

## EXECUTIVE SUMMARY

The Kansas Insurance Department (KID) performed a targeted market conduct examination of Liberty Mutual Insurance Company (LMIC) and Liberty Mutual Fire Insurance Company (LMFIC) from January 1, 2002 – December 31, 2004. The report is written by test and violations are listed within each category. The exam team reviewed general operations, underwriting, claims, and complaints in the St. Louis, MO, Claims Office. File samples were selected for review to verify the Company procedures and practices in claims, complaints and underwriting. Liberty Mutual staff from Boston and Portsmouth came to St. Louis to review their underwriting procedures and to train the examiners in the procedures used in these areas.

The exam team utilized the standards and tests recommended in the NAIC Market Conduct Examiners Handbook. A tolerance standard of 7% is used for claim procedures and 10% is used for all other procedures.

The company passed most tests, and in terms of delivering good service to its insureds, the examiners note an overall positive and professional performance exhibited by the LMIC and LMFIC staff and management to their policyholders. However, the exam team made recommendations on the following issues.

### **LIST OF RECOMMENDATIONS\***

#### **Complaint Handling**

Seven of the ten consumer complaints reviewed did not contain an acknowledgement within the 24-hour corporate guideline. The company should review their consumer complaint handling procedures to ensure that their guidelines are followed.

#### **Underwriting and Rating\***

1. The Auto Rating Manual must be updated within 30 days in Section B, page 03 to reflect a 36-month experience period for determining new business eligibility and a 40-month experience period for renewal eligibility. This is a violation of K.S.A. 40-955(a)(f).
2. The company charged an incorrect premium on all new business written from 1/19/04 – 3/14/05 due to the use of an incorrect tier developed from a matrix not filed and approved by KID. The Company must provide a list of policies and the amount of premium refunded within 30 days from the issuance of the Final Order for this exam. This is a violation of K.S.A. 40-955 (a)(f).
3. Liberty Mutual did not include the rating matrix or an explanation of qualifications for Liberty Mutual's 1/20/03 Tier plan on the rule page of their filed rating manual. Liberty Mutual failed to show any different risk characteristics which distinguish different classes of business and which justify a different premium charged. The Company must file a matrix or explanation for the 1/03 – 3/04 rate period to comply with K.S.A. 40-953 and K.S.A. 40-955 within 30 days from the issuance of the Final Order for this exam.

4. The Company began using credit information in 2004. The Company filed its initial credit program including a provision to re-tier customers on variables other than credit. During the Market Conduct examination, the auditors determined that the renewal procedures did not comply with K.S.A. 40-5104(g)(1). The Company disagreed but in order to resolve the impasse will revise its procedures as requested by the auditors. The Company must submit their plan to implement procedures to obtain credit information and recalculate insurance scores at least every 36 months to comply with K.S.A. 40-5104 within 30 days from the issuance of the Final Order for this exam.

5. In the Kansas State Homeowners Rating Manual under “Tier Eligibility” the Company has indicated, “Then, we add 1 point if the customer has targeted animal(s) (I.E. vicious breed dog or non-domestic animal).” The term “targeted animal(s) (I.E. vicious breed dog or non-domestic animal)” is not defined or clarified anywhere in the homeowner’s rate manual.

LM must define “targeted animal” in their rating manual since this is an element that will affect the rating of a homeowner’s policy. LM has not distinguished between the types of animals that they feel reflect the differences in expected losses and expenses and other common household pets. The Company must file amendments to their homeowners rating manual within 30 days from the issuance of the Final Order for this exam to comply with K.S.A. 40-953.

6. The Company must amend its rejection procedures to include either notifying the applicant of the adverse underwriting reasons in a letter or verbally advising applicants on how to obtain these reasons in writing. Copies of these letters must be available to future market conduct examiners as well as sufficient information to document the person talked to, date and time of the conversation. This is a violation of K.S.A. 40-2, Sections 111 and 112.

7. The exam uncovered an inconsistency in the filed rating pages caused by a typographical error in a filing. This had been corrected by the Company before it was brought to the Company’s attention by the exam team, and it did not change the way the Company was rating their policies. However, the Company should review their filing procedures to ensure that all filings are accurate, and to ensure that they follow filed procedures.

8. During the migration of Prudential policies, the Company gave a credit in the tier placement of Prudential insureds if they had Prudential life insurance policies, though this procedure was not a filed migration procedure. The Company should review their filing procedures to ensure the appropriate procedures are filed as required by Kansas law, and to ensure that the Company follows filed procedures. This is a violation of K.S.A. 40-955(f).

**\*Examiner’s Notes--The Companies complied with all the above recommendations to the satisfaction of the Department and this exam report is now final.**

### **Claim Handling**

Nine homeowner claim files did not show that the initial call was returned to the claimant within 24 hours as specified in company guidelines. The company should review their claim handling procedures to ensure that their guidelines are followed.