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# REPORT ON EXAMINATION

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(Limited Scope Market Conduct)

of

SHELTER MUTUAL INSURANCE COMPANY

NAIC COMPANY CODE: 23388

as of

December 31, 2006

(Property and Casualty)

By Representatives of the  
Oklahoma Insurance Department

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## **SALUTATION**

Oklahoma City, Oklahoma  
November 17, 2008

Honorable Kim Holland  
Insurance Commissioner  
State of Oklahoma  
2401 N.W. 23<sup>rd</sup> Street, Suite 28  
Oklahoma City, Oklahoma 73107

Commissioner Holland:

Pursuant to instructions and in compliance with the provisions of Title 36 of the Oklahoma Statutes, rules, regulations, and procedures of the Oklahoma Insurance Department and the procedures established by the National Association of Insurance Commissioners, a limited scope examination of the market conduct activities has been conducted of:

### **SHELTER MUTUAL INSURANCE COMPANY**

**Statutory Home Office  
1817 West Broadway  
Columbia, Missouri 65218**

NAIC GROUP CODE: 0123

NAIC COMPANY CODE: 23388

OKLAHOMA COMPANY CODE: 5024

The following Report of Examination (Limited Scope Market Conduct), as of December 31, 2006, is hereby respectfully submitted.

## **FOREWORD**

This limited scope market conduct examination report, as of December 31, 2006, reflects certain Oklahoma insurance activities of Shelter Mutual Insurance Company, hereafter referred to as the "Company" or "SMIC." The examination was conducted in the Company's home office at 1817 West Broadway, Columbia, Missouri. The examination is, in general, a report by test, wherein each test applied during the examination is stated and the results are reported, whether the results are favorable or unfavorable.

## **SCOPE OF EXAMINATION**

This examination covers the period January 1, 2004 through December 31, 2006.

The purpose of the examination was to determine compliance by the Company with provisions of the law, and any other facts relative to its business methods, management or equity of its dealings with its policyholders.

The examination was conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC), rules, regulations and directives of the Oklahoma Insurance Department and pursuant, but not limited to, 36 O.S. §§ 309.1 – 309.7, 1204 – 1220, 1250.1, 1250.10, 1435.14.A, 1435.15A, and 3636.

In reviewing material for this report, the examiners relied primarily on records and material furnished by the Company.

File sampling was based on a review of randomly selected, unless otherwise indicated, samples of underwriting and claim files by category.

During the course of this examination, the Company's operations were reviewed, including, but not limited to, the following:

- Operations and Management;
- Complaint Handling;
- Producer Licensing;
- Underwriting
- Policyholder Service; and
- Claims.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Oklahoma Insurance Department. Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process. This report should not be construed to endorse or discredit any insurance company or insurance product. This report is prepared for a particular audience and for a particular use. The materials contained in it are not necessarily suitable for any other purpose.

## **PRIOR EXAMINATION REPORT**

### **Prior Examination Claims**

*Claim number 35-71-5128511-2, the Company took in excess of 120 days to complete the investigation, after proof of loss was received. Reference 36 O.S. § 1250.7(C).*

*Ten (10) salvage claims, tax and license fees were under-paid. The Company agreed and paid \$1,858.49, including interest at the statutory rate of 6%. Reference 36 O.S. § 1250.8(1).*

*Claim number 35-1-2488884-2, the Company's agent incorrectly applied a \$250.00 deductible, when there should have only been a \$100.00 deductible applied. The Company agreed and paid the policyholder \$161.00 including interest at the statutory rate of 6%.*

*Claim number 35-1-3037320-2, the Company failed to offer or disclose to the policyholder's attorney, uninsured motorist coverage/underinsured motorist coverage from November 18, 1999 to May 23, 2001. Reference 36 O. S. §1250.5(1).*

*Claim number 35-1-4232522-1, the Company received a total loss evaluation from Certified Collateral Corporation (an outside vendor) that showed a value of \$6,025; however, the policyholder was paid on a value of \$5,025, which is \$1,000 less. The Company agreed there was an error and paid the policyholder \$1,000 plus additional title fees and interest at the statutory rate of 6%. Reference 36 O. S. §1250.8-A(2).*

*Claim number 35-1-3750187-3, the Company's policy limits were \$10,000 and the amount of claim was \$11,383.50; claim limits were over-paid in excess of \$1,183.50. The Company is now subrogating the excess payment to the father under his policy as a driver.*

*Claim number 35-1-002519232-7, the Company failed to include title and transfer fees of \$33.54. The Company agreed and paid fees, including interest at the statutory rate of 6%. Reference 36 O.S. § 1250.8(1).*

*Claim number 35-1-4489095-1, the Company failed to disclose collision coverage to a first party claimant when it became reasonably clear and available. Reference 36 O.S. § 1250(5).*

*The policyholder policies provided \$10.00 per day for rental reimbursement and not more than \$300.00 per occurrence. Twelve (12) claims were over-paid by \$2,220.*

*Claim number 35-71-3554139-1, the policyholder's policy provided a \$2,000 coverage for theft of guns and related equipment; however, the adjuster allowed only \$1,000. The Company agreed and paid the policyholder \$1,000, including interest at the statutory rate of 6%. Reference 36 O. S. §1250.5(1).*

*Claim number 35-71-4099689-1, the Company failed to pay \$30.00 to the policyholder when coverage became reasonably clear. The Company agreed and paid the policyholder \$30.00, including interest at the statutory rate of 6%. Reference 36 O. S. §1250.5(1).*

*Claim number 35-71-3200259-3, the Company applied a \$500.00 deductible to the loss, when it should have been absorbed in the limits of coverage under jewelry. The Company agreed and paid the policyholder \$542.50, including interest at the statutory rate of 6%.*

*Claim number 35-1-3187199, the Company failed to inform the guest passenger of medical payment coverage. The Company has since agreed and contacted the passenger to process the claim. Reference 36 O. S. §1250.5(1).*

*Claim number 35-1-3542877-2, the Company adjuster asked the policyholder to get two (2) estimates of damage and paid the insured to have the vehicle repaired at a specific paintless repair facility, without considering the insured's competitive bids as an option. Reference Title 36 O.S. §1250.8.(H).*

## **COMPANY OPERATIONS AND MANAGEMENT**

### **History and Profile**

Shelter Mutual Insurance Company (SMIC) is a wholly owned mutual insurance company. The policyholders elect a nine (9) member Board of Directors that oversee the management of the Company. SMIC is the parent of Shelter General Insurance Company, Shelter Life Insurance Company and Shelter Reinsurance Company, among other subsidiaries. SMIC writes primarily personal lines, automobile and property coverage for preferred risks.

SMIC was incorporated under the laws of the State of Missouri on August 31, 1945, and began writing automobile and homeowners risk on January 1, 1946. The Missouri Farmers Association, Inc., Columbia, Mo. Sponsored SMIC in 1946, and the Company was originally chartered as MFA Mutual Insurance Company. It operated as such until 1981, at which point the present name was adopted. SMIC was first admitted to do business in the State of Oklahoma in 1960.

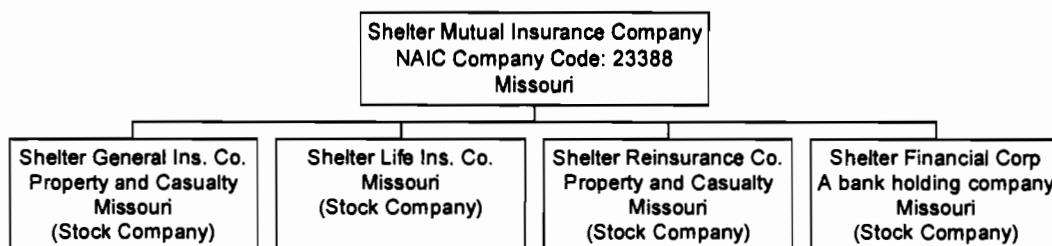
SMIC was admitted to do business in the State of Nevada in 2006. SMIC operates through agents who are employees of the Company or who have independently contracted with SMIC to be exclusive Shelter agents. The Shelter Insurance Companies currently have 1,792 employees and 1,306 agents. SMIC maintains nineteen (19) regional claims offices, two (2) of which are located in Oklahoma (Oklahoma City and Tulsa Branch Claims offices).

The Company is licensed to do business in the states of Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Nebraska, Nevada, Ohio, Oklahoma, Tennessee, Texas and Vermont.

### **Affiliated Parties**

The Company and its affiliates are members of an Insurance Holding Company System as defined in Section 1651(d) of Title 36.

The following abbreviated organizational chart reflects the Company's relationship to its affiliates:



### **Direct Written Premium**

The Company's reported total direct written premium for Oklahoma for the period under review was as follows:

<b>Lines of business</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Fire	\$ 5,233,190	\$ 5,131,483	\$ 4,911,799
Allied lines	5,978,973	5,622,065	5,080,224
Farm owners multiple peril	1,524,609	1,475,338	1,511,933
Homeowners multiple peril	29,175,372	29,717,306	27,093,694
Commercial multiple peril (non-Liability Portion)	3,165,115	3,545,323	3,801,167
Commercial multiple peril (Liability Portion)	211,280	209,186	203,832
Inland marine	501,307	434,049	391,262
Group accident and health (b)	31,730	30,087	29,659
Other liability	1,394,437	1,392,415	1,352,950
Products liability	10,565	11,939	9,364
Other private passenger auto liability	32,958,726	32,594,803	31,409,726
Other commercial auto liability	49,308	54,106	57,060
Private passenger auto physical damage	22,810,809	22,143,871	23,708,566
Commercial auto physical damage	13,762	15,141	15,951
Boiler and machinery	206,980	202,823	196,118
<b>Total</b>	<b>\$103,266,163</b>	<b>\$102,579,935</b>	<b>\$99,773,305</b>

The Company's reported total direct written premium for the period under review was as follows:

<b>Annual Premium</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Total</b>	<b>\$ 903,284,080</b>	<b>\$ 898,347,586</b>	<b>\$ 909,729,676</b>

## **COMPLAINT HANDLING**

In the review of the Company's complaint handling, attention was given to the Company's analysis of the complaint, the candor of the response, comparison of the response and actual file contents. The Company's own complaint records and the complaint listing maintained by the Oklahoma Insurance Department were utilized in this review.

### **Functional Cause of Complaints**

<b>Cause of Complaint</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Unsatisfactory Settlement	1	6	10
Denial of Claim	1	6	10
Delays	2	4	5
Coverage Question	0	0	0
Premium & Rating	1	2	1
Premium Notice/Billing	0	4	4
Non-renewals	1	1	2
Cancellation	0	0	1
Premium Refund	0	0	2
Agent Handing	0	0	0
All Others	2	2	5
<b>Total</b>	<b>8</b>	<b>25</b>	<b>40</b>

### **Complaint Time Studies**

For this study, time was measured from date the Company received the complaint until the date of response. In this study no errors were noted.

<b>Days</b>	<b>Number of Complaints</b>	<b>Percentage</b>
0-20	25	100.0%
Over-20	0	00.0%
<b>Total</b>	<b>25</b>	<b>100%</b>

## **MARKETING AND SALES**

### **Marketing**

The Company markets its products through independent agents/agencies.

## **PRODUCER LICENSING**

### **Producers Licensing and Appointments**

The Company's listing of agent's commissions paid was compared to the Oklahoma Insurance Department listing of appointed agents. In this study, no error was noted.

### **Adjuster Licensing**

The Company's claims are handled for the most part by the Company's adjusters, on each claim the adjuster's license was checked against the Oklahoma Insurance Department listing of adjusters. In this study, no exceptions were noted.



## **POLICYHOLDER SERVICE**

The policyholder service portion is designed to test the Company's compliance with statutes regarding notice/billing, delays/no response, and premium refunds. In a review of the Company's policies no exceptions were noted.

## **UNDERWRITING AND RATING**

The Company's underwriting and rating practices were reviewed, including filing of forms in use during the period under examination.

### **Company Forms and Letters**

One hundred seventy-two (172) forms and letters were selected as a sample from a population of one hundred seventy-two (172) forms and letters during the time frame of the examination. In that study, no errors were noted.

### **Application of Rates and Underwriting**

The most appropriate statistic to measure accuracy is the number of files in error. An error is taken to be any failure of the Company to:

- Correctly calculate premium;
- Correctly code;
- Comply with statutes, regulations or policy provisions; or
- Properly issue.

### **Active Automobile Policies**

Field Size	Type of Sample	Size of Sample
5,000	Random	25

In this study, no error was noted, which resulted in an error ratio of 0%.

### **Declined Automobile Policies**

Field Size	Type of Sample	Size of Sample
744	Random	25

In this study, no error was noted, which resulted in an error ratio of 0%.

### Homeowner Active Policies

Field Size	Type of Sample	Size of Sample
26,197	Random	25

In this study, no error was noted, which resulted in an error ratio of 0%.

### Homeowner Cancelled Policies

Field Size	Type of Sample	Size of Sample
236	Random	25

In this study, no error was noted, which resulted in an error ratio of 0%.

## CLAIMS

### Claim Time Studies

For these studies, claim payments are measured from the following:

#### ACKNOWLEDGEMENT TIME:

From the date of receipt by the insurer or agent of notification of a claim to a company's initial communication or acknowledgement to the claimant. Reference: 36 O.S. § 1250.6(A).

#### INVESTIGATION TIME:

From the date the company or agent receives notification of a claim to the date the investigation is completed. Reference: 36 O.S. § 1250.7(C).

#### ACCEPTANCE TIME:

From the date the company has received all necessary proof of loss information to the date of acceptance or denial. Reference: 36 O.S. § 1250.7(A).

The following two hundred and forty six (246) claims were randomly selected for time studies. In that review, no exceptions were noted.

Lines of Business	Field Size	Sample Size	Errors
Med-Pay Claims	1,043	21	0
Dwelling Fire Claims	2,672	25	0
Uninsured Motorist Claims	128	25	0
Homeowner Theft Claims	443	25	0
Automobile Collision Claims	6,348	50	0
Automobile Comprehensive Claims	6,401	50	0
Closed Without Payment Claims	3,552	50	0
<b>Total</b>	<b>20,587</b>	<b>246</b>	<b>0</b>

## **Claim Practices**

The claims practices of the Company were examined for efficiency of handling, accuracy of payment, compliance to Oklahoma Statutes and Regulations, and adherence to contract provisions. A claim is taken to be a demand for payment by an insured or claimant under a coverage against the insurer, in which the claim is:

### **Paid by the Insurer as:**

1. Full recompense
2. Partial recompense

### **Closed without payment by reason of:**

1. No relevant coverage
2. No liability
3. Recompense by other legal means

## **Med-Pay Claims**

Twenty-one (21) claims were randomly selected for review from a population of 1,043 claims closed during the time frame of the examination. In this study, no error was noted.

## **Dwelling Fire Claims**

Twenty-five (25) claims were selected for review from a population of 2,672 claims closed during the time frame of the examination. In this study, no error was noted.

## **Uninsured Motorist Claims**

Twenty-five (25) claims were randomly selected for review from a population of 128 claims closed during the time frame of the examination. In this study, no error was noted.

## **Homeowner Theft Claims**

Twenty-five (25) claims were randomly selected for review from a population of 443 claims closed during the time frame of the examination. In this study, no error was noted.

## **Automobile Collision Claims**

Fifty (50) claims were randomly selected for review from a population of 6,348 claims closed during the time frame of the examination. In this study, no error was noted.

## **Automobile Comprehensive Legacy Claims**

Fifty (50) claims were randomly selected for review from a population of 6,401 claims closed during the time frame of the examination. In this study, no error was noted.

### **Claims without Payment Claims**

Fifty (50) claims were randomly selected for review from a population of 3,552 claims closed during the time frame of the examination. In this study, no error was noted.

### **Catastrophe Claims**

Twenty-six (26) claims were randomly selected for review from a population of 1,421 catastrophe claims closed during the time frame of the examination. In this study, no errors were noted.

### **Claims Complaint Review**

Twenty-five (25) complaints were randomly selected for review from a population of seventy-three (73) complaints closed during the time frame of the examination. In this study, no errors were noted.

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## **ACKNOWLEDGMENT**

The Market Conduct Examination Report of Shelter Mutual Insurance Company is respectfully submitted to the Honorable Kim Holland, Insurance Commissioner of the State of Oklahoma.

In addition to the undersigned, Mr. Jim Mitchell, AFE, participated in the examination.

The Examiners wish to express their appreciation for the courteous cooperation and assistance given by the officers and employees of the Company during the course of this examination.

Respectfully Submitted,

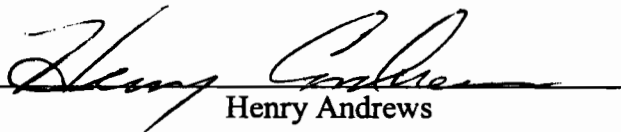
A handwritten signature in black ink, appearing to read "Henry Andrews". The signature is fluid and cursive, with a large initial "H" and "A".

Henry Andrews, AIE  
Examiner-in Charge, State of Oklahoma  
Midwestern Zone III, NAIC

**AFFIDAVIT**


State of Oklahoma )  
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County of Oklahoma )

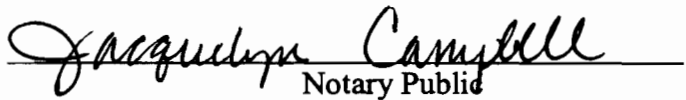
I, Henry Andrews, of lawful age, being first duly sworn, upon oath state that I have been charged with examining Shelter Mutual Insurance Company, as of December 31, 2006, that I have prepared and read the foregoing Report of Examination, that I am familiar with the matters set forth therein, and I certify the Report is true and complete to the best of my knowledge and belief.

  
Henry Andrews

Subscribed and sworn to before me this 17<sup>th</sup> day of November, 2008, by Henry Andrews.

[seal]

 JACQUELYN CAMPBELL  
Notary Public  
State of Oklahoma  
Commission # 05009402 Expires 10/10/09

  
Notary Public

My commission expires: 10/10/09