

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
**LM Property and Casualty Insurance Company** )  
**175 Berkeley Street** )  
**Boston, MA 02116** )

Examination of: **LM Property and Casualty Insurance Company**


**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of LM Property and Casualty Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on July 2, 2020, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of LM Property and Casualty Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

July 15, 2020  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7017 3040 0000 9294 9582**

STATE OF INDIANA ) BEFORE THE INDIANA  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
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**LM Property and Casualty Insurance Company** )  
**175 Berkeley Street** )  
**Boston, MA 02116** )

Examination of: **LM Property and Casualty Insurance Company**

**FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the LM Property and Casualty Insurance Company (hereinafter “Company”) for the time period January 1, 2014 through December 31, 2018.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on June 10, 2020.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on July 2, 2020 and was received by the Company on July 2, 2020.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the LM Property and Casualty Insurance Company as of December 31, 2018.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the LM Property and Casualty Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 15 day of  
July, 2020.

*Stephen W. Robertson*

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Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

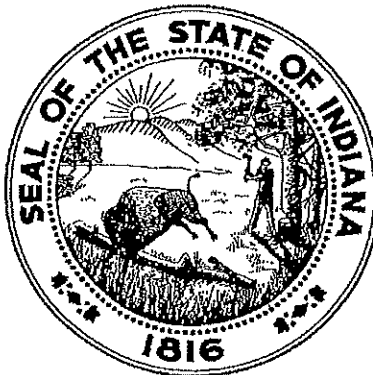
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**LM PROPERTY AND CASUALTY INSURANCE COMPANY**

NAIC Co. Code 32352  
NAIC GROUP CODE 0111

As of

December 31, 2018



**TABLE OF CONTENTS**

SALUTATION.....	1
SCOPE OF EXAMINATION .....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	3
DIVIDENDS TO STOCKHOLDERS .....	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
MANAGEMENT AND CONTROL.....	4
Directors .....	4
Officers.....	4
CONFLICT OF INTEREST .....	5
OATH OF OFFICE.....	5
CORPORATE RECORDS.....	5
Articles of Incorporation .....	5
Bylaws.....	5
Minutes.....	5
AFFILIATED COMPANIES.....	6
Organizational Structure .....	6
Affiliated Agreements.....	7
FIDELITY BOND AND OTHER INSURANCE.....	7
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	8
SPECIAL AND STATUTORY DEPOSITS.....	8
REINSURANCE.....	8
ACCOUNTS AND RECORDS .....	8
FINANCIAL STATEMENTS .....	9
Assets .....	9
Liabilities, Surplus and Other Funds.....	10
Statement of Income.....	11
Capital and Surplus Account Reconciliation.....	12
COMMENTS ON THE FINANCIAL STATEMENTS .....	13
OTHER SIGNIFICANT ISSUES .....	13
SUBSEQUENT EVENTS.....	14
AFFIDAVIT .....	15



# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

## Indiana Department of Insurance

Stephen W. Robertson, Commissioner  
311 W. Washington Street, Suite 103  
Indianapolis, Indiana 46204-2787  
Telephone: 317-232-2385  
Fax: 317-232-5251  
Website: [in.gov/doi](http://in.gov/doi)

June 10, 2020

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4013, an examination has been made of the affairs and financial condition of:

**LM Property and Casualty Insurance Company**  
175 Berkeley Street  
Boston, Massachusetts 02116

hereinafter referred to as the "Company", or "LMPAC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Boston, Massachusetts.

The Report of Examination, reflecting the status of the Company as of December 31, 2018, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
317-232-2385

COMPANY COMPLIANCE  
317-232-2405

CONSUMER SERVICES  
317-232-2385 / 1-800-672-4461

FINANCIAL SERVICES  
317-232-2390

MEDICAL MALPRACTICE  
317-232-2402

COMPANY RECORDS  
317-232-5692

STATE HEALTH INSURANCE PROGRAM  
1-800-452-4800

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) and covered the period from January 1, 2010 through December 31, 2013. The present risk focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2014 through December 31, 2018, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination of the Massachusetts domestic insurance companies of the Liberty Mutual Group was called by the Massachusetts Division of Insurance (Division) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The Division served as the lead state on the examination, and the INDOI served as a participant state.

Risk & Regulatory Consulting LLC, appointed by the Division, provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2018.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## HISTORY

A predecessor to the Company was originally incorporated on March 9, 1972, under the laws of the state of Illinois, as Pruco General Insurance Company (Pruco). Pruco became licensed to commence business on March 31, 1972 and adopted the name Prudential Property and Casualty Company (PruPac).

The entity that eventually became LMPAC was incorporated as Monmouth Property and Casualty Insurance Company (Monmouth) on January 2, 1975 under the laws of the state of New Jersey, to act as a vehicle for the re-domestication of the Company from Illinois to New Jersey. On December 31, 1975, the Company, as the surviving entity of a merger with Monmouth and PruPac, changed its name to Prudential Property and Casualty Insurance Company. Effective January 1, 1987, the Company re-domesticated from New Jersey to Indiana.



On November 1, 2003, Liberty Mutual Holding Company Inc. (LMHC) acquired the Company, along with two (2) other affiliates, Prudential Commercial Insurance Company (PruCom) and Prudential General Insurance Company (PruGen), from Prudential Financial, Inc. (Prudential). LMHC, a Massachusetts mutual holding company, is the parent of Liberty Mutual Insurance Company (LMIC). On the same day, LMHC made a capital contribution of the Company, PruCom and PruGen to LMIC. As a result of the acquisition, LMHC became the new ultimate parent. LMHC was formed in 2001 as a part of the mutual holding company reorganization of LMIC.

Effective November 1, 2003, the Company also entered into a 100% Quota Share Reinsurance Agreement with LMIC. Effective April 13, 2004, the Company adopted its present name.

### CAPITAL AND SURPLUS

LMIC owned 100% of the Company's issued and outstanding stock as of the examination date. There were 800 authorized, issued, and outstanding shares of common stock throughout the examination period, with a par value of \$5,500 per share.

### DIVIDENDS TO STOCKHOLDERS

The Company did not pay any dividends to its parent, LMIC, during the examination period. In 2014, LMPAC received a capital contribution of \$10 million from LMIC.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to conduct business in forty-nine (49) state and the District of Columbia, excluding only the state of New Jersey. The Company cedes all business to LMIC, pursuant to the quota share agreement, but premium writings of the Company have been negligible during each year of the examination period. The primary operations of the Company consist of runoff business that began November 1, 2003.

Upon its acquisition by LMIC, the LMPAC was put into runoff with the existing book of automobile insurance business being 100% reinsured by LMIC and renewed by existing affiliates. The business that remains is a combination of state pools and facilities for the automobile insurance business, and a block of asbestos and environmental reserves that is reinsured by Vantage Casualty Insurance Company, a Prudential subsidiary.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2018	\$ 63,568,429	\$ 28,232,625	\$ 35,335,802	\$ -	\$ 1,522,626
2017	66,263,020	30,466,871	35,796,149	-	(637,889)
2016	67,220,597	30,830,396	36,390,200	-	240,277
2015	64,551,264	28,799,748	35,751,516	17	(449,413)
2014	71,848,032	35,672,373	36,175,659	59,695	353,562

Admitted assets and liabilities decreased throughout the exam period and reflect the run-off of LMPAC's business. Changes in Net Income primarily relate to investment income and federal income taxes.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than five (5) and no more than eighteen (18) directors. At least one (1) of the directors must be a resident of Indiana. Directors shall be elected at the first annual shareholders' meeting and at each annual meeting thereafter. A director need not be a shareholder.

