

**STATE OF MICHIGAN**

**DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**



**MARKET CONDUCT EXAMINATION**

**NUMBER 2013C-0028**

**October 11, 2013**

***TARGETED MARKET CONDUCT EXAMINATION REPORT***

***OF***

***SAFECO INSURANCE COMPANY OF ILLINOIS***

***BOSTON, MA***

***NAIC COMPANY CODE 39012***

***For the Period January 1, 2011 through December 31, 2011***

## TABLE OF CONTENTS

I. EXECUTIVE SUMMARY .....	1
II. OBJECTIVES, SCOPE AND METHODOLOGY .....	1
III. COMPANY PROFILE .....	3
IV. FINDINGS AND RECOMMENDATIONS .....	3
A. CLAIM HANDLING .....	3
1. Private Passenger Automobile – PIP Lawsuits .....	5
2. Private Passenger Automobile – PIP Claims Closed Without Payment.....	5
V. ACKNOWLEDGEMENT .....	6

## **I. EXECUTIVE SUMMARY**

Pursuant to Executive Order 2013-1, all authority, powers, duties, functions, and responsibilities of the commissioner of the Office of Financial and Insurance Regulation (Commissioner) have been transferred to the Director of the Department of Insurance and Financial Services (DIFS) (Director).

Safeco Insurance Company of Illinois (the Company) is an authorized foreign insurance company. This examination was conducted by DIFS in conformance with the National Association of Insurance Commissioners (NAIC) *Market Regulation Handbook* (2012) (*Handbook*) and the Michigan Insurance Code, MCL 500.100 et. seq. (the Code). The scope of the market conduct examination has been limited to the Company's activities related to the handling of Personal Injury Protection (PIP) claims and lawsuits. The examination covers the period January 1, 2011 through December 31, 2011.

This summary of this targeted market conduct examination of the Company is intended to provide an overview of the examination results. The body of the report provides details of the scope of the examination, findings, DIFS recommendations, and Company responses.

DIFS considers a substantive issue one in which a "finding" or violation of Code was found to have occurred, or one in which corrective action on the part of the Company is deemed advisable.

### **Findings:**

There are no findings.

### **Recommendations:**

There are no recommendations.

### **Company Response:**

No Company response was received.

## **II. OBJECTIVES, SCOPE AND METHODOLOGY**

This report is based on a targeted Market Conduct Examination of Safeco Insurance Company of Illinois. The examination was conducted at DIFS located at 611 W. Ottawa Street, Lansing, MI 48909. The contact for this exam was Sebestyen Martens. DIFS conducted this examination in accordance with statutory authority of MCL 500.222 et seq. All Michigan laws, regulations and bulletins cited in this report may be viewed on the DIFS website at [www.michigan.gov/difs](http://www.michigan.gov/difs).

The purpose of the exam is to evaluate the compliance of the Company with applicable Michigan statutes, NAIC Guidelines and DIFS regulations.

The examination covers the period January 1, 2011 to December 31, 2011. This examination was conducted under the supervision of Regan Johnson, Manager of the Market Conduct Section, and Sherry J. Bass-Pohl, Manager of the Market Conduct Unit. The examination was performed by David A. Haddad, CPCU, MCM, Examiner-in-Charge.

This examination includes reviews of, but not is limited to, the areas of PIP claims and lawsuits. The examination covers the period of January 1, 2011 through December 31, 2011.

The examination was called due to changes in the complaint index.

The examination team sampled Company records in the areas of PIP claims and lawsuits. The analysis and examination of this area was conducted and measured according to the standards and practices in the NAIC *Handbook*, the applicable statutes in the Code, and the Company's internal guidelines and procedures.

Three types of review may have been utilized for the above standards. Certain standards were examined with a single review, and others were examined using one or more type of review. The NAIC *Handbook* calls for a random sample of 100 files when the examination population is greater than 5,000. This statistical sample applies to the Company as follows:

- A. Generic Review: A standard test was applied using analysis of all files written by agents at the specific branch office for the time frame of the examination. The Company provided the general file information as a response to examiner questions.
- B. Sample Review: A "sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the NAIC *Handbook*, Chapter 14. The samples included all files within a specific subgroup. For statistical purposes, an error tolerance of 2.3 percent (2.3%) was used when reviewing annuity suitability samples. The sampling techniques used are based on a 95 percent (95%) confidence level, meaning there is 95 percent (95%) confidence that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. An error rate in excess of the tolerance level in these sections of the report is indicative of a general business practice of engaging in that type of conduct. Note that the statistical error tolerance is not indicative of the actual tolerance of DIFS for deliberate or systematic error.
- C. Census Review: Marketing and sales, as well as complaint files, were not subject to the sampling procedure, as the number of relevant files did not warrant taking a sample. Therefore, every relevant marketing piece and complaint file for the examination period was reviewed by the examination team for compliance with applicable statutes, regulations and internal company guidelines.

This examination report is a report by test. The report contains a summary of pertinent information about the lines of business examined. This includes each NAIC *Handbook* source and Standard, Code citation, any examination findings detailing the non-compliant or problematic activities that were discovered during the course of the exam, the Company response proposing methods for correcting the deficiencies, and recommendation for any further action by DIFS.

### III. COMPANY PROFILE

Safeco Insurance Company of Illinois began operations in 1923, as a Washington-domiciled company. It is a stock company. It was formed through the efforts of Hawthorne K. Dent, who started the General Insurance Company of America in Seattle, Washington. In 2004, the company sold its Life and Investments Division in order to focus attention fully on Property and Casualty insurance, as well as Surety Bonds. In September, 2008, Safeco became part of Liberty Mutual Insurance. It is currently licensed to market its products in 50 states. The Company markets and sells its products through independent agents. Approximately 200 producers are appointed in Michigan. The Company's top lines of business are auto, home, inland marine and umbrella. Its size category is XV, and the Company is rated A by the A.M. Best Company. Its outlook is stable due to its improving loss ratios. The Company plans to continue its Trusted Choice independent agent program.

### IV. FINDINGS AND RECOMMENDATIONS

#### A. CLAIM HANDLING

**Standard 1:** The initial contact by the regulated entity with the claimant is within the required time frame. NAIC *Handbook*, Chapter 16.

**Standard 4:** The regulated entity responds to claims in a timely manner. NAIC *Handbook*, Chapter 16.

**Standard 5:** Claim files are adequately documented. NAIC *Handbook*, Chapter 16.

**Standard 6:** Claims are properly handled in accordance with policy provisions and applicable statutes. NAIC *Handbook*, Chapter 16.

**Standard 9:** Denied and closed without payment claims are handled in accordance with policy provisions and state law. NAIC *Handbook*, Chapter 16.

MCL 500.3142:

- (1) Personal protection insurance benefits are payable as loss accrues.

(2) Personal protection insurance benefits are overdue if not paid within 30 days after an insurer receives reasonable proof of the fact and of the amount of loss sustained. If reasonable proof is not supplied as to the entire claim, the amount supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Any part of the remainder of the claim that is later supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. For the purpose of calculating the extent to which benefits are overdue, payment shall be treated as made on the date a draft or other valid instrument was placed in the United States mail in a properly addressed, postpaid envelope, or, if not so posted, on the date of delivery.

(3) An overdue payment bears simple interest at the rate of 12% per annum.

MCL 500.2026:

(1) Unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, other than isolated incidents, are a course of conduct indicating a persistent tendency to engage in that type of conduct and include:

\* \* \*

(b) Failing to acknowledge promptly or to act reasonably and promptly upon communications with respect to claims arising under insurance policies.

(c) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

(d) Refusing to pay claims without conducting a reasonable investigation based upon the available information.

(e) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed.

\* \* \*

(g) Compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts due the insureds.

(h) Attempting to settle a claim for less than the amount to which a reasonable person would believe the claimant was entitled, by reference to written or printed advertising material accompanying or made part of an application.

\* \* \*

(n) Failing to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of a claim or for the offer of a compromise settlement.

**1. Private Passenger Automobile – PIP Lawsuits**

The examiners requested the population of Michigan PIP lawsuits

<b>File Data</b>	<b>Population Size</b>	<b>Maximum Number of Failures Permitted in Sample</b>	<b>Stage 1 Sample Size</b>	<b>Date Sample Pulled</b>	<b>Errors Found</b>
Lawsuits Closed -PIP	50	2	39	6/17/13	0

**Findings:**

There are no findings.

**Recommendations:**

There are no recommendations.

**Company Response:**

No Company response was received.

**2. Private Passenger Automobile – PIP Claims Closed Without Payment**

The examiners requested the population of Michigan claims closed without payment.

<b>File Data</b>	<b>Population Size</b>	<b>Maximum Number of Failures Permitted in Sample</b>	<b>Stage 1 Sample Size</b>	<b>Date Sample Pulled</b>	<b>Errors Found</b>
Claims Closed without Payment – PIP	100	2	66	6/17/13	0

**Findings:**

There are no findings.

**Recommendations:**

There are no recommendations.

**Company Response:**

No Company response was received.

## **V. ACKNOWLEDGEMENT**

This examination report of Safeco Insurance Company of Illinois is respectfully submitted to the Director of the Department of Insurance and Financial Services, State of Michigan.

The courteous cooperation and assistance of the officers and employees of the Company extended to the examiners during the course of the examination is hereby acknowledged.

In addition to the undersigned, Zachary Dillinger, Market Conduct Examiner participated in the examination.

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David A. Haddad, CPCU, MCM  
Examiner-in-Charge  
Department of Insurance and Financial Services  
Market Conduct Section  
October 11, 2013