

REPORT ON
THE MARKET CONDUCT EXAMINATION

OF

Liberty Mutual Fire Insurance Company
NAIC Company Code: 23035

As of

June 30, 2006

State of Rhode Island
Department of Business Regulation
Insurance Division

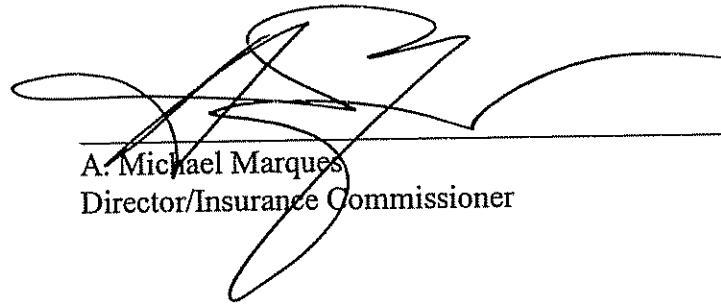
**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION**

The attached Report of Examination as of June 30, 2006 of the market conduct condition and affairs of Liberty Mutual Fire Insurance Company was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operations of Liberty Mutual Fire Insurance Company and their market conduct condition as reflected from the examination report.

It is therefore ORDERED that said Report be, and it is hereby adopted and filed and made an official record of this department as of this date.

DEPARTMENT OF BUSINESS REGULATION



A. Michael Marques
Director/Insurance Commissioner

ORDER NO. 07-142

DATED: May 22, 2007

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Providence, Rhode Island

April 11, 2007

Honorable A. Michael Marques
Insurance Commissioner
State of Rhode Island

Commissioner:

In accordance with your instructions, and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

Liberty Mutual Fire Insurance Company

175 Berkley Street

Boston, Massachusetts 02117

Hereinafter referred to as the "Company". The examination was conducted at the Company's office, located at 245 Waterman Street, Providence, Rhode Island.

FOREWORD

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination has been omitted from the report unless error ratios of 3% or higher, or any improprieties were evidenced.

SCOPE OF EXAMINATION

Authority for this examination is provided by R.I. Gen. Laws §27-13-1 and §27-13.1-3. The examination covered the period from January 1, 2005 through June 30, 2006, and was conducted in accordance with standards established by the National Association of Insurance Commissioners, and procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed a review of the following areas: Consumer or Other Related Complaints, Underwriting, Claims, Cancellations and Nonrenewals. The lines of business reviewed were Private Passenger Automobile and Homeowners.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island General Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation, on a test basis, of information contained in the insurer's files.

PROFILE OF COMPANY

History

The Company was incorporated October 31, 1908 under the laws of Massachusetts as “United Druggists Mutual Fire Insurance Company.” The word “Druggist” was deleted from its title in 1918 and the present name was adopted on December 15, 1949. On March 19, 2002, the Company reorganized from a mutual insurance company to a stock insurance company as part of a mutual holding company structure. In 2005, the company transferred its domicile from Massachusetts, becoming a Wisconsin stock insurance company. The operational organization is divided into fifteen geographical divisions with over 300 branch offices coast to coast, including Alaska and Hawaii.

Operations

The Company’s Rhode Island direct written premium for the year 2005 was as follows:

<u>Line of Business</u>	<u>Written Premium</u>
Other Private Passenger Auto Liability	\$19,579,000
Private Passenger Auto Physical Damage	9,347,000
Homeowners multiple peril	<u>12,163,000</u>
	<u>\$41,089,000</u>

Management

At December 31, 2005, the Directors of the Liberty Mutual Fire Insurance Company were as follows: James Paul Condrin, III, Dennis James Langwell, Anthony Alexander Fontanes, David Henry Long, Edmund Francis Kelly, Christopher Charles Mansfield and Thomas Crawford Ramey.

The officers at December 31, 2005 were as follows: Edmund Francis Kelly (President), Laurance Henry Soyer Yahia (Treasurer) and Dexter Robert Legg (Secretary).

CLAIMS

Homeowners Paid Claims

A review of the Company's homeowners paid claim practices was conducted to determine whether actions taken by the Company were in compliance with R.I. Gen. Laws §27-5-3, §27-9.1-4, §27-29, §27-57, and Rhode Island Insurance Regulation 73. The review was also performed to determine whether the Company was in compliance with its own claims procedures, that claims were paid in accordance with the Company guidelines and the appropriate provisions of the applicable policy contract, and to verify that claim files contained proper documentation.

The Company provided the examiners with a listing of 1065 homeowners paid claims processed during the period under examination. From this listing, a sample of 111 claim files was selected for review. The selection of the sample files was based on established NAIC sampling criteria.

Based on the examination work performed, the examiners noted 23 files that did not comply with Rhode Island Insurance Regulation 73, Section 5.D, which requires that every insurer, upon receiving notification of a claim from a claimant shall, within 10 days, acknowledge the receipt of such notice in writing.

Recommendation #1: It is recommended that the Company monitor homeowners paid claims to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners claims of the requirements of Rhode Island Insurance Regulation 73, Section 5.D.

