

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT FINAL EXAMINATION
REPORT**

OF

**UNIVERSAL PROPERTY AND CASUALTY INSURANCE
COMPANY**

AS OF

September 9, 2005

NAIC COMPANY CODE: 10861



TABLE OF CONTENTS

EXECUTIVE SUMMARY1

PURPOSE AND SCOPE OF EXAMINATION2

COMPANY OPERATIONS/MANAGEMENT.....2

COMPLAINT HANDLING2

CANCELLATION AND NONRENEWAL REVIEW3

CLAIMS REVIEW4

DATA VALIDATION REVIEW7

EXAMINATION FINAL REPORT7

EXECUTIVE SUMMARY

A sample review of three hundred (300) claims, complaint, cancellation and data validation supporting files was conducted for this Company. One hundred eight (108) errors were found. The following represents general findings, however, specific details are found in each section of the report.

	Statute/Rule	Description	Files Reviewed	Number of Violations
1	Rule 69O-167.001	Failure to comply with return of unearned premium requirements	50	7
2	627.4133(2)(b)2.	Use of an invalid reason for cancellation.	50	3
5	627.4091(2)	Failure to provide a specific reason for policy cancellation or nonrenewal.	50	2
6	627.4133(2)(b)	Failure to provide timely notice of policy nonrenewal	50	1
7	626.9541(1)(i) 3.c.	Failure to acknowledge and act promptly upon communications with respect to claims by instructing insureds to report claims through their agents.		Procedural Error
8	626.9541(1)(i)3.b.	Claim files contained letters advising insureds of their right for additional payment for overhead and profit if repairs are made by a Florida licensed contractor. The letter also states that to qualify for payment, the insured will need to send proof of payment. This letter contradicts the Company's written claim handling procedures, which states that payment will be made if a work authorization has been provided.		Procedural Error
9	626.9541(1)(i)3.a.	Failure to adopt and implement standards for the proper investigation of claims as claim files did not adequately document claim activity.	200	51
10	626.9541(1)(i)3.c.	Failure to act promptly upon communications with respect to claims expressing dissatisfaction involving settlement payments or requesting payment of recoverable depreciation. In 9 of these cases, the Company only responded after a complaint had been filed with DFS.	200	20
11	20.121(2)(h)2	Failure to respond to the Division of Consumer Services within 20 days of receiving a complaint	200	11
12	20.121(2)(h)2	Failure to furnish the Division of Consumer Services with a response that addresses the issues and allegations raised in the complaint	200	4
13	Emergency Rule 69OER-05-06	Failure to report open claims as required by Emergency Rule.	30	9

PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of Universal Property and Casualty Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was January 1, 2004 through September 9, 2005. The examination began August 8, 2005 and ended September 9, 2005.

The purpose of this examination was to review personal lines residential property insurance in an effort to determine compliance with the Florida Insurance Code. Emphasis was placed on reviewing complaints, claims, and cancellations. A data validation review of the Quarterly Supplemental Report (QUASR) and Open Claims Report was also performed.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

In consideration of the unforeseeable catastrophic circumstances of the 2004/2005 Hurricane Season, the permissible error ratios were applied where appropriate. Monetary returns under \$5.00 were waived.

COMPANY OPERATIONS/MANAGEMENT

Universal Property and Casualty Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida. Business is produced through Universal Risk Advisors, Inc., the Company's licensed and appointed Managing General Agent (MGA). The MGA provides marketing and underwriting functions on the Company's behalf. Universal Adjusting Corporation handles claims on the Company's behalf through independent adjusting firms. The parent of the Company, Universal Insurance Holdings, Inc., owns both of these entities.

COMPLAINT HANDLING

Total Population Findings

The Company has maintained a complete record of all complaints received from the Florida Department of Financial Services (DFS) since the date of the last examination in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company files a copy of complaints received directly from consumers in either an underwriting file or a claim file. Because the Company was unable to provide a centralized listing, the examiners were unable to determine compliance with Section 626.9541(1)(j), Florida Statutes.

The review of a sample of individual complaints is included in the Claims Review and Cancellation and Nonrenewal Review sections of this report.

Corrective Action: The Company shall establish a method or procedure to allow the Office to identify and review any complaint received by the Company directly from consumers in order to ensure compliance with Section 626.9541(1)(j), Florida Statutes. The Company shall provide the Office with a detailed plan for complaint handling, which should include information as to how it will maintain adequate records and documentation suitable to allow the Office to identify and review any complaint received by the Company.

CANCELLATION AND NONRENEWAL REVIEW

Description of Cancellation and Nonrenewal Procedures

Cancellation and nonrenewal notices are sent to the insured, agent and lienholder, when applicable. Return premiums are calculated as of the effective date of cancellation. Return premiums generated from cancellations are calculated on a pro-rata basis.

Sample Review Findings

Fifty (50) cancelled and/or nonrenewed policies, including complaints, were examined.

Thirteen (13) errors were found.

The errors are broken down as follows:

1. Seven (7) errors were due to failure to comply with return of unearned premium requirements. Rule 69O-167.001, Florida Administrative Code, states that unearned premium should be mailed within 15 working days. The Company failed to make refunds timely.

Corrective Action: The Company should ensure that all refunds are made timely and all interest paid appropriately.

2. Three (3) errors were due to use of an invalid reason for cancellation. Mobile home policies were inadvertently written as homeowner's policies. Section 627.4133(2)(b)2., Florida Statutes, states that only specific reasons support cancellation after the initial review period of 90 days. These errors were due to the Company canceling policies after the initial 90 days, for reasons other than those prescribed by law.

Corrective Action: The Company should ensure that underwriting occurs within the first ninety days and that policies are not canceled for reasons other than those prescribed by law after the initial 90 days.

3. Two (2) errors were due to failure to provide a specific reason for policy cancellation or nonrenewal. Section 627.4091(2), Florida Statutes, requires the Company to identify the specific reason for cancellation.

Corrective Action: The Company should comply with its procedures to ensure that the specific underwriting reason for policy cancellation or nonrenewal is provided in the notice.

4. One (1) error was due to failure to provide timely notice of policy nonrenewal. Section 627.4133(2)(b), Florida Statutes, states that 90 days notice should be given the insured. The Company did not provide 90 days notice of nonrenewal.

Corrective Action: The Company should comply with its procedures to ensure that 90 days notice is provided on all policy nonrenewals.

Rule 69O-167.010, Florida Administrative Code, requires the Company to maintain proof that notices were mailed or to establish any other system to provide proof of notice of cancellation or non-renewal so long as the system clearly indicates the method of notification and the name of the insured, the policy number and the date mailed. The Company provided forty-three (43) certification mail receipts and responded that the other seven (7) were based on an alternative system which evidences an inconsistency in maintaining proof of mailing for cancellation notices.

Corrective Action: The Company should establish a clearly defined system to provide proof of notice of cancellation. The Company should provide the Office with a detailed plan for cancellation handling, which should include information as to how it will maintain adequate records and documentation to demonstrate compliance with Rule 69O-167.010, Florida Administrative Code. The Company should then be prepared to demonstrate by appropriate documentation that the system established was consistently used in every instance where a policy was cancelled.

CLAIMS REVIEW

Description of Claims Reviewed

This claims review consisted of liability, wind, theft, lightning, mold, water damage, sinkhole, loss assessments, fire, and vandalism claims on personal lines residential property policies. Licensing and appointments of adjusters were also verified.

Claim Procedures Review

The Company's claims procedures with respect to first notice reports, proof of loss requirements and overhead and profit were reviewed.

Findings

Procedural errors which represent business practices were found.

The procedural errors are broken down as follows:

1. **First Notice Reports:** Procedural errors were noted for failure to acknowledge and act promptly upon communications with respect to claims as set forth in Section 626.9541(1)(i) 3.c., Florida Statutes. Due to the high volume of claims generated by the 2004 hurricane season, the Company was not accepting reports of non-hurricane claims directly. Some consumers who were able to reach the Company by telephone were instructed to report claims through their agent. The policy states that claims may be reported by contacting the Company or the agent.

Corrective Action: The Company should consistently adhere to its procedures to acknowledge and respond promptly upon communications with respect to claims.

Company Response: The Company states that the storms of 2004 created an inordinate and completely unexpected volume of claims. The Company concedes that direct access to the Company for reporting of claims may have been impeded due to the given circumstances. During this time, insureds continued to have claim reporting access through their agent. The Company has since installed a new telephone system, and an upgraded claims tracking computer system with a web based claims reporting option.

2. **Overhead and Profit:** Procedural errors were identified which appear to be in violation of Section 626.9541(1)(i)3.b., Florida Statutes, which states an insurer must not misrepresent pertinent facts or insurance policy provisions relating to coverages at issue. Claim files contained letters advising insureds of their right for additional payment for overhead and profit if repairs are made by a Florida licensed contractor. The letter also states that to qualify for payment, the insured will need to send proof of payment. This letter contradicts the Company's written claim handling procedures, which state that payment will be made if a work authorization has been provided.

Corrective Action: The Company should consistently adhere to its procedures by paying overhead and profit when a work authorization has been provided that indicates overhead and profit will be charged.

In reviewing the Company's claim files, it was determined that for claims that include multiple payments, including supplemental payments, the Company requires submission of a new proof of loss from the insured prior to mailing a check. While the Company is clearly entitled to require a proof of loss, the method utilized may create unnecessary claim delays. The Company agrees that requiring a separate Proof of Loss Form before making a subsequent payment could add time to the final resolution of a claim, but believes that the safeguard is a prudent industry practice, is required by the Company's reinsurance treaty, and serves to protect the Company against submission of false claims. A failure to acknowledge and act promptly upon communications with respect to claims would be a violation of Section 626.9541(1)(i)3.c., Florida Statutes.

Corrective Action: The Company should ensure that claim payments are not delayed as a result of procedural requirements.

Sample Review Findings

Two hundred (200) claims and claims complaint files were reviewed.

Eighty-Six (86) errors/instances were found involving 79 claims.

The errors are broken down as follows:

1. Fifty-one (51) instances where the claim files did not adequately document claim activity, i.e., adjuster notes were missing and/or documents were not date stamped. As was noted earlier, the storms of 2004 created an inordinate and completely unexpected volume of claims and the Company utilized outside adjusters to settle claims. However, due to the absence of this documentation, the examiner was unable to determine compliance with Section 626.9541(1)(i)3.a., Florida Statutes for the proper investigation of claims.

Corrective Action: The Company should provide the Office a catastrophe plan for claims handling, which should include information as to how it will maintain adequate records and documentation.

2. Twenty (20) errors were due to failure to act promptly upon communications with respect to claims as set forth in Section 626.9541(1)(i)3.c., Florida Statutes. Most communications were expressing dissatisfaction involving settlement payments or requesting payment of recoverable depreciation and the Company did not respond in a timely manner. In 9 of these cases, the Company only responded after a complaint had been filed with DFS.

Corrective Action: The Company should adhere to its procedures to ensure that all claim communications from insureds are responded to in a timely manner.

3. Eleven (11) errors were due to failure to respond to the Division of Consumer Services within 20 days of receiving a complaint as set forth in Section 20.121(2)(h)2., Florida Statutes.

Corrective Action: The Company should ensure that all inquiries by the Division of Consumer Services are responded to in a timely manner.

4. Four (4) errors were due to failure to furnish the Division of Consumer Services with a response that addresses the issues and allegations raised in the complaint as set forth in Section 20.121(2)(h)2., Florida Statutes. The Company's response did not address the issues raised in the complaint or the response was not accurate.

Corrective Action: The Company should ensure that responses to complaints are complete and accurate.

DATA VALIDATION REVIEW

QUASR: Quarterly Supplemental Reports, as required by Section 624.424(10), Florida Statutes, for periods ending March 31, 2005 and June 30, 2005, were reviewed. The Company was unable to provide supporting data files used to produce the reports, however, the Company provided a current policy data file. Twenty (20) policies were selected randomly from the claim files to verify completeness of the policy data file.

No errors were found in the files reviewed; however, the Company should establish procedures to maintain the supporting documentation used to produce the reports.

OPEN CLAIM REPORTS: Open claim reports, required by Emergency Rule 69OER-05-06, were reviewed for the period of April 18, 2005 and July 15, 2005. Thirty (30) hurricane claim files were randomly selected to verify completeness of the reports. Nine (9) errors were found in both reports.

The errors are broken down as follows:

1. Nine (9) errors were due to failure to report open claims. The Company failed to comply with Emergency Rule 69OER-05-06, by not including all open claims in the reports.

Corrective Action: The Company should ensure that all Emergency Rules are complied with fully.

EXAMINATION FINAL REPORT

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.