

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

TO: Safeco Insurance
4333 Brooklyn Ave. NE
Seattle, WA 98105

RE: Missouri Market Conduct Examination 0507-24-PAC
Safeco Insurance Group (NAIC Group #163)
Including: American Economy Insurance Co. (NAIC #19690)
American States Insurance Co. (NAIC #19704)
Safeco Insurance Co. of IL (NAIC #26700)
Safeco Insurance Co. of America (NAIC #24740)
First National Insurance Co. (NAIC #24724)
General Insurance Co. (NAIC #24732)

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SEP 12 2007
DEPT. OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STIPULATION OF SETTLEMENT
VOLUNTARY FORFEITURE AND ORDER OF DIRECTOR

It is hereby stipulated and agreed by Douglas M. Ommen, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration, hereinafter referred to as "Director," and Safeco Insurance Group, including its subsidiary companies including American Economy Insurance Co., American States Insurance Co., Safeco Insurance Co. of IL, Safeco Insurance Co. of America, First National Insurance Co., and General Insurance Co. (hereafter collectively referred to as "Safeco"), as follows:

WHEREAS, Douglas M. Ommen is the Director of the Department of Insurance, Financial Institutions and Professional Registration (hereafter referred to as "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, Safeco has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Department conducted a Market Conduct Examination of Safeco and prepared report number 0507-24-PAC; and

WHEREAS, the report of the Market Conduct Examination has revealed that:

1. In some instances, Safeco did not use correct classification and territory codes, as well as correct Loss Cost Modifiers to rate some of its Homeowner and Commercial Business Owner policies as required by §379.321, RSMo, Missouri Regulation 20 CSR 500-4.100(3), and Safeco's own policy and underwriting rules.

2. In some instances Safeco did not use the schedule rating and did not apply correct surcharges on some of its Commercial Automobile policies, as required by Missouri Regulation 20 CSR 500-4.100(3) and MDI Bulletin 99-02.

3. In some instances, Safeco did not provide relevant materials, files, and documentation to allow the examiners to sufficiently ascertain the rating and underwriting and claims handling practices of the Company pursuant to §374.205.2(2), RSMo, and Missouri Regulation 20 CSR 300-2.200(2) and (3).

4. In some instances, Safeco issued some Workers' Compensation policies without including the Expense Constant and/or a Premium Discount when determining the net premium to be used to determine the Second Injury Fund as required by §287.715.2, RSMo, Department Bulletin 98-03, the NCCI Algorithm page 18 of the Missouri portion of the Basic Manual, and Division of Workers' Compensation Bulletin dated 10/27/04.

5. In some instances, Safeco did not use the correct type of loss or correct total loss settlement on some of its Home Owner, Private Passenger Automobile, and Subrogation claims as required by Missouri Regulation 20 CSR 100-1.050.

6. In some instances, Safeco did not issue correct sales tax affidavits to some of its Total Loss Private Passenger Automobile and Commercial Automobile claimants and did not document that it provided a Missouri sales tax affidavit for certain claim files as required by §144.027, RSMo, and Missouri Regulation 20 CSR 300-2.200(3)(B).

7. In some instances, Safeco failed to complete the investigation of its Total Loss Private Passenger Automobile and Commercial Automobile within 45 days and then failed to send a letter to the claimant within the first 45 days after receipt of the claim setting forth the reason more time was needed for the investigation, as required by 20 CSR 100-1.050(1)(C).

8. In some instances, Safeco did not correctly calculate claim payments and did not report injuries to the Missouri Division of Workers' Compensation within 10 days of certain Workers' Compensation claims being reported, as required by §§287.160, and 287.380, RSMo.

9. In some instances, Safeco did not respond to the Department within 20 days of receiving consumer complaints, as required by 20 CSR 100-4.100.

WHEREAS, Safeco hereby agrees to take remedial action bringing Safeco into compliance with the statutes and regulations of the State of Missouri and agrees to maintain those corrective actions at all times, including, but not limited to, taking the following actions:

1. The Company agrees to take corrective action to assure that the errors noted in the above-referenced market conduct examination report do not recur;

2. The Company agrees to review all of its Commercial Automobile and Active Workers' Compensation policies dated June 1, 2004, to May 31, 2005, to determine if any other policyholders were overcharged as a result of certain practices noted above, and, if so, to issue any refunds on rate adjustments at renewal. A report is to be provided to the Department within 90 days from the date of a Final Order is entered in this matter, detailing the company's review process and implementation of the measures, and/or the policies reviewed and amounts paid, plus interest, as per §408.020, RSMo.

3. The Company agrees to perform two audits of its current Subrogation claims to test for proper claims' handling and to refund any overcharges and pay the balance on any underpayments on claims that may have occurred as a result of certain practices noted above. These audits, which will review 50 randomly selected current Subrogation claims, will be performed by October 31, 2007, and October 31, 2008. A report is to be provided to the Department by November 15, 2007, and November 15, 2008, detailing the company's review process and implementation of the policies reviewed and amounts paid, plus interest, as per §408.020, RSMo.

WHEREAS, the Company is of the position that this Stipulation of Settlement and Voluntary Forfeiture is a compromise of disputed factual and legal allegations, and that payment of a forfeiture is merely to resolve the disputes and avoid litigation; and

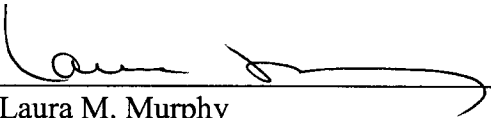
WHEREAS, Safeco, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, which may have otherwise applied to the above referenced Market Conduct Examination; and

WHEREAS, Safeco hereby agrees to the imposition of the ORDER of the Director and as a result of Market Conduct Examination #0507-24-PAC further agrees, voluntarily and knowingly to

surrender and forfeit the sum of \$68,524.

NOW, THEREFORE, in lieu of the institution by the Director of any action for the SUSPENSION or REVOCATION of the Certificate(s) of Authority of Safeco to transact the business of insurance in the State of Missouri or the imposition of other sanctions, Safeco does hereby voluntarily and knowingly waive all rights to any hearing, does consent to the ORDER of the Director and does surrender and forfeit the sum of \$68,524, such sum payable to the Missouri State School Fund, in accordance with §374.280, RSMo.

DATED: 9.5.07



Laura M. Murphy
Vice President and Associate General Counsel

American Economy Insurance Company
American States Insurance Company
First National Insurance Company of America
General Insurance Company of America
Safeco Insurance Company of Illinois
Safeco Insurance Company of America