

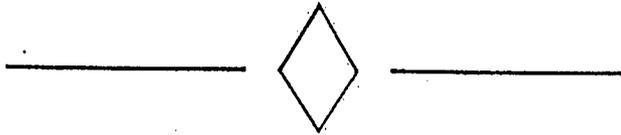
MARKET CONDUCT EXAMINATION
OF
LIBERTY MUTUAL FIRE INSURANCE COMPANY
AS OF APRIL 5, 2005

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of April 5, 2005 of the

LIBERTY MUTUAL FIRE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Antoinette Handy

DATE: 10 January 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 10TH DAY OF JANUARY 2006

Matthew Denn

Insurance Commissioner

Deputy Insurance Commissioner

State of Delaware



MATTHEW DENN
INSURANCE COMMISSIONER

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Department of Insurance

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
LIBERTY MUTUAL FIRE INSURANCE COMPANY
AS OF
April 5, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 10th day of January 2006.

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SALUTATION

June 8, 2005

Honorable Matt Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn;

In compliance with your instructions contained in Certificate of Examination Authority Number 05.710, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

LIBERTY MUTUAL FIRE INSURANCE COMPANY

hereinafter referred to as the "Company" or as "Liberty Mutual." The Company was organized and incorporated under the laws of the State of Massachusetts. This examination reviewed only the operations of Liberty Mutual as they impact residents and policyholders residing in the State of Delaware or claimants involved in losses in or related to Delaware claims. The on-site phase of the examination was conducted as of April 5, 2005 at the following location:

- Regional office located at 1500 Sycamore Rd., Williamsport, PA

Examination work was also done off premises, and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

This report is not intended to condone, endorse or exonerate any of the practices or procedures of the Company reviewed in whole or in part during the examination unless specifically so stated herein.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that were examined under this examination were:

- A. Company Operations/Management
- B. Complaint Handling
- C. Marketing and Sales (Not Tested)
- D. Producer Licensing (Not Tested)
- E. Policyholder Service (Not Tested)
- F. Underwriting and Rating
- G. Claims (Not Tested)

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines. Please note that those standards in the NAIC Market Conduct Examiners Handbook which do not have a Delaware Insurance Code basis, have been omitted from this examination and from the Delaware Market Conduct Examiners Handbook.

The main focus of this examination was to test the Company's compliance with Forms and Rates Bulletin No. 28, Limitations on Nonrenewals or Surcharges on Residential Homeowners Policies.

The examination also focused on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its personnel, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and in results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

This examination report is a report by test rather than a report by exception. This means that all standards tested are described and results indicated.

HISTORY AND PROFILE

Liberty Mutual was incorporated October 31, 1908 under the laws of Massachusetts as "United Druggists Mutual Fire Insurance Company." The word "Druggists" was deleted from its title in 1918. The present name was adopted on December 15, 1949. All contracts have been on a non-assessable basis since 1942. 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.

Practically all lines of insurance, except title, are written by the Company and its companion carriers, including Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation and Liberty Life Assurance Company of Boston. In addition to fire, extended coverage, inland marine and homeowners' policies, available insurance includes allied fire lines, casualty coverage (including automobile and workers' compensation) and commercial multiple peril contracts.

Relations with policyholders are through full-time employees as business is solicited and serviced on a direct dealing basis. The operational organization is divided in to fifteen geographical divisions with over 300 branch offices coast to coast, including Alaska and Hawaii. Broad local authority is delegated to the division office. The Company is also staffed to offer, on a nationwide basis, a complete claim service to policyholders.

The Company is a member or subscriber to Property Casualty Insurers Association of America, Inland Marine Underwriters Association, Insurance Services Office, National Association of Mutual Insurance Companies, National Council on Compensation Insurance and Property Loss Research Bureau.

The Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation and Liberty Insurance Corporation share in one another's business under an inter-company reinsurance arrangement. Liberty Mutual Fire Insurance Company's participation is 10%.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in Chapter VII of the Delaware Market Conduct Examiners Handbook which is based on applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others used a combination or all of the types of review. The types of review used in this examination fall into three general categories. The types of review are: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the Company in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC Market Conduct Examiners Handbook. For statistical purposes, an error tolerance of 7% was used for claims reviews and a 10% tolerance was used for other types of review. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners Handbook for a Property and Casualty Insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the NAIC Market Conduct Examiners Handbook are stated and contained within a bold border.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. A "Result" is indicated and examiner "Observations" are noted. In some cases a

"Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate Standard.

REVIEW OF PROCEDURES

The management of well-run companies generally have some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in failure of the various Standards that follow this section. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution;
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 13 – Complaint handling.

Standards Affected: A8, B1-5

Observations: The Company has a written complaint handling procedure. The procedure is clear and readable and is dated February 2005. No conflict with Delaware statutes and regulations was found.

The Company has a six-step process in which they handle complaints. Step one is the receipt of the complaint, step two is the acknowledgement of the complaint, step three is the investigation of the complaint, step four is the resolution of the complaint, step five is the follow-up after the complaint, and step six is the analysis of complaint trends.

When a complaint is received and all information gathered it is forwarded to the appropriate Manager for handling. The responsible Manager enters the complaint into the eStarBase, through the Regional eStarBase Administrator, reviews regulatory requirements and establishes a due date. Company guidelines require all complaints to be resolved within 10 working days, unless otherwise specified. If the complaint is not immediately resolved, the Manager will acknowledge the complaint with a personalized letter or telephone call within 24 hours of receipt. This action is documented in the eStarBase. The Manager or delegate investigates the complaint, which should be completed within 5 working days. The Manager documents any

findings to the eStarBase Administrator. The Manager coordinates proposed action between departments, and receives approval for proposed resolution of the complaint if needed. The Manager then contacts the complainant within 10 working days of receipt. Complaints received by telephone may be resolved verbally, written confirmation is left up to the manager, but written complaints may initially be resolved verbally but a confirmation must be confirmed in writing. The Manager then documents resolution of the complaint in the eStarBase within 15 working days. The Manger must follow-up and make sure all commitments to the customer have been met, and they make a phone call within 30 days of the receipt of complaint to check for satisfaction and/or feedback in the complaint handling process. The Regional Vice Presidents will monitor performance and take corrective action as needed. Strategic Business Unit (SBU) Management and Presidential Service Team (PST) monitor corporate complaint handling process and performance for adherence to Company policy and standards. Detailed quarterly reports are run by the PST for each Region and are distributed by HO (Home Office) Personal Sales to HO and Region Management. Regional and SBU management develops a course of action to correct the root causes of consumer problems where appropriate. Presidential Service Team will provide assistance to management in analyzing complaint trends.

The Company's Internal Auditing department conducts local office visits and verifies that the complaint handling procedures are being followed. The audits take place several times a year at the Company's offices around the country.

Recommendations: None

Procedure 27 – Underwriting and Selection.

Standards Affected: **A8, H6, J1-15**

Observations: The Company has a written procedure manual for underwriting and selection that is clear and readable. The manual had a version date of March 2004. No conflict with Delaware statutes or regulations was noted.

Underwriting Technicians are measured, in part, on their adherence to the cancellations/non-renewal procedure. A Quality Assurance Team reviews the Underwriting Technician's cancellation and non-renewals on a monthly basis. Adverse findings are communicated to the Underwriting Technician and their Supervisor and steps are taken to correct any deficiencies.

Recommendations: None

Procedure 28 – Cancellation.

Standards Affected: **A5, A8, H9, J10**

Observations: The Company has a written cancellation procedure. The procedure is clear and readable and is dated February 26, 2003. No conflict with Delaware statutes and regulations was found.

The Company's Insurance Assistant refers the policy that meets cancellation standards to the Underwriting Technician. The Underwriting Technician reviews the cancellation/declination manual and the policy to verify the risk meets the cancellation/non-renewal standards. Once the decision is made to cancel the policy, the Underwriting Technician enters the following information into the Automated Cancellation Database: policy number, cancellation type, policy state, check appropriate report indicator and report numbers, effective date and release date. After this is reviewed for accuracy the Underwriting Technician selects submit, which automatically generates an email to Sales notifying them of the cancellation, generates a file comment, and inputs cancellation for computer policies. If the policy is manual, the system generates an email that the Underwriting Technician reviews and sends to Production to cancel the policy.

On the release date of the cancellation letter, the Office Assistant mails the cancellation letter and any additional applicable forms to the customer and mortgage company. The mortgage company copy of the cancellation letter does not include the reason for the cancellation. The cancellation letter is mailed to the insured by certified mail. Mortgage copies are mailed via first class mail. A copy of the cancellation letter and proof of mailing are kept in the Company's Image files.

The Underwriting Technicians are measured, in part, on their adherence to the cancellation/non-renewal procedure. The Company's Quality Assurance Team reviews the Underwriting Technician's cancellations and non-renewals on a monthly basis. Adverse findings are communicated to the Underwriting Technician and their Supervisor and steps are taken to correct any deficiencies.

Recommendations: None

Procedure 29 – Termination.

Standards Affected: **A5, A8, H9, J10-11**

Observations: The Company has a written termination procedure which is covered in the Company's Cancellation process. The procedure is clear and readable and is dated February 26, 2003. Please refer to the Observations on P-28 for more information on the termination procedure.

Recommendations: None

Procedure 36 – Premium Determination.

Standards Affected: **A8, J1**

Observations: The Company has a written premium determination procedure. The procedure is clear and readable and is dated July 2004. No conflict with Delaware statutes and regulations was found.

The Company's process for the determination of a basic premium for a dwelling is as follows: first, determine the Coverage A amount, select the correct rating territory according to the location of the dwelling, select the appropriate base rate for the territory, apply the policy amount curve factor for the Coverage A amount, select the appropriate construction definition, select the Protection Class from the Public Protection Classification Manual, apply the construction/protection class relativity, apply the appropriate Tier factor, apply the SafeHomeowner Program factor and when applicable apply the form factor to the basic premium. Next apply any deductible adjustment factors, credits, charges or premium reductions in accordance with the appropriate rating rule. Finally apply any state surcharges and fees.

The Company's steps for determining the basic premium for tenant and condominium is as follows: first, develop the Personal Property Amount by determining the Actual Cash Value of the property or the Replacement Cost if optional Replacement Cost is purchased, select the correct rating criteria for the insured location, select the construction and number of units within the dwelling or fire division, apply the policy amount curve factor for the amount determined in step 1, apply the factor for the construction, select the Protection Class and apply that, and apply the SafeHomeowner program factor. Finally apply any deductible adjustment factors, credits, charges, premium reduction and any state surcharges and fees.

The Company's raters manually calculate a small number of new business and renewal policies by inputting them in the RIS (Results International Systems) according to the Company's filed and approved Property Rating Manual. The raters utilize the homeowner premium determination pages in the Property Rating Manual when manually rating a policy to ensure adherence to the Company's rating structure. These premium determination pages are used for training purposes and systems testing when new rates are implemented.

The Company's testing team verifies computer and RIS rates whenever a rate change is implemented. They do not sign off until they are confident the rates are accurate. The Company's Assurance team verifies rates for RIS and manually issues transactions daily.

Recommendations: None

Procedure 37 – Quotation.

Standards Affected: **A8, J1**

Observations: The Company has a written quotation procedure. The procedure is clear and readable and has been in place since 1998. No conflict with Delaware statutes and regulations was noted.

The Company has two types of quotations, new business quotations and policy endorsement quotations. The process for a new business quotation is: when a call is taken for a request for a quote, the service representative completes a lead sheet and assigns the lead to the appropriate sales representative. The lead sheet is given to the sales representative to call back to give a quote. There is a standard lead sheet for the region, which is used in taking the lead.

The process for policy endorsement quotations is: upon request, the sales/service office will provide a quotation of the premium impact due to a policy endorsement at the time the customer calls to request a change to the policy or even if only considering a change to the policy. These quotations are usually provided at the time of the customer contact, but if the change would affect a manual coverage or manual policy, the premium impact would be calculated and the customer advised within two business days.

The quotation procedure is monitored weekly by application reviews and telephone monitoring.

Recommendations: None

Procedure 41 – Underwriter Training.

Standards Affected: **A8, J1-8**

Observations: The Company has a written underwriting training procedure manual. The procedure is clear and readable and is dated April 1, 2002. No conflict with Delaware statutes and regulations was found.

The Company's underwriters go through a ten-week training process. The first week of the process, the underwriter will be introduced to their duties and responsibilities of their position as it relates to center roles and basic Underwriting Support Systems. They will also learn about Automobile Insurance. All exposure to the U & P Center will be targeted towards obtaining and applying systems knowledge, job shadow observations, exercise applications, and insurance language fluency. In week two, the underwriter will continue to train on automobile insurance. This is done by gaining an understanding of state prescribed procedures, documentation and practices. This exposure will be targeted towards obtaining and applying systems usage and job shadow observations. During week three, the new underwriter will be trained to conduct purposeful and objective Underwriting tasks as they relate to state specific homeowners insurance. They will be introduced to the homeowner's line of insurance, the exceptions and conditions of the homeowner's policy, the coverage provided, as well as underwriting processes. Methods of training will include review of the Property Underwriting Manual, inspection review, and hands-on experience. In week four the underwriter will continue to learn state specific homeowners insurance. Methods of training will include inspection review and hands-on experience. In week five the underwriter will build upon principals and philosophies introduced in the previous week. They will gain hands-on experience reviewing property inspections. They will transition to the mid-term and renewal reviews and will be exposed to Underwriting Special Handling Codes/Account Restrictions, loss codes, catastrophe losses, non-renewal guidelines and risk modification. Methods of training include review of the Property Underwriting Manual, Declination Manual, and hands-on experience. In week six the underwriter will obtain additional insight into mid-term adverse property conditions and policy changes. The training will include additional review of the Property Underwriting Manual, job shadowing and hands-on experience. In week seven the underwriter will conclude their property training and begin learning the uses and applications of Personal Catastrophe Liability Policies (PCP). Week eight training will be built upon the principles and philosophies introduced the previous week. The training in week nine will emphasize the cancellation and reinstatement processes. The underwriter will also

shadow an experienced Underwriter to obtain insight into the diversity of their new functions. The final week of the underwriters training program, the emphasis is placed on an overall review of all functions learned to date. They will also learn how to handle policyholder complaints and Special Investigative Unit (SIU) referrals for possible fraud.

A training facilitator checks the underwriters work daily in order to provide immediate feedback. The trainer meets weekly with the unit supervisor to review errors and discuss progress. The trainee completes a questionnaire weekly to provide their feedback concerning the training, and the unit supervisor reviews the questionnaire weekly. Daily monitoring concludes when the employee becomes proficient with a particular process. At the conclusion of the training program the new employee is included in quarterly quality assurance reviews. The Company's corporate trainer conducts semi-monthly meeting to discuss underwriting training needs and updates the procedures when needed.

Recommendations: None

Procedure 42 – Underwriting File Documentation.

Standards Affected: **A8, J7**

Observations: The Company has a written underwriting file documentation procedure. The procedure is clear and readable. No conflict with Delaware statutes and regulations was noted.

The Company's file documentation is primarily handled by inputting underwriting comments in UPAS (Underwriting and Production Automated System). The underwriting comment standards are as follows: changes and clarifications made during the property new business process, requests for information from sales such as deficiency notices and responses to these requests, binding violations issued to the sales/service staff, and the referral of a file from one person to another. Any endorsement change for a manual policy is documented in comments as to what change is made and the effective date of the change, computer endorsement review requires underwriting documentation when a change is made that differs from the request form received from sales. Any change made during an electronic pre-renewal (URR) report review is required to be documented in underwriting comments, investigation ordering and results and the notice of intent to cancel or non-renew along with the rescinding of cancellations is documented in underwriting comments along with policyholder complaints.

The Company's Underwriting and Production staff members are measured, in part, on their adherence to the Company's file documentation procedures. A Quality Assurance team reviews files to ensure the file is documented properly. Files are reviewed continuously and results are reported to management through quarterly reports. Prior to the formation of the Quality Assurance team in January of 2005, file documentation review was a part of the quarterly quality control reviews completed by departmental supervisors.

Recommendations: None

A. COMPANY OPERATIONS/MANAGEMENT

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, and presentations made to the Company. This portion of the examination is designed to provide a view of what the Company is and how it operates. This review is not intended to duplicate financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise.

The management of well-run companies generally have some processes that are similar in structure. While these processes vary in details and effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in failure of the various Standards tested throughout the examination.. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

Standard A 09

NAIC Market Conduct Examiners Handbook - Chapter VI, §A, Standard 9.

The Company cooperates on a timely basis with examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b)3.

Comment: Review for this standard is by “generic” methodology. This standard has a direct insurance statutory requirement. This standard is aimed at assuring that the company is cooperating with the state in the completion of an open and cogent review of the company’s operations in Delaware. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

Results: **Pass**

Observations: During the course of the examination Liberty Mutual was provided with 33 Information Requests (IR’s), of which 24 came in on time and 9 came in early. 9 memos and criticisms were issued during the exam and 5 of those were replied to on time with 4 replies that came in early.

Table A9-1 Company Response Time Test

Type	Issued	Received On-Time	Received Early	Overdue	% Pass
Information Request (IR)	33	24	9	0	100%
Memos and/or Criticisms	9	5	4	0	100%
Total	42	29	13	0	100%

Recommendations: None

B. COMPLAINTS/GRIEVANCES

Comments: Evaluation of the Standards in this business area is based on Company response to various information requests (IR items) and complaint files at the Company. 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware definition of a complaint is: "...any written communication primarily expressing a grievance."

Standard B 1

NAIC Market Conduct Examiners Handbook - Chapter XVII. §B, Standard 1.

All complaints or grievances are recorded in the required format on the company complaint register.

18 Del. C. §2304(17); Del. Reg. 101§2.1.7.

Comments: Review for this standard is by "generic" methodology. This standard has a direct insurance statutory requirement. This standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all the complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

Results: **Pass**

Observations: The Company maintains a complaint register accessible via a complaint tracking system called Estarbase and can be tracked company-wide. The system includes a reporting module, Estarview. Complaints in the Personal Market are distributed to the appropriate functional manager (at least one level up from where the problem occurred) with a copy to the Regional General Manager.

The tracking and review of the complaint from receipt to analysis is completed in a six step process. This process is outlined in a complaint handling manual which is accessible company-wide. These six area are as follows: Receipt of Complaint, Acknowledgement of Complaint, Investigation of Complaint, Resolution of Complaint, and Analysis of Complaint Trends.

Recommendations: None

Standard B 2

NAIC Market Conduct Examiners Handbook - Chapter XVII. §B, Standard 2.

The company has adequate complaint/grievance handling procedures in place and communicates such procedures to policyholders.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review for this standard is by “generic”. This standard has a direct insurance statutory requirement. This standard is concerned with whether the company has an adequate complaint handling procedure and whether the company communicates complaint handling procedures to its members or policyholders.

Results: **Pass**

Observation: A review of all 17 complaint files in the complaint logs for 2004 was conducted. None of the complaints reviewed were submitted based on the topics covered in Delaware Bulletin No. 28.

Recommendations: None

Standard B 3

NAIC Market Conduct Examiners Handbook - Chapter XVII. §B, Standard 2.

The Company takes adequate steps to finalize and dispose of the complaint/grievance in accordance with applicable statutes, rules and regulations, and contract language.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review for this standard is by “generic”. This standard is concerned with whether the Company deals with the subject matter in a complaint/grievance.

Results: **Pass**

Observation: A review of all 17 complaint files in the complaint logs for 2004 was conducted. None of the complaints reviewed were submitted based on the topics covered in Delaware Bulletin No. 28.

Recommendations: None

Standard B 4

NAIC Market Conduct Examiners Handbook - Chapter XVII. §B, Standard 4.

The time frame within which the company responds to complaints/grievances is in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review for this standard is by “generic”. This standard does not have a direct insurance statutory requirement, however timeliness is inferred. In the case of complaints/grievances concerning claims, direct time requirements are found in regulation. This standard is concerned with whether the company has a timely response to complaints/grievances.

Delaware's complaint handling section uses a 15 day standard for response to complaints.

Results: **Pass**

Observations: A review of all 17 complaint files in the complaint logs for 2004 was conducted. None of the complaints reviewed were submitted based on the topics covered in Delaware Bulletin No. 28.

Recommendations: None

Standard B 5

NAIC Market Conduct Examiners Handbook - Chapter XVII. §B, Standard 4.

Documentation of complaints is adequate and in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review for this standard is by "generic". This standard is concerned with whether the company has adequate documentation to demonstrate handling and disposition of the complaint.

Results: **Pass**

Observations: A review of all 17 complaint files in the complaint logs for 2004 was conducted. None of the complaints reviewed were submitted based on the topics covered in Delaware Bulletin No. 28.

Recommendations: None

F. UNDERWRITING AND RATING

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. It is concerned with compliance issues.

Delaware Rates and Forms Bulletin 28 is concerned with the inappropriate use of surcharges for weather and vandalism related losses. In addition it is also concerned with terminations based on weather and vandalism loss. During this examination, information was gathered to determine the extent, if any, to which the Company surcharges or terminates coverage for these types of loss. The following table is intended as an aid to quantify that activity.

Table F-Intro-1 Underwriting Statistics - 2004

Description	
Delaware Total Population of Issued HO policies – 2004	17,198
Issued HO Files Sampled.	102
Issued HO Files with Any Surcharge	0
Issued HO Files with Surcharge for Bulletin 28 Restricted Reason	0
Delaware Total Population of HO Policies Terminated for Loss History- 2004	562
Terminated HO Files Sampled.	50
Files Terminated for 3 or more losses – All Kinds	Unable to Determine
Files Terminated for 3 or more losses – Weather or Vandalism Losses	0
Files Terminated for 2 losses – All Kinds	Unable to Determine
Files Terminated for 2 losses – Weather or Vandalism Losses	0
Files Terminated for 1 loss – All Kinds	Unable to Determine
Files Terminated for 1 loss – Weather or Vandalism Loss	0

When provided the information on Terminated policies the Company was unable to capture some information electronically.

Standard F-1

NAIC Market Conduct Examiners Handbook - Chapter VIII, §F, Standard 1.
The rates charged for the policy coverage are in accordance with filed rates.
 18 Del. C. §318(a), §508(b), & §2504(15).

Comments: Review for this standard is by “generic”, “sample”, and “electronic” methodology. This standard has a direct insurance statutory requirement. It is file specific. It is necessary to determine if the company is in compliance with rating systems which have been filed with and approved by DDOI. Rates should not be unfairly discriminatory. Wide-scale application of incorrect rates by a Company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts in force during the examination period. Concerns tested with this standard include:

- Correct use of classification and other rating factors;
- Rating information that comports with information in the application;
- Appropriate use of manual rules;
- The Company does not use unfiled surcharges.

Underwriting Sample Results					Table F1-1
Type	Sampled	Pass	Fail	NA	% Pass
Individual HO Issued	102	0	0	102	NA
Total	102	0	0	102	NA

Liberty Mutual does not add any surcharges to a policy. It explains the large number of NA's for this standard.

Recommendations: None

Standard F-11

NAIC Market Conduct Examiners Handbook - Chapter VIII. §F, Standard 11.

The Company underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rule and regulations and Company guidelines in the selection of risks.

18 Del. C. §318(a), §508(b), §2304(25)a, §2316, & §3904, §4124.

Comments: Review for this standard is by “generic” and “sample” methodology. This standard has a direct insurance statutory requirement. Consistent application of a company’s underwriting rules is the primary method used to avoid unfair discrimination.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- The Company does not use unfair discrimination

Underwriting Sample Results					Table F11-1
Type	Sampled	Pass	Fail	NA	% Pass
Individual HO Issued	102	102	0	0	100%
Individual HO Nonrenewed	50	0	0	50	NA
Total	152	102	0	50	100%

The 102 issued files sampled passed because the Company does not unfairly discrimination against a policyholder during the issue process of a new policy or when renewing a current policy. The 50 non-renewed files reviewed were not applicable because none of the files sampled were rejected because of having weather or vandalism claims.

Liberty Mutual uses a national clearing house, agency or databases for reporting claim activity. The Company reports claims electronically to two underwriting loss exchanges: ChoicePoint – Clue and ISO ClaimSearch.

Recommendations: None

Standard F-15

NAIC Market Conduct Examiners Handbook - Chapter VIII. §F, Standard 15.

File documentation adequately supports decisions made.

18 Del. C. §318(a), §508(b), §2304(15).

Comments: Review for this standard is by “generic”, “sample”, and “electronic” methodology. This standard has a direct insurance statutory requirement. Consistent application of a company’s underwriting rules is the primary method used to avoid unfair discrimination.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued or terminated during the examination period. Concerns tested with this Standard include:

- Appropriate application.
- Sufficient information to support decisions made.
- Appropriate documentation for adverse underwriting decisions.

Underwriting Sample Results

Table F15-1

Type	Sampled	Pass	Fail	NA	% Pass
Individual HO Issued	102	102	0	0	100%
Individual HO Non-renewed	50	0	0	50	NA
Total	152	102	0	50	100%

The 50 non-renewed files reviewed were not applicable because none of the files sampled were rejected because of having weather or vandalism claims.

Recommendations: None

Standard F-24

NAIC Market Conduct Examiners Handbook - Chapter VIII. §F, Standard 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.

18 Del. C. §318(a), §508(b), §2304(15).

Comments: Review for this standard is by “generic” and “sample” methodology.

Results: **Pass**

Observations: A random sample of files was reviewed from the listing of contracts terminated during the examination period. Concerns tested with this Standard include:

- Termination action valid according to statute.

Underwriting Sample Results

Table F1-1

Type	Sampled	Pass	Fail	NA	% Pass
Individual HO Non-renewed	50	0	0	50	NA
Total	50	0	0	50	NA

The 50 non-renewed files reviewed were not applicable because none of the files sampled were rejected because of having weather or vandalism claims.

Recommendations: None

SUMMARY

Liberty Mutual Fire Insurance Company is a property and casualty insurer writing a significant market share of homeowners insurance in the State of Delaware.

The examination is a part of a series of examinations of the major writers of homeowners insurance in the State of Delaware. Business areas reviewed and tested include Complaint Handling and Underwriting, with regards to the Company's compliance with Delaware Forms and Rates Bulletin No. 28. The three major areas of focus include the use of surcharges, the process of reporting to a national database based on one or two weather-related claims and the degree to which inquiries short of a formal claim are treated. The following are a summary of these exams findings.

Liberty Mutual uses a national clearing house, agency or databases for reporting claim activity. The Company reports claims electronically to two underwriting loss exchanges: ChoicePoint – Clue and ISO ClaimSearch.

When an insured calls a situation in to the Company, the Company representative attempts to explain the coverage based on the facts as presented. The Company does not file a claim or treat the calls as such. They let the insured decide whether or not to pursue and file a claim.

The Company does not add a surcharge to a policy for having one or two weather-related claims. None of the complaints reviewed were submitted based on the topics covered in Delaware Bulletin No. 28.

Based on the Company's responses and files reviewed, Liberty Mutual is in compliance with Form and Rates Bulletin No. 28.

LIST OF RECOMMENDATIONS

No recommendations were made for the examination on this company.

CONCLUSION

The examination was conducted by Donald P. Koch, Parker W.B. Stevens, and Susanna R. Stevens, and is respectfully submitted,

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