

Report on

Market Conduct Examination

of the

Allstate Indemnity Company

Northbrook, Illinois

by Representatives of the  
North Carolina Department of Insurance

as of

September 21, 2015

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Raleigh, North Carolina  
September 21, 2015

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
430 N. Salisbury Street  
Raleigh, North Carolina 27603

Honorable Anne Melissa Dowling  
Acting Director  
Illinois Department of Insurance  
320 W. Washington Street, 4<sup>th</sup> Floor  
Springfield, Illinois 62767-0001

Honorable Commissioner and Honorable Acting Director:

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

**Allstate Indemnity Company (NAIC #19240)**  
NAIC Exam Tracking System Exam Number: NC299-M76  
Northbrook, Illinois

hereinafter generally referred to as the Company, at the Company's regional office located at 3200 Windy Hill Road, Suite 900 East, Atlanta, Georgia, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The North Carolina Department of Insurance conducted a target examination of the Company. This examination commenced on April 20, 2015, and covered the period of January 1, 2013, through December 31, 2014, with analyses of certain operations of the Company being conducted through September 11, 2015.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, but included a limited review of the Company's practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated via an Audit Command Language (ACL) program with a random sample taken from a given population. The Department utilized a 95% Confidence Level to determine the error tolerance level.

## EXECUTIVE SUMMARY

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

*Underwriting Practices* - Private Passenger Automobile: Policies rated using an incorrect territory. Homeowners: Application did not include the correct premium that would be charged without application of consent to rate, nor did it include the correct proposed premium.

Specific violations 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 statutory violations, 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 must be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following lines of business:

- Private Passenger Automobile
- Homeowners

Filings for the private passenger automobile and homeowners lines of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for these lines of business were made to the Department by the Company.

## **UNDERWRITING PRACTICES**

### Overview

The Company's marketing in North Carolina is directed to personal and commercial lines of business. The Company provided the examiners with listings of the following types of active policies for the period under examination:

- Private Passenger Automobile
- Homeowners

A random selection of 238 policies was made from a total population of 13,679. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

#### Private Passenger Automobile

A random selection of 119 policies was made from a population of 4,168. The Company's private passenger automobile policies were written on a semi-annual basis. Physical damage coverages were written on a consent to rate basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of NCGS 58-36-30(a) as 11 policies reviewed were rated using incorrect territory codes. All rating errors resulted in premium undercharges to the insureds.

#### Homeowners

A random selection of 119 policies was made from a total population of 9,511. The Company's homeowners policies were written on an annual basis. Coverages were written on a consent to rate basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 10, Section 0602(a) as the initial application to effect consent to rate for 24 policies did not include the correct premium that would be charged

without application of consent to rate, nor did it include the correct proposed premium. These policies were the result of Company-initiated changes after receiving the new business application.

### **COMMENTS, RECOMMENDATIONS AND DIRECTIVES**

For both private passenger automobile and homeowners policies, the Company must obtain the consent of the insured, in the form of a consent-to-rate form bearing the insured's signature, whenever the premium charged on the initial application is modified due to company-initiated changes.

The Company must reinforce procedures to ascertain that correct territory codes are used to calculate the premium for private passenger automobile policies. The Company indicated this problem should be alleviated with the implementation of the new ZIP Code based territory definitions, applicable to all policies effective on or after October 1, 2015.

### **CONCLUSION**

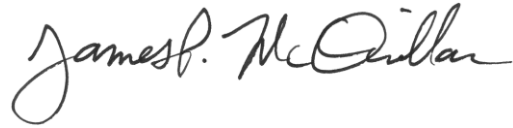
An examination has been conducted on the market conduct affairs of Allstate Indemnity Company for the period January 1, 2013, through December 31, 2014, with analyses of certain operations of the Company being conducted through September 11, 2015.

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 the Company's operations in the areas of marketing and underwriting practices.

In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, MCM, North Carolina Market Conduct Examiner, participated in this examination.

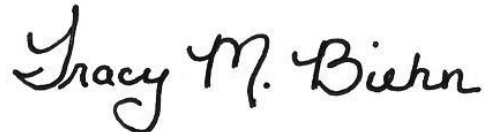


Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large initial 'J'.

James P. McQuillan, CPCU, AIT, MCM  
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 initial 'T'.

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