



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

***REPORT OF EXAMINATION OF THE***  
**LIBERTY MUTUAL PERSONAL INSURANCE COMPANY**

**Boston, Massachusetts**

**As of December 31, 2018**

**NAIC GROUP CODE 00111**

**NAIC COMPANY CODE 12484**

**EMPLOYER ID NUMBER 04-1023460**

# **LIBERTY MUTUAL PERSONAL INSURANCE COMPANY**

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

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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

June 10, 2020

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

Honorable Commissioner:

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

**LIBERTY MUTUAL PERSONAL INSURANCE COMPANY**

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

## **SCOPE OF EXAMINATION**

Liberty Mutual Personal Insurance Company (“Company” or “LMPIC”) was last examined as of December 31, 2013 by the Massachusetts Division of Insurance (“Division”). The current multi-state Coordinated Group Examination was also conducted by the Division and covers the five-year period from January 1, 2014 through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young (“EY”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Liberty Mutual Insurance Company Pool’s financial statements for the calendar years 2014 through 2018. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective.

Representatives from the firm of Risk & Regulatory Consulting, LLC (“RRC”) were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems and information technology general controls (“ITGC’s”), investments, and actuarially determined loss and loss adjustment expense reserves of the Liberty Mutual Intercompany Reinsurance Pooling Agreement (the “LMIC Pool”) as of December 31, 2018.

## Liberty Mutual Personal Insurance Company

RRC was also engaged to conduct concurrent examinations of Liberty Mutual Insurance Company (“LMIC”), Liberty Mutual Mid-Atlantic Insurance Company (“LMMAIC”) and Montgomery Mutual Insurance Company (“MMIC”). Each of those examinations is the subject of separate reports.

This coordinated group financial examination of 58 licensed domestics was conducted in compliance with the *Coordination of Holding Company Group Exams* framework of the Handbook. The following participating states coordinated with the Division to conduct its examination:

- Arizona Department of Insurance (1 licensed domestic)
- California Department of Insurance (1 licensed domestic)
- Illinois Department of Insurance (8 licensed domestics)
- Indiana Department of Insurance (9 licensed domestics)
- Minnesota Department of Commerce (1 licensed domestic)
- State of New Hampshire Insurance Department (18 licensed domestics)
- Oregon Department of Consumer & Business Services, Division of Financial Regulation (4 licensed domestics)
- Texas Department of Insurance (6 licensed domestics)
- Wisconsin Office of the Commissioner of Insurance (6 licensed domestics)

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were two significant observations and recommendations related to reinsurance and related party transactions noted by the examination team for improvements in process, activities and/or controls that were noted in this report. See the Summary of Recommendations section herein for additional details. There were no significant recommendations noted by the examination team in the previous report of examination.

### **COMPANY HISTORY**

#### **General**

The Company was acquired by Liberty Mutual Group Inc. (“LMGI”) in December 2005. The Company, formerly known as American Mutual Insurance Company of Boston, was reorganized into a stock company as part of the acquisition by LMGI and became an indirect stock subsidiary of Liberty Mutual Holding Company Inc. (“LMHC”). The Company is a wholly-owned subsidiary of LMGI, a Massachusetts corporation. The ultimate parent of LMGI is LMHC. Collectively, all of the affiliated companies in the holding company system are referred to as the “Group”.

The Company is a member of the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement whereby after external reinsurance, the Company cedes its net underwriting activity to the lead company in the LMIC Pool and its pooling participation is 0.00%. Therefore, the Company reports no underwriting activity or reserve development.

## Liberty Mutual Personal Insurance Company

### Capital Stock

The Company has authorized, issued and outstanding 70,000 shares of common capital stock with a par value of \$100.00 per share. All of the outstanding capital stock of the Company is owned by LMGI.

### Dividends to Stockholders

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

## **MANAGEMENT AND CONTROL**

### Articles of Organization and Bylaws

The Company's Articles of Organization ("Articles") and bylaws were reviewed and there were no amendments to the bylaws during the examination period. The Articles were amended on May 18, 2017 to increase the authorized capital stock of the Company from 12,000 shares of Common Stock, par value \$100 per share to 70,000 shares of Common Stock, par value \$100.

### Annual Meeting of the Stockholder

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

### LMHC Board of Directors

LMHC's Board of Directors is responsible for providing oversight of the entire organization, including the Company. According to the LMHC bylaws, the Group's business shall be managed by the Board of Directors ("Board") which may exercise all of the powers of the Company, except as otherwise provided by the Articles or bylaws. The LMHC Board shall consist of not less than ten nor more than twenty-two persons as determined by vote of a majority of the Board. Directors are elected for a period of one, two or three years, as designated by the Board or members nominating candidates.

As of December 31, 2018, the LMHC's Board was comprised of thirteen Directors, twelve of whom are independent, as follows:

## Liberty Mutual Personal Insurance Company

<u>Name of Director</u>	<u>Title</u>
David H. Long	Chairman of the Board, President and Chief Executive Officer, LMHC & LMIC
Francis A. Doyle	President and Chief Executive Officer, Connell Limited Partnership
Joseph L. Hooley	Chairman of the Board, State Street Corporation
John P. Manning	President and Chief Executive Officer, Boston Capital Corporation
Thomas J. May	Retired Chairman, President and Chief Executive Officer, Eversource Energy
Nancy W. Quan	SVP and Chief Technical Officer, Coca-Cola company
Myrtle S. Potter	Vant Operating Chair, Roivant Pharma
Ellen A. Rudnick	Senior Advisor, Polsky Center for Entrepreneurship at the University of Chicago Booth School of Business
Angel A. Ruiz	Chief Executive Officer, Mediakind Inc.
Martin P. Slark	Former Vice Chairman and Chief Executive Officer, Molex LLC
Eric A. Spiegel	Retired President and Chief Executive Officer, Siemens Corporation
William C. Van Faasen	Chairman Emeritus, Blue Cross and Blue Shield of Massachusetts
Annette M. Verschuren	Chair and Chief Executive Officer, NRStor Incorporated

### Committees of the LMHC Board of Directors

During the period covered by this examination and in accordance with the LMHC bylaws, the LMHC Board of Directors may create an Executive Committee and Investment Committee and delegate any or all of the powers granted to the LMHC Board by law and LMHC bylaws. Many aspects of corporate governance for the Group as a whole are handled by Committees of LMHC.

The LMHC Board may elect, or by vote, authorize the Chief Executive Officer to appoint members of an Executive Committee and Investment Committee, and such other committees as may be required from time to time. As of December 31, 2018, standing committees of the LMHC Board include a Compensation Committee, Contributions Committee, Executive Committee, Investment Committee, Nominating and Governance Committee, and Risk Committee. In addition, the LMHC Audit Committee is the designated Audit Committee for the Company. These LMHC committees serve the Company in a governance perspective and are responsible for the approval of entity level decisions, investment strategies and transactions, and compensation matters.

At the LMHC level, a list of members serving on the Committees as of December 31, 2018 is as follows:

## Liberty Mutual Personal Insurance Company

### **Audit Committee**

Francis A. Doyle  
Thomas J. May  
Nancy W. Quan  
Eric A. Spiegel\*  
William C. Van Faasen

### **Executive Committee**

David H. Long\*  
John P. Manning  
Myrtle S. Potter  
Martin P. Slark  
Eric A. Spiegel  
William C. Van Faasen

### **Risk Committee**

David H. Long  
Myrtle S. Potter  
Ellen A. Rudnick  
Angel A. Ruiz  
Martin P. Slark\*  
Annette M. Verschuren

### **Compensation Committee**

John P. Manning  
Thomas J. May  
Myrtle S. Potter\*  
William C. Van Faasen

### **Investment Committee**

Francis A. Doyle  
David H. Long\*  
John P. Manning  
Thomas J. May  
Martin P. Slark  
Eric A. Spiegel  
Annette M. Verschuren

### **Community Investment Committee**

David H. Long  
John P. Manning\*  
Ellen A. Rudnick  
William C. Van Faasen

### **Nominating & Governance Committee**

Francis A. Doyle  
Myrtle S. Potter  
Ellen A. Rudnick  
Angel A. Ruiz  
William C. Van Faasen\*

\* Committee Chair

### **LMPIC Board of Directors**

According to the bylaws, the Company's business shall be managed by the Board which may exercise all of the powers of the Company, except as otherwise provided by the Articles or bylaws. The LMPIC Board, a Management Board by nature, shall consist of not less than five nor more than twenty-four persons as determined by vote of a majority of the Board or by vote of the stockholders.

As of December 31, 2018, the Company's Board was comprised of nine affiliated Directors as follows:

#### **Name of Director**

#### **Title**

Mark C. Touhey

Chairman of the Board, SVP, Corporate Secretary and Chief of Staff to the CEO, LMGI

Matthew P. Dolan

President, Global Risk Solutions North American Specialty, LMGI

Alison B. Erbig

SVP, Comptroller, LMGI

Michael J. Fallon

President, Global Risk Solutions National Insurance, LMGI

Julie M. Haase

Chief Financial Officer, Global Retail Markets, LMGI



## Liberty Mutual Personal Insurance Company

<u>Name of Director</u>	<u>Title</u>
James M. MacPhee	President and Chief Operating Officer, Global Retail Markets U.S., LMGI
Sean B. McSweeney	Deputy General Counsel, Global Retail Markets, LMGI
Elizabeth J. Morahan	Deputy General Counsel, Global Risk Solutions, LMGI
Francis W. Robinson, Jr.	Chief Financial Officer, Global Risk Solutions, LMGI

### LMHC and LMPIC Boards of Directors and LMHC Subcommittee Minutes

The minutes of meetings of the LMHC and LMPIC Boards, or consent actions in lieu of meetings, and minutes of the LMHC Subcommittee meetings for the period under examination were read, and they indicated that all actions were taken in accordance with the Company's bylaws, committee's charters and/or the Laws of the Commonwealth of Massachusetts.

### Officers

Corporate officers are elected by the LMPIC Board at the annual stockholder meeting, and serve for one year in accordance with the Company's bylaws. The elected principal senior officers of the Company and their respective titles at December 31, 2018 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Mark C. Touhey	Chairman of the Board, SVP and Secretary
James M. MacPhee	President and Chief Executive Officer
Laurance H. S. Yahia	SVP and Treasurer
Alison B. Erbig	SVP and Comptroller
Neeti Bhalla Johnson	EVP and Chief Investment Officer
James F. Kelleher	EVP and Chief Legal Officer
Christopher L. Peirce	EVP and Chief Financial Officer

### Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of the Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00. LMHC is the "ultimate controlling person" of the Group per Form B, as filed with the Division.

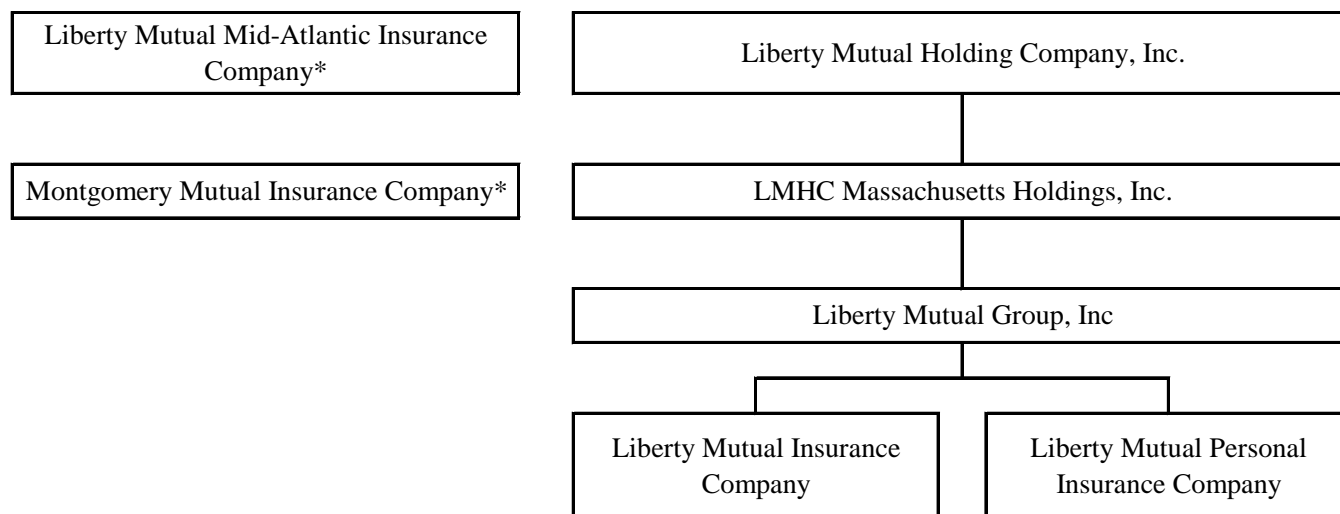
### Organizational Chart

As previously noted, LMPIC is a member of holding company structure with LMIC having a controlling interest in the Company. LMIC's ultimate parent is LMHC, which operates in 30 countries and key markets around the globe which include the United States, Canada, 11 countries in Europe, nine countries throughout Asia and the Pacific, and eight countries in Latin America. In the United States there are 58 licensed insurance companies domiciled in ten different states.

## Liberty Mutual Personal Insurance Company

Additionally, there are a number of non-insurance entities within the LMHC organizational structure.

The following is an abbreviated organizational chart as of December 31, 2018 depicting the Company's relationship to its ultimate controlling parent and other Massachusetts domiciled insurers:



\*The Company is a mutual company and therefore not owned by any business entity, although, LMHC controls the Company's Board of Directors.

Please refer to the Company's December 31, 2018 Annual Statement filing, Schedule Y for a complete organizational chart.

### Transactions and Agreements with Affiliates

There was a significant observation and recommendation related to related party transactions noted by the examination team. See the Summary of Recommendations section herein for additional details.

#### *Management Services Agreement*

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

#### *Investment Management Agreement*

The Company is a party to an investment and cash management agreement with Liberty Mutual Group Asset Management, Inc. ("LMGAMI"). Under this agreement, LMGAMI provides investment management services to the Company.

## Liberty Mutual Personal Insurance Company

### *Tax Sharing Agreement*

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

### *Capital Contributions*

In 2017, LMPIC received a capital contribution from its parent, LMGI, in the amount of \$5.8 million.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in 33 states and the District of Columbia. It primarily writes homeowners in Arizona, Illinois, Kentucky, Massachusetts, Ohio, and Utah. 100% of written premium is ceded to the LMIC Pool. The direct premium written by territories as of December 31, 2018 is as follows:

<b>Territories</b>	<b>Direct Premium</b>	
	<b>Written</b>	<b>%</b>
Arizona	1,307,793	23.26%
Illinois	1,116,888	19.86%
Kentucky	219,020	3.89%
Massachusetts	2,146,852	38.18%
Ohio	683,531	12.16%
Utah	149,066	2.65%
<b>Total</b>	<b>5,623,150</b>	<b>100.00%</b>

## **REINSURANCE**

### Liberty Mutual Intercompany Reinsurance Pooling Agreement

As previously noted, the Company is a member of the LMIC Pool. According to the agreement, the Company cedes 100% of its risks to LMIC, the lead insurer of the LMIC Pool and as such is the principal administrator of most pooling operations. After recording all of the affiliate transactions, LMIC records 100% of its external assumed and ceded reinsurance and the net underwriting activity is retroceded to the LMIC Pool participants in accordance with each company's pro-rata pooling participation percentage as noted below, except for Wausau Business Insurance Company, Wausau General Insurance Company and Wausau Underwriters Insurance Company, which cede 100% of its underwriting activity to Employers Insurance Company of Wausau, which then 100% retrocedes to LMIC to be included in the LMIC Pool.

## Liberty Mutual Personal Insurance Company

The Company's participation ratio is 0.00% and therefore does not report any net underwriting financial results. As of December 31, 2018, the Company has no amounts due to/from affiliated entities participating in the LMIC Pool.

The LMIC Pool participants and their respective pro-rata pooling percentages as of December 31, 2018 are as follows:

	<b>Legal Entity</b>	<b>NAIC #</b>	<b>2018 Pooling Percentage</b>	<b>State of Domicile</b>
Lead Company	Liberty Mutual Insurance Company	23043	50%	MA
Affiliated Pool Companies	Peerless Insurance Company	24198	20%	NH
	Employers Insurance Company of Wausau	21458	8%	WI
	Liberty Mutual Fire Insurance Company	23035	8%	WI
	The Ohio Casualty Insurance Company	24074	8%	NH
	Safeco Insurance Company of America	24740	6%	NH
	American Economy Insurance Company	19690	0%	IN
	America First Insurance Company	12696	0%	NH
	American Fire and Casualty Company	24066	0%	NH
	America First Lloyd's Insurance Company	11526	0%	TX
	American States Insurance Company	19704	0%	IN
	American States Insurance Company of Texas	19712	0%	TX
	American States Lloyd's Insurance Company	31933	0%	TX
	American States Preferred Insurance Company	37214	0%	IN
	Colorado Casualty Insurance Company	41785	0%	NH
	Consolidated Insurance Company	22640	0%	IN
	Excelsior Insurance Company	11045	0%	NH
	First National Insurance Company of America	24724	0%	NH
	The First Liberty Insurance Corporation	33588	0%	IL
	General Insurance Company of America	24732	0%	NH
	Golden Eagle Insurance Corporation	10836	0%	NH
	Hawkeye-Security Insurance Company	36919	0%	WI
	Insurance Company of Illinois	26700	0%	IL
	Indiana Insurance Company	22659	0%	IN
	Ironshore Indemnity Inc.*	23647	0%	MN
	Ironshore Specialty Insurance Company*	25445	0%	AZ
	Liberty Insurance Corporation	42404	0%	IL
	Liberty Insurance Underwriters, Inc.	19917	0%	IL
	Liberty County Mutual Insurance Company	19544	0%	TX
	LM General Insurance Company	36447	0%	IL
	Liberty Lloyd's of Texas Insurance Company	11041	0%	TX
	LM Insurance Corporation	33600	0%	IL
	Liberty Mutual Mid-Atlantic Insurance Company	14486	0%	MA
	Liberty Mutual Personal Insurance Company	12484	0%	MA
	Liberty Northwest Insurance Corporation	41939	0%	OR
	Liberty Personal Insurance Company	11746	0%	NH
	Liberty Surplus Insurance Corporation	10725	0%	NH
	Mid-American Fire & Casualty Company	23507	0%	NH
	Montgomery Mutual Insurance Company	14613	0%	MA
	The Midwestern Indemnity Company	23515	0%	NH
	National Insurance Association	27944	0%	IN
	The Netherlands Insurance Company	24171	0%	NH
	North Pacific Insurance Company	23892	0%	OR
	Ohio Security Insurance Company	24082	0%	NH

## Liberty Mutual Personal Insurance Company

	<b>Legal Entity</b>	<b>NAIC #</b>	<b>2018 Pooling Percentage</b>	<b>State of Domicile</b>
	Oregon Automobile Insurance Company	23922	0%	OR
	Peerless Indemnity Insurance Company	18333	0%	IL
	Safeco Insurance Company of Illinois	39012	0%	IL
	Safeco Insurance Company of Indiana	11215	0%	IN
	Safeco Insurance Company of Oregon	11071	0%	OR
	Safeco Lloyds Insurance Company	11070	0%	TX
	Safeco National Insurance Company	24759	0%	NH
	Safeco Surplus Lines Insurance Company	11100	0%	NH
	Wausau Business Insurance Company **	26069	0%	WI
	Wausau General Insurance Company**	26425	0%	WI
	Wausau Underwriters Insurance Company**	26042	0%	WI
	West American Insurance Company	44393	0%	IN
100% Quota Share Affiliated	LM Property and Casualty Insurance Company	32352	0%	IN

\* Effective July 1, 2017, Ironshore Indemnity Inc. (“III”) and Ironshore Specialty Insurance Company (“ISIC”) became members of the LMIC Pool. All III and ISIC underwriting assets and liabilities were ceded to LMIC and retroceded to the LMIC Pool participants in accordance with each company’s LMIC Pool participation percentage as noted above.

\*\* Wausau Business Insurance Company, Wausau General Insurance Company and Wausau Underwriters Insurance Company, each cedes 100% of its direct underwriting activity to Employers Insurance Company of Wausau, who then retrocedes 100% to the LMIC Pool.

There was a significant observation and recommendation related to reinsurance transactions noted by the examination team. See the Summary of Recommendations section herein for additional details.

Liberty Mutual Personal Insurance Company

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2018

Statement of Income for the Year Ended December 31, 2018

Statement of Capital and Surplus for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2018

# Liberty Mutual Personal Insurance Company

## Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2018

	Per Annual Statement
<b>Assets</b>	
Bonds	\$ 12,865,747
Cash, cash equivalents, and short-term investments	62,489
Subtotals, cash and invested assets	12,928,236
Investment income due and accrued	72,868
Receivable from parent, subsidiaries and affiliates	313
<b>Total Admitted Assets</b>	<b>\$ 13,001,417</b>
<b>Liabilities</b>	
Current federal and foreign income taxes on realized capital gains (losses)	\$ 9,589
Net deferred tax liability	7,000
Payable to parent, subsidiaries and affiliates	1,861
Total Liabilities	18,450
Common capital stock	7,000,000
Gross paid in and contributed surplus	5,100,000
Unassigned funds (surplus)	882,967
Surplus as regards policyholders	12,982,967
<b>Total Liabilities and Policyholder Surplus</b>	<b>\$ 13,001,417</b>

Liberty Mutual Personal Insurance Company

Statement of Income  
For the Year Ended December 31, 2018

	Per Annual Statement
<b>Investment Income</b>	
Net investment income earned	\$ 220,111
Net realized capital gains or (losses)	-
Net investment gain	220,111
Net income before dividends to policyholders and before federal income taxes	220,111
Foreign and federal income taxes incurred	44,000
Net income	\$ 176,111



Liberty Mutual Personal Insurance Company

Statement of Capital and Surplus  
For the Year Ended December 31, 2018

Surplus as regards policyholders, December 31 prior year	<u>\$ 12,808,856</u>
Net income	176,111
Change in net deferred income tax	<u>(2,000)</u>
Change in surplus	<u>174,111</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 12,982,967</u>

# Liberty Mutual Personal Insurance Company

## Reconciliation of Capital and Surplus For Each Year in the Five Year Period Ended December 31, 2018

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, prior year	\$ 12,808,856	\$ 6,907,079	\$ 6,856,800	\$ 6,818,016	\$ 6,779,005
Net income	176,111	101,777	52,279	40,784	40,011
Change in net deferred income tax	(2,000)	-	(2,000)	(2,000)	(3,000)
Change in nonadmitted assets	-	-	-	-	2,000
Capital Changes: Paid in	-	5,800,000	-	-	-
Net change in capital and surplus	174,111	5,901,777	50,279	38,784	39,011
Surplus as regards policyholders, December 31, current year	\$ 12,982,967	\$ 12,808,856	\$ 6,907,079	\$ 6,856,800	\$ 6,818,016

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes in the financial statements resulting from the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

RRC was retained to assist in the analysis of various actuarially determined items in the 2018 Annual Statement. Given the “risk focused” examination approach of the overall examination, RRC’s primary objective was to perform an assessment of reserve risk by performing a qualitative review of the work papers and documentation supporting the estimates of loss and loss adjustment expense (“LAE”) liabilities in order to assess the reasonableness of the scope, data used, methodologies and assumptions applied. This review included the analysis prepared by the Company’s appointed actuary and review and evaluation of the Company’s reconciliation as of December 31, 2018 of the actuarial data to Schedule P. This evaluation was also intended to consider data integrity and the appropriateness of the data segmentation. RRC also performed a high level evaluation of the Group’s actuarial process for development of pricing indications.

The table below illustrates RRC’s actuarial evaluation of the LMIC Pool. Based on RRC’s analysis and applied examination procedures, RRC determined that the LMIC Pool’s carried Loss and LAE reserves are approximately \$718,647 million dollars lower than RRC’s central estimate, but still within RRC’s range of reasonable estimates.

As noted previously, LMPIC’s pooling participation ratio is 0.00%, and therefor does not carry any net loss or LAE reserves.

<u>LMIC Pool</u> (000’s omitted)					
<u>RRC Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Carried</u>	(Deficiency) <u>Vs. Indicated</u>
Net Loss & LAE	\$37,822,339	\$41,066,600	\$44,844,727	\$40,347,953	\$(718,647)
<u>Appointed Actuary Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Carried</u>	(Deficiency) <u>Vs. Indicated</u>
Net Loss & LAE	\$37,904,891	\$40,324,352	\$42,421,281	\$40,347,953	\$23,601

## **SUBSEQUENT EVENTS**

On November 21, 2019, the Division approved the Company's request to transfer its domicile from Massachusetts to New Hampshire in accordance with M.G.L. c. 175 § 4A. As part of the approval, the Division also confirmed the Company will be qualified to be admitted as a foreign insurer in the Commonwealth of Massachusetts upon completion of the redomestication process.

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

## **SUMMARY OF RECOMMENDATIONS**

### **Reinsurance**

The Company is not in compliance with SSAP No. 62R Revised Property and Casualty Reinsurance and SSAP No. 63 Underwriting Pools for recording reinsurance balances on a gross basis at the individual LMIC Pool member levels, other than LMIC. The Company is incorrectly recording nonaffiliated external assumed reinsurance contracts for certain LMIC Pool members, other than LMIC, directly to LMIC which is the lead company in the LMIC Pool. The Company's accounting practices also create an inaccurately reported Schedule F in the Annual Statement.

As a result, certain LMIC Pool participants (other than LMIC) are not correctly recording all of their assumed underwriting results on a gross basis whereby the participant's portion of premiums, losses, expenses (including intercompany related expenses), and other operations of the pools are recorded separately in each participant's financial statements rather than netted against each other within LMIC.

It is recommended that the Company correct its current reinsurance accounting practices to comply with SSAP No. 62R and SSAP No. 63 requirements for recording reinsurance balances on a gross basis for each individual pool member.

In addition, we recommend the Company:

- document its amended accounting practice in a formal reinsurance accounting policy memo.
- review its reinsurance process narratives / flowcharts and controls and update such, as necessary, for any changes in its reinsurance accounting practice and processes.
- evaluate and amend the Liberty Mutual Second Amended and Restated Reinsurance Agreement for any provisions that are not in compliance with SSAP No. 62R and SSAP No. 63.
- prospectively correct Schedule F for the revised gross reporting basis for each individual pool member as necessary.

## Liberty Mutual Personal Insurance Company

### Related Party Transactions

The Company's related party documentation supporting its internal controls, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables should be significantly enhanced.

It is recommended that the Company ensure that appropriate key controls and documentation are in place associated with the different agreement types, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables. In addition, the Company should reevaluate all related party investment agreements and other related party contracts that are based on a method other than a cost-allocation to ensure compliance with SSAP No. 25 Affiliates and Other Related Parties.

**SIGNATURE PAGE**

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

The assistance rendered by Risk & Regulatory Consulting, LLC who participated in the examination is hereby acknowledged.

*John m Curran*

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John M. Curran, CFE

Supervising Examiner & Examiner-in-Charge

Commonwealth of Massachusetts

Division of Insurance