The following is a listing of persons serving as directors as of December 31, 2018, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Matthew Paul Dolan Avon, Connecticut	President, North America Specialty Liberty Mutual Group Inc.
Alison Brooke Erbig Stoneham, Massachusetts	Senior Vice President and Comptroller Liberty Mutual Group Inc.
Michael Joseph Fallon Bedford, Massachusetts	President, National Insurance Liberty Mutual Group Inc.
Julie Marie Haase Boston, Massachusetts	Chief Financial Officer, Global Retail Markets Liberty Mutual Group Inc.
James Michael MacPhee Boston, Massachusetts	President and Chief Operating Officer, Global Retail Markets-U.S. Liberty Mutual Group Inc.
Sean Bulman McSweeney Ashland, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.
Elizabeth Julia Morahan Newtonville, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.
Francis William Robinson, Jr. North Andover, Massachusetts	Chief Financial Officer, Global Risk Solutions Liberty Mutual Group Inc.
Craig Kendall Sanford Carmel, Indiana	Underwriting Manager Liberty Mutual Group Inc.
Mark Charles Touhey Scituate, Massachusetts	Senior Vice President and Corporate Secretary Liberty Mutual Group Inc.

### Officers

The Bylaws state that the elected officers of the Company shall consist of a President, one (1) or more Vice Presidents, a Secretary, a Comptroller, and a Treasurer or any such officer as the President or Chairman may determine is required in the best interest of LMPAC.

The following is a list of key officers and their respective titles as of December 31, 2018:

<u>Name</u>	<u>Office</u>
James Michael MacPhee	President and Chief Executive Officer
Neeti Bhalla Johnson	Executive Vice President and Chief Investment Officer
James Francis Kelleher	Executive Vice President and Chief Legal Officer
Christopher Locke Peirce	Executive Vice President and Chief Financial Officer
Mark Charles Touhey	Senior Vice President and Secretary
Laurance Henry Soyer Yahia	Senior Vice President and Treasurer
Alison Brooke Erbig	Senior Vice President and Comptroller

### CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2018.

### OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2018.

### CORPORATE RECORDS

#### Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

#### Bylaws

There were no amendments made to the Bylaws during the examination period.

#### Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws do not specify the date or time the annual meeting of shareholders is to be held. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

The committee meeting minutes for LMHC during the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Compensation Committee, Community Investment Committee, Executive Committee, Investment Committee, Nominating and Governance Committee, and Risk Committee.

### AFFILIATED COMPANIES

#### Organizational Structure

The following abbreviated organizational chart shows the Company's parent and subsidiaries as of December 31, 2018:

	NAIC Co. Code	Domiciliary State/Country
Liberty Mutual Holding Company Inc.		MA
LMHC Massachusetts Holdings Inc.		MA
Liberty Mutual Group Inc.		MA
Liberty Mutual Insurance Company	23043	MA
<b>LM Property and Casualty Insurance Company</b>	<b>32352</b>	<b>IN</b>
Ohio Casualty Corporation <sup>A</sup>		OH
The Ohio Casualty Insurance Company	24074	NH
<b>West American Insurance Company</b>	<b>44393</b>	<b>IN</b>
Liberty Insurance Holdings, Inc.		DE
Liberty Mutual Agency Corporation		DE
Peerless Insurance Company	24198	NH
Liberty-USA Corporation		DE
<b>The National Corporation</b>		<b>IN</b>
<b>National Insurance Association</b>	<b>27944</b>	<b>IN</b>
<b>Indiana Insurance Company</b>	<b>22659</b>	<b>IN</b>
<b>Consolidated Insurance Company</b>	<b>22640</b>	<b>IN</b>
Safeco Corporation		WA
<b>American States Insurance Company</b>	<b>19704</b>	<b>IN</b>
General Insurance Company of America	24732	NH
<b>Safeco Insurance Company of Indiana</b>	<b>11215</b>	<b>IN</b>
<b>American States Preferred Insurance Company</b>	<b>37214</b>	<b>IN</b>
<b>American Economy Insurance Company</b>	<b>19690</b>	<b>IN</b>
American States Insurance Company of Texas	19712	TX

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<sup>A</sup> 78% owned by Liberty Mutual Insurance Company, 8% Owned by Employers Insurance Company of Wausau, 8% Owned by Peerless Insurance Company, 6% Owned by Liberty Mutual Fire Insurance Company

### Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### *Investment Management Agreement*

Effective July 1, 2011, LMPAC entered into an Investment Management Agreement with Liberty Mutual Group Asset Management Inc. (LMGAM). The Agreement was filed with the INDOI on May 18, 2011 and was not disapproved on June 15, 2011. Pursuant to this Agreement, LMPAC paid management fees to LMGAM of \$59,179 in 2018.

#### *Management Services Agreement*

Effective October 31, 2003, the Company is party to a Management Services Agreement under which LMIC provides services of personnel, office space, supplies, equipment, telephone and wire services, and the use of computers and similar machines to the extent necessary or appropriate. Pursuant to the terms of this Agreement, LMPAC paid no fees in 2018.

#### *Agent-Company Agreement*

Effective October 31, 2003, LMPAC is party to an Agent-Company Agreement under which Helmsman Insurance Agency LLC (formerly Helmsman Insurance Agency, Inc.) provides all usual and customary services of an insurance agent on all insurance contracts placed by Helmsman Insurance Agency LLC. Pursuant to the terms of this Agreement, LMPAC paid no fees in 2018.

#### *Cash Management Agreement*

Effective January 1, 2016, LMPAC is party to a Cash Management Agreement with LMIC, whereby LMIC provides short-term cash liquidity pool management services to LMPAC. The Agreement was filed with the INDOI on October 7, 2015 and was not disapproved on November 5, 2015. Pursuant to the terms of this Agreement, LMPAC paid no fees in 2018.

#### *Federal Tax Sharing Agreement*

Effective January 1, 2002, LMPAC entered into a Federal Tax Sharing Agreement with LMHC and affiliates. The Agreement has been amended four (4) times to change language or add additional affiliates to the Agreement. Under this Agreement, the method of allocation is based upon separate return allocation with credit applied for losses as appropriate. LMPAC has the enforceable right to recoup prior year payments in the event of future losses. The Agreement may be terminated for any party when that entity is no longer a member of the consolidated group for tax filing purposes. The Agreement was submitted to the INDOI on March 11, 2003 and not disapproved on April 3, 2003.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Colonial American Casualty and Surety Company. The bond has a single loss coverage limit of \$15 million, with a \$50 million deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2018, including but not limited to automobile liability, commercial general liability, financial institution bond, miscellaneous professional liability, specialty risk, and umbrella liability.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company does not have any direct employees, and therefore does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences, or other postretirement benefit plans. Services for the operation of the Company are provided under provisions of the Management Services Agreement.

## SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits as of December 31, 2018:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Florida	\$ 154,835	\$ 153,552
Indiana	3,062,022	3,043,704
North Carolina	349,627	346,731
All Other Special Deposits:		
California	110,026	108,973
Georgia	350,084	346,731
Massachusetts	99,894	99,066
New Mexico	374,601	371,498
Total Deposits	<u>\$ 4,501,089</u>	<u>\$ 4,470,255</u>

## REINSURANCE

Since November 1, 2003, the Company has managed two blocks of business in runoff and reinsures 100% of its direct writings (excluding excluded business, as defined in the agreement) to LMIC. As of December 31, 2018, the Company recorded reinsurance recoverable amounts from the New Jersey Unsatisfied Claim and Judgment Fund and the Michigan Catastrophic Claims Association totaling approximately \$158 million. The reinsurance recoverable amount from Vantage Casualty Insurance Company on the asbestos and environmental block of business in runoff was \$19.2 million as of December 31, 2018.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2017 and December 31, 2018, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2014 through December 31, 2018, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

## FINANCIAL STATEMENTS

### LM PROPERTY AND CASUALTY INSURANCE COMPANY

Assets

As of December 31, 2018

	<u>Per Examination*</u>
Bonds	\$ 30,833,490
Cash, cash equivalents and short-term investments	682,019
Subtotals, cash and invested assets	<u>31,515,509</u>
Investment income due and accrued	153,675
Reinsurance:	
Amounts recoverable from reinsurers	29,939,085
Funds held by or deposited with reinsured companies	147,443
Receivables from parent, subsidiaries and affiliates	3,520
Aggregate write-ins for other than invested assets	1,809,197
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>63,568,429</u>
Totals	<u>\$ 63,568,429</u>

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\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

LM PROPERTY AND CASUALTY INSURANCE COMPANY  
 Liabilities, Surplus and Other Funds  
 As of December 31, 2018

	<u>Per Examination*</u>
Losses	\$ 17,435,297
Reinsurance payable on paid losses and loss adjustment expenses	802,630
Current federal and foreign income taxes on realized capital gains (losses)	1,951
Funds held by company under reinsurance treaties	382,043
Provision for reinsurance	2,406,680
Payable to parent, subsidiaries and affiliates	750,379
Aggregate write-ins for liabilities	6,453,645
Total liabilities excluding protected cell liabilities	<u>28,232,625</u>
Total liabilities	<u>28,232,625</u>
Common capital stock	4,400,000
Gross paid in and contributed surplus	32,539,064
Unassigned funds (surplus)	<u>(1,603,262)</u>
Surplus as regards policyholders	35,335,802
Totals	<u>\$ 63,568,427</u>

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\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts, including immaterial rounding adjustments.



LM PROPERTY AND CASUALTY INSURANCE COMPANY  
Statement of Income  
For the Year Ended December 31, 2018

	Per Examination*
UNDERWRITING INCOME	
DEDUCTIONS	
Losses incurred	\$ 906,515
Loss adjustment expenses incurred	(906,515)
Total underwriting deductions	-
Net underwriting gain (loss)	-
INVESTMENT INCOME	
Net investment income earned	666,409
Net realized capital gains (losses) less capital gains tax	(28,269)
Net investment gain (loss)	638,140
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	638,140
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	638,140
Federal and foreign income taxes incurred	(884,486)
Net income	\$ 1,522,626

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\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

LM PROPERTY AND CASUALTY INSURANCE COMPANY  
Capital and Surplus Account Reconciliation

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31 prior year	\$ 35,796,148	\$ 36,390,198	\$ 35,751,514	\$ 36,175,659	\$ 25,885,970
Net income	1,522,626	(637,889)	240,277	(449,413)	353,562
Change in net deferred income tax	(655,000)	2,358,000	-	103,000	(409,000)
Change in nonadmitted assets	599,000	(2,302,000)	-	149,000	175,450
Change in provision for reinsurance	(1,926,972)	(12,161)	398,407	(226,732)	169,677
Surplus adjustments:					
Paid in	-	-	-	-	10,000,000
Change in surplus as regards policyholders for the year	(460,346)	(594,050)	638,684	(424,145)	10,289,689
Surplus as regards policyholders, December 31 current year *	<u>\$ 35,335,803</u>	<u>\$ 35,796,148</u>	<u>\$ 36,390,198</u>	<u>\$ 35,751,514</u>	<u>\$ 36,175,659</u>

\* Exhibit includes immaterial rounding adjustments.

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2018, based on the results of this examination.

### OTHER SIGNIFICANT ISSUES

#### Reinsurance

LMG is not in compliance with SSAP No. 62R Revised Property and Casualty Reinsurance and SSAP No. 63 Underwriting Pools for recording reinsurance balances on a gross basis at the individual LMIC Pool member levels, other than LMIC. LMG is incorrectly recording nonaffiliated external assumed reinsurance contracts for certain LMIC Pool members, other than LMIC, directly to LMIC, which is the lead company in the LMIC Pool. LMG's accounting practices also create an inaccurately reported Schedule F in the Annual Statement.

As a result, certain LMIC Pool participants (other than LMIC) are not correctly recording all of their assumed underwriting results on a gross basis whereby the participant's portion of premiums, losses, expenses (including intercompany related expenses), and other operations of the pools are recorded separately in each participant's financial statements rather than netted against each other within LMIC.

It is recommended that LMG correct its current reinsurance accounting practices to comply with SSAP No. 62R and SSAP No. 63 requirements for recording reinsurance balances on a gross basis for each affected individual pool member.

In addition, it is recommended LMG:

- Document its amended accounting practice in a formal reinsurance accounting policy memo.
- Review its reinsurance process narratives / flowcharts and controls and update such, as necessary, for any changes in its reinsurance accounting practice and processes.
- Evaluate and amend the Liberty Mutual Second Amended and Restated Reinsurance Agreement for any provisions that are not in compliance with SSAP No. 62R and SSAP No. 63.
- Prospectively correct Schedule F for the revised gross reporting basis for each individual pool member as necessary.

#### Related Party Transactions

LMG's related party documentation supporting its internal controls, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables should be significantly enhanced.

It is recommended that LMG ensure appropriate key controls and documentation are in place associated with the different agreement types, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables. In addition, LMG should reevaluate all related party investment agreements and other related party contracts that are based on a method other than a cost-allocation to ensure compliance with SSAP No. 25 Affiliates and Other Related Parties.

## SUBSEQUENT EVENTS

On April 15, 2019, LMG announced the acquisition of the global surety and credit reinsurance operations of AmTrust Financial Services, Inc. LMG will acquire four AmTrust businesses: AmTrust Surety which provides contract, commercial, and subdivision bonds primarily in the western U.S.; AmTrust Insurance Spain which offers surety bonds in Spain and Latin America; Nationale Borg which provides surety, worker disability, and home purchase bonds in the Netherlands and Belgium; and Nationale Borg Reinsurance, a global provider of surety, trade credit and political risk reinsurance. On May 31, 2019, LMG completed the acquisition of the business and operations of AmTrust Surety, the U.S. surety operations of AmTrust Financial Services, Inc. On October 2, 2019, LMG completed the AmTrust Insurance Spain, Nationale Borg, and Nationale Borg Reinsurance portion of the acquisition.

On November 5, 2019, LMIC entered into a reinsurance transaction with National Indemnity Company on a combined aggregate excess of loss agreement for certain Global Retail Markets U.S. Business Lines and Global Risk Solutions National Insurance workers compensation liabilities, commercial auto liability and general liability excluding umbrella and warranty. The first layer of the contract attaches at \$0.3 billion below applicable held reserves at inception of approximately \$8.3 billion of combined aggregate reserves. The second layer of the contract provides adverse development coverage for \$1 billion above a retention equal to approximately \$8.7 billion. The contract includes a sublimit of \$0.1 billion for certain general liability liabilities. The contract will be accounted for as retroactive reinsurance.

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The INDOI will continue to monitor how the pandemic might impact the Company.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Risk and Regulatory Consulting LLC, performed an examination of LM Property and Casualty Insurance Company, as of December 31, 2018.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of LM Property and Casualty Insurance Company as of December 31, 2018, as determined by the undersigned.

Nadine Treon  
Nadine Treon, CFE  
Noble Consulting Services, Inc.

Under the Supervision of:

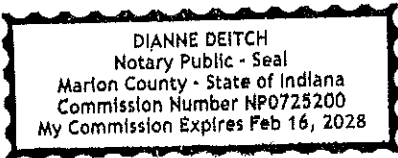
Jerry Ehlers  
Jerry Ehlers, CFE, AES  
Examinations Manager  
Indiana Department of Insurance

State of: Indiana  
County of: Marion

On this 13 day of July, 2020, before me personally appeared, Nadine Treon and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: Feb. 16, 2028 Dianne Deitch  
Notary Public



Dianne Deitch  
Notary Public

