

Report on
Market Conduct Examination

of the

State Farm Mutual Automobile Insurance Company
Bloomington, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

January 6, 2014

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Raleigh, North Carolina
January 6, 2014

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Honorable Commissioner and Honorable 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 Mutual Automobile Insurance Company (NAIC # 25178)
NAIC Exam Tracking System Exam Number: NC170-M125
Bloomington, 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 State Farm Mutual Automobile 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 revealed no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on April 30, 2012, and covered the period of January 1, 2009, through December 31, 2010, with analyses of certain operations of the Company being conducted through December 23, 2013. All comments made in this report reflect conditions observed during the period of the examination.

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 the anti-fraud plan, policyholder treatment, marketing, underwriting, and claims practices.

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 at or above the following levels: 0 percent for 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 a violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

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

Underwriting – Individual disability income issued, individual disability income issued substandard, individual disability income declined, individual supplemental health issued, individual Medicare Supplement declined, individual mortgage disability issued, and individual long-term care replacements: applications signed and dated prior to the producer's appointment.

Individual disability income issued, individual disability income issued substandard, individual disability income declined, individual supplemental health issued, individual supplemental health declined, individual Medicare Supplement issued, individual Medicare Supplement declined, individual Medicare Supplement replacements, individual mortgage disability issued, individual mortgage disability declined, individual long-term care issued, individual long-term care declined, individual credit disability income issued, and individual credit disability income cancelled: applications signed and dated by someone other than the producer and applications not signed by a producer.

Individual disability income issued substandard, individual disability income declined, individual supplemental health declined, individual Medicare Supplement declined, individual mortgage disability declined, individual long-term care issued substandard, and individual long-term care declined: failure to use an approved Adverse Underwriting Decision (AUD) notice or failure to evidence an AUD notice.

Individual Medicare Supplement replacements: applications signed and dated by a producer not licensed and appointed to sell Medicare Supplement.

Individual long-term care issued and individual long-term care declined: applications signed and dated by a producer not licensed and appointed to sell long-term care insurance.

Individual long-term care replacements: failure to evidence a complete application, failure to evidence a notice regarding replacement, failure to use an approved notice regarding replacement, failure to notify replaced insurer within five business days from date application was received, and failure to evidence written notification to the existing insurer advising of replacement.

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 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 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.

ANTI-FRAUD PLAN

The Company's Fraud Handbook (Handbook) was submitted for the examiners' review. The Company's mission is to develop programs and implement strategies and initiatives to increase public awareness of insurance fraud and assist Company personnel and others in combating insurance fraud in an effort to resist paying non-meritorious claims.

The Company's definition of fraud was adopted from the National Healthcare Anti-Fraud Association as "an intentional deception or misrepresentation that the individual or entity makes knowing that the misrepresentation could result in some unauthorized benefit to the individual, or the entity, or to some other party." The elements of a fraudulent act may include:

- Misrepresentation that is material;
- Knowledge that the misrepresentation is false;
- Intent;
- Reliance on the misrepresentation by a victim; and/or
- Damage to the victim.

Alteration of documents, concealment and/or destruction of evidence, false statements, personal gain, obstruction of justice, admissions, and confessions are some acts that can show "intent" to defraud on the part of an individual.

The awareness and keen observation of Claims Department personnel in recognizing possible fraud through the use of Identification of Suspicious Loss Indicators is a valuable first line of defense.

The purpose of the Handbook is to provide resources to assist the Company in identifying possible non-meritorious claim activity. The Handbook provides general discussions and background information, as well as several checklists to aid in the initial and subsequent review of many types of claims. In addition to the Handbook, the following resources are available to assist with the handling of the Company's suspected fraudulent activity:

- The Special Claim Services (SCS) Liaison acts as a resource person on health care and fraud issues. The SCS Liaison will identify, investigate, and properly handle suspected fraud cases, as well as help educate others on health care fraud and abuse issues.
- Company Attorneys work with fraudulent issues involving the Health operations. The Attorneys may review cases to assist in determining the best course of action. They also advise on administrative and legal issues, as well as the possibility of taking legal action.
- Company Medical Directors are available for expert opinions on a variety of medical issues since medical documentation is often a key element in health care fraud and abuse claims.
- Life/Health General Underwriting is utilized in cases that involve possible material misrepresentation at the completion of an application. Other underwriting issues may be reviewed with Life/Health General Underwriting staff.

POLICYHOLDER TREATMENT

Privacy of Financial and Health Information

The Company provided the examiners documentation that it protects the privacy of financial and health information. The Company exhibited policies and procedures in place so that nonpublic personal financial or health information is not disclosed unless the customer or consumer has authorized the disclosure. The Company was found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

MARKETING

Medicare Supplement Commission Schedule

The Company provided copies of the Medicare Supplement commission schedules used during the examination period. The schedules were reviewed and deemed to be in compliance with the provisions of Section 16 of the National Association of Insurance Commissioners Medicare Supplement Insurance Minimum Standards Model Act, Model No. 651.

Compensation is paid on premiums collected and earned by the Company from applications procured by the producer on which the Company has issued a policy while the compensation schedule is in effect.

A producer gets a “writing” commission for new policies (that covers the first year.) Beginning with Year Two the producer gets “service” commissions as long as the policy is in force. When a producer is assigned a Medicare Supplement policy from another producer, the designated producer receives the assigned commission rate for as long as the policy is in force.

Below are the Medicare Supplement commission schedules for North Carolina, in place during the years 2009 – 2010, by producer contract. The schedules reflect the various Medicare Supplement plans issued to varying ages from zero to 86 years, and beyond.

COMPENSATION FOR 2009-2010 by Medicare Supplement Plan					
AA05/TICA		AA97		AA3/4	
Writing Yr.	1:16%	Writing Yr.	1:16%	Writing Yr.	1:16%
Service	10%	Service	10%	Service	10%
Assigned	9%	Assigned	9%	Assigned	9%

Social Media

The Company uses Facebook, Twitter, YouTube, and LinkedIn. These platforms are used to advertise the Company’s products and services and primarily focus on Property and Casualty products. The Company has also advertised Mutual Funds but does not allow producers to advertise Mutual Funds on social media platforms.

The Company's social networking policy applies to producers when they are participating in social media and social networking environments external to the Company. The Company has chosen to allow access to a few sites that align with its strategy. Only the following sites are permitted for use, though more sites may be added:

- Facebook – A business page is permitted.
- Twitter – An account created for business use is permitted.
- LinkedIn – A Business Profile is permitted.
- YouTube – Only access is provided. No business-related content may be created or posted.
- Blogging – The producers are prohibited from blogging about insurance, financial services, or business-related topics, irrespective of whether or not specific reference to the Company is made.

The Company has taken a stance to keep certain types of information internal to protect proprietary and/or the personal information of policyholders who trust the Company. Producers are prohibited from having discussions related to:

- New products, discounts, or innovations the Company is considering or developing;
- Claims, Underwriting Rules, and Pricing Models;
- Rates and Rating processes;
- The Company's internal process, programs, tools, and contracts;
- Budgets and allocations; and
- Incentive programs such as scorecard, travel, bonuses, etc.

Producers are prohibited from mentioning the following products and services because they are highly regulated:

- Securities Products and Mutual Funds;
- State Farm College Savings Plan;
- Any Securities Trigger;
- State Farm Bank;
- Specific life insurance products by name;
- Annuities;
- Long-Term Care Insurance, Medicare Supplement, Hospital Income; and
- Alliances such as Assurant, Humana, etc.

Though producers can establish personal pages, the personal pages cannot be used to promote the producer's agency. Producers cannot have access to social media sites on the Company's systems unless they have completed the required training course. Likewise, team members or staff cannot have access unless they have completed the training course and the

producer has filled out a form requesting to receive or revoke access. All producers and team members who wish to maintain sites must retake the course every year.

Through a vendor-purchased product, Hearsay Social, the Company monitors all Facebook business pages, LinkedIn, and Twitter accounts for key words and phrases. Once notified by the tool of a potential infraction, the Company checks for accuracy. If there is an issue, the details are provided to Marketplace Compliance which will follow its standard procedures to resolve the issue.

UNDERWRITING PRACTICES

Individual Disability Income Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 239 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (2.0 percent error ratio) was an invalid receipt as the policy was issued in Arizona. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and Title 11 of the North Carolina Administrative Code (NCAC) Chapter 19, Section 0106(b)(4). The review was based on the remaining 49 policy files.

Two policy files (4.1 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Seven policy files (14.3 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

The average service time to underwrite and issue a policy was 26 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	15	30.6
8 - 14	5	10.2
15 - 21	7	14.3
22 - 30	6	12.3
31 - 60	11	22.4
Over 60	5	10.2
Total	49	100.0

Individual Disability Income Issued Substandard

As a result of the Department's market surveillance activities, 50 policy files from a population of 140 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (2.0 percent error ratio) did not contain a copy of an application. The Company was reminded of the provisions of 11 NCAC 19.0102(a). The service days to issue one policy could not be calculated. The survey was based on 49 policy files.

Forty-nine policy files (100 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department. The Company was deemed to be in violation of the provisions of NCGS 58-39-55.

Nineteen policy files (38.8 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

One policy file (2.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

The average service time to underwrite and issue a policy was 29 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	9	18.4
8 - 14	4	8.2
15 - 21	6	12.2
22 - 30	13	26.5
31 - 60	10	20.4
Over 60	7	14.3
Total	49	100.0

Individual Disability Income Declined

As a result of the Department's market surveillance activities, a random sample of 50 application files from a population of 109 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Fifty application files (100 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department, or did not contain an AUD notice. The service days to decline two applications could not be calculated. The survey was based on 48 application files. The Company was deemed to be in violation of the provisions of NCGS 58-39-55.

Three application files (6.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Eleven application files (22.0 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

The average service time to underwrite and decline a policy was 18 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	20	41.6
8 - 14	6	12.5
15 - 21	6	12.5
22 - 30	3	6.3
31 - 60	12	25.0
Over 60	1	2.1
Total	48	100.0

Individual Supplemental Health Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 830 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (2.0 percent error ratio) was incomplete as it did not contain a copy of the application and the service days to issue the policy could not be calculated. The survey was based on 49 policy files. The Company was reminded of the provisions of 11 NCAC 19.0102(a).

Five policy files (10.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Six policy files (12.0 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

The average service time to underwrite and issue a policy was two calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	48	98.0
22 - 30	1	2.0
Total	49	100.0

Individual Supplemental Health Declined

As a result of the Department's market surveillance activities, the only application file received by the Company during the examination period was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One application file (100 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department, and it contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 and 11 NCAC 12.0326(a).

The average service time to underwrite and decline an application was five calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	1	100.0
Total	1	100.0

Individual Medicare Supplement Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 454 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Seven policy files (14.0 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

The average service time to underwrite and issue a policy was 70 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	43	86.0
8 - 14	2	4.0
15 - 21	2	4.0
31 - 60	2	4.0
Over 60	1	2.0
Total	50	100.0

Individual Medicare Supplement Declined

As a result of the Department's market surveillance activities, all application files from a population of eight were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Four application files (50.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Two application files (25.0 percent error ratio) contained an application that was signed by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

Eight application files (100 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department. The Company was deemed to be in violation of the provisions of NCGS 58-39-55.

The average service time to underwrite and decline an application was six calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	6	75.0
8 - 14	1	12.5
15 - 21	1	12.5
Total	8	100.0

Individual Medicare Supplement Replacements

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 77 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Two policy files (4.0 percent error ratio) were not replacements and were invalid. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(b)(4). The review was based on the remaining 48 policy files

One policy file (2.1 percent error ratio) was incomplete as it did not contain a copy of the application and all necessary marketing materials for Medicare Supplement insurance. The Company was reminded of the provisions of 11 NCAC 19.0102(a).

Twenty-two policy files (45.8 percent error ratio) contained an application that was signed and dated by a producer who was not licensed and appointed to sell Medicare Supplement Insurance. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Eight policy files (16.7 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

Four policy files (8.3 percent error ratio) did not evidence a notice regarding replacement or the required statements for a replacement under section 18 of the Model Regulation Act. The Company was reminded of the provisions of 11 NCAC 12.0843(a).

Individual Mortgage Disability Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 716 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Thirty-one policy files (62.0 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

One policy file (2.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

The average service time to underwrite and issue a policy was four calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	41	82.0
8 - 14	5	10.0
15 - 21	3	6.0
31 - 60	1	2.0
Total	50	100.0

Individual Mortgage Disability Declined

As a result of the Department's market surveillance activities, all application files from a population of 12 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One application file (8.3 percent error ratio) was incomplete as it did not contain a copy of the application. The Company was reminded of the provisions of 11 NCAC 19.0102(a).

Twelve application files (100 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department. The Company was deemed to be in violation of the provisions of NCGS 58-39-55.

Three application files (25.0 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

The average service time to underwrite and decline an application was four calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	11	91.7
8 - 14	1	8.3
Total	12	100.0

Individual Long-Term Care Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 188 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (2.0 percent error ratio) was incomplete as it did not contain a copy of the application and all necessary marketing materials for long-term care insurance. The service days to issue the policy could not be calculated, and the survey was based on the remaining 49 policy files. The Company was reminded of the provisions of 11 NCAC 19.0102(a).

Nineteen policy files (38.0 percent error ratio) contained an application that was signed and dated by a producer that was not licensed and appointed to sell long-term care insurance. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Eight policy files (16.0 percent error ratio) contained an application that was signed and dated by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

The average service time to underwrite and issue a policy was 18 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	12	24.5
8 - 14	16	32.7
15 - 21	7	14.3
22 - 30	6	12.2
31 - 60	6	12.2
Over 60	2	4.1
Total	49	100.0

Individual Long-Term Care Issued Substandard

As a result of the Department's market surveillance activities, the only policy file received by the Company during the examination period was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (100 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department. The Company was deemed to be in violation of the provisions of NCGS 58-39-55.

The average service time to underwrite and issue a policy was 28 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
22 - 30	1	100.0
Total	1	100.0

Individual Long-Term Care Declined

As a result of the Department's market surveillance activities, a random sample of 50 application files from a population of 62 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Three files (6.0 percent error ratio) were incomplete as a complete copy of the application was not evidenced in the file. The Company was reminded of the provisions of 11 NCAC 19.0102(a).

One application file (2.0 percent error ratio) contained an application that was signed and dated by a producer that was not licensed and appointed to sell long-term care insurance. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Ten application files (20.0 percent error ratio) contained an application that was signed by someone other than the producer. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

Fifty application files (100 percent error ratio) contained an AUD notice that was not filed with nor approved by the Department. The Company was deemed to be in violation of the provisions of NCGS 58-39-55.

The average service time to underwrite and decline an application was 16 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	13	26.0
8 - 14	14	28.0
15 - 21	11	22.0
22 - 30	6	12.0
31 - 60	5	10.0
Over 60	1	2.0
Total	50	100.0

Individual Long-Term Care Replacements

As a result of the Department's market surveillance activities, all policy files from a population of ten were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (10.0 percent error ratio) was incomplete as a complete copy of the application was not evidenced in the file. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a).

Three policy files (30.0 percent error ratio) contained an application that was signed and dated prior to the producer's appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

Three policy files (30.0 percent error ratio) did not contain evidence of a Notice Regarding Replacement. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(b).

Three policy files (30.0 percent error ratio) contained a Notice Regarding Replacement that was not in compliance. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(b).

Two policy files (20.0 percent error ratio) contained a written notification to the replaced insurer that was not sent within five business days from the date the application was received in the home office. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(d).

Six policy files (60.0 percent error ratio) did not contain the written notification to the existing insurer advising of the replacement. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(d). The service time could not be calculated on these policy files as no notification letter was sent to the replaced insurer. The survey was based on the remaining four policy files.

The average service time from the date the application was received to the date on the notification letter to the replaced insurer was 12 calendar days. A chart of the service time to notify the existing insurer of replacement from the date of application until the date of notification follows:

Service Days	Number of Files	Percentage of Total
1 - 7	2	50.0
15 - 21	1	25.0
22 - 30	1	25.0
Total	4	100.0

CREDIT

Individual Credit Disability Income Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 892 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One credit file (2.0 percent error ratio) was incomplete as no application was evidenced in the file. The Company was reminded of the provisions of 11 NCAC 19.0102(a). The review was based on the remaining 49 policy files.

Thirty credit files (61.2 percent error ratio) contained an application that was signed and dated by someone other than the producer, or was not signed. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

Individual Credit Disability Income Cancelled

As a result of the Department's market surveillance activities, a random sample of 50 credit disability cancellation files from a population of 90 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Single premium credit disability refunds are processed using the "Pure Premium" method of refund calculation. The Company's refund calculations were found to be in compliance with the provisions of NCGS 58-57-50(a) and (c).

Fourteen credit files (28.0 percent error ratio) contained an application that was signed and dated by someone other than the producer, or was not signed. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a).

One credit file (2.0 percent error ratio) contained an application that was not signed by the applicant. The Company was reminded of the provisions of NCGS 58-50-5(b).

As a result of the Department's review, a refund in the amount of \$620.76 was made to a policyholder. The initial check had not been cashed by the insured. The Company located the insured and refunded the premium on July 12, 2013.

The average service time to process a single premium disability refund was 43 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	5	10.0
8 - 14	6	12.0
15 - 21	11	22.0
22 - 30	12	24.0
31 - 60	9	18.0
Over 60	7	14.0
Total	50	100.0

RESCISSIONS

Individual Disability Income Rescissions

As a result of the Department's market surveillance activities, one rescinded disability income policy file was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends or unfair trade practices were perceived in this section of the examination.

The average service time to process a rescission was 60 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
31 - 60	1	100.0
Total	1	100.0

Individual Hospital Income Rescissions

As a result of the Department's market surveillance activities, three hospital income rescission policy files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends or unfair trade practices were perceived in this section of the examination.

The average service time to process a rescission was 47 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 – 7	1	33.3
31 – 60	1	33.3
Over 60	1	33.4
Total	3	100.0

CLAIMS PRACTICES

Individual Disability Income Paid

As a result of the Department's market surveillance activities, a random sample of 50 claim files from a population of 77 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days. The two claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim payment was 17 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	22	44.0
8 - 14	11	22.0
15 - 21	2	4.0
22 - 30	6	12.0
31 - 60	7	14.0
Over 60	2	4.0
Total	50	100.0

Individual Disability Income Denied

As a result of the Department's market surveillance activities, all claim files from a population of 35 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days. The nine claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim denial was 41 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	2	5.7
8 - 14	4	11.4
15 - 21	3	8.6
22 - 30	2	5.7
31 - 60	15	42.9
Over 60	9	25.7
Total	35	100.0

Individual Hospital Income Paid

As a result of the Department's market surveillance activities, a random sample of 50 claim files from a population of 3,077 was reviewed for accuracy, adherence to Company

guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days.

The average service time to process a claim payment was five calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	39	78.0
8 - 14	6	12.0
15 - 21	1	2.0
22 - 30	1	2.0
31 - 60	3	6.0
Total	50	100.0

Individual Hospital Income Denied

As a result of the Department's market surveillance activities, a random sample of 50 claim files from a population of 1,250 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Two claim files (4.0 percent error ratio) were not paid, not denied or notice of investigation was not provided within 30 days. The Company was reminded of the provisions of NCGS 58-3-100(c).

The three claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim denial was seven calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	43	86.0
8 - 14	4	8.0
Over 60	3	6.0
Total	50	100.0

Individual Medicare Supplement Paid

As a result of the Department's market surveillance activities, a random sample of 100 claim files from a population of 206,092 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One claim file (1.0 percent error ratio) was incomplete as the explanation of benefits was not provided for review. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105, and 19.0106(b)(5).

The average service time to process a claim payment was four calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	95	95.0
8 - 14	4	4.0
15 - 21	1	1.0
Total	100	100.0

Individual Medicare Supplement Denied

As a result of the Department's market surveillance activities, a random sample of 100 claim files from a population of 53,272 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service time to process a claim denial was three calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	88	88.0
8 - 14	12	12.0
Total	100	100.0

Individual Credit Disability Paid

As a result of the Department's market surveillance activities, all claim files from a population of 48 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days. The two claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim payment was 14 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	28	58.3
8 - 14	5	10.4
15 - 21	6	12.5
22 - 30	5	10.4
31 - 60	2	4.2
Over 60	2	4.2
Total	48	100.0

Individual Credit Disability (Loss of Income) Denied

All claim files from a population of eight were reviewed to determine accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service time to process a claim denial was five calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	8	100.0
Total	8	100.0

Individual Mortgage Disability Paid

As a result of the Department's market surveillance activities, a random sample of 50 claim files from a population of 197 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days.

The average service time to process a claim payment was 13 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	30	60.0
8 - 14	6	12.0
15 - 21	4	8.0
22 - 30	1	2.0
31 - 60	9	18.0
Total	50	100.0

Individual Mortgage Disability Denied

As a result of the Department's market surveillance activities, all claim files from a population of 38 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days. The nine claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim denial was 43 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	5	13.2
8 - 14	4	10.5
15 - 21	1	2.6
22 - 30	2	5.3
31 - 60	17	44.7
Over 60	9	23.7
Total	38	100.0

Individual Long-Term Care Paid

All individual long-term care claims paid from a population of 12 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days. The ten claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim payment was 160 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
31 - 60	2	16.7
Over 60	10	83.3
Total	12	100.0

Individual Long-Term Care Denied

All claim files from a population of 16 were reviewed to determine accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One claim file (6.3 percent error ratio) did not contain evidence that a denial letter was sent to the claimant. The Company was reminded of the provisions of 11 NCAC 4.0117(a) and 19.0105.

All claims that were processed in excess of 30 days contained evidence that additional information was requested within 30 days. The two claims that were processed in excess of 60 days contained evidence that timely status reports were sent to the insured.

The average service time to process a claim denial was 61 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
8 - 14	1	6.3
22 - 30	2	12.5
31 - 60	11	68.7
Over 60	2	12.5
Total	16	100.0

SUMMARY

The Market Conduct examination revealed the following:

1. Individual Disability Income Issued
 - a. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(b)(4) as 2.0 percent of the policy files were issued in Arizona and were invalid receipts.
 - b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 4.1 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.
 - c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 14.3 percent of the policy files contained an application that was signed and dated by someone other than the producer.

2. Individual Disability Income Issued Substandard

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 2.0 percent of the policy files did not contain a copy of the application.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-29-55 as 100 percent of the policy files contained an AUD notice that was neither filed with nor approved by the Department.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 38.8 percent of the policy files contained an application that was signed and dated by someone other than the producer.
- d. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 2.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

3. Individual Disability Income Declined

- a. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the application files contained an AUD notice that was neither filed with nor approved by the Department or did not contain evidence of an AUD.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 6.0 percent of the application files contained an application that was signed and dated prior to the producer's appointment.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 22.0 percent of the application files contained an application that was signed and dated by someone other than the producer.

4. Individual Supplemental Health Issued

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 2.0 percent of the application files were incomplete and did not contain a copy of the application.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 10.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 12.0 percent of the policy files contained an application that was signed and dated by someone other than the producer.

5. Individual Supplemental Health Declined

- a. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the application files contained an AUD notice that was neither filed with nor approved by the Department.

- b. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 100 percent of the application files contained an application that was signed and dated by someone other than the producer.
6. Individual Medicare Supplement Issued
- a. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 14.0 percent of the policy files contained an application that was signed and dated by someone other than the producer.
7. Individual Medicare Supplement Declined
- a. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 50.0 percent of the application files contained an application that was signed and dated prior to the producer's appointment.
 - b. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 25.0 percent of the application files contained an application that was signed and dated by someone other than the producer.
 - c. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the application files contained an AUD notice that was neither filed with nor approved by the Department.
8. Individual Medicare Supplement Replacements
- a. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(b)(4) as 4.0 percent of the application files were invalid receipts as they were not replacements.
 - b. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 2.1 percent of the application files were incomplete as the file did not contain a copy of the application and all necessary marketing materials.
 - c. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 45.8 percent of the policy files contained an application that was signed and dated by a producer who was not licensed and appointed to sell Medicare Supplement insurance.
 - d. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 16.7 percent of the policy files contained an application that was signed and dated by someone other than the producer.
 - e. The Company was reminded of the provisions of 11 NCAC 12.0843(a) as 8.3 percent of the policy files did not contain evidence of a notice regarding replacement, or the required statements for a replacement under Section 18 of the Model Regulation Act.

9. Individual Mortgage Disability Issued

- a. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 62.0 percent of the policy files contained an application that was signed and dated by someone other than the producer.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 2.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

10. Individual Mortgage Disability Declined

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 8.3 percent of the application files were incomplete as the file did not contain a copy of an application.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the application files contained an AUD notice that was neither filed with nor approved by the Department.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 25.0 percent of the application files contained an application that was signed and dated by someone other than the producer.

11. Individual Long-Term Care Issued

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 2.0 percent of the application files were incomplete as they did not contain a copy of the application and all necessary marketing materials.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 38.0 percent of the policy files contained an application that was signed and dated by a producer who was not licensed and appointed to sell long-term care insurance.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 16.0 percent of the policy files contained an application that was signed and date by someone other than the producer.

