



Illinois Department of Insurance

BRUCE RAUNER
Governor

JENNIFER HAMMER
Director

July 11, 2017

Mr. James M. MacPhee, President
Mr. David H. Long, President
Mr. James P. Condrin III, President
Liberty Mutual Insurance Group
175 Berkeley Street
Boston, MA 02116

Re: *Market Conduct Examination Report Closing Letter for*
LM General Insurance Company, NAIC 36447
Liberty Insurance Corporation, NAIC 42404
Liberty Mutual Fire Insurance Company, NAIC 23035
Liberty Mutual Insurance Company, NAIC 23043
LM Insurance Corporation, NAIC 33600
The First Liberty Insurance Corporation, NAIC 33588
Consolidated Insurance Company, NAIC 22640
Employers Insurance Company of Wausau, NAIC 21458
Indiana Insurance Company, NAIC 22659
Ohio Security Insurance Company, NAIC 24082
Peerless Insurance Company, NAIC 24198
The Netherlands Insurance Company, NAIC 24171
Wausau Underwriters Insurance Company, NAIC 26042

Dear Mr. MacPhee, Mr. Long and Mr. Condrin:

The Department has reviewed your Companies' proof of compliance and deems it adequate and sufficient. Therefore, the Department is closing its file on this exam.

I intend to ask the Director to make the Examination Report and Stipulation and Consent Order 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,

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

**ILLINOIS DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION OF**

Consolidated Insurance Company
Employers Insurance Company of Wausau
Indiana Insurance Company
Liberty Insurance Corporation
Liberty Mutual Fire Insurance Company
Liberty Mutual Insurance Company
LM General Insurance Company
LM Insurance Corporation
Ohio Security Insurance Company
Peerless Insurance Company
The First Liberty Insurance Corporation
The Netherlands Insurance Company
Wausau Underwriters Insurance Company

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: July 27, 2015 through October 28, 2016

EXAMINATION OF: Consolidated Insurance Company
NAIC Code #22640
Employers Insurance Company of Wausau
NAIC Code #21458
Indiana Insurance Company
NAIC Code #22659
Liberty Insurance Corporation
NAIC Code #42404
Liberty Mutual Fire Insurance Company
NAIC Code #23035
Liberty Mutual Insurance Company
NAIC Code #23043
LM General Insurance Company
NAIC Code #36447
LM Insurance Corporation
NAIC Code #33600
Ohio Security Insurance Company
NAIC Code #24082
Peerless Insurance Company
NAIC Code #24198
The First Liberty Insurance Corporation
NAIC Code #33588
The Netherlands Insurance Company
NAIC Code #24171
Wausau Underwriters Insurance Company
NAIC Code #26042

LOCATIONS: 27201 Bella Vista Pkwy
Warrenville, IL 60555

2815 Forbs Ave
Hoffman Estates, IL 60192

PERIOD COVERED BY EXAMINATION: December 1, 2013 through November 30, 2014
(Complaints reviewed for the period August 1, 2013 through November 30, 2014 and Workers' Compensation reviewed for the period January 1, 2012 through December 31, 2014)

EXAMINERS:

Victor M. Negron, Examiner-in-Charge
Tommy Brinkley, Senior Examiner
Cheryl Cole, Senior Examiner
Michael Currier, Senior Examiner
Ben Darnell, Senior Examiner
Michael Dolphin, Senior Examiner
Sheri Kenney, Senior Examiner
Sheri Marston, Senior Examiner
Aubrey Powell, Examiner
Nicole Richards, Examiner
Wayne Stephens, Senior Examiner
John Watts, Examiner

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I. SUMMARY

A comprehensive market conduct examination of the Liberty Mutual Insurance Group was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

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

<u>TABLE OF TOTAL VIOLATIONS</u>						
Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
2	215 ILCS 5/143.22	Homeowners Nonrenewals – Company failed to include FAIR Plan notice. (LMFIC)	40	40	5	13%
3	215 ILCS 5/143.23	Homeowners Nonrenewals – Company failed to include right to appeal notice. (LMFIC)	40	40	5	13%
4	215 ILCS 5/143.17	Homeowners Nonrenewals – Company failed to send the lienholder notice that is an exact and unaltered copy of the nonrenewal notice sent to the named insured. (LMFIC, LMICORP and LIC)	40 19 39 <u>103</u>	40 19 39 <u>103</u>	35 16 34 <u>90</u>	88% 84% 87% <u>87%</u>
5	215 ILCS 5/143.17	Auto Nonrenewals – Company failed to send the lienholder notice that is an exact and unaltered copy of the nonrenewal notice sent to the named insured. (FLIC)	2	1	1	100%
6	215 ILCS 5/143.15	Auto First 60 Days Cancellations – Company failed to provide the reason for the cancellation to the lienholder. (LMFIC and LMGIC)	9 757 <u>866</u>	1 98 <u>99</u>	1 7 <u>8</u>	100% 7% <u>8%</u>
7	215 ILCS 5/143.15	Auto Midterm Cancellations – Company failed to provide the reason for the cancellation to the lienholder. (LMFIC and LMGIC)	5,941 6,052 <u>11,993</u>	53 53 <u>106</u>	3 4 <u>7</u>	6% 8% <u>7%</u>
8	215 ILCS 5/143.15	Homeowners Midterm Cancellations – Company failed to provide the reason for the cancellation to the lienholder. (LMFIC, LMICORP and LIC)	5,371 3,772 7,137 <u>16,280</u>	38 27 51 <u>116</u>	4 9 5 <u>18</u>	11% 33% 10% <u>16%</u>
9	215 ILCS 5/143.15	Homeowners First 60 Days Cancellations – Company failed to provide the reason for the cancellation to the lienholder. (LMICORP and LIC)	1,700 1,344 <u>3,044</u>	65 51 <u>116</u>	2 3 <u>5</u>	3% 6% <u>4%</u>

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
10	215 ILCS 5/1005(B)(4) & (5)	Privacy forms 2348 (10/10) and 2348 (04/14) do not fully comply with requirements. (CIC, FLIC, LIC, LMFIC, LMIC, LMGIC and LMICORP)	12	12	1	8%
21	215 ILCS 5/143b	Auto Subrogation Claims – Company failed to return the insured’s deductible in a timely manner. (LMFIC)	734	46	1	2%
26	50 Ill. Adm. Code 919.50(a)(1)	Homeowners CWP Claims – Company failed to include Notice of Availability of the DOI in the denial letter. (LIC)	2,402	50	1	1%
28	50 Ill. Adm. Code 919.50(a)(1)	Homeowners CWP Claims – Company failed to provide written denial letter. (LMICORP)	1,176	25	2	8%
34	50 Ill. Adm. Code 919.80(d)(7)(B)	Homeowners Paid Claims – Company failed to send the required delay letter. (LIC)	4,143	51	1	1%
44	50 Ill. Adm. Code 919.80(b)(3)	Auto 3 rd Party Paid Claims – Company failed to include Notice of Availability of the DOI in the delay letter. (LMFIC)	1,789	43	1	2%
45	215 ILCS 5/154.6(j)	Auto 3 rd Party Paid Claims – The Company’s estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs. (LMFIC)	1,789	43	1	2%
47	50 Ill. Adm. Code 919.80(b)(2)	Auto 1 st Party Paid Claims – Company failed to timely send the required delay letter. (LMGIC)	3,053	63	2	3%
48	215 ILCS 5/154.6(j)	Auto 1 st Party Paid Claims – The Company’s estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs. (LMFIC and LMGIC)	1,921 3,053 <u>4,974</u>	39 63 <u>102</u>	2 3 <u>5</u>	5% 5% <u>5%</u>
49	215 ILCS 5/154.6(q)	Auto 1 st Party Paid Claims – Company failed to include the required notice stating vehicle repairers must be licensed on repair estimates. (LMFIC, LMICORP, LMGIC and FLIC)	1,921 219 3,053 102 <u>5,295</u>	39 4 63 3 <u>109</u>	35 4 56 3 <u>98</u>	90% 100% 89% 100% <u>90%</u>
50	215 ILCS 5/143b	Auto Total Losses Paid Claims – Company returned the insured’s deductible twice. (LMFIC)	546	40	1	3%

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
51	50 Ill. Adm. Code 919.60(a)	Auto Total Losses Paid Claims – Company indicated on the check to the insured that the payment was final. (LMFIC)	546	40	2	5%
52	50 Ill. Adm. Code 919.80(b)(2)	Auto Total Losses Paid Claims – Company failed to provide Notice of Availability of the DOI in the delay letter. (LMGIC)	807	59	1	2%
53	50 Ill. Adm. Code 919.80(b)(2)	Auto Total Losses Paid Claims – Company failed to timely send the required delay letter. (LMGIC and LMFIC)	807 546 <u>1,353</u>	59 40 <u>99</u>	2 6 <u>8</u>	3% 15% <u>8%</u>
54	50 Ill. Adm. Code 919.80(c)	Auto Total Losses Paid Claims – Company failed to send Exhibit A. (LMGIC, LMFIC, LMICORP and FLIC)	807 546 78 24 <u>1,455</u>	59 40 6 2 <u>107</u>	31 16 3 1 <u>51</u>	53% 40% 50% 50% <u>48%</u>
91	215 ILCS 5/132(2)	Auto New Business – Company failed to provide documentation with verification for Good Student Discount. (LMGIC and LMICORP)	12,469 878 <u>13,347</u>	107 8 <u>115</u>	15 1 <u>16</u>	14% 13% <u>14%</u>
92	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the New Graduate Discount. (LMGIC)	12,469	107	9	8%
93	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the Student Away-at-School Discount. (LMGIC)	12,469	107	4	4%
94	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the Defensive Driver Course Discount. (LMGIC)	12,469	107	4	4%
95	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the Newly Retired Discount. (LMGIC)	12,469	107	2	2%
96	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the Newlywed Discount. (LMGIC)	12,469	107	2	2%
97	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the Driver Training Discount. (LMGIC and LMICORP)	12,469 878 <u>13,347</u>	107 8 <u>115</u>	9 2 <u>11</u>	8% 25% <u>10%</u>
98	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the Liberty Mutual Parent-Teen Driving Contract Discount. (LMGIC and LMICORP)	12,469 878 <u>13,347</u>	107 8 <u>115</u>	8 1 <u>9</u>	7% 13% <u>8%</u>

