

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
LIBERTY MUTUAL PERSONAL INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 00111

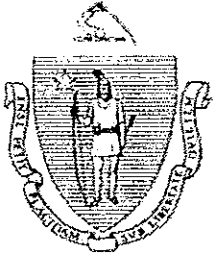
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LIBERTY MUTUAL PERSONAL INSURANCE COMPANY

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

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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 PERSONAL 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 Personal Insurance Company (hereinafter referred to as the "Company", or "LMPIC ") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current Coordinated Group Examination covers the 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 Mid-Atlantic Insurance Company ("LMMIAIC"), Montgomery Mutual Insurance Company ("MMIC") and Liberty Mutual Insurance Company ("LMIC"). 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 Personal 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 is a wholly owned subsidiary of Liberty Mutual Group Inc. ("LMGI"), a Massachusetts corporation. The ultimate parent of LMGI is Liberty Mutual Holding Company Inc. ("LMHC"). The Company was licensed to write business in Massachusetts only effective January 1, 2006.

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 the lead company in the LMIC Pool and its pooling participation is 0.00%. Therefore, the Company reports no underwriting activity or reserve development.

Capital Stock

The Company has 12,000 shares of capital common stock authorized, issued and outstanding as of December 31, 2013. All shares have a stated par value of \$100. All outstanding shares are held by LMGI.

Dividends to Stockholders

There were no dividends to the stockholder 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 Personal 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 conflicts 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, LMPIC 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

Annual Meeting of the Stockholder

In accordance with the bylaws, the annual meeting of the stockholder is held during the first six months of the calendar year, the purpose of which is to elect a Board of Directors and to act upon such matters as may properly arise at that meeting. Minutes of stockholder meetings were reviewed for the period covered by this examination and all meetings were held in accordance with the bylaws.

Board of Directors

The Company is managed by a Board of Directors which shall consist of not less than three nor more than seventeen members, as determined from time to time by vote of a majority or by vote of the stockholder.

The Board of Directors meets regularly throughout the year and may in accordance with the bylaws, hold special meetings or take action by unanimous written consent. A review was made of the minutes of meetings for the four-year period covered by this examination. During the examination period, the Board met at least four times during each calendar year.

Liberty Mutual Personal Insurance Company

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

Liberty Mutual Personal Insurance Company

Officers

Corporate officers are elected by the Board of Directors at their first Annual Stockholder Meeting, and serve for one year in accordance with the Company's Bylaws. The elected principal senior officers and their respective titles at December 31, 2013 were as follows:

Name	Title
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
Stephen J. McAnena	Vice President
Alan Scholsberg	Vice President
Edward J. Gramer III	Vice President
Elizabeth J. Morahan	Vice President and General Counsel

Affiliated Companies

The Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. LMHC is the "ultimate controlling person" of the Group per Form B, as filed with the Division. The following is a summary of the organization structure based on Schedule Y:

Liberty Mutual Holding Company, Inc.
↳ LMHC Massachusetts Holdings, Inc.
↳ Liberty Mutual Group, Inc.
↳ **Liberty Mutual Personal Insurance Company**

Transactions and Agreements with Subsidiaries & Affiliates

Management Services Agreement

The Company is a part to a management services agreement (the "Agreement") with Liberty Mutual Insurance Company ("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 Liberty Mutual Group Asset Management ("LMGAM"), where LMGAM provides services to the Company.

Liberty Mutual Personal Insurance Company

Tax Sharing Agreement

The Company's federal income tax return is consolidated with other affiliates in the federal income tax return of LMHC. The income tax allocation is subject to a written tax sharing agreement and allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses.

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 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.

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 Liberty Mutual Insurance Company.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed to write business in Massachusetts and primarily writes only homeowners coverage. 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:

Liberty Mutual Personal Insurance Company

	Gross Written Premium	Net Written Premium	Admitted Assets	Liabilities	Surplus
2010	\$ 10,859	\$ -	\$ 6,702,424	\$ 4,062	\$ 6,698,362
2011	262,105	-	6,732,301	10,116	6,722,185
2012	499,283	-	6,754,947	7,974	6,746,973
2013	759,674	-	6,784,970	5,965	6,779,005

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 ceded 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 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.

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 Personal Insurance Company

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

	Per Company	Exam Changes	Per Examination
Bonds	\$ 6,130,247	\$ -	\$ 6,130,247
Short-term investments	615,528	-	615,528
Investment income due and accrued	39,195	-	39,195
<i>Total assets</i>	<u>\$ 6,784,970</u>	<u>\$ -</u>	<u>\$ 6,784,970</u>
Current federal and foreign income taxes	\$ 4,948	\$ -	\$ 4,948
Payable to parent, subsidiaries and affiliates	1,017	-	1,017
<i>Total liabilities</i>	<u>5,965</u>	<u>-</u>	<u>5,965</u>
Common capital stock	1,200,000	-	1,200,000
Gross paid in and contributed surplus	5,100,000	-	5,100,000
Unassigned funds (surplus)	479,005	-	479,005
<i>Total surplus as regards policyholders</i>	<u>6,779,005</u>	<u>-</u>	<u>6,779,005</u>
Total liabilities and surplus	<u>\$ 6,784,970</u>	<u>\$ -</u>	<u>\$ 6,784,970</u>

Liberty Mutual Personal Insurance Company

Liberty Mutual Personal Insurance Company
Statement of Income
For the year-ended December 31, 2013

	<u>Per Company</u>	<u>Exam</u> <u>Changes</u>	<u>Per</u> <u>Examination</u>
Net investment income earned	\$ 48,032	\$ -	\$ 48,032
Federal and foreign income taxes incurred	16,000	-	16,000
Net income	<u>\$ 32,032</u>	<u>\$ -</u>	<u>\$ 32,032</u>

Liberty Mutual Personal Insurance Company

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

	<u>Per Company</u>	<u>Exam Changes</u>	<u>Per Examination</u>
Surplus as regards policyholders, December 31, 2012	\$ 6,746,973	\$ -	\$ 6,746,973
Net income	32,032	-	32,032
Change in net deferred income tax	(1,000)	-	(1,000)
Change in nonadmitted assets	1,000	-	1,000
Change in surplus as regards policyholders for the year	32,032	-	32,032
Surplus as regards policyholders, December 31, 2013	<u>\$ 6,779,005</u>	<u>\$ -</u>	<u>\$ 6,779,005</u>

Liberty Mutual Personal Insurance Company

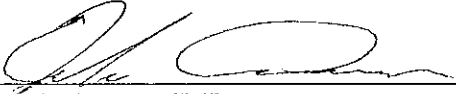
Liberty Mutual Personal Insurance Company
Reconciliation of Capital and Surplus
For each of the four year periods-ended December 31, 2013

	2013	2012	2011	2010
Surplus as regards policyholders, beginning of year	\$6,746,973	\$6,722,185	\$6,698,362	\$4,679,760
Net income	32,032	22,788	24,773	19,302
Change in net deferred income tax	(1,000)	5,000	(950)	(700)
Change in nonadmitted assets	1,000	(3,000)	-	-
Capital Changes: Paid In	-	-	-	500,000
Surplus Adjustments: Paid In	-	-	-	1,500,000
Change in surplus as regards policyholders for the year	32,032	24,788	23,823	2,018,602
Surplus as regards policyholders, end of year	<u>\$6,779,005</u>	<u>\$6,746,973</u>	<u>\$6,722,185</u>	<u>\$6,698,362</u>

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.

A handwritten signature in black ink, appearing to read 'John M. Curran', is written over a horizontal line.

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