12. Individual Long-Term Care Issued Substandard

- a. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the policy files contained an AUD notice that was neither filed with no approved by the Department.

13. Individual Long-Term Care Declined

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 6.0 percent of the files were incomplete as a copy of the application was not evidenced.

- b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 2.0 percent of the files contained an application that was signed and dated by a producer who was not licensed and appointed to sell long-term care insurance.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 20.0 percent of the files contained an application that was signed and dated by someone other than the producer.
- d. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as 100 percent of the files contained an AUD notice that was neither filed with nor approved by the Department.

14. Individual Long-Term Care Replacements

- a. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) as 10.0 percent of the policy files were incomplete as a copy of the application was not evidenced.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 30.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(b) as 30.0 percent of the policy files did not contain a Notice Regarding Replacement.
- d. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(b) as 30.0 percent of the policy files contained a Notice Regarding Replacement that was not in compliance.
- e. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(d) as 20.0 percent of the policy files contained a written notification to the replaced insurer that was not sent within five business days from the date the application was received in the home office.
- f. The Company was deemed to be in violation of the provisions of 11 NCAC 12.1010(d) as 60.0 percent of the policy files did not contain written notification to the existing insurer.

15. Individual Credit Disability Income Issued

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a) as 2.0 percent of the policy files were incomplete as no application was evidenced.
- b. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 61.2 percent of the policy files contained an application that was signed and dated by someone other than the producer or was not signed.

16. Individual Credit Disability Income Cancelled
- a. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0326(a) as 28.0 percent of the files contained an application that was signed and dated by someone other than the producer or was not signed.
 - b. The Company was reminded of the provisions of NCGS 58-50-5(b) as 2.0 percent of the files contained an application that was not signed by the applicant.
17. Individual Hospital Income Denied
- a. The Company was reminded of the provisions of NCGS 58-3-100(c) as 4.0 percent of the claims were not paid, denied or notice of investigation was not provided within 30 days.
18. Individual Medicare Supplement Paid
- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105, and 19.0106(b)(5) as 1.0 percent of the claims were incomplete as the explanation of benefits was not provided for review.
19. Individual Long-Term Care Denied
- a. The Company was reminded of the provisions of 11 NCAC 4.0117(a), and 19.0105 as 6.3 percent of the claim files did not contain evidence that a denial letter was sent to the claimant.

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 58-2-185	Record of business kept by companies and agents; Commissioner may inspect.
NCGS 58-3-100	Insurance company licensing provisions.
NCGS 58-33-26	General license requirements (Repealed effective July 1, 2002).
NCGS 58-33-40	Appointment of agents.
NCGS 58-39-25	Notice of insurance information practices.

NCGS 58-39-26	Federal privacy disclosure notice requirements.
NCGS 58-39-27	Privacy notice and disclosure requirement exceptions.
NCGS 58-39-55	Reasons for adverse underwriting decisions.
NCGS 58-50-5	Application.
NCGS 58-57-50	Premium refunds or credits.
11 NCAC 4.0117	Statement of Action.
11 NCAC 12.0326	Application for Insurance Required.
11 NCAC 12.0843	NAIC Medicare Supplement Insurance Minimum Standards Model Act.
11 NCAC 12.1010	Requirements for Replacement.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0105	Claim Records.
11 NCAC 19.0106	Records Required for Examination.

CONCLUSION

An examination has been conducted on the market conduct affairs of State Farm Mutual Automobile Insurance Company for the period January 1, 2009, through December 31, 2010, with analyses of certain operations of the Company being conducted through December 23, 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 the anti-fraud plan, policyholder treatment, marketing, underwriting, and claims practices.

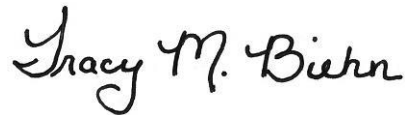
In addition to the undersigned, Linda Sinclair ACS, AIRC and Kim King HIA, MHP, North Carolina Market Conduct Examiners, participated in this examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Vicki S. Royal". The signature is written in a cursive, flowing style.

Vicki S. Royal, CPM, ACS, AIAA, AIRC
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, flowing style.

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