

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

SUFFOLK, ss.

Docket No. G-2005-07

IN THE MATTER OF THE REQUEST OF

LIBERTY MUTUAL FIRE INSURANCE COMPANY,
A MASSACHUSETTS DOMESTIC STOCK INSURANCE COMPANY,

TO REDOMESTICATE TO THE STATE OF WISCONSIN

MEMORANDUM OF DECISION AND ORDER

On November 10, 2005, Liberty Mutual Fire Insurance Company (“LMFIC” or the “Company”), a Massachusetts domestic stock insurance company, filed a written request with the Massachusetts Division of Insurance (“Division”) for approval to change its domiciliary state from Massachusetts to Wisconsin, pursuant to M.G.L. c. 175, § 49A. LMFIC is one of three wholly-owned subsidiary insurance companies of Liberty Mutual Group Inc. (“Group”), a Massachusetts corporation, which in turn is a wholly-owned subsidiary of LMHC Massachusetts Holdings Inc., a Massachusetts corporation, which is a wholly-owned subsidiary of Liberty Mutual Holding Company Inc., a Massachusetts mutual holding company.

On December 8, 2005, following published notice in the Boston Globe on November 17, 2005 and the Standard on November 25, 2005, the Division conducted a public informational hearing before designees of the Commissioner of Insurance

(“Commissioner”), Douglas J. Perry, Counsel to the Commissioner, and Elizabeth B. Brodeur, Deputy General Counsel, at it offices, to consider whether the request of LMFIC was not in the interest of the policyholders of the Commonwealth. Pursuant to M.G.L. c. 175, § 49A, “...[a]ny domestic insurer may upon approval of the commissioner, transfer its domicile to any other state in which it is admitted to transact the business of insurance, and upon such transfer shall cease to be a domestic insurer, and shall be admitted to the commonwealth, if qualified, as a foreign insurer. Said commissioner shall approve any such proposed transfer unless he shall determine such transfer is not in the interest of the policyholders of the commonwealth.”

Three persons appeared at the public hearing to offer testimony or comment on the proposed redomestication: Richard Quinlan, Esq., Vice President of LMFIC; Barbara Petersen, Esq., Counsel to the Commissioner; and Jason Adkins, Esq., a representative of a policyholder of Liberty Mutual Holding Company, Inc. and also possibly the representative of a policyholder of LMFIC.

Mr. Quinlan read a statement into the record in support of the Company’s request for approval to redomesticate to the State of Wisconsin. In addition to these prepared remarks, Mr. Quinlan adopted, as part of his sworn testimony, the Company’s application of November 10, 2005, along with four (4) additional letters from LMFIC to the Commissioner of Insurance (“Commissioner”) that had been submitted to the docket in this matter setting forth the Group’s charitable endeavors, real estate investments and impact on Group employees; details on the Company’s current and projected retaliatory tax burden; the charitable giving commitments of The Liberty Mutual Foundation, Inc.;

and a comparison of various Massachusetts and Wisconsin insurance laws and regulations.

Ms. Petersen testified that a representative of the Wisconsin Office of the Insurance Commissioner had indicated to the Division that LMFIC's application to become a domestic insurer of Wisconsin will eventually be approved, although he could not provide a date certain upon which that would occur. As such, Ms. Petersen requested that the Commissioner's approval of LMFIC's request to redomesticate be contingent on the Company's receipt of approval from the Wisconsin Office of the Insurance Commissioner. Ms. Petersen further indicated that the Division is prepared to license LMFIC as a foreign insurer, if, in fact, Wisconsin licenses the Company as a domestic insurer.

Mr. Adkins, who said he had not reviewed LMFIC's written request for redomestication, raised a number of general questions and issues related to the proposed transaction. Mr. Adkins testified, however, that he was not opposed to the Company's request to redomesticate to Wisconsin.

The Presiding Officers gave LMFIC until the close of business on December 9, 2005 to file a written response to Mr. Adkins comments, if it desired, and the hearing record remained open until that time. No one else at the hearing volunteered to comment on the proposed redomestication after being given an opportunity to do so.

No one opposed the subject redomestication.

On December 9, 2005, Mr. Quinlan filed a written response on behalf of LMFIC to questions raised at the public hearing.

Sufficient facts exist on the record to support a finding that LMFIC's proposed redomestication from Massachusetts to Wisconsin is not contrary to the interest of the policyholders of the commonwealth. Some of the facts supporting this finding are as follows: Annually LMFIC sustains a "retaliatory tax" burden imposed by many of the other states because of the relatively high premium-tax rate in Massachusetts. The projected "retaliatory tax" burden for 2005 is approximately \$15 million. Even though these sister states' premium-tax rate may be lower than in Massachusetts, they charge LMFIC the Commonwealth's higher rate. By redomesticating to Wisconsin, which has a particularly favorable tax rate, this "retaliatory tax" burden will disappear. On the other hand, the premium tax LMFIC pays to Massachusetts would not be reduced. In fact, Massachusetts would receive approximately an additional \$4 million annually because of the elimination of LMFIC's retaliatory-tax credit.

LMFIC in 2004 wrote approximately 17 per cent (approximately \$69.8 million) of Group's Massachusetts personal lines property-casualty premium, far less than its sister stock company Liberty Mutual Insurance Company with approximately \$344.6 million.

LMFIC currently has approximately 111,000 personal lines policyholders and 9,000 commercial lines policyholders in Massachusetts, out of approximately 3,075,000 total policyholders.

LMFIC is aware of no outstanding market-conduct or financial-examination issues.

In addition, the move to Wisconsin would have no adverse impact on policyholder interest because:

--LMFIC will continue to participate in the intercompany reinsurance pool, giving the Division authority to continue its financial oversight along with other pool participants;

--Policyholder services will remain the same because no reduction in employees or offices in Massachusetts is contemplated;

--Equity rights of policyholders, as members of Liberty Mutual Holding Company Inc., will continue unchanged;

--As the Wisconsin Office of the Commissioner of Insurance is accredited by the National Association of Insurance Commissioners, it has the same or similar regulatory authority over LMFIC as Massachusetts, which will continue to regulate the company in its admitted foreign-insurer status;

--LMFIC's competitive efficiency, along with company surplus, will increase due to the tax savings.

Finally, the Group contemplates no changes in its plans to purchase additional real estate adjacent to its current Boston headquarters on Berkeley Street, to continue its five-year commitment to sponsor Boston's July 4th celebration on the Esplanade, or to diminish its charitable giving in Massachusetts.

After careful consideration of the entire record of this proceeding, including all oral testimony and comment, exhibits and other documentary submissions to the docket, the Presiding Officers conclude that LMFIC's request for approval to transfer its domicile to the State of Wisconsin, pursuant to M.G.L. c. 175, § 49A, is not contrary to the interest of the policyholders of Massachusetts. Consequently, and subject to the approval of the Office of the Commissioner of Insurance of the State of Wisconsin,

LMFIC's request for approval to transfer its domicile to the State of Wisconsin is

APPROVED.

Douglas J. Perry
Presiding Officer

Elizabeth B. Brodeur
Presiding Officer

Dated: December 21, 2005

AFFIRMED:

Julianne M. Bowler
Commissioner of Insurance

Dated: December 21, 2005