



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FOLLOW-UP MARKET CONDUCT EXAMINATION

OF

**COUNTRY MUTUAL INSURANCE COMPANY  
BLOOMINGTON, ILLINOIS**

**NAIC COMPANY CODE 20990**

AS OF

JUNE 30, 2001

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION</b> .....	<b>4</b>
<b>COMPANY DESCRIPTION AND HISTORY</b> .....	<b>5</b>
<b>EXAMINATION RESULTS</b> .....	<b>6</b>
COMPLAINT HANDLING .....	6
<i>Findings</i> .....	7
UNDERWRITING .....	10
<i>Findings</i> .....	10
CLAIMS .....	12
<i>Findings</i> .....	12
<b>CONCLUSIONS/RECOMMENDATIONS</b> .....	<b>17</b>
<b>ACKNOWLEDGMENT</b> .....	<b>18</b>
<b>AFFIDAVIT</b> .....	<b>19</b>
<b>APPENDIX</b> .....	<b>20</b>

December 16, 2002

Cory Streisinger, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street, NE, Room 440  
Salem, OR 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs of

**Country Mutual Insurance Company  
1701 Towanda Avenue  
Bloomington, Illinois 61710**

**NAIC Company Code 20990**

hereinafter referred to as the "Company." The examination was conducted at the Northwest Regional Office located at 2150 Country Drive South, Salem, Oregon. The following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

This market conduct examination of the Company was conducted during September, October and November 2001. It was a follow-up examination limited to a review of the items on which recommendations were made during the market conduct examination for the examination period ending June 30, 1998. The follow-up examination covered procedures used during 2001.

The examination of the Company was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines established by the Oregon Insurance Division Market Conduct Program. The program generally follows the Market Conduct Examination Handbook as adopted by the National Association of Insurance Commissioners to the extent that it is consistent with Oregon law. The purpose was to determine the Company's ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, whether it has given proper treatment to policyholders, and its compliance with the Oregon Insurance Code and Administrative Rules.

In order to evaluate the Company's operations, the examiner reviewed policies, procedures and manuals provided by the Company and limited samples of files.

Certain unacceptable or non-complying practices might not have been discovered in the course of this examination. Failure to identify or criticize specific Company practices does not constitute acceptance by the Oregon Insurance Division. Examination findings may result in administrative action or further inquiry by the Oregon Insurance Division.

## **COMPANY DESCRIPTION AND HISTORY**

Country Mutual Insurance Company (Country Mutual) is a property/casualty mutual insurance company domiciled in Illinois and affiliated with the Illinois Agricultural Association.

The origin of Country Companies dates back to the formation of The Country Mutual Fire Company in 1925, which was originally incorporated under the title Farmers Mutual Reinsurance Company. Country Mutual Casualty Company was founded in 1926 and merged with Country Mutual Fire Company in 1957 to form the Country Mutual Insurance Company. Both companies were organized under the sponsorship of the Illinois Agricultural Association.

Country Mutual has two wholly owned property/casualty insurance subsidiaries, Country Casualty Insurance Company (Country Casualty) and Country Preferred Insurance Company (Country Preferred). Country Casualty, a stock company, was incorporated in 1964. Country Preferred, formerly Mid-America Preferred Insurance Company, was chartered in 1953 and joined the group in 1964. The Northwest Farm Bureau Insurance Company was acquired in 1968 and voluntarily dissolved effective September 30, 1993. Country Mutual also has a 60% equity interest and a 17.1% interest in voting securities of CC Services, Inc., a management services and auto leasing company. During 2000, Country Mutual acquired 60% of the voting securities of MSI Preferred Insurance Company; a Wisconsin domiciled property/casualty insurance company, and MSI Preferred Services, Inc., a management services company.

During 1998, Country Mutual formed a strategic alliance with Middlesex Mutual Assurance Company (Middlesex), a Connecticut domiciled property/casualty insurance company. Country Mutual has majority control of the Board of Directors of Middlesex and entered into an

inter-company pooling arrangement with Middlesex. Effective January 1, 2000, Country Mutual formed a strategic alliance with Holyoke Mutual Insurance Company (Holyoke) in Salem, a Massachusetts domiciled property/casualty insurance company. Country Mutual gained majority control of the Board of Directors of Holyoke, and Holyoke became a participant in the inter-company pooling arrangement effective January 1, 2000.

