



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

July 11, 2017

Mr. James M. MacPhee  
President  
Liberty Mutual Insurance Group  
175 Berkeley Street  
Boston, MA 02116

**Re:** *Market Conduct Examination Report Closing Letter for*  
American Economy Insurance Company, NAIC 19690  
American States Insurance Company, NAIC 19704  
Safeco Insurance Company of Illinois, NAIC 39012

Dear Mr. MacPhee:

The Department has reviewed your Companies' proof of compliance and deems it adequate and sufficient. Therefore, the Department is closing its file on this exam.

I intend to ask the Director to make the Examination Report and Stipulation and Consent Order available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report may be subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script, reading "Jack Engle", is positioned above the typed name.

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Illinois Department of Insurance  
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**ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF**

American Economy Insurance Company  
American States Insurance Company  
Safeco Insurance Company of Illinois

## **MARKET CONDUCT EXAMINATION REPORT**

**DATE OF EXAMINATION:** July 27, 2015 through October 28, 2016

**EXAMINATION OF:** American Economy Insurance Company  
NAIC Code #19690  
American States Insurance Company  
NAIC Code #19704  
Safeco Insurance Company of Illinois  
NAIC Code #39012

**LOCATIONS:** 27201 Bella Vista Pkwy  
Warrenville, IL 60555  
  
2815 Forbs Ave.  
Hoffman Estates, IL 60192

**PERIOD COVERED BY EXAMINATION:** December 1, 2013 through November 30, 2014  
(Complaints reviewed for the period August 1, 2013 through November 30, 2014 and Workers' Compensation reviewed for the period January 1, 2012 through December 31, 2014)

**EXAMINERS:** Victor M. Negron, Examiner-in-Charge  
Tommy Brinkley, Senior Examiner  
Cheryl Cole, Senior Examiner  
Michael Currier, Senior Examiner  
Ben Darnell, Senior Examiner  
Michael Dolphin, Senior Examiner  
Sheri Kenney, Senior Examiner  
Sheri Marston, Senior Examiner  
Aubrey Powell, Examiner  
Nicole Richards, Examiner  
Wayne Stephens, Senior Examiner  
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## TABLE OF CONTENTS

<b>I. SUMMARY .....</b>	<b>1</b>
<b>II. BACKGROUND .....</b>	<b>7</b>
<b>III. METHODOLOGY .....</b>	<b>9</b>
<b>IV. SELECTION OF SAMPLES.....</b>	<b>11</b>
<b>V. FINDINGS .....</b>	<b>13</b>
A. Operations and Management .....	13
B. Complaint Handling.....	13
C. Marketing and Sales.....	14
D. Producer Review .....	14
E. Risk Selection .....	15
F. Underwriting and Rating.....	16
G. Claims .....	23
H. Workers' Compensation Unit Statistical Reports .....	25

## I. SUMMARY

A comprehensive market conduct examination of the Safeco Companies that are part of the Liberty Mutual Insurance Group was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

The following represent general findings, however specific details are found in each section of the report.

<b><u>TABLE OF TOTAL VIOLATIONS</u></b>						
Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
11	215 ILCS 5/143.15	Auto First 60 Days Cancellations — Failed to provide cancellation reason to the lienholder. (SICI)	750	113	17	15%
12	215 ILCS 5/143.15	Auto Midterm Cancellations — Failed to provide cancellation reason to the lienholder. (SICI)	16,916	116	22	19%
13	215 ILCS 5/143.15	Homeowners Midterm Cancellations — Failed to provide cancellation reason to the lienholder. (SICI)	16,276	116	20	17%
14	215 ILCS 5/143.15	Homeowners First 60 Days Cancellations — Failed to provide cancellation reason to the lienholder. (SICI)	1,021	114	2	2%
15	215 ILCS 5/143.17	Auto Nonrenewals — Failed to provide lienholder exact copy of notice. (SICI)	143	79	34	43%
16	215 ILCS 5/143.22	Homeowners Nonrenewals — Failed to include notice of FAIR Plan. (SICI)	277	85	64	75%
17	215 ILCS 5/143.23	Homeowners Nonrenewals — Failed to include notice of right to appeal. (SICI)	277	85	2	2%
18	215 ILCS 5/143.17	Homeowners Nonrenewals — Failed to provide lienholder exact copy of notice. (SICI)	277	85	2	2%
19	215 ILCS 5/141.02(3)	Producer Terminations — Failed to provide proof of mailing. (SICI)	70	70	12	17%
20	215 ILCS 5/143b	Auto Subrogation Claims — (1) Failed to return insured's deductible in a timely manner; or (2) Relied on third-party statements without requesting evidence or confirming with own insured if the deductible had been paid. (SICI)	1,060	107	8	7%

**TABLE OF TOTAL VIOLATIONS**

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
22	50 Ill. Adm. Code 919.50(a)(1)	Auto 1 <sup>st</sup> Party CWP Claims — Failed to include “Notice of Availability of the Department of Insurance” in the denial letter. (SICI)	2,421	108	1	1%
24	50 Ill. Adm. Code 919.80(b)(2)	Auto 1 <sup>st</sup> Party Paid Claims — Failed to timely send the required delay letter. (SICI)	4,219	108	3	3%
25	215 ILCS 5/154.6(j)	Auto 1 <sup>st</sup> Party Paid Claims — Company’s estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs. (SICI)	4,219	108	15	14%
29	215 ILCS 5/154.6(j)	Auto 3 <sup>rd</sup> Party Paid Claims — Company’s estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs. (SICI)	5,450	109	4	4%
30	50 Ill. Adm. Code 919.50(a)	Auto 3 <sup>rd</sup> Party Paid Claims — Failed to affirm or deny claim within a reasonable time. (SICI)	5,450	109	3	3%
31	50 Ill. Adm. Code 919.80(b)(2)	Auto 3 <sup>rd</sup> Party Paid Claims — Failed to timely send the required delay letter. (SICI)	5,450	109	2	2%
32	50 Ill. Adm. Code 919.80(d)(2)	Auto 3 <sup>rd</sup> Party Paid Claims — Failed to pay reasonable and necessary rental costs. (SICI)	5,450	109	1	1%
33	50 Ill. Adm. Code 919.30(c)	Auto 3 <sup>rd</sup> Party Paid Claims — Failed to maintain detailed documentation to permit the reconstruction of the Company’s activities relative to the claim file. (SICI)	5,450	109	1	1%
36	50 Ill. Adm. Code 919.80(c)	Auto Total Losses — Failed to either send Exhibit A or send it in a timely manner. (SICI)	1,268	107	15	14%
37	50 Ill. Adm. Code 919.30(c)	Auto Total Losses — Failed to maintain detailed documentation to permit the reconstruction of the Company’s activities relative to the claim file. (SICI)	1,268	107	1	1%
38	50 Ill. Adm. Code 919.50(a)(2)	Auto 3 <sup>rd</sup> Party CWP Claims — Failed to provide written notice of the basis of the denial. (SICI)	1,232	107	4	4%
39	50 Ill. Adm. Code 919.50(a)	Auto 3 <sup>rd</sup> Party CWP Claims — Failed to affirm or deny a claim within a reasonable time. (SICI)	1,232	107	2	2%

**TABLE OF TOTAL VIOLATIONS**

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
40	50 Ill. Adm. Code 919.80(d)(7)(B)	Homeowners Paid Claims — Failed to send claim delay letter. (SICI)	5,482	109	3	3%
55	215 ILCS 5/143(2)	Homeowners Renewals — Company used unfiled forms HOM-7000ep 1/09 and HOM-7001ep 1/09. (SICI)	57,234	184	146	79%
56	215 ILCS 5/132(2)	Homeowners Renewals — Failed to provide documentation (applications). (SICI)	57,234	184	85	46%
57	215 ILCS 5/132(2)	Homeowners Renewals — Failed to provide documentation (fire and/or burglar alarms support). (SICI)	57,234	184	48	26%
58	215 ILCS 5/805.1(a)	Homeowners Renewals — Failure to obtain Mine Subsidence Waiver Form. (SICI)	57,234	184	4	2%
62	50 Ill. Adm. Code 754.10	Homeowners Renewals — Failed to follow its filed rates/rules manual; applied a Package Auto Discount even though auto policy had been cancelled. (SICI)	57,234	184	1	1%
63	50 Ill. Adm. Code 754.10	Homeowners Renewals — Failed to follow its filed rates/rules manual; used an incorrect territory. (SICI)	57,234	184	1	1%
64	50 Ill. Adm. Code 754.10	Homeowners Renewals — Failed to follow its filed rates/rules manual; applied Umbrella Discount even though policy had been cancelled. (SICI)	57,234	184	2	1%
66	215 ILCS 5/132(2)	Homeowners Renewals — Failed to provide documentation with verification for the Sprinkler Credit. (SICI)	57,234	184	1	1%
67	215 ILCS 5/132(2)	Auto Renewals — Failed to provide documentation (applications). (SICI)	73,843	184	106	58%
69	50 Ill. Adm. Code 754.10	Auto Renewals — Failed to follow its filed rating/rules manual; did not apply Low Mileage Discount to eligible vehicles. (SICI)	73,843	184	13	7%
70	215 ILCS 5/132(2)	Auto Renewals — Failed to provide documentation with verification for the Distant Student Discount. (SICI)	73,843	184	4	2%

<b>TABLE OF TOTAL VIOLATIONS</b>						
Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
71	215 ILCS 5/132(2)	Auto Renewals — Failed to provide verification of the Accident Prevention Course. (SICI)	73,843	184	1	1%
72	215 ILCS 5/132(2)	Auto Renewals — Failed to provide UM Forms. (SICI)	73,843	184	3	2%
73	50 Ill. Adm. Code 754.10	Auto Renewals — Failed to follow its filed rating/rules manual; did not apply Accident Prevention Course Discount documented in the file. (SICI)	73,843	184	1	1%
74	215 ILCS 5/132(2)	Auto Renewals — Failed to provide verification for Good Student Discount. (SICI)	73,843	184	3	2%
75	215 ILCS 5/132(2)	Auto Renewals — Failed to provide verification for Driver Training Discount. (SICI)	73,843	184	12	7%
77	50 Ill. Adm. Code 754.10	Auto Renewals — Failed to follow its filed rates/rules manual; used an incorrect territory. (SICI)	73,843	184	2	1%
78	215 ILCS 5/132(2)	Auto Renewals — Failed to provide verification for the Homeowners Discount. (SICI)	73,843	184	6	3%
80	215 ILCS 5/132(2)	Auto New Business — Failed to provide documentation (applications). (SICI)	13,062	116	68	59%
81	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for the Advance Quote Discount. (SICI)	13,062	116	62	53%
82	215/ ILCS 5/132(2)	Auto Producer Licensing — Could not provide documentation that producer was properly licensed. (SICI)	13,062	116	1	1%
83	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for the Homeowners Discount. (SICI)	13,062	116	46	40%
84	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for the Account Discount. (SICI)	13,062	116	3	3%
85	215 ILCS 5/132(2)	Auto New Business — Failed to provide documentation (UM forms.). (SICI).	13,062	116	3	3%
86	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for Driver Training Discount. (SICI)	13,062	116	4	3%
87	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for Good Student Discount. (SICI)	13,062	116	5	4%



