

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

State Farm Fire & Casualty Company
Authority # 25143-22-901

State Farm Mutual Automobile Insurance Company
Authority # 25178-22-902

One State Farm Plaza
Bloomington, IL 61710

As of

March 31, 2022

TRINIDAD NAVARRO
COMMISSIONER



STATE OF 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 March 31, 2022 on

**State Farm Fire & 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 1st day of May, 2024.



Trinidad Navarro
Insurance Commissioner

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF THE
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company
AS OF
March 31, 2022

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 1st day of May, 2024.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Table of Contents

EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION	6
METHODOLOGY	6
COMPANY HISTORY AND PROFILE.....	7
COMPLAINT HANDLING.....	8
CONSUMER COMPLAINTS	9
DEPARTMENT OF INSURANCE COMPLAINTS	10
CLAIMS	10
CONCLUSION	16

Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Examination Authority Numbers 25143-22-901 and 25178-22-902 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 & Casualty Company – NAIC # 25143
State Farm Mutual Automobile Insurance Company – NAIC # 25178

The examination was performed as of March 31, 2022.

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

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

State Farm Fire and Casualty Company (SFFCC) and the State Farm Mutual Automobile Insurance Company (SFMAIC), herein after referred to as the State Farm Companies, or Companies, are multi-line property and casualty insurance companies. These two State Farm Companies reported total direct premiums written in 2021 for all states of \$62.9 billion, of which Delaware has a market share of \$336.9 million or approximately 0.54%.

The examination was a targeted review of the Company's practices and procedures relating to Complaint Handling, and Claims for Commercial Property, Business Owners, Homeowner and Private Passenger Automobile in effect in Delaware during the examination period. The examination period was January 1, 2017, through December 31, 2022.

The report encompasses two State Farm Companies and throughout the report, when an exception is noted that pertains to a specific Company, that Company will be named. If the exception pertains to both companies, either the State Farm Companies or the Companies will be noted.

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

- 1 Exception
18 *Del. C.* § 2304(17) 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:
(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.

For 915 Complaints, the Company either provided incorrect information or none at all. The focus of this review is on the lack of appropriate controls over the maintenance of the complaint logs. The recommendation focuses on the improvement of the policies and procedures related to the accurate completion of the logs.

- 42 Exceptions
18 *Del. C.* § 2304(26) Unfair methods of competition and unfair or deceptive acts or practices defined.
(26) Failure to respond to regulatory inquiries. — No person shall, with such frequency as to indicate a general business practice, fail to provide preliminary substantive responses to inquiries from the Department of Insurance regarding the denial of claims, cancellation,

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

nonrenewal, or refusal of benefits, refusal to pre-authorize benefits, or violations of this title, within 21 calendar days of such inquiry. A response in compliance with this paragraph shall not preclude the provision of additional information responsive to the inquiry.

The Company failed to respond to the DOI within 21 calendar days for 8 of the 470 Consumer complaints filed with the Department of Insurance during the examination period. Also, the Company failed to sufficiently respond to the DOI in 34 complaints.

The examiners are including the one exception noted above for 18 *Del. C.* § 2304(17) as a violation under 18 *Del. C.* § 2304(26) also.

- 8 Exceptions

18. *Del. C.* § 3906, Cancellation or nonrenewal of automobile policy – Appeal to the Commissioner, as amended via Bulletin #34 (effective 9/30/2021)

Section 3906, as amended by SB 41, revises the method by which an insured may appeal a nonrenewal or cancellation of a private automobile insurance policy, if not caused by nonpayment of premium, from a hearing process to a review by the Commissioner on the papers. Section 3906(a) provides that an insured has not less than 20 days prior to the effective date of the cancellation or nonrenewal to submit a written request for an appeal to the Commissioner which shall state clearly the basis for the appeal....”.

Eight Private Passenger Automobile mid-term cancellations and non-renewal notices advise the insured of the right to contest the action. This is not correct, nor has it been since 9/30/2021.

- 6 Exceptions

18. *Del. C.* § 4121 -Definitions– Appeal to the Commissioner, as amended via Domestic/Foreign Insurers Bulletin No. 21’s Item 3. (a), (effective 8/30/2006)

Any communication notifying a policyholder of the termination, as that term is defined in 18 Del. C. § 4121, of a homeowners or commercial property insurance policy shall contain:

(a) A prominent notification that the policyholder should immediately begin seeking alternative property insurance from a licensed Delaware insurance agent if the policyholder intends to avoid a lapse in coverage, and

Six Homeowners termination notices do not meet the requirements of Item 3. (a), nor have they since 8/30/2006.

- 9 Exceptions

18 *Del. Admin. C.* § 902 1.2.1.1 Prohibited Unfair Claim Settlement Practices

1.2.1.1 Misrepresenting pertinent facts or insurance policy provisions relating to coverage at issue.

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

The Company failed to comply with the provisions of the policy in handling nine Uninsured Motorist claims.

- 2 Exceptions

18 *Del. Admin. C. § 902 Prohibited Unfair Claim Settlement Practices –*

1.2.1.2 Failing to acknowledge and respond within 15 working days upon receipt by the user, to communications with respect to claims by insureds arising under insurance policies.

The Company failed to acknowledge communications within 15 working days in two claims.

- 10 Exceptions

18 *Del. Admin. C. § 902 1.2.1.3 Prohibited Unfair Claim Settlement Practices*

1.2.1.3 Failing to implement prompt investigation of claims arising under insurance policies within 10 working days upon receipt of the notice of the loss by the insurers.

The Company failed to investigate damages, available coverage, and liability in eleven claims.

- 3 Exceptions

18 *Del. Admin. C. § 902 1.2.1.5 Prohibited Unfair Claim Settlement Practices*

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.

The Company failed to send the insured a letter advising of the possible excess exposure beyond the PPA policy limits and, the Company fail to provide a denial letter in two Homeowners claims.

- 7 Exceptions

18 *Del. Admin. C. § 902 1.2.1.6 Prohibited Unfair Claim Settlement Practices*

1.2.1.6 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.

The Company failed to negotiate prompt and fair settlements on seven claims.

- 23 Exceptions

18 *Del. C. § 2104 4.1 Written Notice by Insurers of Payment of Third-Party Claims.*

4.1 Upon payment in excess of \$5,000.00 in settlement of or upon judgment on any third-party liability or casualty claim and where the claimant is a natural person, the insurer or its representative shall mail to the third-party claimant written notice of payment at the

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

same time such payment is made to the third party's attorney, accountant, agent or other representative.

The Company either failed to notify a claimant of settlement or failed to provide the required information regarding the settlement of 23 claims.

- 5 Exceptions

18 *Del. C.* § 2304 (16) f. & (16) n. Unfair claim settlement practices and Delaware Auto Bulletin #24

(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.

And

n. Failing to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of a claim or for the offer of a compromise settlement.

Delaware Auto Bulletin #24 states:

Any insurer's invocation of its insured's obligation to cooperate as the basis for denying mandatory minimum coverage shall be deemed an unfair claim settlement practice in violation of Title 18, Section 2304 (16)(f).

The Company denied liability coverage, in whole or in part, on the basis of the non-cooperation of the insured in five denied claims.

- 1 Exception

18 *Del. C.* § 3914 Notice of Statute of Limitations.

An insurer shall be required during the pendency of any claim received pursuant to a casualty insurance policy to give prompt and timely written notice to the claimant of the applicable state statute of limitations regarding action for his or her damages.

The Company failed to provide the required Statute of Limitations notice in 490 of the 653 PPA & HO Paid, Denied and Closed Without Payment claims reviewed. This is a Company established procedure, whereby the claims adjuster has the option to send the notification rather than it being an automatic process. As the Statute indicates the notification is required on any claim the procedure should be updated. This will be considered one exception as it is a procedural inadequacy.

- 7 Exception

11 *Del. C.* § 913 Insurance Fraud, class G felony (b) & (c).

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

All insurance claims forms shall contain a statement that clearly states in substance the following:

“Any person who knowingly, and with intent to injure, defraud or deceive any insurer, files a statement of claim containing any false, incomplete or misleading information is guilty of a felony.”

For the purposes of this section, “statement” includes, but is not limited to, a police report, any notice, statement, proof of loss, bill of lading, receipt for payment, invoice, account, estimate of property damages, bill for services, diagnosis, prescription, hospital or doctor records, X rays, test result or other evidence of loss, injury or expense; “insurer” shall include, but is not limited to, a health service corporation or health maintenance organization; and “insurance policy” shall include, but is not limited to, the subscriber and members contracts of health service corporations and health maintenance organizations.

The Company did not show the mandated language in seven specific and standard insurance claim forms. While these forms have been utilized throughout the examination period, the exception is being noted only for the development of the form, rather the number of times the forms have been processed.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318 – 322 and covered the examination period of January 1, 2017, through March 31, 2022. The purpose of the examination was to determine compliance by the Companies with applicable Delaware laws and regulations.

The scope of the examination includes, but is not limited to, the Company’s practices and procedures relating to Complaint Handling, and Claims for Commercial Property, Business Owners, Homeowner and Private Passenger Automobile in effect in Delaware during the examination period. The Private Passenger Automobile line of business includes private passenger automobiles, and motorcycles. Homeowner line of business includes homeowners, dwelling fire, condominiums, mobile home, renters and RV

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department of Insurance 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 Companies.

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

The Companies identified the universe of files for each segment of the review. Based on the size of the universe, random sampling was primarily utilized to select 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 Companies' 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 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 management to review these areas of concern in order to determine the potential impact upon their operations or future compliance. Throughout the course of the examination, company officials were provided status memorandum, which referenced specific complaint, policy and/or claim numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. Written summaries were provided to the Company on exceptions noted. An exit conference was conducted with Companies' officials to discuss the exceptions identified during the examination and to review written summaries provided on the exceptions found.

COMPANY HISTORY AND PROFILE

State Farm Mutual Automobile Insurance Company (hereinafter referred to as "SFMAIC") was incorporated on March 29, 1922, under the Uniform Mutual Law of Illinois. The Company commenced business on June 7, 1922. Corporate offices are located in Bloomington, Illinois.

SFMAIC, 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. SFMAIC is licensed in all 50 states and DC.

State Farm Fire and Casualty Company (hereinafter referred to as "SFFCC") is organized under the insurance laws of the State of Illinois. SFFCC, incorporated as State Farm Fire Insurance Company, was incorporated on June 12, 1935, and commenced business on June 29, 1935. The present title was adopted on July 1, 1950, when the Company merged with the State Farm Casualty Company. SFFCC is a wholly owned subsidiary of SFMAIC. Corporate offices are located in Bloomington, Illinois.

SFFCC 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. SFFCC is a wholly owned subsidiary of SFMAIC. SFFCC is licensed in all 50 states and DC.

COMPLAINT HANDLING

The Company was asked to provide a list of all complaints filed with them during the examination period of January 1, 2017, through March 31, 2022. This list was to include complaints received from the Delaware Department of Insurance as well as complaints made directly to the Company on behalf of Delaware consumers.

The Company provided a system-generated list of 1,543 from their Delaware Consumer Complaint Record Register Log and 492 from their Delaware DOI Complaint Record Register Log during the examination period, totaling 2,035. A random sample of 100 were taken from the Delaware Consumer Complaint Record Register Log, 15 were taken from the Delaware DOI Complaint Record Register Log and 5 from that same Log that consumers sent to the Better Business Bureau. In addition, the 492 Delaware Complaint responses were reviewed due to concerns of late and insufficient Company responses expressed by the Delaware Department of Insurance Property & Casualty Consumer Services.

The Complaints were reviewed for compliance with applicable Delaware Statutes and Regulations pertaining to complaints, including, but not limited to, 18 *Del. C.* § 2304 (17), Delaware Department of Insurance Bulletins, and the NAIC Market Regulation Handbook Standards in Chapter 16. Complaint files involving Claims were reviewed for compliance with 18 *Del. C.* § 2304 (26) and 18 *Del. Admin. C.* § 902 1.2.1.2.

The Coordinator's Handbook contained, via APPENDIX A – Relating to Complaints, a list of 16 fields of information to be provided. One of these fields was (g) Complainant Last Name, First Name. The list provided by the Company failed to include the Complainant Name in numerous Complaints, as follows:

Of the 1,543 complaints listed in the Company's Delaware Consumer Complaint Record Register Log, 220 did not correctly identify the Complainant. Instead, the Agent's name was listed. In addition, the Complainant's name was completely missing in 38 complaints bringing the total to 258 (16.72%) deficient entries.

Of the 492 complaints from the Delaware DOI Complaint Record Register Log, 13 did not correctly identify the Complainant. Instead, the Agent's name was listed. In 377 DOI complaints, the Complainant's name was completely missing. The combined total of the deficient entries is 390 (79.27%).

The Company's Delaware Consumer Complaint Record Register Log was also deficient for 193 of the 1,543 Consumer Complaints and 74 of the 492 DOI Complaints for failing to provide a complete record for these complaints. The combined total of the deficient entries is 267 (13.12%). Relative facts such as the DOI case number, reason for the complaint, response date, the complaint disposition and other required information were missing.

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

As a result of the review of the complaint logs noted, a total of 915 complaints were recorded incorrectly in the Company's required logs. This results in a violation of 18 *Del. C.* § 2304 (17) and 18 *Del. C.* § 2304 (26), as follows:

1 Exception - 18 *Del. C.* § 2304(17) 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:

(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.

And

1 Exception - 18 *Del. C.* § 2304(26) Unfair methods of competition and unfair or deceptive acts or practices defined.

(26) *Failure to respond to regulatory inquiries.* — No person shall, with such frequency as to indicate a general business practice, fail to provide preliminary substantive responses to inquiries from the Department of Insurance regarding the denial of claims, cancellation, nonrenewal, or refusal of benefits, refusal to pre-authorize benefits, or violations of this title, within 21 calendar days of such inquiry. A response in compliance with this paragraph shall not preclude the provision of additional information responsive to the inquiry.

Though there are a total of 915 exceptions, the focus of this review is on the lack of appropriate controls over the maintenance of the complaint logs. As such this is considered one exception of each of the referenced codes. The recommendation focuses on the improvement of the policies and procedures related to the accurate completion of the logs.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 *Del. C.* § 2304 (17) and 18 *Del. C.* § 2304 (26).

CONSUMER COMPLAINTS

The random sample of 100 Complaints from the Delaware Consumer Complaint Record Register Log were reviewed. There were no exceptions.

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

DEPARTMENT OF INSURANCE COMPLAINTS

As noted above the Company also provided a list of 470 Consumer Complaints filed with the Delaware DOI during the examination period. These complaints were reviewed as a result of the Delaware Department of Insurance Property & Casualty Consumer Services' ongoing concerns over the Company's insufficient and late responses to the DOI and ultimately, the complainant.

42 Exceptions. - 18 Del C. § 2304 (26) Unfair methods of competition and unfair or deceptive acts or practices defined.

The Company failed to respond to the DOI within 21 calendar days on 8 of the 470 Consumer complaints filed with the Department of Insurance during the examination period. Also, the Company failed to sufficiently respond to the DOI in 34 complaints.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 Del. C. § 2304 (26).

CLAIMS

The examination of Claims was conducted and performed to verify the State Farm Companies' compliance with Delaware Statutes and Regulations, Delaware Insurance Department Bulletins and the NAIC Market Regulation Handbook Standards in Chapters 16 & 17. The State Farm Companies were asked to provide a listing of all Commercial Property, Business Owners, Homeowner and Private Passenger Automobile and Homeowners claims received during the examination period of January 1, 2017, through March 31, 2022, along with relevant copies of all claim's procedure manuals, reference materials and training materials, especially those for new hires. Remote access to their Claims system to conduct the review was not permitted; PDFs of each Claim file were provided instead.

Copies of all newsletters, bulletins and similar communications regularly sent to claims adjusters were also requested and provided. A list of all third-party companies or individuals used in the adjusting and handling of claims was also requested. The Company provided a nationwide list of 13 such third party companies which were utilized in the review of claims.

Copies of all Delaware internal claims audit reports were requested and 21 were provided and reviewed. Their Internal Audit process appears sound and the examiners had no concerns about their findings.

The State Farm Companies provided sufficient proof that they are correctly reporting to their statistical agent.

A list of all licensed adjusters who are employees of the State Farm Companies was requested and provided. During the review of Claims, the examiners randomly selected adjusters to verify their

Delaware Market Conduct Examination
 State Farm Fire & Casualty Company
 State Farm Mutual Automobile Insurance Company

licensing, utilizing the verification service from the Department in coordination with the NAIC. No exceptions were noted.

The Company’s Anti-Fraud Procedures and the processes for Anti-Fraud tracking, reporting and oversight were requested and provided. No issues were noted. The Company was also asked to provide a listing of all claims reported to the– Special Investigative Unit (SIU) during the examination period of January 1, 2017, through March 31, 2022. The Company provided a list of 1,539 claims, broken down by Zip Code, reported to the SIU during the examination period. This listing of 1,539 SIU Claims resulted in a weighted sample size of 115 claims. These 115 claims were reviewed for compliance with applicable state statutes and regulations. No exceptions were noted.

Also provided were a list of all fraud reported to a regulatory agency during the examination period, a list of all data reported to the National Insurance Crime Bureau (NICB) or other similar database and a list of all SIU cases investigated during the examination period.

The tables below provide the by-Company populations and sample sizes.

Paid Claims

The State Farm Companies were asked to provide a listing of all Private Passenger Automobile claims paid during the examination period of January 1, 2017, through March 31, 2022. The following are populations and samples were reviewed for each Company and Line of Business:

<i>Company Name</i>	<i>Population</i>	<i>Sample</i>
<i>State Farm Fire & Casualty Company-PPA</i>	<i>8,343</i>	<i>109</i>
<i>State Farm Fire & Casualty Company -Homeowners</i>	<i>13,964</i>	<i>109</i>
<i>State Farm Fire & Casualty Company–Commercial Property & Business Owners</i>	<i>365</i>	<i>82</i>
<i>State Farm Mutual Automobile Insurance Company Company-PPA</i>	<i>75,058</i>	<i>109</i>
<i>Total</i>	<i>97,730</i>	<i>409</i>

The following section details the exceptions noted during the paid claims review.

Private Passenger Automobile

4 Exceptions - 18 Del. Admin. C. § 902 1.2.1.1 Prohibited Unfair Claim Settlement Practices

SFFCC categorized one claim as Collision and another as Comprehensive when they should have been categorized under the Uninsured Motorist (UM) Coverage.

SFMAIC categorized two claims as Collision when they should have been paid under the UM Coverage.

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

Recommendation: It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.1.

2 Exceptions - 18 *Del. Admin. C.* § 902 1.2.1.2 Prohibited Unfair Claim Settlement Practices

SFMAIC did not respond within 15 working days to a letter from the attorney in one claim and in another, they could not locate a copy of the letter to the claimant.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.2.

2 Exceptions - 18 *Del. Admin. C.* § 902 1.2.1.3 Prohibited Unfair Claim Settlement Practices

SFFCC failed to pursue restitution through subrogation in one claim.

SFMAIC established a claim for an incorrect vehicle, both of which were included on the same policy

Recommendation: It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.3.

1 Exception - 18 *Del. Admin. C.* § 902 1.2.1.5 Prohibited Unfair Claim Settlement Practices

SFMAIC failed to send the insured a letter advising them of the possible excess exposure beyond the PPA policy limits.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.5.

7 Exceptions - 18 *Del. Admin. C.* § 902 1.2.1.6 Prohibited Unfair Claim Settlement Practices

SFFCC failed to pursue subrogation recovery in one claim and failed to pursue restitution from the known parties in another. In a third claim, additional rental payment was not paid. These errors were brought to the attention of the Company and the claims were paid.

SFMAIC failed to determine applicable insurance coverage before paying the Collision Damage Waiver expense in one claim and failed to apply the household exclusion and overpaid another claim.

A claim involved a parked unoccupied vehicle which would be an UM loss. The Company applied a \$500 deductible to this loss. The correct amount should have been \$250. The Company should refund the insured \$250.

A SFMAIC claim was initially handled as a Collision loss but when the Company learned the at-fault driver had no coverage, it became a UM claim. The insured had no rental coverage on their

Delaware Market Conduct Examination
 State Farm Fire & Casualty Company
 State Farm Mutual Automobile Insurance Company

policy but as a UM claim, rental coverage is provided. The Company will contact the insured to determine the incurred rental expenses and reimburse according to the UM coverage.

Recommendation: It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C. § 902 1.2.1.6*.

23 Exceptions - 18 *Del. C. § 2104 4.1* Written Notice by Insurers of Payment of Third-Party Claims.

SFFCC did not send a letter to the Third-Party Claimant in eight claims.

SFMAIC did not send a letter to the Third-Party Claimant in fifteen claims.

Recommendation: It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. C. § 2104 4.1*.

Homeowners

There were no exceptions.

Commercial Property & Business Owners

There were no exceptions.

Closed Without Payment Claims (6 PPA)

A list of all claims Closed Without Payment (CWP) during the examination period was requested. The Company stated that they did not separately record CWP claims, instead combing them, along with Denials, into a “No-Pay” Claims group. The examiners were able to review these “No-Pay” claim files to get a sample of CWP claims.

The following are “No-Pay” populations and the CWP samples reviewed for each Company:

<i>Company Name</i>	<i>Population</i>	<i>Sample</i>
<i>State Farm Fire & Casualty Company-PPA</i>	<i>4,667</i>	<i>108</i>
<i>State Farm Fire & Casualty Company -Homeowners</i>	<i>7,523</i>	<i>109</i>
<i>State Farm Fire & Casualty Company-Commercial Property & Business Owners</i>	<i>48</i>	<i>48</i>
<i>State Farm Mutual Automobile Insurance Company Company-PPA</i>	<i>39,527</i>	<i>109</i>
<i>Total</i>	<i>51,765</i>	<i>374</i>

Private Passenger Automobile

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

5 Exceptions - 18 Del. Admin. C. § 902 1.2.1.1 Prohibited Unfair Claim Settlement Practices

In five claims it was noted SFFCC incorrectly charged a higher deductible than was warranted for a UM claim. The Company was notified of these errors and instructed to reimburse the appropriate amount to the consumers.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 Del. Admin. C. § 902 1.2.1.1.

Homeowners

There were no exceptions.

Commercial Property & Business Owners

There were no exceptions.

Denied Claims

A list of all claims denied during the examination period was requested. The Company stated that they did not separately record Denied claims, instead combining them, along with CWP's, into a "No-Pay" Claims group. The examiners were able to review these "No-Pay" claim files to get a sample of Denied claims.

<i>Company Name</i>	<i>Population</i>	<i>Sample</i>
<i>State Farm Fire & Casualty Company-PPA</i>	<i>4,667</i>	<i>108</i>
<i>State Farm Fire & Casualty Company -Homeowners</i>	<i>7,523</i>	<i>109</i>
<i>State Farm Fire & Casualty Company-Commercial Property & Business Owners</i>	<i>75</i>	<i>75</i>
<i>State Farm Mutual Automobile Insurance Company Company-PPA</i>	<i>39,527</i>	<i>109</i>
<i>Total</i>	<i>51,792</i>	<i>401</i>

Private Passenger Automobile

5 Exceptions - 18 Del. C. §2304 (16) f. & (16) n. Unfair claim settlement practices and Delaware Auto Bulletin #24

The SFMAIC denied liability coverage, in whole or in part, on the basis of non-cooperation of the insured in five claims.

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 *Del. C.* §2304 (16) f. & (16) n. and Delaware Auto Bulletin #24.

8 Exceptions - 18 *Del. Admin. C.* § 902 1.2.1.3 Prohibited Unfair Claim Settlement Practices

The SFMAIC failed to provide the basis for a denial in relation to the insurance policy or failed to provide either a written or verbal denial for eight claims.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.3.

Homeowners

2 Exceptions - 18 *Del. Admin. C.* § 902 1.2.1.5 Prohibited Unfair Claim Settlement Practices

SFFCC failed to provide a denial letter in two claims.

Recommendation: It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.5.

Commercial Property & Business Owners

No exceptions were noted.

PPA & Homeowners Paid, CWP & Denied Claims

1 Exception - 18 *Del. C.* § 3914 Notice of Statute of Limitations.

The Company failed to provide the required Statute of Limitations notice in 490 of the 653 PPA & HO Paid, Denied and Closed Without Payment claims reviewed. This is a Company established procedure, whereby the claims adjuster has the option to send the notification rather than it being an automatic process. As the Statute indicates the notification is required on any claim the procedure should be updated. This will be considered one exception as it is a procedural inadequacy.

Recommendation: It is recommended that the Companies review their processes and determine the means by which the Statute of Limitations Notice, as required by 18 *Del. Code* § 3914, be delivered timely and consistently in the future.

1 Exception - 11 *Del. C.* § 913 Insurance Fraud, class G felony (b) & (c).

The Company did not show the mandated language in seven specific and standard insurance claim forms. While these forms have been utilized throughout the examination period, the exception is being noted only for the development of the form, rather the number of times the forms have been processed.

Recommendation: It is recommended that the Companies review their processes and determine the means to which the mandated language in 11 *Del. C.* § 913 Insurance Fraud, class G felony (b) be shown on all claim forms subject to (c) in the future.

CONCLUSION

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

1. It is recommended that the Company provide additional training to ensure compliance with 18 *Del. C.* § 2304 (17) and 18 *Del. C.* § 2304 (26). (Complaint Handling)
2. It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.1. (Claims)
3. It is recommended that the SFMAIC provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.2. (Claims)
4. It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.3. (Claims)
5. It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.5. (Claims)
6. It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.6. (Claims)
7. It is recommended that the Companies provide additional training to ensure compliance with 18 *Del. C.* § 2104 4.1. (Claims)
8. It is recommended that the SFMAIC provide additional training to ensure compliance with 18 *Del. C.* § 2304 (16) f. & (16) n. and Delaware Auto Bulletin #24. (Claims)
9. It is recommended that the Companies review their processes and determine the means by which the Statute of Limitations Notice, as required by 18 *Del. C.* § 3914, be delivered timely and consistently in the future. (Claims)
10. It is recommended that the Companies review their processes and determine the means to which the mandated language in 11 *Del. C.* § 913 Insurance Fraud, class G felony (b) be shown on all claim forms subject to (c) in the future. (Claims)

Delaware Market Conduct Examination
State Farm Fire & Casualty Company
State Farm Mutual Automobile Insurance Company

The examination conducted by Joe Krug, Mark Plesha, Karen Gerber, Steve Misenheimer, and Braxten Pate is respectfully submitted.



Mark Plesha, CPCU, AIE, MCM, CWCP,
AIS, IR
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance

I, Mark Plesha, hereby verify and attest, under oath, that the above is a true and correct copy of the examination report and findings of the market conduct examination submitted to the Delaware Department of Insurance pursuant to examination authority 25143-22-901 and 25178-22-902.



Mark Plesha, CPCU, AIE, MCM, CWCP,
AIS, IR
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance