

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**LIBERTY MUTUAL FIRE INSURANCE COMPANY**

**LIBERTY MUTUAL INSURANCE COMPANY**

**THE FIRST LIBERTY INSURANCE CORPORATION**

**LM INSURANCE CORPORATION**

**LIBERTY INSURANCE CORPORATION**

**LM GENERAL INSURANCE COMPANY**

**AS OF**

**July 31, 2017**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**  
Property and Casualty Division  
Market Conduct Section

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Andrea Baytop, Principal Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company as of July 31, 2017, conducted at the companies' office in Boston, Massachusetts is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' responses to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2019-00057 finalizing the Report.

**IN WITNESS WHEREOF**, I have  
hereunto set my hand and affixed  
the official seal of the Bureau  
at the City of Richmond, Virginia,  
this 27th day of June 2019.

Andrea Baytop  
Examiner in Charge

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**LIBERTY MUTUAL FIRE INSURANCE COMPANY**

**LIBERTY MUTUAL INSURANCE COMPANY**

**THE FIRST LIBERTY INSURANCE CORPORATION**

**LM INSURANCE CORPORATION**

**LIBERTY INSURANCE CORPORATION**

**LM GENERAL INSURANCE COMPANY**

**AS OF**

**July 31, 2017**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**  
Property and Casualty Division  
Market Conduct Section

# TABLE OF CONTENTS

INTRODUCTION .....	2
COMPANY PROFILES .....	2
SCOPE OF THE EXAMINATION .....	6
STATISTICAL SUMMARY .....	7
PART ONE - THE EXAMINERS' OBSERVATIONS .....	8
RATING AND UNDERWRITING REVIEW .....	8
Automobile New Business Policies .....	8
Automobile Renewal Business Policies.....	9
PART TWO – CORRECTIVE ACTION PLAN .....	11
General.....	11
Rating and Underwriting Review .....	11
PART THREE –RECOMMENDATIONS.....	13
RECOMMENDATIONS .....	13
Rating and Underwriting.....	13
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	14
ACKNOWLEDGEMENT .....	16

## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a targeted examination has been made of the private passenger automobile line of business written by Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company at the office of the companies in Boston, Massachusetts.

The examination commenced September 11, 2017 and concluded July 31, 2018. Andrea D. Baytop, Ju'Coby Hendrick, Melody S. Morrissette, and Gloria Warriner, examiners of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on November 3, 2017 and was assigned the Action Number of VA-VA177-3. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

## COMPANY PROFILES\*

Liberty Mutual Fire Insurance Company (LMFIC) was incorporated October 31, 1908 under the laws of Massachusetts as the 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. On December 22, 2005, the company re-domesticated from Massachusetts to Wisconsin.

Liberty Mutual Insurance Company (LMIC) was incorporated under the laws of Massachusetts on January 1, 1912 and began business July 1, 1912.

The First Liberty Insurance Corporation (FLIC) was incorporated under the laws of Iowa on June 16, 1989 and began business on June 22, 1989.

---

\* Source: Best's Insurance Reports, Property & Casualty, 2016 Edition.

LM Insurance Corporation (LMICO) was incorporated under the laws of Iowa on June 16, 1989 and began business on June 22, 1989.

Liberty Insurance Corporation (LIC) was incorporated under the laws of Vermont on October 21, 1988. It began business December 15, 1988, when it merged with Liberty Insurance Corporation and assumed all of its business. The company re-domesticated from Vermont to Illinois in 2002.

LM General Insurance Company (LMGIC) was incorporated on November 17, 1978, under the laws of Delaware and began business on December 29, 1978.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the company was licensed in Virginia except as noted in the table.

<b>GROUP CODE: 0111</b>	<b>LMFIC</b>	<b>LMIC</b>	<b>FLIC</b>	<b>LMICO</b>	<b>LIC</b>	<b>LMGIC</b>
NAIC Company Number	23035	23043	33588	33600	42404	36447
LICENSED IN VIRGINIA	12/22/1921	10/12/1918	12/6/1989	12/6/1989	9/29/1983	10/16/1981
LINES OF INSURANCE						
Accident and Sickness		X	X	X	X	
Aircraft Liability	X	X	X	X	X	
Aircraft Physical Damage	X	X	X	X	X	
Animal		1/24/2018			X	
Automobile Liability	X	X	X	X	X	X
Automobile Physical Damage	X	X	X	X	X	X
Boiler and Machinery	X	X	X	X	X	1/11/1993
Burglary and Theft	X	X	X	X	X	1/11/1993
Commercial Multi-Peril	X	X	X	X	X	1/11/1993
Credit		X			X	
Farmowners Multi-Peril	X	X	X	X	X	
Fidelity	6/28/1995	X	X	X		1/11/1993
Fire	X	X	X	X	X	1/11/1993
General Liability	X	X	X	X	X	1/11/1993
Glass	X	X	X	X	X	1/11/1993
Homeowners Multi-Peril	X	X	X	X	X	
Inland Marine	X	X	X	X	X	1/11/1993
Miscellaneous Property	X	X	X	X	X	1/11/1993
Ocean Marine	X	X	X	X	X	1/11/1993
Surety	6/28/1995	X	X	X		1/11/1993
Water Damage	X	X	X	X	X	1/11/1993
Workers' Compensation	9/23/1975	X	X	X	X	1/11/1993

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2016 for the lines of insurance included in this examination.\* This business was developed through captive agents.

<b>COMPANY AND LINE</b>	<b>PREMIUM VOLUME</b>	<b>MARKET SHARE</b>
<b>Liberty Mutual Fire Insurance Company</b>		
Private Automobile Liability	\$4,098,249	.14%
Private Automobile Physical Damage	\$3,270,128	.15%
<b>Liberty Mutual Insurance Company</b>		
Private Automobile Liability	\$2,383,613	.08%
Private Automobile Physical Damage	\$1,906,041	.09%
<b>The First Liberty Insurance Corporation</b>		
Private Automobile Liability	\$7,898,045	.28%
Private Automobile Physical Damage	\$6,504,101	.29%
<b>LM Insurance Corporation</b>		
Private Automobile Liability	\$9,450,660	.33%
Private Automobile Physical Damage	\$7,767,022	.35%
<b>Liberty Insurance Corporation</b>		
Private Automobile Liability	\$366,675	.01%
Private Automobile Physical Damage	\$260,317	.01%
<b>LM General Insurance Company</b>		
Private Automobile Liability	\$39,704,524	1.39%
Private Automobile Physical Damage	\$41,088,727	1.85%

---

\* Source: The 2016 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.



## SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile line of business written in Virginia for the period beginning April 1, 2017 and ending July 31, 2017. This review was targeted to the companies' rating and underwriting practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all the violations of Virginia insurance laws that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued in Virginia. The "Other Law Violations" portion of Part One notes violations of other related laws that apply to insurers.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

### STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown below.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	Population Sample Requested							FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	LMFIC	LMIC	FLIC	LMICO	LIC	LMGIC	TOTAL				
<b>Private Passenger Auto</b>											
New Business <sup>1</sup>	<u>0</u> 0	<u>303</u> 7	<u>0</u> 0	<u>0</u> 0	<u>0</u> 0	<u>3558</u> 7	<u>3861</u> 14	15	0	15	100%
Renewal Business <sup>2</sup>	<u>1070</u> 7	<u>639</u> 7	<u>2236</u> 7	<u>2859</u> 7	<u>68</u> 7	<u>13070</u> 7	<u>19942</u> 42	41	0	41	100%
Footnote <sup>1</sup> One file was moved from the renewal business category.											
Footnote <sup>2</sup> One file was not a renewal policy and was moved to the new business category.											

## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 15 new business policy files. During this review, the examiners found overcharges totaling \$2,132.00 and undercharges totaling \$1,151.00. The net amount that should be refunded to insureds is \$2,132.00 plus six percent (6%) simple interest.

- (1) The examiners found 15 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found 46 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In two instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply accident and conviction surcharge points under its Safe Driver Insurance Plan (SDIP) correctly.
  - c. In 37 instances, the company failed to use the correct symbols and/or model year.
  - d. In one instance, the company failed to use the correct territory.

- e. In two instances, the company failed to use the correct tier eligibility criteria.
- f. In three instances, the company failed to use the correct base and/or final rates.

### **Automobile Renewal Business Policies**

The Bureau reviewed 41 renewal business policy files. During this review, the examiners found overcharges totaling \$2,895.00 and undercharges totaling \$6,708.00. The net amount that should be refunded to insureds is \$2,895.00 plus six percent (6%) simple interest.

- (1) The examiners found 41 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the discounts applicable on the declarations page.
- (3) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 70 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In nine instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply accident and conviction surcharge points under its Safe Driver Insurance Plan (SDIP) correctly.
  - c. In 41 instances, the company failed to use the correct symbols and/or

model year.

- d. In one instance, the company failed to use the correct territory.
  - e. In ten instances, the company failed to use the correct tier eligibility criteria.
  - f. In one instance, the company surcharged the policy for a conviction that occurred beyond the filed experience period.
  - g. In four instances, the company failed to use the correct driver classification factors.
  - h. In three instances, the company failed to use the correct base and/or final rates.
- (5) The examiners found one violation of § 38.2-2234 B of the Code of Virginia. The company failed to update the insured's credit at least once every three years.

## **PART TWO – CORRECTIVE ACTION PLAN**

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### **General**

Liberty Mutual Fire Insurance Company  
Liberty Mutual Insurance Company  
The First Liberty Insurance Corporation  
LM Insurance Corporation  
Liberty Insurance Corporation  
LM General Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

### **Rating and Underwriting Review**

Liberty Mutual Fire Insurance Company  
Liberty Mutual Insurance Company  
The First Liberty Insurance Corporation  
LM Insurance Corporation  
Liberty Insurance Corporation  
LM General Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Specify accurate information in the policy by showing only forms applicable to the policy on the declarations page.
- (5) File all rates and supplementary rating information with the Bureau.
- (6) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, tier eligibility criteria, driver classifications, and base and/or final rates.

### **PART THREE –RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer.

#### **RECOMMENDATIONS**

We recommend that the companies take the following actions:

#### **Rating and Underwriting**

- File a rule specifying how and at which step(s) to round calculations.
- File a rule defining the different types of marital statuses recognized.
- File a manual revision to distinguish between the two tables labeled “Insurance Score Group” within the Initial Tier determination pages.
- File a rule clarification addressing whether the experience period is based upon the occurrence date or the conviction date.
- File rules to differentiate between violation levels.
- File a rule specifying how to determine the Expected Vehicle Lifetime Age.
- File a rule stating when documentation is required for the Liberty Mutual Parent-Teen Driving Contract and the Teen Smart Driving Course discounts.
- File a rule to indicate which spouse to consider for the Employment Status criteria.
- Provide accurate and complete information that pertains to the scope of the examination as requested by the Bureau.



**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

The Bureau conducted four prior market conduct examinations of Liberty Mutual Fire Insurance Company, three prior market conduct examinations of Liberty Mutual Insurance Company, and two prior market conduct examinations of Liberty Insurance Corporation.

During the private passenger auto, homeowner, and commercial examination of Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, and Liberty Insurance Corporation as of August 31, 1985, Liberty Mutual Fire Insurance Company violated §§ 38.1-332, 38.1-333, 38.1-337, 38.1-279.48:1, 38.1-52.9.10, 38.1-52.10, 38.1-57.13, 38.1-279.34.B, 38.1-279.36.2, 38.1-371.1, 38.1-371.2, 38.1-279.49:1, 38.1-335.2, 38.1-380.2.A, 38.1-381.1, 38.1-381.5, 38.1-1-381.8, and 38.1-384 (§§ 38.2-304, 38.2-305, 38.2-310, 38.2-317, 38.2-510.A.10, 38.2-511, 38.2-610, 38.2-1906.B, 38.2-1908.B., 38.2-2113, 38.2-2114, 38.2-2118, 38.2-2120, 38.2-2202.A, 38.2-2208, 38.2-2212, 38.2-2215, and 38.2-2220 current codes at the time of the Order), as well as Administrative Order No. 8255; Liberty Mutual Insurance Company violated Virginia Code §§ 38.1-332, 38.1-52.10, 38.1-279.36.2, 38.1-263, 38.1-381 (b) and 38.1-381.5 (§§ 38.2-304, 38.2-511, 38.2-1908.B, 38.2-2014, 38.2-2206.A, and 38.2-2212 current codes at the time of the Order) as well as Administrative Order No. 7707; Liberty Insurance Corporation violated Virginia Code §§ 38.1-332, 38.1-52.10, 38.1-57.13, 38.1-381.1, 38.1-381.5 and 38.1-381.8 (§§ 38.2-304, 38.2-511, 38.2-610, 38.2-2208, 38.2-2212, and 38.2-2215 current codes at the time of the Order).

