

STATE OF NORTH DAKOTA
BEFORE THE COMMISSIONER OF INSURANCE

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

Commissioner of Insurance Jim Poolman (hereafter "Commissioner") has determined as follows:

1. The Commissioner has authority in this matter pursuant to N.D. Cent. Code Title 26.1.
2. Farmers Insurance Exchange is an insurance company incorporated under the laws of the State of California and is duly authorized to do business in North Dakota.
3. The Commissioner has jurisdiction over this Consent Order, and this Consent Order is made in the public interest.
4. The Commissioner's staff conducted a limited scope market conduct examination ("MCE") which focused on various goals for claims handling employees and the various performance incentive plans linked to employee compensation implemented by 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.*

5. Respondent has been duly apprised of all allegations and findings contained in the Report.

6. Respondent denies the allegations contained in the Report but acknowledges 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 performance incentive plans for claims settlement personnel which violate provisions of N.D. Cent. Code Title 26.1.

7. Respondent and the Commissioner have agreed to an informal disposition of this matter without further administrative proceedings, as provided by N.D. Cent. Code § 26.1-01-03.1, and enter into the following Consent Order.

NOW, PURSUANT TO THE AGREEMENT OF THE PARTIES, IT IS HEREBY ORDERED THAT:

1. Respondent shall, in lieu of other disciplinary action against its Certificate of Authority, pay an administrative penalty in 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.

2. Respondent shall emphasize in training programs for newly hired claims settlement personnel the importance of evaluating each claim on its own merit and neither underpaying nor overpaying claims.

3. Respondent shall notify existing claims settlement personnel that the role of incentive programs is to reward exemplary performance and achievement of the

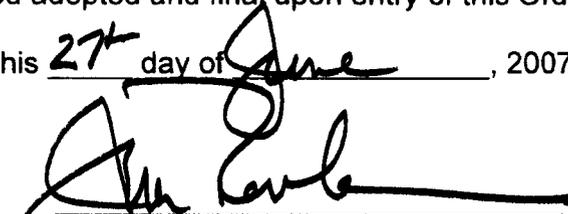
Respondent's goals, and that one of the Respondent's goals is to pay the amount due on all claims as quickly, fairly and efficiently as possible.

4. Respondent shall not use goals or incentive plans that utilize goals relating to settling claims within certain ranges in the evaluation of, determination of compensation for, or the training of claims settlement persons. For the purposes of this Consent Order, "goals" means fixed targets and benchmarks which do not focus solely on the nature of the individual claims handled by the individual claims settlement personnel. Respondent shall not use 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. The Commissioner shall issue a press release regarding settlement of matters related to the Report and the content of the press release shall be provided to Respondent 24 hours in advance.

6. The Report shall be considered adopted and final upon entry of this Order.

DATED at Bismarck, North Dakota, this 27th day of June, 2007.



Jim Poolman
Commissioner of Insurance
State of North Dakota

CONSENT TO ENTRY OF ORDER

The undersigned, Ronald Myhan, on behalf of **Farmers Insurance Exchange**, states that he/she has read the foregoing Consent Order, that he/she knows and fully understands its contents and effect; that he/she has been

advised of Farmers Insurance Exchange's right to a hearing in this matter, its right to be represented by legal counsel, its right to present evidence and arguments to the Commissioner, and its right to appeal from an adverse determination after the hearing; that he/she is authorized to sign this Consent Order on behalf of Farmers Insurance Exchange, and that by signing this Consent to Entry of Order he/she, on behalf of Farmers Insurance Exchange, waives those rights in their entirety, and that Farmers Insurance Exchange consents to entry of this Order by the Commissioner. It is further expressly understood that this Order constitutes the entire settlement agreement between the parties hereto, there being no other promises or agreements express or implied.

DATED this 22nd day of June, 2007.

Farmers Insurance Exchange
By: Ronald Myhan
Title: Senior Vice President and Treasurer

Subscribed and sworn to before me

this 22nd day of June, 2007, by Ronald Myhan, who is personally known to me.

Diana Elisa Salinas
Notary Public

Diana Elisa Salinas
My Commission Expires: September 22, 2009

