

FARMERS MUTUAL INSURANCE COMPANY

GENERAL UNDERWRITING GUIDELINES

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UNDERWRITING GUIDELINES

GENERAL GUIDELINES

FOR ALL LINES OF BUSINESS

These guidelines are intended to assist the field underwriter to evaluate the type of risk which is acceptable to Farmers Mutual Insurance Company under all lines of business.

These guidelines are intended to be general in nature and are not all inclusive. Every risk is unique and must be considered on its own merits. The final decision of acceptability rests with the company underwriter.

Privacy Policy:

The company believes that non-public information should not be provided to persons or organization outside the company. Specific guidelines are available upon request.

As a general rule the company will follow the guideline of: "When in doubt, don't give out the information".

We request that agents representing their policyholders respect the company privacy policy and practice a policy to not disclose non public information about their clients as it relates to information between the company and the policyholder.

Terrorism:

The company does not knowingly issue insurance policies to known or suspected terrorist.

The company will comply with the requirements of the U.S. Patriots Act to review the names of applicants and policyholders with the list of known or suspected terrorist as required by law.

When an applicant or policyholder name is identified as being on the official list of known or suspected terrorist, the company will not accept the risk and will notify the applicant of the specific reason for rejection of the risk.

Binding Authority:

Binding Authority – As a rule, agents have the authority to bind any risk for a period of thirty (30) days. Exceptions to this rule are:

1. Any specific exceptions outlined in these guidelines;
2. This authority does not apply to any agent who has been advised in writing by the company that his or her binding authority has been suspended.
3. A properly completed application must be submitted within 10 days. Applications submitted after 10 days should not be bound unless a properly submitted binder has been received within ten (10) days of the effective date.

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Agents represent the policyholder:

The company believes the agent is the agent of the applicant and as such is responsible to the applicant to explain the policy coverage.

Policies are the property of the agent:

The company believes the agent is the owner of the value of the policy placed by the agent with the company.

Policy Changes:

The company will accept policy changes and endorsements submitted and signed by the agent as being submitted on behalf of the policyholder.

The company will accept for consideration policy changes and endorsements submitted directly to the company by the policyholder or the policyholder's legal representative.

The company will accept notices from the mortgage holder submitted on behalf of the policyholder for changes relating to the mortgage of insured property.

A copy of the written change request which is received directly from the policyholder or the mortgage company will be provided to the agent with the revised Declaration of Coverage.

Explanation of Policy Coverage:

It is expected the agent will review and fully explain all policy coverages and provisions to the applicant.

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Claims:

The company requests that a Property Loss Notice be submitted to the company as soon as possible but no later than 24 hours after the agent is notified of a claim against the policy.

The notice may be submitted by fax or email. The company fax number is 620-564-3555. The email address for claims is claims@fmi-ks.com.

In most cases, the company will use independent adjusters to adjust claims.

Please contact the company claims department with specific questions about claims procedures.

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PREFERRED UNDERWRITING RISKS

The company is seeking to insure risks which are well maintained, neat in every respect, and show pride of ownership. We are seeking to insure individuals, partnerships, or corporations which are successful in their business ventures and which possess high moral character and standing with their friends, associates and community.

The moral risk of the individual, partnership, or corporation applying for insurance under any insurance program is the most important risk factor to consider when underwriting a policy. The character, attitude, business management ability, and financial stability of an insured will determine to a great degree the desirability of the risk.

Successful individuals, partnerships, and corporations are the best insurance risks. Their success is reflected in their relationship with associates and friends, and a good social and financial reputation in the community.

The physical appearance of the dwellings, outbuildings, personal property, and premises, should reflect a high degree of maintenance in order to reflect the moral and successful attitude of the applicant.

FMI understands that not all companies and markets are the same, even when considering the diversity of Kansas. We also understand that not all agencies seek the same placement facilities for the properties or customers they service. And, FMI understands that our products are not the fit for every risk, and that is our intention as there are risks that the markets exist openly and competitively such that FMI is not interested in servicing those risk or markets. Please refer to current company risk tolerances and market appetite when making decisions to place risk with FMI as we are a niche market and not every risk will be a good fit. If ever in question please discuss the risk with an underwriter before quoting and/or binding coverage.

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Application:

A completed Application for all lines of business written through FMI is required for all new risks. It is extremely important that all questions on the form be completed. Adequate space is provided for notes. In the event more space is needed please attach notes on an additional paper.

Applications which are incomplete or completed improperly will cause delays in processing the risk and will be returned to the agent for completion.

All applications are required to be signed by the applicant and the agent. If the applicant is unable to sign the application the company will accept the signature of a properly authorized representative of the applicant. A copy of a Power of Attorney or other authorization form should be provided as evidence that the signor has the proper authorization of the applicant.

The Named insured should agree with property ownership, insured definitions, policy forms, and insurable interest.

(Fire Program) Policies insuring more than one risk will require that a separate application be submitted for each location with the appropriate risk information for each. Each application should be signed by both the agent and the applicant.

When multiple risks are contained on one policy in the Fire program:

- All risks must be insured for the same policy forms,
- All risks must have the same deductible;
- All risks must use the same billing plan; and,
- No more than five (5) locations can be insured on any one policy.

Example: If the policy is issued as a Basic Form (FL-1) policy with a \$500 deductible, each separate location listed on the policy will be covered for the same Basic Form perils and the \$500 deductible will apply to each location.

Note: The policy provides that the deductible will apply separately to each location so if you have a \$500 deductible it will be applicable separately to each location.

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Photographs:

Photographs are required with each property application. We prefer a minimum of two photographs of each residence: one showing the front and one side and the other showing the rear and the other side. This should give us an evaluation of all sides of the risk.

Any additional photographs which will assist the company underwriter to evaluate the risk should be submitted. Additional photographs may include:

- A photograph of additional structures on the premises;
- A photograph of solid fueled heaters;
- A photograph of the electrical breaker box;
- A photograph of any unusual hazards or items on the premises; and,
- A photograph of structures used to store personal property in storage.

Photos may be submitted by email. When emailing photos, a notation should be made on the application.

Commercial Property:

We do not insure property used for commercial purposes, except for farming and residential rental property (with no more than a 4-family structure).

No structures or dwellings shall be insured that were designed &/or constructed originally as a commercial structure. Unless prior approval has been given by the company. See City Fire page 2.

Premiums:

Premiums should be submitted with the Application.

The initial premium payment submitted with the Application should be no less than a prorata amount equal to not less than 25% of the annual premium.

All policies are subject to minimum earned premium of \$35.

All policies (New and Renewal) are subject to a \$15 Policy Administration Fee that is fully earned and billed with the 1st installment of the policy period.

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Methods of Payments:

Payments may be made by most normally recognized methods of payment including cash, check, or money order and most electronic transaction methods including credit card, debit card, electronic check, or by Automatic Bank Withdrawal (ACH).

Any payment which is rejected by a financial institution or a credit card company shall be considered as non payment of premium and subject to the cancellations provisions of the policy.

Cash:

The company discourages the submission of cash by mail.

Checks:

Checks should be made payable to Farmers Mutual Insurance Company.

Credit Card:

Credit card payments may be made through the company web site at www.fmi-ks.com or by contacting the company billing department.

Credit Card payments are subject to the \$3 installment service fee of selected Payment Plan.

Automatic Bank Withdrawal (ACH):

The company requires a properly completed ACH Authorization Form with any request for premium payments to be withdrawn from the policyholders account.

The form should be signed by the person whose name is on the account;

The form should be accompanied by a deposit slip or blank check with the bank routing number and account number clearly visible. The word VOID should be marked across the face of the deposit slip or blank check but should not cover the name or address of the financial institution, the account holder, the bank routing number or the account number.

ACH payments are subject to a minimum payment for each installment of \$35 (premium must be at least \$420.00).

The monthly withdrawal date will be increments of 30 days from the effective date of the policy.

ACH Payments are not subject to the \$3 installment service fee.

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Premium Payment Plan:

The company offers a Premium Payment Plan for the convenience of our policyholders. The plan provides for the payment of the annual policy premium in installments of less than one year as follows.

The company may accept the payment of premium where the payments are made in equal amounts on a regular basis; or,

The company may accept any prorata amount of the annual premium.

Payment of the premium under the Premium Payment Plan is subject to the following guidelines:

Each installment payment is subject to a service fee of \$3 which is non refundable subject to the following exceptions:

There is no charge for payments accepted by automatic bank withdrawals (ACH payments).

Note: Any applicable installment service fee would still be charged on credit/debit card payments.

The minimum payment per installment is \$35;

The amount subsequent to the initial payment may be any amount, provided it is an amount equal to the greater of one of the following:

The amount is equal to the minimum payment of \$35; or,

The amount is equal to the premium due for one month.

When payments are being made on a regular basis of less than three months the premium must be paid using automatic bank withdrawal (ACH).

Exceptions to this rule may be considered if:

The policyholder does not have an account at an institution which will allow ACH.

Other exceptions will be rare but may be reviewed with the company underwriter.

