

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

**MIAMI MUTUAL INSURANCE COMPANY
NAIC# 16764**

As Of

December 31, 2006





Ohio Department of Insurance

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Ted Strickland, Governor
Mary Jo Hudson, Director

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a market conduct examination was conducted on the Ohio business of:
Miami Mutual Insurance Company
NAIC# 16764

The examination was conducted at the Company's offices in Troy, Ohio. A report of the examination is enclosed.

Respectfully submitted,

A handwritten signature in cursive script that reads "David R. Beck".

David R. Beck
Chief, Market Regulation Division

A handwritten signature in cursive script that reads "December 31, 2007".

Date

TABLE OF CONTENTS

FOREWORD.....1

SCOPE OF EXAMINATION1

METHODOLOGY1

SAMPLING.....2

COMPANY HISTORY.....2

COMPANY OPERATIONS2

CERTIFICATE OF AUTHORITY3

COMPLIANCE3

UNDERWRITING4

GENERAL CLAIM PRACTICES5

SPECIFIC CLAIM REVIEW6

POLICYHOLDER SERVICES.....9

MIAMI MUTUAL SUMMARY.....9

ATTACHMENT.....11

FOREWORD

This examination was conducted under authority provided by Ohio Revised Code (“R.C.”) 3901.011.

SCOPE OF EXAMINATION

On December 19, 2006, the Market Regulation Division, Ohio Department of Insurance (“Department”), opened an examination into the non-financial business practices of Miami Mutual Insurance Company (“Company”) by sending the Company a call letter and initial request for information.

The on-site portion of the examination began at the Company’s offices in Troy, Ohio on April 9, 2007. The examination was restricted to a review of the Company’s activities for Ohio homeowner insurance policies for the period of January 1, 2006, through December 31, 2006.

The examination report is reported by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the state of Ohio’s applicable statutes and rules.

Accordingly, the examination included the following areas of the Companies’ operations:

- A. Company Operations
- B. Compliance
- C. Underwriting
- D. General Claim Practices
- E. Specific Claim Review
- F. Policyholder Services

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Company’s homeowner policies and claim files and the Companies’ corresponding procedure manuals. This information was supplemented by interviewing Company managers and with written inquiries requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Companies’ level of compliance with Ohio’s insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC’s standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other files (90% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a sample are reported separately. Each test is expressed as a “yes/no” question. A “yes” response indicates compliance, and a “no” response indicates a failure to comply. A “no” response may be referred to in this report as an “exception.”

In any instance where errors were noted, the examiners described the apparent error and asked the Companies for an explanation. The Companies responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Companies supplied reports of policy and claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies or claims and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

COMPANY HISTORY

The Company began in 1877 in Miami County, Ohio as a farm mutual. The Company concentrated on homeowners and farmowners in Ohio until 1996, when the first commercial policy was issued.

Beginning in January 1997, the Company undertook the task of expanding into specialty lines such as Equine Liability, Vacant Property, and Main Street Commercial. In 1998, Farm and Commercial Automobile were added to the portfolio of products.

In 1999, the Company expanded operation to the state of Indiana, offering homeowners, farmowners, and commercial products. Further expansion was undertaken in 2003 with the merger of Land of Lakes Mutual Insurance Company in Minnesota.

In 2001, Miami Valley Mutual Insurance Association was merged into the Miami Mutual Insurance Company. Miami Valley Insurance Association was a post assessment company that wrote substandard dwellings and farms.

On December 4, 2006, the members of the Company approved an affiliation with the Celina Insurance Group, Celina, Ohio.

COMPANY OPERATIONS

The Company is licensed in Ohio, Indiana, and Minnesota. The statutory home office is located in Troy, Ohio. In accordance with R.C. 3935.10 and 3937.12, the Companies' personal lines statistical loss experience is reported to the American Association of Insurance Services.

The Company's year-end 2006 direct written premium and incurred loss information from the Company's Financial Annual Statements is as follows:

<i>2006 Homeowners Company</i>	Ohio <u>Direct Written</u>	National <u>Direct Written</u>	Ohio <u>Incurred Losses</u>	National <u>Incurred Losses</u>
Miami Mutual Insurance Company	\$2,209,789	\$3,667,272	\$1,535,209	\$2,608,023

As of December 31, 2006, the officers of the Companies were:

Chief Executive Officer	William Montgomery
President	William R. Walters
Secretary	John E. Fulker
Treasurer and Chief Financial Officer	Suzanne L. Wells
Vice President Information Technology	Mark Hardy
Vice President Commercial Lines	Pamela K. Erbaugh
Vice President Claims	Richard Rice
Compliance Officer	Jerry Haas
Vice President Personal Lines and Agribusiness	Rita Barga

CERTIFICATE OF AUTHORITY

The Company operates under a Certificate of Authority issued in accordance with R.C. 3929.01, which permits it to transact appropriate business as defined by R.C. 3929.01(A). In the course of the examination, the examiners determined that the Company's operations were in compliance with its Certificate of Authority.

COMPLIANCE

The Company has an established separate regulatory compliance department, whose duties include compliance activities only. The function of the Compliance department is to achieve better compliance with legislation and industry regulation through the efficient use of existing information databases to target non-compliance and measure the effectiveness of compliance measures. In addition, new initiatives are established to achieve voluntary compliance within the industry through encouragement, education, and performance monitoring and assessment. The essential functions performed include (1) implementing written policies, procedures, and standards of conduct, (2) establishing a compliance committee, (3) developing effective lines of communication, (4) enforcing standards through well-publicized disciplinary guidelines, (5) developing policies addressing and dealing with sanctioned individuals, and (6) internal monitoring and auditing.

Internal audits are performed by the various department personnel, however, after the merger with the Celina Group, effective January 1, 2007, an internal auditor will be provided to handle those duties. The Compliance Officer currently audits forms, filings, and regulatory and legal issues. However, the Celina Group will begin handling this function beginning May 1, 2007. The Celina Group will begin handling the auditing of the financial reports and investments, eliminating these duties from the Audit Committee of the Miami Mutual Board of Directors.

The results of all audits performed prior to the new affiliation were reported to the Board of Directors after each audit. The Board of Directors met monthly and reviewed all audit reports. Going forward the meetings will be held quarterly. The President is ultimately responsible for

audit results and improvements, but the Board of Directors is closely involved in the planning and final determination of priority areas to be audited.

When problems are detected, the person responsible for the area in which the problem occurred is responsible to rectify and report progress to the President. The President or the Chief Financial Officer reports to the Board of Directors on items requiring management oversight.

UNDERWRITING

Homeowner Policy Cancellation—Nonpayment of Premium

Standard: Cancellation notices comply with policy provisions, statutes and rules, and Company guidelines.

Test: Did the Company’s cancellation procedures for nonpayment of premium comply with its policy provisions in compliance with R.C. 3935.04?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 10 days notice as required by policy provision.

Findings:

Population	Sample	Yes	No	Standard	Compliance
566	50	50	0	90%	100%

The standard of compliance is 90%. The Company met this standard.

Homeowner Policy Cancellation—Other than Nonpayment of Premium

Standard: Cancellation notices comply with policy provisions, applicable Ohio statutes and rules, and Company guidelines.

Test: Did the Company’s cancellation and non-renewal procedures conform to R.C. 3935.04 and Ohio Administrative Code (“Ohio Adm.Code”) 3901-1-18(C)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 30 days notice; and
 2. Any cancellation notice that failed to contain the statutorily required information and did not contain procedures for making an application to the Ohio Fair Plan.
 3. A file was considered to be an exception if the cancellation did not comply with Company’s policy provisions.

Findings:

Population	Sample	Yes	No	Standard	Compliance
134	50	49	1	90%	98%

The standard of compliance is 90%. The Company met this standard.

Homeowner Policy Cancellation—Non-Renewals

Standard: Non-Renewal notices comply with policy provisions, applicable Ohio statutes and rules, and Company guidelines.

Test: Did the Company’s non-renewal procedures conform to R.C. 3935.04 and Ohio Adm.Code 3901-1-18(C)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 30 days notice; and,
 2. Any cancellation notice that failed to contain the statutorily required information and did not contain procedures for making an application to the Ohio Fair Plan.
 3. A file was considered to be an exception if the non-renewal did not comply with Company’s policy provisions.

Findings:

Population	Sample	Yes	No	Standard	Compliance
158	50	50	0	90%	100%

The standard of compliance is 90%. The Company met this standard.

Examiner Comments:

Refund checks that result from a cancellation are sent to the independent agent, rather than directly to the policyholder. It is then up to the agent to forward the check to the policyholder. There does not appear to be any controls in place to assure that the check is being forwarded and being received by the policyholder. This was also found and noted on a prior examination performed in October 1995.

Examiner Recommendations:

The Company should change its procedures on cancellations to begin mailing the refund checks directly to the policyholder or implement controls to verify that the policyholder is receiving the check in a reasonable amount of time.

GENERAL CLAIM PRACTICES

The examiners reviewed the Company’s claim procedures to determine whether the Company has procedures in place, which could reasonably be expected to meet the requirements of R.C. 3901.20, Ohio Adm.Code 3901-1-07, and Ohio Adm.Code 3901-1-54, to wit, timely investigation, denial of coverage, and reporting of apparent fraudulent claims. The examiners also reviewed Company procedures to assure compliance with R.C. 3999.41, which requires a company to adopt an antifraud program.

The examiners found that the Company’s procedures were sufficient to establish compliance with Ohio statutes and rules.

SPECIFIC CLAIM REVIEW

Homeowner Paid claims

Methodology:

The Company supplied a report of all Homeowner Structure and Contents claims with payments that were closed during the examination period January 1, 2006, through December 31, 2006.

- The examiners selected the entire population of claims files to test for compliance.
- The examiners reviewed all procedure manuals as part of the exam process.
- Seven files were removed because the claim was still open.
- The claims files were reviewed to verify dates in the claims settlement process.
- The claims files were reviewed to verify the Company claim settlement practices.
- A claim was considered an exception if the claim was not settled in compliance with Ohio Revised Code (“R.C.”) 3929.86 and Ohio Administrative Code (“Ohio Adm.Code”) 3901-1-54.

Standard: Claims are properly handled in accordance with policy provisions and applicable statutes, rules, and regulations.

Test: Did the Company settle claims in a fair, equitable, and timely manner?

Findings:

Population	Yes	No	Standard	Compliance
219	177	42	93%	81%

The standard for compliance is 93%. The Company’s handling practices were below this standard. There were 47 exceptions noted in the 42 files. The exceptions noted and the appropriate population for each type of exception are shown in tables below:

Type of exception	Population	Yes	No	Standard	Compliance
An insurer shall tender payment within 10 days after acceptance of a claim, Ohio Adm.Code 3901-1-54(G)(6)	219	185	34	93%	85%
An insurer shall decide to accept or deny within 21 days or notify of investigation every 45 days. Ohio Adm.Code 3901-1-54(G)(1).	219	218	1	93%	99%
No company shall pay a claim for fire damage over \$5,000 unless a treasurer’s certificate is submitted to certify that no taxes or other assessments are due. R.C. 3929.86	17	8	9	93%	47%

Type of exception	Population	Yes	No	Standard	Compliance
No company shall pay a claim for fire damage over \$5,000 that exceeds 60% of the limits unless the company transfers funds to the municipality for demolition as required by R.C. 3929.86	10	7	3	93%	70%

Examiner Comments:

- The on-line adjuster notes did not provide adequate information. The overall file documentation is good, but the adjuster notes did not add any supporting information. The Company advised that the affiliation with the Celina Insurance Group will result in improvements in this area.
- In reviewing the files, the contact letters that are sent to claimants met the ten-day statute requirement. However, it was difficult for the examiners to determine if the internal company goals were being achieved (Celina has an eight hour contact goal and Miami Mutual has a 24 hour contact goal). Again, this is to be corrected by the affiliation with the Celina Insurance Group.
- Three of the files reviewed had either misfiled information or documentation from two different claims files in one file.

Examiner Recommendations:

The Company should date all correspondence and include the claim number on each page in the file. This will assist with specific date and time questions and prevent confusion, mixing of files, and potential misfiling.

Examiner Additional Comments:

A significant storm went through Ohio and Indiana on June 22, 2006. The storm generated an above average number of wind, hail, and lightning claims in June and July. On July 7th, one of the two internal claims adjusters accepted a position with another company. Due to the high number of claims and the turnover of personnel, there were delays in claim handling for a three-month period. Of the claims determined to be exceptions, 71% (24 of 34) fell into this period.

Homeowner Denied Claims

Standard: “*Denied*” claims are handled in accordance with policy provisions and state statutes and rules.

Test: Did the Company conform to the standards for denial of payment of claims as required per Ohio Adm.Code 3901-1-54(E)(1), (G)(1)-(3), and (5) and 3901-1-07(C)(14)?

Test Methodology:

- The Company supplied a report of all homeowner structure and contents claims that were denied or closed without payment during the examination period.
- The examiners reviewed the entire population of denied or closed without pay claims to assure compliance with statutes and rules.

- The examiners replaced one file because it was a paid claim and three files because of duplication.
- The examiners reviewed all procedure manuals as part of the exam process.
- The claim files were reviewed to verify dates in the claim settlement process.
- The claim files were reviewed to verify the Company's claim settlement practices.
- The examiners considered the following to be an exception:
 1. The required contact or investigation was not done in required time frames.
 2. Failure to respond to a demand for payment within 21 days of receipt of a properly executed proof of loss when the claim amount was known and not in dispute;
 3. A claim denied solely on the basis the proof of loss is not on the insurer's usual form when the form of the proof of loss was not material;
 4. Failure to notify the Department of any indication of fraud within 60 days of proof of loss;
 5. Failure to include in its denial a specific reference to the provision, condition or exclusion that was the basis for the claim denial;
 6. A claim denied to a first party on consideration that others should assume the responsibility for payment;
 7. Failure to provide the claimant with at least 60 days notice of any statute of limitations expiration when the claimant was not represented by legal counsel;
 8. Any denial based solely on the insured's request to do so without making an independent evaluation of the insured's liability; and,
 9. Failure of the Company to disclose all coverages and benefits available to the claimant.

Findings:

Population	Yes	No	Standard	Compliance
66	66	0	93%	100%

The standard for compliance is 93%. The Company's claim practices met this standard.

Examiner Comments:

- The on-line adjuster notes did not provide adequate information. The overall file documentation is good, but the adjuster notes did not add any supporting information. The Company advised that the affiliation with the Celina Insurance Group will result in improvements in this area.
- In reviewing the files, the contact letters that are sent to claimants met the ten day statute requirement, however, it was difficult for the examiners to determine if the internal company goals were being achieved (Celina has an eight hour contact goal and Miami Mutual has a 24 hour contact goal). Again, this is to be corrected by the affiliation with the Celina Insurance Group.

Examiner Recommendations:

- The Company should date all correspondence and include the claim number on each page in the file. This will assist with specific date and time questions.

POLICYHOLDER SERVICES

Consumer Complaints Methodology:

The frequency of complaints registered by the Company during the examination period was above average for the industry. Prior to the on-site portion of the examination, the examiners reviewed the complaints reported to the Department, and then from that review, interviews were conducted with Company personnel on-site. The complaints centered mostly on the Company's claim handling practices.

During the interview process, the Company indicated that there had been no internal complaints received in 2006. However, during the claim file review, the examiners found several instances where a complaint had been levied against the company, agent, or independent adjuster, but was not identified as an internal complaint and therefore not tracked or analyzed for trends that might be occurring.

Examiner Comments:

Ohio Adm.Code 3901-1-07 (C)(15) requires the adoption of standards for complaint handling. ["Failing to adopt and implement reasonable standards for the proper handling of written communications, primarily expressing grievances, received by the insureds or claimants."]

The Company has provided detailed procedures that will assist in getting the Company in compliance. Some of the actions include the involvement of the Director of Compliance in the identification process, goals for the timely handling of those items identified as an internal complaint and creating a central filing system to log and track these items.

Examiner Recommendations:

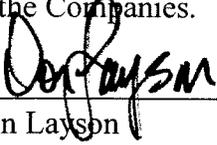
With the Company having addressed this area, the examiners have no further recommendations concerning the Company's complaint handling procedures and practices.

MIAMI MUTUAL SUMMARY

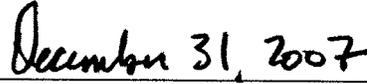
The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
Timely Payment An insurer shall tender payment within 10 days after acceptance of a claim per Ohio Adm.Code 3901-1-54(G)(6)	93%	85%
Treasury Certificate No company shall pay a claim for fire damage over \$5,000 unless a treasurer's certificate is submitted to certify that no taxes or other assessments are due per R.C. 3929.86	93%	47%
Demolition Fund No company shall pay a claim for fire damage over \$5000 that exceeds 60% of the limit unless the company transfers funds to the municipality for demolition per R.C. 3929.86	93%	70%

This concludes the report of the Market Conduct Examination of Miami Mutual Insurance Company. The examiners, Don Layson, Roger Hinkle, Ben Hauck, and Julie Phillips would like to acknowledge the assistance and cooperation provided by the management and the employees of the Companies.



Don Layson
Examiner-in-Charge



Date

ATTACHMENT



A World of Opportunity

Miami Mutual Insurance Co

1201 Brinker Drive Troy, Ohio 45373 USA 937-339-0524 1-800-686-9094 Fax 937-339-5823

RECEIVED

AUG 07 2007

OHIO DEPT. OF INSURANCE
MARKET CONDUCT DIVISION

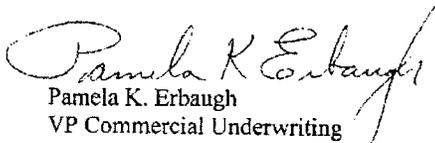
August 3, 2007

Daniel J. Atkisson
Insurance Compliance Supervisor
Ohio Department of Insurance
2100 Stella Court
Columbus, Oh 43215-1067

Dear Mr. Atkisson:

The draft report for the Market Conduct examination has been reviewed and Miami Mutual will not be including any comments.

Sincerely,


Pamela K. Erbaugh
VP Commercial Underwriting