue that caused inadequate lienholder notification has been resolved.*

All Other Cancellations - Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 14 private passenger 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.

- (1) The examiners found two violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- Company response-** *These were isolated instances of failing to retain the POM for the lienholder notice. Our electronic notification service provided by LexisNexis retains the POM for lienholders. We have verified POM to the lienholder is being obtained.*
- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia.
- a. In one instance, the company failed to send the insured written notice of cancellation of his motor vehicle policy.

- b. In one instance, the company failed to mail the cancellation notice to the address shown on the policy.

Company response (a & b) - *The company agrees with the examiner's observations. These issues have been addressed with staff.*

REQUESTED BY THE INSURED

The Bureau reviewed 14 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 no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals -Automobile Policies

The Bureau reviewed 12 automobile nonrenewals that were initiated by the companies.

- (1) The examiners found three violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain valid proof of mailing the nonrenewal notice to the lienholder.

Company response- *This was an isolated instance of failing to retain the POM for the lienholder notice. Our electronic notification service provided by LexisNexis retains the POM for lienholders. We have verified POM to the lienholder is being obtained.*

- b. In one instance, the company failed to send the nonrenewal notice to the lienholder.

Company response- *The issue that caused inadequate lienholder notification has been resolved.*

- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

Company response- *The issue that caused inadequate lienholder notification has been resolved.*

Premium Finance Requested Cancellations

The Bureau reviewed six automobile cancellations that were initiated by a premium finance company under a power of attorney. During this review, the examiners found overcharges totaling \$5.52 and no undercharges. The net amount that should be refunded to insureds is \$5.52 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of 14 VAC 5-390-40 D.
- a. In six instances, the company failed to include all of the required information in its affirmation of cancellation.

Company response- *The necessary system change correcting the cause of these violations was implemented on April 8, 2017.*

- b. In one instance, the company failed to verify that the premium finance company had a power of attorney authorizing cancellation of the policy.

Company response- *The violation was the result of human error. This has been addressed with staff.*

- (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.

Company response- *The violation was the result of human error. This has been addressed with staff.*

Company-Initiated Cancellations - Homeowner PoliciesNOTICE MAILED PRIOR TO THE 90th DAY OF COVERAGE

The Bureau reviewed 14 homeowner cancellations that were initiated by the companies where the notices were mailed prior to the 90th 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 § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to mail the cancellation notice to all of the named insureds shown on the declarations page.

Company response- *The issue giving rise to this citation is being corrected through training. Training will be provided in May 2017.*

NOTICE MAILED AFTER THE 90th DAY OF COVERAGE

The Bureau reviewed four homeowner cancellations that were initiated by the companies where the notices were mailed on or after the 90th 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 one violation of § 38.2-610 of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD).

Company response- *The violation was the result of human error. This has been addressed with staff.*

- (2) The examiners found four violations of § 38.2-2113 C of the Code of Virginia.

- a. In one instance, the company failed to retain a copy of the notice of cancellation for the lienholder.

Company response- *This appears to be an isolated incident.*

- b. In two instances, the company failed to retain proof of mailing the cancellation notice to the insured.

Company response- *We are now using IMb tracking as our proof of mailing which corrects this issue going forward.*

- c. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.

Company response- *This appears to be an isolated incident.*

- (3) The examiners found two violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.

Company response- *The violations were the result of human error. The issues have been addressed with staff.*

- (4) The examiners found seven violations of § 38.2-2114 C of the Code of Virginia.

- a. In two instances, the company failed to provide 30 days' notice of cancellation to the insured when the company cancelled the policy after the 89th day of coverage.

- b. In two instances, the company failed to provide the specific reason for cancellation of a policy insuring an owner-occupied dwelling.
- c. In two instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- d. In one instance, the company failed to advise the insured of the availability of other insurance with the Virginia Property Insurance Association (VPIA).

Company response (a – d) - *The violations were the result of human error. The issues have been addressed with staff.*

All Other Cancellations - Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed eight homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

- (1) 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.

Company response- *The company is currently programming the system to correct this defect. We estimate completion by September 2017.*

- (2) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

- (3) The examiners found three violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

Company response- *In each of these instances, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

REQUESTED BY THE INSURED

The Bureau reviewed nine 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 no overcharges and undercharges totaling \$34.52.

