



Report on

Market Conduct Examination

of the

Liberty Mutual Insurance Company
LM Insurance Corporation
Liberty Mutual Fire Insurance Company

Boston, Massachusetts

by Representatives of the
North Carolina Department of Insurance

as of

July 30, 2021

TABLE OF CONTENTS

SALUTATION1

SCOPE OF EXAMINATION3

EXECUTIVE SUMMARY3

POLICYHOLDER TREATMENT4

 Privacy of Financial and Health Information4

MARKETING PRACTICES4

 Policy Forms and Filings4

UNDERWRITING AND RATING5

 Overview5

 Personal Automobile5

 Homeowners6

CLAIMS PRACTICES8

 Overview8

 Paid Claims8

 First and Third-Party Bodily Injury Paid Claims9

 Closed Without Payment Claims9

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES9

CONCLUSION 10

Raleigh, North Carolina
July 30, 2021

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Dana Popish Severinghaus
Acting Director of Insurance
Department of Insurance
State of Illinois
320 West Washington Street
Springfield, Illinois 62767-0001

Honorable Gary D. Anderson
Commissioner of Insurance
Division of Insurance
State of Massachusetts
1000 Washington Street, Suite 810
Boston, Massachusetts 02118

Honorable Mark V. Afable
Commissioner of Insurance
Department of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703-3474

Honorable Commissioners and Director:

In accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of the following entities:

Liberty Mutual Insurance Company (NAIC #23043)
LM Insurance Corporation (NAIC #33600)
Liberty Mutual Fire Insurance Company (NAIC #23035)
NAIC Exam Tracking System Exam Number: NC-NC094-25
Boston, Massachusetts
(hereinafter generally referred to as the Companies)

The examination was conducted at the North Carolina Department of Insurance (Department) office located at 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination commenced on June 8, 2020, and covered the period of July 1, 2017, through June 30, 2019. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on June 8, 2021. This action was taken due to market analysis on private passenger automobile and homeowner lines of business. All comments made in this report reflect conditions observed during the period of examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, but rather was a target examination of the Companies' practices and procedures in marketing, underwriting and rating, and claims. The findings and conclusions contained within the report are based on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0% tolerance level for producers/adjusters who were not properly appointed and/or licensed, the use of forms and rates/rules that were neither filed with nor approved by the Department, 7% for claims, and 10% for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing a violation, the Department issues a reminder to the Company.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' procedures and practices in the following areas:

Underwriting and Rating – Personal Automobile: rating errors, and failure to provide proof of residency or eligible risk status. Homeowners: exceeding the consent-to-rate (CTR) threshold on homeowner policies, displaying incorrect homeowner premiums, and use of an unfiled form.

Claims Practices – Permitting an unlicensed adjuster to handle a claim.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site at <https://www.ncdoi.gov/insurance-industry/market-regulation>

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their ability and intention to conduct business in North Carolina according to its insurance laws and regulations.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

POLICYHOLDER TREATMENT

Privacy of Financial and Health Information

The Companies provided privacy of financial and health information documentation for the examiners' review. The Companies exhibited policies and procedures in place so that nonpublic personal financial or health information is not disclosed unless the customer or consumer has authorized the disclosure. The Companies were found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

MARKETING PRACTICES

Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following lines of business:

- Personal Automobile
- Homeowners

Filings for the personal automobile line of business and the homeowners were made by the North Carolina Rate Bureau (NCRB) and the Companies. Personal automobile files reviewed for this examination included both ceded and voluntary coverages.

UNDERWRITING AND RATING

Overview

The Companies' marketing in North Carolina is directed to personal lines of business. The Companies provided the examiners with listings of the following types of active policies for the period under examination:

- Personal Automobile
- Homeowners

A random selection of 100 policies was made from a population of 107,205. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. The policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Personal Automobile

Out of a total population of 60,025 personal automobile policies, 100 policies were selected for review. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. The policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

The Companies' personal automobile policies were written on an annual basis. Coverages were written utilizing manual rates and deviated rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were deemed to be in violation of NCGS 58-36-30(a) as 48 policies (48.0% error ratio) were issued in which the premium had been miscalculated. The rating errors consisted of the following:

- Applying the multi-car credit when not appropriate (1 file)
- Using the wrong territory (1 file)
- Applying the wrong inexperienced operator surcharge (1 file)
- Using incorrect uninsured/underinsured motorists' rates (10 files)
- Using incorrect base rates (8 files)
- Failure to apply the airbag credit (10 files)
- Using the wrong recoupment factor (28 files)

The rating errors resulted in refunds being processed on 31 files. At the request of the examiners, refunds, including statutory interest, were made in the amount of \$668.47.

As a result of the incorrect uninsured/underinsured motorists' rates, the Companies conducted a self-audit. The Companies issued 25,390 refunds totaling \$727,593.04 prior to the conclusion of the examination.

The Companies were deemed to be in violation of the provisions of NCGS 58-2-164(c) & (c1) as 72 personal automobile files (72.0% error ratio) did not include an acceptable document to provide proof of residency or eligible risk status.

Homeowners

Out of a total population of 47,180 homeowner policies, 100 policies were selected for review. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. The policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

The Companies' homeowner policies were written on an annual basis. Coverages were written utilizing manual rates and deviated rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were reminded of the provisions of NCGS 58-36-30(a) as five files (5.0% error ratio) with specified additional amounts of Coverage A (per Rule 407.C.1.) did not display the percentage amount either on the coverage form or on the declarations page. There was no financial impact to the insureds.

The Companies were deemed to be in violation of the provisions of administrative code 11 NCAC 10.0602(b)(2) as the premium on 11 policies (11.0% error ratio) that were consent-to-rate (CTR) exceeded the allowable threshold. Six of those files required refunds. At the request of the examiners, the Companies processed refunds, including statutory interest, in the amount of \$106.93.

The Companies were deemed to be in violation of the provisions of NCGS 58-36-30(a) as 79 policies (79.0% error ratio) were issued with incorrect premiums being displayed either on the consent-to-rate (CTR) form or on the declarations page. Of the 79 policies, 67 were issued on a CTR basis, so it was the North Carolina Rate Bureau (NCRB) premium displayed on the CTR form that was incorrect. Of the remaining 12 files, 8 were undercharges and 4 resulted in overcharges. At the request of the examiners, the Companies processed refunds, including statutory interest, in the amount of \$206.95.

The Companies were deemed to be in violation of the provisions of NCGS 58-3-150(a) as one file (1.0% error ratio) included a coverage for which the Companies could offer no proof that the form and rate for that coverage had been filed with and approved by the Department prior to use.

CLAIMS PRACTICES

Overview

The Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes, rules, and policy provisions. The review encompassed paid, bodily injury, and closed without payment claims.

Three hundred fifty claims were randomly selected from a population of 63,801.

Paid Claims

Two hundred paid first-party physical damage and third-party property damage claims were randomly selected for review from a population of 21,460. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) for timeliness of payment, accuracy of payment, and supporting documentation.

The following types of claims were reviewed and the average payment times are noted in calendar days.

Type of Claim	Payment Time
Automobile Physical Damage	18
Third Party Property Damage	51

Documentation consisted of appraisals, estimates, repair bills, and adjusters' notes. Each file reviewed contained documentation necessary to support the Companies' payments. Deductibles were correctly applied, and depreciation taken was reasonable. The Companies were deemed to be in violation of NCGS 58-33-26(a) as one physical damage claim (1.0% error ratio) was handled by an adjuster that had not been duly licensed. The review of the third-party property damage claims disclosed no violations.

First and Third-Party Bodily Injury Paid Claims

Fifty paid first and third-party bodily injury claims were randomly selected for review from a population of 3,244. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies had engaged in any unfair claims practices. Average investigation times (in days) are noted in the following table.

Type of Claim	Investigation Time
Automobile Bodily Injury	8

The review of the first and third-party bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

One hundred closed without payment claims were randomly selected for review from a population of 39,097. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies' reasons for closing the claims without payment were valid.

All reasons for denial or closing the files without payment were deemed valid. The review of the closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies must obtain and retain acceptable documents to prove residency or eligible risk status for each personal automobile policy. The Companies must properly calculate the premium for each personal automobile policy. The Companies must calculate and display correct homeowners premiums. The Companies must not exceed the consent-to-rate threshold for homeowner policies. The Companies must use properly filed and approved homeowners forms. Only properly licensed adjusters are allowed to handle claims.

Upon acceptance of the Report the Companies shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Companies successfully implemented their statement of corrective action.

CONCLUSION

An examination has been conducted on the market conduct affairs of Liberty Mutual Insurance Company, LM Insurance Corporation, and Liberty Mutual Fire Insurance Company for the period July 1, 2017 through June 30, 2019, with analyses of certain operations of the Companies being conducted through June 8, 2021.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Companies' operations in the areas of anti-fraud (rate evasion), policyholder treatment, marketing practices, underwriting practices, and claims practices.

In addition to the undersigned, Patricia Murphy, AIC, ARM, MCM, North Carolina Market Conduct Examiner II, and Jeffrey O'Bannon, North Carolina Market Conduct Examiner II, participated in this examination.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,
AIAF, AIC, ARC, AAI, MCM
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Teresa Knowles". The signature is written in a cursive style with a large initial 'T' and a long, sweeping underline.

Teresa Knowles, ACS, MCM
Deputy Commissioner
Market Regulation Division
State of North Carolina