

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

**Division of Insurance**

*Report on the Examination of the*  
*Liberty Mutual Personal Insurance Company*  
*Boston, Massachusetts*  
*As of December 31, 2009*

**NAIC GROUP CODE: 0111**

**NAIC COMPANY CODE: 12484**

**EMPLOYER'S ID NUMBER: 04-1023460**

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
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May 31, 2011

The Honorable Joseph Torti, III, Chairman  
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Honorable Commissioners and Superintendents:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 175,  
Section 4, an examination has been made of the financial condition and affairs as of December  
31, 2009 of the

**LIBERTY MUTUAL PERSONAL INSURANCE COMPANY**  
Boston, Massachusetts

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

### SCOPE OF EXAMINATION

Liberty Mutual Personal Insurance Company (hereinafter referred to as "LMPICO" or the "Company") has not previously been examined. The current association examination covers the intervening period from January 1, 2006 through December 31, 2009, and any material transactions and/or events occurring subsequent and noted during the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance (the "Division") in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2010 Edition of the *NAIC Financial Condition Examiner's Handbook*, the examination standards of the Division, and with Massachusetts General Laws. Representatives from the firm of PricewaterhouseCoopers LLP ("PWC") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. This assistance included a review of accounting records, information technology systems, taxes and investments. Examination procedures performed by PWC were reviewed and approved by the Division. PwC was also engaged to conduct concurrent examinations of Liberty Mutual Insurance Company ("LMIC"), Liberty Mutual Mid-Atlantic Insurance Company, and Montgomery Mutual Insurance Company. Each of those examinations is the subject of separate reports.

Substantial examination work performed on LMIC provided coverage in certain Liberty Mutual "Corporate" functions (i.e., Corporate Governance, Internal Audit, Investment Management/Treasury, and Related Party Transactions) which are centralized and provide services to all members of the holding company system. This exam work was leveraged and incorporated to every extent possible in the examination of LMPICO to avoid duplication of effort.

The principal focus of the examination was 2009 activity however transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The risk focused approach requires that the examination team plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC Annual Statement Instructions and applicable domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

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

The Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm, in accordance with 211 CMR 23.00. The firm expressed an unqualified opinion on the Company's statutory financial statements for each of the years under examination. E&Y's audit work was evaluated and relied upon where deemed appropriate and effective. The work of the Company's internal auditors was also reviewed and relied upon to the extent deemed appropriate.

## **COMPANY HISTORY**

### **General**

The Company is a wholly owned subsidiary of Liberty Mutual Group Inc. ("LMGI"), a Massachusetts corporation. The ultimate parent of LMGI is Liberty Mutual Holding Company Inc. The Company was licensed to write business in Massachusetts only effective January 1, 2006, however, it has not commenced underwriting operations to date.

### **Capital Stock**

The Company has 7,000 shares of capital common stock authorized, issued and outstanding as of December 31, 2009. All shares have a stated par value of \$100. All outstanding shares are held by LMGI.

### **Paid In and Contributed Surplus**

The Company received a surplus contribution from LMGI in 2006 for \$3,600,000.

## **TERRITORY & PLAN OF OPERATION**

The Company is a member of the Liberty Mutual Group (the "Group"). The Group is a diversified international group of insurance companies, and as a group is the 5th largest property and casualty insurer in the United States, based on direct premiums written.

As of December 31, 2009, the Company had in place a 100% quota share agreement with LMIC. Effective January 1, 2010, the Company terminated the quota share agreement and became a participant in the Liberty Mutual Inter-Company Reinsurance Agreement with a 0.00% pool participation percentage. Although the Company has been licensed to write business only in Massachusetts since 2006, the Company commenced any underwriting operations in 2010.

### **Growth of Company**

The financial position of the Company for the years 2006 through 2009 is shown in the following schedule, which was prepared from the Company's statutory Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Direct Premium Written</u>	<u>Net Income (Loss)</u>	<u>Capital and Surplus</u>
2009	\$4,680,242	\$0	\$26,333	\$4,679,760
2008	4,653,908	0	86,899	4,653,907
2007	4,632,619	0	150,472	4,568,879
2006	4,478,406	0	116,406	4,416,406

### **MANAGEMENT, CONTROL AND CORPORATE GOVERNANCE**

#### **Board of Directors**

The Company is managed by a Board of Directors which is controlled by the parent company and owner of all outstanding stock, LMGI. The following list represents the Directors of the Company as of December 31, 2009, many of which hold positions as Company officers.

<u>Director</u>	<u>Title</u>
Timothy M. Sweeney	Chairman of the Board, President and Chief Executive Officer
Dexter R. Legg	Vice President and Secretary
Laurance H. S. Young	Vice President and Treasurer
Melanie M. Frey	Vice President
Margaret Dillon	Vice President and Chief Financial Officer
Edward J. Gramer, III	Vice President
Stephen J. McAnena	Vice President
Elizabeth J. Morahan	Vice President and General Counsel
Dennis J. Langwell	Vice President

The following individuals held positions as officers of the Company in addition to the directors listed above:

<u>Officer</u>	<u>Title</u>
----------------	--------------

John D. Doyle  
Gary J. Ostrow

Vice President and Controller  
Vice President

### **Conflict of Interest**

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

- The Code of Business Ethics and Conduct
- A report on the Group's (including LMPICO's) conflict of interest disclosures, analyzing the responses to the disclosure forms provided to elected officers, key employees and Directors during the 2010 annual disclosure process.

### **Management Continuity and National Emergency**

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

### **Corporate Records**

#### *Board of Directors Minutes*

The minutes of the Board of Directors meetings for the period under examination were read. The review indicated that all meetings were held in accordance with the laws of the Commonwealth of Massachusetts.

### **AFFILIATED COMPANIES**

The following abbreviated listing illustrates the ownership chain of the Company as of December 31, 2009:

Liberty Mutual Holding Company Inc.  
LMHC Massachusetts Holdings Inc.



Liberty Mutual Group Inc.  
**Liberty Mutual Personal Insurance Company**

**RELATED PARTY AGREEMENTS**

The Company is a party to an investment management agreement with LMIC, under which LMIC provides investment services to the Company.

In 2009, the Company entered into a Federal Tax Sharing Agreement with LMIC and affiliates. The method of federal income tax allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to receive prior year payments in the event of future losses.

Effective January 1, 2010, LMPICO terminated its 100% Quota Share Reinsurance Agreement with LMIC and became a participant in the Liberty Mutual Inter-Company Reinsurance Agreement with a 0.00% Pool Participant Percentage.

**FIDELITY BOND AND OTHER INSURANCE**

The Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws, Chapter 175, Section 60. The aggregate limit of liability on these policies is in excess of NAIC suggested minimum amounts for fidelity insurance. The Company is also a named insured, with other subsidiaries and affiliates on policies with external carriers that provide coverage for aircraft liability, excess umbrella and property damage. The excess umbrella policies are with external carriers however, the lead umbrella carrier is Liberty Insurance Corporation. All policies evidencing the above coverage's were with licensed and or authorized carriers in Massachusetts and were in force at December 31, 2009.

**PENSION AND INSURANCE PLANS**

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences, or other post retirement benefit plans.

**REINSURANCE**

As noted previously, the Company had in place as of the examination date a 100% quota share agreement with LMIC, which was terminated as of December 31, 2009, and effective January 1, 2010, became a member of the Liberty Mutual Inter-Company Reinsurance Pool. Its participation percentage is zero. The Company is yet to conduct any underwriting activity, and therefore has no written premium or loss experience.



## ACCOUNTS AND RECORDS

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

All accounting entries have specific elements for company and statutory accounting basis. These elements serve as the basis for proper posting to the appropriate entity and accounting basis. Additionally, information is broken down into the appropriate segment, line of business and cost center. Cost center information is used to capture expense information and then to allocate those expenses to various reporting entities by ratios determined by line of business and function.

The core financial application systems including general ledger, accounts payable, payroll and cash disbursements run on an IBM Mainframe (z/OS) infrastructure. The core insurance administration systems run on IBM Mainframe and various Unix and Windows distributed infrastructure.

In addition to the mainframe, the Company operates in a multi-vendor distributed environment including Hewlett Packard UNIX, IBM AIX and Sun Solaris for various applications including investment management and pension and 401(k) administration. Local area network systems are used widely throughout the organization at the home office, field services, and for real estate processing.

The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by Ernst and Young LLP ("E&Y"), independent certified public accountants.

No material deficiencies were noted in the Company's accounts and records in the course of this examination.

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

## FINANCIAL STATEMENTS

The Financial Statements section includes the following, as determined by our examination: Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009; Statement of Income, Capital and Surplus for the Year Ended December 31, 2009; and a Reconciliation of Capital and Surplus for Each Year in the Four Year Period Ended December 31, 2009.

The financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC, as of December 31, 2009.

**Liberty Mutual Personal Insurance Company**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**as of December 31, 2009**

	Per Company	Examination Changes	Per Examination
<b>Assets</b>			
Bonds	\$2,996,911	\$0	\$2,996,911
Cash on hand and on deposit	1,653,385		1,653,385
Subtotals, cash and invested assets	4,650,296		4,650,296
Investment income due and accrued	8,369		8,369
Current federal and foreign income tax recoverable and interest thereon	21,577		21,577
Total Assets	\$4,680,242	\$0	\$4,680,242
<b>Liabilities, Surplus and Other Funds</b>			
Net deferred tax liability	350		350
Payable to parent, subsidiaries and affiliates	132		132
Total Liabilities	482		482
			0
Capital stock	700,000		700,000
Gross paid in and contributed surplus	3,600,000		3,600,000
Unassigned funds (surplus)	379,760		379,760
Surplus as regards policyholders	4,679,278		4,679,278
Total liabilities and policyholder surplus	\$4,679,760	\$0	\$4,679,760

**Liberty Mutual Personal Insurance Company**  
**Statement of Income, Capital and Surplus**  
**For the Year Ended December 31, 2009**

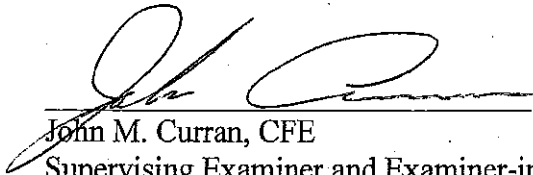
	Per Company	Examination Changes	Per Examination
<b>Investment Income</b>			
Net investment income earned	\$39,983	\$0	\$39,983
Net investment gain or (loss)	39,983	0	39,983
Net income before dividends to policyholders and before federal income taxes	39,983		39,983
Foreign and federal income taxes incurred	13,650		13,650
Net income	<u>\$26,333</u>	<u>\$0</u>	<u>26,333</u>
<b>Capital and Surplus Account</b>			
Surplus as regards policyholders, December 31 prior year	653,777	\$0	\$4,653,777
Net income	26,333		26,333
Change in net deferred income tax	(350)		(350)
Change in surplus	<u>25,983</u>	<u>0</u>	<u>25,983</u>
Surplus as regards policyholders, December 31 current year	<u>\$4,679,760</u>	<u>\$0</u>	<u>\$4,679,760</u>

**Liberty Mutual Personal Insurance Company**  
**Reconciliation of Capital and Surplus**  
**For Each Year in the Four Year Period Ended December 31, 2009**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Surplus as regards policyholders, December 31 previous year	\$4,653,777	\$4,566,878	\$4,416,406	\$4,300,000
Net income (loss)	26,333	86,899	150,472	116,406
Change in net deferred income taxes	(350)			
Capital changes: Paid in				700,000
Surplus adjustments: Paid in				3,600,000
Change in surplus	<u>25,983</u>	<u>86,899</u>	<u>150,472</u>	<u>4,416,406</u>
Surplus as regards policyholders, December 31 current year	<u>\$4,679,760</u>	<u>\$4,653,777</u>	<u>\$4,566,878</u>	<u>\$4,416,406</u>

### ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.



John M. Curran, CFE  
Supervising Examiner and Examiner-in-Charge  
Commonwealth of Massachusetts  
Division of Insurance  
Representing Northeastern Zone, NAIC

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