

**REPORT OF EXAMINATION**

**OF THE**

**MARKET CONDUCT AFFAIRS**

**OF**

**SAFEWAY INSURANCE COMPANY OF LOUISIANA**

**LAFAYETTE, LOUISIANA**

**AS OF**

**December 31, 2002**

**NAIC CODE 10248**

**NAIC ETS EXAM NO. LA071-M22**

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STATE OF LOUISIANA

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January 3, 2004

Honorable Robert Wooley  
Commissioner of Insurance  
P O Box 94214  
Baton Rouge, Louisiana 70804-9214

Sir:

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

**SAFEWAY INSURANCE COMPANY OF LOUISIANA**

200 West Congress, Suite 850

Lafayette, Louisiana 70501

as of December 31, 2002 and the report of examination is herewith submitted.

## **FOREWORD**

In accordance with **LSA-R.S. 22:1301 D.**, a market conduct examination was conducted on the activities of Safeway Insurance Company of Louisiana from January 1, 2000 through December 31, 2002. The examination was performed by test and all tests applied are included in this report.

### **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 limited routine market conduct examination authorized by the Louisiana Department of Insurance ("LDOI") or ("Department"). Limited in that, not all examination procedures recommended by the National Association of Insurance Commissioners were performed.

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

- Company Overview,
- Complaints and Grievances,
- Producer Licensing and Appointments,
- Underwriting and Rating and
- Claims.

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

Portions of the NAIC Market Conduct Examiner's Handbook, Volume I were used as a measure of compliance.

The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance was utilized in this examination. Samplings were utilized to test the Company's records and procedures for statutory compliance. The ACL Program was used, when possible, to automatically generate a random sampling of data records. "Random" is a theoretical concept meaning that all items in a population or field (before selection) have an equal chance of appearing in the sampling. In instances in which ACL was not used, a systematic (sequential) sampling of certain company record listings was performed.

Generally, a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for all samples. Based on a review of the sampling's error rate, additional samplings may be required.

## ***COMPANY OVERVIEW***

### ***COMPANY HISTORY***

In 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 from the Louisiana Department of Insurance 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. The Company offered its products through an independent agency system.

<u>YEAR</u>	<u>NET PREMIUMS WRITTEN</u>
2000	\$ 34,004,843
2001	39,422,020
2002	42,899,925

### ***PARENT, SUBSIDIARIES AND AFFILIATES***

The Company is a member of a Holding Company Group. Ownership is denoted by indenture.

Robert Parrillo, Trust

Safeway Financial Holding Company  
Safeway Insurance Company, Westmont IL  
Safeway Insurance Company of Georgia, Alpharetta, GA  
Safeway Insurance Company of Alabama, Vestavia Hills, AL  
Safeway Insurance Company of Louisiana, Lafayette, LA  
Coast to Coast Corporation, Dallas, TX  
Oak Brook County Mutual Ins Co, Dallas, TX  
Safeway Direct Insurance Company, Arcadia, CA  
SPIC Financial Corporation, Gainesville, FL  
Safeway Property Insurance Co, Lincoln, NE

### ***RECOMMENDATIONS FROM PRIOR EXAMINATION REPORTS***

In the Louisiana Market Conduct Report for the period ended December 31, 1999, it was recommended that the Company develop an antifraud program and categorize its litigated claim into open and closed litigation. The current examination revealed the Company took appropriate action to these prior recommendations.

## **COMPLAINTS REVIEW**

This review was conducted in accordance with the provisions of Louisiana Revised Statute 22:1214(17) which states as follows:

**“The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:... Failure to maintain adequate complaint handling procedures. Failure of any insurer to maintain a complete record of all the complaints that it received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. For purposes of this Paragraph, “complaint” shall mean any written communication primarily expressing a grievance received by the insurer from the Department of Insurance.”**

The Company provided complaint procedures which appeared adequate for the proper recording and timely processing of complaints. The Company responded to the Department's complaint inquiries on an average of seven (7) days.

The Company provided properly formatted complaint registers for the three (3) years under examination which appeared to account for all Departmental complaints. A judgmental sampling of approximately fifty (50) complaints were pulled from the Department's listing of complaints for the period under examination. These complaints were reviewed without exception.

## ***PRODUCER REVIEW***

A systemic sampling of forty-five (45) producers was selected from the Company's current listing of one hundred and seventy (170) active producers. One (1) producer was detected operating under a different name from the Company's appointment records. The Company agreed to implement a procedure to ensure that the producer show proof of a name change with the Department before changing the Company's appointment records.

A judgmental sampling of fifteen (15) terminated producers was selected from the Company's list of terminated producers. This sampling represented about twenty percent (20%) of the producers terminated by the Company for the period under examination. According to this review, the Company notified the Department of such terminations on a timely basis. The Company responded that during the period under examination no producers were terminated for activities specified in **LSA-R. S. 22:1142**. No exceptions were noted during this review.

The Company employs a special investigator who completes a thorough background check on each new prospective agent prior to their appointment with the Company. The special investigator utilizes courthouse records or a background investigation service, Database Technology, to complete background checks. In addition, effective November 2002 InfoLink, a third party, performs criminal checks on all prospective applicants prior to offering employment with Safeway.

The Company's hiring procedures appear to be in compliance with **Louisiana Bulletin #99-01** dated June 1, 1999 titled "Consent for Prohibited Person to engage in Insurance Business, 18 United States Code, Sections 1033 and 1034".

### ***MARKETING AND SALES REVIEW***

The Company does not engage in any advertising. No sales material or training is provided to the Company's independent producers.

### ***UNDERWRITING AND RATING REVIEW***

The Company did not maintain electronic files of new business, renewals, non-renewals and cancelled policies. Consequently, random samplings were selected from monthly registers for the year 2002. These samplings were reviewed in order to determine how the Company treated the consumer and whether that treatment was in compliance with applicable statutes, rules and regulations.

A sampling of eighty (80) new business and renewal underwriting files was selected for review. The review revealed that applications were complete and properly signed by the applicant and the producer. The Company issued applications on new business on average of 4.5 days after receipt of application. No exceptions were noted during this review.

A sampling of sixty (60) non-renewed policies was selected for review. The majority of these policies were non-renewed for underwriting reasons that were in compliance with Louisiana Statute, such as lack of proof of vehicle ownership, traffic

violations not disclosed on the applications and business usage of vehicle. The Company mailed a notice of intention not to renew thirty (30) days prior to the effective date of non-renewal to the insured and maintained an affidavit of such mailings in accordance with Louisiana Statute.

A sampling of sixty (60) cancelled policies was selected for review. The majority of these policies were cancelled for nonpayment of premium. For policies cancelled for underwriting reasons, the Company mailed a notice of intention not to renew thirty (30) days prior to the effective date of cancellation to the insured and maintained an affidavit of such mailings in accordance with Louisiana Statute.

A random sampling of ten (10) new business cases was selected in order to verify rate calculations. The Company followed its rating procedures in determining acceptability of vehicle and applicant/driver. Various multi-vehicle, renewal and window etching discounts were offered to eligible customers. No exceptions were noted during this review.

### ***CLAIMS REVIEW***

A claims walk through was conducted at the Company's home office in Lafayette. Approximately five percent (5%) of the Company's claims are received by mail with the remaining claims being transmitted by facsimile or by telephone. Claims are set up the date received into a paperless file (ImageRight) and assigned immediately to a claims adjuster. Adjusters attempt to make phone contact within twenty-four (24) hours from the date the claim is received and are responsible for investigating coverage, liability and damages for each claim assigned to them.

After reconciling a CD of 2002 paid claims provided by the Company with the Company's 2002 annual statement, a sampling of sixty (60) paid claims was generated by the ACL Program to determine compliance with applicable statutes, rules and regulations. A review of the sampled claims indicated the Company responded timely to all involved parties and claims were paid in accordance with applicable statutes, rules and regulations.

However, three (3) paid claims from the ACL sampling of paid claims appeared to be voided check amounts from prior years. By utilizing ACL, a review was conducted of all voided checks contained in the CD of 2002 paid claim provided by the Company and it appeared that some of these voided checks should be classified as unclaimed property under the Uniform Disposition of Unclaimed Property Act, Louisiana Revised Statutes 9:151 through 9:181. The findings of this review were provided to the financial examiners who were currently conducting the routine financial examination in Chicago, Illinois.

ACL was utilized to generate a sampling of sixty (60) denied claims or claims closed without payment. A review of the sampling revealed that claims were denied in accordance with applicable statutes, rules and regulations. No exceptions were noted during this review.

A judgmental sampling of twenty (20) open and closed litigated claims was selected from a listing of litigated claims for the period under examination. In all cases the Company made a good faith effort to settle the claim prior to litigation. No exceptions were noted during this review.

## **CONSUMER PRIVACY POLICY REVIEW**

A review of the Company's Privacy Procedures, which govern the privacy of consumer financial information, appeared in compliance with the Louisiana Department of Insurance Regulation 76 / *PRIVACY OF CONSUMER FINANCIAL INFORMATION*.

## **COMMENTS AND RECOMMENDATIONS**

The Company responded promptly to examination requests during the course of this examination.

The Company agreed to implement a procedure to ensure that the producer show proof of a name change with the Department before changing the Company's appointment records. See Producer Review.

Three (3) paid claims from the ACL sampling of paid claims appeared to be voided check amounts from prior years. It appeared that some of these voided checks should be classified as unclaimed property under the Uniform Disposition of Unclaimed Property Act, Louisiana Revised Statutes 9:151 through 9:181. The findings of this review were provided to the financial examiners who were currently conducting the routine financial examination in Chicago, Illinois. See Claims Review.

## **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

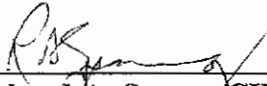
**SAFEWAY INSURANCE COMPANY OF LOUISIANA**

**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.

The undersigned wishes to acknowledge the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,

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