

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

State Farm Fire and Casualty Company  
Examination Authority # 25143-17-701

State Farm Mutual Automobile Insurance Company  
Examination Authority # 25178-17-702

One State Farm Plaza  
Bloomington, IL 61710

As of

April 30, 2017

Trinidad Navarro  
Commissioner



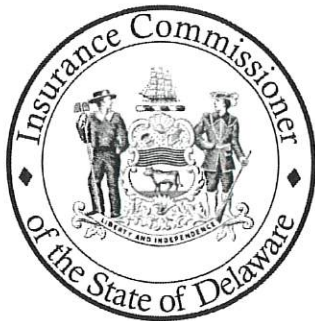
Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of April 30, 2017 on

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

is a true and correct copy of the document filed with this Department.

Attest By: \_\_\_\_\_



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 13 day of June, 2018.

\_\_\_\_\_  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
**State Farm Fire and Casualty Company  
State Farm Mutual Automobile Insurance Company**  
AS OF  
April 30, 2017

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 13 day of June, 2018.

Trinidad Navarro  
Insurance Commissioner

## **Table of Contents**

<b>EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>METHODOLOGY .....</b>	<b>3</b>
<b>COMPANY OPERATIONS AND MANAGEMENT .....</b>	<b>3</b>
<b>COMPLAINT HANDLING .....</b>	<b>5</b>
<b>CLAIMS .....</b>	<b>5</b>
<b>CONCLUSION .....</b>	<b>7</b>

The Honorable Trinidad Navarro  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in the Exam Authority Numbers: 25143-17-701 and 25178-17-702 and pursuant to statutory provisions including 18 *Del. C.* §§318-322, a market conduct examination has been conducted of the affairs and practices of:

State Farm Fire and Casualty Company NAIC# 25143  
State Farm Mutual Automobile Insurance Company NAIC# 25178

This examination was performed as of April 30, 2017. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

1500 State Farm Blvd.  
Charlottesville, Virginia 22909

The off-site examination phase and was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department or DDOI, or other suitable locations.

The report of examination herein is respectfully submitted.

## EXECUTIVE SUMMARY

This examination focused on the activities of State Farm Fire (hereinafter referred to as the Company and/or SFF&CC) and Casualty Company and State Farm Mutual Automobile Insurance Company (hereinafter referred to as the Company and/or SFMAIC) related to complaint handling and private passenger auto Personal Injury Protection (PIP) claims. More specifically, a targeted review of medical bills submitted to the Company versus what the Company paid was performed.

### **4 Exceptions - 18 Del. C. §2304 Unfair methods of competition and unfair or deceptive acts or practices defined.**

*The following are hereby defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:*

*(16) Unfair claim settlement practices. — No person shall commit or perform with such frequency as to indicate a general business practice any of the following:*

*f. Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear;*

### **The noted exceptions also violate 18 Del. Admin. C. §902 - 1.2.1.5 Authority for Regulation; Basis for Regulation**

*1.2.1 The Following Claim Settlement Practices When Committed or Performed with such Frequency as to Indicate a General Practice are Prohibited:*

*1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.*

State Farm Mutual Automobile Insurance Company paid these four claims in excess of 30 days after it had all the required information, and only after it was brought to their attention by the examiners. One claim resulted in a recommendation for a self-audit.

*Subsequent event:* As a result of the above recommendation to perform a self-audit, the company reported to the Delaware Department of Insurance that said audit was performed and completed through February 13, 2018 claims submitted. As a result of this effort the Company determined that a programming error resulted in 228 bills from 99 claims being underpaid. The Company refunded both the amount of the underpayment and the applicable interest due under Delaware PIP laws.

## **SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§318-322 and covered the experience period of July 1, 2015 through April 30, 2017, unless otherwise noted. The purpose of the examination was a target, limited scope review of the Company's activities related to complaint handling and private passenger auto PIP claims. The auto PIP claims were reviewed to determine compliance with the Delaware insurance laws and regulations pertaining specifically to PIP coverages.

## **METHODOLOGY**

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners report on the errors found in individual files, the general business practices of the Company were also a subject of the review.

The Company was asked to identify the universe of files for each segment of the review. Based on the universe size identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in the imposition of penalties. General practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination Company officials were provided status memoranda which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

## **COMPANY OPERATIONS AND MANAGEMENT**

### Company History

The following is a description of the two (2) State Farm Companies examined:

### STATE FARM FIRE AND CASUALTY COMPANY

State Farm Fire and Casualty Company was organized on June 12, 1935, under the laws of the State of Illinois. The Company, incorporated as State Farm Fire Insurance Company, was licensed and commenced business on June 29, of the same year. The present title was adopted on July 1, 1950, when the Company merged with the State Farm Casualty Company.

State Farm Fire and Casualty is the predominant writer of the Group's non-automobile property and casualty insurance in all states except California, Florida and Texas. The State Farm Group, the nation's largest automobile insurer, offers multiple lines of property, casualty and life and health insurance throughout the United States through an exclusive agency force. The affiliated entities are listed on Schedule Y from the Annual Statement. Corporate offices are located in Bloomington, Illinois. SFF&CC is a wholly owned subsidiary of SFMAIC.

SFF&CC is licensed in all 50 states and DC. The underwriting of personal lines auto and fire business is done primarily in Charlottesville, Virginia and Atlanta, Georgia. During the time period of the exam Delaware Auto PIP claims were handled out of Winter Haven, Florida; Richardson, Texas; Malta, New York; Frederick, Maryland; Wilmington, Delaware and Charlottesville, Virginia.

### STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

State Farm Mutual Automobile Insurance Company was incorporated on March 29, 1922, under the Uniform Mutual Law of Illinois. The Company commenced business on June 7, 1922.

State Farm Mutual Automobile Insurance Company, the lead company in the State Farm Group (The Group), is the nation's largest automobile insurer. The Group offers multiple lines of property, casualty and life and health insurance throughout the United States through an exclusive agency force. The affiliated entities are listed on Schedule Y from the Annual Statement. Corporate offices are located in Bloomington, Illinois.

SFMAIC is licensed in all 50 states and DC. The underwriting of personal lines auto and fire business is done primarily in the Charlottesville, Virginia and Atlanta, Georgia. During the time period of the exam Delaware Auto PIP claims were handled out of Winter Haven, Florida; Richardson, Texas; Malta, New York; Frederick, Maryland; Wilmington, Delaware and Charlottesville, Virginia.



## COMPLAINT HANDLING

The Company has written procedures on handling all types of insurance related complaints. These are recorded in the Company's Enterprise Complaint Tracking System (ECTS), a tool managed by their Public Affairs Department.

The Examiners requested a list of all PIP Claim Complaints received during the exam period. The Company provided a list of seven such Complaints for State Farm Mutual Auto Insurance (six) and State Farm Fire & Casualty Company (one).

The complaint log was reviewed for compliance with 18 *Del. C.* §2304 (17). This section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. Section 2304 (17) provides that the record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with 18 *Del. Admin. C.* §902 -1.2.1.2.

No exceptions noted during the review.

## CLAIMS

### Paid PIP Claims

The Company provided a listing of all PIP claims paid during the examination period. The following are populations and samples reviewed for both companies.

Company Name	Population	Sample
State Farm Fire and Casualty Company	1,360	15 Paid claims
State Farm Mutual Auto Insurance Company	5,470	94 Paid claims
<b>Total</b>	<b>6,830</b>	<b>109 paid claims</b>

### **4 Exceptions - 18 *Del. C.* § 2304 Unfair methods of competition and unfair or deceptive acts or practices defined.**

*The following are hereby defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:*

*(16) Unfair claim settlement practices. — No person shall commit or perform with such frequency as to indicate a general business practice any of the following:*

*f. Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear;*

**The noted exceptions also violate 18 Del. Admin. C. §902 - 1.2.1.5 Authority for Regulation; Basis for Regulation**

*1.2.1 The Following Claim Settlement Practices When Committed or Performed with such Frequency as to Indicate a General Practice are Prohibited:*

*1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.*

It was noted in four (4) paid claim files that State Farm Mutual Automobile Insurance Company did not pay the claim for which all proofs of loss were received within 30 days.

*Recommendation: State Farm Mutual Automobile Insurance Company shall pay its claims within 30 days after it has obtained all the required information as required by 18 Del. C. § 2304 Unfair methods of competition and unfair or deceptive acts or practices defined and 18 Del. Admin. C. §902 - 1.2.1.5 Authority for Regulation; Basis for Regulation.*

PIP Claims Closed Without Payment

The Company provided a listing of all PIP claims that were Closed Without Payment (CWP) during the examination period. The Company does not separately keep track of denied claims; they are grouped in with CWP. The following are populations and samples reviewed for both companies.

Company Name	Population	Sample
State Farm Fire and Casualty Company	437	28 CWP claims
State Farm Mutual Auto Insurance Company	1,514	79 CWP claims
<b>Total</b>	<b>1,951</b>	<b>107 CWP claims</b>

There were no exceptions noted.

Open PIP Claims

The Company provided a listing of all PIP claims during the examination period that remained open and that were not included in the Paid and CWP populations. The following are populations and samples reviewed for both companies.

Company Name	Population	Sample
State Farm Fire and Casualty Company	382	21 Open claims
State Farm Mutual Auto Insurance Company	1,344	86 Open claims
<b>Total</b>	<b>1,726</b>	<b>107 Open claims</b>

**Delaware Market Conduct Examination Report  
State Farm Companies**

There were no exceptions noted.

Arbitrated PIP Claims

The Company provided a listing of all claims with a PIP component arbitrated during the examination period. The following are populations and samples reviewed for both companies.

<b>Company Name</b>	<b>Population</b>	<b>Sample</b>
State Farm Fire and Casualty Company	15	15 Arbitrated claims
State Farm Mutual Auto Insurance Company	27	27 Arbitrated claims
<b>Total</b>	<b>42</b>	<b>42 Arbitrated claims</b>

There were no exceptions noted.


**CONCLUSION**

As stated in the Scope of Examination section, the purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to private auto lines.

The recommendation made below identifies corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

It is recommended that State Farm Mutual Automobile Insurance Company pay its claims within 30 days after it has obtained all the required information as required by 18 *Del. C.* § 2304 Unfair methods of competition and unfair or deceptive acts or practices defined and 18 *Del. Admin. C.* §902.1.2.1.5 Authority for Regulation; Basis for Regulation.

The examination conducted by Shelly Shuman, Joseph Krug, Mark Plesha and Jack Rucidlo is respectfully submitted.

  
Mark Plesha, CPCU, AIE, MCM, AIS, IR, CWCP  
Examiner-in-Charge