Safeway Explanation Premium Relief 2020 and 2021

Response to Question 2a

Safeway has reviewed Commissioner Lara's memo and understands his position, as well as that of auto insurance policyholders affected by the COVID-19 pandemic. Safeway's size and financial position are in stark contrast to the top ten auto insurers in the state of California, writing less than $25m in 2020 premiums. Therefore, Safeway's circumstances are unique and not necessarily comparable to the broader California marketplace. While the pandemic initially caused a significant reduction in frequency, Safeway's 2020 loss experience did not reflect that premiums were over-charged.

The company posted a year-end 2020 underwriting loss, as it could not overcome the stagnated non-standard auto insurance marketplace. Thus, the company does not have a supplemental report to reflect additional returned premiums for the year 2020, beyond what was previously returned. Rather, to both provide premium relief and to give itself a chance to sustain its business in the state going forward, Safeway reduced its overall rates by 9.6% in 2021, as approved by the CA Department of Insurance.

It is notable that Safeway did not start in the same position as the top ten auto insurers in California that were part of the CA Department of Insurance's study when the pandemic hit in March of 2020. Safeway had not been profitable in the previous four years before the pandemic hit. The stress of the pandemic has had a negative effect on the smaller insurers and niche-players like Safeway in the overall auto insurance industry.

Despite its minor position in the California auto insurance marketplace, Safeway took the steps to provide premium relief in 2020 and beyond, with a significant rate reduction in 2021. In 2021, Safeway lowered its rates significantly both to provide rates that are reflective of the current driving patterns and to potentially bring the company back to a healthy balance as a provider of auto insurance and employer in the State of California.

To date, Safeway continues to suffer a decline of in-force policies and written premiums as the economy drags. Customers are understandably avoiding independent agent offices and shying away from purchasing new policies in-person.

Safeway continues to adjust premium for policyholders based upon mileage, usage, and coverage changes as requested by its policyholders. Should potential customers continue to stay away from independent agent offices, and the economic recovery continues to lag because of significant unemployment, Safeway will have to consider limiting its exposure in the state and reducing its workforce to reflect the reduced size. At present, the company is striving to be an on-going insurance option for California drivers coming out of the COVID-19 pandemic.

Please review the explanation below for more details:

Explanation Details:

Additional premium refunds for Safeway policyholders beyond July of 2020 and through the first quarter of 2021 were not provided nor found to be warranted. Rather, Safeway focused its time and resources on a more permanent solution for its policyholders. On January 13, 2021, the approval of a significant rate reduction (-9.6% overall) was granted for its policyholders (Filing # 20-4158).

Safeway provided premium relief for the months of March, April, May, June, and July of 2020. The $965,681 returned premium was a significant amount of premium for an insurance operation of Safeway's size. Additionally, during all the months of the pandemic and to date, Safeway and its producers processed hundreds of policy endorsements for reductions in mileage and vehicle usage, thereby lowering premiums for policyholders in addition to the premiums that were returned.

Safeway did what it could to balance the needs of its California policyholders with the existential needs of the company in California. While other insurance companies have benefitted from high profits, this has not been the case for Safeway's California operation ($184k underwriting loss in 2020). The negative effects of the COVID-19 pandemic have put the company in the difficult position of fulfilling policyholder expectations despite reduced premiums.

The months of June through November of 2020 saw a significant rebound in driving activity, increases in claims frequency as well as increases in claims severity. Since the original California Shelter at Home Order in March of 2020, Safeway experienced a substantial and critical reduction in new policies written. At the same time, the retention percentage of existing policies also declined. Safeway's policies in-force dropped over 9% in 2020 (from 21,553 to 19,574) and continues to decline to date (18,981 as of 3/31/2021—a 12% reduction). Earned premium dropped 14% over the same period (from $29.4m to $25.3m). With the reduction in business, the retention of Safeway's California employees has become a challenge.

The premium relief that was provided from March through July of 2020, during a time when the book of business was declining, has had a negative impact on the company's ability to continue to provide a high-quality insurance product to the non-standard insurance market in California. Safeway's California operation has not been able to turn a profit in California in the last five years, and this trend continued in 2020. Returning more premium in 2020 without the ability to acquire more new business would have put the company in a less favorable position.

In an effort to return to long-term sustainability in the State of California and to provide policyholders with premium relief, Safeway filed for a rate reduction in November of 2020 that was approved on January 13, 2021. This rate revision provided an overall rate reduction of 9.6% for Safeway policyholders, and gives the company a pathway to rebuild its policies in-force to a level that may allow for a return to profitability in 2022. This rate reduction also benefits Safeway's policyholders by putting more money in their pockets in 2021 as the California economy begins to reopen.

Safeway is dedicated to providing a quality product and service to the California non-standard auto insurance market. While respectful of the authority of the CA Department of Insurance, Safeway finds itself unable to grant further premium credits. Rather, the implemented rate reduction in 2021 accomplishes the objective of providing further premium relief for Safeway policyholders without harming Safeway's immediate and long-term future in the state.