REPORT ON

THE MARKET CONDUCT EXAMINATION

OF

LIBERTY MUTUAL FIRE INSURANCE COMPANY

as of

December 31, 1999

State of Rhode Island
Department of Business Regulation
Insurance Division

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Providence, Rhode Island

April 24, 2003

Honorable Marilyn Shannon McConaghy
Insurance Commissioner
State of Rhode Island

Dear Commissioner:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

Liberty Mutual Fire Insurance Company

175 Berkeley Street

Boston, Massachusetts 02117

hereinafter referred to as the "Company."

The examination was conducted at the following offices of the Company:

500 Spaulding Turnpike, Portsmouth, New Hampshire

245 Waterman Street, Providence, Rhode Island

FOREWORD

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination, has been omitted from the report if errors and/or improprieties were not evidenced.

SCOPE OF EXAMINATION

Authority for this examination is provided by R. I. Gen. Laws §27-13 and §27-13.1. The examination covered the period from January 1, 1998, through December 31, 1999, and was conducted in accordance with standards established by the National Association of Insurance Commissioners, as well as, procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed the review of the following areas: Certificate of Authority, Consumer or Other Related Complaints, Underwriting and Rating, Claim Practices, Cancellation Practices, and Nonrenewal Practices. The lines of business examined were homeowners and personal automobile.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island Insurance Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation on a test basis of information contained in the insurer's files, as well as consumer complaints and other pertinent documents maintained by the Rhode Island Insurance Division.

PROFILE OF COMPANY

History

The company was incorporated October 31, 1908 under the laws of Massachusetts, as the United Druggists Mutual Fire Insurance Company. The word "Druggists" was deleted from its title in 1918. The Company's present name was adopted on December 15, 1949.

Operations

The Company's Rhode Island direct written premiums for the year 1999 were as follows:

Line of Business	Direct Written Premium (1999)
Private Passenger Auto	15,054,777
Homeowners	4,221,397
Commercial Lines	1,124,529
Other Lines	1,160,218
Total	21,560,921

Management

The management of Liberty Mutual Fire Insurance Company is under the direction of experienced insurance executives, the majority of whom have spent the greater part of their business careers with the Liberty Mutual Group.

At December 31, 1999, the members of the Company's Board of Directors were as follows: Gerald E. Anderson, Michael J. Babcock, Charles I. Clough, William F. Connell, Gary L. Countryman, Paul J. Darling, II, John P. Hamill, Marian L. Heard, Edmund F. Kelly (chairman), Thomas J. May, Ray B. Mundt, Dr. Kenneth L. Rose and Glenn P. Strehle.

CERTIFICATE OF AUTHORITY

The Company's Rhode Island Certificate of Authority was reviewed in order to determine whether, during the period under examination, the Company was in compliance with R. I. Gen. Laws §27-2-11.

Based on this review, it was determined that the Company was licensed in the State of Rhode Island to write the lines of business as described previously in the Operations section of this report, and thus, was in compliance with the Certificate of Authority.

CONSUMER OR OTHER RELATED COMPLAINTS

A review of the Company's consumer or other related complaints, for the period under examination, was performed to determine whether actions taken by the Company regarding consumer or other related complaints were in compliance with R. I. Gen. Laws §27-29-3, and other applicable R. I. Gen. Laws and Insurance Regulations. The review was also conducted: to assess the Company's compliance with its formal complaint handling procedures and any applicable policy contract provisions, to determine whether complaints were processed and resolved in a timely manner, and to determine whether patterns existed in the types of complaints received by the Company.

For the period January 1, 1998 through December 31, 1999, 35 complaints [as defined by R. I. Gen. Laws §27-29-4(13)] were received by the Company. Four of the complaints were not examined because they were outside the scope of this examination (i.e. they involved commercial insurance). Of the remaining 31 complaints to be examined, 24 complaints were processed through the Rhode Island Insurance Division, and the remaining seven were directly processed by the Company. All twenty four complaints directed by the complainant to the Rhode Island Insurance Division were listed on the Company complaint register, as required by R. I. Gen. Laws §27-29-4(13).

During our testing, it was noted on one complaint, that the claimant's attorney requested disclosure of an insured's policy limits. This request was originally made on April 14, 1998. The Company did not comply with this request until August 19, 1999. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-7-5, which states that any insurance company doing business in this state shall reveal to an injured party making a claim against an insured, the amount of the limits of liability coverage, upon receiving a

request in writing for that information from the injured party or his or her attorney. A reply shall be made within fourteen (14) days of receiving the request.

Recommendation #1: It is recommended that the Company review their current procedures, and make appropriate changes that will bring the Company into compliance with R. I. Gen. Laws §27-7-5.

UNDERWRITING AND RATING

Homeowners

A review of the Company's underwriting and rating of homeowner policies was performed on new business written by the Company during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance with the Company's formal underwriting and rating guidelines and procedures. The review was also performed to assess the Company's compliance with R. I. Gen. Laws: §27-2.3-3, §27-5-1 et seq., §27-6-1 et seq., §27-7-1, §27-9-7 et seq., and §27-44-1 et seq.

During the period under examination, the Company issued 2,434 new homeowner policies to Rhode Island residents. From this population, a sample of 118 policy files was selected for underwriting and rating review.

During our testing, we noted two files in which the Company applied premium rates that were lower than those in effect as of the inception date of the policy. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(a) which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

Recommendation #2: It is recommended that the Company correct the premium for both of these policies at renewal, and refund any overcharges of premium.

During our testing, we noted one file in which the Company applied a protection device credit of 16%. In accordance with the Company's rating manual, the correct protection device credit that should have been assigned for this particular risk was 11%. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(a), which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

Recommendation #3: It is recommended that the Company take appropriate action to ensure that the proper percentage credit is applied for protective devices. In addition, the Company should make the appropriate correction to the noted exception file at renewal.

During our testing, we noted one file in which the Company applied a premium on their Homeprotector Plus coverage, in excess of the maximum premium allowed under their underwriting guidelines.

Recommendation #4: It is recommended that the Company take the necessary action to ensure that the maximum premium is not exceeded when issuing the Homeprotector Plus endorsement. In addition, the Company should refund to the insured the excess premium charged for the exception noted, and the Company should determine whether other policies within the population under review were overcharged, and if applicable, refund the overcharges.

Personal Automobile

A review of the underwriting and rating of automobile policies was performed on new automobile policies written by the Company during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance with Company's formal underwriting and rating guidelines and procedures. The review was also performed to assess the Company's compliance with the following code sections of the R. I. Gen. Laws: §27-2.3-3(a), §27-7-2.1, §27-7-2.5, §27-8-1, §29-9-1 et seq., §27-29-14, and §27-44-5. The Company's adherence to the following Rhode Island Insurance Regulations was also assessed: III, X, XXV, LIII, and LXXXIV. In addition, a review of the Company's personal automobile policy forms and endorsements

in effect during the period under examination was also performed. This review was conducted to assess whether the Company's policy was in compliance with applicable R. I. Gen. Laws and Insurance Regulations.

During the period under examination, the Company issued 2,391 personal automobile policies to Rhode Island residents. From this number, a sample of 118 files was selected for examination. The examination of these items resulted in the following exceptions.

During our testing, we noted that Personal Auto Form PP 01 89 02 94 Amendment of Policy Provisions Rhode Island, edition date 2/94, does not comply with R. I. Gen. Laws §27-8-1(9), which extends property damage liability to cover a rented motor vehicle without regard to negligence, for a period not to exceed forty-five consecutive days.

Recommendation #5: It is recommended that the Company file a revised endorsement in order to comply with R. I. Gen. Laws §27-8-1(9).

During our testing, we noted two files in which the Company failed to properly apply a premium surcharge, resulting in a misclassification and a premium undercharge. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(3) which states, "A misclassification of a risk shall be considered an adjustment without adequate justification."

Recommendation #6: It is recommended that the Company review their procedures pertaining to automobile rating, to ensure that similar errors do not occur in the future. It is also recommended that the Company apply the correct rating classification on the policy renewals.

During our testing, we noted two files in which the vehicle use is not documented on the policy application. Due to the lack of documentation relative to the insured's use of the vehicle, the examiners were unable to verify the Company's compliance with R. I. Gen.

Laws §27-44-5 (f)(3) which states, "A misclassification of a risk shall be considered an adjustment without adequate justification."

Recommendation #7: It is recommended that the Company implement policies and procedures to ensure that each policy file contain full documentation to support the classification under which the policy was rated.

During our testing, we noted three files in which the Company applied an incorrect primary classification in rating the policy, which resulted in an undercharge of premium to the insured. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(3), which states, "A misclassification of a risk shall be considered an adjustment without adequate justification."

Recommendation #8: It is recommended that the Company implement procedures to ensure that correct rating classifications are applied so that policies are rated in a fair and consistent manner. It is also recommended that the Company correct the policy's primary classification at renewal.

During our testing, we noted four files in which the Company applied an incorrect primary classification in rating the policy, which resulted in an overcharge of premium. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(3), which states, "A misclassification of a risk shall be considered an adjustment without adequate justification."

Recommendation #9: It is recommended that the Company implement procedures to ensure that correct rating classifications are applied so that policies are rated in a fair and consistent manner. It is also recommended that the aforementioned policies be re-rated using the proper primary classification from the inception date of the policy, and all overcharges of premium should be refunded to the insureds.

During our testing, we noted three files in which the Company failed to provide the insured with uninsured motorist property damage coverage. This coverage was selected by the insured per the application, and should have been included on the policies in accordance with R. I. Gen. Laws §27-7-2.1.

Recommendation #10: It is recommended that the Company implement procedures to ensure that all policies are issued in accordance with the coverages requested on the application. It is also recommended that the Company contact the above-mentioned insureds, in order to verify whether it was their intention to purchase uninsured motorist property damage coverage.

During our testing, we noted one file in which an anti-theft credit was applied in rating the policy. The Company was unable to provide the examiners with adequate documentation to justify the anti-theft credit. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(2) which states, "No insurer may make any adjustment to the full manual premium developed for any risk without adequate justification for that adjustment. An adjustment will be presumed to be adequately justified if: (ii) The insurance company's files contain adequate documentation of the facts supporting the adjustment."

Recommendation #11: It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support any credits applied in rating policies.

During our testing, we noted six files in which the policies were rated under a good student classification. The Company was unable to provide the examiners with adequate documentation to justify this classification. Therefore, we were unable to verify the Company's compliance with R. I. Gen. Laws §27-44-5(f)(3), which states, "A misclassification of a risk shall be considered an adjustment without adequate justification."

Recommendation #12: It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support the classification applied in rating policies.

During our testing, we noted one file in which a defensive driver course discount was applied in rating the policy. The Company was unable to provide the examiner with adequate documentation to justify the defensive driver course discount. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(2) which states, "No insurer may make any adjustment to the full manual premium developed for any risk without adequate justification for that adjustment. An adjustment will be presumed to be adequately justified if: (ii) The insurance company's files contain adequate documentation of the facts supporting the adjustment."

Recommendation #13: It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support any credits applied in rating policies.

During our testing, we noted two files in which a 5% anti-lock braking system discount was applied in rating the policies. The Company's vehicle identification number inquiry system indicates that the scheduled vehicles did not have an anti-lock braking system, which resulted in premium undercharges. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(a) which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

Recommendation #14: It is recommended that the Company implement procedures pertaining to automobile rating to ensure the proper application of discounts in rating policies. It is also recommended that the Company correct the rating errors upon the policy renewals.

During our testing, we noted three files in which a 5% anti-lock braking system discount was applied in rating the policy. The Company's vehicle identification number inquiry

system does not indicate whether or not the scheduled vehicles were equipped with an anti-lock braking system. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(2) which states, "No insurer may make any adjustment to the full manual premium developed for any risk without adequate justification for that adjustment. An adjustment will be presumed to be adequately justified if: (ii) The insurance company's files contain adequate documentation of the facts supporting the adjustment."

Recommendation #15: It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support any credits applied in rating its policies.

During our testing, we noted two files in which a 5% anti-lock braking system discount was not applied in rating the policies, resulting in premium overcharges. The Company's vehicle identification number inquiry system indicates that anti-lock brakes are standard for the vehicles scheduled on the policies. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(a), which states that rates shall not be excessive, inadequate, or unfairly discriminatory."

Recommendation #16: It is recommended that the Company implement procedures to ensure the proper application of discounts in rating policies. It is also recommended that the Company re-rate the aforementioned policies, and refund the premium overcharges to the insureds.

During our testing, we noted two files in which a 5% anti-lock braking system discount and a passive restraint discount was not applied in rating the policy. The Company's vehicle identification number inquiry system does not indicate whether or not the scheduled vehicles were equipped with an anti-lock braking system or a passive restraint system. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(2) which states, "No insurer may make any adjustment to the full manual premium developed for any risk without adequate justification for that adjustment. An adjustment

will be presumed to be adequately justified if: (ii) The insurance company's files contain adequate documentation of the facts supporting the adjustment."

Recommendation #17: It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support the policy rating.

During our testing, we noted 12 files in which the Company was unable to provide adequate documentation to determine the secondary classification in rating the policy. Therefore, the examiners were unable to verify the Company's compliance with R. I. Gen. Laws §27-44-5(f)(3) which states, "A misclassification of a risk shall be considered an adjustment without adequate justification."

Recommendation #18: It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support the classification used in rating the policies.

During our testing, we noted three files in which the Company applied an incorrect symbol in rating the physical damage coverage on the policy, which resulted in a premium undercharge. Therefore, the Company was not in compliance with R. I. Gen. Law §27-44-5(a), which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

Recommendation #19: It is recommended that the Company implement procedures to ensure that the correct symbols be used in policy rating. It is also recommended that the Company correct the rating errors at policy renewal.

During our testing, we noted one file in which the Company applied an incorrect symbol in rating the physical damage coverage on the policy, which resulted in a premium overcharge. Therefore, the Company was not in compliance with R. I. Gen. §27-44-5(a), which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

Recommendation #20: It is recommended that the Company implement procedures to ensure that the correct symbols be used in policy rating. It is also recommended that the Company re-rate the aforementioned policy and refund the premium overcharge to the insured.

During our testing, we noted one file that did not contain a completed application for automobile insurance. Therefore, we were unable to verify whether the Company was in compliance with R. I. Gen. Laws: §27-7-2.5, Medical Payments Coverage, and §27-7-2.1, Uninsured Motorists Coverage.

Recommendation #21: It is recommended that the Company review its procedures pertaining to automobile underwriting, to ensure that the Company obtains and retains a completed application in each policy file.

During our testing, we noted 13 files in which the Company was unable to provide the identity of the producing agent. Therefore, the examiners were unable to verify the Company's compliance with R. I. Gen. Laws: §27-2.3-3 (a) which states, "No person shall act or hold oneself out to be an insurance producer for any class or classes of insurance unless duly licensed for such class or classes in accordance with this chapter."

Recommendation #22: It is recommended that the Company review its licensing procedures to ensure that all policy applications contain the name of the producing agent.

CLAIM PRACTICES

Homeowners

A review of the Company's homeowners claim practices for the period under examination was conducted to determine whether the Company complied with applicable provisions of its homeowners policy, did not misrepresent the policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used properly licensed claim adjusters and made fair and equitable settlement of

homeowners claims. In addition, the review was performed to evaluate whether the Company was in compliance with R. I. Gen. Laws §27-5-3, §27-8-12, §27-9.1-4, §27-10-3, and §27-10-6 and Insurance Regulations LXXIII, (R27-73-001, et seq., effective 3-29-99).

The Company provided the examiners with two listings; one showing claims closed with payment and the other for claims closed without payment. The population of the homeowners claims closed with payments for the period under examination was 881. The population of homeowner claims closed without payments for the period under examination was 381.

Homeowners Paid Claims

The Company's procedures for handling homeowners claims closed with payment were examined to determine whether the Company was in compliance with applicable R. I. Gen. Laws and Insurance Regulations.

A sample of 109 claim files was requested for review. Based on the results of the homeowner paid and closed claims review, two exceptions were noted. The two exceptions involved claims which were adjusted by an individual who did not possess a Rhode Island adjuster's license.

Recommendation #23: It is recommended that the Company take appropriate action to verify that each person adjusting RI claims for the Company holds a valid Rhode Island adjuster's license.

Homeowner Claims Closed without Payment

The Company's procedures for handling homeowner claims closed without payment were examined to determine whether the Company was in compliance with applicable R. I. Gen. Laws and Insurance Regulations.

A sample of 93 claim files was selected for this area of review. Based on the results of the examination work performed, the following exceptions were noted.

On one of the files tested, the Company's notice rejecting a claim did not contain the statement: "We will be available to you to discuss the position we have taken. Should you, however, wish to contact the Rhode Island Insurance Division regarding this matter, it maintains a section to investigate complaints at 233 Richmond Street, Providence, R. I. 02903. The Rhode Island Insurance Division can be contacted by telephone at 401-277-2223." Therefore, the Company was not in compliance with Rhode Island Insurance Regulation LXXIII, Section 7. H. (Effective March 29, 1999, the Insurance Division's phone number was changed to 401-222-2223).

Recommendation #24: It is recommended that the Company review their procedures as they relate to denial of homeowners claims, to verify that they are in compliance with current Rhode Island Insurance Regulation R27-73-006. I.

On three of the files tested, the files contained a notation that a notice rejecting a claim had been sent to the claimant. However, the files did not contain a copy of such notice. Therefore, we were unable to verify the Company's compliance with Rhode Island Insurance Regulation LXXIII, Section 7. H.

Recommendation #25: It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with current Rhode Island Insurance Regulation R27-73-006. I.

On six of the files tested, the files contained a notation that a notice rejecting a claim had been sent to the claimant, however, the files did not contain a copy of such notice. Therefore, we were unable to verify the Company's compliance with Rhode Island Insurance Regulation R27-73-006. I.

Recommendation #26: It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with Rhode Island Insurance Regulation R27-73-006. I.

On one of the files tested, there was insufficient documentation to determine the basis for the claim being closed without payment. Therefore, we were unable to verify the Company's compliance with applicable Rhode Island Insurance Regulation LXXIII, Section 4. B.

Recommendation #27: It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with current Rhode Island Insurance Regulation R27-73-004.

On one of the files tested, there was insufficient documentation to determine the basis for the claim being closed without payment. Therefore, we were unable to verify the Company's compliance with applicable Rhode Island Insurance Regulation R27-73-004.

Recommendation #28: It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with Rhode Island Insurance Regulation R27-73-004.

Personal Automobile

A review of the Company's private passenger automobile claim practices for the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used licensed claim adjusters and made fair and equitable settlement of private passenger automobile claims. In addition, the review was performed to evaluate whether the Company was in compliance with R. I. Gen. Laws §27-7-5, §27-10-3, §27-8-12, §27-8-14, §27-9.1-4, §42-28-47 and Rhode Island Insurance Regulation X §5, and LXXIII, (R27-73-001, et seq., effective 3-29-99).

The Company provided the examiners with two listings, one showing claims closed with payment and the other for claims closed without payment. The population of private passenger automobile claims closed with payment for the period under examination was 3,662. The population of private passenger automobile claims closed without payment for the period under examination was 931.

Personal Automobile Paid Claims

The Company's procedures for handling private passenger automobile claims closed with payment were examined to determine whether the Company was in compliance with applicable R. I. Gen. Laws and Insurance Regulations.

A sample of 120 claim files was selected for this area of review. On one of the files tested, the Company applied a $250 deductible to an insured's claim. The Company then subrogated against the other carrier, but only returned $200 to the insured, due to a data entry error. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-8-12, which states in part that whenever an insurance company collects a casualty loss from a third party through subrogation, they shall first pay to the insured the deductible portion of the casualty loss from the funds collected.

Resolution: Upon discovery of the exception, the Company investigated the discrepancy, and determined that it was a clerical error. The Company subsequently corrected this error, and paid the insured the difference.

During our testing, we noted one file in which an overpayment of a glass damage claim occurred as a result of an incorrect application of the deductible amount.

Recommendation #29: It is recommended that the Company review their claim payment procedures to ensure the proper application of policy deductibles and policy limits.

During our testing, we noted three files in which the Company was unable to provide documentation to indicate that they advised a third party of their possible eligibility for a rental vehicle. Therefore, the Company was not in compliance with Rhode Island Insurance Regulation R27-73-005. E., which states that the Insurer upon receiving Notification of Claim shall inform the Claimant if coverage exists for the rental of an automobile comparable to the Claimant's damaged vehicle.

Recommendation #30: It is recommended that the Company review their procedures to ensure that third party claimants are notified whether coverage exists for the rental of an automobile comparable to the claimant's damaged vehicle to ensure compliance with Rhode Island Insurance Regulation R27-73-005. E.

During our testing, we noted eight files in which the Company used an unlicensed adjuster to handle claims greater than $2,500. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-10-6 which requires licenses for adjusters.

Recommendation #31: It is recommended that the Company review their procedures to ensure that all adjusters used to handle claims are licensed in compliance with R. I. Gen. Laws §27-10-6.

During our testing, we noted one file in which the Company did not respond in writing to a notification of a claim within 10 days. Therefore, the Company was not in compliance with Rhode Island Insurance Regulation R27-73-005. D.

Recommendation #32: It is recommended that the Company review their procedures to ensure that the Company responds to all notifications of claims within 10 days, as required by Rhode Island Insurance Regulation R27-73-005. D.

Personal Automobile Claims Closed without Payment

The Company's procedures for handling private passenger automobile claims closed without payment were examined to determine whether the Company was in compliance with applicable R. I. Gen. Laws and Insurance Regulations.

A sample of 109 claim files was selected for this area of review. Based on the results of the examination work performed, the following exceptions were noted.

On one of the files tested, the Company failed to make an appropriate reply to a claimant's communication. Rhode Island Insurance Regulation LXXIII Section 6. C. requires that an appropriate reply shall be made within ten (10) days, on all pertinent communications from the claimant which reasonably suggest that a response is expected. In addition, the Company ignored the communication from the claimant and closed the file, effectively rejecting the claim without communicating notice of rejection to the claimant. Rhode Island Insurance Regulation LXXIII Section 7. H. requires that any notice of rejection of a claim in whole or in part shall contain the following statement: "We will be available to you to discuss the position we have taken. Should you, however, wish contact the Rhode Island Insurance Division regarding this matter, it maintains a section to investigate complaints at 233 Richmond Street, Providence, Rhode Island 02903. The Rhode Island Insurance Division can be contacted by telephone at 401-277-2223." (Effective March 29, 1999, the Insurance Division's phone number was changed to 401-222-2223).

Recommendation #33: It is recommended that the Company review their procedures as they relate to denial of automobile claims to verify that they are in compliance with current Rhode Island Insurance Regulation R27-73-006. I.

On one of the files tested, it was indicated that a notice rejecting a claim had been sent to the claimant, however, the file did not contain a copy of such notice. Therefore, we were

unable to verify the Company's compliance with Rhode Island Regulation LXXIII, Section 7.H.

Recommendation #34: It is recommended that the Company review their procedures as they relate to denial of automobile claims to verify that they are in compliance with current Rhode Island Insurance Regulation R27-73-006. I.

CANCELLATIONS AND NONRENEWALS

Homeowners Cancellations and Nonrenewals

A review of the Company's homeowners cancellation and nonrenewal practices was conducted to assess the Company's compliance with R. I. Gen. Laws §27-5-3.4. The review was also conducted to assess the Company's compliance with the cancellation and nonrenewal provisions of their homeowner's policy contract.

During the period of our examination, the Company issued 10 cancellations and 8 nonrenewals. All 18 items were selected for testing.

During our testing, we noted six files in which the Company mailed cancellation/nonrenewal notices to the insured but did not receive signed receipts from the United States Postal Service for each of these mailings. Five of the six files referenced above also required notice be mailed to the mortgagee. Two of the five notices to the mortgagee were not returned. The Company then failed to forward a notice by first class mail to the six insureds and two mortgagees. By not sending the notice by first class mail, the Company was unable to provide sufficient proof of notice, as described in R. I. Gen. Laws §27-5-3.4.

Recommendation #35: It is recommended that the Company review their procedures pertaining to cancellation or nonrenewal of homeowner policies, and implement procedures to ensure that whenever there is a cancellation or nonrenewal notice mailed to the insured or mortgagee where the Company does not receive a signed receipt from the

United States Postal Service, the Company should then forward a cancellation notice by first class mail, and maintain proof of mailing as required by R. I. Gen. Laws §27-5-3.4.

Personal Automobile Cancellations

An examination of the Company's private passenger automobile cancellation practices was conducted to assess whether the Company was in compliance with R. I. Gen. Laws §31-47-4, Insurance Regulation XVI §2 and §3, and the cancellation provisions of its personal automobile policy contract.

The Company provided the examiners with two separate listings, one showing cancellations for nonpayment of premium, and another with cancellations for underwriting reasons. The Company issued 28 cancellation notices for underwriting reasons, all of which were selected for testing.

During our testing, we noted two files in which it could not be determined whether the notices of cancellation were sent by certificate of mailing, since there were no postal stamps indicating the dates of mailing. Therefore, the examiners were unable to verify whether the Company was in compliance with R. I. Gen. Laws §31-47-4, which requires that the insurer notify the named insured by certificate of mailing at the address shown on the policy.

Recommendation #36: It is recommended that the Company review their procedures pertaining to cancellation of personal automobile policies, and make any necessary changes to ensure that the Company retain proper documentation that the notice of cancellation was sent in a manner consistent with the aforementioned reference.

