



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

*Report on the Comprehensive Market Conduct Examination of*

*Liberty Mutual Insurance Company*

*Boston, Massachusetts*

*For the Period January 1, 2013 through December 31, 2013*

**NAIC COMPANY CODE: 23043**

**NAIC GROUP CODE: 0111**

**EMPLOYER ID NUMBER: 04-1543470**

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**COMMONWEALTH OF MASSACHUSETTS**  
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COMMISSIONER OF INSURANCE

December 18, 2019

The Honorable Gary D. Anderson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, Massachusetts 02118-6200

Dear Commissioner Anderson:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, § 4, a comprehensive examination has been made of the market conduct affairs of

**LIBERTY MUTUAL INSURANCE COMPANY**

at their home offices located at:

175 Berkeley Street  
Boston, MA 02116

The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Liberty Mutual Insurance Company (“Company”) for the period January 1, 2013 to December 31, 2013 focusing on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures. The findings and observations expressed in this Report are based upon material and information provided by the Company as of November 27, 2019.

## EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2013 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the domiciliary regulator’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company’s related internal controls. While the Handbook approach is designed to detect incidents of deficiency through transaction testing, the internal control assessment provides an understanding of the key controls that the Company’s management uses to operate their business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The internal control assessment is comprised of three significant steps: (a) identifying controls; (b) determining whether the control has been reasonably designed to accomplish its intended purpose in mitigating the risk; and (c) verifying that the control is functioning as intended (i.e., review or testing of the controls). The effectiveness of the internal controls was considered when determining sample sizes for transaction testing. The form of this examination report is “Report by Test,” as described in Chapter 15, Section A of the Handbook.

The Division considers a “finding” to be a violation of Massachusetts insurance laws, regulations or bulletins. An “observation” along with a recommendation is considered a departure from an industry best practice. The Division recommends that Company management evaluate any “finding” or “observation” for applicability to other jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions. The Company shall report to the Division any such corrective actions taken.

## EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides details of the scope of the examination, the examination approach, internal controls for each standard, review and test procedures conducted, findings and observations, recommendations and required actions, and if applicable, subsequent Company actions. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

The following is a summary of all findings and observations, along with related recommendations and required actions and, if applicable, subsequent Company actions noted in this examination report. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at [www.mass.gov/doi](http://www.mass.gov/doi).

The examination resulted in no recommendations or required actions with regard to company operations/management, complaint handling, producer licensing, or policyholder service. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices generally appear to meet industry best practices in these areas.

Recommendations and required actions noted in this examination are as follows:

### SECTION III-MARKETING AND SALES

#### STANDARD III-1

*Findings:* None.

*Observations:* All sales materials reviewed appeared accurate, reasonable, approved prior to use, and in compliance with FCRA requirements. Also, the Company's website disclosure complies with Division requirements. The Company contracts with several third-party marketing organizations to generate sales leads using the internet or call centers. The sales protocols for the various third-party organizations did not consistently refer inquiries about homeowners insurance for coastal risks to the Company's customer service team for in-person phone handling. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

*Recommendations:* The sales protocols for the various third-party marketing organizations should consistently refer inquiries about homeowners insurance for coastal risks to the Company's customer service team for in-person phone handling. Finally, the Company should review its procedures for reviewing and approving contracts with third-party marketing organizations to ensure lead generations are not unfairly discriminatory.

*Subsequent Company Actions:* The Company reviewed its unlicensed third-party marketing organization contracts regarding sales lead generation criteria. When homeowner sales leads are generated from coastal zip codes, the potential customers are immediately referred to call the Company's customer service team to discuss their insurance needs. The Company has updated its database of coastal zip codes to ensure consistent application of this practice for all third-party marketing organizations.

## SECTION VI-UNDERWRITING AND RATING

### STANDARD VI-1

*Findings:* RNA testing indicated that one vacated surcharge from the Board of Appeal was missed, and one vacated surcharge was not processed timely in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11.

RNA private passenger automobile claim testing noted that for four at-fault accident claims, Surcharge Notices were not provided to at-fault operators in violation of M.G.L. c. 175E, § 7A. Further, for three of these claims, which were bodily injury claims, the Company did not report the claims to the Merit Rating Board ("MRB") in violation of 211 CMR 134.00. Finally, the Company did not report a comprehensive claim to the MRB in violation of 211 CMR 134.00.

At the request of the Division, the Company reviewed at-fault accident surcharges from 2006 through 2015 and determined that 3,271 operators were not surcharged for at-fault accidents, and the claims were not reported to the MRB in accordance with 211 CMR 134.00. Also, these at-fault operators were not provided a Surcharge Notice stating their right to appeal those surcharges in accordance with M.G.L. c. 175E, § 7A. Those at-fault accident determinations with notice dates six years prior to the date of this examination report may impact the at-fault operators' driving records and premiums. More specifically, the Company failed to report 586 at-fault accident determinations to affected at-fault operators and failed to provide the affected at-fault operators with notices of their right to appeal those determinations, in accordance with M.G.L. c. 175E, § 7A. As a result, the Company and the Division entered into a Regulatory Settlement Agreement requiring corrective actions and restitution for these statutory violations. See Appendix B.

*Observations:* Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that the Company properly determined average cost new for optional collision and comprehensive coverages. Also, except as noted above, at-fault accident determinations and comprehensive claims were timely reported to the MRB, and Surcharge Notices were properly provided to at-fault operators. Finally, except as noted above, testing of vacated surcharges indicated that vacated surcharges by the Board of Appeal were properly and timely reversed in accordance with statutory and regulatory requirements.

*Required Actions:* The Company shall provide the premium refund and 6% annual interest to the consumer whose vacated surcharge was not processed. Also, the Company shall review its controls and procedures, and make needed changes to ensure that premium refunds for Board of Appeal vacated surcharges are timely and properly processed. The Company shall also provide training or guidance to staff about these controls and procedures.

The Company shall report the bodily injury claims to the MRB and provide Surcharge Notices to at-fault operators as set forth in the Regulatory Settlement Agreement. In addition, the Company shall adopt new controls and procedures to ensure that Surcharge Notices are properly and timely provided to at-fault operators with the claims timely reported to the MRB, and to ensure that comprehensive claims are properly reported to the MRB. The Company shall also provide training or guidance to staff about these new controls and procedures. The new controls and procedures shall be tested by internal audit or an independent quality assurance function to ensure that they are effectively implemented, with the results of the independent testing reported to the Company's Board of Directors and the Division by September 30, 2020 or another agreed upon date. If significant issues are identified in the audit, follow up audits shall continue to be performed with related reports issued, until no significant issues remain.

## STANDARD VI-8

Findings: For 25 of the 34 private passenger automobile non-renewals tested, the reason on the consumer non-renewal notice was that the Company was permitted to non-renew the policy in accordance with CAR Rules, which is not adequately specific in accordance with 211 CMR 97.00.

Observations: Except as noted above, for the company-initiated cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Required Actions: The Company shall review controls and procedures and make necessary changes to ensure that non-renewal notices include specific reasons on the notices. Also, the Company shall provide training and guidance to staff about the processing of these notices.

Subsequent Company Actions: The Company states that its procedures have been updated to reflect that a specific reason for non-renewal must be included in non-renewal notices. The tool used to process non-renewal notices has been updated to reflect this requirement, and a reminder of this requirement has been sent to staff.

## **SECTION VII-CLAIMS**

### STANDARD VII-6

Findings: RNA noted that for two homeowners claims, the Company did not notify municipal authorities, and for seven homeowners claims, the Company did not notify municipal authorities at least ten days prior to payment in violation of M.G.L. c. 139, § 3B.

Observations: Except as noted above, RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing and except as noted above, it appears that the Company generally handles claims in accordance with policy provisions and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall clarify to claims handling personnel that all homeowners structure claims exceeding \$1,000 must be reported to municipal authorities at least ten days prior to payment. Also, the Company shall provide training to staff in this area and ensure that its quality assurance testing verifies that such claims are properly reported to municipal authorities in accordance with statutory requirements.

## COMPANY BACKGROUND

The Company is a Massachusetts stock insurer and a direct wholly-owned subsidiary of Liberty Mutual Group, Inc. ("LMGI"). The Company was formed in 1912 and was converted to a stock insurance company in connection with a mutual holding company reorganization that formed Liberty Mutual Holding Company, Inc. in 2001. LMGI is a diversified global group of insurance companies and the third largest property and casualty insurance group in the United States based on 2013 direct written premium. LMGI insurance subsidiaries offer a wide range of products and services, including private passenger automobile, homeowners, commercial multiple peril, commercial automobile, general liability, surety, workers' compensation, global specialty, group disability and assumed reinsurance. LMGI employs over 50,000 people in more than 900 offices throughout the world.

LMGI is organized in four Strategic Business Units ("SBUs") including personal insurance, commercial insurance, global specialty and Liberty International. In Massachusetts, the Company primarily sells private passenger automobile and homeowners coverage in the personal insurance SBU. In June 2013, new Massachusetts private passenger automobile risks, except motorcycle, were written in Illinois-domiciled LM General Insurance Company to standardize the Company's policy benefits across different states. Renewals of the Company's previously issued Massachusetts private passenger automobile risks continued to be written in the Company. In Massachusetts, the Company's personal insurance coverage is primarily sold by employee agents and through direct phone and internet marketing. Some coverage is also sold by third-party agents.

The Company maintains a financial strength rating of "A" (Excellent) from A.M. Best. The following financial information is as of, or for the year ended December 31, 2013:

Admitted assets	\$44.5 billion
Statutory surplus	\$15.1 billion
Direct written premium	\$4.5 billion
Massachusetts direct written premium	\$632.6 million

The key objectives of this examination were determined by the Division with emphasis on the following areas.



## I. COMPANY OPERATIONS/MANAGEMENT

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

**Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.**

*Objective:* This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's Board of Directors and its Audit Committee are ultimately responsible for compliance matters. The Audit Committee has a written charter, and membership consists of six independent directors. Also, the Company's internal audit function reports to the Audit Committee.
- The Chief Compliance Officer ("CCO") reports on the activities of the Company's Office of Corporate Compliance ("OCC") directly to the Company's Chief Executive Officer with dotted line reporting to the Company's Chief Legal Officer. The CCO also reports periodically to the Board of Directors' Risk Committee, annually to the Board of Directors, and monthly regarding any significant issues to the Audit Committee. The CCO also reports to the Board of Directors and Risk Committee regarding employee reports made to the compliance help line. Finally, the General Counsel provides annual updates to the Board of Directors regarding litigation.
- The OCC includes approximately 200 full-time compliance officers located within the SBUs that have dotted line reporting to the CCO. The SBU compliance officers are responsible for training and monitoring of specific requirements related to the SBUs' business processes. The OCC includes approximately 45 full-time employees who are primarily focused on enterprise compliance strategy, regulatory risk assessment, business ethics, code of conduct compliance, and compliance training. Specifically, the OCC staff have compliance responsibility for global privacy, economic sanctions, the Foreign Account Tax Compliance Act, employee oversight and training, code of conduct monitoring, compliance help line, agent and employee state licensing requirements, and other Company-wide compliance practices. The OCC also coordinates market conduct examinations and records management.
- The Company's internal audit department conducts financial, operational, compliance and information technology ("IT") audits that are aligned with the SBUs, and includes approximately 95 full-time auditors. An IT audit support team and a fraud detection team assist the SBU audit teams. The internal audit plan assesses all auditable entities within LMGI through risk ranking based on impact, prior rating, use of technology, maturity of operations, management judgment and inherent risks. In addition, the internal audit department schedules periodic meetings with SBU management to assess new regulatory requirements, systems changes and areas of concern. The audit plan typically includes approximately 250 audits annually and allocates 3%-4% of time for special projects.
- Internal audits are generally conducted in four broad areas including operations (e.g. underwriting and claims), financial (e.g. internal controls and external audit assist), compliance and IT. The compliance audits focus on Federal issues that cover all lines of business, such as Office of Foreign Asset Control ("OFAC") compliance, the Terrorism Risk Insurance Act, and state requirements, such as licensing and privacy. The IT audits focus on data security and testing of IT controls. The

Company's internal audit plan is presented to, and approved by, the Audit Committee, which monitors the progress of the plan.

- A summary of audit results by SBU, all audit findings from the internal and external auditor, and Sarbanes Oxley-related attestation findings are presented to the Audit Committee. Also, a report by SBU and business process is presented, which includes outstanding issues and management responses. Audit findings are reported as open or closed, with the current status, aging and roll-forward of activity. The internal audit department tracks the combined audit findings. All findings that are "closed" require internal audit verification that the audit finding was addressed.
- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers ("CAR") for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company's compliance teams complete reviews of underwriting and rating processes including tests of compliance with statutory and regulatory requirements, and follow-up procedures on findings noted in market conduct examinations.
- The Company's personal insurance SBU includes a claims quality assurance ("QA") function, which consists of monthly random audits on two closed auto physical damage claims and two homeowners claims per claim representative. A QA process has also been established to review the accuracy, completeness and timeliness of auto physical damage appraisals. QA results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed the Company's Board of Director minutes, internal audit plan, various internal audit reports, and an OCC Product Management Compliance Report. Issues noted in such reports were further investigated and discussed with management.

Transaction Testing Results:

Findings: None.

Observations: The Company has documented its corporate decisions in its Boards of Director minutes. The internal audit plan, internal audit reports and the OCC Product Management Compliance Report reviewed by RNA provided detailed information on the audit plan, procedures performed, audit findings and recommendations for improvement. The review of these audits indicated that the Company is generally in compliance with policies, procedures and regulatory requirements.

Recommendations: None.

**Standard I-2. The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.**

No work performed. All required activity for this Standard was included in the scope of the recently completed statutory financial examination of the Company.

**Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.**

*Objective:* This Standard addresses the effectiveness of the Company's antifraud efforts. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- The Company's Special Investigative Unit ("SIU") is organized to investigate "singular" claims, such as theft or arson, and "complex" cases where suspected fraud and crime rings are investigated. There are six "singular" and one "complex" SIU investigators that handle Massachusetts cases. Claims are referred to SIU based upon "red-flags" that adjustors have been trained to identify. Once referred, the claims are handled by the SIU, which is also responsible for coordinating with the Massachusetts Insurance Fraud Bureau ("IFB") in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. The Company reports all fraud to the IFB. Auto thefts are reported through the Insurance Services Office ("ISO") to the National Insurance Crime Bureau ("NICB").
- The SIU has a QA function in which two files per month per investigator are reviewed and evaluated. Results are summarized and reports made monthly to management. The SIU also participates extensively in training throughout the LMGI as content experts to increase fraud awareness and prevention.
- The Company has an internal audit fraud team that focuses on internal fraud.
- All Company employees are annually required to attest that they are in compliance with the code of conduct including the conflict of interest policy. Also, all officers, directors, and selected employees are required to complete an annual conflict of interest disclosure form. Responses are monitored to ensure all are received. Results are reported to the Board of Director's Risk Committee.
- The Company performs pre-employment background checks on all new hires. A third-party vendor conducts the investigations, and the Company adjudicates the results. Company policy does not allow for the hiring of anyone convicted of a felony for breach of trust or fiduciary obligation. In addition, Company practice is not to hire anyone with a violation of the federal Violent Crime Control and Law Enforcement Act.
- The Company has implemented OFAC compliance initiatives including searches of the Specially Designated Nationals ("SDN") database for any payees, customers or vendors that might be included in the SDN database.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, Code of Conduct policies, and prospective employee hiring. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prosecute, and prevent fraudulent insurance acts.

Recommendations: None.

<b>Standard I-4. The regulated entity has a valid disaster recovery plan.</b>
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No work performed. All required activity for this Standard was included in the scope of the Division's financial examination of the Company.

<b>Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.</b>
--

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard I-6:

- The Company uses independent claims field adjusters and appraisers to supplement its employee field staff when needed. Automobile glass claims, towing services and medical provider invoice reviews are outsourced to third-party vendors. Also, various local outside counsel are sometimes utilized to represent the Company on bodily injury claims.
- The Company uses a third-party vendor to conduct pre-employment background checks and investigations, and the Company adjudicates the results.
- The Company uses a standard producer agreement for its third-party agents. Standard terms and conditions address agent authorities, termination provisions, ownership of expirations, indemnification, commissions, notice procedures, privacy requirements, and producer licensure requirements. A financial and criminal background check is also completed prior to appointment of the individual producer. Also, the Company's territory managers oversee the independent agents, at least to some extent, through agent interviews, reviews of the agents' work, and phone call listen-ins.
- The Company uses Vertafore, a third-party vendor system, to track licensing and appointments with updates made daily from the National Association of Insurance Commissioners ("NAIC") National Insurance Producer Registry ("NIPR"). The data within NIPR is fed by information contained in the Division's On-Line Producer Appointment system ("OPRA").

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed selected contract documentation related to the above parties as part of testing in producer licensing, new and renewal business, and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's contracts with entities assuming a business function on its behalf comply with statutory and regulatory requirements.

Recommendations: None.

<b>Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.</b>
--

Objective: This Standard addresses the Company's efforts to monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. As part of producer licensing, new and renewal business, and claims testing, RNA reviewed documentation that supports monitoring procedures performed.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is monitoring the activities of third parties assuming a business function on the Company's behalf, in compliance with statutory and regulatory requirements.

Recommendations: None.

**Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.**

Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has adopted record retention requirements, which are monitored by the OCC.
- The record retention requirements include guidelines for management, maintenance and disposal of records.
- A record retention schedule includes the length of time specific documents must be retained.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

**Standard I-8. The regulated entity is licensed for the lines of business that are being written.**

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's certificate of authority, and compared it to the lines of business, which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company is licensed for the lines of business being written.

Recommendations: None.

**Standard I-9. The regulated entity cooperates on a timely basis with examiners performing the examinations.**

Objective: This Standard comments on the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was very good.

Recommendations: None.

**Standard I-10. The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.**

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11 through I-16:

- Company policy requires that a consumer privacy notice be provided to applicants when a new personal insurance policy is issued. The annual privacy notice is also provided customers with personal insurance renewal notices. Finally, the Company also provides the annual privacy notice on its website as well as their internet privacy policy.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates, who provide services to the Company. Company policy is to disclose information only as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.
- The Company's privacy practices do not allow sharing of customer information with non-affiliates, except when such information sharing is coordinated through a joint marketing program. Offering opt out rights is not required, since the Company does not share information with non-affiliates,

unless the Company is jointly marketing with the non-affiliates to consumers. The Company does not sell consumer information to anyone.

- Company management states that it does not obtain investigative consumer reports on customers as part of underwriting, and that the Company does not conduct pretext interviews.
- Company policy requires that its IT security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review IT security threats and controls, and to continually improve IT systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, reviewed documentation supporting its privacy and information security policies and procedures, and sought any evidence of improper privacy practices as part of personal insurance underwriting and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, underwriting testing and claims testing, the Company's privacy and information security practices appear to minimize any improper intrusion into individuals' privacy in accordance with the Company's policies and procedures.

Recommendations: None.

**Standard I-11. The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.**

Objective: This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated elsewhere in this section. See Appendix A for applicable statutes, regulations and bulletins.

**Standard I-12. The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.**

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.



Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of personal insurance underwriting and claims testing, RNA reviewed underwriting documentation for any evidence that the Company improperly provided personal information to inappropriate parties.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with underwriting and claims testing.

Recommendations: None.

<b>Standard I-13. The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.</b>
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Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation supporting its privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient privacy notice to customers regarding its treatment of non-public personal financial information.

Recommendations: None.

**Standard I-14. If the regulated entity discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.**

*Objective:* This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard I-10.

*Controls Reliance:* See Standard I-10.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* The Company is not required to offer opt out rights since the Company does not share information with non-affiliates, unless the Company is jointly marketing with the non-affiliates to consumers.

*Recommendations:* None.

**Standard I-15. The regulated entity's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.**

*Objective:* This Standard is concerned with the Company's collection and use of nonpublic personal financial information. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard I-10.

*Controls Reliance:* See Standard I-10.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of personal insurance underwriting and claims.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon RNA's review and testing in conjunction with personal insurance underwriting and claims, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

**Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.**

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of personal insurance underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of personal insurance underwriting and claims.

Recommendations: None.

**Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.**

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has developed and implemented IT security policies and practices to safeguard nonpublic personal and health information. The Company annually conducts IT systems risk assessments to consider, document and review IT security threats and controls, and to continually improve IT systems security.
- The Company's internal audit function frequently conducts IT audits, which address information security and access controls.

- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed documentation supporting the Company's IT security policies and procedures. Review of IT access and authorization controls was also included in the scope of the recently completed statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's IT security policies and procedures, it appears that the Company has implemented an IT security program, which appears to provide reasonable assurance that its IT systems protect nonpublic customer information.

Recommendations: None.

<b>Standard I-18. All data required to be reported to departments of insurance is complete and accurate.</b>
--

Objective: This Standard is concerned with the Company's annual reporting of statutorily-required homeowners underwriting and claims data and the NAIC Market Conduct Annual Statement ("MCAS") personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's personal insurance policy administration and claims systems compile and retain underwriting and claims data for inclusion in the MCAS.
- The Company reviews the draft MCAS filings for unusual items, and makes changes to the draft filing as appropriate prior to submission of the MCAS to the NAIC.
- The Company's personal insurance policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for personal insurance underwriting and claims processing. RNA reviewed the 2013 homeowners underwriting and claims data statutorily-required to be submitted to the Division, and also reviewed the 2013 Massachusetts MCAS data for unusual results and concerns.

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Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing and the 2013 homeowners underwriting and claims data, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2013 Massachusetts MCAS data indicated that underwriting and claims data appeared reasonable.

Recommendations: None.

## II. COMPLAINT HANDLING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

**Standard II-1. All complaints are recorded in the required format on the regulated entity's complaint register.**

*Objective:* This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of all complaint Standards:

- The Company considers a complaint to be any written communication expressing a grievance, and any oral dissatisfaction transcribed into writing by anyone, including Company personnel.
- Complaints are managed, and received by 12 staff in the Presidential Service Team ("PST"), which maintains the complaint register electronically, and coordinates with personnel in the Company's SBUs. The PST receives complaints from insurance regulators, attorneys' general, consumers, and the Better Business Bureau. Also, information about complaints received directly in Company's SBUs is forwarded to the PST for inclusion in the complaint register.
- The PST directs the SBUs to research and respond to the complaints received by the PST. A response is prepared by an SBU staff person and reviewed by an SBU supervisor. Once the response is final, it is sent to the complainant or regulator with a copy to the PST, which completes the remaining data fields in the complaint register. The personal insurance SBU is to respond to complaints within five days.
- The PST complaint register includes the Company name, case number, complainant name, SBU, coverage line, operational function, policy number, reason, disposition, source, date received, date closed, regulator complaint number assigned, and state of origin.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries, and on its web-site.
- Complaint statistics are compiled from complaint register data by the PST and provided to the SBUs, which analyze trends and report complaint results to SBU management. An annual report describing all of the activities of the PST is prepared and provided to the Company's Corporate Secretary. That report includes complaint statistics by SBU.
- The Company's claims function receives claim surveys via e-mail, some of which contain negative comments. These are not considered complaints, but the Company tracks, researches and responds to those comments.
- A team including staff from the PST, the Company's "Center of Excellence," the Customer Response Center, and personal insurance claims monitors social media including Facebook, Twitter and Instagram for expressions of dissatisfaction. When these are noted, the Company responds in social media asking the consumer to contact the Company, so that the concern can be addressed privately to protect the consumer's privacy. Once the consumer contacts the Company privately, the concern is added to the complaint register and handled accordingly.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2013-2014 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2013-2014 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, the Company's complaint registers included all statutorily-required database elements. Also, the Company's complaint registers properly included all Division complaints.

Recommendations: None.

<b>Standard II-2. The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.</b>
---

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 30 regulatory and Company complaints from 2013-2014, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders and consumers.

Recommendations: None.

**Standard II-3. The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.**

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 30 regulatory and Company complaints from 2013-2014 to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence. Policyholders and consumers with similar fact patterns appeared to be treated consistently and fairly.

Recommendations: None.

**Standard II-4. The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.**

Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 30 regulatory and Company complaints from 2013-2014, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.



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Observations: The Company appeared to address timely each of the tested Division complaints within 14 days, unless additional time to respond was approved by the Division. Complaints sent directly to the Company also appeared to be addressed timely. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

### III. MARKETING AND SALES

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

<b>Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.</b>
---

*Objective:* This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted as part of this Standard:

- The Company, through its product teams and advisors, creates television, radio, print, brochures, digital media, and billing insert advertising for general use to the public, and specific sales materials regarding Massachusetts personal insurance products. Social media, including Facebook, is generally used to create and build brand awareness.
- All advertising is approved by product experts, marketing staff, legal advisors, and end users. The teams review and approve the materials prior to use and document their review and approval.
- All advertising and sales materials are tracked and maintained in an electronic database, which includes a review date and effective date. The materials are valid until removed from the market, and accordingly from electronic database.
- In accordance with the Fair Credit Reporting Act ("FCRA"), direct mail marketing lists are purchased from Equifax using credit inquiries and consumer credit scores. The direct mail pieces are reviewed and approved by the product experts and the legal department prior to use. These materials are circulated to prospective Massachusetts customers with a firm offer of private passenger automobile insurance as required by the FCRA. The Company does not use credit or insurance scores to underwrite or rate Massachusetts private passenger automobile policies.
- The Company discloses its name and address on its website.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA obtained a list of personal insurance SBU advertising and sales materials utilized during the examination period, and selected eight pieces for review of accuracy, reasonableness and evidence of approval prior to use. Further, RNA reviewed sample direct marketing materials to ensure that the direct marketing materials are in compliance with FCRA requirements. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* All sales materials reviewed appeared accurate, reasonable, approved prior to use, and in compliance with FCRA requirements. Also, the Company's website disclosure complies with Division requirements. The Company contracts with several third-party marketing organizations to generate sales leads using the internet or call centers. The sales protocols for the various third-party organizations did not consistently refer inquiries about homeowners insurance for coastal risks to the Company's customer service team for in-person phone handling. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

*Recommendations:* The sales protocols for the various third-party marketing organizations should consistently refer inquiries about homeowners insurance for coastal risks to the Company's customer service team for in-person phone handling. Finally, the Company should review its procedures for reviewing and approving contracts with third-party marketing organizations to ensure lead generations are not unfairly discriminatory.

*Subsequent Company Actions:* The Company reviewed its unlicensed third-party marketing organization contracts regarding sales lead generation criteria. When homeowner sales leads are generated from coastal zip codes, the potential customers are immediately referred to call the Company's customer service team to discuss their insurance needs. The Company has updated its database of coastal zip codes to ensure consistent application of this practice for all third-party marketing organizations.

<b>Standard III-2. Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.</b>
---

*Objective:* This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted as part of this Standard:

- Producer sales and marketing training is tailored to meet the needs of the Company's three product distribution channels, including employee agents located in field offices, call center direct response employee agents that handle in-bound telephone and web inquiries, and third-party agents under contract with the Company.
- Newly-hired field office employee agents attend a three to four-week new employee training class. The training meets Massachusetts pre-licensing requirements as most new employees are unlicensed entry level sales professionals. Field office employee agents also take a 10-week training class that includes training on the Company's systems, products, selling methods and Massachusetts-specific requirements. Field office employee agents use out-bound cold calling, third-party lead generation services, and the Company's web-site leads to develop sales prospects.
- Those hired as call center direct response employee agents must attend a six-week training program to learn the Company's policies, products and sales guidelines. If the employee is not a licensed producer, three weeks of producer licensing training also is provided. The training meets Massachusetts pre-licensing requirements. Once licensed, the direct response employee agents must complete a three-day Massachusetts-specific training class before they are permitted to handle Massachusetts sales calls. Call center direct response employee agents sales activity is limited to in-bound calls received from prospective customers.
- All employee agents' continuing education is monitored to ensure compliance with Massachusetts producer continuing education requirements.

- Third-party agents under contract with the Company are independent producers that sell coverage for several insurers. These agents receive training regarding the Company's products using e-learning and virtual class rooms.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing employee-agent and independent producer training materials to understand the nature and breadth of the Company's producer training. RNA requested and reviewed evidence that 12 employee agents located in field offices and call center direct response employee met Massachusetts continuing education requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process generally appears reasonable and appropriate.

Recommendations: None.

<b>Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.</b>
--

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing employee agent and third-party agent communications, to understand the nature and breadth of such communications. RNA also reviewed any employee agent or third-party agent communications noted as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for employee agent and third-party agent communications appear appropriate and reasonable. RNA noted no evidence of the use of unreasonable producer communications as part of new and renewal business testing.

Recommendations: None.

**Standard III-4. The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.**

*Objective:* This Standard addresses the Company's marketing to individuals as members of employer or other groups by the Company's producers in accordance with regulatory requirements and Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals who are members of employer or other groups.
- The Company's mass marketing plans offered to individuals who are members of employer or other groups are filed with the Division for approval.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans offered to individuals who are members of employer or other groups.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for developing and distributing marketing communications to individuals who are members of employer or other groups to understand the nature and breadth of such communications. RNA reviewed such communications as part of new and renewal business testing for reasonableness.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on review and testing, procedures for marketing communications to individuals who are members of employer or other groups appear appropriate and reasonable. As part of new and renewal business testing, RNA noted no evidence that marketing communications to individuals who are members of employer or other groups are unreasonable or inaccurate.

*Recommendations:* None.

#### IV. PRODUCER LICENSING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

**Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.**

*Objective:* The Standard addresses licensing and appointment of the Company's producers. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standard IV-4:

- The Company's Massachusetts personal insurance SBU distribution channels include employee agents located in field offices, call center direct response employee agents that handle in-bound telephone and web inquiries, and third-party agents under contract with the Company.
- Field office employee agents use out-bound cold calling, third-party lead generation services, and the Company's web-site leads to develop sales prospects. Call center direct response employee agents sales activity is limited to in-bound calls received from prospective customers.
- All prospective new employee hires, who are, or who will be licensed producers and appointed agents, must undergo a financial and criminal background check. Annually, employee agents must attest to compliance with the Company's code of conduct and conflict of interest policies.
- The Company uses a standard producer agreement for its third-party agents. Standard terms and conditions address agent authorities, termination provisions, ownership of expirations, indemnification, commissions, notice procedures, privacy requirements, and producer licensure requirements. A financial and criminal background check is also completed prior to appointment of the individual producer.
- All Massachusetts agent appointments are processed through the Division's OPRA using the effective date of the appointment. The Company also maintains a database of its employee agents' license expiration dates. The Company uses Vertafore, a third-party vendor system, to track licensing and appointments with updates made daily from the NAIC's NIPR. The data within NIPR is fed by information contained in the Division's OPRA.
- The Company also prepares a quarterly reconciliation of its appointment list to the Division's OPRA with any differences researched and addressed.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to determine whether the agent for each policy was included on the Division's list of the Company's appointed agents. Also, as part of the agent appointment termination testing, we reviewed any unusual appointment information.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's employee and third-party agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA.

Recommendations: None.

<b>Standard IV-2. The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.</b>
---

Objective: The Standard addresses licensing and appointment of the Company's producers and continuing education requirements. See Standard IV-1 for testing of producer licensing and agent appointment. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Newly-hired field office employee agents attend a three to four-week new employee training class. The training meets Massachusetts pre-licensing requirements as most new employees are un-licensed entry level sales professionals. Field office employee agents also take a 10-week training class that includes training on the Company's systems, products, selling methods and Massachusetts-specific requirements. Field office employee agents use out-bound cold calling, third-party lead generation services, and the Company's web-site leads to develop sales prospects.
- Those hired as call center direct response employee agents must attend a six-week training program to learn the Company's policies, products and sales guidelines. If the employee is not a licensed producer, three weeks of producer licensing training also is provided. The training meets Massachusetts pre-licensing requirements. Once licensed, the direct response employee agents must complete a three-day Massachusetts-specific training class before they are permitted to take Massachusetts sales calls. Call center direct response employee agents sales activity is limited to in-bound calls received from prospective customers.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, hiring, agent appointments and continuing education. RNA requested and reviewed evidence that 12 employee agents located in field offices and call center direct response employee met Massachusetts producer continuing education requirements. RNA also reviewed the third-party producer contract for responsibility related to agent continuing education compliance.

Transaction Testing Results:

Findings: None.

*Observations:* The Company relies on its employee agents to maintain their compliance with the Division's producer continuing education requirements. Further, independent agents are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

*Recommendations:* None.

<b>Standard IV-3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.</b>
---

*Objective:* This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standard IV-4:

- All Massachusetts agent terminations are processed through the Division's OPRA using the effective date of the termination.
- The Company's policy is to give written notice to all agents whose appointments are terminated.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the termination.
- The Company also prepares a quarterly reconciliation of its appointment list to the Division's OPRA with any differences researched and addressed.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected one agency and 15 individual agent appointment terminations from the Company's appointment termination listing and compared those to information on the Division's appointment termination records. Further, RNA reviewed evidence that notice to the Division and the agents complied with statutory requirements.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, the Company properly notified the Division of agent terminations through OPRA in compliance with statutory requirements. For each of the appointment terminations, the notice to the agents was in compliance with statutory requirements.

*Recommendations:* None.



**Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.**

*Objective:* The Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standards IV-1 and IV-3.

*Controls Reliance:* See Standards IV-1 and IV-3.

*Transaction Testing Procedure:* RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 65 private passenger automobile and 35 homeowners policies issued or renewed, and one agency and 15 individual agent appointment terminations during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's producer appointment and termination policies.

*Recommendations:* None.

**Standard IV-5. Records of terminated producers adequately document the reasons for terminations.**

*Objective:* The Standard addresses the Company's documentation of the reasons for producer terminations. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard IV-3.

*Controls Reliance:* See Standard IV-3.

*Transaction Testing Procedure:* RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected one agency and 15 individual agent appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

*Transaction Testing Results:*

*Findings:* None.

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*Observations:* Based upon testing, the Company's internal records adequately document reasons for appointment terminations. None of the tested appointment terminations was "for cause" as defined by statute.

*Recommendations:* None.

<b>Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.</b>
--

No work performed. This Standard is not covered in the scope of examination because the Company's personal insurance SBU direct bills all premium. Thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the recently completed statutory financial examination of the Company.

## V. POLICYHOLDER SERVICE

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

**Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice.**

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Private passenger automobile and homeowners policies billing and payment methods include payment in full at inception, direct bill in installments (usually 10 installments), payment using a credit card, or payment using electronic funds transfer ("EFT"). For new personal insurance business, a down payment of 10% to 25% is generally required, depending on policy type and the customer's payment history.
- For billed accounts, the initial bill is sent approximately 20 days prior to the due date. If not paid, a second notice is sent approximately 10 days after the due date, noting that the premium is past due and disclosing the Company's cancellation policy. If not paid in the next 23 days, a cancellation notice is sent to the customer. For EFT transactions, an insufficient funds notice will trigger a second and final EFT transaction, and if the funds are still insufficient, the EFT is stopped, and the Company will contact the customer to set up a different billing method.
- Customer service call center representatives answer questions from policyholders about billing. The Company has developed standards for customer service call center representatives, and monitors compliance with those standards.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, billing notices appeared to be mailed with an adequate amount of advance notice.

Recommendations: None.

**Standard V-2. Policy issuance and insured requested cancellations are timely.**

*Objective:* This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed accurately and timely. Policy issuance testing is included in Standard VI-6. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- An automobile policyholder may cancel his or her policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that the policyholder has moved out of Massachusetts.
- Both private passenger auto and homeowners policy cancellation requests from customers may be made through the direct employee agent, the Company's call center, or on the Company's website. Any unearned premium is refunded directly from the Company to the customer.
- Company policy is to cancel a policy upon notification of the request, and to process premium refunds in a timely manner.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and 10 homeowners insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, the insured-requested cancellations appeared to be processed accurately and timely. Also, premium refunds appear to be returned timely.

*Recommendations:* None.

**Standard V-3. All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.**

*Objective:* This Standard addresses the Company's procedures for providing timely and responsive information to customers by the appropriate department. Complaints are covered in the Complaint Handling section, and claims are covered in the Claims section. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- The Company has customer service call center representatives, who answer policyholders' general questions about their policies or billing matters.

- Policyholders may request endorsements and policy changes through the Company's customer service department or by contacting their third-party agent.
- The Company has developed performance and work flow standards for customer service and policy changes, and the Company monitors compliance with those standards.
- Customer service department call metrics, such as speed to answer, abandoned calls, average wait time, and others are measured against the department's key performance indicators.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating and policyholder service standards. Additionally, RNA obtained documentation showing customer service correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, rating, and policyholder service matters, it appears that the Company has adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

Recommendations: None.

**Standard V-4. Whenever the regulated entity transfers the obligations of its contracts to another regulated entity pursuant to an assumption reinsurance agreement, the regulated entity has gained the prior approval of the insurance department and the regulated entity has sent the required notices to affected policyholders.**

No work performed. The Company has not entered into assumption reinsurance agreements.

**Standard V-5. Policy transactions are processed accurately and completely.**

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1. Insured-requested cancellations and return of premium are tested in Standard V-2. Company-initiated cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

**Standard V-6. Reasonable attempts to locate missing policyholders or beneficiaries are made.**

*Objective:* This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- The Company has implemented procedures to locate lost owners via Company records, inquiries of producers, and searches of public databases.
- For un-cashed checks, the Company conducts further research, quarterly, and sends a letter to the last known address in an attempt to locate the owner. If there is no response, or the letter is returned, the item is tracked for escheatment.
- Company policy requires that un-cashed checks, including claims and premium refunds, be reported and escheated when the owner cannot be located. Further, the Company annually reports escheatable funds to the State Treasurer as required by statute.
- The Company's Treasury Department, which is responsible for lost owner search and escheatment filings, is monitored through periodic reviews by the internal audit function.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA discussed with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon review, the Company appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

*Recommendations:* None.

**Standard V-7. Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.**

*Objective:* This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Standard V-2 for review and testing of the calculation and return of unearned premium. See Appendix A for applicable statutes, regulations and bulletins.

<b>Standard V-8. Claims history and loss information is provided to the insured in timely manner.</b>
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Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's claims personnel and employee agents have access to claims history and paid loss information for personal insurance policyholders from a statewide automobile claim database, and a private Comprehensive Loss Underwriting Exchange ("CLUE") database.
- When requested by the policyholder, the Company states that it will provide the policyholder with his or her claims history and paid loss information.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints, and policyholder service.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing in underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence of the Company being non-responsive to any policyholder inquiries. Policies and procedures relating to how the Company responds to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

## VI. UNDERWRITING AND RATING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

**Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.**

*Objective:* This Standard addresses whether the Company is charging premiums using properly filed rates and in a non-discriminatory manner. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standards VI-4 and VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- PPA underwriting is automated with most applications accepted, electronically rated and processed using standard underwriting algorithms.
- The Company's underwriting system interfaces with the Massachusetts Registry of Motor Vehicles UMS System to obtain real-time information on Massachusetts and out-of-state drivers.
- The Company has many Division-approved affinity groups and related discounts. Individual risks within these groups cannot be cancelled or non-renewed.
- The Company uses the standard Massachusetts merit rating system with the MRB Safe Driver Insurance Plan ("SDIP") applied to its policies.
- Private passenger automobile rates are based on the Automobile Insurer's Bureau of Massachusetts ("AIB") Manual with modifications, with all rates filed with the Division prior to use. Motorcycle rating for comprehensive and collision coverages is based on average cost new.
- Private passenger automobile underwriting criteria include license status, driving history, driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents. The Company's underwriting function provides operators at-fault accident determination notices, known as "Surcharge Notices", with the standard form to appeal the decision to the Board of Appeal, once the claims function notifies the underwriting function of the at-fault determination.
- The Company's claim system interfaces with the Company's underwriting system, which allows the underwriting function to report at-fault and other required claims to the MRB. Any at-fault claim over \$500 must be reported to the MRB for inclusion in the driver's SDIP. The Company also reports at-fault accident determinations to CLUE. The Company must provide a Surcharge Notice to the driver noting the driver may appeal the at-fault determination through the Board of Appeal. If the driver appeals the at-fault accident determination, the Company will send a representative to the Board of Appeal hearing. If the at-fault determination is vacated by the Board of Appeal, the underwriting function receives an MRB Notice to Re-inquire, notifying the Company of the appeal decision and directing the Company to remove the at-fault determination. The Company provides any premium credit due the insured. At the same time the Notice to Re-inquire is received, the claims function receives the adjudication dockets from the Board of Appeal



showing the at-fault determinations vacated. Using information from the dockets, the Company's claim system is updated, and the change in the at-fault determination is provided to CLUE.

- The Company uses a homeowners rating methodology that prices coverage by peril. Homeowners rates are filed with the Division prior to use.
- Homeowners rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and automobile coverage, seniors, new construction, security features, safety features, multi-year renewals, and higher deductibles.
- The Company is one of the three affiliates where Massachusetts homeowners risks are written and placed, based on credit scoring tiers.
- All approved rates are loaded in the Company's new business processing system and are tested extensively prior to use. Also, personal lines product management staff manually test various policies to ensure that the rates have been properly programmed consistent with the Company's filed rates.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company's compliance teams complete reviews of underwriting and rating processes including tests of compliance with statutory and regulatory requirements, and follow-up procedures on findings noted in market conduct examinations.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 32 private passenger automobile and 18 homeowners policies and verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also selected 25 motorcycle policies to test rates charged, and valuations used for comprehensive and collision coverages.

RNA tested 40 vacated 2013-2014 at-fault accident determinations by the Board of Appeal for accurate and timely reversal of premium surcharges. Additionally, during private passenger automobile claims testing, RNA assessed whether at-fault accident determinations were properly reported to the MRB with Surcharge Notices timely provided to operators in accordance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: RNA testing indicated that one vacated surcharge from the Board of Appeal was missed, and one vacated surcharge was not processed timely in accordance with M.G.L. c.175E, § 7A and Division Bulletin 2010-11.

RNA private passenger automobile claim testing noted that for four at-fault accident claims, Surcharge Notices were not provided to at-fault operators in violation of M.G.L. c.175E, § 7A. Further, for three of these claims, which were bodily injury claims, the Company did not report the claims to the Merit Rating Board ("MRB") in violation of 211 CMR 134.00. Finally, the Company did not report a comprehensive claim to the MRB violation of 211 CMR 134.00.

At the request of the Division, the Company reviewed at-fault accident surcharges from 2006

through 2015 and determined that 3,271 operators were not surcharged for at-fault accidents, and the claims were not reported to the MRB in accordance with 211 CMR 134.00. Also, these at-fault operators were not provided a Surcharge Notice stating their right to appeal those surcharges in accordance with M.G.L. c. 175E, § 7A. Those at-fault accident determinations with notice dates six years prior to the date of this examination report may impact the at-fault operators' driving records and premiums. More specifically, the Company failed to report 586 at-fault accident determinations to affected at-fault operators and failed to provide the affected at-fault operators with notices of their right to appeal those determinations, in accordance with M.G.L. c. 175E, § 7A. As a result, the Company and the Division entered into a Regulatory Settlement Agreement requiring corrective actions and restitution for these statutory violations. See Appendix B.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that the Company properly determined average cost new for optional collision and comprehensive coverages. Also, except as noted above, at-fault accident determinations and comprehensive claims were timely reported to the MRB, and Surcharge Notices were properly provided to at-fault operators. Finally, except as noted above, testing of vacated surcharges indicated that vacated surcharges by the Board of Appeal were properly and timely reversed in accordance with statutory and regulatory requirements.

Required Actions: The Company shall provide the premium refund and 6% annual interest to the consumer whose vacated surcharge was not processed. Also, the Company shall review its controls and procedures, and make needed changes to ensure that premium refunds for Board of Appeal vacated surcharges are timely and properly processed. The Company shall also provide training or guidance to staff about these controls and procedures.

The Company shall report the bodily injury claims to the MRB and provide Surcharge Notices to at-fault operators as set forth in the Regulatory Settlement Agreement. In addition, the Company shall adopt new controls and procedures to ensure that Surcharge Notices are properly and timely provided to at-fault operators with the claims timely reported to the MRB, and to ensure that comprehensive claims are properly reported to the MRB. The Company shall also provide training or guidance to staff about these new controls and procedures. The new controls and procedures shall be tested by internal audit or an independent quality assurance function to ensure that they are effectively implemented, with the results of the independent testing reported to the Company's Board of Directors and the Division by September 30, 2020 or another agreed upon date. If significant issues are identified in the audit, follow up audits shall continue to be performed with related reports issued, until no significant issues remain.

<b>Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.</b>
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Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company provides private passenger automobile information guides and other sales disclosures to consumers electronically or by mail.
- The Company's insurance policies and attachments provide disclosures as required by statutory and regulatory guidelines.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages. RNA also reviewed the Massachusetts private passenger automobile and homeowners web-site screens for questions asked and evidence of required disclosures.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides required rate and coverage disclosures to applicants upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements. The Massachusetts private passenger automobile and homeowners web-site screen disclosures and questions appeared reasonable.

Recommendations: None.

<b>Standard VI-3. The regulated entity does not permit illegal rebating, commission cutting or inducements.</b>
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Objective: This Standard addresses illegal rebating, commission cutting or inducements, and requires that broker commissions adhere to the commission schedule. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has procedures for paying third-party agent commissions in accordance with written agent contracts.
- The Company has procedures for paying salaried employee agents in accordance with the Company's written employment practices and policies.
- The Company's third-party agent contracts and employment practices, policies, and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. In connection with the review of agent contracts and employee agent employment practices, RNA inspected samples of new business materials, advertising materials, producer training materials, and manuals for indications of rebating, commission cutting or inducements. Also, in conjunction with new and renewal business testing, RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to review commissions paid to producers, and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

**Standard VI-4. The regulated entity underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.**

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting, primarily related to rating. See Standard VI-1 for testing of premium rating, Standard VI-7 for testing of declinations, and Standard VI-8 for testing of company-initiated cancellations and non-renewals. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-5. All forms including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.**

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard VI-19:

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB Massachusetts Private Passenger Automobile Form 8<sup>th</sup> Edition, which has been approved by the Division.
- Company policy requires that all homeowners policy forms and endorsements be filed with and approved by the Division prior to use.
- Approved forms and endorsements are required to be used when providing quotes to customers.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of

transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using approved policy forms and endorsements in compliance with its policies, procedures, and statutory requirements.

Recommendations: None.

<b>Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.</b>
--

Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- Any changes in policy coverage must be requested through an employee agent in the customer service call center or through a third-party agent.
- Pre-insurance inspections are generally required for new coverage of used private passenger automobiles, unless waived in accordance with rules filed with the Division.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely. Also, RNA verified that for the 65 private passenger automobile policies tested, the Company complied with pre-insurance inspection requirements when necessary.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely. In addition, private passenger automobile policies were issued in compliance with pre-insurance inspection requirements.

Recommendations: None.

<b>Standard VI-7. Rejections and declinations are not unfairly discriminatory.</b>
--

Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- The Company accepts most private passenger automobile and homeowners applications with the risks electronically rated using standard underwriting algorithms. However, the Company will not accept certain homeowners applications, such as those for certain coastal risks, or risks with excessive loss history.
- The Company uses credit-based insurance scores in homeowners underwriting, and in some cases may decline an application based on a low insurance score. Further, the Company will notify the applicant that if the low insurance score is due to one of 10 extraordinary life events, the applicant may request reconsideration of the application. In cases where the applicant is declined or where the policy is placed in a higher rating tier, the Company provides the applicant a FCRA adverse action notice.
- The Company provides private passenger automobile and homeowners applicants with oral or web-based declination notices, when applicants do not meet the Company's minimum standards for coverage.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 10 private passenger automobile and nine homeowners declinations processed during the examination period to ensure that declinations were not unfairly discriminatory. RNA also tested FCRA adverse action notices for determinations based on insurance scores to assess compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, declinations for insurance coverage were not unfairly discriminatory. Oral or written declination notices were provided to applicants declined coverage. For the one homeowners applicant declined based on low insurance score, a FCRA adverse action notice was provided.

Recommendations: None.

**Standard VI-8. Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and regulated entity guidelines.**

*Objective:* This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination procedures are reviewed in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- Company policy requires written notice of private passenger automobile and homeowners company-initiated cancellations to policyholders in accordance with statutory requirements. The Company's policy is to give written notice of cancellation to private passenger automobile policyholders, and the specific reason for the cancellation at least 20 days prior to the cancellation effective date, and 10 days prior for non-payment of premium. The Company's policy is to give written notice of cancellation to homeowners policyholders, and the specific reason for the cancellation at least five days prior to the cancellation effective date, and 10 days prior for non-payment of premium.
- Company policy requires that private passenger automobile and homeowners non-renewal notices and the specific reasons for the non-renewals be sent to policyholders approximately 45 days prior to their policy renewal dates.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners company-initiated cancellation transactions for testing. RNA also selected 34 private passenger automobile non-renewal transactions, and all 11 homeowners 2013 non-renewal transactions for testing. All transactions were evaluated for compliance with statutory requirements.

*Transaction Testing Results:*

*Findings:* For 25 of the 34 private passenger automobile non-renewals tested, the reason on the consumer non-renewal notice was that the Company was permitted to non-renew the policy in accordance with CAR Rules, which is not adequately specific in accordance with 211 CMR 97.00.

*Observations:* Except as noted above, for the company-initiated cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

*Required Actions:* The Company shall review controls and procedures and make necessary changes to ensure that non-renewal notices include specific reasons on the notices. Also, the Company shall provide training and guidance to staff about the processing of these notices.

*Subsequent Company Actions:* The Company states that its procedures have been updated to reflect that a specific reason for non-renewal must be included in non-renewal notices. The tool used to process non-renewal notices has been updated to reflect this requirement, and a reminder of this requirement has been

sent to staff.

**Standard VI-9. Rescissions are not made for non-material misrepresentation.**

*Objective:* This Standard addresses whether decisions to rescind and cancel coverage are made appropriately. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that although rare, the legal department must approve rescissions, which are given only for significant material misrepresentations or fraud. Generally, the Company would cancel coverage mid-term in such cases.

*Controls Reliance:* Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for the underwriting process. RNA inquired about the extent of Massachusetts rescissions during the examination period.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon review, policies and procedures for rescissions appear reasonable. The Company states that four Massachusetts rescissions were processed during the examination period.

*Recommendations:* None.

**Standard VI-10. Credits, debits and deviations are consistently applied on a non-discriminatory basis.**

*Objective:* This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Standard VI-1 for testing of premium rating and unfair discrimination. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-11. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.**

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.



**Standard VI-12. Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss costs and expense multipliers filed with the insurance department.**

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

**Standard VI-13. Verification of premium audit accuracy and the proper application of rating factors.**

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

**Standard VI-14. Verification of experience modification factors.**

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

**Standard VI-15. Verification of loss reporting.**

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

**Standard VI-16. Verification of regulated entity data provided in response to the NCCI call on deductibles.**

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

**Standard VI-17. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.**

*Objective:* This Standard addresses whether underwriting, rating and classification decisions are based on adequate information developed at, or near, inception of the coverage, rather than near expiration or following a claim. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.

- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at, or near, the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at, or near, inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using underwriting, rating and classification guidelines based on adequate information developed at, or near, inception of coverage.

Recommendation: None.

**Standard VI-18. Audits, when required, are conducted accurately and timely.**

Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-19. All forms and endorsements, forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).**

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Standard VI-5 for testing. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-20. The regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.**

Objective: This Standard addresses whether the Company verifies that the VIN and vehicle symbol submitted with the application is valid and accurate. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The employee and third-party agents are responsible for obtaining the VIN and vehicle symbol when the application is completed. For electronically submitted applications, the applicant must supply such vehicle information when prompted.
- Company policy and procedures require that pre-insurance inspections of vehicles verify the VIN and vehicle symbol.
- The Company's underwriting system compares the VIN and vehicle symbol to its industry database to ensure that both are accurate.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile policies issued during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company verifies VIN and vehicle symbol at policy issuance in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

<b>Standard VI-21. The regulated entity does not engage in collusive or anti-competitive underwriting practices.</b>
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Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting policies and practices do not appear to be collusive or anti-competitive.

Recommendations: None.

<p><b>Standard VI-22. The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations in application of mass marketing plans.</b></p>
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Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting for mass marketing plans offered individuals as members of employer or other groups. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals who are members of employer or other groups. Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company's mass marketing plans offered to individuals who are members of employer or other groups are filed with the Division for approval.
- The Company's Division-approved affinity groups receive premium discounts. Individual risks within these groups cannot be cancelled or non-renewed.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for plans offered to individuals who are members of employer or other groups were not unfairly discriminatory. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting

practices for mass marketing plans offered to individuals who are members of employer or other groups are unfairly discriminatory. All affinity premium discounts were approved by the Division.

Recommendations: None.

**Standard VI-23. All group personal lines property and casualty policies and programs meet minimum requirements.**

No work performed. This Standard is not covered in the scope of examination because the Company does not offer group products.

**Standard VI-24. Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.**

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before policy expiration. See Standard VI-8 for testing of this Standard. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-25. All policies are correctly coded.**

Objective: This Standard addresses the accuracy of statistical coding. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the producer are correct and current.
- The Company has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.
- The Company's policy is to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR and ISO.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded.

Recommendations: None.

<b>Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.</b>
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Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that the underwriting files support underwriting and rating decisions.
- Employee and third-party agents submit applications electronically to the new business processing area. Sales are also made directly to customers via the phone or the Company's website. Properly completed applications are to include applicant and producer electronic signatures.
- Underwriting systems controls are designed to ensure electronic applications are complete.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test whether the applications were properly completed and whether policy files adequately support the Company's decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, applications were properly completed, and policy files adequately supported the Company's decisions.

Recommendations: None.

## VII. CLAIMS

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

**Standard VII-1. The initial contact by the regulated entity with the claimant is within the required time frame.**

*Objective:* This Standard addresses the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and through Standard VII-13:

- The personal insurance SBU claims function is organized in divisions including the property, no-fault medical/personal injury protection, bodily injury, and auto physical damage divisions, which are further organized in teams with a supervisory structure. Automobile glass claims, towing services and medical provider invoice reviews are outsourced to third-party vendors. Also, various local outside counsel are sometimes utilized to represent the Company on bodily injury claims.
- Written policies and procedures govern claims handling processes. Claims are processed using electronic work flow systems to document claims activities and decisions through history notes. The systems incorporate a document management system for electronic cataloging, storage and retrieval.
- First notice of loss is typically reported through the Company's 800 telephone number, mobile application, the website, by fax, or contact from an attorney. Key information such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries is obtained and recorded in the claim system.
- Once a claim is reported, a claims adjuster is assigned. The Company's policy is to contact first party claimants within one day, and third-party claimants within two days. The Company uses independent field adjusters and appraisers to supplement its employee field staff in limited situations. Once an automobile claim is reported, an appraiser is dispatched to adjudicate the claim within two business days. The appraiser/claims representatives have settlement authority to defined limits.
- The Company has established an approved "super service providers" preferred repair shop program, where approved body shop work is warranted by the Company. Claimants are not required to use the "super service providers."
- The Company follows standard industry and CAR claim handling guidelines in its claim investigations including Massachusetts standards of fault. Information from police reports, witness statements, photographic evidence, and consumer reporting agencies are used to evaluate the claim.
- Claims are investigated to determine existence of coverage, and an initial liability determination is made. A large loss unit of six property adjusters facilitates claims over \$50,000 in which the property damage adjudication is split between contents, building and loss of use. The bodily injury team handles bodily injury, injured policyholder, or third-party claimants and general liability litigation.
- The Company uses ISO's Claim Outcome Advisor tool to assist adjusters with assessing damages ranges on bodily injury claims. The Company states that its general policy is to make settlement offers between the low and high settlement estimates, and to track all revisions to the estimates. Any exceptions are to be reviewed with management and justified in the claim system. Individual claim settlement authority limits are assigned to adjusters commensurate with their experience.

- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database ("DCD") as required in Massachusetts. OFAC checks of all claimants against the SDN list are completed daily using vendor software.
- The Company's claim system interfaces with the Company's underwriting system, which allows the underwriting function to report at-fault, and other required claims to the MRB. Any at-fault claim over \$500 must be reported to the MRB for inclusion in the driver's SDIP. The Company also reports at-fault accident determinations to CLUE. The Company must provide a "Surcharge Notice" to the driver noting the driver may appeal the at-fault determination through the Board of Appeal. If the driver appeals the at-fault accident determination, the Company will send a representative to the Board of Appeal hearing. If the at-fault determination is vacated by the Board of Appeal, the underwriting function receives an MRB Notice to Re-inquire, notifying the Company of the appeal decision and directing the Company to remove the at-fault determination. The Company provides any premium credit due the insured. At the same time the Notice to Re-inquire is received, the claims function receives the adjudication dockets from the Board of Appeal showing the at-fault determinations vacated. Using information from the dockets, the Company's claim system is updated, and the change in the at-fault determination is provided to CLUE.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute.
- The Company's SIU is organized to investigate "singular" claims, such as theft or arson, and "complex" cases where suspected fraud and crime rings are investigated. There are six "singular" and one "complex" SIU investigators that handle Massachusetts cases. Claims are referred to SIU based upon "red-flags" that adjusters have been trained to identify. Once referred, the claims are handled by the SIU, which is also responsible for coordinating with the IFB in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. The Company reports all fraud to the IFB. Auto thefts are reported through ISO to the NICB.
- The SIU has a QA function in which two files per month per investigator are reviewed and evaluated. Results are summarized and reported monthly to management. The SIU also participates extensively in training throughout the LMGI as content experts to increase fraud awareness and prevention.
- Reservation of rights and excess loss letters are issued when potential coverage issues arise. These letters require management approval before being sent. The adjusters are trained to complete Department of Revenue ("DOR") checks according to statutory requirements and to document the search results in Company's claim system. Underwriting risk referrals are made to the underwriting department when necessary. Third-party property damage claimants are generally not required to sign a liability release, unless there is a settlement dispute or real property claims exceeding a dollar threshold. Releases are routinely required from third-party bodily injury claimants.
- For property claims, the Company's process for reporting claims in excess of \$1,000 to municipal authorities is automated. The Company sends the required letter to the appropriate municipal authority when a property claim reserve of \$1,000 or more is established.
- Criteria for unit supervisors and managers' periodic reviews of the adjusters' work have been established, and such reviews are documented in the claims system. Claims supervisors maintain a diary system to review claims at periodic points throughout the claim process. In addition, supervisors perform a daily "process walk," to encourage interaction with claims representatives and facilitate problem escalation and training/mentoring. The Company also utilizes a "claims roundtable" of experienced claim staff to review certain claims with subjective evaluations or complex issues, as needed. From the claims system data, the Company monitors workloads between claims offices in real time. In addition, "dashboard" reports for the daily, weekly and monthly claims reporting of key service and quality metrics are produced and monitored.
- The Company's personal insurance SBU includes a claims QA function, which consist of monthly random audits on two closed auto physical damage claims and two homeowners claims per claim representative. A QA process has also been established to review the accuracy, completeness, and



timeliness of auto physical damage appraisals. QA results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes.

- The Company conducts post-claim surveys via e-mail of first party claimants regarding claims handling satisfaction. In addition, the Company participates in J.D. Power Associates industry satisfaction surveys, which query customer service including claims service. The survey results are summarized for management reporting. Any negative comments from respondents are tracked, addressed and monitored. In 2014, the Company began a process to follow-up on negative survey responses directly with the respondent.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was recorded according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

<b><u>Standard VII-2. Timely investigations are conducted.</u></b>
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Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, claims were investigated timely according to the Company's policies and statutory requirements.

Recommendations: None.

<b><u>Standard VII-3. Claims are resolved in a timely manner.</u></b>
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Objective: The Standard addresses the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was generally resolved in a timely manner in accordance with Company's policies and statutory requirements related to timely handling. Based upon testing, it appears that the Company's processes for timely handling claims are generally functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

**Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.**

Objective: The Standard addresses the timeliness of the Company's response to general claim correspondence. See Standard VII-6 for testing of statutorily-required claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to general claim correspondence. Based upon testing, it appears that the Company's processes for providing timely responses to general claims correspondence are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

**Standard VII-5. Claim files are adequately documented.**

Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for documenting claim files are generally functioning in accordance with its policies and procedures.

Recommendations: None.

<b>Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.</b>
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Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company is in compliance with specific Massachusetts regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's complaint log for complaints that were claim-related and tested 16 claim-related complaints.

Transaction Testing Results:

Findings: RNA noted that for two homeowners claims, the Company did not notify municipal authorities, and for seven homeowners claims, the Company did not notify municipal authorities at least ten days prior to payment in violation of M.G.L. c. 139, § 3B.

Observations: Except as noted above, RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing and except as noted above, it appears that the Company generally handles claims in accordance with policy provisions and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall clarify to claims handling personnel that all homeowners structure claims exceeding \$1,000 must be reported to municipal authorities at least ten days prior to payment. Also, the Company shall provide training to staff in this area and ensure that its quality assurance testing verifies that such claims are properly reported to municipal authorities in accordance with statutory requirements.

**Standard VII-7. Regulated entity claim forms are appropriate for the type of product.**

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims appropriately used the required claim forms in accordance with the Company's policies and regulatory requirements.

Recommendations: None.

**Standard VII-8. Claim files are reserved in accordance with the regulated entity's established procedures.**

Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that reserves for each of the tested claims were evaluated, established and adjusted according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for evaluating, establishing and adjusting reserves are functioning in accordance with its policies and procedures.

Recommendations: None.

<b>Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.</b>
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Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected denied or closed-without-payment claims including 12 private passenger automobile claims and four homeowners claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling and denial practices are appropriate and are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

<b>Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.</b>
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Objective: The Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed procedures regarding

the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Full claim settlement attestation is required for certain liability claims through a written settlement agreement. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

**Standard VII-11. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.**

Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than due under the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of procedures and testing, the Company did not appear to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and the Company did not attempt to settle claims for less than reasonable amounts due under the policies.

Recommendations: None.

**Standard VII-12. Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.**

*Objective:* The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* Refer to Standard VII-1.

*Controls Reliance:* Refer to Standard VII-1.

*Transaction Testing Procedure:* RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, RNA noted one private passenger automobile claim where a reservation of rights letter was issued and three private passenger automobile claims where excess of loss letters were used. The use of these letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. Based upon testing, it appears that the Company's processes for utilizing reservation of rights and excess of loss letters are generally functioning in accordance with its policies and procedures.

*Recommendations:* None.

**Standard VII-13. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.**

*Objective:* The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* Refer to Standard VII-1.

*Controls Reliance:* Refer to Standard VII-1.

*Transaction Testing Procedure:* RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.



Transaction Testing Results:

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds, upon subrogation recoveries, for one homeowners claim and five private passenger automobile claims were timely, accurate and processed according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

<b><u>Standard VII-14. Loss statistical coding is complete and accurate.</u></b>
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Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners loss data to ISO in a format required by ISO.
- The Company has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. Based upon testing, the Company appears to have processes for timely and accurately reporting of loss statistical data to rating bureaus in accordance with its policies and statutory requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
LIBERTY MUTUAL INSURANCE COMPANY

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
LIBERTY MUTUAL INSURANCE COMPANY

**SUMMARY**

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2013 NAIC Market Regulation Handbooks*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Marketing and Sales, Underwriting and Rating, and in Claims.

## ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with RNA applied certain agreed-upon procedures to the corporate records of the Company in order for the Division to perform a comprehensive market conduct examination of the Company.

The undersigned's participation in this comprehensive market conduct examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), communication and status reporting throughout the examination, administration and preparation of the examination report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the comprehensive market conduct examination is hereby acknowledged.



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Mark G. Noller, CIE  
Principal, Rudmose & Noller Advisors, LLC