During the private passenger auto, homeowner, and commercial examination of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company as of March 31, 1995, Liberty Mutual Insurance Company violated Virginia Code §§ 38.2-231, 38.2-304, 38.2-317, 38.2-510.A.6, 38.2-510.A.10, 38.2-1904, 38.2-1906, 38.2-2005, 38.2-2014, 38.2-2206, and 38.2-2220, as well as 14 VAC 5-390-40 D, 14 VAC 5-400-30 and 14 VAC 5-400-40 A; Liberty Mutual Fire Insurance Company violated Virginia Code violated §§ 38.2-231, 38.2-304, 38.2-305, 38.2-317, 38.2-1904, 38.2-1906, 38.2-2014 and 38.2-2220.

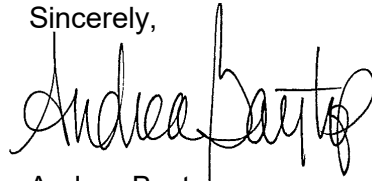
During the private passenger automobile and homeowner examination of Liberty Fire Insurance Company as of December 31, 1998, the company violated Virginia Codes §§ 38.2-317, 38.2-510 A 1, 38.2-610 A, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2208, 38.2-2212, 38.2-2220, and 38.2-2223.

During the private passenger auto and homeowner examination of Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company as of July 31, 2017, the companies violated Virginia Code §§ 38.2-305 A, 38.2-317 A, 38.2-510 A 1, 38.2-604 A, 38.2-604 B, 38.2-610 A, 38.2-1318, 38.2-1809 B, 38.2-1833, 38.2-1906 A, 38.2-1906 D, 38.2-2113 C, 38.2-2114 A, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2126 A, 38.2-2126 E, 38.2-2212 F, 38.2-2220, and 38.2-2234 A of the Code of Virginia; as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive style with a large, looped initial "A".

Andrea Baytop  
Principal Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

September 17, 2018

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Sebestyen Q. Martens  
Corporate Counsel  
Liberty Mutual Insurance Group  
Global Compliance and Ethics  
175 Berkeley Street  
Boston, MA 02116

RE: Market Conduct Examination  
Liberty Mutual Fire Insurance Company (NAIC # 23035)  
Liberty Mutual Insurance Company (NAIC# 23043)  
The First Liberty Insurance Corporation (NAIC# 33588)  
LM Insurance Corporation (NAIC# 33600)  
Liberty Insurance Corporation (NAIC# 42404)  
LM General Insurance Company (NAIC# 36447)  
Examination Period: April 1, 2017 – July 31, 2017

Dear Mr. Martens:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of April 1, 2017 through July 31, 2017. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the Report and copies of review sheets that have been added, withdrawn or revised since July 31, 2018. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the Report. Please provide a written response. The companies do not need to respond to any particular item with which they agree. If the companies disagree with an item or wish to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the companies provide written documentation to support their position. When the companies respond, please do not include any personally identifiable or privileged information (names, policy numbers, claim numbers, addresses, etc.). The companies should use exhibits or appendices to reference such information. In addition, please use the same format (headings and numbering) as found in the Report. If not, the response will be

returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report.

Secondly, the companies must provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

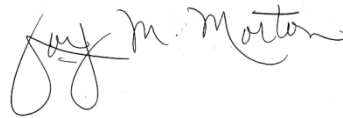
Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with their response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by October 22, 2018.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by October 22, 2018.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with the first name "Joy" and last name "Morton" clearly legible.

Joy Morton, AMCM  
Manager  
Market Conduct Section  
Property & Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)



Global  
Compliance  
& Ethics

We do the right thing.

Sebestyen Q. Martens  
Regulatory Counsel  
Liberty Mutual Insurance  
175 Berkeley Street  
Boston, MA 02116  
857-224-4659  
Sebestyen.Martens@LibertyMutual.com

October 22, 2018

Joy Morton, Manager  
Virginia Bureau of Insurance  
Market Conduct Section  
Property & Casualty Division  
1300 E. Main Street  
Richmond, VA 23218

RE: Market Conduct Examination  
Liberty Mutual Fire Insurance Company (NAIC #23035)  
Liberty Mutual Insurance Company (NAIC #23043)  
The First Liberty Insurance Corporation (NAIC #33588)  
LM Insurance Corporation (NAIC #33600)  
Liberty Insurance Corporation (NAIC #42404)  
LM General Insurance Company (NAIC #36447)  
Examination Period: April 1, 2017 – July 31, 2017

Dear Ms. Morton:

On behalf of Liberty Mutual Group, please accept this letter and the following enclosures to serve as our response to the draft report dated September 17, 2018. We have reviewed the report and respectfully submit the following for your consideration:

1. Draft report response and exhibits
2. Corrective action plan
3. Remediation spreadsheet

Per your request, we have followed the same formatting (i.e. headings and numbering) as found in the draft report. Please note that for Part One, we have only provided responses to those items we respectfully disagree with.

Should you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,

Sebestyen Q. Martens

## PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### RATING AND UNDERWRITING REVIEW

#### **Automobile New Business Policies**

The Bureau reviewed 15 new business policy files. During this review, the examiners found overcharges totaling \$2,380.00 and undercharges totaling \$985.00. The net amount that should be refunded to insureds is \$2,380.00 plus six percent (6%) simple interest.

#### **Company Response:**

**The Company disagrees with the overcharge amount cited by the Bureau. Please refer to the Restitution Spreadsheet for additional information.**

- (1) The examiners found 15 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured that the policy was surcharged for an at-fault accident.

#### **Company Response:**

**We respectfully disagree with the Bureau's observation. The policy cited by review sheet -2023433169 was a new business policy; therefore, notice of surcharge was not required to be sent. A similar issue was noted in review sheet -1374217743 where the examiner agreed to withdraw the violation based on it being a new business policy.**

- (3) The examiners found 48 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In two instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply accident and conviction surcharge points under its Safe Driver Insurance Plan (SDIP) correctly.
  - c. In 37 instances, the company failed to use the correct symbols and/or model year.

#### **Company Response:**

1. 1515447001: Please see Exhibit 1.
  2. -2078441520: The Company provided a response on 10/3/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
  3. -1410140966: The Company provided a response on 9/29/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
  4. 455382015: The Company provided the additional information requested by the examiner on 7/30/18; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
  5. 436922925: The Company provided a response on 10/18/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
  6. 1657901153: The Company provided a response on 4/3/18; however has yet to receive any additional correspondence from the Bureau regarding this review sheet.
- d. In one instance, the company failed to use the correct territory.
- e. In one instance, the company failed to use the tier eligibility criteria.
- f. In six instances, the company failed to use the correct base and/or final rates.

**Company Response:**

1. -1848961902: The Company provided the additional information requested by the examiner on 7/30/18; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
2. 459253189: Please see Exhibit 2.
3. -1904932332: Please see Exhibit 3.
4. 989989461: Please see Exhibit 1. Additionally, the Company respectfully requests the examiner's calculations for comparison.

**Automobile Renewal Business Policies**

The Bureau reviewed 41 renewal business policy files. During this review, the examiners found overcharges totaling \$3,232.00 and undercharges totaling \$8,055.00. The net amount that should be refunded to insureds is \$3,232.00 plus six percent (6%) simple interest.



**Company Response: The Company disagrees with the overcharge amount cited by the Bureau. Please refer to the Restitution Spreadsheet for additional information.**

- (1) The examiners found 41 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the discounts applicable on the declarations page.
- (3) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.

**Company Response: The Company provided a response to 1505911045 on 3/5/2018; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.**

- (4) The examiners found 80 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In 14 instances, the company failed to use the correct discounts and/or surcharges.

**Company Response:**

1. The Company respectfully disagrees with review sheets 665678918, 1234882975, 2141290264, and 1376316240. Please note that the Company inadvertently failed to provide the countrywide affinity list to the examiners at the beginning of the exam; however, we have since provided the list which shows that the discounts were applied correctly to these policies.
2. 569831325: The Company provided a response on 11/16/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
3. -89739666: The Company provided the additional information requested by the examiner on 3/5/18; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.
4. -2125989271: The Company provided a response on 10/3/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.

- b. In one instance, the company failed to apply accident and conviction surcharge points under its Safe Driver Insurance Plan (SDIP) correctly.
- c. In 42 instances, the company failed to use the correct symbols and/or

model year.

**Company Response:**

**1. 1073317667: Please see Exhibit 4 which details our renewal statistics for the 2017 renewal.**

d. In one instance, the company failed to use the correct territory.

e. In ten instances, the company failed to use the correct tier eligibility criteria.

**Company Response:**

**1. -1663244929: The Company provided a response on 9/19/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.**

**2. -313173413: The Company provided a response on 9/20/17; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.**

**3. 1677911451: The Company provided a response on 4/3/2018; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.**

**4. 210978545: Please see Exhibit 5.**

**5. 158257911: Please see Exhibit 6.**

f. In one instance, the company surcharged the policy beyond the experience period.

g. In five instances, the company failed to use the correct driver classification factor.

**Company Response:**

**1. -1406790308: The Company provided the additional information requested by the examiner on 3/5/18; however, has yet to receive any additional correspondence from the Bureau regarding this review sheet.**

h. In three instances, the company failed to use the correct base and/or final rates.

i. In two instances, the company failed to use the correct Uninsured Motorist (UM) rate.

**Company Response: The Company respectfully requests that the violations per review sheets 1505390625 and 1512069011 be removed. Although the vehicles are listed on the declaration page in a particular**

**order, our rating assigns first vehicle status to the vehicle that is primarily used by the primary policyholder. Although it appears that the UM base rates are flipped, the system is rating the policy accurately by applying the rates appropriately. As the examiner noted, this has no impact on the overall policy premium.**

- (5) The examiners found one violation of § 38.2-2234 B of the Code of Virginia. The company failed to update the insured's credit at least once every three years.

## PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### General

Liberty Mutual Fire Insurance Company  
Liberty Mutual Insurance Company  
The First Liberty Insurance Corporation  
LM Insurance Corporation  
Liberty Insurance Corporation  
LM General Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

### Rating and Underwriting Review

Liberty Mutual Fire Insurance Company  
Liberty Mutual Insurance Company  
The First Liberty Insurance Corporation  
LM Insurance Corporation  
Liberty Insurance Corporation  
LM General Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

**Company Response: The Company has reviewed the errors identified by the Bureau and is in process of issuing refunds to the insureds.**

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

**Company Response: The Company will include 6% simple interest with the refund amount issued to the insureds as a result of the Bureau's review.**

- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

**Company Response: The Company has reviewed the errors identified by the Bureau and is in process of issuing refunds to the insureds. We will submit an updated Restitution Spreadsheet once all refunds have been processed.**

- (4) Specify accurate information in the policy by showing the Roadside Assistance limit and only forms applicable to the policy on the declarations page.

**Company Response: The Company has no record of receiving any review sheets regarding these issues during the course of this exam.**

- (5) Notify the insured when the policy is surcharged for an at-fault accident.

**Company Response: The Company respectfully disagrees with the violation cited by the Bureau. Please see our response on page one.**

- (6) File all rates and supplementary rating information with the Bureau.

**Company Response: The Company will file all rates and supplementary rating information with the Bureau. The Company will amend its manual to account for the steps taken to determine the appropriate Right Track group.**

- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, tier eligibility criteria, driver classifications, base and/or final rates and uninsured motorist rates.

**Company Response: The Company will use the rules and rates on file with the Bureau. The Company will review all violations and amend our manual or update our practices accordingly.**

- (8) Update the insured's credit information at least once every three years as required by the statute.

**Company Response: The Company notes that the violation cited by the Bureau is an isolated finding and respectfully request that the corrective action item is removed from subsequent report versions as it does not meet the NAIC error threshold.**

## **PART THREE –RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer.

### **RECOMMENDATIONS**

We recommend that the companies take the following actions:

#### **Rating and Underwriting**

- File a rule specifying how and at which step(s) to round calculations.
- File a rule defining the different types of marital statuses recognized.
- File a manual revision to distinguish between the two tables labeled “Insurance Score Group” within the Initial Tier determination pages.
- File a rule clarification addressing whether the experience period is based upon the occurrence date or the conviction date.
- File rules to differentiate between violation levels.
- File a rule specifying how to determine the Expected Vehicle Lifetime Age.
- File a rule stating when documentation is required for the Liberty Mutual Parent-Teen Driving Contract and the Teen Smart Driving Course discounts.
- File a rule to indicate which spouse to consider for the Employment Status criteria.

**Company Response: The Company acknowledges the Bureau’s recommendations and will take them under advisement.**

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

January 25, 2019

## VIA EMAIL DELIVERY

Sebestyen Q. Martens  
Corporate Counsel  
Liberty Mutual Insurance Group  
Global Compliance and Ethics  
175 Berkeley Street  
Boston, MA 02116

RE: Market Conduct Examination  
Liberty Mutual Fire Insurance Company (NAIC # 23035)  
Liberty Mutual Insurance Company (NAIC# 23043)  
The First Liberty Insurance Corporation (NAIC# 33588)  
LM Insurance Corporation (NAIC# 33600)  
Liberty Insurance Corporation (NAIC# 42404)  
LM General Insurance Company (NAIC# 36447)  
Examination Period: April 1, 2017 – July 31, 2017

Dear Mr. Martens:

The Bureau of Insurance (Bureau) has reviewed the October 22, 2018 response to the Preliminary Market Conduct Report (Report) of the above referenced companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – EXAMINERS' OBSERVATIONS

### Automobile New Business Rating

The overcharge and undercharge amounts have been updated in the Revised Report.

- (2) After further review, the violation for RPA008 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3c) The two violations for RPA004 remain in the Report. A copy of the examiner's response is attached.

The four violations for RPA005 remain in the Report. The Company provided a Rate Order of Calculation as a response to these violations on July 30, 2018; however, a Rate Order of Calculation is not applicable. These violations pertain to the Company not including an explanation advising how groups are selected when there are duplicate values in the rating manual and not using rates/factors filed for the Rearview Camera feature.

The violation for RPA006 remains in the Report. A copy of the examiner's response is attached.

The five violations for RPA008 remain in the Report. The Company replied that the Rearview Camera, Parking Assistance and Heads Up Display are neutral "1.0" values. These safety features do not have individual factors, but are part of the filed Safety Group Factors matrix. The Rearview Camera, Parking Assistance and Heads Up Display features are part of three separate groups that determine multiple safety factors used to calculate the insured's premium in accordance with the Company's filed Rating Manual. A copy of the examiner's response is attached.

The three violations for RPA012 remain in the Report. A copy of the examiner's response is attached.

The four violations for RPA021 remain in the Report. However, the review sheet has been revised to correctly reflect the Final Vehicle Factors for the 2003 Chevrolet and 2000 Chevrolet supported by the Company's filed manual. The company used correct factors, or are we providing the factors the company should have used?

(3f) After further review, the violations for RPA003 and RPA021 have been withdrawn from the Report.

After further review, the violation for RPA011 has been moved to Review Sheet R&UNBPPA-861674463 from Review Sheet R&UNBPPA459253189. This violation appears under the tier eligibility criteria item of the Revised Report. The Company failed to use the correct Household Composition Factor to rate this policy.

The violation for RPA014 remains in the Report. The Rate Order of Calculation provided by the Company indicates that the Company used superseded Base Rates when calculating this policy. A copy of the examiner's revised response is attached.

### **Automobile Renewal Business Rating**

The overcharge and undercharge amounts remain the same in the Revised Report.

(3) The violation for RPA043 remains in the Report. The Company only provided the Right Track rule page. The Company failed to provide the filed pages that indicate how to determine the Group code once a policy has been renewed.

(4a) The violations for RPA024, RPA034, RPA038 and RPA042 remain in the Report. The Bureau requested a list of all groups and affiliations for which the Liberty companies would apply an affinity discount to policies during the examination period. The Companies have not sufficiently proven that the additional countrywide list was in existence before receipt of the violations since the lists were provided in editable Excel spreadsheets.



The violation for RPA019 remains in the Report. The Company failed to use the correct minimum/maximum age when rating the policy. Based on the age of 47 the following factors should have been used: 1.054656, .948785, 8.680246, .228875, .848101, 1.070286, .479094, 2.059631, 1.402911, .474753, .942159 and 6.028246. This resulted in an overall longevity group of 0639 and a factor of .727426.

The violation for RPA022 remains in the Report. The Company failed to provide documentation to support that the vehicle being rated had a four-wheel Anti-Lock Brake Safety feature.

The two violations for RPA047 remain in the Report. The Company failed to use the correct characteristics when rating the policy. The following factors should have been used to rate the policy; .435053, .920075, 1.342576, 1.833487, 31.818906, .012314, .633075, 6.333333, .413793, 2.000726, .554388 and 6.028246. This resulted in an overall longevity group of 0606 and a factor of .792612. The Company acknowledged the failure to apply a Multi-Car discount when rating the policy.

(4c) The violation for RPA025 remains in the Report. The Company has provided the symbols that were used to rate the vehicle; however, the symbols indicated on the documentation are not on file with the Bureau. Since there were no symbols on file for this vehicle at the time of the policy effective date, the cost new value should have been used to determine the correct symbols. The policy file indicated the vehicle's cost new price was \$25,000, which corresponded to a symbol of 27. Therefore, a symbol combination of 27 was used to rate the policy.

(4e) The violation for RPA022 remains in the Report. The Company failed to file Tiers for single limit coverage amounts. The policy had a single limit of \$300,000 for liability coverage and based on Tier chart in the Company's manual the Tier associated with "MidHigh (100/300)" was chosen; which resulted in a Tier of 2.

The violation for RPA037 remains in the Report. The Company failed to use the correct Market Segment Factor for the RDC/B College/Single Car/Homeowner category. Based on the factors filed with the Bureau, a factor of .1308 should have been used.

The violation for RPA039 remains in the Report. The Company failed to rate the policy with the correct Market Segment Factor. The Company provided its calculation that failed to include variable X6-Education.

The violation for RPA040 remains in the Report. The Company filed the VA MSC 2.0 Quote Example manual page under SERFF Tracking Number LBPM-125224862. This manual page provided four steps to calculate the Market Segment factor from the weights determined. Step 1 is the "sum of weights of all the MSC rating variables." Step 2 is "Exp(1)" where the result of Step 1 becomes the exponent applied to base e. The filed manual page does not include an intermediate step to add -.5245 to the sum of the weights. For reconsideration, the Company must specify the filed manual page with this instruction or clarify its Exhibit 5.

The violation for RPA041 remains in the Report. The Company provided its factors for the following categories: Lesser of Current/Prior Bodily Injury Liability Limit, Number of Vehicles/Number of Drivers, and Indicator (RDC). The Company failed to file coverage limit descriptions for the Lesser of Current/Prior Bodily Injury Liability Limits of Low, MidHigh, High, and MidLow. The insured had limits of 100/300;

therefore, the examiner used the category of MidHigh to rate the policy. The Company should file a rule that clearly defines each limit category. The Company should have used the factor of .0792 for the Number of Vehicles/Number of Drivers. The Company indicated for the Education (RDC) characteristics that both insureds had a Bachelor's degree, but there is no documentation in the policy file that supports that statement. The screens with the Company's system as well as its "Virginia LibertyGuard Auto Owners Policy Declarations" page did not indicate that either insured was college educated.

- (4g) The violation for RPA025 remains in the Report. The Company failed to use the correct class factors. The policy file did not indicate the one-way or annual mileage; therefore, zero miles were used to determine the correct class factors. A class factor of 48 was used to rate both drivers. The screen shot provided by the Company shows the annual mileage for all three vehicles; however, the system also indicates the 'As Of' date was after the policy's renewal effective date. Therefore, the Company failed to have the annual mileage at the time the policy was rated for the renewal policy on June 1, 2017.
- (4i) After further review, the violations for RPA040 and RPA055 have been withdrawn from the Report. The Company should file a revision to its rule to assign the first vehicle UM rate to the vehicle that is primarily used by the primary policyholder.

