

EXECUTIVE SUMMARY

A market conduct examination of Liberty Mutual Fire Insurance Company, LM General Insurance Company, LM Insurance Corporation, First Liberty Insurance Corporation, and Liberty Insurance Corporation, also referred to as the “Company,” was conducted pursuant to, but not limited to, K.S.A. 40-222. The examination period was from January 1, 2012 through December 31, 2014. The focus of the exam was operations and management and policy rating of both private passenger automobile and homeowners insurance.

There were several areas where the rates and rules filed with our Department were vague or not submitted with the filing. There were other items noted as violations where the rates and rules being used did not match what was filed with our Department. In addition, there was a time period in which one company did not have an appropriate Certificate of Authority. This was promptly corrected by the Company during the examination.

Following are some of the general recommendations made by the examiners. In addition, more detailed recommendations specific to automobile and homeowner rating issues were also provided to the Company during the course of the examination and upon receipt of the examination report. Some of the rating violations noted resulted in an overcharge to consumers, while some resulted in an undercharge. With the complexity of the filings and encrypted nature of some of the auto rating plans, we are unable to fully recreate the accurate rates according to the filings.

Recommendations

Recommendation 1: The Company should ensure rating audits include and test whether the rates and rules being used correlate with those on file with our Department.

Recommendation 2: The Company must put procedures into place to ensure the certificates of authority adequately cover business prior to writing business.

Recommendation 3:

The Company must do a thorough review of their rating practices to ensure they coincide with the rules and rates filed and approved with the Kansas Insurance Department. The Company was given a list of items found by the examiners that will need to be revised in the rate and rule manual, or change the rating process to match what was filed. The Company should not limit its review to these items.

Recommendation 4:

The Company should be able to provide evidence to KID that they can recreate rates as charged to policyholders, and are using rates and rules as filed with our Department.

Recommendation 5:

The Company should ensure clear definitions and calculation instructions are provided in the Manual on future filings.

Recommendation 6:

The encrypted nature of some previous filings specifically caused several violations as noted in the auto rating section. One other such issue that we noticed, specifically regarding the encrypted nature of the rating program, is that when future rating program updates were filed, they were filed in an unencrypted manner. While it is our ultimate recommendation to not submit encrypted filings in the future, it would be our secondary recommendation to submit consistent filings when updating the rating programs and to provide consistent handraters when being examined.

Recommendation 7:

When filing rates in SERFF, the requested effective dates should refer to when the rates would be actually in operation or in force. If there is a separate renewal processing period, that should be accounted for when requesting the “effective” date.