

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

State Farm Fire and Casualty Company
NAIC #25143
One State Farm Plaza
Bloomington, IL 61710

As of

November 1, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

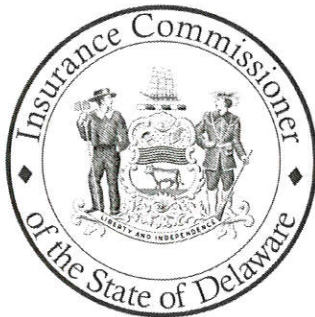
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of November 1, 2011 on

State Farm Fire and Casualty Company

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

Attest By:

Amanda Nemes

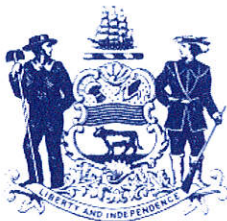


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

Karen Weldin Stewart
Karen Weldin Stewart, CIR-ML
Insurance Commissioner

12/3/12

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
State Farm Fire and Casualty Company
AS OF
November 1, 2011

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.

A blue ink handwritten signature of Karen Weldin Stewart, consisting of a stylized 'K' and 'S'.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 11.CP.1, 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

The examination was performed as of November 1, 2011. State Farm Fire and Casualty Company, hereinafter referred to as the "Company" or as "State Farm Fire," was incorporated under the laws of Illinois. 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, VA 22909

The off-site examination phase 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

State Farm Fire and Casualty Company (“State Farm Fire”) is a member of the State Farm Holding Company Group (“the Holding Company Group”), and is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company (“State Farm Mutual”). The Company was organized on June 12, 1935 under the laws of the State of Illinois. The Company is licensed in all fifty states, the District of Columbia and in three provinces in Canada: Alberta, New Brunswick, and Ontario.

According to their 2010 annual statement filed with the Department, State Farm Fire and Casualty Company reported homeowners multi-peril insurance premium considerations in Delaware in the amount of \$52,557,573, commercial multi-peril insurance (non-liability) premium considerations in Delaware in the amount of \$2,709,828, and inland marine insurance premium considerations in Delaware in the amount of \$1,988,812.

The examination was announced as a result of State Farm Fire & Casualty Company’s initiation of a “Coastal Nonrenewal Plan” and subsequent consumer complaints filed with the Department. The focus of the examination was to ensure policyholders subject to nonrenewal were treated fairly, in accordance with Delaware Laws and Regulations under Title 18 Insurance Code, Chapter 41, and were not being unfairly discriminated against in the underwriting and nonrenewal practices of the insurer.

In general, the examination focused on the Company’s property insurance business in the following areas of operation: Company Operations/Management; Complaint Handling; Underwriting pertaining to Rescissions, Declinations, Cancellation, Nonrenewals, New Business Issued and In-Force Business; and Claims Handling.

Underwriting Guidelines

The Company’s Delaware Coastal Property Guidelines and Bulletins for writing New Business provided a chronological order of time, updates and changes made from the mid-1990’s to present.

The Company reported that a specific coastal setback line was instituted sometime in the early to mid-1990’s as part of the Company’s original exposure management program. This restriction for writing new business was applied to both Personal property and Business property coverage.

The following two Concerns were noted in the review of the Underwriting Guidelines:

1. The Company could not provide documentation of the coastal setback restriction in the underwriting guidelines including the precise effective date of this setback restriction
2. Although the Company reported that this coastal setback restriction was instituted in the early to mid-1990’s, the Company stated that it was not always consistent in its application due to their inability to properly determine the location of properties

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prior to electronic mapping. The review of the applications in the files in other sections of the review displayed an inconsistent application of the coastal setback.

Coastal Nonrenewal Plan

The Company developed a computer program in 2010 that was able to establish an electronic setback line. Through the use of the computer program mapping tool the Company was able to identify which risks fell within the coastal setback line by simply entering the address of each risk into the system and identifying which risk would no longer be eligible for coverage. The Plan was that these newly identified risks would then be non-renewed.

Beginning with property renewals effective on or after March 1, 2011, all barrier island risks in Delaware, including those risks within the established coastal setback line of the Atlantic Ocean (based on their electronic setback line), would be non-renewed. The total number of policies that would eventually be scheduled to be non-renewed was 509 and included various types of personal and commercial insurance policies.

According to the Company, the Delaware coastal nonrenewal program is part of the always ongoing process of reviewing, assessing, and managing the company's business and risks. This process includes consideration of the total mix of information and circumstances and no single factor was the basis for the decisions.

Coastal Nonrenewal Property Policies

The Company identified a universe of 509 coastal property policies to be non-renewed. The property policies consisted of homeowners, tenant homeowners, condominium, boats, personal articles policies, contractors, business owners, and rental dwelling fire.

At the request of the Department, the Company suspended sending non-renewal notices for those policyholders scheduled for renewal in January and February, 2012, until the results of the target market conduct exam have been finalized. In addition, at the request of the Department, the non-renewals on two complainants were suspended. The review indicated that 393 non-renewal notices have been issued. The remaining 116 notices were either suspended, missed or the property has been remapped due to incorrect address information indicating they are not within the territorial guidelines.

During the course of the examination it was noted that the Company was inconsistent with their application of the setback guidelines. This inconsistency is displayed by the Company's acceptance of property business based on the original applications submitted by the policyholders scheduled for nonrenewal.

In review of the original applications for the coastal policyholders scheduled for nonrenewal, 57% of the applications had a question whether the property location was within coastal setback area, 39% of the applications did not have the setback area location question and 4% of the applications did not have the original application in the

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file or the policy was later determined to be outside the setback area. Additionally, in the applications that requested coastal setback location, 20% of the applications indicated the property was within the restricted coastal guideline and the coastal setback question was left blank in 5% of the applications. These applications were subsequently approved for coverage.

Contrary to the Company's coastal setback guideline, the Company did not consistently utilize applications requesting coastal setback location, nor did the Company apply the restricted coastal guidelines when the location of the property was known to be in the restricted coastal area.

The total exceptions noted in the reviewed areas of operation are summarized below and listed in "Bold". The number of exceptions by exam section in the underwriting part of the report is also listed. Specific details of the exceptions and the exam section can be reviewed in each respective section of the report.

- **397 Exceptions - 18 Del. C. §4122(c).** Notification and reason for declination or termination.

The reason for non-renewal as provided in the nonrenewal notice to the policyholders ("The unacceptable exposure to loss because your property is in a location subject to catastrophic wind losses.") fails to provide a written explanation of the specific reasons for nonrenewal. The exceptions for each section are as follows:

393 Exceptions – A. Coastal Property Nonrenewals
4 Exceptions – B. Other Property Nonrenewals

- **166 Exceptions - 18 Del. C. §4124.** Discriminatory practices prohibited. The company displayed an inconsistent practice in the application of the underwriting guidelines for coastal properties throughout the various sections of the exam. The Company had inconsistently applied this restriction based on the location of the residence of the applicant or named insured.

The following exceptions for Coastal Nonrenewals, New Business and In-Force Business denote policies that were written contrary to the coastal setback guideline.

130 Exceptions – A. Coastal Property Nonrenewals
13 Exceptions – G. Property New Business
11 Exceptions – H. Property In-Force Business

Of the 130 exceptions noted for policies originally written contrary to Coastal Setback guidelines, 98 or 75% of the policies were written by two producers.

The following exceptions for 60 Day Cancellations and Declinations denote policies that were cancelled or declined due to their location in the setback area. The Company had applied the restriction based on the location of the residence of the applicant or named insured in the setback area.

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1 Exception - D. Property 60 day Cancellations
11 Exceptions - E. Property Declinations/Refusal to Write

While it was not determined, based on the available evidence, that the exceptions rose to the level of unfair discrimination, the Company has displayed an inconsistent practice in their application of the underwriting guidelines for coastal properties

- **15 Exceptions - 18 Del. Admin. Code 2102 §4.0** Notice of Cancellation or Nonrenewal. The Company failed to provide notice that insured may file a written complaint about the cancellation notice with the Delaware Insurance Department.
15 Exceptions – A. Coastal Property Nonrenewals
- **5 Exceptions - 18 Del. C. §4122(c)**. Notification and reason for declination or termination. The Company failed to maintain a copy of the nonrenewal notice in file.
5 Exceptions – A. Coastal Property Nonrenewals

No other exceptions were noted in the areas of operations reviewed.

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 January 1, 2009 through November 1, 2011, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to property insurance.

The examination scope included a review of complaint handling, claims, underwriting, rescissions, declinations, cancellations, non-renewal practices, new business issued and in-force business. The target of the examination was to ensure policyholders were treated fairly, in accordance with Delaware Laws and Regulations under Title 18 Insurance Code, Chapter 41, and were not being unfairly discriminated against in underwriting practices by the insurer. The examination was targeted and specific to State Farm policyholders of personal or real property located within certain defined coastal areas of Delaware.

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 examination also focuses on general business practices of the Company.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination. In addition since the examination focus was on

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property located in coastal areas, sample files were often selected based on their property's location and proximity to the coast.

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 imposition of penalties. Generally, 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 HISTORY AND PROFILE

State Farm Fire and Casualty Company ("State Farm Fire") is a member of the State Farm Holding Company Group ("the Holding Company Group"), and is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company ("State Farm Mutual"). The 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, 1935. The present title was adopted on July 1, 1950, when the State Farm Fire and Casualty Company resulted from a merger of State Farm Fire Insurance Company with State Farm Casualty Company.

The State Farm Holding Company Group, led by the nation's largest automobile insurer, offers multiple lines of property, casualty and life and health insurance throughout the United States and Canada through an exclusive agency force. There are eight affiliated property and casualty carriers and three life insurance carriers in the Group. State Farm Fire's corporate offices are located in Bloomington, Illinois.

State Farm Fire writes primarily homeowners multiple peril insurance, commercial multiple peril insurance, workers compensation and automobile insurance lines of business. It is licensed in all fifty states, the District of Columbia and in three provinces in Canada, Alberta, New Brunswick, and Ontario.

According to their 2010 annual statement filed with the Department, State Farm Fire and Casualty Company reported homeowners multi-peril insurance premium considerations in Delaware in the amount of \$52,557,573, commercial multi-peril insurance (non-

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liability) premium considerations in Delaware in the amount of \$2,709,828, and inland marine insurance premium considerations in Delaware in the amount of \$1,988,812.

COMPANY OPERATIONS AND MANAGEMENT

A. Underwriting Guidelines

The Company was requested to provide all property underwriting guidelines and manuals utilized during the experience period. In addition to the guidelines, the Company was requested to provide the Company's rescission, termination and declination policy and procedures. The guidelines and policy and procedures were received and reviewed. The review of the guidelines focused on identifying specific guidelines pertinent to the application of any coastal setback guidelines. The guidelines were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place that could be considered unfairly discriminatory in nature, or specifically prohibited by statute or regulation.

The following underwriting procedures and guidelines were provided and reviewed:

1. Homeowners Underwriting Guidelines
2. Business Property Underwriting Guidelines

The following concerns were noted:

CONCERN: The Department is concerned with the Company's inability to provide its past underwriting guidelines including the exact effective date of the coastal setback line restricting the writing of new business.

CONCERN: The Department is concerned with the Company's statement regarding the coastal setback line for the restriction of writing new business. The Company had stated that it was not always consistent in its application due to its capabilities for proper determination of the location of the property, prior to its electronic mapping capabilities.

B. Coastal Nonrenewal Program

The Company was requested to provide a detailed description of its method of determining their Coastal Guideline, including the coastal guideline withdrawal plan. The description was to include any factors or identifiers used to determine which policies were to be nonrenewed because they are barrier island risks in Delaware, including those risks located within the aforementioned coastal setback from the Atlantic Ocean (based on an electronic setback line).

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The Company has advised that the Coastal Guideline has been in effect likely since the mid 1990's for new business but may have been earlier. The guidelines were restricted to new business for those risks that fell within the coastal setback line of the Atlantic Ocean. Throughout the years, there have been several changes to the guidelines. The current guideline, in place since January 1, 2006, now includes all barrier island risks and those that fall within a revised, and increased, setback line from the Atlantic Ocean and also includes a specified distance from the Delaware Bay.

The factor that was used to determine which policies were to be nonrenewed was an electronic setback line. Through the use of a computer program mapping tool developed in 2010, the Company was able to identify which risks fell within the original coastal setback line. The Company entered the address of each risk into the system and was then able to identify which risk would no longer be eligible and thus would be nonrenewed.

Starting with property renewals effective on or after March 1, 2011, all barrier island risks in Delaware, including those risks within original coastal setback line from the Atlantic Ocean (based on their electronic setback line), would be non-renewed. In Delaware this would include 461 fire policies. This count did not include any Personal Articles Policies or Boat Policies, which would also be non-renewed in the geographical area. The total number of policies that would eventually be scheduled to be non-renewed was 509 and also included various types of commercial insurance policies.

Based on the review of the Company's Coastal Nonrenewal Plan, no exceptions were noted to the Plan, however exceptions noted in the application of the Coastal Nonrenewal Plan are addressed in each applicable section of the Report.

In order to provide a more detailed description of the factors utilized by the Company in determining the setback area locations the Company provided the following statement:

“State Farm Fire and Casualty Company is withdrawing from barrier island risks up and down the eastern coast of the United States and along the Gulf of Mexico. In what State Farm refers to as the Mid-Atlantic Zone, in addition to the filings made in Delaware, that action by State Farm is nearing cycle completion in Virginia and North Carolina and is in progress in Maryland.

The Delaware coastal nonrenewal program is part of the always ongoing process of reviewing, assessing, and managing the company's business and risks. The company's long-term strategy of managing its risk and exposures for the soundness of the entire enterprise includes regular review of the catastrophic exposures and taking the steps to appropriately manage catastrophic risks and exposures.

This process includes consideration of the total mix of information and circumstances and no single factor was the basis for the decisions here.”

COMPLAINTS

The Company reported 156 complaints received in Delaware during the experience period of January 1, 2009 through November 1, 2011. All 156 complaints were reviewed to identify all complaints received as a result of the Company's coastal nonrenewal program that was effective March 1, 2011. The 156 complaint files included complaints forwarded through the Delaware Department of Insurance and complaints received directly from the insured. The complaints reported by the Company as forwarded through the Department were reconciled with Department records. The result of this reconciliation revealed the Company had not initially listed two complaints on their list of 156 complaints. The two complaints were the subject of correspondence between the Department and the Company on higher levels of management. The two complaints were later processed through the formal complaint process. Since the nonrenewal of the policies on the two complainants was not yet effective, the Department requested and the Company agreed to suspend the nonrenewal of their policies pending the outcome of the Market Conduct Examination.

In addition to the two complaints mentioned above, three additional complaints were received from insureds regarding the coastal nonrenewal program and were identified and concluded by the Company prior to the date of the examination. The Company's response to each of the insureds in these complaints was that it was unwilling to continue coverage even though the insureds had not suffered any serious hurricane or catastrophic wind losses or have been long standing policyholders.

No exceptions were noted in the Company's timely processing of complaints. The result of the review of the Company's application of the Coastal Nonrenewal Plan is addressed in each applicable section of the review.

INDIVIDUAL UNDERWRITING

The individual underwriting file review was conducted in eight (8) segments.

- A. Coastal Property – Nonrenewals
- B. Property – Other Nonrenewals
- C. Property – Mid-Term Cancellations
- D. Property – 60 Day Cancellations
- E. Property – Refusals to Write
- F. Property – Rescissions
- G. Property – New Business
- H. Property – In-Force Business

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Each segment was reviewed for compliance with the following Delaware laws and regulations pertaining to property insurance contracts.

- 18 Del. Admin Code §2102. Termination of coverage for policies of commercial insurance
- 18 Del. C. §4122. Notification and reasons for declination or termination
- 18 Del. C. §4123. Permissible cancellations
- 18 Del. C. §4124. Discriminatory practices prohibited.
- 18 Del. C. §4130. Nonrenewal

A. Coastal Property - Nonrenewals

The Company was requested to provide a list of all policies that were non-renewed or scheduled to be non-renewed as part of their coastal non-renewal plan to eliminate their insurance risks located on a barrier island or within the original set-back line from the Atlantic Ocean. The Company identified a universe of 509 coastal property policies. The property policies consisted of homeowners, tenant homeowners, condominium, boats, personal articles policies, contractors, business owners, and rental dwelling fire. All 509 files were received and reviewed. At the request of the Department, the Company suspended sending non-renewal notices for those policyholders scheduled for renewal in January and February, 2012, until the results of the target market conduct exam have been finalized. The review indicated that 393 non-renewal notices have been issued. The remaining 116 notices were either suspended, missed or the property has been remapped indicating they are not within the territorial guidelines. The following is a synopsis of the 116 files:

Non-Renewal Suspended per Delaware Department Request	77
Non-Renewal withdrawn since policies initially identified in setback area were in error	13
Cancelled for other reasons prior to Non-Renewal	12
Notice of Non-Renewal not in file	11
Policy non-renewal was missed and not processed. File Notes indicate non-renewal scheduled for next year.	3

The following table summarizes the breakdown of the 509 coastal non-renewal policies by policy form, coverage description, number of policies and percentage of total.

