

SEP 3 0 2002

DEPT. OF INSURANCE  
BY CB

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

In the Matter of:  
**STATE FARM MUTUAL AUTOMOBILE INSURANCE CO.,**  
NAIC # 25178,  
Respondent.

) Docket No. 02A-163-INS  
)  
) **CONSENT ORDER**  
)  
)  
)  
)  
)

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of State Farm Mutual Automobile Insurance Company ("State Farm"). In the Report of Examination of the Market Conduct Affairs of State Farm, the Examiners allege that State Farm violated A.R.S. §§ 20-385, 20-400.01, 20-461, 20-465, and A.A.C. R20-6-801.

State Farm wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

**FINDINGS OF FACT**

1. State Farm is authorized to transact property and casualty insurance pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of State Farm. The on-site examination covered the time period from January 1, 2000 to June 30, 2001 and was concluded on February 1, 2002. Based on their findings, the Examiners prepared the "Report of Examination of the Market Conduct Affairs of State Farm Mutual Automobile Insurance Company" dated February 1, 2002.

1 3. The Examiners reviewed 100 personal automobile new business files  
2 processed by the Company during the time frame of the Examination and found as  
3 follows:

4 a. State Farm failed to use its filed rates and rules to determine the  
5 premium in five files.

6 b. State Farm failed to file its \$1.00 per month service charge  
7 included in its monthly premium payment plan.

8 4. The Examiners reviewed 100 new and renewal commercial automobile  
9 files processed by the Company during the time frame of the Examination and found  
10 that State Farm failed to use its filed rates and rules to determine the premium in 8  
11 files.

12 5. The Examiners reviewed 101 first party automobile total loss claim files  
13 processed by the Company during the time frame of the Examination and found that  
14 State Farm failed to include all taxes and fees incident to evidence of ownership of a  
15 comparable automobile in nine files.

16 6. State Farm has paid \$873.20, including interest to nine claimants, for  
17 claim underpayments. State Farm has refunded \$1,335.71, including interest, to five  
18 personal automobile insureds and two commercial insureds for premium overcharges.

19 **CONCLUSIONS OF LAW**

20 1. State Farm violated A.R.S. § 20-385(A) by developing premiums for  
21 personal automobile policies that are not consistent with its filed rates and rules.

22 2. State Farm violated A.R.S. § 20-465(A) by failing to file its monthly  
23 service charge that was included in its monthly premium payment plan.

24 3. State Farm violated A.R.S. § 20-400.01(A) by issuing commercial  
25 automobile policies whose premiums were inconsistent with its filed rates and rules.

4. State Farm violated A.A.C. R20-6-801(H)(1)(b) and A.R.S § 20-461(A)(6)  
by not paying all applicable taxes and fees on first party automobile total losses.

1 5. Grounds exist for the entry of the following Order in accordance with  
2 A.R.S. §§ 20-220 and 20-456.

3 ORDER

4 **IT IS HEREBY ORDERED THAT:**

5 1. State Farm shall cease and desist from the following acts:

6 a. Failing to use its filed rates and rules in the premium determination  
7 of its personal automobile policies.

8 b. Failing to file a \$1.00 service charge that was included in its  
9 monthly premium payment plan.

10 c. Issuing commercial automobile policies whose premiums were  
11 inconsistent with its rates and rules.

12 d. Failing to pay all applicable taxes and fees on first party total  
13 losses.

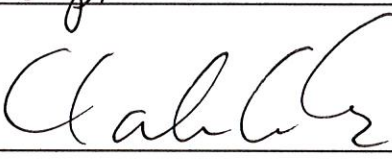
14 2. Within 90 days of the filed date of this Order, State Farm shall submit  
15 written action plans to the Arizona Department of Insurance, for approval, evidence  
16 that corrections have been implemented and communicated to the appropriate  
17 personnel, regarding the issues outlined in Item 1d of Paragraph 1 of the Order section  
18 of this Consent Order. Evidence of corrective action and communication thereof  
19 includes, but is not limited to, memos, bulletins, E-mails, correspondence, procedures  
20 manuals, print screens, and training materials.

21 3. The Department shall be permitted, through authorized representatives,  
22 to verify that State Farm has complied with all provisions of this Order.

23 4. State Farm shall pay a civil penalty of \$5,000 to the Director for remission  
24 to the State Treasurer for deposit in the State General Fund in accordance with A.R.S.  
25 §§ 20-220(B) and 20-456. The civil penalty shall be provided to the Market Conduct  
Examination Section of the Department prior to the filing of this Order.

1           5.     The Report of Examination of the Market Conduct Affairs of State Farm  
2 Mutual Automobile Insurance Company as of February 1, 2002 including the letter of  
3 objection to the Report of Examination shall be filed with the Department after the filing  
4 of this Order.

5 DATED at Phoenix, AZ this 30<sup>th</sup> day of September, 2002.

6  
7   
8 \_\_\_\_\_

9 Charles R. Cohen  
10 Director of Insurance  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**CONSENT TO ORDER**

1  
2       1.     State Farm Mutual Automobile Insurance Company has reviewed the  
3 foregoing Order.

4       2.     State Farm Mutual Automobile Insurance Company admits the  
5 jurisdiction of the Director of Insurance, State of Arizona, admit the foregoing Findings  
6 of Fact, and consent to the entry of the Conclusions of Law and Order.

7       3.     State Farm Mutual Automobile Insurance Company is aware of the right  
8 to a hearing, at which they may be represented by counsel, present evidence and  
9 cross-examine witnesses. State Farm Mutual Automobile Insurance Company  
10 irrevocably waives the right to such notice and hearing and to any court appeals  
11 related to this Order.

12       4.     State Farm Mutual Automobile Insurance Company states that no  
13 promise of any kind or nature whatsoever was made to them to induce them to enter  
14 into this Consent Order and that they have entered into this Consent Order voluntarily.

15       5.     State Farm Mutual Automobile Insurance Company acknowledges that  
16 the acceptance of this Order by the Director of the Arizona Department of Insurance is  
17 solely for the purpose of settling this matter and does not preclude any other agency or  
18 officer of this state or its subdivisions or any other person from instituting proceedings,  
19 whether civil, criminal, or administrative, as may be appropriate now or in the future.

20       6.     Kenneth P. Cook, who holds the office of  
21 Vice President - Operations of State Farm Mutual Automobile Insurance Company,  
22 is authorized to enter into this Order for them and on their behalf.

**STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY**

23  
24  
25     9/10/2002  
Date

By Kenneth P. Cook

1 COPY of the foregoing mailed/delivered  
2 this 30th day of September , 2002, to:

3 Sara Begley  
4 Deputy Director  
5 Mary Butterfield  
6 Assistant Director  
7 Consumer Affairs Division  
8 Paul J. Hogan  
9 Chief Market Conduct Examiner  
10 Deloris E. Williamson  
11 Assistant Director  
12 Rates & Regulations Division  
13 Steve Ferguson  
14 Assistant Director  
15 Financial Affairs Division  
16 Alan Griffith  
17 Chief Financial Examiner  
18 Alexandra Schafer  
19 Assistant Director  
20 Life and Health Division  
21 Terry L. Cooper  
22 Fraud Unit Chief

23 DEPARTMENT OF INSURANCE  
24 2910 North 44th Street, Suite 210  
25 Phoenix, AZ 85018

Robert R. Nash, Counsel  
State Farm Mutual Automobile Insurance Company  
One State Farm Plaza, A-3  
Bloomington, IL 61710-0001