<b>TABLE OF TOTAL VIOLATIONS</b>						
Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
88	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for the Accident Prevention Course. (SICI)	13,062	116	1	1%
89	215 ILCS 5/132(2)	Auto New Business — Failed to provide verification for the Distant Student Discount. (SICI)	13,062	116	2	2%
90	50 Ill. Adm. Code 754.10	Auto New Business — Failed to follow filed rating/rules manual; did not apply Low Mileage Discount to eligible vehicles. (SICI)	13,062	116	4	3%
113	215 ILCS 5/132(2)	Homeowners New Business — Failed to provide documentation (applications). (SICI)	9,218	116	74	64%
114	215 ILCS 5/132(2)	Homeowners Producer Licensing — Failed to provide documentation the producer was properly licensed. (SICI)	9,218	116	3	3%
115	215 ILCS 5/132(2)	Homeowners New Business — Failed to provide verification for the Fire and/or Burglar Alarm Credit. (SICI)	9,218	116	11	9%
116	215 ILCS 5/143(2)	Homeowners New Business — Used unfiled forms HOM-7000ep 1/09 and HOM-7001ep 1/09. (SICI)	9,218	116	50	43%
117	215 ILCS 5/132(2)	Homeowners New Business — Failed to provide verification for the Security Discount. (SICI)	9,218	116	1	1%
121	215 ILCS 5/805.1(a)	Homeowners New Business — Failed to obtain the required Mine Subsidence waiver form. (SICI)	9,218	116	3	3%
144	50 Ill. Adm. Code 754.10	Homeowners New and Renewal Business — Used unfiled Package Level Unity Factor. (SICI)	66,452	300	172	57%
145	50 Ill. Adm. Code 754.10	Auto New and Renewals Business — Used unfiled rates. (SICI)	86,905	300	300	100%
146	215 ILCS 5/143.12a	DOI Complaints (1) and Non-DOI Complaints (5) — Failed to comply with return premium requirements. (SICI, AEIC and ASIC)	183 6 3 <u>192</u>	149 5 3 <u>157</u>	4 1 1 <u>6</u>	3% 20% 100% <u>4%</u>

**TABLE OF TOTAL VIOLATIONS**

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
147	50 Ill. Adm. Code 926.40(a)	DOI Complaints — Failed to respond in timely manner. (SICI, AEIC and ASIC)	61 5 2 <u>68</u>	45 4 2 <u>51</u>	1 2 2 <u>5</u>	1% 50% 100% <u>10%</u>
149	50 Ill. Adm. Code 919.30(c)	Non-DOI Complaints — Failure to maintain detailed claim documentation to permit reconstruction of the Company activities. (SICI)	124	106	1	1%
152	50 Ill. Adm. Code 926.40(b)	DOI Complaints — Failure to fully respond to complainant allegations. (SICI)	68	51	1	2%
184	215 ILCS 5/132(2)	Auto Producer Licensing — Failed to provide the identity of the producing agent; could not verify if properly licensed. (SICI)	13,062	116	11	9%
185	215 ILCS 5/132(2)	Homeowners Producer Licensing — Failed to provide identity of the producing agent; could not verify if properly licensed. (SICI)	9,218	116	8	7%
187	215 ILCS 5/462b	Workers' Compensation Renewals — Failed to apply correct classifications. (ASIC)	1,427	9	2	22%
194	215 ILCS 5/132(2)	Workers' Compensation Renewals — Failed to provide the auditor's worksheet. (AEIC)	1,149	12	2	17%
196	215 ILCS 5/132(2)	Workers' Compensation Renewals — Failed to provide the schedule rating premium modification worksheets for the factors applied. (AEIC)	1,149	12	3	25%

## II. BACKGROUND

The market conduct examination included 16 companies of the Liberty Mutual Insurance Group (“Group”). This examination report addresses the review of three (3) of the Safeco Companies in the Group. A separate examination report was prepared for 13 remaining Group companies. Any reference in this report to “the Company” includes one or more of the companies included in the examination, however each company will be identified as shown below when appropriate.

### American Economy Insurance Company

American Economy Insurance Company (“AEIC”) was incorporated on October 19, 1959, in the State of Indiana and commenced business on October 23, 1959. On December 24, 1968, Superior Insurance Company, a Texas insurer, merged with and into AEIC.

On October 1, 1997, Safeco Corporation acquired control of American States Financial Corporation, which was the ultimate controlling parent of AEIC. Effective September 22, 2008, Liberty Mutual Insurance Group acquired control of Safeco Corporation, which was the ultimate controlling parent of AEIC. AEIC is licensed in 49 states and the District of Columbia.

AEIC’s 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	633,062	636,750	333,612	177,302
Allied Lines	445,817	444,079	283,105	368,874
Farmers Multi-Peril	1,101,923	1,029,783	742,636	727,306
CMP Non-Liability	1,466,369	1,770,108	1,122,952	(262,284)
CMP Liability	1,003,464	1,123,141	402,695	28,190
Inland Marine	17,094	17,149	0	(3,938)
Earthquake	27,743	31,258	0	(39)
Workers’ Compensation	913,117	1,301,800	925,128	1,103,306
Other Liability – Occurrence	123,172	128,460	5,750	7,183
Other Liability – Claims Made	105	81	0	0
Other PPA Liability	0	0	27,212	16,906
Other Comm. Auto Liability	192,287	271,888	143,387	85,260
PPA Physical Damage	0	0	469	469
Comm. Auto Physical Damage	60,555	69,414	107,745	110,240
Burglary & Theft	240	240	0	0
Boiler & Machinery	2,167	2,512	0	(19)

### American States Insurance Company

American States Insurance Company (“ASIC”) was incorporated on July 15, 1929, in the State of Indiana as American Automobile Indemnity Company. Effective April 12, 1930, the Company changed its name to the present title, American States Insurance Company.

On October 1, 1997, Safeco Corporation acquired control of American States Financial Corporation, which was the ultimate controlling parent of ASIC. Effective September 22, 2008, Liberty Mutual Group acquired control of Safeco Corporation, which was the ultimate controlling parent of ASIC. ASIC is licensed in all states and the District of Columbia.

ASIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	846,312	822,815	307,758	(101,777)
Allied Lines	669,284	642,582	434,445	534,710
Farmers Multi-Peril	1,574,625	1,659,608	1,183,615	1,215,122
Homeowners Multi-Peril	0	0	(410)	(2,304)
CMP Non-Liability	1,141,499	1,212,454	185,816	106,975
CMP Liability	509,111	549,232	481,880	750,378
Inland Marine	175,141	178,300	14,803	7,237
Earthquake	30,454	32,137	0	17
Guaranteed Renewable A & H	3,781	3,781	0	0
Workers' Compensation	1,006,663	1,447,965	3,285,904	58,649
Other Liability – Occurrence	979,251	1,106,203	66,855	(1,043,866)
Other Liability – Claims Made	6,879	7,313	0	(1,669)
Products Liability	8,270	9,943	0	(4,566)
Other PPA Liability	0	0	991	991
Other Comm. Auto Liability	427,922	503,574	366,755	(189,409)
PPA Physical Damage	0	0	0	(2,529)
Comm. Auto Physical Damage	137,179	156,038	52,517	53,818
Fidelity	16,690	1,263	0	523,613
Surety	390,414	495,425	2,070	885,828
Burglary & Theft	750	795	10,000	10,000
Boiler & Machinery	3,679	3,855	0	(314)

### Safeco Insurance Company of Illinois

Safeco Insurance Company of Illinois ("SICI") was incorporated on August 29, 1980, in the State of Illinois. All outstanding shares are owned by Safeco Corporation. On September 22, 2008, Liberty Mutual Group acquired control of Safeco Corporation, which is the parent of Safeco Insurance Company of Illinois.

SICI's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	644,476	647,232	0	(11,978)
Allied Lines	485,330	480,417	242,645	242,682
Homeowners Multi-Peril	63,899,734	63,170,912	44,039,598	38,772,728
CMP Liability	0	0	469	(12,507)
Inland Marine	1,984,132	2,106,961	985,251	993,383
Earthquake	648,590	650,528	0	0
Workers' Compensation	0	0	34,290	2,382
Other Liability - Occurrence	3,369,492	3,364,747	67,865	2,296,569
Products Liability	0	0	0	(34)
Other PPA Liability	49,103,204	47,743,929	24,268,940	32,574,385
PPA Physical Damage	42,574,346	42,002,907	22,836,064	22,552,861
Fidelity	0	0	0	(88)

### **III. METHODOLOGY**

The market conduct examination places emphasis on a Company's systems and procedures used in dealing with insureds and claimants. The period under review was generally December 1, 2013 through November 30, 2014. The following categories were the general areas examined:

- A. Operations and Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Review
- E. Risk Selection
- F. Underwriting and Rating
- G. Claims

The review of these categories was accomplished through examination of individual policy and claim files, Company procedures, written interrogatories and interviews with Company personnel. Each of these categories was examined for compliance with Illinois Department of Insurance rules and regulations, and applicable state laws.

Criticisms were provided to the Company addressing violations discovered in the review processes. All valid criticisms were incorporated in this report.

The following methods were used to obtain the required samples and to assure a statistically accurate and methodical selection. The samples were developed from Company-generated data. The sample size was based on the most recent NAIC *Market Regulation Handbook*. Random samples were generated using Audit Command Language ("ACL") software and the selected samples were provided to the Company for retrieval. Some samples were determined on a group basis and sample sizes were allocated proportionally to each company by the entire population of policies and claims for each company.

#### **Operations and Management**

The review of the Company's operations and management is designed to determine how the Company operates. Examiners reviewed both publicly available documents, such as prior market conduct examinations and annual statements, as well as internal documents such as Company policies and procedures, internal audit reports, and third party administrator ("TPA") contracts. Company privacy forms were also reviewed. In addition, Market Conduct Annual Statements ("MCAS") for years 2012, 2013 and 2014 were reviewed for accuracy and completeness.

#### **Complaint Handling**

Department of Insurance ("DOI") complaints and direct consumer ("Non-DOI") complaints for the period August 1, 2013 through November 30, 2014, were reviewed for compliance with applicable state laws and Company guidelines.

DOI complaints – The population received for this category consisted of complaints received by the Illinois Department of Insurance during the examination period. The company’s complaint logs were reconciled with the individual file information and the DOI records to determine the completeness and accuracy of the data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

Non-DOI complaints – The population received for this category consisted of complaints received directly by the Company from consumers during the examination period. The Company’s complaint logs were reconciled with the individual file information to determine the completeness and accuracy of the data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

### Marketing and Sales

The Marketing and Sales portion of the examination is designed to evaluate the representations made by the Company about its products or services. The items requested for this category consisted of all sales, advertising, producer training and producer communications created during the examination period.

### Producer Review

Producer licensing and terminations were reviewed for compliance with statutory requirements. The producer licensing was reviewed as part of the same samples selected for the underwriting and rating reviews.

### Risk Selection

Cancellations and nonrenewals were reviewed for compliance with statutory requirements and to ensure reasons for termination were valid and not unfairly discriminatory. Samples were selected based on transactions occurring during the period under examination.

### Underwriting and Rating

The Underwriting and Rating sample consisted of new and renewal business and was selected based on the inception and/or renewal date occurring during the period under examination. Policies were reviewed for rating accuracy, use of filed rates, use of filed forms, and compliance with Company underwriting guidelines.

### Claims

Claims were selected based on settlements occurring within the period under examination. Claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1, *et seq.*), the Illinois Workers’ Compensation Act (820 ILCS 305/1, *et seq.*) and Title 50 of the Illinois Administrative Code (50 Ill. Adm. Code 101 *et. seq.*). Reviews were conducted of both claims paid and those closed without payment (“CWP”).

## Statutorily Required Reporting

The accuracy and completeness of the Workers' Compensation unit statistical information reported to the National Council on Compensation Insurance ("NCCI") was tested.

