REPORT ON EXAMINATION

(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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Oklahoma City, Oklahoma
November 17, 2008

Honorable Kim Holland
Insurance Commissioner
State of Oklahoma
2401 N.W. 23rd 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. §1250.8(5).

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 is 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:

<table>
<thead>
<tr>
<th>Lines of business</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>$ 5,233,190</td>
<td>$ 5,131,483</td>
<td>$ 4,911,799</td>
</tr>
<tr>
<td>Allied lines</td>
<td>5,978,973</td>
<td>5,622,065</td>
<td>5,080,224</td>
</tr>
<tr>
<td>Farm owners multiple peril</td>
<td>1,524,609</td>
<td>1,475,338</td>
<td>1,511,933</td>
</tr>
<tr>
<td>Homeowners multiple peril</td>
<td>29,175,372</td>
<td>29,717,306</td>
<td>27,093,694</td>
</tr>
<tr>
<td>Commercial multiple peril (non-Liability Portion)</td>
<td>3,165,115</td>
<td>3,545,323</td>
<td>3,801,167</td>
</tr>
<tr>
<td>Commercial multiple peril (Liability Portion)</td>
<td>211,280</td>
<td>209,186</td>
<td>203,832</td>
</tr>
<tr>
<td>Inland marine</td>
<td>501,307</td>
<td>434,049</td>
<td>391,262</td>
</tr>
<tr>
<td>Group accident and health (b)</td>
<td>31,730</td>
<td>30,087</td>
<td>29,659</td>
</tr>
<tr>
<td>Other liability</td>
<td>1,394,437</td>
<td>1,392,415</td>
<td>1,352,950</td>
</tr>
<tr>
<td>Products liability</td>
<td>10,565</td>
<td>11,939</td>
<td>9,364</td>
</tr>
<tr>
<td>Other private passenger auto liability</td>
<td>32,958,726</td>
<td>32,594,803</td>
<td>31,409,726</td>
</tr>
<tr>
<td>Other commercial auto liability</td>
<td>49,308</td>
<td>54,106</td>
<td>57,060</td>
</tr>
<tr>
<td>Private passenger auto physical damage</td>
<td>22,810,809</td>
<td>22,143,871</td>
<td>23,708,366</td>
</tr>
<tr>
<td>Commercial auto physical damage</td>
<td>13,762</td>
<td>15,141</td>
<td>15,951</td>
</tr>
<tr>
<td>Boiler and machinery</td>
<td>206,980</td>
<td>202,823</td>
<td>196,118</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$103,266,163</td>
<td>$102,579,935</td>
<td>$99,773,305</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Annual Premium</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$ 903,284,080</td>
<td>$ 898,347,586</td>
<td>$ 909,729,676</td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Cause of Complaint</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsatisfactory Settlement</td>
<td>1</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Denial of Claim</td>
<td>1</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Delays</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Coverage Question</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Premium &amp; Rating</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Premium Notice/Billing</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Non-renewals</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Cancellation</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Premium Refund</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Agent Handling</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>All Others</td>
<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8</strong></td>
<td><strong>25</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Days</th>
<th>Number of Complaints</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20</td>
<td>25</td>
<td>100.0%</td>
</tr>
<tr>
<td>Over-20</td>
<td>0</td>
<td>00.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Field Size</th>
<th>Type of Sample</th>
<th>Size of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,000</td>
<td>Random</td>
<td>25</td>
</tr>
</tbody>
</table>

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

Declined Automobile Policies

<table>
<thead>
<tr>
<th>Field Size</th>
<th>Type of Sample</th>
<th>Size of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>744</td>
<td>Random</td>
<td>25</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Field Size</th>
<th>Type of Sample</th>
<th>Size of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>26,197</td>
<td>Random</td>
<td>25</td>
</tr>
</tbody>
</table>

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

**Homeowner Cancelled Policies**

<table>
<thead>
<tr>
<th>Field Size</th>
<th>Type of Sample</th>
<th>Size of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>236</td>
<td>Random</td>
<td>25</td>
</tr>
</tbody>
</table>

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.

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


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,

[Signature]

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

State of Oklahoma )
 )ss
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 17th day of November, 2008, by Henry Andrews.

[seal]

JACQUELYN CAMPBELL
Notary Public
State of Oklahoma
Commission # 06008402 Expires 10/10/09

My commission expires: 10/10/09

Shelter Mutual Insurance Company.
Market Conduct Exam as of 12-31-2006