

REPORT OF EXAMINATION
OF THE
MARKET CONDUCT AFFAIRS
OF
SAFEWAY INSURANCE COMPANY OF LOUISIANA

LAFAYETTE, LOUISIANA

AS OF
December 31, 1999

NAIC CODE 10248

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COMMISSIONER OF INSURANCE
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August 25, 2000

Honorable James H. Brown
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to statutory provisions and in compliance with your instructions, a market conduct examination has been made of the affairs of the

Safeway Insurance Company of Louisiana

200 West Congress Street, Suite 850

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as of December 31, 1999 and the report of examination is herewith submitted.

FOREWORD

A market conduct examination was performed of the activities of Safeway Insurance Company of Louisiana from June 1, 1997 through December 31, 1999.

The market conduct examination is, in general, a report by exception. This means that references in the examination report to procedures and/or files subject to review may be omitted if no improprieties or errors were noted. Unless otherwise stated, the NAIC Market Conduct Examiners' Handbook, Volume II was used as a measure of compliance.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

The market conduct examination of Safeway Insurance Company of Louisiana, hereinafter referred to as ("Safeway") or ("Company"), was a routine market conduct examination conducted in conjunction with the financial examination with both being authorized by the Louisiana Department of Insurance.

The examination included, but was not limited to, the following areas of the Company's operation:

- Company Overview,
- Complaint and Grievance Review,
- Producer Review,
- Marketing and Sales Review,
- Underwriting and Rating Review, and
- Claims Review.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws and Regulations and the National Association of Insurance Commissioners ("NAIC") Guidelines. The NAIC Guidelines set the standards of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders.

COMPANY OVERVIEW

Company History

Since 1974 Safeway Insurance Company, an affiliate of the Safeway Insurance Group, operated as a non-admitted carrier through Southern General Agency, a surplus lines broker. In September 1997 the contract with Southern General Agency was canceled and all active policies were non-renewed.

On December 12, 1996, the Company received its Certificate of Authority and began writing business on April 1, 1997.

Territory and Plan of Operations

The Company offered non-standard private passenger automobile insurance in the State of Louisiana. Minimum limits of 10/20/10 auto coverage was offered along with medical payments, comprehensive/collision, uninsured motorist and towing coverage through an independent agency system.

Antifraud Policy

The Company provides documentation to its claim adjusters to assist them in detecting claim fraud. However, the Company has no written procedures relating to claim fraud detection. In addition, the Company has no procedures for the prevention or detection of fraud in the workplace.

Certificate of Authority

The Company's Certificate of Authority was issued with an effective date of December 12, 1996 and authorized the Company to transact property and casualty insurance in the State of Louisiana.

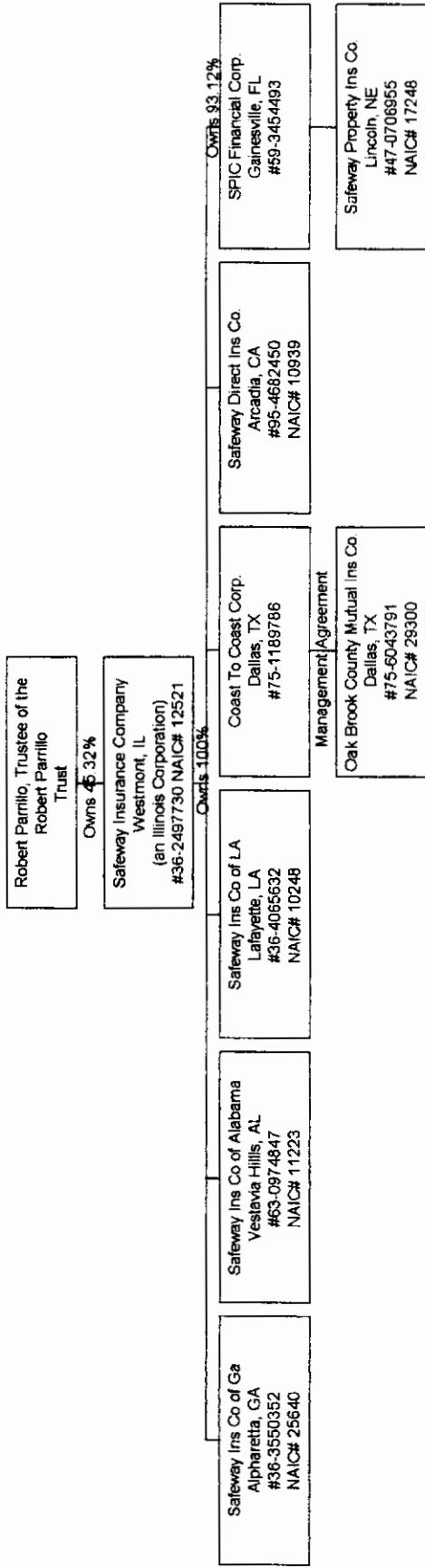
Comments and Recommendations from Previous Reports

This is the first market conduct report of the Company which began writing business on April 1, 1997.

Affiliated Companies

The chart on the following page shows the Company's relationship to its parent and other affiliates.

SAFEGWAY INSURANCE COMPANY OF LOUISIANA
ORGANIZATIONAL CHART



COMPLAINT REVIEW

Louisiana Revised Statute **22:1214(17)** states “complaint” shall mean *any written communication primarily expressing a grievance received by the insurer from the Department of Insurance.*

All complaints filed with the Department between 1997 and 1999 were reviewed and generally consist of complaints due to the insured’s misunderstanding of the policy provisions, delays in handling insured’s requests, delays in claim payments or dissatisfaction with the insurer’s claims practices.

The Company’s complaint register was reviewed and compared to the Department’s listing of complaints. The Company’s complaint register did not contain the number of complaints or the disposition of the complaint as required by statute. During the course of the examination the Company revised its register to comply with **LSA-R.S. 22:1214(17)**.

Several complaints were the result of the Company’s threat to deny a claim if the insured failed to cooperate with the claim investigation. During the course of the examination the Company agreed not to use this language when dealing with an insured who fails to cooperate with a claim investigation.

PRODUCER REVIEW

The Company’s agent appointments as of June 2000 were verified to the Department’s list of agent appointments. Two agencies were operating (doing business

as) under different names that were not properly appointed with the Department. The Company contacted these agencies in order to correct their appointments.

The Company has no formal procedure for the investigation of its agents during the appointment process. During the review the Company was reminded of the DOI's Bulletin #99-01 dated June 1, 1999, referencing "Consent for Prohibited Person to engage in Insurance Business". This bulletin was a notification to all persons and entities engaged in or contemplating being engaged in the business of insurance in Louisiana stating that the Louisiana Department of Insurance has enacted guidelines and requirements for granting written consent to engage in the business of insurance for individuals who are considered "prohibited persons" under The Violent Crime Control and Law Enforcement Act of 1994, Titled 18 U.S. Code, Sections 1033 and 1034.

During the course of the examination the Company's parent began an investigation of the Company's newly hired agents. Criminal and credit histories were included in the investigations.

Files on agents terminated with cause and agents with debit balances were reviewed without exception.

MARKETING AND SALES REVIEW

The Company does no advertising and no sales material is provided to its independent agency force.

UNDERWRITING AND RATING REVIEW

A review of policy forms currently used by the Company revealed that the Company had changed the form numbers on some policy forms. The Company agreed to make an informational filing with the Department in order to update the Department's records.

A random sampling of 55 new business cases revealed that the Underwriting Department processed application and generated new contracts for mailing in approximately 4 days.

A comparison was made of the Company's rate manual against the rates filed with the Louisiana Rating Commission. No discrepancies were detected. Also, it was verified that the Company reduced its vehicle liability auto rates by 10% in accordance with Bulletin LIRC 98-01 dated April 28, 1998. A random sampling of applications was selected in order to verify rates charged on individual applications. This review was performed without exception.

A small random sampling of applications was reviewed to verify that the writing agent was properly licensed and appointed. This review was performed without exception.

A random sampling of 40 cases of policy cancellations and non-renewals was reviewed to verify that these practices were not unfairly discriminatory. No exceptions were noted.

The Company does not engage in any reinsurance.

CLAIMS REVIEW

Claim forms are usually communicated to the Company by mail, facsimiles and telephone. All mail is immediately date-stamped and once coverage is verified reserves are set-up by computer input. The claim is then assigned to a claim adjuster and the claim form and related paperwork are placed in the claim adjuster's mailbox. If the claim is received by telephone, the Claims Receptionist enters the call into a phone log and completes a loss report in Microsoft Excel. Once the claim form is completed the phone call is transferred to a claims adjuster for further review.

A random sampling of 22 litigated claim files was selected for review. There was no indication that the Company's claims handling encouraged litigation. In some cases, legal representation was obtained by the insured or the complainant before the Company had an opportunity to investigate the claim.

Although the Company did not classify its litigation claim files by open or closed, the following data was provided by the Company. In 1997 Safeway Insurance Company, the old non-admitted company, and Safeway Insurance Company of Louisiana received 506 lawsuits. In 1998 and 1999 the Company received 769 and 1092 lawsuits, respectively. As of June 30, 2000, Safeway Insurance Company, the old non-admitted company, had 200 remaining lawsuits while the Company had 835 in various stages of pending litigation. In some of these cases the plaintiff's attorney had provided the Company with an extension of time that was necessary for the Company to fully investigate the claim, and in other cases negotiations to settle were being pursued by legal

counsel. It should be noted that even though the Company promptly settled property damage claims, the vast majority of claims that resulted in litigation or threat of litigation were the result of bodily injury (usually a soft tissue injury).

It should be noted that the Company did not assume any of the pending litigated claims from Safeway Insurance Company. Although current personnel handled the daily activity relating to Safeway Insurance Company's pending litigated claims, settlement proceeds are paid from an Illinois claim account styled "Safeway Insurance Company".

A random sampling of 48 paid claims was selected by pulling the first and last paid claim from each monthly claim register for 1998 and 1999. A review of these claims revealed that claims were paid promptly and the Company's treatment of claimants was in compliance with policy provisions, applicable rules and regulations. However, in some cases the diaries that were handwritten were not always legible and "Post-it" notes were used to record important information.

The 48 paid claims from the above sampling along with approximately 22 paid claims from a sampling of pending claims (now paid) were analyzed in order to determine time intervals on claim payments by coverage category. The findings were as follows:

COLLISION AND COMPREHENSIVE CLAIMS

81% were paid within 31 days
91% were paid within 60 days
100% were paid within 90 days

PROPERTY DAMAGE (LIABILITY) CLAIMS

78% were paid within 31 days
94% were paid within 60 days
96% were paid within 5 months
98% were paid within 8 months
100% were paid within 10 months

BODILY INJURY (LIABILITY) CLAIMS

5% were paid within 31 days
13% were paid within 60 days
18% were paid within 90 days
48% were paid within 6 months
85% were paid within 1 year
91% were paid within 18 months
100% were paid within 23 months

Beginning August 21, 2000 personnel from the parent company will begin training and installation of the ImageRIGHT program. This installation will eventually result in a paperless environment. This system has been successfully utilized in other Safeway affiliates for approximately six years. Some of the key features of this system are as follows:

- Easy access to all tasks;
- Annotating claim files and documents;
- Faxing directly from a claim file and directly into the system;
- Easy access to all claim files;
- Easy to read claim files;
- No misplaced documents or files;
- Automated processes;
- Built in audit trail and
- Management reporting.

A review of the sampling of paid claims revealed that approximately 86% of the claims were under reserved. When asked, the Company responded that an "averaging

method" for estimating the individual claim reserve is utilized. It should be noted that some of the claims without payments and denied claims carried a reserve amount until the claim was closed. The issue of under reserving on individual claims was provided to the Louisiana financial examiners currently conducting the financial examination.

COMMENTS AND RECOMMENDATIONS

The Company did an excellent job by responding to most examination requests within one day. Questions by the examiners concerning the Company's operations also were promptly answered.

It is recommended that the Company develop an antifraud policy that would enable employees to perform their duties in accordance with the goals and direction of management. It is also recommended that the antifraud policy along with the Company's guidelines to detect claim fraud should be in written form. See COMPANY OVERVIEW, page 4.

It is recommended that the Company develop a system that will categorize its litigated claim files as either open or closed. It would appear that the installation of the ImageRIGHT System should provide better documented claim files. See CLAIMS REVIEW, page 9.

CONCLUSION

I, Richard A. Spong, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct an examination of the market conduct activities of

SAFEWAY INSURANCE COMPANY OF LOUISIANA

LAFAYETTE, LOUISIANA

That I made such examination and the above and foregoing is a true and correct copy of my report of such company and the same is true and correct to the best of my knowledge, information and belief.

Richard S. Robison, Louisiana Insurance Compliance Examiner, also participated in this examination and joins the undersigned in acknowledging the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,



Richard A. Spong, CIE, CFE
Louisiana Department of Insurance