



# **THE STATE OF NORTH DAKOTA**

**NORTH DAKOTA INSURANCE DEPARTMENT**

**MULTI-STATE TARGETED MARKET CONDUCT  
REPORT OF EXAMINATION**

**OF**

**STATE FARM LIFE INSURANCE COMPANY**

**STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY**

**AND**

**STATE FARM ANNUITY AND LIFE INSURANCE COMPANY**

**AND THEIR IMPLEMENTATION OF REQUIREMENTS UNDER THE  
JANUARY 22, 2018 REGULATORY SETTLEMENT AGREEMENT**

**ISSUED May 23, 2023**

**NAIC COMPANY CODES: 69108, 69094, 94498**

**NAIC GROUP CODE: 176**

## TABLE OF CONTENTS

INTRODUCTION .....	3
SCOPE OF EXAMINATION.....	4
EXAMINATION SUMMARY .....	5
RECOMMENDATIONS.....	12
EXAMINATION FINAL REPORT SUBMISSION.....	13
APPENDIX A.....	14

## INTRODUCTION

A Regulatory Settlement Agreement ("Agreement" or "RSA") dated January 22, 2018 was entered into by and between State Farm Life Insurance Company, State Farm Life and Accident Assurance Company, and State Farm Annuity and Life Insurance Company (now known as State Farm Health Insurance Company) (collectively "State Farm", "Company" or the "Companies") and the North Dakota Insurance Department ("Department" or "Managing Lead State"), California Department of Insurance, Connecticut Department of Insurance, Florida Office of Insurance Regulation, New Hampshire Insurance Department and Pennsylvania Insurance Department (collectively the "Lead States"). An additional 40 jurisdictions signed the Agreement as Participating Jurisdictions (Appendix A).

The Agreement required the Companies to implement certain corrective action steps, including but not limited to, their settlement practices, procedures and policy administration relating to claims and the use of the Social Security Death Master File ("DMF") or similar database or service, including the Companies' efforts to identify the owners and beneficiaries of unclaimed proceeds; regarding the adequacy of the Companies' policies and procedures to ensure that life insurance policies, annuities and Retained Asset Accounts are paid timely to beneficiaries and are reported timely or remitted to the respective jurisdiction in accordance with the Unclaimed Property Laws and the Insurance Laws (collectively known as "RSA Requirements") of each jurisdiction.

## SCOPE OF EXAMINATION

The North Dakota Insurance Department as one of the Lead States conducted a targeted market conduct multistate examination (“Examination”) of State Farm pursuant to Sections 26.1-03-19.2 and 26.1-03-19.3, North Dakota Statutes. The Examination period was January 22, 2018 through March 31, 2021 (“Examination Period”). The Examination began on May 4, 2021 and fieldwork ended on November 30, 2021.

The objectives of the Examination were to determine the Companies' compliance with the RSA requirements. The Examination was called pursuant to Section 4b, Regulatory Oversight in the Agreement. The Examination was conducted under the direction, management and control of representatives of the Managing Lead State. Representatives from the firm of Risk & Regulatory Consulting, LLC (“RRC” or “Examiners”) were engaged in the Examination in their capacity as market conduct examiners. RRC provided no representations regarding questions of legal interpretation or opinion. Determination of findings constituting violations or potential violations is the sole responsibility of the Lead States. All statutory citations, case law or any other legal opinions or interpretations included herein are provided by the Lead States for inclusion in this examination report (“Report”).

The Lead States considered a “finding” to be a violation of or noncompliance with the Agreement. All unacceptable or non-compliant practices may not have been discovered or noted in this examination report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions.

In order to assess the Companies’ compliance with the terms of the Agreement, a tailored examination approach was developed using the RSA requirements as the examination standards. The examination included:

- 1) A review of State Farm’s written policies and procedures and administrative forms applicable to the requirements set forth in section 2, Business Reforms of the RSA;
- 2) A review of State Farm’s quarterly reports provided pursuant to paragraph 4.a of the RSA;
- 3) A review of a sample of transactions occurring during the period of January 22, 2018 through March 31, 2021, reported by State Farm to evaluate compliance with the prescribed Business Reforms in paragraph 2 of the RSA;
- 4) A review of the technology-related changes as part of the Companies’ response to the RSA.

## EXAMINATION SUMMARY

Upon review of the operations, policies and procedures, Business Reforms and newly implemented processes, the Companies continue to make noticeable progress in meeting the standards established in the RSA.

Section 1 of the RSA includes Defined Terms that define certain terms in the Agreement not otherwise defined in other sections of the RSA. A term that is referenced throughout the RSA is the term “Thorough Search”. In Section 1 of the RSA, the definition of a Thorough Search details specific actions to be taken by the Companies to identify, locate and contact the beneficiaries of a life insurance policy (“Policy”), retained asset account, or annuity contract after receiving a date of death notice that indicates that the insured has been reported as deceased.

Section 2 of the RSA titled “Business Reforms” details the specific policies and procedures the Companies were required to implement to comply with the terms of the RSA. The following summarizes the requirements of Section 2 of the RSA and the results of the review. The paragraph numbers match those in the RSA.

2.a **Requirement:** Subject to Schedule B, if the Company is not contacted by a Beneficiary within one hundred twenty (120) days of the Date of Death Notice, the Company shall promptly commence a Thorough Search, which shall be completed within one (1) year from the Date of Death Notice. At the conclusion of that one (1) year period, if (i) the Beneficiary cannot be located by a Thorough Search, and (ii) the Company is unable to establish an Exception, it shall report and remit the death benefit proceeds as Unclaimed Property to the affected jurisdiction(s) in accordance with the applicable Unclaimed Property Laws following the expiration of three (3) or five (5) years from the Date of Death as appropriate; provided, however, that in the event that the Date of Death Notice either is less than a year before, or is after, the expiration of three (3) or five (5) years from the Date of Death as appropriate, then it is not a violation of this Agreement for the Company to report and remit the death benefit following the Thorough Search.

**Finding:** Regarding testing of the Pended Claims sample, the Examiners identified that in three (3) of the 60 claims, the Company did not complete a Thorough Search within one (1) year from the Date of Death Notice. Additionally, the Companies did not promptly commence a Thorough Search when the Company was not contacted by a Beneficiary within one hundred twenty (120) days of the Date of Death Notice for four (4) of the 60 claims. For these four claims, the Company commenced the Thorough Search more than thirty (30) days after the 120 day period. There were five (5) unique claims involved with these seven (7) errors identified resulting in an error rate of 8.33%

Regarding testing of the Deemed Abandoned Claim sample, the Examiners found that in two (2) of the 12 claims (16.7%) the Companies did not promptly commence a Thorough Search when the Company was not contacted by a Beneficiary within one hundred twenty (120) days of the Date of Death Notice. For these two claims, the Company commenced the Thorough Search more than thirty (30) days after the 120 day period.

The error rate for testing of Pended Claims and Deemed Abandoned Claims exceeds the 7

percent tolerance level specified in the Market Regulation Handbook for claims. As a result, the Companies do not appear to be in compliance with Section 2.a of the RSA. The Examiners note that the issue may arise, in large part, from confusion as to when the Date of Death Notice (the event triggering the 120 day period) occurs. See, *infra*, Section 2e (regarding difference between date of notice and date of confirmation).

Subsequent to the Examiners identifying this Finding, the Company provided modified versions of the Company's policies and procedures to the Examiners to address this Finding.

- 2.b. **Requirement:** For the sole purpose of this Agreement, the Company, within the time period in Schedule B, shall implement policies and procedures requiring the Company to initiate its death claims process and conduct a Thorough Search upon Date of Death Notice. Nothing herein is intended nor shall be deemed to determine the requirements for establishing proof of death for any other purpose, or to confer any rights on any party other than the Company and the Departments.

**Finding:** While the Company's procedures describe a fairly robust search process to locate the Beneficiary, the Company did not implement procedures within the time period in Schedule B that specified that three (3) letters must be sent, three (3) phone calls must be attempted and one (1) email must be attempted in accordance with the Thorough Search requirements of the RSA. The Company's procedures also do not specify that the Thorough Search process will commence upon notice of death as defined by the RSA. As a result, the Companies do not appear to be in compliance with Section 2.b of the RSA.

Subsequent to the Examiners identifying this Finding, the Company provided modified versions of the Company's policies and procedures to the Examiners to address this Finding.

- 2.c. **Requirement:** In the event that a line of business conducts checks of its Policyholders against the DMF for Death Master File matches at intervals more frequent than those provided for in this Agreement and such Death Master File Match results in action being taken with respect to a Policy, Annuity Contract, or Retained Asset Account, then that line of business shall share the relevant Policyholder information among applicable lines of business.

**Observation:** The Companies implemented procedures for sharing relevant policyholder information among applicable lines of business. No issues were identified.

- 2.d. **Requirement:** In the event that the Company locates the Beneficiary following a Thorough Search, the Company shall provide the appropriate claims forms or instructions, if required, to the Beneficiary to make a claim, including instructions as to the need to provide an official death certificate if consistent with law and the Policy, Annuity Contract, or Retained Asset Account. The Company reserves the right to require satisfactory confirmation of death, including a death certificate, as due proof of death, before Proceeds are paid to a Beneficiary or a Beneficiary's legal or properly designated representative if consistent with law and the Policy, Annuity Contract, or Retained Asset Account. Nothing

in this Agreement shall be construed to supersede the Company's obligation to maintain effective procedures and resources to deter and investigate fraudulent insurance acts as required by applicable law.

**Observation:** The Companies implemented procedures for providing the appropriate claim forms or instructions, if required. No issues were identified.

- 2.e. **Requirement:** The Company shall implement policies and procedures for conducting a Thorough Search. That obligation shall not abrogate the obligation of the Company to complete any unclaimed property law due diligence requirements within the timeframe required by any applicable law.

**Finding:** While the Company's procedures describe a fairly robust search process to locate the Beneficiary, the procedures do not specify that three (3) letters must be sent, three (3) phone calls must be attempted and one (1) email must be attempted in accordance with the Thorough Search requirements of the RSA.

The Company appears to be using the incorrect "Date of Death Notice" as defined in the RSA which impacts the Company's compliance with promptly commencing a Thorough Search and completing a Thorough Search timely. The "Match Date" included in the Pended Claim and Deemed Abandoned data provided appears to be when the death of the insured/annuitant was *confirmed* by the Company. This date appears to be approximately 60 days after the date when the Company was originally *notified* of the death via SSDMF.

As a result, the Companies do not appear to be in compliance with Section 2.e of the RSA.

Subsequent to the Examiners identifying this Finding, the Company provided modified versions of the Company's policies and procedures to the Examiners to address this Finding.

- 2.f. **Requirement:** To the extent permitted under applicable law, the Company may disclose the minimum necessary personal information about a Policyholder or Beneficiary to a person whom the Company reasonably believes may be able to assist the Company locate the Policyholder or Beneficiary or a person otherwise entitled to payment of the claims Proceeds, provided however, the Company shall not implement policies or practices that will or may diminish the rights, amounts of benefits due to Beneficiaries under the terms of its Policies, Annuity Contracts, or Retained Asset Accounts.

**Observation:** The Companies implemented policies and procedures for handling personal information. The Companies have been handling personal information appropriately. No issues were identified.

- 2.g. **Requirement:** The Company shall conduct a Thorough Search for group life insurance policies, where the Company is providing Recordkeeping services, including group life insurance certificates issued thereunder, where a group life insurance claim is received for which the Company, from information in its administrative systems and/or the group policy claim form, is able to determine that a benefit is due and is able to determine the benefit

amount, but the beneficiary cannot be identified and/or located.

