

Re: Safeco Coronavirus (COVID-19) Premium Relief Action – Private Passenger Auto

In response to Bulletin 2020-08, Safeco is providing the following information regarding refund activity for its Private Passenger Auto line of business (**NAIC Company Codes 24740, 24724, and 37214 Combined*).

Refunds:

Safeco previously proactively issued refunds to its Private Passenger Auto customers that resulted in 196,753 customers receiving a refund for a total of \$13,408,647 in refunds. These refunds occurred automatically, and customers did not need to call to receive the refund. In our refund communication to our customers, we provided the amount of the refund and advised of the basis for the refund. The refund communication also included an invitation for customers to contact Safeco if they have any questions or want to make any updates to their policy information, including mileage estimates. Additionally, the Safeco Covid-19 specific website address was provided in the refund communication and includes a link for customers to contact us to review coverage, deductible, and other policy changes, including options to update mileage. Safeco is not issuing additional refunds and will continue to allow customers to make any updates to their policy information, including mileage estimates, to reflect their individual situation.

Justification:

Due to COVID-19 in CA, emergency orders and social distancing have led to staying at home, with only essential activities advised. A review of publicly available data showed a ~38% average decrease in driving activity in the state of California, for the two-month period beginning March through April. This data also shows a rebounding of CA driving activity since mid-April and continuing throughout the summer (<https://inrix.com/blog/2020/07/inrix-travel-trends-july-4-10/>). This rebounding of driving activity is consistent with the timing of the easing of CA COVID-19 restrictions and the opening of recreation and non-essential businesses and supports our projection of a ~15% average decrease in driving activity in the state of California for the months of June through August.

The changes due to COVID-19 will have resulting impacts on the frequency and severity of car accidents. Frequency movements should follow directionally with the aforementioned reduction in driving activity, even if not in full proportion. We judgmentally selected a 13.7% impact, based on this publicly available data.

Changes in severity are less clear but are likely to partially offset favorable frequency impacts. With fewer cars on the road, there have been reports of faster driving speeds and an increase in fatalities. According to the Los Angeles Times, tickets for speeding in excess of 100 mph surged 87% (<https://www.latimes.com/california/story/2020-04-22/tickets-for-drivers-speeding-more-than-100-mph-surges-87-amid-california-shutdown-chp-says>). As medical and emergency services are more limited than in recent history, resulting injuries may be more difficult and costly to treat. There may also be changes in the costs of vehicle repair, with both parts and labor inaccessibility. We

judgmentally estimated a 10% increase in severity, given the observed faster driving and likelihood for increased costs of medical treatment and vehicle repairs. This increase in severity is less than what we previously selected for the months of March through May because driving activity is rebounding since mid-April and roads are more congested.

Additionally, Safeco is continuing to observe trends in CA premium and expenses changes that should be considered when determining the COVID-19 impacts.

We've observed an increase in endorsement behavior with customers lowering mileage. CA customer-initiated endorsement activities related to reductions in mileage resulted in an additional premium decrease of about -1.5% for the months of June through August.

Safeco provided a grace period that extended to July 29, 2020 for customers to pay insurance premiums so that insurance policies are not cancelled for nonpayment of premium. During this time, Safeco waived any late payment fees. These late payments will not be reported to credit-rating agencies or be considered in any future premium calculation. As a result of these actions, we are seeing that our CA premiums collected were -3% lower than premiums billed for the time period of 3/22/2020 – 7/29/2020. For the same time period last year, our CA data shows that premiums collected were several points *higher* than premiums due, given that some customers choose to pay their premiums in full, thus demonstrating premiums collected are ~6% lower than expected based on premiums billed. Safeco expects that these customer actions will result in reductions in our premium, given premium charges-offs and additional expenses. We have selected a 2% expense impact due to premium charge-offs.

Based on the combination of the impacts and assumptions listed above, we have calculated the indicated refund for the months of June through August shown in the Exhibit below. We believe no additional refund is justified and our previous refund along with the other actions Safeco has taken, is reasonable given the information we know so far.

		June	July	August	June/July/August
	Reduction in Personal Travel in CA	-18%	-14%	-14%	-15%
Row	Impact	Estimate	Estimate	Estimate	Estimate
(1)	Frequency	-16.2%	-12.4%	-12.7%	-13.7%
(2)	Severity	10.0%	10.0%	10.0%	10.0%
(3) = [1 + (1)] x [1 + (2)] - 1	Pure Premium Impact	-7.8%	-3.7%	-3.9%	-5.0%
(4)	Expected X-Cat Loss Ratio ¹	64.0%	64.0%	64.0%	64.0%
(5) = (3) x (4)	Indicated Refund from Frequency/Severity Impacts	-5.0%	-2.3%	-2.5%	-3.2%
(6)	Mileage Endorsement Premium Leakage	1.5%	1.5%	1.5%	1.5%
(7)	Bad Debt Cost	2.0%	2.0%	0.0%	1.3%
(8) = (6) + (7)	Indicated Impact from Premium Collections	3.5%	3.5%	1.5%	2.8%
(9) = (5) + (8)	Indicated Refund in Total	-1.5%	1.2%	-1.0%	-0.4%
	Selected Refund	0.0%	0.0%	0.0%	0.0%
<i>1. Based on normalized AY loss ratio</i>					

We've added content to our website to share with customers the additional options available to them at the individual policy level. We are making notable efforts to assist customers by making this information publicly available to them, in addition to including it in our refund communication. We've created a Safeco Covid-19 specific website, www.safeco.com/covid-19, which includes detailed guidance for customers, including the following statement and link:

“During this difficult time, we know you may be experiencing financial hardship and may have changed your driving pattern. You may [contact us](#) to review coverage, deductible, and other policy changes, including options to update mileage.”

Safeco also expanded coverage by temporarily not applying our exclusion for losses that result from an insured's use of a personal covered vehicle while delivering food, medicine, medical equipment, or medical supplies for their employer. This additional coverage was provided for no additional premium.

Summary:

Refunds totaling approximately \$13.4 million were previously provided to our Safeco California Private Passenger Auto customers. We have additional considerations around associated premium and expense changes and are observing that CA driving activity is rebounding. Safeco has initiated a number of efforts to help our CA insureds during these unprecedented times, including pausing cancellations, waiving late fees, extending billing options, extending coverage to delivery services and proactively providing customers opportunities on ways to make exposure changes such as reducing mileage based on their experience. We feel the combination of refunds previously provided and the additional options made available to customers will continue to provide relief customer by customer, where appropriate. While there is tremendous uncertainty due to the pandemic's impact on auto

insurance, Safeco will continue to monitor the underlying exposure, premium and loss trend data. In future rate filings, COVID-19 related impacts on the frequency and severity calculations on all bases will be carefully reviewed per the CDI filing instructions for the Standard Exhibits Template.