



Report on

Market Conduct Examination

of the

State Farm Fire and Casualty Company
State Farm Mutual Automobile Insurance Company

Bloomington, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

September 17, 2015

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Raleigh, North Carolina
September 17, 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

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

State Farm Fire and Casualty Company (NAIC #25143)
State Farm Mutual Automobile Insurance Company (NAIC #25178)
NAIC Exam Tracking System Exam Number: NC299-M78
Bloomington, Illinois

hereinafter generally referred to as the Companies, at the Companies' regional office located at 1500 State Farm Boulevard, Charlottesville, Virginia 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 Companies. This examination commenced on June 1, 2015, and covered the period of January 1, 2013, through December 31, 2014, with analyses of certain operations of the Companies being conducted through September 8, 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 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 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 no concerns with the Companies' procedures and practices in the following areas: marketing and underwriting practices.

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".

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 799,512. 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 350,022. The Companies' private passenger automobile policies were written on a six or 12 month basis.

Physical damage coverages were written 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 their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk. All premiums charged were deemed correct.

Homeowners

A random selection of 119 policies was made from a population of 449,490. The Companies' homeowners policies were written on an annual basis. Coverages were written 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 their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk. All premiums charged were deemed correct.

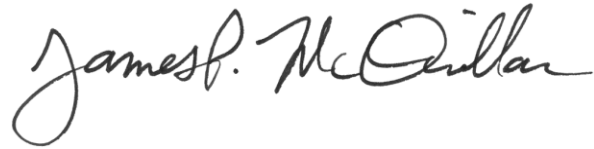
CONCLUSION

An examination has been conducted on the market conduct affairs of State Farm Fire and Casualty Company and State Farm Mutual Automobile Insurance Company for the period January 1, 2013, through December 31, 2014, with analyses of certain operations of the Companies being conducted through September 8, 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 Companies' operations in the areas of marketing and underwriting practices.

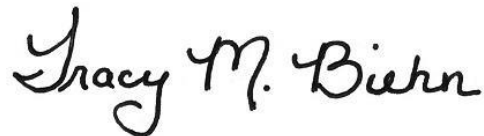
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, prominent 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, prominent initial 'T'.

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