



1 Finding No. 4

2  
3 A Report of Market Conduct Examination of Safeco on compliance with Alaska statute  
4 and matters enumerated in the Notice of Examination was presented to the examinee on  
5 September 19, 2008, and filed with the division in accordance with AS 21.06.150(b).

6  
7 Finding No. 5

8  
9 Pursuant to AS 21.06.150(b), Safeco was afforded the opportunity to respond to the  
10 division concerning matters contained in the Report of Market Conduct Examination. The  
11 division received a response on October 29, 2008. Safeco agrees and will comply with the  
12 recommendations of the report.

13  
14 Finding No. 6

15  
16 To the extent that she considered necessary, the director has fully considered and  
17 reviewed the Report of Market Conduct Examination, together with the written response of  
18 Safeco, and any relevant portion of the examiner's work papers.

19  
20 Finding No. 7

21  
22 The examination of Safeco was conducted in accordance with applicable Alaska statutes.  
23 The report is a factual account of the findings of the examiners based on tests that determine  
24 compliance with Alaska law and supported with appropriate documentation.

25  
26  
27 **CONCLUSIONS OF LAW**

28  
29 Conclusion No. 1

30  
31 The examination report was filed with the division and transmitted to Safeco in  
32 accordance with AS 21.06.150(b).

33  
34 Conclusion No. 2

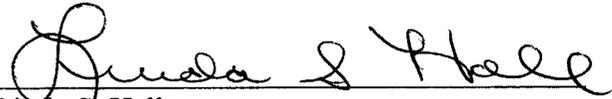
35  
36 An order should be issued in accordance with AS 21.06.150(b), approving the  
37 examination report. Under to AS 21.06.150(b), the director or the director's designee must issue  
38 an order adopting the report.

1 **ORDER**

2  
3 It is hereby ordered that, pursuant to AS 21.06.150(b), and with the findings and  
4 conclusions set forth above, the attached Report of the Market Conduct Examination of Safeco,  
5 dated September 19, 2008, is approved.

6  
7 This order is effective November 6, 2008.

8  
9 Dated this 6th day of November 2008, at Anchorage, Alaska

10  
11  
12 

13  
14 Linda S. Hall

15 Director  
16

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

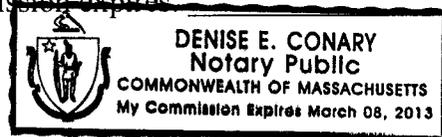


\_\_\_\_\_  
Gary R. Gregg  
President, Chief Executive Officer, Director and  
Chairman of the Board of Safeco Insurance  
Company of America and Safeco Insurance  
Company of Illinois

SUBSCRIBED AND SWORN TO before me this 8 of DECEMBER, 2008.



\_\_\_\_\_  
Notary Public in and for the State of Massachusetts  
My commission expires:

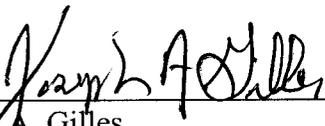


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Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

  
\_\_\_\_\_  
Joseph A. Gilles  
Executive Vice President and Director of Safeco  
Insurance Company of America  
Executive Vice President of Safeco Insurance  
Company of Illinois

SUBSCRIBED AND SWORN TO before me this 9<sup>th</sup> of December, 2008.

  
\_\_\_\_\_  
Notary Public in and for the State of Massachusetts  
My commission expires: 2/13/2015

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

  
\_\_\_\_\_  
Michael J. Fallon  
Chief Financial Officer, Treasurer and Director of  
Safeco Insurance Company of America  
Chief Financial Officer and Treasurer of Safeco  
Insurance Company of Illinois

SUBSCRIBED AND SWORN TO before me this 1<sup>st</sup> of December, 2008.

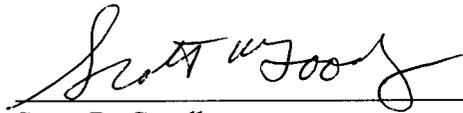
  
\_\_\_\_\_  
Notary Public in and for the State of Massachusetts  
My commission expires: 2/13/2015

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.



\_\_\_\_\_  
Scott R. Goodby  
Chief Operating Officer, Executive Vice President  
and Director of Safeco Insurance Company of  
America  
Chief Operating Officer and Executive Vice  
President of Safeco Insurance Company of  
Illinois

SUBSCRIBED AND SWORN TO before me this 15<sup>th</sup> of December, 2008.



\_\_\_\_\_  
Notary Public in and for the State of Massachusetts  
My commission expires: 2/13/2015

**AFFIDAVIT OF RECEIPT AND REVIEW**

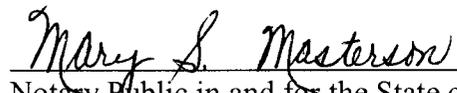
Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

  
\_\_\_\_\_  
Christopher C. Mansfield  
Director of Safeco Insurance Company of America

SUBSCRIBED AND SWORN TO before me this 10<sup>th</sup> of DECEMBER, 2008.

  
\_\_\_\_\_  
Notary Public in and for the State of Massachusetts  
My commission expires: JUNE 19, 2009

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

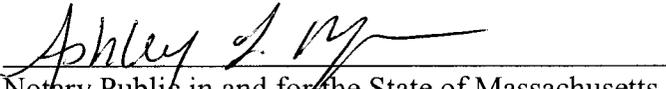
Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.



A. Alexander Fontanes  
Director of Safeco Insurance Company of America

SUBSCRIBED AND SWORN TO before me this 9 of December, 2008.

  
Notary Public in and for the State of Massachusetts  
My commission expires: \_\_\_\_\_



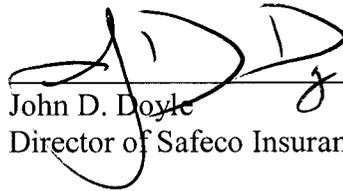
**ASHLEY L. MAZUR**  
Notary Public  
Commonwealth of Massachusetts  
My Commission Expires  
August 15, 2014

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.



John D. Doyle  
Director of Safeco Insurance Company of America

SUBSCRIBED AND SWORN TO before me this 8 of December, 2008.

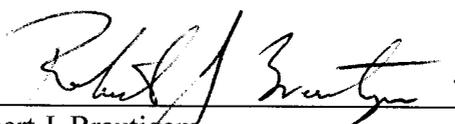
Rae E. Lenoque  
Notary Public in and for the State of Massachusetts  
My commission expires: 3-26-2015

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

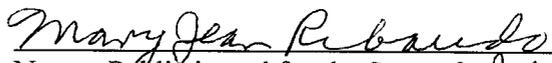
Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

  
\_\_\_\_\_  
Robert J. Brautigam  
Director of Safeco Insurance Company of Illinois

SUBSCRIBED AND SWORN TO before me this 5<sup>th</sup> of January, <sup>2009</sup>2008.

**"OFFICIAL SEAL"**  
**MARY JEAN RIBAUDO**  
**NOTARY PUBLIC, STATE OF ILLINOIS**  
**My Commission Expires 11/19/2012**

  
\_\_\_\_\_  
Notary Public in and for the State of Illinois  
My commission expires: 11/19/2012

**AFFIDAVIT OF RECEIPT AND REVIEW**

Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

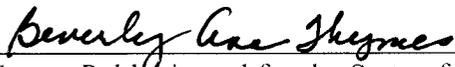
Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

  
\_\_\_\_\_  
Mark A. Butler  
Director of Safeco Insurance Company of Illinois

SUBSCRIBED AND SWORN TO before me this 11th of December, 2008.



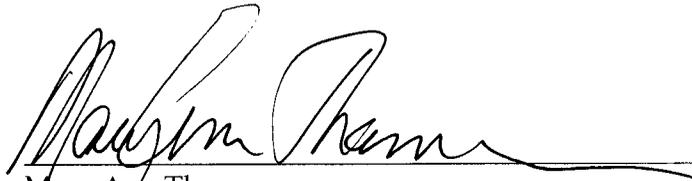
  
\_\_\_\_\_  
Notary Public in and for the State of Illinois  
My commission expires: 9/28/2011

**AFFIDAVIT OF RECEIPT AND REVIEW**

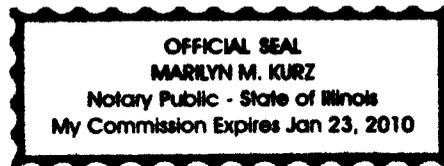
Pursuant to AS 21.06.150(b), the following market conduct examination report, MCE # 08-02, has been accepted and approved by the Director of Insurance and all related orders have been attached:

Examinee: **SAFECO Insurance Company of America**  
**SAFECO Insurance Company of Illinois**  
Report dated: **September 19, 2008**  
Report approved: **November 06, 2008**

I hereby state under oath that I have received and reviewed a copy of the approved report and related order.

