

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION OF

Allstate Insurance Company
Allstate Indemnity Company

ATLANTA REGIONAL OFFICE, GEORGIA

AS OF DECEMBER 31, 2013

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA

COUNTY OF MONTGOMERY

Charles J. Turner, CISA, being first duly sworn, states as follows:

1. I have the authority to represent the State of Alabama in the examination of Allstate Insurance and Allstate Indemnity Companies.
2. The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of both companies was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



Examiner-in-Charge

Subscribed and sworn before me by Charles J. Turner on this 29th day of September, 2014.

(SEAL)



(Signature of Notary Public)

My Commission expires NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Feb 6, 2015
BONDED THRU NOTARY PUBLIC UNDERWRITERS



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Birmingham, Alabama
September 2, 2014

Jim L. Ridling, Commissioner
Alabama Department of Insurance
P.O. Box 303351
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Commissioner Ridling,

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), a market conduct examination has been made of the affairs of:

Allstate Insurance Company
Allstate Indemnity Company

from their southeastern regional office, located at 3100 Interstate North Circle, Atlanta, Georgia 30339. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to include both Companies.

SCOPE OF EXAMINATION

The examination was conducted in accordance with the NAIC Market Regulation Handbook. The scope of the examination was planned and performed around 2 objectives:

1. To evaluate Company compliance with ALDOI Bulletin 2010-10. More specifically, to determine any premium refunds due to policy holders.
2. To evaluate the accuracy and completeness of the application of multi-policy discounts.

MARKET CONDUCT ACTIVITIES

Compliance with ALDOI Bulletin 2010-10

ALDOI Bulletin 2010-10 was obtained from the ALDOI website. Item 4 of the bulletin stated, “Effective for new policies written on or after February 1, 2011, and for policy renewals written on or after April 1, 2011, an insurer shall not do any of the following acts with respect to a personal or commercial property insurance policy or automobile insurance policy if based solely on a claim arising from a catastrophe, natural disaster, acts of nature, or weather related causes:

- (a) Apply a premium surcharge to such policy; or
- (b) Offer to place the coverage in another rating tier with the same insurer or place the coverage through an affiliated insurer if either action would result in a higher premium.

The ALDOI Deputy Commissioner provided correspondence with Company Counsel that identified the beginning of the noncompliance timeframe as “from the effective date of the Bulletin (2/1/11 for new business, 4/1/11 for renewals).

Initially, the aggregated surcharge amounts per the email correspondence indicated the following refunds due:

Allstate Insurance Company:
Policies - 2,171 - Amount \$253,480

Allstate Indemnity Company:
Policies - 16,726 - Amount: \$1,636,236

Initial detailed reviews of the refund data provided to the Deputy Commissioner indicated the aggregated amounts and policy counts were estimates and did not accurately reflect the underlying data. Subsequent meetings with the Company revealed staff was identifying policies with a Type B (weather related) claim and estimating the amount of surcharge based on the increase in the policy premium and the time elapsed since policy renewal. This method was determined to be unsatisfactory because it did not take into account a myriad of other potential adjustments to the policy premium during the renewal process.

Meetings with Company staff, a review of the auto loss codes, and system processing rules verified auto policies did not incur a weather related surcharge. Therefore, these policies were excluded from further review.

Numerous data requests were provided by and returned to the Company because the data did not reconcile to the written premium amounts of the Company's 2011-2013 annual statements. Listed below is a brief rundown of the timeline it took to obtain useful data.

- January 21, 2014, Home Owner (HO) policy data provided. Data rejected, did not reconcile
- February 7, 2014, Information Request #2. Data rejected, did not reconcile
- March 6, 2014, HO & Auto data provided. Data rejected, did not reconcile
- April 22, 2014, 2012 & 2013 HO & Auto data provided on CD. Data accepted, reconciled with immaterial variances.
- April 25, 2014, 2011 HO & Auto data provided on CD. Data accepted, reconciled with immaterial variances.

Considering the amount of time it took to obtain accurate data, it was determined the Company did not comply with Alabama Insurance Regulation 482-1-118-.06 which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.”

After researching Company surcharge rules and policies, as well as meeting with Company staff, it was determined a single weather related claim did not result in a policy surcharge. However, any other combination of claims could result in a surcharge. The best approach to determining refund amounts was to extract the policies that contained more than one claim with at least one claim being weather related.

During the course of manually calculating the refund amounts, it was determined some of the Company's rating engines had programming errors which omitted class B claims from surcharge calculations involving multiple claims. Listed below are their nomenclature and dates in use:

AIC: Rate Control 977, New 12/05/2011 Ren 01/19/2012

AI: Rate Control 974, New 12/05/2011 Ren 01/19/2012

Since these errors resulted in premiums favorable to the policy holder, no further effort was made to determine their cause.

The Company eventually provided an accurate data set of policies identified as requiring a refund. This set was reconciled with manually calculated refund amounts to ensure the set was complete and accurate. All of the manually calculated premium amounts were correctly reconciled to the data set provided by the Company.

Based on a reasonable reliance of the satisfactory reconciliation of the manually calculated refund amounts with the Company derived data, the number of and final amounts due Alabama policy holders for the period within scope of the examination was:

Allstate Insurance Company:
Policies 351 - Amount \$123,464

Allstate Indemnity Company:
Policies 1385 - Amount: \$489,084

Multi-policy Discounts (MPD)

Generally, the Company's multi-policy business practices were centered around new and renewal policy activity. These practices utilized electronic policy cross-indexing using policy holder names and addresses. If there was a match, a systems utility was triggered and a multi-policy discount was automatically applied. There were manual overrides if for some reason a systems issue was discovered (i.e., address modification). The Company spot-checked the correctness of application of MPD in the electronic system by randomly selecting and manually validating policies on the back-end.

A review of the corporate rules governing multi-policy discounts indicated there were also discounts for customers with life policies with affiliates. Customers were also eligible for multi-policy discounts if they had homeowner and auto insurance with different entities/affiliates.

The 2012 policy-level detail of the Company's Homeowner and Auto policies was obtained from the Company's Exam Coordinator. Using the *Market Conduct Regulation Handbook*, a sample size of 115 was determined to be sufficient to determine if the policy discounts were being correctly applied. Using the Company's mainframe, each selection within the sample was reviewed to determine if a policy was eligible or not eligible for a multi-policy discount. Of the selections from Allstate Insurance Company, two of the selections did not correspond with the information on the mainframe. Subsequent inquiries into the selections revealed that multi-policy discounts, once applied, remain with a policy throughout the policy period and were not removed until renewal processing. Additionally, when a policy holder was eligible for a multi-policy discount, all eligible policies were updated as part of normal daily business processing.

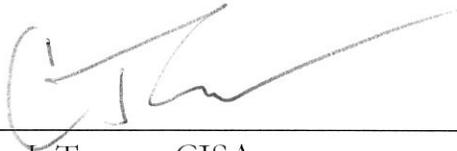
Based on a review and reconciliation of the Company's 2012 homeowner and auto policies, multi-policy discounts were correctly applied.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing both companies during the examination.

In addition to the undersigned, James Hattaway, CFE, SPIR, CIE, CIA, MCM, ARC, IES, representing the Alabama Department of Insurance, participated in the examination.

Respectfully submitted,



Charles J. Turner, CISA
Examiner-in-charge
Alabama Department of Insurance