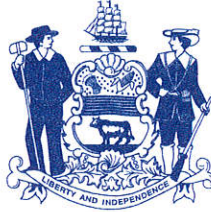


TARGET EXAMINATION
LIBERTY INSURANCE CORPORATION
And
LM INSURANCE CORPORATION
AS OF
JANUARY 17, 2014

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of January 17, 2014 on

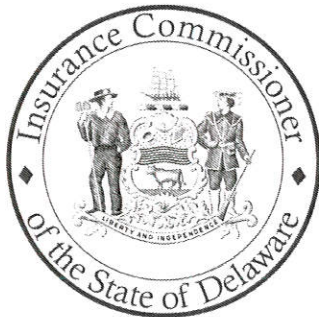
LIBERTY INSURANCE CORPORATION

And

LM INSURANCE CORPORATION

is a true and correct copy of the document filed with this Department.

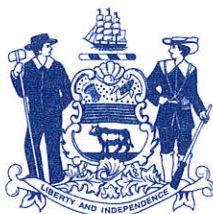
Attest By:



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
LIBERTY INSURANCE CORPORATION
And
LM INSURANCE CORPORATION
AS OF
January 17, 2014

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

January 17, 2014

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.764, dated November 15, 2013 a target examination has been made of the

LIBERTY INSURANCE CORPORATION (NAIC # 42404)

LM INSURANCE CORPORATION (NAIC # 33600)

hereinafter referred collectively to as the “Company” or “Companies” or “LM” or “LIBERTY”.

The Companies are incorporated under the laws of the State of Massachusetts as stock companies. The Company’s administrative offices are located at 175 Berkley Street, Boston, MA. 02116. The report of examination thereon is respectfully submitted.

SCOPE

The scope of this target examination (examination) includes but is not limited to reviewing the Medical Loss data reported to the Delaware Compensation Rating Bureau (DCRB) during the periods beginning January 1, 2011 through December 31, 2011 and January 1, 2012 through December 31, 2012. This examination is being performed by the Delaware Insurance Department at the direction of the Data Collection Committee in accordance with Title 19 Del C. §2301E(f).

Overview of Procedures

1. Review Company medical cost data with Current Procedural Terminology (CPT) codes submitted to the Delaware Compensation Rating Bureau (DCRB) during the examination period. This data was reviewed for accuracy and reconciled to the State Page data (page 14) from the two most recently filed annual statements (2011 and 2012).
2. Review loss cost reimbursements for compliance with the fee schedule, coding and other requirements stipulated in 19 Del C. §2322B3(a). Verify that reimbursement payments being made are not in excess of the fee schedule.
3. Review and document the Company's procedures regarding their process for ensuring that treatments being performed are medically necessary.
4. Obtain and review Company procedures for maintaining fee guidelines. Document how the Company stays informed of changes by the Health Care Advisory Panel (HCAP) and updates their systems in order to stay in compliance with Delaware Law.
5. Obtain and review claims payment and adjudication procedures regarding workers' compensation in Delaware to determine if Company personnel are following documented procedures.

PROCEDURES

Reconciliation

Examiners obtained a reconciliation of the Delaware State Page 14 from the filed annual statements in 2012 and 2011 to the filed medical data call supplied to the Delaware Compensation Rating Bureau or (DCRB).

Liberty Insurance Corp & LM Insurance Corp – Delaware WC 2012 Losses Paid - Reconciliation

Sum of Paid Workers Comp. losses in Pg. 14 for DE	\$10,765,145
Less Paid Indemnity Losses	4,509,458
Total Paid Medical	<u>6,255,687</u>
Add Medical Deductible payments not incl. in Pg. 14 *	2,262,241
Add Medical refunds incl. in Pg. 14, not on data call	<u>240,292</u>
Sum of Pg. 14 Paid Medical plus Reconciling Items	8,758,220
Sum of Medical Payments per Data Call	<u>8,757,039</u>
Difference – immaterial	<u>\$1,181</u>

Liberty Insurance Corp & LM Insurance Corp – Delaware WC 2011 Losses Paid – Reconciliation

Sum of Paid Workers Comp. losses in Pg. 14 for DE	\$7,374,439
Less Paid Indemnity Losses	4,049,144
Total Paid Medical (Less January)	<u>3,325,295</u>
Add Medical Deductible payments not incl. in Pg. 14 *	2,534,494
Add Medical refunds incl. in Pg. 14, not on data call	<u>256,221</u>
Sum of Pg. 14 Paid Medical plus Reconciling Items	6,116,010
Sum of Medical Payments per Data Call	<u>5,807,309</u>
Difference **	<u>\$308,701</u>

* An example of deductible payments would be a self-insured plan.

** The Company did not provide an explanation of the difference.

Data Accuracy Review/Fee Schedule Compliance

The examiners reviewed the medical loss data to ascertain the accuracy of the data being submitted in the medical call to the DCRB. The examiners sampled the data and obtained supporting billing evidence of the amount paid to the medical provider. The Company was able to supply documentation for all sampled items that included: CPT codes, provider billed amount, fee schedule amount and the amount paid to the provider. In all cases

the Company paid either the prescribed fees schedule amount or a lower amount under a negotiated plan with the provider. We have determined that the Company is complying with the fee schedule reimbursement stipulated in 19 Del §2322B3(a).

With respect to the CPT coding, the examiners noted that the Company obtains detailed coding from the provider; however some larger catastrophic claims payments are not coded to individual CPT codes. Larger claims result in many different CPT codes being utilized. Due to computer system limitations the Company may combine data of these multiple codes into one code, "999". This aggregated claims information is submitted in the DCRB data call.

As noted above, the Company's use of CPT code 999 in their DCRB data submission represents aggregated CPT codes of some large claims. Due to the aggregation of this data meaningful analysis by CPT code requires that additional information be provided by the Company.

Medically Necessary Reviews

As part of the sampling the examiners were able to find evidence of reviews performed by Nurse Case Managers (NCM). The Company does not have a defined procedure for conducting "Medically Necessary" reviews; however the Company explained that as part of claims management case managers (adjusters) may enlist the services of the Company's Nurse Case Manager. The NCMs use their medical expertise to assist case managers in medical and disability management on complex cases. These nurses work with the claims case manager as needed in a full case management capacity or limited case management capacity. The participation of the NCMs was documented in the sampled files. As the members of the examination team are not medical experts, we could not determine the adequacy of the reviews performed by NCMs.

The Company indicated that in certain situations, Regional Medical Directors (RMDs) assist the claims case managers and NCMs in determining the most appropriate medical interventions for injured workers. RMDs are medical doctors experienced with Workers Compensation medical issues. It is these professionals that are most capable of evaluating the services provided and working with the case manager, NCM and provider to ensure the medical treatment is appropriate to achieve the best outcome for the injured worker. During our review the examination team did not find any documented evidence in the files of an RMD review.

Monitoring and Implementation of HCAP Fees

The Company stays informed of changes in HCAP fees using numerous sources and methods, including vendor services that monitor proposed bills/regulations for changes in the fees. The Company also has established relationships with the various states' Department of Labor to stay abreast of regulatory changes.

The Company monitors the regulatory agencies to identify new state regulations and changes to the fee schedule. It then proceeds to analyze the changes to develop system requirements. The Company validates the system requirements against the change(s) before implementation in the system. Any necessary changes are then input, tested, deployed, and finally, post deployment checks are performed.

The table below depicts the regulatory implementation of Delaware changes in 2013:

Project #	Project Title	Regulatory Effective Date	Regulatory Received Date	State Published Date	Actual Production Date
28459	(DE) Pricing: Effective 1/31/2013 Medical Fee Schedule Pricing Update	1/31/2013	1/31/2013	1/31/2013	2/8/2013
28457	(DE) Pricing: Effective 1/31/2013 Outpatient Hospital Reimbursement Update	1/31/2013	1/31/2013	1/31/2013	2/8/2013
28461	(DE) Rules: Effective 1/31/2013 Follow-Up Days Update	1/31/2013	1/31/2013	1/31/2013	1/31/2013
28458	(DE) Rules: Effective 1/31/2013 ASC Reimbursement Update	1/31/2013	1/31/2013	1/31/2013	3/29/2013

32546	(DE) Procedure: Effective 9/11/2013 CPT & HCPCS Adds & Deletes Update	9/11/2013	9/4/2013	9/4/2013	9/20/2013
32550	(DE) Pricing: Effective 9/11/2013 Anesthesia Conversion Factor	9/11/2013	9/4/2013	9/4/2013	9/25/2013
32552	(DE) Pricing: Effective 9/11/2013 Anesthesia PS Modifiers	9/11/2013	9/4/2013	9/4/2013	9/25/2013
32551	(DE) Pricing: Effective 9/11/2013 Anesthesia RVU Base Units	9/11/2013	9/4/2013	9/4/2013	9/25/2013
32545	(DE) Pricing: Effective 9/11/2013 Medical Fee Schedule Update	9/11/2013	9/4/2013	9/4/2013	9/25/2013
32547	(DE) Rules: Effective 9/11/2013 Follow-Up Days Update	9/11/2013	9/4/2013	9/4/2013	9/28/2013
32548	(DE) Rules: Effective 9/11/2013 Pharmacy Pricing Formula	9/11/2013	9/4/2013	9/4/2013	9/30/2013
32549	(DE) Rules: Effective	9/11/2013	9/4/2013	9/4/2013	10/4/2013

Based on our review, the Company has adequate procedures to monitor and implement fee schedule changes properly.

Claims Adjudication

The Company is Sarbanes-Oxley (SOX) compliant. As such, it has a control environment around the claims adjudication and claims payment process. The Company maintains the control environment through a review of multiple compliance reports on a weekly basis by a Medical bill quality review team. Additionally, a Clinical Review Specialist (CRS) review team completes monthly audits of each nurse. These controls are then tested as part of routine SOX compliance reviews. A review of SOX documentation was performed by the examination team. No issues or concerns were observed. As part of the sample procedures noted earlier, examiners were able to ascertain that the Company is following its adjudication and payment procedures and is properly reporting medical claims data.

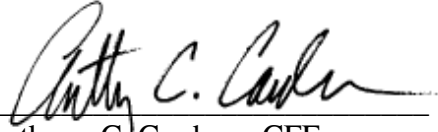
CONCLUSION

The following are the significant findings noted during the course of this examination:

- In all cases reviewed during the course of the examination, the Company paid either the prescribed fees schedule amount or a lower amount under a negotiated plan with the provider. It has therefore been determined that the Company is complying with the fee schedule reimbursement stipulated in 19 Del §2322B3(a).
- Due to Company computer system limitations, some larger catastrophic claim payments were not coded to individual CPT codes, rather the Company combined data of multiple codes into one code, “999”. Due to the aggregation of this data meaningful analysis by CPT code requires that additional information be provided by the company.
- The Company does not have a defined procedure for conducting “Medically Necessary” reviews; however the examiners were able to find evidence of reviews performed by Nurse Case Managers. The Company also informed the examiners that Regional Medical Directors (RMDs) are utilized in complex case resolutions; however the examiners were unable to review any documentation to support the use of said RMDs.
- The Company has adequate procedures to monitor and implement fee schedule changes properly.
- Examiners were able to ascertain that the Company is following its adjudication and payment procedures and is properly reporting medical claims data.

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Anthony C. Cardone", written over a horizontal line.

Anthony C. Cardone, CFE
Examiner-In-Charge
State of Delaware