



Report on

Market Conduct Examination

of the

Allstate Property and Casualty Insurance Company
Allstate Indemnity Company
Allstate Insurance Company
Northbrook, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

March 20, 2018

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Raleigh, North Carolina
March 20, 2018

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Jennifer Hammer
Director
Department of Insurance
State of Illinois
320 W. Washington Street
4th Floor
Springfield, Illinois 62767

Honorable Commissioner and 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 Property and Casualty Insurance Company (NAIC #17230)
Allstate Indemnity Company (NAIC #19240)
Allstate Insurance Company (NAIC #19232)
NAIC Exam Tracking System Exam Number: NC-NC131-22
Northbrook, Illinois

hereinafter generally referred to as the Companies, at the North Carolina Department of Insurance (Department) office located at 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Companies. This examination commenced on September 18, 2017, and covered the period of July 1, 2016, through June 30, 2017, with analyses of certain operations of the Companies being conducted through March 15, 2018. This action was taken due to market analysis on underwriting practices. All comments made in this report reflect conditions observed during the period of examination.

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, and consisted of an examination of the Companies' 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 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; and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' procedures and practices in the following area:

Underwriting Practices – Private Passenger Automobile: Untimely reporting of recoupment surcharge corrections to the North Carolina Reinsurance Facility (Facility).

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 by clicking “Insurance Industry”, and then “Legislative Services” under “Other Divisions”.

This examination identified a statutory violation, which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their 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 Companies 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 Companies. Deviations for these lines of business were made to the Department by the Companies.

UNDERWRITING PRACTICES

Overview

The Companies’ marketing in North Carolina is directed to personal and commercial lines of business. The Companies 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 736,896. 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

One hundred nineteen policies were randomly selected for review from a population of 589,074. The Companies' private passenger automobile policies were written on an annual or semi-annual basis. Coverages were written utilizing manual rates, deviated rates, and on a consent to rate basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies did not adhere to the provisions of NCGS 58-37-40 and Section 4, Chapter 3, Part G of the North Carolina Reinsurance Facility Standard Practice Manual as corrections to recoupment surcharges for 8,661 private passenger automobile policies that were identified in May, 2017, were not reported to the Facility in a timely manner due to an administrative error. The Companies reported the corrections, totaling \$49,901.98, to the Facility on March 15, 2018.

Homeowners

One hundred nineteen policies were randomly selected for review from a population of 147,822. The Companies' homeowners policies were written on an annual basis. Coverages were written utilizing manual and deviated rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies are directed to report recoupment surcharges, including corrections, to the North Carolina Reinsurance Facility on a monthly basis as described in the Standard Practice Manual.

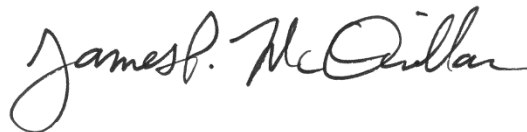
CONCLUSION

An examination has been conducted on the market conduct affairs of Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, and Allstate Insurance Company for the period July 1, 2016, through June 30, 2017, with analyses of certain operations of the Companies being conducted through March 15, 2018.

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 Companies' operations in the areas of marketing and underwriting practices.

In addition to the undersigned, Corey Gordon, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



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 "Bill George". The signature is written in a cursive, flowing style.

Bill George, CPCU, AIS, MCM
Assistant Chief Examiner
Market Regulation Division
State of North Carolina