

Report on

Market Conduct Examination

of the

Allstate Insurance Company

Northbrook, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

November 10, 2015

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Raleigh, North Carolina
November 10, 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, 4th 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 Insurance Company (NAIC #19232)
NAIC Exam Tracking System Exam Number: NC299-M88
Northbrook, Illinois

hereinafter generally referred to as the Company, at the Company's training facility located at 110 E. Palatine Road, Wheeling, Illinois, 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 Department conducted a target examination of the Company. This examination commenced on September 28, 2015, and covered the period of July 1, 2013, through June 30, 2015, with analyses of certain operations of the Company being conducted through November 4, 2015. This action was taken due to market analysis on commercial automobile charter bus policies. All comments made in this report reflect conditions observed during the period of the 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, 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 area:

Underwriting Practices - Commercial Automobile: rating errors involving the out-of-state operation of charter buses allegedly garaged and primarily operated in North Carolina.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes cited in this report may be viewed on the North Carolina Department of Insurance Web site 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 line of business:

- Commercial Automobile

Filings for the commercial automobile line of business were made by the North Carolina Reinsurance Facility on behalf of 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 type of active policies for the period under examination:

- Commercial Automobile

The entire population of 53 charter bus policies was selected from a total population of 2,962 commercial automobile policies. 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.

Commercial Automobile

The Company's charter bus policies were written on an annual basis. Coverages were written utilizing manual rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and Rules 42 and 44 of the North Carolina Reinsurance Facility Commercial Auto Manual as it did not determine the rating territory for each public auto from the territory definitions based on the territory where the public auto is operated the greatest percentage of time for 34 policies. This determination was based on one or more of the following factors: drivers with out-of-state driver licenses, certificates of insurance for out-of-state locations, out-of-state mailing addresses, and out-of-state company incorporation.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Company is directed to improve its underwriting procedures for commercial automobile charter bus policies to detect the use of rate evasion techniques that fraudulently result in insurance premiums that are not commensurate with the risk. Instances of rate evasion fraud are most common when vehicles that are operated in congested and high-risk areas such as parts of New York, New Jersey, and Pennsylvania are claimed to be garaged and/or operated in low-risk areas such as North Carolina. Any accidents or claims resulting from operation in these high-risk areas are then reflected in the claim results for North Carolina, potentially resulting in increased rates for North Carolina-based companies and individuals.

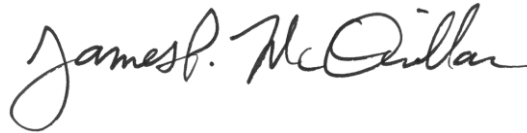
CONCLUSION

An examination has been conducted on the market conduct affairs of Allstate Insurance Company for the period July 1, 2013, through June 30, 2015, with analyses of certain operations of the Company being conducted through November 4, 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.

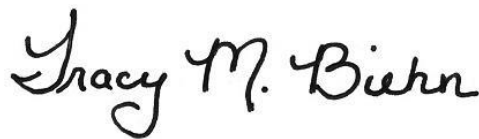
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, MCM, North Carolina Market Conduct Senior Examiner, participated in this examination.

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.



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