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State of Wisconsin Office of the Commissioner of Insurance  
121 East Wilson Street  
Madison, Wisconsin 53707-7873

December 11, 2000

Re: Application for the Formation and Subsequent Merger  
of a Mutual Holding Company (Case No. DO-C26776)

In reply to your November 30, 2000 letter ("Letter"), set forth below are the responses of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company ("EIOW"), a Wisconsin mutual insurance company, LMIC ("LMIC"), a Massachusetts mutual insurance company and/or LMFIC ("LMFIC") a Massachusetts mutual insurance company, as applicable, to the questions raised in your Letter, as they relate to the above-referenced transactions.

**1. What is the purpose and intent of Article III, Section 9, of the proposed Bylaws of Employers Insurance of Wausau Mutual Holding Company, which would permit the board of directors to place members into any system of classification permitted by law?**

Article III, Section 9, is a carryover from the current Bylaws of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (EIOW). This provision has been in the EIOW Bylaws for over 25 years. It is believed its purpose is to clearly allow EIOW's Board of Directors, in the payment of dividends, to structure dividend plans for specific classifications of policyholders.

Given this purpose, which would not be material to the conducting of business by the Employers Insurance of Wausau Mutual Holding Company (EIOWMHC), it is suggested that Article III, Section 9, be deleted from the EIOWMHC's Bylaws and that such amended Bylaws be filed with the Office of Commissioner of Insurance as part of our mutual holding company application.

- 2. The draft Policyholder Information Statement makes reference to a possible dilution of voting rights as a result of the anticipated merger of Employers Insurance of Wausau Mutual Holding Company into Liberty Mutual Holding Company. Please provide additional information concerning this possible dilution in EIOW policyholders' voting rights.**

Each EIOU policyholder is currently entitled to one vote on matters requiring policyholder approval. Immediately upon consummation of the Mutual Holding Company Plan, policyholders of Converted EIOU, as members of Converted EIOUWMC, will continue to retain one vote per member, and there will be no significant change in the voting member population. Upon consummation of the merger of EIOUWMC with and into Liberty Mutual Holding Company (LMHC), former members of Converted EIOU will continue to retain voting rights equal to one vote per member.

- 3. Please explain the purpose and intent of Article VI, Section 4 of the proposed bylaws of Liberty Mutual Holding Company, which provides that no person is permitted to cast more than twenty votes as attorney by proxy or otherwise.**

Chapter 175 Sections 77 and 90 of the Massachusetts General Laws provide with respect to mutual fire insurance companies and mutual property and casualty insurance companies that no person shall as attorney or otherwise cast more than twenty (20) votes at a meeting. These statutory obligations have a long standing origin in Massachusetts with roots existing prior to the incorporations of LMIC and LMFIC in 1912 and 1908, respectively. It is believed that this requirement facilitates the orderly conduct of corporate governance and encourages policyholder/member participation in meetings by minimizing the extensive use of proxies. One of the goals of the Liberty Mutual Group Boards with respect to the formation of the mutual holding company structure as ultimately embodied by the consummation of the Global Transaction, was to minimize changes generally to existing corporate governance procedures. In this respect, it was determined that it would be appropriate to incorporate this long-standing mutual insurance company requirement into the bylaws of Liberty Mutual Holding Company.

- 4. What preemptive or preferential rights will members of Employers Insurance of Wausau Mutual Holding Company have to participate in any future public offerings by subsidiaries of their mutual holding company? After the merger with Employers Insurance of Wausau Mutual Holding Company, what preemptive or preferential rights will members of Liberty Mutual Holding Company have to participate in any future public offerings by subsidiaries of their mutual holding company?**

Members of Employers Insurance of Wausau Mutual Holding Company who are members of such company at the time of an approval by the board thereof of either an initial public offering of Converted EIOU or any intermediate holding company of EIOUWMC will be

afforded subscription rights in conjunction therewith as provided in Wis. Stats. Section 644.15 (2).

Similarly, pursuant to Chapter 175 Section 19R of the Massachusetts General Laws, if Liberty Mutual Holding Company elects to cause an intermediate stock holding company or any of its reorganized insurers to conduct an initial public offering or other certain initial equity placements or issuances, it shall, subject to any limitations by law that may be applicable to particular classes of policyholders, cause each eligible member to receive stock purchase rights in connection therewith, unless a committee of its board of directors, composed of outside directors, determines, by a vote of at least two-thirds of the members of such committee, that a stock purchase rights offering would not be in the best interests of its members. Prior to implementation of such a limitation, the committee's determination shall be approved by the Massachusetts Commissioner of Insurance.

**5. Please describe the factors taken into consideration in arriving at the proposed composition of the board of directors of Liberty Mutual Holding Company following its intended merger with Employers Insurance of Wausau Holding Company.**

The proposed board of directors of Liberty Mutual Holding Company is expected to be comprised of the members of the existing board of directors of Liberty Mutual Insurance Company, the largest and most prominent entity in the Liberty Mutual Group. The board comprises the Chairman and CEO, the former Chairman and eleven independent directors. The independent directors have broad business experience and acumen as well as a strong knowledge of the insurance industry and the Liberty Mutual Group. As directors of Liberty Mutual Holding Company, the board will be responsible for carrying out what is in the interest of the policyholders of Reorganized LMIC, Reorganized LMFIC and Converted EIOW who are also the members of Liberty Mutual Holding Company. The fiduciary duties of the directors extend to all members, regardless of whether they are policyholders in Wisconsin, Massachusetts or any other states or jurisdictions where Converted EIOW, Reorganized LMIC and Reorganized LMFIC write policies of insurance.

**6. Is any reorganization of the succession of control or ownership of Liberty Mutual Insurance Company's present subsidiaries contemplated?**

It is not contemplated as part of EIOW Restructuring or the Global Transaction that succession of control or ownership of any of Liberty Mutual Insurance Company's subsidiaries will change.

**7. How is the “Global Transaction” anticipated to affect Liberty Financial Companies, Inc.? Is it anticipated that the placement of Liberty Financial Companies, Inc. within the holding company system will change?**

The Global Transaction will not have any effect on Liberty Financial Companies, Inc. (LFC). Reorganized LMIC will continue to indirectly own approximately 72% of LFC, and it is not anticipated that the placement within the holding company system will change.

Separately from the Reorganization and the Global Transactions, it was announced on November 1, 2000 that management of LFC had engaged Credit Suisse First Boston to review strategic alternatives for LFC which could include selling all or a part of LFC prior to, or after, the Reorganization and the Global Transaction.

**8. What changes does management anticipate with respect to service, management, cost allocation, or other written agreements among members of the holding company system in consequence of the proposed restructuring and subsequent merger of Employers Insurance of Wausau Mutual Holding Company into Liberty Mutual Holding Company?**

In the normal course of business management has, and will continue to, adjust various service, management, cost allocation and other written agreements among members of the Liberty Mutual Group to reflect changes in business, economic, legal or other conditions. It is not contemplated, however, that as part of the Restructuring and the Global Transaction any such changes will be made with the exception noted below.

Although members of the same insurance holding company system, EIOW, LMIC and LMFIC are separate mutual companies and not under common control for federal income tax purposes. As such, each must file separate income tax returns. After the Global Transaction, Converted EIOW, Reorganized LMIC and Reorganized LMFIC will be wholly-owned subsidiaries of Liberty Mutual Holding Company and will join in filing a consolidated federal income tax return with Liberty Mutual Holding Company and its subsidiaries. As a result, Converted EIOW will be subject to a tax allocation agreement to allocate federal income tax liabilities and benefits among members of the consolidated group.

**9. Are there any plans to repay Liberty Mutual Insurance Company’s surplus notes with the proceeds of a future public offering of common stock by a subsidiary of Liberty Mutual Holding Company?**

No, since there are no current plans to have any future offering of common stock by a subsidiary of Liberty Mutual Holding Company.

**10. Will the intercompany reinsurance agreement be amended to include coverage for all of the obligations of Converted EIOW following the merger of Employers Insurance of Wausau Mutual Mutual Holding Company into Liberty Mutual Holding Company?**

There are no plans to change the structure or the percentage participation of the existing Liberty Mutual Group Inter-Company Reinsurance Agreement, and Converted EIOW will continue to be part of that agreement after EIOW's Restructuring is complete, as well as upon the subsequent merger of the EIOWMHC and Liberty Mutual Holding Company.

After the mutual holding companies' merger, the only anticipated change to the Inter-Company Reinsurance Agreement would be to clarify that the renamed newly converted stock EIOW continues as a participant in the LMG pool on the same basis as before conversion. Management, however, will continue to review the structure of the reinsurance agreement and percentage participation of the participants in such agreement from time to time and as required by the Wisconsin OCI, and in the ordinary course of conducting prudent business operations, when deemed appropriate, may make changes, subject to any applicable regulatory approvals or reviews.

**11. Credit Suisse First Boston included in the bases of its fairness opinion on behalf of the interests of EIOW policyholders the assumption that the existing intercompany reinsurance agreement would not be changed in any material respect. Is any change to the reinsurance program anticipated in connection with or after the proposed restructuring and subsequent merger of Employers Insurance of Wausau Mutual Holding Company into Liberty Mutual Holding Company?**

EIOW and the other Liberty Companies enhance the geographic and product risk diversity of their separate property and casualty businesses by participating in the Liberty Mutual Group Inter-Company Reinsurance Agreement. In the normal course of business, management has, and will continue to, review and adjust as necessary the reinsurance agreement to reflect, without limitation, changes in business, economic, legal or other conditions. It is not contemplated, however, that as part of the Restructuring and the Global Transaction any such changes will be made.

**12. Is it anticipated that Converted EIOW will redeem its contribution note in whole or in part after the "Global Transaction" has been completed?**

It is not anticipated in conjunction with the reorganization and Global Transaction that Converted EIOW will redeem its contribution note in whole or in part after the Global Transaction has been completed.

**13. Which types of insurance programs and services will the Converted EIOW prioritize for growth and development?**

As part of the Restructuring and Global Transaction, there are no plans to change EIOW's priorities for growth and development of insurance programs and services. In the normal course of business, management has reviewed, and will continue to review, the insurance programs and services provided by the company, and any changes that may occur in the future will be a result of management's response to changes in business, economic, legal or other conditions.

**14. Which types of insurance programs and services will the Converted EIOW seek to reduce or terminate?**

As part of the Reorganization and Global Transaction, there are no plans to reduce or terminate any insurance programs and services presently provided by EIOW. In the normal course of business, management has reviewed, and will continue to review, the insurance programs and services provided by the company, and changes that may occur in the future will be a result of management's response to changes in business, economic, legal or other conditions.

**15. Will the Converted EIOW seek to reduce or terminate services in any region or jurisdiction in which it is currently active?**

As part of the Restructuring and Global Transaction, there are no plans to reduce or terminate any services in any region or jurisdiction in which the company is currently active. In the normal course of business, management has reviewed, and will continue to review, the insurance programs and services provided by the company in particular jurisdictions, and any changes that may occur in the future will be a result of management's response to changes in business, economic, legal or other conditions.

**16. Will Converted EIOW's distribution network be cross-licensed for agency on behalf of the other present Liberty Mutual Group members? Will the Liberty Mutual Group distribution network be cross-licensed for agency on behalf of the Converted EIOW? Will the producer networks be more or less comprehensively integrated, or will they remain more or less distinct?**

There are no plans to change the current business production process or channels of business production between Converted EIOW and the other insurance members of the Liberty Mutual Group due to the proposed conversion or merger. Currently there is no cross-licensing of agents of EIOW with those of the Liberty Mutual Group. The agents of all the Liberty Mutual Group of companies will maintain their current licensed status, with no change contemplated due to the EIOW conversion to a stock company and merger of

EIOWMHC and Liberty Mutual Holding Company. Management, however, will continue to review such business production issues from time to time in the ordinary course of conducting prudent business operations and, when deemed appropriate, may make changes, subject to any applicable regulatory approvals or review.

**17. Does management anticipate any changes in Converted EIOW's marketing practices or distribution channels?**

Management does not anticipate changes to Converted EIOW's marketing practices or distribution channels as a result of the EIOW's Restructuring and subsequent merger of EIOWMHC and Liberty Mutual Holding Company. Management, however, will continue to review such practices and channels from time to time in the ordinary course of prudent business operations and, when deemed appropriate, may make changes, subject to any applicable regulatory approvals or reviews.

**18. Describe the Converted EIOW's plans for charitable contributions and commitment to community outreach after the conversion in comparison to past practices.**

During the approximately two years since Liberty's acquisition of and affiliation with the Wausau Companies, the aggregate level of charitable contributions and community commitments has remained essentially the same as that prior to such acquisition and affiliation. It is anticipated that such level of commitment will continue in 2001. The proposed mutual holding company conversion of EIOW, and subsequent merger of EIOWMHC and Liberty Mutual Holding Company, will have no effect on such activity.

**19. Does EIOW plan to purchase or sell any books of business over the next twelve months?**

In the normal course of business, management evaluates opportunities to acquire or sell books of business in an effort to strengthen and enhance its strategic and competitive position. While it is not contemplated that any books of business will be purchased or sold in conjunction with the Restructuring and the Global Transaction, it is possible that management could take such actions over the next twelve months as a result of this routine business practice.

**20. As the prospective controlling party of Converted EIOW, is it anticipated that Liberty Mutual Holding Company would ensure sufficient staff and other resources to continue EIOW's administrative activities on behalf of Wisconsin Health Care Liability Insurance Plan and Wisconsin's Patient's Compensation Fund?**

Staff and other resources will not be reduced as a direct consequence of the proposed conversion and merger. Thus, sufficient and appropriate administrative services will

continue to be provided to the Wisconsin Health Care Liability Insurance Plan and Wisconsin Patient's Compensation Fund.

**21. What is the anticipated effect of the proposed mutual holding company plan and the intended future acquisition of control by Liberty Mutual Holding Company on the employees that presently provide services to EIOW?**

There is no anticipated change in the working conditions, plans of remuneration or the benefit plans of employees which would result from the EIOW Restructuring and subsequent merger of EIOWMHC and Liberty Mutual Holding Company. Management, however, will continue to review such items from time to time in the ordinary course of prudent business operations and, when deemed appropriate, may make changes.

**22. Is it anticipated that the number of people employed to provide services to EIOW would increase or decrease? If so, what is the anticipated magnitude of the change?**

There is no anticipated change in the number of people employed to provide services to EIOW due to the proposed EIOW Restructuring and subsequent merger of EIOWMHC and Liberty Mutual Holding Company. Management, however, will continue to review such items from time to time in the ordinary course of prudent business operations and, when deemed appropriate, may make changes.

**23. Is it anticipated that there will be any change in the companies that presently provide services to EIOW, including Wausau Service Corporation?**

There are no plans to change any of the companies or their operations currently providing services to EIOW as a result of the proposed mutual holding conversion or merger of mutual companies. Management, however, will continue to review the service arrangements among all member companies of the Liberty Mutual Group from time to time, and in the ordinary course of prudent business operations, when deemed appropriate, may make changes.

**24. Does management anticipate opening or closing any offices from which EIOW's operations are conducted or regularly supported?**

There is no anticipated change in the number or size of offices (i.e., number of employees located in an office) from which EIOW's operations are conducted or supported due to the proposed EIOW mutual holding company conversion and subsequent merger of EIOWMHC and Liberty Mutual Holding Company. Management, however, will continue to review such items from time to time in the ordinary course of prudent business operations and, when deemed appropriate, may make changes.

**25. Will Liberty Mutual Holding Company become the principal employer within the holding company system?**

Liberty Mutual Holding Company will not become the principal employer within the proposed merged holding company system, and it is expected that Liberty Mutual Insurance Company will continue in this role.

**26. Please provide a copy of the Hart-Scott-Rodino filing, when available.**

A copy of the filing will be provided promptly after such filing has been made.

**27. Please provide correspondence from Massachusetts Division of Insurance confirming their approval of the transactions related to the proposed restructuring of the Liberty Mutual Group when these become available.**

A copy of the correspondence will be provided promptly after receipt.

Please feel free to call me at (715) 842-6841 with any questions or comments.

Sincerely,

J. Stanley Hoffert

cc: Laurance Yahia  
Richard Quinlan  
Noreen Parrett  
Robert Sullivan