

Report on

Market Conduct Examination

of the

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

Bloomington, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

March 10, 2022

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Raleigh, North Carolina
March 10, 2022

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

Honorable Dana Popish Severinghaus
Acting Director
Department of Insurance
State of Illinois
320 W. Washington Street, 4th Floor
Springfield, Illinois 62767

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 entities:

State Farm Fire and Casualty Company (NAIC# 25143)
State Farm Mutual Automobile Insurance Company (NAIC# 25178)
NAIC Exam Tracking System Exam Number: NC-NC094-31
Bloomington, Illinois
(hereinafter generally referred to as the Companies)

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

This examination commenced on September 20, 2021, and covered the period of January 1, 2019, through December 31, 2020. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on January 13, 2022. This action was taken due to market analysis of claims activities. All comments made in this report reflect conditions observed during the period of the examination.

The 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 consisted of an examination of the Companies' practices and procedures in claims. 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% tolerance level for adjusters who were not licensed and 7% for claims procedures. 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 the Companies' practices and procedures in the following area:

Claims Practices –First Party Homeowners Property Damage Claims: Appraisal delays.

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 <https://www.ncdoi.gov/insurance-industry/market-regulation>.

This examination identified various statutory violations, 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.

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. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Companies' practices and provide consumer protection.

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 claims, third party bodily injury claims, and claims closed without payment. Five hundred fifty claims were randomly selected for review from a population of 181,865.

Homeowners Claims

Two hundred fifty homeowners claims comprising first and third party paid property damage, third party bodily injury liability, and closed without payment claims were randomly selected from a population of 32,040.

Homeowners Paid Claims

The examiners randomly selected 125 of the 22,587 first and third party homeowners property damage claims paid during the period under examination. The claim files were reviewed 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
First party homeowners property damage	19.0
Third party homeowners property damage	25.0

All claim files reviewed contained documentation to support the Companies' payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings.

The Companies were deemed to be in violation of the provisions of NCGS 58-63-15(11)(b) as seven first party property damage claims reviewed (7.0% error ratio) were not appraised in a timely manner.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as two first party property damage claims reviewed (2.0% error ratio) were not investigated in a timely manner. The Companies were reminded of the provisions of NCGS 58-63-15(11)(f) as two first party property damage claims reviewed (2.0% error ratio) were not paid in a timely manner and one first party property damage claim reviewed (1.0% error ratio) was not paid in accordance with the estimate. As a result, an additional payment and statutory interest in the amount of \$41.79 was paid to the claimant.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(f) as one third party property damage claim reviewed (2.0% error ratio) was not paid in a timely manner.

Homeowners Third Party Bodily Injury Claims

Twenty-five third party homeowners bodily injury claims paid during the period under examination were randomly selected for review from a population of 102. The claim files were reviewed to determine whether the Companies had engaged in any unfair claims practices.

The Companies were reminded of the provisions of NCGS 58-2-163 as the Companies had reasonable cause to believe the claimant acted in a fraudulent manner for one claim reviewed (4.0% error ratio) and did not notify the Commissioner with a complete statement of all the relevant facts and circumstances.

Homeowners Claims Closed Without Payment

One hundred homeowners closed without payment claims were randomly selected for review from a population of 9,351. The claim files were reviewed to determine 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 claims without payment were deemed valid. The average denial time was 16 calendar days.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as one claim reviewed (1.0% error ratio) was not acknowledged in a timely manner. The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as one claim reviewed (1% error ratio) was not investigated in a timely manner. The Companies were reminded of the provisions of NCGS 58-63-15(11)(n) as one claim reviewed (1.0% error ratio) was not denied in a timely manner.

Private Passenger Automobile Claims

Three hundred private passenger automobile claims comprising third party paid property damage, third party bodily injury liability, and closed without payment claims were randomly selected from a population of 149,825.

Private Passenger Automobile Paid Claims

The examiners randomly selected 100 of the 67,298 third party automobile property damage claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

The following type of claim was reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
Third party automobile property damage	140.0

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.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) and the State Farm Claims Manual as three claims reviewed (3.0% error ratio) were not acknowledged in a timely manner. The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as five claims reviewed (5.0% error ratio) were not investigated in a timely manner. The Companies were reminded of the provisions of NCGS 58-63-15(11)(f) as three claims reviewed (3.0% error ratio) were not paid in a timely manner.

Private Passenger Automobile Third Party Bodily Injury Claims

One hundred private passenger automobile third party bodily injury claims paid during the period under examination were randomly selected for review from a population of 23,282. The claim files were reviewed to determine whether the Companies had engaged in any unfair claims practices.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as three claims reviewed (3.0% error ratio) were not investigated in a timely manner and one claim reviewed (1.0% error ratio) was not acknowledged in a timely manner. The Companies were reminded of the provisions of NCGS 58-63-15(11)(f) as four claims reviewed (4.0% error ratio) were not paid in a timely manner.

Private Passenger Automobile Claims Closed Without Payment

One hundred private passenger automobile closed without payment claims were randomly selected for review from a population of 59,245. The claim files were reviewed to determine 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 claims without payment were deemed valid. The average denial time was 19 calendar days.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(d) and the State Farm Claim Manual as the adjuster for five claims reviewed (5.0% error ratio) did not conduct a reasonable investigation to determine the payee for damage caused by the insured to road signs, guardrails and railroad beds.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies are directed to implement guidelines to proactively complete timely appraisals for first party homeowners property damage claims.

Upon acceptance of the Report the Companies shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Companies successfully implemented their statement of corrective action.

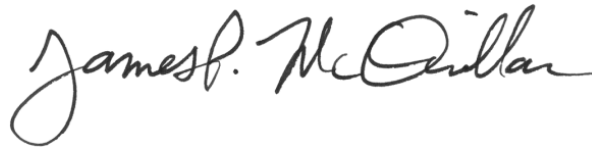
CONCLUSION

An examination has been conducted on the market conduct affairs of State Farm Fire and Casualty Company and State Farm Mutual Automobile Insurance Company for the period January 1, 2019, through December 31, 2020, with analyses of certain operations of the Companies being conducted through January 13, 2022.

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 area of claims.

In addition to the undersigned, Brooke Green, MCM, and Eshita Patel, MCM, North Carolina Market Conduct Senior Examiners, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT, MCM
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.



Teresa Knowles, ACS, MCM
Deputy Commissioner
Market Regulation Division
State of North Carolina