- (1) 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.

Company response- *The violation was the result of human error. This has been addressed with staff.*

- (2) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company backdated the cancellation effective date contrary to its filed rule.

Company response- *The company has filed the revised form with an effective date of May 21, 2017. This will bring the company into compliance.*

- b. In one instance, the company failed to honor the date of cancellation requested by the insured.

Company response- *The violation was the result of human error. This has been addressed with staff.*

Company-Initiated Non-renewals - Homeowner Policies

The Bureau reviewed 11 homeowner nonrenewals that were initiated by the companies.

The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.

Company response- *In this instance, the post office stamp was not legible. We are now using IMb tracking as our proof of mailing which eliminates the post office stamp issue.*

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 143 automobile claims for the period of September 1, 2014 through August 31, 2015. 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 \$72.00 and underpayments totaling \$12,059.89. The net amount that should be paid to claimants is \$12,047.89 plus six percent (6%) simple interest.

Company response - *The Company's Restitution spreadsheet and exhibits are attached. (See Restitution Report and Exhibits)*

- (1) The examiners found seven violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Company response- *The Company understands the Bureau's position on the 7 violations.*

- (2) The examiners found two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the

- a. In one instance, the company failed to inform an insured of the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
- b. In one instance, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage (UM) when the file indicated the coverage was applicable to the loss.

Company response- *The Company understands the Bureau's position on these 2 violations.*

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Company response- *The Company understands the Bureau's position on this violation.*

- (4) The examiners found four violations of 14 VAC 5-40070 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (5) The examiners found 14 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 one instance, the company failed to pay the proper sales and use tax, title fee, and/or license fee on first-party total loss settlements.
- b. In three instances, the company failed to pay the insured's Medical

Expense Benefits claim properly.

- c. In six instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
- d. In four instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other Than Collision coverage.

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

Company response- *The Company understands the Bureau's position on thirteen of these violations.*

- (6) The examiners found 13 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 nine instances, the company failed to provide a copy to the insured.
 - b. In four instances, the company failed to provide a copy to the claimant.

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

Company response- *The company understands the Bureau's position on these 2 violations. The TPA estimate now has a statement indicating that it was sent to the claimant.*

- (7) The examiners found one violation of § 38.2-236 A of the Code of Virginia. The company failed to notify the claimant within five days when the company issued a settlement payment of \$5,000.00 or greater to the claimant's attorney or other representative.

Company response- *The Company understands the Bureau's position on this violation.*

- (8) The examiners found two violations 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (9) The examiners found two 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 the claim in which liability was reasonably clear.

- a. In one instance, the company unreasonably prohibited the insured from retaining his salvaged vehicle.

Company response- *The company understands the Bureau's position on this violation.*

- b. In one instance, the company failed to reimburse the insured's Uninsured Motorists Property Damage (UMPD) deductible without unreasonable delay.

Company response- *The Company understands the Bureau's position on this violation.*

- (10) The examiners found three violations 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (11) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company set arbitrary or unreasonable limits on the reimbursement for paint and/or materials.

Company response- *The Company understands the Bureau's position on this violation.*

- (12) The examiners found five violations of § 38.2-2201 of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.

Company response- *The Company understands the violation and is now ensuring that all AOBs are compliant with the statute and contain the necessary language prior to issuing medical expense payment.*

- (13) The examiners found eight occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In seven instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.

Company response- *The Company understands the Bureau's position on these violations and took immediate corrective action in updating our Standard Operating Procedures Manual as a result. The Company no longer pays the title/tag fees of \$12.00 when a vehicle owner retains the salvage. (See Claims Exhibit 4)*

- b. In one instance, the company failed to pay the UM claim under the correct coverage.

Company response- *The Company understands the Bureau's position on this violation.*

Homeowner Claims

The examiners reviewed 99 homeowner claims for the period of September 1, 2014 through August 31, 2015. 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 \$738.79 and underpayments totaling \$9,481.68. The net amount that should be paid to claimants is \$9,481.68 plus six percent (6%) simple interest.

Company response - *The Company's Restitution spreadsheet and exhibits are attached. (See Restitution Report and Exhibits)*

- (1) The examiners found ten violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

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

Company response - *The Company understands the Bureau's position on this violation.*

- (2) The examiners found three violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In two instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.

Company response- *The Company understands the Bureau's position on two of these violations.*

- b. In one instance, the company failed to inform the insured of the replacement cost benefits under the Building coverage of the policy.

Company Response: *The Company wishes to present the Bureau with additional information for reconsideration of this violation. The Company is in agreement that the insured was under no obligation to replace damaged building items with like, kind and quality materials. The insured initially communicated that they would replace their damaged carpeting with hardwood flooring. As a result, the Company paid the insured for the actual cash value of the carpeting, until such time as actual replacement of the flooring (of any kind) was completed and a receipt presented. A letter to the insured was sent on February 19, 2016, explaining the payment and the Replacement Cost provision.*

On March 22, 2017, upon receipt of the Bureau's report, the Company reached out to the insured. At that time, Mrs. Insured advised our Field Claims Manager that, rather than replacing the carpet with hardwood flooring, the insureds cleaned the carpet instead.

Therefore, the Company respectfully disagrees with the observation made by the Bureau. The Company's position is that no additional amount is owed to the insured because the flooring was never replaced. The cost to clean the carpet was less than the actual cash value that was paid. The Company has noted the Restitution spreadsheet accordingly and a copy of the claim file notes regarding the March 22, 2017 conversation with Mrs. Insured is attached (see Supplemental Claims Exhibit 1).

- (3) The examiners found two violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.

Company response- *The Company understands the Bureau's position on this violation (the email to the insured denying coverage did not quote the specific policy language).*

- (4) The examiners found six 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 two instances, the company failed to pay the claim properly under the insured's Building Replacement Cost coverage.

Company response- *The Company understands the Bureau's position on one of these violations.*

The Company respectfully continues to disagree with the following violation:

CHO063 1054795730 - The Company sent a letter dated February 19, 2016 to Mr. and Mrs. Insured citing the replacement cost language from the Homeowner Policy. The insureds never presented a claim for replacement cost. When asked by the Bureau to make restitution to the insured in the amount of \$190, the company's Field Claims Manager contacted the insured to determine whether or not replacement had been made and if so, to send receipts. The Field Claims Manager was informed by the insureds that they did not replace with new carpet or hardwood flooring, they merely cleaned the carpet. Therefore, the insureds did not make nor were they entitled to replacement cost payment. A copy of the February 29 replacement cost letter and the log entry documenting the phone conversation between the Field Claims Manager and the insured is attached (Supplemental Claims Exhibit #1).

- b. In one instance, the company failed to pay the claim properly under the insured's Additional Living Expenses coverage.

Company response- *The Company understands the Bureau's position on this violation.*

- c. In three instances, the company failed to pay the claim properly under the insured's Personal Property Replacement Cost coverage.

Company response- *The Company understands the Bureau's position on these violations.*

- (5) The examiners found six 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. The company failed to properly represent the replacement cost provisions of the policy.

Company response- *The Company understands the Bureau's position on these violations.*

- (6) The examiners found two violations 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.

Company response- *The Company understands the Bureau's position on this violation.*

- (7) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

Company response- *The Company understands the Bureau's position on this violation.*

- (8) The examiners found four violations 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.

Company response- *The Company understands the Bureau's position on these violations.*

- (9) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In three instances, the company failed to include the lienholder on the check.

Company response- *The Company understands the Bureau's position on these violations.*

- b. In two instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.

Company response- *The Company understands the Bureau's position on these violations.*

REVIEW OF FORMS

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 Review of the Policy Issuance Process 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 77 forms that were used during the examination

period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia. The company failed to have available for use the standard forms for Suspension of Insurance and Reinstatement of Insurance.

Company response- *The company is currently programming the system to correct this issue. Implementation is scheduled for May 2017.*

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

The companies provided copies of 64 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

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 mailed on the following dates: October 28, 2015. In addition, the companies provided nine renewal business policies mailed on the following dates: October 28 and 29, 2015.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

Homeowner Policies

The companies provided six new business policies mailed on October 29, and 30, 2015 and November 2, and 17, 2015. In addition, the companies provided six renewal business policies mailed on October 29, and 30, 2015.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

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

- (1) The examiners found six violations of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (2) The examiners found five violations of § 38.2-604 C of the Code of Virginia. The company's short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.

Company response to items 1, 2, & 3 above- *The necessary changes correcting the cause of these violations was implemented on April 8, 2017.*

Statutory Vehicle Notices

- (1) The examiners found three violations of § 38.2-517 A of the Code of Virginia. The company's Glass Script did not properly disclose the use of a Third Party Administrator.

Company Response- *The Company revised the glass script and obtained approval from the Bureau via email on July 1, 2016.*

- (2) The examiners found one violation of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day Cancellation Warning notice on or attached to the first page of the application.

Company response- *The change correcting this issue was implemented on April 8, 2017.*

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company's notice summarizing the replacement cost provisions for owner-occupied dwellings did not contain all of the information required by the statute.

Company response- *The change correcting this issue was implemented on April 8, 2017.*

- (2) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The company's Flood Exclusion notice did not contain all of the information required by the statute.

Company response- *The change correcting this issue will be implemented in May 2017.*

Other Notices

The companies provided four other notices and documents 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 policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. 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 companies.

Agent

The examiners found one violation of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Company response- *This violation is the result of a clerical error. It was discovered during an internal quarterly audit and corrected at that time (June 9, 2015).*

Agency

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

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 three violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

Company response- *The company respectfully disagrees. The company maintains complaint logs as required by statute. The company admits the complete log was not submitted by the deadline established by the BOI. The claims logs was inadvertently left off of the complaint file provided. The claims complaint log was provided on March 9, 2016.*

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

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 standards set forth by the NAIC. The threshold applied to claims handling was seven percent (7%). Any error ratio above this threshold 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 that were found to be business practices of Virginia insurance statutes and regulations.

General

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company and
Virginia Farm Bureau Town and County Insurance Company shall:

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

Company response- *For each of the instances cited in part one, the company has included the corrective action taken. For responses indicating items have been addressed with staff, the company held group meetings and training to remedy the observations. The majority of these sessions were held while the BOI audit team was still on site.*

Rating and Underwriting Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company and
Virginia Farm Bureau Town and County Insurance Company 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 corrected the errors cited on all undisputed files. Refunds have been mailed or credits applied to insured's accounts.*

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

Company response- *The refunds/credits above include 6% interest as required.*

- (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 acknowledges the overcharges have been refunded or credited. (Please see the attached excel file.)*

- (4) Specify accurate information in the policy by listing endorsements that are applicable to the policy and showing the correct coverage limits on the declarations page.

Company response- *The company has corrected the programming error that caused this citation.*

- (5) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, territories, driver assignments, base and/or final rates, public protection classes, increased limit factors, rounding rules, and credit information.

Company response- *The company will pay closer attention to the items listed. The company monitors the system regularly for accuracy and conducts routine quality audits to monitor for compliance.*

Termination Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company 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 the date the error first occurred.

Company response- *The company has corrected the errors cited on all undisputed files. Refunds have been mailed or credits applied to insured's accounts.*

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

Company response- *The refunds/credits above include 6% interest as required.*

- 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 acknowledges the overcharges have been refunded or credited. (Please see the attached excel file.)*

- 4) Calculate earned premium according to the filed rules and policy provisions.

Company response- *When calculating return premium, the company will apply the filed manual rules and policy provisions.*

- 5) Obtain valid proof of mailing the notice of cancellation and nonrenewal to the insured and lienholder.

Company response- *The company has procedures in place to obtain valid proof of mailing as stated in Part One.*

- 6) Retain proof of mailing the notice of cancellation and nonrenewal to the insured and lienholder.

Company response- *The company has procedures in place to retain valid proof of mailing as stated in Part One.*

- 7) Provide a notice of cancellation or nonrenewal to the insured and lienholder.

Company response- *As stated under Part One, the company has addressed this issue.*

- 8) Cancel motor vehicle policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.

Company response- *As stated under Part One, the company has addressed this issue.*

- 9) Cancel owner-occupied dwelling policies when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.

Company response- *As stated under Part One, the company has addressed this issue.*

- 10) Send the cancellation notice to the address shown on the policy.

Company response- *As stated under Part One, the company has addressed this issue.*

- 11) Send the cancellation notice for an owner-occupied dwelling policy at least 30 days before the cancellation effective date when the notice is mailed after the 89th day of coverage.

Company response- *As stated under Part One, the company has addressed this issue.*

- 12) Provide the specific reason for cancellation to the insured.

Company response- *As stated under Part One, the company has addressed this issue.*

- 13) Advise the insured of his right to review by the Commissioner of Insurance.

Company response- *As stated under Part One, the company has addressed this issue.*

- 14) Advise the insured of the availability of other insurance with the VPIA.

Company response- *As stated under Part One, the company has addressed this issue.*

- 15) Include all required information in the affirmation of cancellation for a premium finance requested cancellation.

Company response- *As stated under Part One, the company is addressing this issue.*

Claims Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

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

Company response- *The Company has issued payments to the insureds/claimants on all undisputed claims where underpayments were identified during the market conduct examination.*

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

Company response- *The Company included six percent (6%) simple interest when making restitution to claimants and/or insureds.*

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

Company response- *The Company is returning a completed copy of the Claims Underpayments cited during the examination. The report will be sent as a separate file exhibit from this letter. The Company acknowledges that it has made payments to the insureds and claimants referenced in this file.*

- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

Company response- *The Company has appropriate policies, plans and procedures in place to help ensure that all events and dates pertinent to the claim are appropriately documented in the claim file. These policies, plans and procedures were recommunicated to the claims staff at a department meeting in June, 2016.*

- (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 Company has appropriate policies, plans and procedures in place to help ensure that all employees with claim-handling responsibilities settle matters for a fair and reasonable amount as shown by the claim investigation, pursuant to the applicable policy provisions. The Company recommunicated to all employees with claim-handling responsibilities these requirements at a department meeting in June, 2016.*

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

Company response- *The Company has appropriate policies, plans and procedures in place to help ensure that all employees with claim-handling responsibilities provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants.*

Forms Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Use the required Suspension of Insurance and Reinstatement of Insurance standard automobile forms adopted by the Bureau.

Company response- *As stated in Part One, the company is currently programming the system to correct this issue with a target implementation date of May 2017.*

Review of Statutory Notices

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (4) Amend the Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.
- (5) Amend the Glass Script notice to comply with § 38.2-517 A 3 of the Code of Virginia.
- (6) Amend the 60-Day Warning Cancellation notice to comply with § 38.2-2210 of the Code of Virginia.
- (7) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.

Company response to items 1 - 7 above- The company is amending or has amended the necessary notices as stated in Part One.

Licensing and Appointment Review

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Appoint agents within 30 days of the date of application.

Company response - *The company has addressed this issue as stated in Part One.*

Review of the Complaint-Handling Process

Virginia Farm Bureau Fire and Casualty Insurance Company,
Virginia Farm Bureau Mutual Insurance Company, and
Virginia Farm Bureau Town and County Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of
the Code of Virginia.

Company response- *The company maintains complaint logs as required by statute
(see Part One).*

PART THREE - RECOMMENDATIONS

The companies should carefully scrutinize the following errors and correct the
causes before these errors become business practices. The following errors will not be
included in the settlement offer:

RECOMMENDATIONS

We recommend the companies take the following actions:

Termination

- Provide adequate days' notice of cancellation to the lienholder as
required by the policy.

Company response- *The company has addressed this issue with staff.*

- Use the term "cancels" instead of "expires" when the cancellation occurs midterm.

Company response- *The company implemented this change April 8, 2017.*

- Correct the right to review language on the termination notices used for owner-occupied dwelling policies.

Company response- *The company implemented this change April 8, 2017.*

- Amend the expiration notices to correctly represent when coverage ceases and the premium due date to reinstate the policy during the grace period.

Company response- *The company estimates implementing this change in August 2017.*

Claims

Company response- *With regard to the following recommendations of the Bureau, these practices are all included in the Company's Standard Operating Procedures manual. The Claims Department's compliance with these practices is routinely and regularly monitored by the Company's internal Audit Unit. Further, the issues addressed by the Bureau in its Market Conduct Examination of the Company were reviewed with the entire Claims Department at its Statewide Meeting in June 2016:*

- Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to the Additional Living Expense coverage and replacement cost benefits under fire policies.
- Make all claim denials in writing and keep a copy in the claim file.
- Properly represent pertinent facts or policy provisions relating to coverages at issue.
- Include the correct statement of coverage under which payments are made with all claim payments made to insureds.
- Obtain an assignment of benefits from insureds authorizing the companies to make payments directly to the medical provider for Medical Expense Benefits claims.

- Pay insureds and claimants no more than what they are entitled to receive under the terms of the policy.
- Include the lienholder on payments made to insureds when applicable.

The Company wishes to address the following recommendations as follows:

- Obtain the Explanation of Benefits from the health insurance carrier and pay the amount due from the insured without repricing the medical bill.

Company's Response: *The Company acknowledges the Bureau's recommendation. The Company has amended the language in our payment letters, a copy of which is attached. The Company would appreciate if the Bureau would advise if the language in this letter is compliant (see supplemental Claims exhibit #2).*

Statutory Notices

- Amend the Important Information Regarding Your Insurance notice to state assistance also can be obtained from the company and/or agent.
- Amend the Accident Point Surcharge notice to indicate insureds only have a right to appeal accident surcharges.

Company response- *The company implemented these two changes.*

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted four prior market conduct examinations of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company.

During the private passenger automobile, commercial automobile, homeowner, commercial multi-peril, and workers' compensation examination of Virginia Farm Bureau Mutual Insurance Company and Early Settlers Insurance Company (VFCIC) as of December 31, 1983, the companies violated §§ 38.2-510, 38.2-610, 38.2-1906, 38.2-2014, and 38.2-2212 of the Code of Virginia, as well as the Commission's Rules Governing Unfair Claim Settlement Practices adopted in Case No. 19961 and Administrative Order 7707 issued by the Commission to amend the rates and rules for writing uninsured motorist coverage. A cease and desist order was entered by the State Corporation

Commission against the companies in case number INS860107.

During the private passenger automobile, commercial automobile, homeowner, farmowner, dwelling fire, commercial multi-peril and general liability, and workers' compensation examination of Virginia Farm Bureau Fire and Casualty Insurance Company and Virginia Farm Bureau Mutual Insurance Company as of August 31, 1993,

Virginia Farm Bureau Mutual Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-502, 38.2-511, 38.2-610, 38.2-1906, 38.2-2104, 38.2-2113, 38.2-2114, 38.2-2124, 38.2-2208, 38.2-2220 of the Code of Virginia, as well as Section 4.4 of the Commission's Rules Governing Insurance Premium Finance Companies; and Virginia Farm Bureau Fire and Casualty Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-502, 38.2-511, 38.2-1906, 38.2-2014, 38.2-2212 and 38.2-2220 of the Code of Virginia, as well as Section 4.4 of the Commission's Rules Governing Insurance Premium Finance Companies. A cease and desist order was entered by the State Corporation Commission against the companies in case number INS940201.

During the private passenger automobile, commercial automobile, homeowner, dwelling fire, farmowner, commercial property and liability, workers' compensation and Virginia Automobile Insurance Plan examination of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company as of September 30, 1998, Virginia Farm Bureau Mutual Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-305 A, 38.2-510 A 10, 38.2-612, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2124 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code; Virginia Farm Bureau Fire and Casualty Insurance Company violated §§ 38.2-231, 38.2-305, 38.2-510 A 10, 38.2-610 A, 38.2-1906 D, 38.2-2014 and 38.2-2114 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of

the Virginia Administrative Code; and Virginia Farm Bureau Town and Country Insurance Company violated §§ 38.2-510 A 10 and 38.2-1906 D of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

During the private passenger automobile, motorcycle, commercial automobile, homeowner and farmowner examination of Virginia Farm Bureau Fire and Casualty Insurance Company, Virginia Farm Bureau Mutual Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company as of June 30, 2001, the companies violated § 38.2-2220 of the Code of Virginia. Due to the minimal number of violations found, this examination did not result in a settlement order or monetary penalty.

ACKNOWLEDGEMENT

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

Andrea Baytop, AMCM
Principal Insurance Market Examiner

Andrea Baytop

From: Rooks, Sam <Sam.Rooks@vafb.com>
Sent: Tuesday, May 02, 2017 10:50 AM
To: Andrea Baytop
Cc: Joy Morton; Mattox, Rick; Light, Barry
Subject: RE: VFB Report Response 4/28/17

Andrea,
Our responses are below. Should you need any other information, please let me know.
Thanks,
Sam

From: Andrea Baytop [mailto:Andrea.Baytop@scc.virginia.gov]
Sent: Friday, April 28, 2017 12:10 PM
To: Rooks, Sam
Cc: Joy Morton
Subject: VFB Report Response 4/28/17

Good Afternoon Mr. Rooks,
We have reviewed your response dated April 13, 2017 for the market conduct report of the Virginia Farm Bureau Companies. It appears that the companies have made all the required restitution; however, the Bureau requires one revision with the companies' Claims Corrective Action Plan, as indicated below. The other items below reflect the changes made to the Revised Report and the reasons why the disputed violations remain. Please make any comments to the below by Tuesday, May 9th.

PART ONE – EXAMINERS' OBSERVATIONS

Automobile Renewal Business Rating

- (2a) The violation for RPA093 remains in the Report. The Company applied the superseded Advance Purchase discount rule to this renewal policy and also chose the new business factor instead of the filed renewal factor. Based upon the superseded rule, the Company calculated the number of applicable days by subtracting the prior carrier's expiration date from the quote date, which was more than 85 days for this policy. The Company's revised rule in SERFF filing VRFB-129534931 stated, "the number of Advance Purchase days is the difference between the new business policy effective date and the initial quote date." The policy's new business effective date was May 16, 2014 and the quote was obtained on the same day. Based upon the filed rule and rates for renewal policies, the Company should have applied a factor of 1.000. However, the Company incorrectly used the new business factor of .680086 for 85+ days. The Company should submit a filing to the Bureau that states how the Advance Purchase discount is determined for policies with new business effective dates before August 1, 2014.

Company Response – *The company acknowledges this violation. We are in the process of filing the manual page revision.*

Private Passenger Automobile Claims

- (5) The Companies acknowledge the 14 violations cited under this item, per their April 25, 2017 e-mail.

Homeowner Claims

- (2a) After further review, the violation for CHO063 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (4a) After further review, the violation for CHO063 has been withdrawn from the Report. The Restitution spreadsheet has also been amended to reflect this change.

Complaint Register

As outlined on page 9 of the Data Call Manual, once the Companies have been given review sheets in this area the Bureau will not accept revisions for omitted complaints.

Company Response – *The company acknowledges this violation.*

PART TWO – CORRECTIVE ACTION PLAN

Claims

- (6) The Companies must amend Item 6 of this section. The Companies' response stated they had appropriate procedures; however, the Report does not reflect that procedure was in place or followed during the examination.

Company response- *The Company has appropriate policies, plans and procedures in place to help ensure that all employees with claim-handling responsibilities provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants. As a result of these violations, the third party administrator for the Direct Repair Program has now incorporated a statement in all estimates indicating the estimate was sent to the claimant.*

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 Tuesday, May 9th.

Thank you,

Andrea Baytop, AMCM

Principal Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance
804.371.9547
andrea.baytop@scc.virginia.gov

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COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

May 9, 2017

VIA UPS 2nd DAY DELIVERY

Mr. Sam Rooks, CPCU, AU, CIC
Vice President of Underwriting and Policy Services
Virginia Farm Bureau Insurance
12580 West Creek Parkway
Richmond, Virginia 23238

Re: **Market Conduct Examination**
Virginia Farm Bureau Town & Country Insurance Company (NAIC #10086)
Virginia Farm Bureau Fire and Casualty Insurance Company (NAIC# 26026)
Virginia Farm Bureau Mutual Insurance Company (NAIC #26034)
Examination Period: September 1, 2014 – August 31, 2015

Dear Mr. Rooks:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of April 13, 2017 and email of May 2, 2017. Based upon the Bureau's review of the companies' correspondence, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Virginia Farm Bureau Town & Country Insurance Company, Virginia Farm Bureau Fire and Casualty Insurance Company and Virginia Farm Bureau Mutual Insurance Company (Report).

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:

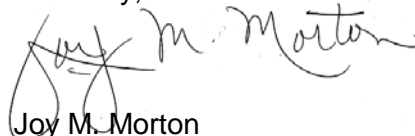
Sections 38.2-305 A, 38.2-511, 38.2-517 A, 38.2-604 B, 38.2-604 C, 38.2-604.1, 38.2-1833, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2118, 38.2-2125, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, and 38.2-2220 of the Code of Virginia; and 14 VAC 5-390-40 D, 14 VAC 5-400-30, 14 VAC 5-400-70 D and 14 VAC 5-400-80 D of the Virginia Administrative Code.

Mr. Rooks
May 9, 2017
Page 2

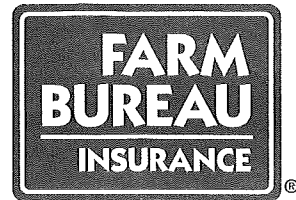
Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

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 "Joy M. Morton". The signature is written in a cursive style with a large, stylized initial "J".

Joy M. Morton
Manager
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov



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

RE: Market Conduct Examination Settlement Offer
Ecase/Docket Number: INS-2017-00062

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of Insurance's letter May 16, 2016, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company[ies] listed below for the alleged violations of §§ 38.2-305 A, 38.2-511, 38.2-517 A, 38.2-604 B, 38.2-604 C, 38.2-604.1, 38.2-1833, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2118, 38.2-2125, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, and 38.2-2220 of the Code of Virginia; and 14 VAC 5-390-40 D, 14 VAC 5-400-30, 14 VAC 5-400-70 D and 14 VAC 5-400-80 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$44,100.00.
2. We agree to comply with the corrective action plan set forth in the companies' correspondence of January 9, 2017, April 13, 2017 and May 2, 2017.
3. We confirm that restitution was made to 75 consumers for \$29,069.74 in accordance with the companies' letters of January 9, 2017 and April 13, 2017.
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,

Virginia Farm Bureau Town & Country Insurance Company
Virginia Farm Bureau Fire and Casualty Insurance
Virginia Farm Bureau Mutual Insurance Company



(Signed)

Sam Rooks

(Type or Print Name)

VP of Underwriting & Policy Services

(Title)

May 31, 2017

(Date)

Enclosure

COMMONWEALTH OF VIRGINIA



JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
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RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

Virginia Farm Bureau Town & Country Insurance Company, Virginia Farm Bureau Fire and Casualty Insurance Company, and Virginia Farm Bureau Mutual Insurance Company have tendered to the Bureau of Insurance the settlement amount of \$44,100.00 by their check numbered 258259 and dated June 1, 2017, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 14, 2017

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2017 JUN 14 P 2:13

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2017-00062

VIRGINIA FARM BUREAU TOWN & COUNTRY
INSURANCE COMPANY,
VIRGINIA FARM BUREAU FIRE AND CASUALTY
INSURANCE COMPANY,
and
VIRGINIA FARM BUREAU MUTUAL INSURANCE
COMPANY,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Virginia Farm Bureau Town & Country Insurance Company, Virginia Farm Bureau Fire and Casualty Insurance Company, and Virginia Farm Bureau Mutual Insurance Company (collectively, "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), violated: § 38.2-305 A of the Code of Virginia ("Code") by failing to specify all required information in policies; § 38.2-511 of the Code by failing to maintain a complete complaint register; §§ 38.2-517 A, 38.2-604 B, 38.2-604 C, 38.2-604.1, 38.2-2125, and 38.2-2210 A of the Code by failing to accurately provide the required notices to insureds; § 38.2-1833 of the Code by paying commissions to agencies/agents that are not appointed by the Defendants; § 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 filings in effect for the Defendants; §§ 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2118, 38.2-2208 A,

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38.2-2208 B, 38.2-2212 D, and 38.2-2212 E of the Code for failing to properly terminate insurance policies; § 38.2-2220 of the Code by failing to use forms in the precise language of the standard forms of the Code; and 14 VAC 5-390-40 D of the Commission's Rules Governing Insurance Premium Finance Companies, 14 VAC 5-390-10 *et seq.*, as well as 14 VAC 5-400-30, 14 VAC 5-400 70 D, and 14 VAC 5-400-80 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims 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 their right to a hearing in this matter whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to Virginia the sum of Forty-four Thousand One Hundred Dollars (\$44,100), waived their right to a hearing, agreed to comply with the corrective action plan set forth in their letters to the Bureau dated January 9, 2017, and April 13, 2017, and confirmed that restitution was made to 75 consumers in the amount of Twenty-nine Thousand Sixty-nine Dollars and Seventy-four Cents (\$29,069.74).

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, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
Sam Rooks, Vice President of Underwriting and Policy Services, Virginia Farm Bureau Insurance, 12580 West Creek Parkway, Richmond, Virginia 23238; 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.