

REPORT ON  
THE MARKET CONDUCT EXAMINATION  
OF

**Allstate Insurance Company**  
NAIC Company Code: 19232

**Allstate Property and Casualty Insurance Company**  
NAIC Company Code: 17230

**Allstate Indemnity**  
NAIC Company Code: 19240

*as of*

**December 31, 2004**

State of Rhode Island  
Department of Business Regulation  
Insurance Division

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF BUSINESS REGULATION  
233 RICHMOND STREET  
PROVIDENCE, RHODE ISLAND 02903

\_\_\_\_\_  
IN THE MATTER OF: )

Allstate Insurance Company )

Allstate Property and Casualty Insurance Company )

Allstate Indemnity Company )

Respondent. )  
\_\_\_\_\_)

DBR No. 08-108

CONSENT AGREEMENT

It is hereby agreed between the Department of Business Regulation ("Department") and the Allstate Insurance Companies listed above ("Respondent") as follows:

1. Pursuant to R.I. Gen. Laws § 27-13.1-4, the Department initiated Market Conduct Examinations ("Examinations") in order to evaluate Respondent's compliance with applicable R. I. Gen. Laws.
2. A Market Conduct Examination report on Allstate Insurance Company and Allstate Indemnity Company as of December 31, 1999 was completed and a report was issued on April 24, 2001.
3. On June 7, 2001, pursuant to R.I. Gen. Laws § 27-13.1-5(b), Respondent submitted written comments to the report.
4. The Director reopened the examination by Order #01-0134 dated August 14, 2001.
5. A Market Conduct Examination report on Allstate Insurance Company, Allstate Indemnity Company and Allstate Property and Casualty Insurance Company as of December 31, 2004 was completed and a report was issued on November 2, 2005.

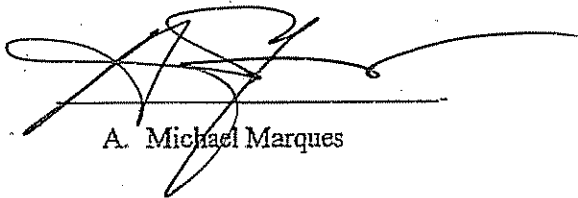
6. On November 17, 2005, pursuant to R.I. Gen. Laws § 27-13.1-5(b), Respondent submitted written comments to the report.

WHEREFORE, based on the foregoing, Respondent and the Department have decided to resolve these matters without further administrative proceedings and hereby agree to an administrative penalty of \$15,000.

Department and Respondent hereby consent and agree to the foregoing:

Department of Business Regulation

By its Director,



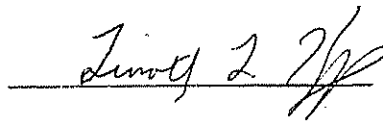
A. Michael Marques

Date:

05-16-2008

Respondent

By their attorney,



Date:

May 6, 2008

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Providence, Rhode Island

April 16, 2008

Honorable A. Michael Marques  
Insurance Commissioner  
State of Rhode Island

Dear Commissioner:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

**Allstate Insurance Company  
Allstate Property and Casualty Insurance Company  
Allstate Indemnity Company  
2775 Sanders Road  
Northbrook, IL 60062-6127**

hereinafter referred to as the "Companies."

The examination was conducted at the regional claims office of the Companies, which is located at 74 Batterson Park Road, Farmington, Connecticut 06032.

#### **FOREWORD**

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination, has been omitted from the report if errors and/or improprieties were not evidenced.

## **SCOPE OF EXAMINATION**

Authority for this examination is provided by R. I. Gen. Laws §27-13-1 and §27-13.1-3. The examination covered the period from January 1, 2003, through December 31, 2004, and was conducted in accordance with standards established by the National Association of Insurance Commissioners, as well as, procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed the review of the following areas: Complaints, Claims, Cancellations and Nonrenewal Practices. The lines of business examined were private passenger automobile and homeowners.

The primary purpose of the examination was to evaluate the Companies' compliance with Rhode Island General Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation, on a test basis, of information contained in the insurers' files.

## **PROFILE OF COMPANIES**

### **Allstate Insurance Company**

#### **History**

Allstate Insurance Company was incorporated on February 19, 1931 and began business on April 17, 1931. It is an Illinois domestic insurer. Charter powers permit the company to write all forms of insurance. The company is the largest capital stock company writer of automobile insurance in the United States.

