

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

Allstate Insurance Company  
Examination Authority # 19232-16-924

Allstate Indemnity Company  
Examination Authority # 19240-16-925

Allstate Property and Casualty Insurance Company  
Examination Authority # 17230-16-928

Encompass Insurance Company of America  
Examination Authority # 10071-16-926

Encompass Indemnity Company  
Examination Authority # 15130-16-927

Allstate Vehicle and Property Insurance Company  
Examination Authority # 37907-17-001

2775 Sanders Rd  
Northbrook, IL 60062

As of

05/31/2016

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of May 31, 2016 on

**Allstate Insurance Company**

**Allstate Indemnity Company**

**Allstate Property and Casualty Insurance Company**

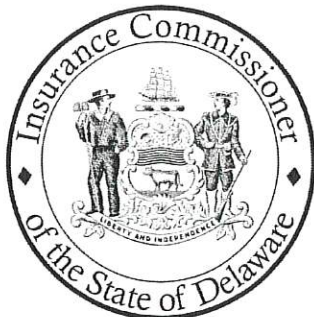
**Encompass Insurance Company of America**

**Encompass Indemnity Company**

**Allstate Vehicle and Property Insurance Company**

is a true and correct copy of the document filed with this Department.

Attest By: \_\_\_\_\_



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 7 day of November, 2018.

Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

**Allstate Insurance Company**

**Allstate Indemnity Company**

**Allstate Property and Casualty Insurance Company**

**Encompass Insurance Company of America**

**Encompass Indemnity Company**

**Allstate Vehicle and Property Insurance Company**

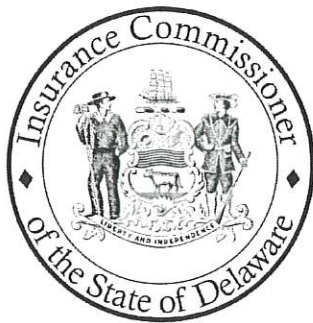
AS OF

May 31, 2016

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 7 day of November, 2018.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro  
Insurance Commissioner

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Honorable Trinidad Navarro  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Certificate of Examination Authority Numbers: 19232-16-924, 19240-16-925, 17230-16-928, 10071-16-926, 15130-16-927, and 37907-17-001 and pursuant to statutory provisions including 18 Del. CODE §318-322, a market conduct examination has been conducted of the affairs and practices of:

**Allstate Insurance Company**  
**Allstate Indemnity Company**  
**Allstate Property and Casualty Insurance Company**  
**Encompass Insurance Company of America**  
**Encompass Indemnity Company**  
**Allstate Vehicle and Property Insurance Company**

This examination was performed as of May 31, 2016. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

15000 Conference Center Dr  
Chantilly, Virginia 20151

The off-site examination phase and was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department or DDOI, or other suitable locations.

The report of examination herein is respectfully submitted.

## EXECUTIVE SUMMARY

On their 2015 annual statements filed with the Department, Allstate Insurance Company (Allstate Insurance), Allstate Indemnity Company (Allstate Indemnity), Allstate Property and Casualty Insurance Company (Allstate Property), Allstate Vehicle and Property Insurance Company (Allstate Vehicle), Encompass Insurance Company of America (Encompass Insurance), and Encompass Indemnity Company (Encompass Indemnity) reported total premiums written for all states of \$38,320,660,906 of which Delaware has approximately \$66,080,795 in premiums written. Hereinafter when referencing all six companies, the companies will be collectively referred to as the Allstate Companies. If an exception or concern was noted in only specific companies, those companies will be named accordingly. The Allstate Companies' main administrative offices are located in Northbrook, IL.

This examination focused on the Allstate Companies' private auto and homeowner lines in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims.

The following exceptions were noted in the areas of operation reviewed. The following exceptions were noted and the details for the cited code references are noted in the section immediately following this summary:

- 1 Exception  
18 Del. C. § 2304(17) Failure to maintain complaint handling procedures.  
*(17) Failure of any person to maintain a complete record of all the complaints which it has received since the date of its last examination as otherwise required in this title. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint. For purposes of this subsection, "complaint" shall mean any written communication primarily expressing a grievance.*

Allstate Insurance did not record a complaint from the Department in the complaint record as required by 18 Del. C. § 2304(17).

- 1 Exception  
18 Del. C. § 2304(2) False information and advertising generally.  
*(2) No person shall make, publish, disseminate, circulate or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated or placed before the public, in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio or television station, or in any other way, an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance or with respect to any person in the conduct of the insurance business, which is untrue, deceptive or misleading.*

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

Allstate Insurance used Form RP368 which had incorrect verbiage indicating “there are no installment fees” for EZ pay, when in fact installment fees were being charged. All forms should contain correct verbiage as required by 18 *Del. C.* § 2304(2).