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
100	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the teenSMART Driving Course Discount. (LMGIC and LMICORP)	12,469 878 <u>13,347</u>	107 8 <u>115</u>	1 1 <u>2</u>	1% 13% <u>2%</u>
102	50 Ill. Adm. Code 754.10	Auto New Business – Company failed to follow its filed rating/rules manual. The Company applied a multi-car discount to policies having a single vehicle insured. (LMGIC)	12,469	107	2	2%
103	215 ILCS 5/132(2)	Auto New Business – Company failed to provide verification for the RightTrack Discount. (LMGIC)	12,469	107	1	1%
104	215 ILCS 5/132(2)	Auto New Business – Company failed to provide a copy of the signed Uninsured Motorist Form. (LMICORP)	1	1	1	100%
105	215 ILCS 5/143(2)	Auto New Business – Company used unfiled Form PP 01 74 03 04. (LIC, FLIC and LMFIC)	1 1 164 <u>166</u>	1 1 1 <u>3</u>	1 1 1 <u>3</u>	100% 100% 100% <u>100%</u>
106	215 ILCS 5/132(2)	Auto New Business – Company failed to provide a copy of the application. (LIC)	1	1	1	100%
109	50 Ill. Adm. Code 919.50(a)(2)	Auto 3 rd Party CWP Claims – Company failed to provide written notice of the basis of the denial. (LMGIC)	1,903	61	1	2%
110	50 Ill. Adm. Code 919.30(c)	Auto 3 rd Party CWP Claims – Company failed to maintain detailed documentation to permit the reconstruction of the Company's activities relative to the claim file. (LMGIC)	1,903	61	1	2%
112	50 Ill. Adm. Code 919.50(a)	Auto 3 rd Party CWP Claims – Company failed to affirm or deny the claim within a reasonable time. (LMFIC)	1,258	40	2	5%
122	50 Ill. Adm. Code 754.10	Auto Renewals – Company used unfiled rating/rules. The Company applied a TruStage Auto and Home Program Discount that was not filed. (LMFIC)	27,096	80	20	25%
123	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the College Education Discount. (LMFIC and FLIC)	27,096 1,196 <u>28,292</u>	80 3 <u>83</u>	4 2 <u>6</u>	5% 67% <u>7%</u>

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
125	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide a copy of the signed Uninsured Motorist Form. (LMFIC, LMICORP and LMGIC)	27,096 2,827 32,103 <u>62,026</u>	80 7 94 <u>181</u>	6 1 1 <u>8</u>	8% 14% 1% <u>4%</u>
127	50 Ill. Adm. Code 754.10	Auto Renewals – Company failed to follow its filed rating/rules manual. The Company applied the Affinity Discount to a member of group not listed in the filed manual. (LMFIC and FLIC)	27,096 1,196 <u>28,292</u>	80 3 <u>83</u>	5 1 <u>6</u>	6% 33% <u>7%</u>
128	50 Ill. Adm. Code 754.10	Auto Renewals – Company used unfiled rating/rules. The Company applied a Liberty for All Discount that was not filed. (LMFIC)	27,096	80	5	6%
129	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the Defensive Driver Course Discount. (LMFIC and LMICORP)	27,096 2,827 <u>29,923</u>	80 7 <u>87</u>	1 2 <u>3</u>	1% 29% <u>3%</u>
130	50 Ill. Adm. Code 754.10	Auto Renewals – Company failed to follow its filed rating/rules manual. The Company used an incorrect classification. (FLIC)	1,196	3	1	33%
131	50 Ill. Adm. Code 754.10	Auto Renewals – Company failed to follow its filed rating/rules manual. The Company applied a multi-car discount to policies having a single vehicle insured. (LMGIC and LMICORP)	32,103 2,827 <u>34,930</u>	94 7 <u>101</u>	1 1 <u>2</u>	1% 14% <u>2%</u>
132	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the Student Away-at-School Discount. (LMGIC)	32,103	94	6	6%
133	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the New Move Discount. (LMGIC)	32,103	94	2	2%
134	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the Liberty Mutual Parent-Teen Driving Contract Discount. (LMGIC)	32,103	94	13	14%
135	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for Driver Training Discount. (LMGIC)	32,103	94	13	14%
136	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the New Graduate Discount. (LMGIC)	32,103	94	6	6%

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
137	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the Newly Independent Discount. (LMGIC)	32,103	94	5	5%
138	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the Newlywed Discount. (LMGIC)	32,103	94	6	6%
139	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the teenSMART Driving Course Discount. (LMGIC)	32,103	94	4	4%
140	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for the New Teen Driver Discount. (LMGIC)	32,103	94	11	12%
141	215 ILCS 5/132(2)	Auto Renewals – Company failed to provide verification for Good Student Discount. (LMFIC and LMGIC)	27,096 32,103 <u>59,199</u>	80 94 <u>174</u>	4 16 <u>20</u>	5% 17% <u>11%</u>
153	215 ILCS 5/143d(b)	Non-DOI Complaints – Company provided late response to direct complaints. (LMFIC, LIC and LMGIC)	316	147	13	9%
155	50 Ill. Adm. Code 919.50(a)	Non-DOI Complaints – Company made a late payment. (LIC)	316	147	1	1%
156	50 Ill. Adm. Code 926.40(a)	DOI Complaints – Company failed to respond timely to the ILDOI complaint. (LMFIC, LMICORP and CIC)	126	51	5	10%
157	50 Ill. Adm. Code 926.40(b)	Non-DOI Complaints – Company failed to fully respond to the complaint allegations. (LMGIC)	316	147	1	1%
160	215 ILCS 5/143.27	DOI Complaints – Company provided an invalid cancellation reason. Cancellation notice sent due to home condition without sending a repair request letter first. (LIC)	126	51	1	2%
161	215 ILCS 5/143.17a(b)	DOI Complaints – Company improperly reallocated payroll at audit. (LMICORP)	126	51	1	2%
162	215 ILCS 5/132(2)	Homeowners Renewals – Company failed to provide documentation with verification for Protective Devices Discounts and Fire and/or Burglar Alarm Credits. (LMFIC, LMICORP and LIC)	31,369 17,888 36,775 <u>68,144</u>	57 39 80 <u>176</u>	51 36 76 <u>163</u>	89% 92% 95% <u>93%</u>

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
163	50 Ill. Adm. Code 754.10	Homeowners Renewals – Company failed to follow its filed rating/rules manual. The Company applied a multi-policy discount to policies not having another policy. (LMFIC)	31,369	57	1	2%
164	215 ILCS 5/805.1(a)	Homeowners Renewals – Company failed to obtain the required mine subsidence waiver form. (LMFIC)	31,369	57	1	2%
165	50 Ill. Adm. Code 754.10	Homeowners Renewals – Company failed to follow its filed rating/rules manual. The Company applied the Affinity Discount to a member of group not listed in the filed manual. (LMFIC)	31,369	57	3	5%
166	50 Ill. Adm. Code 754.10	Homeowners Renewals – Company used unfiled rating/rules. The Company applied TruStage Auto and Home Program Discount that was not filed. (LMFIC)	31,369	57	8	14%
167	50 Ill. Adm. Code 754.10	Homeowners Renewals – Company used unfiled rating/rules. The Company applied a Liberty for All Discount that was not filed. (LMFIC)	31,369	57	3	5%
168	50 Ill. Adm. Code 919.50(a)	Comm. Auto 3 rd Party Paid Claims – Company failed to affirm or deny the claim within a reasonable time. (LMFIC)	250	62	1	2%
169	50 Ill. Adm. Code 919.30(c)	Comm. Auto 3 rd Party CWP Claims – Company failed to maintain detailed documentation to permit the reconstruction of the Company's activities relative to the claim file. (OSIC)	28	10	1	10%
170	50 Ill. Adm. Code 919.50(a)	Other Comm. Paid Claims – Company failed to pay the claim in a timely manner. (LMFIC)	150	74	1	1%
172	50 Ill. Adm. Code 919.60(a)	Comm. Auto 1 st Party Paid Claims – The Company indicated on the check made to the insured that the payment was final. (LMFIC)	33	23	1	4%

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
173	50 Ill. Adm. Code 919.30(c)	Comm. Auto 1 st Party Paid Claims – Company failed to maintain detailed documentation to permit the reconstruction of the Company’s activities relative to the claim file. (FLIC)	3	3	1	33%
174	215 ILCS 5/143.10a	Comm. Nonrenewals – No loss information accompanied the nonrenewal notice. (LIC)	480	48	1	2%
175	215 ILCS 5/143.17a	Comm. Nonrenewals – Company failed to provide a 60 day notice of nonrenewal. (LIC)	480	48	1	2%
176	215 ILCS 5/132(2)	Comm. Midterm Cancellations – Company failed to provide all documentation related to the midterm cancellation. (FLIC)	71	14	1	7%
177	215 ILCS 5/143.14	Comm. Midterm Cancellations – Company failed to maintain proof of mailing of the notice of cancellation. (LMFIC)	107	26	1	4%
179	215 ILCS 5/132(2)	Comm. Nonrenewals – Company failed to provide all documentation related to the nonrenewal notice. (LMFIC)	299	34	1	3%
180	215 ILCS 5/143a-2(2)	Comm. Auto New Business – Company failed to obtain signed Uninsured Motorist selection/rejection form. (OSIC)	742	89	1	1%
181	215 ILCS 5/143a-2(2)	Comm. Auto Renewals – Company failed to obtain signed Uninsured Motorist selection/rejection form. (CIC and IIC)	228 198 <u>426</u>	7 9 <u>16</u>	1 1 <u>2</u>	14% 11% <u>13%</u>
182	215 ILCS 5/132(2)	Comm. Auto Renewals – Company failed to provide documentation for schedule credits/debits applied. (LMFIC, PIC, NIC and IIC)	354 189 486 198 <u>1,227</u>	18 10 17 9 <u>54</u>	1 1 1 1 <u>4</u>	6% 10% 6% 11% <u>7%</u>
183	215 ILCS 5/457	WC New Business – Company failed to follow the filed NCCI Statistical Plan. The reported premium amounts did not match the final audit. (OSIC)	1,074	51	1	2%
187	215 ILCS 5/462b	WC Renewals – Company applied incorrect classifications. (CIC and LIC)	2,973 400 <u>3,373</u>	31 8 <u>39</u>	1 1 <u>2</u>	3% 13% <u>5%</u>
188	215 ILCS 5/462b	WC Renewals – Company applied an incorrect rate. (NIC)	1,511	17	1	6%

