



Illinois Department of Insurance

JB Pritzker
Governor

Dana Popish Severinghaus
Acting Director

VIA ELECTRONIC MAIL

November 30, 2021

Mr. James M. MacPhee, President
Liberty Mutual Insurance Group
175 Berkeley St.
Boston, MA. 02116

Re: Liberty Insurance Corporation, NAIC 42404
West American Insurance Company, NAIC 44393
LM Insurance Corporation, NAIC 33600
First Liberty Insurance Corporation, NAIC 33588
Employers Insurance Company of Wausau, NAIC 21458
American Fire & Casualty Company, NAIC 24066
Ohio Security Insurance Company, NAIC 24082
Market Conduct Examination Report Closing Letter

Dear Mr. MacPhee,

The Department has received your Company's Verified Examination Report, and due to the low error percentages, the Department is closing its file on this exam.

I intend to ask the Director to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report may be subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

Please contact me if you have any questions.

Sincerely,

Erica Weyhenmeyer
Chief Market Conduct Examiner
Illinois Department of Insurance
320 West Washington St., 5th Floor
Springfield, IL 62767
Phone: 217-782-1790
E-mail: Erica.Weyhenmeyer@Illinois.gov

**ILLINOIS DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION**

OF

**LIBERTY INSURANCE CORPORATION
WEST AMERICAN INSURANCE CORPORATION
LM INSURANCE CORPORATION
FIRST LIBERTY INSURANCE CORPORATION
EMPLOYERS INSURANCE COMPANY OF WAUSAU
AMERICAN FIRE & CASUALTY COMPANY
OHIO SECURITY INSURANCE COMPANY**

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: December 1, 2020 through May 31, 2021

EXAMINATION OF: Liberty Insurance Corporation, NAIC #: 42404
West American Insurance Corporation, NAIC #: 44393
LM Insurance Corporation, NAIC #: 33600
First Liberty Insurance Corporation, NAIC #: 33588
Employers Insurance Company of Wausau, NAIC#: 21458
American Fire & Casualty Company, NAIC #: 24066
Ohio Security Insurance Company, NAIC #: 24082

LOCATION: 175 Berkeley St
Boston, MA 02116

PERIOD COVERED: October 1, 2018 through September 30, 2020
Complaints: April 1, 2018 through September 30, 2020

EXAMINERS: Ralph Romano, AFE, AIE, FLMI, MCM
Donna Lee Williams
Brad Shoop, MCM
Tony J. Taylor, DM, MCM, PMP, CSM
Lucinda Woods, CPCU, MCM, CIE, ARM, ARC, HCP,
MHP, FHIAS, Examiner-in-Charge
Shelly Schuman, ACS, AIE, AMCM, CICSR, FLMI, HIA,
PAHM, Supervisory Insurance Examiner

INDEX

I.	FOREWORD.....	1
II.	SCOPE OF THE EXAMINATION.....	2
III.	SUMMARY	3
IV.	COMPANY BACKGROUND	4
V.	METHODOLOGY	5
VI.	SAMPLE SELECTION.....	6
VII.	FINDINGS	7
	a. Complaints.....	7
	i. Consumer Complaints.....	7
	ii. Department Complaints	7
	b. Marketing and Sales	7
	c. Producer Licensing.....	7
	d. Underwriting and Rating	7
	i. New Business & Renewal Voluntary Policies Issued.....	7
	ii. New Business & Renewal Voluntary-Other	7
	iii. New Business & Renewal Involuntary Policies Issued	7
	iv. Rating- Voluntary	7
	v. Rating-Involuntary	7
	vi. Cancelled-Voluntary-Insured Request.....	7
	vii. Cancelled-Involuntary-Insured Request.....	8
	viii. Cancelled-Voluntary-Company Requested.....	8
	ix. Cancelled-Involuntary-Company Requested	8
	x. Non-Renewal Voluntary	8
	e. Claims.....	8
	i. Closed Without Payment-Voluntary	8
	ii. Closed Without Payment-Involuntary.....	8
	iii. Denied-Voluntary- Claims	8
	iv. Denied-Involuntary-Claims	9
	v. Paid-Voluntary-Claims	9
	vi. Paid-Involuntary-Claims.....	9

I. FOREWORD

This is a market conduct examination report of the Liberty Mutual Companies (the “Company” or “Liberty Mutual”). This examination was conducted off-site and the office of the Illinois Department of Insurance in Springfield, Illinois.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures or files does not constitute approval thereof by the Illinois Department of Insurance (“IDOI” or “Department”).

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

II. SCOPE OF THE EXAMINATION

The Department has the authority to conduct this examination pursuant to, but not limited to, 215 ILCS 5/132.

The purpose of the examination was to determine if the Company complied with the Illinois Insurance Code (215 ILCS 5/1 et seq.), (820 ILCS 305/1 et seq.), the Illinois Administrative Code (50 Ill. Admin. Code 2902 and 9110), and to consider whether the Company's operations are consistent with the public interest for workers compensation. The primary period covered by this review is October 1, 2018 through September 30, 2020, and April 1, 2018 through September 30, 2020 for complaints, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination involved the following business functions and lines of business: underwriting, claims handling practices; policy forms and advertising in use; producer licensing; policyholder services; the handling of consumer complaints and Department complaints for voluntary and involuntary workers compensation business.

In performing this examination, the examiners reviewed a sample of the Company's practices, procedures, products, forms, advertising, claim adjudication guidelines, and files.

Therefore, some noncompliant events may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

III. SUMMARY

The following represent general findings, however specific details are found in each section of the report.

TABLE OF TOTAL VIOLATIONS						
Criticism	Crit #	Statute/Rule	Description of Violation	Samples	# of Violations	Error %
DOI Complaints	4	50 ILL Adm. Code 926.40(a)	Failure to provide a written response within 21 days of receipt.	22	1	5%
Non-Renewals-Voluntary	7	215 ILCS 5/143.17a(a)	Failed to provide a specific explanation for the reason of nonrenewal	68	1	1%
Non-Renewals-Voluntary	6	215 ILCS 5/143.17a(d)	Failed to maintain proof of mailing of the notice of intention not to renew to the named insured.	68	3	4%
Non-Renewals-Voluntary	5	215 ILCS 5/143.27a	Failed to provide sixty (60) days' notice of its intention to non-renew the policy	68	1	1%
New Business and Renewals-Other	8	215 ILCS 5/462a	Failed to provide written notice in excess of 5% premium increase on renewals	93	1	1%
Cancelled-Involuntary-Company Requested	9	215 ILCS 5/143.14(a)	Failed to maintain proof of mailing of the notice of intention to cancel to the named insured.	91	1	1%
Paid Claims-Voluntary	3	215 ILCS 5/154.6(d)	Failed to in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability has become reasonably clear.	109	1	1%
Denied Claims-Voluntary	2	215 ILCS 5/154.6	Failed to include a reasonable and accurate explanation of the basis in the insurance policy or applicable law for such denial or compromise settlement.	77	1	1%
Denied Claims-Voluntary	1	50 Ill. Adm. Code 9110.70d	Failed to include a written explanation of the basis for the denial of liability or further responsibility.	77	4	5%

IV. COMPANY BACKGROUND

Liberty Mutual Companies

In business since 1912, and headquartered in Boston, Mass., today Liberty Mutual is a diversified insurer with operations in 28 countries and economies around the world. The Company is the third largest property and casualty insurer in the U.S, fourth largest commercial lines writer in the US, and fifth largest global property and casualty insurer. Liberty Mutual is ranked 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 revenue. As of December 31, 2018, the Company had \$126 billion in consolidated assets, \$105.2 billion in consolidated liabilities, and \$41.6 billion in annual consolidated revenue. Liberty Mutual employs more than 50,000 people in approximately 30 countries throughout the world, and offers a wide range of insurance products and services, including personal automobile, homeowners, accident & health, commercial automobile, general liability, property, surety, workers compensation, group disability, group life, specialty lines, reinsurance, individual life and annuity products. The business of Liberty Mutual is headquartered in Boston, Massachusetts.

V. METHODOLOGY

The market conduct examination covered the business for the period of October 1, 2018 through September 30, 2020, and April 1, 2018 through September 30, 2020 for complaints, unless otherwise noted. Specifically, the examination focused on a review of the following areas:

- a. Department and Consumer Complaints
- b. Producer Licensing
- c. Marketing and Sales
- d. Underwriting and Rating
- e. Claims

The review of the categories was accomplished through examination of individual underwriting and claim files, written interrogatories, and interviews with company personnel. Each of these areas is examined for compliance with Department of Insurance rules and regulations and applicable state laws.

The report concerns itself with improper practices performed by the Company which resulted in failure to comply with Illinois statutes and/or administrative rules. Criticisms were prepared and communicated to the Company addressing violations discovered in the review process. All valid violations were cited in the report. The following methods were used to obtain the required samples and to assure a methodical selection:

Department and Consumer Complaints

The Department requested the Company provide all files relating to workers compensation complaints received via the Department and those received directly from consumers.

Producer Licensing

Policies were reviewed to determine if solicitations had been made by duly licensed persons.

Marketing and Sales

The Marketing and Sales portion of the examination is designed to evaluate the representations made by the Company about its products or services. The items requested for this category consisted of all sales, advertising, producer training, and producer communications created during the examination period for workers compensation. This portion is not typically based on sampling techniques. This review was based on a judgmental sample.

Underwriting

The underwriting of applicants for both voluntary and involuntary workers compensation coverage was selected based on inception date of the policy falling within the period of the examination. Policies were reviewed for rating accuracy, use of filed rates, and use of filed forms, for compliance with company and NCCI underwriting guidelines.

Cancellation and non-renewals of policyholders were requested based on the effective date of the transaction falling within the exam period. Cancellation and non-renewals were reviewed for their compliance with statutory requirements, the accuracy of reason given, NCCI rules (for involuntary business), and for any possible discrimination. *The Company indicated that there were no non-renewal policies for the involuntary business*

Claims

All claims were reviewed for compliance with policy contracts and applicable sections of the Illinois Insurance Code (215 ILCS 5/1 et seq. and 820 ILCS 305/1 et seq.) and the Illinois Administrative Code (50 Ill. Admin. Code 2902 and 9110).

VI. SAMPLE SELECTION

Survey	Reviewed	% Reviewed
COMPLAINTS		
Consumer Complaints	13	100%
Department of Insurance Complaints	22	100%
MARKETING AND ADVERTISING		
Advertising	48	100%
PRODUCER LICENSING		
Agents	157	1%
UNDERWRITING and RATING		
New Business & Renewal-Voluntary	115	14%
New Business & Renewal-Voluntary-Other	93	11%
New Business & Renewal-Involuntary	116	11%
Rating-Voluntary	25	3%
Rating-Involuntary	25	3%
Cancelled-Insured Request-Voluntary	66	100%
Cancelled-Insured Request-Involuntary	25	100%
Company Cancelled-Voluntary	76	19%
Company Cancelled-Involuntary	91	3%
Non-Renewed-Voluntary	68	100%
CLAIMS ANALYSIS		
Closed Without Payment Claims-Voluntary	108	18%
Closed Without Payment Claims-Involuntary	84	35%
Claims Denied-Voluntary	77	26%
Claims Denied-Involuntary	55	100%
Claims Paid-Voluntary	109	10%
Claims Paid-Involuntary	109	13%

VII. FINDINGS

a. Complaints

i. Consumer Complaints

1. There were thirteen (13) consumer complaints received.
2. No exceptions were noted.

ii. Department Complaints

1. In one (1) instance of the twenty-two (22) DOI complaint files reviewed, for an error percentage of four percent (5%), the Company failed to respond to the Department of Insurance complaints within 21 days as required by 50 Ill. Admin. Code 926.40(a).
2. The median for response was fourteen (14) days.

b. Marketing and Sales

1. There were 48 advertising forms reviewed.
2. No exceptions were noted.

c. Producer Licensing

1. There were 157 agents reviewed.
2. No exceptions were noted.

d. Underwriting and Rating

i. New Business & Renewal Voluntary Policies Issued

1. There were one hundred fifteen (115) files reviewed.
2. No exceptions were noted.

ii. New Business & Renewal Voluntary-Other

1. In one (1) instance of the ninety-three (93) files reviewed for an error percentage of one (1) percent, the Company failed to provide written notice in excess of 5% premium increase on renewals.

iii. New Business & Renewal Involuntary Policies Issued

1. There were one hundred sixteen (116) files reviewed.
2. No exceptions were noted.

iv. Rating- Voluntary

1. There were twenty-five (25) rated.
2. No exceptions were noted.

v. Rating-Involuntary

1. There were twenty-five (25) rated.
2. No exceptions were noted.

vi. Cancelled-Voluntary-Insured Request

1. There were sixty-six (66) files reviewed.
2. No exceptions were noted.

- vii. Cancelled-Involuntary-Insured Request
 - 1. There were twenty-five (25) files reviewed.
 - 2. No exceptions were noted.
- viii. Cancelled-Voluntary-Company Requested
 - 1. There were seventy-six (76) files reviewed.
 - 2. No exceptions were noted.
- ix. Cancelled-Involuntary-Company Requested
 - 1. In one instance of the ninety-one (91) involuntary cancelled files reviewed for an error percentage of 1%, the Company failed to maintain proof of mailing of the notice of intention to cancel to the named insured as required by 215 ILCS 5/143.14(a).
 - 2. No exceptions were noted.
- x. Non-Renewal Voluntary
 - 1. In one (1) instance of the sixty-eight (68) voluntary non-renewed files reviewed for an error percentage of one (1) percent, the Company failed to provide sixty (60) days' notice of its intention to non-renew the policy. This is a violation of 215 ILCS 5/143/17a.
 - 2. In three (3) instances of the sixty-eight (68) voluntary non-renewed files reviewed for an error percentage of four percent (4%), the Company failed to maintain proof of mailing of the notice of intention not to renew to the named insured as required by 215 ILCS 5/143.17a (d).
 - 3. In one (1) instance of the sixty-eight (68) voluntary non-renewed files reviewed for an error percentage of one (1) percent, the Company failed to provide a specific explanation for the reason of nonrenewal. This is a violation of 215 ILCS 5/143.17a.

e. Claims

- i. Closed Without Payment-Voluntary
 - 1. There were 108 files reviewed.
 - 2. No exceptions were noted.
- ii. Closed Without Payment-Involuntary
 - 1. There were 84 files reviewed.
 - 2. No exceptions were noted.
- iii. Denied-Voluntary- Claims
 - 1. In four (4) instances of the seventy-seven (77) voluntary denied claim files reviewed, for an error percentage of five percent (5%), the Company failed to include a written explanation of the basis for the denial of liability or further responsibility. This is a violation of 50 Ill. Admin. Code 9110.70.
 - 2. In one (1) instance of the seventy-seven (77) voluntary denied claim files reviewed, for an error percentage of one percent (1%), the Company failed to provide a reasonable and accurate explanation of the basis in the insurance policy or applicable law for such denial or compromise settlement. This is a violation of 215 ILCS 5/154.6.

- iv. Denied-Involuntary-Claims
 - 1. There were 55 files reviewed.
 - 2. No exceptions were noted.

- v. Paid-Voluntary-Claims
 - 1. In one (1) instance of the 109 voluntary paid claim files reviewed, for an error percentage of one percent (1%), the Company did not effectuate prompt, fair and equitable settlement of claims submitted in which liability has become reasonably clear. This is a violation of 215 ILCS 5/154.6(d).

- vi. Paid-Involuntary-Claims
 - 1. There were 109 files reviewed.
 - 2. No exceptions were noted.

EXAMINATION DRAFT REPORT SUBMISSION

The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged and appreciated.

Donna Lee Williams
Ralph Romano
Bradley Shoop
Tony Taylor
Lucinda Woods, Examiner-in-Charge
Shelly Schuman, Supervisory Insurance Examiner

Respectfully submitted,

Lucinda Woods

LUCINDA WOODS
EXAMINER-IN-CHARGE



SHELLY SCHUMAN
SUPERVISING EXAMINER