



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

February 14, 2019

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Raleigh, North Carolina  
February 14, 2019

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

Honorable Robert H. Muriel  
Acting Director  
Department of Insurance  
State of Illinois  
320 W. Washington Street, 4<sup>th</sup> Floor  
Springfield, Illinois 62767-0001

Honorable Commissioner and Acting Director:

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 the following entity:

**State Farm Mutual Automobile Insurance Company (NAIC #25178)**  
NAIC Exam Tracking System Exam Number: NC-NC094-10  
Bloomington, Illinois  
(hereinafter generally referred to as the Company)

The examination was conducted 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 examination commenced on July 30, 2018, and covered the period of January 1, 2016, through December 31, 2017. Analyses of certain Company operations were concluded during the Wrap-Up conference which was held on February 13, 2019. 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 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 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 Company's procedures and practices in the following area:

*Underwriting Practices – Commercial Automobile:* Failure to collect reliable proof of North Carolina residency or eligible risk status; notice of producer appointment was not filed in a timely manner.

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).

This examination identified statutory violations 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 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:

- Commercial Automobile

A random selection of 238 policies was made from a total population of 4,991. 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.

### Rate Evasion Procedures

The Company's rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Company did not adhere to the provisions of NCGS 58-2-164 as two forms of reliable proof of North Carolina residency or eligible risk status as described in subpart (c2) of the statute or other forms of reliable proof acceptable to the North Carolina Department of Insurance, were not collected at the time of application for 146 policies. These policies were effective on or after December 1, 2016, the effective date of the amendment that established proof of residency or eligible risk requirements. These requirements are in place to address other than nonfleet private passenger automobile rate evasion fraud.

### Commercial Automobile – Light and Medium Trucks

One hundred nineteen policies were randomly selected for review from a population of 4,387. The Company's light and medium commercial automobile policies were written on an annual basis. Coverages were written utilizing independently filed rates. 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 58-33-26(i) and 58-33-40(b) as the producer was not properly appointed by the Company for one policy reviewed.

### Commercial Automobile – Heavy and Extra Heavy Trucks and Truck-Tractors

One hundred nineteen policies were randomly selected for review from a population of 604. The Company's heavy and extra heavy commercial automobile policies were written on an annual basis. Coverages were written utilizing independently filed rates. 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 58-33-26(i) and 58-33-40(b) as the producer was not properly appointed by the Company for two policies reviewed.

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

The Company is directed to collect two forms of reliable proof of North Carolina residency or eligible risk status as described in NCGS 58-2-164(c2), or other forms of reliable proof acceptable to the North Carolina Department of Insurance, at the time of application.

The Company shall obtain and provide to the Department within one year of acceptance of this Report the required documentation to satisfy the reliable proof of North Carolina residency or eligible risk status as described by NCGS 58-2-164(c2) for all randomly selected policies with an effective date on or after December 1, 2016. The documentation obtained shall be for the renewal of the current active term.

Also, the Company must ensure that any individual who solicits, negotiates, or otherwise acts as an agent for the Company is properly appointed within 15 days after the date the first insurance application is submitted.

### **CONCLUSION**

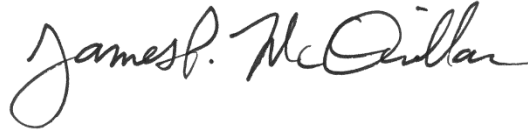
An examination has been conducted on the market conduct affairs of State Farm Mutual Automobile Insurance Company for the period January 1, 2016, through December 31, 2017, with analyses of certain operations of the Company being conducted through February 13, 2019.

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, Corey Gordon, 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 "Teresa Knowles". The signature is written in a cursive style with a large initial 'T'.

Teresa Knowles  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina