

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

NAIC # 25178

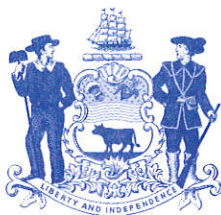
One State Farm Plaza

Bloomington, IL 61710

As of

December 31, 2012

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

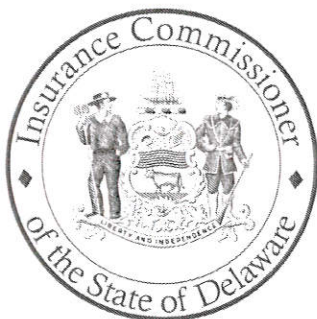
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2012 on

**STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY**

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

Attest By:

*Paula 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, CIR-ML*  
Insurance Commissioner




REPORT ON EXAMINATION  
OF THE  
**STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY**  
AS OF  
December 31, 2012

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.

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

**Table of Contents**

EXECUTIVE SUMMARY .....2

SCOPE OF EXAMINATION.....2

METHODOLOGY .....2

COMPANY HISTORY .....3

COMPANY OPERATIONS AND MANAGEMENT .....3

CONSUMER COMPLAINTS.....4

CLAIMS .....4

CONCLUSION.....6

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 13.725, and pursuant to statutory provisions including 18 Del. CODE §318-322, a market conduct examination has been conducted of the affairs and practices of:

**State Farm Mutual Automobile Insurance Company**

The examination was performed as of December 31, 2012. State Farm Mutual Automobile Insurance Company, hereinafter referred to as the "Company" or as "SFMAIC." The Company is domiciled in Illinois and is licensed to conduct business in all states and the District of Columbia. 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:

One State Farm Plaza  
Bloomington, IL 61710

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 Mutual Automobile Insurance Company is a mutual property and casualty insurance company and is licensed in all fifty states and the District of Columbia. SFMAIC writes primarily personal passenger and commercial automobile insurance and health insurance. The Company's main administrative offices are located in Bloomington, Illinois

On their 2012 annual statement filed with the Department, the Company reported total individual private passenger automobile premiums written for all states in the amount of \$29,587,165,629 of which \$146,079,478 was written in Delaware.

The examination focused on the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling, and Claims. This examination was part of a series of examinations to review the use of independent medical examiners (IME), peer review organizations (PRO), arbitration, and surcharges after an at-fault accident.

The following exceptions were noted in the areas of operation reviewed:

- Complaint Handling (Complaints): 6 Exceptions – 18 Del. CODE §2304 (17) Unfair methods of competition and unfair or deceptive acts or practices defined.  
- Failure to maintain complaint handling procedures.

## **SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. CODE §318-322 and covered the experience period of January 1, 2011 through December 31, 2012. This examination was part of a series of examinations conducted to review the use of independent medical examiners, peer review organizations, arbitration and surcharges after an at-fault accident.

The examination was a target market conduct examination of the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling, and Claims.

## **METHODOLOGY**

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

The Company identified the universe of files for each segment of the review. Based on the universe sizes, random sampling was utilized to select the files reviewed during 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 imposition of penalties. In 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 to review written summaries provided in regard to the exceptions found.

## **COMPANY HISTORY**

SFMAIC was incorporated on March 29, 1922, in accordance with the laws of the State of Illinois, and commenced business on June 7, 1922. SFMAIC has not changed its name since its inception and has not acquired any other insurance companies during the past forty years. The Company was admitted in Delaware on July 12, 1927. SFMAIC is an Illinois domiciled insurer licensed to write vehicle insurance as well as health insurance. The SFMAIC writes vehicle insurance and health insurance throughout the United States and Canada. SFMAIC is a mutual insurance company and as such, does not have any shareholders.

## **COMPANY OPERATIONS AND MANAGEMENT**

### **Internal Audit**

The Company provided information and documentation related to internal audits and internal market regulation/conduct audit reviews. Included with the requests were regulatory actions and court actions taken against the Company and Market Conduct Examination Reports. All reports covered the three years prior to December 31, 2012. The requested information and supporting documentation was provided by the Company and reviewed during the course of the examination.

The examination included a sample review of internal audit reports and internal market regulation/conduct audits under the examination scope. When reports identified deficiencies, corrective actions and remediation plans were included with the business units' response. Additionally, the information and documentation reviewed provided

assurance that the internal control methods and audit procedures in place complied with the Company's established policies and procedures.

There were no exceptions or concerns noted as a result of the review.

## **CONSUMER COMPLAINTS**

The Company provided with a listing of all complaints in the exam period. Among the 304 complaints, there were 6 Better Business Bureau, 26, Regional office, 94 Chairman's Office and 178 DDOI complaints. The examiners randomly selected 50 files as their review sample. These included 2 BBB, 7 Regional Office, 14 Chairman's Office and 27 DDOI complaints.

The following violation was noted:

### **5 Exceptions-18 Del. C. §2304 (17) Failure to maintain complaint handling procedures.**

Failure of any person to maintain a complete record of all the complaints which it has received since the date of its last examination as otherwise required in this title. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint. For purposes of this subsection, "complaint" shall mean any written communication primarily expressing a grievance.

The Company failed to provide the Examiners with a complete complaint file for six complainants. In each of the six complaints, the Company did not provide evidence of a final, written disposition of the complaints. It was also noted that the Company failed to follow their written complaint procedures.

*Recommendation:* It is recommended that the Company maintain a written disposition of a complaint in the complaint file.

## **CLAIMS**

### **Independent Medical Examinations**

The Company provided all claims related procedures, reference materials, newsletters, and bulletins utilized during the scope of the examination. The claim handling materials provide references to the process for utilizing Independent Medical Examinations (IME's). The decision to request an IME is done on a case by case basis. A claim analyst makes an initial suggestion for an IME that is sent to a supervisor and an internal panel where the IME request is approved. If an IME is required, the claimant is provided



contact information with one of two vendors utilized in Delaware.

The Company provided the listing of all personal passenger auto claims with a bodily injury component. There were a total of 8790 BI claims for both years. Among the BI claims 207 were submitted for IME. There were 167 in 2011 and 40 in 2012. Examiners reviewed a sample of 40 IME claims from 2011 and 10 IME claims from 2012 for compliance with 18 Del. CODE §2304 Unfair Practices in the Insurance Business.

No exceptions were noted.

### **Peer Reviews/Utilization Reviews**

Procedures were provided relating to Peer Reviews or Utilization Reviews as referenced by the Company. The Company provided a listing of all private passenger auto claims during the examination period that had a claim component related to bodily injury (BI, UM, UIM, PIP, Med-Pay). The listing identified claims in which Peer Reviews/Utilization Reviews were utilized by the Company.

Documentation in regard to the determination made by the peer review organization was also provided. There were a total of 39 Peer Reviews during the examination period. All files were requested and reviewed.

There were no exceptions noted.

### **Arbitration**

The Company provided a listing of all private passenger auto claims during the examination period that had a claim component related to bodily injury (BI, UM, UIM, PIP, Med-Pay). The Company also provided documentation in regard to the outcome of arbitration (arbitration found in favor of claimant, arbitration found in favor of company, arbitration resulting in compromise settlement). There were a total of 6 arbitrations filed for the examination period. All 6 files were requested and reviewed.

There were no exceptions noted.

### **Surcharges**

The Company identified a universe of 15,575 personal automobile claim files to which a surcharge was applied (at renewal) during the examination period. The examiners selected a sample of 50 surcharged personal automobile claim files that were reviewed to verify compliance with applicable Delaware Insurance statutes and rules. There were a total of 132 surcharged renewal periods included in the 50 files.

The sampled files were reviewed for compliance with *18 DE Reg. 609 § 5.1.7*.

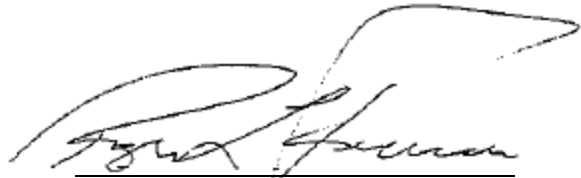
No exceptions were noted.

## CONCLUSION

The recommendation 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 that the Company send complainants a disposition letter, and archive it in the complaint file, pursuant to 18 Del. CODE §2304 (17). (Complaints)

The examination, conducted by Shelly Schuman, Roger Fournier, and Delbert Knight, is respectfully submitted.

A handwritten signature in black ink, appearing to read 'Roger Fournier', with a large, sweeping flourish extending from the end of the signature.

Roger Fournier, MCM, CIE, AIRC  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance