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# REPORT ON EXAMINATION

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(Limited Scope Market Conduct)

of

SAFE AUTO INSURANCE COMPANY.

NAIC COMPANY CODE: 25405

as of

December 31, 2006

(Property and Casualty)

By Representatives of the  
Oklahoma Insurance Department

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## SALUTATION

Oklahoma City, Oklahoma  
October 13, 2008

Honorable Kim Holland  
Insurance Commissioner  
State of Oklahoma  
2401 N W 23<sup>rd</sup> Street, Suite 28  
Oklahoma City, Oklahoma 73107

Commissioner Holland:

Pursuant to instructions and in compliance with the provisions of Title 36 of the Oklahoma Statutes, rules, regulations and procedures of the Oklahoma Insurance Department, and the procedures established by the National Association of Insurance Commissioners, a limited scope examination of the market conduct activities has been conducted of:

### **SAFE AUTO INSURANCE COMPANY**

**Main administrative Office  
3883 East Broad Street  
Columbus, Ohio 43213**

The following Report of Examination (Limited Scope Market Conduct), as of December 31, 2006, is hereby respectfully submitted.

## **FOREWORD**

This limited scope market conduct examination report, as of December 31, 2006 reflects certain Oklahoma insurance activities of Safe Auto Insurance Company, hereafter referred to as "Safe Auto" or the "Company". The examination was conducted in the Company's office at 3883 East Broad, Columbus, Ohio. The examination is, in general, a report by test, wherein each test applied during the examination is stated and the results are reported, whether the results are favorable or unfavorable.

## **SCOPE OF EXAMINATION**

This examination covers the period January 1, 2004, through December 31, 2006. The purpose of the examination was to determine compliance by the Company with provisions of the law, and any other facts relative to its business methods, management or equity of its dealings with its policyholders.

The examination was conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC), rules, regulations and directives of the Oklahoma Insurance Department and pursuant, but not limited to, Title 36 O.S. §§ 309.1 – 309.7, 1204 – 1220, 1250.1, 1250.10, 1435.14.A, 1435.15A, and 3636.

In reviewing material for this report, the examiners relied primarily on records and material furnished by the Company.

File sampling was based on a review of randomly selected, unless otherwise indicated, samples of underwriting and claim files by category.

During the course of this examination, the Company's operations were reviewed, including, but not limited to, the following:

- Operations and management;
- Complaint Handling;
- Producer Licensing;
- Underwriting
- Policyholder Service; and
- Claims.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Oklahoma Insurance Department. Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process. This report should not be construed to endorse or discredit any insurance company or insurance product. This report is prepared for a particular audience and for a particular use. The materials contained in it are not necessarily suitable for any other purpose.

## PRIOR EXAMINATION REPORT

There is no prior Oklahoma examination report.

### COMPANY OPERATIONS AND MANAGEMENT

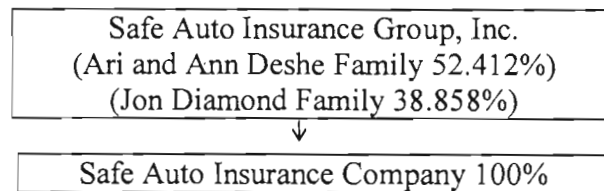
#### History and Profile

The Company was incorporated in Ohio May 28, 1993 and commenced business August 25, 1993. The Company is a privately held personal automobile insurance carrier operating in thirteen (13) states on a consumer direct basis. The Company is licensed in Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee and Texas.

#### Affiliated Parties

The Company and its affiliates are members of an Insurance Holding Company System as defined in Title 36, O.S. §1651 (d).

The following abbreviated organizational chart reflects the Company's ownership.



#### Direct Written Premium

The Company's reported total direct written premium in Oklahoma during the period under review was as follows:

Lines of business	2006	2005	2004
Other private passenger auto liability	\$3,264,291	\$1,112,124	0
Private passenger auto physical damage	1,059,877	326,204	0
<b>Total</b>	<b>\$4,324,168</b>	<b>\$1,438,328</b>	<b>0</b>

The Company's reported total direct written premium during the period under review was as follows:

Lines of business	2006	2005	2004
Private passenger auto no-fault	\$ 10,577,056	0	\$ 13,722,822
Other private passenger auto liability	227,709,055	\$239,770,389	189,393,464
Private passenger auto physical damage	95,678,957	96,187,594	83,406,552
<b>Total</b>	<b>\$333,965,068</b>	<b>\$335,957,983</b>	<b>\$286,522,838</b>

## COMPLAINT HANDLING

In the review of the Company's complaint handling, attention was given to the Company's analysis of the complaint, the candor of the response, comparison of the response and actual file contents. The Company's own complaint records and the complaint listing maintained by the Oklahoma Insurance Department were utilized in this review.

### Functional Cause of Complaints

Cause of Complaint	2006	2005	2004
Unsatisfactory Settlement	1	0	0
Denial of Claim	3	1	0
Delays	4	0	0
<b>Total</b>	<b>8</b>	<b>1</b>	<b>0</b>

### Complainant Time Studies

For this study, time was measured from date the Company received the complaint until the date of response. In this study no exception was noted.

Days	Number of Complaints	Percentage
0-20	7	78.0%
Over 20	2	22.0%
<b>Total</b>	<b>9</b>	<b>100.0%</b>

Nine (9) complaints were selected as a sample for review, from a population of nine (9) complaints closed during the time frame of the examination, two (2) errors were noted which resulted in an error ratio of 22%. Following is a report of the errors noted.

- ❖ Claim number 293938: the Company failed to answer the Oklahoma Insurance Department inquiry within twenty (20) days and the Company was fined \$100.00. Reference: Title 36 O.S. § 1250. 4. B.
- ❖ Claim number 283805: the Company failed to answer the Oklahoma Insurance Department inquiry within twenty (20) days. Reference: Title 36 O.S. § 1250. 4. B.

## MARKETING AND SALES

### Marketing

The Company markets its products through direct writer agents.

## **PRODUCER LICENSING**

### **Producers Licensing and Appointments**

The Company's listing of agent's commissions paid was compared to the Oklahoma Insurance Department listing of appointed agents. No exception was noted.

### **Adjuster Licensing**

The Company's claims are handled for the most part by the Company's adjusters. On each claim reviewed the adjuster's license was checked against the Oklahoma Insurance Department listing of adjusters. In this study, no exceptions were noted.

## **POLICYHOLDER SERVICE**

The policyholder service portion is designed to test the Company's compliance with statutes regarding notice/billing, delays/no response, and premium refunds.

### **Policy Cancellation Refunds**

The total field sizes of 20,459 policies were examined to determine errors. In that sample, twenty (20) errors were noted which resulted in an error ratio of 0.098%. At a 100% level of confidence, the discovered error ratio of 0.098% will not exceed 7% when applied to the entire field. Following is a report of the errors noted.

- ❖ Policy numbers: 1432, 4094, 4282, 5636, 5344, 2532 1964, 8972, 9482, 10842, 3022, 11303, 3659, 10971, 13158, 13476, 13064, 13963, 14151 and 12772, the Company failed to refund cancellation premiums in the amount of \$133.00 dollars. Reference: Title 36 O.S. § 1241.1.

## **UNDERWRITING AND RATING**

The Company's underwriting and rating practices were reviewed, including filing of forms in use during the period under examination.

### **Company Forms**

In a review of the Company's forms, no exception was noted.

### **Application of Rates and Underwriting**

The most appropriate statistic to measure accuracy is the number of files in error. An error is taken to be any failure of the Company to:

- Correctly calculate premium;
- Correctly code;
- Comply with statutes, regulations or policy provisions; or
- Properly issue.

**Active Automobile Policies**

Field Size	Type of Sample	Size of Sample
14,461	Random	50

In this study, no error was noted, which resulted in an error ratio of 0%.

**Cancelled Automobile Policies**

Field Size	Type of Sample	Size of Sample
20,459	Random	50

In this study, no error was noted, which resulted in an error ratio of 0%.

**CLAIMS**

**Claim Time Studies**

For these studies, claim payments are measured from the following:

ACKNOWLEDGEMENT TIME:

From the date of receipt by the insurer or agent of notification of a claim to a company’s initial communication or acknowledgement to the claimant. Reference: Title 36 O.S. § 1250.6.A.

INVESTIGATION TIME:

From the date the company or agent receives notification of a claim to the date the investigation is completed. Reference: Title 36 O.S. § 1250.7.C.

ACCEPTANCE TIME:

From the date the company has received all necessary proof of loss information to the date of acceptance or denial. Reference: Title 36 O.S. § 1250.7.A.



The following eighty four (84) claims were randomly selected for time studies. In that review, no errors were noted.

<b>Lines of business</b>	<b>Field Size</b>	<b>Sample size</b>	<b>Number of errors</b>
Automobile Physical Damage Claims	342	50	0
Automobile Liability Claims	294	13	0
Salvage Claims	35	10	0
Subrogation Claims	11	11	0
<b>Total</b>	<b>682</b>	<b>84</b>	<b>0</b>

### **Claim Practices**

The claims practices of the Company were examined for efficiency of handling, accuracy of payment, compliance to Oklahoma Statutes and Regulations, and adherence to contract provisions. A claim is taken to be a demand for payment by an insured or claimant under a coverage against the insurer, which claim is:

#### **Paid by the Insurer as:**

1. Full recompense
2. Partial recompense

#### **Closed without payment by reason of:**

1. No relevant coverage
2. No liability
3. Recompense by other legal means

### **First Claim Records Request**

Seventy seven (77) claim records were requested as a random sample from a population of 636 claims closed during the time frame of the examination. In this study, thirty four (34) errors were noted which resulted in an error ratio of 44.1%. The errors are noted below.

- ❖ In our initial request for claim records, thirty four (34) claim records could not be located for review. Reference: Title 36 O.S. § 1250.4.A.

### **Second Claim Records Request**

Thirty six (36) claim records were requested as a random sample from a population of 636 claims closed during the time frame of the examination. In this study, thirteen (13) errors were noted which resulted in an error ratio of 36.1%. The errors are noted below.

- ❖ In our second request for claim records, thirteen (13) claim records could not be located for review. Reference: Title 36 O.S. § 1250.4.A.

### **Automobile Physical Damage Claims**

Fifty (50) claims were selected for review from a population of 342 claims closed during the time frame of the examination. In this study, two (2) errors were noted which resulted in an error ratio of 4 %. The errors are noted below.

- ❖ Claim Number 261536-(4): A proof of loss was signed and received by the Company, the Company failed to deny or pay the claim within the time frame required. Reference: Title 36 O.S. § 1250.7.A.
- ❖ Claim number 287362-(11): The Company received an estimate for damages and failed to pay or deny the claim. Reference: Title 36 O.S. § 1250.7.A.

### **Automobile Liability Claims**

Thirteen (13) claims were randomly selected for review from a population of 294 claims closed during the time frame of the examination. In this study, no error was noted.

### **Automobile Salvage Claims**

Ten (10) claims were randomly selected for review from a population of thirty five (35) claims closed during the time frame of the examination. In this study, six (6) errors were noted which resulted in an error ratio of 60%. The errors are noted below.

Claim numbers 216014-(20, 267031-(8), 241868-(9), 257700-(10), 221905-(11) and 239693-(7): The Company failed to properly calculate taxes and license fees on total loss vehicles and over paid them by \$2,496.01.

### **Subrogation Claims**

Eleven (11) subrogation files were selected as a sample from a population of eleven (11) claims closed during the time frame of the examination. In this study, no error was noted.

## COMMENTS

Comments	Page
<b><u>Policy Cancellation Refunds</u></b>	<b>4</b>
<p>The total field sizes of 20,459 policies were examined to determine errors. In that sample, twenty (20) errors were noted which resulted in an error ratio of 0.098%. At a 100% level of confidence, the discovered error ratio of 0.098% will not exceed 7% when applied to the entire field.</p>	
<b><u>Claims Practices</u></b>	
<b><u>First Claim Records Request</u></b>	<b>6</b>
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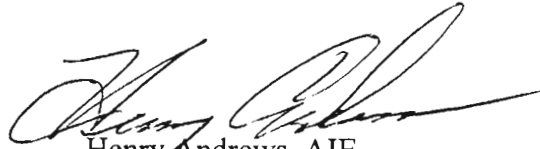
## ACKNOWLEDGMENT

The Market Conduct Examination Report of Safe Auto Insurance Company is respectfully submitted to the Honorable Kim Holland, Insurance Commissioner of the State of Oklahoma.

In addition to the undersigned, Mr. Jim Mitchell, AFE, participated in the examination.

The Examiners wish to express their appreciation for the courteous cooperation and assistance given by the officers and employees of the Company during the course of this examination.

Respectfully Submitted,

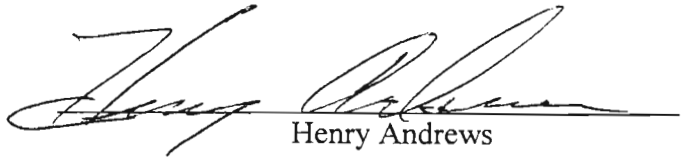
A handwritten signature in black ink, appearing to read "Henry Andrews", written in a cursive style.

Henry Andrews, AIE  
Examiner-in Charge, State of Oklahoma  
Midwestern Zone III, NAIC

**AFFIDAVIT**

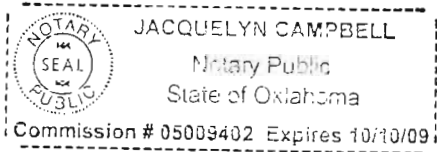
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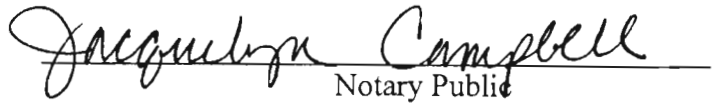
I, Henry Andrews, of lawful age, being first duly sworn, upon oath state that I have been charged with examining Safe Auto Insurance Company, as of December 31, 2006, that I have prepared and read the foregoing Report of Examination, that I am familiar with the matters set forth therein, and I certify the Report is true and complete to the best of my knowledge and belief.

  
Henry Andrews

Subscribed and sworn to before me this 24<sup>th</sup> day of November, 2008, by Henry Andrews.

[seal]



  
Notary Public

My commission expires: 10/10/09