

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT RE-EXAMINATION

OF

**SAFE AUTO INSURANCE COMPANY
NAIC # 25405**

As Of

June 30, 2005





Bob Taft, Governor
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a target market conduct re-examination was conducted on the Ohio business of:

Safe Auto Insurance Company
NAIC# 25405

The examination was conducted at the Company's Claims Center located at:

4328 East Fifth Avenue
Columbus, Ohio 43213

A report of the examination is enclosed.

Respectfully submitted,

A handwritten signature in cursive script that reads "David R. Beck".

David R. Beck
Chief, Market Regulation Division

A handwritten signature in cursive script that reads "April 18, 2006".

Date



Accredited by the National Association of Insurance Commissioners (NAIC)
) Consumer Hotline: 1-800-686-1526 Fraud Hotline: 1-800-686-1527 OSHIIP Hotline: 1-800-686-1578

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FOREWORD

This examination was conducted under authority provided by Ohio Revised Code (“R.C.”) 3901.011.

SCOPE OF EXAMINATION

On July 7, 2005, the Market Regulation Division, Ohio Department of Insurance (“Department”), opened a re-examination into the non-financial business practices of Safe Auto Insurance Company (“Company”) by sending the Company a call letter and initial request for information. Prior to this re-examination, the Company signed consent orders with the Department in 1999 and 2004.

In 1999, the Company’s operations did not “adhere to strict compliance” with laws and statutes concerning agent licensing and appointment; claim file documentation; timely claimant contact; timely payment of claims; and reimbursement of sales tax on total vehicle losses.

In 2004, the consent order stated, “The Company was found to be out of compliance in its agent licensing and appointments; in its underwriting cancellation notices and non-renewals; and in its payment of applicable sales tax paid on total losses. The Company was also found to be out of compliance in its practice of settling certain liability claims.”

On September 6, 2005, the on-site portion of the examination began at the Company’s statutory home office in Columbus, Ohio. The examination was restricted to a review of Company activities for Ohio private passenger automobile (“automobile”) insurance policies for the period of July 1, 2004, through June 30, 2005. The Company’s financial responsibility bond writings were not included in this examination. The examination report is reported by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the state of Ohio’s applicable statutes and rules.

Accordingly, the examination included the following areas of the Company’s operations:

- A. Company Operations
- B. Compliance
- C. Marketing and Advertising
- D. Underwriting and Rating
- E. Claims
- F. Policyholder Services

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Company’s automobile policy and claim files and the Company’s corresponding procedure manuals. This information was supplemented by interviewing Company managers and with written inquiries requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Company’s level of compliance with Ohio’s insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC's standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other files (90% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance, and a "no" response indicates a failure to comply. A "no" response may be referred to in this report as an "exception."

In any instance where errors were noted, the examiners described the apparent error and asked the Company for an explanation. The Company responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Company supplied reports of policy and claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

COMPANY OPERATIONS

The Company, a wholly owned subsidiary of Safe Auto Group, Inc., is a privately owned Ohio corporation. The Company was founded in 1993 and is a direct writer of personal automobile insurance. The Company is headquartered in Columbus, Ohio.

The Company writes business in Ohio, Arizona, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Pennsylvania, Georgia, South Carolina, and Tennessee. The Company is also licensed in Arkansas and Oklahoma; however, there were no direct premiums written in 2004. In accordance with R.C. 3935.10 and 3937.12, the Company's personal lines statistical loss experience is reported quarterly to the National Independent Statistical Service.

The Company's year-end 2004 direct written premium and incurred loss information from the Company's Financial Annual Statements is as follows:

<i>2004 Private Passenger Automobile</i>	Ohio	Ohio
<u>Company</u>	<u>Direct Written</u>	<u>Incurred Losses</u>
Safe Auto Insurance Company	\$82,444,260	\$43,949,141

As of December 31, 2004, the officers of the Company were:

Chairman and Chief Executive Officer
President
Chief Financial Officer
Senior Vice President, Operations
Senior Vice President, Information Technology
Senior Vice President, Claims

Ari Deshe
Jon Diamond
Greg Sutton
Jack Coolidge
Jon Trickey
Howard Alley

Vice President, Treasurer
Vice President, Secretary
Vice President, Marketing
Vice President, Claims
Vice President, Underwriting
Vice President, Sales
Vice President, Claims
Vice President, Litigation
Vice President, Internal Audit
Vice President, Customer Service
Assistant Vice President, Information Technology
Assistant Vice President, Customer Service
Assistant Vice President, Sales

Melinda Fry
April Miller
Thomas Boyd
Todd Friedman
Mary Puskus
Kristin Watkins
Pati Shambaugh
Kelly Phillips
Mike Snyder
Pamela Pond
Tim Collins
Grace Stahl
David Solomon

COMPLIANCE

The Company has an established Regulatory Compliance Department. Its mission is to support the Company's insurance operations by: (1) monitoring pertinent statutes, rules, and insurance department directives; (2) communicating such information in a timely manner to appropriate internal departments; (3) assisting management in developing and maintaining compliant business practices; (4) maintaining the Company's various certificates of authority; and (5) assisting management in analyzing and developing new growth states.

The Regulatory Compliance Department plays a supporting role to the management of the Company's insurance operational departments. The Regulatory Compliance Department does not currently release reports on a regular basis; however, it plans to develop and release such reports on a scheduled basis in the future.

The Company's Internal Audit Department tests whether the Company is in compliance with relevant statutes and rules. The Internal Audit Department has no direct operations responsibilities. It reports, administratively, to the Company's Chief Executive Officer and, functionally, to the Audit Committee of the Board of Directors. It determines which areas are to be reviewed, subject to approval by the Audit Committee. Plans are developed on a one-year basis. Internal Audit Department staff members, under the direction of the Vice President, Internal Audit, conduct the audits.

The results of the audits are included in written reports, which are directed to the Chief Executive Officer and Company President. Copies of the reports are distributed to relevant operating management and the Audit Committee. The results of the internal audits, along with corrective action plans, are discussed at Audit Committee meetings where members of top management are in attendance.

Management of the respective areas under audit are responsible for implementation of corrective action plans. Internal Audit follows up to assure the action plans are implemented effectively.

MARKETING AND ADVERTISING

Marketing

As a direct writer, the Company employs no outside agents and advertises on television, radio, and print to invite customers to call for a free quote. Because of this marketing strategy, the company incurs substantial up-front advertising costs in any new market it enters. This cost

diminishes as a percentage to revenue in time as people gain a familiarity with the Company and its product. The Company’s marketing approach includes investing significant dollars to educate all drivers on the financial responsibility laws in the state in which they reside. This approach has been used since the founding of the Company, which meets the Company’s long-term business plan.

Agent Licensing and Appointments

General Methodology

The Company supplied a report of all individuals that quoted new business in Ohio during the examination period.

The Company provided data showing that 97,086 policies and 92,711 quotes (no policies issued) were provided to Ohio consumers. A maximum of two customer service representatives were shown for each of these policies. If a quote was given and a policy purchased at the same time, both customer service representative code numbers were the same. If/when the consumer calls back, a different representative might handle the call. In this case, there would be two code numbers associated with a single policy.

In the situation where a single policy had two different representatives associated with it, a record was added to separate the codes so that each customer service representative could be tested for a valid Ohio insurance license. This added an additional 22,097 quotes to the population of 189,797. Therefore, there were a grand total of 211,894 unique quotes tested.

1. The examiners compared the Company’s report of all individuals that quoted new business in Ohio during the examination period with the licensing agent record database maintained by the Department.
2. The examiners compared the date a quote was given with the date the individual was licensed with the Department.
3. The examiners determined that there were a total of 278 unique customer service representative codes.
4. Each customer service representative was included only once.

The following were considered to be an exception:

1. Any person who was on the Company’s report of all individuals that quoted new business in Ohio during the examination period, but was not listed in the Department’s agent licensing record database; and/or
2. Any person who provided a quote either prior to their Department active date or after their Department active date.

Licensing

Standard: No person shall sell, solicit, or negotiate insurance in this state unless the person is licensed for that line of business.

Test: Were the persons reported by the Company as selling, soliciting, or negotiating applications licensed as required by R.C. 3905.02?

Findings:

	Population	Yes	No	Standard	Compliance
Unique quotes issued	211,894	211,894	0	100%	100%

The standard for compliance is 100%. The Company's licensing practice meets this standard.

	Population	Yes	No	Standard	Compliance
Unique Customer Service Representatives	278	278	0	100%	100%

The standard for compliance is 100%. The Company's licensing practice meets this standard.

Appointments

Standard: No person shall sell, solicit, or negotiate insurance in this state unless the person is appointed as an agent for that insurer.

Test: Were the persons reported by the Company as selling, soliciting, or negotiating applications appointed as required by R.C. 3905.20?

Findings:

	Population	Yes	No	Standard	Compliance
Unique quotes issued	211,894	211,886	8	90%	99%

The standard for compliance is 90%. The Company's appointment practices were above this standard.

	Population	Yes	No	Standard	Compliance
Unique Customer Service Representatives	278	277	1	90%	99%

The standard for compliance is 90%. The Company's appointment practices are above this standard.

Advertising

Standard: No Company shall engage in this state in any trade practice, which is defined as an unfair and deceptive act or practice in the business of insurance or make, publish, or circulate any material, which is untrue, deceptive, or misleading.

Test: Did the marketing and advertising materials conform to R.C. 3901.20?

Methodology:

The Company supplied copies of all advertising material for property and casualty products, without regard to media, used by the Company from July 31, 2004, through June 30, 2005.

Findings:

The examiner's review of the Company's advertising and sales materials did not indicate any statement or representation that appeared to be untrue, deceptive, or misleading.

PRIVATE PASSENGER AUTOMOBILE UNDERWRITING AND RATING

Underwriting Cancellations

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company's cancellation procedures conform to R.C. 3937.30, 3937.31, 3937.32, and 3937.33?

Test Methodology:

The Company supplied a report of all in force policies and subsequently cancelled for underwriting reasons during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of cancellation files to test for compliance.
- The examiners removed and replaced six files, since these cancellations were at the insureds’ request.
- The examiners considered the following to be exceptions:
 1. Any effective date of the cancellation that was less than 30 days from the date of mailing;
 2. The reason for cancellation was not provided;
 3. The reason for cancellation was not one of the permitted reasons;
 4. The information regarding the “right to appeal” was not provided in the notice; and/or
 5. The text of the cancellation notice did not contain the required information, including the policy number, or the notice was not sent to the last known address.

Findings:

Population	Sample	Yes	No	Standard	Compliance
198	50	47	3	90%	94%

The standard of compliance is 90%. The Company’s handling practices were above this standard.

Policy Cancellation—Non-Payment of Premium

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company’s cancellation procedures conform to R.C. 3937.31, 3937.32, and 3937.33?

Test Methodology:

The Company supplied a report of all in force policies and subsequently cancelled for non-payment of premium during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- The examiners considered the following to be exceptions:
 1. Any policy that was terminated for non-payment of premium with less than ten days notice prior to the effective date;
 2. Any policy termination notice that did not contain the reason for cancellation; and/or
 3. Any notice that did not include the “right to appeal” statement.

Findings:

Population	Sample	Yes	No	Standard	Compliance
150,995	100	98	2	90%	98%

The standard of compliance is 90%. The Company’s handling practices were above this standard.

Policy Cancellation — Non-Renewals

Standard: Non-renewal notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company’s non-renewal procedures conform to R.C. 3937.30, 3937.31, and 3937.34?

Test Methodology:

The Company supplied a report of all in force policies and subsequently non-renewed during the examination period

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review the entire population of files to test for compliance.
- The examiners considered the following to be exceptions:
 1. Any policy that was not renewed on other than the second annual expiration of the policy;
 2. Any notice that was mailed less than 30 days prior to the expiration date of the policy;
 3. Any notice that did not include the reason for non-renewal; and/or
 4. The text of the non-renewal notice did not contain the required information, including the policy number, or the notice was not sent to the last known address.

Findings:

Population	Yes	No	Standard	Compliance
94	89	5	90%	95%

The standard of compliance is 90%. The Company’s handling practices were above this standard.

GENERAL CLAIM PRACTICES

File Documentation

There were several instances where the Company was unable to locate a claim file or re-produce information contained in the file (e.g., a sales tax letter) that would be pertinent to the test being performed. Many of the claim files were later found after advising the Company that an exception would be given if the file could not be found. The files were then found after the Company extended additional effort to locate the files.

Examiner Recommendations:

In order to improve its file documentation and to assure compliance with Ohio Administrative Code (“Ohio Adm.Code”) 3901-1-54(D)(1) and (2):

- The Company should review its current file maintenance system, then establish and implement procedures to assist in the location and retrieval of files.
- Claim file audits should focus on file documentation and assure that all established procedures are being followed.
- The Claims procedure manual should be revised to clearly state the importance of documenting each step in the claim handling process.

Fraud Reporting and Anti-Fraud Plan

The examiners reviewed the Company’s claims procedure manual to assure compliance with the fraud reporting requirements of Ohio Adm.Code 3901-1-54(G)(1) and R.C. 3999.41. The Company was in compliance. The Company’s fraud plan included procedures that a Special

Investigative Unit representative will forward the required forms to the Fraud Division, through the Department’s website.

SPECIFIC CLAIM REVIEW

Collision Total Losses Paid

Methodology:

The Company supplied a report of all Ohio collision total loss files that were closed during the exam period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of files to test for compliance.
- The examiners removed and replaced three files, because one claim was a partial loss and two files were repaired vehicles and never considered total losses.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame is considered an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,350	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

2. Timeliness of Claim Payments

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants in compliance with Ohio Adm.Code 3901-1-54(G)(6)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame is considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,350	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

3. Vehicle Total Loss—Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company calculate actual cash value on total losses in a manner conforming with Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and (H)(7)(a)-(f)?

Test Methodology:

- Any calculation of actual cash value that was not calculated as required was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,350	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

4. Vehicle Total Loss-Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: For claims closed prior to 11/12/04, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)(e)? For claims closed 11/12/04 and later, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c) and (H)(7)(f)?

Test Methodology:

- The examiners considered the following to be an exception:
 1. Failure to notify the insured at time of settlement of the right to submit within 33 days appropriate documentation for reimbursement of sales tax as required by Ohio Adm.Code 3901-1-54 (E)(1) and (H)(7).
 2. Informing the claimant of the reimbursement of sales tax prior to acceptance of an offer, but not at the time the loss is paid.
 3. Failure to use local sales tax rates.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,350	50	8	42	93%	16%

The standard of compliance is 93%. The Company's handling practices were below this standard.

Examiner Recommendations:

To assure compliance with Ohio Adm.Code 3901-1-54(E)(1):

- The Company should audit all collision total losses since July 1, 2004, to determine which files had no sales tax letter sent (or a sales tax letter sent at the incorrect time). If those claimants were not reimbursed for sales tax on a replacement vehicle, then they should be provided with a new 33-day period in which to provide appropriate documentation for reimbursement of sales tax (if a replacement vehicle was purchased).

The Department should be provided any documentation of the affected claims, including the amounts and dates paid, if any.

- The Company should establish regular audits to assure that the procedures, as stated in its Claims Procedure Manual, are followed.

Property Damage Total Losses Paid

Methodology:

- The Company supplied a report of all property damage total loss files that were closed during the exam period.
- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of files to test for compliance.
- The examiners removed and replaced 33 files because 14 files involved subrogation, 12 files were not total losses, six files were non-vehicle losses, and one file was outside the examination period.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,366	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

2. Timeliness of Claim Payments

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days of receipt of agreement) to third party claimants in compliance with Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,366	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

3. Vehicle Total Loss—Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company calculate actual cash value on total losses in a manner conforming with Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and (H)(7)(a)-(f)?

Test Methodology:

- Any calculation of actual cash value that was not calculated as required was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,366	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

4. Vehicle Total Loss-Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: For claims closed prior to 11/12/04, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)(e)? For claims closed 11/12/04 and later, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c) and (H)(7)(f)?

Test Methodology:

- The examiners considered the following to be an exception:
 1. Failure to notify the insured at time of settlement of the right to submit within 33 days appropriate documentation for reimbursement of sales tax as required by Ohio Adm.Code 3901-1-54(E)(1) and (H)(7);
 2. Informing the claimant of the reimbursement of sales tax prior to acceptance of an offer, but not at the time the loss is paid; and/or
 3. Failure to use local sales tax rates.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,366	50	5	45	93%	9%

The standard of compliance is 93%. The Company's handling practices were below this standard.

Examiner Recommendations:

To assure compliance with Ohio Adm.Code 3901-1-54(E)(1):

- The Company should audit all property damage total losses since July 1, 2004, to determine which files had no sales tax letter sent (or a sales tax letter sent at the incorrect time). If those claimants were not reimbursed for sales tax on a replacement vehicle, then they should be provided with a new 33-day period in which to provide appropriate documentation for reimbursement of sales tax (if a replacement vehicle was purchased).

The Department should be provided any documentation of the affected claims, including the amounts and dates paid, if any.

- The Company should establish regular audits to assure that the procedures, as stated in its Claims Procedure Manual, are followed.

Financial Responsibility

Standard: Claims involving claimants with financial responsibility filings are handled in accordance with Ohio statutes and rules.

Test: Did the Company comply with Ohio Adm.Code 3901-1-07 given that the Company had certified proof of financial responsibility with R.C. 4509.53?

Test Methodology:

- Any claim file with SR 22 filings that showed any indication of incorrect application of absolute or conclusive liability was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
9	9	9	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Bodily Injury Paid Claims

Methodology:

The Company supplied a report of all Ohio bodily injury claims files that were closed during the exam period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim handling practices.
- Claim payments toward deductibles were considered to be paid claims.

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Upon receiving notification of claim, did the Company respond within the time frame required by Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,199	50	49	1	93%	98%

The standard for compliance is 93%. The company’s handling practices are above this standard.

Standard: Payments are made in a timely manner.

Test: Did the Company make timely payments (5 working days of receipt of agreement) to third party claimants per Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,199	50	49	1	93%	98%

The standard for compliance is 93%. The company's handling practices are above this standard.

Standard: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due.

Test: Did the Company offer amounts that were fair and reasonable per Ohio Adm.Code 3901-1-07(C)(6)?

Test Methodology:

- Any file in which the documentation did not include that the settlement amount offered and/or paid was fair and reasonable was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,199	50	49	1	93%	98%

The standard for compliance is 93%. The company's handling practices are above this standard.

Standard: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due.

Test: Did the Company comply with Ohio Adm.Code 3901-1-07(C)(8) that prohibits companies from attempting to compel claimants to accept settlements or compromises less than the amount awarded in arbitration by making known a policy of appealing arbitration awards in favor of claimants?

Test Methodology:

- Any file in which the documentation showed any indication of the Company's deliberate action to compel a claimant to sue was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,199	50	49	1	93%	98%

The standard for compliance is 93%. The company's handling practices are above this standard.

Standard: Claims are properly handled in accordance with policy provisions and applicable statutes and rules.

Test: Did the Company's claim file document the application of comparative negligence and, when requested, was this information disclosed to the claimant as required per Ohio Adm.Code 3901-1-54(G)(9)?

Test Methodology:

- Any file in which the documentation did not show any indication that comparative negligence was applied or disclosed when requested was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,199	50	49	1	93%	98%

The standard for compliance is 93%. The company's handling practices are above this standard.

Standard: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due.

Test: Did the Company comply with R.C. 3901.20 as defined by 3901.21(P) and Ohio Adm.Code 3901-1-54(G)(9) prohibiting use of pattern settlements?

Test Methodology:

- Any file that reflected that pattern settlements were used in the settlement process was considered to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,199	50	49	1	93%	98%

The standard for compliance is 93%. The company's handling practices are above this standard.

Standard: Claims involving claimants with financial responsibility filings are handled in accordance with Ohio statutes and rules.

Test: Did the Company comply with Ohio Adm.Code 3901-1-07 given that the Company had certified proof of financial responsibility with R.C. 4509.53?

Test Methodology:

Any file with SR 22 filings that showed any indication of incorrect application of absolute or conclusive liability was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
14	13	1	93%	93%

The standard for compliance is 93%. The company's handling practices met this standard.

Examiners Comments:

The single exception noted above in each of the seven bodily injury paid claim tests resulted from a claims file that could not be produced by the Company for review by the examiners.

Bodily Injury Claims Denied

Denial of Payments

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company conform to the standards for denial of payments in compliance with Adm.Code 3901-1-54(G)(1), (2), and (5), and 3901-1-07(C)(14)?

Test Methodology:

The Company supplied a report of all Ohio bodily injury denied claims files that were closed without payment during the exam period. The Company was not able to identify denied claims from closed without payment claims, and the examiners reviewed each file to make this determination. Those files that did not meet the definition of a “denied claim” were removed and replaced.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners removed and replaced 64 files because 22 files were paid claims, 19 files did not involve a third party, six files involved the Company’s inability to locate the claimant, six files were not denied vehicle claims, four files involved subrogation, four files were not bodily injury losses, three files involved the claimant not pursuing the claim.
- The examiners selected to review a sampling of files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- The examiners considered any of the following to be an exception:
 1. Any required contact or investigation that was not done within the required time frame;
 2. Any claim file denied solely on the claimant not providing proof of loss on the insurer’s forms;
 3. Any claim file where there was a reasonable belief that fraud contributed to the loss and the Company did not notify the Department of Insurance within 60 days;
 4. Any claim file where a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to specific provision, condition, or exclusion;
 5. Any claim file where the Company failed to notify the claimant of the expiration of any statute of limitation when legal counsel did not represent the claimant; and/or
 6. Any claim file where the Company denied payments solely on the insured’s request to do so, without independent evaluation of insured’s liability.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,535	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Property Damage Claims Denied

Denial of Payments

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company conform to the standards for denial of payments in compliance with Adm.Code 3901-1-54(G)(1), (2), and (5), and 3901-1-07(C)(14)?

Test Methodology:

The Company supplied a report of all Ohio auto property damage denied claims files that were closed without payment during the exam period. The Company was not able to identify denied claims from closed without payment claims, and the examiners reviewed each file to make this determination. Those files that did not meet the definition of a denied claim were removed and replaced.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners removed and replaced 22 files because 8 files involved claimants not pursuing the claim, four files were paid claims, three files involved the Company's inability to locate the claimant, three files were not denied vehicle losses, two files involved subrogation, and two files did not involve a third party.
- The examiners selected to review a sampling of files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's claim settlement practices.
- The examiners considered any of the following to be an exception:
 1. Any required contact or investigation that was not done within the required time frame;
 2. Any claim file denied solely on the claimant not providing proof of loss on the insurer's forms;
 3. Any claim file where there was a reasonable belief that fraud contributed to the loss and the Company did not notify the Department of Insurance within 60 days;
 4. Any claim file where a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to specific provision, condition, or exclusion;
 5. Any claim file where the Company failed to notify the claimant of the expiration of any statute of limitation when legal counsel did not represent the claimant; and/or
 6. Any claim file where the Company denied payments solely on the insured's request to do so, without independent evaluation of insured's liability.

Findings:

Population	Sample	Yes	No	Standard	Compliance
3,050	50	49	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Examiners Comments:

The single exception noted above resulted from a claims file that did not contain a denial letter.

POLICYHOLDER SERVICES

Consumer Complaints General Methodology

The Company supplied a report of all complaint files dated during the examination period between July 1, 2004, and June 30, 2005.

- The examiners selected to review all the complaint files to test for compliance.
- All Company complaint procedure manuals and internal bulletins were reviewed as part of the examination process.
- The examiners considered any of the following to be an exception:
 1. The Company utilized improper techniques in the complaint handling process; and/or
 2. The file did not document the complaint or response to the complaint.

Standard: The Company should adopt and implement reasonable standards for handling of complaints.

Test: Did the Company adopt and implement reasonable standards for proper handling of written communications, primarily expressing grievances, received by the insurer from insureds or claimants in accordance with Ohio Adm.Code 3901-1-07(C)(15) and 3901-1-54(F)(3) and (4)?

Findings:

Sample	Yes	No	Standard	Compliance
184	184	0	90%	100%

The standard for compliance is 90%. The Company’s complaint handling practices were above this standard.

Examiner Comments:

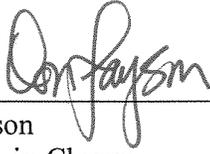
The Company’s complaint files are well documented and every file had a response attached, whether to the Department, claimant, or Better Business Bureau. The Company maintains the complaint files in one location (Customer Service). The Training Department works in conjunction with Customer Service to improve internal complaint handling. A quarterly report of all complaints is generated and sent to the Senior Vice President, Insurance Operations. If analysis indicates that actions are warranted, plans are established to improve results. Then copies of the report are sent to the President of the Company, as well as each department head.

SAFE AUTO INSURANCE COMPANY SUMMARY

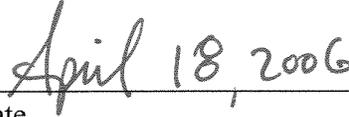
The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
Collision Total Losses Paid Did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)?	93%	16%
Property Damage Total Losses Paid Did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)?	93%	9%

This concludes the report of the Market Conduct Examination of Safe Auto Insurance Company. The examiners, Don Layson, Larry Stovall, Laura Price, and Angie Yoakum-Dingus would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Don Layson
Examiner-in-Charge



Date

STATE OF OHIO
DEPARTMENT OF INSURANCE
2100 Stella Court
Columbus, Ohio 43215

IN THE MATTER OF: : **CONSENT ORDER**
THE SAFE AUTO INSURANCE COMPANY :
MARKET CONDUCT EXAMINATION :

The Superintendent of the Ohio Department of Insurance (“Department”) is responsible for administering Ohio insurance laws pursuant to Section 3901.011 of the Ohio Revised Code (“R.C.”). The Department conducted a market conduct examination of the Safe Auto Insurance Company (“Company”) pursuant to a consent order signed by the Superintendent on June 30, 2004. The Company is authorized to engage in the business of insurance in the State of Ohio and, as such, is under the jurisdiction of the Superintendent and the Department. The Department examined the Company’s private passenger automobile insurance business in the State of Ohio for the period of July 1, 2004, through June 30, 2005.

SECTION I

BASED UPON THE EXAMINATION, THE SUPERINTENDENT DETERMINED THAT:

The Company was found to be out of compliance in its notices to claimants on the payment of sales tax paid on total losses. To wit, the Company did not properly notify all claimants with total vehicle losses of the right to receive sales tax reimbursement for purchasing a replacement vehicle.

SECTION II

It is hereby agreed to by the parties that:

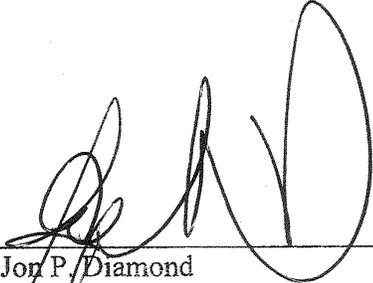
- A. The Superintendent and the Company enter into this Consent Order to resolve the allegations as set forth in Section I of this order. Further, the Company neither admits nor denies the allegations set forth in Section I.
- B. The Company has been advised that it has a right to a hearing before the Superintendent pursuant to R.C. Chapter 119; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative who is permitted to practice before the agency; and that, at a

hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.

- C. The Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Company expressly waives any prerequisites to jurisdiction that may exist.
- D. The Company has represented to the Department that it has instituted policies, procedures, and controls to ensure sales taxes on total losses are paid in accordance with Ohio Adm.Code 3901-1-54(H)(6)(c) and (H)(7)(f).
- E. The Company has represented that it will notify all claimants on total vehicle losses of the right to receive sales tax reimbursement in compliance with Ohio Admin. Code 3901-1-07(C)(6) and that such notice will comply with R.C. §3901.21(B).
- F. The Company will identify all claims paid on total vehicle losses during the examination period. If there is no documentation in the claim file of notice being given to the claimant or if incorrect information was provided, the Company will provide each claimant with an additional opportunity to request reimbursement of sales tax on a replacement vehicle within 33 days of the mailing date of the notice, provided that such claimant can show reasonably sufficient proof of having purchased a replacement vehicle. Within 120 days of the execution of this consent order, the Company will provide the Department with a report of the claims so remediated and the amount, if any, of sales tax reimbursement subsequently paid to the claimant.
- G. The Company will pay an administrative fine in the amount of \$10,000.00 by check or money order made payable to the "Ohio Department of Insurance" no later than thirty (30) days after the date of execution of this Consent Order.
- H. The Company waives any and all causes of action, claims or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Department, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms arising out of this matter.
- I. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- J. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this agreement shall constitute an actionable violation in and of itself without further proof and may subject the Company to any and all remedies available to the Superintendent.

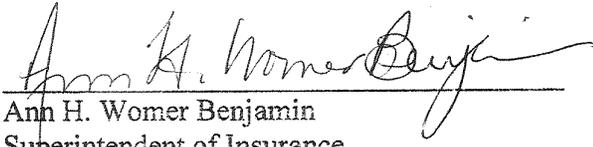
K. This Consent Order shall be entered in the Journal of the Ohio Department of Insurance. All parties understand and acknowledge that this Consent Order is a public document pursuant to R.C. 149.43.

Date: 4/6/06



Jon P. Diamond
President
Safe Auto Insurance Company

Date: 4/13/06



Ann H. Womer Benjamin
Superintendent of Insurance