**Observation:** The Companies have implemented policies and procedures for conducting Thorough Searches for group life certificates. There were no group policies included in the populations of Pended Claims and Deemed Abandoned Claims tested. As a result, there were no issues were identified.

2.h. **Requirement:** The Company shall establish policies and procedures to ensure that:

i. The Company sends at least two (2) letters to an Annuity Contract Owner notifying the Annuity Contract Owner of the upcoming Maturity Date, stating that the Annuity Contract will be annuitized following the Maturity Date if no response is received, and identifying any alternatives to annuitization available (e.g., extension of the Maturity Date; surrender of the Contract). The first letter should be sent no later than sixty (60) days prior to the Maturity Date. The second letter should be sent no later than thirty (30) days prior to the Maturity Date. The letters do not have to be sent if the Company has established an Exception;

ii. The Company shall commence a Thorough Search for the Annuity Contract Owner if the letters described in subparagraph i. are returned as undeliverable;

iii. An affirmative request by an Annuity Contract Owner or legal or properly designated representative or action with respect to the Annuity Contract that is inconsistent with an intent to annuitize (as defined in Section 1(p)) will be required by the Company before a Maturity Date is extended, and such request will be recorded in the Company's books and records;

iv. The Annuity Contract is annuitized as soon as practicable, but in no event more than sixty (60) days following the Maturity Date, if the Company has a valid address for the Annuity Contract Owner and no response is received to the letters described in subparagraph (i) above;

v. If a Thorough Search for the Annuity Contract Owner is unsuccessful, or if annuity payments for an Annuity Contract that has been annuitized under paragraph (iv) above are not deposited within one (1) year, the Proceeds will be reported and remitted as Unclaimed Property to the affected jurisdiction(s) in accordance with the applicable Unclaimed Property Laws, if the Company is unable to establish an Exception. The Company shall report and remit the Proceeds to the affected jurisdiction(s) in accordance with applicable Unclaimed Property Laws following the expiration of three (3) or five (5) years, as appropriate, from the Maturity Date of annuitization payment;

vi. The provisions described in (i)-(v) above shall not apply to any Annuity Contract for which the Maturity Date was deferred as a result of the project the Company undertook beginning in February 2011 to contact Annuity Contract Owners whose Annuity Contracts were past their maturity dates; provided, however, that if the Maturity Date of any such contract was deferred as a result of



the Annuity Contract Owner's non-response to a communication issued in connection with the project, the Company shall send a notice to the Annuity Contract Owner of the deferred Maturity Date on no less than an annual basis that includes the current annuity commencement date reflected in the Company's Records and tells the Annuity Contract Owner to contact the Company if the Annuity Contract Owner wishes to change such date. Further, the provisions described in (i)-(v) above shall apply to all Annuity Contracts included in the project beginning no later than sixty (60) days prior to the new Maturity Date set as a result of the project;

vii. The provisions described in (i)-(v) above will not apply to Annuity Contracts held within ERISA or other tax-qualified plans, Individual Retirement Annuities, or Annuity Contracts held in Individual Retirement Accounts.

**Finding:** The policies and procedures in effect as of January 22, 2018 related to Section 2.h.i stated that the maturity letters are sent at sixty (60) and twenty-one (21) days prior to maturity. Sending the second letter 21 days prior to maturity is not compliant with the 30 day period specified in RSA section 2.h.i. The Company acknowledged that the second letter was not sent timely and have implemented system updates to resolve this issue as of May 2020.

Additionally, the policies and procedures indicate that annuity maturity letters are sent to the annuitant based on the "final annuity date" which is a date subsequent to the "annuity date" specified on the Policy Page. The "final annuity date" can be 10 to 25 years subsequent to the "annuity date" specified in the Schedule of Benefits Policy Page. Based on the RSA's definition of "Maturity Date," the Company should be using the "annuity date" specified on the Schedule of Benefits Policy Page unless the Company can provide evidence that the insured elected to extend the maturity date. This differs from the current process used by the Company when sending out maturity notice letters using the "final annuity date". As a result, this process does not support compliance with Section 2.h of the RSA.

Subsequent to the Examiners identifying this Finding, the Company provided modified versions of the Company's policies and procedures to the Examiners to address this Finding.

2.i **Requirement:** The Company shall apply the following Business Reforms to the use of Retained Asset Accounts:

i. Ensure that all Retained Asset Accounts are monitored for inactivity and each [Accountholder] is notified that the failure of an Accountholder to make a withdrawal from the account or to respond to communications from the Company may cause the account to be declared dormant and subject to escheat based on the last documented contact with the Accountholder or the Accountholder's legal or properly designated representative, subject to Schedule B.

ii. The value of the Retained Asset Account(s) shall be the value of the account as of the date the property is paid to the party determined to be the owner of the account or reported and remitted to the affected jurisdiction(s).

iii. Subject to Schedule B, a Thorough Search for a Beneficiary of a Retained Asset Account or an Accountholder, as appropriate, shall commence no later than two (2) years (in the case of a three (3)-year dormancy period) or four (4) years (in the case of a five (5)-year dormancy period) following the later of (i) the date that the Accountholder last initiated a financial or administrative transaction or (ii) the date of the last Accountholder-authenticated response to the Company that is documented on the Company's books and records. In the event that the Company is unable to locate a Beneficiary or Accountholder and is unable to establish an Exception within one (1) year after the commencement of the Thorough Search, it shall report and remit the Proceeds of the Retained Asset Account as Unclaimed Property to the affected jurisdiction(s) in accordance with applicable Unclaimed Property Laws following the expiration of three (3) or five (5) years from (i) the date that the Accountholder last initiated a financial or administrative transaction or (ii) the date of the last Accountholder-authenticated response to the Company that is documented on the Company's books and records.

**Finding:** While the Company's procedures describe a fairly robust search process to locate the Beneficiary, the procedures do not specify that three (3) letters must be sent, three (3) phone calls must be attempted and one (1) email must be attempted in accordance with the Thorough Search requirements of the RSA. Additionally, the Company's procedures do not specify that the Thorough Search process shall commence no later than two (2) or four (4) years following the date of the last financial or administrative transaction or the last authenticated response from customer as specified in the RSA. As a result, the Companies do not appear to be in compliance with Section 2.i of the RSA. Effective October 1, 2020, the Company no longer utilizes retained asset accounts as it exited the banking business and dissolved State Farm Bank.

Subsequent to the Examiners identifying this Finding, the Company provided modified versions of the Company's policies and procedures to the Examiners to address this Finding.

2.j. **Requirement:** No later than the time of delivery of a Policy or Annuity Contract or establishment of a Retained Asset Account, and upon any change of a Policyholder or Beneficiary, the Company shall request information sufficient to ensure that all benefits are paid to Beneficiaries upon the death of the Policyholder, including, at a minimum, the name, address, social security number and telephone number of every Policyholder and Beneficiary of such Policy, Annuity Contract or Retained Asset Account, as applicable.

**Finding:** Seven (7) of the documents supplied by the Company with regard to this subsection did not contain a place to provide all the information specified. The missing information included phone number for insured, Social Security Number for beneficiary, and address of beneficiary. As a result, the Companies do not appear to be in compliance with Section 2.j of the RSA. The Company acknowledged the seven (7) documents that

were missing a place to request all information specified within this Section of the RSA. Subsequent to the Examiners identifying this Finding, the Company provided modified versions of the forms to the Examiners to address this Finding.

The Examiners inspection of certain Information Technology (IT)-related documentation associated with the RSA focused on the Companies' procedures and technologies asserted to be in-place for the purposes of supporting ongoing compliance with the RSA.

Examination procedures revealed that the Company had implemented a third-party relationship to support its updated procedures relative to meeting the requirements of the RSA.

Based on the procedures performed during this focused IT review of the Companies' technical approach to RSA compliance, it was concluded that the Companies appears to have adequate technology and supporting technical procedures in-place to adequately support its ongoing RSA compliance efforts.

## RECOMMENDATIONS

The recommendations made below identify corrective measures the Lead States find necessary as a result of the findings in the Report.

1. That the Companies conduct additional training to ensure compliance with RSA Section 2 §§ a, b, e and h within 60 days of the issuance of the final examination report. The additional training should include, but not be limited to, how to maintain documentation of all Thorough Search activities, ensuring that the Thorough Search is commenced timely and ensuring that all Thorough Search activities are completed within one (1) year of the Date of Death Notice to comply with RSA Section 2 §§ a, b, e and h.
2. That the Companies establish and implement a self-monitoring program, which includes Internal Audit, to ensure compliance with RSA Section 2 §§ a, b, e and h within 60 days of the issuance of the final examination report.
3. That the Companies provide the Lead States the additional procedures, documentation of additional training and details of the self-monitoring program within 90 days of the issuance of the final examination report to support compliance with RSA Section 2 §§ a, b, e and h.
4. That the Companies submit to the Lead States quarterly reports showing the results of all corrective action performed to address the findings included in this Report. The Lead States further recommend that the Companies provide a total of four (4) quarterly reports to the Lead States, with the first quarterly report submitted to the Lead States within 90 days of the issuance of the final examination report and the remaining quarterly reports submitted to the Lead States no later than 45 days after each quarter end.

## **EXAMINATION FINAL REPORT SUBMISSION**

The North Dakota Insurance Department hereby issues this Final Report based upon information from the examiner's draft report, additional research conducted by the Managing Lead State, and additional information provided by the Company.

## APPENDIX A

<b>Participating Jurisdictions</b>	
Alabama	Mississippi
Alaska	Missouri
Arizona	Montana
Arkansas	Nevada
California	New Hampshire
Colorado	New Jersey
Connecticut	North Carolina
Delaware	North Dakota
District of Columbia	Ohio
Florida	Oklahoma
Georgia	Oregon
Hawaii	Pennsylvania
Idaho	Rhode Island
Illinois	South Carolina
Indiana	South Dakota
Iowa	Tennessee
Kansas	Texas
Kentucky	Utah
Louisiana	Vermont
Maine	Virginia
Maryland	Washington
Michigan	West Virginia
Minnesota	Wyoming

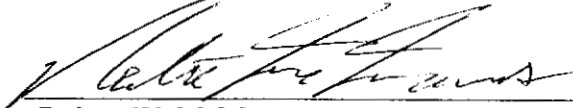
North Dakota Insurance Department  
Market Conduct Examination  
State Farm Life Insurance Company  
State Farm Life and Accident Assurance Company  
State Farm Annuity and Life Insurance Company

## AFFIDAVIT

STATE OF MINNESOTA

COUNTY OF CARVER

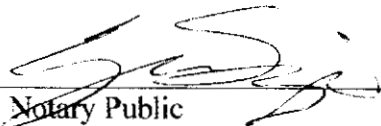
Robert W. McManus, of lawful age, being first duly sworn, upon oath state that I have been charged with examining State Farm Life Insurance Company, State Farm Life and Accident Assurance Company and State Farm Annuity and Life Insurance Company, as of May 23, 2023. I have prepared and read the foregoing Report of Market Conduct Examination, that I am knowledgeable of the matters set forth therein, and I certify the Report is true and complete to the best of my knowledge and belief.

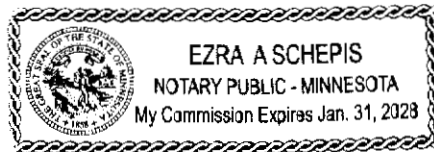
  
Robert W. McManus

Subscribed and sworn before me by Robert W. McManus

On this 23<sup>rd</sup> day of May, 2023.

[SEAL]

  
Notary Public



My commission Expires: 1.31.2028

---