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OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 130508-13-CO

UNIVERSAL PROPERTY & CASUALTY
INSURANCE COMPANY

CONSENT ORDER

THIS CAUSE came on for consideration before the STATE OF FLORIDA, OFFICE OF INSURANCE REGULATION, (hereinafter referred to as the "OFFICE"), as the result of a market conduct examination of Universal Property and Casualty Insurance Company, (hereinafter referred to as "UPCIC"), pursuant to Section 624.3161, Florida Statutes. After a complete review of the entire record, and upon consideration thereof, and being fully advised in the premises, the OFFICE, finds as follows:

1. The OFFICE has jurisdiction over the subject matter and parties herein.
2. UPCIC is a Florida domestic property and casualty insurance company licensed on December 31, 1997, to transact insurance business in the State of Florida.
3. UPCIC is 100% owned by Universal Insurance Holdings Company of Florida, which is 100% owned by Universal Insurance Holdings, Inc., (hereinafter referred to as "UIH").
4. The market conduct examination was conducted beginning on April 11, 2011. The initial scope period was from January 1, 2009, through May 31, 2011. Subsequent to meetings with the company and its representatives, the scope period of the exam was extended through May 2013 to enable a review of more current information. The exam reviewed UPCIC's

practices regarding, but not limited to, claims handling, complaint handling, rate filings, financial transactions, and underwriting.

5. During the initial scope period Bradley I. Meier was the Chief Executive Officer, President, and Director of UIH. Mr. Meier was also the President, Chief Executive Officer and Director of UPCIC. During the same time period Sean P. Downes was the Senior Vice President, Chief Operating Officer, and Director of UIH. Mr. Downes was also the Chief Operating Officer and Director of UPCIC.

6. On February 7, 2013, Sean Downes, UPCIC's Chief Operating Officer, notified the OFFICE that effective February 22, 2013, Bradley Meier was resigning from his positions as President and Chief Executive Officer of UPCIC, as well as resigning from his director position with UIH and all of its subsidiaries. Mr. Meier has been retained and will be compensated by UPCIC in an adviser capacity under a "Founder and Adviser Agreement" effective February 22, 2013. The terms of the agreement indicate that Mr. Meier shall continue as an employee of UPCIC as Founder and Adviser to the successor Chief Executive Officer, the Board, and any committee of the Board. The term of the agreement is through December 31, 2015, unless terminated earlier.

7. The successor President and Chief Executive Officer is Sean Downes. George DeHeer was the Chief Financial Officer, but as of October 1, 2013, the new Chief Financial Officer will be Frank Wilcox. Jon Springer is the new Chief Operating Officer. Stephen Donaghy will function as the Chief Administrative Officer. The heads of operation areas such as underwriting and claims will remain the same.

8. UPCIC has experienced significant growth since 2004 holding nearly 543,000 in-force policies at year-end 2012. UPCIC has grown into the second largest Florida homeowners property insurer in the state.

9. The OFFICE issued a Target Market Conduct Final Examination Report (hereinafter referred to as the "Report") on May 30, 2013, detailing the findings of its examination. UPCIC responded that it does not agree with certain findings of the examination. While some of the issues raised either during or subsequent to the examination have been resolved or resulted in modifications to the company's operations, some issues still remain outstanding and are thus addressed here.

10. The OFFICE and UPCIC, in order to avoid the uncertainties and expense of a prolonged litigation agree to the settlement terms set forth in this Consent Order which relate to and resolve the issues addressed in the OFFICE's Order filed on May 30, 2013.

Claims Review

11. Prompt Payment of Claims – UPCIC shall not require separate Proof of Loss statements for claims that include multiple payments (not including supplemental payments) when the amount of known exposures has already been determined by UPCIC's adjusters. The company may issue checks payable to both the insured and the contractor as is common industry practice. [Section 626.9541(1)(i)3.c., Florida Statutes].

12. Cancellation and Nonrenewal Review – UPCIC shall comply with Rule 690-167.001, Florida Administrative Code, which requires unearned premium to be mailed within fifteen (15) working days after the effective date of cancellation.¹

13. UPCIC shall comply with Rule 690-167.010, Florida Administrative Code, which requires, among other things, that proof of notice of cancellation or non-renewal provided by mail shall include the name of the insured, the policy number and the date mailed.²

¹ Twenty-six (26) exceptions were noted due to failure to timely refund unearned premium. This is a repeat violation of the 2005 market conduct examination.

² This is a repeat violation of the 2005 market conduct examination.

14. UPCIC shall comply with the cancellation and nonrenewal provisions of Sections 627.4133(1)(b)2. and 627.4091(2), Florida Statutes, including but not limited to citing specific and valid reasons to support cancellation or nonrenewal when the policy has been in effect for more than ninety (90) days and providing timely notice of policy nonrenewal.³

15. Post-Claim Underwriting – The current company practice regarding policies cancelled ab initio, which was implemented subsequent to the exam, is to perform background investigations and verification of all application statements in one out of every six applications received. UPCIC represents that background investigations and verifications are performed on all *claims*. The company has stated that it relies on the accuracy and truth in the application regarding the ab initio cancellations and if it had known of the material misstatements initially, it would not have issued the policy.

16. UPCIC's policy provided to insureds states that if a material misstatement is uncovered, the policy (if in-force 90 or more days) may be cancelled. Pursuant to Section 627.4133(2)(b), Florida Statutes, if cancelled, the insured must be notified in writing at least 100 days before the cancellation date takes effect.⁴ If the cancellation occurs between June 1 and November 30, the company is required to give the insured 100 days written notice or written notice by June 1, whichever is earlier.⁵

³ Nine (9) exceptions were noted due to use of an invalid reason for cancellation. This is a repeat violation of the 2005 market conduct examination. Three (3) exceptions were noted due to failure to provide a specific reason for cancellation or nonrenewal. This is a repeat violation of the 2005 market conduct examination. Two (2) exceptions were noted due to failure to provide timely notice of policy nonrenewal.

⁴ UPCIC's underwriting rule 4.D.2.b.(1) states that 100-day notice shall be given where there is a material misstatement or misrepresentation.

⁵ Section I and II – Conditions 2.a.(3) found in UPCIC 23 02 12 states UPCIC provides no coverage for loss if one or more insureds has made material false statements relating to this insurance whether before or after a loss. The "note" to UPCIC's underwriting rule 2 also states that under Section 627.409, Florida Statutes, any misrepresentation of material fact, omission, or incorrect statement on the application may prevent recovery under the policy.

17. The OFFICE determined that of the policies reviewed, 262 cancellations of policies in-force more than 90 days occurred between March 10, 2010 and May 19, 2011, without giving the required 100-day notice. The OFFICE finds this to be a violation of Sections 627.4133 and 627.409, Florida Statutes. UPCIC disagrees that Section 627.4133, Florida Statutes, applies in these circumstances. However, as of and following the date of this Consent Order, UPCIC shall complete its review of any credit reports, public records, or public information within 90 days after the effective date of the policy. After such 90 day period, UPCIC may not cancel or rescind the policy or deny coverage for a claim based on a misstatement or omission in the application regarding the insured's credit history which UPCIC could have reasonably discovered by a review of the insured's credit report.

18. The OFFICE reviewed an additional 29 claims and cancellations ab initio and determined that 19 of those instances involved policies in effect more than 90 days for which a 100-day notice of cancellation was not granted. As of and following the date of this Consent Order, UPCIC shall complete its underwriting review within 90 days after the effective date of the policy and shall comply with its filed and approved underwriting rules and guidelines as described in Footnotes 4 and 5.

19. UPCIC shall with regard to the 262 cancellations listed hereinabove conduct a review of each of those cancellations and report to the OFFICE within sixty (60) days of the execution of this Consent Order:

- a. What the misstatement or misrepresentation was;
- b. What type of claim it was;
- c. The date of the claim;
- d. The inception date of the policy;
- e. Which true facts, had they been known to the insurer pursuant to a policy requirement or other requirement,

the insurer in good faith would not have issued the policy or contract, would not have issued it at the same premium rate, would not have issued a policy or contract in as large an amount, or would not have provided coverage with respect to the hazard resulting in the loss.

- f. How the alleged misstatement or misrepresentation increased the hazard by any means within the control of the insured.

The OFFICE is aware that in some cases cancellation of the policy was justified, however, if upon review UPCIC determines that a policy was erroneously rescinded, it shall make restitution pursuant to Section 624.4211(2), Florida Statutes.

20. UPCIC shall pursuant to Section 624.3161, Florida Statutes, beginning thirty (30) days after the end of the quarter for the period ending June 30, 2013, and continuing on a quarterly basis, create and maintain for subsequent review by the OFFICE a log of all policy rescissions/cancellations including the information listed in paragraph 19 hereinabove.

21. Complaint Handling -- UPCIC shall maintain a complete record of all consumer complaints received from any source from the date of this Consent Order going forward in compliance with Section 626.9541(1)(j), Florida Statutes.

22. Affiliates -- UPCIC shall provide the OFFICE an itemized list that includes all entities affiliated with UPCIC within thirty (30) days of the date of this Consent Order including whether any written agreements exist between the insurer and the affiliate. UPCIC will also provide to the OFFICE, Bureau of Property and Casualty Financial Oversight, all current agreements with affiliates for review as requested by the OFFICE within thirty (30) days of each written request.⁶

23. UPCIC shall submit annual audited financial statements of its Managing General Agent on an on-going basis beginning with statements from year-end 2012, pursuant to Section 626.7454(1), Florida Statutes, to the OFFICE, Bureau of Property and Casualty Financial Oversight.

⁶ All agreements with affiliates are considered "material" pursuant to Rule 69O-143-047(4)(e), Florida Administrative Code.

24. Financial Transactions and Investments -- At the time of examination, UPCIC's investment functions were solely handled by then President and Chief Executive Officer, Bradley I. Meier. Although the role of the accounting and finance department is to oversee that necessary data is entered into the accounting records and financial statements, as well as reconciling statements after-the-fact, at the time of the examination, there was no other person at UPCIC who was involved in performing or managing the investment functions of the company. In late 2012 UPCIC established an investment committee of three (3) directors. UPCIC has indicated that an independent third-party advisory firm will be handling the management of its investment portfolio going forward. UPCIC has represented that its Audit Committee is comprised of outside directors and that it has initiated steps to increase its oversight of investments. UPCIC has further represented that since the examination, the investment committee has grown to four members, two of which are outside directors, one of which is the Chair of the committee.

25. Sections 625.302 and 625.305, Florida Statutes, apply to each investment at the time the investment is made and not merely at the end of each quarter. Therefore, UPCIC shall comply with the aforementioned statutes. UPCIC shall also comply with Rule 690-143-047(6), Florida Administrative Code, and not enter into transactions the purpose of which is to avoid statutory threshold amounts.

26. UPCIC shall not exceed any statutory investment limitations at any time and shall establish procedures to insure it does not exceed any statutory investment limitations at any time. Further, the Office hereby revokes any prior authorization granted UPCIC regarding investments, including foreign investments, and does not authorize any special consent limitations.

27. Reinsurance -- In 2010 and 2011 the Underlying Property Excess of Loss contract (Sogrogated Coll T25) had a premium provision providing for a reinsurer margin of 25.1%. The OFFICE determined that the reinsurer was always guaranteed a profit, therefore there was no

complete transfer of risk. UPCIC represented that its interpretation was that its affiliated reinsurer could lose all of its collateral. UPCIC amended the 2012 agreement to clarify that the premium adjustment could not be negative nor could monies be due to the reinsurer from UPCIC. This modification resolved the issue regarding transfer of risk on a going-forward basis.

28. On May 1, 2013, UPCIC notified the OFFICE that it will not be utilizing the Segregated Cell T25 for 2013 due to its successful placement in the open market for the portion of the reinsurance program previously written by Segregated Cell T25. However, should UPCIC use a Segregated Cell in the future, UPCIC shall utilize the same language from its 2012 agreement regarding transfer of risk, in any future contracts and submit it to the OFFICE for approval prior to use.

29. Further any future captive reinsurance programs shall be 100% fully collateralized by UPCIC depositing with the Florida Department of Financial Services, Bureau of Collateral Management in cash the sum of the total coverage provided. Any future captive reinsurance programs shall require advance review and authorization by the OFFICE and conformance with Statement of Statutory Accounting Principle ("SSAP") 62R.

30. Reserves – UPCIC shall provide a full actuarial report on an annual basis beginning with December 31, 2013, (to be filed with the December 31, 2013 financial statement) to the OFFICE, Bureau of Property and Casualty Financial Oversight.

31. UPCIC shall submit its P2P System and Atlas System to its auditors for review pursuant to the Sarbanes Oxley Act of 2002 and provide a copy of the ensuing report to the OFFICE, Bureau of Property and Casualty Financial Oversight.

32. Based on the results of the examination, in addition to the corrective actions required hereinabove:

a. UPCIC shall pay to the OFFICE an administrative fine in the amount of One Million Two-Hundred Sixty Thousand Dollars (\$1,260,000.00) within thirty (30) days of the date of issuance of this Consent Order.

33. The OFFICE may upon written request extend the time frames in this Consent Order by letter based on good cause.

34. UPCIC expressly waives a hearing in this matter, and the making of Findings of Fact and Conclusions of Law by the OFFICE including any and all further or other proceedings to which the parties may be entitled to by law or rules of the OFFICE. UPCIC hereby knowingly and voluntarily waives all rights to challenge or contest this Consent Order, in any forum now or in the future, including the right to any administrative proceeding, state or federal court action, or any appeal.

35. Violation of any part of this Consent Order shall constitute a violation of a lawful order of the OFFICE and shall subject UPCIC to one or more of the administrative penalties available under the Florida Insurance Code.

36. Each party to this action shall bear its own attorneys costs and fees.

THEREFORE, subject to the terms and conditions set forth above, the OFFICE hereby orders payment of the amount detailed in paragraph 32 above and UPCIC also agrees to be governed by the provisions of this Consent Order as provided herein.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 4th day of October, 2013.




KEVIN M. MCCARTY
Commissioner
Office of Insurance Regulation

By execution hereof, UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY, consent to the entry of this Consent Order, agrees without reservation to all of the above terms and conditions of this Consent Order and shall be bound by all provisions therein. The undersigned represents that he/she has the authority to bind UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY to the terms and conditions of this Consent Order.

UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY

By: Sean P. Downes

Print Name: SEAN P. DOWNES

Title: C.E.O.

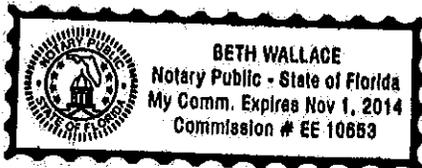
Date: OCTOBER, 4, 2013

Corporate Seal

State of Florida

County of Broward

The foregoing instrument was acknowledged before me this 4 day of October, 2013, by Sean Downes, who is personally known to me or has produced the following identification _____



Notarial Seal

Beth Wallace
Signature of Notary Public

BETH WALLACE
Print Name

November 1, 2014
My commission expires:

COPIES FURNISHED TO:

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