- 2 Exceptions

18 *Del. C.* § 2517 Adherence to filing

*No insurer shall make or issue a contract or policy except in accordance with the filings which are in effect for the insurer as provided in this chapter or in accordance with § 2505 (exemption from filing) or §2509 (excess rates) of this title. This section shall not apply to contracts or policies for inland marine risks as to which filings are not required.*

The Encompass Indemnity and Encompass Insurance Companies did not issue a policy in accordance with its filed and approved rates as required by 18 *Del. C.* § 2517. Also, they did not use the proper experience group rating factor as required by 18 *Del. C.* § 2517.

- 5 Exceptions

18 *Del. C.* § 3905(d) Cancellation or nonrenewal of automobile policy —

Notice of cancellation or intention not to renew; notice of reasons

*(d) When a policy is cancelled or nonrenewed, other than for nonpayment of premium, the insurer shall notify the named insured of any possible eligibility for insurance through an automobile assigned risk plan. Such notice shall accompany or be included in the notice of cancellation or the notice of intent not to renew and shall state that such notice of availability of the automobile assigned risk plan is given pursuant to this section.*

Allstate Insurance, Allstate Indemnity, Allstate Property, and Allstate Vehicle terminated policies without notification of possible eligibility for insurance through an automobile assigned risk plan as required by 18 *Del. C.* § 3905(d).

- 5 Exceptions

18 *Del. C.* § 3905(e) - Cancellation or nonrenewal of automobile policy —

Notice of cancellation or intention not to renew; notice of reasons

*(e) Each notice of cancellation, except as provided in § 3903(b), or nonrenewal of a policy shall contain or be accompanied by a notice of the named insured's right to apply to the Commissioner for a hearing thereon.*

Allstate Insurance, Allstate Indemnity, Allstate Property, and Allstate Vehicle notices of cancellation/termination did not contain a notice of the insured’s right to apply to the Commissioner for a hearing as required by 18 *Del. C.* § 3905(e).

- 1 Exception

18 *Del. Admin. C.* § 902-1.2.1.5 Authority for Regulation; Basis for Regulation

*1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.*

## **Delaware Market Conduct Examination Report Allstate Companies**

Allstate Indemnity and Allstate Insurance did not provide a denial letter to an insured as required by 18 *Del. Admin. C.* § 902-1.2.1.5.

- 5 Exceptions  
18 *Del. Admin. C.* § 902-1.2.1.6 Authority for Regulation; Basis for Regulation  
*1.2.1.6 Not attempting in good faith to effectuate prompt, fair and equitable settlement of claims in which liability has become clear.*

Allstate Insurance, Allstate Indemnity and Allstate Property failed to make payment within 30 days of notification as required by 18 *Del. Admin. C.* § 903-4.0.

In addition to the above findings, a Concern was also noted during the review of Allstate Insurance, Allstate Indemnity and Allstate Property, Encompass Insurance and Encompass Indemnity. Some bills were reduced with Code 24 "The fee schedule amount allowed is calculated at 110% of the Medicare Fee Schedule for this region, specialty and type of service. This fee is calculated in compliance with Act 6." This is a Pennsylvania regulation and applies to vehicles registered in PA.

### **SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§318-322 and covered the experience period of January 1, 2015 through May 31, 2016, unless otherwise noted. The purpose of the examination was to determine compliance by the Allstate Companies with Delaware insurance laws and regulations related to the private auto and homeowner lines.

The examination was a targeted market conduct examination of the private auto lines for the period of January 1, 2015 through May 31, 2016.

The examination was subsequently expanded to include a targeted review of personal auto Personal Injury Protection (PIP) claims for the period of July 1, 2015 through April 30, 2017.

### **METHODOLOGY**

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners' report on the errors found in individual files, the general business practices of the Company were also a subject of the review.

The Allstate Companies were requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. An exception is any instance of company activity that does not comply with an insurance statute or regulation.



## **Delaware Market Conduct Examination Report**

### **Allstate Companies**

Exceptions contained in the Report may result in imposition of penalties. General practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables company management to review these areas of concern in order to determine the potential impact upon company operations or future compliance.

Throughout the course of the examination the Allstate Companies' officials were provided status memoranda which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with the Allstate Companies' officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

## **COMPANY OPERATIONS AND MANAGEMENT**

### Company History

The Allstate Corporation (ALCORP), a Delaware Corporation, owns all of Allstate's outstanding 42,000 shares of common stock. ALCORP is the organizational parent of several insurance companies including property/casualty insurers and life/health insurers. Prior to June 30, 1995, Sears, Roebuck and Co. (Sears) indirectly owned 80.3 percent of ALCORP outstanding stock. On June 30, 1995, Sears distributed its ownership in the ALCORP to Sears' common shareholders through a tax-free dividend. The ALCORP is publicly traded and not controlled by any other company, corporation, group of companies, partnership or individual.

The Company organization for the various insurance functions is complex as some functions are centralized. Allstate Insurance has 14 Regional Field offices that support our local operations. Delaware is supported by the Capital Region, which is located at 15000 Conference Center Drive Suite 400 Chantilly, VA 20151. This regional office supports only Allstate companies.

Allstate Insurance, Allstate Indemnity, and Allstate Property are multi-line property and casualty insurance companies, Each Company distributes the insurance products offered through Allstate Exclusive and Independent Agents. Allstate Insurance, Allstate Indemnity, and Allstate Property products are also sold through direct channels (Allstate Call Centers and Internet).

Allstate Insurance is licensed to do business in 49 states plus the District of Columbia. In 2015, Allstate Insurance reported \$28,177,753,254 premium of which \$21,785,604 was written in Delaware.

Allstate Indemnity is licensed to do business in 49 states plus the District of Columbia. In 2015, Allstate Indemnity reported \$3,072,075,586 premium of which \$5,755,704 was written in Delaware.

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

Allstate Property is licensed to do business in 48 states plus the District of Columbia. In 2015, Allstate Property reported \$2,831,428,285 premium of which \$27,586,358 was written in Delaware.

Allstate Vehicle is licensed to do business in 49 states plus the District of Columbia. In 2015, Allstate Vehicle reported \$1,474,604,334 premium of which \$1,695,337 was written in Delaware.

Encompass Insurance specializes in personal insurance, selling exclusively through independent agencies. Their signature product is the Universal Security Policy (USP) which allows the insured to write auto, home (residence including inland marine which is available by scheduled personal property endorsement), dwelling fire, boat, and umbrella liability on one package policy with four coverage levels. The USP is underwritten by one or more underwriting companies, two of which are Encompass Indemnity and Encompass Insurance, whose home offices are in Northbrook, Illinois. Encompass Insurance and Encompass Indemnity are primarily supported by staff located in Northbrook except for Claims, Underwriting and Policy Service Centers.

Encompass Insurance products and services are offered exclusively in the United States of America and are available in 41 states. In 2015, Encompass Indemnity reported \$412,334,709 premium of which \$2,189,554 was written in Delaware. Encompass Insurance reported \$156,661,354 premium of which \$7,068,238 was written in Delaware.

Internal Audit

The Allstate Companies provided a list of all internal audits conducted within the last three years. Internal audits include those audits completed by an internal audit functions within the company or conducted via a contracted vendor on behalf of the company.

A review of nine different audit reports covering underwriting and claim operations and functions revealed no irregularities.

Antifraud and Special Investigations Units (SIU)

Anti-fraud procedures and annual reports were submitted by the Allstate Companies for review. Interviews were conducted with chief Anti-Fraud and Special Investigation Unit personnel. The reviews and interview provided the examiner a more in-depth look at how the Allstate Companies conduct investigations.

The Allstate Companies provided a list of 208 referrals made to their Special Investigation Unit (SIU) during the examination period of January 1, 2015 through June 30, 2016. A random sample of 25 files was selected.

The sampled files along with the Allstate Companies' procedures and reporting policies to the National Insurance Crime Bureau were reviewed for compliance with NAIC

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

standards from Chapter 7, 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware laws and regulations including Title 18, Chapter 24.

No exceptions are noted.

Board of Directors

A review was conducted of the Allstate Companies' Board of Directors agendas, minutes and attachments for all meetings held during the experience.

All information provided appeared to be in order and no abnormalities were discovered during the review.

No exceptions are noted.

**COMPLAINT HANDLING**

Allstate Insurance

Allstate Insurance provided a list of 73 complaints that were filed with Allstate Insurance during the examination period. The list included complaints received from the Department, as well as complaints made directly to Allstate Insurance on behalf of Delaware consumers. For the experience period of January 1, 2015 through June 30, 2016, a random sample 50 files were selected.

All the complaints were reviewed. The log was reviewed for compliance with 18 *Del. C.* §2304 (17). Complaint files involving claims were reviewed for compliance with 18 *Del. C.* §2304 (26) and 18 *Del. Admin. Code* 902 §1.2.1.2. Additionally, the files were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook.

The following exceptions were noted:

**1 Exception - 18 *Del. C.* § 2304(17) Failure to maintain complaint handling procedures.**

*(17) Failure to maintain complaint handling procedures. — Failure of any person to maintain a complete record of all the complaints which it has received since the date of its last examination as otherwise required in this title. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint. For purposes of this subsection, "complaint" shall mean any written communication primarily expressing a grievance.*

Allstate Insurance did not record a complaint from the DDOI in the complaint record.

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

*Recommendation:* It is recommended that all complaints be recorded by the Allstate Insurance as required by 18 *Del. C.* §2304(17).

**1 Exception - 18 *Del. C.* § 2304(2) False information and advertising generally.**

*(2) No person shall make, publish, disseminate, circulate or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated or placed before the public, in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio or television station, or in any other way, an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance or with respect to any person in the conduct of the insurance business, which is untrue, deceptive or misleading.*

Allstate Insurance used Form RP368 which had incorrect verbiage indicating “there are no installment fees” for EZ pay, when in fact installment fees were being charged. Allstate Insurance corrected the form, identified all the consumers that it was sent to and refunded the installment fees to those that had elected the EZ Pay option.

*Recommendation:* It is recommended that all forms contain correct verbiage as required by 18 *Del. C.* § 2304(2).

Allstate Indemnity:

Allstate Indemnity provided a list of 74 complaints that were filed during the examination period. The list included complaints received from the Department, as well as complaints made directly to Allstate Indemnity on behalf of Delaware consumers. For the experience period of January 1, 2015 through June 30, 2016, a random sample 50 files were selected.

All the complaints were reviewed. The log was reviewed for compliance with 18 *Del. C.* §2304 (17). Complaint files involving claims were reviewed for compliance with 18 *Del. C.* §2304 (26) and 18 *Del. Admin. Code* 902 §1.2.1.2. Additionally, the files were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook.

There were no exceptions noted.

Allstate Property:

Allstate Property provided a list of 317 complaints that were filed with Allstate Property during the examination period. The list included complaints received from the Department, as well as complaints made directly to Allstate Property on behalf of Delaware consumers. For the experience period of January 1, 2015 through June 30, 2016, a random sample 50 files were selected.

The log was reviewed for compliance with 18 *Del. C.* §2304 (17). Complaint files involving claims were reviewed for compliance with 18 *Del. C.* §2304 (26) and 18 *Del.*

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

*Admin. Code* 902 §1.2.1.2. Additionally, the files were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook.

There were no exceptions noted.

Allstate Vehicle:

Allstate Vehicle and Property Insurance Company provided a list of 23 complaints that were filed with Allstate Vehicle during the examination period. The list included complaints received from the Department, as well as complaints made directly to Allstate Vehicle on behalf of Delaware consumers. For the experience period of January 1, 2015 through June 30, 2016, the entire population of 23 complaints was reviewed.

In addition, the complaint log was reviewed for compliance with 18 *Del. C.* §2304 (17). Complaint files involving claims were reviewed for compliance with 18 *Del. C.* §2304 (26) and 18 *Del. Admin. Code* 902 §1.2.1.2. Additionally, the files were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook.

There were no exceptions noted.

Encompass Insurance and Encompass Indemnity:

Encompass Insurance and Encompass Indemnity (referred to collectively as Encompass Combined Companies) provided one complaint that was filed with Encompass Combined Companies during the examination period. The complaint was made directly to Encompass Insurance and Encompass Indemnity on behalf of a Delaware consumer.

A comparison between the Encompass Combined Companies log and the log from the Department was completed. It was noticed that there were several complaints in the Department log that were not included in the Encompass Combined Companies log. Both Encompass Insurance and Encompass Indemnity were asked about this in Information Requests 019 and 020. Encompass indicated that there was a technological glitch in the query that was used to pull the complaints. They indicated that they did have the complaints recorded and sent copies of the Concern Reports for each as proof. They also went back and pulled an updated listing after the glitch was corrected. A total of six complaints were noted and reviewed.

The log was reviewed for compliance with 18 *Del. C.* §2304 (17). Complaint files involving claims were reviewed for compliance with 18 *Del. C.* §2304 (26) and 18 *Del. Admin. Code* 902 §1.2.1.2. Additionally, the files were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook.

There were no exceptions noted.

## UNDERWRITING AND RATING

### Auto Policies Applied For:

The following are populations and samples reviewed for each company.

