
REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

**LIBERTY MUTUAL FIRE INSURANCE
COMPANY**

BOSTON, MASSACHUSETTS

as of

April 30, 2006

NAIC CODE 23035

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August 20, 2007

Honorable Jim Donelon
Commissioner of Insurance
State of Louisiana
P.O. Box 94214
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Commissioner Donelon:

Pursuant to statutory provisions and in compliance with your instructions, a targeted market conduct examination has been made of the affairs of the

LIBERTY MUTUAL FIRE INSURANCE COMPANY

175 Berkeley Street

Boston, Massachusetts 02117

for the period of August 28, 2005 through April 30, 2006, and the report of the examination is herewith respectfully submitted.

FOREWORD

In accordance with *LR.S. 22:1301, et seq.*, a targeted market conduct examination was performed on the activities of Liberty Mutual Fire Insurance Company from August 28, 2005 through April 30, 2006. The examination was performed by test and all tests applied during the examination are included in this report.

SCOPE OF EXAMINATION

The market conduct examination of Liberty Mutual Fire Insurance Company, hereinafter referred to as (“LMFIC”) or (“Company”), was a targeted market conduct examination authorized by the Louisiana Department of Insurance (“Department”). The examination was targeted in that not all examination procedures contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook were performed.

The purpose of this examination was to determine compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of Insurance Commissioners (“NAIC”) Guidelines. The NAIC guidelines set the standards of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders. Portions of the 2006 edition of the *NAIC Market Regulation Handbook, Volume I*, were used as a measure of compliance.

The Audit Command Language (ACL) program, a data manipulation program, was utilized in this examination. Samplings were utilized to test the Company’s records

and procedures. The ACL program was used to automatically generate a systematic sampling of claims records.

During the course of this examination, the Company's claims operations were reviewed.

Some unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific Company practices does not constitute acceptance of such practices by the Department. This report should not be construed to endorse or discredit any insurance company or insurance product. Statutory cites and regulation references are as of the period under examination unless otherwise noted.

HISTORY AND PROFILE

DIRECT WRITTEN PREMIUM (Louisiana)

<u>Line of Business</u>	<u>2005</u>	<u>2006</u>	<u>Change</u>
Fire	4,038,000	5,285,206	+30.9%
Allied Lines	1,337,189	1,731,144	+29.5%
Federal Flood	3,590,296	4,300,671	+19.8%
Homeowners Multiple Peril	34,382,063	38,760,830	+12.7%
Commercial Multiple Peril	152,881	160,788	+5.2%
Inland Marine	743,202	783,681	+5.4%
Earthquake	170,828	290,187	+69.9%
TOTAL PROPERTY	\$44,416,464	\$51,314,513	+15.5%
Other P & C Premium	72,769,750	76,580,866	+5.2%
TOTAL P&C Premium	\$117,186,214	\$127,895,379	+9.1%

Based on the increases in writings of coverage on homes, it did not seem necessary to spend time searching out non-renewals or tightened underwriting criteria. The increases from 2005 to 2006 without benefit of rate increases indicate that LMFIC remains active in the Louisiana market.

United Druggists Mutual Fire Insurance Company was chartered October 30, 1908 to provide mutual fire insurance. The Company changed its name to United Mutual Fire Insurance Company in 1918.

The Massachusetts Employees Insurance Association began operations on July 1, 1912, to provide workers compensation coverage for Massachusetts workers and formed an alliance with United Mutual Fire Insurance Company. A 1915 amendment passed by the Massachusetts legislature permitted the Company to expand into writing all kinds of public liability insurance and a 1916 amendment authorized business transactions outside Massachusetts. The name was changed to Liberty Mutual Insurance Company in August of 1917 to reflect the broader scope of insurance coverage being written. United Mutual Fire was changed to Liberty Mutual Fire Insurance Company in 1949 and structured to provide complete automobile insurance.

By 1937, the Company had expanded operations to all forty-eight (48) states, by 1965 company assets had reached \$1 billion, by 1977 net written premium exceeded \$2 billion. During the ensuing years, the parent company has been involved in numerous acquisitions, has entered the financial services market (in 1985) and subsequently left it (in 2001) to concentrate on property and casualty insurance. It converted to a mutual holding company in 2002 in order to compete in the global property and casualty stage and has since even more aggressively pursued acquisitions, alliances and international

expansion.

Certificate of Authority

The Company's operations conformed to their Certificate of Authority as issued.

CLAIMS

	KATRINA			RITA		
	PAID	CWP	OPEN	PAID	CWP	OPEN
Claims by Line	56,848	1,752	3,205	3,140	418	76
Policies	14,247	1,752	407	1,131	417	11
Amount	\$237,747,799		\$23,571,114	\$13,407,107		\$761,428

Note that the data runs showed a separate record for each line within each claim, and the number of policies is more reflective of the total number of claim encounters. It was not unusual for a policy to have claims for additional living expenses, personal property, appurtenant structures, dwelling and other lines within the policy.

The property claims practices relating to hurricane damages in 2005 were examined for efficiency of handling, accuracy of payment, timeliness in responding at

various stages in the claim handling process, adherence to contract provisions and compliance with Louisiana statutes and regulations.

A claim is generally defined as a demand for payment by an insured or third-party claimant under coverage against the insurer, which is either fully or partially paid by the insurer or which is subsequently denied under the terms of the policy contract.

Pursuant to:

“LRS 22:658. Payment and adjustment of claims, policies other than life and health and accident; personal vehicle damage claims; penalties; arson-related claims suspension

A.(1) All insurers issuing any type of contract, other than those specified in R.S. 22:656, 657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest....”

“(3) Except in the case of catastrophic loss, the insurer shall initiate loss adjustment of a property damage claim and of a claim for reasonable medical expenses within fourteen days after notification of loss by the claimant. In the case of catastrophic loss, the insurer shall initiate loss adjustment of a property damage claim within thirty days after notification of loss by the claimant. Failure to comply with the provisions of this Paragraph shall subject the insurer to the penalties provided in R.S. 22:1220.

(4) All insurers shall make a written offer to settle any property damage claim, including a third-party claim, within thirty days after receipt of satisfactory proofs of loss of that claim.”

“B.(1) Failure to make such payment within thirty days after receipt of such satisfactory written proofs and demand therefor or failure to make a written offer to settle any property damage claim, including a third-party claim, within thirty days after receipt of satisfactory proofs of loss of that claim, as provided in Paragraphs (A)(1) and (4), respectively, or failure to make such payment within thirty days after written agreement or settlement as provided in Paragraph (A)(2), when such failure is found to be arbitrary, capricious, or without probable cause, shall subject the insurer to a penalty, in addition to the amount of the loss, of fifty percent damages on the amount found to be due from the insurer to the insured, or one thousand dollars, whichever is greater, payable to the insured, or to any of said employees, or in the event a partial payment or tender has been

made, fifty percent of the difference between the amount paid or tendered and the amount found to be due as well as reasonable attorney fees and costs. Such penalties, if awarded, shall not be used by the insurer in computing either past or prospective loss experience for the purpose of setting rates or making rate filings.”

Special Provisions for Catastrophic Loss

On August 26, 2005, Governor Blanco declared a State of Emergency within the State of Louisiana for Hurricane Katrina and on September 20, 2005 Governor Blanco also declared a State of Emergency within the State of Louisiana for Hurricane Rita. Hurricanes Katrina (August 29, 2005) and Rita (September 24, 2005) resulted in some of the largest natural disasters to ever hit the United States, resulting in a massive mandatory evacuation of a large metropolitan area (New Orleans, Louisiana), severe damage to large geographic areas that resulted in restricted access for thirty (30) to sixty (60) days, damage to infrastructure including land based and cellular telephone systems, gas, water and electric utility services, roads and highways and interruption of governmental services. These hurricane disasters also resulted in massive countrywide relocation of residents which prolonged the assessment of damages and recovery. Based on these facts and the magnitude of the destruction, it has been determined that insurance claims resulting from Hurricanes Katrina and Rita are considered a “catastrophic loss” as referenced in LRS 22:658(A) (3). Therefore, insurers are required to initiate loss adjustment of a property damage claim within thirty (30) days of the reported catastrophic loss. When access to severely damaged areas was restricted by local order, loss adjustment was considered timely if the loss adjustment occurred within thirty (30) days of being granted access to the damage areas.

Among the severe problems, impediments, road blocks and hindrances LFMIC and its representatives encountered in servicing customers and adjusting the catastrophic claims attributable to Hurricanes Katrina and Rita were the following:

- Mandatory evacuation of large geographic areas
- Relocation of customers throughout the United States
- Poor or no telephone communication service, land based and cellular
- Inability of catastrophe personnel to contact claimants due to the above
- Restricted access to many of the damaged areas for up to sixty (60) days
- Curfews for damage zones
- Disruption of gas, water and electric utilities
- Disruption of essential governmental services provided by federal, state and local agencies
- Lack of housing/hotels for field adjusters resulting in long drive times into the damage zones
- Restricted gasoline supplies available for field adjusters
- Extensive damage to dwellings and their contents causing lengthy repair periods, multiple supplemental claims filed by claimants which in many cases resulted in multiple field adjuster inspections, numerous checks paid on a claim, numerous voided/stop payment checks due to transitory addresses, etc.
- Extended repair periods due to lack of building materials, qualified contractors and construction workers
- Back to back hurricanes covering some of the same area

- Unusual field adjuster turnover do to unfavorable working conditions

Due to the circumstances noted above, documented in the claim files, delays or lag times for adjusting Hurricane Katrina and Hurricane Rita claims were justifiably lengthened for valid cause.

Paid Claims

A review of sixty (60) paid claim files determined that most claims were paid in accordance with policy provisions and applicable Louisiana Statutes and Rules. For purposes of this examination, the later of the date reported and the date access to the parish was allowed, was used as the beginning date of the claim.

Five (5) cases were not contacted within the thirty (30) day requirement of *LRS 22:658(A)(3)*. One (1) of these was caused by an unresponsive adjuster, and the process was put in place only after that adjuster had been terminated and another assigned to the claim. The other four (4) cases were delayed due to displaced insureds and the subsequent inability to make contact with them on a timely basis.

Five (5) other cases did not receive payment, except for additional living expenses, within the thirty (30) days after proof of loss was presented as required by *LRS 22:658(B)(1)*. One (1) of these was because the insureds could not be located (they were living on a boat) and another was because there was difficulty in determining flood/wind damage. The other three (3) cases resulted from hold ups between the time the proof of loss was prepared and payment was made. All of these five (5) claims were paid within thirty-five (35) days after proof of loss was presented.

One (1) paid claim was delayed at every stage because both Mr. and Mrs. Insured died within 60 days after the hurricane and there were problems in dealing with the out of state estate administrators. Another claim, initially denied, did not receive payment until one hundred thirty-seven (137) days after first reporting, and then only after arbitration.

Claims Closed Without Payment (CWP)

Within the reviewed sampling of sixty (60) claims closed without payment, the reasons were as follows:

Loss less than deductible	23
Duplicate claim	7
Not insured through Liberty Mutual Fire Insurance Company	20
Claim not pursued by insured	3
No loss to covered property	5
Claim file set up in error	2
TOTAL	60

The claims closed without payment in the above sample were examined noting no unusual or improper claim handling under the circumstances and the claim practices appeared adequate and in compliance with policy provisions, state statutes and regulations.

Open Claims

Although the sixty (60) claims in this sampling have not been finalized, only one

(1) claim has had no payments. The property involved in this claim was flooded over the roof and additionally had a wind/hail exclusion on the policy. Mediation failed on this case and it is still being litigated. Payments already made on the other fifty-nine (59) claims have totaled \$5,729,307 for an average of \$95,488 per claim. Obviously, most of these are major damage claims and repair work has not been finished on most of them. Payments have been made incrementally as repair and/or replacement has occurred. Nineteen (19) of these cases are involved in litigation, mediation or arbitration. Two (2) have been turned over to LMFIC's Special Investigations Unit (SIU) to examine the possibility of fraud related activity.

Two (2) of the cases were not contacted within the thirty (30) days as required by *LRS 22:658(A) (3)*. However, both of them were contacted within thirty-eight (38) days and the delays were caused by the insureds.

Sixteen (16) of the cases did not receive payment, other than additional living expense, within the thirty (30) days after proof of loss was presented as required by *LRS 22:658(B)(1)*. The primary reason for these delays was the unavailability of contractors willing to work on major rebuilding projects when there were so many small jobs that were easier to complete. Most of these open cases required major demolition and reconstruction, and the equipment and personnel needed for this work were, and remain, in short supply. Based on the amounts paid on these claims in increments as the rebuilding has progressed, it is obvious that payments are being made as repair and/or replacement is completed.

COMMENTS AND RECOMMENDATIONS

The Company responded promptly to examination requests during the course of the target Market Conduct examination. This examination required less time than most because the Company's records were in such good order and easy to identify.

With the exception of twenty-one (21) unavoidable payment delays and seven (7) short contact delays which occurred at the height of the claim processing and issuance of claim checks, Liberty Mutual Fire Insurance Company was found to be compliant with the state statutes, rules and regulations applicable to the handling of claims in a catastrophic loss situation.

CONCLUSION

I, Boyd Anthony Higgins, do solemnly swear and affirm that I am an Examiner for the Commissioner of Insurance of the State of Louisiana, and that as such I was assigned to conduct an examination of the market conduct activities of

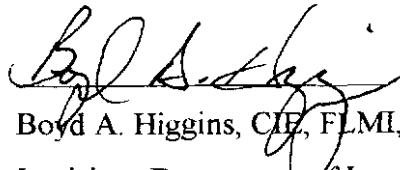
LIBERTY MUTUAL FIRE INSURANCE COMPANY

BOSTON, MASSACHUSETTS

At their Irving, Texas office

That I made such examination and the above and foregoing is a true and correct copy of my report of such Company and the same is true and correct to the best of my knowledge, information and belief.

Respectfully Submitted,



Boyd A. Higgins, CIE, FLMI, CLU, ALHC
Louisiana Department of Insurance