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
189	215 ILCS 5/462b	WC Renewals – Company did not attempt to perform the audit at policy expiration. (CIC)	2,973	31	1	3%
191	215 ILCS 5/462b	WC Renewals – Company did not properly complete the audit at policy expiration. In one instance, the payroll transposed two classifications of risk and in the other instance, the Company failed to include the payroll for an included officer. (CIC and NIC)	2,973 1,511 <u>4,484</u>	31 17 <u>48</u>	1 1 <u>2</u>	3% 6% <u>4%</u>
192	215 ILCS 5/462b	WC Renewals – Company applied the incorrect payroll to the final bill. (CIC)	2,973	31	1	3%
193	215 ILCS 5/462b	WC Renewals – Company applied a different schedule rating factor than the factor that is documented in the file. (CIC and NIC)	2,973 1,511 <u>4,484</u>	31 17 <u>48</u>	1 1 <u>2</u>	3% 6% <u>4%</u>
194	215 ILCS 5/132(2)	WC Renewals – Company could not provide the auditor worksheet. (NIC)	1,511	17	1	6%
196	215 ILCS 5/132(2)	WC Renewals – Company could not provide the schedule rating premium modification worksheets for the factors applied. (CIC, FLIC, LIC and NIC)	2,973 539 400 1,511 <u>5,423</u>	31 5 8 17 <u>61</u>	8 1 5 1 <u>15</u>	26% 20% 63% 6% <u>25%</u>
200	215 ILCS 5/462b	WC New Business – Company applied an incorrect experience modification factor. (OSIC)	1,074	51	1	2%
201	215 ILCS 5/462b	WC New Business – Company failed to make a charge for an endorsement. (OSIC)	1,074	51	1	2%
202	215 ILCS 5/462b	WC New Business – Company incorrectly calculated the premium for the policy. (OSIC)	1,074	51	1	2%
204	215 ILCS 5/462b	WC New Business – Company applied incorrect classifications. (LMFIC and OSIC)	133 1,074 <u>1,207</u>	9 51 <u>60</u>	1 3 <u>4</u>	11% 6% <u>7%</u>
205	215 ILCS 5/462b	WC New Business – Company failed to include the catastrophe charge in the policy premium. (OSIC)	1,074	51	1	2%
206	215 ILCS 5/462b	WC New Business – The Company failed to obtain the officers' exclusion form. (OSIC)	1,074	51	5	10%

TABLE OF TOTAL VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
207	215 ILCS 5/132(2)	WC New Business – Company could not provide the schedule rating premium modification worksheets for the factors applied. (LIC and WUIC)	705 19 <u>724</u>	42 2 <u>44</u>	6 1 <u>7</u>	14% 50% <u>16%</u>
208	215 ILCS 5/457	WC New Business – Company failed to follow NCCI's filed rates. Company applied an incorrect small deductible factor. (OSIC)	1,074	51	1	2%
210	215 ILCS 5/462b	WC New Business – Company did not attempt to perform the audit at policy expiration. (OSIC)	1,074	51	5	10%

II. BACKGROUND

The market conduct examination included 16 companies of the Liberty Mutual Insurance Group (“Group”). This examination report addresses the review of 13 of these companies and a separate examination report was prepared for the three (3) Safeco Companies also part of the Group. Any reference in this report to “the Company” includes one or more of the companies included in the examination, however each company will be identified as shown below when appropriate.

Consolidated Insurance Company

Consolidated Insurance Company (“CIC”) was incorporated as a subsidiary of the Indiana Insurance Company (“IIC”) on December 2, 1955. In January 1972, IIC became a wholly owned subsidiary of the Indiana Group, Inc. through an exchange of stock. In 1979, control of IIC was transferred to the National Distillers and Chemical Corporation through the acquisition of the Indiana Group, Inc.

In May 1985, National Distillers and Chemical Corporation sold its interest in IIC to Peerless Holdings, Inc., a holding company ultimately owned by Nationale-Nederlanden, N.V. The company’s immediate parent was Nationale-Nederlanden U.S. P&C Holdings.

In December 1985, all shares of IIC were transferred to ING US P&C Corporation, formerly Nationale-Nederlanden US P&C Holdings, Inc., a wholly owned subsidiary of ING America Insurance Holdings, Inc., formerly Nationale-Nederlanden U.S. Holdings, Inc. IIC’s ultimate parent was ING Group N.V.

On August 28, 1998, Guardian Royal Exchange plc acquired the U.S. property and casualty insurers of ING America Insurance Holdings, Inc., formerly known as The Netherlands Insurance Companies by the purchase of 100% of the issued and outstanding common stock of ING US P&C Corporation. As of December 31, 1998, ING US P&C Corporation was owned by Guardian Royal Exchange Holdings, Inc., which was in turn owned by Guardian Royal Exchange International (Holdings) B.V.

On May 10, 1999, Liberty Mutual Insurance Company acquired control of Guardian Royal Exchange Holdings, Inc., and GRE-USA Corporation through the purchase of all issued and outstanding voting securities of Guardian Royal Exchange Holdings Inc.

Effective August 31, 1999, the name of the Guardian Royal Exchange Holdings, Inc., was changed to Liberty Insurance Holdings, Inc., the name of ING US P&C Corporation was changed to LIH US P&C Corporation and the name of GRE-USA was changed to Liberty-USA Corporation.

CIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	119,619	125,503	25,754	23,268
Allied Lines	113,830	117,878	6,934	8,842
Farmers Multi-Peril	1,589,192	1,613,513	408,139	192,573
CMP Non-Liability	3,123,979	2,873,274	1,385,540	1,494,756
CMP Liability	2,133,536	1,982,947	1,080,929	545,235
Inland Marine	5,985	4,218	0	302
Earthquake	90,437	73,874	2,000	1,523
Workers' Compensation	4,369,773	5,146,445	10,886,464	421,635
Other Liability – Occurrence	52,464	54,023	(2,500)	(101,694)
Other Liability – Claims Made	3,809	2,089	0	239
Products Liability	3,885	3,815	0	(2,328)
Other Comm. Auto Liability	1,313,921	1,378,569	1,336,823	(2,917,606)
Comm. Auto Physical Damage	364,882	386,642	152,887	149,423
Boiler & Machinery	7,106	7,566	0	(91)

Employers Insurance Company of Wausau

Employers Insurance Company of Wausau (“EICOW”) was originally incorporated as a mutual company in the state of Wisconsin on August 21, 1911, under the name Employers Mutual Liability Insurance Company of Wisconsin.

On October 5, 1998, Employers entered into an Affiliation and Contribution Note Purchase Agreement with Liberty Mutual Insurance Company. Effective on March 19, 2002, EICOW was merged into Liberty Mutual Holding Company Inc. EICOW is licensed in all 50 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands, Canada and in various other foreign countries.

EICOW's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	5,124	3,277	0	(1,189)
Allied Lines	6,831	5,138	0	10,841
Homeowners Multi-Peril	0	0	0	693
CMP Non-Liability	90,633	96,119	(1,250)	8,111
CMP Liability	56,706	66,906	691,782	37,185
Ocean Marine	0	0	0	(336)
Inland Marine	4,600	5,122	0	(396)
Earthquake	1,493	1,067	0	0
Group A&H	0	0	8,350	1,228
Workers' Compensation	17,180,880	18,175,068	6,750,259	9,925,371
Other Liability – Occurrence	386,519	470,761	1,000,761	588,233
Excess Workers' Compensation	0	0	3,685	7,195
Products Liability	27,708	54,928	716,321	12,433,123
Other Comm. Auto Liability	676,576	694,218	129,740	266,438
Comm. Auto Physical Damage	118,587	136,520	48,712	61,903
Fidelity	6,201	8,668	(1,200)	(1,175)
Burglary & Theft	4,007	5,099	0	961
Boiler & Machinery	574	401	0	(13)

Indiana Insurance Company

Indiana Insurance Company (“IIC”) was incorporated on February 13, 1851, as the Indiana Fire and Marine Insurance Company. The name of the company was changed to Indiana Insurance Company on March 5, 1875.

On May 10, 1999, Liberty Mutual Insurance Company acquired control of IIC’s parent and holding company Guardian Royal Exchange Holdings, Inc., and GRE-USA Corporation through the purchase of all issued and outstanding voting securities of Guardian Royal Exchange Holdings, Inc.

Effective August 31, 1999, the name of Guardian Royal Exchange Holdings, Inc., was changed to Liberty Insurance Holdings, Inc., the name of ING US P&C Corporation was changed to LIH US P&C Corporation and the name of GRE-USA Corporation was changed to Liberty-USA Corporation.

IIC’s 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	121,837	114,807	0	(3,051)
Allied Lines	48,435	40,215	10,251	4,272
Farmers Multi-Peril	1,026,524	1,023,856	1,121,158	567,325
Homeowners Multi-Peril	1,582	1,582	672,065	(460,915)
CMP Non-Liability	2,570,109	2,584,004	1,689,615	193,926
CMP Liability	1,499,078	1,530,701	343,762	2,450,003
Inland Marine	1,278,771	1,484,276	850,823	586,714
Earthquake	51,383	55,779	2,013	1,789
Workers’ Compensation	1,803,574	2,008,035	1,398,906	1,201,465
Other Liability – Occurrence	2,605,393	2,789,500	1,793,230	(5,141,263)
Other Liability – Claims Made	12,067	12,719	0	(7,000)
Products Liability	10,276	12,908	0	(3,138)
Other PPA Liability	0	0	1,879,477	275,500
Other Comm. Auto Liability	678,961	659,742	303,010	(694,278)
Comm. Auto Physical Damage	210,070	199,752	115,382	130,673
Boiler & Machinery	2,312	2,312	0	0

Liberty Insurance Corporation

Liberty Insurance Corporation (“LIC”) was redomesticated to Illinois from Vermont, retaining its date of incorporation as October 21, 1988. It began business December 15 of the same year, when it merged with Liberty Insurance Corporation, a Delaware corporation, incorporated in 1983, and assumed all of its business.

All the company's outstanding shares are held by Liberty Mutual Insurance Company. Administration of affairs of the company is directed by the same insurance executives as those guiding the affairs of the parent company.

LIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	0	0	0	20
Allied Lines	178,581	173,376	0	6,316
Homeowners Multi-Peril	44,580,470	40,525,401	37,288,013	40,733,219
CMP Non-Liability	10	3,572	0	(2,945)
CMP Liability	(12,050)	24,187	115,000	173,010
Inland Marine	1,097,544	1,001,223	365,889	369,037
Earthquake	281,974	251,110	0	6
Workers' Compensation	29,496,459	37,375,464	30,568,757	22,474,915
Other Liability – Occurrence	9,237,172	8,762,590	240,522	7,227,337
Excess Workers' Compensation	(2,240)	254	276,988	(774,383)
Product Liability	703,299	545,775	8,346	(184,083)
Other PPA Liability	97,962	105,354	66,481	34,713
Other Comm. Auto Liability	608,169	474,606	1,127,305	1,130,687
PPA Physical Damage	87,655	96,934	17,486	15,048
Comm. Auto Physical Damage	162,640	135,491	57,328	91,026
Fidelity	0	0	0	(9)
Burglary & Theft	0	0	0	(7)
Boiler & Machinery	0	0	0	14

Liberty Mutual Fire Insurance Company

Liberty Mutual Fire Insurance Company (LMFIC) was incorporated October 31, 1908, under the laws of Massachusetts as "United Druggists Mutual Fire Insurance Company." The word "Druggists" was deleted from its title in 1918. The present name was adopted on December 15, 1949. On March 19, 2002, LMFIC reorganized from a mutual insurance company to a stock insurance company as part of a mutual holding company structure. In 2005, the company transferred its domicile from Massachusetts, becoming a Wisconsin stock insurance company.

LMFIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	14,246,085	14,615,334	10,007,112	11,529,293
Allied Lines	4,580,907	4,913,488	1,616,552	1,885,240
Federal Flood	412,170	408,515	34,376	(10,624)
Homeowners Multi-Peril	34,607,960	76,067,411	24,074,474	24,790,077
CMP Non-Liability	1,012,721	1,097,472	25,426	239,592
CMP Liability	(139,815)	370,012	215,290	54,865
Ocean Marine	129,749	135,830	16,773	86,996
Inland Marine	1,020,663	1,142,256	405,884	388,810
Earthquake	1,293,457	1,289,275	0	2
Workers' Compensation	36,089,569	31,370,494	21,750,798	36,708,376
Other Liability – Occurrence	15,953,724	14,997,266	4,941,904	13,356,811
Other Liability – Claims Made	20,054	19,671	(1,971)	(12,834)
Excess Workers' Compensation	0	0	0	113,258
Products Liability	3,801,982	4,442,419	471,171	1,121,404
PPA No-Fault PIP	0	0	23,807	(3,304)
Other PPA Liability	19,121,652	21,619,477	13,201,552	7,950,031
Other Comm. Auto Liability	7,744,248	7,128,211	4,502,293	5,938,922
PPA Physical Damage	20,199,419	22,312,157	8,190,325	7,562,037

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Comm. Auto Physical Damage	1,774,330	1,639,673	1,247,910	1,584,331
Fidelity	65,172	54,943	0	1,575
Burglary & Theft	14,760	15,307	4,977	12,875
Boiler & Machinery	1,915,288	1,952,261	42,110	449,095

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company (“LMIC”) was incorporated under the laws of Massachusetts on January 1, 1912, and began business July 1, 1912. The sponsors were leading manufacturers interested in providing workers' compensation insurance at cost. The company was incorporated as a part of the Workmen's Compensation Act of Massachusetts, under the name "Massachusetts Employers Insurance Association." The present title was adopted August 15, 1917. On November 28, 2001, the company reorganized from a mutual insurance company to a stock insurance company as part of a mutual holding company structure.

LMIC’s 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	123,2218	91,992	26,158	86,450
Allied Lines	9,414	8,641	5,336	8,855
Homeowners Multi-Peril	184,185	180,518	68,671	47,045
CMP Non-Liability	1,015,101	1,215,077	1,071,885	375,755
CMP Liability	(1,948)	(1,948)	0	(2,525)
Ocean Marine	814,187	777,028	(849)	170,339
Inland Marine	80,496,917	80,144,570	45,716,739	53,008,480
Group A&H	0	0	18,631	8,090
Workers’ Compensation	1,221,002	(74,123)	6,035,105	(2,738,275)
Other Liability – Occurrence	4,758,029	4,683,456	4,147,225	2,882,730
Other Liability – Claims Made	1,974,460	2,111,781	0	(1,123,066)
Excess Workers’ Compensation	0	0	0	(35,559)
Products Liability	419,552	436,951	260,429	(737,620)
Other PPA Liability	0	0	0	52
Other Comm. Auto Liability	100,079	131,852	47,900	(104,761)
Comm. Auto Physical Damage	28,407	41,432	2,812	6,851
Aircraft	2,028,725	2,405,294	4,011,832	1,794,817
Fidelity	992,215	890,642	(1,969)	(103,733)
Surety	22,314,687	20,416,151	90,275	(33,520,719)
Burglary & Theft	0	0	0	(215)
Boiler & Machinery	0	0	0	(185)

LM General Insurance Company

LM General Insurance Company (“LMGIC”) was incorporated in 1978, and is based in Boston, Massachusetts. LMGIC was formerly known as Prudential General Insurance Company. LMGIC provides property and casualty insurance services. LMGIC only writes Private Passenger Automobile coverage in Illinois.

LMGIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
PPA No-Fault PIP	0	0	64,510	31,786
Other PPA Liability	27,650,857	24,666,338	14,701,851	24,802,732
PPA Physical Damage	29,811,392	28,056,508	15,207,742	15,858,346

LM Insurance Corporation

LM Insurance Corporation ("LMICORP") was incorporated under the laws of Iowa on June 16, 1989, and began business on June 22, 1989. LMICORP writes both personal and commercial lines coverage in Illinois.

LMICORP's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	0	0	0	5
Allied Lines	98,691	88,157	0	754
Homeowners Multi-Peril	21,743,476	18,746,027	15,711,108	17,418,501
CMP Non-Liability	0	9,646	0	(4,230)
CMP Liability	4,180	21,441	0	174,858
Inland Marine	281,290	234,019	273,177	268,142
Earthquake	74,055	66,297	0	3
Workers' Compensation	30,693,301	29,941,969	15,889,570	19,788,640
Other Liability – Occurrence	2,043,663	1,493,659	233,393	877,358
Excess Workers' Compensation	1,884,346	1,780,265	26,810	10,788,466
Products Liability	513,056	443,773	27,496	213,086
PPA No-Fault PIP	0	0	8,250	31,861
Other PPA Liability	2,310,487	2,182,241	1,043,595	984,364
Other Comm. Auto Liability	164,399	212,108	174,988	(15,101)
Comm. Auto Physical Damage	42,158	41,839	12,875	20,422
Fidelity	2,212	1,259	0	(16)
Surety	1,146	1,140	0	2,787
Burglary & Theft	271	2,803	1,475	2,528

Ohio Security Insurance Company

Ohio Security Insurance Company ("OSIC") was incorporated under the laws of the State of Ohio on November 1, 1950, and began business on February 11, 1951.

On August 24, 2007, OSIC was acquired by Liberty Mutual Insurance Company (LMIC). As a result of the acquisition, Liberty Mutual Holding Company Inc. (LMHC), a Massachusetts mutual holding company, became the new ultimate parent. LMHC was formed in 2001, as a part of the mutual holding company reorganization of LMIC.

OSIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	80,139	70,167	0	(5,444)
Allied Lines	200,976	191,791	31,274	17,806
CMP Non-Liability	10,777,005	9,342,688	6,354,141	5,782,732
CMP Liability	7,921,104	7,207,380	948,394	3,657,689
Inland Marine	9,495	7,849	0	2,433
Earthquake	6,413	5,251	0	(6)
Workers' Compensation	6,652,558	4,628,747	809,829	2,883,723
Other Liability – Occurrence	320,952	244,722	2,065	326,890
Products Liability	97,926	71,496	0	56,782
Other Comm. Auto Liability	4,136,015	3,404,379	683,851	2,889,928
Comm. Auto Physical Damage	1,311,385	1,071,649	1,006,678	1,120,797
Boiler & Machinery	9,811	10,441	0	(111)

Peerless Insurance Company

Peerless Insurance Company ("PIC") was incorporated on March 7, 1901, as Peerless Casualty Company, and has been a stock insurance company since 1909. It changed its name to its present title, effective January 1, 1956. In 1974, The Netherlands Insurance Company, Est. 1845, of The Hague, Holland ("TNIC 1845") became the majority stockholder of the company. In 1977, TNIC 1845 transferred all of its Peerless common stock to Nationale-Nederlanden, a U.S. Corporation, its intermediate holding company.

In 1985, all shares of PIC were transferred to a single holding company, ING US P&C Corporation, formerly Nationale-Nederlanden U.S. P&C Holdings, Inc., which was wholly owned by ING America Insurance Holdings, Inc.

On August 28, 1998, Guardian Royal Exchange plc acquired the U.S. property and casualty insurers of ING America Insurance Holdings, Inc., by the purchase of 100% of the issued and outstanding common stock of ING US P&C Corporation. As of December 31, 1998, ING US P&C Corporation was owned by Guardian Royal Exchange Holdings, Inc.

On May 10, 1999, Liberty Mutual Insurance Group ("LMIG") acquired the control of Guardian Royal Exchange Holdings, Inc. Effective August 31, 1999, the name of ING US P&C Corporation was changed to LIH US P&C Corporation and the name of Guardian Royal Exchange Holdings, Inc. was changed to Liberty Insurance Holdings, Inc ("LIH").

On August 15, 2003, the stock of Liberty-USA Corporation (DE), a holding company wholly owned by LIH, was contributed to PIC. Liberty-USA Corporation owned 100% of the following insurance companies: Peerless Indemnity Insurance Company (IL), The National Corporation as Attorney-in-Fact for National Insurance Association (IN), and LIH-RE of America (DE). Peerless Indemnity owns 100% of the stock of: American Ambassador Casualty Company (IL), Globe American Casualty Company (OH), Hawkeye-Security Insurance Company (WI), Liberty Insurance Underwriters, Inc. (NY), and The Midwestern Indemnity Company, which owns Mid-American Fire & Casualty Company, both incorporated in Ohio.

PIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	233,556	246,060	1,108,411	1,106,985
Allied Lines	188,375	216,033	73,691	71,638
Farmers Multi-Peril	300,020	294,657	419,584	490,890
Homeowners Multi-Peril	0	0	0	264
CMP Non-Liability	2,062,614	2,561,105	844,752	401,873
CMP Liability	1,659,801	1,768,384	526,425	487,428
Inland Marine	250,559	252,230	9,441	(2,316)
Earthquake	44,091	54,329	0	6,046
Workers' Compensation	1,870,012	1,773,225	1,012,422	1,301,527
Other Liability – Occurrence	229,890	244,820	4,319	10,480
Other Liability – Claims Made	1,280	1,280	0	(2,030)
Products Liability	11,115	12,615	0	(5,519)
Other Comm. Auto Liability	553,877	700,457	92,057	156,342
Comm. Auto Physical Damage	218,572	269,297	142,209	136,554
Surety	1,950	1,714	0	113
Burglary & Theft	1,952	1,950	0	(129)
Boiler & Machinery	5,622	8,277	0	(441)

The First Liberty Insurance Company

The First Liberty Insurance Company ("FLIC") was incorporated under the laws of Iowa on June 16, 1989, and began business on June 22, 1989. FLIC writes both personal and commercial lines coverage; however, workers' compensation is the main source of business in Illinois.