ACH: Premiums which are paid by Automatic Withdrawal are subject to a minimum of \$35 for each payment.

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Premium Billing:

As a general rule the following guidelines will be followed on policy renewals or premiums being paid by the Premium Payment Plan:

Premium Notices are mailed thirty (30) days prior to the due date. In the case of a policy renewal the notice will be mailed thirty (30) days prior to the expiration date of the existing policy.

Notice of Cancellation for Non Payment of Premium: A notice of cancellation will be shown on the billing invoice / premium notice. The notice will be mailed to all interested parties and will advise of the following:

If the premium has not been received by the due date the policy is cancelled.

For coverage to continue with a reinstatement the premium must be paid within fifteen (15) days or the policy would have to be rewritten with a new application.

As a condition of reinstatement the policyholder must provide:

A statement that no losses have occurred during the period the policy coverage was lapsed.

A late payment fee of \$25.

If the premium is not paid by the due date, a Final Notice of Cancellation will be mailed to the policyholder and all interested parties advising the policy has been cancelled for non payment of premium and that coverage has ceased.

Notice of Reinstatement: A Notice of Reinstatement will be mailed to the policyholder and all interested parties if the premium is paid and accepted prior to the final cancellation date.

Premium payments which are delivered to the agent are considered as an acceptable payment if the payment is full and timely. The agent should notify the company immediately that the payment has been received.

Policies which have been expired more than fifteen (15) days must be rewritten.

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Insufficient Funds:

Checks or other payments which are not accepted by the issuing agent will be subject to company collection procedures which are as follows:

Collection of the payment instrument will be attempted twice by our bank.

A notice will be sent to the policyholder advising:

The instrument was not honored by the issuing agent.

The policyholder should contact the agent to redeem the instrument.

All insufficient funds will be charged the maximum allowed by law.

Currently the charged amount for insufficient funds will be \$15 plus the late payment fee if not resolved prior to original due date.

The company will not accept a personal check from the policyholder for the premium payment. The company will accept:

A certified check or money order

A check from the agent

On late payments which are insufficient the company will require a signed Statement of No Losses.

A copy of the Insufficient Funds notice and the dishonored check will be sent to the agent for collection.

Social Security Numbers:

Social Security Numbers (SSN) should be provided on all applicants. As a general rule the company will not accept a risk for an applicant who does not provide or does not have a SSN. Specific situations should be reviewed with the company underwriter.

Non Discrimination:

This company does not discriminate against any individual on the basis of race, creed, gender or national origin. The company does not wish to provide insurance to non citizens of the United States or aliens who are in this country without the permission or knowledge of the United States of America. The company will not provide an insurance policy to non citizens or aliens without verification that the applicant is in this country on a legal basis with the permission of the Department of Immigration.

Terrorism:

This company does not knowingly provide insurance to known or suspected terrorist. We make an effort to comply with the Terrorism Risk Insurance Act of 2002 and the U.S. Patriot Act.

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Billing Instructions:

Clear and accurate billing instructions should be included on the application. When an applicant is utilizing the premium billing plan changes will only be allowed at the anniversary date of the policy. No changes will be made mid term.

Cancellation:

Cancellations may be initiated by either the insured or the company. The general guidelines and procedures for each are discussed below:

Policyholder requested cancellations:

All requests for cancellations by the policyholder should be submitted in writing.

Mortgage Company cancellation requests:

When we receive a cancellation request from a mortgage company due to foreclosure on the property, we will forward a letter to the insured requesting the insured responds within 30 days. If we do not hear from the insured within 30 days, the refund monies will be returned to the mortgage company.

New Applications:

When a new application is received which is deemed by the company to be unacceptable, the risk may be cancelled within the first 90 days for any reason.

Refunds: Any refund of unearned premium which is over and above the amount of any minimum earned premium will be returned to the applicant or another party as the company is directed. This refund will be mailed as soon as possible but not later than 30 days after the letter of non acceptance is mailed to the applicant.

Notice of Cancellation: A notice will be mailed with the refund payment. A copy of the policy Declaration of Coverage will be mailed with the refund. A notice advising that a full policy may be obtained upon written request will accompany the Declaration of Coverage.

Company Cancellations:

As a general rule the company does not cancel a policy midterm. Should a policy be canceled midterm it may only be cancelled for the following reasons:

Non Payment of Premium:

Other Situations:

The policy was obtained through fraud, material misrepresentation or omission of fact, which, if known to us, would have caused us not to issue the policy;

There has been a material change or increase in the hazard of the risk;

A violation of any of the material terms and conditions of the policy by an insured;

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A determination by the Kansas Insurance Commissioner that continuation of coverage could place the company in a financially hazardous condition or be in violation of the laws of the state;

A determination by the Kansas Insurance Commissioner that the company no longer has adequate reinsurance to meet the company needs.

Non Renewal of Existing Policies:

The company may from time to time review existing risks for continuation of coverage. The company may elect to not renew a policy for any valid reason by giving the required notice of non renewal. As a general rule the most common reasons for causing a policy to be non renewed are:

Excessive Loss Ratio

Claim Frequency

Change in the risk

Change in the occupancy of the risk

Deterioration of the risk from abuse or lack of care

The failure to respond to a valid underwriting request from our company

Refund of Unearned Premium:

Any refund of unearned premium which is over and above the amount of any minimum earned premium will be returned to the applicant or another party as directed in writing by the applicant. The refund will be mailed as soon as possible but no later than 30 days after the letter of non acceptance is mailed to the applicant. The unearned premium will be refunded on a prorata basis subject to any minimum earned premium requirements.

Reinstatements:

When a policy is cancelled for nonpayment of premium it may be reinstated within fifteen days of the cancellation date provided there have been no losses during the period between the date the policy lapsed for nonpayment and the date the premium payment was submitted. As a condition of reinstatement the insured should submit a signed No Loss statement indicating that no losses have occurred or will be claimed for the period during the lapse in coverage.

A fee of \$25 will be required to reinstate any policy after the due date.

Agent of Record Letters:

As a general rule the following guidelines will be observed when a change of agent is requested.

An Agent of Record Letter signed by the insured will be required before a policy will be changed from one agent to another.

A copy of the Agent of Record will be sent to both the new agent and the prior agent.

The company does not prorate the premium commission when a change of agent occurs. The agent of record on the date the premium is paid is the agent who will be credited with the commission.

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Original Signatures:

The company requests that original signatures be provided to the company on all documents submitted by the agent or the policyholder.

The company will accept signatures which are submitted by fax or electronic imaged documents. In such cases the original signature must be retained by the agent and be made available to the company upon request.

When a document is signed by someone other than the named insured a copy of the Power of Attorney or other authorizing documentation should be provided.

Excluded Areas

All FMI programs are not available in any area which is deemed by the company to be highly concentrated or from which writing authority has been suspended.

At the present time the following areas are excluded and are not eligible.

Sedgwick County – effective January, 2004

Reno County – effective November, 2009

Exception: All programs will be available to any policyholder presently insured with the company to convert an existing qualified risk or to insure the home of the policyholder who has other risks insured with the company.

Loss History-New Business & Renewals

The company requires a 5 year loss history on the insured and the risk. The company requests that the following guidelines be used regarding prior losses. A maximum of two (2) prior losses (1 in 3 years and 2 in 5 years) will be acceptable.

Wind or Hail -----	2 in 5 years
Fire -----	1 in 5 years
Theft -----	1 in 5 years
Water damage -----	1 in 5 years
Liability -----	1 in 5 years
Medical -----	1 in 5 years

The company requests that any open claims with a prior carrier be resolved as to the scope of damage and amount of payment. Prior approval from the company underwriter is required before binding a risk with existing damage.

Deductibles

All applications should be submitted with a minimum \$500 deductible. A \$1,000 wind/hail deductible will be required on all new and renewal policies.

Exception: Contents policies only will have \$500 all peril deductible. No \$1,000 wind/hail deductible applies.

Siding

The following types of exterior siding are subject to mandatory limiting exposure endorsements: Aluminum &/or asbestos.

Siding must be in excellent condition with no visible signs of damage from any cause.

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Insured Value

Maximum Limits of coverage:

To better define the market of FMI and to accomplish the “niche” goals of the company the addition of these maximum limits of coverage have been established. These limits are applicable to both renewal and new business.

Homeowners and Farmowners: Maximum Coverage A limit of \$125,000 is applicable to all Homeowners and Farmowners risk, and when no Coverage A is present the Maximum Coverage C limit of \$75,000 is applicable to all Tenants Form Homeowners and Farmowners risk.

City Fire and Farm Fire: Maximum Coverage A limit of \$100,000 is applicable to all City Fire and Farm Fire risk, and when no Coverage A is present the Maximum Coverage C limit of \$50,000 is applicable to all City Fire and Farm Fire risk.

Any other Coverage limit per item of coverage over \$50,000 should be approved by the underwriter prior to binding coverage (examples would be machinery, outbuildings, etc.).

