Market Conduct Report

Liberty Mutual Fire Insurance Company
Safeco Insurance Company of Illinois
LM General Insurance Company
General Insurance Company of America
Liberty Insurance Corporation

October 27, 2017

Connecticut Insurance Department

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I. INTRODUCTION

A. Statutory Authority

By authority granted under Section 38a-15 of the Connecticut General Statutes, this examination was conducted by Market Conduct examiners of the State of Connecticut Insurance Department at the Department office located in Hartford, Connecticut.

B. Scope of Examination

From July 14, 2016 to on or about June 1, 2017, the Market Conduct Division of the Connecticut Insurance Department examined the market conduct practices of the companies using a sample period of July 1, 2014 through June 30, 2015. The examination was limited to Connecticut business.

C. Company Profile

Company	Commenced Business	State of Domicile
Liberty Mutual Fire Insurance Company	November 5, 1908	WI
Safeco Insurance Company of Illinois	August 29, 1980	IL
LM General Insurance Company	November 17, 1978	IL
General Insurance Company of America	December 19, 1928	NH
Liberty Insurance Corporation	December 15, 1988	IL

Direct premiums written as of December 31, 2015 are as follows:

	Connecticut	Total
Liberty Mutual Fire Insurance Company	144,288,304	4,788,350,221
Safeco Insurance Company of Illinois	132,513,078	1,980,834,757
LM General Insurance Company	105,163,673	2,407,823,000
General Insurance Company of America	42,958,942	312,230,019
Liberty Insurance Corporation	65,796,637	2,688,955,843

D. Market Conduct Reports

The examiners generated a listing of market conduct examination reports using National Association of Insurance Commissioners' I-Site. This information was used to request market conduct examination reports from the companies. The examiners obtained copies of all relevant market conduct examination reports which had been issued to the companies during the three (3) years preceding the examination. The reports were reviewed to identify any recommendations that had been made by the respective Insurance Departments and to determine whether the companies had taken appropriate corrective action in response to those recommendations.

E. Privacy of Consumer Financial Information

Standard 1: The companies have adequate procedures in place for the protection of consumer financial information.

The companies appear to be in compliance.

Standard 2: The companies provide each consumer with an initial privacy notice in accordance with statutes, rules and regulations.

The companies appear to be in compliance.

Standard 3: The companies provide each consumer with an annual privacy notice in accordance with statutes, rules and regulations but at a minimum annually.

The companies appear to be in compliance.

Standard 4: The companies provide each consumer with an opt out notice in accordance with statutes, rules and regulations.

The companies appear to be in compliance.

Standard 5: The companies provide each consumer with a revised privacy notice in accordance with statutes, rules and regulations.

The companies appear to be in compliance.

Standard 6: All notices are provided in the required timeframe so as to minimize any improper intrusion into the privacy of consumers.

The companies appear to be in compliance.

Standard 7: The companies comply with all requirements for the disclosure of nonpublic personal financial information to nonaffiliated third parties so as to minimize any improper intrusion into the privacy of consumers.

The companies appear to be in compliance.

Standard 8: The companies comply with all requirements for the disclosure and redisclosure of nonpublic personal financial information so as to minimize any improper intrusion into the privacy of consumers.

The companies appear to be in compliance.

Standard 9: The companies have procedures for the sharing of consumer account numbers so as to minimize any improper intrusion into the privacy of consumers.

The companies appear to be in compliance.

II. ITEMS EXAMINED

A. Operations and Management

Standard 1: The companies have an up-to-date, valid internal or external audit program.

The examiners reviewed the Liberty Mutual Corporate Internal Auditing Policies and Procedures manual. It was broken down by Planning, Fieldwork, Reporting and Administration. It appears the companies have proper controls in place.

Standard 2: The companies have appropriate controls, safeguards and procedures for protecting the integrity of computer information.

The companies' Information Security Standards were reviewed by the examiners. The companies have in place policies that address the roles and responsibilities of employees and authorized personnel. Audit logs of key systems are generated on a regular basis.

Standard 3: The companies have an antifraud plan in place.

The companies had a total of three hundred sixty-six (366) referrals to their SIU unit during the examination period. A total of one (1) claim was referred to authorities with claimant arrested for charges stemming from the fraudulent claim. The matter is still pending in the court system.

Standard 4: The companies have a valid disaster recovery plan.

A full time Corporate Business Continuity Planning Director is responsible for oversight of companywide business contingency planning policy, standards and processes and reports to the CFO and CEO on strategic business unit compliance.

Standard 5: The companies adequately monitor the activities of the managing general agents.

The companies do not use Managing General Agents.

Standard 6: The companies' contract with managing general agents complies with applicable statutes, rules and regulations.

See above.

Standard 7: Records are adequate, accessible, consistent and orderly, and comply with State record retention requirements.

The companies appear to be in compliance.

Standard 8: The companies are licensed for the lines of business that are being written.

The companies appear to be in compliance.

Standard 9: The companies cooperate on a timely basis with examiners performing the examination.

The companies appear to be in compliance.

B. Complaint Handling

Standard 1: All complaints are recorded in the required format on the companies' complaint register.

The examiners reviewed a total of 108 complaints filed with the Department. In addition, they also reviewed non-Department complaints against the companies. The Department filed complaints, recorded in the companies' complaint register, were all in the required format.

Standard 2: The companies have adequate complaint handling procedures in place and communicate such procedures to policyholders.

The complaint handling procedures were reviewed by the examiners. The companies appear to be in compliance.

Standard 3: The companies take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

The companies appear to be in compliance.

Standard 4: The time frame within which the companies respond is in accordance with applicable statutes, rules and regulations.

The companies appear to be in compliance.

C. Marketing and Sales

Standard 1: All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

The examiners reviewed advertising and sales material provided by the companies. The companies appear to be in compliance.

Standard 2: The companies' internal producer training materials are in compliance with applicable statutes, rules and regulations.

The companies appear to be in compliance.

Standard 3: The companies' communications to producers are in compliance with applicable statutes, rules and regulations.

The companies appear to be in compliance.

Standard 4: The companies' mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

The companies do not mass market property casualty insurance.

D. Producer Licensing

Standard 1: The companies' records of licensed and appointed producers agree with Insurance Department's records.

The companies appear to be in compliance.

Standard 2: The producers are properly licensed and appointed in the jurisdiction where the application was taken.

The companies were not in compliance with Connecticut General Statutes.

Standard 3: Termination of producers complies with statutes regarding notification to the producer and notification to the State, if applicable.

The companies appear to be in compliance.

Standard 4: The companies' policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

The companies appear to be in compliance.

Standard 5: Records of terminated producers adequately document the reasons for termination.

The companies appear to be in compliance.

E. Policyholder Service

Standard 1: Premium notices and billing notices are sent out with an adequate amount of advance notice.

The companies appear to be in compliance.

Standard 2: Policy issuance and insured requested cancellations are timely.

The companies appear to be in compliance.

Standard 3: All correspondence directed to the companies is answered in a timely and responsive manner by the appropriate department.

The companies appear to be in compliance.

F. Underwriting and Rating

Standard 1: The rates charged for the policy coverage are in accordance with filed rates or the companies' rating plan.

Homeowners
General Insurance Company of America
It was determined during the manual rerating of new business homeowner policies that the company relies upon the agent to determine and assign the ISO Fire Protection Classification for the property. In addition, there is no system check by the company to verify the classification input by the agent is accurate when the new business policy is issued and if, at renewal, the ISO classification has changed, it will still remain regardless of any improvement in protection classification.

The company Price Matching and Renewal Capping on file and in use with the Department should also be included in the Company Rate/Rules Manual.

The company has an honored quote rule that guarantees a rate quote for a period of thirty (30) days. This rule should be added to the Company Rate/Rules Manual with details as to how it applies.

It was also noted that the Rate Order of Calculation on file with the Department does not match the system algorithm.

Standard 2: Disclosures to insureds concerning rates and coverages are accurate and timely.

The companies appear to be in compliance.

Standard 3: The companies do not permit illegal rebating, commission cutting or inducements.

The companies appear to be in compliance.

Standard 4: Credits and deviations are consistently applied on a non-discriminatory basis.

The companies appear to be in compliance.

Standard 5: Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

The companies appear to be in compliance.

Standard 6: The companies' underwriting practices are not unfairly discriminatory. The companies adhere to applicable statutes, rules, regulations and companies' guidelines in the selection of risks.

The companies appear to be in compliance.

Standard 7: All forms and endorsements forming a part of the contract are listed on the declarations page and should be filed with the Department of Insurance.

The companies appear to be in compliance.

Standard 8: The producers are properly licensed and appointed in the jurisdiction where the application was taken.

Private Passenger Automobile
Safeco Insurance Company of Illinois
It was determined, in nine (9) instances, the producer of record did not hold an appointment to write business for the company in accordance with Connecticut General Statutes, Section 38a-702m.

It was determined, in four (4) instances, the producer did not hold a Connecticut producers license in accordance with Connecticut General Statutes, Section 38a-702b.

It was determined, in two (2) instances, the company could not provide necessary documentation to determine who the producer of record was on a new business policy.

Homeowners
General Insurance Company of America
It was determined, in twelve (12) instances, the producer of record did not hold an appointment to write business for the company in accordance with Connecticut General Statutes, Section 38a-702m.

It was determined, in two (2) instances, the producer did not hold a Connecticut producers license in accordance with Connecticut General Statutes, Section 38a-702b.

It was determined in two (2) instances, the company could not provide documentation to determine producer of record.

In addition, one producer failed to register their DBA with the Department.

Liberty Insurance Corporation
It was determined one (1) producer was not appointed in accordance with Connecticut General Statutes, Section 38a-702m.

Standard 9: Underwriting, rating and classifications are based on adequate information developed at or near inception of the coverage rather than near expiration or following a claim.

The companies appear to be in compliance.

Standard 10: File documentation adequately supports decisions made.

The companies appear to be in compliance.

Standard 11: Policies and endorsements are issued or renewed accurately, timely and completely.

General Insurance Company of America

The companies advised that all endorsements are done in real time. The agents are charged with the responsibility of receiving and entering policy change requests as they are advised by their insureds. Generally, these are processed on the day of request. The company system has various underwriting checks that would delay the processing if further information is required, such as more cars than drivers on an automobile policy or the addition of an expensive jewelry item on a homeowner policy. The company advised it does not maintain or require its agents to keep a log of requests since all changes generally will have an amended declaration page and premium change after the endorsement is processed so, actually, there is in fact a paper trail of what policy change occurred and when it was processed.

Standard 12: Audits, when required, are conducted accurately and timely.

The companies appear to be in compliance.

Standard 13: The companies verify that VIN number submitted with application is valid and that the correct symbol is utilized.

The companies appear to be in compliance.

Standard 14: The companies do not engage in collusive or anti-competitive underwriting practices.

The companies appear to be in compliance.

Standard 15: Rejections and declinations are not unfairly discriminatory.

The companies appear to be in compliance.

Standard 16: Cancellation/non-renewal notices comply with policy provisions and State laws, and companies' guidelines.

Private Passenger Automobile
Safeco Insurance Company of Illinois
Automobile Cancellations

In a sample of automobile cancellations, it was determined that ten (10) cancellations still qualified for coverage and seven (7) cancellations were non-specific.

Homeowners
General Insurance Company of America
Homeowner Non-Renewals
In a sample of homeowner non-renewals, five (5) non-renewals were issued for policies with just one loss which is not in filed guidelines. One (1) non-renewal was non-specific and one (1) non-renewal was issued for just 1 CAT loss.

Homeowner Cancellations
In a review of homeowner cancellations, one (1) cancellation for two CAT losses is not allowed per company guidelines. One (1) cancellation for just one water loss was also not in company guidelines.

Liberty Insurance Corporation
It was determined six (6) cancellations were incorrectly cancelled midterm and one (1) cancellation was outside the company's filed guidelines.

Standard 17: Cancellation/non-renewal notices comply with policy provisions and State laws, including the amount of advance notice provided to the insured and other parties to the contract.

The companies appear to be in compliance.

Standard 18: Unearned premiums are correctly calculated and returned to appropriate party in a timely manner, and in accordance with applicable statutes, rules and regulations.

The companies appear to be in compliance.

Standard 19: Rescissions are not made for non-material misrepresentation.

The companies appear to be in compliance.

Standard 20: All policies are correctly coded.

The companies appear to be in compliance.

G. Claims

The companies provided a listing of claims paid and denied during the period of examination. The claim files were reviewed to determine if they were handled in accordance with policy provisions, and applicable statutes and regulations.

Standard 1: The initial contact by the companies with the claimant is within the required time frame.

The companies appear to be in compliance.

Standard 2: Timely investigations are conducted.

The companies appear to be in compliance.

Standard 3: Claims are resolved in a timely manner.

The companies appear to be in compliance.

Standard 4: The companies respond to claim correspondence in a timely manner.

The companies appear to be in compliance.

Standard 5: Claim files are adequately documented.

The companies appear to be in compliance.

Standard 6: Claim files are handled in accordance with policy provisions and applicable statutes, rules and regulations.

Private Passenger Automobile
LM General Insurance Company
In a review of property damage liability claims, it was determined that in fourteen (14) instances the company did not undertake to consider loss of use in the settlement. One (1) claim was determined to have an undue delay.

Liberty Mutual Fire Insurance Company
In a sample of property damage liability claims it was determined that in thirteen (13) instances the company did not undertake to consider loss of use in the settlement.

In a sample of comprehensive claims, it was determined one (1) claim was improperly coded and should have been a collision claim.

Safeco Insurance Company of Illinois
In a sample of comprehensive claims, it was determined that one (1) loss was improperly coded. In two (2) instances, there were undue delays in settlement. In one (1) instance, a total loss evaluation did not have adequate documentation to justify vehicle condition deductions taken.

In a sample of property damage liability claims, it was determined that one (1) claim had a claim handling error. Two (2) claims had undue delays on appraisal. One claim applied comparative negligence without adequate support to substantiate the 20% reduction. The company agreed and refunded the claimant $790.02. In one (1) instance, a total loss settlement applied condition of vehicle reductions without adequate documentation to substantiate amounts taken. The company agreed and refunded the claimant $1,062.44.

Homeowners
Liberty Mutual Fire Insurance Company
In a sample of homeowner closed without payment claims, one (1) claim denial had no denial letter sent to claimant. One (1) claim denial letter included the wrong exclusion in the letter. One (1) condominium claim was not settled per statute and should have been covered by the Association policy. One (1) claim involving lead exposure was denied.

Liberty Insurance Corporation
In a sample of homeowner paid claims, two (2) claims involving tree debris removal were not paid. Company agreed and reimbursed insureds $850.80. One denial letter sent to insured included an incorrect cause of damage per the engineers report. One (1) out of pocket expense for tree removal should have been considered by the company but was not. The company reviewed the claim and agreed to reimburse the insured $208.40.

Standard 7: The companies use the reservation of rights and excess of loss letters when appropriate.

The companies appear to be in compliance.

Standard 8: Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

The companies appear to be in compliance.

Standard 9: The companies' claim forms are appropriate for the type of product.

The companies appear to be in compliance.

Standard 10: Claim files are reserved in accordance with the companies' established procedures.

The companies appear to be in compliance.

Standard 11: Denied and closed without payment claims are handled in accordance with policy provisions and State law.

See Standard 6.