### **Operations**

The Company's Rhode Island direct written premiums for the year 2004 were as follows:

<u>Line of Business</u>	<u>Direct Written Premium</u>
Other Private Passenger Auto Liability	\$22,409,000
Private passenger Auto physical Damage	\$20,328,000
Homeowner Multi-Peril	<u>\$18,714,000</u>
Total	<u>\$61,451,000</u>

### **Management**

As of December 31, 2004, the Officers of the Company were as follows: Edward Michael Liddy, (President), James Philip Zils, (Treasurer), Robert William Pike, (Secretary), Danny Lyman Hale, (Chief Financial Officer).

### **Allstate Property and Casualty Insurance Company**

#### **History**

Allstate Property and Casualty Insurance Company was incorporated February 14, 1985, commenced business on April 1, 1985 and is an Illinois domestic insurer.

#### **Operations**

The Company's Rhode Island direct written premiums for the year 2004 were as follows:

<u>Line of Business</u>	<u>Direct Written Premium</u>
Other Private Passenger Auto Liability	\$7,794,000
Private Passenger Auto Physical Damage	<u>\$6,324,000</u>
Total	<u>\$14,118,000</u>

### **Management**

As of December 31, 2003, the Officers of the Company were as follows: Frederick Florian Cripe, (President), William Gerard Crimmins, (Secretary), James Philip Zils, (Treasurer), Danny Lyman Hale, (Chief Financial Officer).

### **Allstate Indemnity Company**

#### **History**

Allstate Indemnity was incorporated July 7, 1960 in accordance with the laws of Illinois, and began business on December 12, 1960. Allstate Indemnity is organized and regulated separately from Allstate Insurance Company. The Company's original name was National Emblem Insurance Company. The present corporate name was adopted on December 14, 1973

#### **Operations**

The Company's Rhode Island direct written premiums for the year 2004 were as follows:

<u>Line of Business</u>	<u>Direct Written Premium</u>
Other Private Passenger Auto Liability	\$7,644,000
Private passenger Auto physical Damage	<u>\$3,715,000</u>
	<u>\$11,359,000</u>

#### **Management**

As of December 31, 2004, the Officers of the Company were as follows: Frederick Florian Cripe, (President), James Philip Zils, (Treasurer), William Gerard Crimmins, (Secretary), Danny Lyman Hale, (Chief Financial Officer)

### **CONSUMER OR OTHER RELATED COMPLAINTS**

A review of the Companies' consumer or other related complaints was conducted to determine whether actions taken by the Companies regarding consumer or other related



complaints were in compliance with R. I. Gen. Laws §27-29-4(13). The review was also performed to determine whether the Companies adhered to its complaint handling procedures and all applicable policy contract provisions, whether a pattern exists in the types of complaints generated by the Companies' operations, and whether complaints were processed and resolved in a timely manner.

The Companies provided the examiners with a listing of 138 complaints processed during the period under examination of which 67 sample items were selected for review based on NAIC sampling criteria.

During our review, the examiners noted that the Companies' complaint register did not contain columns for sequential numbering, disposition of complaints and the complaint closing date as required by R. I. Gen. Laws §27-29-4(13). Therefore, the Companies were in violation of R. I. Gen. Laws §27-29-4(13).

**Recommendation #1 :** It is recommended that the Companies revise their complaint register to include columns for sequential numbering, disposition of complaints and the complaint closing date in order to ensure compliance with R. I. Gen. Laws §27-29-4(13).

During our review, the examiners noted five Rhode Island Insurance Division complaints received by the Companies were not listed on the complaint register. R. I. Gen. Laws §27-29-4(13) requires all complaints received by the Companies be recorded on their complaint register. Therefore, the Companies were in violation of R. I. Gen. Laws §27-29-4(13).

**Recommendation #2 :** It is recommended that the Companies list all complaints received from the Rhode Island Insurance Division in their complaint register in order to be in compliance with R. I. Gen. Laws §27-29-4(13).

### **Insurance Division Complaints**

A review of Consumer Complaints received at the Insurance Division from August 1, 2001 through April 15, 2004 were reviewed to determine compliance with Rhode Island Insurance Regulation 73, Unfair Property and Casualty Claims Settlement Practices. The Division's Property and Casualty area provided the examiners with a listing of 36 complaint files for review. We have provided the Companies with the claim numbers and the violation(s) noted for each of the findings listed in this section of the report.

During our review, the examiners noted 16 complaint files in which the Companies did not forward the written acknowledgement to the claimant as required by Rhode Island Insurance Regulation R27-73-5.D.

**Recommendation #3 :** It is recommended that a copy of the written acknowledgement of the claim be included in each file to document compliance with Rhode Island Insurance Regulation R27-73-5.D.

During our review, the examiners noted ten complaint files in which the Companies did not advise the claimant if coverage existed for the rental of an automobile comparable to the claimant's damaged vehicle, which is a violation of Rhode Island Insurance Regulation R27-73-5.E.

**Recommendation #4 :** It is recommended that with respect to third party claimants, a copy of the written acknowledgement should be included in each file with reference to the possible eligibility for the rental of a comparable vehicle to the claimant's damaged vehicle in order to document compliance with Rhode Island Insurance Regulation R27-73-5.E.

During our review, the examiners noted three complaint files in which the Companies did not respond in writing to the Department within 15 days of receipt of an inquiry regarding a claim which is a violation of Rhode Island Insurance Regulation R27-73-5.F.

**Recommendation #5 :** It is recommended that the Companies respond in writing to the Department within 15 days of receipt of an inquiry regarding a claim, and maintain a copy of that response in the file in order to document compliance with Rhode Island Insurance Regulation R27-73-5.F.

During our review, the examiners noted four complaint files in which the Companies did not respond to written communications from a claimant within 10 days, which suggest a response is expected, which is a violation of Rhode Island Insurance Regulation R27-73-5.G.

**Recommendation #6 :** It is recommended that the Companies reply in writing within 10 days to written communications from a claimant which suggest that a response is expected, and maintain a copy in each file to document compliance with Rhode Island Insurance Regulation R27-73-5.G.

During our review, the examiners noted seven complaint files in which the claim was denied and the Companies did not forward to the claimant a letter of denial within 15 days as required by Rhode Island Insurance Regulation R27-73-6.A.

**Recommendation #7 :** It is recommended that the Companies forward a letter of acceptance or denial within 15 days after receipt by the Insurer of properly executed proofs of loss to advise the claimant of the acceptance or denial of the claim by the Insurer in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.A.

During our review, the examiners noted ten complaint files in which the Companies did not properly notify the claimant giving the reason that more time was needed to evaluate

the claim than is provided for in section 6.A. which is a violation Rhode Island Insurance Regulation R27-73-6.B.

**Recommendation #8 :** It is recommended that the Companies properly notify the claimant giving the reason that more time was needed to evaluate the claim than is provided for in section 6.A. in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.B.

During our review, the examiners noted seven complaint files in which the Companies did not advise the claimant of the statute of limitations as required by Rhode Island Insurance Regulation R27-93-6.E.

**Recommendation #9 :** It is recommended that the Companies monitor their claims handling procedures to ensure that the claimant has received notification relating to the statute of limitations in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.E.

During our review, the examiners noted eight complaint files in which the Companies did not provide the required language in their letter of denial, which is a violation of R27-73-6.I.

**Recommendation #10 :** It is recommended that the Companies provide the required language in their letters of denial in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.I.

During our review, the examiners noted six complaint files in which the Companies did not use as a guide, the average retail values indicated by the National Automobile Dealers Association official Used Car Guide which is a violation of Rhode Island Insurance Regulation R27-73-7.A.(2)(i).

**Recommendation #11 :** It is recommended that the Companies use in cash settlements of totaled private passenger automobiles the average retail values as indicated by the National Automobile Dealers Association official Used Car Guide in order to be in compliance with Rhode Island Insurance Regulation R27-73-7.A.(2)(i).

## **CLAIM PRACTICES**

### **Private Passenger Automobile**

#### **Paid Claims**

A review of the Companies' private passenger automobile claim practices was conducted to determine whether the Companies complied with the applicable provisions of its private passenger automobile policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, and made fair and equitable settlement of claims. In addition, the review was performed to evaluate whether the Companies were in compliance with R. I. Gen. Laws §27-7-5, §27-8-12, §27-8-14, §27-9.1-4, §27-10.2-2, §27-29-4, §27-29-16, §27-57-1 and Rhode Island Insurance Regulations 10 and 73.

The Companies provided the examiners with a listing of 12,547 claims closed with payment processed during the period under examination of which 100 sample items were selected for review based on NAIC sampling criteria.

During our review, the examiners noted 11 claim files in which the Companies did not forward a written acknowledgement of the claim within 10 days of notification of loss, as required by Rhode Island Insurance Regulation R27-73-5.D. In addition, six of the 11 files required notification that the third party claimant may be entitled to the rental of an automobile comparable to the claimant's damaged vehicle as required by Rhode Island Insurance Regulation R27-73-5.E.

**Recommendation #12 :** It is recommended that the upon notification of a claim the Companies forward a written acknowledgement to the claimant and where applicable

advise the claimant that they may be entitled to the rental of an automobile comparable to the claimant's damaged vehicle in order to document compliance with R27-73-5.D.E.

### **Claims Closed without Payment**

A review of the Companies' private passenger automobile claims closed without payment was conducted to determine whether the Companies complied with the applicable provisions of its private passenger automobile policies, did not misrepresent policyholder and/or claimant rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, and made fair and equitable settlement of claims in compliance with R. I. Gen. Laws §27-9.1-4 and Rhode Island Insurance Regulation 73.

The Companies provided the examiners with a computer listing of 3,351 private passenger closed without payment claims processed during the period under examination. A sample of 50 files was selected for review based on NAIC sampling criteria.

During our review, the examiners noted two files which did not comply with Rhode Island Insurance Regulation R27-73-6. One of the files did not contain a denial letter to the claimant. The second file contained a denial letter but did not include the required language regarding the opportunity for the claimant to contact the Rhode Island Insurance Division.

**Recommendation #13 :** It is recommended that the Companies monitor their claim denials to ensure that these files contain proper documentation in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.

### **Homeowners**

#### **Paid Claims**

A review of the Company's homeowners claim practices for the period under examination was conducted to determine whether the Companies complied with

applicable provisions of its homeowners policy, did not misrepresent the policyholder's rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims and made fair and equitable settlement of claims in compliance with R. I. Gen. Laws §27-5-3, §27-9.1-4, §27-29-3, §27-57-1 and Rhode Island Insurance Regulation 73.

The Company provided the examiners with a listing of 1,911 claims closed with payment processed during the period under examination of which 50 sample items were selected for review based on NAIC sampling criteria.

During our review, the examiners noted two claim files in which the Company did not forward a written acknowledgement of the claim within 10 days of notification of loss, as required by Rhode Island Insurance Regulation R27-73-5.D. Therefore, the Company was in violation of Rhode Island Insurance Regulation R27-73-5.D.

**Recommendation #14 :** It is recommended that the Company monitor their claims handling procedures to ensure compliance with Rhode Island Insurance Regulation R27-73-5.D.

#### **Claims Closed without Payment**

A review of the Company's homeowners claim practices for the period under examination was conducted to determine whether the Company complied with applicable provisions of its homeowners policy, did not misrepresent the policyholder's rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims and made fair and equitable settlement of claims in compliance with R. I. Gen. Laws §27-5-3, §27-9.1-4 and Rhode Island Insurance Regulation 73.

The Company provided the examiners with a listing of 1,039 claims closed without payment processed during the period under examination of which 50 sample items were selected for review based on NAIC sampling criteria.

During our review, the examiners noted two claim files in which the Company in their letter of denial did not provide the Rhode Island Department of Business Regulation, Insurance Division's phone number, as required by Rhode Island Insurance Regulation R27-73-6.I. Therefore, the Company was in violation of Rhode Island Insurance Regulation R27-73-6.I.

**Recommendation #15 :** It is recommended that the Company monitor their claims handling procedures as it relates to the required language in their letters of denial in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.I.

## **CANCELLATIONS**

### **Private Passenger Automobile**

A review of the Companies' private passenger automobile cancellation practices during the period under examination was conducted to determine whether the Companies complied with the applicable provisions of its private passenger automobile policies and were in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulations 8 and 16.

The Companies provided the examiners with a listing of 2,410 non-payment and 54 company initiated cancellations. From these listings, a sample of 104 cancellation files was selected for review.

During our review, the examiners noted four private passenger automobile cancellation notices that did not have certificate of mailing documentation as required by Rhode Island Insurance Regulation 16.

**Recommendation #16 :** It is recommended that the Companies review their private passenger automobile cancellation procedures in order to ensure that certificates of mailing documentation can be reviewed in order to verify compliance with Rhode Island Insurance Regulation 16.



During our review, the examiners noted 77 private passenger automobile cancellation notices that did not have the statement regarding financial security in (12) point type as required by R. I. Gen. Laws §31-47-4(c).

**Recommendation #17 :** It is recommended that the Companies review their private passenger automobile cancellation procedures in order to ensure that all cancellation notices contain the financial security statement in (12) point type as required by R. I. Gen. Laws §31-47-4(c).

No.	<u>Summary of Recommendations</u>	Page No.
1	It is recommended that the Companies revise their complaint register to include columns for sequential numbering, disposition of complaints and the complaint closing date in order to ensure compliance with R. I. Gen. Laws §27-29-4(13).	7
2	It is recommended that the Companies list all complaints received from the Rhode Island Insurance Division in their complaint register in order to be in compliance with R. I. Gen. Laws §27-29-4(13).	7
3	It is recommended that a copy of the written acknowledgement of the claim be included in each file to document compliance with Rhode Island Insurance Regulation R27-73-5.D.	8
4	It is recommended that with respect to third party claimants, a copy of the written acknowledgement should be included in each file with reference to the possible eligibility for the rental of a comparable vehicle to the claimant's damaged vehicle in order to document compliance with Rhode Island Insurance Regulation R27-73-5.E.	8
5	It is recommended that the Companies respond in writing to the Department within 15 days of receipt of an inquiry regarding a claim, and maintain a copy of that response in the file in order to document compliance with Rhode Island Insurance Regulation R27-73-5.F.	9
6	It is recommended that the Companies reply in writing within 10 days to written communications from a claimant which suggest that a response is expected, and maintain a copy in each file to document compliance	9

	with Rhode Island Insurance Regulation R27-73-5.G.	
7	It is recommended that the Companies forward a letter of acceptance or denial within 15 days after receipt by the Insurer of properly executed proofs of loss to advise the claimant of the acceptance or denial of the claim by the Insurer in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.A.	9
8	It is recommended that the Companies properly notify the claimant giving the reason that more time was needed to evaluate the claim than is provided for in section 6.A. in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.B.	10
9	It is recommended that the Companies monitor their claims handling procedures to ensure that the claimant has received notification relating to the statute of limitations in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.E.	10
10	It is recommended that the Companies provide the required language in their letters of denial in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.I.	10
11	It is recommended that the Companies use in cash settlements of totaled private passenger automobiles the average retail values as indicated by the National Automobile Dealers Association official Used Car Guide in order to be in compliance with Rhode Island Insurance Regulation R27-73-7.A.(2)(i).	11
12	It is recommended that the upon notification of a claim the Companies forward a written acknowledgement to the claimant and where applicable advise the claimant that they may be entitled to the rental of	11

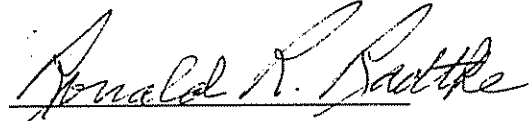
	an automobile comparable to the claimant's damaged vehicle in order to document compliance with R27-73-5.D.E.	
13	It is recommended that the Companies monitor their claim denials to ensure that these files contain proper documentation in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.	12
14	It is recommended that the Company monitor their claims handling procedures to ensure compliance with Rhode Island Insurance Regulation R27-73-5.D.	13
15	It is recommended that the Company monitor their claims handling procedures as it relates to the required language in their letters of denial in order to be in compliance with Rhode Island Insurance Regulation R27-73-6.I.	14
16	It is recommended that the Companies review their private passenger automobile cancellation procedures in order to ensure that certificates of mailing documentation can be reviewed in order to verify compliance with Rhode Island Insurance Regulation 16.	14
17	It is recommended that the Companies review their private passenger automobile cancellation procedures in order to ensure that all cancellation notices contain the financial security statement in (12) point type as required by R. I. Gen. Laws §31-47-4(c).	15

## CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Assisting the undersigned in the conduct of this examination, was Leonard E. Palizza Jr., Market Conduct Examiner, Robert G. Arrow, FLMI, Senior Market Conduct Examiner.

Respectfully submitted,

A handwritten signature in cursive script, reading "Ronald R. Radtke", written over a horizontal line.

Ronald R. Radtke

Senior Market Conduct Examiner

Rhode Island Insurance Division