



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, 2010 through December 31, 2010

NAIC COMPANY CODE: 23043

NAIC GROUP CODE: 0111

EMPLOYER ID NUMBER: 04-1543470

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

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November 11, 2011

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

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, 2010 to December 31, 2010. 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.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2010 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 management, control and general supervision of the examination staff of the Division, including procedures more efficiently addressed by the recently completed Division financial examination. For those objectives, examination staff discussed procedures expected to be performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was or would be adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The business areas that were reviewed under this examination include Company Operations and Management, Complaint Handling Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company's internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to manage its business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is "Report by Test," as described in Chapter 15, Section A of the Handbook.

EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations and required actions and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company should review report results relating to their specific area.

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a "finding," or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or "findings" for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions, and a report of any such corrective action(s) taken shall be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and required actions and, if applicable, subsequent Company actions made, as part of the examination of the Company. All Massachusetts laws, regulations and bulletins cited in this report and Appendix A may be viewed on the Division's website at www.mass.gov/doi.

The examination resulted in no recommendations or required actions with regard to policyholder service. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in this section. Further, the tested Company practices appear to meet industry best practices in this area.

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-18

Findings: None.

Observations: RNA's review of the Company's 2010 NAIC Market Conduct Annual Statement for Massachusetts data indicated that underwriting data appeared reasonable. However, RNA noted unusual claims data which did not appear to be accurate. Upon further investigation, the Company determined that the claims data included in that NAIC filing was inaccurate. As a result, the Company revised the 2010 NAIC Market Conduct Annual Statement for Massachusetts and filed it with the NAIC. The claims data contained within the revised filing appears to be complete and accurate.

Required Actions: The Company shall adopt new procedures for the independent review of Market Conduct Annual Statement filings to ensure that the data is accurate, complete and properly reconciled to similar data contained in the Company's policy administration, underwriting and claims systems.

SECTION II-COMPLAINT HANDLING

STANDARD II-1

Findings: RNA noted that three Division complaints from 2009-2011 period were not properly included in the Company's complaint registers. In addition, some complaints submitted to the Division were reported with improper NAIC company codes preventing the Division from recording the complaint in the appropriate statutory entity complaint summary, which is reported to the NAIC for dissemination to other state regulators. The failure to maintain a complete record of all complaints is a violation of M.G.L. c. 176D, § 3(10).

Observations: RNA noted that the Company's complaint registers included all statutorily-required database elements. The Company appears to have procedures to summarize complaint activity in monthly management reports.

Required Actions: The Company shall ensure that the complaint register includes all Division complaints. The Company shall complete a reconciliation of its complaint register with the Division's records as of December 31, 2011, or as of another date as agreed to by the Division and the Company, to ensure that both sets of complaint data are accurate and complete. Also, the Company shall implement a control process to ensure that all complaints have proper NAIC company codes when the complaints are submitted to the Division. Finally, the Company shall conduct an independent assessment of the complaint handling function to ensure that complaint registers are accurate and complete and provide the report of assessment to the Division by June 30, 2012 or by another date as agreed to by the Division and the Company.

SECTION III-MARKETING AND SALES

STANDARD III-1

Findings: None.

Observations: RNA noted that three of the personal markets SBU advertising and sales material pieces reviewed had no written evidence of legal or compliance review prior to use, although the Company states that it believes such reviews were completed prior to use. RNA noted that all sales materials reviewed appeared reasonable and that the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: The Company should ensure that all advertising and sales materials have documented review by legal or compliance prior to use.

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: RNA noted that the Company did not give notice to the Division through the OPRA system for one appointment termination in violation of M.G.L. c. 175, § 162T. Since the reconciliation to the OPRA system is performed annually, the missed termination had not yet been noted.

Observations: Based upon testing, for the remaining nine appointment terminations, the Company properly notified the Division through the OPRA system in compliance with statutory requirements. For each of the 10 appointment terminations, the notice to the agents was in compliance with statutory requirements.

Subsequent Actions: The Company has subsequently terminated the appointment in the Division's OPRA system.

Required Actions: The Company shall complete a reconciliation of its current agent appointments with the Division's list of agent appointments as of December 31, 2011, or as of another date as agreed to by the Division and the Company, to ensure that both sets of information are accurate and complete. The reconciliation shall be performed periodically throughout the year. Finally, the Company shall consider implementing additional controls to ensure that all agent appointments and terminations are timely provided to the Division through the OPRA system.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: During testing of complaints, RNA noted one complaint where a private passenger automobile policyholder had an accident and received an at-fault accident surcharge. The policyholder complained that he had been covered by an affiliate of the Company and that he should have received the accident forgiveness policy benefit, based on the number of years he was a policyholder. The Company determined that the agent improperly coded the original policy effective date, causing the Company to improperly omit the accident forgiveness policy benefit in violation of M.G.L. c. 175E, § 7. After the complaint investigation, the Company removed the accident surcharge and thus the proper premium rate was charged.

Observations: Based upon testing, except as noted above, the Company calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division.

Required Actions: The Company shall provide appropriate training to agents to address this concern and consider implementing a system or other processing control improvements to identify and correct agent coding errors. These enhancements would ensure that policyholders who replace policies within the affiliated group of companies receive proper treatment related to at-fault accident surcharges and accident forgiveness policy benefits.

STANDARD VI-2

Findings: None.

Observations: Based upon testing, the Company provides required rate and coverage disclosures to insureds upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements. The personal markets SBU web-site screens disclose that the Company uses information from consumer reports and credit-based insurance scoring "where permitted by law." However, the disclosures do not specifically state that the general use of consumer reports is restricted in Massachusetts and that the use of credit scores in underwriting or rating private passenger automobile coverage is not

permitted in Massachusetts.

Recommendations: The Company should add specific disclosures to its web-site screens to ensure that Massachusetts consumers understand limitations regarding the use of consumer reports and credit scores in underwriting or rating private passenger automobile coverage.

STANDARD VI-7

Findings: None.

Observations: Based upon testing and review of the information available, Company-declinations were not unfairly discriminatory. However, the Company did not retain copies of the written declination notices provided to five private passenger automobile applicants, who were declined coverage because they did not meet underwriting standards. The Company also did not retain a copy of the written declination notice provided to a homeowners applicant, who was declined coverage for loss history. However, the Company believes that the declination notices were provided to the applicants in accordance with its policy.

Required Actions: The Company shall provide guidance or training to Company personnel reminding them to provide written declination notices to declined personal markets applicants. Also, the Company shall maintain such written declination notices and any other supporting documentation for a five-year period. Finally, the Company's regulatory business compliance department shall complete an independent assessment of the effectiveness of these new procedures by June 30, 2012, and report the results of the assessment to the Division.

SECTION VII-CLAIMS

STANDARD VII-2

Findings: None.

Observations: Based upon testing, claims were generally investigated timely according to the Company's policies and statutory requirements. However, RNA tested one bodily injury private passenger automobile claim where questions of liability were not timely escalated to supervisory personnel for resolution until late in the claims handling process, and until after a first settlement offer was made.

Required Actions: The Company shall communicate to the claims handling staff and supervisors that questions of liability should be timely escalated to supervisors for a more detailed assessment of liability before a first settlement offer is made. This assessment should generally occur early in the investigation of the claim. Finally, the Company shall ensure that its monthly quality assurance testing verifies that questions of liability are timely escalated to supervisory personnel for resolution before a first settlement offer is made.

STANDARD VII-5

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures, except for one bodily injury private passenger automobile claim where the Company did not fully document claims handling actions, conclusions and the final liability assessment. Based upon testing, it appears that the Company's processes for documenting claim files are generally functioning in accordance with its policies and procedures.

Required Actions: The Company shall ensure that all claim files fully document claims handling actions, conclusions and the final liability assessments in accordance with Company policies and procedures. The Company shall ensure that its monthly quality assurance testing verifies that all claim files adequately document these matters.

STANDARD VII-6

Findings: RNA noted one bodily injury private passenger automobile claim tested where a written request for liability limits was not provided in violation of M.G.L. c. 175, § 112C. Additionally, for one homeowners claim, where there was fire damage exceeding \$1,000, the Company did not notify the local building commissioner 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.

Required Actions: The Company shall clarify to claims handling personnel that all written requests for liability limits must be provided within 30 days. Further, the Company shall clarify to claims handling personnel that all structure claims exceeding \$1,000 must be reported to the local building commissioner. Finally, the Company shall ensure that its monthly quality assurance testing verifies that claims are properly handled in accordance with these statutory requirements.

STANDARD VII-12

Findings: None.

Observations: Except for one private passenger automobile claim tested where the Company did not issue an excess of loss letter to the insured, notifying the insured of exposure exceeding policy limits, the use of reservation of rights and excess of loss letters was appropriate. 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.

Required Actions: The Company shall clarify to claims handling personnel the policies and procedures for issuance of excess of loss letters. The Company shall ensure that its monthly quality assurance testing verifies that claims handling personnel appropriately issues an excess of loss letter when the insured has exposure in excess of policy limits.

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 constitutes a diversified global group of insurance companies and the fifth largest property and casualty insurance group in the United States based on 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 45,000 people in more than 900 offices throughout the world. In 2008, LMGI acquired the operations of Safeco Corporation and its insurance subsidiaries in a transaction approved by the Division.

LMGI is organized in four Strategic Business Units ("SBUs") including personal markets; commercial markets; agency markets and international. In Massachusetts, the Company primarily sells private passenger automobile and homeowners coverage in the personal markets SBU and workers' compensation coverage in the commercial markets SBU. In Massachusetts, the Company's personal markets coverage is directly sold by employee agents and through direct phone and internet marketing. Commercial markets coverage is sold by independent agents and national brokers.

The Company's statutory surplus as of December 31, 2010 is approximately \$13.8 billion with statutory admitted assets of approximately \$36.7 billion. The Company is rated "A" (Excellent) by A.M. Best.

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.
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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 formal charter and membership consists of six independent directors. The Company's General Counsel reports to the Board of Directors regarding litigation and employee complaints. Further, a periodic report is presented from the Chief Compliance Officer regarding activities of the Company's Office of Corporate Compliance ("OCC"). In addition, the OCC immediately reports any significant issues to the Audit Committee. Finally, the Company's internal audit function also reports to the Audit Committee.
- The Chief Compliance Officer reports directly to the General Counsel and frequently communicates with the internal audit function. There are approximately 250 full-time compliance officers within the Company's SBUs that also report to the Chief Compliance Officer. The compliance officers are responsible for training and monitoring of specific requirements related to the SBUs' business processes. The OCC primarily focuses on employee oversight and training, code of conduct monitoring, home office privacy practices, agent and employee state licensing requirements and other Company-wide compliance initiatives. The OCC also coordinates market conduct examinations and records management.
- The Company's internal audit department conducts financial, operational, compliance and information technology audits. The staff is organized to perform audits that are aligned with several company-wide SBUs. The personal markets SBU includes Massachusetts private passenger auto and homeowners business, and the commercial markets SBU includes Massachusetts worker's compensation business. 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 and business process is presented to the Audit Committee.
- 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 commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.
- The Company regularly conducts premium audits of its worker's compensation business.
- The Massachusetts Workers' Compensation Rating and Inspection Bureau ("WCRIB") serves as a rating organization and statistical agent for Massachusetts-licensed insurers. The Company provides the WCRIB with periodic data reconciliations, and unless there are large and frequent reconciling items, the WCRIB does not conduct audits of the Company's data. Thus, the WCRIB

has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.

- The Department of Industrial Accidents ("DIA") has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA may test compliance with some policy premium factors and determinants. The DIA has not conducted any recent audits of the Company's quarterly assessment calculations.
- The Company's personal markets SBU includes a claims quality assurance function, which consists of an independent team that performs monthly quality control audits of all claims adjustor's work. The claims are evaluated against performance standards, and results are reported monthly to senior management.
- The Company has a commercial markets SBU claims quality assurance review process where activity and trends are evaluated. The quality assurance group reviews activities at the Company's claims offices, with each office reviewed four to five times annually and with results reported to senior management. Also, claim team managers review each case manager's work twice a year with the scope of the review tailored to each team's activity.

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 various internal audit reports, underwriting and claim quality assurance reports, and the most recent CAR audit to evaluate procedures performed and results obtained. Issues noted in such reports were further investigated and discussed with management.

Transaction Testing Results:

Findings: None.

Observations: The internal audit reports, underwriting and claim quality assurance audits and the CAR audit reviewed by RNA provided detailed information on the 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. See Standards VI-25 and VII-14 for additional discussion with regard to CAR audit results.

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 complete 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 plan. 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") has adopted antifraud claims and underwriting procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud and to report potential fraud to the Massachusetts Insurance Fraud Bureau ("IFB").
- Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported through the Insurance Services Office ("ISO") to the National Insurance Crime Bureau ("NICB").
- The SIU has a quality assurance function in which two files per month per investigator are reviewed and evaluated. Results are summarized and reported monthly to management.
- All Company directors and employees are annually required to attest that they are in compliance with the code of conduct including the conflict of interest policy.
- Prospective employees are asked about their criminal backgrounds during the employment application process and must attest to not having been convicted of a felony prior to being hired.
- The Company has implemented Office of Foreign Asset Control 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: 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.

Standard I-4. The regulated entity has a valid disaster recovery plan.

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

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.

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's commercial markets sales distribution is through agents and brokers who submit applications to the Company. The Company verifies that brokers are properly licensed for the lines of business to be sold in Massachusetts, prior to contracting with them as brokers and ensures that the brokers have met Massachusetts continuing education requirements. The Company's broker contract standard terms and conditions address broker authorities, premium accounting, contract termination, indemnification, commissions, confidentiality and notice procedures.
- Voluntary direct assignment carrier ("VDAC") plan workers' compensation business must be accepted by the Company regardless of whether the Company has a contract with the producer who produced the VDAC plan business.

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 documentation related to the above parties as part of new and renewal business testing.

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.

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.

Objective: This Standard addresses the Company's efforts to adequately 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 new and renewal business testing, RNA reviewed producer documentation that supports the new or renewal business sold.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is generally 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.
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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 is concerned with 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 markets policy is issued. The annual privacy notice is also provided customers with personal markets 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 does not sell or share information with anyone for marketing purposes. As such, there is no need to provide policyholders with "opt out" rights.
- Company management states that it does not obtain investigative consumer reports on customers as part of underwriting, and that they do not conduct pretext interviews.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information 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 markets underwriting testing, and all 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.

The objective of this Standard relates to privacy matters included elsewhere in this section.

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 markets underwriting testing and all 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.

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.

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 its supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 25 homeowners and 70 private passenger automobile policies issued 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 does not share nonpublic personal financial information with anyone for marketing purposes. Thus, the Company is not required to offer an opt out for such information sharing.

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 markets underwriting and all claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing in conjunction with personal markets underwriting and all 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 markets underwriting and all 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 markets underwriting and all 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 information technology security policies and practices to safeguard nonpublic personal and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- The Company's internal audit function frequently conducts information technology 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 interviewed Company personnel with responsibility for information security compliance, and reviewed documentation supporting its information security policies and procedures. Review of information technology 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 information security policies and procedures, it appears that the Company has implemented an information security program, which appears to provide reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

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

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 for personal lines data to the Division. 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 markets' policy administration and claims systems compile and retain underwriting and claims data for inclusion in the NAIC Market Conduct Annual Statement.
- The Company's personal markets' policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division when required.

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 markets underwriting and claims processing. RNA also reviewed the 2010 NAIC Market Conduct Annual Statement for Massachusetts data for unusual results and concerns. Finally, the Company was not required to file homeowners underwriting and claims data with the Division in 2010, since it was not one of the 25 largest Massachusetts homeowners insurers.

Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's 2010 NAIC Market Conduct Annual Statement for Massachusetts data indicated that underwriting data appeared reasonable. However, RNA noted unusual claims data which did not appear to be accurate. Upon further investigation, the Company determined that the claims data included in that NAIC filing was inaccurate. As a result, the Company revised the 2010 NAIC Market Conduct Annual Statement for Massachusetts and filed it with the NAIC. The claims data contained within the revised filing appears to be complete and accurate.

Required Actions: The Company shall adopt new procedures for the independent review of Market Conduct Annual Statement filings to ensure that the data is accurate, complete and properly reconciled to similar data contained in the Company's policy administration, underwriting and claims systems.

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 grievance received. In addition, phone calls, which are transcribed to writing for other than local sales office phone calls are also considered to be complaints.
- Complaints are managed, and received by, the nine-person Presidential Service Team ("PST"), which maintains the complaint register and coordinates with personnel in the Company's SBUs. The SBUs are primarily responsible for researching and responding to the complaints. Written complaint handling procedures have been developed by the SBUs.
- A written response is prepared by SBU personnel and reviewed by a supervisor. Once the response is final, it is sent to the complainant or regulator with a copy to the PST. Complaints that are received directly by the SBUs are also provided to the PST for inclusion in the complaint register. The personal markets SBU is to respond to complaints within five days, and the commercial markets SBU is to respond to complaints within 10 days.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its web-site.
- The PST complaint register includes regulatory and non-regulatory complaints and for each complaint the following information: 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.
- Complaint statistics are compiled from complaint register data by the PST, and trends are analyzed with unusual spikes or activity monitored. A quarterly report by SBU is prepared by the PST to assist management in analyzing and tracking complaint trends and activity. In addition, the personal markets SBU prepares a monthly report summarizing complaint activity to identify any trends and concerns.
- The Chief Compliance Officer summarizes complaint statistics for the Board of Directors with any unusual trends or indicators explained. Serious issues identified through complaints would be reported immediately to the Audit committee.

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 2009-2011 to evaluate the Company's compliance with statutory complaint requirements and reviewed procedures to summarize complaint activity in monthly management reports. Finally, RNA reviewed the Company's complaint registers from 2009-2011 to

determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: RNA noted that three Division complaints from 2009-2011 period were not properly included in the Company's complaint registers. In addition, some complaints submitted to the Division were reported with improper NAIC company codes preventing the Division from recording the complaint in the appropriate statutory entity complaint summary, which is reported to the NAIC for dissemination to other state regulators. The failure to maintain a complete record of all complaints is a violation of M.G.L. c. 176D, § 3(10).

Observations: RNA noted that the Company's complaint registers included all statutorily-required database elements. The Company appears to have procedures to summarize complaint activity in monthly management reports.

Required Actions: The Company shall ensure that the complaint register includes all Division complaints. The Company shall complete a reconciliation of its complaint register with the Division's records as of December 31, 2011, or as of another date as agreed to by the Division and the Company, to ensure that both sets of complaint data are accurate and complete. Also, the Company shall implement a control process to ensure that all complaints have proper NAIC company codes when the complaints are submitted to the Division. Finally, the Company shall conduct an independent assessment of the complaint handling function to ensure that complaint registers are accurate and complete and provide the report of assessment to the Division by June 30, 2012 or by another date as agreed to by the Division and the Company.

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

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 reviewed six Division complaints, and 14 complaints received directly from consumers, from the 2009-2011 period, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for each of these complaints, including the adequacy of documentation supporting the facts and resolution of each complaint. In addition, RNA reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

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 reviewed six Division complaints, and 14 complaints received directly from consumers, from the 2009-2011 period, 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 complaint and related correspondence. It appears that complainants with similar fact patterns are treated consistently and reasonably.

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 reviewed six Division complaints, and 14 complaints received directly from consumers, from the 2009-2011 period, to evaluate the Company's complaint response times.

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Transaction Testing Results:

Findings: None.

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. Consumer complaints 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.

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

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 creates television, radio, print and billing insert advertising to the public and brochures regarding Massachusetts personal markets SBU products for general public use.
- For workers' compensation marketing, the company has developed marketing collateral for its commercial customers.
- The Company has adopted policies and procedures for review and use of advertising and sales materials. All personal markets SBU advertising is developed in teams, which include product experts, marketing staff, legal advisors and end users. The teams are to review and approve the materials prior to use. For workers' compensation marketing, the Company's marketing collateral is reviewed and approved with two levels of legal review.
- All advertising and sales materials are tracked and maintained for use by Company personnel and the agents.
- 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 markets SBU advertising and sales materials utilized during the examination period, and selected seven pieces for review and evidence of approval prior to use. RNA also reviewed one workers' compensation sales piece for reasonableness. Further, RNA 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: RNA noted that three of the personal markets SBU advertising and sales material pieces reviewed had no written evidence of legal of compliance review prior to use, although the Company states that it believes such reviews were completed prior to use. RNA noted that all sales materials reviewed appeared reasonable and that the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved

sales materials as part of new and renewal business testing.

Recommendations: The Company should ensure that all advertising and sales materials have documented review by legal or compliance prior to use.

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

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:

- Producers hired as employee-agents must attend a 14-week training program regarding the Company's policies, products and sales guidelines.
- The Company's field development specialists provide individual supervision and coaching to those hired as new employee-agents. For example, the field development specialists attend sales calls or listen to telephone sales presentations.
- Independent producers, who sell the Company's workers' compensation policies, are provided guidance as to the Company's policies and procedures for acceptance of new business and underwriting.

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.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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.

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Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing employee-agent and independent producer communications to understand the nature and breadth of such communications. Finally, RNA reviewed any employee-agent or independent producer 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 independent producer 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.

No work performed. This Standard is not covered in the scope of examination because the Company does not mass market property and casualty insurance in Massachusetts.

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 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:

- The Company's Massachusetts personal markets SBU distribution channel generally consists of employee-agents operating in local sales offices. The employee-agents also respond to coverage requests by phone or through the internet. The employee-agents are Massachusetts-licensed producers who are supervised by local office branch managers. The employee-agents are paid salaries and commissions, with the commission portion of compensation increasing as the employee becomes more experienced.
- All prospective employee-agents must undergo a financial and criminal background check prior to hiring, and each must attend a 14 week training program regarding the Company's policies, products and sales guidelines. Any new hire must have or obtain a Massachusetts producer license.
- The Company's field development specialists provide individual supervision and coaching to new employee-agents. Performance monitoring and disciplinary actions are conducted in accordance with the Company's human resource management practices.
- The Company uses independent producers, who are often appointed as agents, to produce workers' compensation business. The Company uses standard contracts for these producers. The contract requires maintenance of \$1 million in errors and omissions coverage and includes standard terms and conditions addressing producer authorities, premium billing, termination provisions, ownership of expirations, indemnification, commissions, notice procedures, privacy requirements, compliance with Federal crime laws and producer licensure requirements. A financial and criminal background check is also completed prior to contracting with the producer and appointing the producer as agent.
- VDAC plan business must be accepted by the Company regardless of whether the Company has a contract with the producer who presented the VDAC plan business. VDAC producers are the only non-appointed producers that sell the Company's products.
- The Company tracks licensing and appointments with daily updates from the NAIC's National Insurance Producer Registry ("NIPR") and the Division's On-Line Producer Appointment ("OPRA") system. All Massachusetts agent appointments are processed through the OPRA system.
- The Company's personal markets SBU policy administration system requires that any sale be processed by a licensed producer and appointed agent.
- The Company completes a monthly reconciliation of its agent appointment list to NIPR and an annual reconciliation to the OPRA system 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 70 private passenger automobile, 25 homeowners and 15 workers' compensation 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, or that the workers' compensation business was VDAC plan business.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed, or the workers' compensation business was VDAC plan business.

Recommendations: None.

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.

Refer to Standard IV-1.

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.

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:

- The Company's policy is to give written notice to all agents whose appointments are terminated and notice to the Division through the OPRA system.
- 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.

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 10 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: RNA noted that the Company did not give notice to the Division through the OPRA system for one appointment termination in violation of M.G.L. c. 175, § 162T. Since the reconciliation to the OPRA system is performed annually, the missed termination had not yet been noted.

Observations: Based upon testing, for the remaining nine appointment terminations, the Company properly notified the Division through the OPRA system in compliance with statutory requirements. For each of the 10 appointment terminations, the notice to the agents was in compliance with statutory requirements.

Subsequent Actions: The Company has subsequently terminated the appointment in the Division's OPRA system.

Required Actions: The Company shall complete a reconciliation of its current agent appointments with the Division's list of agent appointments as of December 31, 2011, or as of another date as agreed to by the Division and the Company, to ensure that both sets of information are accurate and complete. The reconciliation shall be performed periodically throughout the year. Finally, the Company shall consider implementing additional controls to ensure that all agent appointments and terminations are timely provided to the Division through the OPRA system.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed, and 10 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 10 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.

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.

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

No work performed. This Standard is not covered in the scope of examination because the Company's personal markets SBU direct bills all premium, and the commercial markets SBU direct bills most 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:

- Policyholders may choose to pay their premiums in full or using optional eight or 10 installment plans. Electronic funds transfer is also available for the 10 installment plan.
- Policyholders receive renewal and billing notices from the Company approximately 20-30 days prior to the renewal effective date. The Company mails a policy declaration page indicating the coverage type and limits with the billing notice.
- The Company or the agent generally collects 10% or 25% premium down payment for new business.
- Workers' compensation policies are also subject to retroactive premium adjustments through premium audits for changes in the risk.
- Customer service call center representatives answer questions from policyholders and agents 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 timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. 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.
- Company policy is to cancel a policy upon notification from the agent or policyholder of the policyholder's request, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder on a pro-rata basis pursuant to 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 policyholder service and tested three homeowners, seven private passenger automobile, and four workers' compensation 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.

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.
- Personal markets policyholders may request endorsements and policy changes through the Company's customer service department. Commercial markets policyholders may request endorsements and policy changes through their agent or by contacting the customer service call center.
- The Company monitors customer service call response times, call abandon rates and individual customer service representatives' time use, to ensure that adequate resources are available to address customer inquiries.

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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 does not enter 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, and insured-requested cancellations are tested in Standard V-2. Return of premium testing is included in Standard V-7. Company 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, quarterly, the Company conducts further research 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 Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard V-2.

Controls Reliance: See Standard V-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested three homeowners, seven private passenger automobile, and four workers' compensation insured-requested cancellations from the examination period, to test for proper premium refund calculation and timely payment, where appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

Standard V-8. Claims history and loss information is provided to the insured in timely manner.

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 producers have access to claims history and paid loss information for personal markets policyholders from a statewide automobile claim database, and a private Comprehensive Loss Underwriting Exchange database.
- When requested by the policyholder, the Company states that it or the producer 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 and 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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Personal markets employee-agents submit applications electronically to the new business processing department. Sales are also made directly to customers via the phone or the Company's website. The electronic applications interface with the Company's underwriting and policy administration system, which is used for quoting, rating and underwriting policy applications.
- Commercial markets producers submit application data and billing mode information either in paper form, facsimile, or by electronic mail. The application information is input into the Company's underwriting and policy administration system, which is used for quoting, rating and underwriting policy applications.
- 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.
- Effective April 1, 2008 private passenger automobile rates, previously fixed and established by the Commonwealth, are filed with the Division and approved prior to use.
- Private passenger automobile underwriting criteria include, driving history, loss history, and youthful driver status. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The low mileage discount form, which verifies actual private passenger automobile mileage, must be completed annually to receive the low mileage discount.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules.
- Company policy requires that homeowners and commercial property/liability rates are based on ISO rates, and the Company files such rates with the Division for approval to comply with statutory and regulatory requirements.
- 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 files its workers' compensation rates with the WCRIB, which serves as a rating organization and statistical agent. The WCRIB files its rates with the Division on behalf of the Company. Such rates are generally based on the number of employees, payroll and job classification code. The WCRIB also serves as the Division's assigned risk pool administrator and the DIA's coverage verification entity. The WCRIB has not conducted a formal audit of the Company's worker's compensation statistical reporting.

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- The Company participates in the assigned risk pool using the VDAC plan. In accordance with the VDAC plan, the Company accepts assigned risks as direct business without underwriting or rating the risks.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations.
- All of the Company's rates are maintained electronically. Prior to implementing rate changes, the changes are subject to testing.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.

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 reviewed other rating information, including evidence of testing of rate changes. In conjunction with new and renewal business testing, RNA selected 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to test rate classifications and underlying policy information. RNA verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements. In addition, RNA selected 10 private passenger automobile and three workers' compensation policies issued or renewed during the examination period to test the accuracy of the policy's rated premium. For these policies, RNA verified that each policy's premium agreed with the Company's rates filed with the Division. RNA also reviewed the policies and procedures for making changes to personal market premium rates and testing those changes prior to loading in the policy administration system. Further, RNA reviewed commercial markets underwriting quality assurance reports from the examination period. Finally, RNA evaluated certain complaints to ensure that premium surcharges are in compliance with the Company's filed rating plan.

Transaction Testing Results:

Findings: During testing of complaints, RNA noted one complaint where a private passenger automobile policyholder had an accident and received an at-fault accident surcharge. The policyholder complained that he had been covered by an affiliate of the Company and that he should have received the accident forgiveness policy benefit, based on the number of years he was a policyholder. The Company determined that the agent improperly coded the original policy effective date, causing the Company to improperly omit the accident forgiveness policy benefit in violation of M.G.L. c. 175E, § 7. After the complaint investigation, the Company removed the accident surcharge, and thus the proper premium rate was charged.

Observations: Based upon testing, except as noted above, the Company calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division.

Required Actions: The Company shall provide appropriate training to agents to address this concern and consider implementing a system or other processing control improvements to identify and correct agent coding errors. These enhancements would ensure that policyholders who replace policies within the affiliated group of companies receive proper treatment related to at-fault accident surcharges and accident

forgiveness policy benefits.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.

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 to consumers electronically, who acknowledge receipt during the application submission process.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company provides required disclosures to personal markets SBU consumers, who purchase their policies on the Company's 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 the underwriting process. RNA selected 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages. RNA also reviewed the personal markets SBU web-site screens for evidence of required disclosures.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides required rate and coverage disclosures to insureds upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements. The personal markets SBU web-site screens disclose that the Company uses information from consumer reports and credit-based insurance scoring "where permitted by law." However, the disclosures do not specifically state that the general use of consumer reports is restricted in Massachusetts and that the use of credit scores in underwriting or rating private passenger automobile coverage is not permitted in Massachusetts.

Recommendations: The Company should add specific disclosures to its web-site screens to ensure that Massachusetts consumers understand limitations regarding the use of consumer reports and credit scores in underwriting or rating private passenger automobile coverage.

Standard VI-3. The regulated entity does not permit illegal rebating, commission cutting or inducements.

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 producers' commissions in accordance with written contracts.
- The Company has procedures for paying salaried and commissioned employee-agents in accordance with written employment practices and policies.
- The Company's producer 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 producer contracts and employee-agent employment practices, RNA inspected 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 70 private passenger automobile, 25 homeowners and 15 workers' compensation 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, and commissions paid appeared reasonable.

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. 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:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Personal markets underwriting is generally automated. Electronic applications are rated and processed using standard underwriting algorithms.
- Written Company underwriting guidelines for commercial markets products are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Certain risks are referred to the underwriting department to determine whether they should be rated, accepted or rejected.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting. Finally, RNA reviewed commercial markets underwriting quality assurance reports from the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

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 Automobile Insurer's Bureau of Massachusetts ("AIB") Massachusetts Private Passenger Automobile Form 8th Edition, which has been approved by the Division.
- Company policy requires that all homeowners, commercial property/liability and workers' compensation policy forms and endorsements be filed 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 70 private passenger automobile, 25 homeowners and 15 workers' compensation 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.

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

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 the customer service call center or through the producer, who must timely process such requests.
- Pre-insurance inspections are generally required for new coverage of used private passenger automobiles, unless the applicant has been insured with the Company for three consecutive years. Waivers from pre-insurance inspections are allowed for hardship reasons, a lack of inspection facilities near the applicant, producer book of business transfers, and for automobiles ten years and older.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation 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 70 private passenger automobile policies tested, the Company complied with pre-insurance inspection requirements when necessary. Finally, RNA reviewed commercial markets underwriting quality

assurance reports from the examination period.

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.

Standard VI-7. Rejections and declinations are not unfairly discriminatory.
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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.
- Insurance applications for all lines of business may be declined by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- The Company does not reject homeowners applications for a low insurance score. Instead, the applicant is underwritten in an affiliated company that accepts higher risks. In such cases, the Company issues adverse underwriting notices to the applicant disclosing that the applicant is paying a higher than standard rate.
- The Company will make an applicant's insurance score neutral if the applicant has experienced any extraordinary life events, such as a bankruptcy caused by medical obligations.
- The Company provides personal markets applicants with 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 six private passenger automobile and four homeowners declinations processed during the examination period to ensure that declinations were not unfairly discriminatory. RNA also tested private passenger automobile and homeowners declination notices for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing and review of the information available, Company-declinations were not unfairly discriminatory. However, the Company did not retain copies of the written declination notices provided to five private passenger automobile applicants, who were declined coverage because they did not meet underwriting standards. The Company also did not retain a copy of the written declination notice provided to a homeowners applicant, who was declined coverage for loss history.

Required Actions: The Company shall provide guidance or training to Company personnel reminding them to provide written declination notices to declined personal markets applicants. Also, the Company shall maintain such written declination notices and any other supporting documentation for a five-year period. Finally, the Company's regulatory business compliance department shall complete an independent assessment of the effectiveness of these new procedures by June 30, 2012, and report the results of the assessment to the Division.

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 notices are tested 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 personal market company-initiated cancellations to policyholders in accordance with statutory requirements. The Company's policy is to give written notice 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 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. The Company generally does not non-renew homeowners policies, and there were no non-renewals in 2010.
- Company policy requires written notice for company-initiated cancellations for workers' compensation business be provided to policyholders at least 10 days prior to the effective date in accordance with regulatory requirements.
- Company policy requires that personal market non-renewal notices and the reasons for the non-renewal for all lines of business be sent directly to the policyholder approximately 45 days prior to the policy renewal date. Non-renewals of workers' compensations business are rare, since producers generally replace coverage to avoid being non-renewed by the Company at policy expiration.

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 nine private passenger automobile, 10 homeowners, and six workers' compensation company-initiated cancellation transactions for testing. RNA also selected four private passenger automobile non-renewal transactions for testing. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: 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.

Recommendations: None.

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 any 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 no 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 Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information, including evidence of user testing of rate changes. In conjunction with new and renewal business testing, RNA selected 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to test rate classifications and premiums charged. RNA verified that each policy's credits and deviations were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company consistently applies credits and deviations on a non-discriminatory basis in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: This Standard addresses whether schedule rating or individual risk premium modification plans are based on objective criteria and appropriately documented. 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 determining schedule rating and individual risk premium modification plans.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company-required forms and instructions.
- Underwriting personnel are required to approve schedule rating and individual risk premium modification plans, and ensure that such decisions are documented in the underwriting files.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. Also, the WCRIB has not conducted a formal audit of the Company's workers' compensation statistical reporting.

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. In conjunction with new and renewal business testing, RNA selected 15 workers' compensation policies issued or renewed during the examination period, to test that schedule rating and individual risk premium modification plans are objective and documented. Finally, RNA reviewed commercial markets underwriting quality assurance reports from the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's schedule rating and individual risk premium modification plans are objective and documented in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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.

Objective: This Standard addresses the use of loss costs and expense multipliers filed with the Division. 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 the use of loss costs and expense multipliers.
- The WCRIB approves the use of loss costs and expense multipliers, and such deviations are filed with the Division.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. Also, the WCRIB has not conducted a formal audit of the Company's workers' compensation statistical reporting.

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 process. RNA selected 15 workers' compensation policies issued or renewed during the examination period, to test the use of loss costs and expense multipliers as filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to properly use loss costs and expense multipliers as filed with the Division.

Recommendations: None.

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

Objective: This Standard addresses the performance of premium audits to verify proper rating factors. 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 conducting premium audits to verify rate factors.
- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with Company policies and procedures.

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 process. RNA selected 15 workers' compensation policies issued or renewed during the examination period, to seek evidence that the Company conducted premium audits to verify rate factors, when applicable. Finally, RNA reviewed commercial markets underwriting quality assurance reports from the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to properly conduct premium audits and verify rate factors.

Recommendations: None.

Standard VI-14. Verification of experience modification factors.

Objective: This Standard addresses the use of experience modification factors. 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 verifying experience modification factors.
- The WCRIB approves experience modification factors, and such deviations are filed with the Division.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. Also, the WCRIB has not conducted a formal audit of the Company's workers' compensation statistical reporting.

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 process. RNA selected 15 workers' compensation policies issued or renewed during the examination period to test for the use of experience modification factors as filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company generally appears to properly use experience modification factors as filed with the Division.

Recommendations: None.

Standard VI-15. Verification of loss reporting.
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Objective: This Standard addresses the maintenance and verification of accurate loss histories. 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 the maintenance and verification of accurate loss histories.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. Also, the WCRIB has not conducted a formal audit of the Company's workers' compensation statistical reporting.

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 process. RNA selected 15 workers' compensation policies issued or renewed during the examination period to test maintenance and verification of accurate loss histories.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to maintain and verify accurate loss histories.

Recommendations: None.

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 because the Company is not subject to NCCI data calls.

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.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation 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.

Finally, RNA reviewed commercial markets underwriting quality assurance reports from the examination period.

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.

See Standard VI-13 for premium audits and Standard I-1 for audits by internal and external auditors.

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 Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to test for the use of policy forms and approved endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

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 producer is 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 50 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.

Standard VI-21. The regulated entity does not engage in collusive or anti-competitive underwriting practices.

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.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.

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- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive. Finally, RNA reviewed commercial markets underwriting quality assurance reports from the examination period.

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.

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.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer mass marketing plans.

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.

See Standard VI-8 for testing of this Standard.

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 a process to correct data coding errors and to make subsequent 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, ISO or the WCRIB.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. Also, the WCRIB has not conducted a formal audit of the Company's workers' compensation statistical reporting.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation policies issued or renewed during the examination period, to test data coding for selected policy determinants. RNA also reviewed the most recent CAR audit report issued in 2008 on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded. The CAR audit report indicated the Company generally codes private passenger automobile policies accurately.

Recommendations: None.

Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.

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.
- Personal markets employee-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.
- Personal markets underwriting systems controls are designed to ensure electronic applications are complete.
- Commercial markets producers submit application data and billing mode information either in paper form, facsimile, or by electronic mail. Properly completed applications are to include applicant and producer signatures.
- Commercial markets underwriting personnel review the applications submitted by producers for completeness and internal consistency.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.
- The commercial markets underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported quarterly to management.

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 70 private passenger automobile, 25 homeowners and 15 workers' compensation 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. RNA also evaluated certain complaints to ensure that underwriting decisions were properly supported. Finally, RNA reviewed commercial markets underwriting quality assurance reports from the examination period.

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 markets SBU claims function is organized in divisions including the auto physical damage, no-fault medical, bodily injury, first-party homeowners, and subrogation divisions, which are further organized in teams with a supervisory structure.
- The workers' compensation claims intake is handled by two national reporting centers with claims further assigned to one of 16 national claims offices, which are staffed with managers, supervisors, team managers and case managers.
- 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, by a 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 file.
- Once a personal markets claim is reported, the policy is to contact the claimant and other parties within two days and to assign a claims adjuster. For workers' compensation claims, the policy is to contact the injured worker, the employer and the medical provider within two days. The case is then assigned to a case manager for handling.
- Company policy is to investigate all claims in a timely manner in accordance with its policies, procedures, and regulatory requirements.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. CAR audits the Company for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim.
- The Company's SIU assists with claims where fraud indicators are present. Company policy is to report fraud to the IFB, when fraud is believed to have occurred and to comply with CAR's SIU performance standards. All auto thefts are reported through ISO to the NICB. Also, the SIU has a quality assurance function in which two files per month per investigator are reviewed and evaluated. Quality assurance results are summarized and reported monthly to management.
- Company policy requires the use of DIA workers' compensation claim forms and reporting notices.
- Company policy is to accept or reject all workers' compensation claims within 14 days of the claim filing, in compliance with DIA regulatory requirements. The Company's nurse medical staff and a medical director assist with claims adjudication of injury claims. Catastrophic cases are evaluated by occupational and rehabilitation specialists, who may periodically assess the injured worker.

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- When a decision to terminate workers' compensation benefits is made, the Company provides notice in accordance with statutory requirements. If a claimant disagrees with the termination decision, the claimant may file a complaint with the Company. In addition, claimants may appeal termination decisions through the DIA.
- Claim activity is monitored by management using monthly reporting of claim volume, aging, reserve adjustments, payment activity and trends. Supervisors review individual claim file activity, particularly for larger claims.
- The personal markets SBU claims operation includes a quality assurance function where an independent team performs quality control claims audits, in which all adjusters work is sampled and reviewed monthly. The claims are evaluated against performance standards, and results are summarized and reported monthly to senior management.
- Workers' compensation claim team managers review each case manager's work twice a year, and the reviews are documented in individual claim files. Also, the commercial markets SBU operations group periodically reviews each of the Company's workers' compensation claims offices four to five times per year. The results of the reviews are documented in written management reports.
- The Company personal markets SBU claims function conducts post-claim surveys of first party claimants regarding their satisfaction with claims handling.

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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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.

Standard VII-2. Timely investigations are conducted.

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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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 generally investigated timely according to the Company's policies and statutory requirements. However, RNA tested one bodily injury private passenger automobile claim where questions of liability were not timely escalated to supervisory personnel for resolution until late in the claims handling process, and until after a first settlement offer was made.

Required Actions: The Company shall communicate to the claims handling staff and supervisors that questions of liability should be timely escalated to supervisors for a more detailed assessment of liability before a first settlement offer is made. This assessment should generally occur early in the investigation of the claim. Finally, the Company shall ensure that its monthly quality assurance testing verifies that questions of liability are timely escalated to supervisory personnel for resolution before a first settlement offer is made.

Standard VII-3. Claims are resolved in a timely manner.
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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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three open claims for testing. RNA tested each selected claim noting whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for providing timely responses to 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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, except for one bodily injury private passenger automobile claim where the Company did not fully document claims handling actions, conclusions and the final liability assessment. Based upon testing, it appears that the Company's processes for documenting claim files are generally functioning in accordance with its policies and procedures.

Required Actions: The Company shall ensure that all claim files fully document claims handling actions, conclusions and the final liability assessments in accordance with Company policies and procedures. The Company shall ensure that its monthly quality assurance testing verifies that all claim files adequately document these matters.

Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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.

Transaction Testing Results:

Findings: RNA noted one bodily injury private passenger automobile claim tested where a written request for liability limits was not provided in violation of M.G.L. c. 175, § 112C. Additionally, for one homeowners claim, where there was fire damage exceeding \$1,000, the Company did not notify the local building commissioner 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.

Required Actions: The Company shall clarify to claims handling personnel that all written requests for liability limits must be provided within 30 days. Further, the Company shall clarify to claims handling personnel that all structure claims exceeding \$1,000 must be reported to the local building commissioner. Finally, the Company shall ensure that its monthly quality assurance testing verifies that claims are properly handled in accordance with these 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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.

Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

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 15 private passenger automobile claims, two homeowners claims and six workers' compensation claims for testing. RNA evaluated whether the Company handled each claim timely and properly before closing or denying it.

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.

Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.

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 to require 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 requiring 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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: Except for one private passenger automobile claim tested where the Company did not issue an excess of loss letter to the insured, notifying the insured of exposure exceeding policy limits, the use of reservation of rights and excess of loss letters was appropriate. 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.

Required Actions: The Company shall clarify to claims handling personnel the policies and procedures for issuance of excess of loss letters. The Company shall ensure that its monthly quality assurance testing verifies that claims handling personnel appropriately issues an excess of loss letter when the insured has exposure in excess of policy limits.

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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three 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 all applicable tested claims were timely and accurate 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.

Standard VII-14. Loss statistical coding is complete and accurate.

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 reports workers' compensation loss data to the WCRIB in the format required by the WCRIB. Loss data is automatically provided weekly from the Company's claim system at the 18 month anniversary of the loss date and annually thereafter. The WCRIB reviews the loss data submitted for evidence of any loss code errors and communicates any such errors to the Company, which responds to the inquiry.
- The Company provides the WCRIB with periodic data reconciliations, and unless there are large and frequent reconciling items, the WCRIB does not conduct audits of the Company's data. Thus, the WCRIB has not conducted a formal audit of the Company's worker's compensation loss statistical reporting.
- The Company has processes to correct loss data coding errors and to make subsequent 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 50 paid claims, 15 denied or closed-without-payment claims and 15 open claims for testing. Also, RNA selected homeowners claims including eight paid claims, two denied or closed-without-payment claims and five open claims for testing. Finally, RNA selected workers' compensation claims including six paid claims, six denied or closed-without-payment claims and three open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete. RNA also reviewed the most recent CAR audit report issued in 2008 on the Company's compliance with CAR statistical coding requirements for key loss data determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. The CAR audit report indicated the Company generally codes private passenger automobile loss data accurately. 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.

Recommendations: None.

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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 2010 *NAIC Market Regulation Handbook*, 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 all sections except Policyholder Service.

ACKNOWLEDGEMENT

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

The undersigned's participation in this comprehensive 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), administration and preparation of the comprehensive examination report.

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

Matthew C. Regan III
Director of Market Conduct &
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts