

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**STATE FARM FIRE AND CASUALTY COMPANY**

**AND**

**STATE FARM MUTUAL AUTOMOBILE INSURANCE  
COMPANY**

**AS OF**

**JUNE 30, 2014**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

# COMMONWEALTH OF VIRGINIA



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## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Andrea Baytop, Principal Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company as of June 30, 2014, conducted at the companies' office in Charlottesville, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' responses to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2017-00026 finalizing the Report.

**IN WITNESS WHEREOF**, I have  
hereunto set my hand and affixed  
the official seal of the Bureau  
at the City of Richmond, Virginia,  
this 24th day of April, 2017.

Andrea Baytop  
Examiner in Charge

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## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger automobile and homeowner lines of business written by State Farm Fire and Casualty Company and State Farm Mutual Automobile Insurance Company at their office in Charlottesville, Virginia.

The examination commenced October 13, 2014, and concluded September 10, 2015. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 11, 2015 and was assigned the examination number of VA177-M13. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

## COMPANY PROFILES

State Farm Fire and Casualty Company (SFFCC) was organized on June 12, 1935, under the laws of Illinois and commenced business on June 29, 1935. The present title was adopted on July 1, 1950, when the company absorbed by merger the State Farm Casualty Company.

State Farm Mutual Automobile Insurance Company (SFMAIC) was incorporated on March 29, 1922 under the Uniform Mutual Law of Illinois and commenced business June 7, 1922.\*

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\* Source: Best's Insurance Reports, Property & Casualty, 2014 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized as noted in the table.

<b>GROUP CODE: 0176</b>	<b>SFFCC</b>	<b>SFMAIC</b>
<b>NAIC Company Number</b>	25143	25178
LICENSED IN VIRGINIA	1/28/1936	6/23/1930
<b>LINES OF INSURANCE</b>		
Accident and Sickness	X	X
Aircraft Liability	X	X
Aircraft Physical Damage	X	
Animal	5/5/1988	
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery	X	
Burglary and Theft	X	
Commercial Multi-Peril	X	
Credit		X
Farmowners Multi-Peril	X	
Fidelity	X	
Fire	X	X
General Liability	X	X
Glass	X	
Homeowner Multi-Peril	X	
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine		
Surety	X	
Water Damage	X	X
Workers' Compensation	X	



The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2013 for those lines of insurance included in this examination.\* This business was developed through captive agents.

<b>COMPANY AND LINE</b>	<b>PREMIUM VOLUME</b>	<b>MARKET SHARE</b>
<b>State Farm Fire and Casualty Company</b>		
Private Automobile Liability	\$61,520,706	2.29%
Private Automobile Physical Damage	\$34,862,962	1.73%
Homeowner Multiple Peril	\$398,480,752	19.87%
<b>State Farm Mutual Automobile Insurance Company</b>		
Private Automobile Liability	\$416,425,250	15.50%
Private Automobile Physical Damage	\$295,370,763	14.67%

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\* Source: The 2013 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile and homeowner lines of business written in Virginia for the period beginning July 1, 2013 and ending June 30, 2014. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance\*, statutory notices, agent licensing, complaint handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

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\*Policies reviewed under this category reflected the companies' current practices and therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or noncompliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

### **STATISTICAL SUMMARY**

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	Population Sample Requested			FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	SFFCC	SFMAIC	TOTAL				
<b><u>Private Passenger Auto</u></b>							
New Business <sup>1</sup>	<u>61,063</u> 50	<u>144,394</u> 50	<u>205,457</u> 100	67	0	25	37%
Renewal Business <sup>2</sup>	<u>162,332</u> 50	<u>2,068,006</u> 50	<u>2,230,338</u> 100	65	0	61	94%
Co-Initiated Cancellations <sup>3</sup>	<u>24,938</u> 33	<u>6,374</u> 27	<u>31,312</u> 60	56	0	7	13%
All Other Cancellations <sup>4</sup>	<u>27,148</u> 30	<u>68,884</u> 25	<u>96,032</u> 55	45	0	7	16%
Nonrenewals <sup>5</sup>	<u>461</u> 5	<u>219</u> 5	<u>680</u> 10	6	0	0	0%
Rejected Applications <sup>6</sup>	<u>0</u> 0	<u>0</u> 0	<u>26</u> 10	5	0	4	80%
<b><u>Homeowner</u></b>							
New Business	<u>74,472</u> 75	<u>0</u> 0	<u>74,472</u> 75	75	0	1	1%
Renewal Business	<u>488,800</u> 125	<u>0</u> 0	<u>488,800</u> 125	125	0	11	9%
Co-Initiated Cancellations	<u>1,692</u> 20	<u>0</u> 0	<u>1,692</u> 20	20	0	14	70%
All Other Cancellations <sup>7</sup>	<u>82,680</u> 30	<u>0</u> 0	<u>82,680</u> 30	29	0	4	14%
Nonrenewals <sup>8</sup>	<u>2,065</u> 10	<u>0</u> 0	<u>2,065</u> 10	9	0	0	0%
Rejected Applications <sup>9</sup>	<u>45</u> 10	<u>0</u> 0	<u>45</u> 10	9	0	0	0%
<b><u>Claims</u></b>							
Auto <sup>10</sup>	<u>42,109</u> 44	<u>292,998</u> 110	<u>335,107</u> 154	148	0	52	35%
Property <sup>11</sup>	<u>20,962</u> 86	<u>0</u> 0	<u>20,962</u> 86	83	0	29	35%

Footnote <sup>1</sup> - Thirty-three policies were not new business policies and were not reviewed.

Footnote <sup>2</sup> - Thirty-five policies were not renewal policies and were not reviewed.

Footnote <sup>3</sup> - Five policies were not cancelled after the 59th day of coverage and were not reviewed. One policy was added from the Non-renewal category.

Footnote <sup>4</sup> - Eight cancellations were not insured requested, two cancellations were not for nonpayment of premium, and all ten were not reviewed.

Footnote <sup>5</sup> - Three policies were not non-renewals and were not reviewed. One policy was moved to the Company-Initiated category.

Footnote <sup>6</sup> - These applications were submitted to the State Farm Group instead of an individual State Farm company. Five files were not rejected applications and were not reviewed.

Footnote <sup>7</sup> - One cancellation labeled as insured requested was a non-pay cancellation and not reviewed.

Footnote <sup>8</sup> - One non-renewal was never processed and not reviewed.

Footnote <sup>9</sup> - One policy was not a rejected application and not reviewed.

Footnote <sup>10</sup> - Six claims were not governed by the Virginia policy and were not reviewed.

Footnote <sup>11</sup> - Three claims were not for homeowner losses and were not reviewed.

## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 67 new business policy files. During this review, the examiners found overcharges totaling \$622.36 and undercharges totaling \$866.73. The net amount that should be refunded to insureds is \$622.36 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page misrepresented the policy term.
- (2) The examiners found three violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured a written Adverse Underwriting Decision (AUD) notice.
- (3) The examiners found 34 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In ten instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.
  - c. In six instances, the company failed to use the correct symbol.
  - d. In seven instances, the company failed to use the correct territory.

- e. In nine instances, the company failed to use the correct tier eligibility criteria.
  - f. In one instance, the company failed to follow its filed rules when using credit score information.
- (4) The examiners found one violation of § 38.2-2234 B of the Code of Virginia. The company failed to obtain proper credit information to rate the policy.

### **Automobile Renewal Business Policies**

The Bureau reviewed 65 renewal business policy files. During this review, the examiners found overcharges totaling \$1,354.92 and undercharges totaling \$1,819.13. The net amount that should be refunded to insureds is \$1,354.92 plus six percent (6%) simple interest.

- (1) The examiners found 83 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to indicate the limit per disablement for Towing and Labor and Transportation Expenses coverages on the declarations page.
- (2) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to apply surcharge points only to the vehicle customarily driven by the operator responsible for the accident or conviction.
- (3) The examiners found 128 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In nine instances, the company failed to use the correct discounts and/or surcharges.
  - b. In four instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
  - c. In 15 instances, the company failed to use the correct symbol.

- d. In three instances, the company failed to use the correct territory.
- e. In 52 instances, the company failed to use the correct tier eligibility criteria.
- f. In two instances, the company failed to use the correct driver classification factor.
- g. In 42 instances, the company failed to follow its filed rules for calculating its Customer Rating Index (CRI) for the full renewal model.
- h. In one instance, the company failed to use proper credit score information when rating the policy.

#### **Homeowner New Business Policies**

The Bureau reviewed 75 new business policy files. During this review, the examiners found overcharges totaling \$2,772.00 and no undercharges. The net amount that should be refunded to the insured is \$2,772.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the new business declarations page.
- (2) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to use the correct construction type.
- (3) The examiners found one violation of § 38.2-2112 A of the Code of Virginia. The company used a binder for more than 60 days.

**Homeowner Renewal Business Policies**

The Bureau reviewed 125 renewal business policy files. During this review, the examiners found no overcharges and undercharges totaling \$341.90.

- (1) The examiners found one violation of 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to display the correct policy premium on the declarations page.
- (2) The examiners found two violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the renewal business declarations page.
- (3) The examiners found eight violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In seven instances, the company failed to use the correct tier eligibility criteria.
  - b. In one instance, the company failed to use the correct construction type.

**TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

**Company-Initiated Cancellations – Automobile Policies****NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

The Bureau reviewed 40 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60<sup>th</sup> day



of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with a written AUD notice.
- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices on or after the 60<sup>th</sup> day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2212 D of the Code of Virginia.
  - a. In two instances, the company cancelled the insured's motor vehicle policy for a reason not permitted after the 59th day of coverage.
  - b. In two instances, the company cancelled the insured's motor vehicle policy due to revocation or suspension of a driver's license that did not occur during the period of time allowed by the statute.
- (2) The examiners found five violations of § 38.2-2212 E of the Code of Virginia.
  - a. In three instances, the company failed to mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.
  - b. In two instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide advance notice of cancellation to the lienholder.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

**All Other Cancellations – Automobile Policies**NONPAYMENT OF THE PREMIUM

The Bureau reviewed 23 private passenger automobile cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found three violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (2) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide advance notice of cancellation to the lienholder.

REQUESTED BY THE INSURED

The Bureau reviewed 22 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to retain evidence of the insured's request for cancellation of the policy.

**Rejected Applications – Automobile Policies**

The Bureau reviewed seven automobile insurance applications for which the companies declined to issue a policy.

The examiners found four violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the applicant with a written AUD notice.

**Company-Initiated Non-renewals – Automobile Policies**

The Bureau reviewed six automobile nonrenewals that were initiated by the companies.

The examiners found no violations in this area.

**Company-Initiated Cancellations – Homeowner Policies**NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed five homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90<sup>th</sup> day of coverage in the initial policy period.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 15 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found overcharges totaling \$263.06 and undercharges totaling \$88.21. The net amount that should be refunded to insureds is \$263.06 plus six percent (6%) simple interest.

(1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file with the Bureau. The

company failed to calculate the earned premium correctly.

- (2) The examiners found 12 violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling because of foreclosure and failed to obtain evidence of the sale of the property by a trustee under a deed of trust prior to cancelling the policy.
- (3) The examiners found 11 violations of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

### **All Other Cancellations – Homeowner Policies**

#### NONPAYMENT OF THE PREMIUM

The Bureau reviewed 20 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found two violations of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found one violation of § 38.2-2114 A of the Code of Virginia. The company failed to send the insured written notice of cancellation of his owner-occupied dwelling policy.

REQUESTED BY THE INSURED

The Bureau reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term.

The examiners found no violations in this area.

**Rejected Applications – Homeowner Policies**

The Bureau reviewed nine homeowner insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

**Company-Initiated Non-renewals – Homeowner Policies**

The Bureau reviewed nine homeowner nonrenewals that were initiated by the company.

The examiners found no violations in this area.

CLAIMS REVIEW**Private Passenger Automobile Claims**

The examiners reviewed 148 automobile claims for the period of July 1, 2013 through June 30, 2014. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$25.00 and underpayments totaling \$10,158.48. The net amount that should be paid to claimants is \$10,158.48 plus six percent (6%) simple interest.

- (1) The examiners found 16 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business

practice.

- (2) The examiners found eight violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
  - a. In one instance, the company failed to properly inform an insured of his Medical Expense Benefits coverage.
  - b. In one instance, the company failed to inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
  - c. In six instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage (UM) when the file indicated the coverage was applicable to the loss.
- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found two violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (5) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (6) The examiners found 14 violations of 14 VAC 5-400-70 D. The company failed

to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In three instances, the company failed to pay the insured's Uninsured Motorists Property Damage (UMPD) claim properly when Collision and/or UMPD coverages applied to the claim.
- b. In one instance, the company failed to pay the insured's rental benefits, available under the UMPD coverage and/or Underinsured Motorists (UIM) coverage.
- c. In two instances, the company failed to pay the proper sales and use tax, title fee, and license fee on first-party total loss settlements.
- d. In three instances, the company failed to pay the insured's Medical Expense Benefits claim properly.
- e. In four instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
- f. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other Than Collision coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found two violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a proper estimate.
  - a. In one instance, the company failed to provide a copy of the estimate to the insured.

- b. In one instance, the company failed to prepare an estimate in an amount for which it was reasonably expected that the damage could be satisfactorily repaired.
- (8) The examiners found two violations of 14 VAC 5-400-80 E. The company failed to document all information relating to the application of betterment or depreciation in the claim file.
- (9) The examiners found three violations of § 38.2-236 A of the Code of Virginia.
  - a. In one instance, the company failed to notify the claimant within five days when the company issued a settlement payment of \$5,000.00 or greater to the claimant's attorney or other representative.
  - b. In two instances, the company failed to provide a copy of the Notice of Settlement Payment to the claimant's attorney or other representative.
- (10) The examiners found three violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
- (11) The examiners found five violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (12) The examiners found six violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of the claim in which liability was reasonably clear.
- (13) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement. The company failed to pay the claimant's collision damage waiver charges properly.



- (14) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to include the lienholder on the check.
  - b. In one instance, the company paid an insured more than the insured was entitled to receive under the terms of the policy.
  - c. In one instance, the company failed to pay the UM claim under the correct coverage.
  - d. In one instance, the company issued payments under the incorrect coverage.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as violations of other Virginia laws.

The examiners found two violations of § 46.2-624 of the Code of Virginia. The company failed to notify the Virginia Department of Motor Vehicles when payment was made in excess of \$3,500.00 on a water-damaged vehicle.

#### **Homeowner Claims**

The examiners reviewed 83 homeowner claims for the period of July 1, 2013 through June 30, 2014. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$11,419.98 and underpayments totaling \$587.89. The net amount that should be paid to claimants is \$587.89 plus six percent (6%) simple interest.

- (1) The examiners found two violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

- (2) The examiners found two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
- a. In one instance, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.
  - b. In one instance, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.
- (3) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (4) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to pay the claim properly under the insured's Dwelling Replacement Cost coverage.
- (5) The examiners found two violations of § 38.2-236 B of the Code of Virginia. The company failed to provide a Notice of Settlement Payment to the claimant that complies with the language required by the statute.
- (6) The examiners found 21 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
- a. In one instance, the company failed to properly represent the Additional Living Expense provisions of the policy.
  - b. In 20 instances, the company failed to properly represent the replacement

cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (8) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.
- (9) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.
  - a. In one instance, the company failed to obtain a police report when the policy required a report for payment under the policy.
  - b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of the policy.

#### **REVIEW OF FORMS**

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the

Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

### **Automobile Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 40 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found two violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted by the Bureau.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

### **Homeowner Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 64 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

**REVIEW OF THE POLICY ISSUANCE PROCESS**

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

**Automobile Policies**

The companies provided six new business policies mailed on the following dates: July 17 and 18, 2014. In addition, the companies provided six renewal business policies mailed on the following dates: July 21 and 22, 2014.

**NEW BUSINESS POLICIES**

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to attach all forms applicable to the policy.
- (2) The examiners found six violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by the statute.
- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the statute.

- (4) The examiners found five violations of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Insurance Credit Score Disclosure notice at the time of application.

#### RENEWAL BUSINESS POLICIES

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found six violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by the statute.
- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the statute.

#### **Homeowner Policies**

The company provided three new business policies mailed July 15, 2014. In addition, the company provided three renewal business policies mailed on July 15, 2014.

#### NEW BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to attach all forms applicable to the policy.
- (2) The examiners found two violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by the statute.
- (3) The examiners found three violations of § 38.2-604.1 of the Code of Virginia.

The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the statute.

- (4) The examiners found two violations of § 38.2-2126 A of the Code of Virginia. The company failed to provide the Insurance Credit Score Disclosure notice at the time of application.

#### RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the statute.

#### REVIEW OF STATUTORY NOTICES

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for the lines of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies, but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

**General Statutory Notices**

- (1) The examiners found two violations of § 38.2-604.1 of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (2) The examiners found four violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially similar language as that of the prototype set forth in Administrative Letter 1981-16.

**Statutory Vehicle Notices**

- (1) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company's Glass Script did not properly disclose the use of a Third Party Administrator.
- (2) The examiners found five violations of § 38.2-2234 A of the Code of Virginia.
  - a. In four instances, the company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.
  - b. In one instance, the company failed to include all of the information required by the statute in its Credit Adverse Action notice.

**Statutory Property Notices**

- (1) The examiners found one violation of § 38.2-2125 of the Code of Virginia. The company failed to include all of the information required by the statute in its Flood Exclusion notice.
- (2) The examiners found one violation of § 38.2-2126 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.



**LICENSING AND APPOINTMENT REVIEW**

A review was made of the private passenger automobile and homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the companies.

**Agent**

- (1) The examiners found two violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found six violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agent without first obtaining a license from the Commonwealth of Virginia.
- (3) The examiners found two violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

**Agency**

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found one violation of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agency within 30 days of the date of the application.

**REVIEW OF THE COMPLAINT-HANDLING PROCESS**

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found two violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

**REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES**

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

## **PART TWO – CORRECTIVE ACTION PLAN**

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### **General**

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

Provide a Corrective Action Plan (CAP) with their response to this Report.

### **Rating and Underwriting Review**

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

- (1) Correct the errors that caused the overcharges and undercharges, and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by showing the applicable policy

- premium and coverage limits.
- (5) Properly represent the benefits, coverages, advantages, and conditions of the policy by showing the correct policy effective date.
  - (6) Provide the insured with a written notice of an AUD when required by the statute.
  - (7) Provide convenient access to files, documents and records relating to an examination.
  - (8) Properly assign points under a Safe Driver Insurance Plan (SDIP) to the vehicle customarily driven by the operator incurring the points.
  - (9) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, territories, tier eligibility criteria, driver classification factors, construction types, CRI rules, and credit score information.

### **Termination Review**

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

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Provide a written AUD notice when required by the statute.

- (5) Calculate return premium according to the filed rules and policy provisions.
- (6) Obtain valid proof of mailing cancellation notices to the insured.
- (7) Retain proof of mailing cancellation notices lienholder.
- (8) Obtain a record of the change in the deed of trust indicating the sale of the insured property when cancellation of an owner-occupied dwelling policy is due to foreclosure.
- (9) Send the cancellation notice for a policy insuring a private passenger automobile at least 45 days before the effective date of cancellation when the notice is mailed after the 59th day of coverage.
- (10) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.
- (11) Cancel private passenger automobile policies for suspension or revocation only during the time period permitted by the Code of Virginia.
- (12) Advise the insured of his right to review by the Commissioner of Insurance.
- (13) Advise the insured of the availability of other insurance through the Virginia Property Insurance Association (VPIA).

### **Claims Review**

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

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims

Underpayments Cited during the Examination.” By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

- (4) Document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- (5) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured’s policy provisions.
- (6) Properly represent pertinent facts or insurance provisions relating to coverages at issue.

### **Forms Review**

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

Use the precise language of the standard automobile forms adopted by the Bureau.

### **Review of Policy Issuance Process**

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

- (1) Specify accurate information in the policy as required by the statute by listing all applicable forms on the declarations page and attaching all forms applicable to the policy.
- (2) Provide the Notice of Information Collection and Disclosure Practices as required by the statute.
- (3) Provide the Notice of Financial Information Collection and Disclosure Practices notice as required by the statute.

- (4) Provide the Insurance Credit Score Disclosure notice as required by the statute.

### **Review of Statutory Notices**

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

- (1) Amend the Glass Script to comply with § 38.2-517 A 3 of the Code of Virginia.
- (2) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 of the Code of Virginia.
- (3) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 A of the Code of Virginia and Administrative Letter 2015-07, which replaced Administrative Letter 1981-16.
- (4) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (5) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A and 2234 A of the Code of Virginia.

### **Licensing and Appointment Review**

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

- (1) Provide convenient access to files, documents and records relating to an examination.
- (2) Accept business only from agents that have a current license from the Commonwealth of Virginia.
- (3) Appoint agents and agencies within 30 days of the application.

### **Review of the Complaint-Handling Process**

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

Maintain a complete complaint register that is in compliance with § 38.2-511 of  
the Code of Virginia.



## **PART THREE – RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices.

### **RECOMMENDATIONS**

We recommend that the companies take the following actions:

#### **Rating and Underwriting**

- The companies should amend the declarations page to show the correct endorsement name as Towing and Labor instead of Emergency Road Service coverage.

#### **Terminations**

- The companies should provide the lienholder advance notice of cancellation as required by the policy provisions.
- The companies should maintain documentation of the insured's request for cancellation.
- The companies should file an SR-26 with DMV within 15 days of cancelling a motor vehicle policy.
- The companies should not continue to extend coverage into the next renewal period when an insured does not attempt to submit payment to accept the renewal offer.

#### **Claims**

- The companies should document the claim file when all applicable coverages have been discussed with the insured.

- The companies should acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- The companies should notify the insured every 45 days from the date of notification of a first party claim the reason for the delay in the investigation of the claim.
- The companies should make all claim denials in writing and keep a copy in the claim file.
- The companies should provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants.
- The companies should document all information relating to the application of betterment or depreciation in the claim file.
- The companies should notify the claimant within five days of issuing a settlement payment of \$5,000.00 or greater to the claimant's attorney or other representative.
- The companies should provide a copy of the Notice of Settlement Payment to the claimant's attorney or other representative.
- The companies should adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- The companies should make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- The companies should properly represent pertinent facts or insurance provisions relating to the coverages at issue.
- The companies should make payments to the insured for the amount he/she is entitled to receive under the terms of the policy.

- The companies should include the lienholder on checks where applicable.
- Include the insurance fraud statement on claim forms required by company as a condition of payment.
- The companies should provide the right of rescission when the claimant or insured is not represented by an attorney.
- The companies should pay water damage vehicle claims according to § 46.2-624 of the Code of Virginia.

**Statutory Notices**

- The companies should amend their 60 Day Cancellation Warning notice to use capital letters as shown in § 38.2-2210 of the Code of Virginia.

**Other Notices**

- The companies should include the fraud statement on all applications for insurance.

**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

The Bureau conducted three prior market conduct examinations of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company.

During the automobile, motorcycle, homeowner, multi-peril, general liability, workers' compensation, assigned risk automobile, and commercial automobile examination of State Farm Mutual Automobile Insurance Company, State Farm Fire & Casualty Company, and State Farm General Insurance Company as of December 31, 1993, State Farm Mutual Automobile Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-511, 38.2-1905, 38.2-1906 B, 38.2-2202, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-510 A as well as Sections 6 (d) and 8 (d) of the Commission's rules Governing Unfair Claim Settlement Practices; and State Farm Fire and Casualty Company violated

§§ 38.2-231, 38.2-304, 38.2-511, 38.2-1906 B, 38.2-2014, 38.2-2114, 38.2-2208, 38.2-510 A 1.

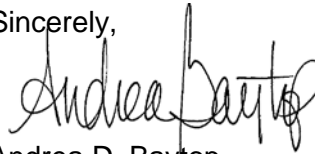
During the automobile and homeowner examination of State Farm Mutual Automobile Insurance Company, State Farm Fire and Casualty Company, and State Farm General Insurance Company as of June 30, 1999, State Farm Mutual Automobile Insurance Company violated §§ 38.2-305 B, 38.2-510 A 10, 38.2-510 C, 38.2-1906 D 38.2-2206, 38.2-2208, 38.2-2212, 38.2-2220, 38.2-2230, of the Code of Virginia, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, and VAC 5-400-70 A; and State Farm Fire and Casualty Company violated §§ 38.2-304 B, 38.2-305 B, 38.2-510 A 10, 38.2-510 C, 38.2-610 A, 38.2-1905 D 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2208, 38.2-2212, and 38.2-2220 of the Code of Virginia as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 A.

During the automobile and the Virginia Automobile Insurance Plan examination of State Farm Mutual Insurance Company and State Farm Fire and Casualty Insurance Company as of July 1, 2007, the companies violated §§ 38.2-305 B, 38.2-502, 38.2-604, 38.2-610, 38.2-2202, 38.2-2210, 38.2-2214, 38.2-2220, 38.2-2230, and 38.2-2234 of the Code of Virginia, as well as 14 VAC 5-400-40, 14 VAC 5-400-50 C, 14 VAC 5-400-70 A, and 14 VAC 5-400-70 D.

## ACKNOWLEDGEMENT

The Bureau acknowledges the officers and employees' response to requests from the Bureau during the course of the examination.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrea Baytop". The signature is written in a cursive style with a large initial "A".

Andrea D. Baytop  
Principal Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
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November 2, 2015

**VIA UPS 2<sup>nd</sup> DAY DELIVERY**

Ms. Catherine Rankin, Counsel  
State Farm Insurance Companies  
State Farm Northeastern Office  
Six Hillman Drive, Suite 200  
Chadds Ford, Pennsylvania 19317

Re: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC# 25178)  
State Farm Fire and Casualty Company (NAIC# 25143)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Rankin:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of July 1, 2013, through June 30, 2014. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since September 10, 2015. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to closely review the report. Please provide a written response. When the companies respond, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The companies do not need to respond to any particular item with which they agree. If the companies disagree with an item or wishes to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the report or modify a violation unless the companies provide written documentation to support their position.

Secondly, the companies should provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

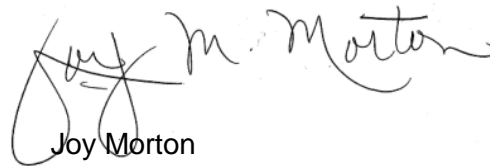
Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with the companies' response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by December 7, 2015.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by December 7, 2015.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with the first name "Joy" and last name "Morton" clearly legible.

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January 4, 2016

Joy Morton, Supervisor  
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Virginia Bureau of Insurance – 5<sup>th</sup> Floor  
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Richmond, VA 23219

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC #25143)  
Examination Period July 1, 2013 – June 30, 2014

Dear Ms. Morton,

Attached in separate documents is our response to the above referenced Market Conduct Examination and the restitution worksheet.

Our response includes the same format and numbers for each section as the report. We have included separate documentation for areas where we seek additional consideration which was shipped overnight via UPS to the attention of Andrea Baytop. Please note, we have not processed proposed payment of items that are contested on the attached restitution worksheet.

We would like to thank you and your team for your cooperation and assistance, particularly at the conclusion of the exam. We appreciate the opportunity to provide documentation in support of our position and look forward to resolving the remaining issues in this exam.

Sincerely,



Catherine A. Rankin, Counsel  
State Farm Insurance Companies

CAR/daw/13957550



## **PART ONE – The EXAMINERS’ OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 66 new business policy files. During this review, the examiners found overcharges totaling \$1,263.12 and undercharges totaling \$1,278.47. The net amount that should be refunded to insureds is \$1,263.12 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page misrepresented the policy term.
- (2) The examiners found three violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured a written Adverse Underwriting Decision (AUD) notice.
- (3) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In 12 instances, the company failed to use the correct discounts and/or surcharges. The Companies respectfully disagree with five of the twelve observations. **Response:**  
Review sheet 435007727, during the past three years, all household drivers must not have an at-fault accident or moving violation for the household to qualify for the good driver discount. WB, a driver in the

household, had an at-fault loss which made the policy ineligible for the discount. See exhibit. Please note the Company's records indicate that we did not receive a reply to the Companies' response of May 14, 2015.

Review sheet 1199788067 – Extended good student discount applied and documentation was provided to the examiners. See exhibits. Please note the Company's records indicate that we did not receive a reply to their response of October 28, 2014.

Review sheet 1891026880, during the past three years, all household drivers must not have an at-fault accident or moving violation for the household to qualify for the good driver discount. ES had an at-fault accident on January 8, 2013 which made the policy ineligible for the discount. See exhibits. Please note the Company's records indicate that we did not receive a reply to the Company's response of January 23, 2015.

Review sheet 1331095868 (two observations), the Accident Free Discount does not apply. Multiline discount does apply and was restored after change of address was processed. See exhibits. Please note the Company's records indicate that we did not receive a reply to the Company's response of April 14, 2015.

- b. In two instances, the company failed to apply the correct surcharge points for accidents and/or convictions. **Response:**

The company disagrees with one of the observations. Review sheet 19188803 documentation existed and was submitted to support the Driver Record Level (DRL) processing. The Company's written guidance in the exhibits document this situation. Process Guide 460-S02 Topic 5 page

12 reads *“If a client with a DRL goes out of force from STAR and then returns the DRL sets as if coverage is continuous.”* The system is also programmed to maintain the prior DRLs levels on the expired policy. See exhibits.

- c. In eight instances, the company failed to use the correct symbol.
- Response:** The Companies respectfully disagrees with these eight observations. The Companies assign physical damage rating symbols by make, model, series, body style and engine combinations and then associate the appropriate VIN that would apply. This allows for various series names of a particular vehicle with only one VIN pattern associated for that series, if that is how the manufacturer assigns the VIN pattern. From these characteristics, the needed symbol for any vehicle without the VIN is generated. The appropriate insurance Rating Group for Comprehensive Coverage (DRG), Collision Coverage (GRG), Vehicle Safety Discount (VSD), and Liability Rating Group (LRG) can be determined from the exhibits filed with the Bureau with the Company's rate filing. The VIN is not needed and that is why it is not noted on those exhibits. For example, if you know the make, model, series, and body style of a Chevy Cruz the appropriate symbol can be identified. See exhibits for review sheets 1643139339, 552240137, 1914545128, 701328582, 2035220454, and 1152439342.

Review sheet 904662307 the agent indicated that the 2003 Ranger was an XLT. A review of the VIN for this vehicle shows only 4WD with various models. Given these factors the Company properly rated with a DRG of 19, DRG of 19 and LRG of 05.

Review sheet 82147912 the Company's exhibit includes the exhibit and manual page that was included in the Company's rate filing that was effective January 1, 2004. This was the last time we revised the IRG for the 1997 model year vehicles. The manual page only shows the IRG for this model year as  $IRG = DRG + GRG$ . The IRG is found on the filed manual page rather than the supplementary exhibit that shows the loss experience adjustment to the standard IRG. The DRG is different than the GRG starting with the 2004 models.

- d. In seven instances, the company failed to use the correct territory.

**Response:** The Companies respectfully disagree with these observations.

Review sheets 1782089673, 1020300702, 2102670682, 2107126946, 141885015, 2059079560 and 1466383997. These observations arise from the inadvertent omission of a reference to Income Loss Benefits (ILB) on the header of the June 3, 2013 rate filing. The Company's cover memorandum for this filing states;

*“Location Rate Factor (LRF) - With this change, we are continuing to move towards our indicated location rating factors for BIPD Liability, Income Loss Benefits, Medical Expense Benefits, Comprehensive, and Collision coverages.”*

The intent was clear that these Location Rating Factors (LRF) apply to ILB as well as Medical Expense Benefits (MEB) coverage. This omission was addressed in a subsequent rate filing. The policies reviewed during the examination illustrated a consistent application of the LIR for ILB

coverage. In the alternative, the Company contends that this is a single violation. The territory application was correct, the filing neglected to include a header reference. See exhibits.

- e. In 13 instances, the company failed to use the correct tier eligibility criteria. **Response:** The Companies respectfully disagree with ten of the thirteen observations.

Review sheet 1800541501 the Company did not include B's April 26, 2013 at fault accident as the loss report ordered on September 18, 2013 showed no losses within the last three years. See exhibits.

Review sheet 281255302 for documentation of comprehensive claim see exhibits.

Review sheet 733847335 the documentation of the towing claim is included in the exhibits.

Review sheet 1745600806 the necessary documentation to determine CRI was provided. Please note the Company's records indicate that they did not receive a reply to the company's response of December 22, 2014. See exhibits.

Review sheet 1212915565 the necessary document to support that the rating of the vehicle was correct was previously provided. See exhibits.

Review sheet 282055442 the documentation to support that the rating of the vehicle was correct was previously provided. Please note the Company's records indicate that we did not receive a reply to the Company's response of October 30, 2014. See exhibits.

Review sheet 608706893 the documentation previously provided supports that the rating of the vehicle was correct. See exhibits.

Review sheet 2036716698 the documentation to support that the rating of the vehicle was correct was provided previously. Please note the Company's records indicate that we did not receive a reply to their response of October 30, 2014. See exhibits.

Review sheet 72969970 the documentation to support that the rating of the vehicle was correct was provided previously. See exhibits.

Review sheet 18273784, the documentation to support that the rating of the vehicle was correct was provided previously. See exhibits.

- f. In one instance, the company failed to use the correct driver classification factor. **Response:** The Company respectfully disagrees with this observation.

Review sheet 1922077011, the documentation submitted supports the driver adjustment factor for vehicle 2. See exhibit which shows that R was married at the time of application.

- g. In one instance, the company failed to use the correct base and/or final rates. **Response:** The Company respectfully disagrees with this observation.

Review sheet 1149797280, as the CRI was calculated correctly. The adjustment factors of 1.5 for BIPD and 1.57 for Collision were used. See exhibit. Please note the company's records indicate that we did not receive a reply to our response of May 21, 2015.

- h. In one instance, the company failed to follow its filed rules when using credit score information. **Response:** The Company respectfully disagrees with this observation.

Review sheet 141452210, as the CRI calculation was correct. See exhibit.

- (4) The examiners found one violation of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Credit Adverse Action notice to the insured.

**Response:** The Company respectfully disagrees with this observation.

Review sheet 983631964, the cancellation notice dated February 26, 2014 shows the Credit Adverse Action notice on Page 2. As this action was taken during the looksee period, the policy was not issued to the customer. No policy was sent or mailed. Internal processing entries were made to provide a framework to process the application for initial cancellation and to calculate the refund.

- (5) The examiners found one violation of § 38.2-2234 B of the Code of Virginia. The company failed to obtain proper credit information to rate the policy.

### **Automobile Renewal Business Policies**

The Bureau reviewed 65 renewal business policy files. During this review, the examiners found overcharges totaling \$1,831.94 and undercharges totaling \$1,997.93. The net amount that should be refunded to insureds is \$1,831.94 plus six percent (6%) simple interest.

- (1) The examiners found 83 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to indicate the limit per disablement for Towing and Labor and Transportation Expenses coverages on the declarations page.

- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured a written AUD notice. **Response:** The Company respectfully disagrees with this observation.

Review sheet 1562125352, the system automatically sends an AUD notice when a customer's rate is increased at renewal due to a change in STAR level resulting from a violation or accident. A copy of the notice is provided in the exhibits.

- (3) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to apply surcharge points only to the vehicle customarily driven by the operator responsible for the accident or conviction. **Response:** The Company respectfully disagrees with this observation.

Review Sheet 1164589073 based on the policy rating history for car 1, D was the principal operator effective January 1, 2011. The accident was added to car 1 on March 4, 2011. Since car 1 was the vehicle most often used by D, the surcharge was applied to Car 1. See exhibits.

- (4) The examiners found 133 violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file with the Bureau.

- a. In 11 instances, the company failed to use the correct discounts and/or surcharges. **Response:** The Companies respectfully disagree with four of the 11 observations.

Review sheet 308089122, as TA was the assigned driver on car 002, and had no major violations, the STAR-3 discount is correct. The exhibits establish that TA was the principal operator for car 2 and TA's MVR showed no violations.



Review sheet 681204542, the Accident Free Discount (AFD) does not apply to the added car. Although there was a dormant AFD on a cancelled vehicle, the Company's Underwriting guidelines require that the agent request for the AFD to be moved and this was not done. The Company's guidelines allow the policyholder the option to reinstate a dormant AFD from a cancelled vehicle, or to allow the AFD to remain dormant for future use. It may be in the policyholder's best interest to reserve the discount for a future vehicle with a higher premium, therefore we do not automatically apply a dormant AFD to a newly added vehicle. See exhibits.

Review sheet 1782611320, on September 1, 2015, the Company sent supporting documents indicating that the agent requested that the dormant AFD be moved to the file in question. The 3 Star Discount does not apply as the policy was issued in State Farm Mutual Automobile Insurance Company. The 3 star discount is only available in State Farm Fire and Casualty Company. Also note that AFD is not available in the State Farm Fire and Casualty Company. See exhibit showing the policy history.

Review sheet 612026938, this was a replacement vehicle on June 3, 2004, and previously earned accident free discount was reinstated and this is eligible for the 10 year Accident Free Discount. When the Company replaces an existing vehicle all of the credits and surcharges that were the existing vehicle will automatically be applied to the replacement vehicle. See exhibits. Please note the Company's records

indicate that we did not receive a reply to their response of November 20, 2014.

- b. In six instances, the company failed to apply the correct surcharge points for accidents and/or convictions. **Response:** The Companies respectfully disagree with two of the six observations.

Review sheet 1249404511, T was the assigned driver on car 002. She had no major violations, and her motor vehicle record is clean. The DRL assigned by the Company is correct.

Review sheet 151134629, this was a replacement vehicle which inherited a 10 year Accident Free Discount and the accident surcharge did not apply. See exhibits.

- c. In 15 instances, the company failed to use the correct symbol. **Response:** The Companies respectfully disagree with the number of instances identified. There were 11 review sheets with 11 symbol observations. There were four other observations associated with these policies, but they were not symbol violations. The Companies respectfully disagree with eight of the 11 symbol observations. The Companies assign physical damage rating symbols by make, model, series, body style and engine combinations and then associate the applicable VIN that would apply. This allows for the possibility of various series names of a particular vehicle with only one VIN pattern associated for the series, if that is how the manufacturer assigns the VIN pattern. From these characteristics, the needed symbol for any vehicle without the VIN is generated. The appropriate insurance Rating Group for Comprehensive Coverage (DRG), Collision Coverage (GRG) Vehicle Safety Discount

(VSD) and Liability Rating Group (LRG) can be determined from the exhibits filed with the Bureau with the company's rate filing. The VIN is not needed and that is why it is not noted on those exhibits. For example, if you know the make, model, series and body style of a Chevy Cruz the appropriate symbol can be identified. See exhibits for Review sheets 919633933, 1288577181, 930151521, 1837517875, 1494331831, 411812517, 2113241513, 510671681, and 132486947.

- d. In three instances, the company failed to use the correct territory.

**Response:** The Companies respectfully disagree with these observations. Review sheet 1216795343, this observation arises from the inadvertent omission of a reference to Income Loss Benefits (ILB) in the header of a rate filing dated June 3, 2013. The Company's cover memorandum for this June 3, 2013 rate filing states;

*“Location Rate Factor (LRF) - With this change, we are continuing to move towards our indicated location rating factors for BIPD Liability, Income Loss Benefits, Medical Expense Benefits, Comprehensive, and Collision coverages.”*

The intent was clear that these Location Rating Factors (LRF) apply to ILB as well as Medical Expense Benefits (MEB) coverage. This omission was addressed in a subsequent rate filing. The policies reviewed during the examination illustrated a consistent application of the LIR for ILB coverage. In the alternative, the Company contends that this is a single violation. The territory application was correct, the filing neglected to include a header reference. See exhibits.

Review sheets 498271739 and 147841029 the correct rating factor was used. See exhibits.

- e. In 52 instances, the company failed to sue the correct tier eligibility criteria. **Response:** The Companies respectfully disagree with these observations. The documentation previously provided supports that the rating of the vehicles was correct. The Companies have treated the replacement versus added car situation consistently, following our standard procedures. Additionally the Companies respectfully request the examiner's CRI calculations for review sheets 1327823871, 1596206873, 133243463, 1066759511 and 1839753569. In that alternative, the Companies contends that this is a single violation. The rating the vehicles were correct. The filing did not clarify the difference between an added and replacement vehicle.

- f. In two instances, the company failed to use the correct driver classification factor. **Response:** The Companies respectfully disagree with these observations. Review sheet 336878132, should be removed as the documentation provided previously supports the driver adjustment factor for the vehicle based on the assignment of the driver to the vehicle. See exhibits.

Review sheet 955011368, the Companies request to see the examiner's calculations that will produce a base factor of other than 188.00 for car 003.

- g. In 42 instances, the company failed to follow its filed rules for calculating its Customer Rating Index (CRI) for the full renewal model. **Response:** The Companies respectfully disagree with these observations. When the

rule calculation was filed for the Full Renewal CRI Model, Step 7 on Page 1 of Exhibit 5, the  $\wedge$  operand was inadvertently omitted from the equation. The renewal business model inadvertently listed Step 7 as using the formula  $1.003(1600-(\text{Step}6))$  to determine the intermediate CRI when the formula was intended to be  $1.003\wedge(1600-(\text{Step } 6))$ . Without the  $\wedge$  a reasonable answer cannot be derived. The Company's previous and subsequent filing include the  $\wedge$ . The renewal policies reviewed during the examination illustrated a consistent application of the equation. In the alternative, the Companies respectfully request that this be reduced to one observation as inadvertant omission of the sign is a single issue.

- h. In two instances, the company failed to use proper credit score information when rating the policy. **Response:** The Companies respectfully disagree with these observations.

Review Sheets 1277165722, this car was added under policy 117- XXXX-XX effective May 31, 2012. A review of the score history for that policy shows the score that was used in rating that vehicle. Three vehicles are insured under this policy. Car 3 was added in 2012, so the early renewal model was used for the September 24, 2013 renewal term. Cars 1 and 2 were newly insured in 2011, so for the September 24, 2013 renewal term, the full renewal model was used. Credit was not ordered for any of these renewals. See exhibits.

Review sheet 2054715597, the policy had been in force since September 6, 2012 and used the early renewal model of the September 6, 2013 term. Replacing cars does not prompt a change from the renewal model to the new business model. See exhibit.

**Homeowner New Business Policies**

The Bureau reviewed 75 new business policy files. During this review, the examiners found no overcharges and undercharges totaling \$2,211.00.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia.

The company failed to provide the insured a written AUD notice. **Response:**

The Companies respectfully disagree with this observation.

Review Sheet 2107175335, the binder provided to the insured when the application was taken advises that the premium is subject to change. An AUD letter is not required when the policy is issued with a higher premium as no premium had yet been assessed. In addition, the premium difference was not based on a unilateral decision by the insurer but by a request for higher coverage amounts from the insured. Finally the Company's records indicate that they did not receive a reply to their response of October 28, 2014. See exhibits.

- (2) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the new business declarations page.

- (3) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In one instance, the company failed to use the correct tier eligibility criteria. **Response:** The Company respectfully disagrees with this observation.

Review sheet 2119611517, the Company submitted rate calculations showing a CRI factor of 1.033, while the examiners applied a calculation of 1.286. No calculation worksheet was provided by the examiners. See exhibits.

- b. In one instance, the company failed to use the correct construction type.
- (4) The examiners found one violation of § 38.2-2112 A of the Code of Virginia. The company used a binder for more than 60 days.

### **Homeowner Renewal Business Policies**

The Bureau reviewed 125 renewal business policy files. During this review, the examiners found no overcharges and undercharges totaling \$375.90.

- (1) The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to display the correct policy premium on the declarations page. **Response:** The Company respectfully disagrees with one of the two observations.

Review Sheet 341696564, the Company premium calculation matches what was generated by the Company's system. Attached is copy of the premium calculation worksheet showing the premium to be \$814.00. This renter's policy billed at \$799 on June 14, 2013 with an effective date of August 1, 2013. We were then notified that the policyholder moved to a new address on July 15, 2013. On August 26, 2013, we retroactively changed the address and removed the alarm credit effective July 15, 2013 as the new location did not have a local alarm. A charge of \$.85 was applied to the premium for the period of July 15 to August 1, 2013 plus an additional \$15.00 for the August 1, 2013 policy term.

- The exhibits include a copy of the new location change request dated July 15, 2013 and the coverage summary prepared on August 26, 2013. See exhibits.
- (2) The examiners found two violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relation to the examination. The company failed to provide a copy of the renewal business declarations page.
- (3) The examiners found 11 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In ten instances, the company failed to use the correct tier eligibility.

**Response:** The Company respectfully disagrees with the ten observations.

Review sheet 1892625844, auto screen shot verifying auto tenure of 1980 provided as an exhibit as well as CRI calculation verifying CRI of 5617. Review sheet 1078411246, auto screen shot verifying auto tenure of 1993 provided as an exhibit as well as CRI calculation verifying CRI of 5620. Review sheet 1592669460, auto screen shot verifying auto tenure of 1987 provided as an exhibit as well as CRI calculation verifying CRI of 5618. Review sheet 1800467854, auto screen shot verifying auto tenure of 1992 provided as an exhibit as well as CRI calculation verifying CRI of 5669. Review sheet 888201552, auto screen shot verifying auto tenure of 1992 provided as an exhibit as well as CRI calculation verifying CRI of 5611. Review sheet 1216451640, auto screen shot verifying auto tenure of 1967 provided as an exhibit as well as CRI calculation verifying CRI of 5643. Review sheet 1249627398, auto screen shot verifying auto tenure of 1991 provided as an exhibit as well as CRI calculation verifying CRI of



5589. Review sheet 893194132, auto screen shot verifying auto tenure of 1996 provided as an exhibit.

Review sheet 2108223692 the manual calculation confirms the rate as reflected in the supplied document. Please note the Company's records indicate that we did not receive a reply to their response of November 18, 2014. See exhibits.

Review sheet 307942982, the household did not have an auto policy and therefore was not run through the auto component of the Company's CRI model and was given a rate neutral factor of 1.00. The 0-5 year interval of "*maximum tenure for auto policies in the household*" only applies to households that actually have an auto policy.

- b. In one instance, the company failed to use the correct base and/or final rates. **Response:** Review sheet 1417548162, in their previous calculation the Company did not provide the Location Rating Factor (LRF) applicable to this policy. Attached is the premium calculation including the LRF.
- (4) The examiners found one violation of § 38.2-2126 A of the Code of Virginia. The company failed to provide the Credit Adverse Action notice to the insured. **Response:** The Companies respectfully disagrees with this observation.
- Review sheet 1887569717, the insert "Information About Your Premium" 553-3239 indicates that consumer reports may be used to determine the price the insured is charged. The December 22, 2013 declarations page includes this insert and the same was provided to the examiners on November 7, 2014. Please note our records indicate that we did not receive a reply to our response of November 7, 2014.

#### **TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

### **Company-Initiated Cancellations – Automobile Policies**

#### NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 40 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60<sup>th</sup> day of coverage in the initial policy period. During this review, the examiners found no overcharges and undercharges totaling \$108.95.

(1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with a written AUD notice. **Response:** The Company respectfully disagrees with this observation. A copy of the AUD notice was provided to the examiner on December 12, 2014 as part of our response to Review Sheet 200562127. See exhibits.

(2) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. **Response:** The Company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly. The Companies respectfully disagree with these observations.

Review sheet 15356445000, policy premium from August 19, 2013 to February 19, 2013 was \$1,055.53. The insured paid \$880.05 leaving a balance due of \$175.48. The Company cancelled the policy on October 30, 2013. The prorate from October 30, 2013 to February 19, 2014 was .606. Multiplying the prorate by the six month premium of \$1,055.53 gives an unearned premium of \$639.65.

Review sheet 462155545801, the policy was issued March 31, 2014. The policy period premium, March 31 to September 31, 2014, was \$1,107.90. The insured paid \$.10 leaving a balance of \$1,107.80. The Company cancelled effective May 9, 2014 but premium cancellation date was April 1, 2014. The prorate for unearned premium from April 1 to September 31, 2015 is 0.999. Premium for the .999 prorate is \$1,106.78. Subtracting this from \$1,107.80 leaves a balance due of \$1.02.

- (3) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured. .

NOTICE MAILED PRIOR TO THE 59<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the companies where the companies mailed the notices on or after the 60<sup>th</sup> day of coverage in the initial policy period. During this review the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2212 D of the Code of Virginia.
- a. In two instances, the company cancelled the insured's motor vehicle policy for a reason not permitted after the 59<sup>th</sup> day of coverage.
  - b. In two instances, the company cancelled the insured's motor vehicle policy due to revocation or suspension of a driver's license that did not occur during the period of time allowed by the statute.
- (2) The examiners found five violations of § 38.2-2212 E of the Code of Virginia.
- a. In three instances, the company failed to mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.

**Response:** The Companies respectfully disagree with one of the three

observations. Review Sheet 383586645 was a midterm cancellation. The cancellation was mailed December 30, 2013, with an effective date of February 15, 2014. The reason for cancellation was *"The driver's license of XXXXXXXXXXXX XXXXXXXX was suspended or revoked on November 13, 2013"*. See exhibit.

- b. In two instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide advance notice of cancellation to the lienholder.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file and SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

#### **All Other Cancellations – Automobile Policies**

##### NONPAYMENT OF THE PREMIUM

The Bureau reviewed 23 private passenger automobile cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found no overcharges and undercharges totaling \$439.17.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The

company failed to calculate the earned premium correctly. **Response:** The Company respectfully disagrees with this observation.

Review sheet 580255280, the policy was paid via the State Farm Payment Plan (SFPP). SFPP process does not immediately provide a notice of cancellation for non-payment, but follows a process in which after an initial bill is not paid a two month bill is generated. If no payment is made by the second month, SFPP send the customer a notice of cancellation and the policy is cancelled back to the original cancel date.

- (2) The examiners found three violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide advance notice of cancellation to the lienholder.

#### REQUESTED BY THE INSURED

The Bureau reviewed 22 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review the examiners found no overcharges and no undercharges.

The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to retain evidence of the insured's request for cancellation of the policy. **Response:** The Companies respectfully disagree with the observations for review sheets 1567210559, 1089512077, 449653863, 143087113 and 1916961509. The Companies were provided cancellation requests received by their agents which reflect the customers' cancellation requests on these policies. See exhibits. The policy

contract language does not require that the Company confirm the cancellation in writing nor does it require that the policyholder make a written request.

State Farm's Personal Auto Policy 6946A.3 AMENDMENT OF POLICY PROVISIONS – VIRGINIA states under; *“VI. Part F – General Provisions*  
*1. The named insured shown in the Declarations, or his duly constituted attorney-in-fact, may cancel by: a. Returning this Policy to us; or b. Giving us advance notice of the date cancellation is to take effect. We may confirm the cancellation in writing.”*

The Companies have provided cancellation requests received by its agents, which reflect the cancellation requests on these policies. The companies does confirm all such requests in writing via the notice of cancellation.

### **Rejected Applications – Automobile Policies**

The Bureau reviewed seven automobile insurance applications for which the companies declined to issue a policy.

The examiners found four violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the applicant with written notice of an AUD.

**Response:** The Companies respectfully disagree with one of the four observations.

Review sheet 532850581, a cancellation letter was not sent as the Company received all necessary information from the agent to continue the coverage. Household notes from the policy, which were sent with the Company's response of October 14, 2014, document that coverage was continued. Since there was no adverse action, an AUD letter was not required. See exhibits.

### **Company-Initiated Non-renewals – Automobile Policies**

The Bureau reviewed six automobile renewals that were initiated by the companies.

The examiners found no violations in this area.

### **Company-Initiated Cancellations – Homeowner Policies**

#### NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed five homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90<sup>th</sup> day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$430.85 and no undercharges. The net amount that should be refunded to the insureds is \$430.25 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The Company failed to use the rules and/or rates on file with the Bureau. **Response:** The company failed to calculate the earned premium correctly. The Company respectfully disagrees with this observation.  
  
Review sheet 2076880993, the earned premium worksheet is included in exhibits showing premium paid, premium earned and unearned premium returned.
- (2) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured. **Response:** The Company respectfully disagrees with this observation.  
  
Review sheet 1093409939, a legible proof of mailing stamp from the Post Office is included in the exhibits.
- (3) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the

lienholder. **Response:** The Company respectfully disagrees with this observation.

Review Sheet 1365472183, a legible proof of mailing stamp from the Post Office is included in the exhibits.

NOTICE MAILED AFTER TO THE 89<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 15 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found overcharges totaling \$263.06 and undercharges totaling \$88.21. The net amount that should be refunded to insureds is \$263.06 plus six percent (6%) simple interest.

- (1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly. **Response:** The Company respectfully disagrees with one of the four observations. The examiners are not contesting the calculation of the return premium, but that it was sent to the mortgagee.
- (2) The examiners found three violations of § 38.2-2113 A of the Code of Virginia. The Company failed to obtain proof of mailing the cancellation notice to the insured.

**Response:** The Company respectfully disagrees with these observations.

Review sheets 1016090906, 603278647 and 603278647, legible proof of mailing stamps from the post office are included as exhibits.

- (3) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The Company failed to obtain valid proof of mailing the cancellation notice to the



lienholder. **Response:** The Company respectfully disagrees with these observations.

Review sheet 249396076, two mortgagees are on the same risk, legible proof of mailing stamps from the Post Office are included as exhibits.

- (4) The examiners found 12 violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling because of foreclosure and failed to obtain evidence of the sale of the property by a trustee under a deed of trust prior to the canceling the policy. **Response:** The Company respectfully disagrees with these observations. The statute does not specifically require insurers to obtain evidence of sale of the property by a trustee under a deed of trust. It only states that this should be the reason for the action. Given these factors reliance upon the documentation provided by the mortgagee confirming that the foreclosure sale has taken place is sufficient to initiate cancellation. Please note given 30 day advance notice of cancellation the policyholder has ample opportunity to contest the cancellation. After the cancellation has occurred, the policyholder still has the opportunity to have the policy reinstated without time out of force. The observation expresses a preference for the development of additional documentation for cancellations and as such it is not a violation of the statute and the Company respectfully requests that it be withdrawn.
- (5) The examiners found 11 violations of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

#### **All Other Cancellations – Homeowner Policies**

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 20 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review the examiners found no overcharges and no undercharges.

- (1) The examiners found two violations of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found one violation of § 38.2-2114 A of the Code of the Virginia. The company failed to send the insured written notice of cancellation of his owner-occupied dwelling policy.

REQUESTED BY THE INSURED

The Bureau reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review the examiners found no overcharges and no undercharges.

The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to retain evidence of the insured's request for cancellation of the policy. **Response:** The Company respectfully disagrees with these observations.

Review sheets 1985222205 and 1729186543, under the policy contract Section 1 and 2 Conditions, 5a *"You may cancel the policy at any time by notifying us in writing of the date cancellation is to take effect. We may waive the requirement that the notice be in writing by confirming the date and time of cancellation to you*

*in writing.*” The agent received a verbal request to the Company requesting cancellation from the insured. The agent submitted this request to the Company. The Company processed the cancellation request and set confirmation to the insured in writing. A copy of the cancellation request and acknowledgment of the cancellation request are included in the exhibits. Please note the Company’s records indicate that their responses of October 14, 2014 and November 6, 2014 respectively were not acknowledged.

### **Rejected Applications – Homeowners Policies**

The Bureau reviewed nine homeowner insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

### **Company-Initiated Non-renewals – Homeowners Policies**

The Bureau reviewed nine homeowner insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

**CLAIMS REVIEW****Private Passenger Automobile Claims**

The examiners reviewed 148 automobile claims for the period of July 1, 2013 through June 30, 2014. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$25.00 and underpayments totaling \$13,400.22. The net amount that should be paid to claimants is \$13,400.22 plus six percent (6%) simple interest.

- (1) The examiners found 23 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice. **Response:** The Companies respectfully disagree with the twelve of the twenty three observation.

Review Sheet 1995276245, the handling of the total loss was ongoing at the time of the review. The vehicle was subject to a bankruptcy proceeding and was held by the bankruptcy department of the lienholder. Upon receipt of the title on June 6, 2014, it was discovered there was an undisclosed co-owner listed on the title. The Company attempted to contact the co-owner to include obtaining a Power of Attorney, via mail and telephone, but was unsuccessful. Ultimately the Company obtained a branded title using the Virginia Affidavit in Lieu of Title Certificate and sold the salvage on May 8, 2015. The elapsed time to obtain the title was attributable to the bankruptcy and undisclosed co-owner, not the Company and as such this observation should be removed. This observation appears to be duplicative of review sheet 14134651. They both arise from the same file and

facts, obtaining the title. In each instance the examiners final reply notes that there was more than sufficient time to obtain a title.

Review sheet 1557768477, the damage to the sunroof was not visible. The Company advised the insured that in order for us to determine if the damage to her sunroof was a covered loss, she would need to have a shop perform a diagnostic test for the water leak. She advised she could not afford the test. The Company followed up with the insured on October 17, 2014. She has not responded. Since there was no additional activity to document the observation should be removed. The Company's records indicate that we did not receive a reply to their response of October 14, 2014. See exhibits.

Review sheet 1353966621, the Company spoke to the claimant on July 26, 2013, and explained to claimant her repair options. A Select Service assignment was sent to the shop of her choice and a rental reservation was set up through the Company's system both on July 26, 2013. The Company has never heard back from the claimant, the repair facility, or the rental company. Because an estimate was never prepared nor submitted for consideration, there was no further follow-up with the claimant. There was no denial of coverage or claimant inquiry that required a response. The file was closed for inactivity. Since there was no additional activity to document the observation should be removed.

Review sheet 180974869, there was no indication that the tire was related to the vandalism loss and the insured did not pursue a claim for the tire. Although the estimator omitted the seat damage in their original estimate, a supplemental estimate was completed five days later in which the seats were included in the cost of repairs. The insured would have exhausted rental based on the original estimate which include over 168 hours of labor.

Review sheet 1923571703, the Company respectfully disagrees with the alleged findings. The lien was discussed and is documented in the file notes. The company negotiated settlement on the lien March 12, 2014. We received notice of the lien on March 17, 2014. We advised the claimant that we could deduct the lien amount out of the negotiated settlement on March 24, 2014

Review sheet 1095015361, the vehicle was determined to be a total loss. The value was \$5,750.00 less \$350.00 in prior damages for an ACV of \$5,400.00. Tax and fees added \$228.00 making the net ACV \$5,628.00. The insured opted to owner retain the vehicle and the salvage bid was \$919.00.  $\$5,628.00 - 919.00 - 200.00 \text{ ded (UPD)} = \$4,509.00$  which is the draft issued to the insured on 9/30/2013 (draft number 107885769J). Additionally the company paid \$125.00 in towing fees and \$894.59 in rental coverage. The file note stating 'took \$350 ded' appears to be a log entry error and was never acted on. All file actions reflect a \$250.00 deductible was reduced to \$200.00 for UPD as originally no other pursuable party was known. In October 2013, pursuable target information was developed as well as a carrier for the other party. Subrogation was submitted to G for \$5,603.59 ( $\$4,509.00 \text{ paid to insured} + 200.00 \text{ UPD ded} + 894.59 \text{ rental}$ ). The \$125.00 tow bill was not included in the original subrogation demand as it was not paid until after the subrogation process had started. All subrogation negotiation occurred in the Arbitration Forums e-subro hub system. G agreed to a payment of \$4,615.97 due to a disagreement over the rental incurred, as well as their unwillingness to accept the documentation regarding the tow bill. Attempts to amicably resolve with negotiation were attempted but unsuccessful and it was deemed not viable to escalate to arbitration over the disagreement. G

paid the subrogation on December 13, 2013 and we reimbursed the insured's out-of-pocket deductible of \$200.00 on December 17, 2013.

Review sheet 1303747839, the conversation held with the injured insured on September 24, 2014 was with the adjuster that was handling the physical damage claim and the liability investigation. Our adjuster handling the first party medical claim made contact on September 25, 2014, explained the MEB coverage and the policy limit was documented in the file notes. A follow-up letter was sent explaining the MEB coverage. See exhibit. Additionally we spoke directly to the injured insured on September 27, 2014 about her injuries. The file note for this conversation notes "MOI" mechanics of injury.

Review sheet 1168051265, the Company discussed repair options with the insured on January 28, 2014 and again on February 10, 2014. The insured advised that she would like to use the Select Service program and would call back after she had selected a shop. The insured never called back. There was no denial of coverage or claimant inquiry that required a response. The file was closed for inactivity. Since there was no additional activity to document the observation should be removed. Please cite statutory authority for closing letter.

Review sheet 1360105327, the insured advised the Company that they would contact us when they were ready to have their vehicle inspected and repaired. The insured contacted us on August 28, 2014 and we completed the estimate on September 12, 2014. The delay was at the insured's request to contact us when they were ready. The July 28, 2014 log note states the insured is going through G for the repair from the XXXXXXX61 claim and wanted the XXXXXXX81 reopened. See exhibit.

Review sheet 1733260589, the Company sent a letter to the insured on June 3, 2014, outlining the settlement offer. On June 10, 2014, the lien payoff amount and letter were sent to the lienholder. See exhibit. Although the June 13, 2014 letter referenced by the examiner was sent in error, it does not negate the prior letter. This simple error does not prevent pertinent events in the file from being reconstructed. See exhibits.

Review sheet 73659741, the file was referred to a collection agency on July 25, 2014. On August 11, 2014, the company was advised that the case was cleared for prosecution on July 24, 2014. As of July 24, 2014, neither a case number nor prosecutor had been assigned. On January 1, 2015, the Company provided, at the prosecutor's request, the necessary documentation to support our restitution demand. As of November 24, 2015, a court date has not been provided. See exhibits.

Review sheet 1642845943, the claim file note of July 1, 2014 confirms that the Company had spoken to the rental car company in question and the Company had not received the rental bill. The claim carrier paid this bill. Verbal confirmation of tortfeasors liability limit was made and documented in file on June 25, 2014. There is no legal requirement to obtain a written verification of primary liability limits.

Review sheet 86903523 should be withdrawn as it appears to be a duplication with 869308486 cited in 12 below. Both observations involve the same file and issue, whether or not there is sufficient documentation in the file to reconstruct events.

- (2) The Examiners found ten violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission,



benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In one instance, the company failed to properly inform an insured of his collision or Other Than Collision (OTC) deductible.

**Response:** Review sheet 1628425255, the insured vehicle was a total loss with \$350.00 in prior damage and a \$200.00 deductible. Both of which were properly applied to the total loss settlement. The company successfully pursued subrogation, recovered the \$200.00 deductible which was refunded to the insured. The \$350.00 deductible reference was a log note entry that was never acted on or conveyed to the insured. 14 VAC 5-400-40 requires that first party claimant to be misled. That did not occur here as the \$350.00 deductible was not conveyed to the insured. Obscure, conceal or omit requires either intentional action or neglect neither of which occurred here. This was a simple error confined to an internal log note that was never conveyed to the insured and as such the company respectfully request that this observation be removed. Please see exhibit for total loss settlement letter of September 30, 2013 to insured that lists a \$200.00 deductible.

- b. In one instance, the company failed to properly inform an insured of his Medical Expense Benefits coverage.
- c. In one instance, the company failed to inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
- d. In seven instances, the company failed to inform an insured of the

benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage (UM) when the file indicated the coverage was applicable to the loss. **Response:** The Company respectfully disagrees with four of the seven observations:

Review sheet 1426168427 a review of the file indicates that the Company is awaiting contact from the injured party to discuss the loss, his possible injuries, and the applicable coverage limits. Additional attempts to contact the injured party to investigate the Medical Expense Benefits claim were made. The Company followed up with the injured party on November 14, 2014, and left a message regarding coverage and a need for an itemized bill. On August 18, 2015, the Company reviewed documentation from the insured's health insurer to recover an ER bill paid by them. The bill was paid that same day. To the extent this observation is duplicative of review sheet 681412149 it should be removed. See exhibit.

Review sheet 2050268506, primary transportation expense was explained to and utilized by the insured. The limits of that coverage were sufficient. An explanation of excess transportation expense was not necessary as there was no claim under this coverage. The rental company was paid via a direct billing on June 19, 2014.

Review sheet 1230885802, the investigation which included a statement from the insured, independent witness, and a discussion with the police officer found no evidence that unknown vehicle encroached across the double yellow line as it was meeting the driver of our insured vehicle. The examiners observations for review sheet 48949423, see 7a below, are identical to their observations for the same claim. The examiners

disagreed with the Company's liability decision. The Company did not pay or offer UM benefits as the Company determined that they were not applicable. The action flows from the decision. Fining the same action multiple times is duplicative .

Review sheet 846191852 should be withdrawn as it appears to be duplicative of review sheets 1415283602, see 11 below, and 1765061461, see 12 below. The observations flow from the same decision. All three sheets deal with the same claim file and the same issue whether the company's initial decision to request a police report created an unnecessary delay in the investigation and settlement of the claim.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonable suggested a response was expected. .
- (4) The examiners found two violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (5) The examiners found five violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing and/or failed to keep a copy of the written denial in the claim file. **Response:** The Company respectfully disagrees with the observations for two of the five observations.

Review sheet 540573335, the fourth paragraph of the company's letter of July 13, 2013, advises the insured of their responsibility for vehicle storage charges incurred after July 17, 2013. There is no affirmative legal duty to negotiate absent follow up by the insured and as such the notice provided by the letter was

sufficient and the Company respectfully request that this observation be removed.

Review sheet 1788408431 should be withdrawn as it appears duplicative of review sheet 1627098190, see 7f below. Both address the same claim and the same issue, failure to offer collision damage waiver.

- (6) The examiners found five violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim. **Response:** The Company respectfully disagrees with inclusion of review sheet 1007235670. The Company determined that the glass and molding was covered and paid the claim accordingly. Since there was no denial, no explanation of the basis for a denial is required. As our unanswered response to the examiners of December 9, 2014 indicated.
- (7) The examiners found 18 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. **Response:** The Company respectfully disagrees with ten of the seventeen instances cited. The Company were unable to locate the eighteenth instance that was referenced in the preliminary report. The Company respectfully request the eighteenth alleged violation be identified so that the Company may appropriately respond.
- a. In three instances, the company failed to pay the insured's Uninsured Motorists Property Damage (UMPD) claim properly when Collision and/or UMPD coverages applied to the claim. **Response:** The Company respectfully disagree with one of the three instances cited. The examiners observations for review sheet 489494231 are identical to their

observations for the same claim under review sheet 1230885802, see 1 above. The examiners disagreed with the Company's liability decision. The Company did not pay or offer UM benefits as the Company determined that they were not applicable.

- b. In two instances, the company failed to pay the insured's rental benefits, available under the UMPD coverage and/or Underinsured Motorists (UIM) coverage. **Response:** The Company respectfully disagrees for review sheet 985697060, Collision Damage Waiver was explained to the insured on February 10, 2014. On three separate occasions the claim log notes that the company explained rental coverage to the insured. This would have included advising the insured that the Collision Damage Waiver was not a covered expense of the rental. See exhibits.

Review sheet 695222240, on 6/27/14, the policyholder advised us they did not use rental. See exhibits.

- c. In three instances, the company failed to pay the proper sales and use tax, title fee, and license fee on first-party total loss settlements. **Response:** The Company respectfully disagree with two of the three instances.

Review sheet 2120669902, the initial NADA appraisal obtained October 7, 2014 incorrectly used the July 2014 guide. On October 7, 2014, and prior to any offer being made to the insured, the correct April 2014 guide was used to obtain an NADA appraisal. The Company's response to the examiner of November 13, 2014 stated same. The examiners reply of December 20, 2014, incorrectly stated that the company's response noted ". . . that the original NADA was from April and should have been

from July. The company has not explained why July would be more appropriate than April.” Although the wrong value was initially referenced in the file the error was corrected before contacting the insured. Given the mischaracterization of the company’s response, the correction of the Company’s error before it was conveyed to the insured, as well as the correct value, offer, and payment being made to the insured this observation should be removed.

Review sheet PPA721980735, the examiner noted that there was no documentation in the file that the insured accepted the Company’s offer \$1,705.00. The insured accepted the Company’s draft and signed the title over to the company. The Company’s file notes indicate that we discussed the total loss offer with the insured on December 4, 2013 with an accompanying total loss settlement letter. The above facts are sufficient to demonstrate acceptance. See exhibits.

- d. In three instances, the company failed to pay the insured’s Medical Expense Benefits claim properly. **Response:** The Company respectfully disagrees with two of the three instances cited.

Review sheet 1879388563, the company’s February 19, 2015 response to the examiners request of October 13, 2015 was not acknowledged. We paid \$198.00 of the \$248.00 billed. The remaining \$50.00 was not paid as it was unrelated to the injury sustained in the loss. See exhibit.

Review sheet A68141214, the injured party presented a health insurance explanation of benefits for treatment that may be related to the accident. No medical bill was included. The Company followed up with the injured

party on November 13, 2014 and left a message regarding coverage and a need for an itemized bill. On August 18, 2015, the Company reviewed documentation from the insured's health insurer to recover an ER bill paid by them. The bill was paid that same day. See exhibit.

- e. In five instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage. **Response:** The Company disagrees with two of the five observations.

Review sheet 220327016, on September 27, 2013, the Company advised the insured that the Company authorized seven days of rental. She asked if she could pick up the rental car on September 28, 2013. The last day of the authorized rental was October 4, 2013. When the bill arrived, the insured had dropped the rental off on October 5, 2013 and the insured paid for one extra day. The Company paid for the seven authorized days. The policy states; *"Our payment will be limited to that period of time reasonably required to repair or replace the "your covered auto" or the "non-owned auto".* The claim was paid in accordance with the Company's policy provisions.

Review sheet 1256425160, the Company's file notes document that the Company discussed rental and CDW with the insured on May 24, 2014.

- f. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other Than Collision coverage.

- These findings occurred with such frequency as to indicate a general business practice.
- (8) The examiners found two violations of 14 VAC 5-400-80 D.
- a. In one instance, the company failed to provide a copy of the estimate to the insured.
  - b. In one instance, the company failed to prepare an estimate in an amount for which it was reasonably expected that the damage could be satisfactorily repaired. **Response:** The Company respectfully disagrees with alleged findings for review sheet 1534720138. The Company made a business decision to total the vehicle. The Virginia Personal Auto Policy, 6946A Amendment of Policy Provisions – *“Payment of Loss – we may pay for loss in money or repair or replace the damaged or stolen property.”* We determined that the vehicle could not be satisfactorily repaired and therefore an estimate was not necessary. The claim was paid in compliance with the policy.
- (9) The examiners found two violations of 14 VAC 5-400-80 E. The company failed to document all information relating to the application of betterment or depreciation in the claim file.
- (10) The examiners found three violations of § 38.2-236 A of the Code of Virginia.
- a. In one instance, the company failed to notify the claimant within five days when the company issued a settlement payment or offer of \$5,000.00 or greater to the claimant’s attorney or other representative.
  - b. In two instances, the company failed to provide a copy of the Notification of Settlement Payment to the claimant’s attorney or other representative.



- (11) The examiners found three violations of § 38.2-510 A 1 of the Code of Virginia. The Company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. **Response:** The Company respectfully disagrees with the three observations.

Review sheet 1415283602, the Company did not require a police report based upon policy provisions. The Company requested the police report because of information on a potential insured vehicle that may be on the police report. If the police identified a vehicle and it was insured, then UM coverage would not apply. Ultimately the Company extended UM coverage without the police report as there was a delay in the police department sending the report to us. This observation should be withdrawn as it is duplicative of review sheets 1765061461, see 13 below, and 846191852.see 1 above. They arise from the same file and issues, whether the Company's original request for a police report unnecessary delayed the investigation and settlement of the claim. Secondly, 1415283602 appears duplicative of 846191852. In the former, the examiners contend that the Company misrepresented policy provisions, in the latter the examiners allege that the Company concealed benefits. Both observations arose from the same file, facts, and issues.

- (12) The examiners found seven violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies. **Response:** The Company respectfully disagree with three of the seven observations.

Review sheet 869308486, the liability decision was made based on statements taken from all parties. See exhibits. The liability decision was made on February 10, 2014, prior to the determination to deny coverage which was decided on

February 25, 2014. In addition, review sheet 869308486 should be withdrawn as it appears to be a duplication with 86903523 cited in 1 above. Both observations involve the same file and issue, whether or not there is sufficient documentation in the file to reconstruct events.

Review sheet 750516277, the other carrier indicated in writing that there was no coverage under their policy. The Company then extended uninsured motorist coverage. The Bureau is challenging the coverage decision of the claimant's carrier that triggered the uninsured claim. Under the Company's policy contract the claim qualifies for uninsured motorist coverage when the insurer for a bodily injury liability policy that applies at the time of the loss denies coverage. The Company documented that denial and the extension of coverage is appropriate.

Review sheet 1415194899, endorsement 6230F.4 on this policy provides coverage for expenses incurred as a result of loss to a non-owned car. The described vehicle does not have to be disabled for non-owned car coverage to apply. A non-owned car can also be an auto not owned, furnished, or available for the insured's regular use. The benefits paid under R coverage were not for reimbursement of the cost of the rental but rather for charges the insured was legally liable for, i.e., loss of use, etc. as a result of damage to the non-owned car.

- (13) The examiners found six violations of § 38.2-510 A 6 of the Code of Virginia. The Company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of the claim in which liability was reasonably clear.

**Response:** The Companies respectfully disagree with five of the six instances cited.

Review sheet 1945082118, the company continued to pursue receipt of the vehicle title from the lienholder. The insured's settlement was not impacted by the delay. The loss occurred on January 1, 2014 and paid on January 31, 2014. The title was received on November 3, 2014. The file was sent to the Subrogation Department on January 23, 2015 after the salvage was sold. The company mailed the insured their deductible on April 6, 2015. Ordering a duplicate title without a release of lien would be fruitless. Reporting a title stolen when it is in the lienholders possession could constitute providing untruthful information to a government agency. The Company made a good faith effort to obtain the title and therefore 38.2 510 A 6 does not apply.

Review sheet 1765061461, the Company made a good faith effort to obtain a police report to identify an insured vehicle. After the police department advised a report would not be issued for 6 more weeks we decided to settle the claim. The Company made a good faith effort to identify responsible parties. When it became clear that that effort would impact a prompt settlement of the claim, we decided to pay the claim. This observation appears duplicative of review sheets 1415283602, see 12 above and 846191852, see 1 above. All of the observations arise from the same file and the same issue, whether the Company's initial request for a police report unnecessarily delayed the investigation or settlement of the claim.

Review sheet 1415627669, the Company agrees with the observation regarding the payment for handrails owed to the injured party. Direction to pay this expense was given on May 13, 2014 but no payment was issued. The Company respectfully disagrees with the observation regarding valid AOBs in file. In the Company's initial conversation with the injured party they requested that we pay

medical providers directly for their medical expenses and the company did so for convenience of the injured party.

Review sheet 1415028337, the Company's file notes document that they discussed settlement with the insured on April 7, 2014. During that discussion, the insured said he did not have time to talk to us and would call us back. During that same discussion the Company authorized the insured's rental to April 14, 2014. The insured did not call us back until April 24th at which time the company settled the total loss with the insured and his lienholder.

Review sheet 583230132, damages (i.e. whether the repair facility's charges were reasonable) was the issue on this claim. Good faith efforts were made to resolve the supplement which was finally resolved on June 27, 2014 with the repair facility, ten days after the supplement request was made. The Company made a good faith effort to resolve the supplement charges in a reasonable time period and as such this observation should be withdrawn.

- (14) The examiners found one violation of § 38.2-510 A 14. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable for the denial of a claim or offer of a compromise settlement. The company failed to properly pay the claimant's collision damage waiver charges.
- (15) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In two instances, the company failed to include the lienholder on the check.

**Response:** The Company respectfully disagrees with the alleged findings that we failed to include the lienholder on the check.

Review sheet 19257694, the Company has a business practice not to include the lienholder on draft amounts up to \$5,000. The draft issued was for \$300. The Company accepted this risk in an effort to provide better customer service. The Company does honor the obligations to the lienholder under the contract when appropriate.

Review sheet 800572346, the exclusion of the lienholder from the check was appropriate as their lien was released on August 26, 2013, eight months prior to the date of loss. See exhibits.

- b. In one instance, the company paid an insured more than the insured was entitled to receive under the terms of the policy.
- c. In one instance, the company failed to pay the UM claim under the correct coverage.
- d. In one instance, the company issued payments under the incorrect coverage.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as violations of other Virginia laws.

The examiners found two violations of § 46.2-624 of the Code of Virginia. The company failed to notify the Virginia Department of Motor Vehicles when payment was made in excess of \$3,500.00 on a water-damaged vehicle.

**Response:** The Company respectfully disagrees with one of the two observations on review sheet 1413234651. The Company's handling of this total loss was not complete at the time of the review. Specifically, the salvage title had not yet been received. Since the time of the review, we have received the

properly branded salvage title in accordance with 46.2-624. In addition this review should be withdrawn as it appears to be a duplication with review sheet 1995276245 cited in 1 above. Both observations involve the same file and issue, obtaining the title. In each instance the examiners final reply notes that there was more than sufficient time to obtain a title. See exhibits.

### **Homeowner Claims**

The examiners reviewed 83 homeowner claims for the period of July 1, 2013 through June 30, 2014. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$11,419.98 and underpayments totaling \$26,285.89. The net amount that should be paid to claimants is \$26,285.89 plus six percent (6%) simple interest.

- (1) The examiners found five violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim. **Response:** The Company respectfully requests that the five observations be removed. Review sheet 670305294 the claim file indicates that the general contractor was paid overhead and profit that when added to the flooring invoice equals \$179,997.24. See exhibits. In addition the second observation noted for review sheet 6703305294 is duplicative of review sheet 161552870 cited in 6a below. Both arise from the same claim and the same issue the compensability of security deposits under Additional Living Expenses.

Review sheet 1518811124 in the absence of any specific legal requirement to procure a copy of the condominium association bylaws a letter from the Association is sufficient documentation to reconstruct events.

Review sheet 1518847734 as noted in the file, the Company's analysis and evaluation of the clam for lost wages was based upon direct discussions with the claimant and the submitted wage statement. See exhibit for documentation that shows a base wage rate of \$8.00 and an eight hour absence. The claimant knew the amount claimed and the settlement amount. The typographical error in the cover letter did not negate this claim file information. It did not cloud the file so events/dates could not be reconstructed. Review sheet 1231945182 the file notes have sufficient information to support reflecting rates, events and dates to reconstruct events. See exhibits. In the absence of any specific statutory requirement for an invoice this documentation is sufficient.

(2) The examiners found two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

a. In one instance, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy. **Response:** The Company respectfully disagrees with the examiners inclusion of review sheet 1578346066 as duplicative of 589221159. Both of these observations arise from the same claim and address the same issue, the compensability of security expenses under Additional Living Expenses for security deposits. See 6a below.

- b. In one instance, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy. **Response:** The Company requests that this observation be withdrawn. Review sheet 1013296223, at the time of the examination this was an open claim file and the insured had not submitted their contents inventory. This inventory was received on September 4, 2015. See exhibits.
- (3) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing and/or failed to keep a copy of the written denial in the claim file. **Response:** The Company respectfully requests that two of the four observations be withdrawn.
- Review sheet 470784576, the passport was 20 years old. After 15 years the passport ceases to be a document and has no monetary value. This information was discussed with the insured's public adjuster and noted on the inventory sheet as \$0 value. See exhibits.
- Review sheet 73394948, prior to submission of the ALE the claim representative discussed what was reimbursable and for what time period. The Company did not deny coverage, the Company simply paid what was compensable.
- (4) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In two instances, the company failed to pay the claim properly under the insured's Dwelling Replacement Cost coverage.



**Response:** Review sheet 94080584, settlement was based on an invoice supplied for tree services covered under the policy. See exhibit.

- b. In two instances, the company failed to pay the claim properly under the insured's Additional Living Expenses coverage.

**Response:** Review sheet 1578346066, the Company contacted the insured to determine if there were any ALE claimed or incurred. The insured advised there were no additional expenses. See exhibits.

Review sheet 115512189 Security deposits in Virginia, § 55-248.4, are refundable. Deposits are only forfeited if the depositor/renter/lessor fails to perform under the contract. It is a contingent contractual obligation between the lessor and lessee of which the company is not a party. If the depositor/renter/insured performs under the contract the deposit is refunded to them. They have not incurred expenses. Advances are provided to insureds to assist them in replacing items, rent or repair after a loss. This advance is provided with the understanding that it will be applied to future covered damages. The Company's conversations with the insured documented in the file reflect the coverage to which the advance will be applied. How the insured uses the advance is their decision. Finally, review sheet 115512189 is duplicative of review sheet 1412946680 in 6a below. They arise from the same claim and the same issue, the compensability of security deposits under Additional Living Expenses.

- (5) The examiners found two violations of § 38.2-236 B of the Code of Virginia. The company failed to provide a Notice of Settlement Payment to the claimant that complies with the language required by the statute.

(6) The examiners found 23 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. **Response:** The Company respectfully requests that these observations be withdrawn.

a. In four instances, the company failed to properly represent the Additional Living Expense provisions of the policy.

**Response:** Review Sheet 144851225 ALE was discussed with the insured. Insured agreed home was inhabitable. The Company advised that it would take the medical condition of the inhabitants into consideration. Insured noted they would be okay and declined. See exhibits. ALE was solicited, reviewed and discussed. This is not a misrepresentation by an insurer, but a declination by an insured and this observation should be withdrawn accordingly. Review sheet 141383371 inclusion here appears to be misplaced as it addresses the time period to replace personal property items not ALE. The Company respectfully disagree with the examiners inclusion of review sheet of 589221159 as duplicative of 581578346066 cited in 2a above. Both of these observations arise from the same claim and address the same issue the compensability of security expenses under Additional Living Expenses for security deposits. See 2a above. In addition review sheet 1412946680 appears to be duplicative of review sheet 155112189 cited in 2a above. They arise from the same claim and the same issue, the compensability of security deposits under Additional Living Expenses.

- b. In 19 instances, the company failed to properly represent the replacement cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found one violation of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

**Response:** Review sheet 1413388336, in the absence of any specific legal requirement to procure a copy of the condo association contract prior to settlement and given that the damage sustained was minor and would not pierce the large deductible of the condo master policy the company's investigation of this claim was appropriate.

- (9) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear. **Response:** The Company respectfully request that one of the two observations be withdrawn.

Review sheet 1762640912, the information provided by the insured generated the need for additional investigation. Lack of a response from the insured extended the time necessary to investigate and settle the claim. The Company requested information and clarification on numerous occasions. The claim was settled after the information was provided. See exhibits.

- (10) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

(11) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company failed to obtain a police report when the policy requires a report for payment under the policy. .
- b. In two instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy. **Response:** The Company respectfully disagrees with one of the observations.  
Review Sheet 1413233772 coverage was extended by the adjuster during phone conversations with the insured and Mitigation Company. The follow-up telephone discussions resolved the questions generated by the conversations with mitigation firm, and coverage was properly extended. Insured acted upon this coverage decision and incurred costs. The inspection determined a covered event occurred. However, additional damage from a separate event was noted during the Inspection that overlapped the same areas. Based upon the telephone coverage determination and extension of coverage, settlement was proper. See exhibits.

#### **REVIEW OF FORMS**

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal

business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

### **Automobile Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 40 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found two violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted by the Bureau.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

### **Homeowner Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 64 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

### **REVIEW OF THE POLICY ISSUANCE PROCESS**

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies

were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

### **Automobile Policies**

The companies provided six new business policies mailed on the following dates: July 17 and 18, 2014. In addition, the companies provided six renewal business policies mailed on the following dates: July 21 and 22, 2014.

#### NEW BUSINESS POLICIES

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The Company failed to specify accurate information in the policy as required by the statute. The company failed to attach all forms applicable to the policy.
- Response:** The companies respectfully disagrees with all five observations. As noted in the company's responses to review sheets 951638081, 322308624, 1549634287, 1564720128, and 1265793077 the companies use an endorsement booklet 699AG.1. The first page of the endorsement booklet lists the endorsement number and title for nine endorsements. The text of the endorsements are included by endorsement number and title in the body of the booklet. A note at the bottom of the first page of the booklet states: "*Please check your Declarations to determine which of the endorsements listed above apply to your policy.*" None of these endorsements were indicated on the

declarations pages of the above referenced review sheets as the policyholders had not selected any of the endorsements included in the endorsement booklet. The companies discontinued the endorsement booklet in April of 2015 and moved to individual endorsements.

- (2) The examiners found six violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by this statute. The companies disagree with these observations. Review sheets 509748132, 254926207, 1404917350, 956565324, 1156057905 and 20230390. The Notice of Information Collection and Disclosure Practices is part of the binder that the agent provides to the applicant when the application is completed. The paragraph is referenced: "Notice of information collection practices for personal, family, or household insurance transactions."

In producing material in response to an initial production request, the companies inadvertently failed to include the binder. The companies supplemented their production on September 17, 2014. When those items were produced during the examination does not negate their existence or the companies' compliance § 38.2 604 A. This statute addresses supplying Notice of Information Collection and Disclosure Practices to applicants and policyholders. This notice was provided to customers. The Bureau's reliance upon the statute here as the basis of an observation is misplaced as the statute addresses consumer notification not production responses.

- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by this statute. **Response:** The companies respectfully disagree with these observations. Review sheets 944085973,

1652291244, 278408209, 79458213, 773324188, and 2092965695. The Notice of Financial Information Collection and Disclosure Practices is a part of the binder that the agent provides to the applicant when the application was completed. The paragraph is referenced: "Notice of information collection practices for personal, family, or household insurance transactions."

In producing material in response to the initial production request, the companies inadvertently failed to include the binder. The companies supplemented its production on September 17, 2014. When those items are produced during the examination does not negate their existence or the companies' compliance with § 38.2 604.1. This statute addresses supplying Notice of Financial Information Collection and Disclosure Practices to applicants and policyholders. This notice was provided to customers. The Bureau's reliance upon the statute here as the basis of an observation is misplaced as the statute cited addresses consumer notification not production responses. See exhibits.

- (4) The examiners found five violations of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Credit Score Disclosure notice at the time of application. **Response:** The companies respectfully disagree with these observations. Review sheets 26680261, 295109884, 185076414, 5143995, and 1587025940. The Credit Score Disclosure notice is part of the binder that the agent provides to the applicant when the application was completed. The paragraph is referenced: "In connection with this application for insurance, State Farm may obtain an insurance score for you or a member of your household."

In producing materials in response to an initial production request, the companies inadvertently failed to include the binder in the original production. The companies supplemented its production on September 17, 2014. When those



items were produced during the examination does not negate their existence or the companies' compliance 38.2- 2234 A. This statute addresses supplying Notice of Insurance Credit Score Disclosure to applicants. This notice was provided to applicants. The Bureau's reliance upon the statute here as the basis of these observations is misplaced as the statute cited addresses consumer notification not production responses. See exhibits.

RENEWAL BUSINESS POLICIES

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to list all forms applicable to the policy on the declarations page. **Response:** The companies are updating their systems programing so that superseded endorsements are removed from the customer's declaration page.
- (2) The examiners found six violations of § 38.2-604 A of the Code of Virginia. The

Company failed to provide the Notice of Information Collection and Disclosure Practices as required by the statute

- (3) The examiners found six violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the statute.

### **Homeowner Policies**

The company provided three new business policies mailed July 15, 2014. In addition, the company provided three renewal business policies mailed on July 15, 2014.

#### NEW BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to attach all forms applicable to the policy.  
**Response:** The Company respectfully disagrees with these observations. Review sheets 1306322735, 209359380 and 275862923, during the initial production the company only produced the cover page to the policy form FP7151.5. The entire policy booklet which includes Option JF, Jewelry and Furs endorsement, Option ID and Increased dwelling limits is included in the exhibits.
- (2) The examiners found two violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by the statute.
- (3) The examiners found three violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the Statute.

- (4) The examiners found two violations of § 38.2-2123 A of the Code of Virginia. The company failed to provide the Credit Score Disclosure notice at the time of the application.

RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-604.1 of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by the statute. **Response:** The Company respectfully disagree with these observations. Review sheets 218575354, 905490769 and 2602508 were provided this notice via insert 553-3239 titled "Information About Your Premium" which satisfies the Notice of Financial Information Collection and Disclosure Practices requirements of the statute. The Notice of Financial Information Collection and Disclosure Practices is a part of the binder that the agent provides to the applicant when the application was completed. The paragraph is referenced: "*Notice of information collection practices for personal, family, or household insurance transactions.*"

In producing material in response to the initial production request, the companies inadvertently failed to include the binder in the original production. The companies supplemented its production on September 17, 2014. When those items are produced during the examination does not negate their existence or the companies' compliance with § 38.2 604.1. This statute addresses supplying Notice of Financial Information Collection and Disclosure Practices to applicants and policyholders. This notice was provided to customers. The Bureau's reliance upon the statute here as the basis of an observation is misplaced as the statute cited addresses consumer notification not production responses. See exhibits.



## **REVIEW OF STATUTORY NOTICES**

The examiners reviewed the companies statutory notices used during the examination period and those that are currently used for the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for the lines of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies, but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

### **General Statutory Notices**

- (1) The examiners found two violations of § 38.2-604.1 of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.  
**Response:** The Company disagrees with these observations. Review Sheet 15977332379. Insurance Information and Privacy Protection notice (153-1048.4e) and State Farm's Notice of Privacy Policy (153-4254 a.12) which

provide notice in compliance with sec. 38.2-604.1 B were included in our response of April 2, 2015.

In producing material in response to this examination, the companies inadvertently failed to include these notices in the original production. The companies supplemented its production on April 2, 2015. When those items are produced during the examination does not negate their existence or the company's compliance with § 38.2 604.1. This statute addresses supplying Notice of Financial Information Collection and Disclosure Practices to applicants and policyholders. This notice was provided to customers. The Bureau's reliance upon the statute here as the basis of an observation is misplaced as the statute cited addresses consumer notification not production responses.

(2) The examiners found three violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially similar language as that of the prototype set forth in Administrative Letter 1981-16.

### **Statutory Vehicle Notices**

(1) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company's glass script did not properly disclose the use of a Third Party Administrator. **Response:** The companies amended the glass script to comply with 38.2-517 A 3 effective December 29, 2014.

(2) The examiners found four violations of § 38.2-2234 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice. **Response:** The companies respectfully disagree with these observations. Review sheets 1755869226,

529814196 and 1018724914, not every private passenger policy application requires a credit order, therefore the company's notice uses "may" instead of "shall" as it more accurately reflects their business practices and avoids misleading the consumer.

### **Statutory Property Notices**

- (1) The examiners found one violation of § 38.2-215 of the Code of Virginia. The company failed to include all of the information required by the statute in its Flood Exclusion notice.
- (2) The examiners found one violation of § 38.2-2126 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice. **Response:** The companies respectfully disagree with this observation. Review sheet 2021015992, not every private passenger policy application requires a credit order, therefore the notice uses "may" instead of "shall" as it more accurately reflects the company's business practices and does not mislead the consumer. The notices also comply with 38.2-226 A1. The company allows the right to rescore whether an adverse action applies or not. The notice is included on the declarations page at policy issuance and at each renewal via Renewal Rating Option Insert 553-3239. See exhibits.

### **LICENSING AND APPOINTMENT REVIEW**

A review was made of the private passenger automobile and homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In

addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the companies.

### **Agent**

- (1) The examiners found two violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found six violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agent without first obtaining a license from the Commonwealth of Virginia.
- (3) The examiners found two violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

### **Agency**

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found one violation of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

## **REVIEW OF THE COMPLAINT-HANDLING PROCESS**



A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found two violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

### **REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES**

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

### **PART TWO – CORRECTIVE ACTION PLAN**

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

#### **General**

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

- (1) Correct the errors that caused the overcharges and undercharges, and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by showing the applicable policy premium and coverage limits. **Response:** The companies are updating their private passenger automobile declarations pages to display the limits and title of the Towing and Labor Cost Coverage. The companies are also updating their private passenger declarations pages to display the limits for Death Indemnity and Specific Disability Benefits Coverage and Transportation Expenses Coverage.
- (5) Properly represent the benefits, coverages, advantages, and conditions of the policy by showing the correct policy effective date. **Response:** The companies have policies and procedures in place to properly represent the benefits, coverages, advantages and conditions of the policy for showing the correct policy effective date.
- (6) Provide the insured with a written notice of an AUD when required by the statute. **Response:** The companies' response to this recommendation pends the outcome of the concerns in response to observations raised in the Part One Response.
- (7) Provide convenient access to files, documents and records relating to an examination. **Response:** The companies have policies and procedures in place

- to provide access to documents to examiners consistent with the enabling statute.
- (8) Properly assign points under a Safe Driver Insurance Plan (SDIP) to the vehicle customarily driven by the operator incurring the points. **Response:** The companies have policies and procedures in place to address the assignment of points under a Safe Driver Insurance Plan and have emphasized same with the appropriate employee.
- (9) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, territories, tier eligibility criteria, driver classification factors, construction types, base and/or final rates, CRI rules and credit score information. **Response:** The companies' response to this recommendation pends the outcome of the concerns the companies raised in their Part One response.
- (10) Provide the insured with a Credit Adverse Action notice when required by the statute. **Response:** The companies have policies and procedures in place to provide the insured with a Credit Adverse Action when required by statute and have emphasized with the appropriate employee.

### **Termination Review**

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

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insured's accounts the amount of the overcharge as the date the error first occurred.

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled, "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Provide a written AUD notice when required by the statute. **Response:** The companies are in the process of updating the letters to comply with the prototype language.
- (5) Calculate return premium according to the filed rules and policy provisions. **Response:** The companies reserve their response to this recommendation pending the Bureau's consideration of our response in Part One.
- (6) Obtain valid proof of mailing cancellation notices to the insured and lienholder. **Response:** The companies reserve their response to this recommendation pending the Bureau's consideration of our response in Part One.
- (7) Retain proof of mailing cancellation notices lienholder. **Response:** The companies reserve their response to this recommendation pending the Bureau's consideration of our response in Part One.
- (8) Provide proper notice of cancellation to the insured when canceling a policy. **Response:** The Company has a standard business practice in place to provide these notices.
- (9) Obtain a record of the change in the deed of trust indicating the sale of the insured property when cancellation is due to foreclosure. **Response:** The Company reserves their response pending the Bureau's consideration of their response provided in Part One.

- (10) Send the cancellation notice for a policy insuring a private passenger automobile at least 45 days before the effective date of cancellation when the notice is mailed after the 59<sup>th</sup> day of coverage. **Response:** The companies have policies and procedures in place to send cancellation notices at least 45 days before the effective date of cancellation when the notice is mailed after the 59<sup>th</sup> day of coverage and same was emphasized with the appropriate employees.
- (11) Cancel private passenger automobile policies when the notice is mailed after the 59<sup>th</sup> day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia. **Response:** The companies has policies and procedures in place to send private passenger cancellation notice cancellation after the 59<sup>th</sup> day of coverage only for those reasons permitted by the statute. Coaching was provided to the appropriate employees.
- (12) Cancel private passenger automobile policies for suspension or revocation only during the time period permitted by the Code of Virginia. **Response:** The companies has policies and procedures in place for suspension and revocation of private passenger automobile parties during the time period permitted by the Virginia code. Coaching was provided to the appropriate employees.
- (13) Advise the insured of his right to review by the Commissioner of Insurance. **Response:** The companies have policies and procedures to advise the insured of his right to review by the Commissioner of Insurance. Coaching was provided to the appropriate employees.
- (14) Advise the insured of the availability of other insurance through the Virginia Property Insurance Association (VPIA). **Response:** The Company has amended their practices to include the notice on midterm cancellations due to foreclosure.

## Claims Review

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

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled, "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Document the claim file so all events and dates pertinent to the claim can be reconstructed. **Response:** The companies have policies and procedures in place to document the claim file for events and date pertinent to the claim.
- (5) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions. **Response:** The companies have policies and procedures in place to offer the insured an amount that is fair and reasonable per the investigation and pay the claim in accordance with the policy provisions.
- (6) Properly represent pertinent facts or insurance provisions relating to coverages at issue. **Response:** The companies have policies and procedures in place to represent pertinent facts or contract provisions relating to coverage.

## Forms Review

State Farm Fire and Casualty Company and

State Farm Mutual Automobile Insurance Company shall:

Use the precise language of the standard automobile forms adopted by the Bureau. **Response:** The companies are updating the title of 6266HH to state Excess Electronic Equipment Coverage.

### **Review of Policy Issuance Process**

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

- (1) Specify accurate information in the policy as required by the statute by listing all applicable forms on the declarations page and attaching all forms applicable to the policy. **Response:** The companies respectfully disagree with the examiners observations regarding the private passenger automobile endorsement booklet, 6999AG.1 as cited in Part One of the Preliminary Report. The companies have replaced the booklet with individual endorsements. The companies are in the process of removing superseded versions of endorsements from the declarations pages.
- (2) Provide the Notice of Information Collection and Disclosure Practices as required by the statute. **Response:** The companies' response pends per the resolution of their concerns raised in their Part One response.
- (3) Provide the Notice of Financial Information Collections and Disclosure Practices notice as required by the statute. **Response:** The companies' response pends per the resolution of their concerns raised in their Part One response.
- (4) Provide the Insurance Credit Score Disclosure notice as required by the statute. **Response:** The companies' response pends per the resolution of their concerns raised in their Part One response.

**Review of Statutory Notices**

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

- (1) Amend the Glass Script to comply with § 38.2-517 of the Code of Virginia.  
**Response:** The Company amended the Glass Script to comply with 38.2-517 A 3 effective December 29, 2014.
- (2) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 of the Code of Virginia. **Response:** The companies' response pends per the resolution of their concerns raised in Part One.
- (3) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 A of the Code of Virginia. **Response:** The companies are updating their AUD notice to comply with 38.2-610 A of the Code of Virginia.
- (4) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia. **Response:** The Company has revised the language in the Flood Exclusion notice effective December 1, 2015. See exhibits.
- (5) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A and 2234 A of the Code of Virginia. **Response:** The companies' response pends the Bureaus consideration of their response provided in Part One.

**Licensing and Appointment Review**

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



- (1) Provide convenient access to files, documents and records relating to an examination. **Response:** The companies have policies and procedures in place to provide access to files, documents and records related to an examination.
- (2) Accept business only from agents that have a current license from the Commonwealth of Virginia. **Response:** The companies have procedures and policies in place that require agents to have a current license.
- (3) Appoint agents and agencies within 30 days of the application. **Response:** The companies have procedures and policies in place that to appoint agents and agencies within 30 days of application.

### **Review of the Complaint-Handling Process**

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

Maintain a complete complaint register that is in compliance with § 38.2-511 of  
the Code of Virginia.

### **PART THREE – RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices.

#### **RECOMMENDATIONS**

We recommend that the companies take the following actions:

#### **Rating and Underwriting**

- The companies should amend the declarations page to show the correct endorsement name as Towing and Labor instead of Emergency Road

Service Coverage. **Response:** The companies are working to have the renewal declarations page updated to display the Towing and Labor Cost Coverage and the corresponding limits.

### Terminations

- The companies should provide the lienholder advance notice of cancellation as required by the policy provisions. **Response:** The companies reserve their response to this recommendation pending the Bureau's consideration of their response in Part One.
- The companies should maintain documentation of the insured's request for cancellation. **Response:** The companies reserve their response to this recommendation pending the Bureau's consideration of their response in Part One.
- The companies should file an SR-26 with DMV within 15 days of cancelling a motor vehicle policy. **Response:** The companies have policies and procedures in place to address this issue.
- The companies should not continue to extend coverage into the next renewal period when an insured does not attempt to submit payment to accept the renewal offer. **Response:** The companies reserve their response to this recommendation pending the Bureau's consideration of their response in Part One.

### Claims

- The companies should document the claim file when all applicable coverages have been discussed with the insured. **Response:** The Companies have policies and procedures in place to document the claim

file when all applicable coverages have been discussed with the insured. The company will re-emphasize these procedures.

- The companies should acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days. **Response:** The Companies have policies and procedures in place to help ensure that correspondence that reasonable suggests a reply is expected is acknowledged within 10 business days. The companies will re-emphasize these procedures.
- The companies should notify the insured within 45 days from the date of notification of a first party claim the reason for the delay. **Response:** The Companies have policies and procedures to notify the insured within 45 days for the day of notification of a first party claims of the reason for the delay. The companies will re-emphasize these procedures.
- The companies should make all claim denials in writing and keep a copy in the claim file. **Response:** The Companies have policies and procedures in place to help ensure that claim denials are in writing and a copy is kept in the claim files. The company will re-emphasize these procedures.
- The companies should provide a reasonable explanation of the basis for the denial in its written denial of the claim. **Response:** The Companies have policies and procedures in place to help ensure that the explanation of the basis of denial is its written denial of the claim. The companies will re-emphasize these procedures.
- The companies should provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants. **Response:** The

Companies have policies and procedures in place to help ensure that copies of repair estimates are provided to insureds and claimants the companies will re-emphasize these procedures.

- The companies should document all information relating to the application of betterment or depreciation in the claim file. **Response:** On private passenger auto claims the companies have policies regarding to the application of betterment or depreciation and procedures to document the claim file. The companies will re-visit the policies and procedures with the claim handlers.
- The companies should notify the claimant within five days when the company issued a settlement payment or offer of \$5,000.00 or greater to the claimant's attorney or other representative. **Response:** The companies has policies and procedures in place to help ensure that the company notify the private passenger motor vehicle claimant within five days when the company have issued a settlement payment or offer of \$5,000 or more to the claimants' attorney or other representative. The Companies will re-emphasize those procedures with their auto claim handlers.
- The companies should provide a copy of the Notice of Settlement Payment to the claimant's attorney or other representative. . **Response:** The companies have policies and procedures in place to help ensure that copies of the Notice of Settlement Payment are provided to the claimant's attorney or other representative. The companies will re-emphasize those procedures with their claim handlers

- The companies should adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies. **Response:** The companies have policies and procedures in place to help ensure the prompt investigation of claims arising under insurance policies. The companies will re-emphasize those procedures with their claim handlers.
- The companies should make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear. **Response:** The companies have policies and procedures in place to help ensure the prompt, fair and equitable settlement of a claim in which liability is reasonably clear. The companies will re-emphasize those procedures with their claim handlers.
- The companies should properly represent pertinent facts or insurance provisions relating to the coverages at issue. **Response:** The companies have policies and procedures in place to help ensure that claim handlers properly represent pertinent facts or insurance provisions relating to the coverages. The companies will re-emphasize those procedures with their claim handlers.
- The companies should make payments to the insured for the amount he/she is entitled to receive under the terms of the policy. **Response:** The companies agree with this recommendation and it is consistent with their claim philosophy.
- The companies should include the lienholder on checks where applicable. **Response:** The companies have a business practice not to include the private passenger motor vehicle lienholder on draft amounts up to

\$5,000.00 The companies accept this risk in an effort to enhance customer service.

- Include the insurance fraud statement on claim forms required by company as a condition of payment. **Response:** The companies include the fraud statement on the appropriate forms as required by law.
- The companies should provide the right of rescission when the claimant or insured is not represented by an attorney. **Response:** Please identify the observation which forms the basis of this recommendation.
- The companies should pay water damage vehicle claims according to Virginia Department of Motor Vehicle Code § 46.2-624. **Response:** The companies have policies and procedures to insure the appropriate brand is placed on the vehicle including but not limited to the water damage.

### Statutory Notices

- The companies should add the BOI's TDD number (804-371-9206) to the Important Information Regarding Your Insurance Notice. **Response:** The companies acknowledges the recommendation of the Bureau. The notice has been revised to include the TDD number effective December 1, 2015. See exhibits.
- The companies should amend their 60 Day Cancellation Warning notice to use capital letters as shown in § 38.2-2210 of the Code of Virginia. . **Response:** The companies acknowledges the recommendation of the Bureau.

**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

The Bureau conducted three prior market conduct examinations of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company.

During the automobile, motorcycle, homeowner, multi-peril, general liability, workers' compensation, assigned risk automobile, and commercial automobile examination of State Farm Mutual Automobile Insurance Company, State Farm Fire & Casualty Company, and State Farm General Insurance Company as of December 31, 1993, State Farm Mutual Automobile Insurance Company violated §§ 38.2-231, 38.2-304, 38.2-511, 38.2-1905, 38.2-1906 B, 38.2-2202, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-510 A as well as Sections 6 (d) and 8 (d) of the Commission's rules Governing Unfair Claim Settlement Practices; and State Farm Fire and Casualty Company violated §§ 38.2-231, 38.2-304, 38.2-511, 38.2-1906 B, 38.2-2014, 38.2-2114, 38.2-2208, 38.2-510 A 1.

During the automobile and homeowner examination of State Farm Mutual Automobile Insurance Company, State Farm Fire and Casualty Company, and State Farm General Insurance Company as of June 30, 1999, State Farm Mutual Automobile Insurance Company violated §§ 38.2-305 B, 38.2-510 A 10, 38.2-510 C, 38.2-1906 D 38.2-2206, 38.2-2208, 38.2-2212, 38.2-2220, 38.2-2230, of the Code of Virginia, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, and VAC 5-400-70 A; and State Farm Fire and Casualty Company violated §§ 38.2-304 B, 38.2-305 B, 38.2-510 A 10, 38.2-510 C, 38.2-610 A, 38.2-1905 D 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2208, 38.2-2212, and 38.2-2220 of the Code of Virginia as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 A.

During the automobile and the Virginia Automobile Insurance Plan examination of State Farm Mutual Insurance Company and State Farm Fire and Casualty Insurance

Company as of July 1, 2007, the companies violated §§ 38.2-305 B, 38.2-502, 38.2-604, 38.2-610, 38.2-2202, 38.2-2210, 38.2-2214, 38.2-2220, 38.2-2230, and 38.2-2234 of the Code of Virginia, as well as 14 VAC 5-400-40, 14 VAC 5-400-50 C, 14 VAC 5-400-70 A, and 14 VAC 5-400-70 D.



## **ACKNOWLEDGEMENT**

The Bureau acknowledges the officers and employees' response to requests from the Bureau during the course of the examination.

Sincerely,

Andrea D. Baytop  
Senior Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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June 24, 2016

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Ms. Catherine Rankin, Counsel  
State Farm Insurance Companies  
State Farm Northeastern Office  
Six Hillman Drive, Suite 200  
Chadds Ford, Pennsylvania 19317

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC #25143)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Rankin:

The Bureau of Insurance (Bureau) has reviewed the January 4, 2016 response to the Preliminary Market Conduct Report (Report) of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Automobile New Business Rating

- (3a) The violation for RPA078 remains in the Report. The Company proved the person with at-fault accidents lived at the insured's address in 2001. The Company's May 14, 2015 response incorrectly referenced the policy under review as evidence that the person still lived in the household. He was not included on the application that stated the household only had three drivers, who were rated or listed on the policy. Therefore, the policy appears to be eligible for the Good Driver discount. For reconsideration, the Company must provide documentation that this person was a driver in the household when the policy was written effective December 20, 2013.

The violation for RPA082 remains in the Report. The documentation provided by the Company fails to meet the requirements of the rule on file with the Bureau to receive the Good Student Discount. The rule on file states, "The driver is enrolled as a full time student in high school or academic courses in a college or university and has achieved a Qualifying Scholastic Record as defined in Section B.1 or B.2 of this rule." The Company should provide documentation that meets the requirements of Section B.1 or B.2 of their Good Student Discount rule.

After further review, the violation for RPA084 has been withdrawn from the Report.

The violations for RPA093 remain in the Report. The Company has not provided any evidence that the insured was ineligible for the Accident Free discount. The Company's April 14, 2015 response only indicated a system error to transfer the earned credits prevented the discount from applying to this new policy. The policy under review was effective May 6, 2014. Per the Company's April 14, 2015 response, the Renters Multiple Lines discount should not have applied to the policy until September 2, 2014 and the discount was incorrectly removed on the renewal effective November 6, 2014.

(3b) After further review, the violation for RPA037 has been withdrawn from the Report. The at-fault driver was the insured's wife who was already being surcharged on a separate State Farm policy. The Company must ensure that any guidelines that affect the rating of policies are included in its filed rating manual. The written guidance provided by the Company with its response was not filed.

(3c) The Company's filed symbols manual did not include VIN information. The appropriate symbol should be determined by using the Company's filed symbol definition pages, as outlined below.

The violation for RPA018 remains in the Report. The Company failed to state within the policy file all the necessary vehicle descriptions in order to determine the correct filed symbol. The symbol page on file with the Bureau indicates three separate set of symbols for a 2008 Toyota Tundra pickup. No information within the policy file allows a distinction between the three sets of symbols.

After further review, the violation for RPA020 has been withdrawn from the Report.

The violation for RPA023 remains in the Report. The Company filed specific symbols for the 2013 Infiniti G37. The filed GRG symbol was 22 and the filed DRG symbol was 23. However, the Company rated the vehicle with GRG symbol 23 and DRG symbol 22.

The violation for RPA033 remains in the Report. The Company filed specific symbols for the 2007 Honda Accord EX-L 4D Sed. However, the filed pages listed the identical vehicle characteristics three times, with two of the listings showing symbol 18 and one showing symbol 19. It is not possible to determine which symbol is correct since all of the filed vehicle characteristics are the same.

The violation for RPA048 remains in the Report. The Company failed to indicate in the policy file that the vehicle was 4WD. All necessary information needs to be indicated in the policy file due to the fact that the Company does not have on file any VIN documentation in support of determining the symbols.

After further review, the violation for RPA067 has been withdrawn from the Report. The Company provided documentation of the cost new price determined for the 1988 Plymouth Reliant. Based upon the cost new price, the Company used the appropriate symbol. The Company should maintain this information in the policy file.

The violation for RPA077 remains in the Report. The filed symbol page showed the 1997 Ford F350 4WD TBO DSL XL had an IRG Adjustment of -2, which indicated the deviation from the Standard IRG. The Company's exhibit reflected an IRG of 16, which appeared to be the Standard IRG. Therefore, the appropriate IRG symbol was 14.

The violation for RPA079 remains in the Report. The Company filed specific symbols for the 2006 Chevrolet Silverado K1500 LS Ext. Cab Pickup. However, the policy file did not provide the wheel drive, wheel base or engine characteristics to determine the appropriate symbol among the multiple vehicles listed.

- (3d) These violations remain in the Report. The Company has acknowledged that the filed Location Rate Factor pages did not indicate the Medical Expense Benefits coverage factors should have been applied to the Income Loss Benefits coverage. The Company should file a revision to its manual indicating that the factors for Medical Expense Benefits and Income Loss Benefits are the same.

The violation for RPA071 remains in the Report. This territory violation was not due to the Location Rate Factor (LRF) headings addressed in the Company's response. The address on the application is different from the address on the declarations page. It appears the application address is not valid. The Company should have determined the longitude and latitude coordinates based upon the address on the declarations page.

The violation for RPA090 remains in the Report. The Company's response fails to correspond to the violation stated by the Bureau. The Company failed to use the correct longitude and latitude when determining the GRID ID. The Company should have used 79.68 for the longitude and 36.75 for the latitude.

The violation for RPA099 remains in the Report. This territory violation was not due to the Location Rate Factor (LRF) headings addressed in the Company's response. The latitude and longitude coordinates have been verified using three different sources. Each source provided the same coordinates, but different than those used by the Company. The United States Postal Service website indicated this location was in Craig County, not Montgomery County. For reconsideration, the Company must provide adequate documentation to support the coordinates used to rate the policy.

- (3e) The violation for RPA019 remains in the Report. The insured declared the April 26, 2013 accident as at-fault with a payment of \$1,500.00 on the application. This accident also appeared on the CLUE report found in the policy file. Further, the Company surcharged the policy for this accident by applying the factors for Driver Record Level 4 and 2-Star discount instead of Driver Record Level 1 and 3-Star discount.

The violation for RPA024 remains in the Report. The Company's response fails to provide the CRI calculations for vehicle 1 on the policy. The Company failed to apply the correct 17 points for the category of Prior Carrier when calculating the CRI for vehicle 2.

After further review, the violation for RPA036 has been withdrawn from the Report.

The violation for RPA048 remains in the Report. The Company failed to use the correct point value in reference to the prior liability limit and for claim history.

The violation for RPA067 remains in the Report. The Company's exhibits only included the Company's review sheet response, but not the necessary documentation. For reconsideration, the Company should provide the credit score information obtained by the Company on March 15, 2013.

The violation for RPA082 remains in the Report. The Company failed to use the correct point value for the Age of Principal Operator category. The system notes provided by the Company indicate that the principal operator of the vehicle at the time of the policy effective date was 51 years old. Therefore a point value of -16 should have been used when determining the vehicle's CRI.

The violation for RPA089 remains in the Report. The Company's exhibits only included the Company's review sheet response, but not the necessary documentation to support the Company's position.

The violation for RPA090 remains in the Report. The Company stated that the insured had an at-fault medical claim. However, Medical Expense coverage in Virginia is a no-fault coverage; therefore, its payment cannot indicate an at-fault party. Further, the claim file found in the Company's system did not display any claims for the insured. The Company did not provide any

documentation of the referenced claim with its response. For reconsideration, the Company must provide documentation that the insured was wholly or partially at-fault for this claim to be surcharged in the CRI. The Bureau sent the enclosed review sheet response to the Company on February 23, 2015.

The violation for RPA093 remains in the Report. The CLUE report obtained by the examiner did not include a Tow claim occurring on or after May 6, 2014. The documentation provided by the Company was illegible and the policy number typed on the documentation provided in the Company's exhibit did not appear to match the policy number reflected on the screen print.

The violation for RPA096 remains in the Report. The Company failed to provide CRI calculations for all vehicles referenced on the review sheet. The Company failed to apply the At-fault accident to the correct vehicle on the policy. Based on the policy file provided by the Company the accident should have been applied to vehicle 3.

- (3f) After further review, the violation for RPA036 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3g) After further review, the violation for RPA022 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3h) The violation for RPA075 remains in the Report. The Company obtained the insured's credit score information more than once in a 12 month period and there was not a request by the insured.
- (4) The violation for RPA007 remains in the Report. For reconsideration, the Company should provide a copy of Page 2 of the cancellation notice.

#### **Automobile Renewal Business Rating**

- (2) After further review, the violation for RPA105 has been withdrawn from the Report. The Report has been renumbered to reflect this change. The Company provided a copy of the AUD notice sent to the insured. Since the notice was not compliant, a violation has been added under the General Statutory Notices Review to correct the language.
- (3) The violation for RPA168 remains in the Report. The Company indicated that vehicle 1 is most often used by the driver in question. Due to this statement the driver should have been assigned to vehicle 1 not vehicle 3 as indicated on the declarations page.
- (4a) After further review, the violation for RPA106 has been withdrawn from the Report.

The violation for RPA179 remains in the Report. Per the Company's filed rules, the Accident Free Discount should have been applied. The policy file did not indicate the insured was aware that the added car could have the Accident Free Discount or have it applied to another vehicle at a later time. The supporting documents were not found in the exhibits provided by the Company.

The violation for RPA182 remains in the Report. The policy was written under State Farm Mutual Automobile Insurance Company and was entitled to an Accident Free Discount of 15 percent given the fact that the policy had an inception date of August 9, 2011. The Company provided documentation showing that the insured had a previous policy with an inception date of November 4, 1991, however the Company was unable to provide documentation showing that no lapses in coverage occurred from the old policy to the current policy being reviewed by the Bureau. The Bureau acknowledges that the policy does not qualify for the 3 star discount due to the company in which the policy was written.

The violation for RPA189 remains in the Report. The Bureau provided a response to the Company on February 23, 2015 that requested additional documentation. For reconsideration, the Company should provide documentation of when the Volvo was added to the policy. The Company should also provide documentation of when the prior vehicle replaced by the 2007 Dodge Caravan was added to the policy. Lastly, the Company should provide screen prints showing the Volvo and prior vehicle 2 had the 20% AFD applied before they were replaced by the 2001 Chrysler 300M and 2007 Dodge Caravan. The Company applied the 10 year Accident Free Discount to both vehicles on the policy.

(4b) After further review, the violation for RPA106 has been withdrawn from the Report.

The violation for RPA183 remains in the Report. The second page of the exhibit provided by the Company was not legible. For reconsideration, the Company should provide screen prints that clearly reflect the information referenced by the Company.

(4c) The violation for RPA102 remains in the Report. The symbol pages on file with the Bureau indicated that there were two different sets of symbols that could apply to the 2008 Mazda CX-7 sports wagon. One symbol was for a 2WD vehicle and the other applied to a 4WD vehicle. The Company's policy file did not include the information to determine if the car was 2WD or 4WD.

The violation for RPA124 remains in the Report. The symbol pages on file with the Bureau indicated that two different set of symbols were applicable for a 2007 Chevrolet K2500 depending on the Option Package. The Company's policy file failed to indicate the option package for the vehicle being rated on the policy.

The violations for RPA180 remain in the Report. The symbol pages on file with the Bureau indicated that different sets of symbols were applicable for the 2011 Mazda and the 2013 Cruze. The Company's policy file did not include the body style of the 2011 Mazda and the series of the 2013 Cruze.

The violations for RPA192 remain in the Report. The symbol pages on file with the Bureau indicated that different sets of symbols were applicable for the 2001 Lexus RX 300 and the 2002 Acura RSX. The Company's policy file did not indicate whether the 2001 Lexus RX 300 was a Silversport ED, 2WD, or a 4WD and whether the 2002 Acura RSX was a Type-S or not.

The violation for RPA111 remains in the Report. The Company filed specific symbols for the 2013 Honda Civic LX 4D Sedan. The filed GRG symbol was 17 and the filed DRG symbol was 20. However, the Company rated the vehicle with GRG symbol 20 and DRG symbol 17.

The violation for RPA135 remains in the Report. The Company filed specific symbols for the 2013 Chevrolet Cruze LS 4D Sedan effective May 27, 2013 under SERFF filing number SFMA-129025269. The policy term under review was effective September 6, 2013. The filed GRG symbol was 19 and the filed DRG symbol was 16. However, the Company rated the vehicle with GRG symbol 16 and DRG symbol 19. The symbol page provided by the Company was effective January 1, 2014 after the policy effective date, for which the filed GRG symbol was 16 and the filed symbol for DRG was 18.

The violation for RPA149 remains in the Report. The Company filed specific symbols for the 2007 Honda Accord SE 4D Sedan. However, the filed pages listed the identical vehicle characteristics three times, with two of the listings showing symbol 16 and one showing symbol 17. It is not possible to determine which symbol is correct since all of the filed vehicle characteristics are the same.

The violation for RPA169 remains in the Report. The policy file did not indicate the Wheel Base or Body Style to determine the appropriate symbol for the 1997 Ford F150 XLT Sup Cab 4wd. The filed symbol pages only provide the IRG Adjustment of -2. The filing exhibits previously provided by the Company indicated the Standard IRG was 16 or 15, resulting in a symbol of 14 or 13. The Company used symbol 16 to rate this vehicle. The Company's exhibits provided with its response did not include any information pertaining to this vehicle.

The first violation for RPA173 remains in the Report. The Company filed a symbol of 17 for the 2001 GMC Sierra 1500 2WD SL EXT Cab. The Company previously provided screen prints indicating the MSRP was either \$22,814.00 or \$23,114.00. The corresponding symbol for either of these amounts was 17. The Company used symbol 18 to rate this vehicle.



The second violation for RPA173 remains in the Report. The Company previously provided screen prints indicating the MSRP for the 1997 Cadillac Deville 4D Sedan was \$36,995.00. The filed symbol page reflected symbol 23 for the MSRP. The Company used symbol 20 to rate this vehicle.

The third violation for RPA173 remains in the Report. The Company previously provided screen prints indicating the MSRP for the 1973 Camaro 2DR was \$0, which corresponded to symbol 1 in the Company's filed symbol rule pages. The Company used symbol 4 to rate this vehicle.

- (4d) The violation for RPA181 remains in the Report. The Company has acknowledged that the filed Location Rate Factor pages did not indicate the Medical Expense Benefits coverage factors should have been applied to the Income Loss Benefits coverage.

The violation for RPA124 remains in the Report. The Company used Latitude 36.770567 and Longitude -79.935467 to rate the policy. However, the coordinates found for the insured's address was Latitude 36.789470 and Longitude -79.934272.

The violation for RPA149 remains in the Report. The Company used Latitude 38.9610 and Longitude -77.34370 to rate the policy. However, the coordinates found for the insured's address was Latitude 38.953852 and Longitude -77.333215. The Company only provided a Filing Memorandum as the exhibit for this item.

- (4e) The violations for these items remain in the Report. The Company's filed manual did not differentiate between added and replacement vehicles. In each of these instances, the Company did not follow its filed rules when determining the appropriate Tiering model based upon when the vehicle was first added to the policy. The filed rules did not state the addition of a vehicle would be ignored if the car replaced a vehicle being deleted at the same time and, therefore, the replacement vehicle would assume the Tiering model used by the vehicle being deleted.

The violations for RPA101 and RPA168 remain in the Report. The Company did not have a rule on file indicating the difference between a "replacement" car and an "added" car. The rule on file with the Bureau state the 'Early Renewal Model' is used at each renewal beginning six months after the new business effective date of the automobile. Since the effective date of both vehicles was less than 2 years the Early Renewal Model should have been used to develop the CRI. The documentation requested by the Company has been attached.

The violation for RPA105 remains in the Report. The Company should have used the Full Renewal model and calculated a CRI of 1529 under the D301 values and 1502 under the H301 values with a capped CRI factor of 1.264. The Company incorrectly deducted 19 points for the May 14, 2013 UM claim.

The Company did not deduct 71 points for the insured having a nonpayment cancellation within the past 60 months (January 4, 2010). The Company only deducted 14 points instead of 20 points when the worst tier was 2 Star (vehicle 2) instead of 3 Star. The Company did not deduct 11 points for having one other vehicle insured for less than 3 years with State Farm. The documentation requested by the Company has been attached.

The violation for RPA160 remains in the Report. The Company failed to use the correct point value for the best and worst tier and vehicle 2's tenure. The documentation requested by the Company has been attached.

The violation for RPA164 remains in the Report. The Company failed to use the correct point value for the tenure, prior BI limit, best tier, and the maximum and minimum tiers of other vehicles on the policy. The documentation requested by the Company has been attached.

- (4f) The violation for RPA119 remains in the Report. The Company's rating manual indicated the following Driver Adjustment factors should have been applied to vehicle 1: 1.07 for both Liability coverages and Collision, and 1.10 for Other Than Collision coverage, which corresponded to the highest factors by changing the assigned driver's age to 25 per provision 2 of Note C. Note C of the Driver Adjustment Factor Calculation in the Company's filed rate pages applied to vehicle 1 because there was at least one assigned driver under the age of 25 on the policy. Note C did not state it was only applicable to the vehicle with an assigned driver under 25. The Company has not explained how it arrived at the Driver Adjustment Factors applied to vehicle 1.

The violation for RPA184 remains in the Report. The Company failed to use the correct Base Driver Factor for vehicle 3. The documentation requested by the Company has been attached.

- (4g) The violations for this item remain in the Report. The Company acknowledged that it did not file the correct Full Renewal CRI Model formula used by the Company. This issue affected the 42 policies cited under this item. Virginia is a file and use state, the Company failed to file a complete rule leaving out the necessary steps in rating these policies.

- (4h) The violation for RPA121 remains in the Report. For reconsideration, the Company should provide all of the insurance credit scores obtained for vehicle 1, the 2001 Nissan Pathfinder and vehicle 2, the 2003 Nissan Sentra. The Company previously provided the credit score history for vehicle 3. Vehicle 2 was in the Full Renewal model that does not use credit information; however, the credit information obtained for vehicle 2 may have been used to rate vehicle 1 as well.

The violation for RPA135 remains in the Report. For reconsideration, the Company should provide the insurance credit scores obtained. The

Company's responses have only provided explanations to justify the Tiering model used to rate the vehicle.

### **Homeowner New Business Rating**

- (1) After further review, the violation for RHO037 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3a) After further review, the violation for RHO037 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

### **Homeowner Renewal Business Rating**

- (1) After further review, the violation for RHO128 has been withdrawn from the Report. The Company provided the amended declarations page showing the premium amount of \$814.00.
- (3a) The violations for RHO119, RHO135 and RHO199 remain in the Report. The Company must explain how the Accident Free Date precedes the OXD (Original X Date) or the date that the first policy was written by the Company. The Company responded with a copy of the Policy Master Record screen for the above mentioned policies. The Company indicated that it uses the oldest of the OXD, Accident Free Date, Policy Inception Date or Vehicle Inception Date to determine Auto Tenure. In all of the above mentioned policies, the OXD with the Company is newer than the Accident Free Date. An insured is usually assigned an Accident Free Date once he or she has been insured by the Company for a certain number of years and the insured has been accident free, at which time the insured is eligible for an Accident Free Discount. The OXD and Policy Inception Date should be the same date, but the Accident Free Date and Vehicle Inception Dates should not precede the OXD and Policy Inception Date.

The violation for RHO128 remains in the Report. The Company did not use the correct number of years in the BD01 Model for Tenure of Policyholder. The model states (Years With State Farm); the insured has been insured with State Farm for 19 years. The model does not state the number of years the insured has had a homeowner policy with State Farm. The Company has an auto policy dating back to 1993; therefore, the Company should have used 19 years in the BD01 model for Tenure of Policyholder.

The violation for RHO138 remains in the Report. GH01 of the CRI model uses the maximum tenure of auto policies in the household. The Company defines tenure in their auto CRI filing as "The number of years the vehicle or the vehicle it replaced has been insured with State Farm." The examiners used the inception date of the oldest auto policy shown in the Company's system, April 18, 1998. The Company used the accident free date of June 16, 1992; however, the filing does not state to use the accident free date. The

Company should have used a date of April 18, 1998 for the maximum tenure of the auto policy.

After further review, the violations for RHO177, RHO181, and RHO183 have been removed from the Report. The Report has been updated to reflect these changes.

The violation for RHO188 remains in the Report. The filing does not state that if the household does not have an auto policy to use a factor of 1. The CRI model shows a 0-5 year interval for maximum tenure of auto policies in the household; therefore, the examiners applied the factor that corresponds with 0 years.

The violation for RHO190 remains in the Report. The DH01 calculation pages use the maximum tenure of auto policy. The Company defines tenure in their auto CRI filing as "The number of years the vehicle or the vehicle it replaced has been insured with State Farm." The examiners used the inception date of the oldest auto policy shown in the Company's system. The oldest tenured auto policy is November 23, 2005 which equates to 8 years.

- (3b) After further review, the violation for RHO165 has been withdrawn from the Report. Based on the Company's response, the examiners have determined the Company failed to apply the correct construction factor to the hurricane premium; therefore, the violation has been moved to item (3b) of the Revised Report.
- (4) The violation for RHO124 remains in the Report. This violation is for failing to send a Credit Adverse Action notice to the insured. The insured's credit score adversely affected the rate the Company charged. Section 38.2-2126 A-2 of the Code of Virginia states the following: "If an insurer takes an adverse action, based in whole or in part, upon credit information, the insurer must provide notification to the applicant or insured that the adverse action was based, in whole or in part, on credit information. Such notification shall also either include a statement advising the applicant or insured of the primary factors or characteristics that were used as the basis for the adverse action, or notify the applicant or insured that he may request such information."

#### **Automobile Cancellation Notices Mailed Prior to the 60<sup>th</sup> Day**

- (1) The violation for TPA003 remains in the Report. The Company has not provided any additional information for the Bureau to consider.
- (2) After further review, the violation for TPA008 has been withdrawn from the Report.

The violation for TPA039 remains in the Report. The Company failed to use the correct prorata factor when calculating the unearned premium. The

Company's filed manual contains a Pro rata table that should have been used to determine the correct factor and the factor used by the Company is not present in the filed table. The policy went into effect on March 31, 2014 with a premium of \$1,107.90. The policy was cancelled on April 1, 2014 and by using the Pro-rata table filed with the Bureau under SERFF filing SFMA-129370277 a factor of 0.006 should have been used in the calculation. Therefore, a total of \$6.65 should have been used as the earned premium. The insured paid a total of \$0.10. The Company is still owed a total of \$6.55, however, the Company's records show an open balance of \$1.02. This results in an undercharge of \$5.53.

#### **Automobile Cancellation Notices Mailed After the 59<sup>th</sup> Day**

- (2a) The violation for TPA058 remains in the Report. The cancellation notice was issued prior to the renewal effective date. The policy should have been non-renewed.

#### **Automobile Nonpayment of Premium Cancellations**

- (1) The violation for TPA061 remains in the Report. Based on the cancellation date being reviewed by the Bureau the policy should have been reported as an expiration. The Company sent a renewal bill to the insured and when the insured failed to provide payment by the renewal date the Company should have allowed the policy to expire. By the Company reporting the cancellation as a non-pay cancellation instead of expiration it has adversely affected the insured.

#### **Automobile Insured Requested Cancellations**

The violations for TPA109 and TPA111 remain in the Report. The Company failed to provide evidence that the insured requested cancellation of the above referenced policies. The Company provided an Echo Policy Transactions screen, an Acknowledgement of Cancellation Request, Premium History screen, Household and Policy Notes, and an Automobile Renewal Packet that pertains to another policy. The Company also responded that the policy provisions do not require a written request from the insured to cancel the automobile insurance policy; however the Company must retain evidence that the insured requested cancellation. This evidence can be captured as a note in the Company's system that indicates contact with the insured or an agent note that documents contact with the insured.

After further review, the violations for TPA113, TPA114 and TPA115 have been withdrawn from the Report.

### **Automobile Rejected Applications**

The violation for TPA129 remains in the Report. The Company failed to provide the declarations page showing that the coverage was never rejected, and therefore, the Adverse Underwriting Decision notice was not required.

### **Homeowner Cancellation Notices Mailed Prior to the 90<sup>th</sup> Day**

- (1) After further review, the violation for THO002 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (2) After further review, the violation for THO002 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3) After further review, the violation for THO002 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

### **Homeowner Cancellation Notices Mailed After the 89<sup>th</sup> Day**

- (1) The violation for THO010 remains in the Report. The insurance policy is a contract between the Company and the insured. The premium, although paid to the Company by the lienholder, is paid with money paid by the insured through escrow. The Company should send the return premium to the insured.
- (2) After further review, these violations have been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3) After further review, the violation for THO012 has been withdrawn from the Report.  
  
After further review, the violation for THO019 has been withdrawn from the Report.
- (4) These violations remain in the Report. The statute only permits mid-term cancellation of homeowner policies when foreclosure efforts by the secured party against the subject property covered by the policy has resulted in the sale of the property by a trustee under a deed of trust as duly recorded in the land title records of the jurisdiction in which the property is located. As such, the Company is required to verify the above and should maintain a copy of such proof in the policy file.

### **Homeowner Insured Requested Cancellations**

After further review, these violations have been withdrawn from the Report. The Report has been revised to reflect this change.

## Private Passenger Automobile Claims

- (1) After further review, the violation for CPA004 found on Review sheet # 1995276245 has been withdrawn from the Report. However, the violation of CPA004 found on Review sheet #1413234651 relates to the failure to report a water damaged vehicle to the Department of Motor Vehicles (DMV). That violation remains in the Report. The Company had fourteen (14) months within which to report this information to DMV.

The violation for CPA016 remains in the Report. The Company advised the insured that the coverage was in question pending diagnostic tests. The file states, "...we had contacted the NI yesterday in regards the need for a diagnostic test to advise if this is a covered loss. AEI stated that he would write for the inside of the vehicle, however, he would be unable to determine if a covered loss." The Company then paid the loss in the amount of \$5,783.82 without documenting the claim file regarding how the Company determined coverage.

After further review, the violation for CPA025 has been withdrawn from the Report.

The violation for CPA029 remains in the Report. The file is not sufficiently documented to determine the basis for the Company's decision regarding coverage, liability or the transfer of payments from one file to another as well as the log notes from two different files intertwined and unexplained. Review sheet 869308486 relates to the Company's failure to investigate this claim and as such is not a duplicate violation.

After further review, the violation for CPA055 has been withdrawn from the Report.

The violation for CPA066 remains in the Report. The Company was notified of a lien on March 6, 2014. The Company negotiated settlement with the claimant on March 11, 2014 and settled with the claimant on March 12, 2014 without advising her that the settlement included a stipulation that the claimant pay an outstanding lien from the settlement. The Company did not advise the claimant of this significant change in the settlement until March 26, 2014. The file is not documented regarding the reason for not telling the claimant about a lien that the Company was fully aware of at the time of negotiation and acceptance of the offer.

The violation for CPA077 remains in the Report. Although the Company can now decipher the claim notes and explain the inaccuracies and undocumented events, the file as it was reviewed during the examination was not able to be reconstructed.

After further review, the violation for CPA078 has been withdrawn from the Report.

After further review, the violation for CPA110 has been withdrawn from the Report.

The violation for CPA118 remains in the Report. This accident occurred on February 20, 2014. The Company advised the insured of her coverages on February 25, 2014. The next contact with the insured was July 19, 2014. This claim file is not documented to explain the lapse in contact from February 25, 2014 to July 19, 2014.

After further review, the violation for CPA143 has been withdrawn from the Report.

The violation for CPA151 remains in the report. The Bureau reviewed this claim on November 5, 2014. At that time, the last update in the claim file was August 27, 2014. The file was open but not documented with regard to the subrogation recovery efforts.

After further review, the violation for CPA153 has been withdrawn from the Report.

(2a) After further review, the violation for CPA077 has been withdrawn from the Report.

(2d) The violation for CPA021 remains in the Report. The Company did not advise the insured that UMPD included rental coverage. Review Sheet 1415283602 relates to the Company misinforming the insured of the provisions of the policy. The policy does not require a police report as a condition of payment. Review sheet 1765061461 relates to the Company's failure to make a prompt settlement of the claim based on misinforming the insured regarding the provisions of the policy.

The violation for CPA027 remains in the Report. This loss occurred December 16, 2013. As of October 2014, the Company had not advised the insured regarding coverage under his policy. Review sheet 681412149 relates to the Company's failure to respond in a timely manner to a medical bill presented for payment on March 12, 2014 and, according to the Company's response, not paid until August 18, 2015. This is not a duplicate violation.

The violation for CPA033 remains in the Report. This was a UMPD claim wherein the insured had excess rental coverage under UMPD and was not informed of such. Insureds must be advised of all applicable coverages. The Company had no way of knowing that this coverage would not be applicable at the time of the initial loss report.

The violation for CPA048 remains in the Report. The insured was not cited for failure to control because the police accepted her version of the accident. Further, there was no question that the phantom vehicle was passing on a double yellow line which caused the insured to move right. The road did not



have a shoulder and the insured subsequently lost control. The Company's liability decision was made without considering the police report or the insured's statement. The decision was made based on a witness who said he could not "say one way or the other" if the phantom vehicle caused the accident because the phantom vehicle was "significantly ahead of him". There is no evidence that the insured's version was proven to be incorrect. Therefore, the insured should have been informed of her ability to pursue a UMPD claim. Review Sheet 48949423 relates to the Company's failure to pay the claim under UMPD and the Company's obligation to repay the insured her \$300.00 deductible and is therefore not a duplicate violation.

- (5) After further review, the violation for CPA051 has been withdrawn from the Report.

The violation for CPA040 remains in the Report. The Company did not pay the charges on the bill and therefore a denial letter was required. Review Sheet 1627098190 relates to the Company's failure to pay the insured what was owed under the policy. The Company did not pay the insured, did not advise the insured the reason for not paying and still owes the insured \$247.33 plus six percent (6%) interest.

- (6) After further review, the violation for CPA067 has been withdrawn from the Report. The Report has been renumbered to reflect this change. The Company should note that no payment was made on this claim at the time of the examination.

- (7a) The violation for CPA048 remains in the Report. The Company did not have sufficient evidence to deny the UMPD claim. The insured was not cited for failure to control because the police accepted her version of the accident. Further, there was no question that the phantom vehicle was passing on a double yellow line which caused the insured to move right. The Company made a liability decision without considering the police report or the insured's statement. The decision was based on a witness who said he could not "say one way or the other" if the phantom vehicle caused the accident because the phantom vehicle was "significantly ahead of him". With regard to Review Sheet 1230885802, see above (2d).

- (7b) The violation for CPA029 remains in the Report. The Company did not advise the insured that a Collision Damage Waiver (CDW) would not be reimbursed. The Company cannot presume the insured was told when there is no documentation of such in the claim file.

The violation for CPA150 remains in the Report. The Company's claim file is contradictory in content. The insured advised the Company on June 20, 2014, "NI has rented vehicle. NI will submit receipt for direct reimb." The Company did not advise the insured that she could not obtain a rental. On June 25, 2014, the Company's file states, "No R Cov". On June 26, 2014, the Company's file states that the insured called and "...she wants to know about

rental". On June 27, 2014, the Company noted in their file that the insured did not use her rental, "R did not use". Either the insured did not obtain a rental because she was misinformed about coverage or the insured did obtain a rental. The Company needs to determine what the facts are in this claim.

- (7c) The Company did not address CPA006 in its Response, but has failed to make the requested restitution.

The violation for CPA035 remains in the Report. The Company incorrectly used the April 2014 NADA valuation. The Company has not sufficiently explained why the July 2014 NADA valuation was not appropriate to use in October 2014. The Company should have used the most current valuation which was July 2014.

The Company included its response to Review sheet #721980735 in this section of the Report. However, this review sheet for CPA019 applies to subsection 7f. The Bureau has responded to the Company's concerns in that area.

- (7d) The violation for CPA007 remains in the Report. The Bureau responded to the Company on March 5, 2015 advising the Company that the amount of \$198.00 was agreeable. The Company had been previously advised not to make restitution without the required six percent (6%) interest. The Company still owes this insured six percent (6%) interest.

The violation for CPA027 remains in the report. First, the Company did not make payment until after the file was examined by the Bureau. Second, the Company was expressly advised that all restitution must include six percent (6%) interest. The Company owes this insured an additional six percent (6%) interest.

- (7e) After further review, the violation for CPA078 has been withdrawn from the Report.

The violation for CPA126 remains in the Report. The Company did not advise the insured that CDW would not be covered until after the expense was incurred. The conversation of May 24, 2014 clearly does not address CDW. There are no notes in this file indicating that CDW was discussed prior to the insured getting the rental vehicle.

- (7f) The violation for CPA019 remains in the Report. The evaluation for the total loss and subsequent payment by the Company did not include the insured's request for the additional \$3,000.00 in parts that he added to the motorcycle prior to the loss. The Company should contact the insured and determine if additional monies are owed to the insured.

- (8b) The violation for CPA037 remains in the Report. The Company wrote an estimate on the insured's 2014 Porsche damaged in an accident June 9,

2014. The estimate included prices for parts that were out of date and did not apply to this repair. The Company's estimate was \$29,646.00 which was twenty nine percent (29%) of the Actual Cash Value (ACV). The Company then concluded, based on an inaccurate estimate, as well as unknown mileage when the estimate was written, that this vehicle was a total loss even though the ratio of repair to ACV was significantly under the total loss threshold used by the Company in other total loss claims. The Company settled this total loss for \$98,676.00 and collected a salvage return of \$41,889.00. There is no evidence that this vehicle was a total loss.

(11) The violation for CPA121 remains in the Report. The Company never obtained a police report. If a police report was critical to the investigation into identifying insurance coverage on a hit-run vehicle, the Company should have pursued it instead of closing the file. This violation is for misrepresenting the policy provisions. The policy does not require a police report if the insured reports the loss to the Company. The violation under Review Sheet 1765061461 is a violation for the extensive delay in paying the claim as a result of misrepresentation of the provisions of the policy. Review sheet 846191852 is a violation for failing to advise the insured that she had rental coverage available under her policy. The Company has stated that they disagree with the three violations, but has failed to address the violations for CPA019 and CPA095.

(12) After further review, the violation for CPA029 has been withdrawn from the Report. Review sheet 86903523 is a violation for failing to properly document the claim file and is not a duplicate violation. The information provided in the Company's response to Review sheet 869308486 was not in the Company's claim file at the time of the examination.

The violation for CPA035 remains in the Report. The Company did not complete any investigation into the reasons for the denial of coverage from the other carriers. The Company remains unaware of the facts surrounding the coverage decisions.

After further review, the violation for CPA151 has been withdrawn from the Report.

(13) The violation for CPA024 remains in the Report. The Company sent the lienholder payment on January 31, 2014. The lienholder ignored the Company's requests for the title. The Company failed to reimburse the insured's deductible until April 6, 2015, after the file was reviewed in this examination. The Company did not make any effort to contact the DMV to determine how the title issue could be resolved and avoid the significant delay in reimbursing the insured's deductible.

The violation for CPA121 remains in the Report. The Company never obtained a police report. If a police report was critical to the investigation into identifying insurance coverage on a hit-run vehicle, the Company should have

pursued it instead of closing the file. The violation for Review sheet 1415283602 is a violation for misrepresenting the policy provision which does not require a police report if the insured reports the loss to the company. The violation under Review sheet 1765061461 is a violation for the extensive delay in paying the claim as a result of misrepresentation of the provisions of the policy. Review sheet 846191852 is a violation for failing to advise the insured that she had rental coverage available under her policy.

The violation for CPA123 remains in the Report. This 78 year old insured sustained a fractured pelvis, ankle and ribs, among other injuries. On April 13, 2014, the insured requested that the Company pay for a handrail installed in his home upon his release from rehabilitation. The authorization for the handrail is dated May 1, 2014. On July 10 2014, the Company finally allowed the expense. However, the payment was not made until August 26, 2014. The Assignment of Benefits (AOB) in the file is not valid. The insured should have been advised that he could choose to have the bills paid directly to him based on invalid AOB's.

The violation for CPA134 remains in the Report. The loss was reported March 30, 2014. The car was supposed to have been moved by the Company March 31, 2014. As of April 1, 2014, the car had not been moved. On April 2, 2014, the car was moved to the wrong place. On April 24, 2014, the insured called upset with the various delays because he was still paying the interest on the loan and was still awaiting settlement. On April 24, 2014, the Company finally paid the settlement and sent the settlement documents to the insured.

The violation for CPA146 remains in the Report. The insured's sun roof glass was shattered. The claim was reported June 5, 2014. The Company completed an estimate, paid and closed the claim on June 16, 2014. It appears the insured may not have responded to a phone call in the interim. On June 17, 2014, a supplement was requested due to a \$2,400 difference with the BMW repair facility estimate and the Company's estimate. The Company delayed in reviewing the request for a supplement and payment was not made for the difference until June 30, 2014 resulting in a final repair date of sometime after July 1, 2014. During this delay, the insured's vehicle was not drivable and the insured called numerous times trying to get approval for the supplement.

- (15a) The violation for CPA015 remains in the Report. The Company advised the Bureau at the beginning of the examination that lienholders were included on all payments for "Non-Select Service Repair Facilities" as is the situation in this claim.

After further review, the violation for CPA035 has been withdrawn from the Report.

## Other Law Violations

The violation for CPA004 remains in the Report. This loss occurred July 28, 2013. As of October 13, 2014, fourteen (14) months later, the required report had not been filed with the DMV. The Company filed the required form after the claim file was examined by the Bureau. This is a violation of § 46.2-624 of the Code of Virginia. The violation for Review sheet 199527645 was a violation of Virginia Regulation 14 VAC 5-400-30 for failing to have a copy of the title in the claim file.

## Homeowner Claims

- (1) After further review, the violation for CHO003 has been withdrawn from the Report.

Review sheet 16155287 is not a duplicate of Review sheet #670305294. This violation has been addressed in section (6a).

The Company has referenced a review sheet number that is not applicable to this examination. It appears that the Company response applies to CHO044. The violation for CHO044 remains in the Report. It is the responsibility of the Company to investigate the claim and to obtain documents in regards to the coverages, i.e. condominium association bylaws.

After further review, the violation for CHO073 has been withdrawn from the Report.

The violation for CHO079 remains in the Report. The violation is for failing to have all applicable documentation in the file. The claim file provided by the Company did not include the invoice in question and the claim notes did not mention the \$114.95 paid on June 4, 2014. The Company's response did not include sufficient documentation to support this payment.

- (2a) The violation for CHO001 remains in the Report. The violation is for failing to inform the insured of ALE. The claim file notes indicate that ALE was not applicable since this was his second home. The Virginia home is his primary residence while visiting Virginia. Review sheet #589221159 is not a duplicate. This violation has been addressed in section (4b).
- (2b) The violation for CHO026 remains in the Report. At the time of the examination the insured had not been informed of the replacement cost benefits under his personal property coverage.
- (3) This violation for CHO011 remains in the Report. The Company discussed the denial of the passport with the Public Adjustor but did not provide the insured with a written denial. The Virginia Administrative Code states that any denial of a claim must be given in writing.

This violation for CHO026 remains in the Report. The claim file notes of October 9, 2013, identify a discussion between the insured and the claim representative regarding additional living expenses. The Company denied items submitted by the insured on October 9, 2013 and failed to send the insured a denial letter. The Virginia Administrative code states that any denial of a claim must be given in writing.

(4a) After further review, the violation for CHO023 has been withdrawn from the Report.

(4b) Review sheet 1578346066 does not pertain to Virginia Administrative Code 14 VAC 5-400-70 D; this review sheet was addressed in Item (2a).

After further review, the violation for CHO001 has been withdrawn from the Report.

The violation for CHO022 remains in the Report. The Company should have reimbursed the insured for the additional expense of the family's meals. However, the portion of the violation pertaining to the security deposit has been withdrawn.

Review sheet #1412946680 is not a duplicate; this violation has been addressed in Item (6a) of the Report.

(6a) After further review, the violation for CHO003 has been withdrawn from the Report.

This violation for CHO005 remains in the Report. The insured inquired about ALE on November 6, 2013 and again on November 7, 2013 when the Company advised the insured that ALE coverage is for truly uninhabitable homes. The Company further advised the insured that they would take her husband's medical condition into consideration for ALE. The Company should have offered ALE at the start of the covered loss since their standard of living had been compromised by the noise and their allergic reaction to drywall.

After further review, the violation for CHO025 has been withdrawn from the Report. This violation was rewritten and is now cited under Item (6b) of the Report.

The violation for CHO022 remains in the Report. The Company advised the insured the Company could advance payment under their personal property loss for the temporary housing security deposit. The security deposit is an increased cost necessary to maintain their normal standard of living and should have been advanced under the ALE coverage.

(8) This violation for CHO009 remains in the Report. The claim file did not include a copy of the Condominium Association Contract and without the

contract the Company would not be able to determine the primary coverage. Additionally, without the contract the Company would not know if the claim did not exceed the master policy deductible.

- (9) This violation for CHO059 remains in the Report. The Company was not investigating all documents and/or invoices sent in by the insured on June 10, 2014 for the covered loss. The Company should have paid ACV on personal property and paid for the work that was performed to mitigate the water damage.
  
- (11b) The violation for CHO042 remains in the Report. The Company has not provided any additional documentation to support their position. The homeowner policy, Section I - Losses Not Insured 1.e.2 and 1.h, does not cover continuous seepage or leakage of water from household appliance or mold, fungus or wet or dry rot. The claim file notes of December 31, 2013 indicate (1) "Mold remediation needed in kitchenette, bathroom and storage area. This appears to have been a separate, earlier occurrence that has overlapped with this loss." and (2) "Due to extent of mold in these areas, not likely to have occurred within the time frame of dishwasher leak."

#### **Automobile New Business Policy Issuance**

- (1) These violations remain in the Report. The forms listed on the declarations page are a summary of the applicable forms. Listing the Medical Expense Benefits, Income Loss, Loss Payable, Towing and Labor, and Transportation Expenses endorsements on the declarations page implies that these forms are applicable.
  
- (2) These violations remain in the Report. The Company was instructed in the Data Call, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policies provided by the Company did not include the Notice of Information Collection and Disclosure Practices.
  
- (3) These violations remain in the Report. The Company was instructed in the Data Call, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policies provided by the Company did not include the Notice of Financial Information Collection and Disclosure Practices.
  
- (4) These violations remain in the Report. The Company was instructed in the Data Call, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policies provided by the Company did not include the Credit Score Disclosure Notice.

### **Homeowner New Business Policy Issuance**

- (1) The violations for MHO001 and MHO002 remain in the Report. The forms listed on the declarations page are a summary of the applicable forms. Listing the Option JF, Jewelry and Furs endorsement and Option ID, Increased Dwelling Limits endorsement on the declarations page implies that these forms are applicable.

### **Homeowner Renewal Business Policy Issuance**

The violations for MHO004, MHO005, and MHO006 remain in the Report. The Company was instructed in the Data Call, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a renewal business policy. The policies provided by the Company did not include the Notice of Financial Information Collection and Disclosure Practices.

### **General Statutory Notices**

- (1) The violation for NGS004 remains in the Report. The notice reviewed by the Bureau was not in compliance with § 38.2-604.1 B of the Code of Virginia. The Companies provided notice 153-4254 a.12 in their April 2, 2015 response. This notice was not indicated by the Companies as a notice used during the examination period. In addition, the Companies cannot provide a completely separate notice in response to violations found on notice 153-1048.4 7/12 (C). Furthermore, the Companies provided notice 153-1048.4 7/12 (C) in their response to the Report for the violations found in the policy issuance section of the examination.
- (2) The examiners have added a fourth violation for the Company's AUD notice not complying with § 38.2-610 A of the Code of Virginia. The Company provided an AUD notice, 139395, in response to a violation for RPA105. Review Sheet -1651699529 has been enclosed for newly added review item NGS013.

### **Statutory Vehicle Notices**

- (2) The violations for NSV003, NSV004, and NSV005 remain in the Report. Section 38.2-2234 A1 states the following "Disclose, either on the insurance application or at the time the insurance application is taken (i) that it shall obtain credit information in connection with such application." The Company used credit on all automobile policies reviewed by the Bureau in the Rating & Underwriting section of the exam. In order to properly comply with the Statute, the Company should change the word "may" to "shall".



### **Statutory Property Notices**

- (2) The violation for NSP008 remains in the Report. Section 38.2-2126 A1 states the following "Disclose, either on the insurance application or at the time the insurance application is taken (i) that it shall obtain credit information in connection with such application." The Company used credit on all homeowner policies reviewed by the Bureau, in the Rating & Underwriting section of the exam. In order to properly comply with the Statute, the Company should change the word "may" to "shall".

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating Review**

- (3) The Companies should make the outstanding restitution as indicated in the revised Restitution Spreadsheet enclosed.

The Company's response did not indicate why only \$52.06 was paid to the insured for RPA034 instead of \$611.06.

Please identify the recipient of the account credit of \$8.05 for RPA092 in the Revised Restitution Spreadsheet. The Company's spreadsheet only named the recipient as SFPP.

- (4) Please provide the estimated completion dates to correct the display of coverage limits and premium on the declarations page.
- (5) Please provide the implementation date of the new procedure for showing the correct effective date on the declarations page.
- (7) Please explain the changes implemented to ensure declarations pages can be recreated and when these policies and procedures were implemented.
- (8) Please provide the implementation date for the new policies and procedures to appropriately assign points under the Safe Driver Insurance Plan.
- (10) Please provide the implementation date for the new policies and procedures to provide the Credit Adverse Action notice.

### **Termination Review**

- (3) The Company should pay the outstanding restitution of \$278.84 to the insured for THO010.

- (4) Please provide estimated completion dates to correct the Companies' AUD notices.

### **Claims Review**

- (3) The Company should make the outstanding restitution to insureds and claimants as indicated in the Revised Restitution Spreadsheet enclosed.

The Company only made restitution of \$10.01 to the claimant of CPA009 instead of \$164.97. The Company should explain the reason for the reduced restitution.

### **Forms Review**

Please provide the estimated completion date to correct the title and add the omitted language to the Excess Electronic Equipment Coverage form.

### **Policy Issuance Review**

- (1) Please provide the implementation or estimated completion date to use individual endorsements and remove superseded endorsements from the declarations page.

### **Statutory Notices Review**

- (1) Please provide the corrected Glass Script for review.
- (2) The Companies should amend the Notice of Financial Information Collection and Disclosure Practices (notice 153-1048.4 7/12) to comply with § 38.2-604.1 of the Code of Virginia.
- (3) Please provide the estimated completion date to correct the Companies' AUD notices.

### **Licensing and Appointments**

- (1) Please provide the implementation date of the new policies and procedures to reproduce declarations pages.
- (2) Please provide the implementation date of the new policies and procedures to ensure agents are properly licensed.
- (3) Please provide the implementation date of the new policies and procedures to ensure agents are appointed as required by the statute.

## **Complaint Handling Review**

Please explain what changes have been made to the complaint register format to be in compliance with the statute.

### **PART THREE – EXAMINERS’ RECOMMENDATIONS**

#### **Rating**

- Please provide the estimated completion date for correcting the declarations to show Towing and Labor Cost Coverage and the corresponding limits.

#### **Claims**

- The Companies did not have a business practice wherein there was a \$5,000.00 threshold for excluding lienholders on checks. The Company advised the Bureau in an email on October 3, 2014 of the following:

“In Auto, we do not have a monetary mandatory limit regarding co-payable drafts to lienholders. When a lienholder is present, if a Select Service repair facility is involved we pay the repair facility directly on behalf of the insured or we make the payment co-payable to the insured and the repair facility. If a Non-Select Service repair facility is chosen by the insured we co-pay the insured and the lienholder. In total loss situations we pay the lienholder directly and the balance, if any, is paid to the insured. If requested by the insured we will co-pay the lienholder and the insured.”

The Companies have either revised their practice since the examiners were on site or the Companies’ October 3, 2014 response did not accurately reflect the Companies’ practice during the examination period. The Companies should respond to the Bureau with a revised response that reflects the Companies’ practice going forward.

- The recommendation relating to the right of rescission has been removed from the Report.

#### **Statutory Notices**

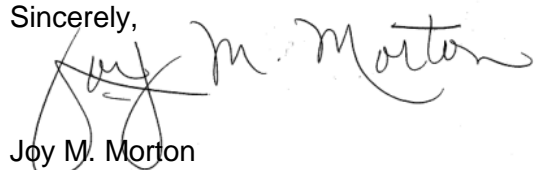
- This recommendation has been withdrawn from the Report since the TDD number was deactivated after the Preliminary Report was written.

## Other Notices

- This item has been added to address the three homeowner applications not including the fraud statement as required by § 52-40 of the Code of Virginia.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Companies' response to this letter is due in the Bureau's office by July 20, 2016.

Sincerely,



Joy M. Morton  
BOI Manager  
Market Conduct Section  
Property and Casualty Division  
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August 30, 2016

Joy M. Morton, BOI Manager  
Market Conduct Section, Property & Casualty Division  
PO Box 1157  
Richmond, VA 23218

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC # 25143)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Morton:

## PART ONE – THE EXAMINERS OBSERVATIONS

### Automobile New Business Rating

(3a) We continue to disagree with the Bureau's assessment of RPA078 / 435007727. MG was a member of the household at the time the application was written effective December 20, 2013. Even though WB was not listed on the application as a driver, because they reside at the same address, we consider WB a driving exposure. Due to WB's at-fault accident on July 19, 2012, MG does not qualify for the Good Driver Discount. See exhibit A.

We continue to disagree with the Bureau's assessment of RPA082 / 1199788067. State Farm's business practice is to review grades to determine qualification for the Good Student Discount per rate manual rules B1 and B2 and make a household note as to discount eligibility. We receive the grade reports from various sources and do not require they become a permanent record, only reviewed. See exhibit for household note noting that we extended discount based on documents received. See exhibit B.

We appreciate the Bureau's reconsideration of RPA084 / 1891026880.

Joy M. Morton, BOI Manager  
August 30, 2016  
Page Two

We continue to disagree with the Bureau's assessment of RPA093 / 1331095868, however, we have no additional information to offer.

(3b) We appreciate the Bureau's reconsideration of RPA037 / 19188803.

(3c) We continue to disagree with the Bureau's assessment of RPA018 / 1643139339, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of RPA020 / 552240137.

We remediated RPA023 / 1914545128, RPA048 / 904662307, RPA067 / 2035220454, and RPA079 / 1152439342. We have no additional information to offer on the remaining citations.

(3d) We continue to disagree with the Bureau's assessment of these violations, however, we have no additional information to offer:  
RPA019 / 1782089673, RPA034 / 1020300702, RPA042 / 2102670682, RPA071 / 141885015, RPA090 / 2059079560, RPA092 / 2107126946, and RPA099 / 1466383997.

(3e) We continue to disagree with the Bureau's assessment of RPA019 / 1800541501, however, we have no additional information to offer.

We have remediated RPA024 / 72969970.

We appreciate the Bureau's reconsideration of RPA036 / 281255302.

We have remediated RPA048 / 1745600806.

We continue to disagree with the Bureau's assessment of RPA067 / 1212915565. For reconsideration, we have provided a screen shot of the credit score information. See exhibit C.

We continue to disagree with the Bureau's assessment of RPA082 / 282055442, however, we have no additional information to offer.



We continue to disagree with the Bureau's assessment of RPA089 / 608706893. We have included the loss history report showing three losses in 2013 which were used to establish CRI. The original version of the LHR was no longer available due to age, and the restored version used stored information from the original and displays it in an excel format. The highlighted losses, all of which occurred in 2013, are displayed in a YYYY/MM/DD format. See exhibit D.

We continue to disagree with the Bureau's assessment of RPA090 / 2036716698. We have included file documentation that establishes the insured was at fault and what we paid under the bodily injury and property damage liability coverages. See exhibit E.

We continue to disagree with the Bureau's assessment of RPA093 / 733847335, and provided a legible copy that establishes a second policy in the household with an H Coverage claim. This claim affected the CRI of the policy in question. See exhibit F.

We continue to disagree with the Bureau's assessment of RPA096 / 18273784, however, we have no additional information to offer.

- (3f) We appreciate the Bureau's reconsideration of RPA036 / 1922077011.
- (3g) We appreciate the Bureau's reconsideration of RPA022 / 1149797280.
- (3h) We have remediated RPA075 / 1414522100.
- (4) We have provided a copy of page 2 of the cancellation notice for RPA007 / 983631964. See exhibit G.

#### **Automobile Renewal Business Rating**

- (2) We appreciate the Bureau's reconsideration of RPA105 / 1562125352.
- (3) We have remediated RPA168 / 1164589073.
- (4a) We appreciate the Bureau's reconsideration of RPA106 / 308089122.

We have remediated RPA179 / 681204542.

We continue to disagree with the Bureau's assessment of RPA182 / 1782611320, however, we have no additional information to offer.

We have provided additional information for RPA189 / 612026938. A 2001 Chrysler replaced the 1993 Volvo on June 3, 2004. The exhibit identifies which digit of the classification code indicates the amount of the Accident Free Discount. See exhibit H.

(4b) We appreciate the Bureau's reconsideration of RPA106 / 1249404511.

We have provided a screenshot for RPA183 / 151134629 that shows the 2004 Ford Taurus was a state to state transfer effective August 9, 2012 from policy number XXXX539-11. It had earned a 10 year accident free discount. The exhibit identifies the digit of the classification code that indicates the discount and provides the amount. We did not apply the category A surcharge for the May 2, 2011 loss as Rate Section Rules, Accident Record Rating Plan, Section F of our rule manual states:

*" If there has been a chargeable accident and the policy has been in force at least nine years and there have been no chargeable accidents during the nine years preceding the date the accident becomes chargeable, the discount will continue."*

See exhibit I.

(4c) We continue to disagree with the Bureau's assessment of RPA102 / 919633933, RPA180 / 2113241513, RPA192 / 510671681, RPA111 / 1288577181, RPA135 / 1837517875, RPA149 / 1494331831, RPA169 / 411812517, and RPA173 / 132486947, however, we have no additional information to offer.

We have remediated RPA124 / 930151521.

(4d) We continue to disagree with the Bureau's assessment of RPA181 / 1216795343, however, we have no additional information to offer.

We have remediated RPA124 / 498271739.



We continue to disagree with the Bureau's assessment of RPA149 / 1475841029, however, we have no additional information to offer.

- (4e) We have remediated RPA101 / 1327823871, RPA168 / 1596206873, RPA105 / 133243463, RPA160 / 1066759511, and RPA164 / 1839753569.
- (4f) We continue to disagree with the Bureau's assessment of RPA119 / 336878132, however, we have no additional information to offer.

We have remediated RPA184 / 955011368.

- (4g) We continue to disagree with the Bureau's assessment of this issue, for the reasons cited in our January 4, 2016 response. We have no additional information to offer.
- (4h) We are providing the score history on RPA121 / 1277165722 for vehicle1, the 2001 Pathfinder, and for vehicle 2, the 2003 Sentra. See exhibit J.

For RPA 135 / 2054715597, the score history shows two different scores, 585 for underwriting eligibility and 596 for rating. From March 30, 2009 to November 5, 2012, we used different scores for underwriting and rating. The models used the same credit information but underwriting considered 3 years of prior claims while the rating model only used one year of prior claims. The rating score of 596 was used to rate the policy. See exhibit K.

### **Homeowner New Business Rating**

- (1) We appreciate the Bureau's reconsideration of RHO037 / 2107175335.
- (3a) We appreciate the Bureau's reconsideration of RHO037 / 2119611517.

### **Homeowner Renewal Business Rating**

- (1) We appreciate the Bureau's reconsideration of RHO128 / 1443104161.

- (3a) We continue to disagree with the Bureau's assessment of RHO119 / 1892625844, RHO135 / 1592660460, RHO199 / 893194132, RHO128 / 1078411246, and RHO138 / 1800467854, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of RHO177 / 888201552, RHO181 / 1216451640, and RHO183 / 2108223692.

We continue to disagree with the Bureau's assessment of RHO188 / 307942982 and RHO190 / 1249627398, however, we have no additional information to offer.

- (3b) We appreciate the Bureau's reconsideration of RHO165 / 1417548162.
- (4) We continue to disagree with the Bureau's assessment of RHO124 / 1887569717, however, we have no additional information to offer.

#### **Automobile Cancellation Notices Mailed Prior to the 60<sup>th</sup> Day**

- (1) We continue to disagree with the Bureau's assessment of TPA003 / 2005692127, however, we have no additional information to offer.
- (2) We appreciate the Bureau's reconsideration of TPA008 / 1535644500.

We continue to disagree with the Bureau's assessment of TPA039 / 42662665, however, we have no additional information to offer.

#### **Automobile Cancellation Notices Mailed After the 59<sup>th</sup> Day**

- (2a) We continue to disagree with the Bureau's assessment of TPA058 / 383586645, however, we have no additional information to offer.

#### **Automobile Nonpayment of Premium Cancellations**

- (1) We continue to disagree with the Bureau's assessment of TPA061 / 580255280, however, we have no additional information to offer.

#### **Automobile Insured Requested Cancellations**

We continue to disagree with the Bureau's assessment of TPA109 / 1567210559 and TPA111 / 1089512077, however, we have no additional information to offer.

Joy M. Morton, BOI Manager  
August 30, 2016  
Page Seven

We appreciate the Bureau's reconsideration of TPA113 / 449653863, TPA114 / 1430087113, and TPA115 / 1916961509.

#### **Automobile Rejected Applications**

We continue to disagree with the Bureau's assessment of TPA129 / 532850581, however, we have no additional information to offer.

#### **Homeowner Cancellation Notices Mailed Prior to the 90<sup>th</sup> Day**

- (1) We appreciate the Bureau's reconsideration of THO002 / 2076880993.
- (2) We appreciate the Bureau's reconsideration of THO002 / 1093409939.
- (3) We appreciate the Bureau's reconsideration of THO002 / 1365472183.

#### **Homeowner Cancellation Notices Mailed After the 89<sup>th</sup> Day**

- (1) We remediated THO010 / 1194207280.
- (2) We appreciate the Bureau's reconsideration of THO010 / 1016090906, THO012 / 2052013048, and THO019 / 603278647.
- (3) We appreciate the Bureau's reconsideration of THO012 / 249396076 and THO19 / 968747365.
- (4) We continue to disagree with the Bureau's assessment of this issue, however, we have no additional information to offer.

#### **Homeowner Insured Requested Cancellations**

We appreciate the Bureau's reconsideration of THO043 / 1985222205 and THO047 / 1729186543.

### **Private Passenger Automobile Claims**

- (1) We appreciate the Bureau's reconsideration of CPA004 / 1995276245.

We continue to disagree with the Bureau's assessment of CPA004 / 1413234651, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA016 / 1557768477, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA025 / 180974869.

We continue to disagree with the Bureau's assessment of CPA029 / 869603523, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA055 / 1353966621.

We continue to disagree with the Bureau's assessment of CPA066 / 1923571703, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA077 / 1095015361, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA078 / 1303747839 and CPA110 / 1168051265.

We continue to disagree with the Bureau's assessment of CPA118 / 1360105327, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA143 / 1733260589.

We continue to disagree with the Bureau's assessment of CPA151 / 736597411, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA153 / 1642845943.

- (2a) We appreciate the Bureau's reconsideration of CPA077 / 1628425255.

- (2d) We continue to disagree with the Bureau's assessment of CPA121 / 846191852, CPA121 / 1415283602 and CPA121 / 1765061461, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA027 / 1426168427 and CPA027 / 681412149. The requested remediation on CPA027 is \$5,300.00, including interest. The medical payment coverage had a \$2,000.00 limit. The medical bill reimbursement was issued on August 18, 2015 for \$1,054.12. Our check was cashed on September 3, 2015. \$5,300.00 would prompt a double payment in excess of the policy limit. There are no additional medical payments. No interest is owed, as we paid the subrogation claim of the insured's medical provider on the same date it was received. See exhibit L.

CPA033 / 2050268506 has been remediated.

We continue to disagree with the Bureau's assessment of CPA048 / 1230885802 and CPA048 / 489494231. We listened to the recorded statements of the driver of the insured vehicle (DIV) and the independent eye witness (IEW). The driver of the insured vehicle claims an unidentified motor vehicle passed her from the rear, going over the yellow line forcing her off of the road. The driver of the insured vehicle's father chimed in during the recorded statement, confirming the DIV's story. The father was not in the insured vehicle or at the scene when the accident occurred. He is not an eyewitness.

The driver of the insured vehicle provided us the name of an independent eye witness who we interviewed. The IEW was traveling behind claimant vehicle. Both the IEW and the claimant vehicle (CV) were traveling in the opposite direction of the insured vehicle on this two lane road. The IEW states the claimant vehicle passed the insured vehicle. Shortly thereafter the insured vehicle went off the road. The IEW notes that all three vehicles, the IV, the CV and IEW vehicle, were on their side of the road. The IEW does not report any vehicle behind the insured vehicle passing the insured vehicle on the IV's left. The IEW would have seen this as this "vehicle" would have been approaching IEW head on in his lane. Based on the IEW we did not extend UM coverage to the DIV.

- (5) We appreciate the Bureau's reconsideration of CPA051 / 540573335.

CPA040 / 1788408431 has been remediated.

- (6) We appreciate the Bureau's reconsideration of CPA067 / 1007235670.



- (7a) We continue to disagree with the Bureau's assessment of CPA048 / 489494231, and CPA048 / 1230885802. We listened to the recorded statements of the driver of the insured vehicle (DIV) and the independent eye witness (IEW). The driver of the insured vehicle claims an unidentified motor vehicle passed her from the rear, going over the yellow line forcing her off of the road. The driver of the insured vehicle's father chimed in during the recorded statement, confirming the DIV's story. The father was not in the insured vehicle or at the scene when the accident occurred. He is not an eyewitness.

The driver of the insured vehicle provided us the name of an independent eye witness who we interviewed. The IEW was traveling behind claimant vehicle. Both the IEW and the claimant vehicle (CV) were traveling in the opposite direction of the insured vehicle on this two lane road. The IEW states the claimant vehicle passed the insured vehicle. Shortly thereafter the insured vehicle went off the road. The IEW notes that all three vehicles, the IV, the CV and IEW vehicle, were on their side of the road. The IEW does not report any vehicle behind the insured vehicle passing the insured vehicle on the IV's left. The IEW would have seen this as this "vehicle" would have been approaching IEW head on in his lane. Based on the IEW we did not extend UM coverage to the DIV.

- (7b) CPA029 / 985697060 has been remediated. The remediated amount based on the bill we received from the rental company plus interest is \$167.83.

We continue to disagree with the Bureau's assessment of CPA150 / 695222240. On August 11, 2016, we contacted the insured. She had not secured a rental vehicle for the time period the insured vehicle was not operational. 042 is for expenses incurred. No rental expenses were incurred and therefore there is no 042 claim for rental expense. See exhibit M.

- (7c) CPA006 / 1819490128, we have provided a screenshot of the payment screen showing payment made October 16, 2014. See exhibit N.

We continue to disagree with the Bureau's assessment of CPA035 / 2120669902. Total loss calculations are run as of the date of the loss. This loss occurred in April of 2014 and we used the April NADA Guide. Please see our initial response on the review sheet. April NADA Guide was used, as damages are assessed on the day they occurred. Please note, the Bureau acknowledged payment under 15a.

(7d) The requested interest remediation on CPA007 / 1879388563 has been paid.

We continue to disagree with the Bureau's assessment of CPA027 / 681412149. The requested remediation on CPA027 is \$5,300.00, including interest. The medical payment coverage had a \$2,000.00 limit. The medical bill reimbursement was issued on August 18, 2015 for \$1,054.12. Our check was cashed on September 3, 2015. \$5,300.00 would prompt a double payment in excess of the policy limit. There are no additional medical payments. No interest is owed, as we paid the subrogation claim of the insured's medical provider on the same date it was received. See exhibit L.

(7e) We appreciate the Bureau's reconsideration of CPA078 / 220327016.

CPA126 / 1256425160 has been remediated.

(7f) CPA019 / 721980735 has been remediated.

(8b) We continue to disagree with the Bureau's assessment of CPA037 / 1534720138, however, we have no additional information to offer.

(11) We continue to disagree with the Bureau's assessment of CPA121 / 1415283602, however, we have no additional information to offer.

We do not contest CPA019 / 1412858614 and CPA095 / 1414420599.

(12) We appreciate the Bureau's reconsideration of CPA029 / 869308486.

We continue to disagree with the Bureau's assessment of CPA035 / 750516277, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA151 / 1415194899.

- (13) We continue to disagree with the Bureau's assessment of CPA024 / 1945082118, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA121 / 1765061461, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA123 / 1415627669, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA134 / 1415028337, however, we have no additional information to offer.

We continue to disagree with the Bureau's assessment of CPA146 / 583230132, however, we have no additional information to offer.

- (15a) We continue to disagree with the Bureau's assessment of CPA015 / 19257694, however, we have no additional information to offer.

We appreciate the Bureau's reconsideration of CPA035 / 800572346.

### **Other Law Violations**

We continue to disagree with the Bureau's assessment of CPA004 on this issue, however, we have no additional information to offer.

### **Homeowner Claims**

- (1) We appreciate the Bureau's reconsideration of CHO003 / 670305294 and CHO073 / 1518847734.

We continue to disagree with the Bureau's assessment of CHO044 / 1443711124 and CHO079 / 1231945182, however, we have no additional information to offer.

- (2a) On CHO001 / 1578346066, we contacted the insured on November 24, 2015. The insured advised that they would not be filing nor had they incurred any additional living expenses (ALE) as they were staying with their parents who were 15 miles from the insured's residence. Coverage under ALE is for cost the insured "incurs". Since no cost was incurred the suggested remediation of \$9,999.00 plus interest was not paid. See exhibit O.



- (2b) We continue to disagree with the Bureau's assessment of CHO026 / 1013296223, however we have no additional information to offer.
- (3) We continue to disagree with the Bureau's assessment of CHO011 / 470784576 and CHO026 / 733794948, however, we have no additional information to offer.
- (4a) We appreciate the Bureau's reconsideration of CHO023 / 948080584.
- (4b) We appreciate the Bureau's reconsideration of CHO001 / 589221159. Please see response above in 2(a) and advise if the reconsideration of "failed to pay" negates the remediation request.

On CHO022 / 1155112189, the issue is additional expenses for family meals. During the time period this request was made, the insureds were staying at a Residence Inn. Each of these units have a kitchen with a refrigerator, range, and microwave. In addition each unit is stocked with the necessary utensils to prepare, cook, and serve meals. Since the insureds had access to a fully stocked and operating kitchen they were not reimbursed for dining out. See exhibit P.

- (6a) We appreciate the Bureau's reconsideration of CHO003 / 161552870.

We continue to disagree with the Bureau's assessment of CHO005 / 1444851225, however, we have no additional information to offer.

We acknowledge that CHO025 / 1413833371 has been moved from 6a to 6b.

We continue to disagree with the Bureau's assessment of CHO022 / 1412946680. We contacted the vendor for the Landlord. The insured paid a \$600.00 security deposit. This deposit was not returned due to cleaning costs. ALE does not provide reimbursement for cleaning costs.

- (8) We continue to disagree with the Bureau's assessment of CHO009 / 1413388336, however, we have no additional information to offer.
- (9) We continue to disagree with the Bureau's assessment of CHO059 / 1762640912, however, we have no additional information to offer.

- (11b) We continue to disagree with the Bureau's assessment of CHO042 / 1413233772, however, we have no additional information to offer.

#### **Automobile New Business Policy Issuance**

- (1) We continue to disagree with the Bureau's assessment of this issue, however, we have no additional information to offer.
- (2) We continue to disagree with the Bureau's assessment of this issue, as consumers did receive these notices consistent with § 38.2 – 604.
- (3) We continue to disagree with the Bureau's assessment of this issue, as consumers did receive these notices consistent with § 38.2 – 604.1.
- (4) We continue to disagree with the Bureau's assessment of this issue, as consumers did receive these notices consistent with § 38.2 – 2234.

#### **Homeowner New Business Policy Issuance**

- (1) We continue to disagree with the Bureau's assessment of this issue, however, we have no additional information to offer.

#### **Homeowner Renewal Business Policy Issuance**

We continue to disagree with the Bureau's assessment of this issue, as consumers did receive these notices consistent with § 38.2 – 604.1.

#### **General Statutory Notices**

- (1) We continue to disagree with the Bureau's assessment of NGS004 / 1597332379, as consumers did receive these notices consistent with § 38.2 – 604.1
- (2) We are awaiting information from the Examiners regarding Review Sheet RPA105 / 1651699529.

#### **Statutory Notices**

- (2) We have updated the notice to change "may" to "shall".

Joy M. Morton, BOI Manager  
August 30, 2016  
Page Fifteen

**Statutory Property Notices**

- (2) We have updated the notice to change “may” to “shall”.

## PART TWO – CORRECTIVE ACTION PLAN

### Rating Review

- (3) The policy for RPA034 was only in force for 17 days. The refund was based on the time period the policy was in force instead of the six month policy period suggested by the Bureau.

The reimbursement for RPA092 was processed as a credit to the recipient's State Farm Payment Plan (SFPP).

- (4) In June 2016, the private passenger automobile declaration pages were updated to display "Towing and Labor Cost Coverage" as well as the limits. As of June 2016, the private passenger automobile declaration pages were updated to display the limits for Death Indemnity and Specific Disability Benefits Coverage and Transportation Expense Coverage.
- (5) The Companies currently have procedures to show the correct effective date.
- (6) The AUD notices have been updated on June 30, 2016.
- (7) The Companies have policies and procedures to provide examiners access to our documents.
- (8) During the time period covered by the examination, the Companies had policies and procedures to address the assignment of points under the Safe Driver Discount Plan. After the exam, these procedures were emphasized with the appropriate employees.
- (9) The Location Rate Factor and Operand were addressed in subsequent rate filings. The added and replacement car will be addressed in the rules filed with our next rate filing.
- (10) During the time period covered by the examination, the Companies had policies and procedures in place to provide Credit Adverse Action Notices. After the exam, these procedures were emphasized with the appropriate employees.

### **Termination Review**

- (3) The suggested remediation of THO010 of \$278.84 was paid on July 26, 2016.
- (4) The AUD notices were updated on June 30, 2016.

### **Claims Review**

- (3) The Company paid \$164.87 of the recommended restitution on CPA009, October 16, 2014. The remaining recommended remediation of \$10.01 was paid on November 25, 2015.

### **Forms Review**

The updated endorsement was implemented May 1, 2016.

### **Policy Issuance Review**

- (1) The 699AG.1 Personal Policy Booklet was discontinued effective April 30, 2015. With the discontinuance of this booklet all endorsements are issued individually. Effective June 19, 2016, superseded policy endorsements will no longer print on renewal declarations pages.

### **Statutory Notices Review**

- (1) The amended glass script is included. See exhibit Q.
- (2) The Notice of Financial Information, Collection and Disclosure Practice has been amended from "may" to "shall".
- (3) The AUD notices were updated on June 30, 2016.

### **Licensing and Appointments**

- (1) During the exam, the Companies had policies and procedures in place to provide access to information. The issue cited addressed two incidents.
- (2) The Companies have a process in place to verify licensure prior to appointment. In September of 2016 this process will be used to limit authorization to access the auto application to licensed individuals.

Joy M. Morton, BOI Manager  
August 30, 2016  
Page Eighteen

- (3) The Companies have a process in place to verify licensure prior to appointment.

### **Complaint Handling Review**

The Companies have policies in place to record consumer complaints consistent with §338.2 – 511. Coaching was provided to the appropriate employee.

## **PART THREE**

### **Rating**

In June 2016, the private passenger automobile declaration pages were updated to show Towing and Labor Cost Coverage and the corresponding limit.

### **Claims**

The Companies have a business practice of not including lienholders on cash settlement drafts for repairs when the repair is less than \$5,000.00. That practice was memorialized in our Auto Claim Manual on September 30, 2015.

### **Statutory Notices**

We acknowledge the withdrawal of the TDD recommendation.

The Companies include the fraud statement on the appropriate forms as required by law.

Sincerely,



Catherine A. Rankin, Counsel  
State Farm Insurance Companies

CAR/daw/17507896

Attachments

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
<http://www.scc.virginia.gov/division/boi>

October 24, 2016

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Ms. Catherine Rankin, Counsel  
State Farm Insurance Companies  
State Farm Northeastern Office  
Six Hillman Drive, Suite 200  
Chadds Ford, Pennsylvania 19317

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC #25143)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Rankin:

The Bureau of Insurance (Bureau) has reviewed the August 30, 2016 response to the Revised Market Conduct Report (Report) of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

Once again the Companies have disregarded the request that the response track the order of the Report. The differences between the Companies' response and the Revised Report have been indicated.

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Automobile New Business Rating

- (3a) The violation for RPA078 remains in the Report. The Company continues to provide documentation that WB was a household resident back in 2001. However, the Company has not provided any documentation that WB was still a resident on December 20, 2013. The Company has not provided any evidence that WB had not moved out of the residence. As the policyholder was new to this residence, it is possible that WB no longer resided at this address. A copy of a State Farm policy listing WB as a resident or driver on December 20, 2013, would allow the Bureau to reconsider this violation.

The violation for RPA082 remains in the Report. The Company stated the household note was entered November 11, 2011; however, the policy under review was effective January 31, 2014. Section C.1 of the Company's filed rule requires each qualifying driver to furnish their scholastic records every 12 months.

The violation for RPA093 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

- (3c) The violation for RPA018 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

The Company stated RPA023 was remediated, but the Company only paid the insured \$15.73 without any explanation. The amount due to the insured was \$29.70, plus six percent simple interest, as indicated in the review sheet and restitution spreadsheet. The Company should make an additional payment of \$15.75 or explain why the amount paid was correct.

- (3d) The violations in this section remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

- (3e) The violation for RPA019 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

After further review, the violation for RPA067 has been withdrawn from the Report. The Company provided the requested credit score documentation.

The violation for RPA082 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

The violation for RPA089 remains in the Report. The Company provided a spreadsheet that is not legible. Further, it is not clear why the loss history report would be unavailable for this policy, but was made available to the examiners on the other policies under review. Lastly, the Company did not address the second part of this violation concerning one prior year of insurance versus the eight to 16 years used by the Company.

After further review, the violation for RPA090 has been withdrawn from the Report. The Company provided the requested documentation.

After further review, the violation for RPA093 has been withdrawn from the Report. The Company provided the requested documentation.



The violation for RPA096 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

- (4) After further review, the violation for RPA007 has been withdrawn from the Report. The Company provided the requested copy of the complete cancellation notice that included Credit Adverse Action notice language. The Report has been renumbered accordingly.

### **Automobile Renewal Business Rating**

- (3a) The violation for RPA182 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referenced this item as (4a).

After further review, the violation for RPA189 has been withdrawn from the Report. The Company provided sufficient documentation that the vehicle was eligible for the Accident Free discount. The Company incorrectly referred to this item as (4a).

- (3b) After further review, the violation for RPA183 has been withdrawn from the Report. The Company provided sufficient documentation that the correct Accident Free Discount was applied to the policy. The Company incorrectly referred to this item as (4b).

- (3c) The violations in this section remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (4c).

- (3d) The violations for RPA149 and RPA181 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (4d).

- (3f) The violation for RPA119 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (4f).

- (3g) The violations for this item remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (4g).

- (3h) The violation for RPA121 remains in the Report. The Company has provided credit scores that are different than the information the examiner obtained from the Company's system while on-site. The Company incorrectly referred to this item as (4h).

After further review, the violation for RPA135 has been withdrawn from the Report. The Company provided the requested information. The Company incorrectly referred to this item as (4h).

### **Homeowner Renewal Business Rating**

- (3a) The violations for RHO119, RHO128, RHO135, RHO138, RHO188, RHO190, and RHO199 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.
- (4) The violation for RHO124 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Automobile Cancellation Notices Mailed Prior to the 60<sup>th</sup> Day**

- (1) The violation for TPA003 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.
- (2) The violation for TPA039 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Automobile Cancellation Notices Mailed After the 59<sup>th</sup> Day**

- (2a) The violation for TPA058 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Automobile Nonpayment of Premium Cancellations**

- (1) The violation for TPA061 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Automobile Insured Requested Cancellations**

The violations for TPA109 and TPA111 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Automobile Rejected Applications**

The violation for TPA129 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Homeowner Cancellation Notices Mailed After the 89<sup>th</sup> Day**

- (3) The violations in this section remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (4).

### **Private Passenger Automobile Claims**

- (1) The violations for CPA016, CPA029, CPA066, CPA077, CPA118 and CPA151 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.
- (2c) After further review, the violation for CPA048 has been withdrawn from the Report. The Company incorrectly referred to this item as (2d).

The violation for CPA121 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (2d).

- (6a) The violation for CPA048 remains in the Report. According to the Company's file notes, the independent witness "could not say one way or the other" if the phantom vehicle was left of center. The Company's response is not consistent with the file notes. The Company incorrectly referred to this item as (7a).
- (6c) After further review, the violation for CPA035 has been withdrawn from the Report. The restitution spreadsheet has been revised to reflect this change. The Company incorrectly referred to this item as (7c).
- (6d) The violation for CPA027 remains in the Report. The Company has not provided evidence of incurred medicals and paid medicals. The Company has indicated the insured had a \$2,000 Medical Expense Benefits limit, which is incorrect. Medical Expense Benefits can be stacked in Virginia up to four vehicles. This policy included three vehicles at \$2,000 each, making the applicable limit \$6,000. In addition, the Company paid medical bills after the file had been examined by the Bureau. As such, the Company must include six percent (6%) interest in the restitution payment to the insured. The Company incorrectly referred to this item as (7d).
- (6e) After further review, the violation for CPA150 has been withdrawn from the Report. The restitution spreadsheet has been revised to reflect the remaining restitution owed under Review Sheet ClaimVehPPA7919229. The Company incorrectly referred to this item as (7b).

- (7b) The violation for CPA037 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (8b).
- (10) The violation for CPA121 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (11).
- (11) The violation for CPA035 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (12).
- (12) The violations for CPA024, CPA121, CPA123, CPA134 and CPA146 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (13).
- (14a) The violation for CPA015 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (15).

#### **Other Law Violations**

The violation for CPA004 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

#### **Homeowner Claims**

- (1) After further review, the violation for CHO044 has been withdrawn from the Report.  
  
The violation for CHO079 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.
- (2a) The violation for CHO001 remains in the Report. This violation was for failing to inform the insured of Additional Living Expenses (ALE). By the Company's own admission, the Company did not discuss ALE with the insured until a year after the file was examined by the Bureau. The insured was not advised regarding ALE coverage during the claim process. The file remains unclear regarding what the insured was told regarding ALE coverage. The insured was not asked if the utilities increased where they were residing, if the mileage was a greater distance from their work/school, etc.
- (2b) The violation for CHO026 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

(3) This violations for CHO011 and CHO026 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

(4b) The underpayment for CHO001 was removed from the restitution spreadsheet with the withdrawn violation in the prior Revised Report.

After further review, the violation for CHO022 has been withdrawn from the Report.

(6a) The violation for CHO005 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

After further review, the violation for CHO022 has been withdrawn from the Report.

(7) After further review, the violation for CHO009 has been withdrawn from the Report. The Report has been renumbered to reflect this change. The Company incorrectly referred to this item as (8).

(8) This violation for CHO059 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (9).

(10b) The violation for CHO042 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The Company incorrectly referred to this item as (11b).

### **Automobile and Homeowner Policy Issuance**

The Companies should refer to page four of the Data Call Manual that explicitly advises that the Companies would not be able to submit additional information in this area.

### **General Statutory Notices**

(1) The violation for NGS004 remains in the Report. The violation is not related to the Company's failure to send the notice. The violation is due to the content of the Company's Notice of Financial Information Collection and Disclosure Practices not complying with subsections B6 and B8 of § 38.2-604.1 of the Code of Virginia.

(2) The violation for NGS013 remains in the Report. For reconsideration, the Company should address the violation in review sheet 1651699529 for NGS013 regarding the AUD language omitted from the notice. This review sheet originated as a result of a noncompliant AUD the Company provided for RPA105.

## **Statutory Vehicle Notices**

- (2b) This item refers to the violation of NSV018 for the companies' failure to have a compliant notice. The notice was provided on the policy associated with the rating file using the BOI reference number RPA007. There was verbiage omitted from the Credit Score Adverse Action.

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating Review**

- (3) It is not clear how the Company prorated the \$576.47 overcharge for 17 days to be \$52.06, including six percent simple interest for RPA034. Using the Company's filed six month pro-rata table, the adjusted overcharge should be \$54.19 ( $\$576.47 \times .094$ ), plus six percent interest of \$3.25. Along with its calculations, the Company should provide documentation that the policy was only in effect for 17 days.

The Companies should make the outstanding restitution as indicated in the revised Restitution Spreadsheet enclosed for RPA078, RPA089, RPA090, RPA093, RPA103, RPA104 and RPA121.

- (4) Please provide a copy of the corrected declarations pages.
- (6) Please provide a copy of the corrected AUD notice.
- (7) Please explain the policies and procedures implemented by the Company to ensure declarations pages can be recreated.

### **Claims Review**

- (3) The Company should make the outstanding restitution to insureds and claimants as indicated in the Revised Restitution Spreadsheet enclosed.

The Company only indicated restitution of \$11.88 to the claimant for CPA007 instead of \$209.88. The Company should add the payment information into the restitution spreadsheet for the \$198.00 restitution made to the insured during the examination.

The Company only made restitution of \$10.01 to the claimant in CPA009 instead of \$174.88. The Company should explain the reason for the reduced restitution.

Contrary to the Company's restitution spreadsheet, the violation for CPA067, review sheet ClaimVehPPA-228115793, was not withdrawn from the Report. The Company should determine the amount of damage and make restitution to the insured.

The Company only indicated restitution of \$23.27 to the claimant for CHO064 instead of \$411.16. The Company should add the payment information for CHO064 into the restitution spreadsheet for the \$387.89 restitution made to the insured during the examination.

### **Statutory Notices Review**

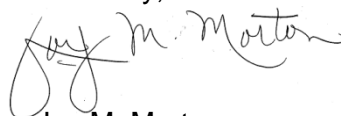
- (1) The amended glass script does not comply with § 38.2-517 A 3 of the Code of Virginia. The script did not indicate the third party representative was not the insurer.
- (2) Please provide a copy of the corrected Notice of Financial Information Collection and Disclosure Practices.

### **Licensing and Appointments Review**

- (1) The Companies have not stated how it will ensure those policies and procedures will be adhered to during future exams. The Companies stated it had protocols during the examination; however, they were not followed as evidenced by the violations.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Companies' response to this letter is due in the Bureau's office by November 17, 2016. The Bureau again requests that the Companies respond to the Report in the order of the Report.

Sincerely,



Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM  
Enclosures

Chadds Ford Business Campus  
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November 18, 2016

**Via e-mail and UPS Overnight Delivery**

Ms. Joy M. Morton, Manager  
Market Conduct Section  
Property & Casualty Division  
1300 East Main Street  
Richmond, VA 23219

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC #25413)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Morton:

Thank you for your letter of October 24, 2016. Our response is below and follows the order of the Report.

## **PART ONE – THE EXAMINER’S OBSERVATIONS**

### **Automobile New Business Rating**

- (3a) The Company continues to disagree with the Bureau’s assessment of RPA078/435007727. When we issued the application, our systems recognized that we were already insuring policies that had the same address as MG. See Exhibit A, which is a grouping screen for MG’s policy that shows the drivers and policies we have insured at MG’s address/household. MG was already listed as a driver on WB’s policies on December 20, 2013. Exhibit A includes a renewal notice, for WB’s policy for the October 16, 2013 to April 16, 2014 renewal period that shows MG was listed as a driver on WB’s policy and shows the same address as was listed on MG’s application.

The Company continues to disagree with the Bureau’s assessment of RPA082/1199788067, however, we have no additional evidence to offer.



The Company continues to disagree with the Bureau's assessment of RPA093/1331095868. The accident free discount does not apply for this policyholder because RP's prior policy with State Farm was terminated on September 28, 2000. In order to reinstate the accident free discount, the policyholder must reinstate their policy within five years. This policy was reinstated on May 6, 2014, which is over five years. Please see Exhibit B, which shows September 28, 2000 as the termination date for this policy and which shows May 6, 2014 as the effective date for the new policy. The renters multiple line discount had been incorrectly removed from the policy but was reinstated after receiving an address change from the agent's office.

- (3c) The Company continues to disagree with the Bureau's assessment of RPA018/1643139339, however, we have no additional evidence to offer.

On RPA023/1914545128, the policy was active from October 5, 2013 to January 5, 2014. The Bureau calculated the refund for the full term October 5, 2013 to April 5, 2014. The refund includes \$14.84 plus \$0.89 interest for the charge from October 5, 2013 to January 5, 2014. Please see Exhibit C which confirms the January 4, 2014 termination date of the policy.

- (3d) The Company continues to disagree with the Bureau's assessment, however, we have no additional evidence to offer.

- (3e) The Company continues to disagree with the Bureau's assessment of RPA019/1800541501. The policyholder declared a chargeable at-fault accident with over \$750.00 in property damage on the application. For this reason 2 Star Discount rates with a driving level of 4 applied to the 2013 Oldsmobile. Please see Exhibit D-1, which lists this loss on page 8. Also, please refer to the STAR rating plan on page 1 of Exhibit D-2 that an at-fault accident adds DRLs. Please see page 4, Section F, 1(a) which states:

*1. 3-Star Discount: In order for the insured vehicle to initially qualify for the 3-Star Discount, all other listed requirements for the 2-Star Discount must be satisfied, and the vehicle must also satisfy the following conditions:*

*a. All assigned drivers on the insured vehicle must have no accidents that became chargeable and no minor or major violations during the applicable three year experience period.*

Ms. Joy M. Morton, Manager  
November 18, 2016  
Page 3 of 11

Because the driver had an at-fault chargeable accident, the risk did not qualify for 3-Star Discount.

The Company appreciates the Bureau's reconsideration of RPA067/1212915565.

The Company continues to disagree with the Bureau's assessment of RPA082/282055442, however, we have no additional evidence to offer.

RPA089/608706893 has been remediated.

The Company appreciates the Bureau's reconsideration of RPA090/2036716698 and RPA093/733847335.

The Company continues to disagree with the Bureau's assessment of RPA096/18273784. Exhibit E includes a CRI breakdown for all four vehicles on the policy. Please note that on vehicle 3, there is a negative CRI value (-16) in "# at fault claims in 1 year" category. The accident was applied to the correct vehicle.

- (4) The Company appreciates the Bureau's reconsideration of RPA007/983631964.

### **Automobile Renewal Business Rating**

- (3a) The Company continues to disagree with the Bureau's assessment of RPA182/1782611320. This customer's Mutual policy XXXX287-46 with an inception date of November 4, 1991 expired on May 4, 2009. The customer then asked that the established 10 year accident free discount be reinstated to Mutual policy XXXX242-46 which was written August 9, 2011, within the five year allowable period. The Accident Record Rating Plan G.2 allows for reinstatement of the accident free discount within 5 years. Please see Exhibit F, which states:

*Any accident free discount applicable at the time of expiration or cancellation will be applied, provided the reinstatement occurs within 5 years and there have been no accidents during this period which the Company determines to have been the fault of the owner or operator of the automobile being insured in the State Farm Fire and Casualty Company during all or part of the intervening time.*

Please also see in Exhibit F the agent's request to reinstate the dormant discount from XXXX287-46 and the termination of that policy on May 4, 2009.

The Company appreciates the Bureau's reconsideration of RPA189-612026938.

- (3b) The Company appreciates the Bureau's reconsideration of RPA183/151134629.
- (3c) The Company continues to disagree with the Bureau's assessment, however, we have no additional evidence to offer.
- (3d) The Company continues to disagree with the Bureau's assessment of RPA149/1475841029 and RPA181/1216795343, however, we have no additional evidence to offer.
- (3e) The Company received two review sheets for RPA104. The first one, in (3g), 1414586802 did not reflect an overcharge on the part of the Company. The second one, 2051664925 shows in the examiner's observation that the policyholder was overcharged \$93.36. We added \$5.64 interest and refunded \$99.60. We find no other review sheets reflecting an overcharge on RPA104.
- (3f) The Company continues to disagree with the Bureau's assessment of RPA119/336878132, however, we have no additional evidence to offer.
- (3g) The Company continues to disagree with the Bureau's assessment, however, we have no additional evidence to offer.
- (3h) The Company continues to disagree with the Bureau's assessment of RPA121/1277165722, however, we have no additional evidence to offer.

#### **Homeowner New Business Rating**

- (2) The Company has remediated RHO037. Please note our refund date started December 3, 2013 through the end of the current policy term, plus interest.

### **Homeowner Renewal Business Rating**

(3a) & (4) The Company continues to disagree with the Bureau's assessment of RHO119, RHO128, RHO135, RHO138, RHO188, RHO190, RHO199, and RHO 124, however, we have no additional evidence to offer.

### **Automobile Cancellation Notices Mailed Prior to the 60<sup>th</sup> Day**

(1 & 2) The Company continues to disagree with the Bureau's assessment of TPA003/2005692127 and TPA039/42662665, however, we have no additional evidence to offer.

### **Automobile Cancellation Notices Mailed After the 59<sup>th</sup> Day**

(2a) The Company continues to disagree with the Bureau's assessment of TPA058/383586645, however, we have no additional evidence to offer.

### **Automobile Nonpayment of Premium Cancellations**

(1) The Company continues to disagree with the Bureau's assessment of TPA061/580255280, however, we have no additional evidence to offer.

### **Automobile Insured Requested Cancellations**

The Company continues to disagree with the Bureau's assessment of TPA109/1567210559 and TPA111/1089512077, however, we have no additional evidence to offer.

### **Automobile Rejected Applications**

The Company continues to disagree with the Bureau's assessment of TPA129/532850581, however, we have no additional evidence to offer.

### **Homeowner Cancellation Notices Mailed after the 89<sup>th</sup> Day**

(2) The Company continues to disagree with the Bureau's assessment related to § 38.2-2114 A of the Code of Virginia, however, we have no additional evidence to offer.

### **Private Passenger Automobile Claims**

(1) The Company continues to disagree with the Bureau's assessment of CPA016, CPA029, CPA066, CPA077, CPA118, and CPA 151, however, we have no additional evidence to offer.

(2c) The Company appreciates the Bureau's reconsideration of CPA048/1230885802.

The Company continues to disagree with the Bureau's assessment of CPA121/846191852, however, we have no additional evidence to offer.

(6a) The Company remediated CPA048/489494231.

(6c) The Company appreciates the Bureau's reconsideration of CPA035/2120669902.

(6d) For CPA027/681412149, we paid the \$ 1,054.12 in medical to Rawlings, a collection agency for the health insurer on August 18, 2015. We issued a draft for \$90.25 to the insured on November 18, 2016. Although we have contacted the insured on numerous occasions since the onsite conclusion of the exam, leaving messages soliciting additional medical expenses, our requests have gone unanswered.

(6e) The Company appreciates the Bureau's reconsideration of CPA150/695222240. We have remediated CPA150/7919229.

(7b) The Company continues to disagree with the Bureau's assessment of CPA037/1534720138, however, we have no additional evidence to offer.

(10) The Company continues to disagree with the Bureau's assessment of CPA121/1415283602, however, we have no additional evidence to offer.

(11) The Company continues to disagree with the Bureau's assessment of CPA035/750516277, however, we have no additional evidence to offer.

(12) The Company continues to disagree with the Bureau's assessment of CPA024, CPA121, CPA123, CPA134, and CPA146, however, we have no additional evidence to offer.

(14a) The Company continues to disagree with the Bureau's assessment of CPA015/19257694, however, we have no additional evidence to offer.

### **Other Law Violations**

The Company continues to disagree with the Bureau's assessment of CPA004/1413234651, however, we have no additional evidence to offer.

### **Homeowner Claims**

(1) The Company appreciates the Bureau's reconsideration of CHO044/1443711124.

The Company continues to disagree with the Bureau's assessment of CHO079/1231945182. File notes of June 4, 2014, along with our settlement letter and draft remarks indicate the basis of the \$114.00 settlement. The claim file indicates the invoice, the service provider, basis of charge, and the amount. Obtaining an invoice was not necessary to substantiate, reconstruct and/or support the file. The file notes and settlement did provide sufficient detail of claim activity to reconstruct events.

(2a) The Company continues to disagree with the Bureau's assessment of CHO001/1578346066, however, we have no additional evidence to offer.

(2b) The Company continues to disagree with the Bureau's assessment of CHO026/1013296223.

(3) The Company continues to disagree with the Bureau's assessment of CHO011/470784576 and CHO026/733794948, however, we have no additional evidence to offer.

(4b) The Company appreciates the Bureau's reconsideration of CHO001/589221159 and CHO022/1155112189.

(6a) The Company continues to disagree with the Bureau's assessment of CHO005/1444851225, however, we have no additional evidence to offer.

The Company appreciates the Bureau's reconsideration of CHO022/1412946680.

The Company appreciates the Bureau's reconsideration of CHO009/1413388336.

- (7) The Company continues to disagree with the Bureau's assessment of CHO059/1762640912, however, we have no additional evidence to offer.
- (9b) The Company continues to disagree with the Bureau's assessment of CHO042/1413233772, however, we have no additional evidence to offer.

#### **Automobile and Homeowner Policy Issuance**

The Data Call Manual is a tool used by the Bureau to manage the production of documents and other items during an examination. It is not a law or regulation. The Company made every effort to produce the requested information as advised in the Data Call Manual, and promptly notified the Bureau when a missed item was discovered so that the Bureau's examination could be more representative of the Companies' practices.

#### **General Statutory Notices**

- (1) This observation arises from the Company not producing 153-4254a.12 consistent with the Data Call Manual. The information provided on Insurance Information and Privacy Protection Notice (153-1048.4e and 153-1048.4 7/12 (c)) and State Farm's Notice of Privacy Policy (153-4254a.12) conform to the requirements of § 38.2-604.1 of the Code of Virginia. 153-1048.4e and 153-1048.4 7/12 (c) are identical. 153-1048.4e is the electronic version available for agents to print from their computer, while 153-1048.4 is the pre-printed paper version. They may appear different due to different fold lines which are not readily apparent on the produced items.

Both Notices include the types of information that may be collected and disclosed, as well as the categories of persons to whom we may disclose per notice. While the Privacy Protection Notice addresses how we protect consumer information, we are not required to include an explanation of the rights that information may be disclosed to non-

affiliated third parties, as the Company does not disclose information outside of the permitted disclosures under VA Code Ann. § 38.2-613. The notice indicates how we protect and safeguard information and we provide the FCRA opt out. We also state we afford former policyholders' information the same protections.

This observation arises from the Company not producing 153-4254a.12 consistent with the Data Call Manual. The Manual is a tool used by the Bureau to manage the production of documents and other items during the course of the examination. It is not a regulation or a law. The Companies made every effort to produce the requested information as outlined in the Manual and promptly notified the Bureau when a missed item was discovered so that the Bureau's examination could be more representative of the Companies' practices.

- (2) The Company acknowledges NGS013/1651699529.

#### **Statutory Vehicle Notices**

- (2b) The Company acknowledges NSV018/1420645920 and has updated the Credit Score Adverse Action notice accordingly.

### **PART TWO – CORRECTIVE ACTION PLAN**

#### **Rating Review**

- (3) The overcharge was determined by the 5 DRL rate \$1,828.59 less the 3 DRL rate \$1,275.68 multiplied by the prorate factor .094 to arrive at a refund amount of \$51.97 plus .09 interest for a total refund of \$52.06. Please see Exhibit G confirming the termination date of February 25, 2014.
- (4) Please see Exhibit H, a redacted declarations page that lists towing and labor costs coverage, death indemnity and specific disability benefits coverage and transportation coverage, and their corresponding limits.
- (6) Please see Exhibit I. This AUD notice states the insured has 90 business days from date of mailing to request additional information from us about the AUD as well as incorporating the last three paragraphs of the 2015-7 Administrative Letter.



- (7) Standard operating procedures are in place to create and retain a copy of each declarations page. When a policy is issued, the declarations page is created, mailed to the customer, and an electronic copy is retained. In one instance we were unable to produce a copy of a declarations page. Although unfortunate, this is an isolated incident.

### **Claims Review**

- (3) On October 16, 2014 we issued a payment on CPA007 for \$198.00 and November 25, 2015 we issued a payment for \$11.88. The total payments issued were \$209.88. The remediation spreadsheet has been updated to reflect same.

On CPA009, we issued a payment for \$164.98 on October 14, 2014. We issued a second payment of \$10.01 on November 25, 2015. The total payments issued were \$178.88. The remediation spreadsheet has been updated to reflect same.

On CHO067, we followed up with policyholders on November 2, 2016 regarding their vehicle. We asked them if they had any bills they wanted to submit, they advised they did not. Please see Exhibit J.

On CHO064, additional interest has been paid as requested. The principal payment of \$387.89 was made on October 30, 2014 during the normal course of claim handling. An additional payment reflecting interest of \$23.27 was paid on December 2, 2015. The remediation spreadsheet has been updated to reflect same.

### **Statutory Notices Review**

- (1) The glass script has been amended to indicate that the third party representative is not the insurer. Please see Exhibit K.
- (2) The Company apologizes for the confusion. When the Company previously responded to this section, we mistakenly addressed the Insurance Credit Disclosure Notice. For the Notice of Financial Information Collection and Disclosure Practices discussion, please see our response under General Statutory Notices (1) given above.

Ms. Joy M. Morton, Manager  
November 18, 2016  
Page 11 of 11

### **Licensing and Appointments Review**

- (1) This issue arises from two observations regarding the Company's inability to produce a new business application. Although unfortunate, this is an isolated incident.

We appreciate the Bureau's diligence and patience working with State Farm on the market conduct examination. We suggest that any further dialogue be in person or by telephone. We look forward to concluding this examination.

Sincerely,



Catherine A. Rankin, Counsel  
State Farm Insurance Companies

CAR/daw/17865675

Enclosures

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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January 17, 2017

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Catherine Rankin, Counsel  
State Farm Insurance Companies  
State Farm Northeastern Office  
Six Hillman Drive, Suite 200  
Chadds Ford, Pennsylvania 19317

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC 25143)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Rankin:

The Bureau of Insurance (Bureau) has reviewed the November 18, 2016 response to the Revised Market Conduct Report (Report) of the aforementioned companies (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Automobile New Business Rating

(3a) After further review, the violation for RPA078 has been withdrawn from the Report. The Company provided the requested documentation showing the additional driver was still a household member.

The violation for RPA082 remains in the Report. The Company provided documentation showing that an underwriting note was done in 2011 indicating that the requirements of the Good Student Discount had been met. However, the rule on file with the Bureau indicated that the Good Student Discount should be verified every 12 months. Therefore, the underwriting note made in 2011 would not be applicable for the discount applied on the January 31, 2014 policy effective date.

The violations for RPA093 remain in the Report. The Company should have applied the Accident Free Discount due to the insured's clean driving history for at least five years or rated the policy with no prior insurance. The Company's documentation reflects that the Chevrolet Malibu was cancelled in 2000, but the policy remained active with two other vehicles. The Company's member account screen reflected this policy was active since February 20, 2009. Further, the application stated the insured's prior State Farm policy had been effective for five years and was due to expire August 21, 2014. The Company has not addressed the application displaying information contrary to its response. Either the Company incorrectly did not apply the Accident Free Discount or the Company incorrectly rated the policy as if the insured had prior insurance for five years. Please see Exhibit 1 for copies of the policy file obtained by the Bureau that reflects the insured's active State Farm policy. Additionally, the Company did not appropriately apply the Renters Multiple Lines Discount. The Company initially applied the discount when the insured was not eligible on May 6, 2014. The insured did not obtain a State Farm Renters policy until September 2, 2014. However, the Company removed the discount from the November 6, 2014 renewal policy after the insured was eligible. The Company added the discount back to the policy effective November 11, 2014.

- (3c) The violation for RPA018 remains in the Report. The Company's filed symbol manual used specific vehicle definitions to determine the appropriate symbol set. However, the Company's policy file did not indicate if the insured vehicle was a 2WD or 4WD body style. Additionally, the filed symbol page provided three possible symbols for a 2008 Toyota Tundra SR/5 Double Cab; one set associated with a 2WD and two sets associated with a 4WD that did not include sufficient information that would allow a distinction between the two sets of symbols associated with the 4WD body style.

The violation for RPA023 remains in the Report. The Company incorrectly pro-rated the overcharge for a January 4, 2014 cancellation date instead of January 5, 2014. The overcharge has been revised to \$15.01, plus interest of 90 cents.

- (3d) These violations remain in the Report. The Company has previously acknowledged that the Location Rate Factors were not clearly filed and by the Company's own admission the territory factors were not filed. Since the Company has not provided any additional information, the Bureau is unable to reconsider these violations.

- (3e) The violation for RPA019 remains in the Report. This violation resulted from the Company not including the insured's at-fault accident when determining the CRI Tier, not the STAR discount level. The Company has acknowledged in its response that the insured had an at-fault accident that was surcharged; therefore, the accident should have been included when determining the CRI tier.

The violation for RPA082 remains in the Report. The Company did not use the correct point value for the "Age of Principal Operator" category when developing the CRI. The policy file provided by the Company indicated that the principal operator of the vehicle was 51 years old at the time of the policy's effective date. A point value of -16 should have been used when developing the vehicle's CRI.

The violation for RPA096 remains in the Report. The Company provided the examiner's own CRI breakdown in Exhibit E, not the CRI calculations performed by the Company when rating the policy at the time of new business. Based on the policy file provided by the Company, vehicle 1 was rated with a CRI of 1693, vehicle 2 was rated with a CRI of 1680, vehicle 3 was rated with a CRI of 1762, and vehicle 4 was rated with a CRI of 1680.

### **Automobile Renewal Business Rating**

- (3a) The violation for RPA182 remains in the Report. The Company applied the Category 3 Accident Free discount when the vehicle had only been insured for two years on the policy. The filed rule in relation to the Accident Free discount for reinstated policies stated (G.1.) "A reinstated policy shall be subject to the New Business provisions of this rule, except that the developed premium surcharge percentages shall be no lower than that which would have been applicable had the policy remained in force." The New Business provisions stipulated, "A Category 3 adjustment shall apply to the base premiums for the bodily injury and property damage liability, medical expense benefits, income loss benefits, and collision coverages, applicable to a private passenger automobile if the car (or the car which it replaces) has been covered by the policy continuously in force with the State Farm Mutual Automobile Insurance Company for at least three years and there have been no chargeable accidents during the three year period ending two months prior to the current expiration date." The Company has not provided evidence that a lapse in coverage did not occur from May 4, 2006 through May 4, 2009.
- (3c) These violations remain in the Report. The Company has not explained how it used the filed vehicle symbols for the policies cited, which does not allow the Bureau to reconsider the violations. Insurers are required to file all rates and supplementary rating information and only implement rules and rates that are filed with the Bureau.
- (3d) The violation for RPA149 remains in the Report. The longitude and latitude coordinates used by the Company were different than those determined by the Bureau. Since the Company has not explained how it derived the coordinates used, the Bureau is unable to reconsider this violation.

The violation for RPA181 remains in the Report. The Company has previously acknowledged that the filed Location Rate Factors were not clearly filed. Since the Company has not further explained its position, the Bureau is unable to reconsider this violation.

- (3e) The violation for RPA104 remains in the Report. The Bureau acknowledges the restitution paid by the Company.
- (3f) The violation for RPA119 remains in the Report. The Company's rating manual indicated the following Driver Adjustment factors should have been applied to vehicle 1: 1.07 for both Liability coverages and Collision, and 1.10 for Other Than Collision coverage, which corresponded to the highest factors by changing the assigned driver's age to 25 per provision 2 of Note C. Note C of the Driver Adjustment Factor Calculation in the Company's filed rate pages applied to vehicle 1 because there was at least one assigned driver under the age of 25 on the policy. Note C did not state it was only applicable to the vehicle with an assigned driver under 25. Since the Company has not explained how it arrived at the Driver Adjustment Factors applied to vehicle 1, the Bureau is unable to reconsider this violation.
- (3g) These violations remain in the Report. The Company previously acknowledged that it did not file the correct Full Renewal CRI Model formula used by the Company. This issue affected the 42 policies cited under this item. Virginia is a file and use state; the Company failed to file a complete rule leaving out the necessary steps in rating these policies. Since the Company has not further explained its position, the Bureau is unable to reconsider these violations.
- (3h) The violation for RPA121 remains in the Report. Since the Company has not provided sufficient documentation and has not explained why the credit scores from its system differ from those provided in its second response, the Bureau is unable to reconsider this violation. As such, the Company should make the restitution requested by the Bureau.

### **Homeowner Renewal Business Rating**

- (3a) The violations for RHO119, RHO128, RHO135, RHO138, RHO188, RHO190, and RHO199 remain in the Report. The Company failed to calculate the CRI according to the information on file with the Bureau. Since the Company has not further explained its position, the Bureau is unable to reconsider these violations.
- (4) The violation for RHO124 remains in the Report. The Company has not addressed the violation for failing to send a Credit Adverse Action notice to the insured. The Company responded to the preliminary Report that the insert "Information About Your Premium", indicates that consumer reports may be used to determine the price the insured is charged. It appears the Company is treating this as a violation of § 38.2-2126 A 1 of the Code of Virginia for not disclosing that credit will be used; however, this is a violation of § 38.2-2126 A 2. As stated in the review sheet and the Bureau's first response; the Company did not inform the insured that their credit score of 570 had an adverse impact on the policy premium.

### **Automobile Cancellation Notices Mailed Prior to the 60<sup>th</sup> Day of Coverage**

- (1) The violation for TPA003 remains in the Report. The Company has not provided the Adverse Underwriting Decision (AUD) notice sent to the insured. In the Company's first response to the Report it was indicated that the documentation was provided in the Exhibits, however, no documentation was provided.
- (2) After further review, the violation for TPA039 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

### **Automobile Cancellation Notices Mailed After the 59<sup>th</sup> Day of Coverage**

- (2a) The violation for TPA058 remains in the Report. The cancellation notice was issued prior to the renewal effective date. The cancellation notice cannot be used to cancel a policy that is not already in force. The policy should have been non-renewed. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings.

### **Automobile Nonpayment of Premium Cancellations**

- (1) After further review, the violation for TPA061 has been withdrawn from the Report. This Report has been renumbered to reflect this change.

### **Automobile Cancellations Requested by the Insured**

After further review, the violation for TPA109 has been withdrawn from the Report.

The violation for TPA111 remains in the Report. The Company failed to provide additional evidence that the insured requested to cancel the policy.

### **Automobile Rejected Applications**

The violation for TPA129 remains in the Report. The Company initially indicated that it rejected this application and the Company was cited for not sending an AUD notice to the applicant. The Company did not provide a declarations page or other documentation showing the policy was actually issued, which would eliminate the requirement to send an AUD notice.

### **Homeowner Notices Mailed After the 89<sup>th</sup> Day of Coverage**

- (2) These violations remain in the Report. The statute specifically requires insurers to obtain evidence of sale of the property by a trustee under a deed of trust as duly recorded in the land title records of the jurisdiction in which the

property is located. Since the Company has not provided any additional documentation, the Bureau is unable to reconsider these violations.

### **Private Passenger Automobile Claims**

- (1) The violation of CPA016 remains in the Report. The Company has not provided documentation of its final coverage decision.

The violation for CPA029 remains in the Report. The Company has not provided any documentation of its coverage and liability decision as well as the reason for transferring payments between claim files.

The violation for CPA066 remains in the Report. The Company has not provided documentation explaining the delay in advising the claimant of the reduction of the settlement.

The violation for CPA077 remains in the Report. Based on the absence of documentation at the time of the review, the claim file could not be reconstructed.

The violation for CPA118 remains in the Report. The Company's file was not documented to explain the reason for the delay in contacting the insured from February 25, 2014 to July 19, 2014.

The violation for CPA151 remains in the Report. The Company's file was not documented to include the subrogation information at the time of the review.

- (2c) The violation for CPA121 remains in the Report. The file was not documented to indicate that the insured was advised coverage for a temporary substitute vehicle was available under the Uninsured Motorist Property Damage (UMPD) coverage.

- (6d) The violation for CPA027 remains in the Report. The Company has not provided proof of payment for six percent (6%) interest owed to the insured or documentation of its efforts to contact the insured. Please provide copies of the returned mail for the failed attempts to contact the insured. Further, please report the outstanding restitution to the Virginia Department of the Treasury's Unclaimed Property Division.

- (7b) The violation for CPA037 remains in the Report. The Company has not provided evidence that the vehicle was not repairable.

- (10) The violation for CPA121 remains in the Report. The Company incorrectly advised the insured regarding the requirement for a police report when no requirement existed under the policy provisions applicable to this loss.



- (11) The violation for CPA035 remains in the Report. The Company did not investigate other available coverage for this loss.
- (12) The violations for CPA024, CPA121, CPA123, CPA134, and CPA146 remain in the Report. Various notes and documents found within these claim files demonstrate significant avoidable delay in the resolution of these claims.
- (14a) The violation for CPA015 remains in the Report. The Company procedures required lienholders on payments when a repairing garage was not included on the check. The Company did not follow its procedure on this claim.

### **Other Law Violations**

The violation for CPA004 remains in the Report. The Company was required to notify DMV of the water damaged vehicle. Since the Company has not further explained its position, the Bureau is unable to reconsider this violation.

### **Homeowner Claims**

- (1) The violation for CHO079 remains in the Report. The claim file did not include a copy of the invoice and without the invoice the claim file was not properly documented.
- (2a) The violation for CHO001 remains in the Report. The claim file notes indicated that Additional Living Expenses (ALE) was not applicable since this was his second home. The Virginia home was his primary residence while visiting Virginia. By the Company's own admission, the Company did not discuss ALE with the insured until a year after the file was examined by the Bureau. The insured was not advised regarding ALE coverage during the claim process. The file remains unclear regarding what the insured was told regarding ALE coverage. The insured was not asked if the utilities increased where they were residing, if the mileage was a greater distance from their work/school, etc.
- (2b) The violation for CHO026 remains in the Report. At the time of the examination the insured had not been informed of the replacement cost benefits under his personal property coverage.
- (3) This violation for CHO011 remains in the Report. The Company discussed the denial of the passport with the Public Adjustor but did not provide the insured with a written denial. The Virginia Administrative Code states that any denial of a claim must be given in writing.

This violation for CHO026 remains in the Report. The claim file notes of October 9, 2013, identify a discussion between the insured and the claim representative regarding additional living expenses. The Company denied items submitted by the insured on October 9, 2013 and failed to send the

insured a denial letter. The Virginia Administrative Code states that any denial of a claim must be given in writing.

- (6a) This violation for CHO005 remains in the Report. The insured inquired about ALE on November 6, 2013 and again on November 7, 2013 when the Company advised the insured that ALE coverage is for truly uninhabitable homes. The Company further advised the insured that her husband's medical condition would be taken into consideration for ALE. The Company should have offered ALE at the start of the covered loss since their standard of living had been compromised by the noise and their allergic reaction to drywall.
- (7) The violation for CHO059 remains in the Report. The Company was not investigating all documents and/or invoices submitted by the insured on June 10, 2014 for the covered loss. The Company should have paid Actual Cash Value (ACV) on personal property and paid for the work that was performed to mitigate the water damage.
- (9b) The violation for CHO042 remains in the Report. The Company has not provided any additional documentation to support its position. The homeowner policy, Section I - Losses Not Insured 1.e.2 and 1.h, does not cover continuous seepage or leakage of water from household appliance or mold, fungus or wet or dry rot. The claim file notes of December 31, 2013 indicate (1) "Mold remediation needed in kitchenette, bathroom and storage area. This appears to have been a separate, earlier occurrence that has overlapped with this loss." and (2) "Due to extent of mold in these areas, not likely to have occurred within the time frame of dishwasher leak."

### **Automobile and Homeowner Policy Issuance**

The Companies should refer to page four of the Data Call Manual that explicitly advises that the Companies would not be able to submit additional information in this area.

### **General Statutory Notices**

- (1) The violations for NGS004 remain in the Report. The Companies initially provided Notice 153-1048.4 7/12 (C), which did not state the Companies' policies and practices for protecting the confidentiality and security of financial information and did not state how former policyholder information would be handled. Upon receiving violations, the Companies did not state the aforementioned notice was submitted in error or not used, but provided 153-1048.4e and 153-4254a.12 as used to comply with § 38.2-604.1 B of the Code of Virginia. The Companies have stated in their response that notices 153-1048.4 7/12 (C) and 153-1048.4e are identical; as such, the original notice submitted was used during the examination period. However, neither notice included the required language to be in compliance with the statute. For reconsideration, the Companies should address the violations cited for

identical notices 153-1048.4 7/12 (C) and 153-1048.4e and identify exactly where those notices provided the cited language. The Bureau acknowledges that notice 153-4254a.12 complied with § 38.2-604.1 B of the Code of Virginia, but it is not clear when the Companies use this notice or why they would have two notices to comply with the same statute.

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating Review**

- (3) For RPA034, the Company did not address the violation for location factor that is still active when calculating the prorated overcharge amount. The Bureau's net overcharge of \$576.47 resulted from the violations indicated in review sheets 10203300702 and 1668292986. The policy cancelled on February 25, 2014 providing the insured a total of 17 days of coverage (.094 pro rata factor). Based on that information, the insured is entitled to a total of \$57.44 (including the six percent simple interest). The Company issued a total refund in the amount of \$52.06; therefore, the Company should refund an additional \$5.38 to the insured.
- (4) The Company should provide a private passenger automobile declarations page that shows the Towing and Labor and Transportation Expenses coverage limits and a homeowner declarations page that shows the total policy premium. The Company provided page 5 of 6 of a private passenger automobile declarations page in Exhibit H that only showed the endorsements listed on the policy.
- (6) The Bureau acknowledges receiving a corrected AUD notice.

### **Claims Review**

- (3) The Company had typographical errors on the amounts paid. The total restitution paid for CPA009 was \$174.88.

The Company should make restitution on CPA067. This violation was not withdrawn. The Company should reimburse the insured for the windshield and molding and provide documentation supporting the amounts paid. The violation that the Company referenced as withdrawn was under 14 VAC 5-400-70 B, review sheet ClaimVehPPA-1007235670. The Company's response incorrectly referenced CHO067 instead of CPA067.

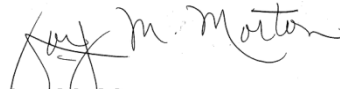
### **Statutory Notices Review**

- (1) The Bureau acknowledges receiving a corrected glass script.
- (2) The Companies should amend the Notices of Financial Information Collection and Disclosure Practices 153-1048.4 7/12 (C) and 153-1048.4e to comply with § 38.2-604.1 B of the Code of Virginia or cease using them.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review.

Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by February 3, 2017.

Sincerely,



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Supervisor  
Market Conduct Section  
Property and Casualty Division  
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February 8, 2017

Ms. Joy M. Morton, Manager  
Market Conduct Section  
Property & Casualty Division  
1300 East Main Street  
Richmond, VA 23219

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC #25413)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Morton,

Thank you for your letter of January 17, 2017. Our response is below and follows the order of the report.

## **PART ONE – THE EXAMINER’S OBSERVATIONS**

### **Automobile New Business Rating**

(3a) The Company appreciates the Bureau’s reconsideration of RPA078/435007727.

The Company continues to disagree with the Bureau’s assessment of RPA093/1331095868 but has no additional information to offer.

(3e) The Company continues to disagree with the Bureau’s assessment of RPA019/1800541501 and RPA096/18273784 but has no additional information to offer.

### **Automobile Renewal Business Rating**

(3a) The Company continues to disagree with the Bureau’s assessment of RPA182/1782611320 but has no additional information to offer.

(3h) RPA121/1277165722 has not been remediated. The policyholder did not pay any premium for September 2013, so there is no overpayment to be refunded. See Exhibit A-1.

### **Homeowner Renewal Business Rating**

- (4) This policy for RHO124/1887569717 was originally issued in 2009. The Declarations Page for the initial policy term is included as an exhibit. The Adverse Action Notice is displayed on page 2 of the Declarations Page and was provided to our customer at this time. See Exhibit A.

#### **ADVERSE ACTION NOTICE:**

*Your premium was influenced by information from consumer reports:  
Time since most recent collection agency filing; Account with current delinquency reported; Percent of accounts paid as agreed in last 24 months to total accounts;  
Lack of reported information on bank revolving accounts.  
Please refer to the enclosed insert for additional details.*

The insert referenced is on page 5 “ *This Notice is being Provided Pursuant to the Federal Fair Credit Reporting Act and Any Applicable State Law*”.

State Farm misinterpreted the examiner’s observation as a violation of 38.2 2126 A1, when in fact the violation referenced 38.2 2126 A2, which applies to Adverse Action. A new Consumer Report was not ordered prior to the 12/22/13 renewal.

No Adverse Action was taken on this policy for the 12/22/13 – 12/22/14 policy term. This is evidenced by the Rate Score, CRI, and CRI Factors shown on the attached screen shots, which are located on the last two pages of the exhibit.

- The 12/22/12 – 13 screen shot shows a Rate Score of 570, CRI = 5473, and CRI Factor = 1.463
- The 12/22/13 – 14 screen shot shows a Rate Score of 570, CRI = 5473, and CRI Factor = 1.463

### **Automobile Cancellation Notices Mailed Prior to the 60<sup>th</sup> Day of Coverage**

- (2) The Company appreciates the Bureau’s reconsideration of TPA039/42662665.

### **Automobile Nonpayment of Premium Cancellations**

- (1) The Company appreciates the Bureau’s reconsideration of TPA061/580255280.

### **Automobile Cancellations Requested by the Insured**

The Company appreciates the Bureau's reconsideration of TPA109/1567210559.

### **Private Passenger Automobile Claims**

(6d) We appreciate the Bureau's willingness to reconsider CPA027/681412149. We paid \$1,054.12 in medical to Rawlings, a collection agency retained by the insured's health insurer, on August 18, 2015. On November 18, 2016, we sent a draft to the insured for \$90.26 for interest. We have sent a letter to the insured outlining the prior payment to Rawlings. In the letter, we also requested that they submit any additional medical bills to us for consideration. See Exhibit B.

### **General Statutory Notices**

(1) The Bureau requested the following for the exam period 07/01/13-6/30/14:

Financial Information Collection and Disclosure Practices	38.2-604.1
Notice of Information Collection and Disclosure – Long version	38.2-604B
Notice of Information Collection and Disclosure – Short version	38.2-604C

### **Notices Requirements under 38.2-604.1 Financial Information Collection and Disclosure Practices**

#### **Section 38.2-604.1A**

Section 38.2-604.1 Financial Information Collection and Disclosure Practices

Under section A, notices must be provided at the following times:

1. To the applicant before financial information is disclosed to a third party
2. To the policy holder no later than delivery or issuance of the policy
3. To the policy holder once a year

State Farm meets this requirement by providing 153-4254.12 Notice of Privacy Policy. See Exhibit C.

For applicants, during the application this notice is provided online through a link in the online application from [StateFarm.com/privacy](http://StateFarm.com/privacy). If the applicant is in the office, it is offered by the agent to the customer. If the policyholder is calling the call center or the agent, it is offered verbally with either the link or an offer to mail it to the policyholder. For new business, policy holders receive a copy of the Notice of Privacy Policy by mail approximately 30 days after the application is bound. For existing customers, policy holders receive a copy of the Notice of Privacy Policy as part of an annual mailing by State Farm. New and existing policy holders may elect to receive the Notice of Privacy Policy electronically.

### **Section 38.2-604.1B**

Under section B, notices must provide:

- The types of information collected.
  - Form 153-4254.12 meets this requirement under the section that is labeled "Information we collect"
- The types of financial information that may be disclosed
  - Form 153-4254.12 meets this requirement under the section that is labeled "How we share information"
- The categories of persons to whom financial information may be disclosed
  - Form 153-4254.12 meets this requirement under the section that is labeled "How we share information"
- If information is disclosed pursuant to section B of 38.2-613
  - State Farm is not required to include the explanation of the right that information not be disclosed to non-affiliated third parties, as we do not



disclose information outside of the permitted disclosure under VA Code Ann. § 38.2-613. We indicate how we protect and safeguard information and we provide the FCRA opt out. We also state we afford former policyholders information the same protections.

- An explanation of the right to direct that financial information not be disclosed to nonaffiliated third parties
  - State Farm does not share financial information under this section with nonaffiliated third parties. This is explained in the “How we share information” section and State Farm’s privacy principles.
- A description of the policies and practices for protection information
  - Form 153-4254.12 meets this requirement under the section that is labeled “We protect customer information”
- The FCRA opt out requirements
  - Form 153-4254.12 meets this requirement under the section that is labeled “To limit the sharing of information within the State Farm Family of Companies”
- A description of information about former policy holders
  - Form 153-4254.12 meets this requirement in the section labeled “How we share information” and the section labeled “The State Farm Family of Companies Included”

## **Notice Requirements under 38.2-604 Insurance Information Practices**

### Section 38.2-604 Insurance Information Practices

Under section A, notices must be provided at the following times:

1. For an applicant at the time of delivery of the policy or at the time of collection of personal information
2. For renewal policies, annually, unless personal information is collected only from the policy holder or notice has been given within 24 months
3. At the time of reinstatement or change in benefits, at the time of the request

For applicants, State Farm provides the short form notice allowed under section C. This is printed directly on the binder and/or declarations page received by the customer.

- The abbreviated/short form notice (including recent revisions) is as follows:

*We collect personal information from persons other than the individual or individuals applying for coverage. Such personal information as well as*

*other personal or privileged information subsequently collected may, in certain circumstances, be disclosed to third parties without your authorization as permitted by law. If you would like additional information about the collection and disclosure of personal information, please contact your State Farm agent. You may also act upon your right to see and correct any personal information in your State Farm files by writing your State Farm agent to request this access.*

State Farm meets the requirements for the long form notice by providing 153-1048.4e Insurance Information and Privacy Protection as requested. See Exhibit C.

For Fire renewal policies, the abbreviated/short form notice, 553-3239(c) meets this requirement. See Exhibit C.

Auto did not require additional notice per 604A (2) since personal information was not collected from third party sources.

Section B (long form) requires that the notice contain the following:

- Whether personal information may be collected from persons other than the individual
  - 153-1048.4e satisfies this requirement under the heading “Sources of Personal Information.”
- The types of information that may be collected.
  - 153-1048.4e satisfies this requirement under the heading “Sources of Personal Information.”
- A description of rights (access and correct)
  - 153-1048.4e satisfies this requirement under the heading “Your Rights To Know Personal Information”
  - That information obtained from a report prepared by an insurance support organization
    - 153-1048.4e satisfies this requirement under the heading “Personal Information May Be Disclosed”

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating Review**

- (3) Additional remediation on RPA034/1020300702 and 1668292986 has been done and the remediation spreadsheet has been updated accordingly.
- (4) A private passenger automobile declarations page that shows the towing, labor, and transportation expense coverage limits as well as the policy premium was provided under separate cover.

### **Claims Review**

- (3) The Company appreciates the Bureau's reconsideration during our recent phone call of CPA067/228115793.

### **Statutory Notices Review**

- (2) See response to General Statutory Notices.

We will provide an updated remediation spreadsheet under separate cover.

We appreciate the Bureau's time with us during our recent conference call.

Sincerely,



Catherine A. Rankin, Counsel

CAR/daw/18165420

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

February 15, 2017

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Catherine Rankin, Counsel  
State Farm Insurance Companies  
State Farm Northeastern Office  
Six Hillman Drive, Suite 200  
Chadds Ford, Pennsylvania 19317

RE: Market Conduct Examination  
State Farm Mutual Automobile Insurance Company (NAIC #25178)  
State Farm Fire and Casualty Company (NAIC 25143)  
Examination Period: July 1, 2013 – June 30, 2014

Dear Ms. Rankin:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of February 8, 2017, and we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company (Report).

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Automobile Renewal Business Policies

(3h) Based upon the company's response and supporting documentation, the overcharge for RPA121 has been withdrawn from the Report.

### Homeowner Renewal Business Policies

(4) Based upon additional documentation provided by the company, the violation for RHO124 has been withdrawn from the Report.

### Private Passenger Automobile Claims

(3) After further review, the violation for CPA067 has been withdrawn from the Report.


Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-510 A 1, 38.2-511, 38.2-517 A, 38.2-604 A, 38.2-604.1, 38.2-610 A, 38.2-1318, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2125, 38.2-2126 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, 38.2-2220, 38.2-2234 A of the Code of Virginia; and 14 VAC 5-400-30 and 14 VAC 5-400-70 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the business of insurance in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,



Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM/  
Enclosures

Chadds Ford Business Campus  
Corporate Law  
6 Hillman Drive, Suite 200  
Chadds Ford, PA 19317

Catherine A. Rankin, Counsel  
Phone: 610-361-4145  
Fax: 610-361-4152  
[catherine.a.rankin.bk31@statefarm.com](mailto:catherine.a.rankin.bk31@statefarm.com)

March 2, 2017

Rebecca Nichols Deputy Commissioner  
Property and Casualty Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer  
Ecase/Docket Number: INS-2017-00026

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of insurance's letter dated February 17, 2017, concerning the above referenced matter.

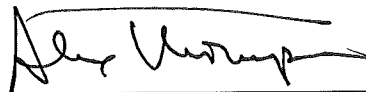
We wish to make a settlement offer on behalf of the insurance company[ies] listed below for the alleged violations of §§ 38.2-305 A, 38.2-510 A 1, 38.2-511, 38.2-517 A, 38.2-604 A, 38.2-604.1, 38.2-610 A, 38.2-1318, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2125, 38.2-2126 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, 38.2-2220, 38.2-2234 A of the Code of Virginia; and 14 VAC 5-400-30 and 14 VAC 5-400-70 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$50,600.00.
2. We agree to comply with the corrective action plan set forth in the companies' letters of January 4, 2016, August 30, 2016, November 18, 2016 and February 8, 2017.
3. We confirm that restitution was made to 48 consumers for \$17,641.68 in accordance with the companies' letters of January 4, 2016, August 30, 2016, November 18, 2016 and February 8, 2017.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

State Farm Mutual Automobile Insurance  
State Farm Fire and Casualty Company



\_\_\_\_\_  
(Signed)

Alex Thompson  
(Type or Print Name)

VPO, P&C Underwriting Executive  
(Title)

3/2/17  
(Date)

Enclosure

# COMMONWEALTH OF VIRGINIA



**JACQUELINE K. CUNNINGHAM**  
**COMMISSIONER OF INSURANCE**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

**P.O. BOX 1157**  
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**RICHMOND, VIRGINIA 23219**  
**TELEPHONE: (804) 371-9741**  
**[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)**

State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company have tendered to the Bureau of Insurance the settlement amount of \$50,600 by their check numbered 1004207211 and dated March 30, 2017, a copy of which is located in the Bureau's files.



COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 12, 2017

SCC-CLERK'S OFFICE  
DOCUMENT CONTROL CENTER

2017 APR 12 P 2: 10

170420227

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2017-00026

STATE FARM MUTUAL AUTOMOBILE INSURANCE  
and  
STATE FARM FIRE AND CASUALTY COMPANY,  
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that State Farm Mutual Automobile Insurance and State Farm Fire and Casualty Company (collectively, "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), violated: § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required by statute in the insurance policy; § 38.2-511 of the Code by failing to maintain a complete complaint register; §§ 38.2-517 A, 38.2-604 A, 38.2-604.1, 38.2-610 A, 38.2-2125, 38.2-2126 A, and 38.2-2234 A of the Code by failing to accurately provide the required notices to insureds; § 38.2-1318 of the Code by failing to provide convenient access to files, books and records; § 38.2-1822 of the Code by permitting an unlicensed agent to act on the company's behalf; § 38.2-1833 of the Code for paying commissions to agencies/agents that are not appointed by the Defendants; § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; §§ 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2208 B, 38.2-2212 D, and 38.2-2212 E of the

Code by failing to properly terminate insurance policies; § 38.2-2220 of the Code by failing to use forms in the precise language of standard forms previously filed and adopted by the Commission; and § 38.2-510 A (1) of the Code, as well as 14 VAC 5-400-30 and 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to Virginia the sum of Fifty Thousand Six Hundred Dollars (\$50,600), waived their right to a hearing, and agreed to comply with the corrective action plan set forth in their letters to the Bureau dated January 4, 2016, August 30, 2016, November 18, 2016, and February 8, 2017.

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Catherine Rankin, Counsel, Chadds Ford Corporate Business Office, 6 Hillman Drive, Suite 200, Chadds Ford, Pennsylvania 19317; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Rebecca Nichols.