Personal Automobile Nonrenewals

A review of the Company's personal automobile nonrenewal practices, for the period under examination, was conducted to determine whether the Company was in compliance with R. I. Gen. Laws §27-9-4, and §31-47-4, and Insurance Regulation XVI §4 and §5. The examination was also conducted to determine if the Company was in compliance with the cancellation and nonrenewal provisions of its personal automobile policy contract.

During the period of our examination, the Company nonrenewed 70 policies, all of which were selected for testing.

During our testing, we noted three files in which the Company nonrenewed a policy for losses that occurred outside the annual policy year. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-9-4(b) which states that no insurance company shall fail to renew a private passenger automobile policy because of a loss occurrence only, unless a chargeable loss occurrence of $500 or more, or more than two non chargeable loss occurrences involving the insured, has taken place within the annual policy year.

Recommendation #37: It is recommended that the Company review their procedures pertaining to nonrenewals of personal automobile policies in order to ensure compliance with R. I. Gen. Laws §27-9-4(b).

During our testing, we noted two files in which the Company nonrenewed a policy for less than three nonchargeable loss occurrences within the annual policy year. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-9-4.

Recommendation #38: It is recommended that the Company review their procedures pertaining to nonrenewals of personal automobile policies in order to ensure compliance with R. I. Gen. Laws §27-9-4(b).

During our testing, we noted one file in which the Company mailed out an improper notice of nonrenewal. The notice failed to mention that financial security needs to be maintained continuously throughout the registration period, and that the insured may be eligible for insurance through the Rhode Island Insurance Plan. Therefore, the Company was not in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation R27-16-005.

Recommendation #39: It is recommended that the Company review their procedures pertaining to nonrenewals of personal automobile policies in order to ensure compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation R27-16-005.

No.	SUMMARY OF RECOMMENDATIONS	Page No.
1	It is recommended that the Company review their current procedures and make appropriate changes that will bring the Company into compliance with R. I. Gen. Laws §27-7-5.	7
2	It is recommended that the Company take correct the premium for both of these policies at renewal, and refund any overcharges of premium.	7
3	It is recommended that the Company take appropriate action to ensure that the proper percentage credit is applied for protective	8

devices. In addition, the Company should make the appropriate correction to the noted exception file at renewal.

4 It is recommended that the Company take the necessary action to ensure that the maximum premium is not exceeded when issuing the Homeprotector Plus endorsement. In addition, the Company should refund to the insured the excess premium charged for the exception noted, and the Company should determine whether other policies within the population under review were overcharged, and if applicable, refund the overcharges. 8

5 It is recommended that the Company file a revised endorsement in order to comply with R. I. Gen. Laws §27-8-1(9). 9

6 It is recommended that the Company review their procedures pertaining to automobile rating, to ensure that similar errors do not occur in the future. It is also recommended that the Company apply the correct rating classification on the policy renewals. 9

7 It is recommended that the Company implement policies and procedures to ensure that each policy file contains full documentation to support the classification under which the policy was rated. 10

8 It is recommended that the Company implement procedures to ensure that correct rating classifications are applied so that policies are rated in a fair and consistent manner. It is also recommended that the Company correct the policy's primary classification at renewal. 10

9 It is recommended that the Company implement procedures to ensure that correct rating classifications are applied so that policies are rated in a fair and consistent manner. It is also recommended that the aforementioned policies be re-rated using the proper primary classification from the inception date of the policy, and all overcharges of premium should be refunded to the insureds. 10

10 It is recommended that the Company implement procedures to ensure that all policies are issued in accordance with the coverages requested on the application. It is also recommended that the Company contact the above-mentioned insureds, in order to verify whether it was their intention to purchase uninsured motorist property damage coverage. 11

11 It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support any credits applied in rating policies. 11

12 It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support the classification applied in rating policies. 12

13 It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support any credits applied in rating policies. 12

14 It is recommended that the Company implement procedures pertaining to automobile rating to ensure the proper application of discounts in rating policies. It is also recommended that the Company correct the rating errors upon the policy renewals. 12

15 It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support any credits applied in rating its policies. **13**

16 It is recommended that the Company implement procedures to ensure the proper application of discounts in rating policies. It is also recommended that the Company re-rate the aforementioned policies, and refund the premium overcharges to the insureds. **13**

17 It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support the policy rating. **14**

18 It is recommended that the Company implement procedures to ensure that policy files contain full documentation to support the classification used in rating the policies. **14**

19 It is recommended that the Company implement procedures to ensure that the correct symbols be used in policy rating. It is also recommended that the Company correct the rating errors at policy renewal. **14**

20 It is recommended that the Company implement procedures to ensure that the correct symbols be used in policy rating. It is also recommended that the Company re-rate the aforementioned policy and refund the premium overcharge to the insured. **15**

21 It is recommended that the Company review its procedures pertaining to automobile underwriting, to ensure that the Company obtains and retains a completed application in each policy file. **15**

22	It is recommended that the Company review its licensing procedures to ensure that all policy applications contain the name of the producing agent.	**15**
23	It is recommended that the Company take appropriate action to verify that each person adjusting RI claims for the Company holds a valid Rhode Island adjuster's license.	**16**
24	It is recommended that the Company review their procedures as they relate to denial of homeowners claims, to verify that they are in compliance with current Rhode Island Insurance Regulation R27-73-006. I.	**17**
25	It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with current Rhode Island Insurance Regulation 27-73-006. I.	**17**
26	It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with Rhode Island Insurance Regulation R27-73-006. I.	**18**
27	It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with current Rhode Island Insurance Regulation R27-73-004.	**18**
28	It is recommended that the Company review their procedures as they relate to file documentation to ensure compliance with Rhode Island Insurance Regulation R27-73-004.	**18**

29	It is recommended that the Company review their claim payment procedures to ensure the proper application of policy deductibles and policy limits.	20
30	It is recommended that the Company review their procedures to ensure that third party claimants are notified whether coverage exists for the rental of an automobile comparable to the claimant's damaged vehicle to ensure compliance with Rhode Island Insurance Regulation R27-73-005. E.	20
31	It is recommended that the Company review their procedures to ensure that all adjusters used to handle claims are licensed in compliance with R. I. Gen. Laws § 27-10-6	20
32	It is recommended that the Company review their procedures to ensure that the Company responds to all notifications of claims within 10 days as required by Rhode Island Insurance Regulation R27-73-005. D..	20
33	It is recommended that the Company review their procedures as they relate to denial of automobile claims to verify that they are in compliance with Rhode Island Insurance Regulation R27-73-006 I.	21
34	It is recommended that the Company review their procedures as they relate to denial of automobile claims to verify that they are in compliance with current Rhode Island Insurance Regulation R27-73-006. I.	22
35	It is recommended that the Company review their procedures pertaining to cancellation or nonrenewal of homeowner policies,	22

and implement procedures to ensure that whenever there is a cancellation or nonrenewal notice mailed to the insured or mortgagee where the Company does not receive a signed receipt from the United States Postal Service, the Company should then forward a cancellation notice by first class mail, and maintain proof of mailing as required by R. I. Gen. Laws §27-5-3.4.

36 It is recommended that the Company review their procedures pertaining to cancellation of personal automobile policies and make any necessary changes to ensure that the Company retain proper documentation that the notice of cancellation was sent in a manner consistent with the aforementioned reference. 23

37 It is recommended that the Company review their procedures pertaining to nonrenewals of personal automobile policies in order to ensure compliance with R. I. Gen. Laws §27-9-4(b). 24

38 It is recommended that the Company review their procedures pertaining to nonrenewals of personal automobile policies in order to ensure compliance with R. I. Gen. Laws §27-9-4(b). 25

39 It is recommended that the Company review their procedures pertaining to nonrenewals of personal automobile policies in order to ensure compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation R27-16-005. 25

CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques don not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Rhode Island Insurance Division examiners assisting the undersigned in the conduct of this examination were John Carr, CPCU, Principal Market Conduct Examiner, and Joseph Seow, Market Conduct Examiner.

Respectfully submitted,

Robert G. Arrow, FLMI
Senior Market Conduct Examiner
Rhode Island Insurance Division

4/24/03
Date

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION

The attached Report of Examination as of December 31, 1999, of the market conduct condition and affairs of Liberty Mutual Insurance Company was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operations of Liberty Mutual Insurance Company and their market conduct condition as reflected from the examination report.

It is therefore ORDERED that said Report be, and it is hereby adopted and filed and made an official record of this department as of this date.

DEPARTMENT OF BUSINESS REGULATION

Marilyn Shannon McConaghy
Director/Insurance Commissioner

ORDER NO. 03-0108

DATED: July 28, 2003