



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

STATE FARM LIFE INSURANCE COMPANY

AS OF

September 12, 2013

NAIC COMPANY CODE: 69108

NAIC GROUP CODE: 0176

TABLE OF CONTENTS

COMPANY OPERATIONS.....	2
FILE REVIEW.....	3
COMPLETENESS AND ACCURACY TEST	3
ANTI-FRAUD PLAN.....	3
REINSURANCE AGREEMENTS REVIEW	4
EXAMINATION FINAL REPORT SUBMISSION.....	4

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of State Farm Life Insurance Company (IL) NAIC # 69108, (hereinafter State Farm Life or the Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by Global Insurance Enterprises Inc. The scope period of this examination was January 1, 2010 through December 31, 2012. The field examination began August 19, 2013, and ended September 12, 2013.

In June 2006, the Florida Legislature enacted the Freedom to Travel Act, which modified Florida's Unfair Trade Practices Act by placing prohibitions on life insurance limitations upon an individual based solely on the individual's past lawful foreign travel or future lawful travel plans. The Florida Unfair Trade Practices Act also prohibits the refusal to insure, or continue to insure, based on the individual's race, color, creed, marital status, sex, or national origin.

Rule 69D-2 Florida Administrative Code became effective in October 2006 to implement the provisions of Section 626.9891, Florida Statutes. This rule requires a higher level of detail and accountability for Insurer Anti-Fraud Special Investigative Unit (SIU) Description filings and Insurer Anti-Fraud Plan filings.

A target market conduct examination of the State Farm Life Insurance Company was performed to determine compliance with Sections 626.9541 (1)(g), 626.9541 (1)(x), 626.9541 (1)(dd) and Section 626.9891, Florida Statutes and Rules 69O-125.003 and 69D-2, Florida Administrative Code. No violations were found during the examination as a result of reviewing the sample selection of files.

TABLE OF FILES REVIEWED

Statute/Rule	Description	Files Total Universe	Files Reviewed
Section 626.9541(1)(g), (x) and (dd) Florida Statutes and Rule 69O-125.003, Florida Administrative Code.	All Applications	86,308	719
	All Applications Denied	5,708	503
	Issued Other Than As Applied For	3,563	195
	Benefit Changes	808	195
	Cancellations/Terminations	3	3
TOTALS - Review of Applications			1,615

State Farm Life self-reported a violation of the Freedom to Travel Act when completing the online survey for the scope of July 1, 2011 through July 1, 2012. In this case the applicant was initially denied insurance coverage in January 2012 based on the life policy application disclosure of intent to travel to Columbia for a trip of less than two weeks duration. The Company's reason for denial of the application was that Columbia was on the State Department travel warning list. At the time of denial the Company offered to continue the underwriting process after the applicant's trip ended. Beginning September 2012, nine months after the initial denial, the Company wrote and attempted to call the applicant in efforts to offer continuation of the application process.

The Company's underwriting treatment of this application was not consistent with Florida Underwriting Restrictions as indicated in the State Farm Life and Annuity State Specific Procedure manual, the State Farm Life Underwriting manual and Section 626.9541 Florida Statutes.

For the period July 1, 2012 through December 31, 2012, the Company reported two policies were denied based on foreign travel to Iraq and Afghanistan, respectively, and were in compliance with the Variance to Rule 69O-125.003, Florida Administrative Code.

The examination included the following procedures:

- Review policy applications to determine if applications were denied, issued in a manner other than applied for, had benefit changes or canceled solely on the individual's past lawful foreign travel experiences, or future lawful foreign travel plans, and compliance with Section 626.9541(1)(dd), Florida Statutes and Rules 69O-125.003 and 69D-2, Florida Administrative Code.
- Review policy applications to determine if applications were denied, issued in a manner other than applied for, had benefit changes or canceled based on national origin in compliance with Sections 626.9541(1)(g), and 626.9541(1)(x), Florida Statutes.
- Review reinsurance agreements to verify if any of the agreements place any limitations as a result of the applicant's past and/or future foreign travel or the applicant's place of birth.
- Review Anti-Fraud Plan to ensure it has been filed and implemented as required by Rule 69D-2 Florida Administrative Code and Section 626.9891, Florida Statutes.

In reviewing materials for this report, the examiner relied on records provided by the Company. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

COMPANY OPERATIONS

State Farm Life is a foreign life and health insurer licensed to transact business in the State of Florida on June 3, 1942. The Company is licensed in 47 states and the District of Columbia and primarily markets individual life and annuity products through an exclusive independent contractor agency force. Individual life insurance products include traditional whole life,

universal life, term insurance and variable universal contracts which together account for 89%, 87% and 85% of premium revenue in 2012, 2011 and 2010, respectively.

Total Direct Written Life Premiums in the State of Florida was as follows:

Year	Direct Written Life Premiums State of Florida (Per Annual Statement Schedule T)
2012	204,894,031
2011	201,282,908
2010	198,559,422

FILE REVIEW

The examiners reviewed information contained in the Company's underwriting files which consisted of applications, questionnaires, field questionnaires, telephone interviews, supplemental applications, underwriting notes, systems notes, and letters sent to applicants/consumers. The examiners also reviewed the underlying medical records and financial information presented.

During the period covered by this examination, the Company received 92,099 applications for life insurance coverage. (The all applications data set includes issued as applied for, issued other than as applied for, and benefit changes. Denied and cancelled/rescinded applications were not included in the all applications data set.) Examiners reviewed 1,611 applications and related policies described as issued as applied for, issued other than applied for, denied, declined or not taken, withdrawn, cancelled or benefits changed. The Company uses an application form that includes travel related questions.

The Company identified whole life, universal life, term life and annuity products maintained on one policy administration system written in the State of Florida as subject to Section 626.9541(dd), Florida Statutes.

COMPLETENESS AND ACCURACY TEST

A statistical sample of applications was examined from the "All Applications" data set. Denied and cancelled/rescinded applications were not be included in the data set but were reviewed during the sample selection.

ANTI-FRAUD PLAN

The Company submits electronic Anti-Fraud Plan/SIU Description filings to the Florida Department of Financial Services, Division of Fraud. The Company's filings for the examination period through the current date were reviewed. All Anti-Fraud Plan and SIU description filings reviewed were found to be complete with respect to the requirements of 626.9891(3) Florida Statutes.

There were no instances of fraud reported to the State of Florida Department of Financial Services Division of Fraud during 2012.

REINSURANCE AGREEMENTS REVIEW

The Company's reinsurance agreements in place during the examination period were reviewed to verify if any of the reinsurance agreements placed limitations on coverage as a result of an applicant's reported past lawful travel or future lawful foreign travel plans or the applicant's place of birth.

Reinsurance agreements include an eligibility provision for automatic reinsurance requiring each insured to be either a U.S. or Canadian citizen, or permanent resident. Reinsurance agreements do not contain provisions placing limitations due to foreign travel. The reinsurer relies upon the Company's underwriting standards which apply underwriting valuation factors based on purpose of travel, length of stay, and travel destination.

EXAMINATION FINAL REPORT SUBMISSION

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.