  
Mary Ann Thaman  
Director of Safeco Insurance Company of Illinois

SUBSCRIBED AND SWORN TO before me this 17th of December, 2008.



Notary Public in and for the State of Illinois  
My commission expires: January 23, 2010

**STATE OF ALASKA  
DEPARTMENT OF COMMERCE  
COMMUNITY AND ECONOMIC  
DEVELOPMENT**

**DIVISION OF INSURANCE**

**REPORT OF LIMITED MARKET**

**CONDUCT EXAMINATION**

**OF**

**SAFECO INSURANCE COMPANIES  
Seattle, Washington**

**MCE 08-02**



**Submitted by  
Christian F. Ulmann  
Market Conduct Analyst  
September 19, 2008**

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## **Executive Summary**

This examination was called to review Safeco's processing of first party homeowner's property claims. This was a limited and narrow examination focused on four issues;

**Documentation.** The examiners reviewed the documentation procedures and systems of Safeco to evaluate, whether the files examined, contain all notes, papers documents, and similar material, and in sufficient detail that those relevant events and dates of those events, and all persons participating in those events, can be identified. The examiners found the files well documented.

**Investigation, notice and timeliness.** The examiners focused on the adequacy and quality of Safeco's investigations of Alaska first party homeowner's claims. The examiners found one file that failed this test. As a result Safeco provided the examiners with a plan of operation to remedy the problems. The examiners issued a recommendation.

**Use of contractors, steering and referrals and determination of loss valuation.** The examiners evaluated whether there was evidence of steering or referrals to specific contractors repairing damaged property. The examiners found two cases where steering did occur. In general it is not an issue but seems to be an internal undefined practice that needs correction and consistency. The examiners made a recommendation to improve upon those matters.

**Payment Methodologies.** The examiners reviewed claim payments and checked when, to whom and under what conditions claims checks were issued. One of the concerns was also whether the interests of the policyholders were protected when payments were made directly to the contractors. The examiners found three cases where Safeco paid the contractors directly without having obtained a signed authorization to do so from the consumer. Further, Safeco did not assure that the damaged properties were repaired prior to issuing payments to the contractors. This is an inappropriate claims handling practice by Safeco and needs improvement. The examiners issued a recommendation regarding this issue.

September 19, 2008

Linda S. Hall, CPCU  
Director, Division of Insurance  
Department of Commerce, Community and Economic Development  
550 West 7<sup>th</sup> Avenue, Suite 1560  
Anchorage, AK, 99501-3567

RE: Report of Market Conduct Examination MCE-08-01  
NAIC # 24740 SAFECO Insurance Company of America AK COA # 996  
NAIC # 39012 SAFECO Insurance Company of Illinois, AK COA # 8094

Pursuant to Alaska Statute (AS) 21.06.120-180, the Alaska Division of Insurance performed a limited and targeted market conduct examination of the SAFECO Insurance Company of America and SAFECO Insurance Company of Illinois (Safeco) on June 23rd through June 27th, in the company's Seattle, Washington Offices. The Examination team consisted of Christian F. Ulmann, Examiner-in-Charge (EIC), Donald E. Hale, Market Conduct Examiner, and H. Theodore Lehrbach, Chief Examiner of the Alaska Division of Insurance. All of the named examiners are employees of the State of Alaska.

## **SAFECO INSURANCE COMPANIES MCE 08-02**

### **SCOPE OF EXAMINATION**

This examination was called to review Safeco's processing of first party homeowner's property claims. This was a limited and narrow examination focused on four issues;

1. **Documentation.** The examiners evaluated the adequacy and quality of Safeco's documentation of files.
2. **Investigation, notice and timeliness.** The examiners focused on the adequacy and quality of Safeco's investigations of Alaska first party homeowner's claims.
3. **Use of contractors, steering and referrals and determination of loss valuation.** The examiners evaluated whether there was evidence of steering or referral to specific contractors repairing damaged property.

4. **Payment Methodologies.** The examiners reviewed the claims payments and checked when and to whom the checks were issued. Further, the examiners evaluated whether the interests of the policyholders were protected when payments were made directly to the contractors.