Homeowners – Claims Closed Without Payment

A review of the Company's homeowners closed without payment claims practices was conducted to determine whether actions taken by the Company were in compliance with R.I. Gen. Laws §27-5-3, §27-9.1-4, §27-29 and Rhode Island Insurance Regulation 73. The review was also performed to determine whether the Company was in compliance with its own claims procedures, to verify that claim files contained proper documentation, and that claims were paid in accordance with the Company guidelines and the appropriate provisions of the applicable policy contract.

The Company provided the examiners with a listing of 576 homeowners claims closed without payment, processed during the period under examination. From this listing, a sample of 102 claim files was selected for review. The selection of the sample files was based on

established NAIC sampling criteria.

Based on the examination work performed, the examiners noted 9 files that did not comply with Rhode Island Insurance Regulation 73, Section 5.D, which requires every insurer, upon receiving notification of a claim from a claimant shall, within 10 days, acknowledge the receipt of such notice in writing.

Recommendation #2: It is recommended that the Company monitor homeowners claims closed without payment to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners claims of the requirements of Rhode Island Insurance Regulation 73, Section 5.D.

Based on the examination work performed, the examiners noted 4 files that did not comply with Rhode Island Insurance Regulation 73, Section 6.A, which requires the insurer to provide written notice of a claim denial to the insured within 15 days of receipt of a properly executed proof of loss.

Recommendation #3: It is recommended that the Company monitor homeowners claims closed without payment to ensure compliance with Rhode Island Insurance Regulation 73, Section 6.A. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners claims of the requirements of Rhode Island Insurance Regulation 73, Section 6.A.

CANCELLATIONS AND NONRENEWALS

Private Passenger Automobile Cancellations

A review of the Company's private passenger automobile cancellation practices during the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policies and was in compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Company provided the examiners with a listing of 59 cancellations which consisted of 52 cancellations for non-payment of premium and 7 company initiated cancellations. The examiners reviewed all 59 cancellations.

Based on the examination work performed, the examiners noted that 3 policy cancellation notices for non-payment of premium did not contain the mandatory Financial Security statement as required by R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the examiners noted that the Financial Security statement was printed in 11 point type face on the 2 company initiated cancellations, which is not in compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16, which require the Financial Security statement to be in a type face not smaller than 12 point.

Recommendation # 4: It is recommended that the Company monitor their private passenger automobile cancellation processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile cancellations of the

requirements of R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

Private Passenger Automobile Nonrenewals

A review of the Company's private passenger automobile nonrenewal practices during the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policies, R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Company provided the examiners with a listing of eight company initiated nonrenewals. The examiners reviewed all eight of the nonrenewals. The Company advised that one of the policies was listed in error, which reduced the population to seven files.

Based on the examination work performed, the examiners noted that the Financial Security statement was printed in 11 point type face on all of the nonrenewal files, which is not in compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16 which require the Financial Security statement to be in a type face not smaller than 12 point.

Recommendation # 5: It is recommended that the Company monitor their private passenger automobile nonrenewal processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile nonrenewals of the requirements of R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

Homeowners Cancellations and Nonrenewals

A review of the Company's homeowners cancellation and nonrenewal practices was conducted to assess whether the company was in compliance with the applicable provisions of its homeowners policy, and the applicable Rhode Island General Laws, and that the company did not misrepresent the policyholder's rights.

The Company provided the examiners with a listing of 78 homeowners cancellations and 22 nonrenewals processed during the period under examination. The examiners selected all policies for review.

Based on the examination work performed, the examiners noted 4 files that did not provide the insureds with a notice of cancellation at least 30 days prior to the cancellation as required by R.I. Gen. Laws §27-5-3.

Recommendation # 6: It is recommended that the Company monitor their homeowners cancellation processing to ensure compliance with R.I. Gen. Laws §27-5-3. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners cancellations of the requirements of R.I. Gen. Laws §27-5-3.

Rec. #	Summary of Recommendations	Page #
1	It is recommended that the Company monitor homeowners paid claims to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners claims of the requirements of Rhode Island Insurance Regulation 73, Section 5.D.	7
2	It is recommended that the Company monitor homeowners claims closed without payment to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners claims of the requirements of Rhode Island Insurance Regulation 73, Section 5.D.	8
3	It is recommended that the Company monitor homeowners claims closed without payment to ensure compliance with Rhode Island Insurance Regulation 73, Section 6.A. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners claims of the requirements of Rhode Island Insurance Regulation 73, Section 6.A.	8

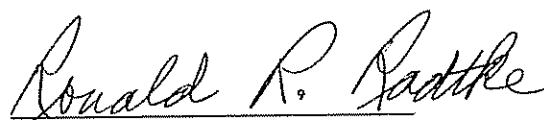
Rec. #	Summary of Recommendations	Page #
4	It is recommended that the Company monitor their private passenger automobile cancellation processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile cancellations of the requirements of R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.	9
5	It is recommended that the Company monitor their private passenger automobile nonrenewal processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile nonrenewals of the requirements of R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.	10
6	It is recommended that the Company monitor their homeowners cancellation processing to ensure compliance with R.I. Gen. Laws §27-5-3. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowners cancellations, of the requirements of R.I. Gen. Laws §27-5-3.	11

CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Assisting the undersigned in the conduct of this examination was Robert G. Arrow, FLMI, Senior Market Conduct Examiner and Dorothy E. Wendoloski, CFE, Senior Examiner.

Respectfully submitted,



Ronald R. Radtke
Senior Market Conduct Examiner
Rhode Island Insurance Division



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April 3, 2007

Ms. Sharon K. Gordon, CPA, CFE
Chief Insurance Examiner
State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division
233 Richmond Street, Suite 233
Providence, RI 02903-4233

**RE: Liberty Mutual Fire Insurance Company -
Draft Report of Market Conduct Examination**

Dear Ms. Gordon:

The draft report you sent me on March 19, 2007 has been reviewed by the relevant personnel. Attached is our response to each of the seven Recommendations. We concur with the facts as stated with one exception, as explained under Recommendation 1.

Though we will be more specific in our reply to the final report, I was heartened to learn that most of the infractions cited under Regulation 73, Section 5.D. were oversights since personal (versus written) contact was made within those 10 days.

Sincerely,

Mark Plesha, CPCU, AIS
Regional Director
Market Conduct Services

**RHODE ISLAND
MARKET CONDUCT EXAMINATION
LIBERTY MUTUAL FIRE INSURANCE COMPANY
RESPONSE TO SUMMARY OF RECOMMENDATIONS**

Recommendation 1

We agree that 3 vehicles on the 119 policies selected for review did not contain the correct symbol. During the course of the exam, we agreed that all 6 vehicles noted in the examiner's memo dated 2/21 were in error. However, we continued to review these errors and subsequently discovered proof that shows 3 of the 6 vehicles were rated with the proper symbol. I am enclosing ISO symbol pages from the time the policy was written that show the symbol was correct when written. In these 3 instances, the symbol changed from the time the policy was written until now. We respectfully request the following three policies be removed from the report;

AO2-218-239519-21 (\$9)
AO2-218-249941-21 (undercharge)
AO2-218-061049-70 (\$24)

We previously refunded \$33 to these policyholders, as shown above. We will let these refunds stand. Of the remaining 3 symbol errors, 2 resulted in refunds totaling \$83 and the other was an undercharge that resulted in no refund. We processed the overcharge adjustments retrospectively and they have been completed. We will process the undercharge prospectively on renewal. We would note that our automated symbol assignment process resulted in the vast majority of vehicles being rated with the correct symbol.

Recommendation 2

Out of 111 files reviewed; 23 exceptions were found where there wasn't a 10 day acknowledgement letter sent to the policyholder. Following company practice and procedure, phone contact was made with the policyholder, at which time the claim process was explained to the insured, well within 10 days.

Recommendation 3

Out of 102 files reviewed that were closed without payment; 9 files did not have an acknowledgement letter sent to the policyholder. Phone contact was made and the claim process was explained within 10 days.

Recommendation 4

Out of 102 files reviewed, 4 files did not have a denial letter sent within 15 days after receipt of the Proof of Loss. It is company policy that formal letters must be sent on all RI claim denials within 15 days.

Corrective Actions for Recommendations #2, #3, and #4:

The Danvers Central Property Unit Management staff is taking corrective action to ensure future compliance. The following actions/guidelines have been implemented:

- A permanent automatic system generated R.I. acknowledgement letter will be developed and forwarded to HO for immediate installation.
- In the meantime, we will have the current R.I. contact letter free formatted in our Claims system, and sent on all R.I. claims reported.
- In our Claims system, a miscellaneous notification will be sent to the Team Managers for the Property Loss Specialist staff, and Customer Claims Representative's Supervisor for CCR staff on all received RI claims. Each file will be reviewed for statutory compliance at 10 days. We will continue this practice until we are certain that the claim reps are routinely following these requirements.
- Memorandum and training will be given for all Danvers Central Property Unit staff on RI requirements.
- Denial letters will be sent on all RI claim denials within 15 days. Team Managers will review and approve all denial letters.
- Internal closed file review (50 files) on or about 6/1/07 on RI claims received. Follow up closed file review in September, as necessary.
- On future catastrophes, management will notify the Centralized Catastrophe Unit of RI requirements, especially the contact letter requirement.

Recommendation 5

We agree that 3 non-pay cancellations did not contain the mandatory Financial Security statement required by R.I. Gen. Laws § 31-47-4 and Rhode Island Insurance Regulation 16. These 3 non-pay cancellations were processed from a since retired computer billing system. The non-pay cancellations processed from our new computer billing system were found to contain the mandatory Financial Security statement. We also acknowledge that the Financial Security statement on the 2 company initiated cancellations was not printed in the required 12 point typeface. This font size of the mandatory notice has since been corrected.

Recommendation 6

We agree that the mandatory Financial Security statement, as prescribed above, was not printed in the required 12 point typeface on automobile non-renewal notices. The font size of the mandatory notice has since been corrected.

Recommendation 7

We agree that we did not provide insureds with the required 30-day notice on 4 homeowner cancellations. We have re-trained the appropriate personnel on the required number of days notice that must be given when cancelling a Rhode Island homeowner policy.