

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**STATE FARM MUTUAL AUTOMOBILE
INSURANCE COMPANY
STATE FARM FIRE AND CASUALTY
COMPANY**

Bloomington, Illinois

**AS OF
May 30, 2007**

COMMONWEALTH OF PENNSYLVANIA

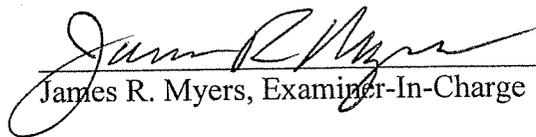


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: July 27, 2007

VERIFICATION

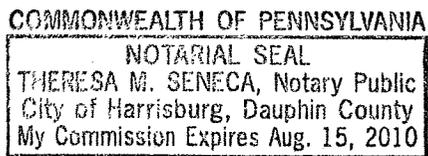
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 2 Day of April, 2007


Notary Public



**STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY
STATE FARM FIRE AND CASUALTY COMPANY**

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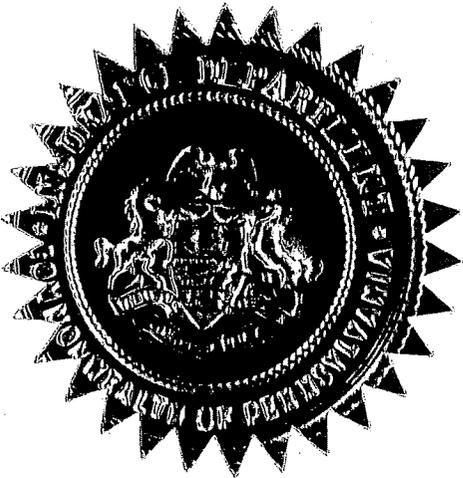
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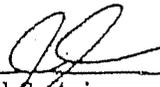
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 6th day of July, 2007, in accordance with

Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
STATE FARM MUTUAL	:	Sections 641.1-A and 671-A of Act
AUTOMOBILE INSURANCE	:	147 of 2002 (40 P.S. §§ 310.41a and
COMPANY	:	310.71)
STATE FARM FIRE AND	:	
CASUALTY COMPANY	:	Act 1990-6, Sections 1731(b) and
Gateway Corporate Center II	:	(c), 1734, 1738(d)(1)(2), 1791.1(a)
225 Wilmington West Chester Pike	:	and (b), 1793(b), and 1799.3(d)
Chadds Ford, PA 19317	:	(Title 75, Pa.C.S. §§ 1731, 1734,
	:	1738, 1791, 1793 and 1799)
	:	
	:	Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9),
	:	and 5(a)(9)(i), (iv) and (v) of the
	:	Unfair Insurance Practices Act, Act of
	:	July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§ 1171.5)
	:	
	:	Section 653 of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 813)
	:	
	:	Sections 2002(c)(3), 2004, 2006, and
	:	2008(b) of Act 68 of 1998 (40 P.S.
	:	§§991.2002, 991.2004, 991.2006 and
	:	991.2008)
	:	
	:	Sections 3(a)(1), 3(a)(4), 3(a)(5),
	:	3(a)(6) and 7(c) of the Act of July 3,
	:	July 3, 1986, P.L. 396, No. 86 (40
	:	P.S. §§ 3403 and 3407)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	59.9(b), 62.3(e)(7), 69.52(1), 69.52(b)
	:	and (e), 113.88, 146.5(a) and (d),
	:	146.6 and 146.7(a)(1)
	:	
Respondent.	:	Docket No. MC07-06-001

CONSENT ORDER

AND NOW, this 27th day of July, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law. Respondent neither admits nor contests the Findings of Fact and Conclusions of Law herein.

FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company, and maintains its address at Gateway Corporate Center II, 225 Wilmington West Chester Pike, Chadds Ford, Pennsylvania 19317.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2005 through June 30, 2005.
- (c) On May 30, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on June 29, 2007.
- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (iii) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the named insured to be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;

- (iv) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (v) Section 1738(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;
- (vi) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with

the declaration of coverage limits and premiums for the insured's existing coverages;

- (vii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
- (viii) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;
- (ix) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;

- (x) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines as an unfair method of competition or unfair or deceptive acts or practices as entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance;

- (xi) Section 5(a)(7)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171.5), which prohibits discrimination with regard to underwriting standards and practices or eligibility requirements by reason of age;

- (xii) Section 5(a)(9) of Act 205 (40 P.S. §1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or

for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

- (xiii) Section 5(a)(9)(i) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice be approved as to form by the Commissioner prior to use;

- (xiv) Section 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer;

- (xv) Section 5(a)(9)(v) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under The PA Fair Plan Act;

- (xvi) Section 653 of the Insurance Company Law, No. 284 (40 P.S. § 813), which states except for nonpayment of premium, no policy of insurance issued or

nonrenewed against liability under the PA Workers' Compensation Act may be cancelled or terminated by an insurer during the term of the policy;

- (xvii) Section 2002(c)(3) of Act 68 of 1998 (40 P.S. § 991.2003), which requires that an insurer supply the insured with a written statement of the reason for cancellation. While most of Act 68 does not apply to new policies cancelled in the first 60 days, the company must provide 15 days of notice of cancellation;
- (xviii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which states that an insurer may not cancel a policy except for specified reasons;
- (xix) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;
- (xx) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may

request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

(xxi) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds;

(xxii) Section 3(a)(4) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice be clearly labeled "Notice of Cancellation";

(xxiii) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice shall state the specific reasons for nonrenewal identifying the condition, factor or loss experience which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency;

(xxiv) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires notices of mid-term cancellation and nonrenewal to meet the following requirements: A mid-term cancellation or nonrenewal notice shall state that, at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;

- (xxv) Section 7(c) of Act 86 (40 P.S. § 3407), which states this act does not apply to commercial property and casualty policies in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;
- (xxvi) Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer to give at least 30 days notice of termination and provided it give notice no later than the 60th day;
- (xxvii) Title 31, Pennsylvania Code, Section 62.3(e)(7), which states the appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within five working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within five days after its completion;
- (xxviii) Title 31, Pennsylvania Code, Section 69.52(1), which states a PRO shall complete a reconsideration within 30 days after the receipt of the information submitted under subsection (k). If additional information critical for the outcome of the determination is submitted by a provider or requested by a PRO, the 30-day review period may be tolled up to 20 days for the

information to be received and taken into consideration. A PRO shall send written notification of the reconsideration determination to the insurer, which shall, within 5 days of receipt, provide copies to providers and insureds. It shall contain the basis and rationale for the reconsideration determination;

(xxix) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;

(xxx) Title 31, Pennsylvania Code, Section 69.52(e), which requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within five days of receipt;

(xxxii) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as "losses" or "underwriting reasons" are not sufficiently specific reasons for cancellation.

(xxxiii) Title 31, Pennsylvania Code, Section 146.5(a), requires every insurer, upon receiving notification of a claim, shall, within ten working days,

acknowledge the receipt of such notice unless payment is made within such period of time;

- (xxxiii) Title 31, Pennsylvania Code, Section 146.5(d), requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer;
- (xxxiv) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
- (xxxv) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must

be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of Sections 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 5(a)(4), 5(a)(7) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(d) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Department may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (e) Respondent's violations of Section 653 of the Insurance Company Law, No. 284 (40 P.S. § 813) are punishable by the following, under Section 655 of the Insurance Company Law (40 P.S. § 815), which provides that the Insurance Commissioner shall have the power to suspend or revoke the license of any insurance company which violations any provisions of this article.
- (f) Respondent's violations of Sections 2002, 2004, 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (g) Respondent's violations of Sections 3 and 7 of Act 86 (40 P.S. §§ 3403 and 3407), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:
- (i) Order that the insurer cease and desist from the violation.
 - (ii) Impose a fine or not more than \$5,000 for each violation.
- (h) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5, 146.6 and 146.7 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Forty-Five Thousand Dollars (\$45,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania

17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or it may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

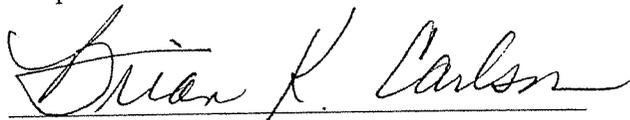
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

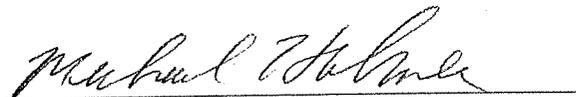
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: STATE FARM MUTUAL AUTOMOBILE
INSURANCE COMPANY, and STATE
FARM FIRE AND CASUALTY COMPANY,
Respondent

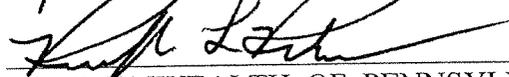


SR. ~~President~~ / Vice President



Secretary / Treasurer

Operations Vice President



COMMONWEALTH OF PENNSYLVANIA

By: Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company's office located in Glen Mills, Pennsylvania, from October 24, 2006, through December 20, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss

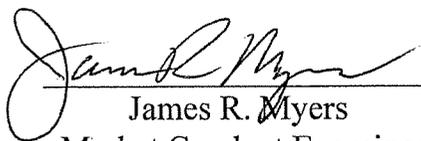
the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

The undersigned participated in this examination and in preparation of this Report.



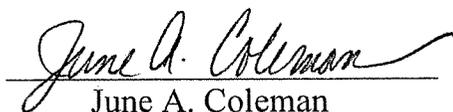
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



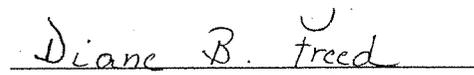
James R. Myers
Market Conduct Examiner



M. Katherine Sutton, AIC
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company, hereinafter referred to as “Company,” at their office located in Glen Mills, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2005, through June 30, 2006, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

2. Assigned Risk Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal and midterm cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

3. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and rescissions.
 - Rating – Proper use of all classification and rating plans and procedures.

4. Commercial Property

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and renewals.

5. Commercial Automobile

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.

6. Workers' Compensation

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.

7. Claims

8. Forms

9. Advertising

10. Complaints

11. Licensing

III. COMPANY HISTORY AND LICENSING

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

State Farm Fire and Casualty Company, sponsored by interests identified with the State Farm Mutual Automobile Insurance Company of Bloomington, Illinois, was organized on June 12, 1935, under the laws of Illinois. It was licensed 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.

LICENSING

State Farm Mutual Automobile Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in all states and the District of Columbia. It is also licensed in Canada in the provinces of Alberta, New Brunswick and Ontario. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$1,300,119,957. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$684,782,311 and Private Passenger Auto Physical Damage \$522,544,778; Commercial Automobile Direct Written Premium was reported as Other Commercial Automobile Liability \$20,295,478 and Commercial Automobile Physical Damage \$18,964,956.

State Farm Fire and Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in all states and the District of Columbia. It is also licensed in Canada in the provinces of Alberta, New Brunswick and Ontario. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$620,969,185. Premium volume related to the areas of this review were: Farm Owners \$824,566; Homeowner's Multiple Peril \$433,234,664; Commercial Multiple Peril (non-liability portion) \$23,649,215; Commercial Multiple Peril (liability portion) \$16,366,377; Inland Marine \$14,822,020; Workers' Compensation \$9,888,684; Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$57,163,948 and Private Passenger Auto Physical Damage \$38,883,908; Commercial Automobile Direct Written Premium was reported as Other Commercial Automobile Liability \$3,544,590 and Commercial Automobile Physical Damage \$2,515,595.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and Pennsylvania automobile product guides were furnished for private passenger automobile, homeowners and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following findings were made:

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company's Workers' Compensation guidelines indicated that the agents are authorized to bind workers' compensation coverage on risks that meet the requirements of the underwriting guide, provided that State Farm is writing the general liability coverage. Requiring supporting business for workers' compensation is prohibited.

2 Violations Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. "Unfair Methods of Competition" and "Unfair or Deceptive Practices" in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair

discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company’s Homeowner and Manufactured Home guidelines reference four kinds of occupation that may not be bound.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

State Farm Mutual Automobile Insurance Company

From the universe of 1,863 private passenger automobile files identified as being cancelled in the first 60 days of new business, 50 files were selected for review. All 50 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of

insurance. The Company cancelled the file, being considered ineligible due to no qualifying State Farm Mutual automobile policy.

1 Violation Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]

Adjudications: Tampa v. State Farm (P91-06-01, 1991)

Gorba v. Allstate (P92-02-92, 1993)

Requires that an insurer supply the insured with a written statement of the reason for cancellation. The file noted was cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

State Farm Fire and Casualty Company

From the universe of 1,079 private passenger automobile files identified as being cancelled in the first 60 days of new business, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

A midterm cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

State Farm Mutual Automobile Insurance Company

From the universe of 145,736 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 12%.

The following findings were made:

6 Violations Act 68, Section 2006 [40 P.S. §991.2006]

Requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The Company did not provide a cancellation notice to the insured for the 6 files noted.

State Farm Fire and Casualty Company

From the universe of 15,292 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 12%.

The following findings were made:

1 Violation Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation

contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The file noted was cancelled for other than permitted reasons.

5 Violations Act 68, Section 2006 [40 P.S. §991.2006]

Requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The Company did not provide a cancellation notice to the insured for the 5 files noted.

3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

State Farm Mutual Automobile Insurance Company

From the universe of 1,698 private passenger automobile files identified as nonrenewals by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

2 Violations Act 68, Section 2006 [40 P.S. §991.2006]

Requires that refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the nonrenewal. The 2 files noted did not contain any evidence that a nonrenewal notice was sent to the insured.

State Farm Fire and Casualty Company

From the universe of 592 private passenger automobile files identified as nonrenewals by the Company, 50 files were selected for review. All 50 files were received and reviewed. The violation resulted in an error ratio of 2%.

The following finding was made:

1 Violation Act 68, Section 2006 [40 P.S. §991.2006]

Requires that refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the nonrenewal. The file noted did not contain any evidence that a nonrenewal notice was sent to the insured.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under

which action by the insurer is prohibited.

From the universe of 9,299 private passenger automobile files identified as being refused by the Company during the experience period, 50 files were selected for review. The 50 files were obtained through 23 producer records. Of the producer records reviewed, 5 producers had no record of refusals to write and 4 producers recorded only one record of refusal to write. The Company's use of internet online quotations and refusals was also reviewed. An exact number of refusals to write via the internet could not be obtained. The 2 violations were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

2 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. The Company did not provide a specific reason for refusal to write.

B. Private Passenger Automobile – Assigned Risk

State Farm Mutual Automobile Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the

Pennsylvania Assigned Risk Plan.

1. Midterm Cancellations

A midterm cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743 and 1744 [75 Pa. C.S. §1742, 1743 and 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

State Farm Mutual Automobile Insurance Company

From the universe of 5,404 private passenger automobile assigned risk policies cancelled during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

2. Nonrenewal

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month anniversary date.

The purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743, 1744 [75 Pa. C.S. §1742, 1743 and 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

State Farm Mutual Automobile Insurance Company

The universe of 1 private passenger assigned risk policy nonrenewed during the experience period was selected for review. The file was received and

reviewed. No violations were noted.

C. Property

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

State Farm Mutual Automobile Insurance Company

This Company did not report any property policies cancelled within the first 60 days of new business.

State Farm Fire and Casualty Company

From the universe of 636 property policies which were cancelled within the first 60 days of new business, 115 files were selected for review. The policies consisted of homeowner, tenant homeowner and inland marine. All 115 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

State Farm Mutual Automobile Insurance Company

This Company did not report any property policies cancelled midterm during the experience period.

State Farm Fire and Casualty Insurance Company

From the universe of 62,701 property policies which were cancelled midterm during the experience period, 200 files were selected for review. The property policies consisted of homeowners, tenant homeowners and inland marine. All 200 files were received and reviewed. The 11 violations noted were based on 9 files, resulting in an error ratio of 5%.

The following findings were made:

4 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to

the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Of the 4 violations noted, three files were cancelled for improper reasons. The remaining file did not have a copy of the cancellation notice to determine compliance.

5 Violations Act 205, Section 5(a)(9)(i) [40 P.S. §1171.5(a)(9)(i)]

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. The Company did not use a filed and approved cancellation notice for the 5 files noted.

1 Violation Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The Company failed to advise the insured of his right to request the Insurance Commissioner review the action of the insurer.

1 Violation Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as "The PA Fair Plan Act". The Company did not advise the insured of his possible

eligibility under the Fair Plan for the file noted.

3. Nonrenewals

A nonrenewal is considered to be any policy, which was not renewed, for a specific reason, at the normal twelve-month anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

State Farm Mutual Automobile Insurance Company

This Company did not report any property policies which were nonrenewed during the experience period.

State Farm Fire and Casualty Company

The universe of 100 property policies which were nonrenewed during the experience period was selected for review. The policies consisted of homeowners, tenant homeowners and inland marine. All 100 files were received and reviewed. Of the 100 files received, 2 files were identified as midterm cancellations. The 8 violations noted were based on 4 files, resulting in an error ratio of 4%.

The following findings were made:

2 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of

individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company did not provide copies of the nonrenewal notice to verify compliance for the 2 files noted.

2 Violations Act 205, Section 5(a)(9)(i) [40 P.S. §1171.5(a)(9)(i)]

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. The Company used a cancellation notice that was not filed and approved for the 2 files noted.

2 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The Company failed to advise the insured of his right to request the Insurance Commissioner review the action of the insurer.

2 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”. The Company did not advise the insured of his possible eligibility under the Fair Plan for the 2 files noted.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

State Farm Mutual Automobile Insurance Company

This Company did not report any personal property declinations during the experience period.

