

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

In re:)
American Modern Home Insurance Co.)
(NAIC #23469))
and) Examination #0811-17-TGT
American Family Home Insurance Co.)
(NAIC #23450))

CURATIVE ORDER OF THE DIRECTOR

NOW, on this 26th day of October, 2009, Director John M. Huff, after consideration and review of the market conduct examination report of American Modern Home Insurance Company (NAIC #23469) and American Family Home Insurance Company (NAIC #23450, (hereinafter “the Companies”), report number 0811-17-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3)(a), RSMo, does hereby adopt such report as filed. After consideration and review of such report, relevant workpapers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director’s findings and conclusions accompanying this order pursuant to §374.205.3(4), RSMo.

This order, issued pursuant to §374.205.3, RSMo and §374.046.15. RSMo Cum. Supp. 2006, is in the public interest.

IT IS THEREFORE ORDERED that the Company shall CURE the violations of law, regulations or prior orders revealed in such report and shall take remedial action to bring the Company into compliance with the statutes and regulations of the State of Missouri.

So Adopted, Found, Concluded and Ordered.

10-26-09
Date

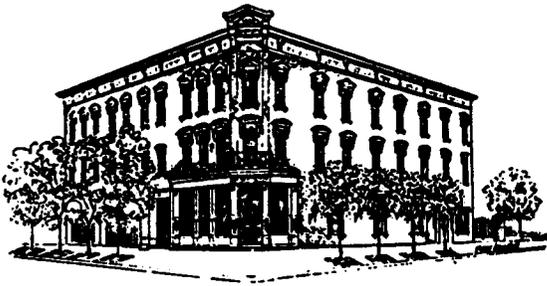
John M. Huff
Director

MONROE HOUSE LAW CENTER

HAND
CARRIED

RECEIVED
OCT 05 2009

DEPT OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



Law Offices

English & Monaco

A Professional Corporation

237 E. High Street P.O. Box 67 Jefferson City, Missouri 65102

573/634-2522 FAX 573/634-4526

E-Mail: inglishmonaco@inglishmonaco.com

Via Hand Delivery
October 5, 2009

Carolyn H. Kerr, Senior Attorney, AIE, AIRC
Insurance Market Regulation Division
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65109

Nicholas M. Monaco
*Ann Monaco Warren
Mark G.R. Warren
Gerard "Jay" Harms, Jr.
Todd E. Irelan

(1921-2008) John W. English
(1929-1991) Charles P. Dribben
(1906-2004) William Barton

of Counsel:
Andrew Jackson Higgins
Former Judge:
Sixth Judicial Circuit (1960-1964)
Missouri Supreme Court (1979-1991)

Re: American Modern Home Insurance Company and American Family Home Insurance
Company - Missouri Market Conduct Examinations

Dear Carolyn:

Enclosed please find for filing with the Missouri Department of Insurance, Financial
Institutions and Professional Registration ("MDIFP") by and on behalf of American Modern
Home Insurance Company ("American Modern Home") and American Family Home Insurance
Company ("American Family Home") a letter dated October 2, 2009, above the signature of
Mr. D. Eugene Stetler, Senior Vice President, in response to the Market Conduct Examination
Report #0811-17-TGT dated September 11, 2009.

Should you have any questions or wish to discuss this matter please feel free to contact me.

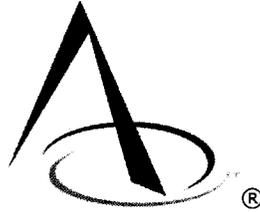
Sincerely,

Ann Monaco Warren

AMW/mjw

Encl.

cc: D. Eugene Stetler (via U. S. mail w/encl)
James T. Whittle, Jr. (via E-mail & U. S. mail w/encl)
Jeff Dinnen (via E-mail & U. S. mail w/encl)
Mark Warren (w/encl)



AMERICAN MODERN
INSURANCE GROUP, INC.