Country Mutual offers a full range of personal automobile, homeowners, and, to a lesser degree, commercial products issued through an exclusive agency force in ten mid-western and western states. The Company also offers farm insurance products in five of these states. Although Country Mutual is licensed in 30 states, approximately 76% of premium income is written in Illinois. In 2000, 5.8% of its premium income was written in Oregon.

### **EXAMINATION RESULTS**

Twelve recommendations were made during the last market conduct examination report. The recommendations concerned the areas of Complaint Handling, Underwriting and Claims. To determine compliance with the recommendations, the examiner reviewed the Company's current policies and procedures as well as samples of files. All recommendations can be found in the Appendix following this report.

### **COMPLAINT HANDLING**

The Company provided copies of four complaint logs for January 1, 2001 through June 30, 2001: one for complaints received from the Oregon Insurance Division, one for complaints received from other entities handled by the Executive area, one for telephone complaints handled by Customer Service and one for written complaints handled by Customer Service.

Fourteen complaints from the Oregon Insurance Division were listed, all of which were reviewed.

The other three complaint logs listed a total of 30 complaints. An interval sample of 25 of those complaints was reviewed.

**Findings**

The Company passed the following recommendation without comments:

RECOMMENDATION
<u>Recommendation #1</u> - I recommend the Company implement a system for tracking all written complaints made to the Company in compliance with ORS 731.302(1).

The following exceptions were noted:

Recommendation #2 – I recommend the Company respond to Insurance Commissioner complaints adequately and conclusively in accordance with OAR 836-080-0225(2).

Findings: Failed. Ninety-three percent compliance.

This recommendation applied to the 14 Insurance Division complaint files reviewed. One (7%) of the files failed this recommendation. In response to the complaint, the Company informed the Insurance Division the delay in settlement was due to the complexity of the claim and the Company would update the Division after completion of a scheduled Examination under Oath. The examination was not completed until over four months later. The Company advised that it forgot to update the Division at that time. After receiving the examiner’s inquiry, the Company sent the Division an update indicating the claim was still under investigation.

**I recommend the Company respond to Insurance Commissioner complaints adequately and conclusively in accordance with OAR 836-080-0225(2).**

Subsequent to the examination, the Company indicated that responses to Insurance Commissioner complaints will be reviewed carefully to assure that each point in the complaint is answered adequately and conclusively.

Recommendation #3 – I recommend the Company furnish a response within 30 days of receiving an inquiry from an insured in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.

Findings: Failed. Eighty-eight percent compliance.

This recommendation applied to the 25 non-Insurance Division complaint files reviewed. Three (12%) files failed this recommendation because the Company was unable to document the date of the response.

**I recommend the Company furnish a response within 30 days of receiving an inquiry from an insured in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.**

Recommendation #4 – I recommend the Company furnish a response to an inquiry that is adequate and answers the questions being raised in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.

Findings: Failed. Eighty percent compliance.

This recommendation applied to the 25 non-Insurance Division complaint files reviewed. Five (20%) of the files failed this recommendation. Following is a summary of the reasons for failure:

<u>Reason</u>	<u># of Files</u>
The Company was unable to document the substance of the response. In one case, the Company was also unable to produce a copy of the complaint. In another case, the Company did not know how the complaint was resolved. In the third case, the agent advised he had met with the complainant, but did not have documentation of the meeting.	3
The Company was unable to produce a copy of the second page of the complaint, so the examiner was unable to determine if the response was adequate and answered all questions raised.	1
The only documented response to the complaint indicated the policy was terminated, but did not address the complainant's request for reinstatement. The Company advised the reasons for refusal to reinstate had been discussed with the complainant, but was unable to provide documentation of such discussions after the date of the complaint.	1

**I recommend the Company furnish a response to an inquiry that is adequate and answers the questions being raised in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.**

Subsequent to the examination the Company informed the examiner that it has changed complaint handling procedures effective January 2002. The Company indicated that its Complaint Handling Coordinator is monitoring the database to ensure compliance with OAR 836-080-0225(3) and ORS 733.170.

## **UNDERWRITING**

The Company provided a list of all policies issued from January 1, 2001 through June 30, 2001 with limits on uninsured/underinsured motorist coverage that did not match the limits for bodily injury coverage. From this population of 56 policies the examiner selected an interval sample of 25 policies for review.

### **Findings**

The following exception was noted:

Recommendation #5 – I recommend the Company implement procedures to assure that all policies are issued with uninsured/underinsured motorist liability limits matching the bodily injury liability limits unless a completed and signed rejection form is presented with the application as required by ORS 742.500 through 742.506 and OAR 836-054-0000.

Findings: Failed. Zero percent compliance.

All 25 (100%) of the files failed this recommendation. Following is a summary of the reasons for failure:

<b><u>Reason</u></b>	<b><u># of Files</u></b>
The signed rejection form did not include either of the prices for uninsured/underinsured motorist coverage required by OAR 836-054-0000.	14
The signed rejection form included the price for the lower limits of uninsured/underinsured motorist coverage requested by the insured, but did not include the price for matching limits.	7
The Company did not obtain a signed rejection.	4

The Company's "Uninsured Motorists Bodily Injury Coverage Offer/Rejection Form" included a blank for both the price of uninsured/underinsured motorist limits matching the policy's bodily injury limits and the price of the lower limits requested by the insured. However, the price for matching limits was not filled in on any of the forms reviewed. In addition, the price for the lower limits was filled in on only seven forms.

It appears the Company's procedures do not allow for compliance with this recommendation. The Company's procedures state that the Company does issue policies with uninsured/underinsured motorist limits that do not match the policy's bodily injury limits without requiring the completed and signed rejection form. If the signed form is not received, the Company increases the uninsured/underinsured motorist limits to match the bodily injury limits at the first policy renewal.

**I recommend the Company issue all policies with uninsured/underinsured motorist liability limits matching the bodily injury liability limits unless a completed and signed rejection form is presented with the application as required by ORS 742.500 through 742.506 and OAR 836-054-0000.**

Subsequent to the examination the Company informed the examiner that it has taken corrective action to comply with the uninsured/underinsured motorist (UM/UIM) rejection requirements.

Specifically, the Company indicated it has or is in the process of:

1. Provided additional training to the staff that administers this procedure and reviews UM/UIM waivers. This included clarifying written procedures.
2. More closely monitored the procedure to make certain the Company remains compliant.

3. Is in the process of redesigning its UM/UIM rejection form. The Company expects to have the new form filed with the State of Oregon before June 1, 2002.

## **CLAIMS**

The Company provided three lists of claims that had been closed during the period from January 1, 2001 through June 30, 2001: one with 899 denied and closed-without-payment claims, one with 324 paid personal injury protection (PIP) claims, and one with 86 paid total loss claims. A random sample of 25 claims from each list was selected for review. Of the 25 denied and closed-without-payment sample, 22 were eliminated because they did not involve an actual denial of benefits. The Company's field claim offices then manually reviewed closed-without-payment files and pulled 22 files to replace those deleted from the original sample. The 25 PIP claim files yielded 312 PIP claims which were reviewed.

## **Findings**

The Company passed the following recommendation without comment:

<b>RECOMMENDATION</b>
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<u>Recommendation #12</u> - I recommend the Company handle automobile claims in accordance with policy provisions and applicable statutes, rules and regulations in accordance with ORS 746.420.
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The following exceptions were noted:

Recommendation #6 – I recommend the Company resolve PIP claims within 60 days and resolve other claims within 30 days unless letters notifying the insured of the reason(s) for the delay are sent in accordance with OAR 836-080-0235(1) and (4).

Findings: Passed with comment. 97% compliance.

This recommendation applied to 341 first party claims reviewed. Ten (3%) of the cases failed this recommendation.

Following are the reasons for failure:

<b>Reason for Failure</b>	<b><u># of Files</u></b>
Initial delay notice sent, but follow-up delay notices either not sent or not sent every 45 days thereafter until charges either paid or denied.	7
No delay notices sent.	4
Initial delay notice sent more than 60 days after receipt of charges.	1

Note: One file included charges that failed for each of the three reasons.

**A failure rate of 3% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.**

Recommendation #7 – I recommend the Company respond to claim correspondence within 30 days as required by OAR 836-080-0225(3).

Findings: Passed with comment. Ninety-nine percent compliance.

This recommendation applied to the 362 claim files reviewed. Four files (1%) failed this recommendation for the reasons listed below:

<b><u>REASON</u></b>	<b><u># OF FILES</u></b>
No response to correspondence.	1
No response to correspondence because Company referred provider request for copy of contract to contracting organization. However, Company did not follow-up to ensure a response was made.	1
No response other than payment made more than 30 days after receipt of correspondence.	1
Response sent more than 30 days after receipt of correspondence.	1

**A failure rate of 1% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.**

Recommendation #8 – I recommend the Company adequately document claim files as required by ORS 733.170 and OAR 836-080-0215.

Findings: Passed with comment. Ninety-nine percent compliance.

This recommendation applied to all 362 claim files reviewed. Three (1%) files failed this recommendation. Two of the files were total loss claims that did not include adequate documentation of the cash value on which benefit payment was based. Recommendation #11 also applies to documentation of cash value on total loss claims, and additional information can be found under that recommendation. The other file was a PIP claim that included a prescription bill that did not indicate the received date.

**A 1% failure rate does not appear to indicate a pattern in regard to file documentation in general. This recommendation is, therefore, no longer warranted.**

Recommendation #9 – I recommend the Company handle denied and closed-without-payment claims in accordance with policy provisions and state laws in accordance with ORS 746.230(1)(m) and OAR 836-080-0235(1).

Findings: Passed with comment. Ninety-eight percent compliance.

This recommendation applied to the 25 denied claims reviewed. One (2%) claim failed this recommendation.

PIP benefits were denied based on the results of an independent medical exam (IME). In a letter, the Company informed the claimant that treatment provided after the date of the letter was not payable because such treatment was not considered reasonable or necessary. The letter advised the decision was based on the results of an IME report indicating the claimant was medically stationary and no further treatment was recommended or considered necessary. However, the IME report actually indicated the claimant was not medically stationary and further treatment was recommended. The report also indicated the motor vehicle accident was not the major contributing cause of the claimant's problems, but that was not the reason the Company gave in their denial letter. The Company advised the adjuster used incorrect wording in the letter, but did provide a copy of the IME report to the claimant.

**A failure rate of 2% does not appear to indicate a pattern of noncompliance; therefore, no recommendation is warranted.**

Recommendation #10 – I recommend the Company pay or deny personal injury protection claims within 60 days as required by ORS 742.524 and 742.528 and determine primary carrier in accordance with 742.526.

Findings: Passed with comment. Ninety-eight percent compliance.

This recommendation applied to the 313 PIP claims reviewed: one denied PIP claim and 312 paid PIP claims. Six (2%) files failed this recommendation. In situations in which additional information was requested, days in excess of ten business days between the date the information was requested and the date it was received were not counted. Not counting such days, the

longest time to pay a medical bill in each of the six files that failed was 62, 66, 69, 86, 140 and 332 days.

**A failure rate of 2% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.**

Recommendation #11 – I recommend the Company handle total loss claims in accordance with OAR 836-080-0240(1).

Findings: Passed with comment. Ninety-eight percent compliance.

This recommendation applied to the 25 total loss claims reviewed. One (2%) claim failed this recommendation. The major reasons for this prior recommendation were the Company's failure to include an allowance for title and transfer fees in the benefit payment and lack of adequate documentation. The Company now appears to be in compliance with the requirement in regard to title and transfer fees. The claim that failed the above recommendation did so because the basis for the benefit amount was not adequately documented.

The benefit due under the terms of the policy's "keeper" endorsement was the retail cost of a new vehicle of the same make and model as the insured vehicle. The benefit paid was based on the retail cost quoted by a dealer. However, the file did not document whether the quoted price was, in fact, for a new vehicle of the same make and model as the insured vehicle.

**A failure rate of 2% does not appear to demonstrate a pattern of noncompliance; therefore, no recommendation is warranted.**

**CONCLUSIONS/RECOMMENDATIONS**

<b>#</b>	<b><u>Recommendation</u></b>	<b><u>Page #</u></b>
1	I recommend the Company respond to Insurance Commissioner complaints adequately and conclusively in accordance with OAR 836-080-0225(2).	8
2	I recommend the Company furnish a response within 30 days of receiving an inquiry from an insured in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.	8
3	I recommend the Company furnish a response to an inquiry that is adequate and answers the questions being raised in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.	9
4	I recommend the Company issue all policies with uninsured/underinsured motorist liability limits matching the bodily injury liability limits unless a completed and signed rejection form is presented with the application as required by ORS 742.500 through 742.506 and OAR 836-054-0000.	11

## **ACKNOWLEDGMENT**

The cooperation and assistance rendered by the officers and employees of the Company during this examination is hereby acknowledged and appreciated.

A special thanks is extended to the examination coordinators for their courtesy and assistance providing, correlating, or coordinating all requested documents and statistics necessary to ensure a smooth transition during the overall examination process. The responsibilities that were undertaken during this examination were in addition to the scope of their regular assigned duties.

In addition to the undersigned, Kathleen Kalk, AIE participated in this examination.

Respectfully submitted,

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Gayle L. Woods, AIE  
Supervising Market Conduct Examiner  
Market Conduct Section  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon



**APPENDIX**

**Country Mutual Insurance Company  
Market Conduct Follow-up Examination**

<b><u>Rec. #</u></b>	<b><u>Phase</u></b>	<b><u>Recommendation</u></b>	<b><u>Findings</u></b>
1	Complaint Handling	I recommend the Company implement a system for tracking all written complaints made to the Company in compliance with ORS 731.302(1).	Passed
2	Complaint Handling	I recommend the Company respond to Insurance Commissioner complaints adequately and conclusively in accordance with OAR 836-080-0225(2).	Failed
3	Complaint Handling	I recommend the Company furnish a response within 30 days of receiving an inquiry from an insured in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.	Failed
4	Complaint Handling	I recommend the Company furnish a response to an inquiry that is adequate and answers the questions being raised in accordance with OAR 836-080-0225(3) and document that response in accordance with ORS 733.170.	Failed
5	Underwriting	I recommend the Company issue all policies with uninsured/underinsured motorist liability limits matching the bodily injury liability limits unless a completed and signed rejection form is presented with the application as required by ORS 742.500 through 742.506 and OAR 836-054-0000.	Failed
6	Claims	I recommend the Company resolve PIP claims within 60 days and resolve other claims within 30 days unless letters notifying the insured of the reason(s) for the delay are sent in accordance with OAR 836-080-0235(1) and (4).	Passed with comment
7	Claims	I recommend the Company respond to claim correspondence within 30 days as required by OAR 836-080-0225(3).	Passed with comment
8	Claims	I recommend the Company adequately document claim files as required by ORS 733.170 and OAR 836-080-0215.	Passed with comment

9	Claims	I recommend the Company handle denied and closed-without-payment claims in accordance with policy provisions and state laws in accordance with ORS 746.230(1)(m) and OAR 836-080-0235(1).	Passed with comment
10	Claims	I recommend the Company pay or deny personal injury protection claims within 60 days as required by ORS 742.524 and 742.528 and determine primary carrier in accordance with 742.526.	Passed with comment
11	Claims	I recommend the Company handle total loss claims in accordance with OAR 836-080-0240(1).	Passed with comment
12	Claims	I recommend the Company handle automobile claims in accordance with policy provisions and applicable statutes, rules and regulations in accordance with ORS 746.420.	Passed