

STATE OF NORTH DAKOTA
BEFORE THE COMMISSIONER OF INSURANCE

In the Matter of the)	
Certificate of Authority of)	
)	
Farmers Insurance Exchange,)	STIPULATION AND WAIVER
Limited Market Conduct Examination,)	
FEIN 95-2575893,)	
)	
Respondent.)	File No. MC-04-149

Respondent Farmers Insurance Exchange (“Respondent”) and North Dakota Commissioner of Insurance Jim Poolman (hereafter “Commissioner”) stipulate as follows:

WHEREAS, Respondent currently is, and at all times relevant hereto was, an insurer licensed to conduct various classes of insurance in North Dakota and was conducting insurance business in North Dakota; and

WHEREAS, the Commissioner’s staff conducted a limited scope market conduct examination (the “MCE”) which focused on various performance goals established for claims handling employees and various performance incentive plans linked to employee pay implemented by the Respondent during the years 1990 to 2004 and issued a Market Conduct Exam Report on June 20, 2007 (“the Report”) which identifies various alleged violations of N.D. Cent. Code Chapter 26.1-04, *et seq.*; and

WHEREAS, the Commissioner and Respondent have undertaken discussions to resolve matters contained in the Report; and

WHEREAS, the Commissioner and Respondent now wish to resolve all outstanding matters raised in, or related to, the Report without the need for hearings or further administrative action; and

WHEREAS, the Respondent has denied the allegations of the Report but acknowledge that those allegations, if proven to be true, may constitute grounds for the Commissioner to impose a civil penalty and issue an order to Respondent to cease and desist from utilizing goals and incentive plans for claims settlement personnel which violate provisions of N.D. Cent. Code Title 26.1; and

WHEREAS, the Respondent has communicated to the Commissioner in writing with respect to its response to the Report and Respondent's compliance with certain provisions of N.D. Cent. Code Title 26.1 and regulations promulgated thereunder; and

WHEREAS, the Commissioner and Respondent believe that it is in the public interest to resolve all matters raised by the Report without the need for a formal hearing or any further administrative action.

NOW, THEREFORE, with respect to the matters stated herein, the Commissioner and the Respondent agree as follows:

1. Respondent waives its right to a hearing and any and all rights that Respondent may be entitled to pursuant to N.D. Cent. Code § 28-32-22.

2. Respondent denies all allegations contained in the Report, and nothing herein or in any order adopting this Stipulation and Waiver shall be construed as a concession or admission to the truth or validity of any allegation or finding made in the Report. Further, this Stipulation and Waiver shall not constitute or be construed in any administrative or civil proceeding as an admission that Respondent engaged in any

acts, omissions or practices in violation of N.D. Cent. Code Chapter 26.1-04, *et seq.* or corresponding regulations.

3. Respondent agrees that, in lieu of other disciplinary action against its Certificate of Authority or issuing a Cease and Desist Order, the Commissioner, by his written order to be made and filed herein, and without further notice to Respondent, shall assess an administrative penalty in the amount of \$750,000. Respondent agrees to and shall pay the sum of \$750,000 to the State of North Dakota within thirty (30) days of the execution of the Order. Payment shall be mailed to: North Dakota Insurance Department, 600 East Boulevard Avenue, Dept. 401, Bismarck, ND 58505-0320.

4. Respondent represents that it has eliminated all goals and performance incentive plans linked to employee compensation that utilize goals relating to settling claims within certain ranges in the evaluation of, determination of compensation for, or the training of claims settlement personnel. For purposes of this Stipulation and Waiver, "goals" mean fixed targets and benchmarks which do not focus solely on the nature of the individual claims handled by the individual claims settlement personnel. Respondent also represents that it does not currently have and will not implement any bonus, incentive, salary increase or promotion plans or other reward programs that are designed to, or have the effect of, improperly influencing claims handlers or their supervisors in the payment of claims.

5. Although Respondent's training programs for newly hired claims settlement personnel teach the importance of evaluating each claim on its own merit and to neither underpay or overpay claims, Respondent agrees to emphasize this message in the training program materials.

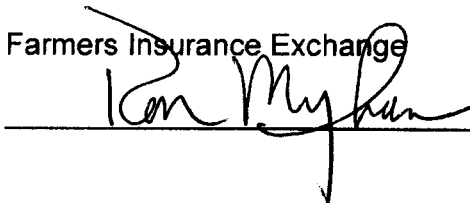
6. Respondent agrees to notify existing claims settlement personnel that the role of incentive programs is to reward exemplary performance and achievement of the Respondent's goals, and that one of the Respondent's goals is to pay the amount due on all claims as quickly, fairly and efficiently as possible.

7. The Commissioner shall issue a press release regarding settlement of matters related to the Report. The Commissioner agrees to provide the Respondent with the content of the press release 24 hours prior to its release.

8. Respondent acknowledges that, if it violates any of the terms or conditions of this Stipulation and Waiver, the Commissioner may bring disciplinary action against Respondent including, but not limited to, those remedies set forth in N.D. Cent. Code § 26.1-04-13.

9. This Stipulation and Waiver constitutes full and complete resolution of all issues covered in and relating to the Report.

Dated: June 22, 2007

Farmers Insurance Exchange
By: 

Dated: June 27, 2007

Jim Poolman
Commissioner of Insurance
State of North Dakota
By: 