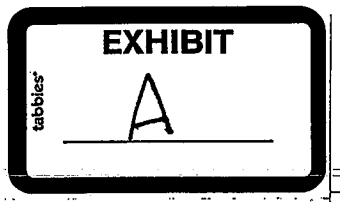

TENNESSEE MARKET CONDUCT EXAMINATION OF

LIBERTY MUTUAL FIRE INSURANCE COMPANY

FOR THE PERIOD

JANUARY 1, 2001 THROUGH DECEMBER 31, 2005

AS OF DECEMBER 31, 2005

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SALUTATION

Honorable Paula A. Flowers
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 5th Floor
Nashville, Tennessee 37243-1135

Dear Commissioner Flowers:

In compliance with your instructions contained in the Certificate of Examination Authority dated June 22, 2006, and pursuant to statutory provisions including Tenn. Code Ann. § 56-8-104(8)(xi), a limited scope market conduct examination has been conducted of the affairs and practices of:

LIBERTY MUTUAL FIRE INSURANCE COMPANY

hereinafter referred to as the "Company" or as "LMFIC." LMFIC is incorporated under the laws of the State of Wisconsin. This examination reviewed only the operations of LMFIC as they impact residents, policyholders, and claimants residing in the State of Tennessee. The on-site phase of the examination was conducted at the following location:

5301 Virginia Way, Suite 200, Brentwood, TN 37027

The examination is as of December 31, 2005.

Examination work was also completed off-site and at the offices of the Tennessee Department of Commerce and Insurance, hereinafter referred to as the "Department" or as "TDCI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Tennessee Market Conduct Examination of a Property and Casualty insurer are:

A. Company Operations/Management
B. Complaint Handling
C. Marketing and Sales
D. Producer Licensing
E. Policyholder Service
F. Underwriting and Rating
G. Claims

Each business area has standards that an examination can measure. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines. Please note that some business areas in the *National Association of Insurance Commissioner's ("NAIC") Market Conduct Examiners Handbook* do not have a Tenn. Code Ann. basis and have not been included in this examination. The product line reviewed in this examination is Workers Compensation insurance.

This examination is limited in scope. Only Standards A-09, G-03 and G-05 are tested. These standards determine compliance with the provisions of Tenn. Comp. R & Regs. 0800-2-14.04(7) and 0800-2-14.07(1), which pertain to the timeliness of claim payments.

This examination report is a report by test rather than a report by exception. This means that all standards tested are described and the results reported.

HISTORY AND PROFILE

Liberty Mutual Fire Insurance Company was incorporated under the laws of the Commonwealth of Massachusetts on October 31, 1908, and commenced business on November 5, 1908.

LMFIC's current business emphasis is on personal home and automobile lines, with distribution primarily by agents who confine their representation exclusively to companies in the Liberty Mutual Group. The company is licensed in all 50 U.S. states, the District of Columbia, Puerto Rico, and Canada. The Company's headquarters are maintained in Boston, Massachusetts.

LMFIC was re-domiciled from the Commonwealth of Massachusetts to the State of Wisconsin effective December 22, 2005.

Tennessee Premiums and Losses for the examination period are presented below:

	Premium Written	Premium Incurred	Losses Paid	Losses Incurred	Losses Unpaid
2005	$57,522,282	$70,475,696	$34,784,157	$54,967,990	$159,992,255
2004	$71,535,222	$67,088,392	$37,429,897	$43,851,624	$140,708,421
2003	$79,495,283	$85,992,214	$33,451,835	$70,594,757	$134,286,693
2002	$98,298,887	$68,459,511	$25,684,225	$57,628,441	$97,143,771
2001	$51,872,784	$48,792,356	$17,947,234	$43,209,268	$65,199,555

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in Chapter VIII of the *NAIC's Market Conduct Examiners Handbook* (2004 edition).

Some standards are measured using a single type of review, while others use a combination or all of the types of review. The types of review used in this examination fall into 3 general categories: "generic," "sample," and "electronic."

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the *NAIC's Market Conduct Examiners Handbook*. For statistical purposes, an error tolerance level of 7% is used for claims reviews. The sampling techniques used are based on 95% confidence level. This means that there is a 95% confidence that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the TDCI's actual tolerance for deliberate error.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a selected population.

Standards are measured using tests designed to adequately determine how the examinee met the standard. The various tests utilized are set forth in the *NAIC's Market Conduct Examiners Handbook* Chapter for a Property and Casualty Insurer. Each standard applied is described and the result of the testing is provided under the appropriate standard. The standard, its statutory authority under Tennessee statutes, and its source in the *NAIC's Market Conduct Examiners Handbook* are stated and contained within a bold border.

This examination uses the electronic review method to identify payments representing a first indemnity payment for a claim during the examination period without regard to when the claim was first reported. The examiners then use an electronic review to determine how many of these

claims exceeded the 15 day limit authorized in Tenn. Code Ann. §50-6-205(b)(2) and described in Tenn. Comp. R. & Regs. 0800-2-14-.05. Any claim where the payment date is more than 15 days from the date of the First Report of Injury is listed as "questioned." Files subject to sampling were selected from this list of questioned files.

This examination also uses the electronic review method to determine how many Workers' Compensation Medical Payment claims exceed the 45 day limit authorized in Tenn. Code Ann. §50-6-419 and described in Tenn. Comp. R. & Regs. 0800-2-14.07(1). Samples of files were selected from the list of payments where the amount of time between the receipt of the billing or invoice for the service and the date of payment could not be determined.

Each Standard contains a brief description of the purpose or reason for the Standard. The "Result" is indicated and the examiners' "Observations" are noted. In some cases a "Recommendation" is made. Results, Observations and Recommendations are reported with the appropriate Standard.

The management of well-run companies generally has some processes that are similar in structure. While these processes vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards tested in a Market Conduct examination. The processes usually include: a planning function where direction, policy, objectives and goals are formulated; an execution or implementation of the planning function elements; a measurement function that considers the results of the planning and execution; and a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations. This examination reviewed the Company's procedures applicable only to Workers' Compensation claims.

This review includes an analysis of how the Company communicates its instructions and intentions relating to the handling of Workers' Compensation claims to its operating echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. This form of analysis has substantial predictive value that aids in identifying those areas where the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

A. COMPANY OPERATIONS/MANAGEMENT

The evaluation of standards in this business area is based on a review of the Company's responses to information requests, questions, interviews, and presentations made to the examiners. This portion of the examination is designed to provide an overview of what the Company and how it operates. It is typically not based on sampling techniques and is more concerned with structure. Since this examination was designed to test compliance with Workers' Compensation prompt pay requirements, only Standard A-09 was tested.

Standard A-09

NAIC Market Conduct Examiners Handbook - Chapter VIII, §A, Standard 9

The Company cooperates on a timely basis with examiners performing the examinations.

Tenn. Code Ann. §56-1-411(b)(1)

The review methodology for this standard is by "generic" review. This standard has a direct insurance statutory requirement. This standard is intended to ensure the Company is cooperating with the state in the completion of an open and cogent review of the Company's operations in Tennessee. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is also conducive to completing the examination in a timely fashion and thereby minimizing cost.

Results: **Pass**

Observations: The Company's responses were complete and accurate. Procedures are in place and adhered to for managing a Market Conduct examination. Company cooperation during the examination was timely.

Recommendations: None

G. CLAIMS PRACTICES

The evaluation of standards in this business area is based on the Company's responses to information items requested by the examiner, discussions with Company staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide an overview of how the Company treats claimants and whether that treatment is in compliance with applicable statutes, rules and regulations.

Since this is a limited scope examination to test compliance with Tenn. Comp. R. & Regs. 0800-2-14-.04(7) and 0800-2-14-.07(1), only Standards G-3 and G-5 are tested.

Observations: The Company has a written claim handling procedure. The claim process is computerized and appears to be thorough. The examiners found the system to be user-friendly with sufficient information available to review the claims selected. Navigation of the system posed no particular challenges.

The examiners reviewed a compliance narrative and workflow chart for the Workers' Compensation Claim Case Management system. This system describes the various phases of claim handling for Workers Compensation including:

- Claim investigation
- Compensability decision
- Litigation
- Disability and Medical Management, and
- Settlement

Each of the phases is associated with one or more compliance risks. The compliance risks are mitigated by Company stated compliance controls.

The compliance risk with which this examination is most concerned is the one dealing with the timely response to statutory or regulatory triggers, specifically, timely payment of indemnity or medical claims. The sole risk mitigation developed for this compliance risk by the Company is training. However training alone is not a control and is not sufficient to ensure that timely payment is made.

Standard G-03

NAIC Market Conduct Examiners Handbook - Chapter VIII, §G, Standard 3

Claims are resolved in a timely manner.

Tenn. Code Ann. §§50-6-205(b)(2); §50-6-419; §56-8-104(8)(A)(xi); and Tenn. Comp. R. & Regs. 0800-2-14.05(1) & 14.07(1)

The review methodology for this standard is by "generic," "sample" and "electronic" review. For both Indemnity Claims and Medical Claims this standard derives directly from Tenn. Code Ann. §56-8-104(8)(A)(xi) which requires compliance with the provisions of Tenn. Code Ann. §50-6-101 et seq. Indemnity Claims are addressed by Tenn. Code Ann. §50-6-205(b)(2) and Tenn. Comp. R. & Regs. 0800-2-14.05(1), which requires first payment of compensation within 15 days of the Notice of Injury. Medical Claims are addressed by Tenn. Code Ann. §50-6-419 and Tenn. Comp. R. & Regs. 0800-2-14.07(1), which require payment of medical costs within 45 days of the invoice or billing.

Indemnity Claims

Results: **Fail**

Observation: A list of all Indemnity Claim payments for the examination period was reviewed electronically. The database contained 91,643 indemnity claim payments made during the period under review representing one or more payments for 8,858 claims. Since the conditions and requirement for payment in Tenn. Comp. R. & Regs. 0800-2-14.05(1) essentially apply to initial payment of Temporary Total Disability (TTD) and Temporary Partial Disability (TPD), the examiners filtered the database to remove payments that were not initial payments and that were not TTD or TPD payments. An electronic review of the total indemnity claims population by year was conducted for paid claims to determine the quantity of TTD and TPD claims that required more than 15 days to make a first payment. Please refer to Table G3-1. A monthly breakdown of these payments is attached as Appendix 1.

Payment and Claim Count - Indemnity Feature Electronic Review **Table G3-1**

Type	Total Payment Count	Total Claims Represented	N/A	Subject to Testing	Pass	Questioned
2001 Indemnity Paid	17058	2415	462	1953	601	**1352**
2002 Indemnity Paid	21006	2074	278	1796	743	**1053**
2003 Indemnity Paid	22713	2045	315	1730	632	**1098**
2004 Indemnity Paid	19253	1414	291	1123	414	**709**
2005 Indemnity Paid	11613	910	261	649	260	**389**
Total	91643	8858	1607	7251	2650	**4601**

Of the 8,858 claims representing all indemnity payments for the examination period, 1,607 were not subject to the 15 day requirement (generally files that did not develop a liability during the 15 day requirement), resulting in 7,251 files subject to testing. There were 2,650 files (36.5% of the files subject to testing) where payment was clearly made within 15 days of the Notice of Injury. The remaining 4,601 files (63.5%) are in question because the time between payment and notice of injury exceeded 15 days. From this population a random sample of 100 files was selected to test and determine how many claims were appropriately or inappropriately delayed. Please refer to Table G3-2. This subpopulation of claims was then tested to determine if the failure to pay within 15 days was in conflict with the provisions of the applicable statute and regulation.

Claims Sample Indemnity Results **Sample Review** **Table G3-2**

Type	Sample	Pass	Fail	% Pass	% Fail
2001-2005 Indemnity Paid	100	73	27	73%	27%

The results of the electronic test and the sample results were then combined. Please refer to Table G3-3. Since the sampled files represent 63.5% of the subject claims (4,601 of 7,251 claims), the "pass" component of the questioned files, 73%, is 37% of the tested population (73% x 63.5% = 46.4%). 36.5% + 46.4% = 82.9%. The "fail" component calculation is 27% of 63.5%, which is 17.1%.

Claims Composite Indemnity Results **Table G3-3**

Type	Claim Count	% Pass	% Fail
2001-2005 Indemnity Paid	7251	82.9%	17.1%

As noted in the Observations to the Claims Practices introduction, the Company's sole risk mitigation for the compliance risk related to the timely response to statutory or regulatory triggers is training. If the initial report indicates no time loss, the Indemnity feature of the claim is closed even though there may still be an active Medical feature. If in fact the initial report is incorrect as to lost time, the correction may be realized too late to comply with the 15 day requirement. The claim system does not contain a flag or provide a diary warning to alert the claim handler that a critical time requirement is imminent on a closed claim. In such cases it usually takes external notice that may not arrive in time to allow the claim to be paid timely. The process for compliance with the timely payment of the initial compensation tends to be reactive since it does not allow for inadequate, incorrect or missing information. As stated above, the Company's mitigation of the compliance risk is training, however training by itself is not sufficient to ensure that timely payment is made.

Recommendations: It is recommended that the Company develop a computer flag, warning or reminder to ensure that the initial payment on a compensable claim is paid in accordance with the time standards required by statute and/or regulation.

Medical Claims

Results: **Pass**

Observation: An electronic review of the total Medical Claims population by year was conducted for paid claims to determine the quantity of claims that exceeded 45 days to pay. Please refer to Table G3-4. A monthly breakdown of these payments is attached as Appendix 2.

Claims Results Medical Feature **Electronic Review** **Table G3-4**

Type	Total Population	Pass	Fail	Question	% Pass	% Fail	% Questioned
2001 Medical Paid	188,436	168,470	834	19,132	89.40%	0.44%	10.15%
2002 Medical Paid	226,078	193,107	832	863	85.42%	0.37%	14.22%
2003 Medical Paid	247,774	203,227	313	44,234	82.02%	0.13%	17.85%
2004 Medical Paid	204,387	164,791	647	38,949	80.63%	0.32%	19.06%
2005 Medical Paid	130,262	100,762	884	28,616	77.35%	0.68%	21.97%
Total	996,937	830,357	3,510	163,070	83.29%	0.35%	16.36%

The electronic review identified a small population of claim payments that did not comply with the 45 day requirement in Tenn. Comp. R. & Regs. 0800-2-14.07(1). A sizeable population labeled by the examiners as "questioned" (See Table G3-4 above) was also identified where an electronic test was not possible because either a billing date or invoice date was not captured or the captured billing date provided occurred after the payment for service date. This portion of the file population represented 16.36% of the files in the Total Population and was the source of files selected in the sample to be manually tested.

Of the 996,937 Medical Claim payments electronically tested, 163,070 questioned files (16.36% of the files subject to testing) were available for review. From this portion of the medical claim population, 100 files were randomly selected for review in order to quantify the pass/fail rates of the questioned files. Please refer to Table G3-5. This subpopulation of claims was then tested to determine if the failure to pay within 45 days was in conflict with the provisions of the applicable statute and regulation. If no date of service or billing date was determinable, the payment was considered to have failed the timeliness requirement.

Claims Sample Medical Results **Sample Review** **Table G3-5**

Type	Sample	Pass	Fail	% Pass	% Fail
2001-2005 Medical Paid	100	91	9	91%	9%

The results of the electronic test and the sample results were combined. Please refer to Table G3-6. Since the sampled files represent 16.36% of the subject claims (163,070 of 996,937 claims), the "pass" component of the questioned files, 91%, is 14.9% of the tested population (91% x

16.36% = 14.9%). 83.2% + 14.9% = 98.1%. The "fail" component calculation is 9% of 16.36% or 1.5%. Therefore 0.35% + 1.5% = 1.85%.

Claims Composite Medical Results **Table G3-6**

Type	Claim Count	% Pass	% Fail
2001-2005 Medical Paid	996,937	**98.1%**	**1.9%**

Recommendations: None

Standard G-05

NAIC Market Conduct Examiners Handbook - Chapter VIII, §G, Standard 5

Claim files are adequately documented.

Tenn. Code Ann. §§50-6-419; 56-8-104(8)(A)(xi); and Tenn. Comp. R. & Regs. 0800-2-14-.04(5)

The review methodology for this standard is by "generic" review. The sample of files was not specifically tested. This standard derives directly from Tenn. Code Ann. §56-8-104(8)(A)(xi) which requires compliance with the provisions of Tenn. Code Ann. §50-6-101 et seq. Tenn. Comp. R. & Regs. 0800-2-14.04(5) requires "All aspects of contacting and attempts to contact insureds, the claimant and physicians shall be documented within the insurer's file."

Results: **Pass**

Observation: The Company currently uses an electronic system to track and perform its claim activity function as well as to provide management with claim related information. Activities are documented and explained. The examiners were able to navigate the system in a very short time and the amount of supporting data and case management information available in the system provides a reasonable audit trail and support for the claim function.

Recommendations: None

SUMMARY

Liberty Mutual Fire Insurance Company is a Property and Casualty insurer domiciled in the State of Wisconsin and licensed to write Workers' Compensation insurance in the State of Tennessee. This limited scope examination focused on the timeliness of claim payments subject to the provisions of Tenn. Comp. R. & Regs. 0800-2-14.05(1) and 0800-2-14.07(1) which address the timely payment of Indemnity Claims and Medical Payment Claims.

The examiners note that the Company's compliance risk mitigation efforts pertaining to the timely payment of indemnity claims for Workers' Compensation are insufficient to ensure timely payment of those claims. The examiners also note that compliance with the time required for payment of Workers' Compensation medical claims passed with a 1.85% error rate.

LIST OF RECOMMENDATIONS

G-03 Recommendation
It is recommended that the Company develop a computer flag, warning or reminder to ensure that the initial payment on a compensable claim is paid in accordance with the time standards required by statute and /or regulation.

CONCLUSION

The examination was conducted by Donald P. Koch, CIE; Keith Perry, CIE, and Joseph P. Koch, AIE.

Donald P. Koch, CIE
Examiner-in Charge
State of Tennessee
Department of Insurance

APPENDIX 1

Monthly Indemnity Payment Count and Electronic Testing Result

2001

Month End	Payment Count	Number of Claims	N/A	Pass	Questionable
Jan-01	1057	479	89	39	351
Feb-01	1067	198	53	42	103
Mar-01	1350	191	45	34	112
Apr-01	1373	189	36	51	102
May-01	1487	184	40	61	83
Jun-01	1392	145	23	51	71
Jul-01	1344	164	18	57	89
Aug-01	1703	207	40	73	94
Sep-01	1498	153	21	45	87
Oct-01	1637	172	36	56	80
Nov-01	1623	189	35	51	103
Dec-01	1527	144	26	41	77
	17058	2415	462	601	1352

2002

Month End	Payment Count	Number of Claims	N/A	Pass	Questionable
Jan-02	1688	167	24	58	85
Feb-02	1457	131	14	54	63
Mar-02	1699	156	29	50	77
Apr-02	1613	182	28	61	93
May-02	1639	188	22	71	95
Jun-02	1575	180	21	72	87
Jul-02	1835	174	25	49	100
Aug-02	2081	246	26	96	124
Sep-02	1820	161	28	56	77
Oct-02	1957	171	20	62	89
Nov-02	1794	175	23	58	94
Dec-02	1848	143	18	56	69
	21006	2074	278	743	1053

2003

Month End	Payment Count	Number of Claims	N/A	Pass	Questionable
Jan-03	1779	163	27	43	93
Feb-03	1764	183	29	67	87
Mar-03	1896	162	23	52	87
Apr-03	1935	164	28	52	84
May-03	1909	162	23	54	85
Jun-03	1885	164	27	51	86
Jul-03	2024	172	30	60	82
Aug-03	1921	188	30	56	102
Sep-03	1788	161	24	47	90
Oct-03	1968	184	22	54	108
Nov-03	1798	169	26	51	92
Dec-03	2046	173	26	45	102
	22713	**2045**	**315**	**632**	**1098**

2004

Month End	Payment Count	Number of Claims	N/A	Pass	Questionable
Jan-04	1821	129	20	40	69
Feb-04	1664	138	24	39	75
Mar-04	1947	162	37	54	71
Apr-04	1680	112	17	44	51
May-04	1593	141	33	44	64
Jun-04	1688	130	28	35	67
Jul-04	1664	124	20	37	67
Aug-04	1652	124	27	35	62
Sep-04	1554	105	17	28	60
Oct-04	1399	94	25	23	46
Nov-04	1372	82	18	17	47
Dec-04	1219	73	25	18	30
	19253	**1414**	**291**	**414**	709

2005

Month End	Payment Count	Number of Claims	N/A	Pass	Questionable
Jan-05	1185	77	15	26	36
Feb-05	1016	92	26	19	57
Mar-05	1108	82	27	22	33
Apr-05	1031	69	17	19	33
May-05	966	67	15	20	32
Jun-05	1002	82	25	20	10
Jul-05	891	67	18	21	37
Aug-05	956	89	30	28	31
Sep-05	923	90	28	24	38
Oct-05	842	67	21	23	23
Nov-05	851	67	20	23	24
Dec-05	842	61	19	15	27
	11613	**910**	**261**	**260**	**389**

5-Year Indemnity Totals

	Payment Count	Number of Claims	N/A	Pass	Questionable
	91643	**8858**	**1607**	**2650**	**4601**

APPENDIX 2

Monthly Medical Payment Count and Electronic Testing Result

2001

Month End	Payment Count	Pass	Fail	Questionable
Jan-01	11,909	10,298	106	1,505
Feb-01	13,586	11,910	44	1,632
Mar-01	15,854	14,064	61	1,729
Apr-01	14,584	12,897	48	1,639
May-01	15,039	13,338	79	1,622
Jun-01	17,776	16,033	39	1,704
Jul-01	15,324	13,794	143	1,387
Aug-01	18,070	16,291	114	1,665
Sep-01	14,874	13,199	21	1,654
Oct-01	16,635	14,829	47	1,759
Nov-01	18,039	16,606	30	1,403
Dec-01	16,746	15,211	102	1,433
	188,436	**168,470**	**834**	**19,132**

2002

Month End	Payment Count	Pass	Fail	Questionable
Jan-02	14,289	12,888	70	1,331
Feb-02	15,320	13,953	53	1,314
Mar-02	17,847	16,363	25	1,459
Apr-02	17,613	15,572	17	2,024
May-02	20,899	18,189	73	2,637
Jun-02	16,951	14,176	44	2,731
Jul-02	19,549	16,195	46	3,308
Aug-02	21,741	17,853	102	3,786
Sep-02	19,016	15,804	192	3,020
Oct-02	21,768	17,985	44	3,739
Nov-02	20,907	17,396	79	3,432
Dec-02	20,178	16,733	87	3,358
	226,078	**193,107**	**832**	**32,139**

2003

Month End	Payment Count	Pass	Fail	Questionable
Jan-03	19,823	16,169	122	3,532
Feb-03	18,125	14,778	30	3,317
Mar-03	21,036	17,489	22	3,525
Apr-03	20,482	16,850	14	3,618
May-03	22,208	18,131	10	4,067
Jun-03	20,695	16,855	2	3,838
Jul-03	20,566	16,671	23	3,872
Aug-03	21,973	18,039	21	3,913
Sep-03	19,915	16,392	7	3,516
Oct-03	22,624	18,562	29	4,033
Nov-03	18,893	15,684	7	3,202
Dec-03	21,434	17,607	26	3,801
	247,774	**203,227**	**313**	**44,234**

2004

Month End	Payment Count	Pass	Fail	Questionable
Jan-04	17,980	14,324	27	3,629
Feb-04	18,521	15,089	41	3,391
Mar-04	20,112	15,947	58	4,107
Apr-04	18,145	14,411	32	3,702
May-04	16,175	13,035	96	3,044
Jun-04	18,848	15,029	130	3,689
Jul-04	18,675	15,010	12	3,653
Aug-04	17,640	14,287	128	3,225
Sep-04	15,165	12,099	8	3,058
Oct-04	16,381	13,623	11	2,747
Nov-04	15,712	13,321	6	2,385
Dec-04	11,033	8,616	98	2,319
	204,387	**164,791**	**647**	**38,949**

2005

Month End	Payment Count	Pass	Fail	Questionable
Jan-05	13,924	11,212	89	2,623
Feb-05	11,060	8,614	95	2,351
Mar-05	13,350	10,546	46	2,758
Apr-05	11,545	9,337	60	2,148
May-05	10,454	8,227	32	2,195
Jun-05	10,659	8,234	18	2,407
Jul-05	9,975	7,832	39	2,104
Aug-05	10,452	8,057	40	2,355
Sep-05	9,726	7,206	81	2,439
Oct-05	10,080	7,043	334	2,703
Nov-05	9,820	7,401	38	2,381
Dec-05	9,217	7,053	12	2,152
	130,262	**100,762**	**884**	**28,616**

5-Year Medical Totals

	Payment Count	Pass	Fail	Questionable
	996,937	**830,357**	**3,510**	**163,070**

AFFIDAVIT

STATE OF ALASKA }
}
FIRST JUDICIAL DISTRICT }

Donald P. Koch, CIE, being duly sworn, upon his oath deposes and states:

That he is an examiner appointed by the Commissioner of the Tennessee Department of Commerce and Insurance;

That a target scope market conduct examination was made of Liberty Mutual Fire Insurance Company for the period from January 1, 2001 through December 31, 2005;

That the foregoing eighteen (18) pages constitute the report to the Commissioner of the Tennessee Department of Commerce and Insurance; and

The statements and data therein contained are true and correct to the best of his knowledge and belief.

Donald P. Koch, CIE
Examiner-In-Charge
For the State of Tennessee
Department of Commerce and Insurance

Subscribed and sworn to before me on the 28 day of December, 2006.

Notary Public for the State of Alaska
My Commission Expires 1-20-2010

STATE OF ALASKA
OFFICIAL SEAL
Moses Obeidi
NOTARY PUBLIC
My Commission Expires 1-20-2010

EXHIBIT
tabbies
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OFFICE OF CORPORATE COMPLIANCE
Liberty Mutual Group
175 Berkeley Street
Boston, MA 02117-0140
Tel: 617-654-3195
Fax: 617-654-4794

September 26, 2007

Mr. Philip Blustein, CFE
Insurance Examinations Director
State of Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Market Conduct Examination of Liberty Mutual Fire Insurance Company Made as of December 21, 2005

Dear Mr. Blustein:

Thank you for the opportunity to make a written response to the above Market Conduct Examination Report. We are in agreement with the facts as stated in it. However, we would like to take this opportunity to explain why we only partially passed Standard G-03, the sole Standard we didn't pass in its entirety.

Since your letter of September 11, 2007 that accompanied this Report stated we should "...quote the Comment or Recommendations and page number " in our response, I have done as a separate document for ease of reference.

In closing, I want to acknowledge the examining acumen and professionalism of Don Koch and his examining team.

Sincerely,

Mark Plesha, CPCU, AIS
Regional Director, Market Conduct Services

Att.

Liberty Mutual Fire Insurance Company
Response to Standard G-03 Indemnity Claims result
Pages 8 & 9

The following appears at the bottom of page 9:

> "As noted in the Observations to the Claims Practices introduction, the Company's sole risk mitigation for compliance risk related to the timely response to statutory or regulatory triggers is training. If the initial report indicates no time loss, the Indemnity feature of the claim is closed even though there may still be an active Medical feature. *If in fact the initial report is incorrect as to lost time, the correction may be realized too late to comply with the 15 day requirement* (ital mine). The claim system does not contain a flag or provide a diary warning to alert the claim handler that a critical time requirement is imminent on a closed claim. In such cases it usually takes external notice that may not arrive in time to allow the claim to be paid timely. The process for compliance with the timely payment for the initial compensation tends to be reactive since it does not allow for inadequate, incorrect or missing information. As stated above, the company's mitigation of the compliance risk is training, however training by itself is not sufficient to ensure that timely payment is made."

Though we agree, we want to point out the primary reason we missed the 15-day deadline. In the majority of the claims cited in the Report, our customer initially told us the worker's injury was for Medical only. This could have been in error or, perhaps later in the week, the worker's injury didn't go away or even got worse, forcing him to miss work. Our customer notifies us, (in some cases, not immediately) but by then a portion of the 15 days had elapsed, making it very difficult, if not impossible, to meet that 15-day deadline for paying the Indemnity claim.

The examiner agrees, and states in the Report (statement italicized above) that this was a factor causing us to miss the 15-day deadline. To address his Recommendation, we will be sending a letter (attached), at file creation, to the customer asking if there is any lost time expected or anticipated. Though we ask this when we first get the notice of injury, the examiner felt that it was the carrier's obligation to ask again about lost time, within the 15 days, to be sure there is no lost time. We believe this second inquiry will do so.

Date

Address
Address
Address

RE: Anyone – CUSTOMER
File Number
DOL:

Dear Sir or Madam:

We have received your initial claim report for the above captioned claim.

As your Worker's Compensation Provider, the State of Tennessee requires us to manage your Claims in accordance with certain guidelines set out by the State. Advise us if this claim could involve an Indemnity payment for time away from work.

- Tennessee Compensation Rules and Regulations 0800-2-14.05(1) requires the Worker's Compensation Provider issue a first Indemnity Payment, either Temporary Total or Temporary Partial, to your injured worker within 15 days of the notice of injury. Because of this rule we ask that you ***immediately*** advise us of ***any*** lost time so we can manage the Lost Time in compliance with the State's requirement.

Failure to comply with the State requirements for payment of Lost Time could result in penalties, up to 25% of owed benefits, assessed by the State based on the 2004 Workers Compensation legislative changes.

Please contact us if there is any lost time for this claim or if you have any additional questions.

Thank you,

CCM Name
CCM Title