

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

ALLSTATE INSURANCE COMPANY

NASHVILLE, TENNESSEE

AS OF

December 31, 2002

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November 29, 2003

Honorable Robert Wooley
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to your instructions and authorization, and in compliance with statutory provisions, a limited market conduct examination has been made of the affairs of

ALLSTATE INSURANCE COMPANY

at its regional office

555 Marriott Drive

Nashville, Tennessee 37214

as of December 31, 2002 and the report of examination is herewith submitted.

FOREWORD

In accordance with **LSA-R.S. 22:1301 D.** a market conduct examination was conducted on the activities of Allstate Insurance Company from January 1, 2000 through December 31, 2002. The examination was performed by test and all tests applied are included in this report.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

The market conduct examination of Allstate Insurance Company, hereinafter referred to as (“Allstate”) or (“Company”), was a limited routine market conduct examination authorized by the Louisiana Department of Insurance (“LDOI”) or (“Department”). Limited, in that not all examination procedures recommended by the National Association of Insurance Commissioners were performed.

The examination included, but was not limited to, the following areas of the Company’s operation:

- Company Overview,
- Complaints,
- Producer Licensing,
- Marketing and Sales,
- Underwriting and Rating,
- Claims,
- Uniform Disposition of Property Act and
- Consumer Privacy Policy.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of

Insurance Commissioners ("NAIC") Guidelines. The NAIC Guidelines set the standard of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders. Portions of the NAIC Market Conduct Examiner's Handbook, Volume I were used as a measure of compliance.

The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance was utilized in this examination. Samplings were utilized to test the Company's records and procedures for statutory compliance. The ACL Program was used, when possible, to automatically generate a random sampling of data records. "Random" is a theoretical concept meaning that all items in a population or file (before selection) have an equal chance of appearing in the sampling. In instances in which ACL was not used, a systematic (sequential) sampling of certain company record listings or a manual random sampling was performed.

Generally a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for all samples. Based on a review of the sampling's error rate, additional samplings may be required.

COMPANY OVERVIEW

COMPANY HISTORY

Allstate Insurance Company is an Illinois Corporation licensed to write property and casualty business in forty-nine (49) states and the District of Columbia. Allstate was incorporated on February 19, 1931 and began business on April 17, 1931.

The Southern Regional Office in Nashville, Tennessee supports the Arkansas, Kentucky, Louisiana, Mississippi and Tennessee operations of Allstate Insurance Company and one of its affiliates, Allstate Indemnity Company. Field Risks, Agency Support, Human Resources and Customer Retention are handled out of the Nashville location. Form filings and ratings are submitted from the Regional and Home Office locations.

Allstate Corporation (“ALCORP”), a Delaware Corporation, owns all of the outstanding shares of common stock of Allstate Insurance Company. ALCORP is the organizational parent of the holding system for a number of insurance companies including property and casualty insurers and life and health insurers. Prior to June 30, 1995, Sears, Roebuck and Co. (Sears) indirectly owned eighty and one-third percent (80.3%) of the Allstate Corporations’ outstanding stock. On June 30, 1995, Sears distributed its ownership in the Allstate Corporations to Sears’ common shareholders through a tax-free dividend. Currently ALCORP is publicly traded and not controlled by any other company, corporation, and group of companies, partnership or individual.

TERRITORY AND PLAN OF OPERATIONS

Primarily Allstate writes private passenger automobile insurance and homeowners insurance in Louisiana. It maintains four (4) Market Claim Offices in Louisiana: three

(3) in Metairie and one (1) in Shreveport. It should be noted that these four (4) Market Claim Offices, formerly called District Claim Offices, do not provide any marketing functions, only claim functions.

Allstate claims adjusters are located in local markets throughout the state to settle claims. During catastrophic claim situations the Company may use independent claim adjusters as needed.

For the period under examination, the Company's annual statements reflected the following Louisiana collected premium volume:

<u>YEAR</u>	<u>PREMIUM VOLUME*</u>
2000	\$ 387,868,237
2001	401,524,320
2002	420,059,281

- Direct premiums from Schedule T of the Annual Statements

PARENT, SUBSIDIARIES AND AFFILIATES

Allstate Corporation, a Delaware Corporation, owns all of the outstanding shares of common stock of Allstate Insurance Company. ALCORP is the organizational parent of the holding system for a number of insurance companies, including property and casualty insurers and life and health insurers.

The Company's annual statement depicts an organizational chart of all insurer members under this holding company system.

RECOMMENDATIONS FROM PRIOR EXAMINATION REPORTS

During the period of this examination the Company did not have any current market conduct examinations conducted in the states supported by the Nashville Regional Office.

COMPLAINT REVIEW

This review was conducted in accordance with the provisions of **LSA-R.S. 22:1214(17)** which states as follows:

“The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

(17) Failure to maintain adequate complaint handling procedures. Failure of any insurer to maintain a complete record of all the complaints that it received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. For purposes of this Paragraph, “complaint” shall mean any written communication primarily expressing a grievance received by the insurer from the Department of Insurance.”

The Company provided complaint procedures that appeared adequate for the proper recording and timely processing of complaints.

The Company provided complaint registers for the three (3) years under examination. All of the 2002 complaints were reconciled with the Department’s complaint register with the exception of one (1) complaint that was omitted due to a clerical oversight. The examiner did not reconcile the 2000 and 2001 complaint registers because the registers did not contain the Department’s complaint number on some complaint files and such reconciliation would be too time consuming.

The Company was advised that its 2000 and 2001 complaint registers were not in compliance with **LSA-R.S. 22:1214 (17)**. The Company responded that in March 2002, a change was made to its internal tracking system which allowed the Department's complaint number to be input in an *optional* data field. This discrepancy was later detected and corrected by the Company prior to the development of the 2002 complaint register.

Based on the accuracy of the 2002 complaint register and the time necessary to reconcile the 2000 and 2001 complaint registers, the Company was not asked to revise the 2000 and 2001 complaint registers.

However, it is recommended that the Company implement procedures that insure that the Department's complaint number will *always* be contained in the Company's complaint registers. Furthermore, it is recommended that the Company maintain its complaint registers annually based on the Department's complaint number instead of the closed date of the complaint.

PRODUCER REVIEW

A systemic sampling of thirty (30) producers was selected from the Department's listing of appointments in order to review the producer file for appointment documentation, producer contracts and related correspondence maintained by the Company. The files reviewed contained pertinent documentation and no exceptions were noted.

ACL was used to select a random sampling of sixty (60) producers from the Company's CD of active producers for 2002. This sampling was compared against the

Department's listing of appointed producers in order to verify that the sampling of Allstate producers was properly appointed with the Department. No exceptions were noted during this review.

A systematic sampling of thirty (30) terminated producers was selected from the Company's list of terminated producers for 2001 and 2002. This sampling represented about fifteen percent (15%) of the producers terminated by the Company for the two (2) year period. According to this review, the Company notified the Department of such terminations on a timely basis. The Company responded that during the period under examination no producers were terminated for activities specified in **LSA-R. S. 22:1142**. No exceptions were noted during this review.

During this review, the Company responded that all licensed sales producers go through a thorough background screening via an outside vendor called Choicepoint. Choicepoint conducts a credit and criminal background check and the results are provided to the Company. An Allstate Human Resource consultant reviews this information in order to determine if the applicant meets the Company's standards. Any applicant convicted of, or who pleaded guilty (or "nolo contendere") to a criminal offense, either felony or misdemeanor, would be a "prohibited person" as defined by the Violent Crime Control and Law Enforcement Act and would be rejected by the Company.

The Company's hiring procedures for producers and employees appear to be in compliance with **Louisiana Bulletin #99-01** dated June 1, 1999 titled "Consent for Prohibited Person to engage in Insurance Business, 18 United States Code, Sections 1033 and 1034".

MARKETING AND SALES REVIEW

The Company provided copies of its national TV advertisements during the period under examination, which was reviewed without exception. No radio or print advertisements were used in Louisiana during the period under examination.

Also, sales brochures and producer educational material was reviewed during the period under examination. The Company stresses product knowledge as well as integrity in dealing with the Company's clients.

UNDERWRITING AND RATING REVIEW

During this review, the Company provided a CD of its active and terminated policies for 2000, 2001 and 2002. ACL was utilized to select random samplings from the Company's CD of active and terminated policies of private passenger automobile, homeowners, commercial auto and renter coverages in order to determine how the Company treats the consumer and whether that treatment is in compliance with applicable statutes, rules and regulations. The Company provided printouts of its electronic files for review.

In the majority of cases, producers complete and submit new business applications electronically. If underwriting review processing is required, the application information is electronically transferred to underwriting personnel with Risk Management Business Center ("RMBC") in Hudson, Ohio.

The Company utilizes a proprietary underwriting system which evaluates the pre-qualifying and application and provides an "underwriting decision". This system enhances the ability of Underwriting to make consistent decisions. Applications that meet the Company's new business eligibility guidelines are issued without further

underwriting review. Applications deemed not to meet the Company's new business eligibility guidelines are declined at the point of sale or reviewed and processed by Underwriting personnel.

While Underwriting personnel sometimes review in-force policies, the majority of these policies are reviewed by an underwriting decision making system similar to that used for new business. If the risk factors are deemed acceptable, there is no routine underwriting review during the policy term or at the policy's scheduled renewal. If the system review of the risk factors indicates termination or policy changes are appropriate, the policy is electronically referred to the RMBC in Hudson, Ohio where an individual Underwriting employee makes the final determination of the policy disposition.

A random ACL sampling of sixty (60) active private passenger auto policies and fifteen (15) active commercial auto policies were selected from the three (3) years under review. This active policy file contained both new business policies and renewal policies. It was noted that the new business applications were processed timely and renewal notices were mailed in accordance with applicable statutes, rules and regulations.

A random ACL sampling of sixty (60) active homeowners and fifteen (15) renter policies were selected from the three (3) years under review. This active policy file contained both new business policies and renewal policies. It was noted that the new business applications were processed timely and renewal notices were mailed in accordance with applicable statutes, rules and regulations.

A random ACL sampling of sixty (60) terminated private passenger auto policies and fifteen (15) terminated commercial auto policies were selected from the three (3)

years under review. The Company's reason for termination and date of notification to the insured was in accordance with applicable statutes, rules and regulations.

A random ACL sampling of sixty (60) terminated homeowners and fifteen (15) terminated renter policies were selected for review. The Company's reason for termination and date of notification to the insured was in accordance with applicable statutes, rules and regulations.

A time study was performed on the new business applications for both auto and homeowner's policies from the ACL samplings. Applications were processed in an average of six and one-half (6.5) days.

Policies involving claims of zero to forty-nine percent (0-49%) negligent accidents charged to the insured were pulled from the Claims Review along with a similar sampling of policies selected by utilizing Allstates' audit program. This sampling of approximately ten (10) policies revealed that the Company did not increase the premiums due to any negligent accident of zero to forty-nine percent (0-49%) liability charged to the insured. This practice is in accordance with the Company's Claims Manual and Louisiana Statutes.

During this examination, the Company was in the final stages of LDOI approval of its revised homeowner contracts. The Company's revised private passenger automobile contract was approved by the LDOI on June 21, 2002.

CLAIMS REVIEW

Louisiana claims are adjusted in the various Market Claim Offices throughout the state. Allstate adjusters are used to settle claims and independent adjusters are used as needed during catastrophic claim situations.