Company Name	Population	Sample
Allstate Property and Casualty Insurance Company	5,265	5 policies
Allstate Indemnity Company	965	5 policies
Encompass Combined Companies	1,294	5 policies
<b>Total</b>	<b>7,524</b>	<b>15 policies</b>

#### Allstate Property:

Allstate Property provided a list of 5,265 Automobile Policies applied for during the examination period, January 1, 2015 through June 30, 2016. A random sample of five files was selected and reviewed.

Allstate Property was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

#### Allstate Indemnity:

Allstate Indemnity provided a list of 965 automobile policies that were applied for during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were randomly selected for review.

Allstate Indemnity was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Encompass Combined Companies:

Encompass Indemnity and Encompass Insurance provided a list of 1,294 automobile policies that were applied for during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were randomly selected for review.

The Encompass Combined Companies were also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

The following exception was noted.

**1 Exception – 18 Del. C. § 2517 Adherence to filing**

*No insurer shall make or issue a contract or policy except in accordance with the filings which are in effect for the insurer as provided in this chapter or in accordance with § 2505 (exemption from filing) or §2509 (excess rates) of this title. This section shall not apply to contracts or policies for inland marine risks as to which filings are not required.*

The Encompass Combined Companies failed to issue a policy in accordance with its filed and approved rates. The Encompass Combined Companies failed to use the proper experience group rating factor.

The Encompass Combined Companies also advised they had been aware of the rating discrepancies and elected to institute corrective actions on policies issued going forward on August 16, 2016.

The Encompass Combined Companies were requested to retrospectively define any possible rating errors. They identified 36 policies that required correction and have completed the corrective action back to the point when the vehicle involved was added to the appropriate policy. The policy corrections resulted in:

- 19 policies incurred over charges totaling \$4,612.87 including interest. All overcharged premium was credited to the customer where appropriate or refunded.
- 15 policies incurred under charges totaling \$2,913.00 in lost premium. No additional premium will be charged to the customer. The policies will renew with the corrected factors at the next renewal.

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

- 2 policies had \$0 premium impact.

*Recommendation:* It is recommended that the Encompass Indemnity and the Encompass Insurance Companies adhere to their rate filings as required by 18 *Del. C.* § 2517.

**Homeowner Policies Applied For:**

The following are populations and samples reviewed for each Company.

<b>Company Name</b>	<b>Population</b>	<b>Sample</b>
Allstate Vehicle and Property	2,814	5 policies
Encompass Companies	718	5 policies
Encompass Companies Package	1,939	5 policies
<b>Total</b>	<b>5,471</b>	<b>15 policies</b>

**Allstate Vehicle:**

Allstate Vehicle provided a list of 2,814 property policies that were applied for during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

Allstate Vehicle was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

**Encompass Combined Companies-Homeowner:**

Encompass Indemnity and Encompass Insurance provided a list of 718 property policies that were applied for during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

The Encompass Combined Companies were also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.



**Delaware Market Conduct Examination Report**  
**Allstate Companies**

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

**Encompass Combined Companies-Package Policies:**

Encompass Indemnity and Encompass Insurance provided a list of 1939 Package Policies that were applied for during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

The Encompass Combined Companies were also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

**Auto Policies Re-written:**

The following are populations and samples reviewed for each company.

<b>Company Name</b>	<b>Population</b>	<b>Sample</b>
Allstate Property and Casualty Insurance Company	470	5 policies
Allstate Indemnity Company	63	5 policies
Allstate Insurance Company	157	5 policies
Encompass Companies	310	5 policies
<b>Total</b>	<b>1,000</b>	<b>20 policies</b>

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

Allstate Property:

Allstate Property provided a list of 470 automobile policies that were rewritten during the examination period. For the experience period of January 1, 2015 through June 30, 2016, a random sample five files were selected.

Allstate Property was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Allstate Indemnity:

Allstate Indemnity provided a list of 63 automobile policies that were rewritten during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

Allstate Indemnity was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Allstate Insurance:

Allstate Insurance provided a list of 157 automobile policies that were rewritten during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

Allstate Insurance was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Encompass Combined Companies:

Encompass Indemnity and Encompass Insurance provided a list of 310 automobile policies that were rewritten during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were randomly selected for review. The review revealed that these policies were not in fact rewritten but only endorsed for requested changes.

The Encompass Combined Companies were also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

Also, if available, they were requested to provide a copy of the rating worksheets and support documentation utilized for manual rate calculation purposes.

The following exception was noted.

**1 Exception – 18 Del. C. § 2517 Adherence to filing**

*No insurer shall make or issue a contract or policy except in accordance with the filings which are in effect for the insurer as provided in this chapter or in accordance with § 2505 (exemption from filing) or §2509 (excess rates) of this title. This section shall not apply to contracts or policies for inland marine risks as to which filings are not required.*

The Encompass Combined Companies failed to issue a policy in accordance with its filed and approved rates. Also, they failed to use the proper experience group rating factor.

The Encompass Combined Companies also advised it had been aware of the rating discrepancies and elected to institute corrective actions on policies issued going forward on August 16, 2016.

As previously noted under the section “Auto Policies applied for” sample, The Encompass Combined Companies were requested to retrospectively define any possible rating errors. The resultant findings were noted in that section.

*Recommendation:* It is recommended that Encompass Indemnity and Encompass Insurance adhere to its rate filings as required by 18 Del. C. § 2517.

**Homeowner Policies Re-written:**

The following are populations and samples reviewed for each Company.

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<b>Company Name</b>	<b>Population</b>	<b>Sample</b>
Allstate Indemnity Company	49	5 policies
Allstate Insurance Company	34	5 policies
Allstate Vehicle and Property	185	5 policies
Encompass Companies	124	5 policies
Encompass Companies Package	1,402	5 policies
<b>Total</b>	<b>5,471</b>	<b>25 policies</b>

Allstate Indemnity:

Allstate Indemnity provided a list of 49 homeowner policies rewritten during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review. Two of these policies were rewritten back to Allstate Indemnity while three were rewritten to Allstate Vehicle.

Allstate Indemnity was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Allstate Insurance:

Allstate Insurance provided a list of 34 homeowner policy rewrites with the Company during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

Allstate Insurance was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

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There were no exceptions noted.

Allstate Vehicle:

Allstate Vehicle provided a list of 185 homeowner policy rewrites during the examination period of January 1, 2015 through May 31, 2016. A random sample of five files were selected for review.

Allstate Vehicle was also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Encompass Combined Companies:

The Encompass Combined Companies provided a list of 124 homeowner policy rewrites during the examination period of January 1, 2015 through May 31, 2016. A random sample of 5 (five) files were selected for review.

The Encompass Combined Companies were also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

Encompass Combined Companies-Package:

The Encompass Combined Companies provided a list of 1,402 Package Rewrite policies that were renewed during the examination period of January 1, 2015 through May 31, 2016. A random sample of 5 (five) package files were randomly selected for review; four from Encompass Insurance and one from Encompass Indemnity. Each of these five contained a PPA policy (three were multi-vehicle) and a Homeowners policy (two had multiple residences). Two also had Umbrella policies.

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The Encompass Combined Companies were also requested to provide a copy of the rate filings for rates in use during the examination period, and to ensure the examiners have the rate methodology and a description of all factors considered during the rating process.

The sampled files were manually rated for the premium that was associated with the Declaration Page as provided to the Policyholder. Additionally, the policies were reviewed for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

There were no exceptions noted.

**Policies Terminated:**

The following are populations and samples reviewed for each Company.

<b>Company Name</b>	<b>Population</b>	<b>Sample</b>
Allstate Group Combined Auto	200	79
Allstate Group Combined Home	629	84
Encompass Companies Combined	77	77
<b>Total</b>	<b>906</b>	<b>240</b>

**Allstate Group Combined-Auto:**

Allstate Insurance, Allstate Indemnity, Allstate Property, and Allstate Vehicle (collectively referred to as “Allstate Group Combined”) provided a list of 200 automobile policies that were terminated during the examination period of January 1, 2015 through June 30, 2016. A random sample of 79 files was selected.

The sampled files were reviewed for the reasons for termination and for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

The following exceptions were noted:

**5 Exceptions - 18 Del. C. § 3905(d) - Cancellation or nonrenewal of automobile policy — Notice of cancellation or intention not to renew; notice of reasons**

*(d) When a policy is cancelled or nonrenewed, other than for nonpayment of premium, the insurer shall notify the named insured of any possible eligibility for insurance through an automobile assigned risk plan. Such notice shall accompany or be included in the notice of cancellation or the notice of intent not to renew and shall state that such*

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*notice of availability of the automobile assigned risk plan is given pursuant to this section.*

The Allstate Group Combined terminated policies without notification of possible eligibility for insurance through an automobile assigned risk plan.

*Recommendation:* It is recommended that auto terminations include notification of possible eligibility for insurance through an automobile assigned risk plan as required by 18 Del. C. § 3905(d).

**5 Exceptions - 18 Del. C. § 3905(e) - Cancellation or nonrenewal of automobile policy —Notice of cancellation or intention not to renew; notice of reasons**

*(e) Each notice of cancellation, except as provided in § 3903(b), or nonrenewal of a policy shall contain or be accompanied by a notice of the named insured's right to apply to the Commissioner for a hearing thereon.*

The notice of cancellation/termination did not contain a notice of the insured's right to apply to the Commissioner for a hearing.

*Recommendation:* It is recommended that auto terminations contain a notice of the insured's right to apply to the Commissioner for a hearing as required by 18 Del. C. § 3905(e).

Allstate Group Combined-Homeowner:

The Allstate Group Combined provided a list of 629 Homeowner Policies that were terminated during the examination period of January 1, 2015 through June 30, 2016. A random sample of 84 files was selected.

The sampled files were reviewed for the reasons for termination and for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

No exceptions were noted.

Encompass Combined Companies:

The Encompass Combined Companies provided a list of 77 combined policies that were terminated during the examination period of January 1, 2015 through May 31, 2016. All 77 policies were selected for review.

The files were reviewed for the reasons for termination and for compliance with NAIC standards from Chapter 16 and 17 of the NAIC Market Regulation Handbook and applicable Delaware statutes and regulations.

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No exceptions were noted.

**Policy Forms**

Allstate Indemnity, Allstate Insurance, Allstate Property, Allstate Vehicle, Encompass Indemnity, and Encompass Insurance were asked to provide copies of their Company's activities to ensure compliance with the Notice Regarding Deductibles, copies of policies and procedures regarding the use of credit information, copies of the survey responses submitted for 2014 and 2015.

These were reviewed and found to be in compliance with 18 *Del. C.* §4140, 18 *Del. C.* §8301 – 8303, and *Del. Admin C.* 704 (Homeowners Cost Comparison) and Bulletin No. 50.

No exceptions were noted.

**CLAIMS**

Automobile claims were reviewed recently under another examination. They were not included as a part of this review.

**Homeowner Paid Claims**

Allstate Indemnity and Allstate Insurance

Allstate Indemnity and Allstate Insurance provided a list of Homeowner claims that were filed with during the examination period of January 1, 2015 through May 31, 2016. They noted a total of 1,034 claims that were paid. Allstate Indemnity had a population of 810 and Allstate Insurance had a population of 224.

A random sample of 105 claim files, consisting of 82 for Allstate Insurance and 23 for Allstate Indemnity were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

Allstate Vehicle

Allstate Vehicle and Property Insurance Company was added as part of this exam and was reviewed after the Homeowner paid claims were completed. Due to this, a separate sample was selected for review.



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Allstate Vehicle provided a list of 97 claims that were paid during the examination period of January 1, 2015 through May 31, 2016. A sample of 25 claims were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

Encompass Companies Combined

The Encompass Combined Companies provided a list of 146 paid claims, of which 124 were from Encompass Insurance and the remaining 22 were from Encompass Indemnity, that were filed during the experience period of January 1, 2015 through May 31, 2016. A random sample of 76 was selected, 64 from Encompass Insurance and 12 from Encompass Indemnity claim files were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

**Homeowner Claims Closed Without Payment**

Allstate Group Combined

The Allstate Group Combined provided a list of claims that were filed during the examination period of January 1, 2015 through May 31, 2016. A total of 285 homeowner claims, consisting of 205 from Allstate Insurance and 80 from Allstate Indemnity, were closed without payment. There were 76 files selected, 55 from Allstate Insurance and 21 from Allstate Indemnity, selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

Allstate Vehicle

Allstate Vehicle provided a list of 30 claims that were closed without payment during the examination period of January 1, 2015 through May 31, 2016. All 30 claims were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

**Homeowner Denied Claims**

Allstate Group Combined

Allstate Indemnity and Allstate Insurance provided a list of claims that were filed during the experience period of January 1, 2015 through May 31, 2016. A total of 431

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homeowner claims, consisting of 333 from Allstate Insurance and 98 from Allstate Indemnity, were denied. There were 82 files, 63 from Allstate Insurance and 19 from Allstate Indemnity, that were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

The following exception was noted:

**1 Exception - 18 *Del. Admin. C.* § 902-1.2.1.5 Authority for Regulation; Basis for Regulation**

*1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.*

Allstate Indemnity and Allstate Insurance failed to provide a denial letter to an insured.

*Recommendation:* It is recommended that all denied claims receive a denial letter as required by 18 *Del. Admin. C.* § 902-1.2.1.5.

Allstate Vehicle

Allstate Vehicle provided a list of 47 claims that were denied during the examination period of January 1, 2015 through May 31, 2016. All 47 claims were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

Encompass Combined Companies

The Encompass Combined Companies provided a list of claims that were filed during the examination period of January 1, 2015 through May 31, 2016. The Encompass Combined Companies do not use closed without pay. The Encompass Combined Companies noted a total of 16 claims that were denied. All 16 files were selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

No exceptions were noted.

**Expansion - PIP Claims**

Notice was sent out on May 16, 2017, informing the Allstate Companies that the examination was being expanded. The expansion included a targeted review of personal auto PIP claims for the period of July 1, 2015 through April 30, 2017.

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Allstate Group Combined

Allstate Insurance, Allstate Indemnity and Allstate Property provided a list of claims that were filed during the examination period of July 1, 2015 through April 30, 2017. A total of 1379 paid claims were filed. A random sample of 105 files was selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

The following exceptions were noted:

**5 Exceptions - 18 *Del. Admin. C.* § 902-1.2.1.6 Authority for Regulation; Basis for Regulation**

*1.2.1.6 Not attempting in good faith to effectuate prompt, fair and equitable settlement of claims in which liability has become clear.*

Allstate Insurance, Allstate Indemnity and Allstate Property failed to make payment within 30 days of notification.

*Recommendation:* It is recommended that all claims are settled promptly as required by 18 *Del. Admin. C.* § 902-1.2.1.6.

Encompass Combined Companies

The Encompass Combined Companies provided a list of claims that were filed during the examination period of July 1, 2015 through April 30, 2017. The Encompass Combined Companies noted a total of 91 paid claims filed. A random sample of 76 files was selected for review. The claims were reviewed for compliance with 18 *Del. Admin. C.* §§ 902, 903, and 18 *Del. C.* § 2304.

There were no exceptions noted.

Concern noted:

*Concern:* It was noted during the review that Allstate Insurance, Allstate Indemnity and Allstate Property, Encompass Indemnity and Encompass Insurance each reduced a selection of bills utilizing Code 24 "The fee schedule amount allowed is calculated at 110% of the Medicare Fee Schedule for this region, specialty and type of service. This fee is calculated in compliance with Act 6." This is a Pennsylvania regulation and applies to vehicles registered in PA.

*Recommendation:* It is recommended that the Companies perform a self-audit of Delaware claims, for which the fee was reduced due to the application of this regulation and provide appropriate reimbursement. The results of the self-audit should be provided directly to the Department.

## **CONCLUSION**


As stated in the Scope of Examination section, the purpose of the examination was to determine compliance by the Allstate Companies with Delaware insurance laws and regulations related to the private auto and homeowner lines.

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that all complaints be recorded by Allstate Insurance as required by 18 *Del. C.* § 2304(17). (Complaint Handling).
2. It is recommended that all forms contain correct verbiage as required by 18 *Del. C.* § 2304(2). (Complaint Handling).
3. It is recommended that Encompass Indemnity and Encompass Insurance adhere to its rate filings as required by 18 *Del. C.* § 2517. (Underwriting and Rating – Auto Policies Applied For) (Underwriting and Rating – Auto Policies Re-written).
4. It is recommended that auto terminations include notification of possible eligibility for insurance through an automobile assigned risk plan as required by 18 *Del. C.* § 3905(d) (Underwriting and Rating – Policies Terminated).
5. It is recommended that auto terminations contain a notice of the insured's right to apply to the Commissioner for a hearing as required by 18 *Del. C.* § 3905(e). (Underwriting and Rating – Policies Terminated).
6. It is recommended that all denied claims receive a denial letter as required by 18 *Del. Admin. C.* § 902-1.2.1.5. (Claims – Homeowners Denied Claims).
7. It is recommended that all claims are settled promptly as required by 18 *Del. Admin. C.* § 903-4.0. (Claims – Expansion PIP Claims).
8. It is recommended that the Allstate Companies perform a self-audit of Delaware claims to identify fees that were reduced due to the application of a Pennsylvania regulation rather than Delaware regulations. The Company should report the results of the self-audit directly to the Department and consumers adversely affected should be reimbursed accordingly. (Claims – Expansion PIP Claims).

**Delaware Market Conduct Examination Report**  
**Allstate Companies**

The examination conducted by Shelly Shuman, Joseph Krug, Jason Nemes, Jim Myers, Mark Plesha, Jack Rucidlo, and Gwen Douglas is respectfully submitted.

A handwritten signature in cursive script that reads "Jason Nemes". The signature is written in dark ink on a light-colored, slightly textured background.

Jason Nemes, CIE, MCM  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance