



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

LIBERTY MUTUAL MID-ATLANTIC INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 00111

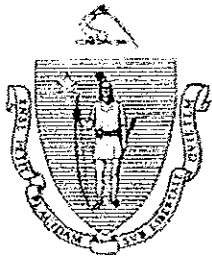
NAIC COMPANY CODE 14486

EMPLOYER ID NUMBER 04-0867770

LIBERTY MUTUAL MID-ATLANTIC INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	3
Subsequent Events	3
Company History	3
General	3
Dividends to Policyholders	3
Corporate Records	3
Articles or Organization and Bylaws	3
Board of Directors Minutes	3
Conflict of Interest Procedures	4
Disaster Recovery and Business Continuity	4
Management and Control	4
Board of Directors	4
Committees of the Board of Directors	4
Officers	5
Affiliated Companies	5
Transactions and Agreements with Affiliates	6
Organizational Chart	6
Fidelity Bonds and Other Insurance	6
Pensions, Stock Ownership and Insurance Plans	7
Territory and Plan of Operation	7
Growth of Company	7
Reinsurance	7
Liberty Mutual Inter-Company Reinsurance Pooling Agreement	7
Accounts and Records	7
Statutory Deposits	8
Financial Statements	9
Statement of Assets, Liabilities, Surplus and Other Funds	10
Statement of Income	11
Statement of Capital and Surplus	12
Reconciliation of Capital and Surplus	13
Acknowledgement	14



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

JAY ASH
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

JOHN C. CHAPMAN
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

May 20, 2015

Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

LIBERTY MUTUAL MID-ATLANTIC INSURANCE COMPANY

at its home office located at 175 Berkeley Street, Boston, Massachusetts, 02116. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Liberty Mutual Mid-Atlantic Insurance Company (hereinafter referred to as the "Company", or "LMMAIC") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current Coordinated Group Examination covers the intervening period from January 1, 2010 through December 31, 2013, and any material transactions and/or events, occurring subsequent and noted during the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2014 Edition of the NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division, and with Massachusetts General laws. Representatives from the firm of PricewaterhouseCoopers LLP ("PwC") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division examination staff. This assistance included a review of accounting records, information technology systems, taxes, investments, and actuarially determined loss and loss adjustment expense reserves of the Liberty Mutual Inter-company Reinsurance Pool (the "LMIC Pool"). Examination procedures performed by PwC were reviewed and approved by the Division. PwC was also engaged to conduct concurrent examinations of Liberty Mutual Insurance Company ("LMIC"), Montgomery Mutual Insurance Company ("MMIC") and Liberty Mutual Personal Insurance Company ("LMPIC"). Each of those examinations is the subject of separate reports.

The examination was conducted following the NAIC risk-focused examination process. The risk focused approach requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC Annual Statement Instructions and applicable domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition to the foregoing, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm, in accordance with 211 CMR 26.00. The firm expressed unqualified opinions on the Company's statutory financial statements for each of the years under examination. E&Y's audit work was evaluated and relied upon where deemed appropriate and effective. The work of the Company's internal auditors was also reviewed and relied upon to the extent deemed appropriate.

Liberty Mutual Mid-Atlantic Insurance Company

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

SUBSEQUENT EVENTS

Through exam procedures performed, no subsequent events have been identified that are relevant for inclusion within the exam report.

COMPANY HISTORY

General

The Company was incorporated in 1920 in the state of Pennsylvania under the name Merchants and Business Men's Mutual Insurance Company. It became affiliated with the Liberty Mutual Group (the "Group") on June 25, 1997, and changed its name to Liberty Mutual Mid-Atlantic Insurance Company on March 20, 2006. Although affiliated with LMIC, the Company is a mutual insurer and not owned by any business entity. LMIC has a controlling interest on the LMMAIC Board of Directors. The Company primarily writes private passenger automobile coverage in New Jersey. Effective June 8, 2010, the Company transferred its domicile to the Commonwealth of Massachusetts.

The Company is a member of the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement whereby after external reinsurance, the Company cedes its net underwriting activity to LMIC, the lead company in the LMIC Pool and its pooling participation is 0.00%. Therefore, the Company reports no underwriting activity or reserve development. Prior to becoming a member of the LMIC pool, the Company was a member of the Peerless Amended and Restated Reinsurance Pooling Agreement ("Peerless Pool"). Effective January 1, 2013 the Peerless Pool members merged with and into the LMIC Pool and the Peerless pooling agreement was terminated.

Dividends to Policyholders

There were no dividends to policyholders during the period of this examination.

CORPORATE RECORDS

Articles of Organization and Bylaws

The Company's articles of organization and bylaws were reviewed. There were no amendments to the articles of organization and bylaws for the period ended December 31, 2013.

Board of Directors Minutes

The minutes of the Board of Director's meetings for the period under examination were obtained and reviewed. The review indicated that all meetings were held in accordance with Company bylaws and the laws of the Commonwealth of Massachusetts.

Liberty Mutual Mid-Atlantic Insurance Company

Conflict of Interest Procedures

As a member of the Liberty Mutual Group, the Company follows the guidelines established by the Group as they relate to conflict of interest. The Group has developed an enterprise-wide approach to corporate compliance that specifically includes the means to manage conflict of interest issues. The enterprise-wide approach includes a Code of Business Ethics and Conduct as a reference guide to help personnel define and understand appropriate standards of business conduct and to establish compliance requirements. The approach also has established procedures for the disclosure of possible conflicts of interest involving directors, officers and key employees. The Group has established an Office of Corporate Compliance with responsibility for managing this disclosure program, investigating potential conflict situations, and making recommendations to management for the resolution of any such conflicts. The Group's General Counsel reports the results of the annual disclosure process to the Chief Executive Officer and to the Board of Directors. As a member of the Group, LMMAIC follows all requirements of the approach and is an active participant in it. As part of the examination, the following were obtained and reviewed:

- The Code of Business Ethics and Conduct
- Conflict of interest disclosure forms provided by elected officers, key employees

Disaster Recovery and Business Continuity

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

MANAGEMENT AND CONTROL

Board of Directors

The Company is managed by a Board of Directors which is controlled by LMIC. At December 31, 2013, all Directors of the Company were inside Directors, and their names, together with their titles, were as follows:

<u>Name</u>	<u>Title</u>
Margaret Dillon	VP and CFO for Personal Insurance
John D. Doyle	Vice President and Comptroller
Paul Ivanovskis	Sr. VP, Chief Actuary for Personal Insurance
Dexter R. Legg	VP, Secretary & Chief of Staff to CEO, LMIG
James M. MacPhee	EVP, Chief Claims Officer for Personal Insurance
Elizabeth J. Morahan	VP General Counsel for Personal Insurance
Alan Schlosberg	EVP Distribution Personal Insurance
Anthony R. Storm	Sr. VP Chief Marketing Officer, Personal Insurance
Timothy M. Sweeney	President Personal Insurance, LMIG

Committees of the Board of Directors

The Company's corporate governance structure does not include any direct board committees. As a member of the Group, all aspects of corporate governance for the Group as a whole are handled by Committees of the LMHC, including designated Executive, Investment, Audit, Nominating and Governance, Risk, Compensation, and Contributions Committees. This is in addition to the Board of Directors at the Company

Liberty Mutual Mid-Atlantic Insurance Company

discussed above. These LMHC committees serve the Company in a governance perspective and are responsible for the approval of entity level decisions, investment strategies and transactions, and compensation matters.

At the LMHC level, a list of members serving on the Committees is as follows:

<u>Audit Committee</u>	<u>Executive Committee</u>	<u>Nominating & Governance</u>
Nicholas M. Donofrio	Francis A. Doyle	Nicholas M. Donofrio
Francis A. Doyle	David H. Long	Francis A. Doyle
Martin P. Slark	Thomas J. May	Ellen A. Rudnick
Eric A. Spiegel	Ellen A. Rudnick	William C. Van Faasen
William C. Van Faasen	William C. Van Faasen	
Annette M. Verschuren	Annette M. Verschuren	
		<u>Risk Committee</u>
		Charles I. Clough, Jr.
<u>Compensation Committee</u>	<u>Investment Committee</u>	David H. Long
Charles I. Clough, Jr.	Charles I. Clough, Jr.	Myrtle S. Potter
John P. Manning	Francis A. Doyle	Ellen A. Rudnick
Thomas J. May	David H. Long	Martin P. Slark
Myrtle S. Potter	John P. Manning	Annette M. Verschuren
William C. Van Faasen	Thomas J. May	
	Martin P. Slark	
<u>Contributions Committee</u>	Eric A. Spiegel	
David H. Long	Annette M. Verschuren	
John P. Manning		
Ellen A. Rudnick		
William C. Van Faasen		

Officers

The elected principal senior officers and their respective titles at December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
Timothy M. Sweeney	President and CEO
Dexter R. Legg	Secretary and Vice President
Laurance H. Soyer Yahia	Treasurer and Vice President
John D. Doyle	Vice President and Comptroller
Alex Fontanes	Vice President and Chief Investment Officer
Margaret Dillon	Vice President and Chief Financial Officer
Alan Scholsberg	Vice President
Elizabeth J. Morahan	Vice President and General Counsel

Affiliated Companies

As a mutual company LMMAIC is owned by its policyholders, however the Company is a member of Liberty Mutual Holding Company, Inc., a Massachusetts insurance holding company and the direct parent of LMIC. The Company has in place various management agreements with LMIC.

Liberty Mutual Mid-Atlantic Insurance Company

Acquisitions, Affiliates, and Key Transactions

- Pursuant to the approval of the state insurance authorities, effective January 1, 2013, the participants of the Peerless Amended and Restated Reinsurance Pooling Agreement (including the Company) were added to the LMIC Pool. Also effective as of the same date, the Liberty Mutual Intercompany Reinsurance Agreement was renamed the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement, and the Peerless Amended and Restated Reinsurance Pooling Agreement was terminated.

Transactions and Agreements with Affiliates

Management Services Agreement

The Company is a party to a management services agreement (the “Agreement”) with LMIC. Under the agreement, LMIC may provide the Company with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC and LMGI. Services provided include, but are not limited to, risk underwriting, claims processing, claims adjustments, policyholder services, contract management, and administration. LMIC is reimbursed for the cost of all services which it provides under the agreement.

Investment and Cash Management Agreements

The Company is a party to an investment management agreement with Liberty Mutual Group Asset Management (“LMGAM”), where LMGAM provides services to the Company.

Revolving Credit Agreement

The Company is a party to a revolving credit agreement under which the Company may lend funds to LMIC for the purpose of accommodating fluctuations in daily cash flow and to promote efficient management of investments. The maximum line of credit is \$50 million, and there were no loans outstanding as of December 31, 2013.

Organizational Chart

LMIG operates in 30 countries and key markets around the globe which include 12 countries in Europe, nine countries throughout Asia and the Pacific, and eight countries in Latin America. In the United States there are 59 licensed insurance companies domiciled in nine different states. Additionally, there are a number of non-insurance entities within the LMIG organizational structure. Please refer to the Company’s December 31, 2013 Annual Statement filing for a complete organizational chart.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws, Chapter 175, Section 60. The aggregate limit of liability on these policies is in excess of NAIC suggested minimum amounts for fidelity insurance. The Company is also a name insured, either itself or together with other subsidiaries and affiliates on policies with external carriers that provide coverage for aircraft liability, excess umbrella and property damage. The excess umbrella policies are with external carriers however, the lead umbrella carrier is Liberty Insurance Corporation. All policies evidencing the above coverages were with licensed and/or authorized insurers in Massachusetts and were in-force at December 31, 2013.

Liberty Mutual Mid-Atlantic Insurance Company

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other postretirement benefit plans. Services for operations of the Company are provided for under the management services agreement with LMIC.

TERRITORY AND PLAN OF OPERATION

Although licensed in fifteen states, the Company only writes direct premium in the State of New Jersey. Its principal lines of business are private passenger auto and homeowners. 100% of written premium is ceded to the LMIC Pool.

GROWTH OF COMPANY

The growth of the Company for the years 2010 through 2013 is shown in the following schedule, which was prepared from the Company's statutory annual statements:

	Gross Written Premium	Net Written Premium	Admitted Assets	Liabilities	Surplus
2010	\$ 221,797,556	\$ -	\$ 18,701,242	\$ 2,690,044	\$ 16,011,198
2011	246,480,972	-	18,710,145	2,146,389	16,563,756
2012	232,035,906	-	19,016,279	1,509,702	17,506,577
2013	220,898,970	-	19,655,247	1,526,319	18,128,928

REINSURANCE

Liberty Mutual Inter-Company Reinsurance Pooling Agreement

As previously noted the Company is a member of the LMIC Pool. LMIC is the lead insurer of the Pool and as such is the principal administrator of all pooling operations. After external reinsurance, all Pool participants cede 100% of underwriting operations to the Pool, and assume from the Pool their respective share of the net underwriting results of the Pool on a pro-rata basis. The Company's pro-rata participation ratio is 0.00% and therefore it does not report any net underwriting financial results.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a general ledger system consisting of a general ledger ("ledger") and numerous automated feeder systems which interface with the ledger. Manual entries are also input into the ledger. The ledger maintains account level detail on a company basis. The ledger interfaces with a reporting tool that is used to produce financial statements and supplemental reports.

All accounting entries have specific elements for company and statutory accounting basis. These elements

Liberty Mutual Mid-Atlantic Insurance Company

serve as the basis for proper posting to the appropriate entity and accounting basis. Additionally, information is broken down into the appropriate segment, line of business and cost center. Cost center information is used to capture expense information and to allocate those expenses to various reporting entities by ratios determined by line of business and function. The core financial application systems include general ledger, accounts payable, and cash disbursements.

The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by Ernst and Young LLP, independent certified public accountants. No material deficiencies were noted in the Company's accounts and records in the course of this examination.

The internal control structure was examined using the following major approaches: review of the work performed by E&Y; discussions with management based on the use of the NAIC's Exhibit C Questionnaire and re-performance testing to the extent necessary and deemed appropriate.

The books and records of the Company are audited annually by E&Y, independent certified public accountants, in accordance with 211 CMR 26.00.

STATUTORY DEPOSITS

The following identifies the statutory deposits maintained by the Company with numerous jurisdictions as of December 31, 2013:

		<i>Deposits with the State of Domicile For the Benefit of All</i>		<i>All Other Special Deposits</i>	
		<i>Policyholders</i>			
		Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware	DE	\$ -	\$ -	\$ 29,937	\$ 28,800
Florida	FL	203,444	203,112	-	-
Georgia	GA	-	-	49,621	49,540
Massachusetts	MA	1,174,392	1,169,089	49,621	49,540
North Carolina	NC	315,535	327,460	-	-
Tennessee	TN	-	-	168,193	167,754
Virginia	VA	-	-	535,075	534,060
Total		\$ 1,693,371	\$ 1,699,661	\$ 832,447	\$ 829,694

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period Ended December 31, 2013

Liberty Mutual Mid-Atlantic Insurance Company

Liberty Mutual Mid-Atlantic Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
For the year-ended December 31, 2013

	Per Company	Exam Changes	Per Examination
Bonds	\$ 17,060,249	\$ -	\$ 17,060,249
Common Stocks	73,238	-	73,238
Cash and Short-term investments	659,880	-	659,880
Securities lending reinvested collateral assets	1,500,966	-	1,500,966
Investment income due and accrued	173,693	-	173,693
Current federal and foreign income tax recoverable and interest thereon	9,302	-	9,302
Receivables from parent, subsidiaries and affiliates	22,436	-	22,436
Aggregate write-ins for other than invested assets	155,483	-	155,483
Total assets	\$ 19,655,247	\$ -	\$ 19,655,247
Payable to parent, subsidiaries and affiliates	\$ 25,353	\$ -	\$ 25,353
Payable for securities lending	1,500,966	-	1,500,966
<i>Total liabilities</i>	<i>1,526,319</i>	<i>-</i>	<i>1,526,319</i>
Surplus Notes	9,500,000	-	9,500,000
Unassigned funds (surplus)	8,628,928	-	8,628,928
<i>Total surplus as regards policyholders</i>	<i>18,128,928</i>	<i>-</i>	<i>18,128,928</i>
Total liabilities and surplus	\$ 19,655,247	\$ -	\$ 19,655,247

Liberty Mutual Mid-Atlantic Insurance Company

Liberty Mutual Mid-Atlantic Insurance Company

Statement of Income

For the year-ended December 31, 2013

	<u>Per Company</u>	<u>Exam Changes</u>	<u>Per Examination</u>
Net investment income earned	\$ 543,468	\$ -	\$ 543,468
Net realized capital gains (losses)	65,421	-	65,421
Aggregate write-ins for miscellaneous income	(255)	-	(255)
Federal and foreign income taxes incurred	(30,227)	-	(30,227)
Net income	<u>\$ 638,861</u>	<u>\$ -</u>	<u>\$ 638,861</u>

Liberty Mutual Mid-Atlantic Insurance Company

Liberty Mutual Mid-Atlantic Insurance Company
Statement of Capital and Surplus
For the year-ended December 31, 2013

	Per Company	Exam Changes	Per Examination
Surplus as regards policyholders, December 31, 2012	\$ 17,506,577	\$ -	\$ 17,506,577
Net income	638,861	-	638,861
Change in net unrealized capital gains or (losses) less capital gains tax	(10,731)	-	(10,731)
Change in net deferred income tax	(808,778)	-	(808,778)
Change in nonadmitted assets	802,999	-	802,999
Change in surplus as regards policyholders for the year	622,351	-	622,351
Surplus as regards policyholders, December 31, 2013	<u>\$ 18,128,928</u>	<u>\$ -</u>	<u>\$ 18,128,928</u>

Liberty Mutual Mid-Atlantic Insurance Company

Liberty Mutual Mid-Atlantic Insurance Company

Reconciliation of Capital and Surplus

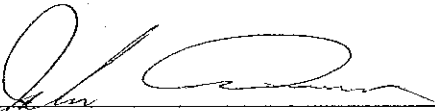
For each of the four year periods-ended December 31, 2013

	2013	2012	2011	2010
Surplus as regards policyholders, beginning of year	\$17,506,577	\$16,563,756	\$16,011,198	\$15,707,424
Net income	638,861	942,341	541,087	305,365
Change in net unrealized capital gains or (losses) less capital gains tax	(10,731)	312	7,456	(1,034)
Change in net deferred income tax	(808,778)	(315,832)	(296,525)	(32,307)
Change in nonadmitted assets	802,999	316,000	300,540	31,750
Change in surplus as regards policyholders for the year	622,351	942,821	552,558	303,774
Surplus as regards policyholders, end of year	\$18,128,928	\$17,506,577	\$16,563,756	\$16,011,198

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by PwC who participated in this examination hereby is acknowledged.



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance