

MAR 23 2006

DEPT OF INSURANCE

BY 

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

In the Matter of:

STATE FARM FIRE AND CASUALTY INSURANCE CO.,

NAIC # 25143

Respondent.

Docket No. 06A-042-INS

CONSENT ORDER

Examiners for the Department of Insurance (the "Department") conducted a targeted examination of State Farm Fire and Casualty Company ("State Farm Fire"). In the Report of Examination of the Market Conduct Affairs of State Farm Fire, the Examiners found no statutory or administrative rule violations although the Report contained recommendations that State Farm Fire wishes to adopt. Consistent with the Examiner's findings, State Farm Fire denies any wrongdoing and hereby consents to the entry of the following Order.

FINDINGS OF FACT

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

2. The Director authorized the Examiners to conduct a targeted market examination of State Farm Fire covering the time period from January 1, 2003 to December 31, 2004 and targeting a review of consumer complaints related to homeowners insurance claims associated with the wildfire on Mt. Lemmon (the "Aspen fire") that occurred in June, 2003. This examination concluded on May 26, 2005. Based on their findings, the Examiners prepared the "Report of Target Market Examination of State Farm Fire and Casualty Insurance Company," as of December 31, 2004.

3. The Examiners reviewed 24 consumer complaints received by the

1 Department during the time frame of the examination. These complaints involved
2 State Farm Fire insureds who submitted claims under their homeowners policy
3 arising from the total loss of their dwelling in the June, 2003 Aspen fire. In June
4 2005, 21 of the claimants initiated litigation against State Farm Fire on these claims.

5 **ORDER**

6 **IT IS HEREBY ORDERED THAT:**

7 1. State Farm Fire shall, by August 31, 2006 establish the following
8 procedures concerning its homeowners insurance business in Arizona:

9 a. Begin mailing the attached (Exhibit A) inquiry document to its non-
10 tenant owner occupied homeowners policyholders.

11 b. Include a copy of the attached brochure (Exhibit B) "Understanding
12 the Value of Your Home" with each such mailing.

13 c. Establish policies and procedures whereby State Farm Fire, upon
14 the request of the policyholder:

15 i. recalculates the estimated current replacement cost;
16 (Exhibit C) and

17 ii. if requested by the policyholder, adjusts the insured's
18 homeowners insurance policy limits to reflect the new limits requested


19 d. Establish a quality assurance process which enables State Farm
20 Fire or its vendor to evaluate the accuracy of any replacement cost estimating tool
21 used by it.

22 e. Establish policies and procedures so that State Farm Fire mails
23 the inquiry document (Exhibit A) and brochure (Exhibit B) to all its homeowners
24 insurance policyholders in Arizona in this manner at least every five years, and
25 thereupon, gives the insured the opportunity to request adjustment of the dwelling

1 coverage limits of their homeowners policy to reflect current construction features and
2 any improvements to the insured dwelling (Exhibit C).

3 2. State Farm Fire shall permit the Department, through authorized
4 representatives, to verify State Farm Fires' compliance with all provisions of this Order.

5 DATED this 22nd day of March, 2006.

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8 Christina Urias
9 Director of Insurance

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1 **CONSENT TO ORDER**

2 1. State Farm Fire and Casualty Company ("State Farm Fire") has reviewed
3 the foregoing Order.

4 2. State Farm Fire admits the jurisdiction of the Director of Insurance, State
5 of Arizona, and consistent with the findings of the Examiners denies any wrongdoing,
6 and consents to the entry of the Order.

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

11 4. State Farm Fire states that no promise of any kind or nature whatsoever
12 was made to it to induce it to enter into this Consent Order and that it has entered into
13 this Consent Order voluntarily.

14 5. State Farm Fire acknowledges that the acceptance of this Order by the
15 Director of the Arizona Department of Insurance does not preclude any other agency or
16 officer of this state or its subdivisions or any other person from instituting proceedings,
17 whether civil, criminal, or administrative, as may be appropriate now or in the future.

18 6. Mike Dannewitz, who holds the office of
19 Vice President of State Farm Fire, is authorized to enter into this
20 Order for them and on their behalf.

21 DATED this 10th day of March, 2006.

22 **STATE FARM FIRE AND CASUALTY COMPANY**

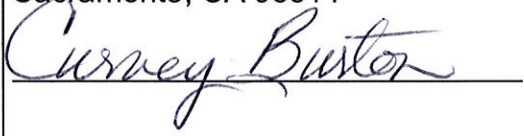
23 By Mike Dannewitz, VPA
24
25

1 COPY of the foregoing mailed/delivered
2 this 23rd day of March , 2006, to:

- 3 Gerrie Marks
4 Deputy Director
- 5 Mary Butterfield
6 Assistant Director
7 Consumer Affairs Division
- 8 Paul J. Hogan
9 Market Oversight Administrator
10 Market Oversight Division
- 11 Dean Ehler
12 Assistant Director
13 Property & Casualty Division
- 14 Steve Ferguson
15 Assistant Director
16 Financial Affairs Division
- 17 Alan Griffieth
18 Chief Financial Examiner
- 19 Alexandra Schafer
20 Assistant Director
21 Life and Health Division
- 22 Terry L. Cooper
23 Assistant Director/Fraud Unit Chief

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

Martin Erwin, Counsel
State Farm Insurance
1201 K Street, Suite 920
Sacramento, CA 95814



Insurance to Value – Customer Letter #1

State Farm® Logo

<Operations Center or Agent name>

<Address>

<City, State, Zip>

<Date>

<Person 1 & Person 2 names>

<Address>

<City, State, Zip>

Dear <Person1 & Person2>:

Thank you for choosing State Farm to help you protect your home.

I am sending you information about an important aspect of your homeowners insurance coverage – estimating the cost to replace your home at today's construction prices. Please take a few minutes to read over the enclosed brochure. We recommend you review your policy each year to make sure you have enough insurance coverage.

This is particularly important if you:

- Upgraded bathrooms or kitchens (including cabinets)
- Added rooms or living space
- Have custom molding, arched windows, or other unique features
- Feel that home improvements, rising construction costs or other economic factors make your original estimate outdated

To estimate the cost to replace your home at current construction prices, you can use a recent replacement cost appraisal or a recent building contractor's estimate. Or, you and I can work together using Xactware Inc. software to create an estimate based on information you provide about the age, size, style and features of your home. Please contact me to initiate this process.

I appreciate your time to consider the importance of estimating your home's replacement cost. Please call me at <999-999-9999> if you would like to discuss this or any other insurance needs you may have.

Thank you for choosing State Farm.

Sincerely,

<Annie Agent>

State Farm Agent

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Version 4

Prepared by BrandActive 12/29/05

Exhibit A

Some important things to consider when determining your coverage amount:

- Your home's estimated replacement cost is different than its market value (real estate cost).
- Each time you remodel or improve your home, you should adjust your coverage amount accordingly.
- If your home is made of unique building materials, make sure they are reflected in your replacement cost estimate.
- Stay abreast of the fluctuating building costs in your area and update your coverage amount accordingly. Make sure that you maintain coverage at 100% of your home's estimated replacement cost at all times.
- It is important to review your coverage annually and inform your agent of any changes you'd like to make.

Make sure that your home is covered for 100% of its estimated replacement cost.

Understanding the value of your home.

Call today or visit statefarm.com® for more information on homeowners insurance.

Your Good Neighbor State Farm® Agent



Providing Insurance and Financial Services



How to determine your homeowners coverage.



State Farm Fire and Casualty Company, State Farm General Insurance Company – Bloomington, IL
State Farm Florida Insurance Company – Winter Haven, FL
State Farm Lloyds – Dallas, TX

ZF-24212

12-2004
Printed in U.S.A.

When it comes to your greatest investment, make sure you have the right coverage.



Make sure that your home is insured for 100% of its estimated replacement cost.

Your first step in determining the right homeowners coverage is estimating the replacement cost of your home. The second step is selecting the coverage amount that best fits your needs. We recommend that you purchase an amount of coverage equal to the estimated replacement cost. But the choice is yours. Determining your home's estimated replacement cost is important because this will ultimately determine which policy options are available to you. Since it is impossible to predict today what the exact cost will be to replace your home in the future, it's important to have enough coverage to account for unforeseen circumstances.

Understand the difference between market value and replacement cost.

When you experience a covered loss, State Farm® insurance will pay the "replacement cost" of the damaged property up to the coverage limits. "Replacement cost" is the amount needed to repair the damage or to rebuild the home to its pre-loss condition. The replacement cost of a home is NOT the market value of the home, its purchase price or the outstanding amount of any mortgage loan. It does not include the value of the land, but is the cost of rebuilding your home. New improvements or required upgrades are also not accounted for in the replacement cost.

You've worked hard to get your home. We'll work hard to help you protect it.



When buying a new home, be sure to obtain a replacement cost estimate.

Before you purchase a new home, make sure that you determine the appropriate amount of coverage needed. When you have the home appraised, ask if a replacement cost estimate is available. Or consult with your local builder association or a reputable builder for an estimate. You can also check with your State Farm agent to help you with this process.

Be aware of any architectural details or unique building materials that may affect your estimated replacement cost, such as:

- Upgraded bathrooms or kitchens (including cabinets)
- Additional rooms
- Custom molding or arched windows
- Other unique features

A contractor or appraiser can help estimate your home's replacement cost.

Building contractors or professional replacement cost appraisers are a good source for obtaining an estimated replacement cost of your home. Estimates from these sources should reflect your home's features, like those mentioned above. If you are unable to obtain a detailed estimate from these sources, your State Farm agent can help provide one for you.

As your life changes, so may your homeowners policy.



Review your policy annually to make sure that your coverage meets your needs.

- **Have you recently remodeled or improved your home?** When you upgrade or improve your home, you may increase your home's estimated replacement cost. Contact your State Farm agent and adjust your policy accordingly when you remodel or make improvements to your home.

- **Has the rate of inflation risen since your last appraisal?** State Farm provides coverage that automatically adjusts each year in an effort to compensate for increases in construction costs in your area. However, certain conditions such as severe weather can increase the demand for labor and materials, and raise costs beyond normal inflation. It is important to update your coverage amount each year to keep up with the changing economy.

- **What influences the building costs in your area?** Market conditions in your area may impact the amount it will cost to rebuild your home if you experience a loss. Replacement cost estimates are influenced by supply of labor, demand for labor, and cost of construction materials. Staying abreast of the current market conditions in your area, and changing your coverage amount accordingly, will help you maintain 100% estimated replacement cost coverage for your home.

IF YOU HAVE ANY QUESTIONS, CONTACT YOUR STATE FARM AGENT OR VISIT STATEFARM.COM®

Insurance to Value – Customer Letter #2

Format masthead to match Visual System guidelines

State Farm® Logo

<Operations Center or Agent name>
<Address>
<City, State, Zip>

<Date>

<Person 1 & Person 2 names>
<Address>
<City, State, Zip>

Dear <Person1 & Person2>:

Thank you for choosing State Farm to help you protect your home.

You recently asked us to help you estimate the replacement cost of your home. We used the Xactware estimating tool and the information you provided. The estimate and some of the information about your home appears below. Please review this along with enclosed brochure "Understanding the Value of Your Home."

Estimated cost to replace your home	<\$XXX,XXX>
Insurance amount you selected on your Homeowners policy	<XXX,XXX
Total Living Area Square Footage	<XXXXX>
Garage Type and Number of Cars	<XXXXXXXXXXXXXXXXXXXXX>
Number of Stories	<XXXXXXXXXX>
Quality	<XXXXXXXXXXXXXXXXXX>
Exterior Wall Material	<XXXXXXXXXXXXXXXXXX> <XXX%>
Foundation Type	<XXXXXXXXXXXXXXXXXX> <XXX%>
	<XXXXXXXXXXXXXXXXXX>
	<XXXXXXXXXXXXXXXXXX>
Xactware Estimate Number	<XXXX-XXXX-X>
Date of Estimate	<XX-XX-XXXX>

I would be happy to answer any questions you have about this estimate and the insurance amount you selected. If you would like the complete estimate with additional home details, please contact me.

Please call me at <999-999-9999> if you would like to discuss this or any other insurance needs you may have.

Thank you for choosing State Farm.

Sincerely,

<Annie Agent>
State Farm Agent

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