The company requires that all risks be insured to not less than 25% of the Replacement Cost of the property for all lines and forms of coverage. All lines and forms of coverage are insured at Actual Cash Value which includes a deduction from Replacement Cost for depreciation of the structure. All structures and property should be insured at 100% of Actual Cash Value.

In general Actual Cash Value is determined by calculation of the Replacement Cost of the structure and deducting depreciation from that amount. The company views appropriate rate of depreciation to be 1% per year for most dwellings standard grade or above. And, 2% per year for dwellings constructed at economy grade, all other structures, and all other outbuildings. Calculation should be performed as a straight line method of depreciation. And a maximum depreciation of 75% should be appropriate in most cases when the age of the structure exceeds that level, however, if additional depreciation is appropriate please discuss the coverage requested with the underwriter prior to binding coverage.

FMI understands that in the case of remodeled, renovated, or added to structures the straight line depreciation may not be appropriate, and therefore a judgment as to the appropriate depreciation must be made by the agent &/or underwriter and acceptable at the time of application or renewal. Items to consider are: complete remodel, cosmetic remodel, re-wired, re-plumbed, addition size in comparison to whole, upkeep of premise, time since remodel/reconstruction/addition, and similar variables of the risk. In some cases Market Value may be a good determination of the Actual Cash Value as in many instances the Market Value takes into consideration the current condition of the property as well as the changes made to the structure in the past. Values assessed by the county appraiser, independent appraiser, or other parties may also be used as a guide for reference in determining the Market Value or ACV of the structure.

When utilizing the MSB Residential Component Technology Cost Calculation Software provided by FMI please enter the appropriate amount of depreciation (as described above) on the “Cost Markups & Adjustments” button of the “Totals” page. This will calculate the appropriate level of depreciation and reflects the ACV on the printout, please attach this to the application.

Individual items or portions of the dwelling or structure, and all personal property, commonly have established useful life terms and generally accepted depreciations in the industry and will be considered accordingly.

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Personal Property Replacement Cost – Valuation

Effective 1-1-2012 Personal Property Replacement Cost Coverage is available at an addition to premium. Limit of coverage should remain at 100% to value, at a minimum of 50% of Coverage A (if present), and with a minimum limit of \$15,000.

To be eligible for this endorsement the condition of the property including maintenance and housekeeping should be of good or better condition.

When setting the limit for Personal Property it may be beneficial to complete an inventory to accurately determine the appropriate limit. An inventory may be required for underwriting purposes and/or claim settlement process. Please ensure the customer is adequately insured if endorsing with Personal Property Replacement Cost.

Replacement Cost Coverage does not apply to property specifically insured (scheduled) in the policy.

Inspections

The company may conduct an inspection of the risk at any time.

Credit History Report & Claims Report

The company will request a credit report on each new homeowner's application. Specific items to be considered from the credit report are the following:

Bankruptcy:

None in the past 5 years

Exceptions

Medical

Other exceptions refer to underwriter

Credit History - Payment habits

A risk will not be rejected solely on the basis of the Credit Report.

The company will request a Claims report on each new homeowner's application.

Diagrams & Measurements

The company requires a reasonably accurate diagram of the risk.

The company requires accurate measurements of the risk.

Coverage Limits

As a general rule Coverage A limits should be in \$1,000 increments. Other coverage limits determined as a percentage of Coverage A may be in less than \$1,000 increments.

Liability Exposures

The company is concerned about the increased liability exposure caused by certain breeds of dogs. The following breeds of dogs should not be insured by the company:

Pit Bulls

Rottweillers

German Shepard

Doberman

Chow

Or any other dog with aggressive tendencies

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Swimming Pools

The company is concerned about the increased liability exposure caused by swimming pools. When a swimming pool is present at an insured location we require the following:

The pool should be enclosed by a fence which is locked when the pool is not in use;

That no water slides or diving boards be in use at the pool;

Photos are required of the swimming pool;

Trampolines

The company is concerned about the increased liability exposure caused by trampolines.

We do not wish to insure a risk when a trampoline is located on the premises.

Exotic Pets

We believe certain Exotic Pets do not meet the standard for desirable risks. We consider Exotic Pets to include but not be limited to:

Lions, Tigers, and their cubs; Snakes

Home Day Care

No Home Day Care - Day Care Definition – We define “Day Care” as being the care of others on a regular scheduled basis for a fee. We differentiate between “Baby Sitting” and “Day Care” as Baby Sitting is on an irregular basis even though a fee is charged. If the Baby Sitting is on a regular, scheduled basis then it is Day Care, a business, and not covered by the policy.

No Kennels