To report a claim, the majority of the Company's customers contact an Allstate Agency. The Company promotes a "warm transfer" whereby an Allstate claims agency conducts a three (3) way telephonic conversation between the insured and a Company claims representative. Also, the Agency can gather information from the customer and process an *Electronic Promise Line*. In such a case, the Company promises to make contact with the customer by 9 PM the same day the claim information is electronically received. Finally, if the customer does not have the necessary time to utilize the above options, the Company provides its 800 number and website address.

Primarily, auto and property claims are processed using the Company's 800 number or website. Few paper claims are submitted to the Company's Claim Department. If the customer contacts an Allstate Agency, the claim can be submitted electronically by the agency. If possible, the agency will process an *Electronic Promise Line*, which means a claims representative will make an initial contact with the customer by 9PM the same day the claim was communicated to the Company. Also, an agency can make a *Warm Transfer* (a conference call that allows the agency and the customer to communicate the loss details to a claim representative). Which option is utilized depends upon the customer's schedule.

During the initial auto claim contact, the customer is provided with the nearest location for drive-in inspection. Also, information is provided to the customer on the Priority Repair Option (PRO) and Sterling Auto Body Option (not offered in Louisiana). An appropriate schedule is determined based on the customer's preference.

When a customer reports a property loss to an Allstate representative, detailed information of the loss is developed in order to determine whether immediate emergency

services are necessary to the customer. The loss data is documented in the on-line claim diary.

The Company utilizes a Claim Triage, the purpose of which is to assign a level of complexity to the loss and immediately direct the loss data to the proper unit within the Market Claim Office (MCO). The Triage consists of three (3) levels. On Level Zero losses, the customer must be contacted within one (1) hour of reporting the loss to Allstate. The urgency is required because the loss is probably still occurring and the customer needs immediate assistance. On Level One losses, the customer requests a call back the same day the claim is reported. No additional damage is occurring but the customer has additional questions regarding specific handling of the loss. Finally, on Level Two losses, the customer merely wants the claim adjuster to advise when the normal claim adjusting process can commence. These claims usually represent less complex losses such as minor windstorm, small contents theft or other minor to moderate damage losses.

The Company provided a CD containing all of its 2002 paid claims. After the totals of the CD were reconciled to the Company's annual statement, a random sampling of sixty (60), paid auto claims and sixty (60) paid homeowners claims were selected by the ACL Program in order to determine compliance with applicable statutes, rules and regulations. The Company provided portions of its electronic claim file necessary to demonstrate claim payments for the selected samplings. The samplings indicated that auto claims were paid in an average of fourteen (14) days and homeowners claims were paid in an average of eighteen (18) days. These reviewed claims were paid in accordance with applicable statutes, rules and regulations.

ACL was used to generate the following time lag of all 2002 paid claims provided by the Company:

RANGE	COUNT	< - - %	% - - >	DOLLAR AMOUNT
0 to 30 DAYS	112,620	61.16%	50.46%	\$ 118,050,945.53
31 to 60	28,110	15.27	15.49	36,229,121.87
61 to 91	11,537	6.27	4.57	10,682,978.73
> 91	<u>31,870</u>	<u>17.31</u>	<u>29.49</u>	<u>68,992,575.08</u>
Totals	184,137	100.00%	100.00%	\$ 233,955,621.21

In addition, ACL was used to generate a time lag excluding body injury and medical payments, which usually are settled over an extended period of time.

RANGE	COUNT	< - - %	% - - >	DOLLAR AMOUNT
0 to 30 DAYS	79,039	68.44%	75.52%	\$ 766,503,84.90
31 to 60	16,972	14.70	17.97	18,240,912.97
61 to 91	6,889	5.97	2.66	2,701,240.71
> 91	<u>12,587</u>	<u>10.90</u>	<u>3.84</u>	<u>3,898,530.30</u>
Totals	115,487	100.00%	100.00%	\$ 101,491,068.88

The Company utilizes N.A.D.A. Values solely for the calculation of total claim losses of vehicles. It was noted that on all auto repair estimates reviewed during this examination had the following disclosure:

“This estimate has been prepared based on the use of crash parts supplied

by a source other than the manufacturer of your motor vehicle. Warranties applicable to these replacement parts are provided by the manufacturer or distributor of these parts rather than the manufacturer of your vehicle.”

This disclosure is in compliance with Louisiana Directive No. 143 dated February 5, 1997 titled *AFTERMARKET CRASH PARTS DISCLOSURE REQUIREMENT*.

Litigated claim files were reviewed at the Company’s Market Claims Office (MCO) located in Metairie, Louisiana. Prior to arrival, a request was made for ten (10) litigated claim files: the last five (5) opened litigated claim files and the last five (5) closed litigated claim files in 2002. Upon arrival the MCO provided a “log-in-register” of litigated claims for each year under examination. From the 2001 and 2002 registers, a systematic sample of forty-eight (48) files were selected by requesting the files that were posted received at the middle and the end of each month for each year.

The forty-eight (48) files were promptly provided and were reviewed without exception. Based on this review, claim personnel attempted to resolve the claim issues without litigation. However, once it was determined this was not possible, the file was referred to the Legal Division. The claim practices utilized in this sampling appeared adequate and in compliance with policy provision, state statutes and regulations.

The Company provided two (2) listings of denied claims: closed no coverage and closed without payment. The closed no coverage cases were primarily handled via telephone by a claim adjuster who determined that no coverage was available for the incident in question. The closed without payment cases consisted of such events as the deductible amount was greater than the claim loss amount, other party accepted liability, vehicle never taken to repair shop and lack of interest from insured to complete repair.

ACL was used to generate a random sampling of sixty (60) closed with payment and thirty (30) closed no coverage. The second sampling was reduced due to the smaller size of the closed no coverage population. These reviews were performed without exception.

The Company stated that some denied coverages were part of the electronic paid claim file and could not be identified for separate review. Consequently the ACL Program could not extract these types of denied coverages. An example of a paid and denied claim record would be payment of claim for collision damage but denial of additional charges for a rental car.

All claim representatives handling Louisiana claims are provided a booklet containing relevant Louisiana Regulations and Statutes as a study aid. Compliance testing is done on the Company's Learning Resources Network. New employees must validate within 90 ninety days of hire. Once validated, the employee maintains this status unless (1) a new test is developed due to new relevant statutes or regulations, or (2) monthly compliance reviews reveal that the representative's performance is not in compliance.

UNIFORM DISPOSITION OF PROPERTY ACT REVIEW

Effective July 10, 1997, Act 809 of the 1997 Regular Legislative Session requires all companies, including property and casualty insurance companies, to file a report by November 1 each year of unclaimed property in its possession. During this review the Company provided evidence of timely filings of these reports with appropriate payments for the three (3) years under examination.

CONSUMER PRIVACY POLICY REVIEW

A review of the Company's Privacy Procedures, which govern the privacy of consumer financial information, is in compliance with the Louisiana Department of Insurance Regulation 76 / *PRIVACY OF CONSUMER FINANCIAL INFORMATION*.

COMMENTS AND RECOMMENDATIONS

The Company responded promptly to examination requests during the course of the examination.

It is recommended that the Company implement procedures that insure that the Department's complaint number will *always* be contained in the Company's complaint registers. Furthermore, it is recommended that the Company maintain its complaint registers annually based on the Department's complaint number instead of the closed date of the complaint. See Complaint Review.

CONCLUSION

I, Richard A. Spong, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct an examination of the market conduct activities of

ALLSTATE INSURANCE COMPANY

NASHVILLE, TENNESSEE

That I made such examination and the above and foregoing is a true and correct copy of my report of such company and the same is true and correct to the best of my knowledge, information and belief.

Mr. Don Ewing, IS Specialist/Automated Exam Specialist, with the Louisiana Department of Insurance also participated in this examination and joined the undersigned in acknowledging the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,

Richard A. Spong, CIE, CFE
Louisiana Department of Insurance