### **IV. SELECTION OF SAMPLES**

#### **Safeco Companies**

The following figures are for the three (3) companies combined:

	<u>Total</u>	<u># Reviewed</u>	<u>Percentage</u>
A. Operations and Management			
1. Internal/External Audits	7	7	100%
2. Market Conduct Reports	28	28	100%
3. TPA Contracts Review	18	18	100%
4. Privacy Forms	12	12	100%
5. MCAS Reports (3 years)	9	9	100%
B. Complaint Handling			
1. DOI Complaints	68	51	75%
2. Non-DOI Complaints	124	106	85%
C. Marketing and Sales			
1. Marketing and Sales	976	113	12%
D. Producer Review			
1. Producer Licensing	22,280	232	1%
2. Producer Terminations	70	70	100%
E. Risk Selection			
1. Auto First 60 Days Cancellations	750	113	15%
2. Auto Midterm Cancellations	16,916	116	1%
3. Homeowners First 60 Days Cancellations	1,021	114	11%
4. Homeowners Midterm Cancellations	16,276	116	1%
5. Auto Nonrenewals	143	79	55%
6. Homeowners Nonrenewals	277	85	31%

F.	Underwriting and Rating			
	1. Auto New Business	13,062	116	1%
	2. Auto Renewals	73,843	184	<1%
	3. Homeowners New Business	9,218	116	1%
	4. Homeowners Renewals	57,234	184	<1%
	5. Workers' Compensation New Business	66	5	8%
	6. Workers' Compensation Renewals	2,576	21	1%
	7. Commercial Auto New Business	33	0	0%
	8. Commercial Auto Renewal	588	16	3%
	9. Commercial Fire New Business	76	0	0%
	10. Commercial Fire Renewals	2,460	12	<1%
	11. General Liability New Business	137	5	4%
	12. General Liability Renewals	2,436	18	1%
G.	Claims			
	1. Auto 1 <sup>st</sup> Party Paid	4,215	108	3%
	2. Auto 1 <sup>st</sup> Party CWP	2,420	108	4%
	3. Auto 3 <sup>rd</sup> Party Paid	5,445	109	2%
	4. Auto 3 <sup>rd</sup> Party CWP	1,229	107	9%
	5. Auto Total Losses Paid	1,266	107	8%
	6. Auto Subrogation	1,060	107	10%
	7. Homeowners Paid	5,482	109	2%
	8. Homeowners CWP	2,107	108	5%
	9. Workers' Compensation Paid	45	2	4%
	10. Workers' Compensation CWP	21	17	81%
	11. Other Commercial CWP	3	3	100%
H.	Workers' Compensation USR			
	1. Workers' Compensation New Business	66	5	8%
	2. Workers' Compensation Renewals	2,576	21	1%
	3. Workers' Compensation Paid	45	2	4%



#### **IV. FINDINGS**

##### **A. Operations and Management**

1. Internal/External Audits  
No violations were noted.
2. Market Conduct Reports  
No violations were noted.
3. TPA Contracts Review  
No violations were noted.
4. Privacy Forms  
No violations were noted.
5. MCAS Reports (3 years)  
No violations were noted.

##### **B. Complaint Handling**

###### **1. DOI Complaints**

In one (1) complaint reviewed, the Company failed to comply with return premium requirements as required by 215 ILCS 5/143.12a (Crit #146). The Company failed to send the return premium in a timely manner. This finding was applicable to SICI.

In five (5) complaints reviewed, the Company failed to respond timely to the DOI complaint as required by 50 Ill. Adm. Code 926.40(a) (Crit #147). These findings were applicable to SICI, AEIC and ASIC.

In one (1) complaint reviewed, the Company failed to fully respond to the complaint allegations as required by 50 Ill. Adm. Code 926.40(b) (Crit #152). This finding was applicable to SICI.

###### **2. Non-DOI Complaints**

In five (5) complaints reviewed, the Company failed to comply with return premium requirements as required by 215 ILCS 5/143.12a (Crit #146). In three (3) instances, the Company failed to send the return premium in a

timely manner; in one (1) instance, the Company continued to withdraw premium from the insured's bank account (instead of refunding the premium); and in one (1) instance, the Company refunded an incorrect amount. These findings were applicable to AEIC, ASIC and SICI.

In one (1) complaint reviewed, the Company failed to maintain detailed documentation to permit the reconstruction of the Company's activities relative to a claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #149). This finding was applicable to SICI.

C. Marketing and Sales

No violations were noted.

D. Producer Review

1. Producer Licensing

In 11 auto policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #184). The Company could not provide the identity of the producing agent. Examiners were unable to determine if agents were properly licensed. These findings were applicable to SICI.

In one (1) auto policy reviewed, the Company could not provide evidence that the producer was properly licensed as required by 215 ILCS 5/132(2) (Crit #82). This finding was applicable to SICI.

In three (3) homeowners policies reviewed, the Company could not provide evidence that the producer was properly licensed as required by 215 ILCS 5/132(2) (Crit #114). These findings were applicable to SICI.

In eight (8) homeowners policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #185). The Company could not provide the identity of the producing agent. Examiners were unable to determine if agents were properly licensed. These findings were applicable to SICI.

2. Producer Terminations

In 12 instances the Company failed to maintain proof of mailing on agent terminations as required by 215 ILCS 5/141.02(3) (Crit #19). These findings were applicable to SICI.

E. Risk Selection

1. Auto First 60 Days Cancellations

In 17 cancellations reviewed, the Company failed to provide the reason of the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #11). These findings were applicable to SICI.

2. Auto Midterm Cancellations

In 22 cancellations reviewed, the Company failed to provide the reason of the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #12). These findings were applicable to SICI.

3. Homeowners First 60 Days Cancellations

In two (2) cancellations reviewed, the Company failed to provide the reason of the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #14). These findings were applicable to SICI.

4. Homeowners Midterm Cancellations

In 20 cancellations reviewed, the Company failed to provide the reason of the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #13). These findings were applicable to SICI.

5. Auto Nonrenewals

In 34 nonrenewals reviewed, the Company failed to provide an exact and unaltered copy of the nonrenewal notice sent to the named insured as required by 215 ILCS 5/143.17 (Crit #15). These findings were applicable to SICI.

6. Homeowners Nonrenewals

In 64 nonrenewals reviewed, the Company failed to include the FAIR Plan notice as required by 215 ILCS 5/143.22 (Crit #16). These findings were applicable to SICI.

In two (2) nonrenewals reviewed, the Company failed to include the right to appeal notice as required by 215 ILCS 5/143.23 (Crit #17). These findings were applicable to SICI.

In two (2) nonrenewals reviewed, the Company failed to provide an exact and unaltered copy of the nonrenewal notice sent to the named insured as required by 215 ILCS 5/143.17 (Crit #18). These findings were applicable to SICI.

F. Underwriting and Rating

1. Auto New Business

In 68 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #80). The Company was unable to obtain the applications from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In 62 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #81). The Company was unable to provide verification for the Advance Quote Discount. There was either no quote saved in the system or the quote failed to include a date, which prohibited the examiners from determining if the proper discount was applied. These findings were applicable to SICI.

In 46 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #83). The Company was unable to provide verification for the Homeowner's Discount. The examiners could not verify if the insured owned a home. These findings were applicable to SICI.

In three (3) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #84). The Company was unable to provide verification for the Account Discount. The examiners could not verify if other policies existed. These findings were applicable to SICI.

In three (3) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #85). The Company was unable to provide UM Forms. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In four (4) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #86). The Company was unable to provide verification for the Driver Training Discount. The filed rules/rates manual requires agents to maintain certain documentation and

states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In five (5) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #87). The Company was unable to provide verification for the Good Student Discount. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In one (1) policy reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #88). The Company relies on the producers to maintain documentation and was unable to provide verification for the Accident Prevention Course Discount. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." This finding was applicable to SICI.

In two (2) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #89). The Company failed to provide verification for the Distant Student Discount. The applicability of the discount is not documented in the application and there was no other documentation to support the application of the discount. These findings were applicable to SICI.

In four (4) policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #90). The Company failed to apply low mileage discount to eligible vehicles. The filed rating/rules manual states, "*...the Low Mileage Discount shall apply to regular use vehicles driven less than 8,000 miles annually.*" The information in the file clearly indicated that the vehicles were eligible for the discount. These findings were applicable to SICI. Refunds have not been processed.

In 116 policies reviewed, the Company failed to use filed rates as required by 50 Ill. Adm. Code 754.10 (Crit #145). The Company filed rates that were different than it intended to use. These findings were applicable to SICI and affected the entire book of business from 2012 to 2015. The Company was requested to re-rate all affected policies. The Company has refunded \$44,539 to 3,061 policies for the Safeco in-force auto business and refunded \$48,708 to 3,531 canceled policies (See related findings in Auto Renewals section below).

## 2. Auto Renewals

In 106 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #67). The Company relies on the producers to maintain documentation and was unable to obtain applications from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In 13 policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #69). The Company failed to apply Low Mileage Discount to eligible vehicles. The filed rating/rules manual states, "...*the Low Mileage Discount shall apply to regular use vehicles driven less than 8,000 miles annually.*" The information in the file clearly indicated that the vehicles were eligible for the discount. These findings were applicable to SICI. Refunds have not been processed.

In four (4) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #70). The Company failed to provide verification for the Distant Student Discount. The applicability of the discount is not documented in the application and there was no other documentation to support the application of the discount. These findings were applicable to SICI.

In one (1) policy reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #71). The Company relies on the producers to maintain documentation and was unable to provide verification for the Accident Prevention Course Discount. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." This finding was applicable to SICI.

In three (3) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #72). The Company was unable to provide UM Forms. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In one (1) policy reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #73). The Company failed to apply the Accident Prevention Course Discount that was documented in the file. This finding was applicable to SICI. The refund has not been processed.

In three (3) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #74). The Company was unable to provide verification for the Good Student Discount. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In 12 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #75). The Company was unable to provide verification for the Driver Training Discount. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In two (2) policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #77). The Company used incorrect territories. These findings were applicable to SICI. The examiners requested the Company to determine if the findings resulted in overcharges to make refunds to the insured, however, these have not been processed.

In six (6) policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #78). The Company was unable to provide verification for the Homeowners Discount. The examiners could not verify if insured owned a home. These findings were applicable to SICI.

In 184 policies reviewed, the Company failed to use filed rates as required by 50 Ill. Adm. Code 754.10 (Crit #145). The Company filed rates that were different than it intended to use. These findings were applicable to SICI and affected the entire book of business from 2012 to 2015. The Company agreed with the findings and was requested to re-rate all affected policies. The Company has refunded \$44,539 to 3,061 policies for the Safeco in-force auto business and refunded \$48,708 to 3,531 canceled policies (See related findings in Auto New Business section above.)

### 3. Homeowners New Business

In 74 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #113). The Company was unable to obtain applications from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In 11 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #115). The Company was unable to obtain evidence for the application of the Fire and/or Burglar Alarm Credit from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." These findings were applicable to SICI.

In 50 policies reviewed, the Company failed to use filed forms as required by 215 ILCS 5/143(2) (Crit #116). The Company used unfiled forms HOM-7000ep 1/09 and HOM-7001ep 1/09. These findings were applicable to SICI.

In one (1) policy reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #117). The Company was unable to obtain evidence for the application of the Security Discount from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are required to maintain relevant documentation for a period of seven years." This finding was applicable to SICI.

In three (3) policies reviewed, the Company failed to obtain the required mine subsidence waiver form as required by 215 ILCS 5/805.1(a) (Crit #121). These findings were applicable to SICI.

In 39 policies reviewed, the Company failed to use filed rates as required by 50 Ill. Adm. Code 754.10 (Crit #144). The Company failed to file the package level unity factor it intended to use. These findings were applicable to SICI and affected the entire book of business from 2014 to 2015. The Company was requested to re-rate all affected policies. The Company has completed the refund process and has issued refunds of \$236,522 on 27,099 Homeowners policies (See related findings in Homeowners Renewals section below.)

#### 4. Homeowners Renewals

In 146 policies reviewed, the Company failed to use filed forms as required by 215 ILCS 5/143(2) (Crit #55). The Company used unfiled forms HOM-7000ep 1/09 and HOM-7001ep 1/09. These findings were applicable to SICI.

In 85 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #56). The Company was unable to obtain applications from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, "You are



required to maintain relevant documentation for a period of seven years.” These findings were applicable to SICI.

In 48 policies reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #57). The Company was unable to obtain evidence for the application of the Fire and/or Burglar Alarm Credit from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, “You are required to maintain relevant documentation for a period of seven years.” These findings were applicable to SICI.

In four (4) policies reviewed, the Company failed to obtain the required mine subsidence waiver form as required by 215 ILCS 5/805.1(a) (Crit #58). These findings were applicable to SICI.

In one (1) policy reviewed, the Company failed to follow its filed rates/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #62). The Company applied a Package Auto Discount although the auto policy was canceled. This finding was applicable to SICI.

In one (1) policy reviewed, the Company failed to follow its filed rates/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #63). The Company used an incorrect territory. This error resulted in an undercharge. This finding was applicable to SICI.

In two (2) policies reviewed, the Company failed to follow its filed rates/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #64). The Company applied an Umbrella Discount although the umbrella policies were canceled. These findings were applicable to SICI.

In one (1) policy reviewed, the Company failed to provide complete records as required by 215 ILCS 5/132(2) (Crit #66). The Company was unable to obtain evidence for the application of the Sprinkler Credit from the producers. The filed rules/rates manual requires agents to maintain certain documentation and states, “You are required to maintain relevant documentation for a period of seven years.” This finding was applicable to SICI.

In 133 policies reviewed, the Company failed to use filed rates as required by 50 Ill. Adm. Code 754.10 (Crit #144). The Company failed to file the package level unity factor it intended to use. These findings were applicable to SICI and affected the entire book of business from 2014 to 2015. The Company was requested to re-rate all affected policies. The Company has completed the refund process and has issued refunds of \$236,522 on 27,099 Homeowners policies (See related findings in Homeowners New Business section above.)

5. Workers' Compensation New Business

No violations were noted.

6. Workers' Compensation Renewals

In two (2) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #187). The Company applied incorrect classifications. These errors resulted in undercharges, which resulted in unanticipated expenses for the insured. These findings were applicable to ASIC.

In two (2) policies reviewed, the Company failed to provide the auditor's worksheet as required by 215 ILCS 5/132(2) (Crit #194). These findings were applicable to AEIC.

In three (3) policies reviewed, the Company failed to provide schedule rating premium modification worksheets for the factors applied as required by 215 ILCS 5/132(2) (Crit #196). These findings were applicable to AEIC.

7. Commercial Auto New Business

No violations were noted.

8. Commercial Auto Renewals

No violations were noted.

9. Commercial Fire New Business

No violations were noted.

10. Commercial Fire Renewals

No violations were noted.

11. General Liability New Business

No violations were noted.

12. General Liability Renewals

No violations were noted.

## G. Claims

### 1. Auto 1<sup>st</sup> Party Paid

In three (3) claims reviewed, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #24). These findings were applicable to SICI.

In 15 claims reviewed, the Company's estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs, which does not comply with 215 ILCS 5/154.6(j) (Crit #25). The estimates placed a threshold for paint materials. These findings were applicable to SICI. Refunds are still pending.

### 2. Auto 1<sup>st</sup> Party Closed Without Payment

In one (1) claim reviewed, the Company failed to include "Notice of Availability of the Department of Insurance" in the denial letter as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #22). This finding was applicable to SICI.

### 3. Auto 3<sup>rd</sup> Party Paid

In four (4) claims reviewed, the Company's estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs, which does not comply with 215 ILCS 5/154.6(j) (Crit #29). The estimates placed a threshold for paint materials. These findings were applicable to SICI. Refunds are still pending.

In three (3) claims reviewed, the Company failed to affirm or deny the claim within a reasonable time as required by 50 Ill. Adm. Code 919.50(a) (Crit #30). These findings were applicable to SICI.

In two (2) claims reviewed, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #31). These findings were applicable to SICI.

In one (1) claim reviewed, the Company failed to pay reasonable and necessary rental costs as required by 50 Ill. Adm. Code 919.80(d)(2) (Crit #32). The Company initially agreed to pay 5 days of rental, however, only paid four days. This finding was applicable to SICI. The Company refunded \$33.69.

In one (1) claim reviewed, the Company failed to maintain detailed documentation to permit the reconstruction of the Company's claims activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #33). This finding was applicable to SICI.

4. Auto 3<sup>rd</sup> Party Closed Without Payment

In four (4) claims reviewed, the Company failed to provide a written denial letter as required by 50 Ill. Adm. Code 919.50(a)(2) (Crit #38). These findings were applicable to SICI.

In two (2) claims reviewed, the Company failed to affirm or deny the claim within a reasonable time as required by 50 Ill. Adm. Code 919.50(a) (Crit #39). These findings were applicable to SICI.

5. Auto Total Losses Paid

In 15 claims reviewed, the Company failed to send or timely send an Exhibit A letter as required by 50 Ill. Adm. Code 919.80(c) (Crit #36). These findings were applicable to SICI.

In one (1) claim reviewed, the Company failed to maintain detailed documentation to permit the reconstruction of the Company's claims activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #37). This finding was applicable to SICI.

6. Auto Subrogation

In eight (8) subrogation claims reviewed, the Company (1) failed to return the insured's deductible in a timely manner; or (2) relied on third-party statements without requesting evidence or confirming with their insured if the deductible had been paid as required by 215 ILCS 5/143b (Crit #20). Some files indicate the third party stated they had reimbursed the insured for the deductible directly, however, there was no supporting documentation in the file and the Company did not contact their insured to confirm payment. Other files contained notes of similar statements that were later found to be incorrect. In one case, the deductible was never refunded because the Company had not received proof of repairs from the insured. The Company refunded the \$250.00 deductible as a result of the exam. These findings were applicable to SICI.

7. Homeowners Paid

In three (3) claims reviewed, the Company failed to send a claim delay letter as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #40). These findings were applicable to SICI.

8. Homeowners Closed Without Payment

No violations were noted.

9. Workers' Compensation Paid

No violations were noted.

10. Workers' Compensation Closed Without Payment

No violations were noted.

11. Other Commercial Closed Without Payment

No violations were noted.

H. Workers' Compensation Unit Statistical Reports (USR)

1. Workers' Compensation New Business

No violations were found.

2. Workers' Compensation Renewals

No violations were found.

3. Workers' Compensation Paid

No violations were found.



STATE OF FLORIDA           )  
                                      ) ss  
COUNTY OF MARION       )

Victor M. Negron, being first duly sworn upon his/her oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In-Charge to examine the insurance business and affairs of American Economy Insurance Company NAIC Code #19690; American States Insurance Company NAIC Code #19704 and Safeco Insurance Company of Illinois NAIC Code #39012, collectively known as "the Company".

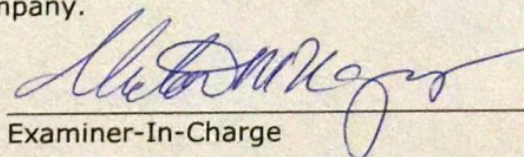
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

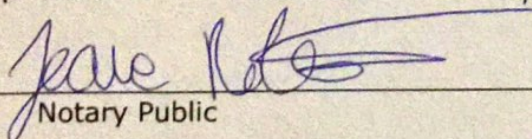
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That she/he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Company.

  
Examiner-In-Charge

Subscribed and sworn to before me  
this 13 day of December, 2014.

  
Notary Public



Joanna Robertson  
State of Florida  
My Commission Expires 08/03/2018  
Commission No. FF 147453



# STATE OF ILLINOIS

## DEPARTMENT OF INSURANCE



IN THE MATTER OF:

AMERICAN ECONOMY INSURANCE COMPANY  
AMERICAN STATES INSURANCE COMPANY  
SAFECO INSURANCE COMPANY OF ILLINOIS  
175 BERKELEY STREET  
BOSTON, MA 02116

### STIPULATION AND CONSENT ORDER

WHEREAS, the Director of the Illinois Department of Insurance ("Department") is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, American Economy Insurance Company, NAIC 19690, American States Insurance Company, NAIC 19704, and Safeco Insurance Company of Illinois, NAIC 39012, collectively referred to as "the Company," are authorized under the insurance laws of this State and by the Director to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by a duly qualified examiner of the Department pursuant to Sections 132, 401, 402, 403, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403, and 5/425); and

WHEREAS, as a result of the Market Conduct Examination, the Department examiner filed a Market Conduct Examination Report which is an official document of the Department; and

WHEREAS, the Market Conduct Examination Report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, the Company is aware of and understands their various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407, and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, they waive any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Director as follows:

1. The Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and Department Regulations; and
2. The Director and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain policies and procedures whereby the Company shall provide examiners adequate access to all books, records, documents, and any or all papers relating to the business, performance, operations, and affairs of the Company as required by 215 ILCS 5/132(2).
2. Institute and maintain policies and procedures whereby the Company shall maintain the proof of mailing of the notice of termination when terminating producers as required by 215 ILCS 5/141.02(3).
3. Institute and maintain policies and procedures whereby the Company shall ensure filing of forms issued or delivered as required by 215 ILCS 5/143(2).
4. Institute and maintain policies and procedures whereby the Company shall provide the lien holder a specific explanation of the reason or reasons for cancellation as required by 215 ILCS 5/143.15.
5. Institute and maintain policies and procedures whereby the Company shall provide the lien holder an exact and unaltered copy of the notice of its intention not to renew sent to the insured as required by 215 ILCS 5/143.17.
6. Institute and maintain policies and procedures whereby the Company shall ensure the insured is notified of their eligibility for the FAIR Plan Association in the notice of intent not to renew as required by 215 ILCS 5/143.22.
7. Institute and maintain policies and procedures whereby the Company shall timely reimburse the pro rata amount of the insured's deductible after recovery from the adverse party as required by 215 ILCS 5/143b.
8. Institute and maintain policies and procedures whereby the Company shall ensure claims are settled for a reasonable amount by not placing unreasonable caps or limits on paint materials as required by 215 ILCS 5/154.6(j).



9. Institute and maintain policies and procedures whereby the Company shall apply the correct classifications, payrolls and other factors of a rating system to compute premiums as required by 215 ILCS 5/462b.
10. Institute and maintain policies and procedures whereby the Company shall use the rules, rates, rating plans, classifications or other schedules filed with the Illinois Department of Insurance when issuing policies as required by 50 Ill. Adm. Code 754.10.
11. Institute and maintain policies and procedures whereby the Company shall provide the insured with, at a minimum, the information contained in Exhibit A, within seven (7) days of determination of the total loss as required by 50 Ill. Adm. Code 919.80(c).
12. Institute and maintain policies and procedures whereby the Company shall respond to Illinois Department of Insurance Complaints within the required twenty-one (21) days as required by 50 Ill. Adm. Code 926.40(a).
13. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above twelve (12) orders within 30 days of execution of this Order.
14. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$116,300 to be paid within 30 days of execution of this Order.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code including, but not limited to, levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of AMERICAN ECONOMY INSURANCE COMPANY, AMERICAN STATES INSURANCE COMPANY and SAFECO INSURANCE COMPANY OF ILLINOIS

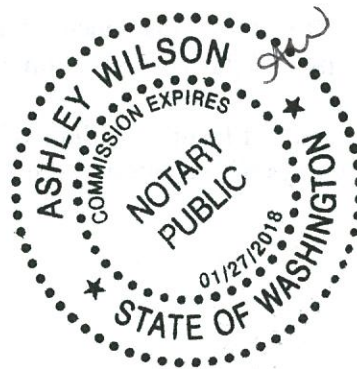
Janine Graft  
Signature

Janine GRAFT  
Name

AVP - DIRECTOR OF OPERATIONS  
Title

Subscribed and sworn to before me this  
22 day of may 2017.

Ashley Wilson  
Notary Public



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE 5/25/17

Jennifer Hammer  
Jennifer Hammer  
Director

