

REPORT ON  
MARKET CONDUCT EXAMINATION

of the

ALLSTATE INDEMNITY COMPANY  
ALLSTATE INSURANCE COMPANY

Northbrook, Illinois

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 11, 2013

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Raleigh, North Carolina  
February 11, 2013

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
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Raleigh, North Carolina 27603

Honorable Andrew Boron  
Director of Insurance  
Department of Insurance  
State of Illinois  
320 W. Washington Street  
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Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a compliance examination has been made of the market conduct activities of

**ALLSTATE INDEMNITY COMPANY (NAIC #19240)**  
**ALLSTATE INSURANCE COMPANY (NAIC #19232)**  
NAIC Exam Tracking System Exam Number: NC299-M16  
Northbrook, Illinois

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## **FOREWORD**

This examination reflects the North Carolina insurance activities of Allstate Indemnity Company and Allstate Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

## **SCOPE OF EXAMINATION**

This compliance examination commenced on October 29, 2012 and covered the period of January 1, 2011 through December 31, 2011 with analyses of certain operations of the Company being conducted through February 11, 2013. This action was taken due to previous examination findings referenced in the Market Conduct Report of October 23, 2009.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of underwriting practices and terminations.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

### Previous Examination Findings

A general examination covering the period January 1, 2006 through December 31, 2008 was performed on the Company and a report dated October 23, 2009 was issued. The general

examination report identified concerns in the areas of underwriting practices and terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

### **EXECUTIVE SUMMARY**

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

*Underwriting Practices* – Private passenger automobile: application was accepted from a producer who was not properly licensed and/or appointed by the Company; incomplete file documentation; and rating errors. Commercial automobile: applications were accepted from a producer who was not properly licensed and/or appointed by the Company.

*Terminations* – Homeowners nonrenewals: notice of adverse underwriting decision was not filed with and approved by the Department.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site [www.ncdoi.com](http://www.ncdoi.com) by clicking "INSURANCE DIVISIONS" then "Legislative Services".

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and ensure consumer protection.

## **UNDERWRITING PRACTICES**

### Private Passenger Automobile

The Company's underwriting practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Personal Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 7.0 percent of the private passenger automobile applications reviewed were accepted from a producer who was not appointed.

The Company provided a listing of 18,504 private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Company for 1 of the active files reviewed (1.0 percent error ratio).
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and 58-33-26 as 1 of the applications reviewed (1.0 percent error ratio) was accepted from a producer who was not licensed in North Carolina.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as 47 files reviewed (47.0 percent error ratio) did not contain proper file documentation.
  - 44 files did not include a copy of the original application.
  - 2 files did not include Motor Vehicle Reports for the insureds.
  - 1 file did not include accident details.

- The Company was reminded of the provisions of NCGS 58-2-164(c) as 1 file reviewed (1.0 percent error ratio) did not contain proof of the applicant's status as an eligible risk.
- The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 6 policies reviewed (6.0 percent error ratio) inaccurately stated that the insured received a good driver rate when ceded rates were applied.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) as 15 policies reviewed (15.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:
  - 7 policies were rated using an incorrect territory.
  - Safe Driver Incentive Plan points and ceded rates should have been applied on 3 policies.
  - An inexperienced operator surcharge or higher inexperienced operator surcharge and ceded rates should have been applied on 3 policies.
  - 2 policies were issued with Uninsured Motorist Property Damage limits higher than \$25,000 for which the insured was eligible.

The rating errors resulted in 1 premium overcharge and 14 premium undercharges to the insureds. At the request of the examiners, a refund in the amount of \$44.88 was issued by the Company for the overcharge. The remaining premiums charged were deemed correct.

### Homeowners

The Company's underwriting practices and procedures for active homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Homeowners Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 6.0 percent of the homeowners applications reviewed were accepted from a producer who was not appointed.

The Company provided a listing of 31,180 homeowners policies issued during the period under examination. One hundred policies were randomly selected and received for review.

#### **The current examination revealed the following:**



- The Company was deemed to be in compliance with the provisions of NCGS 58-33-40 as all of the homeowner applications reviewed were accepted from producers who were properly appointed by the Company.

### Commercial Automobile

The Company's underwriting practices and procedures for active commercial automobile policies were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201(c) as the commercial automobile application had not been filed with and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 6.0 percent of the commercial automobile applications reviewed were accepted from a producer who was not appointed.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 10.0 percent of the active commercial automobile policies reviewed were rated incorrectly.

The Company provided a listing of 764 commercial automobile policies issued during the period under examination. Fifty policies were randomly selected and received for review.

#### **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201(c) as the commercial automobile application was filed with and approved by the Department.
- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 2 applications reviewed (4.0 percent error ratio) were accepted from a producer who was not properly appointed by the Company.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and 58-33-26 as 1 of the applications reviewed (2.0 percent error ratio) was accepted from a producer who was not licensed in North Carolina.
- The Company was reminded of the provisions of NCGS 58-41-50(f) as 1 policy reviewed (2.0 percent error ratio) was rated with the incorrect territory.

- The Company was reminded of the provisions of NCGS 58-37-35(l) as 1 policy reviewed (2.0 percent error ratio) subject to North Carolina Reinsurance Facility rates, was rated with the incorrect vehicle classification.

The rating errors resulted in 2 premium undercharges to the insureds. The remaining premiums charged were deemed correct.

## **TERMINATIONS**

### Homeowners Cancellations

The Company's cancellation procedures for homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Homeowners Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the Notice of Cancellation used for adverse underwriting reasons was not filed with and approved by the Department.

The Company provided a listing of 31,581 homeowners policies cancelled during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-39-55(a) as the Notice of Cancellation used for adverse underwriting reasons was filed with and approved by the Department.
- The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as it was unable to provide a copy of the signed Loss Policy Release or proof the insured requested cancellation for 5 files reviewed (5.0 percent error ratio).

### Commercial Automobile Cancellations

The Company's cancellation procedures for commercial automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Automobile Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) and Rule 11 of the Commercial Automobile Manual as the return premium was calculated incorrectly on 20.0 percent of the cancelled commercial automobile policies reviewed.

The Company provided a listing of 1,201 commercial automobile policies cancelled during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-41-50(f) and Rule 11 of the Commercial Automobile Manual as the return premium was calculated correctly on all of the cancelled commercial automobile policies reviewed.

Businessowners Cancellations

The Company's cancellation procedures for businessowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Lines Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) and Rule 10 of the Commercial Lines Manual as the return premium was calculated incorrectly on 18.0 percent of the cancelled businessowners policies reviewed.

The Company provided a listing of 482 businessowners policies cancelled during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-41-50(f) and Rule 10 of the Commercial Lines Manual as the return premium was calculated correctly on all of the cancelled businessowners policies reviewed.

Private Passenger Automobile Nonrenewals

The Company's nonrenewal procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North

Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Personal Automobile Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(c) as the Notice of Nonrenewal used for private passenger automobile nonrenewals was not filed with and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(c) and the policy termination provisions as the nonrenewal notice for 78.0 percent of the nonrenewed private passenger automobile policies reviewed was not issued at least 60 days prior to the termination date.

The entire population of 25 private passenger automobile policies nonrenewed during the period under examination was selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-36-85(c) as the Notice of Nonrenewal used for private passenger automobile nonrenewals was filed with and approved by the Department.
- The Company was deemed to be in compliance with the provisions of NCGS 58-36-85(c) and the policy termination provisions as the nonrenewal notice for all of the nonrenewed private passenger automobile policies reviewed was issued at least 60 days prior to the termination date.

Homeowners Nonrenewals

The Company's nonrenewal procedures for homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Homeowners Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the Notice of Nonrenewal for adverse underwriting reasons used for homeowners nonrenewals was not filed with and approved by the Department.

The Company provided a listing of 16,279 homeowners policies nonrenewed during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the Notice of Nonrenewal for adverse underwriting reasons sent to 10 insureds (10.0 percent error ratio) was not filed with and approved by the Department.
- The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as it was unable to provide a copy of the nonrenewal notice sent to the insured for 3 files reviewed (3.0 percent error ratio).

#### Businessowners Nonrenewals

The Company's nonrenewal procedures for businessowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Lines Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-20(c) as the nonrenewal notice for 12.5 percent of the nonrenewed businessowners policies reviewed was not issued at least 45 days prior to the termination date.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 37.5 percent of the nonrenewed businessowners files reviewed did not contain proper file documentation.

The entire population of 5 businessowners policies nonrenewed during the period under examination was selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-41-20(c) as the nonrenewal notice for all of the nonrenewed businessowners policies reviewed was issued at least 45 days prior to the termination date.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as all of the nonrenewed businessowners files reviewed contained proper file documentation.

## SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of October 23, 2009. The current examination revealed the following:

### 1. Underwriting Practices

- a. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Company for 1.0 percent of the active private passenger automobile files reviewed.
- b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and 58-33-26 as 1.0 percent of the active private passenger automobile applications reviewed was accepted from a producer who was not licensed in North Carolina.
- c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as 47.0 percent of the active private passenger automobile files reviewed did not contain proper file documentation.
- d. The Company was reminded of the provisions of NCGS 58-2-164(c) as 1.0 percent of the active private passenger automobile files reviewed did not contain proof of the applicant's status as an eligible risk.
- e. The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 6.0 percent of the active private passenger automobile policies reviewed inaccurately stated that the insured received a good driver rate when ceded rates were applied.
- f. The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) as 15 percent of the active private passenger automobile policies reviewed were rated incorrectly.
- g. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 4.0 percent of the active commercial automobile files reviewed.
- h. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and 58-33-26 as 2.0 percent of the active commercial automobile applications reviewed were accepted from a producer who was not licensed in North Carolina.
- i. The Company was reminded of the provisions of NCGS 58-41-50(f) as 2.0 percent of the active commercial automobile policies reviewed were rated incorrectly.

- j. The Company was reminded of the provisions of NCGS 58-37-35(l) as 2.0 percent of the active commercial automobile policies reviewed, subject to North Carolina Reinsurance Facility rates, were rated incorrectly.

2. Terminations

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as it was unable to provide a copy of the signed Loss Policy Release or proof the insured requested cancellation for 5.0 percent of the cancelled homeowners files reviewed.
- b. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the Notice of Nonrenewal for adverse underwriting reasons sent for 10.0 percent of the nonrenewed homeowners policies reviewed was not filed with and approved by the Department.
- c. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as it was unable to provide a copy of the nonrenewal notice sent to the insured for 3.0 percent of the nonrenewed homeowners files reviewed.

**TABLE OF STATUTES AND RULES**

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.
NCGS 58-2-164	Rate evasion fraud; prevention programs.
NCGS 58-3-150	Forms to be approved by the Commissioner.
NCGS 58-33-5	License required.
NCGS 58-33-26	General license requirements.
NCGS 58-33-40	Appointment of agents.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-37-35	The Facility; functions; administration.

NCGS 58-39-55	Reasons for adverse underwriting decisions.
NCGS 58-41-20	Notice of nonrenewal, premium rate increase, or change in coverage required.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 10.1201	General requirements.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0104	Policy Records
11 NCAC 19.0106	Records Required for Examination.

### CONCLUSION

An examination has been conducted on the market conduct affairs of Allstate Indemnity Company and Allstate Insurance Company for the period January 1, 2011 through December 31, 2011 with analyses of certain operations of the Company being conducted through February 11, 2013.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of underwriting practices and terminations.

In addition to the undersigned, Kelvin A. Owens and Sharon O'Quinn, North Carolina Market Conduct Examiners, participated in this examination.

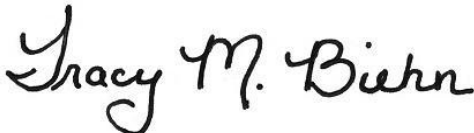
Respectfully submitted,



Norma M. Rafter, CPCU  
Examiner-In-Charge  
Market Regulation Division  
State of North Carolina



I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large, stylized initial 'T'.

Tracy M. Biehn, LPCS, MBA  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina