

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

UNITED PROPERTY AND CASUALTY INSURANCE COMPANY
(UNITED INSURANCE HOLDING, L.C.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 7/16/02

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I. INTRODUCTION

United Property and Casualty Insurance Company (Company) is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination. The scope of this examination was January 1999 to June 2001. The examination began July 8, 2001 and ended September 29, 2001. The examination was suspended temporarily from August 6, 2001 to August 25, 2001. This is the first property and casualty market conduct examination of this insurer.

The purpose of this target examination was to review the Company's business practices to determine compliance with Florida Statutes and Rules since they began writing business in Florida in April 1999.

During this examination, records reviewed included homeowners and dwelling fire policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1999 through June 2001 as reflected in the report.

As a result of the examination, it was discovered that the Company has been charging a recoupment surcharge on homeowners and dwelling fire policies, when in fact the recoupment surcharge had been disapproved by the Florida Department of Insurance. On October 2, 2000, the Company filed a petition for formal administrative hearing challenging the Department's denial of the recoupment filing and on October 12, 2000, the Company filed a petition for determination of violation of Section 120.54, Florida Statutes. The Court entered a final order in favor of the Company, which has been appealed by the Department. The Judge presiding the petition for formal administrative hearing stayed all proceedings until a ruling is made in the appeal. The Company continues to collect the surcharge, however, the funds are being accounted for as "contingent liability" and held aside until a final determination is made on both cases. In the event the Court ultimately rules in favor of the Department, the Company agrees to immediately refund the collected surcharges.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds, make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

As a result of the findings this examination, \$1,916.75 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Exam Findings

The review included verification of the lines of business the Company was authorized to write during the scope of examination versus those lines actually being written. It also included verification that notification requirements were met for any line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

United Property and Casualty Insurance Company was incorporated in the State of Florida on March 8, 1999. The Company is a wholly owned subsidiary of United Insurance Holding, L.C. The Company received its Certificate of Authority from the Florida Department of Insurance effective April 2, 1999. The Company began operations, assuming approximately 12,000 policies from the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA), in April and June of 1999.

The Company currently writes business in Florida through United Insurance Management, L.C., the Company's Managing General Agent (MGA), which is also owned by United Insurance Holding, L.C. The MGA was properly licensed but not appointed during the whole period of the scope of the examination (see Agents/MGA Review of this report).

The Company contracts with MacNeill Group, Inc. located in Sunrise, Florida, for policy administration services. Some of these services include: policy issuance, customer service and complaint handling.

Claims are handled by JLT Insurance Services Company, an independent adjusting company headquartered in Sunrise, Florida, with numerous offices throughout the state. This company was formerly known as Insurance Service & Adjusting Company (ISAC).

The Company's home office is located at 100 Second Avenue North, Suite 220, St. Petersburg, Florida 33701.

B. MANAGEMENT

1. Company Computer System

Policy issuance and maintenance are performed on WinBoard applications provided by Solience Systems, Inc. For corporate and statutory accounting services, the Company utilizes The Freedom Group software exclusively.

2. Anti-Fraud Plan

The Company's claims service provider, JLT Insurance Services Company, has contracted with Sobeck Investigations Unlimited, Inc., on the Company's behalf to investigate possible fraudulent claims. A copy of the contract and related documents has been filed with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

The Company has a written Disaster Recovery Plan. The Plan documents the strategies and procedures that the Company will use to respond to any long-term interruption to its essential business functions.

4. Internal Audit Plan

The Company has a formal Internal Audit Plan. They maintain a periodic audit function over their service providers. The Company's service providers also have formal internal audit programs.

5. Privacy Plan

The Company was found in compliance with Emergency Rule 4-ER01, Florida Administrative Code, which requires the implementation of the Gramm-Leach-Bliley Act Privacy Provisions.

C. OPERATIONS

United Insurance Management, L.C., the Company's MGA, markets policies through the independent agency system. The Company writes property insurance products for residential properties for both policies assumed from the FRPCJUA and the voluntary market. The Company currently writes homeowners and dwelling fire policies throughout the state except for Dade, Broward, Monroe and Palm Beach counties as these counties accounted for 98% of the assumed business from the FRPCJUA. As of January 2001, these four (4) counties accounted for 63% of the Company's writings in the State of Florida. With the continued growth of the Company's writings in other areas of the state, they expect to have this percentage reduced to around 28% as of September 2002.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

United Property and Casualty Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

United Property and Casualty Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Service Office (ISO) acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1999	\$ 9,400,678	8,251
*2000	\$ 14,473,319	15,363
**2001	\$ 7,061,795	19,520

* The increase in business from 1999 to 2000 was due to the Company beginning to write voluntary business in addition to the business assumed from the FRPCJUA.

** As of June 30, 2001

3. Exam Findings

One hundred (100) policy files were examined.

Ten (10) errors were found.

Errors affecting premium resulted in six (6) overcharges totaling \$657.59 and four (4) undercharges totaling \$185.00.

The errors are broken down as follows:

1. Nine (9) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect Building Code Effectiveness Grade factors. These errors resulted in three (3) undercharges totaling \$109.00 and six (6) overcharges totaling \$657.59, which have been refunded by the Company.
2. One (1) error was due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used an incorrect territory. This error resulted in an undercharge totaling \$76.00.

Note: Overcharge amounts included 8% interest and also included prior and/or future policy terms where applicable.

B. DWELLING FIRE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

United Property and Casualty Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

United Property and Casualty Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Service Office (ISO) acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1999	\$ 295,494	494
*2000	\$ 949,348	1,867
**2001	\$ 818,618	2,994

* The increase in business from 1999 to 2000 was due to the Company beginning to write voluntary business in addition to the business assumed from the FRPCJUA.

** As of June 30, 2001

3. Exam Findings

One hundred (100) policy files were examined.

Twelve (12) errors were found.

Errors affecting premium resulted in ten (10) overcharges totaling \$1,243.61 and two (2) undercharges totaling \$342.00.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect Building Code Effectiveness Grade factors. These errors resulted in an undercharge totaling \$18.00 and seven (7) overcharges totaling \$664.00, which have been refunded by the Company.
2. Two (2) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect territories. These errors resulted in an undercharge totaling \$324.00 and an overcharge totaling \$490.20, which has been refunded by the Company.
3. Two (2) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company applied a no prior insurance

surcharge to ineligible risks. These errors resulted in two (2) overcharges totaling \$89.41, which have been refunded by the Company.

Note: Overcharge amounts included 8% interest and also included prior and/or future policy terms where applicable.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Fifteen (15) errors were found.

Errors affecting policy fees resulted in seven (7) overcharges totaling \$175.00.

The errors are broken down as follows:

1. Seven (7) errors were due to use of an unappointed MGA. This constitutes a violation of Section 626.091, Florida Statutes. The Company had corrected this error effective 9/19/00, prior to the commencement of this examination.
2. Seven (7) errors were due to use of unauthorized MGA fee. This constitutes a violation of Section 626.7451. These errors resulted in seven (7) overcharges totaling \$175.00, which have not been refunded by the Company as they advised that they were in the process of discussing this issue with Department of Insurance management. The Company was directed to refund all MGA fees collected beginning in 1999 through September 18, 2000, as the MGA was not appointed until September 19, 2000. There were approximately 17,492 homeowners and 1,711 dwelling fire policies affected by these unauthorized MGA fees. It is estimated that approximately \$480,075 plus interest should be refunded to affected insureds. Exhibit I.
3. One (1) error was due to use of an unappointed agent. This constitutes a violation of Section 626.112, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Twelve (12) errors were found.

Three (3) errors resulted in overreturns totaling \$67.00.

The errors are broken down as follows:

1. Six (6) errors were due to failure to provide specific reasons for nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. The Company listed the reason as “loss history or loss frequency”, but failed to list the specific claims that prompted the underwriting decision to nonrenew the policies. A copy of Department Bulletin 95-001 was provided to the Company, which directs companies to list specific claims and dates when using this reason for cancellation or nonrenewal of a policy.
2. Three (3) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company incorrectly calculated return premiums. These errors resulted in three (3) overreturns totaling \$67.00.
3. Two (2) errors were due to failure to return premium timely. This constitutes a violation of Rule 4-167.001, Florida Administrative Code. No interest was refunded as amounts were below the minimum premium rule.
4. One (1) error was due to failure to provide timely notice of nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

One (1) error was found.

The error resulted in an underpayment totaling \$15.55.

The error is described as follows:

1. One (1) error was due to failure to pay claim timely. This constitutes a violation of Section 627.4265, Florida Statutes. Twelve (12) % interest was due as the claim was settled on February 20, 2001 and check was not issued until June 1, 2001. This error resulted in an underpayment totaling \$15.55, which has been paid by the Company.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company.

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

A. COMPANY RECEIVED COMPLAINTS

Three (3) informal complaints were reviewed.

No errors were found.

IX. EXHIBITS

SUBJECT _____ EXHIBIT NUMBER

AGENTS/MGA RERATE DIRECTIVE I