

REPORT ON
MARKET CONDUCT EXAMINATION

of the

SAFECO INSURANCE COMPANY OF AMERICA
AMERICAN STATES PREFERRED INSURANCE COMPANY

Boston, Massachusetts

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

March 1, 2011

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Raleigh, North Carolina
March 1, 2011

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Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a general examination has been made of the market conduct activities of

**SAFECO INSURANCE COMPANY OF AMERICA
(NAIC #24740)
AMERICAN STATES PREFERRED INSURANCE COMPANY
(NAIC #37214)**

NAIC Exam Tracking System Exam Number: NC170-M54
Boston, Massachusetts

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of SAFECO Insurance Company of America and American States Preferred Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This examination commenced on October 26, 2009 and covered the period of January 1, 2006 through December 31, 2008 with analyses of certain operations of the Company being conducted through February 21, 2011. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, underwriting and rating, terminations, and claims practices.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

Policyholder Treatment – did not include Company’s National Association of Insurance Commissioner’s Code number on responses to consumer complaints.

Underwriting and Rating – accepted applications from producers not appointed for private passenger automobile, homeowners and dwelling fire; rating errors for private passenger automobile, homeowners and dwelling fire; use of an un-filed consent to rate form; renewal policies not stating physical damage premiums greater than the manual premiums and incorrect calculation of recoupment surcharge for private passenger automobile.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “NCDOI DIVISIONS” then “Legislative Services”.

This examination identified various non-compliant practices. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company’s practices and ensure consumer protection.

COMPANY OVERVIEW

History and Profile

SAFECO Insurance Company of America was incorporated on September 2, 1953 in the State of Washington. Operations were conducted under the corporate name of Selective

Auto and Fire Insurance Company of America until November 2, 1953, at which time the present name was adopted. Since January 1, 1973, all outstanding capital stock has been held by SAFECO Corporation. SAFECO Corporation acquired ownership from its subsidiary, General Insurance Company of America.

On September 22, 2008, Liberty Mutual Group acquired control of SAFECO Corporation, which is the parent of SAFECO Insurance Company of America.

American States Preferred Insurance Company was incorporated on July 26, 1979 in the State of Indiana as American Preferred Insurance Company of Indiana. It was a wholly owned subsidiary of American States Insurance Company. The Company was formed to act as the vehicle for the redomestication of American Preferred Insurance Company from Kansas to Indiana. On June 30, 1980, American Preferred Insurance Company (the Kansas company) merged with and into the Company. The Company changed its name to American Preferred Insurance Company on August 11, 1980 and to American States Preferred Insurance Company on February 13, 1988.

On October 1, 1997, SAFECO Corporation acquired control of American States Financial Corporation, which was the ultimate controlling parent of the Company. Effective September 22, 2008, Liberty Mutual Group acquired control of SAFECO Corporation, which was the ultimate controlling parent of American States Preferred Insurance Company.

Company Operations and Management

The companies are multiple writers of personal and commercial insurance coverages. SAFECO Insurance Company of America is licensed in the District of Columbia, Guam and all 50 states. American States Insurance Company is licensed in the District of Columbia and 41 states.

Direct written premium for the Company's 2008 countrywide property and casualty operations was \$2,004,504,888. North Carolina's production for the same period was

\$30,663,639. Premiums written in North Carolina between 2006 and 2008 increased approximately 10.2 percent. The charts below outline the Company's mix of business for selected lines in 2008 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Private Passenger Automobile	\$18,615,915	60.7
Surety	5,777,701	18.8
Homeowners	4,345,207	14.2
Commercial Multiple Peril	564,070	1.8
Fire	387,238	1.3
Other	973,508	3.2
Total	\$30,663,639	100.0

Year	Written Premium	Earned Premium	Incurred Losses*	Loss Ratio
2006	\$27,825,125	\$28,143,421	\$13,097,858	46.5
2007	\$31,152,455	\$30,261,257	\$18,382,069	60.7
2008	\$30,663,640	\$30,840,184	\$16,576,951	53.8
* Does not include IBNRs				

Certificates of Authority

The Certificates of Authority issued to the Company were reviewed for the period under examination. These certificates were reviewed to determine compliance with the provisions of NCGS 58-7-15. The Company's writings in North Carolina were deemed to be in compliance with the authority granted.

Disaster Recovery Procedures

A Corporate Information's Systems disaster recovery coordinator is responsible for the overall systems recovery planning, scheduling tests and recommending changes to systems recovery contracts, equipment and procedures in order to meet changing recovery needs and to take advantage of new recovery options and techniques.

The Company's strategic business units and their Business Unit Chief Information Officer updates lists of "critical" office locations and "critical" applications twice per year. These "critical" locations and applications are those essential to the Company's financial condition and/or its ability to deliver core products and services to customers.

Each Company office has an emergency response plan; all Company strategic business units have business continuity plans to continue their critical business operations and processes following a disaster or crises event. Plans cover both physical and technology recovery. Critical customer services, such as insurance claims handling and coverage verification, function at multiple regional sites that back one another up.

Back up tapes are sent on a daily basis offsite to a secure location where they are stored in tape racks in a climate controlled secured area.

The Company maintains corporate data centers in Portsmouth, New Hampshire and Kansas City, Missouri that jointly support the Company's computer systems and network. An outage of one data center permits the other to provide recovery of "critical" applications and service to all locations.

Rate Evasion Procedures

The Company has established procedures to address nonfleet private passenger automobile insurance rate evasion fraud by identifying any ineligible risk as defined in NCGS 58-37-1(4a) and verifying residency of the policyholder who owns a motor vehicle registered or principally garaged in North Carolina. The Company was found to be in compliance with the provisions of NCGS 58-2-164.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Company's complaint register for the period under examination was in compliance with the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. Fifty of the 53 complaints contained in the Department's listing were randomly selected and received for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	28
Administrative	11
Underwriting	11
Total	50

The Company's response to each complaint was deemed to be appropriate to the circumstances. The average service time to respond to a Departmental complaint was 3.0 calendar days.

Service Days	Number of Files	Percentage of Total
1 - 7	49	98.0
8 - 14	1*	2.0
Total	50	100.0

*extension granted and met.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as the Company's NAIC code did not appear on 7 (14.0 percent error ratio) of the written responses to Departmental inquiries.

Privacy of Financial and Health Information

The Company provided privacy of financial and health information documentation for the examiners' review. The Company exhibited policies and procedures in place so that nonpublic personal financial or health information is not disclosed unless the customer or consumer has

authorized the disclosure. The Company was found to be compliant with the provisions of NCGS 58-39-25, 58-39-26 and 58-39-27.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. Emphasis of the review was placed on the following lines of business:

1. Private Passenger Automobile
2. Homeowners
3. Dwelling Fire

Filings for private passenger automobile, homeowners and dwelling fire lines of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for these lines of business were made to the Department by the Company.

Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15.

Sales and advertising practices are developed and monitored by the Company's Marketing Department located in the home office. The examiners reviewed advertisements, bulletins and brochures that are provided to producers for promotional use. The Company also maintains an internet site: <http://www.SAFECO.com>. This website provides background information relative to its operations, as well as products and services offered.

No unfair or deceptive trade practices were noted in this segment of the examination.

Producer Licensing

The Company's procedures for appointment and termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules. Fifty

appointed and 50 terminated producer files were randomly selected and received for review from populations of 1,880 and 711 respectively.

The Company was reminded of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(h) as it was unable to provide documentation to support the notice to the Department for 3 terminated producer files (6.0 percent error ratio).

All appointment and termination forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40 and 58-33-56.

Agency Management

The Company's marketing efforts in North Carolina is managed by the Regional Manager located in Charlotte, North Carolina.

The Company is currently represented by 2,366 producers (677 agencies) for American States Preferred Insurance Company and 4,778 producers (942 agencies) for SAFECO Insurance Company of America. Producers are managed by territorial managers and reviews are made by regional operations twice a year, utilizing management level underwriting and claims personnel.

Agencies can qualify for a profit sharing contingency based upon size, growth and profitability. If an agency is not profitable, the agency will not earn a contingency.

UNDERWRITING AND RATING

Overview

The Company's marketing philosophy in North Carolina focuses on personal lines of business. The Company provided the examiners with listings of the following types of active policies for the period under examination:

1. Private Passenger Automobile
2. Homeowners
3. Dwelling Fire

A random selection of 200 policies was made from a total population of 21,202. Each policy was reviewed for adherence to underwriting guidelines, file documentation and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

Private Passenger Automobile

The Company provided a listing of 17,432 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review.

The Company's private passenger automobile coverages were written utilizing manual and deviated rates. Policies were written on a 6 month basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 10 private passenger automobile applications reviewed (10.0 percent error ratio) were accepted from a producer not appointed by the Company.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) and NCGS 58-37-35(l) as 24 of the active private passenger automobile policies reviewed contained rating errors (24.0 percent error ratio). Errors referenced:

- Incorrect Safe Driver Incentive Plan (SDIP) points charged (2)
- Incorrect calculation of SDIP surcharge (13)
- Incorrect edition of base rates applied (2)
- Incorrect increased limit of liability factors applied (5)
- Incorrect inexperienced operator surcharge applied (3)

- Incorrect territory applied on (1)
- Commercial rate applied in lieu of private passenger rate on (1)

The rating errors resulted in 7 overcharges and 17 undercharges to the insureds. At the request of the examiners, refunds in the amount of 1,506.96 were returned to the policyholders prior to the conclusion of the examination.

Due to the incorrect calculation of the SDIP surcharge and incorrect edition of base rates, the examiners requested the Company conduct a self audit. The Company identified an additional 2,455 policies that resulted in overcharges in the amount of \$629,573.37. All refunds were issued to the policyholders prior to the conclusion of the examination.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-55 and 11 NCAC 10.1201(c) as it's consent to rate form had not been filed by the Company and approved by the Department.

The Company was reminded of the provisions of 11 NCAC 10.0602 as 2 files reviewed (2.0 percent error ratio) did not contain a signed consent to rate form.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(b) as renewal policies containing consent to rate physical damage coverages did not contain a statement that the rates are greater than those rates that are applicable in the State of North Carolina.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-40(f) as the recoupment surcharge was based on deviated liability for 31 active private passenger automobile policies reviewed (31.0 percent error ratio).

The Company was reminded of the provisions of 11 NCAC 10.0602(a)(2) as 1 consent to rate form (1.0 percent error ratio) did not contain the rate and premium that would be charged without application of consent to rate.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106 as 3 files reviewed (3.0 percent error ratio) did not contain a copy of the UM/UIM selection/rejection form.

Homeowners

The Company provided a listing of 3,437 active homeowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's homeowners coverages were written utilizing manual and deviated rates. Policies were written on an annual basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 10 homeowners applications reviewed (20.0 percent error ratio) were accepted from a producer not appointed by the Company.

The Company was deemed to be in apparent violation of NCGS 58-36-30(a) as 26 of the active homeowner policies reviewed (52.0 percent error ratio) contained rating errors.

Errors referenced:

- Three policies written on Form 4 – Tenant Homeowners – premium charge incorrect – undercharges.
- All policies reviewed with the “Specified Additional Amount of Insurance for Coverage A only” 25 percent option (form HO 3 only), coverage was calculated incorrectly - overcharges.

The rating errors resulted in 23 overcharges and 3 undercharges to the insureds. At the request of the examiners, refunds in the amount of \$1,223.00 were returned to the policyholders prior to the conclusion of the examination.

Due to the “Specified Additional Amount of Insurance for Coverage A only” error, the Department requested the Company to conduct a self audit. This self audit is for the period of

January 1, 2006 through November 12, 2009, the date the Company indicated a correction was made in their rating system. The Company identified an additional 8,234 policies that resulted in overcharges in the amount of \$362,243.10. All refunds were issued to the policyholders prior to the conclusion of the examination.

Dwelling Fire

The Company provided a listing of 333 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's dwelling fire coverages were written utilizing manual and deviated rates. Policies were written on an annual basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 8 dwelling fire applications reviewed (16.0 percent error ratio) were accepted from a producer not appointed by the Company.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 6 of the active dwelling fire policies reviewed contained rating errors (12.0 percent error ratio). Errors referenced:

- Use of incorrect territory (5)
- Use of incorrect protection class (1)

The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50 as it did not utilize liability rates that had been filed independently by reference on the date the Department had approved for use. An upward rate adjustment was approved for use effective April 5, 2007. The Company did not implement until July 7, 2008.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(b) as it did not utilize its independent liability/medical payments Market Tier Relativities filed

by the Company and approved by the Department for use effective April 5, 2007. This, a rating plan based upon various risk characteristics, can produce premium credits on certain policies. The Company did not implement until July 7, 2008. Twenty-nine policies with effective dates as mentioned above were reviewed – 6 policies qualified for a premium credit.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30 as it did not utilize its deviation filing for property Market Tier Relativities filed by the Company and approved by the Department effective April 5, 2007. This rating plan, based upon various risk characteristics, can produce premium credits on certain policies. The Company did not implement until July 7, 2008. Twenty-nine policies with effective dates as mentioned above were reviewed – 6 policies qualified for a premium credit.

The rating and filing errors resulted in 7 premium overcharges and 24 premium undercharges to the insureds. At the request of the examiners, refunds in the amount of \$869.00 were returned to the policyholders prior to the conclusion of the examination.

Due to the Company not utilizing their independently filed liability/medical payments Market Tier Relativities and deviation filing for Market Tier Relativities on the date approved by the Department, the examiners requested the Company conduct a self audit. The Company identified an additional 490 policies that resulted in overcharges totaling \$54,667. Refunds were issued by check or credit given on existing accounts prior to the conclusion of the examination.

TERMINATIONS

Overview

The Company's termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions and the applicable policy manual rules. The review focused on the following lines of business:

1. Private Passenger Automobile
2. Homeowners

3. Dwelling Fire

Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable) and documentation of the policy file.

A total of 21,647 policies were terminated during the period under examination. The examiners randomly selected 350 terminations for review.

Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected and received for review from a population of 16,046.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	51	51.0
Nonpayment of premium	49	49.0
Total	100	100.0

The Company was not required to issue cancellation notices for 51 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 49 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company. The Company sent the North Carolina Notice of Termination Form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverages were cancelled. The Company was deemed to be in compliance with the provisions of NCGS 20-309(e).

Homeowners Cancellations

Fifty cancelled homeowners policies were randomly selected and received for review from a population of 3,764 policies.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	36	72.0
Nonpayment of premium	8	16.0
Adverse underwriting decision	6	12.0
Total	50	100.0

The Company was not required to issue cancellation notices for 36 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 14 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Dwelling Fire Cancellations

Fifty cancelled homeowners policies were randomly selected and received for review from a population of 675 policies.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	42	84.0
Nonpayment of premium	8	16.0
Total	50	100.0

The Company was not required to issue cancellation notices for 42 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 8 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Private Passenger Automobile Nonrenewals

Fifty nonrenewed private passenger automobile policies were randomly selected and received for review from a population of 282.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Producer no longer appointed	43	86.0
Adverse Underwriting Decision	7	14.0
Total	50	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Homeowners Nonrenewals

Fifty nonrenewed homeowners policies were randomly selected and received for review from a population of 751.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Adverse underwriting decision	24	48.0
Producer no longer appointed	26	52.0
Total	50	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The insureds and mortgagees were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Dwelling Fire Nonrenewals

Fifty nonrenewed dwelling fire policies were randomly selected and received for review from a population of 129.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Adverse underwriting decision	15	30.0
Producer no longer appointed	35	70.0
Total	50	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The insureds and mortgagees were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Declinations/Rejections

The Company reported that no applications were declined/rejected during the period under examination.

CLAIMS PRACTICES

Overview

The Company's claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, automobile medical payment, first and third party bodily injury, closed without payment, subrogated, total loss settlement and litigated claims.

The Company's North Carolina claims service is led by the Senior Vice President and Claims Manager located in Aliso Viejo, California. Adjusters handle claims within various field claims offices based on the line of business and complexity of the loss. Comprehensive, collision and clear liability third party property damage are generally handled in the Indianapolis, Indiana or Fenton, Missouri service offices. Auto injury claims are handled by adjusters in Duluth, Georgia or Nashville, Tennessee. Property claims are handled by adjusters reporting to managers in Harrisburg, Pennsylvania or Voorhees, New Jersey. The Company also has property field representatives in North Carolina. Company adjusters are primarily utilized but independent adjusters are used when necessary. Independent adjusters do not have check authority.

The Company's agency force has agents with pay authority up to \$1,500. They adjust glass, towing and collision claims.

Four hundred fifty claims were randomly selected and received for review from a population of 12,564.

Paid Claims

The examiners randomly selected and received 150 of the 8,193 third party property damage, first party automobile physical damage and first party property damage claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation and accuracy of payment.

The following types of claims were reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
Third party property damage	12.1
Automobile physical damage	11.5
First party (excluding automobile physical damage)	8.9

All payments issued by the Company were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

All claim files reviewed contained documentation to support the Company's payments. The documentation consisted of appraisals, estimates, repair bills or inventory listings. The review of paid claims disclosed no apparent violation of the provisions of NCGS 58-63-15.

Automobile Medical Payment Claims

Fifty automobile medical payment claims were randomly selected and received for review from a population of 690. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

First and Third Party Bodily Injury Claims

Fifty first and third party bodily injury claims were randomly selected and received for review from a population of 946. The claim files were reviewed to determine whether the Company had engaged in any unfair claims practices. The review of first and third party bodily injury claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected and received for review from a population of 1,777. The claim files were reviewed to determine if the Company's reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Company's reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 12.2 calendar days for the 3-year period. The review of closed without payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

Subrogated Claims

Fifty subrogated claims were randomly selected and received for review from a population of 290. The claim files were reviewed to determine if the insured's deductible was properly reimbursed by the Company when subrogation was successful.

The insured's deductible was reimbursed where applicable on a 3-year average of 3.7 calendar days from the date the Company collected the monies.

Total Loss Settlement Claims

Fifty total loss settlement claims were randomly selected and received for review from a population of 542. The claim files were reviewed to determine if the settlements were equitable and timely.

The Company primarily used guidebook values and dealer quotes to establish the actual cash value of totaled vehicles. All settlements were deemed equitable. The Company settled all claims in a timely manner. The payments were issued on a 3-year average of 18.6 calendar days. No apparent violations of the provisions of NCGS 58-63-15(11)(h), 11 NCAC 4.0418 or 4.0421 were noted during this review.

Litigated Claims

Fifty litigated claims were randomly selected from a population of 126. The review of litigated claims disclosed no apparent violation of the provisions of NCGS 58-63-15.

SUMMARY

The Market Conduct examination revealed the following:

1. Policyholder Treatment

- a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as it's National Association of Insurance Commissioner's Code did not appear on 14.0 percent of the written responses to Departmental inquiries reviewed.

2. Marketing

- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(h) as it was unable to provide documentation to support the notice of termination to the Department for 6.0 percent of the terminated producer files reviewed.

3. Underwriting and Rating

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 10.0 percent of the private passenger automobile applications reviewed were accepted from a producer not appointed by the Company.
- b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) and 58-37-35(l) as 24.0 percent of the active private passenger automobile policies reviewed contained rating errors.
- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-55 and 11 NCAC 10.1201(c) as the private passenger automobile consent to rate form had not been filed by the Company and approved by the Department.
- d. The Company was reminded of the provisions of 11 NCAC 10.0602 as 2.0 percent of the active private passenger automobile files reviewed did not contain a signed consent to rate form.
- e. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(b) as renewal policies containing consent to rate physical damage coverages did not contain a statement that the rates charged are greater than the rates that are applicable in the State of North Carolina.
- f. The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-40(f) as the recoupment charge was based on deviated liability for 31.0 percent of the active private passenger automobile policies reviewed.
- g. The Company was reminded of the provisions of 11 NCAC 10.0602(a)(2) as the private passenger automobile consent to rate form for 1.0 percent of the policies reviewed did not contain the rate and premium that would be charged without the application of consent to rate.

- h. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106 as 3.0 percent of the active private passenger automobile policies reviewed did not contain a copy of the UM/UIM selection/rejection form.
- i. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 20.0 percent of the homeowners applications reviewed were accepted from a producer not appointed by the Company.
- j. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 52.0 percent of the active homeowners policies reviewed contained rating errors.
- k. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 16.0 percent of the active dwelling fire applications reviewed were accepted from a producer not appointed by the Company.
- l. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 12.0 percent of the active dwelling fire policies reviewed contained rating errors.
- m. The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(b) as it did not utilize liability rates with active dwelling fire policies that had been filed independently by reference on the date the Department had approved for use.
- n. The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(b) as it did not utilize its independent Liability/Medical Payments Market Tier Relativities with active dwelling fire policies filing on the date the Department had approved for use.
- o. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as it did not utilize its dwelling fire deviation filing for Market Tier Relativities on the date the Department had approved for use.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-164	Rate evasion fraud; prevention programs.
NCGS 58-7-15	Kinds of insurance authorized.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination.

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-36-30	Deviations.
NCGS 58-36-55	Policy forms.
NCGS 58-37-1	Definitions.
NCGS 58-37-35	The Facility; functions; administration.
NCGS 58-37-40	Plan of operation.
NCGS 58-39-25	Notice of insurance information practices.
NCGS 58-39-26	Federal privacy disclosure notice requirements.
NCGS 58-39-27	Privacy notice and disclosure requirement exceptions.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
NCGS 20-309	Motor vehicle registration.
11 NCAC 4.0123	Use of Specific Company Name in Responses.
11 NCAC 4.0418	Total Losses on Motor Vehicles.
11 NCAC 4.0421	Handling of Loss and Claim Payments.
11 NCAC 10.0602	Consent to Rate Procedures: Rate Bureau Coverages.
11 NCAC 10.1201	General Requirements.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0106	Records Required for Examination.

CONCLUSION

An examination has been conducted on the market conduct affairs of SAFECO Insurance Company of America and American States Preferred Insurance Company for the period January 1, 2006 through December 31, 2008 with analyses of certain operations of the Company being conducted through February 21, 2011. The Company's response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, marketing, underwriting and rating, terminations and claims practices.

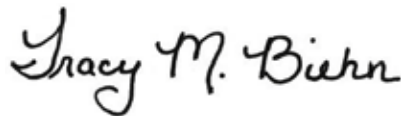
In addition to the undersigned, Gary Jones and Gina Abate, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,



Bill George, AIS
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.



Tracy Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina