

OHIO DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION OF

**SANDY & BEAVER VALLEY FARMERS MUTUAL
INSURANCE COMPANY**

NAIC #10270

As Of

June 30, 2011





Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 W. Town St. Ste. 300
Columbus, OH 43215

Lt. Governor/Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised and Administrative Codes, a target market conduct examination was conducted on the Ohio business of:

Sandy and Beaver Valley Farmers Mutual Insurance Company
NAIC Company Code 10270

The examination was conducted at the Company's home office located at:
108 North Market Street Lisbon, OH 44432

and at the offices of the Ohio Department of Insurance located at:
50 W. Town St. Ste. 300
Columbus, OH 43215

Respectively submitted,

May 21, 2012

Lynette A. Baker, CFE, MCM
Chief, Market Conduct Division

Date

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COMPANY OPERATIONS

Sandy and Beaver Valley Farmers Mutual Insurance Company is a mutual protective organization organized under Ohio Revised Code (“ORC”) section 3939.01. The Company writes commercial lines farmowners property damage coverage, and personal lines homeowners, church, rental, mobile home, and low value dwelling property damage coverage policies in Ohio. Liability coverage is offered by Grinnell Mutual Reinsurance Company.

The Company markets its business through approximately 200 independent agencies. As of December 31, 2011 the Company has over 14,000 policyholders and reported direct written Ohio premiums of \$6,574,530. It has been in business since 1879.

As of 2011 the Company officers were:

James Sanor	President
Ned Ellis	Vice President
Leroy Sanor	Treasurer

SCOPE OF EXAMINATION

The examination of Sandy and Beaver Valley Farmers Mutual Insurance Company (“Company”) covered the period from July 1, 2010 through June 30, 2011. The examiners conducted file reviews and interviews of company management.

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and Ohio’s applicable statutes and regulations. The examination included the following areas of the Company’s operations:

- Paid Claims
- Denied Claims
- Consumer Complaints
- New Business Underwriting
- Endorsements

This report is a report by tests.

METHODOLOGY

The examination was conducted through reviews of the claims and underwriting files for the Company's property insurance products. The examiners also interviewed Company officers, and made requests for additional information.

Tests designed to measure the Company's level of compliance with Ohio's statutes and regulations, were applied to the files. All tests are described and the results displayed in this report.

All tests are expressed as a "yes/no" question. A "yes" response indicates compliance and a "no" response indicates a failure to comply. The results of each test applied to a sample are reported separately.

The examiners used the NAIC standards of:

7% error ratio on claim tests (93% compliance rate) and

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

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test. Except as otherwise noted, all tests were conducted on a random sample, taken from a given population of new business or claims records.

In an instance where errors were noted, the examiners described the apparent error and asked the Company for a written response. The Company responded that it concurred with all of the examiner's findings.

The Company's response and the examiner's recommendations, as applicable, are included in this report.

PERSONAL LINES PAID CLAIMS

Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 15 days of receipt of loss notice) with claimants following the report of a claim per Ohio Administrative Code ("OAC") 3901-1-54(F)(2)?

Test Methodology:

- The definition of "initial contact" included telephone notice of the claim to the Company or its agent, from the insured, third party claimant, and/or legal representative.
- The examiners considered any initial contact to a first notice of loss where more than fifteen (15) days elapsed to be an exception.

- The examiners considered any instance where initial contact to a first notice of loss was not documented to be an exception.
- The sample consisted of personal lines paid homeowners and fire and extended coverage claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1031	50	47	3	93%	94%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Examiner Comments:

Two of the exceptions resulted from missing file documentation. The examiners were unable to determine when the Company first contacted the respective claimants. The third exception resulted from the Company taking more than fifteen days (15) to contact the claimant.

Timely Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants per OAC 3901-1-54(G)(6)?

Test Methodology:

- The examiners considered claim payments made more than ten (10) calendar days after the amount was known and agreed to be exceptions.
- The sample consisted of personal lines paid homeowners and fire and extended coverage claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1031	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Fair Settlement

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

Test: Did the Company calculate the settlement amount in a manner that conforms to OAC 3901-1-54(I)?

Test Methodology:

- The examiners considered claim files not containing the actual estimate used to pay the loss to be exceptions.

- In order to be consistent with the industry practice of not depreciating labor, the examiners considered the depreciation of labor to be an exception.
- The sample consisted of personal lines paid homeowners and fire and extended coverage claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1031	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Treasurer Certificate and Demolition Fund

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

Test 1: If the loss exceeds \$5000, did the company claim settlement practices conform to ORC 3929.86?

Test 2: If the loss exceeds 60% of the aggregate limits, did the Company make an escrow payment as required by ORC 3929.86?

Test Methodology:

- The examiners considered applicable claim files without documentation of Company research into the need for, or evidence of, a county treasurer certificate or payment to a demolition fund to be exceptions.
- The sample consisted of personal lines paid homeowners and fire and extended coverage claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1031	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

FARMOWNERS PAID CLAIMS

Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 15 days of receipt of loss notice) with claimants following the report of a claim per OAC 3901-1-54(F)(2)?

Test Methodology:

- The definition of “initial contact” included telephone notice of the claim to the Company or its agent, from the insured, third party claimant, and/or legal representative.
- The examiners considered any initial contact to a first notice of loss where more than fifteen (15) days elapsed to be an exception.
- The examiners considered any instance where initial contact to a first notice of loss was not documented to be an exception.
- The sample consisted of commercial lines paid farmowners claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
351	25	21	4	93%	84%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Examiner Comments:

The four exceptions resulted from missing file documentation. The examiners were unable to determine when the Company first contacted the respective claimants.

Timely Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants per OAC 3901-1-54(G)(6)?

Test Methodology:

- The examiners considered claim payments made more than ten (10) calendar days after the amount was known and agreed to be exceptions.
- The sample consisted of commercial lines paid farmowners claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
351	25	22	3	93%	88%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Examiner Comments:

Two of the exceptions resulted from the Company not issuing payment to the claimants within ten days (10) of the amount being known and agreed to by the claimant. The third exception resulted from missing file documentation. The examiners were unable to determine when the Company first contacted the claimant.

Fair Settlement

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

Test: Did the Company calculate the settlement amount in a manner that conforms to OAC 3901-1-54(I)?

Test Methodology:

- The examiners considered claim files not containing the actual estimate used to pay the loss to be exceptions.
- In order to be consistent with the industry practice of not depreciating labor, the examiners considered the depreciation of labor to be an exception.
- The sample consisted of commercial lines paid farmowners claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
351	25	23	2	93%	92%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Examiner Comments:

One exception resulted from the depreciation of painting labor. The other exception resulted from the estimate, used to pay the claim, not being in the file.

Treasurer Certificate and Demolition Fund

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

Test 1: If the loss exceeds \$5000, did the company claim settlement practices conform to ORC 3929.86?

Test 2: If the loss exceeds 60% of the aggregate limits, did the Company make an escrow payment as required by ORC 3929.86?

Test Methodology:

- The examiners considered applicable claim files without documentation of Company research into the need for, or evidence of, a county treasurer certificate or payment to a demolition fund to be exceptions.
- The sample consisted of commercial lines paid farmowners claims.

Findings:

Population	Sample	Yes	No	Standard	Compliance
351	25	24	1	93%	96%

The standard of compliance is 93%. The Company's handling practices were above this standard.

DENIED CLAIMS

Sampling Methodology:

- The sample included personal and commercial lines denied claims. These claims were not separated by coverage type due to the population size.
- The examiners removed and replaced sample claims that were closed without payment, and not formally denied, until a sample of fifty (50) was identified and reviewed. Forty-four (44) records were removed and replaced for this reason.

Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 15 days of receipt of loss notice) with claimants following the report of a claim per OAC 3901-1-54(F)(2)?

Test Methodology:

- "Initial contact" included telephone notice to the Company of a loss from the insured, third party claimant, and/or legal representative.
- The examiners considered failure to contact a claimant within fifteen (15) days from the date of notice of the claim, when the Company had sufficient information to contact that claimant, to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
587	50	47	3	93%	94%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Examiner Comments:

Two of the exceptions resulted from the Company not making contact with the claimant within fifteen (15) days. The other exception resulted from missing file documentation. The examiners were unable to determine when the Company first contacted the claimant.

Provisions, Conditions, Exclusions, and Disclosures

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

Test: If the claim was denied on the grounds of a specific policy provision, condition, or exclusion, did the claim file include documentation that the denial notice contained reference to such provision, condition, or exclusion as required by OAC 3901-1-54(G)(2)?

Test Methodology:

- The examiners considered Company failure to include in its denial a specific reference to the provision, condition, or exclusion that was the basis for the claim denial, to be exceptions.

Findings:

Population	Sample	Yes	No	Standard	Compliance
587	50	36	14	93%	72%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Examiner Comments:

Thirteen (13) of the exceptions resulted from the Company denial letters not specifying the policy provisions wherein the respective losses were excluded. The other exception resulted from the denial letter not being found in the file.

Continuing Investigation Notification

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

Test: Was the denial determined within twenty-one (21) days of receipt of properly executed proof of loss, and if not, was notice sent to the insured within the 21 day period and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every forty-five (45) days thereafter as required by OAC 3901-1-54(G)(1)?

Test Methodology:

- The examiners considered claim files without documentation of written or verbal communication of the need for additional time to investigate, from the Company to the claimant, dated or logged within twenty-one (21) days of receipt of the proof of loss, to be exceptions.
- The examiners considered claim files without notice of continuing investigation letters from the Company to the claimant, stating the need for further time to investigate the claim, every forty-five (45) days, to be exceptions.

Findings:

Population	Sample	Yes	No	Standard	Compliance
587	50	44	6	93%	88%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Examiner Comments:

Four of the exceptions resulted from the Company’s continuing investigation letters to the respective claimants not being found in the files. Two of the exceptions resulted from there being no indication of an inspection of investigation found in the files.

MULTI-LINE NEW BUSINESS UNDERWRITING

Underwriting Practices

Standard: The Company’s underwriting practices are not unfairly discriminatory.

Test: Are all applicants underwritten by the same underwriting standards and rules as required by ORC 3901.21(M)?

Test Methodology:

- The examiners considered instances of incorrect building locations, construction years, construction types, public protection classes, product offerings, premium credits, and deductibles to be exceptions.
- The sample consisted of personal lines homeowners and fire and extended coverage policies and commercial lines farmowners applications submitted during the examination period.

Findings:

Population	Sample	Yes	No	Standard	Compliance
8061	100	100	0	90%	100%

The standard of compliance is 90%. The Company’s handling practices were above this standard.

MULTI-LINE ENDORSEMENTS

Endorsements

Standard: All endorsements are filed with the Department.

Test: Did the Company file with the Department any endorsements added to the policy subsequent to a claim being filed as required by ORC 3939.01(A)?

Test Methodology:

- The examiners considered exclusionary endorsements added to policies, mid-term and after a loss to be exceptions.
- The sample consisted of personal lines homeowners and fire and extended coverage policies and commercial lines farmowners claims caused by wind and/or hail submitted during the examination period.

Findings:

Population	Sample	Yes	No	Standard	Compliance
747	50	50	0	90%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

CONSUMER COMPLAINTS

Complaints

Standard: The Company shall adopt and implement reasonable standards for the proper handling of written communications, primarily expressing grievances, received by the Company from insureds and claimants.

Test: Has the Company adopted and implemented reasonable standards for handling written communications, primarily expressing grievances, including procedures to make a complete investigation of a complaint and respond as required by OAC 3901-1-07(C)(15)?

Test Methodology:

Prior to the on-site portion of the examination, the examiners reviewed Company complaints for the period 1/1/09-6/30/11.

Findings:

The Company does not have formal written procedures for the handling of consumer complaints. The examiners interviewed Company President, Jim Sanor. Mr. Sanor advised that he reviews and responds to complaints personally, either via phone or written correspondence. He indicated that he does not differentiate in his treatment of complaints directly from the consumer versus from the Department of Insurance. These procedures appear sufficient to deal with the volume of complaints a Company of this size might conceivably receive.

EXAMINER RECOMMENDATIONS

- The Company should work to improve the quality, quantity, and consistency of its claim adjuster notes and other documentation so claim processing activity can be reconstructed.
- Dated logs of all adjuster work activities and copies of all documents should be included in every claim file. In some files the examiners were unable to determine when, or if, contact with the claimant had occurred and/or when the claim adjuster began an investigation.
- The Company should ensure that all claim payments are issued/mailed to the claimant within ten (10) calendar days of the settlement amount being known and agreed to by parties.
- The Company should ensure that all files contain the claim acknowledgement, continuing investigation, and closing investigation letters to the insured, when applicable,
- During interviews with the examiners, the Company indicated that its procedure was not to depreciate labor. The Company should ensure that independent adjuster estimates do not include labor depreciation, in order to maintain consistency between claimant settlements and adherence to Company policies and procedures.
- The Company should ensure that denial letters reference the specific, applicable, exclusionary policy language that led to the denial.

EXECUTIVE SUMMARY

PERSONAL LINES PAID CLAIMS		
Areas of Review	Compliance Standard	Compliance Rate
Timely initial contact	93%	94%
Timely settlement	93%	98%
Fair settlement	93%	100%
Treasurer certificate and demolition fund	93%	100%

FARMOWNERS PAID CLAIMS		
Areas of Review	Compliance Standard	Compliance Rate
Timely initial contact	93%	84%
Timely settlement	93%	88%
Fair settlement	93%	92%
Treasurer certificate and demolition fund	93%	96%

DENIED CLAIMS		
Areas of Review	Compliance Standard	Compliance Rate
Timely initial contact	93%	94%
Provisions, conditions, exclusions, and disclosures	93%	72%
Proper denial and continuing investigation notification	93%	88%

NEW BUSINESS UNDERWRITING		
Areas of Review	Compliance Standard	Compliance Rate
Underwriting practices	90%	100%

ENDORSEMENTS		
Areas of Review	Compliance Standard	Compliance Rate
Endorsements	90%	100%

This concludes the report of the Market Conduct Examination of Sandy & Beaver Valley Farmers Mutual Insurance Company. The examiners, Ben Hauck, Rodney Beetch, John Pollock, and Molly Porto would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



May 21, 2012

**Ben Hauck, AINS, MCM
Examiner-in-Charge**

Date