## **PRELIMINARY EVENTS LEADING TO THE EXAMINATION**

Historically, the Alaska Division of Insurance has attempted to resolve concerns and disputes with insurers doing business in Alaska through more informal and flexible approaches that have recently been described and formalized in the 2007 versions of the NAIC Market Regulation Handbook, Volume I, "Continuum of Regulatory Responses," Chapter 2.

Alaska has always sought to approach licensed insurers with an attitude of cooperation. When problems arise, the Division prefers to communicate informally with insurers to discuss market practices, and to try and create solutions to the unique challenges that exist in the Alaskan market. The Alaska Division of Insurance will be as cooperative as possible to assure a fair and equitable environment for both the insurer and the Alaskan consumer.

With that historical perspective in mind, this examination resulted from such efforts. On June 20, 2007, Safeco representatives met in Anchorage with the Director and Division Staff in an attempt to resolve issues identified to Safeco in early 2007. Several of the issues were addressed by the company at that time or shortly thereafter. However, the Director remained concerned about some other issues that were common themes in several consumer complaints filed against the company, and those issues, mentioned above, became the focus of the examination.

This Examination of Safeco was conducted in accordance with the procedures outlined in the 2007 Market Regulation Handbook adopted by the National Association of Insurance Commissioners (NAIC).

## **SUBJECT MATTERS EXAMINED**

The focus of this Market Conduct Examination was to provide insight into Safeco's handling of first party homeowners claims and whether it was in compliance with applicable statutes and regulations. Therefore, the examiners had to become familiar with the company's claim handling procedures for the homeowners business. In addition to policy manuals and internal procedures, the examiners also reviewed corresponding policy forms for coverage, exclusions and nonstandard provisions. The examiners reviewed the methods for processing claims from the point of notification from the consumer to the conclusion of the claim. Finally, the examiners evaluated the procedures and controls Safeco had in place to assure that a claim is properly handled and that Safeco's standards comply with Alaska Statutes and Regulations.

## **TIME FRAME**

The examination period covered claims that were in an open status from January 1, 2005 to April 30, 2008.

## **COMPANY PROFILE AND CLAIMS OPERATIONS**

SAFECO writes personal automobile, homeowners, and commercial coverages for small, medium and large accounts. The following Companies were the subjects of this Market Conduct Examination:

SAFECO Insurance Company of America	NAIC # 24740
SAFECO Insurance Company of Illinois	NAIC # 39012

Both companies are licensed and admitted in the State of Alaska.

After initiating this examination, it was determined that only one company would be the subject of this review as all of the homeowners policies were written in that single company, Safeco Insurance Company of America. The general name of Safeco will be used throughout this examination report to denote that particular company.

The structure of the claims department includes managers and adjusters grouped into teams that are disbursed in many locations, Seattle, Spokane, Portland, Denver, various cities in California, and the Catastrophic claims events office in Richardson, Texas. The examiners visited the Seattle office. During the review of files, the examiners reviewed files that were partially handled by the other named offices and then transferred to the Seattle office for further handling. All of these offices operate the same claims system. Safeco takes good advantage of current technology.

The Safeco "Large Loss" team shows excellent response times to claims. The onsite inspections by the field representatives and their use of independent adjusters as well as their use of cause and origin experts are very efficient.

The adjusters are fairly consistent in their use of standard estimator systems, and Safeco does not appear to be relying heavily on contractors to do their estimate work. Each file seems to have either a field representative's estimate or an independent adjuster's estimate, with the inclusion of a contractor's estimate as an additional back up. Their estimating skills are strong and appear to be reasonably applied with enough flexibility to address a variety of circumstances.

In general, files reviewed indicate that Safeco communicates well with their policyholders and insureds, with a few exceptions that caused some difficulties. Overall, they appeared to be able to resolve disputes or policyholder concerns timely and with courtesy. They have a back up system where the primary adjuster can go to a manager who can provide assistance or they can enlist a "specialist" to help them in a particular field. They have a quality control program; primarily with respect to checking on the accuracy and adequacy of estimates.

## **METHODOLOGY AND SAMPLE**

The examination was initiated by reviewing procedure manuals, claims adjuster's training manuals, and holding a series of meetings with the Safeco claims management team as well as appropriate

company staff focused on claims handling. In addition, Safeco made claims management staff available to the examiners to answer questions as they arose.

The examiner's goal was to develop a comprehensive understanding of the company's claims handling procedures for first party homeowners' property claims. Safeco provided the examiners with an excel list containing claims information on over 1000 first party homeowners' property claims files. The examiners selected and reviewed 50 files out of this sample. Special attention was given by the examiners to obtain a sample reflecting the wide spectrum of the various classes of Safeco's homeowner's property claims. These included: Denied, closed-without-payment, and paid claims for first-party homeowner's property claims.

The examiners reviewed 50 homeowners claim files (some were condominium owners claim files) that were selected within three general categories to include: Severity of losses, age of claim, and a broad sampling from the listing of individual claim handlers.

With Verification Memoranda, the examiners brought all matters of concern to the attention of Safeco. Safeco staff responded to all inquires. The fieldwork phase of this examination was closed on August 04, 2008.

## **FIRST PARTY HOMEOWNERS' PROPERTY CLAIMS FILE REVIEW**

### **Description of File Documentation System**

Safeco has done an exceptional job with its online claims system, (COMPASS Virtual Office). It is easy to use and fully electronic, with a few exceptions where they have a paper file needed to hold documents such as architectural or engineering plans that are too large to scan. It took only a little time to become familiar with its layout, and it was quite easy to use and navigate.

Through one main program interface the reviewer/examiner can easily view a summary on the claim, all parties involved with the claim, all correspondence, documents and file notes, and all claim payments. The summary page describes in short the nature of the claim and the cause of the insured damage. The involved parties screen tells the examiner who is involved in this claim and what their function is and includes the addresses of the parties, which is important in evaluating to whom checks may have been sent.

The next screen is the documentation screen. Here examiners can review every document associated with the claim. This section also provides the user with the rationale for decisions made and details for all actions taken. This screen contains file notes, reports of contacts and all other documents (letters, emails, email attachments, and independent adjuster's reports). The system does not allow a deletion of formerly stored documents. It only allows for the document to be shown as not active anymore under a separate heading. This prevents document removal.

The payment screen is the last of the four screens and contains information as to when, how much and to whom payments have been made as well as the kind of coverage. It also contains information regarding any other payments, such as for Private Property and payments to adjusters and Mitigation contractors.

In addition, the examiners can, while reviewing a claim, at anytime click on the Safeco logo and obtain all of the policy information. With this feature, the examiners can evaluate the correctness of the claims handling in relation to the coverage provided by the policy. This screen contains the complete policy, any endorsement and additional or reduced coverage features. Safeco claims staff use this screen to verify coverage for a claim.

Through their general system, the examiners had access to Safeco's claim handling instructions and specific instructions regarding how to handle and pay a claim. Safeco also has very helpful online tools; "The Safeco Way" which is the modern substitute for the old "claims manual." The examiners spent some time reviewing the online "tools". The "tools" are well organized and contain back up links to similar or related topics on claims handling and/or coverage issues.

### **Documentation Test**

Alaska Regulation 3 AAC 26.030 requires that all files examined, contain all notes, papers documents, and similar material, and be in sufficient detail so that relevant events and the dates of those events, and all persons participating in those events can be identified. The examiners found the files well documented. The examiners determined that Safeco is in compliance with 3 AAC 26.030.

### **Investigation**

The examiners found that Safeco's systems and procedures, with very few exceptions, were consistently followed, which provided for smooth claims handling. In most reviewed claim files, Safeco consistently and properly provided claim-acceptance/denial notices within 15 days, and completed the investigation within 30 days. The examiners observed that Safeco handles claims with no delays and operates in general within the time limits provided by Alaska Statutes and Regulations. However, the examiners found one file, where the time frames required in Alaska Regulations 3AAC26.050 and 3AAC26.070 were violated.

Alaska Regulation 3 AAC 26.050, Standards for prompt investigation of claims, states in relevant part:

***(a) Any person transacting a business of insurance who participates in the investigation, adjustment, negotiation, or settlement of a claim shall promptly undertake the investigation of a claim after notification of the claim is received, and shall complete the investigation within 30 working days, unless the investigation cannot reasonably be completed using due diligence.***

***(b) Unless the notification of a claim is in the form of a suit, demand for arbitration, application for adjudication, or other pleading, or the claim becomes the subject of such litigation within 30 working days, the person transacting the business of insurance shall give written notification to the claimant that specifically states the need and reasons for additional investigative time and also specifies the additional time required to complete the***

*investigation. That notification shall be given no later than the 30th working day after notification of the claim is first received.*

Further, Alaska Regulation 3AAC26.070 Standards for prompt, fair, and equitable settlements, states in relevant part:

*(a) Any person transacting a business of insurance who participates in the investigation, adjustment, negotiation, or settlement of a first-party claim:*

*(1) shall advise a first-party claimant in writing of the acceptance or denial of the claim within 15 working days after receipt of a properly executed statement of claim, proof of loss, or other acceptable evidence of loss unless another time limit is specified in the insurance policy, insurance contract, or other coverage document; payment of the claim within this time limit constitutes written acceptance; a written denial of the claim must state the specific provisions, conditions, exclusions, and facts upon which the denial is based; if additional time is needed to determine whether the claim should be accepted or denied, written notification giving the reasons that more time is needed shall be given to the first-party claimant within the deadline. While the investigation remains incomplete, additional written notification shall be provided 45 working days from the initial notification, and no more than every 45 working days thereafter giving the reasons that additional time is necessary to complete the investigation; if there is a reasonable basis supported by specific information for suspecting that a first-party claimant has fraudulently caused or wrongfully contributed to the loss, and the basis is documented in the claim file, this reason need not be included in the written request for additional time to complete the investigation or the written denial; however, within a reasonable time for completion of the investigation and after receipt of a properly executed statement of claim, proof of loss, or other acceptable evidence of loss, the first-party claimant shall be advised in writing of the acceptance or denial of the claim... .*

The examiners determined that Safeco violated the claims notice requirements as discussed in the above mentioned regulations. Safeco did not complete the investigation in the first 30 working days as required by 3AAC26.070 (a) and did not provided the claimant with the appropriate notice and reason that additional time to investigate this claim was needed according to 3AAC26.070 (b). After the expiration of 45 working days from the initial notification, the notice required by 3AAC26.070 (a) (1) was not provided either.

Safeco admitted to these violations. In response to the examiners inquiry of how they intend to prevent such a reoccurrence, Safeco responded on July 08, 2008, by stating:

*We have reviewed the file in question in its entirety and agree that there are concerns and opportunities for improvement; however, we do believe these issues to be isolated to this claim and specific to this examiner. The manager of the employee has provided direct feedback and coaching with regards to maintaining*

*timely and continuous communication with the customer and early explanation of internal policy limits.*

*The examiner has issued the actual cash value payment, inclusive of the applicable policy limits for jewelry to the insured. The examiner will extend the replacement cost deadline to August 30, 2008, to accommodate the consumer's ability to replace items and claim any recoverable depreciation. The examiner will speak with the insured to go over the payment worksheet utilized to issue the payment and discuss their replacement cost options. The dwelling exposures appear to have been paid; however, the examiner will go over the payments issued and confirm there are no other outstanding issues.*

*The claims department will continue to coach and provide feedback to examiners on skills exhibiting proactive file handling. The examiners all recently attended Best Practices training to reinforce the Best Practices to be followed in claims adjusting. We believe the continued training; coaching and one on one feedback when issues arise will help provide a safeguard for any ongoing issues.*

### **Recommendation # 01**

**The examiners recommend that Safeco implement procedures and controls to assure that their employees consistently follow their “Best Practices” protocol. Although Safeco did pass most of the test applications, there are mentioned shortcomings in this report that could be remedied through training and the inclusion of specific instructions within Safeco’s online toolbox system. The examiners further recommend that Safeco employees be educated regarding the time frame requirements in investigating a claim and the required communication as required by Alaska Regulations 3 AAC 26.050 and 3 AAC 26.070 and implement procedures and controls accordingly.**

### **Recommendation # 02**

**The examiners recommend that Safeco implement procedures and controls to assure that their employees consistently follow the time frames and notice requirements as required by Alaska Regulations 3 AAC 26.010–3 AAC 26.300, “Unfair Claims Settlement Acts or Practices” and present the Alaska Division of Insurance with a plan of operation to assure compliance with the regulations.**

The examiners suggest that this plan of operation be presented by Safeco to the Division within six weeks after the adoption of this report.

### **Company use of Contractors**

The examiners requested a review of all contract agreements that Safeco had in place for the examination period. The examiners found the contracts to be in order with required work performance standards stated in the contracts. There were no noted specific requirements to use the contractor(s) on any particular loss or territory.

The examiners explored the issue of "referrals" and "steering" to specific contractors. The examiners noticed during the file review that Safeco relied on two types of contractors. The first category included "mitigation specialists" and the second were contractors specializing in "damage repair."

The examiners found that many of the losses were either fire or water related. Safeco then called in "mitigation specialists" who respond quickly to help mitigate and control the damage. In most of the areas where Safeco underwrites homeowner's policies, Anchorage and Wasilla, their pool of available "mitigation specialists" is limited to two, at most. Safeco adjusters often rely on these mitigation specialists to be their eyes and ears on the first two or three days of the loss.

In large losses, there does not seem to be a problem. Safeco immediately sends their large loss field representatives to handle all aspects of the inspection, investigation and estimating. They also use independent adjusters on a regular basis as well. But in the smaller losses, especially the water damage losses, there appears to be a tendency to rely initially on a mitigation specialist.

One of the concerns the Division had going into this examination was that several consumer complaints alleged that Safeco had steered the policyholder to a specific contractor. Special care was taken to review each file to see if there was any evidence of steering by the adjuster or a company hired independent adjuster.

Safeco's position is that they do not select or steer the customer to a specific contractor. They maintain that they allow insureds to select their own contractor. Many times the adjuster was faced with only one or two contractors available to do the repairs. Often, there would only be a single available "mitigation specialist" to handle the immediate needs of a policyholder. The "mitigation specialists" were often the first on scene establishing a contact with the policyholder. This was observed in partial fire losses, smoke damage claims and especially in water loss claims due to frozen or broken pipes. The two "mitigation specialists" involved in the reviewed claims also had a "damage repair" side, usually an entity with a different name, but basically either owned or operated by the same individuals involved with the "mitigation specialist."

The examiners noted that quite often the selection of a contractor, although technically left with the insured, ended up being the "damage repair" contractor that was related to the "mitigation specialist." This was not evident in all cases. The examiners found that insureds in some cases selected their own contractors. However, all too often, they were left with the impression that the related "damage repair" contractor was the fastest and easiest way to get their claim handled.

The examiner documented two cases where steering did occur. In the first case, the examiners found, that the independent adjuster hired by Safeco, "brought along" a contractor to evaluate the damage and consequently the insured selected that contractor.

In the second case, the examiners found that a Safeco employee from the Texas office recommended that a previously used mitigation contractor also handle the repair of the original claim. This particular claim was not resolved to the satisfaction of the consumer. The examiners found strong evidence, that the steering of this consumer to a certain contractor generated tremendous problems for the consumer. The examiners suggested to Safeco that this claim file be reopened. Safeco agreed to a file review and consequently reopened this claim. On July 23, 2008, Safeco staff contacted the insureds by letter and requested on July 30, 2008, that they obtain an

estimate for the replacement of the damaged floor from a contractor of their choice. The examiners determined that Safeco's claim handling protocol in selection of the "damage repair contractor" is inconsistent within the company and appears to vary by region.

3 AAC 26.090. Additional standards for prompt, fair, and equitable settlements of property claims states:

*(f) If a person adjusting or settling a claim elects to have repaired a claimant's property and chooses a specific repair facility, dealer, or contractor, that person shall guarantee the repairs and cause the damaged property to be restored to its condition before the loss, at no additional cost to the claimant, and cause the repairs to be completed within a reasonable period of time.*

If Safeco, their employees, or hired independent contractors acting on Safeco's behalf, recommend a certain contractor for the repair of a damaged property, Safeco by regulation, is also guaranteeing the repair.

### **Recommendation # 03**

**The examiners recommend that Safeco implement procedures and controls to assure that their employees and their hired independent adjusters acting on their behalf are consistent in recommending or not recommending contractors involved in repairing the damages from insured events. If Safeco or their hired independent adjusters, acting on their behalf recommend a certain contractor, Safeco will then be guaranteeing the repair and must handle any complaints from the insured until the matter is resolved. Safeco could incorporate a clarification to its adjusters in their "tool box."**

### **Payment Methodologies**

The examiners found that Safeco consistently paid the undisputed claim portions within 30 working days and promptly paid other amounts when its investigations indicated that they should be paid.

However, the examiners noted an inconsistency regarding the issuance of checks. While Safeco stated that it is their practice to issue checks payable to the insured and the contractor, the examiners documented three cases where checks were made out and sent to the contractors, without ascertaining that the repair work was done. The examiners also noted, that some adjusters requested from the contractor, prior to issuance of a check, a document of completion for the repairs. This is practiced by some Safeco employees but not by all.

Safeco says that it is their general practice not to send a check to a contractor unless the claimant assigns payment directly to the contractor. This would prevent the contractor from taking the funds and leaving the job before it has been completed and the consumer has been made whole. However the examiners documented three cases where no assignment of benefit from the consumer was obtained and the check was sent directly to the contractor anyway. In two cases, Safeco advised the claimant after the fact that they sent the checks to the contractors. But in the third case, the insured was not advised, did not have knowledge of the payment and complained to the Safeco staff

adjuster.

By not sending the check to the insured, Safeco took away the control from the consumer to ascertain that the work on the damaged property had been completed, prior to the contractor getting paid. The interests of the policyholders were not protected when payments were made directly to the contractors. Out of the three claims files with checks sent to contractors, in one, the contractor cashed the check without making the repairs. Safeco is in the process of reviewing this matter as noted in the previous section.

#### **Recommendation # 04**

**The examiners recommend that Safeco implement procedures and controls to assure that their employees only pay a claim and issue the check to the consumer. Should payment be issued to the contractor directly, Safeco should obtain an assignment of benefits and assure, prior to payment, that the work to be performed by the contractor has indeed been completed. Safeco's present concept of "safeguard" by jointly naming the contractor and the insured on some of the checks and then sending the check to the contractor is no guarantee that the consumer is going to be made whole.**

The examiners also found confusion within Safeco about the payment of "Profit and Overhead" to insureds that chose to do the work themselves. It is Safeco's practice to add and pay 10% each for Profit and Overhead on the final calculation of the repairs, but only if the insured hires a licensed and bonded contractor to perform the work. The examiners observed in smaller loss files that Safeco did not add the 10 % each for Profit and Overhead. The examiners found good documentation in a large loss file, where the adjuster and manager were challenged by an insured. To Safeco's credit, the manager contacted an Anchorage attorney knowledgeable in insurance issues, who correctly advised that Alaska case law required them to pay the Profit and Overhead to the insureds, whether they used a contractor or did the work themselves. However, in other smaller losses, the examiners found resistance to applying the same standards, so there are inconsistencies among Safeco claims handles and inconsistent compliance with Profit and Overhead standard for Alaska claims. Safeco can easily fix the problem with greater attention to training on Alaska specific law and it also could also be easily incorporated into their online "tool box" for claims handlers.

#### **Recommendation # 05**

**The examiners recommend that Safeco implement procedures and controls to assure that their employees are correctly informed about Alaska Law as it pertains to the payment of Profit and Overhead.**

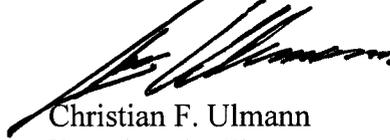
### **COOPERATION**

During all phases of the examination Safeco exhibited a positive and cooperative attitude. All questions and requests for information were responded to in a timely and professional manner.

## REEXAMINATION

The deficiencies identified are easily remedied. Indeed, Safeco has already taken steps to remedy some of the problems. The examiners recommend, upon a satisfactory response to the recommendations in this report, that Safeco be examined in accordance with the normal schedule.

Submitted by:

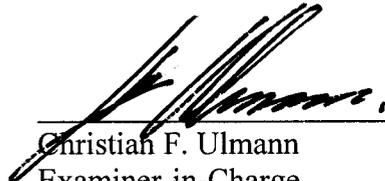


Christian F. Ulmann  
Examiner-in-Charge

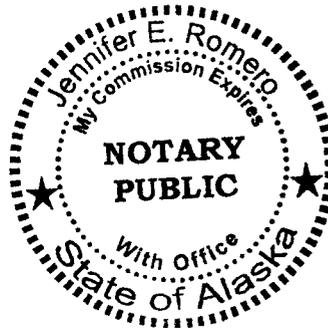
**REPORT ON MARKET CONDUCT EXAMINATION CERTIFICATION**

State of Alaska            )  
  ) ss.  
Third Judicial District )

Christian F. Ulmann, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

  
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Christian F. Ulmann  
Examiner-in-Charge

SUBSCRIBED and SWORN to before me this 19th day of September, 2008

  
*Jennifer E. Romero*  
Notary Public in and for Alaska  
My Commission Expires With office