



Report on

Market Conduct Examination

of the

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

Bloomington, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

May 2, 2014

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Raleigh, North Carolina
May 2, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
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Honorable Andrew Boron
Director of Insurance
Illinois Department of Insurance
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320 W. Washington Street
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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 general examination has been made of the market conduct activities of

State Farm Mutual Automobile Insurance Company (NAIC #25178)
State Farm Fire and Casualty Company (NAIC #25143)
NAIC Exam Tracking System Exam Number: NC299-M32
Bloomington, Illinois

hereinafter generally referred to as the Companies, at their claims office located at 4140 Parklake Avenue, Suite 400, Raleigh, North Carolina 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.

FOREWORD

This examination reflects the North Carolina insurance activities of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty 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 September 30, 2013, and covered the period of January 1, 2009, through December 31, 2012, with analyses of certain operations of the Companies being conducted through May 2, 2014. 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 policyholder treatment, marketing, underwriting practices, terminations, 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 consumer complaints, 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.

EXECUTIVE SUMMARY

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

Consumer Complaints – Response time to Departmental inquiries in excess of seven calendar days and NAIC code was not included on the Companies' response.

Policy Forms and Filings – Private Passenger Automobile and Homeowners: Use of unfiled consent to rate form and unfiled Adverse Underwriting Decision notice; Homeowners: Use of unfiled new business application and declaration page; Rental Dwelling: Use of unfiled new business application.

Termination of Producers – Incomplete file documentation.

Underwriting Practices – Private Passenger Automobile, Homeowners, and Commercial Automobile: Producers not properly appointed; Homeowners: Rating errors.

Terminations – Private Passenger Automobile Nonrenewals and Commercial Automobile Nonrenewals: Insufficient notice sent and incomplete file documentation.

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 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 should 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.

COMPANY OPERATIONS AND MANAGEMENT

The Companies write a full array of commercial and personal lines property and casualty insurance coverages. They are licensed in 50 states, the District of Columbia, and Canada.

Direct written premium for the Companies’ 2012 countrywide operations was \$47,957,081,943. North Carolina’s property and casualty production for the same period was \$1,066,792,650. Premiums written in North Carolina between 2009 and 2012 increased

approximately 0.6 percent. The charts below outline the Companies' mix of business for selected lines in 2012 and loss ratios in North Carolina for the examination period.

| Line of Business | Written Premium | Percentage |
|------------------------------|------------------------|--------------|
| Private Passenger Automobile | \$ 629,470,878 | 59.0 |
| Homeowners | 364,370,408 | 34.1 |
| Commercial Multi-Peril | 25,466,894 | 2.4 |
| Inland Marine | 14,605,422 | 1.4 |
| Commercial Automobile | 11,616,166 | 1.1 |
| Other P&C | 21,262,882 | 2.0 |
| Total | \$1,066,792,650 | 100.0 |

| Year | Written Premium | Earned Premium | Incurred Losses | Loss Ratio |
|------|-----------------|----------------|-----------------|------------|
| 2009 | \$1,060,039,820 | 1,038,531,220 | 580,730,925 | 55.9 |
| 2010 | \$1,074,996,571 | 1,066,203,942 | 655,186,206 | 61.5 |
| 2011 | \$1,065,396,468 | 1,070,468,550 | 856,264,656 | 80.0 |
| 2012 | \$1,066,792,650 | 1,053,784,810 | 639,437,109 | 60.7 |

POLICYHOLDER TREATMENT

Consumer Complaints

The Companies' complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules. The Companies' complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. The Companies' complaint register was in compliance with the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

Fifty of the 1,852 complaints from the Department's listing were randomly selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

| Type of Complaint | Total |
|-------------------|-----------|
| Underwriting | 25 |
| Claims | 25 |
| Total | 50 |

The Companies' response to each complaint was deemed to be appropriate to the circumstances. Nine complaints were responded to in excess of seven calendar days; however, extensions were requested and granted for three of the complaints. The Companies were deemed to be in violation of the provisions of 11 NCAC 1.0602 as six of the complaints reviewed (12.0 percent error ratio) were responded to in excess of the seven calendar day requirement of this rule.

The Companies were deemed to be in violation of the provisions of 11 NCAC 4.0123 as three responses to Departmental inquiries (6.0 percent error ratio) did not include the Companies' NAIC codes.

The average service time to respond to a Departmental complaint was six calendar days. A chart of the Companies' response time follows:

| Service Days | Number of Files | Percentage of Total |
|---------------------|------------------------|----------------------------|
| 1 - 7 | 41 | 82.0 |
| 8 - 14 | 9 | 18.0 |
| Total | 50 | 100.0 |

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:

1. Private Passenger Automobile
2. Homeowners
3. Rental Dwelling
4. Commercial Automobile

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. Filings for the commercial automobile line of business were made by the Insurance Services Office. Deviations were

made to the Department by the Companies. The rental dwelling line of business is an independently filed program.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.0602 as the private passenger automobile policy consent to rate form had not been filed with and approved by the Department.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.0602 as the homeowners consent to rate form had not been filed with and approved by the Department.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) and 58-39-55(a) as the Adverse Underwriting Decision notice used for private passenger automobile terminations had not been filed with and approved by the Department.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) and 58-39-55(a) as the Adverse Underwriting Decision notice used for homeowners terminations had not been filed with and approved by the Department.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201(c) as the homeowners new business application and declaration page had not been filed with and approved by the Department.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201(c) as the rental dwelling policy new business application had not been filed with and approved by the Department.

Producer Licensing

The Companies' procedures for appointment and termination of their producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules. Fifty appointed and 50 terminated producer files were randomly selected for review from populations of 773 and 330, respectively.

The appointment forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40.

Four terminated producer files were not terminated producers and were deemed invalid receipts. The review was based on the remaining 46 files. The Companies were deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3),(g) as file documentation was incomplete for seven of the terminated producer files reviewed (15.2 percent error ratio). One file did not contain a copy of the confirmation of notification to the Commissioner within 30 days of the effective date of termination. Six files did not contain a copy of the termination letter sent to the producer.

UNDERWRITING PRACTICES

Overview

The Companies' marketing philosophy 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:

1. Private Passenger Automobile
2. Homeowners
3. Rental Dwelling
4. Commercial Automobile

A random selection of 400 policies was made from a total population of 763,469. 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

The Companies provided a listing of 432,907 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' private passenger automobile policies were written on a six-month basis. Liability coverages were written utilizing manual and deviated rates. Physical damage coverages were written using manual, deviated, or 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. The premium for all policies reviewed was deemed to be correct.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Companies for one of the active private passenger automobile files reviewed (1.0 percent error ratio).

Homeowners

The Companies provided a listing of 284,750 active homeowners policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' homeowners coverages were written on an annual basis. The coverages were written utilizing manual, deviated, or 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.

The Companies were deemed to be in violation of the provisions of NCGS 58-36-30(a) as 59 policies reviewed (59.0 percent error ratio) contained a total of 66 rating errors. The rating errors consisted of the following:

- Personal property replacement cost was calculated incorrectly on 42 policies.
- An incorrect protective device credit was applied on 15 policies.
- An incorrect deductible factor was applied on five policies.
- The protective device credit applied on two policies was in excess of the maximum allowed.

- An incorrect base rate was applied on two policies.

The rating errors resulted in five premium overcharges and 53 premium undercharges to the insureds. One policy's premium was not affected due to equally offsetting errors. At the request of the examiners, refunds in the amount of \$12.06 were issued by the Companies for the overcharges. The remaining premiums were deemed correct.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Companies for one of the active files reviewed (1.0 percent error ratio).

Rental Dwelling

The Companies provided a listing of 33,685 active rental dwelling policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' rental dwelling policies were written on an annual basis. Coverages were written utilizing independent rates. 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 reviewed contained sufficient documentation to support the Companies' classification of the risk. The premium for all policy files reviewed was deemed to be correct.

Commercial Automobile

The Companies provided a listing of 12,127 active commercial automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' commercial automobile coverages were written utilizing manual and deviated rates. Policies were written on a six-month 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' application of their rates and premiums charged.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Companies for one of the active files reviewed (1.0 percent error ratio).

TERMINATIONS

Overview

The Companies' termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. We reviewed the following lines of business:

1. Private Passenger Automobile
2. Homeowners
3. Rental Dwelling
4. Commercial Automobile

Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable), and documentation of the policy file. A total of 511,648 policies were terminated during the period under examination. The examiners randomly selected 658 terminations for review.

Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected for review from a population of 219,581.

The review revealed the following reasons for cancellation:

| Reason for Cancellation | Number of Policies | Percentage |
|--------------------------------|---------------------------|-------------------|
| Insured's request | 64 | 64.0 |
| Nonpayment of premium | 36 | 36.0 |
| Total | 100 | 100.0 |

The Companies were not required to issue cancellation notices for 64 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 36 policies stated the specific reason for cancellation. The Companies issued the refunds in a timely manner. The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the North Carolina Notice of Termination form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverage was cancelled.

Homeowners Cancellations

One hundred cancelled homeowners policies were randomly selected for review from a population of 218,833.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

| Reason for Cancellation | Number of Policies | Percentage |
|--------------------------------|---------------------------|-------------------|
| Insured's request | 55 | 55.0 |
| Nonpayment of premium | 28 | 28.0 |
| Coverage rewritten | 14 | 14.0 |
| Underwriting reasons | 3 | 3.0 |
| Total | 100 | 100.0 |

The Companies were not required to issue cancellation notices for 69 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 31 policies stated the specific reason for cancellation. All insureds and mortgagees were given proper and timely notification of cancellation. All refunds were deemed correct.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

Rental Dwelling Cancellations

One hundred cancelled rental dwelling policies were randomly selected for review from a population of 40,458.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

| Reason for Cancellation | Number of Policies | Percentage |
|--------------------------------|---------------------------|-------------------|
| Insured's request | 73 | 73.0 |
| Nonpayment of premium | 21 | 21.0 |
| Coverage rewritten | 5 | 5.0 |
| Underwriting reasons | 1 | 1.0 |
| Total | 100 | 100.0 |

The Companies were not required to issue cancellation notices for 78 of the cancellations reviewed as these policies were cancelled at the request of the insured, or the coverage was rewritten. Cancellation notices for the remaining 22 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

Commercial Automobile Cancellations

One hundred cancelled commercial automobile policies were randomly selected for review from a population of 7,897.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

| Reason for Cancellation | Number of Policies | Percentage |
|--------------------------------|---------------------------|-------------------|
| Insured's request | 81 | 81.0 |
| Nonpayment of premium | 19 | 19.0 |
| Total | 100 | 100.0 |

The Companies were not required to issue cancellation notices for 81 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 19 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the FS-4 to the DMV when liability coverage was cancelled.

Private Passenger Automobile Nonrenewals

Fifty nonrenewed private passenger automobile policies were randomly selected for review from a population of 409.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

| Reason for Nonrenewal | Number of Policies | Percentage |
|---------------------------------------|---------------------------|-------------------|
| Underwriting reasons | 49 | 98.0 |
| Producer no longer represents company | 1 | 2.0 |
| Total | 50 | 100.0 |

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Companies were deemed to be in violation of the provisions of NCGS 58-36-

85(c) as the notice of nonrenewal was not sent at least 60 days prior to the termination date for six policies reviewed (12.0 percent error ratio).

The final area of this review encompassed documentation of the policy file. The Companies were deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as six files did not contain a copy of the insured’s notice of termination or proof of mailing of cancellation (12.0 percent error ratio). The remaining files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the FS-4 to the DMV when liability coverage was cancelled.

Homeowners Nonrenewals

One hundred nonrenewed homeowners policies were randomly selected for review from a population of 21,140. One file was not a nonrenewal and was deemed an invalid receipt. We reviewed the remaining 99 files.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

| Reason for Nonrenewal | Number of Policies | Percentage |
|------------------------------|---------------------------|-------------------|
| Underwriting reasons | 96 | 96.0 |
| Risk no longer eligible | 3 | 3.0 |
| Total | 99 | 100.0 |

The nonrenewal notices reviewed stated the specific reason for nonrenewal. The insureds and mortgagees were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

Rental Dwelling Nonrenewals

Fifty nonrenewed rental dwelling policies were randomly selected for review from a population of 2,581.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal:

| Reason for Nonrenewal | Number of Policies | Percentage |
|------------------------------|---------------------------|-------------------|
| Underwriting reasons | 50 | 100.0 |
| Total | 50 | 100.0 |

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

Commercial Automobile Nonrenewals

All nonrenewed commercial automobile policies were selected for review from a population of eight.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal:

| Reason for Nonrenewal | Number of Policies | Percentage |
|------------------------------|---------------------------|-------------------|
| Underwriting reasons | 8 | 100.0 |
| Total | 8 | 100.0 |

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal.

The Companies were deemed to be in violation of the provisions of NCGS 58-41-20(b) as the nonrenewal notice was not sent at least 45 days prior to the termination date for one policy reviewed (12.5 percent error ratio).

The final area of this review encompassed documentation of the policy file. The Companies were deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4),(g) as one file reviewed did not contain a copy of the nonrenewal notice and proof of mailing (12.5 percent error ratio). The remaining files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the FS-4 to the DMV when liability coverage was cancelled.

Declined/Rejected

Fifty declined/rejected applications were randomly selected for review from a population of 741. The reason for declination/rejection was deemed valid for all the applications reviewed. The review revealed the following reason for declination/rejection.

| Reason for Declination/Rejection | Number of Declinations/Rejections |
|---|--|
| Underwriting reasons | 50 |
| Total | 50 |

CLAIMS PRACTICES

Overview

The Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, automobile medical payment, bodily injury, closed without payment, subrogated, total loss settlement, and litigated claims.

Eight hundred fifty claims were randomly selected for review from a population of 744,675.

Paid Claims

Three hundred paid first party automobile physical damage, first party property damage, and third party property damage claims were randomly selected for review from a population of 458,753. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) for timeliness of payment, supporting documentation and accuracy of payment.

The following types of claims were reviewed and the average payment time is noted in calendar days:

| Type of Claim | Payment Time |
|--|---------------------|
| Automobile physical damage | 10.0 |
| First party (excluding automobile physical damage) | 12.0 |
| Third party property damage | 15.0 |

All payments issued by the Companies were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable. All claim files reviewed contained documentation to support the Companies' payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings.

Automobile Medical Payment Claims

One hundred automobile medical payment claims were randomly selected for review from a population of 33,977. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and to see if the Companies had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Bodily Injury Claims

One hundred bodily injury claims were randomly selected for review from a population of 44,022. The claim files were reviewed to determine compliance with the provisions of NCGS

58-63-15(11) to see if the Companies had engaged in any unfair claims practices. The review of bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

One hundred closed without payment claims were randomly selected for review from a population of 102,822. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies' reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Companies' reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 14.5 calendar days for the four-year period. The review of the closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Subrogated Claims

One hundred subrogated claims were randomly selected for review from a population of 43,484. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the insured's deductible was properly reimbursed by the Companies when subrogation was successful. All reimbursements were deemed to be correct and were issued on a four-year average of three calendar days from the date the Companies collected the monies. The review of subrogated claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Total Loss Settlement Claims

One hundred total loss settlement claims were randomly selected for review from a population of 57,557. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the settlements were equitable and timely.

The Companies primarily used CCC Information Services, Inc. in addition to on-site independent adjusters to establish the actual cash value of totaled vehicles. All settlements were deemed equitable.

The Companies settled all of the claims reviewed in a timely manner. The payments were issued on a four-year average of 12 calendar days. The review of total loss settlement claims disclosed no violations of the provisions of NCGS 58-63-15(11), 11 NCAC 4.0418, or 4.0421.

Litigated Claims

Fifty litigated claims were randomly selected for review from a population of 4,060. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and whether the Companies had engaged in any unfair claims practices. The review of litigated claims disclosed no violation of the provisions of NCGS 58-63-15(11).

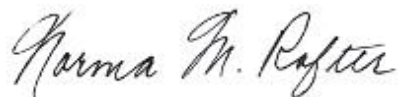
CONCLUSION

An examination has been conducted on the market conduct affairs of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company for the period January 1, 2009, through December 31, 2012, with analyses of certain operations of the Companies being conducted through May 2, 2014.

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 policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

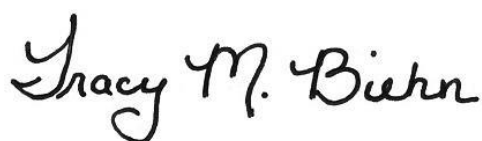
In addition to the undersigned, Kelvin A. Owens and Sharon O'Quinn, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

Handwritten signature of Norma M. Rafter in black ink.

Norma M. Rafter, CPCU
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.

Handwritten signature of Tracy M. Biehn in black ink.

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