State Farm Fire and Casualty Company

From the universe of 513 personal property files which were identified as declinations by the Company during the experience period, 75 files were selected for review. The files consisted of homeowners, tenant homeowners and inland marine. All 75 files were received and reviewed. Of the 75 files reviewed, 72 were identified as 60-day cancellations and 3 were identified as midterm cancellations. Company procedure is to issue all bound applications and then underwrite the risk. The 13 violations noted were based on 11 files, resulting in an error ratio of 15%.

The following findings were made:

2 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Of the 2 violations noted, 1 file was cancelled midterm for an improper reason for cancellation. The Company did not provide a copy of the cancellation notice so that compliance could be determined in the remaining file.

1 Violation Act 205, Section 5(a)(9)(i) [40 P.S. §1171.5(a)(9)(i)]

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. The Company used a cancellation notice that was not filed and approved by the Insurance Commissioner.

1 Violation Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The Company failed to advise the insured of his right to request the Insurance Commissioner review the action of the insurer.

9 Violations Title 31, Pa. Code, Section 59.9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day. The Company did not provide a copy of the cancellation to determine compliance for the 9 files noted.

5. Rescissions

A rescission is any policy, which was void *ab initio*.

The primary purpose of the review was to determine compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes conditions under which cancellation of a policy is permissible along with the form requirements of the rescission notice.

State Farm Mutual Automobile Insurance Company

This Company did not report any property rescissions during the experience period.

State Farm Fire and Casualty Company

The universe of 2 property policies identified as a rescission was selected for review. Both files were received and reviewed. The property policies consisted of one homeowner and one inland marine. No violations were noted.

D. Commercial Property

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

State Farm Mutual Automobile Insurance Company

This Company did not report any commercial property policies cancelled within the first 60 days of new business.

State Farm Fire and Casualty Company

From the universe of 143 commercial property policies which were cancelled within the first 60 days, 27 files were selected for review. All 27 files were received and reviewed. The commercial property policies consisted of commercial package and commercial inland marine. No violations were noted.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

State Farm Mutual Automobile Insurance Company

This Company did not report any commercial property policies cancelled midterm during the experience period.

State Farm Fire and Casualty Company

From the universe of 11,351 commercial property policies which were cancelled during the experience period, 112 files were selected for review. All 112 files were received and reviewed. The commercial property policies consisted of commercial package, commercial inland marine and farm owners. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

State Farm Mutual Automobile Insurance Company

This Company did not report any commercial property nonrenewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 226 commercial property policies identified as nonrenewals, 32 files were selected for review. All 32 files were received and reviewed. The commercial property policies consisted of commercial package, commercial inland marine and farm owners. The 8 violations noted were based on 5 files, resulting in an error ratio of 16%.

The following findings were made:

2 Violations Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide a copy of the nonrenewal notice so that compliance could be determined for the 2 files noted.

3 Violations Act 86, Section 3(a)(4) [40 P.S. §3403(a)(4)]

Requires that a cancellation notice be clearly labeled "Notice of Nonrenewal". The notice was not clearly labeled "Notice of Nonrenewal" for the 3 files noted.

3 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to

the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 3 files noted contained a nonrenewal notice which did not provide the required information.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices

State Farm Mutual Automobile Insurance Company

This Company did not report any commercial property declinations during the experience period.

State Farm Fire and Casualty Company

From the universe of 197 commercial property files identified as declinations by the Company, 29 files were selected for review. All 29 files were received and reviewed. The policies consisted of commercial package, commercial inland marine and farm owners. Although the Company reported the policies as declinations, coverage was in place and the policies were cancelled within the first 60 days of new business. Premium was due or paid for the period of coverage prior to their being declined or cancelled. The violation noted resulted in an error ratio of 3%.

The following finding was made:

1 Violation Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The Company did not provide a copy of this notice to determine compliance.

5. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

State Farm Mutual Automobile Insurance Company

This Company did not report any commercial property renewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 60,570 commercial property policies which were renewed during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The commercial policies consisted of commercial package, commercial inland marine and farm owners. No violations were noted.

E. Commercial Automobile

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

State Farm Mutual Automobile Insurance Company

The universe of 32 commercial automobile policies which were cancelled within the first 60 days was selected for review. All 32 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 10%.

The following findings were made:

1 Violation Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The Company did not provide a copy of the notice of cancellation so that compliance could be determined.

2 Violations Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 2 files noted contained a cancellation notice which required supporting business.

State Farm Fire and Casualty Company

The universe of 16 commercial automobile policies which were cancelled within the first 60 days was selected for review. All 16 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

State Farm Mutual Automobile Insurance Company

From the universe of 1,568 commercial automobile policies identified as midterm cancellations, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]

Requires that a cancellation notice shall state the specific reasons for the cancellation. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, Pa. Code, Section 113.88

The reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company did not provide a specific reason for cancellation.

State Farm Fire and Casualty Company

From the universe of 321 commercial automobile policies identified as midterm cancellations, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met

regarding the form and condition of the nonrenewal notice.

State Farm Mutual Automobile Insurance Company

The universe of 26 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 26 files were received and reviewed. The 9 violations noted were based on 9 files, resulting in an error ratio of 35%.

The following findings were made:

7 Violations Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide a copy of the notice of nonrenewal so that compliance could be determined for the 7 files noted.

2 Violations Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company did not provide a specific

reason for nonrenewal for the 2 files noted.

State Farm Fire and Casualty Company

The universe of 6 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 6 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 33%.

The following findings were made:

2 Violations Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide a copy of the notice of nonrenewal so that compliance could be determined for the 2 files noted.

4. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date. The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

State Farm Mutual Automobile Insurance Company

From the universe of 8,896 commercial automobile policies which were renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

State Farm Fire and Casualty Company

From the universe of 961 commercial automobile policies which were renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

F. Workers' Compensation

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

State Farm Mutual Automobile Insurance Company

This Company did not report any workers' compensation policies cancelled within the first 60 days of new business.

State Farm Fire and Casualty Company

The universe of 4 workers' compensation policies cancelled within the first 60 days of new business was selected for review. All 4 files were received and reviewed. The violation noted resulted in an error ratio of 25%.

The following finding was made:

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a nonrenewal notice which required supporting business.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month anniversary date.

The purpose of the review was to determine compliance with Insurance Company Law, Section 653 (40 P.S. §813), which prohibits midterm cancellation with exceptions for nonpayment of premium or by request of the insured.

State Farm Mutual Automobile Insurance Company

This Company did not report any workers' compensation policies cancelled midterm during the experience period.

State Farm Fire and Casualty Company

From the universe of 257 workers' compensation policies identified as midterm cancellations, 25 files were selected for review. All 25 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 16%.

The following findings were made:

4 Violations Insurance Company Law, Section 653 [40 P.S. 813]

Except for nonpayment of premium, no policy of insurance issued or renewed against liability under the Act of June 2, 1915, known as the Pennsylvania Workers' Compensation Act, may be cancelled or terminated by an insurer during the term of the policy. The Company cancelled 4 policies for failure to comply with requests for premium audit information.

3. Nonrenewals

A nonrenewal is considered to be any policy, which was not renewed, for a specific reason, at the normal twelve-month anniversary date.

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

State Farm Mutual Automobile Insurance Company

This Company did not report any workers' compensation nonrenewals during the experience period.

State Farm Fire and Casualty Company

The universe of 11 workers' compensation policies nonrenewed during the experience period was selected for review. All 11 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 18%.

The following findings were made:

1 Violation Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The file noted contained a nonrenewal notice which did not provide the required information.

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a nonrenewal notice which required supporting business.

4. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

State Farm Mutual Automobile Insurance Company

This Company did not report any workers' compensation renewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 4,979 workers' compensation policies which were renewed during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

VI. RATING

A. Private Passenger Automobile

1. New Business

New business, for the purpose of this examination, is defined as policies written for the first time by the Company during the experience period.

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – New Business Without Surcharges

State Farm Mutual Automobile Insurance Company

From the universe of 60,699 private passenger automobile policies identified as new business without surcharges by the Company, 100 files were selected for review. All 100 files were received and reviewed. The 182,098 violations noted were based on the universe of 60,699, resulting in an error ratio of 100%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

60,699 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in

excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the insured with the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

60,699 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options in its entirety at the time of application.

60,699 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time application is made for motor vehicle insurance coverage.

State Farm Fire and Casualty Company

From the universe of 10,447 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 31,433 violations noted were based on the universe of 10,447, resulting in an error ratio of 100%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The Company failed to provide the signature of the first named insured on the written rejection forms for uninsured and underinsured coverages.

1 Violation Title 75, Pa. C.S. §1738(d)(1)&(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

10,477 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the

Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company failed to provide the insured with the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

10,477 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options in its entirety at the time of application.

10,477 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge

information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time application is made for motor vehicle insurance coverage.

