

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

LIBERTY MUTUAL INSURANCE COMPANY
(LIBERTY MUTUAL INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

Liberty Mutual Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1997 to December 1999. The examination began September 10, 2000 and ended September 22, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1994.

The purpose of this target examination was to verify that the Company is conducting business according to Florida Statutes.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing and consumer complaints for the period of January 1997 through December 1999, as reflected in this report.

The findings of the prior examination, completed in 1994, consisted of failure to display a telephone number, agent's license identification number, classification codes, injury codes, correct premium calculations and correct statistical reporting. These errors constituted a violation of Sections 627.091, 627.4085 and 627.4131, Florida Statutes.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds, make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

Due to the findings of this examination, a target examination will be scheduled to address an issue outstanding at the completion of the examination.

II. PRE-EXAM REVIEW OF COMPANY'S WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Exam Findings

The review included verification of the lines of business the Company was authorized to write during the scope of examination versus those lines actually being written. It also included verification that notification requirements were met for any line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

Liberty Mutual was incorporated under the laws of Massachusetts on January 1, 1912 and began business July 1, 1912. The Company was incorporated as a part of the Workmen's Compensation Act of Massachusetts, under the name of the "Massachusetts Employees Insurance Association." The present title was adopted August 15, 1917. The Company was issued a "Certificate of Operation" in the State of Florida on October 11, 1918.

Relationships with policyholders are through full-time employees as business is solicited and serviced on a direct basis. The Company does not use any brokers, MGAS' or independent agents.

Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, The First Liberty Insurance Corporation, LM Insurance Corporation and Liberty Insurance Corporation share business under an inter-company reinsurance arrangement. Liberty Mutual Insurance Company's participation is 83.8%.

The Company markets Workers' Compensation on a direct marketing basis. A web site has been established, being; <http://www.libertymutual.com>.

Liberty Mutual Insurance Company is a member of the Liberty Mutual Group, which is comprised of forty-two (42) companies.

B. MANAGEMENT

The operational organization is divided into geographical divisions, with branch offices coast-to-coast, including Hawaii and Canada. Broad local authority is delegated to the divisional offices. The Company offers, on a nationwide basis, claim service to policyholders.

Four subdivisions or market departments are: National Market, Business Market, Personal and Regional Agency Markets.

A Business Operations Continuity and Disaster Recovery Planning Guide has been developed by the Company. Also, an antifraud plan has been developed and filed with the State. The Field Investigation Unit within the Commercial Markets Risk Services Department has the principal duty to investigate and dispose of claims in the field that includes the detection, investigation, reporting and tracking of suspected fraudulent claims.

Corporate Internal Auditing, which is comprised of 75 audit professionals, is responsible for auditing the Company's internal control systems. Its scope is Company-wide and includes reviewing internal controls, financial and operating controls, systems and compliance with laws and regulations.

The scope is varied from year-to-year to provide audit coverage of the Company's operations and processes, which includes but is not limited to, the following: claims, underwriting, billing, collections, investments and financial reporting. See Exhibit III.

C. OPERATIONS

The Company is organized in Strategic Business Units (SBU). By the nature of the SBU and operational organization, workers' compensation is offered and written throughout the State of Florida.

All lines of insurance are offered to all classes of business and personal insurance buyers by the Company and its companion carriers, Liberty Mutual Fire Insurance Company, Liberty Insurance Corporation, The First Liberty Insurance Corporation and LM Insurance Corporation.

IV. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Liberty Mutual Insurance Company is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. The Company does make some independent filings. The NCCI acts as statistical agent for this line of business.

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1997	\$52,820,868	427
1998	\$40,165,682	375
1999	\$52,929,775	398

b. Error Percentages

One hundred thirty-nine (139) policies and audits were examined.

Ten (10) errors were found.

Errors affecting premium resulted in four (4) undercharges totaling \$18,510.

The errors are broken down as follows:

1. Five (5) errors were due to failure to apply the correct classification codes for the business of the insured. There were two (2) instances of using Code 8742 and 8810 in lieu of the correct Code 9012 and two (2) instances of using Code 9014 in lieu of the correct Code 9015 for an insured doing business as property managers. There was one (1) instance of using Code 8013 in lieu of the correct Code of 8018 for a wholesale trophy dealer. This constitutes a violation of Section 627.191, Florida Statutes.
2. Three (3) errors were due to attaching the Florida Contracting Classification Premium Adjustment Endorsement to policies that had no contracting classification. These errors did not result in any overcharges. This constitutes a violation of Section 627.191, Florida Statutes.
3. One (1) error was due to allowing a Workplace Safety Credit without Certification Form 09-1. This error resulted in an undercharge totaling \$1,076.00. This constitutes a violation of Section 627.191, Florida Statutes.
4. One (1) error was due to the auditor using the Corporate Officer Maximum Remuneration for the year prior to the policy term. This constitutes a violation of Section 627.191, Florida Statutes.

2. Unit Statistical Review

a. Audit Comparison

Forty (40) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Ten (10) claim statistical cards were examined.

Two (2) errors were found.

The errors are broken down as follows:

1. One (1) error was due to failure to report the correct code for a settlement under Loss Conditions. The claim was closed with a compromise settlement (06), but it was reported as no settlement (00). This constitutes a violation of Section 627.191, Florida Statutes.
2. One (1) error was due to failure to report the correct Lump Sum Indicator of (Y) as the settlement was a lump sum. This constitutes a violation of Section 627.191, Florida Statutes.

V. AGENTS/MGA REVIEW

Ten (10) applications/policies written during the scope of the examination were examined.

Twenty (20) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Ten (10) errors were due to the Company not using the approved application as required by Section 440.381. This constitutes a violation of Rule 4-189.003, Florida Administrative Code.
2. Ten (10) errors were due to the Company failing to display the agent's license identification number on applications. This constitutes a violation of Section 627.4085, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-four (24) cancelled/nonrenewed policies were examined.

No errors were found.

VII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company. Complaint handling procedures are described in Exhibit IV. Consumer complaints received during the scope of examination were reviewed, and findings are as follows:

A. INFORMAL COMPLAINTS

Caswell	Claim Denial	No Violations	Invoice not received Payment made
Gunn	Claim Payment Delay	No Violations	Payment made
Jarrett	Discourteous Treatment	No Violations	Position explained
Glorit	Claim Payment Delay	No Violations	Payment made
Cotton	Alleged Overcharge	No Violations	Insured's record in error
Glorit	Claim Payment Delay	No Violations	Payment made
Rogers	Claim Denial	No Violations	Claim reviewed and reopened

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
COMPANY ANTI-FRAUD PLAN	I
COMPANY INTERNAL AUDIT INFORMATION	II
COMPANY COMPLAINT HANDLING PROCEDURES	III