Standard 12: Cancelled benefit checks and drafts reflect appropriate claim handling procedures

The companies appear to be in compliance.

Standard 13: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

The companies appear to be in compliance.

Standard 14: The companies use licensed adjusters and (Connecticut) appraisers in the handling of casualty claims.

Private Passenger Automobile
LM General Insurance Company
It was determined that four (4) adjusters did not have required casualty adjusters licenses as required by Connecticut General Statutes, Section 38a-792. It was also determined that three (3) appraisers did have required motor vehicle appraisers licenses in accordance with Connecticut General Statutes, Section 38a-790.

Liberty Mutual Fire Insurance Company
Safeco Insurance Company of Illinois
LM General Insurance Company
General Insurance Company of America
Liberty Insurance Corporation

Standard 15: Loss statistical coding is complete and accurate.

The companies appear to be in compliance.

Standard 16: Release by injured person voidable if obtained within fifteen days. (Connecticut)

The companies appear to be in compliance.

III. SUMMARY OF RECOMMENDATIONS

Report Section

II. D. Producer Licensing:
New Business

It is required that Safeco Insurance Company of Illinois, General Insurance Company of America and Liberty Insurance Corporation comply with Connecticut General Statutes, Section 38a-702m with regard to agent appointments.

II. D. Producer Licensing:
New Business

It is required that Safeco Insurance Company of Illinois and General Insurance Company of America comply with Connecticut General Statutes, Section 38a-702b with regard to agent licensing.

II. F. Underwriting and Rating:
Personal Lines – Homeowner Rating
It is required that General Insurance Company of America comply with Connecticut General Statutes, Section 38a-686 with regard to homeowner rating.

II. F. Underwriting and Rating:
Homeowner – Cancellations
It is required that Liberty Insurance Corporation and Liberty Mutual Fire Insurance Company comply with Connecticut General Statutes, Section 38a-307 with regard to homeowner cancellations.

II. F. Underwriting and Rating:
Automobile – Cancellations
It is required that Safeco Insurance Company of Illinois comply with Connecticut General Statutes, Section 38a-343 with regard to private passenger automobile cancellations.

II. F. Underwriting and Rating:
Homeowner - Non-Renewals
It is required that the General Insurance Company of America comply with Connecticut General Statutes, Section 38a-323 and Bulletin PC-66 with regard to the non-renewal of homeowner policies.

Liberty Mutual Fire Insurance Company
Safeco Insurance Company of Illinois
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General Insurance Company of America
Liberty Insurance Corporation

II. F. Underwriting and Rating:
Homeowner – Endorsements
It is required that General Insurance Company of America comply with Connecticut General Statutes, Section 38a-15 with regard to homeowner endorsements.

II. G. Claims:
Automobile
It is required that Liberty Mutual Fire Insurance Company and LM General Insurance Company comply with Connecticut Regulations 38a-334-(2)(c) and 38a-334-(5)(a) with regard to loss of use in the settlement of private passenger automobile property damage liability claims.

II. G. Claims:
Automobile
It is required that Liberty Mutual Fire Insurance Company, LM General Insurance Company and Safeco Insurance Company of Illinois comply with Connecticut General Statutes, Section 38a-816 with regard to the settlement of automobile claims.

II. G. Claims:
Homeowner
It is required that Liberty Mutual Fire Insurance Company and Liberty Insurance Corporation comply with Connecticut General Statutes, Section 38a-816 with regard to the settlement of homeowner claims.

II. G. Claims:
Motor Vehicle Physical Damage Appraisers
It is required that LM General Insurance Company comply with Connecticut General Statutes, Section 38a-790 with regard to licensing of appraisers.

II. G. Claims:
Casualty Claims Adjusters
It is required that LM General Insurance Company comply with Connecticut General Statutes, Section 38a-792 with regard to licensing of casualty adjusters.

IV. ACKNOWLEDGMENT

The courtesy and cooperation of Liberty Mutual Group during the course of this examination is acknowledged.

Mark J. Duffy, Edgar E. Frazelle, Karen A. Romero and James Stowe participated in the examination and preparation of this report.

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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IN THE MATTER OF: DOCKET MC 17-103

LIBERTY INSURANCE CORPORATION:

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STIPULATION AND CONSENT ORDER

It is hereby stipulated and agreed between Liberty Insurance Corporation and the State of Connecticut Insurance Department by and through Katharine L. Wade, Insurance Commissioner, to wit:

I

WHEREAS, pursuant to a Market Conduct examination, the Commissioner alleges the following with respect to Liberty Insurance Corporation:

1. Liberty Insurance Corporation, hereinafter referred to as Respondent, is domiciled in the State of Illinois and is licensed to transact property and casualty insurance in the State of Connecticut. The NAIC company code number is 42404.

2. From July 14, 2016 through June 1, 2017, the Department conducted an examination of Respondent's market conduct practices in the State of Connecticut covering the period from July 1, 2014 through June 30, 2015.

3. During the period under examination, Respondent failed to follow established practices and procedures to ensure compliance with statutory requirements resulting in instances of:

   a) individual producer not appointed to write business for the company

   b) improper cancellation of homeowner policies

4. The conduct described in paragraph three is in violation of Sections 38a-307 and 38a-702m of the Connecticut General Statutes, and constitutes cause for the imposition of a fine or other administrative penalty under Sections 38a-2 and 38a-41 of the Connecticut General Statutes.

1. WHEREAS, Respondent admits the allegations in paragraphs three and four of Article I of this Stipulation and Consent Order; and

2. WHEREAS, Respondent agrees to undertake a complete review of its practices and procedures, with respect to those areas of concern, as described in the Market Conduct Report and this Stipulation, so that those areas of concern are compliant with Connecticut Statutes; and

3. WHEREAS, Respondent agrees to provide the Insurance Commissioner with a full report of findings and a summary of actions taken to comply with the requirements of paragraph two of this Section within ninety (90) days of the date of this document; and

4. WHEREAS, Respondent agrees to pay a fine in the amount of $5,500 for the violations described herein; and

5. WHEREAS, Respondent, being desirous of terminating administrative action without the necessity of a formal hearing or further litigation, does consent to the making of this Consent Order and voluntarily waives:

   a. any right to notice and a hearing; and

   b. any requirements that the Insurance Commissioner's decision contain a statement of findings of fact and conclusions of law; and

   c. any and all rights to object to or challenge before the Insurance Commissioner or in any judicial proceeding any aspect, provision or requirement of this Stipulation

NOW THEREFORE, upon the consent of the parties, it is hereby ordered and adjudged:

1. That the Insurance Department has jurisdiction of the subject matter of this administrative proceeding.

2. That Liberty Insurance Corporation is ordered to pay a fine in the amount of Five Thousand Five Hundred Dollars ($5,500).

LIBERTY INSURANCE CORPORATION

By: _____
(Representative of Insurance Company)
SEBESTYEN MARTENS

CERTIFICATION

The undersigned deposes and says that she/he has duly executed this Stipulation and Consent Order on this 22nd day of MAY 2018, for and on behalf of Liberty Insurance Corporation; that she/he is the REGULATORY COUNSEL of such company, and she/he has authority to execute and file such instrument.

By: _____

SEBESTYEN MARTENS

STATE OF Massachusetts

SS

COUNTY OF Suffolk

On the 22 day of May 2018, before me personally appeared Sebestyen Martens, sealer of the foregoing Stipulation and Consent Order, acknowledged same to be her/his act and deed.

Hope M. Vardaro

Notary Public/Commissioner of The Superior Court

Hope M. Vardaro
Notary Public
Commonwealth of Massachusetts
My Commission Expires
December 26, 2019

Section Below To Be Completed by State of Connecticut Insurance Department

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Dated at Hartford, Connecticut this 24 day of May 2018.

Katharine L. Wade

Katharine L. Wade
Insurance Commissioner