Private Passenger Automobile - New Business With Surcharges

State Farm Mutual Automobile Insurance Company

From the universe of 1,527 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 6,108 violations noted were based on the universe of 1,527, resulting in an error ratio of 100%.

The following findings were made:

1,527 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your

request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the insured with the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

1,527 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options in its entirety at the time of application.

1,527 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time application is made for motor vehicle insurance coverage.

1,527 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to identify the amount of surcharge or rate penalty on the premium notice.

State Farm Fire and Casualty Company

From the universe of 1,147 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 4,588 violations noted were based on the universe of 1,147, resulting in an error ratio of 100%.

The following findings were made:

1,147 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of

Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the insured with the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

1,147 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options in its entirety at the time of application.

1,147 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time application is made

for motor vehicle insurance coverage.

1,147 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to identify the amount of surcharge or rate penalty on the premium notice.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – Renewals Without Surcharges

State Farm Mutual Automobile Insurance Company

From the universe of 934,947 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 934,947 violations noted were based on the universe of 934,947 files, resulting in an error ratio of 100%.

The following findings were made:

934,947 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at renewal.

Concern: The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

State Farm Fire and Casualty Company

From the universe of 23,595 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 23,595 violations noted were based on the universe of 23,595 files, resulting in an error ratio of 100%.

The following findings were made:

23,595 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at renewal.

Concern: The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

Private Passenger Automobile – Renewals With Surcharges

State Farm Mutual Automobile Insurance Company

From the universe of 25,120 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 50,240 violations noted were based on the universe of 25,120 files, resulting in an error ratio of 100%.

The following findings were made:

25,120 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at renewal.

25,120 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The

Company failed to provide specific information on dates of accidents/violations in the premium surcharge notice.

State Farm Fire and Casualty Company

From the universe of 4,807 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 9,614 violations noted were based on the universe of 4,807 files, resulting in an error ratio of 100%.

The following findings were made:

4,807 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at renewal.

4,807 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of

the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide specific information on dates of accidents/violations in the premium surcharge notice.

B. Private Passenger Automobile – Assigned Risk

State Farm Mutual Automobile Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business – Clean

From the universe of 1,822 assigned risk private passenger automobile new business policies written as clean during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – New Business – Other Than Clean

From the universe of 759 assigned risk private passenger automobile new business policies written as other than clean during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – Renewals – Clean

From the universe of 2,084 assigned risk private passenger automobile renewal policies written as clean during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – Renewals – Other Than Clean

From the universe of 481 assigned risk private passenger automobile renewal policies written as other than clean during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

C. Homeowners

1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

Homeowner Rating – New Business Without Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any homeowner new business policies during the experience period.

State Farm Fire and Casualty Company

From the universe of 43,922 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files were received and 25 files were reviewed. No violations were noted.

Homeowner Rating – New Business With Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any homeowner new business policies during the experience period.

State Farm Fire and Casualty Company

From the universe of 167 homeowner policies written as new business with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowner policies are subject to surcharges for losses. Therefore, it is a concern that the surcharge disclosure plan provided to these policyholders is not specific. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

Homeowner Rating – Renewals Without Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any homeowner renewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 471,509 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Homeowner Rating – Renewals With Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any homeowner renewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 10,363 homeowner policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files were received and 50 files were reviewed. No violations were noted.

D. Tenant Homeowners

1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it

proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

Tenant Homeowner Rating – New Business Without Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any tenant homeowner new business policies during the experience period.

State Farm Fire and Casualty Company

From the universe of 22,029 tenant homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files were received and 25 files were reviewed. No violations were noted.

Tenant Homeowner Rating – New Business With Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any tenant homeowner new business policies during the experience period.

State Farm Fire and Casualty Company

The universe of 30 tenant homeowner policies written as new business with surcharges during the experience period was selected for review. All 30 files were received and 20 files were reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowner policies are subject to surcharges for losses. Therefore, it is a concern that the surcharge disclosure plan provided to

these policyholders is not specific. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

Tenant Homeowner Rating – Renewals Without Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any tenant homeowner renewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 63,970 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and 15 files were reviewed. No violations were noted.

Tenant Homeowner Rating – Renewals With Surcharges

State Farm Mutual Automobile Insurance Company

This Company did not report any tenant homeowner renewals during the experience period.

State Farm Fire and Casualty Company

From the universe of 1,010 tenant homeowner policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files were received and 25 files were reviewed. No violations were noted.

VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO
- G. Homeowner Claims
- H. Tenant Homeowner Claims

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

A. Automobile Property Damage Claims

State Farm Mutual Automobile Insurance Company

From the universe of 37,506 private passenger automobile property damage claims reported during the experience period, 40 files were selected for review. All 40 files were received and reviewed. The 2 violations noted

were based on 2 files, resulting in an error ratio of 5%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a timely status letter for the 2 claims noted.

State Farm Fire and Casualty Company

From the universe of 3,372 private passenger automobile property damage claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. The violation resulted in an error ratio of 7%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The

Company did not provide a timely status letter for the claim noted.

B. Automobile Comprehensive Claims

State Farm Mutual Automobile Insurance Company

From the universe of 32,016 private passenger automobile comprehensive claims reported during the experience period, 34 files were selected for review. All 34 files were received and reviewed. No violations were noted.

State Farm Fire and Casualty Company

From the universe of 2,104 private passenger automobile comprehensive claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 7%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a timely status letter for the claim noted.

1 Violation Title 31, Pa. Code, Section 146.5(a)

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

C. Automobile Collision Claims

State Farm Mutual Automobile Insurance Company

From the universe of 54,324 private passenger automobile collision claims reported during the experience period, 40 files were selected for review. All 40 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The

Company did not provide a timely status letter for the claim noted.

State Farm Fire and Casualty Company

From the universe of 4,171 private passenger automobile collision claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

State Farm Mutual Automobile Insurance Company

From the universe of 30,395 private passenger automobile total loss claims reported during the experience period, 107 files were selected for review. All 107 files were received and 61 were reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 13%.

The following findings were made:

7 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a timely status letter for the 7 claims noted.

1 Violation Title 31, Pa. Code, Section 62.3(e)(7)

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy of within 5 days after its completion. The Company did not provide a copy of the total loss evaluation to the insured within 5 working days.

State Farm Fire and Casualty Company

From the universe of 2,921 private passenger automobile total loss claims reported during the experience period, 45 files were selected for review. All 45 files were received and 23 were reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a timely status letter for the claim noted.

E. Automobile First Party Medical Claims

State Farm Mutual Automobile Insurance Company

From the universe of 23,685 private passenger automobile first party medical claims reported during the experience period, 65 files were selected for review. All 65 files were received and reviewed. The 21 violations noted were based on 19 files, resulting in an error ratio of 29%.

The following findings were made:

17 Violations Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company did not pay the 18 claims noted within 30 days.

3 Violations Title 31, Pa. Code, Section 146.5(d)

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The Company did not provide the application for benefits claim form to the claimant within ten working days for the 3 files noted.

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the

claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a timely status letter for the claim noted.

State Farm Fire and Casualty Company

From the universe of 2,784 private passenger automobile first party medical claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

F. Automobile First Party Medical Claims Referred to a PRO

State Farm Mutual Automobile Insurance Company

From the universe of 53 private passenger automobile first party medical claims referred to a peer review organization, 29 files were selected for review. All 29 files were received and reviewed. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 14%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company did not pay the provider bill that was not referred to a PRO within 30 days.

1 Violation Title 31, Pa. Code, Section 69.52(e)

Requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt. The Company did not provide a copy of the PRO report to the provider and the insured within 5 days of the insurer receiving the report.

1 Violation Title 31, Pa. Code, Section 69.52(1)

A PRO shall complete a reconsideration within 30 days after receipt of the information submitted under subsection (k). If additional information critical for the outcome of the determination is submitted by a provider or requested by a PRO, the 30-day review period may be tolled up to 20 days for the information to be received and taken into consideration. A PRO shall send written notification of the reconsideration determination to the insurer, which shall within 5 days of receipt provide copies to providers and insureds. The written notice shall contain the basis and rationale for the reconsideration determination. The Company failed to provide a copy of the reconsideration determination to the provider and insured within 5 days of the insurer receiving the determination.

1 Violation Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to provide a copy of the denial letter to the insured.

State Farm Fire and Casualty Company

The universe of 8 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 8 files were received and reviewed. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. No violations were noted.

G. Homeowner Claims

State Farm Mutual Automobile Insurance Company

This Company did not report any homeowner claims during the experience period.

State Farm Fire and Casualty Company

From the universe of 27,308 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 9 violations noted were based on 9 files, resulting in an error ratio of 18%.

The following findings were made:

9 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 9 claims noted.

H. Tenant Homeowner Claims

State Farm Mutual Automobile Insurance Company

This Company did not report any homeowner claims during the experience period.

State Farm Fire and Casualty Company

From the universe of 1,817 tenant homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

3 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 3 claims noted.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Title 75, Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

No violations were noted.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 619 pieces of advertising which included customer brochures for personal and commercial lines, accident report guides, loss prevention checklists, Company's use of credit scores, producer's marketing materials and producer's pre-approved advertising for television clip, radio spots and direct mailing. The direct mailing pieces included envelope stuffers and pre-approved producer letters. The materials provided also included miscellaneous materials such as Asian, Spanish and Baltic language marketing materials, the corporate website, a video clip from a television advertisement, "on hold" telephone line messages and a brochure on closing costs which is from Department of Housing and Urban Development, so it is not subject to the scope of this audit. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 954 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 954 complaints reported, 75 complaints were requested, received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

No violations were noted.

The following synopsis reflects the nature of the 75 complaints that were reviewed.

State Farm Mutual Automobile Insurance Company

• 12	Cancellations	24%
• 2	Rates & Filings	4%
• 22	Unsatisfactory Claims Settlements	44%
• 6	Claims Procedures	12%
• 3	Declinations/Miscellaneous	6%
• 5	Underwriting	10%
<hr/>		<hr/>
50		100%

State Farm Fire and Casualty Company

• 10	Cancellation/Nonrenewal	40%
• 3	Rates & Filings	12%
• 8	Unsatisfactory Claims Settlements	32%
• 2	Claims Procedures	8%
• 2	Declinations/Miscellaneous	8%
<hr/>		<hr/>
25		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

The following findings were made:

State Farm Mutual Automobile Insurance Company

22 Violations Insurance Department Act, No. 147, Section 671-A

(40 P.S. §310.71)

- (a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
 - (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of

appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Bill Bailey Insurance Agency, Inc.
Jeremy Buchinsky
Andrew Capets Ins. Agency, Inc.
Mary Ann Caputo Ins. Agency, Inc.
Stacey Daniels Ins. Agency, Inc.
Scott S. Delaney
Fran Drago Ins. Agency, Inc.
Penelope Mary Durbiano
Fleming Ins. & Fin. Services, Inc.
Mark A. Hasson Ins. Agency, Inc.
John Hilliard Ins. Agency, Inc.

David M. Kwait
Bob Martin Ins. Agency, Inc.
Howard W. Martin
Javier Ortega Ins. Agency, Inc.
Samuel Perry
David W. Smith Ins. Agency, Inc.
Alden Kelsey Thomas
Andrew Vitella
Jim Wiley Ins. Agency, Inc.
Timothy Williams
Clayton Wood

State Farm Fire and Casualty Company

3 Violations Insurance Department Act, No. 147, Section 641.1A

[40 P.S. §310.41a]

(a) Any insurance entity or licensee accepting applications or orders for insurance from any person or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5,000.00 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

The following producers were found to be writing and /or soliciting policies but were not found in Insurance Department records as holding a Pennsylvania producer license.

Greg Adams Ins. Agency, Inc.
F. J. Congelio Ins. Agency, Inc.
Bob Weber Ins. Agency, Inc.

34 Violations Insurance Department Act, No. 147, Section 671-A

(40 P.S. §310.71)

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineates the services to be provided; and

(2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Gerald W. Atchison
Bill Bailey Ins. Agency, Inc.
Michael Ray Ball
Jennifer Biggs Ins. Agency, Inc.
Jeremy Buchinsky
Andrew Capets Ins. Agency, Inc.
Steven Carl Drasher
William Emminger Ins. Agency, Inc.
Fred Forte Ins. Agency, Inc.
Walter D. Hargraves
David E. Horsfield
Donald Hullenbaugh
Eric E. Key Ins. Agency, Inc.
Kness Ins. & Financial Services, Inc.
Kevin Lowber Ins. Agency, Inc.
Bob Martin, CLU Ins. Agency, Inc.
Christopher R. McNulty
Kari A. Meidahl-Ernst
Geoffrey S. Mosebach
Michael Murray
Randy L. Noel
Javier Orgeta Ins. Agency, Inc.
Matthew D. Phillips
Mark Pianelli
Todd M. Powers Ins. Agency, Inc.
Grace Robinson Ins. Agency, Inc.
Tina Saracino
Harold Stern Ins. Agency, Inc.
Alden K. Thomas
Ryan K. Tyler
J. Scott Vasco Ins. Agency, Inc.

R. Thomas Vitale
Brian A. Witmer
Wright Insurance Agency, Inc.

XII. RECOM MENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2002, 2004, 2006 and 2008 [40 P.S. §§991.2002, 991.2004, 991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.
2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
3. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3 and 7 [40 P.S. §§3403 and 3407], so that the violations noted in the Report do not occur in the future.
4. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.
5. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a

surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.

6. The Company must review Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that an itemized invoice listing minimum coverages and tort options is provided at the time of application, as noted in the Report, and does not occur in the future.
7. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
8. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to providing claim forms, denial letters and status letters do not occur in the future.
9. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.
10. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

11. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].

12. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting general liability coverage in order to bind workers' compensation coverage.

XIII. COMPANY RESPONSE



State Farm Insurance Companies®

June 28, 2007

Mr. Chester A. Derk Jr.,
Market Conduct Division Chief
Commonwealth of Pennsylvania Insurance Department
Bureau of Enforcement
1227 Strawberry Square
Harrisburg, PA 17120

Re: Response to the Report of Market Conduct Examination Warrant: 05-M22-086
State Farm Mutual Automobile Insurance Company,
State Farm Fire and Casualty Company

Dear Mr. Derk:

On behalf of State Farm Mutual Automobile Insurance Company and State Farm Fire and Casualty Company (collectively "State Farm"), please allow this letter to serve as our response to the Report of the Market Conduct Examination for State Farm Warrant 05-22-086, which was received with your cover letter dated May 30, 2007. We have reviewed the Report and respectfully submit this response.

Please note that the vast majority of the cited exceptions were instances of error involving no trends and statistically small error rates, which were deviations from State Farm's own procedures. However, State Farm always endeavors to reduce or eliminate errors. There were also some errors cited by the Insurance Department that involved differing interpretations of statutes. There are some instances, noted below, where the Company acknowledges the necessity of changes to its procedures.

Our response will address each recommendation individually.

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2002, 2004, 2006 and 2008 [40 P.S. Sections 991.2002, 991.2004, 991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.

The Company accepts this recommendation and is reviewing its processes and procedures to ensure compliance with respect to automobile insurance cancellations under Act 68. Additionally, all private passenger auto underwriting associates are being apprised of the Department's findings.

2. The Company must review Act 205, Section 5 (a) (9) [40 P.S. Section 1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and non-renewal notices, as noted in the Report, do not occur in the future.

The Company accepts this recommendation and is reviewing its processes and procedures to ensure compliance with respect to homeowners and personal property cancellations and nonrenewals under Act 205. All homeowners and personal property underwriting associates are being apprised of the Department's findings. Additionally, we are filing with the Insurance Department for approval additional homeowners termination forms.

3. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and non-renewal requirements of Act 86, Sections 3 and 7 [40 P.S. Sections 3403 and 3407], so that the violations noted in the Report do not occur in the future.

The Company accepts this recommendation and is reviewing its processes and procedures to ensure compliance with respect to commercial lines cancellations and nonrenewals under Act 86. All commercial underwriting associates are being apprised of the Department's findings and the relevant statutes.

4. The Company must review Act 205, Section 5(a)(4) [40 P.S. Section 1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.

The Company respectfully disagrees with the assertion that violations of Act 205, Section 5(a)(4) occurred here. "Coercion" under this statute is based on an antitrust law definition of tying arrangements, in which a seller makes the purchase of the desired product contingent on the purchase of another product, thus creating the potential for coercing the buyer into purchasing a product that he or she does not want or need.

In the situations cited in the report, the customer was not denied the opportunity to obtain coverage from a State Farm company or through the same State Farm agent. State Farm simply offered the desired coverage through its Fire & Casualty Company, which is a wholly-owned affiliate represented by the same agents that represent State Farm Mutual. For purposes of antitrust analysis, a parent company and its wholly owned subsidiary are considered to be one economic entity. No coercion exists under the law if the desired product is offered to the customer by another affiliate. (*see Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 771(1984); *Siegel Transfer, Inc. v. Carrier Express, Inc.*, 54 F.3d 1125, 1131-1132 (3rd Cir. 1995); *Ideal Dairy Farms, Inc. v. John Labatt, Ltd.*, 90 F.3d 737, 750 (3rd Cir. 1996); *Commonwealth of PA v. Pepsico*, 836 F.2d 173, 181 (3rd Cir. 1988)).

Furthermore, the existence of a tie between two products is not alone a violation of the law. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 11-12 (1984). Such arrangements must be analyzed under both a "per se" standard and a "rule of reason" standard to determine if it is an illegal coercive arrangement.

Under the "per se" standard, an illegal tying arrangement may exist if the two products are distinct, the seller has sufficient market power over the desired product and a substantial amount of commerce is involved. (*Jefferson Parish, supra*, 466 U.S. at 13-14; *Allen-Myland, supra*, 33 F.3d at 200-201 (3rd Cir. 1994); *Gordon v. Lewistown Hospital*, 423 F.3d 184, 214 (3rd Cir. 2005)). "Market power" is defined as "the ability to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." *Allen-Myland, supra*, 33 F.3d at 201. The Company lacks the market power to exercise coercion over the desired products in question here, namely motorcycle insurance and commercial auto insurance. The U.S. Supreme Court has determined a 30% market share insufficient for there to be market power. The Company's market share in the motorcycle market is less than 25%, and in the commercial auto market it is less than 4%. Additionally, Pennsylvania's auto insurance market is very competitive and there are no market impairments that would give the Company "market power" in these lines despite its market share being under 30% (and in the case of commercial auto being only minimal). (*Jefferson Parish, supra*, 466 U.S. 2 at 27-28). Thus, there is no per se violation here.

Finally, no illegal coercion or tying arrangement exists under a "rule of reason" analysis of the specific facts and circumstances. (see *Jefferson Parish, supra*, 466 U.S. at 29-31; *Gordon, supra*, 423 F.3d at 214). The consumer is not denied the opportunity to obtain a desired product from the Company. The Company offered to write the desired products through its Fire and Casualty affiliate instead of its Mutual Company. While the pricing differs, such a differential has been repeatedly recognized by the Department as legitimate and supportable, and it is not the equivalent of coercion. Thus, the Company's rules pass the "rule of reason" test as well.

5. The Company must review Title 75, Pa. C.S. 1793 (b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.

The Company has provided, and continues to provide, the surcharge disclosure plan to the applicant at the time of application. The disclosure is part of the binder which the agent prints out and hands to the applicant at the time of the application. The Company also provides this surcharge disclosure plan in every renewal billing. A sample surcharge disclosure plan notice is contained in Exhibit "A". The surcharge disclosure is contained in the "Chargeable Accidents" and "Surcharges" portion of the Accident Record Rating Plan notice. There is no evidence that the Company's agents are failing to provide the surcharge disclosure plan at the time of application. The Company is not legally required to maintain a copy of the surcharge disclosure plan that was handed out in each applicant's file, nor is the surcharge disclosure plan required to be signed by the named insured. Its contents do not vary by policy.

6. The Company must review Title 75, Pa. C. S. Section 1791.1(a) and (b) to ensure that an itemized invoice listing minimum coverages and tort options is provided at the time of application, as noted in the Report, and does not occur in the future.

The Company has provided, and continues to provide, the itemized invoice listing minimum coverages and tort options to the applicant at the time of application. The tort option is contained in a brochure that is provided by the agent to the applicant at the time of application. The listing of minimum coverages is on the binder which agent prints out and delivers to the applicant at the time of application. The minimum premium for both the Full Tort and Limited Tort options are listed on the Full Tort/Limited Tort selection form which is signed at the time of application. The itemized invoice listing minimum coverages, including the premium for the minimum coverage, and the tort option notice are also contained in every renewal. A sample invoice and a sample tort option notice are contained in Exhibit "B". There is no evidence that the Company's agents are failing to provide the invoice and tort option notice at the time of application or that they were not included in renewals. There is no legal requirement that the Company maintain copies of the listing of minimum coverages and the tort option notice provided in each applicant's file, nor are the listing of minimum coverages and option notice required to be signed by the named insured. Also, the contents of these two notices do not vary by policy.

The Insurance Department has advised the Company that it interprets the itemized invoice requirement as requiring that the premium of each component of minimum coverage sold as a separate coverage be listed separately. The statute does not specify this requirement. The Company's interpretation, that only the combined premium for all of the minimum coverages need be shown, was reasonable and was based, in part, on the fact that our combined liability coverage was previously filed and approved by the Department. However, the Company agrees to conform its itemized invoice to the Insurance Department's interpretation.

The Company will continue with the invoice's listing of 15/30/5 liability as a single coverage, because this is the only way the coverage is available through the Company. As for the \$5,000 medical payments coverage, this is a separate coverage and will be split out on the itemized invoice. The Company also agrees to print out the minimum premiums along with the listing of the minimum coverages for new applicants, in addition to printing the total minimum premium on the Full Tort/Limited Tort selection form.

7. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. Section 1799.3(d) do not occur in the future.

The Company accepts this recommendation. The Company is changing its declaration page and renewal notice to list the specifics of accidents and/or violations which resulted in a surcharge, as well as the amount of the surcharge.

8. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to providing claims forms, denial letters and status letters do not occur in the future.

The Company accepts this recommendation and is reviewing its processes and procedures to ensure all relevant associates are uniformly adhering to our compliance procedures for Chapter

146. The Company disagrees that there were violations of Chapter 146 with respect to 10 of the auto claims, as we have specified previously. These claims primarily involved total losses where the Company was awaiting the title from either the claimant or the lienholder before paying the claim. There were also two situations in which the Company contacted a prospective claimant, but the person did not actually file a claim until more than 30 days later, whereupon the claim was handled within 30 days. One other file shows that notices were sent within the required timeframes under any interpretation. We would appreciate further discussion with the Department to review various situations that have arisen with regard to auto claims handling and the notice requirement, so that any revisions in procedures will reflect the Insurance Department's interpretations of these situations. All claims associates are being apprised of the Department's findings and the relevant regulations.

9. The Company must review Title 31, Pa. Code, Section 69.52 (b) with its claim staff to ensure that first party medical bills are paid within 30 days.

The Company's standard procedure is to pay these bills within 30 days. However, the Company accepts this recommendation and is reviewing its processes and procedures to ensure that payments of first party medical claims are made within 30 days when possible. All claims associates who handle auto first party medical coverage claims are being apprised of the Department's findings and the relevant statutes. Some of the delays found by the Insurance Department were caused by the provider not providing a servicing address on the bill or the provider referencing the wrong claim number of the billing. There were also situations where a determination had to be first made whether the medical procedures related to injuries from the auto accident, which involved obtaining accident reports from the government and investigating the accident. The Company did pay interest on all overdue first party medical payments claims as required by statute.

10. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1 (a) and Section 671-A [40 P.S. Section 310.41 (a) and 40 P.S. Section 310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

The Company accepts this recommendation. We had already filed appointments for all the producers listed by the Insurance Department by January 2, 2007. We have also revised our internal procedures to assure that all producers have been properly appointed for all relevant lines. As to the three agencies listed by the Insurance Department as being unlicensed, in fact the individual producers who dealt with the public and the Company were at all times individually licensed – their agency corporations, however, were unlicensed due to oversight. The first of the three did obtain a license on August 17, 2006. The second agency closed, effective July 1, 2006. As for the third, the individual agent has always been individually licensed and appointed by the Company. This agent has applied for a Pennsylvania producer license for the corporate agency, and may have it by the time this Response is filed. The corporate agency will not be eligible to receive commissions until it is licensed.

11. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5 (a)(7)(iii)[40 P.S. Section 1171.5 (a)(7)(iii)].

The Company accepts this recommendation; however occupation was never the reason for the declination of any risk. An underwriting factor that was permitted by law was always the reason for the declination. Our underwriting guidelines have been edited to clarify this position; we are deleting all references to occupation and our underwriters will receive a bulletin highlighting this change.

12. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting general liability coverage in order to bind workers' compensation coverage.

The Company accepts this recommendation. Our underwriting guidelines for workers compensation have been revised to delete references to a requirement of a supporting general liability policy as a condition for binding. Our underwriters are receiving a bulletin highlighting this change.

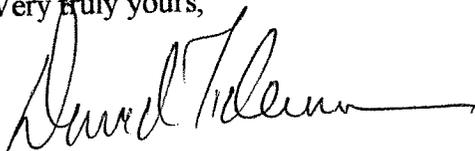
Additional Changes

The Company is implementing some additional changes for Workers Compensation as a result of this examination:

1. Nonrenewal notices will not refer to other lines of insurance that the policyholder may or may not have with State Farm.
2. Reasons for mid-term cancellation of workers compensation coverage shall conform to those deemed permissible under applicable law.

The Company once again would like to express our appreciation for the Department's courtesy and professionalism throughout the examination process.

Very truly yours,



David Tideman
Counsel
State Farm Insurance Companies

Enclosures (2)

Exhibit "A"

Binder for State Farm Automobile Insurance

Applicant
~~XXXXXXXXXXXXXXXXXXXX~~
 CHADDS FORD, PA 193179064

Agent
 Pasquale De Antonio, LLC
 PASQUALEDEANTONIO.NET
 331 Wilmington Pike
 Suite 4
 Shoppes At Smithbridge
 Glen Mills, PA 19342
 (610) 361-4484

1	Year	Make	Model	Bodystyle	VIN	REG	Customized
	2005	GMC	SIERRA 1500 ZWD	"SLR" CREW CAB	XXXXXXXXXXXXXXXXXXXX	05	
	2004	CHEVROLET	AVEO	4D HD	XXXXXXXXXXXXXXXXXXXX	05	

e premium shown below must be in compliance with the Company's rules and rates and is subject to revision.

Coverage Applied For:	Limits/Deductibles	Veh 1 Prem -APPLIES-	Veh 2 Prem -APPLIES-	Semi-Annual Premium
UNLIMITED TORT	50/100/50 *	\$142.57	\$130.87	
PROPERTY DAMAGE LIABILITY	\$10000	\$17.65	\$23.12	
MEDICAL PAYMENTS COVERAGE	\$2500	\$0.42	\$0.54	
GENERAL BENEFITS		\$58.62	\$4.51	
COMPREHENSIVE \$250 DEDUCTIBLE		\$200.27	\$135.31	
COLLISION \$500 DEDUCTIBLE		\$1.80	\$1.80	
MERGENCY ROAD SERVICE	50/100 *	\$3.47	\$3.47	
UNINSURED MOTOR VEHICLE STACKING	50/100 *	\$15.83	\$15.83	
UNDERINSURED MOTOR VEHICLE STACKING		\$440.63	\$345.45	
6 month premium for vehicle:		\$786.08		
Total 6 month premium for policy:		\$0.00		
Payment received (\$0.00		
Balance due:		\$786.08		

* Denotes thousands

Lienholder/Lessor
 Veh 1: ~~XXXXXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXXXXXXXXXXXX~~

Veh 2: ~~XXXXXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXXXXXXXXXXXX~~
~~XXXXXXXXXXXXXXXXXXXX~~

Continued on page 2

Binder for State Farm Automobile Insurance

Year	Make	Model	Bodystyle	VIN	LRG	Customized
2005	GMC	SIERRA 1500 2WD	"SLE" CREW CAB	[REDACTED]	05	
2004	CHEVROLET	AVEO	4D HB	[REDACTED]	05	

Effective Date: May 01, 2007

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY of Bloomington, Illinois, hereby binds as of the requested effective date a period of 30 days from such date, the insurance applied for, subject to all of the terms and conditions of the automobile policy and applicable endorsements in current use by such Company. The issuance by the Company of the policy applied for voids this binder.

ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DECEASE ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE OR STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME AND SUBJECTS SUCH PERSON TO CRIMINAL AND CIVIL PENALTIES.

THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, AS ENACTED BY THE GENERAL ASSEMBLY, ONLY REQUIRE THAT YOU PURCHASE LIABILITY AND FIRST-PARTY MEDICAL BENEFIT COVERAGES. ANY ADDITIONAL COVERAGES OR COVERAGES IN EXCESS OF THE LIMITS REQUIRED BY LAW ARE PROVIDED ONLY AT YOUR REQUEST AS ENHANCEMENTS TO BASIC COVERAGES.

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

Accident Record Rating Plan - Applicable to Private Passenger Cars Only

ACCIDENT-FREE DISCOUNT - Policyholders without chargeable accidents receive State Farm's low accident-free rates. If your policy stays in force for at least three years with no chargeable accidents, you may qualify for an Accident-Free Discount. Once you qualify, this discount applies as long as the policy remains in force and there are no chargeable accidents. This discount may increase over time if the policy remains in force and there continues to be no chargeable accidents.

CHARGEABLE ACCIDENTS - For new business rating, an at-fault accident is chargeable if it resulted in damage to any property in which the insurer paid in total at least \$1,150. For renewal business, an at-fault accident is chargeable if State Farm paid at least \$1,150 (\$1,050 if the accident occurred on or after July 1, 2002 and prior to July 1, 2005) under property damage liability and collision coverages combined. An accident shall not be considered chargeable if the Company is furnished sufficient evidence that the driver was less than 50% at fault.

SURCHARGES - Policyholders with chargeable accidents may lose their accident-free discount and receive accident surcharges. If the accident is the first in nine years and your car or the car that it replaces has been continuously insured with State Farm Mutual for at least nine years, the accident-free discount will continue and no surcharge will be applied. The surcharge for each accident depends upon the number and timing of the accidents. Each surcharge will remain in effect for three years from the renewal date on which it first takes effect.

Surcharges will be removed if satisfactory evidence is furnished that the driver involved is no longer a member of the household or will not be driving the car in the future. If that driver is insured on another State Farm policy, his or her driving record will be considered in the rating of the other policy.

These discounts and surcharges do not apply to all coverages. If more than one car is insured under this policy, each car is treated separately. For complete details of these programs, see your State Farm agent.

STATE FARM FIRE AND CASUALTY COMPANY

AUTOMOBILE RATING PLAN - Applicable to private passenger cars only.

3-Star Discount - Car insurance premiums depend upon the driver's safety records. The 3-Star Discount may apply to your vehicle if the assigned drivers have had no at-fault accidents and no minor violations during the past three years, and no major violations during the past five years. There must also be at least one driver who has been licensed in the United States or Canada for three years, and the vehicle in your household must not have been driven without liability insurance.

Continued on page 3

Binder for State Farm Automobile Insurance

Year	Make	Model	Bodystyle	VIN	LRG	Customized
2003	GMC	SIERRA 1500 2WD	"SLE" CREW CAB	[REDACTED]	05	
2004	CHEVROLET	AVEO	4D HB	[REDACTED]	05	

Star Discount - If the 3-Star Discount does not apply, the 2-Star Discount applies unless the insured vehicle (or the vehicle it replaced) has been driven without liability insurance during the past twelve months.

Driver Record Levels - A Driver Record Level is determined for each driver assigned to a car. The Driver Record Level is based upon each driver's accident and violation record during the prior three years. The lowest level, which results in a lowest premium, is Driver Record Level 1. Accidents and violations generally result in higher Driver Record Levels. The Driver Record Level will move up or down, depending upon the most recent driving record. If more than one driver is assigned to the same car, each of their Driver Record Levels will be used to determine the final premium.

Chargeable Accidents - For new business rating, an at-fault accident is chargeable if it resulted in death or bodily injury or in damage to any property in which the insurer paid in total at least \$1,150 (\$1,050 if the accident occurred on or after July 1, 2002 and prior to July 1, 2005). For renewal business, an at-fault accident is chargeable if State Farm paid at least \$1,150 (\$1,050 if the accident occurred on or after July 1, 2002 and prior to July 1, 2005) under property damage liability and collision coverages combined. A multiple vehicle accident shall not be considered chargeable if the Company is furnished sufficient evidence that the driver was less than 50% liable.

Inexperienced Operators - Higher premiums may apply if the principal operator of the vehicle has been licensed in the United States or Canada for less than three years.

These premium adjustments do not apply to all coverages. If more than one car is insured under this policy, each car is treated separately. For complete details of these programs, see your State Farm agent.

Passive restraint, passive anti-theft device, and driver improvement course discounts are available for drivers who meet the requirements of Pennsylvania law.

Consumer reports, including credit and insurance loss history reports, may be ordered in conjunction with this application. We may also obtain and use a credit-based insurance score developed from information contained in these reports. We may use a third party in connection with the development of your insurance score. These reports provide information that assists with determining your eligibility for insurance and the price you are charged.

Agent's Signature _____ App date and time: 05/01/2007 02:39 PM
 ECHO App # [REDACTED]

Application for State Farm Mutual Automobile Insurance

Duplicate

Applicant's Signature Document

App date: 05/01/2007 Time: 02:39 PM
Pol. book deliver to appl: 05/01/2007
AFO Code: E373
ECHO App #: AUTO 28

CHADDS FORD, PA 19317-9064

Table with columns: Year, Make, Model, Bodystyle, VIN, IRG, LRG, Class, Customized. Rows include 2005 GMC SIERRA 1500 2WD and 2004 CHEVROLET AVEO.

During the past 6 years have you, the applicant, any household member, or any regular driver:
A. Had auto insurance canceled, been refused issuance or renewal, or received notice of such intent?
B. Had license to drive or registration suspended, revoked or refused?
C. Had an accident or sustained a loss?
D. Been fined, convicted or forfeited bail for traffic violations?
E. You, the applicant, or any driver have a physical or mental condition that could affect the safe operation of a motor vehicle?

Most Recent Liability Insurer: STATE FARM
Policy Number:
How Long Insured: 20 Yrs 06 Mos
Expiration Date: 05/05/2007

Rate: 2 Mutual

Table listing insurance coverages: LIMITED TORT, BODILY INJURY AND PROPERTY DAMAGE LIABILITY, MEDICAL PAYMENTS COVERAGE, EXTRAORDINARY MEDICAL PAYMENT, FUNERAL BENEFITS, LOSS OF INCOME, COMPREHENSIVE \$250 DEDUCTIBLE, COLLISION \$500 DEDUCTIBLE, EMERGENCY ROAD SERVICE, CAR RENTAL/TRAVEL EXPENSES, UNINSURED MOTOR VEHICLE, STACKING, UNDERINSURED MOTOR VEHICLE, STACKING, DEATH, DISMEMB, LOSS OF SIGHT, NON-OWNED CAR - BROAD FORM, NON-OWNED CAR - PHY DMG.

Total 6 month premium for vehicle: \$440.63
Total 6 month premium for policy: \$786.08

* Denotes thousands

Table listing discounts: MULTIPLE LINE DISCOUNT, DRIVER TRAINING, GOOD DRIVER DISCOUNT, PASSIVE RESTRAINT, VEHICLE SAFETY, DRIVER IMPROVEMENT DISCOUNT.

Veh Applicable Surcharges

REGSIGPA

Continued on page 2

Application for State Farm Mutual Automobile Insurance

Page 2

Duplicate

Applicant's Signature Document

ECHO App #: [REDACTED]

Year	Make	Model	Bodystyle	VIN	IRG LRG Class	Customized
2005	GMC	SIERRA 1500 2RD	"SEE" CREW CAB	[REDACTED]	021 05	6D
2004	CHEVROLET	AVEO	4D RB	[REDACTED]	016 05	6A

Order Effective Date: 05/01/2007

I apply for the insurance indicated and state that (1) I have read this application, (2) my statements on this application are correct, (3) statements made on any other applications on this date for automobile insurance with this company are correct and are made part of this application, (4) I am the sole owner of the described vehicle(s) except as otherwise stated, and (5) the limits and coverages are selected by me. IT IS UNDERSTOOD AND AGREED THAT INSURANCE IS EFFECTIVE UNDER THIS AGREEMENT (A) UNLESS THE BINDER IS COMPLETED DESIGNATING THE COMPANY ACCEPTING THIS APPLICATION AND SIGNED BY AN AUTHORIZED AGENT OF SUCH COMPANY OR (B) UNTIL THE DATE THE POLICY OR BINDER IS SURE BY THE COMPANY ACCEPTING THIS APPLICATION.

NO PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE OR STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING INFORMATION CONCERNING ANY FACT MATERIAL THERETO COMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME AND SUBJECTS SUCH PERSON TO CRIMINAL AND CIVIL PENALTIES.

THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, AS ENACTED BY THE GENERAL ASSEMBLY, ONLY REQUIRE THAT YOU PURCHASE LIABILITY AND FIRST-PARTY MEDICAL BENEFIT COVERAGES. ANY ADDITIONAL COVERAGES OR COVERAGES IN EXCESS OF THE LIMITS REQUIRED BY LAW ARE PROVIDED ONLY AT YOUR REQUEST AS ENHANCEMENTS TO BASIC COVERAGES.

Consumer reports, including credit and insurance loss history reports, may be ordered in conjunction with this application. We may also obtain and use a credit-based insurance score developed from information contained in these reports. We may use a third party in connection with the development of your insurance score. These reports provide information that assists with determining your eligibility for insurance and the price you are charged.

Applicant's Signature X

Documents Attached By Policy:
Port Form

IMP NOTICE

Veh Documents Attached Per Vehicle:

ALTERNATIVE COST INFORMATION

	Veh 1	Veh 2
Limited Tort Premium Total:	\$881.26	\$690.90
Full Tort Premium Total:	\$1012.68	\$823.62

12

AUTO RENEWAL

State Farm Mutual Automobile Insurance Company
One State Farm Dr
Concordville PA 19339

POLICY NUMBER ~~XXXXXXXXXX~~
POLICY PERIOD
MAY 04 2005 to NOV 04 2005

DATE DUE
MAY 04 2005

PLEASE PAY THIS AMOUNT
\$363.62

Your premium has already been adjusted
by the following:

Premium Reductions(by vehicle)		
1	Multiple Line	58.69
1	Antitheft	4.46
1	Vehicle Safety	10.85

Surcharges(by vehicle)		
1	Accident/Violation	26.61

Your premium is based on the following . . . If not correct, contact your agent.

VEHICLE	VEHICLE DESCRIPTION	VEHICLE IDENTIFICATION NUMBER
1	1996 BUICK LESABRE	XXXXXXXXXX

COVERAGES	PREMIUMS
See policy for explanation of coverages.	
Vehicle 1	Included
Property Damage 50,000	
General Benefits 2,500	24.15
C2 Medical Payments 5,000	60.08
Comprehensive	119.47
G 500 Deductible Collision	
Emergency Road Service	11.20
R1 Car Rental & Travel Expense 80% Per Day, \$500 Max	
Uninsured Motorist Bodily Injury 25,000/50,000	11.59
W Underinsured Motorist Bodily Injury 25,000/50,000	
Death Indemnity	
Total Premium Per Vehicle	\$363.62

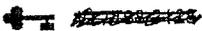
Amount Due \$363.62

THIS POLICY PROVIDES LIMITED TORT OPTION.

The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require that you purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages. The premium for basic liability coverage of \$15,000/30,000/5,000 and medical payments coverage of \$5,000 is \$144.87.

Thanks for letting us serve you. We appreciate our long term customers.

DOUG CORNELIUS
(814)899-1112



See reverse side for important information.
Please keep this part for your record.

This message is only a general description of coverage and/or coverage changes and is not a statement of contract. All coverages are subject to all policy provisions and applicable endorsements.

Like a good neighbor, State Farm is there.®



STATE FARM MUTUAL
AUTOMOBILE INSURANCE COMPANY

STATE FARM FIRE AND
CASUALTY COMPANY

Home Offices:
Bloomington, IL 61710-0001

7/01 (C)

153-1328 PA.1

Important Notice About Your Auto Insurance

Pennsylvania law requires us to provide you with the following notice concerning tort insurance and an explanation of available discounts which may help lower your auto insurance rates.

TORT INSURANCE OPTIONS

The laws of the commonwealth of Pennsylvania give you the right to choose either of the following two tort options:

1. "Limited Tort" Option — This form of insurance limits your right and the rights of members of your household to seek financial compensation for injuries caused by other drivers. Under this form of insurance, you and other household members covered under this policy may seek recovery for all medical and other out-of-pocket expenses, but not for pain and suffering or other nonmonetary damages unless the injuries suffered fall within the definition of "serious injury," as set forth in the policy, or unless one of several other exceptions noted in the policy applies.
2. "Full Tort" Option — This form of insurance allows you to maintain an unrestricted right for yourself and other members of your household to seek financial compensation for injuries caused by other drivers. Under this form of insurance, you and other household members covered under this policy may seek recovery for all medical and other out-of-pocket expenses and may also seek financial compensation for pain and suffering or other non-monetary damages as a result of injuries caused by other drivers.

If you wish to change the tort option that currently applies to your policy, please contact your State Farm agent.

(continued inside)

PREMIUM DISCOUNTS

Described below are just a few of the discounts State Farm offers:

Vehicle Safety Discount

This discount can lower the premiums for the following coverages for many 1994 and newer cars, vans, SUVs and pick-up trucks:

Medical Payments
Funeral Benefits
Loss of Income
Combined Benefits
Extraordinary Medical Payments
Death, Dismemberment and Loss of Sight

These premiums are reduced 10, 20, 30 or 40 percent, depending on the claims record for the make and model of vehicle. Each make and model's claim record for the seven prior model years is reviewed annually and the discount percentage adjusted accordingly.

Passive Restraint Discount

A premium discount of 15 percent or more is available for 1993 and older private passenger vehicles equipped with factory installed passive restraint systems for front seat passengers. This discount applies to Medical Payments, Funeral Benefits, Loss of Income, Death, Dismemberment and Loss of Sight, Combined Benefits, and Extraordinary Medical Payments Coverages.

Most passive restraint systems, such as automatic seat belts and air bags, were installed as optional or standard equipment beginning with several 1987 and 1988 model year cars. Some earlier model cars also have them. Automatic seat belts are safety belts which automatically move into the restraining position when you enter the car. Air bags are devices which automatically inflate very rapidly when a vehicle crashes.

Anti-Theft Discount

You can receive a premium discount of 10 percent on your Comprehensive Coverage if your vehicle is equipped with an anti-theft device which makes the fuel, ignition or starting systems inoperative. To qualify the device must activate automatically when you turn the ignition key to the off position.

Driver Improvement Course Discount

You may be eligible for a 5 percent discount on your premium if all your policy's named insureds are at least 55 years old and have voluntarily completed, within the past three years, a motor vehicle driver improvement course approved by the Department of Transportation. This discount can apply for up to three years, at the end of which time an approved course must be successfully repeated.

The vehicle to which the discount applies must be classified and rated as a private passenger vehicle or commercial light farm truck. The discount does not apply if one of your policy's named insureds was:

1. involved in a chargeable accident, or
2. convicted of a moving violation, or
3. convicted or accepted Accelerated Rehabilitative Disposition for driving under the influence of alcohol or any controlled substance.

If you are currently receiving any of these discounts, they are listed on your renewal notice. If you feel you qualify for any of the above discounts, would like information about other discounts, or have a question about any of the information contained in this insert, please contact your State Farm agent.