



# Illinois Department of Insurance

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Bruce Rauner  
Governor

Anne Melissa Dowling  
Acting Director

July 22, 2016

Thomas A. Lawson, President  
Factory Mutual Insurance Company  
Affiliated FM Insurance Company  
270 Central Avenue  
Johnston, RI 02919-4949

**Re: Factory Mutual Insurance Company, NAIC 21482  
Affiliated FM Insurance Company, NAIC 10014  
Market Conduct Examination Report Closing Letter**

Dear Mr. Lawson:

On June 20, 2016, the Department sent your Companies a draft copy of the examination report for the above examination. On July 21, 2016, the Department received correspondence from Ian Saiz, Manager Underwriting Compliance, indicating your Companies are in agreement with the findings contained in the report.

Enclosed with this letter is a copy of the verified examination report. The Department has completed the Market Conduct examination of Factory Mutual Insurance Company and Affiliated FM Insurance Company and is closing its file on the 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,

A handwritten signature in cursive script that reads "Jack Engle".

Jack Engle, MCM  
Assistant Deputy Director-Market Conduct and Analysis  
Illinois Department of Insurance  
320 West Washington- 5th Floor  
Springfield, IL 62767  
217-558-1058  
E-mail: Jack.Engle@Illinois.gov

cc: Ian Saiz

**FACTORY MUTUAL INSURANCE COMPANY  
and  
AFFILIATED FM INSURANCE COMPANY**

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: October 1, 2015 through February 23, 2016

EXAMINATION OF: Factory Mutual Insurance Company  
(P&C Foreign) NAIC #21482  
  
Affiliated FM Insurance Company  
(P&C Foreign) NAIC #10014

LOCATION: 270 Central Avenue  
Johnston, RI 02919-4949

PERIOD COVERED BY  
EXAMINATION: June 1, 2014 through May 31, 2015

EXAMINERS: John McGinty  
Lisa B. Crump, Examiner-in-Charge

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## I. SUMMARY

A comprehensive market conduct examination of Factory Mutual Insurance Company (FM) and Affiliated FM Insurance Company (AFM), collectively known as the “Companies,” was performed to determine compliance with Illinois statutes and the Illinois Administrative Code. The Companies are a part of FM Global, a specialty insurer that provides first-party commercial property insurance and reinsurance to large industrial and institutional companies. FM and AFM were examined collectively as many of the same processes, procedures and employees are used in the everyday operations of each Company. However, to signify where differences occurred, the Companies are referred to as FM or AFM in this report. The two lines of business reviewed are Commercial Fire and Allied Lines.

The approach that FM and AFM use for insuring properties is unique. FM and AFM are a part of FM Global’s approach to the insurance of property by helping clients identify and assess their property risk. The Companies work to provide not only traditional risk transfer but also use engineering techniques that are unique to the industry. The Companies do not rely upon standard underwriting processes, but instead use more than 1,800 FM Global engineers who work around the world providing technical assistance to their clients by helping them better understand their property and the steps needed to mitigate or reduce the risks for each property.

No violations were identified during the examination.

## II. BACKGROUND

### Factory Mutual Insurance Company (FM)

Factory Mutual Insurance Company was incorporated on October 31, 1835, and is a continuum consolidation of the former Manufacturers Mutual Fire Insurance Company, Firemen's Mutual Insurance Company and Blackstone Mutual Insurance Company, all of Providence, Rhode Island. In January of 1968, by a Special Act of the Legislature of the State of Rhode Island, legislation was passed allowing the former charters of the three constituent companies to be amended by a single charter and the three companies were consolidated under the title MFB Mutual Insurance Company. The consolidation was effective January 1, 1968.

On July 1, 1971, the corporate name of MFB Mutual Insurance Company was changed to Allendale Mutual Insurance Company. On July 1, 1999, Arkwright Mutual Insurance Company, a Massachusetts Corporation, and Protection Mutual Insurance Company, an Illinois Corporation, merged with and into Allendale Mutual Insurance Company, which simultaneously changed its name to Factory Mutual Insurance Company. On November 1, 2009, the corporate headquarters relocated to its current location in Johnston, RI.

The Company's 2013 NAIC Annual Statement, Page 14 (Illinois), reflects the following information:

Line of Business	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred
Fire	\$19,988,553	\$21,101,498	\$5,907,115	\$3,613,714
Allied Lines	\$46,731,243	\$48,394,810	\$7,961,624	\$19,831,257
Total Lines 1 & 02.1	\$66,719,796	\$69,496,308	\$13,868,739	\$23,444,971
All Lines Total	\$94,270,460	\$96,220,810	\$16,457,527	\$25,811,366

The Company's 2014 NAIC Annual Statement, Page 14 (Illinois), reflects the following information:

Line of Business	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred
Fire	\$15,128,273	\$13,938,409	\$5,918,609	\$26,799,973
Allied Lines	\$41,794,703	\$36,310,354	\$6,370,412	\$786,303
Total Lines 1 & 02.1	\$56,922,976	\$50,248,763	\$12,289,021	\$27,586,276
All Lines Total	\$88,561,780	\$79,265,290	\$14,620,815	\$33,186,131

Affiliated FM Insurance Company (AFM)

Affiliated FM Insurance Company, a stock company, was incorporated on May 6, 1949, and commenced active operations on June 1, 1950, by the companies comprising the Factory Mutual System. The ownership was by Allendale Mutual Insurance Company, Arkwright-Boston Manufacturers Mutual Insurance Company, Protection Mutual Insurance Company and Philadelphia Manufacturers Mutual Insurance Company until June 30, 1971, on which date the Allendale Mutual Insurance Company acquired the stock held by Arkwright-Boston Manufacturers Mutual Insurance Company, resulting in Allendale Mutual Insurance Company's ownership of 87.1% of the outstanding stock of the company. That stock was transferred to Allendale Associates, Inc. (presently FMIC Holdings, Inc.) on July 1, 1971. On December 30, 1974 and January 7, 1977, Allendale Associates acquired the remaining capital stock of Affiliated FM Insurance Company.

AFM's common stock is wholly-owned by FMIC Holdings, Inc. The corporation's preferred stock is owned 65.5% by FMIC Holdings, Inc. and 34.5% by Appalachian Insurance Company. FMIC Holdings, Inc. and Appalachian Insurance Company are both wholly owned subsidiaries of Factory Mutual Insurance Company.

The Company's 2013 NAIC Annual Statement, Page 14 (Illinois), reflects the following information:

Line of Business	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred
Fire	\$13,832,606	\$13,258,380	\$8,434,249	\$2,089,671
Allied Lines	\$7,315,863	\$7,090,355	\$1,562,831	\$1,131,925
Total Lines 1 & 02.1	\$21,148,469	\$20,348,735	\$9,997,080	\$3,221,596
All Lines Total	\$32,315,599	\$31,885,414	\$31,048,297	\$35,430,120

The Company's 2014 NAIC Annual Statement, Page 14 (Illinois), reflects the following information:

Line of Business	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred
Fire	\$13,832,747	\$13,822,260	\$2,890,678	\$4,139,763
Allied Lines	\$7,190,354	\$7,254,960	\$1,605,926	\$1,605,926
Total Lines 1 & 02.1	\$21,023,101	\$21,077,220	\$4,496,604	\$5,745,689
All Lines Total	\$32,435,104	\$32,533,237	\$22,352,534	\$20,483,588

### III. METHODOLOGY

The Market Conduct Examination process places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The two lines of business reviewed in this examination are Commercial Fire and Allied Lines. This report is a collective report with group samples that combine both companies since they operate with the same procedures, platforms and personnel. The group samples were proportional between each individual company.

The scope of this examination was a comprehensive examination including a review of the following areas:

- A. Company Operations and Management
- B. Complaints
- C. Producer Licensing
- D. Risk Selection
- E. Underwriting
- F. Claims

The review of the categories was accomplished through examination of material related to Company operations and management, complaint files, producer lists, underwriting files, risk selection files and claim files, as well as, interviews and Company responses to the Coordinator's Handbook, information requests and criticisms. Each of the categories was examined for compliance with Illinois Department of Insurance regulations and applicable state laws.

The following methods were used to obtain the required samples and to ensure a statistically sound selection:

#### Company Operations and Management

A review was conducted of the Companies' underwriting and claims guidelines and procedures, policy forms, third party vendors, internal audits, certificates of authority, previous market conduct examinations and annual statements. These documents were reviewed for compliance with the Illinois Compiled Statutes and Illinois Administrative Code.

There were no exceptions noted.

#### Complaints

FM and AFM were requested to identify all consumer and ILDOI complaints received during the examination period and to provide copies of the complaint logs. Both FM and AFM indicated that there were no complaints received or recorded; thus, no complaint logs were available to provide to the examiners.

No complaints were received by ILDOI during the examination period.

### Producer Licensing

FM and AFM were requested to provide a list of all producers licensed to do business in the State of Illinois during the examination period. Each Company identified a universe of employees who handle the specific states and indicated that the Company is a direct writer that utilizes only salaried company employees to perform producer services. The files were reviewed to determine if solicitations were made by salaried company employees and to determine if the Companies were complying with the Illinois Compiled Statutes and Illinois Administrative Code.

There were no exceptions noted.

### Risk Selection

FM and AFM were requested to provide a list of all policies in the following categories during the examination period: company initiated cancellations, cancellations due to non-payment of premiums, and nonrenewals. The Companies identified the universe of policies. For the review, files for each line of business (fire and allied lines) was requested for FM and AFM. The requested files were received and reviewed to ensure that the policies were processed in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Title 50 of the Illinois Administrative Code. The review included compliance with statutory requirements, the accuracy and validity of reasons given and for any possible discrimination.

### Underwriting

FM and AFM were requested to provide a list of all New Business policies for the two lines of business under review. The Companies identified the universe of policies. Random samples of the provided files were requested, received and reviewed. The files were reviewed to ensure that the policies were processed in compliance with the Illinois Compiled Statutes and Illinois Administrative Code. New policies were also reviewed for the use of filed rates, the use of filed forms, compliance with Company underwriting guidelines and to ensure the coverage provided was as requested by the applicant.

### Claims

FM and AFM were requested to provide a list of all claims occurring in the two lines of business. The lists provided included Paid, Denied and Closed without Payment (CWOP) claims. For both companies, the Fire Claims review consisted of a census review which is a review of the entire universe of a specified coverage wherein the universe is comprised of 109 files or less. Regarding Allied Lines, the claim samples were pulled proportionally from the two companies.

For proportional allocation or sampling, the size of the sample in each stratum is taken in proportion to the size of the stratum. In this case, the population was the companies that write a particular line of business and are on a particular platform. For this review we determine the total number of files for both Companies and then calculate the percentage of each Company. All files were reviewed to ensure that the claims were processed in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Title 50 of the Illinois Administrative Code.

IV. SELECTION OF SAMPLE

**Survey**

	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
<b>Complaints</b>			
Complaints – DOI	0	0	100%
Complaints – Consumer	0	0	100%
<b>Producer Licensing</b>	98	98	100%
<b>Risk Selection</b>			
FM – Cancellations	1	1	100%
AFM – Cancellations	5	5	100%
FM – Non – Renewals	5	5	100%
AFM – Non – Renewals	24	24	100%
<b>Underwriting</b>			
FM – Fire/Allied Lines – New Business	3	3	100%
AFM – Fire/Allied Lines – New Business	21	21	100%
<b>Claims</b>			
Fire – Paid Claims – FM	10	10	100%
Fire – Paid Claims – AFM	27	27	100%
Fire – Closed Without Payment (CWP) – FM	8	8	100%
Fire – Closed Without Payment (CWP) – AFM	6	6	100%
Allied Lines – Paid Claims – FM	8	8	100%
Allied Lines – Paid Claims – AFM	75	75	100%
Allied Lines – Closed Without Payment (CWP) – FM	1	1	100%
Allied Lines – Closed Without Payment (CWP) – AFM	25	25	100%

V. FINDINGS

A. COMPANY OPERATIONS AND MANAGEMENT

There were no criticisms in this review.

B. COMPLAINTS

There were no complaints to review for this area.

C. PRODUCER LICENSING

There were no criticisms in this survey.

D. RISK SELECTION

1. Fire Policies – Cancellations – FM & AFM

There were no criticisms in this survey.

2. Allied Lines Policies – Non-Renewals – FM & AFM

There were no criticisms in this survey.

E. UNDERWRITING

1. New Business – FM & AFM

There were no criticisms in this survey.

F. CLAIMS

1. Fire – Claims Paid (PD) – FM

There were no criticisms for paid claims.

2. Fire – Claims Paid (PD) – AFM

There were no criticisms for paid claims.

3. Fire – Claims Closed Without Payment (CWP) – FM

There were no criticisms for claims closed without payment.

4. Fire – Claims Closed Without Payment (CWP) – AFM

There were no criticisms for claims closed without payment.

5. Allied Lines – Claims Paid – FM

There were no criticisms for paid claims.

6. Allied Lines – Claims Paid – AFM

There were no criticisms for paid claims.

7. Allied Lines – Claims Closed Without Payment (CWP) – FM

There were no criticisms for claims closed without payment.

8. Allied Lines – Claims Closed Without Payment (CWP) – AFM

There were no criticisms for claims closed without payment.

STATE OF MISSOURI        )  
  ) ss  
COUNTY OF GREENE        )

Lisa Crump, EIC, CIE, AMCM, ACS, ALHC, AIAA, FLMI, CPIW, being first duly sworn upon his/her oath, deposes and says:

That she 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 Factory Mutual Insurance Company NAIC #21482; Affiliated FM Insurance Company NAIC #10014.

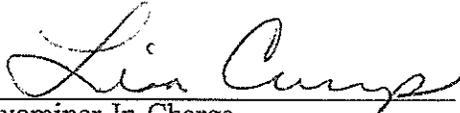
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish 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 the Examiner-In-Charge nor any other persons so designated 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 a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated 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 she 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.

  
Examiner-In-Charge

Subscribed and sworn to before me this 3<sup>rd</sup> day of MAY, 2016.

  
Notary Public