October 2, 2009

Missouri Department of Insurance
Division of Insurance Market Regulation
301 West High Street, Room 530
P.O. Box 690
Jefferson City, Missouri 65102

Attention: Carolyn H. Kerr, Senior Counsel, Market Conduct Section

RE: Market Conduct Examination # 0811-17-TGT
American Modern Home Insurance Company – NAIC #23469
American Family Home Insurance Company – NAIC #23450

Dear Ms. Kerr:

Please accept this as the response of American Modern Home Insurance Company and American Family Home Insurance Company (hereinafter referred to collectively as the "Company") to the Market Conduct Examination Report #0811-17-TGT dated September 11, 2009.

The Report notes two items that indicate error on the part of the Company. The items are found in Section I, Underwriting And Rating Practices. Following are comments on each.

Underwriting And Rating Practices

The first error noted in the Report is found in item # B2, Dwelling Fire, of Section I and states: "In one instance, the Company applied a protection class resulting in an underwriting undercharge of \$441.00." That instance involved a Dwelling Fire policy, and after review of the file, the Company agrees with this finding.

The second error is found in item B3, Mortgage Security Protection, of Section I. There the Report provides that in "104 instances, the Company failed to furnish examiners with the certificates and documentation needed for underwriting and rating review of the certificates." While the Company, in its response to this criticism, agreed that it failed to respond in a timely fashion, it should be noted that the Company at all times maintained open communication with the Examiners and made diligent efforts to supply the information, but was unable to do so prior to the examination being closed.

On behalf of the Company I would like to thank you and the Examiners for the courtesies extended and the help provided during the course of this Exam.

Sincerely,

D. Eugene Stetler
Senior Vice President

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Property and Casualty Business of

American Modern Home Insurance Company
NAIC # 23469

American Family Home Insurance Company
NAIC #23450

MISSOURI EXAMINATION # 0811-17-TGT

NAIC EXAM TRACKING SYSTEM # MO268-M89

September 11, 2009

Home Office
P. O. BOX 5323
Cincinnati, OH 45201-5323

TABLE OF CONTENTS

FOREWORD.....	3
SCOPE OF EXAMINATION.....	4
COMPANY PROFILE.....	5
EXECUTIVE SUMMARY	6
EXAMINATION FINDINGS	7
I. UNDERWRITING AND RATING PRACTICES	7
A. Forms and Filings.....	8
B. Underwriting and Rating.....	8
C. Cancellations, Non-Renewals, Rescissions, and Declinations	11
II. CLAIMS PRACTICES	12
A. Claims Time Studies	13
B. Unfair Settlement and General Handling Practices.....	14
C. Practices Not in the Best Interest of Consumers.....	15
III. COMPLAINTS	16
CRITICISMS AND FORMAL REQUESTS TIME STUDY	17
A. Criticism Time Study.....	17
B. Formal Request Time Study	17
EXAMINATION REPORT SUBMISSION.....	18

FOREWORD

This is a targeted market conduct examination report of the American Modern Home Insurance Company, (NAIC Code # 23469) and American Family Home Insurance Company (NAIC Code # 23450). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “Company” refers to American Modern Home Insurance Company and/or American Family Home Insurance Company;
- “CSR” refers to the Missouri Code of State Regulation;
- “DIFP” refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “Director” refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “NAIC” refers to the National Association of Insurance Commissioners; and
- “RSMo” refers to the Revised Statutes of Missouri. All citations are to RSMo 2000, unless otherwise specified.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2008, through December 31, 2008, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: homeowners underwriting and terminations, dwelling fire underwriting and terminations, mortgage security underwriting, homeowners claims, dwelling fire claims, mortgage security claims, and complaints.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark for underwriting practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

“Since its founding in 1938, The Midland Company’s history has been marked by a series of transformations, evolving from an auto finance specialist to a consumer finance company, then moving into manufactured housing business.

In recent years, the company’s American Modern Insurance Group, which had specialized in manufactured home insurance, added a number of personal lines. Today, American Modern insures a variety of products from motorcycles to collector cars to RVs to boats and more, as well as property insurance for vacation homes, rental property, and vacant homes.

The company also has been very successful in commercial insurance as well as in providing products and services to financial institutions such as credit life, mortgage fire, collateral protection, and flood insurance.

American Modern serves some 1.4 million policyholders in 50 states, holds an A+ (Superior) rating from independent insurance analyst A. M. Best, and has been named one of the top 50 property and casualty insurers in the U.S. for ten consecutive years by the Ward Group.

In April of 2008, Midland was acquired by Munich Re, one of the two largest reinsurance companies in the world. Backed by this giant, Midland is now undergoing another transformation. In concert with its sister company, Munich Re America, Midland is becoming a premier cycle-resistant specialty property and casualty insurer in the United States.”

The Company is licensed by the DIFP under Chapter 379, RSMo, to write property and casualty insurance as set forth in its Certificate of Authority.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of American Modern Home Insurance Company and American Family Home Insurance Company.

- In 104 instances, the Company failed to provide the required certificates and documentation needed for the underwriting and rating review of the Company's Mortgage Security Protection Program.

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to their own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is determined in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general practice contrary to the law. Error rates indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to insure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

A. Forms and Filings

The examiners reviewed the Company’s policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect the insured.

The examiners discovered no issues or concerns.

B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

1. Homeowners

Field Size:	11,926
Sample Size:	100
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

2. Dwelling Fire

Field Size:	1,054
Sample Size:	100
Type of Sample:	Random
Number of Errors:	1
Error Ratio:	1%
Within DIFP Guidelines:	Yes

In one instance, the Company applied a protection class resulting in an undercharge of \$441.00.

Reference: §379.321, RSMo.

Policy Number

xxx4550

3. Mortgage Security Protection

Field Size: 104
Sample Size: 104
Type of Sample: Census
Number of Errors: 104
Error Ratio: 100%
Within DIFP Guidelines: No

In 104 instances, the Company failed to furnish examiners with the certificates and documentation needed for the underwriting and rating review of the certificates.

Reference: §374.205, RSMo, and 20 CSR 300-2.200 (as amended 20 CSR 100-8.040)

<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
077GMS0026729	077SEU0855619	077SEU0856467	077VAN0022205
077SEU0855620	077SEU0855617	077SEU0855067	077VAN0021817
077SEU0856035	077SEU0855614	077SEU0854709	077VAN0022005
077SEU0855119	077SEU0855281	077SEU0854702	077VAN0021631
077SEU0854843	077SEU0856475	077SEU0856465	077VAN0021628
077SEU0854417	077SEU0856462	077SEU0854707	077VAN0021630
077SEU0856033	077SEU0855059	077SEU0854711	077VAN0021626
077SEU0854196	077SEU0855063	077SEU0854716	077VAN0020651
077SEU0854393	077SEU0855278	077SEU0854708	077VAN0021173
077SEU0854806	077SEU0855064	077SEU0854701	077VAN0021174
077SEU0854805	077SEU0855523	077SEU0854715	077VAN0020062
077SEU0854809	077SEU0856750	077SEU0855540	077VAN0020437
077SEU0855526	077SEU0856472	077VAN0021819	077VAN0019624

<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>	<u>Policy Number</u>
077VAN0019621	077HT00046290	077ESA1050129	077ESA1046596
077VAN0019623	077HT00044626	077ESA1050131	077ESA1046607
077VAN0019021	077BM76700009	077ESA1050134	077AM25000895
077VAN0019953	077SMF0060488	077ESA1050136	077AM25000809
077VAN0018796	077ESA1043920	077ESA1050139	077AM25000807
077VAN0019204	077ESA1043922	077ESA1050144	077AM25001062
077FCO0042543	077ESA1046180	077ESA1050147	077AM25000766
077HT00045164	077ESA1056177	077ESA1050150	077AM25000803
077HT00044755	077ESA1056181	077ESA1049605	077AM25000769
077HT00044196	077ESA1056183	077ESA1049610	077AM25000772
077HT00048767	077ESA1056187	077ESA1048973	077AM25000897
077HT00048481	077ESA1056189	077ESA1052553	077AM25000902
077HT00048480	077ESA1056194	077ESA1046593	077AM25000968

C. Cancellations, Non-Renewals, Rescissions, and Declinations

The examiners reviewed policies that the carrier terminated at or before the scheduled expiration date of the policies that were rescinded by the Company after the effective date of the policy.

The following are the results of the reviews:

Field Size:	1,226
Sample Size:	100
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

II. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of Missouri claims selected from a listing furnished by the Company with a date of closing from January 1, 2008, through December 31, 2008.

A claim file is determined in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.1000 – 375.1018 and §375.445) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC [or statutory] benchmark error rate[s] are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim.
- An unreasonable delay in the investigation of a claim.
- An unreasonable delay in the payment or denial of a claim.
- A failure to calculate claim benefits correctly.
- A failure to comply with Missouri law regarding claim settlement practices.

The examiners reviewed the claim files for timeliness. In determining timeliness, examiners looked at the duration of time the Company used to acknowledge the receipt of the claim, the time for investigation of the claim, and the time to make payment or provide a written denial.

Missouri statutes require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials must be given to the claimant in writing, and the Company must maintain a copy in its claim files.

A. Claims Time Studies

To test for compliance with timeliness standards, the examiners reviewed claim records and calculated the amount of time taken by the Company for claims processing. They reviewed the company's claims processing practices relating to (1) the acknowledgement of receipt of notification of claims; (2) the investigation of claims; and (3) the payment of claims or the providing of an explanation for the denial of claims.

DIFP regulations require companies to abide by the following parameters for claims processing:

- Acknowledgement of the notification of a claim must be made within 10 working days.
- Completion of the investigation of a claim must be made within thirty 30 calendar days after notification of the claim. If more time is needed, the Company must notify the claimant and send follow-up letters every 45 days.
- Payment or denial of a claim must be made within fifteen 15 working days after investigation of the claim is complete.

1. Homeowners

Field Size:	1,147
Sample Size:	100
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

2. Dwelling Fire

Field Size:	723
Sample Size	100
Type of Sample:	Random
Number of Errors	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

3. Mortgage Security Protection

Field Size: 3
Sample Size: 3
Type of Sample: Census
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

B. Unfair Settlement and General Handling Practices

In addition to the Claim Time Studies, examiners reviewed the company's claim handling processes to determine compliance with contract provisions and adherence to unfair claims statutes and regulations. Whenever a claim file reflected that the company failed to meet these standards, the examiners cited the company for noncompliance.

1. Homeowners

Field Size: 1,147
Sample Size: 100
Type of Sample: Random
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

2. Dwelling Fire

Field Size: 723
Sample Size: 100
Type of Sample: Random
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

3. Mortgage Security Protection

Field Size:	3
Sample Size	3
Type of Sample:	Census
Number of Errors	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

C. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the company to potential liability.

1. Homeowners

The examiners discovered no issues or concerns.

2. Dwelling Fire

The examiners discovered no issues or concerns.

3. Mortgage Security Protection

The examiners discovered no issues or concerns.

III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the company.

The examiners verified the company's complaint registry, date January 1, 2006, through December 31, 2008. The registry contained a total of 16 complaints. They reviewed all 15 that went through DIFP and one that did not come through the Department, but went directly to the company.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D) (as amended 20 CSR 100-8.040(3)(D)).

The examiners discovered no issues or concerns.

CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

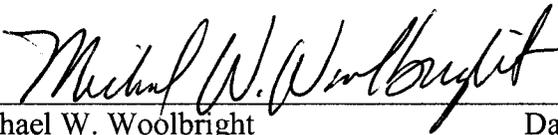
<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	2	100%
Received outside time-limit, incl. any extensions	0	0 %
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	2	100 %

B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	15	94%
Received outside time-limit, incl. any extensions	1	6 %
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	16	100%

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of American Modern Home Insurance Company (NAIC #23469) and Country American Family Home Insurance Company (NAIC #23450), Examination Number 0811-17-TGT. This examination was conducted by John F. Hemmersmeier, Gary Bird, and John Pfaender. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated July 13, 2009. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

 9-11-09

Michael W. Woolbright
Chief Market Conduct Examiner

Date