Policy Form-Description	Count	Percent of Count
HOW – Homeowner - Owner	245	48.13%
HO6 – Condominium	148	29.08%
BOAT – Boats	53	10.41%
RDP3 – Rental Dwelling	25	4.91%
PAP – Personal Articles Policy	14	2.75%
RU6 – Rental Condominium Unit	6	1.18%
MR3 – Mercantile/Retail Policy	4	0.79%
OF3 – Office	4	0.79%

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HO4 –Tenant Homeowners	3	0.59%
MH3 – Manufactured Home	2	0.39%
PP3 – Contractors Policy	2	0.39%
SR3 - Business Service Policy	1	0.2%
CB3 – Condominium Master Policy	1	0.2%
CH3 –Church Policy	1	0.2%
Totals	509	100%

The following exceptions were noted:

5 Exceptions - 18 Del C. §4122(c) Notification and Reason for Declination or Termination

(c) At least 30 days before the end of a policy period, as described in § 4121(a) of this title, an insurer shall deliver or mail to the named insured, at the last known address of the named insured, either of the following: (1) Written notice of the insurer's offer to renew the policy if the applicable premium for the policy is received within a specified billing period; or (2) written notice of the insurer's intention not to renew the policy upon expiration of the current policy period. The notice of intention not to renew shall include or be accompanied by a written explanation of the insurer's specific reason or reasons for the nonrenewal. Proof of mailing of either notice shall be retained by the insurer for a period of not less than 1 year. If the insurer fails to comply with either paragraph (1) or (2) of this subsection, coverage shall be deemed renewed under the same terms and conditions until the named insured has accepted replacement coverage with another insurer or until the named insured has agreed to the nonrenewal.

Notes in the files indicate a notice of non-renewal has been issued, however, a copy of the written notice of the insurer’s intent to non-renew was not in the file.

Recommendation: It is recommended that the Company review its procedures to ensure a copy of the written notice of the insurer’s intent to non-renew is maintained in the file as required by 18 Del C. §4122(c).

393 Exceptions - 18 Del C. §4122(c) Notification and Reason for Declination or Termination

(c) At least 30 days before the end of a policy period, as described in § 4121(a) of this title, an insurer shall deliver or mail to the named insured, at the last known address of the named insured, either of the following: (1) Written notice of the insurer's offer to renew the policy if the applicable premium for the policy is received within a specified billing period; or (2) written notice of the insurer's intention not to renew the policy upon expiration of the current policy period. The notice of intention not to renew shall include or be accompanied by a written explanation of the insurer's specific reason or reasons for the nonrenewal. Proof of mailing of either notice shall be retained by the insurer for a

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period of not less than 1 year. If the insurer fails to comply with either paragraph (1) or (2) of this subsection, coverage shall be deemed renewed under the same terms and conditions until the named insured has accepted replacement coverage with another insurer or until the named insured has agreed to the nonrenewal.

The reason for non-renewal as provided to the policyholder failed to provide a written explanation of the specific reasons for nonrenewal.

Recommendation: It is recommended that the Company review its procedures to ensure the specific reason for nonrenewal is provided as required by 18 Del C. §4122(c).

15 Exceptions - 18 Del. Admin. Code §2102 (4.2) Notice of Cancellation or Nonrenewal

(4.2) All notices of cancellation, except those for nonpayment of premium, must contain a statement which shall be clearly and prominently set out in boldface type or other manner which draws the reader's attention advising the insured that the insured may file a written complaint about the cancellation with the Delaware Insurance Department. The statement also shall advise the insured to contact the Insurance Department immediately, in the event he or she wishes to file a complaint.

Failure to provide notice that insured may file a written complaint about the cancellation notice with the Delaware Insurance Department.

Recommendation: It is recommended that the Company review its procedure to ensure that the notice of cancellation or nonrenewal contains information advising the insured that the insured may file a written complaint about the cancellation with the Insurance Department as per 18 Del. Admin. Code §2102 (4.0).

130 Exceptions - 18 Del. C. §4124. Discriminatory practices prohibited.

The declination or termination of a policy of property insurance subject to this subchapter by an insurer, agent or broker is prohibited if the declination or termination is:

- (1) Based upon the race, religion, nationality, ethnic group, age, sex or marital status of the applicant or named insured;*
- (2) Based solely upon the lawful occupation or profession of the applicant or named insured, except that this provision shall not apply to an insurer, agent or broker which limits its market to one (1) lawful occupation or profession or to several related lawful occupations or professions;*
- (3) Based upon the age or location of the residence of the applicant or named insured unless such decision is for a business purpose which is not a mere pretext for unfair discrimination;*

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The Company had indicated a restriction on accepting new business was instituted in the early to mid-1990's for property risks located within the original coastal setback from the Atlantic Ocean. The Company had inconsistently applied this restriction based on the location of the residence of the applicant or named insured. Policies were found to be written contrary to the coastal setback guideline instituted in the mid 1990's. While it was not determined, based on the available evidence, that the exceptions rose to the level of unfair discrimination, the Company has displayed an inconsistent practice in their application of the underwriting guidelines for coastal properties

Recommendation: It is recommended that the Company should review its procedures regarding accepting and writing new business that is contrary to their established underwriting guidelines as required by 18 Del. C. §4124.

B. Property – Other Nonrenewals

The Company identified a universe of 3,099 other non-renewed property policies that were not included as part of their coastal non-renewal plan to eliminate their insurance risks located on a barrier island or within the original set-back line from the Atlantic Ocean. Of the 3,099 other nonrenewals identified during the experience period, 163 files were selected for review. The policies consisted of homeowners, condominiums, rental dwellings, personal article policies, boats, and commercial property. The 163 files were chosen because of their proximity to coastal cities and the listed reasons for nonrenewal included: Claim History, Vacancy, Other, and Blank.

The following exceptions were noted.

4 Exceptions - 18 Del C. §4122(c) Notification and Reason for Declination or Termination.

(c) At least 30 days before the end of a policy period, as described in § 4121(a) of this title, an insurer shall deliver or mail to the named insured, at the last known address of the named insured, either of the following: (1) Written notice of the insurer's offer to renew the policy if the applicable premium for the policy is received within a specified billing period; or (2) written notice of the insurer's intention not to renew the policy upon expiration of the current policy period. The notice of intention not to renew shall include or be accompanied by a written explanation of the insurer's specific reason or reasons for the nonrenewal. Proof of mailing of either notice shall be retained by the insurer for a period of not less than 1 year. If the insurer fails to comply with either paragraph (1) or (2) of this subsection, coverage shall be deemed renewed under the same terms and conditions until the named insured has accepted replacement coverage with another insurer or until the named insured has agreed to the nonrenewal.

The reason for nonrenewal as provided to the policyholders fails to provide a written explanation of the specific reasons for nonrenewal.

Recommendation: It is recommended that the Company should review its procedures to ensure the specific reason for nonrenewal is provided as required by 18 Del C. §4122(c).

C. Property – Mid-term Cancellations

The Company identified a universe of 9,998 mid-term cancellations. Of the 9,998 policies cancelled, 11 policy files were selected, received and reviewed. The 11 files were selected because of their proximity to coastal cities and their reason for cancellation. The property policies consisted of homeowners and rental dwellings. The 11 files were received and reviewed to determine whether the midterm cancellations were related with the coastal nonrenewal plan.

No exceptions were noted.

D. Property – 60 Day Cancellations

The Company identified a universe of 676 policies that were cancelled within the first 60 days of the new business inception date during the examination period. Of the 676 policies cancelled, 30 policy files were selected for review. The 30 files were chosen because of their proximity to coastal cities. The policies consisted of homeowners, condominiums, rental dwellings, boats, and commercial property. All 30 policies had been cancelled at the request of the insured or for non-payment of premium.

The 30 files were reviewed to determine whether the 60-day cancellations were related with the coastal non-renewal plan. One policy was found to have been issued a notice of cancellation because the property has an increased exposure to wind and water damage, but was subsequently cancelled at the request of the insured. The following exception was noted.

1 Exception - 18 Del. C. §4124. Discriminatory practices prohibited.

The declination or termination of a policy of property insurance subject to this subchapter by an insurer, agent or broker is prohibited if the declination or termination is:

- (1) Based upon the race, religion, nationality, ethnic group, age, sex or marital status of the applicant or named insured;*
- (2) Based solely upon the lawful occupation or profession of the applicant or named insured, except that this provision shall not apply to an insurer, agent or broker which limits its market to 1 lawful occupation or profession or to several related lawful occupations or professions;*
- (3) Based upon the age or location of the residence of the applicant or named insured unless such decision is for a business purpose which is not a mere pretext for unfair discrimination;*

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The policy was cancelled by the Company in accordance with the underwriting guidelines pertaining to coastal properties. However, throughout the examination several instances have been discovered in which new policies had been written using the identical set of guidelines for coastal properties. While it was not determined, based on the available evidence, that the exceptions rose to the level of unfair discrimination, the Company has displayed an inconsistent practice in their application of the underwriting guidelines for coastal properties.

Recommendation: It is recommended that the Company review its procedure regarding accepting and writing new business that is contrary to their established underwriting guidelines as required by 18 Del. C. §4124.

E. Property – Refusals to Write

The Company identified a universe of 591 declinations or policies the Company refused to write during the examination period. The policies consisted of homeowners, condominiums, rental dwellings, personal article policies, boats, and commercial property. Of the 591 declinations, 47 policy files were selected for review. The 47 files were chosen because of their proximity to coastal cities.

The following exceptions were noted.

11 Exceptions - 18 Del. C. §4124. Discriminatory practices prohibited.

The declination or termination of a policy of property insurance subject to this subchapter by an insurer, agent or broker is prohibited if the declination or termination is:

(1) Based upon the race, religion, nationality, ethnic group, age, sex or marital status of the applicant or named insured;

(2) Based solely upon the lawful occupation or profession of the applicant or named insured, except that this provision shall not apply to an insurer, agent or broker which limits its market to 1 lawful occupation or profession or to several related lawful occupations or professions;

(3) Based upon the age or location of the residence of the applicant or named insured unless such decision is for a business purpose which is not a mere pretext for unfair discrimination.

Policies were declined by the Company in accordance with the underwriting guidelines pertaining to coastal properties. However, throughout the examination several instances have been discovered in which new policies had been written using the identical set of guidelines for coastal properties. While it was not determined, based on the available evidence, that the exceptions rose to the level of unfair discrimination, the Company has displayed an inconsistent practice in their application of the underwriting guidelines for coastal properties.

Recommendation: It is recommended that the Company review its procedure regarding accepting and writing new business that is contrary to their established underwriting guidelines as required by 18 Del. C. §4124.

F. Property – Rescissions

The Company was requested to provide a list of all policies that had been rescinded during the examination period. The Company advised it did not have any policies that had been rescinded during the examination period.

No exceptions were noted.

G. Property – New Business

The Company identified a universe of 38,847 new property policies issued during the examination period. Of the 38,847 policies issued, 446 policy files were selected for review. The review of the new business policies was conducted in two segments. The first segment consisted of a random sample of 100 policies issued between January 1, 2009 and March 1, 2011. The second segment consisted of 346 policies issued within the effective dates of the coastal nonrenewal program between March 1, 2011 and November 1, 2011. The property policies were selected because of their proximity to coastal cities. The property policies consisted of tenant/homeowners, condominiums, boats, personal articles policies, contractors, business owners, and rental dwelling policies.

The following exceptions were noted:

13 Exceptions - 18 Del. C. §4124. Discriminatory practices prohibited.

The declination or termination of a policy of property insurance subject to this subchapter by an insurer, agent or broker is prohibited if the declination or termination is:

(1) Based upon the race, religion, nationality, ethnic group, age, sex or marital status of the applicant or named insured;

(2) Based solely upon the lawful occupation or profession of the applicant or named insured, except that this provision shall not apply to an insurer, agent or broker which limits its market to 1 lawful occupation or profession or to several related lawful occupations or professions;

(3) Based upon the age or location of the residence of the applicant or named insured unless such decision is for a business purpose which is not a mere pretext for unfair discrimination;

Twelve (12) new business policies written between January 1, 2009 and March 1, 2011 by the Company in locations that fall within the coastal property setback areas were

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written contrary to company guidelines. One (1) new business policy was written between March 1, 2011 and November 1, 2011 by the Company in location that falls within the original coastal property setback area contrary to company guidelines. Additionally, the new business policy was written at the same time the coastal nonrenewal setback program was effective. While it was not determined, based on the available evidence, that the exceptions rose to the level of unfair discrimination, the Company has displayed an inconsistent practice in their application of the underwriting guidelines for coastal properties

Recommendation: It is recommended that the Company review its procedure regarding accepting and writing new business that is contrary to their established underwriting guidelines as required by 18 Del. C. §4124.

H. Property – In-Force Business

The Company was requested to provide a list of property policies issued and in-force during the examination period. The Company identified a universe of 311,112 property policies issued and in-force during the examination period. Policies issued and in-force often were listed several times over the 3 year examination period. Consequently, policies in-force or active from March 1, 2011 to November 1, 2011, and located in a coastal city area, were extracted from the initial universe. This extraction resulted in a list of 800 policies. Of the 800 policy files extracted, a random sample of 50 files was selected for review.

The following exceptions were noted:

11 Exceptions - 18 Del. C. §4124. Discriminatory practices prohibited.

The declination or termination of a policy of property insurance subject to this subchapter by an insurer, agent or broker is prohibited if the declination or termination is:

(1) Based upon the race, religion, nationality, ethnic group, age, sex or marital status of the applicant or named insured;

(2) Based solely upon the lawful occupation or profession of the applicant or named insured, except that this provision shall not apply to an insurer, agent or broker which limits its market to 1 lawful occupation or profession or to several related lawful occupations or professions;

(3) Based upon the age or location of the residence of the applicant or named insured unless such decision is for a business purpose which is not a mere pretext for unfair discrimination;

The noted Policies were within the coastal guideline setback areas or located on a barrier island and the Company failed to include them in the original list of coastal nonrenewals.

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Recommendation: It is recommended that the Company review its procedures in maintaining correct and complete property addresses to ensure any decisions based on location are applied fairly and consistently as required by 18 Del. C. §4124.

CLAIMS

The Company identified a universe of 13,363 claims received during the experience period of January 1, 2009 to November 1, 2011. Of the 13,363 claims, 519 claims were selected for review based on their proximity to the coastal area cities. Of the 519 claims reviewed, 489 claims were on property located outside the established nonrenewal setback area and 30 claims were identified on policies in which the property was located within the original setback line of the Atlantic Ocean or located on a barrier island.

The following table summarizes the 30 claims reviewed by policy description, number of claims and the percentage of total.

Policy Description	Number of Claims	Percentage of Total
Homeowners	21	70.00%
Contractors	6	20.00%
Manufactured Home	1	3.33%
Boats	1	3.33%
Flood	1	3.33%
TOTAL	30	100%

The following table provides a breakdown of each of the 30 claims by cause of loss.

Claim Code Types: Description	Number
17: Flood	1
33: Fire and Lightning	1
35: Wind and Hail	8
37: Water damage or freezing	12
43: NOC (Not otherwise classified)	1
55: Theft of Building Property	1
59: Products & Completed Operations	1
63: Physician Cost/Medical Benefit	4
83: Collision with another water craft	1
Total	30

Of the 30 claims identified by claim type in the table above, 8 were identified to have been wind related. Further analysis of the wind related claims is broken down by policy type, the amount paid and the average amounts paid in the following table:

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Policy Types with Wind Related Claims:	Number	Amounts Paid	Average Amount
Homeowners	7	\$24,171.64	\$3,453.09
Contractor	1	\$3,626.29	\$3,626.29
Total	8	\$27,797.93	\$3,474.74

No exceptions were noted.

CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the Exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1.	It is recommended the Company review its procedures to ensure that the notice of cancellation or nonrenewal contains information advising the insured that the insured may file a written complaint about the cancellation with the Insurance Department as per 18 Del. Admin. Code §2102 (4.0). (A. Coastal Nonrenewals)
2.	It is recommended the Company review its procedures to ensure the specific reason for nonrenewal is provided as required by 18 Del C. §4122(c). (A. Coastal Nonrenewals, B. Property – Other Nonrenewals)
3.	It is recommended the Company review its procedures regarding accepting and writing new business that is contrary to their established underwriting guidelines as required by 18 Del. C. §4124. (A. Coastal Nonrenewals, D. Property – 60 Day Cancellations, E. Property – Refusals to Write, G. Property – New Business)
4.	It is recommended the Company review its procedures in maintaining correct and complete property addresses to ensure any decisions based on location are applied fairly and consistently as required by 18 Del. C. §4124. (H. Property – In-Force Business)

The examination conducted by Daniel Stemcosky, James Myers, Linda Miller and Bradley Shoop is respectfully submitted.

James R Myers

 James R Myers, MCM
 Examiner-in-Charge
 Market Conduct
 Delaware Department of Insurance