

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF THE

LOUISIANA FARM BUREAU MUTUAL

INSURANCE COMPANY

BATON ROUGE, LOUISIANA

AS OF

December 31, 1998

NAIC CODE 14427

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COMMISSIONER OF INSURANCE
STATE OF LOUISIANA

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April 19, 1999

Honorable James H. Brown
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to your instructions and authorization, and in compliance with statutory provisions, a market conduct examination has been made of the affairs of

LOUISIANA FARM BUREAU MUTUAL INSURANCE COMPANY

at its Home Office

9516 Airline Highway

Baton Rouge, Louisiana 70815

as of December 31, 1998 and the report of examination is herewith submitted.

FOREWORD

A market conduct examination was performed on the insurance activities of the Louisiana Farm Bureau Mutual Insurance Company for the period from January 1, 1994 through December 31, 1998.

The market conduct examination is, in general, a report by exception. This means that references in the examination report in regards to procedures and/or files subject to review may be omitted if no improprieties or errors were noted.

Otherwise stated, the *Examiners' Handbook, Volume II - Market Conduct* was used as a measure of compliance.

SCOPE OF EXAMINATION

The Louisiana Department of Insurance, also referred to as LDOI, conducted the examination of the Louisiana Farm Bureau Mutual Insurance Company in accordance with the laws of the State of Louisiana and the guidelines set forth by the National Association of Insurance Commissioners.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws and Regulations in order to determine if the Company's operation was consistent with the public interest.

The examination included, but was not limited to, the following areas of the Company's operations:

1. Company Overview
2. Complaint Review
3. Producer Licensing
4. Underwriting and Rating Review
5. Claims Review
6. Policyholder Service Review

COMPANY OVERVIEW

COMPANY HISTORY

The Louisiana Farm Bureau Mutual Insurance Company, also referred to as Company, was organized under the laws of the state of Louisiana as a mutual property and casualty insurer on February 21, 1957. Its articles of incorporation, adopted December 28, 1956, empowered and authorized the Company to engage in and conduct the business of a mutual insurance company.

TERRITORY AND PLAN OF OPERATIONS

During the period under examination the Company marketed its insurance products only in the State of Louisiana in accordance with the Company's Certificate of Authority.

Membership in a parish Farm Bureau Agricultural Organization is required before an individual is eligible to apply for insurance with any of the Farm Bureau Insurance Companies. Failure to maintain membership will result in the termination of insurance coverage with the Farm Bureaus as authorized by **LSA-R.S. 22:636.3(A)** which states as follows:

“An insurer may cancel any policy of insurance for failure to maintain membership in an organization if membership is a condition precedent to insurance coverage.”

Membership fees are paid to the Louisiana Farm Bureau Federation founded in 1922 in order to promote and protect agriculture-related interests in the state. At the end

of the Federation's fiscal year, September 30, 1998, the Federation had 117,083 active members that consisted of farmers, ranchers, rural, and urban residents.

ANTIFRAUD PLAN

To aid in the recognition of fraud, the Louisiana Farm Bureau Insurance Companies are members of the National Insurance Crime Bureau (NICB). With one of the largest databases in the world, NICB links the insurance industry with law enforcement agencies and other entities nationwide to form a major source of shared information used in the prevention of fraud. As the program continues to expand, Farm Bureau states it will participate to the fullest extent to aid in the detection and prevention of insurance fraud.

Claim representatives and managers receive special training in fraud detection and investigative techniques. Such training aids claim personnel to detect fraudulent claims presented by insureds and third parties. Also, claim management is trained in the detection and prevention of internal fraud. Claim practices and procedures are subject to periodic review by the Company's Accounting Department.

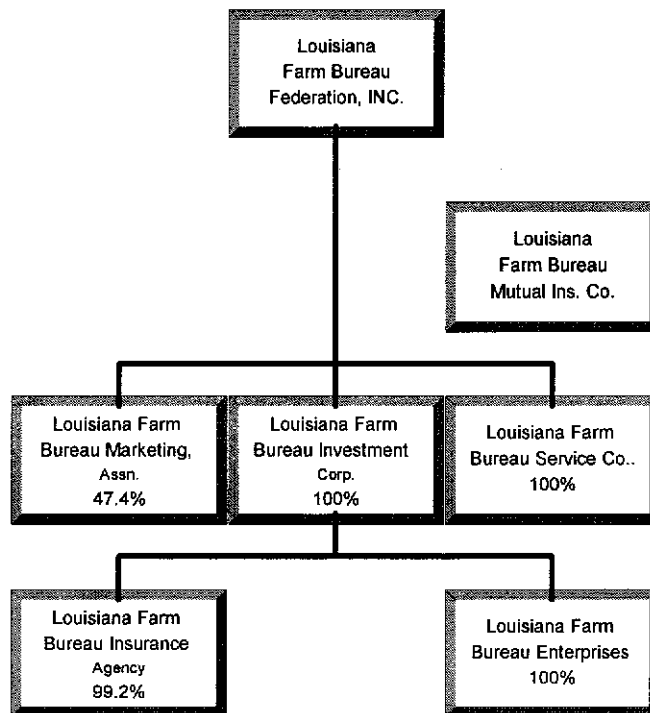
In 1994 Louisiana Farm Bureau Insurance Companies enhanced its fraud program by establishing a formal Special Investigation Unit headed by a Special Investigator whom reports to a Special Claims Coordinator. An additional investigator was added effective January 1, 1997. The Company plans on adding additional investigators in the future.

The Company states that in 1998 its efforts to detect and prevent insurance fraud resulted in savings of approximately \$1 million.

PARENT, SUBSIDIARIES, AND AFFILIATES

The Company is affiliated with the Louisiana Farm Bureau Federation and is associated with Southern Farm Bureau Casualty Insurance Company and its wholly owned subsidiary, Louisiana Farm Bureau Casualty Insurance Company, through common boards of directors and certain management personnel.

An organizational chart presenting the interrelationship among the parent, subsidiaries and affiliates is as follows:



PRIOR EXAMINATION REPORTS

The Louisiana Department of Insurance conducted an examination of the Company as of December 31, 1993.

This examination report did not contain any recommendations relating to the Company's market conduct activities.

CONSUMER COMPLAINTS REVIEW

The NAIC defines a complaint as a written communication primarily expressing a grievance. Complaints filed with the Department generally consisted of complaints due to the insured's misunderstanding of the policy provisions, delays in handling insured's requests, delays in payments due the insured or claimant, or dissatisfaction with the insurer's claim practices.

Various departments of the Company maintained a separate complaint register for those complaints filed against its area of responsibility. This review indicated that the Company took prompt and adequate steps to finalize and dispose of the complaint in accordance with statutes, rules and regulation. However, the complaint registers were not formatted for full compliance with LSA-R.S. 22:1214 (17) which states as follows:

"Failure to maintain adequate complaint handling procedures. Failure of any insurer to maintain a complete record of all the complaints that it received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. For purposes of this Paragraph, "complaint" shall mean any written communication primarily expressing a grievance received by the insurer from the Department of Insurance."

Company personnel revised their complaint registers effective January 1, 1999 for compliance with the above statute during the course of the examination.

During the period under examination the Company experienced a small percentage of complaints in comparison to its volume of business.

PRODUCER REVIEW

A comparison review of approximately one hundred and fifty of the Company's 1998 listing of agent appointments against the Department's listing of agent appointments did not reveal any discrepancies. This review tested approximately 50% of the Company's agent appointments.

The Company had detailed procedures for the appointment of new agents. The Company promptly mails agent appointment and termination forms to the Department.

A listing of zip codes obtained from the addresses of the active agents were sorted and compared against a Louisiana Zip Code Directory. This review indicated that the Company's agents were evenly distributed throughout the state of Louisiana.

No exceptions were detected during this review.

UNDERWRITING AND RATING REVIEW

According to the Company's general underwriting guidelines the major considerations in underwriting a risk include the moral and morale hazards, financial stability, the existence of criminal/arrest records, the use of intoxicants or narcotics and prior claim history.

The Underwriting Department utilizes a formal manual that provides detailed underwriting guidelines necessary for the selection of desirable risks for such coverages

as automotive, comprehensive personal liability, standard fire, homeowner, mobile home, personal articles, recreational vehicles and cargo. In addition, commercial coverage is offered primarily to retail businesses, churches, and office buildings.

To further protect farmers, a farm-produce floater, a pollution liability policy and a farm equipment policy are marketed to protect against physical damage to farm produce, third-party claims due to covered pollution losses and physical damage to farm equipment.

The Company's Underwriting Manual includes a copy of the Louisiana Insurance Code, Part XXVI – *Unfair Trade Practices* as well as other Louisiana Code Sections to assist the producers in their field underwriting. Also, the Training Department offers various seminars to the agency force, some of which include training on ethics and market conduct.

In 1996 the Underwriting Department was restructured by the addition of two Account Underwriting Districts and the realignment of existing Account Underwriting Districts in order to improve underwriting services to the agency force.

The Underwriting Management Staff has been reorganized to incorporate the Regional Concept in that each manager will be responsible for both Account and Field Underwriting for their region.

In order to review the Company's underwriting functions random statistical samplings were selected from the Company's auto and homeowners policies which represent the Company's two leading sales products.

These samplings were selected from rejected applications, non-renewed policies, and new business files. No exceptions were detected from a review of these sampled policy files.

The Company provided listings for sampling purposes that were used primarily for management purposes; however, some of these listings also contained policies from an affiliate.

CLAIMS REVIEW

A statistical random sampling of 50 open and closed litigated claim files were selected for review. These litigated claim files consisted of such coverages as auto liability and physical damage, homeowners' liability, fire, and commercial business liability.

Districts of the Company manually maintained listings of the Company's litigated claim files. These districts provided handwritten lists of open and closed litigated claim files for this review.

Statistical random samplings of approximately 200 open and closed auto and homeowner claims were reviewed. Claims were selected from auto and homeowner business as these two products represent a large portion of the Company's total business.

These reviews indicated that the Company maintained adequate claim records. Claims were paid promptly and its treatment of claimants was in compliance with policy provision, applicable rules and regulation. However, these samplings also contained claims files from an affiliate.

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company maintain a complete listing of all open and closed litigated claims for future examinations. See CLAIMS REVIEW, page 10.

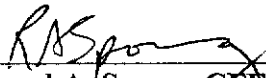
Various reports are provided to management that includes consolidated policy activity of several insurers. These reports are not appropriate for examination sampling purposes. It is recommended that corrective action be taken so that future reports provided to the examiners contain only policies written by the Company. See UNDERWRITING AND RATING REVIEW, page 8 and CLAIMS REVIEW, page 10.

CONCLUSION

Acknowledgment is made of the courteous and prompt cooperation of the officers and employees of the Company during the examination.

I, the undersigned, hereby certify that a market conduct examination has been made of Louisiana Farm Bureau Mutual Insurance Company, and the preceding report of examination results are true to the best of my ability.

Respectfully submitted,



Richard A. Spong, CFE, AIE
Department of Insurance
State of Louisiana

STATE OF LOUISIANA

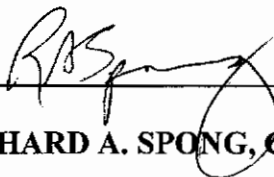
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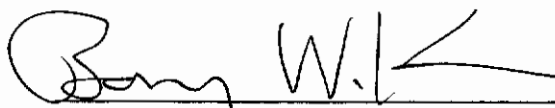
BEFORE ME, the undersigned authority personally came and appeared Richard A. Spong, who after being first duly sworn according to law, deposes and says that he is an Examiner for the Commissioner of Insurance of the State of Louisiana and that as such he was assigned to make an examination of the affairs and condition of the

LOUISIANA FARM BUREAU MUTUAL INSURANCE COMPANY

BATON ROUGE, LOUISIANA

that he made such examination as of December 31, 1998 and the above and foregoing is a true and correct Copy of such Company and the same is true and correct to the best of his knowledge, information and belief.


RICHARD A. SPONG, CFE, AIE


(PRINT NAME)
Barry W. Karn
in and for the State of Louisiana

My commission expires at death.