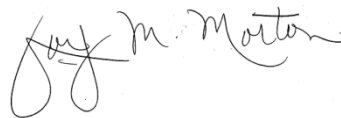
## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating and Underwriting**

- (3) The Companies should complete the Restitution Spreadsheet and provide it with their response to the Revised Report.
- (4) After further review, the reference to the Roadside Assistance limit has been removed from this item. The reference to the forms listed on the declarations page remains, the Companies have received a copy of the 56 review sheets.
- (5) After further review, this item has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (6) The Companies should review all current rating methodologies and check that their rules and rates are filed with the Bureau.
- (8) After further review, this item has been withdrawn from this area of the Report.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and Restitution spreadsheet; and any review sheets withdrawn, added or altered as a result of this review. Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by February 22, 2019.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, stylized initial "J" and "M".

Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

Enclosures



Sebestyen Q. Martens  
Regulatory Counsel  
Liberty Mutual Insurance  
175 Berkeley Street  
Boston, MA 02116  
857-224-4659  
Sebestyen.Martens@LibertyMutual.com

February 27, 2019

Joy Morton, Manager  
Virginia Bureau of Insurance  
Market Conduct Section  
Property & Casualty Division  
1300 E. Main Street  
Richmond, VA 23218

RE: Market Conduct Examination  
Liberty Mutual Fire Insurance Company (NAIC #23035)  
Liberty Mutual Insurance Company (NAIC #23043)  
The First Liberty Insurance Corporation (NAIC #33588)  
LM Insurance Corporation (NAIC #33600)  
Liberty Insurance Corporation (NAIC #42404)  
LM General Insurance Company (NAIC #36447)  
Examination Period: April 1, 2017 – July 31, 2017

Dear Ms. Morton:

On behalf of Liberty Mutual Group, please accept this letter and the following enclosures to serve as our response to the Bureau's correspondence dated January 25, 2019. We have reviewed the report and respectfully submit the following for your consideration:

1. Draft report response and exhibits
2. Remediation spreadsheet

Per your request, we have followed the same formatting (i.e. headings and numbering) as found in the draft report.

Should you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,





Sebestyen Q. Martens



## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 15 new business policy files. During this review, the examiners found overcharges totaling \$2,132.00 and undercharges totaling \$1,151.00. The net amount that should be refunded to insureds is \$2,132.00 plus six percent (6%) simple interest.

- (1) The examiners found 15 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found 46 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In two instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply accident and conviction surcharge points under its Safe Driver Insurance Plan (SDIP) correctly.
  - c. In 37 instances, the company failed to use the correct symbols and/or model year.
  - d. In one instance, the company failed to use the correct territory.
  - e. In two instances, the company failed to use the tier eligibility criteria.

- f. In three instances, the company failed to use the correct base and/or final rates.

### **Automobile Renewal Business Policies**

The Bureau reviewed 41 renewal business policy files. During this review, the examiners found overcharges totaling \$3,232.00 and undercharges totaling \$8,055.00. The net amount that should be refunded to insureds is \$3,232.00 plus six percent (6%) simple interest.

#### **Company Response:**

**The Company respectfully disagrees with the overcharge amounts cited for RPA019 and RPA025. Please see the Restitution Spreadsheet for additional information.**

- (1) The examiners found 41 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the discounts applicable on the declarations page.
- (3) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 77 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In 14 instances, the company failed to use the correct discounts and/or surcharges.

#### **Company Response:**

- 1. The Company respectfully maintains their position regarding**

review sheets 665678918 (RPA024), 1234882975 (RPA034), 2141290264 (RPA042), and 1376316240 (RPA038). We dispute any suggestion that the second of the two affinity group listings or “additional countrywide list” as referenced in the draft report was not “in existence” prior to receipt of the alleged violations. In fact, the Company thought it was being responsive to the examiners initial request when we provided the list of Virginia only groups. After a subsequent discussion with the examiners, we then provided the expanded countrywide list requested. You should be aware that both of the lists provided are and were extracted via query from an internal source system containing tables of data including the discount information sought by the examining team. The most efficient way to provide the entire list of groups from the source system was to download the output from the aforementioned extract into an excel spreadsheet. As a result, we continue to respectfully ask that these violations be removed from the report.

**2. -89739666 (RPA022): Please see Exhibit 1.**

- b. In one instance, the company failed to apply accident and conviction surcharge points under its Safe Driver Insurance Plan (SDIP) correctly.
- c. In 42 instances, the company failed to use the correct symbols and/or model year.

**Company Response:**

- 1. **1073317667 (RPA025): The Company continues to respectfully disagree with the examiner’s comments. When the vehicle was first added to the policy effective September 29, 2016, the symbol was not available and thus we used the cost new to determine the vehicle symbol should be 27. We updated the symbol information for this VIN in December 2016, so when the renewal produced effective June 1, 2017, we updated the symbol accordingly. Please see Exhibit 2 for documentation showing the change in rated symbols from 27 to 21.**
- d. In one instance, the company failed to use the correct territory.
- e. In ten instances, the company failed to use the correct tier eligibility criteria.

**Company Response:**

- 1. **158257911 (RPA041): Please see Exhibit 3 for a screenshot from our quote system showing that both insureds are college educated.**
- f. In one instance, the company surcharged the policy beyond the experience



period.

- g. In five instances, the company failed to use the correct driver classification factor.

**Company Response:**

**1. -1406790308 (RPA025): Annual mileage is provided by the policyholder at time of new business. It is the customer's responsibility to contact the Company should their annual mileage change. Please see Exhibit 4 for a screenshot from our quote system showing annual mileage for each vehicle listed on the policy. Note that the "As Of" date is actually prior to the renewal effective date.**

- h. In three instances, the company failed to use the correct base and/or final rates.
- (5) The examiners found one violation of § 38.2-2234 B of the Code of Virginia. The company failed to update the insured's credit at least once every three years.

# COMMONWEALTH OF VIRGINIA



**SCOTT A. WHITE**  
**COMMISSIONER OF INSURANCE**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

**P.O. BOX 1157**  
**RICHMOND, VIRGINIA 23218**  
**1300 E. MAIN STREET**  
**RICHMOND, VIRGINIA 23219**  
**TELEPHONE: (804) 371-9741**  
**[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)**

March 26, 2019

## **VIA E-MAIL DELIVERY**

Sebestyen Q. Martens  
Corporate Counsel  
Liberty Mutual Insurance Group  
Global Compliance and Ethics  
175 Berkeley Street  
Boston, MA 02116

RE: Market Conduct Examination  
Liberty Mutual Fire Insurance Company (NAIC # 23035)  
Liberty Mutual Insurance Company (NAIC # 23043)  
The First Liberty Insurance Corporation (NAIC # 33588)  
LM Insurance Corporation (NAIC # 33600)  
Liberty Insurance Corporation (NAIC # 42404)  
LM General Insurance Company (NAIC # 36447)  
Examination Period: April 1, 2017 – July 31, 2017

Dear Mr. Martens:

The Bureau of Insurance (Bureau) has reviewed the February 27, 2019 response to the Revised Market Conduct Report (Report) of Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## **PART ONE – EXAMINERS’ OBSERVATIONS**

### **Automobile Renewal Business Rating**

The overcharge for RPA019 is \$462.00. Review sheet #1437758596 was revised to indicate the overcharge was changed from \$431.00 to \$462.00 after review sheet 2114049454 was withdrawn. A copy of the review sheet is enclosed for your records.

The overcharge for RPA025 has been withdrawn from the Report.

- (4a) The violations for RPA024, RPA034, RPA038 and RPA042 remain in the Report. The Companies received the review sheets for these four policies between September 13 and 18, 2017. The Companies provided the expanded countrywide list with their responses to the four review sheets on September 26, 2017. Please see a copy of the Companies’ e-mail and response that specifically state the expanded list is provided for the review sheets.

After further review, the violation for RPA022 has been withdrawn from the Report.

- (4c) After further review, the violation for RPA025 has been withdrawn from the Report.

- (4e) The violation for RPA041 remains in the Report. The Company provided screen prints showing the highest level of education as “Bachelors” for both insureds. However, the screen prints show the information was for the Pre-Renewal dated January 27, 2019. For the violation to be reconsidered, the Company would need to provide system documentation showing the insureds’ education level as of May 25, 2017.

- (4g) After further review, the violation for RPA025 has been withdrawn from the Report.

## **PART TWO – CORRECTIVE ACTION PLAN**

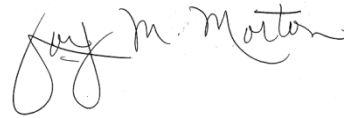
### **Rating and Underwriting Review**

- (3) The Companies should make restitution for RPA019 and submit a revised Restitution spreadsheet with their response.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review.

Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by April 15, 2019.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, looped initial "J" and "M".

Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

Enclosures

## Andrea Baytop

---

**From:** Andrea Baytop  
**Sent:** Monday, April 1, 2019 5:11 PM  
**To:** 'Martens, Sebestyen'  
**Cc:** Joy Morton; Winn, Lauren  
**Subject:** Liberty 2 Report 3 4/01/19  
**Attachments:** Liberty 2 Restitution 3.xlsx; Review Sheet Changes 04.01.19.pdf

**Follow Up Flag:** Follow up  
**Due By:** Tuesday, April 16, 2019 9:30 AM  
**Flag Status:** Flagged

Good Evening Seb,

Based upon Nick Marrangoni's conversation with Joy Morton the week of March 25, 2019, we have made the following revisions to the Report:

### **Automobile Renewal Business Rating**

(4a) After further review, the violations for RPA024, RPA034, RPA038 and RPA042 have been withdrawn from the Report. Although the Companies provided the list of additional affinity affiliations after receiving discount violations, the Companies applied the filed Group discount factors to the policies. A Recommendation has been added to the Report to address this issue.

### **CORRECTIVE ACTION PLAN**

(3) The Companies should make the outstanding restitution for RPA019 and complete the attached Restitution spreadsheet.

### **RECOMMENDATIONS**

- The Companies should provide accurate and complete information that pertains to the scope of the examination as requested by the Bureau.

A copy of the changed review sheets is enclosed for your records. We will send you the Final Report with the Pre-settlement Letter after we receive your response no later than April 15, 2019.

Once we receive the companies' response, we will be in a position to make a settlement offer. We look forward to your response by April 15, 2019.

Thank you,

### **Andrea Baytop, AMCM**

Principal Insurance Market Examiner  
P&C Market Conduct Section  
Virginia Bureau of Insurance  
804.371.9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

## Andrea Baytop

---

**From:** Martens, Sebestyen <Sebestyen.Martens@LibertyMutual.com>  
**Sent:** Monday, April 22, 2019 9:00 AM  
**To:** Joy Morton; Andrea Baytop  
**Cc:** Winn, Lauren  
**Subject:** RE: Liberty 2 Report 3 4/01/19  
**Attachments:** Liberty 2 Restitution Spreadsheet 4-18-19.xlsx

**Sensitivity:** Confidential

Hi Joy, sorry for the delay. Please see attached spreadsheet reflecting payment for RPA019. Thanks, Seb.

---

**From:** Joy Morton [mailto:Joy.Morton@scc.virginia.gov]  
**Sent:** Thursday, April 18, 2019 9:04 AM  
**To:** Martens, Sebestyen <Sebestyen.Martens@LibertyMutual.com>; Andrea Baytop <Andrea.Baytop@scc.virginia.gov>  
**Cc:** Winn, Lauren <Lauren.Winn@LibertyMutual.com>  
**Subject:** RE: Liberty 2 Report 3 4/01/19

Good morning Seb:

Have you received confirmation of the payment for RPA019? We would like to close this examination.

Joy Morton, AMCM  
Manager  
Property and Casualty Division  
Market Conduct Section  
(804)371-9540  
[Joy.morton@scc.virginia.gov](mailto:Joy.morton@scc.virginia.gov)

---

**From:** Martens, Sebestyen <[Sebestyen.Martens@LibertyMutual.com](mailto:Sebestyen.Martens@LibertyMutual.com)>  
**Sent:** Friday, April 12, 2019 9:15 AM  
**To:** Andrea Baytop <[Andrea.Baytop@scc.virginia.gov](mailto:Andrea.Baytop@scc.virginia.gov)>  
**Cc:** Joy Morton <[Joy.Morton@scc.virginia.gov](mailto:Joy.Morton@scc.virginia.gov)>; Winn, Lauren <[Lauren.Winn@LibertyMutual.com](mailto:Lauren.Winn@LibertyMutual.com)>  
**Subject:** RE: Liberty 2 Report 3 4/01/19

Hi Andrea, we are in agreement with the proposed revisions to the Report. We look forward to receiving the Final Report and Pre-settlement Letter. Thanks, Seb.

P.S. I am still waiting for confirmation regarding the last refund (RPA019) and will forward the updated spreadsheet as soon as I am able.

---

**From:** Andrea Baytop [mailto:[Andrea.Baytop@scc.virginia.gov](mailto:Andrea.Baytop@scc.virginia.gov)]  
**Sent:** Monday, April 01, 2019 5:11 PM  
**To:** Martens, Sebestyen <[Sebestyen.Martens@LibertyMutual.com](mailto:Sebestyen.Martens@LibertyMutual.com)>  
**Cc:** Joy Morton <[Joy.Morton@scc.virginia.gov](mailto:Joy.Morton@scc.virginia.gov)>; Winn, Lauren <[Lauren.Winn@LibertyMutual.com](mailto:Lauren.Winn@LibertyMutual.com)>  
**Subject:** Liberty 2 Report 3 4/01/19

Good Evening Seb,

Based upon Nick Marrangoni's conversation with Joy Morton the week of March 25, 2019, we have made the following revisions to the Report:

**Automobile Renewal Business Rating**

(4a) After further review, the violations for RPA024, RPA034, RPA038 and RPA042 have been withdrawn from the Report. Although the Companies provided the list of additional affinity affiliations after receiving discount violations, the Companies applied the filed Group discount factors to the policies. A Recommendation has been added to the Report to address this issue.

**CORRECTIVE ACTION PLAN**

(3) The Companies should make the outstanding restitution for RPA019 and complete the attached Restitution spreadsheet.

**RECOMMENDATIONS**

- The Companies should provide accurate and complete information that pertains to the scope of the examination as requested by the Bureau.

A copy of the changed review sheets is enclosed for your records. We will send you the Final Report with the Pre-settlement Letter after we receive your response no later than April 15, 2019.

Once we receive the companies' response, we will be in a position to make a settlement offer. We look forward to your response by April 15, 2019.

Thank you,

**Andrea Baytop, AMCM**

Principal Insurance Market Examiner  
P&C Market Conduct Section  
Virginia Bureau of Insurance  
804.371.9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

April 25, 2019

## VIA E-MAIL DELIVERY

Sebestyen Q. Martens  
Corporate Counsel  
Liberty Mutual Insurance Group  
Global Compliance and Ethics  
175 Berkeley Street  
Boston, MA 02116

RE: Market Conduct Examination  
Liberty Mutual Fire Insurance Company (NAIC # 23035)  
Liberty Mutual Insurance Company (NAIC # 23043)  
The First Liberty Insurance Corporation (NAIC # 33588)  
LM Insurance Corporation (NAIC # 33600)  
Liberty Insurance Corporation (NAIC # 42404)  
LM General Insurance Company (NAIC # 36447)  
Examination Period: April 1, 2017 – July 31, 2017

Dear Mr. Martens:

The Bureau of Insurance (Bureau) has reviewed the companies' response of April 22, 2019. Based upon the Bureau's review of the companies' correspondence, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company (Report).

Based on the Bureau's review of the Report and the companies' response, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

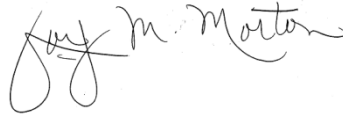
Sections 38.2-305 A, 38.2-1906 A, and 38.2-1906 D of the Code of Virginia.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.



In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large initial "J" and "M".

Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM/pgh



Sebestyen Q. Martens  
Regulatory Counsel  
Liberty Mutual Insurance  
175 Berkeley Street  
Boston, MA 02116  
857-224-4659  
Sebestyen.Martens@LibertyMutual.com

Rebecca Nichols  
Deputy Commissioner  
Property and Casualty Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

**RE: Market Conduct Examination Settlement Offer Ecase/Docket Number: INS-2019-00057**

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of Insurance's letter dated April 24, 2019, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-305 A, 38.2-1906 A, and 38.2-1906 D, of the Code of Virginia to indicate a general business practice.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$22,500.00.
2. We agree to comply with the corrective action plan set forth in the companies' letters of October 22, 2018, February 27, 2019, March 15, and April 22, 2019.
3. We confirm that restitution was made to 16 consumers for \$5,328.62 in accordance with the companies' letters of October 22, 2018, February 27, 2019, and April 22, 2019.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely  
Liberty Mutual Fire Insurance Company  
Liberty Mutual Insurance Company  
The First Liberty Insurance Corporation  
LM Insurance Corporation



Liberty Insurance Corporation  
LM General Insurance Company



---

(Signed)

*Sebestyen Martens*

---

(Type or Print Name)

*Regulatory Counsel*

---

{Title}

May 28, 2019

---

(Date)



# COMMONWEALTH OF VIRGINIA



**SCOTT A. WHITE**  
**COMMISSIONER OF INSURANCE**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

**P.O. BOX 1157**  
**RICHMOND, VIRGINIA 23218**  
**1300 E. MAIN STREET**  
**RICHMOND, VIRGINIA 23219**  
**TELEPHONE: (804) 371-9741**  
**[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)**

Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company have tendered to the Bureau of Insurance the settlement amount of \$22,500 by their check numbered 74958041 and dated May 14, 2019, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 6, 2019

SCC-CLERK'S OFFICE  
DOCUMENT CONTROL CENTER

2019 JUN -6 A 10:49

190618164

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2019-00057

LIBERTY MUTUAL FIRE INSURANCE COMPANY,  
LIBERTY MUTUAL INSURANCE COMPANY,  
THE FIRST LIBERTY INSURANCE CORPORATION,  
LM INSURANCE CORPORATION,  
LIBERTY INSURANCE CORPORATION,  
and  
LM GENERAL INSURANCE COMPANY,  
Defendants

SETTLEMENT ORDER

Based on a market conduct examination conducted by the Bureau of Insurance ("Bureau"), it is alleged that Liberty Mutual Fire Insurance Company, Liberty Mutual Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation, Liberty Insurance Corporation, and LM General Insurance Company (collectively, "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), in certain instances violated § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required by statute in an insurance policy; § 38.2-1906 A of the Code by failing to file all rates and supplementary rate information; and § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants.

The Commission is authorized by §§ 38.2-218, 38.2-219 and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a

defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of the right to a hearing in this matter whereupon the Defendants, without admitting or denying any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have agreed to comply with the corrective action plan outlined in company correspondence dated October 22, 2018, February 27, 2019, March 15, 2019, and April 22, 2019; have confirmed that restitution was made to 16 consumers in the amount of Five Thousand Three Hundred Twenty-eight Dollars and Sixty-two Cents (\$5,328.62); have tendered to the Treasurer of Virginia the sum of Twenty-two Thousand Five Hundred Dollars (\$22,500); and have waived the right to a hearing.

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.
- (2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Sebestyen Q. Martens, Regulatory Counsel, Liberty Mutual Insurance, 175 Berkeley Street,  
Boston, Massachusetts 02116; and a copy shall be delivered to the Commission's Office of  
General Counsel and the Bureau of Insurance in care of Deputy Commissioner Rebecca Nichols.

1100610104