FLIC's 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	91	44	0	14
Allied Lines	174	63	0	(1,497)
Homeowners Multi-Peril	0	0	0	1
CMP Non-Liability	2,378	46,863	25,000	24,613
CMP Liability	79,355	130,965	2,831	14,744
Earthquake	97	1,853	0	0
Workers' Compensation	16,109,763	15,507,746	4,820,866	9,924,636
Other Liability – Occurrence	578,700	398,101	2,237	127,205
Products Liability	141,422	123,325	0	20,780
Other PPA Liability	747,351	879,344	1,013,533	266,551
Other Comm. Auto Liability	725,157	513,011	94,360	209,122
PPA Physical Damage	819,712	940,176	351,695	317,846
Comm. Auto Physical Damage	281,585	231,580	82,239	140,085
Boiler & Machinery	0	0	0	86

The Netherlands Insurance Company

The Netherlands Insurance Company (“NIC”) was incorporated under the laws of the State of New Hampshire on December 31, 1978. In 1985, all shares of the company were transferred to ING US P&C Corporation (Delaware), formerly Nationale-Nederlanden U.S. P&C Holdings, Inc., which was wholly owned by ING America Insurance Holdings, Inc. (Delaware), formerly Nationale-Nederlanden U.S. Holdings, Inc. The company’s ultimate parent was ING Group N.V. (The Netherlands).

On August 28, 1998, Guardian Royal Exchange plc (GRE plc) acquired the U.S. property and casualty insurers of ING America Insurance Holdings, Inc., formerly known as The Netherlands Insurance Companies, including Alabama First Insurance Company, America First Insurance Company, Excelsior Insurance Company, Indiana Insurance Company, The Netherlands Insurance Company and Peerless Insurance Company, by the purchase of 100% of the issued and outstanding common stock of ING US P&C Corporation. As of December 31, 1998, ING US P&C Corporation was owned by Guardian Royal Exchange Holdings, Inc., which was in turn owned by Guardian Royal Exchange International (Holdings) B.V. The common stock of all companies was 100% owned by ING US P&C Corporation, a Delaware company, except Consolidated Insurance Company, a wholly owned subsidiary of Indiana Insurance Company. The ultimate parent was Guardian Royal Exchange plc (England).

On May 10, 1999, Liberty Mutual Insurance Company acquired control of Guardian Royal Exchange Holdings, Inc., and GRE-USA Corporation through the purchase of all the issued and outstanding voting securities of Guardian Royal Exchange Holdings, Inc. Effective August 31, 1999, the name of Guardian Royal Exchange Holdings, Inc. was changed to Liberty Insurance Holdings, Inc., the name of ING US P&C Corporation was changed to LIH US P&C Corporation and the name of GRE-USA Corporation was changed to Liberty-USA Corporation.

NIC’s 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	50,930	53,132	74,724	67,932
Allied Lines	84,142	86,440	206	(9,233)
CMP Non-Liability	2,791,397	3,040,677	1,487,910	387,893
CMP Liability	1,943,248	2,066,210	3,204,543	210,588
Inland Marine	24,382	24,316	0	5,843
Earthquake	83,242	98,688	0	(2,040)
Workers’ Compensation	3,041,150	3,342,430	6,622,991	(838,258)
Other Liability – Occurrence	81,043	57,433	27,236	11,690
Other Liability – Claims Made	680	883	0	(121)
Products Liability	8,847	9,054	0	(1,192)
Other Comm. Auto Liability	1,681,469	1,770,661	3,539,534	339,010
Comm. Auto Physical Damage	531,226	553,794	294,909	335,961
Burglary & Theft	0	71	0	0
Boiler & Machinery	8,522	8,328	0	(782)

Wausau Underwriters Insurance Company

Wausau Underwriters Insurance Company (“WUIC”) was incorporated on September 27, 1979, as “Wausau Insurance Company” under the laws of the State of Wisconsin to effect a change in the corporate domicile of Volkswagen Insurance Company from Arkansas to Wisconsin.

WUIC is the ultimate successor to Select Risk Mutual Insurance Company, which was organized under the laws of the State of Arkansas in August 1954. In 1959, Select Risk Insurance Company was incorporated in Arkansas to effect a conversion of Select Risk Mutual Insurance Company from a mutual company to a stock company. The conversion was completed on July 1, 1959. The name of the company underwent many changes over the years. It was changed on October 1, 1959, to Southern Grange Insurance Company; on February 11, 1963, to VICO Insurance Company; on November 17, 1964, to Volkswagen Insurance Company; and on March 15, 1978, to that presently used. WUIC became affiliated with Employers Insurance Company of Wausau when it was purchased from VICO Corporation of Englewood Cliffs, New Jersey on December 30, 1977. In 1980, WUIC became a subsidiary of Wausau Service Corporation.

Effective December 31, 1998, Liberty Mutual Insurance Company acquired all of the outstanding shares of Wausau Service Corporation, including its wholly owned subsidiary, WUIC. Effective October 21, 2009, all shares of WUIC became directly owned by Liberty Mutual Insurance Company, in connection with the dissolution of Wausau Service Corporation.

WUIC’s 2014 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	5,149	5,153	0	222
Allied Lines	7,814	5,391	0	(833)
CMP Non-Liability	21,343	107,145	15,579	(11,186)
CMP Liability	(2,125)	137,042	138,792	174,189
Inland Marine	0	1,881	0	(268)
Earthquake	(2,780)	1,394	0	0
Workers’ Compensation	2,100,660	3,862,383	12,078,748	5,577,539
Other Liability – Occurrence	200,168	560,879	115,878	293,534
Products Liability	(2,475)	101,558	6,080	(317,042)
Other Comm. Auto Liability	23,837	277,107	1,302,056	(361,988)
Comm. Auto Physical Damage	3,212	73,234	13,850	13,850
Fidelity	0	2,970	0	(503)
Burglary & Theft	48	881	0	(151)
Boiler & Machinery	560	387	0	(17)

III. METHODOLOGY

The market conduct examination places emphasis on a Company's systems and procedures used in dealing with insureds and claimants. The period under review was generally December 1, 2013 through November 30, 2014. The following categories were the general areas examined:

- A. Operations and Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Review
- E. Risk Selection
- F. Underwriting and Rating
- G. Claims

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

Criticisms were provided to the Company addressing violations discovered in the review processes. All valid criticisms were incorporated in this report.

The following methods were used to obtain the required samples and to assure a statistically accurate and methodical selection. The samples were developed from Company-generated data. The sample size was based on the most recent NAIC *Market Regulation Handbook*. Random samples were generated using Audit Command Language (ACL) software and the selected samples were provided to the Company for retrieval. Some samples were determined on a group basis and sample sizes were allocated proportionally to each company by the entire population of policies and claims for each company.

Operations and Management

The review of the Company's operations and management is designed to determine how the Company operates. Examiners reviewed both publicly available documents, such as prior market conduct examinations and annual statements, as well as internal documents such as Company policies and procedures, internal audit reports, and third party administrator (TPA) contracts. Company privacy forms were also reviewed. In addition, Market Conduct Annual Statements (MCAS) for years 2012, 2013 and 2014 were reviewed for accuracy and completeness.

Complaint Handling

Department of Insurance (DOI) complaints and direct consumer (Non-DOI) complaints for the period August 1, 2013 through November 30, 2014, were reviewed for compliance with applicable state laws and Company guidelines.

DOI complaints – The population received for this category consisted of complaints received by the Illinois Department of Insurance during the examination period. The Company’s complaint logs were reconciled with the individual file information and the DOI records to determine the completeness and accuracy of the data recorded. Each complaint file, along with the underlying claim or underwriting file was reviewed for compliance with regulatory requirements.

Non-DOI complaints – The population received for this category consisted of complaints received directly by the Company from consumers during the examination period. The Company’s complaint logs were reconciled with the individual file information to determine the completeness and accuracy of the data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

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.

Producer Review

Producer licensing and terminations were reviewed for compliance with statutory requirements. The producer licensing was reviewed as part of the same samples selected for the underwriting and rating reviews.

Risk Selection

Cancellations and nonrenewals were reviewed for compliance with statutory requirements and to ensure reasons for termination were valid and not unfairly discriminatory. Samples were selected based on transactions occurring during the period under examination.

Underwriting and Rating

The Underwriting and Rating sample consisted of new and renewal business and was selected based on the inception and renewal date occurring during the period under examination. Policies were reviewed for rating accuracy, use of filed rates, use of filed forms, and compliance with Company underwriting guidelines.

Claims

Claims were selected based on settlement occurring within the period under examination. Claims were reviewed for compliance with policy contracts and endorsements, 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 Title 50 of the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*). Reviews were conducted of both claims paid and those closed without payment (CWP).

Statutorily Required Reporting

The accuracy and completeness of the workers' compensation unit statistical information reported to the National Council on Compensation Insurance (NCCI) was tested.

IV. SELECTION OF SAMPLES

Liberty Mutual Insurance Group

The following figures are for the 13 companies combined:

	<u>Total</u>	<u># Reviewed</u>	<u>Percentage</u>
A. Operations and Management			
1. Internal/External Audits	7	7	100%
2. Market Conduct Reports	28	28	100%
3. TPA Contracts Review	18	18	100%
4. Privacy Forms	12	12	100%
5. MCAS Reports (3 years)	39	39	100%
B. Complaint Handling			
1. DOI Complaints	126	51	40%
2. Non-DOI Complaints	316	147	47%
C. Marketing and Sales			
1. Marketing and Sales	976	113	12%
D. Producer Review			
1. Producer Licensing	235	235	100%
2. Producer Terminations	70	70	100%
E. Risk Selection			
1. Auto First 60 Days Cancellations	867	114	13%
2. Auto Midterm Cancellations	13,047	116	1%
3. Homeowners First 60 Days Cancellations	3,044	116	4%
4. Homeowners Midterm Cancellations	32,556	116	<1%
5. Auto Nonrenewals	27	3	11%
6. Homeowners Nonrenewals	103	103	100%
7. Rescissions	3	2	67%
8. Commercial First 60 Days Cancellations	25	25	100%
9. Commercial Midterm Cancellations	482	86	18%
10. Commercial Nonrenewals	1,100	114	10%

