

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

**IN THE MATTER OF THE
REPORT OF EXAMINATION OF
FARMERS FIRE INSURANCE COMPANY, INC.
(FMAA No. A-0008)**

AID NO.: 2007- 006

ADOPTION ORDER

Now on this day the matter of the Report of Examination ("Report" or "Report of Examination") as of December 31, 2005, of Farmer's Fire Insurance Company, Inc. ("Company"), of Conway, Arkansas, FMAA No. A-0008, is taken under consideration by Ms. Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas ("Commissioner"), as presented by Associate Counsel, Zane A. Chrisman, and the Finance Division of the Arkansas Insurance Department ("Department"). From the facts, matters and other things before her, the Commissioner finds as follows:

FINDINGS OF FACT

1. The Commissioner has jurisdiction over the Company and the subject matter involved herein.
2. The Company is an Arkansas-domiciled mutual insurer controlled by its policyholders.
3. Pursuant to Ark. Code Ann. § 23-61-201 et seq., the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records and assets of the Company as of December 31, 2005.
4. Said examination was commenced by the Department on September 25, 2006, and completed on October 24, 2006.
5. The verified Report of Examination was filed with the Department on December 8, 2006; it was then forwarded to the Company via certified mail on December 8, 2006. The Company received the Report on December 15, 2006, according to the certified mail return receipt.
6. The Company did not respond to the Report of Examination.

7. The Report of Examination contained the following discrepancies or deficiencies concerning the Company's operations:

(a) Ark. Code Ann. §23-66-206 (5) states that it is an unfair trade practice for a company to fail to establish written policies and procedures designed to identify and resolve promptly any general or pecuniary conflicts of interest between officers, directors, and other key people. As of December 8, 2006, the Company had not adopted any such written procedure.

(b) The insurer failed to promptly give written notice of termination to the Commissioner or the 30 day advance notice to the agent by certified mail with return receipt requested as required by Ark. Code Ann. § 23-64-219 (d).

(c) Ark. Code Ann. § 23-66-206(9) (A) and (B) states that it is an unfair trade practice to cancel a policy that has been in force longer than sixty days unless the consumer has failed to pay premiums, made a material misrepresentation, failed to pay membership dues, violated material provisions of the policy, exposed the insured item or person to violations of local regulations or ordinances, or there is an occurrence that will subject the insured item or person to more risk. The Company used the effective date of a total fire loss on policies as a cancellation date and retained paid premiums as fully earned in the event of a total fire loss on these policies in violation of the Trade Practices Act.

(d) The Company had not filed biographical affidavits on all officers and directors of the Company with the Arkansas Insurance Department in voluntary compliance with Arkansas Rule 7.

(e) At December 31, 2005, the Company had estimated an additional amount of liability owed to the Internal Revenue Service related to interest and penalties on payroll taxes filed and paid late. The Company has estimated that the additional liability to be approximately \$73,000. The additional liability is only an estimate; therefore, the financial statements have not been adjusted. However, due to materiality of the liability, it should have been disclosed in the notes to the financial statements.

THEREFORE, pursuant to the provisions of Ark. Code Ann. §23-61-205, the Commissioner hereby orders:

1. That the Examination Report, as filed with the Department, is hereby adopted.
2. That the Department shall forward a copy of this Order and the adopted Examination Report, as filed, to the Company, by certified mail. The mailing to the Company shall include specimen affidavit forms for the Company's Directors to use in acknowledgement of receipt of the adopted Report of Examination and this Order.
3. That within twenty (20) days of receipt of this Order and the adopted Examination Report, the Company shall file with the Department affidavits executed by each one of its Directors, stating under oath or affirmation that each has received a copy of this Order and the adopted Examination Report;
4. That the adopted Examination Report shall be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Order.
5. That the Department, as a matter of course, reserves the right to consider administrative proceedings against the Company at a later date.

IT IS SO ORDERED this 5th day of February 2007.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS