

OHIO DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION OF

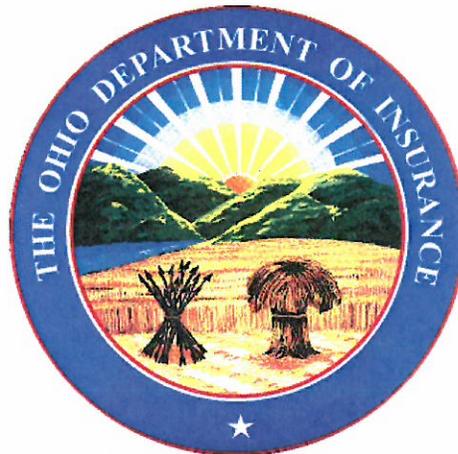
**STATE FARM FIRE AND CASUALTY INSURANCE
COMPANY**

NAIC # 25143

&

STATE FARM MUTUAL INSURANCE COMPANY

NAIC #25178



As Of

November 30, 2012



ODI
Ohio Department
of Insurance

John R. Kasich, Governor
Mary Taylor, Lt. Governor/Director

50 West Town Street
Third Floor – Suite 300
Columbus, OH 43215-4186
(614) 644-2658
www.insurance.ohio.gov

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 W. Town St. Ste. 300
Columbus, OH 43215

Lt. Governor/Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised and Administrative Codes, a target market conduct examination was conducted on the Ohio business of:

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

The examination was conducted at the Companies' office located at:
1440 Granville Road, Newark, OH 43055

and at the offices of the Ohio Department of Insurance located at:
50 W. Town St. Ste. 300
Columbus, OH. 43215

Respectively submitted,

Angela Dingus, MCM, AIC, AINS
Chief, Market Conduct Division
Office of Risk Assessment

Date

Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIP Hotline: 1-800-686-1578

TDD Line: (614) 644-3745

(Printed in house)

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FORWARD

This examination was conducted under authority provided by Ohio Revised Code (“ORC”) 3901.011.

SCOPE OF EXAMINATION

On October 24, 2012, the Market Conduct Division, Ohio Department of Insurance (“Department”), opened an examination of State Farm Fire and Casualty Insurance Company and State Farm Mutual Insurance Company (“Companies”). On March 25, 2013, the on-site portion of the examination of the Companies’ non-financial business practices began at the Companies’ regional claims office in Newark, Ohio.

The examination was restricted to a review of the Companies’ activities for Ohio private passenger automobile and homeowner claims for the period of December 1, 2011 through November 30, 2012. The examination is a report by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the State of Ohio’s applicable statutes and rules.

The examination included the following areas of the Companies’ operations:

- Claims
- Underwriting
- Complaints

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Companies’ claims department procedures and claim files for paid, denied and closed without payment claims. This information was supplemented by interviewing the Companies’ managers and with written inquiries requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Companies’ level of compliance with Ohio’s property and casualty insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC’s standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other tests (90% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a particular sample are reported separately. Each test is expressed as a “yes/no” question. A “yes” response indicates compliance and a “no” response indicates a failure to comply.

In any instance where errors were noted, the examiners described the apparent error and asked the Companies for an explanation. The Companies responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider,
- Disagreed with the findings, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Companies supplied reports of claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio claim files and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

COMPANY OPERATIONS

The Companies are licensed in all fifty states, the District of Columbia and Canada writing homeowner, private passenger auto, life and annuity and health insurance. The Companies' statutory home office is located in Bloomington, Illinois.

2011 Private Passenger Auto

Company	Ohio Direct Written	Ohio Incurred Losses
State Farm Fire Insurance Company – Auto	\$70,830,551	\$45,463,167
State Farm Mutual Insurance Company -Auto	\$912,379,693	\$567,641,383
State Farm Fire Insurance Company – Home	\$551,162,972	\$418,048,968

UNDERWRITING

Non-renewals

Pre-examination interrogatories included an in-depth review of the Companies' underwriting procedures, forms and correspondence to measure compliance with ORC 3937.31–3937.34. Additionally, the examiners attended a presentation hosted by the Companies' underwriting and policyholder service team that involved a step-by-step review of the underwriting component in new business, non-renewal and policy cancellations. The examiners found the Companies' underwriting procedures and process to meet compliance with the statutes and did not identify an adverse underwriting trend among policyholder complaints. Therefore, a review of underwriting files was not conducted.

GENERAL CLAIM PRACTICES

The examiners reviewed the Companies' claims procedures to determine whether the procedures meet the requirements of ORC 3901.20 as defined by ORC 3901.21, Ohio Administrative Code ("OAC") 3901-1-07, and OAC 3901-1-54, with regard to timely investigation, denial of coverage, and reporting of apparent fraudulent claims. The examiners also reviewed the Companies' procedures to assure compliance with ORC 3999.41, which requires a company to adopt an antifraud program.

The examiners found that the Companies' procedures were sufficient to establish compliance with Ohio statutes and rules.

SPECIFIC CLAIM REVIEW

PRIVATE PASSENGER AUTOMOBILE PAID CLAIMS

General Methodology:

- The Companies supplied reports of paid automobile claims closed during the exam period.
- The examiners reviewed samples to test for compliance with various sections of OAC 3901-1-07 and 3901-1-54.
- A claim file was considered to be an exception if the file documentation precluded the examiner from being able to reconstruct and understand the complete chronology of the claim from submission to closure.

Timely Initial Contact

Standard: The initial contact by the Companies with the claimant is within the required time frame.

Test: Did the Companies make timely contact (15 days of receipt of notice) with claimants following the report of a claim per OAC 3901-1-54(F)(2)?

Test Methodology:

- "Initial Contact" included a telephone notice to the Companies from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim in which the Companies did not contact the claimant within fifteen (15) days from the date of notification of the claim to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
First Party Total	966	50	50	0	93%	100%
Third Party Partial	3,557	50	50	0	93%	100%
Third Party Total	494	50	50	0	93%	100%
Bodily Injury Paid	755	50	50	0	93%	100%
UMBI Paid	188	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	100	0	93%	100%
First Party Total	11,463	100	100	0	93%	100%
Third Party Partial	44,008	100	99	1	93%	99%
Third Party Total	5,236	100	100	0	93%	100%
Bodily Injury Paid	7,652	100	100	0	93%	100%
UMBI Paid	1,252	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Timely Communications

Standard: The Companies respond to claim communications in a timely manner.

Test: Did the Companies respond to any communication from a claimant when that communication suggests a response is appropriate, within 15 days per OAC 3901-1-54(F)(3)?

Test Methodology:

- The examiners considered any failure to respond, within 15 days, to a communication where a response is deemed appropriate, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
First Party Total	966	50	50	0	93%	100%
Third Party Partial	3,557	50	50	0	93%	100%
Third Party Total	494	50	50	0	93%	100%
Bodily Injury Paid	755	50	50	0	93%	100%
UMBI Paid	188	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	100	0	93%	100%
First Party Total	11,463	100	100	0	93%	100%
Third Party Partial	44,008	100	100	0	93%	100%
Third Party Total	5,236	100	100	0	93%	100%
Bodily Injury Paid	7,652	100	99	1	93%	99%
UMBI Paid	1,252	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Timely Investigation

Standard: Claims are resolved in a timely manner.

Test: Did the Companies make a decision to accept or deny the claim within 21 days of receipt of a properly executed proof of loss, and if not, was notice sent to the claimant within the 21 day period and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every 45 days thereafter per OAC 3901-1-54(G)(1)?

Test Methodology:

- The examiners considered any instance where the Companies failed to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
First Party Total	966	50	50	0	93%	100%
Third Party Partial	3,557	50	50	0	93%	100%
Third Party Total	494	50	50	0	93%	100%
Bodily Injury Paid	755	50	50	0	93%	100%
UMBI Paid	188	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	100	0	93%	100%
First Party Total	11,463	100	100	0	93%	100%
Third Party Partial	44,008	100	100	0	93%	100%
Third Party Total	5,236	100	100	0	93%	100%
Bodily Injury Paid	7,652	100	100	0	93%	100%
UMBI Paid	1,252	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Timely Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Companies make timely payments (10 days after acceptance) to first party claimants per OAC 3901-1-54(G)(6) or to third party claimants (5 days after acceptance) per OAC 3901-1-07(C)(16)?

Test Methodology:

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim “payable” until the Companies received the required document(s).
- The examiners considered the following to be exceptions:
 1. Any claim in which the Companies failed to make payment to first party claimants within 10 days, once the amount was known and agreed;
 2. Any claim in which the Companies failed to make payment to a third party claimant within 5 days, once the amount was known and agreed.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
First Party Total	966	50	50	0	93%	100%
Third Party Partial	3,557	50	49	1	93%	98%
Third Party Total	494	50	50	0	93%	100%
Bodily Injury Paid	755	50	47	3	93%	94%
UMBI Paid	188	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	97	3	93%	97%
First Party Total	11,463	100	100	0	93%	100%
Third Party Partial	44,008	100	93	7	93%	93%
Third Party Total	5,236	100	98	2	93%	98%
Bodily Injury Paid	7,652	100	94	6	93%	94%
UMBI Paid	1,252	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were equal to or above this standard.

Like Kind and Quality Parts and Salvage Dealer Location

Standard: Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: Where applicable, did repair estimates, prepared by the Companies, or prepared on the Companies’ behalf, clearly indicate when the repair estimate included “Like Kind and Quality” (“LKQ”) parts and the

name and location of the licensed salvage dealer where the parts were obtained as required by OAC 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any repair estimate that failed to disclose that LKQ parts were used in the estimate, and/or,
 2. Any repair estimate that failed to clearly show the name and location of the licensed salvage dealer where the LKQ parts were to be obtained.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
Third Party Partial	3,557	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	100	0	93%	100%
Third Party Partial	44,008	100	100	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Non-Original Equipment Manufacturer Parts

Standard: Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: Where applicable, did repair estimates, prepared by the Companies, or prepared on the Companies’ behalf, clearly indicate when the repair estimate included replacement parts which were not manufactured by the “Original Equipment Manufacturer” (“OEM”) and was the mandatory statutory disclosure wording included on the estimate as required by OAC 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. A repair estimate that failed to clearly show that Non-OEM parts were included in the estimate, and/or,
 2. A repair estimate that failed to include the statutory mandated disclosure wording required when non-OEM parts are used to repair a vehicle.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
Third Party Partial	3,557	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	100	0	93%	100%
Third Party Partial	44,008	100	100	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Fair and Reasonable Settlement

Standard: Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: Did the Companies offer to claimants, who have made fair and reasonable claims, and in which liability has become reasonably clear, amounts which were fair and reasonable as shown by the insurer’s investigation of the claim, providing the amounts so offered were within policy limits and in accordance with policy provisions as required by OAC 3901-1-07(C)(6)?

Test Methodology:

- The examiners considered any claim in which the Companies’ claim file did not document that the settlement amount offered and/or paid was fair and reasonable, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	3,149	50	50	0	93%	100%
First Party Total	966	50	50	0	93%	100%
Third Party Partial	3,557	50	50	0	93%	100%
Third Party Total	494	50	50	0	93%	100%
Bodily Injury Paid	755	50	50	0	93%	100%
UMBI Paid	188	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	55,735	100	100	0	93%	100%
First Party Total	11,463	100	100	0	93%	100%
Third Party Partial	44,008	100	100	0	93%	100%
Third Party Total	5,236	100	100	0	93%	100%
Bodily Injury Paid	7,652	100	100	0	93%	100%
UMBI Paid	1,252	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Vehicle Total Loss-Actual Cash Value Calculation

Standard: Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: Did the Companies calculate actual cash value on total losses in a manner that conformed to OAC 3901-1-54(H)(7)(a-e)?

Test Methodology:

- The examiners considered failure to document that the settlement amount offered and/or paid was fair and reasonable, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	966	50	50	0	93%	100%
Third Party Total	494	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	11,463	100	100	0	93%	100%
Third Party Total	5,236	100	100	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Vehicle Total Loss-Sales Tax

Standard: Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: Did the Companies pay and/or reimburse sales tax as required by OAC 3901-1-54 (H)(7)(f) and (g)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any failure to offer to pay or reimburse sales tax on vehicle total loss settlements, and/or,
 2. Any failure to use local sales tax rates when paying sales tax on actual cash value settlements.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	966	50	50	0	93%	100%
Third Party Total	494	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	11,463	100	100	0	93%	100%
Third Party Total	5,236	100	100	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Bodily Injury and Uninsured Motorist Bodily Injury Claim Settlement Amounts

Standard: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Test: Were the Companies' claim settlements free of unfair claim settlement practices prohibited by ORC 3901.20 and as defined in ORC 3901.21, OAC 3901-1-07(C)(6) and OAC 3901-1-54(G)(10)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any indication of a pattern settlement,
 2. Any indication of the Companies' actions to compel a first party to litigate; and,
 3. Failure to document that the settlement amount offered and/or paid was fair and reasonable.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Bodily Injury Paid	755	50	50	0	93%	100%
UMBI Paid	188	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Bodily Injury	7,652	100	100	0	93%	100%
UMBI Paid	1,252	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

DENIED AND CLOSED WITHOUT PAYMENT CLAIMS

General Methodology:

- The Companies supplied reports of automobile claims denied and/or closed without payment (“CWOP”) during the exam period.
- A claim file was considered to be an exception if the file documentation precluded the examiner from being able to reconstruct and understand the complete chronology of the claim from submission to closure.
- Any required contact or investigation not documented as being within the required time frames was considered to be an exception.
- Any claim file not documented as having been denied within the required time frames was considered to be an exception.
- The examiners reviewed random samples to test for compliance with various sections of OAC 3901-1-54.

Timely Contact

Standard: The initial contact by the Companies with the claimant is within the required time frames.

Test: Did the Companies make timely contact, (15 days of receipt of notice) with claimants following the report of a claim per OAC 3901-1-54(F)(2)?

Test Methodology:

- “Initial Contact” included a telephone notice to the Companies from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim in which the Companies did not contact the claimant within fifteen (15) days from the date of notification of the claim, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	3,456	50	50	0	93%	100%
Third Party CWOP	1,955	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	48,443	100	100	0	93%	100%
Third Party CWOP	22,032	100	100	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Timely Investigation

Standard: Claims are resolved in a timely manner.

Test: Did the Companies make a decision to accept or deny the claim within 21 days of receipt of a properly executed proof of loss, and if not, was notice sent to the claimant within the 21 day period, and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every 45 days thereafter per OAC 3901-1-54(G)(1)?

Test Methodology:

- The examiners considered any instance where the Companies failed to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
First Party CWOP	3,456	50	1	0	49	93%	N/A
Third Party CWOP	1,955	50	11	0	39	93%	N/A

The standard of compliance is 93%. (Note: This test did not apply to the “N/A” files because they were closed without payment instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
First Party CWOP	48,443	100	1	0	99	93%	N/A
Third Party CWOP	22,032	100	13	0	87	93%	N/A

The standard of compliance is 93%. (Note: This test did not apply to the “N/A” files because they were closed without payment instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

Timely Communications

Standard: The Companies respond to claim communications in a timely manner.

Test: Did the Companies respond to any communication from a claimant when that communication suggests a response is appropriate, within 15 days per OAC 3901-1-54(F)(3)?

Test Methodology:

- The examiners considered any failure to respond, within 15 days, to a communication where a response is deemed appropriate, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	3,456	50	50	0	93%	100%
Third Party CWOP	1,955	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	48,443	100	100	0	93%	100%
Third Party CWOP	22,032	100	98	2	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Specific Provision, Condition, or Exclusion

Standard: Denied and CWOP claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: When the claim was denied on the grounds of a specific policy provision, condition, or exclusion, did the claim file include documentation that the denial notice contained reference to such provision, condition, or exclusion as required by OAC 3901-1-54(G)(2)?

Test Methodology:

- The examiners considered failure to document within the claim file that the claimant was informed of the denial, substantiated by the specific policy provision, condition or exclusion that was the basis for the claim denial, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
First Party CWOP	3,456	50	1	0	49	93%	N/A
Third Party CWOP	1,955	50	11	0	39	93%	N/A

The standard of compliance is 93%. (Note: This test did not apply to the “N/A” files because they were CWOP instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
First Party CWOP	48,443	100	1	0	99	93%	N/A
Third Party CWOP	22,032	100	13	0	87	93%	N/A

The standard of compliance is 93%. (Note: This test did not apply to the “N/A” files because they were CWOP instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

Notification of Statute of Limitations Expiration

Standard: Denied and CWOP claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: If denied for expiration of policy or contractual limits, did the Company notify unrepresented claimants at least 60 days prior to the statute of limitations as required by OAC 3901-1-54(G)(5)?

Test Methodology:

- The examiners considered failure to document within the claim file that unrepresented claimants were notified at least 60 days prior to the expiration of the statute of limitations, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	3,456	50	50	0	93%	100%
Third Party CWOP	1,955	50	44	6	93%	88%

The standard of compliance is 93%. The Company's first party handling practices were above and the third party handling practices were below this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	48,443	100	100	0	93%	100%
Third Party CWOP	22,032	100	95	5	93%	95%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Examiner Recommendation:

- The Companies should develop and implement procedures to ensure that each claim file contains documentation to reflect that all unrepresented claimants receive at least 60-days notification of the expiration of the statute of limitations.

Company Response: "While we do not dispute the 3rd party auto claims for the Mutual Company and the Fire Company were denied, these claims were not denied for expiration of the statute of limitations. In fact, upon receipt of the Department's findings identifying these claim files as exceptions, State Farm re-opened the claim files and mailed timely notice to the 3rd parties advising of the statute of limitations. State Farm was able to take timely corrective action as required by OAC 3901-1-54(G)(5), because the statute of limitations in these claims had not yet expired and was not within 60 days of expiring."

Claim File Documentation

Standard: Claim file documentation is complete and comprehensive.

Test: Did the insurer maintain claim data that was accessible and retrievable for examination enabling the examiner(s) to reconstruct the Companies' activities in regard to any claim as required by OAC 3901-1-54(D)(1-3)?

Test Methodology:

- The examiners considered any claim file missing documentation and/or correspondence that precluded the examiner from reconstructing the Companies' activities, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	3,456	50	50	0	93%	100%
Third Party CWOP	1,955	50	47	3	93%	94%

The standard of compliance is 93%. The Company's handling practices were above this standard.

State Farm Mutual Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party CWOP	48,443	100	100	0	93%	100%
Third Party CWOP	22,032	100	95	5	93%	95%

The standard of compliance is 93%. The Company's handling practices were above this standard.

HOMEOWNER PAID CLAIMS (STATE FARM FIRE AND CASUALTY ONLY)

General Methodology:

The Company supplied a report of all State Farm Fire and Casualty Homeowner and Contents paid claims that were closed during the exam period. The examiners reviewed a sampling of claims files to test for compliance.

- The claims files were reviewed to verify dates in the claims settlement process.
- The claims files were reviewed to verify the Company's claim settlement practices.

Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Did the Company make timely contact (within 15 days of receipt of notice) with claimants following the report of a claim per Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- "Initial Contact" included a telephone notice to the Company from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim in which the Company did not contact the claimant within fifteen (15) days from the date of notification of the claim, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure Paid	41,060	100	100	0	93%	100%
Contents Paid	18,951	100	100	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Timely Communications

Standard: The Company responds to claim communications in a timely manner.

Test: Did the Company respond to any communication from a claimant when that communication suggests a response is appropriate, within 15 days per OAC 3901-1-54(F)(3)?

Test Methodology:

- The examiners considered any failure to respond, within 15 days, to a communication where a response is deemed appropriate, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure Paid	41,060	100	99	1	93%	99%
Contents Paid	18,951	100	100	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Timely Investigation

Standard: Claims are resolved in a timely manner.

Test: Did the Company make a decision to accept or deny the claim within 21 days of receipt of a properly executed proof of loss, and if not, was notice sent to the claimant within the 21 day period, and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every 45 days thereafter per OAC 3901-1-54(G)(1)?

Test Methodology:

- The examiners considered any instance where the Company failed to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure Paid	41,060	100	99	1	93%	99%
Contents Paid	18,951	100	100	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Settlement Amounts

Standard: Claim files are handled in accordance with policy provisions and applicable statutes and rules.

Test: If the claim file was paid based on replacement cost, was it settled per the requirements of OAC 3901-1-54(I)(1)?

Test Methodology:

The examiners considered any of the following to be exceptions:

- Any claim on which the Company’s calculation of settlement amount was done incorrectly; and,
- Any claim on which the Company’s claim file did not document the payment of sales tax as required.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
Structure Paid	41,060	100	81	0	19	93%	100%
Contents Paid	18,951	100	52	0	48	93%	100%

The standard for compliance is 93%. The Company’s handling practices were above this standard. (Note: This test did not apply to the “N/A” files within this sample as the loss settlement was based on actual cash value.)

Settlement Amounts

Standard: Claim files are handled in accordance with the language of the insurance contract and the Company’s claim processing procedures.

Test: If the claim file was paid with actual cash value, was it settled per the requirements of OAC 3901-1-54(I)(2)?

Test Methodology:

The examiners considered any of the following to be exceptions:

- Any claim on which the Company’s calculation of settlement amount was done incorrectly; and,
- Any claim on which the Company’s claim file did not document the payment of sales tax as required.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
Structure Paid	41,060	100	19	0	81	93%	100%
Contents Paid	18,951	100	48	0	52	93%	100%

The standard for compliance is 93%. The Company’s handling practices were above this standard. (Note: This test did not apply to the “N/A” files within this sample as the loss settlement was based on replacement cost value.)

Timely Claim Payments

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payment (within 10 working days after acceptance) to first party claimants per Ohio Adm.Code 3901-1-54(G)(6)?

Test Methodology:

- The examiners considered any claim on which payment was not made in the required time frame, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure Paid	41,060	100	98	2	93%	98%
Contents Paid	18,951	100	100	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

HOMEOWNER DENIED AND CLOSED WITHOUT PAYMENT CLAIMS

General Methodology:

The Company supplied a report of all Homeowner Structure and Contents claims files denied and CWOP that occurred during the examination period. The examiners reviewed a sampling of claims files to test for compliance.

- The claims files were reviewed to verify dates in the claims settlement process.
- The claims files were reviewed to verify the Company’s claim settlement practices.

Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Did the Company make timely contact (within 15 days of receipt of notice) with claimants following the report of a claim per Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- “Initial Contact” included a telephone notice to the Company from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim in which the Company did not contact the claimant within fifteen (15) days from the date of notification of the claim, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure CWOP	6,185	100	98	2	93%	98%
Contents CWOP	3,108	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Timely Investigation

Standard: Claims are resolved in a timely manner.

Test: Did the Company make a decision to accept or deny the claim within 21 days of receipt of a properly executed proof of loss, and if not, was notice sent to the claimant within the 21 day period, and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every 45 days thereafter per OAC 3901-1-54(G)(1)?

Test Methodology:

- The examiners considered any instance where the Company failed to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
Structure CWOP	6,185	100	17	0	83	93%	N/A
Contents CWOP	3,108	50	3	0	47	93%	N/A

The standard of compliance is 93%. The Company’s handling practices were above this standard. (Note: This test did not apply to the “N/A” files because they were CWOP instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

Fair and Reasonable Settlement

Standard: Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: Does the claim document that the decision to deny the claim is fair and reasonable as shown by the insurer’s investigation of the claim and as required by OAC 3901-1-07(C)(6)?

Test Methodology:

- The examiners considered any instance where Company’s claim file did not document that the claim denial was fair and reasonable, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
Structure CWOP	6,185	100	17	0	83	93%	N/A
Contents CWOP	3,108	50	3	0	47	93%	N/A

The standard of compliance is 93%. The Company’s handling practices were above this standard. (Note: This test did not apply to the “N/A” files because they were CWOP instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

Specific Provision, Condition, or Exclusion

Standard: Denied and CWOP claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: When the claim was denied on the grounds of a specific policy provision, condition, or exclusion, did the claim file include documentation that the denial notice contained reference to such provision, condition, or exclusion as required by OAC 3901-1-54(G)(2)?

Test Methodology:

- The examiners considered failure to document within the claim file that the claimant was informed of the denial, substantiated by the specific policy provision, condition or exclusion that was the basis for the claim denial, to be an exception.

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
Structure CWOP	6,185	100	17	0	83	93%	N/A
Contents CWOP	3,108	50	3	0	47	93%	N/A

The standard of compliance is 93%. The Company’s handling practices were above this standard. (Note: This test did not apply to the “N/A” files because they were CWOP instead of true denied files. Removing files from a sample compromises the statistical soundness of the sample resulting in the “N/A” compliance findings.)

Notification of Statute of Limitations Expiration

Standard: Denied and CWOP claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

Test: If denied for expiration of policy limits, did the Company notify unrepresented claimants at least 60 days prior to the statute of limitations as required by OAC 3901-1-54(G)(5)?

Test Methodology:

- The examiners considered failure to document within the claim file that unrepresented claimants were notified at least 60 days prior to the expiration of the statute of limitations, to be an exception

State Farm Fire and Casualty Findings:

Claim Feature	Population	Sample	Yes	No	N/A	Standard	Compliance
Structure CWOP	6,185	100	17	0	83	93%	100%
Contents CWOP	3,108	50	3	0	47	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard. (Note: This test did not apply to the “N/A” files within this sample because they were closed without payment instead of true denied files.)

COMPLAINTS

Standard: The Companies shall adopt and implement reasonable standards for the proper handling of written communications, primarily expressing grievances received by the Companies from insureds and claimants.

Test: Have the Companies adopted and implemented reasonable standards for handling written communications, primarily expressing grievances, including procedures to make a complete investigation of a complaint and respond as required by OAC 3901-1-07(C)(15)?

Test Methodology:

- Prior to the on-site portion of the examination, the examiners reviewed the Companies’ complaints from the exam period and submitted interrogatories to the Companies for responses. The examiners interviewed the Companies examination coordinator during the on-site portion of the examination.

Findings:

The Companies indicated in their responses to the Department’s interrogatories and during examiner interviews that they do have detailed and formalized written complaint handling procedures that meet compliance with OAC 3901-1-07(C)(15). During the onsite portion of the examination, the examiners conducted a review of consumer complaints not filed with the Ohio Department of Insurance. The outcome of this review did not point to an adverse trend among consumers that would support further investigation. The Companies’ internal procedures, controls and reporting structure maintains open communication throughout all levels of management and ensures prompt action and resolution of any individual complaint or adverse trend affecting policyholders.

EXAMINATION SUMMARY

The examination found the Companies to be out of compliance in the following area:

STATE FARM FIRE AND CASUALTY DENIED AND CLOSED WITHOUT PAYMENT CLAIMS		
Areas of Review	Compliance Standard	Compliance Rate
Third Party CWOP If denied for expiration of policy limits, did the Company notify unrepresented claimants at least 60 days prior to the statute of limitations as required by OAC 3901-1-54(G)(5)?	93%	88%

This concludes the report of the Market Conduct Examination of State Farm Fire and Casualty Insurance Company and State Farm Mutual Insurance Company. The examiners, Ben Hauck, Laura Price, John Pollock, and Molly Porto would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



John Pollock
Examiner-in-Charge

12-3-2013

Date

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November 15, 2013

Ohio Department of Insurance
Office of Risk Assessment
Attn: Rodney Beetch, Insurance Compliance Supervisor
50 West Town Street
Third Floor-Suite 300
Columbus, OH 43215-4186

Re: Report on Market Conduct Examination as of November 30, 2012
State Farm Fire and Casualty Insurance Company NAIC # 25143
State Farm Mutual Automobile Insurance Company NAIC #25178

Dear Mr. Beetch:

Thank you for the opportunity to provide the following response to the recommendation set forth in the Market Conduct Examination Report.

The Department's recommendation is specific to providing notification of the expiration of the statute of limitations to unrepresented third party claimants. State Farm responds to the recommendation as follows:

Examiner Recommendation:

- The Companies should develop and implement procedures to ensure that each claim file contains documentation to reflect that all unrepresented claimants receive at least 60 days notification of the expiration of the statute of limitations.

Response: State Farm accepts this recommendation with respect to developing and implementing procedures to ensure each claim file documents that unrepresented third party claimants were given timely notification of the expiration of the statute of limitations. State Farm is providing additional training on the statutory requirements for notification for all claim associates handling automobile claims with third party claimants. State Farm is also implementing additional calendaring procedures to ensure proper notification is sent before the closing of a cause of loss. Management will conduct periodic reviews to ensure the implementation of these additional procedures and compliance with State Farm's statutory notice obligations pursuant to OAC § 3901-1-54(G)(5).

State Farm places great emphasis on compliance with all statutes, rules and regulations related to conducting our business. State Farm appreciates the opportunity to be heard on the Department's findings and recommendations. Additionally, State Farm would like to thank the Examiners for the courteous and professional way in which they handled their responsibilities.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelly Charnock", with a large, stylized flourish at the end.

Kelly Charnock
Counsel