F.	Underwriting and Rating			
	1. Auto New Business	13,504	118	1%
	2. Auto Renewals	63,313	185	<1%
	3. Homeowners New Business	25,589	117	<1%
	4. Homeowners Renewals	86,033	185	<1%
	5. Workers' Compensation New Business	2,112	110	5%
	6. Workers' Compensation Renewals	9,327	95	1%
	7. Commercial Auto New Business	952	113	12%
	8. Commercial Auto Renewal	2,581	99	4%
	9. Commercial Fire New Business	3,081	113	4%
	10. Commercial Fire Renewals	9,687	104	1%
	11. General Liability New Business	2,380	110	5%
	12. General Liability Renewals	6,999	98	1%
	13. Commercial Multiple Peril New Business	15	15	100%
	14. Commercial Multiple Peril Renewals	44	44	100%
G.	Claims			
	1. Auto 1 st Party Paid	5,325	109	2%
	2. Auto 1 st Party CWP	2,774	108	4%
	3. Auto 3 rd Party Paid	4,563	109	2%
	4. Auto 3 rd Party CWP	3,393	108	2%
	5. Auto Total Losses Paid	1,460	107	7%
	6. Auto Subrogation	1,715	107	6%
	7. Homeowners Paid	8,824	109	1%
	8. Homeowners CWP	5,191	109	2%
	9. Commercial Auto 1 st Party Paid	127	76	60%
	10. Commercial Auto 1 st Party CWP	140	76	54%
	11. Commercial Auto 3 rd Party Paid	337	82	24%
	12. Commercial Auto 3 rd Party CWP	403	83	21%
	13. Commercial Auto Total Losses Paid	9	9	100%
	14. Commercial Auto Subrogation	13	13	100%
	15. Workers' Compensation Paid	1,702	105	6%
	16. Workers' Compensation CWP	867	90	10%
	17. Other Commercial Paid	169	81	48%
	18. Other Commercial CWP	808	105	13%
H.	Workers' Compensation USR			
	1. Workers' Compensation New Business	2,112	110	5%
	2. Workers' Compensation Renewals	9,327	95	1%
	3. Workers' Compensation Paid	1,702	105	6%

V. FINDINGS

A. Operations and Management

1. Internal/External Audits

No violations were noted.

2. Market Conduct Reports

No violations were noted.

3. TPA Contracts Review

No violations were noted.

4. Privacy Forms

Privacy forms 2348 (10/10) and 2348 (04/14) do not fully comply with requirements 215 ILCS 5/1005(B)(4) and (5) (Crit #10). The forms are shared by the following companies, therefore were reviewed on a group basis: CIC, FLIC, LIC, LMFIC, LMIC, LMGIC, and LMICORP.

5. MCAS Reports (3 years)

No violations were noted.

B. Complaint Handling

1. DOI Complaints

In five (5) complaints reviewed, the Company failed to respond timely to the complaint as required by 50 Ill. Adm. Code 926.40(a) (Crit #156). These findings were applicable to LMFIC, LMICORP and CIC.

In one (1) complaint reviewed, the Company did not provide a valid cancellation reason as required by 215 ILCS 5/143.27 (Crit #160). Cancellation notice sent due to home condition without sending a repair request letter first. This finding was applicable to LIC.

In one (1) complaint reviewed, the Company did not properly reallocate payroll at audit as required by 215 ILCS 5/143.17a(b) (Crit #161). There was an audit dispute over classifications that occurred in second policy term. The audited policy and the renewal were adjusted to move exposure from one class to another. The DOI directed the Company to remove the changes and make them effective the next renewal, provided that the

required premium increase notice was sent as required. This finding was applicable to LMICORP.

2. Non-DOI Complaints

In 13 complaints reviewed, the Company failed to respond timely to a directly received complaint as required by 215 ILCS 5/143d(b) (Crit #153). These findings were applicable to LMFIC, LIC, and LMGIC.

In one (1) complaint reviewed, the Company did not make a timely claim payment as required by 50 Ill. Adm. Code 919.50(a) (Crit #155). This finding was applicable to LIC.

In one (1) complaint reviewed, the Company failed to fully respond to the complaint allegations as required by 50 Ill. Adm. Code 926.40(b) (Crit #157). This finding was applicable to LMGIC.

C. Marketing and Sales

No violations were noted.

D. Producer Review

1. Producer Licensing

No violations were noted.

2. Producer Terminations

No violations were noted.

E. Risk Selection

1. Auto First 60 Days Cancellations

In eight (8) cancellations reviewed, the Company failed to provide the reason for the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #6). These findings were applicable to LMFIC and LMGIC.

2. Auto Midterm Cancellations

In seven (7) cancellations reviewed, the Company failed to provide the reason for the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #7). These findings were applicable to LMFIC and LMGIC.

3. Homeowners First 60 Days Cancellations

In five (5) cancellations reviewed, the Company failed to provide the reason for the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #9). These findings were applicable to LMICORP and LIC.

4. Homeowners Midterm Cancellations

In 18 cancellations reviewed, the Company failed to provide the reason for the cancellation to the lienholder as required by 215 ILCS 5/143.15 (Crit #8). These findings were applicable to LMFIC, LMICORP and LIC.

5. Auto Nonrenewals

In one (1) nonrenewal reviewed, the Company failed to provide the lienholder an exact and unaltered copy of the nonrenewal notice sent to the named insured as required by 215 ILCS 5/143.17 (Crit #5). This finding was applicable to FLIC.

6. Homeowners Nonrenewals

In 90 nonrenewals reviewed, the Company failed to provide the lienholder an exact and unaltered copy of the nonrenewal notice sent to the named insured as required by 215 ILCS 5/143.17 (Crit #4). These findings were applicable to LMFIC, LMICORP, and LIC.

In five (5) nonrenewals reviewed, the Company failed to include the Fair Plan notice as required by 215 ILCS 5/143.22 (Crit #2). These findings were applicable to LMFIC.

In five (5) nonrenewals reviewed, the Company failed to include the right to appeal notice as required by 215 ILCS 5/143.23 (Crit #3). These findings were applicable to LMFIC.

7. Rescissions

No violations were noted.

8. Commercial First 60 Days Cancellations

No violations were noted.

9. Commercial Midterm Cancellations

In one (1) cancellation reviewed, the Company failed to provide all documentation related to the cancellation as required by 215 ILCS 5/132(2) (Crit #176). This finding was applicable to FLIC.

In one (1) cancellation reviewed, the Company failed to maintain proof of mailing of the notice of cancellation as required by 215 ILCS 5/143.14 (Crit #177). This finding was applicable to LMFIC.

10. Commercial Nonrenewals

In one (1) nonrenewal reviewed, the Company failed to provide the loss information with the nonrenewal notice as required by 215 ILCS 5/143.10a (Crit #174). This finding was applicable to LIC.

In one (1) nonrenewal reviewed, the Company failed to provide a 60 day notice of nonrenewal as required by 215 ILCS 5/143.17a (Crit #175). This finding was applicable to LIC.

In one (1) nonrenewal reviewed, the Company failed to provide all documentation related to the nonrenewal notice as required by 215 ILCS 5/132(2) (Crit #179). This finding was applicable to LMFIC.

F. Underwriting and Rating

1. Auto New Business

In 16 policies reviewed, the Company failed to provide documentation with verification for the Good Student Discount as required by 215 ILCS 5/132(2) (Crit #91). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC and LMICORP.

In nine (9) policies reviewed, the Company failed to provide documentation with verification for the New Graduate Discount as required by 215 ILCS 5/132(2) (Crit #92). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In four (4) policies reviewed, the Company failed to provide documentation with verification for the Student Away-at-School Discount as required by 215 ILCS 5/132(2) (Crit #93). The discount was not documented in the application and the Company was unable to provide

documentation in support of the application of the discount. These findings were applicable to LMGIC.

In four (4) policies reviewed, the Company failed to provide documentation with verification for the Defensive Driver Course Discount as required by 215 ILCS 5/132(2) (Crit #94). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In two (2) policies reviewed, the Company failed to provide documentation with verification for the Newly Retired Discount as required by 215 ILCS 5/132(2) (Crit #95). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In two (2) policies reviewed, the Company failed to provide documentation with verification for the Newlywed Discount as required by 215 ILCS 5/132(2) (Crit #96). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In 11 policies reviewed, the Company failed to provide documentation with verification for the Driver Training Discount as required by 215 ILCS 5/132(2) (Crit #97). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC and LMICORP.

In nine (9) policies reviewed, the Company failed to provide documentation with verification for the Liberty Mutual Parent-Teen Driving Contract Discount as required by 215 ILCS 5/132(2) (Crit #98). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC and LMICORP.

In two (2) policies reviewed, the Company failed to provide documentation with verification for the teenSMART Driving Course Discount as required by 215 ILCS 5/132(2) (Crit #100). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC and LMICORP.

In two (2) policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #102). The Company applied the Multi-Car Discount to policies having a single vehicle insured. These findings were applicable to LMGIC.

In one (1) policy reviewed, the Company failed to provide documentation with verification for RightTrack Discount as required by 215 ILCS 5/132(2) (Crit #103). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. This finding was applicable to LMGIC.

In one (1) policy reviewed, the Company failed to provide a copy of the signed Uninsured Motorist Form as required by 215 ILCS 5/132(2) (Crit #104). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. This finding was applicable to LMICORP.

In three (3) policies reviewed, the Company did not use filed forms as required by 215 ILCS 5/143(2) (Crit #105). The Company used unfiled form PP 01 74 03 04. The examiners did confirm that the form was used during the examination period. These findings were applicable to LIC, FLIC and LMFIC.

In one (1) policy reviewed, the Company failed to provide a copy of an application as required by 215 ILCS 5/132(2) (Crit #106). The Group Savings Plus Discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. This finding was applicable to LIC.

2. Auto Renewals

In 20 policies reviewed, the Company did not use filed rates/rules as required by 50 Ill. Adm. Code 754.10 (Crit #122). The Company applied a TruStage Auto and Home Program Discount that was not filed. The Company has included multiple Affinity Groups in their filed rates/rules; however, this group was not included. These findings were applicable to LMFIC.

In six (6) policies reviewed, the Company failed to provide documentation with verification for the College Education Discount as required by 215 ILCS 5/132(2) (Crit #123). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMFIC and FLIC.

In eight (8) policies reviewed, the Company failed to provide a copy of the signed Uninsured Motorist Forms as required by 215 ILCS 5/132(2) (Crit #125). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMFIC, LMICORP and LMGIC.

In six (6) policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #127). The Company applied the Affinity Group Discount to a member of a group that was not in the filed manual. These findings were applicable to LMFIC and FLIC.

In five (5) policies reviewed, the Company did not use filed rates/rules as required by 50 Ill. Adm. Code 754.10 (Crit #128). The Company applied a Liberty for All Discount that was not filed. The Company has included multiple Affinity Groups in their filed rates/rules; however, this group is not included. These findings were applicable to LMFIC.

