



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

October 15, 2013

*Sent via USPS certified mail
return receipt requested*

Sebestyen Martens
Liberty Mutual Insurance Company
175 Berkeley Street
Boston, MA 02117

Re: Market Conduct Examination of Liberty Mutual Insurance Company, NAIC # 23043

Dear Mr. Martens:

A Market Conduct Examination of your company was conducted by authorized examiners designated by the Director of Insurance pursuant to Illinois Insurance Code Sections 132, 401, 402, 403 and 425 of the Illinois Insurance Code. The period covered by the examination was July 1, 2011 through June 30, 2012.

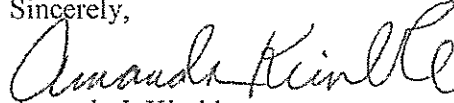
As required by Illinois Insurance Code Section 132, the Director must notify the company made the subject of any market conduct examination of the contents of the verified examination report before filing it and making the report public of any matters relating thereto, and must afford the company an opportunity to demand a hearing with reference to the facts and other evidence therein contained. A copy of the examination report is accordingly enclosed with this letter as well as a Stipulation and Consent Agreement. The company may request a hearing within 10 days after receipt of the examination report by giving the Director written notice of the request, together with a statement of its objections. The examination report will generally not be filed until hearing is completed.

Companies that do not demand a formal hearing may submit their rebuttal with respect to any matters in the examination report. The rebuttal will be considered by the Director before the examination report is filed. Please provide any rebuttals, or the signed Stipulation and Consent Order, to the undersigned by close of business, October 25, 2013. In the event that the Company elects to sign the Stipulation and Consent Order, please sign and return both copies. The Director will sign both copies and a fully executed copy will be returned to you for your records. Note that the Stipulation and Consent requires proof of compliance with Orders 1 through 4 and payment of a civil forfeiture in the amount of \$20,000 within 30 days of the receipt of the fully executed Stipulation and Consent Order.

122 S. Michigan Avenue, 19th Floor
Chicago, Illinois 60603
(312) 814-2420
<http://insurance.illinois.gov>

Once the report of examination has been filed, the exam report, the company's rebuttal, if any, and corresponding Orders (if applicable) are public documents under the Freedom of Information Act (5 ILCS 140/1 *et al.*) and may be posted on the Department's website. In the event of a formal hearing, the record of the hearing, the Hearing Officer Recommendations and the Director's final Order are also public documents and may be posted on the Department's website. Please contact me if you have any questions. I may be reached at 312-814-2420.

Sincerely,



Amanda J. Kimble

Assistant General Counsel

Illinois Department of Insurance

Amanda.Kimble@illinois.gov

This Market Conduct Examination was conducted pursuant to Sections 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.

This report is divided into five parts. They are as follows: Summary, Background, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.

No company, corporation, or individual shall use this report or any statement, excerpt, portion, or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).

The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.

Amanda J. Kimble
Assistant General Counsel
Illinois Department of Insurance
Amanda.Kimble@illinois.gov

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE



IN THE MATTER OF THE EXAMINATION OF

LIBERTY MUTUAL INSURANCE COMPANY
175 BERKELEY STREET
BOSTON, MA 02117

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 132, 401, 401.5, 402, 403 and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/401.5, 5/402, 5/403, and 5/425) do hereby appoint Scott A. Hanfling of Kerns Frost & Pearlman LLC ("KF&P"), as Examiner-In-Charge, and Mark Wilson, Tim Kelly, and Meghan Welch, each of KF&P, as Examiners, to examine the insurance business and affairs of Liberty Mutual Insurance Company, NAIC # 23043, and to make a full and true report to me of the examination made by them of the Company's workers' compensation claim settlement and policy administration practices with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business. The costs of this examination shall be borne by the company.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of Liberty Mutual Insurance Company.



IN TESTIMONY WHEREOF, I hereto set my hand and cause to be affixed this Seal.

Done at the City of Chicago, this 18th day of September, 2012.


Andrew Boron

Director

LIBERTY MUTUAL INSURANCE COMPANY

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: March 8, 2013, through May 23, 2013

EXAMINATION OF: Liberty Mutual Insurance Company
(NAIC# 23043)

LOCATION: 175 Berkeley Street
Boston, MA 02116

PERIOD COVERED BY
EXAMINATION: July 1, 2011 through June 30, 2012

EXAMINERS: Scott A. Hanfling, Examiner-in-Charge
Meghan A. Welch
Timothy W. Kelly

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| 1. Workers Compensation | |
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| 1. Workers Compensation | |

I. SUMMARY

1. The Company was criticized for failing to pay interest on adequately documented health care provider bills not paid within thirty (30) days of receipt. The Company was in violation of 820 ILCS 305/8.2(d)(3) and a Class Criticism was issued.
2. The Company was criticized under 820 ILCS 305/19(o) for failing to notify the insured employer by the 15th day of the month of any compensable claim incurred during the preceding month, and the amounts paid or reserved on the claim, including a summary of the claim and a brief statement of the reasons for compensability. A Class Criticism was issued.
3. The Company was also criticized under 820 ILCS 305/19(o) for failing to provide to each insured employer within 30 days after the end of the calendar year a cumulative report of all claims incurred during the calendar year or continued from the previous year. A Class Criticism was issued.
4. The Company was criticized under 215 ILCS 5/132(2) for its inability to provide copies of reports prepared pursuant to 820 ILCS 305/19. A Class Criticism was issued.

II. BACKGROUND

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company began operations on July 1, 1912 as a mutual company and was originally known as the Massachusetts Employees' Insurance Association ("MEIA"). MEIA changed its name to Liberty Mutual Insurance Company in 1917. Also in 1917, Liberty Mutual entered into an arrangement with United Mutual Fire Insurance Company (which became Liberty Mutual Fire Insurance Company) to provide automobile insurance. In 2002, Liberty Mutual converted to a mutual holding company structure. Liberty Mutual Insurance Company is a Massachusetts domestic insurer with its corporate home office in Boston, Massachusetts.

III. METHODOLOGY:

The Market Conduct Examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants.

The following categories are the general areas examined:

1. Claims
2. Statutorily required reporting

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

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated with the insurer, but not cited in the report if not indicative of a general trend.

The following method was used to obtain the required samples and to assure a methodical selection. Claim files were requested from Company generated Excel spreadsheets for retrieval.

Claims

Claims were requested based on the submission of medical bills by Illinois providers occurring within the period under examination.

All claims were reviewed for compliance with applicable sections of the Illinois Insurance Code (215 ILCS 5/1 et seq.), the Illinois Workers Compensation Act (820 ILCS 305/1 et seq.), and Part 919 (50 Ill. Adm. Code 919).

Statutorily Required Reporting

Statutorily required reporting was reviewed for compliance with applicable sections of the Illinois Insurance Code (215 ILCS 5/1 et seq.), the Illinois Workers Compensation Act (820 ILCS 305/1 et seq.), and Part 919 (50 Ill. Adm. Code 919).

Selection of Samples

| <u>Survey</u> | <u>Population</u> | <u># Reviewed</u> | <u>% Reviewed</u> |
|---------------------------------|-------------------|-----------------------|-----------------------|
| Claims: | | | |
| Workers Compensation | 142 | 142 | 100.00% |
| Separate Medical Bills | 917 | 917 | 100.00% |
| Statutorily Required Reporting: | | | |
| Workers Compensation | 36 | 36 | 100.00% |

V. FINDINGS:

A. Claims:

1. Workers Compensation

There were 917 instances during the experience period in which medical bills were submitted by an Illinois provider on behalf of an insured. In 11 of those instances, the Company failed to pay the provider within 30 days of receipt of adequate documentation of the charges and was required to pay interest. The Company failed to pay any interest (100.00% of the applicable times) and was in violation of 820 ILCS 305/8.2(d)(3). A Class Criticism was issued.

B. Statutorily Required Reporting:

1. Workers Compensation

There were 36 employer insureds who had medical bills submitted by Illinois providers during the experience period. The Company failed to provide evidence the insured was provided monthly claim reports as outlined in 820 ILCS 305/19(o) for 35 of these insureds (97.22%). A Class Criticism was issued.

Of the 36 employer insureds who had medical bills submitted by Illinois providers during the experience period, the Company failed to provide evidence of annual reporting as required by 820 ILCS 305/19(o) for 28 of the employer insureds (77.78%). A Class Criticism was issued.

C. Access to Records

1. Workers Compensation

The Company has a policy of retaining copies of the reports made to employer insureds as required by 820 ILCS 305/19(o) for a period of four months. As a result, the Company was unable to provide documentation of its compliance with 820 ILCS 305/19(o) for each month of the experience period and is in violation of 215 ILCS 5/132(2) which requires the Company to provide access to all books, records, documents, and any or all papers relating to the business of the company. A Class Criticism was issued.

STATE OF ILLINOIS)
) ss
COUNTY OF COOK)

Scott A. Hanfling, being first duly sworn upon his oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of:

Liberty Mutual Insurance Company, NAIC #23043

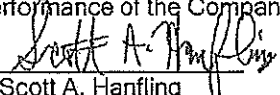
That, as Examiner-In-Charge, he was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither he nor any other persons designated as examiners nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as policyholders, and that neither he nor any other persons designated as examiners nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

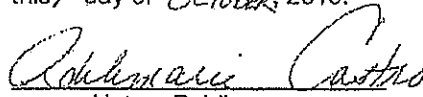
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

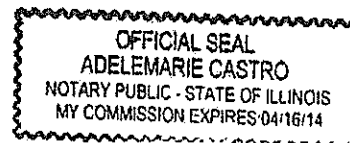
That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

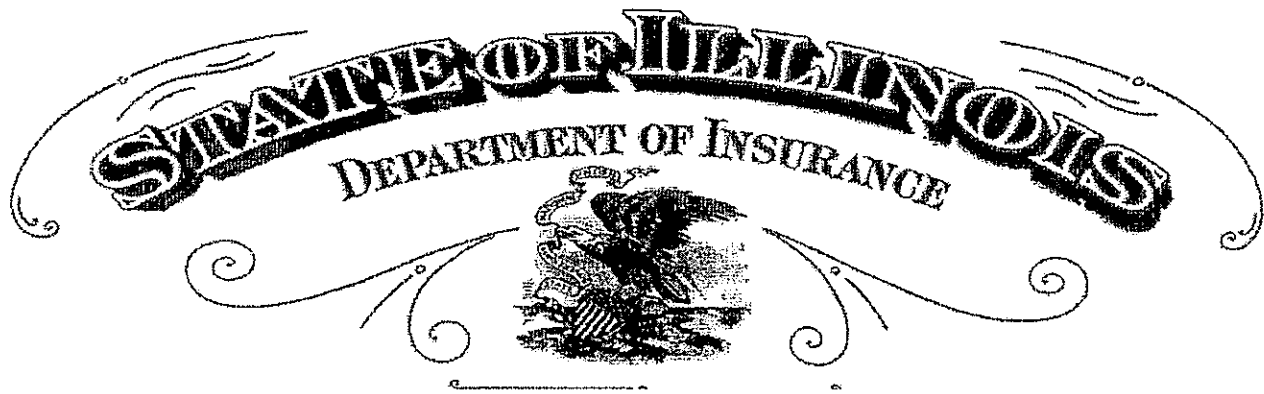
That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Company.


Scott A. Hanfling
Examiner-In-Charge

Subscribed and sworn to before me
this 7th day of *October*, 2013.


Notary Public





LIBERTY MUTUAL INSURANCE COMPANY
175 BERKELEY STREET
BOSTON, MA 02116

STIPULATION AND CONSENT ORDER

WHEREAS, the Director ("Director") of the Illinois Department of Insurance ("Department") is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Liberty Mutual Insurance Company ("Company") is authorized under the insurance laws of this State and by the Director to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by duly qualified examiners of the Department pursuant to the Illinois Insurance Code; and

WHEREAS, said report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, the Company is aware of and understands its various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407 and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS agreed by and between the Company and the Director as follows:

1. The Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and the Illinois Workers Compensation Code; and
2. The Director and the Company consent to this order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and the Illinois Workers Compensation Code.

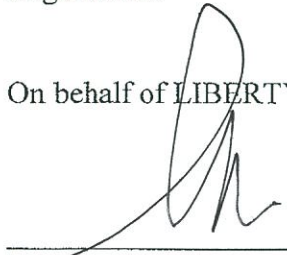
THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain procedures whereby the Company pays interest on adequately documented health care provider bills not paid within thirty (30) days of receipt as required by 820 ILCS 305/8.2(d)(3).
2. Institute and maintain procedures whereby the Company notifies the insured employer by the 15th day of the month of any compensable claim incurred during the preceding month, and the amounts paid or reserved on the claim, including a summary of the claim and a brief statement of the reasons for compensability, as required by 820 ILCS 305/19(o).
3. Institute and maintain procedures whereby the Company provides to each insured employer within 30 days after the end of the calendar year, a cumulative report of all claims incurred during the calendar year or continued from the previous year, as required by 820 ILCS 305/19(o).
4. Institute and maintain procedures whereby the Company is able to produce copies of reports prepared pursuant to 820 ILCS 305/19 and as required by 215 ILCS 5/132(2).
5. Submit to the Director of the Department of Insurance, State of Illinois, proof of compliance with the above four (4) orders within 30 days of receipt of these Orders.
6. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$20,000 to be paid within 30 days of the execution of these orders.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code, including but not limited

to levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of LIBERTY MUTUAL INSURANCE COMPANY:



Signature

SEBESTYEN MARTENS

Name

COUNSEL

Title

Subscribed and sworn to before me this 12 day of December A.D. 2013.



Notary Public



DEPARTMENT OF INSURANCE of the State of Illinois:

DATE December 20, 2013



Andrew Boron
Director



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

February 27, 2014

Sebestyen Q. Martens
Counsel
Liberty Mutual Insurance Company
Market Conduct Services
Office of Corporate Compliance
175 Berkeley Street
Boston, MA 02116

Re: *Liberty Mutual Insurance Company*
Market Conduct Examination Report

Dear Mr. Martens:

The company has submitted to the Department proofs of compliance with Order # 1 through Order #4 and has submitted the \$20,000 civil forfeiture as outlined in the Stipulation and Consent Order issued by the Department. These proofs of compliance have been reviewed and are satisfactory.

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.

Sincerely,

A handwritten signature in black ink, appearing to read "Lysa Saran", written over a horizontal line.

Lysa Saran
Senior Policy Advisor
Illinois Department of Insurance
122 S. Michigan Avenue, 19th Floor
Chicago, IL 60603
Phone: 312-814-1767
Cell: 312-833-4396
E-mail: Lysa.Saran@Illinois.gov