In three (3) policies reviewed, the Company failed to provide documentation with verification for the Defensive Driver Course Discount as required by 215 ILCS 5/132(2) (Crit #129). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMFIC and LMICORP.

In one (1) policy reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #130). The Company used an incorrect rating classification. This finding was applicable to FLIC.

In two (2) policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #131). The Company applied the Multi-Car Discount to policies having a single vehicle insured. These findings were applicable to LMGIC and LMICORP.

In six (6) policies reviewed, the Company failed to provide documentation with verification for the Student Away-at-School Discount as required by 215 ILCS 5/132(2) (Crit #132). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In two (2) policies reviewed, the Company failed to provide documentation with verification for the New Move Discount as required by 215 ILCS 5/132(2) (Crit #133). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In 13 policies reviewed, the Company failed to provide documentation with verification for the Liberty Mutual Parent-Teen Driving Contract Discount as required by 215 ILCS 5/132(2) (Crit #134). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In 13 policies reviewed, the Company failed to provide documentation with verification for the Driver Training Discount as required by 215 ILCS 5/132(2) (Crit #135). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In six (6) policies reviewed, the Company failed to provide documentation with verification for the New Graduate Discount as required by 215 ILCS 5/132(2) (Crit #136). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In five (5) policies reviewed, the Company failed to provide documentation with verification for the Newly Independent Discount as required by 215 ILCS 5/132(2) (Crit #137). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In six (6) policies reviewed, the Company failed to provide documentation with verification for the Newlywed Discount as required by 215 ILCS 5/132(2) (Crit #138). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In four (4) policies reviewed, the Company failed to provide documentation with verification for the teenSMART Driving Course Discount as required by 215 ILCS 5/132(2) (Crit #139). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In 11 policies reviewed, the Company failed to provide documentation with verification for the New Teen Driver Discount as required by 215 ILCS 5/132(2) (Crit #140). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC.

In 20 policies reviewed, the Company failed to provide documentation with verification for the Good Student Discount as required by 215 ILCS 5/132(2) (Crit #141). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LMGIC and LMFIC.

3. Homeowners New Business

No violations were noted.

4. Homeowners Renewals

In 163 policies reviewed, the Company failed to provide documentation with verification for Protective Devices Discounts and Fire and/or Burglar Alarm Credits as required by 215 ILCS 5/132(2) (Crit #162). The discount was not documented in the application and the Company was unable to provide documentation in support of the application of the discount. These findings were applicable to LIC, LMICORP and LMFIC.

In one (1) policy reviewed, the Company failed to follow its filed rates/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #163). The Company applied a multi-policy discount to a policy not having another policy. This finding was applicable to LMFIC.

In one (1) policy reviewed, the Company failed to obtain the required mine subsidence waiver form as required by 215 ILCS 5/805.1(a) (Crit #164). The Company was unable to provide the required waiver form. This finding was applicable to LMFIC.

In three (3) policies reviewed, the Company failed to follow its filed rating/rules manual as required by 50 Ill. Adm. Code 754.10 (Crit #165). The Company applied the Affinity Group Discount to a member of a group that was not in the filed manual. The Company has included multiple Affinity Groups in their filed rates/rules; however, these groups were not included. These findings were applicable to LMFIC.

In eight (8) policies reviewed, the Company did not use filed rates/rules as required by 50 Ill. Adm. Code 754.10 (Crit #166). The Company applied a TruStage Auto and Home Program Discount that was not filed. The Company has included multiple Affinity Groups in their filed rates/rules; however, this group was not included. These findings were applicable to LMFIC.

In three (3) policies reviewed, the Company did not use filed rates/rules as required by 50 Ill. Adm. Code 754.10 (Crit #167). The Company applied a Liberty for All Discount that was not filed. The Company has included multiple Affinity Groups in their filed rates/rules; however, this group was not included. These findings were applicable to LMFIC.

5. Workers' Compensation New Business

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #200). The Company applied an incorrect experience modification factor. This error resulted in an undercharge. This finding was applicable to OSIC.

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #201). The Company failed to make a charge for an endorsement. This error resulted in an undercharge. This finding was applicable to OSIC.

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #202). The Company incorrectly calculated the premium for the policy. This error resulted in an undercharge. This finding was applicable to OSIC.

In four (4) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #204). The Company applied incorrect classifications. These errors resulted in three (3) undercharges and one (1) no change in premium. These findings were applicable to OSIC and LMFIC.

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #205). The Company failed to include the catastrophe charge in the policy premium. This error resulted in an undercharge. This finding was applicable to OSIC.

In five (5) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #206). The Company failed to obtain the officers' exclusion form. These findings were applicable to OSIC.

In seven (7) policies reviewed, the Company failed to provide schedule rating premium modification worksheets for the factors applied as required by 215 ILCS 5/132(2) (Crit #207). These findings were applicable to LIC and WUIC.

In one (1) policy, the Company failed to follow NCCI filed rates as required by 215 ILCS 5/457 (Crit #208). The Company applied an incorrect small deductible factor. This error resulted in an undercharge. This finding was applicable to OSIC.

In five (5) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #210). The Company did not attempt to perform the audit at policy expiration. These findings were applicable to OSIC.

6. Workers' Compensation Renewals

In two (2) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #187). The Company applied incorrect classifications. These errors resulted in undercharges. These findings were applicable to CIC and LIC.

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #188). The Company applied an incorrect rate. This error resulted in an overcharge of approximately \$343. The overcharge was refunded. This finding was applicable to NIC.

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #189). The Company did not attempt to perform the audit at policy expiration. This finding was applicable to CIC.

In two (2) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #191). The Company did not properly complete the audit at policy expiration. In one instance, the payroll was transposed for the two classifications of the risk and in the other instance, the Company failed to include the payroll for an included officer. These errors resulted in undercharges. These findings were applicable to CIC and NIC.

In one (1) policy reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #192). The Company applied the incorrect payroll to the final bill. This error resulted in an undercharge. This finding was applicable to CIC.

In two (2) policies reviewed, the Company failed to follow the filed NCCI rate/rule as required by 215 ILCS 5/462b (Crit #193). The Company applied a different schedule rating factor than the factor that was documented in the file. One instance resulted in an undercharge and the second resulted in an overcharge of approximately \$113. The overcharge was refunded. These findings were applicable to CIC and NIC.

In one (1) policy reviewed, the Company failed to provide the auditor worksheet as required by 215 ILCS 5/132(2) (Crit #194). This finding was applicable to NIC.

In 15 policies reviewed, the Company failed to provide schedule rating premium modification worksheets for the factors applied as required by 215 ILCS 5/132(2) (Crit #196). These findings were applicable to CIC, FLIC, LIC and NIC.

7. Commercial Auto New Business

In one (1) policy reviewed, the Company failed to obtain a signed Uninsured Motorist selection/rejection form as required by 215 ILCS 5/143a-2(2) (Crit #180). This finding was applicable to OSIC.

8. Commercial Auto Renewals

In two (2) policies reviewed, the Company failed to obtain a signed Uninsured Motorist selection/rejection form as required by 215 ILCS 5/143a-2(2) (Crit #181). These findings were applicable to CIC and IIC.

In four (4) policies reviewed, the Company failed to provide documentation for schedule credits/debits applied as required by 215 ILCS 5/132(2) (Crit #182). These findings were applicable to LMFIC, PIC, NIC and IIC.

9. Commercial Fire New Business

No violations were noted.

10. Commercial Fire Renewals

No violations were noted.

11. General Liability New Business

No violations were noted.

12. General Liability Renewals

No violations were noted.

13. Commercial Multiple Peril New Business

No violations were noted.

14. Commercial Multiple Peril Renewals

No violations were noted.

G. Claims

1. Auto 1st Party Paid

In two (2) claims reviewed, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #47). These findings were applicable to LMGIC.

In five (5) claims reviewed, the Company's estimates established unreasonable caps or limits on paint or materials when estimating vehicle repairs, which does not comply with 215 ILCS 5/154.6(j) (Crit #48). The estimates placed a threshold for paint materials. These findings were applicable to LMFIC and LMGIC. Based on the estimates, paint materials should have been \$596.50, \$507, \$652.40, \$1,142 and \$534.20, however, paint materials were capped at \$500. The difference of \$941 is still outstanding. The Company should provide proof to the DOI showing full refund has been made.

In 98 claims reviewed, the Company failed to include notice stating vehicle repairers must be licensed on the estimates as required by 215 ILCS 5/154.6(q) (Crit #49). These findings were applicable to LMFIC, LMICORP, LMGIC and FLIC.

2. Auto 1st Party Closed Without Payment

No violations were noted.

3. Auto 3rd Party Paid

In one (1) claim reviewed, the Company failed to include Notice of Availability of the DOI in the delay letter as required by 50 Ill. Adm. Code 919.80(b)(3) (Crit #44). This finding was applicable to LMFIC.

In one (1) claim reviewed, the Company's estimate established unreasonable caps or limits on paint or materials when estimating vehicle repairs, which does not comply with 215 ILCS 5/154.6(j) (Crit #45). The estimate placed a threshold for paint materials. This finding was applicable to LMFIC. Based on the estimate, paint materials should have been paid at \$666.40, however, paint materials were capped at \$500. The difference of \$166.40 is still outstanding. The Company should provide proof to the DOI showing full refund has been made.

4. Auto 3rd Party Closed Without Payment

In one (1) claim reviewed, the Company failed to provide written denial letter as required by 50 Ill. Adm. Code 919.50(a)(2) (Crit #109). This finding was applicable to LMGIC.

In one (1) claim reviewed, the Company failed to maintain detailed documentation to permit the reconstruction of the Company's claims activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #110). This finding was applicable to LMGIC.

In two (2) claims reviewed, the Company failed to affirm or deny the claim within a reasonable time as required by 50 Ill. Adm. Code 919.50(a) (Crit #112). These findings were applicable to LMFIC.

5. Auto Total Losses Paid

In one (1) claim reviewed, the Company failed to properly comply with the requirements of 215 ILCS 5/143b (Crit #50). The Company returned the insured's deductible twice, resulting in an overpayment of \$500. This finding was applicable to LMFIC.

In two (2) claims reviewed, the Company indicated on the check made to the insured that the payment was final, which does not comply with the requirements of 50 Ill. Adm. Code 919.60(a) (Crit #51). These findings were applicable to LMFIC.

In one (1) claim reviewed, the Company failed to include Notice of Availability of the DOI in the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #52). This finding was applicable to LMGIC.

In eight (8) claims reviewed, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #53). These findings were applicable to LMGIC and LMFIC.

In 51 claims reviewed, the Company failed to send an Exhibit A letter as required by 50 Ill. Adm. Code 919.80(c) (Crit #54). These findings were applicable to LMGIC, LMFIC, LMICORP and FLIC.

6. Auto Subrogation

In one (1) claim reviewed, the Company failed to return the insured's deductible in a timely manner as required by 215 ILCS 5/143b (Crit #21). The payment was made 57 days after recovery. This finding was applicable to LMFIC.

7. Homeowners Paid

In one (1) claim reviewed, the Company failed to send a claim delay letter as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #34). This finding was applicable to LIC.

8. Homeowners Closed Without Payment

In one (1) claim reviewed, the Company failed to include Notice of Availability of the DOI in the denial letter as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #26). This finding was applicable to LIC.

In two (2) claims reviewed, the Company failed to provide a written denial letter as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #28). These findings were applicable to LMICORP.

9. Commercial Auto 1st Party Paid

In one (1) claim reviewed, the Company indicated on the check made to the insured that the payment is final, which does not comply with the requirements of 50 Ill. Adm. Code 919.60(a) (Crit #172). This finding was applicable to LMFIC.

In one (1) claim reviewed, the Company failed to maintain detailed documentation to permit the reconstruction of the Company's claims activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #173). This finding was applicable to FLIC.

10. Commercial Auto 1st Party Closed Without Payment

No violations were noted.

11. Commercial Auto 3rd Party Paid

In one (1) claim reviewed, the Company failed to affirm or deny the claim within a reasonable time as required by 50 Ill. Adm. Code 919.50(a) (Crit #168). This finding was applicable to LMFIC.

12. Commercial Auto 3rd Party Closed Without Payment

In one (1) claim reviewed, the Company failed to maintain detailed documentation to permit the reconstruction of the Company's claims activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #169). This finding was applicable to OSIC.

13. Commercial Auto Total Losses Paid

No violations were noted.

14. Commercial Auto Subrogation

No violations were noted.

15. Workers' Compensation Paid

No violations were noted.

16. Workers' Compensation Closed Without Payment

No violations were noted.

17. Other Commercial Paid

In one (1) claim reviewed, the Company failed to make timely payment as required by 50 Ill. Adm. Code 919.50(a) (Crit #170). The settlement amount was agreed to and the signed release received on 4/23/14. However, there was no further activity until payment made on 6/9/14. This finding was applicable to LMFIC.

18. Other Commercial Closed Without Payment

No violations were noted.

H. Workers' Compensation Unit Statistical Reports (USR)

1. Workers' Compensation New Business

In one (1) USR reviewed, the Company failed to follow the filed NCCI Statistical Plan as required by 215 ILCS 5/457 (Crit #183). The reported premium did not match the final audit. This finding was applicable to OSIC.

2. Workers' Compensation Renewals

No violations were found.

3. Workers' Compensation Paid

No violations were found.

STATE OF FLORIDA)
) ss
COUNTY OF MARION)

Victor M. Negron, being first duly sworn upon his/her 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 Consolidated Insurance Company NAIC Code #22640; Employers Insurance Company of Wausau NAIC Code #21458; Indiana Insurance Company NAIC Code #22659; Liberty Insurance Corporation NAIC Code #42404; Liberty Mutual Fire Insurance Company NAIC Code #23035; Liberty Mutual Insurance Company NAIC Code #23043; LM General Insurance Company NAIC Code #36447; LM Insurance Corporation NAIC Code #33600; Ohio Security Insurance Company NAIC Code #24082; Peerless Insurance Company NAIC Code #24198; The First Liberty Insurance Corporation NAIC Code #33588; The Netherlands Insurance Company NAIC Code #24171; Wausau Underwriters Insurance Company NAIC Code #26042, collectively known as "the Company".

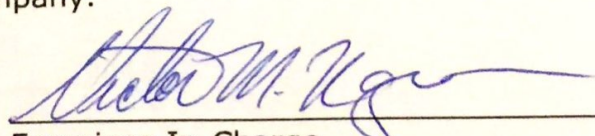
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish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

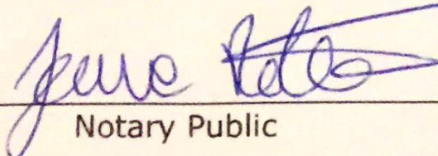
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That she/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.


Examiner-In-Charge

Subscribed and sworn to before me
this 13 day of December, 2014.

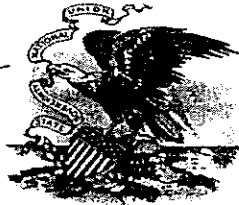

Notary Public



Joanna Robertson
State of Florida
My Commission Expires 08/03/2018
Commission No. FF 147453

STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**LM GENERAL INSURANCE COMPANY
LIBERTY INSURANCE CORPORATION
LIBERTY MUTUAL FIRE INSURANCE CORPORATION
LM INSURANCE CORPORATION
THE FIRST LIBERTY INSURANCE CORPORATION
CONSOLIDATED INSURANCE COMPANY
INDIANA INSURANCE COMPANY
OHIO SECURITY INSURANCE COMPANY
THE NETHERLANDS INSURANCE COMPANY
WAUSAU UNDERWRITERS INSURANCE COMPANY
175 BERKELEY STREET
BOSTON, MA 02116**

STIPULATION AND CONSENT ORDER

WHEREAS, the 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, LM General Insurance Company, NAIC 36447, Liberty Insurance Corporation, NAIC 42404, Liberty Mutual Fire Insurance Company, NAIC 23035, LM Insurance Corporation, NAIC 33600, The First Liberty Insurance Corporation, NAIC 33588, Consolidated Insurance Company, NAIC 22640, Indiana Insurance Company, NAIC 22659, Ohio Security Insurance Company, NAIC 24082, The Netherlands Insurance Company, NAIC 24171, and Wausau Underwriters Insurance Company, NAIC 26042, collectively referred to as "the Company", are 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 a duly qualified examiner of the Department pursuant to Sections 132, 401, 402, 403, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403, and 5/425); and

WHEREAS, as a result of the Market Conduct Examination, the Department examiner filed a Market Conduct Examination Report which is an official document of the Department; and

WHEREAS, the Market Conduct Examination 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 their 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, they waive 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 Department Regulations; 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 Department Regulations.

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

1. Institute and maintain policies and procedures whereby the Company shall provide examiners adequate access to all books, records, documents, and any or all papers relating to the business, performance, operations, and affairs of the Company as required by 215 ILCS 5/132(2).
2. Institute and maintain policies and procedures whereby the Company shall ensure filing of forms issued or delivered as required by 215 ILCS 5/143(2).
3. Institute and maintain policies and procedures whereby the Company shall provide the lien holder a specific explanation of the reason or reasons for cancellation as required by 215 ILCS 5/143.15.
4. Institute and maintain policies and procedures whereby the Company shall provide the lien holder an exact and unaltered copy of the notice of its intention not to renew sent to the insured as required by 215 ILCS 5/143.17.
5. Institute and maintain policies and procedures whereby the Company shall ensure the insured is notified of their eligibility for the FAIR Plan Association in the notice of intent not to renew as required by 215 ILCS 5/143.22.

6. Institute and maintain policies and procedures whereby the Company shall advise the insured of the right to appeal and the procedure to follow for such appeal when canceling the policy as required by and outlined in 215 ILCS 5/143.23.
7. Institute and maintain policies and procedures whereby the Company shall ensure the insured has the right to reject additional uninsured motorist or underinsured motorist coverage and shall maintain proof of the written request as required by 215 ILCS 5/143a-2(2).
8. Institute and maintain policies and procedures whereby the Company shall provide a written response to written inquiries and complaints within twenty-one (21) days of receipt as required by 215 ILCS 5/143d(b).
9. Institute and maintain policies and procedures whereby the Company shall provide notification on written estimates that Illinois law requires vehicle repairers be licensed as required by 215 ILCS 5/154.6(q).
10. Institute and maintain policies and procedures whereby the Company shall ensure claims are settled for a reasonable amount by not placing unreasonable caps or limits on paint materials as required by 215 ILCS 5/154.6(j).
11. Institute and maintain policies and procedures whereby the Company shall apply the correct classifications, payrolls and other factors of a rating system to compute premiums as required by 215 ILCS 5/462b.
12. Institute and maintain policies and procedures whereby the Company shall use the rules, rates, rating plans, classifications or other schedules, filed with the Illinois Department of Insurance when issuing policies as required by 50 Ill. Adm. Code 754.10.
13. Institute and maintain policies and procedures whereby the Company shall provide the insured an explanation of the basis of the lower offer or denial on first party claims within 30 days after determination of liability as required by 50 Ill. Adm. Code 919.50(a)(1).
14. Institute and maintain policies and procedures whereby the Company shall provide the insured with a reasonable written explanation for the delay when a claim remains unresolved for more than 40 days as required by 50 Ill. Adm. Code 919.80(b)(2).
15. Institute and maintain policies and procedures whereby the Company shall provide the insured with, at a minimum, the information contained in Exhibit A, within seven (7) days of determination of the total loss as required by 50 Ill. Adm. Code 919.80(c).
16. Institute and maintain policies and procedures whereby the Company shall respond to Illinois Department of Insurance Complaints within the required twenty-one (21) days as required by 50 Ill. Adm. Code 926.40(a).
17. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above sixteen (16) orders within 30 days of execution of this Order.
18. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$44,800 to be paid within 30 days of execution of this Order.

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 LM GENERAL INSURANCE COMPANY, LIBERTY INSURANCE CORPORATION, LIBERTY MUTUAL FIRE INSURANCE CORPORATION, LM INSURANCE CORPORATION, THE FIRST LIBERTY INSURANCE CORPORATION, CONSOLIDATED INSURANCE COMPANY, INDIANA INSURANCE COMPANY, OHIO SECURITY INSURANCE COMPANY, THE NETHERLANDS INSURANCE COMPANY, and WAUSAU UNDERWRITERS INSURANCE COMPANY

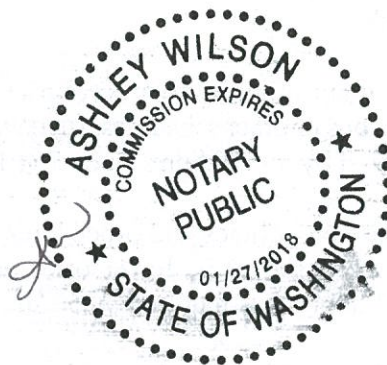
Jessie Puff
Signature

Jessie Graff
Name

AVP - DIRECTOR OF STATE OPERATIONS
Title

Subscribed and sworn to before me this
12 day of May 2017.

Ashley Wilson
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE 5/25/17

Jennifer Hammer
Jennifer Hammer / PHD
Director

