

REPORT ON

MARKET CONDUCT EXAMINATION

of the

UNIVERSAL INSURANCE COMPANY

Winston-Salem, North Carolina

BY REPRESENTATIVES OF THE

NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

July 8, 2009

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Raleigh, North Carolina
July 8, 2009

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a compliance examination has been made of the market conduct activities of

UNIVERSAL INSURANCE COMPANY (NAIC #32972)
NAIC Exam Tracking System Exam Number: NC170-M42
Winston-Salem, North Carolina

Hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Universal Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on May 25, 2009 and covered the period of January 1, 2008 through December 31, 2008 with analyses of certain operations of the Company being conducted through July 6, 2009. This action was taken due to previous examination findings referenced in the Market Conduct Report of March 26, 2007.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, underwriting and rating, and terminations.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

Previous Examination Findings

A general examination covering the period January 1, 2003 through December 31, 2005 was performed on the Company and a report dated March 26, 2007 was issued. The general examination report identified concerns in the areas of policyholder treatment, underwriting and rating, and terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following area:

Underwriting and Rating – failure to follow proper consent to rate procedures and use of a policy service fee form that contained wording that had not been approved by the Department for private passenger automobile.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web Site www.ncdoi.com, by clicking "Helpful Links."

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and ensure consumer protection.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 4, Section 0123 as its responses to 24.0 percent of the Departmental inquiries reviewed did not include its NAIC company code.

The entire population of 36 consumer complaints for the period under examination was reviewed. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 4.0123 as its responses to 100 percent of the Departmental inquiries reviewed included its NAIC company code.

The average service time to respond to a Departmental complaint was 1 calendar day.

A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	36	100
Total	36	100

UNDERWRITING AND RATING

Private Passenger Automobile

The Company's underwriting and rating practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Personal Automobile Manual.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.0602(a)(2)(4) as proper consent to rate procedures were not followed on 15.0 percent of the active private passenger automobile policy files reviewed.

The Company provided a listing of 8,979 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 10.0602(a)(2)(4) as proper consent to rate procedures were not followed on 19 policies reviewed (19.0 percent error ratio).
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.1201(a)(c) as 26 policies reviewed (26.0 percent error ratio) contained a policy service fee form with wording that had not been approved by the Department.
- The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 7 policies reviewed (7.0 percent error ratio) inaccurately stated that the premium included a discount or discounts.
- The Company was reminded of the provisions of NCGS 58-36-30(a), 58-37-35(l), and Rule 5 of the North Carolina Personal Automobile Manual as 5 policies reviewed (5.0 percent error ratio) contained rating errors. The rating errors consisted of the following:
 - Incorrect Safe Driver Incentive Plan points were applied on 2 policies.
 - Incorrect vehicle classification was used on 1 policy.
 - Incorrect territory was used to calculate the premium on 2 policies.

The rating errors resulted in 4 premium undercharges and 1 premium overcharge to the insureds. At the request of the examiners, a refund in the amount of \$139.53 was issued by the Company for the overcharge. The remaining 95 premiums were deemed correct.

TERMINATIONS

Private Passenger Automobile Nonrenewals

The Company's nonrenewal procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Personal Automobile Manual.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(c) and the policy termination provisions as the nonrenewal notices for 44.0 percent of the nonrenewed private passenger automobile files reviewed were not issued at least 60 days prior to the nonrenewal date of the policy.

The Company provided a listing of 529 private passenger automobile policies that were nonrenewed during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was reminded of the provisions of NCGS 58-36-85(c) and the policy termination provisions as the nonrenewal notice for 1 of the nonrenewed private passenger automobile files reviewed (2.0 percent error ratio) was not issued at least 60 days prior to the nonrenewal date of the policy.

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of March 26, 2007. The current examination revealed the following:

1. Underwriting and Rating

- a. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 10.0602(a)(2)(4) as proper consent to rate procedures were not followed on 19.0 percent of the active private passenger automobile policy files reviewed.

- b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.1201(a)(c) as 26.0 percent of the active private passenger automobile policy files reviewed contained a policy service fee form with wording that had not been approved by the Department.
- c. The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 7.0 percent of the active private passenger automobile policy files reviewed inaccurately stated that the premium included a discount or discounts.
- d. The Company was reminded of the provisions of NCGS 58-36-30(a), 58-37-35(l), and Rule 5 of the North Carolina Personal Automobile Manual as 5.0 percent of the active private passenger automobile policy files reviewed were rated incorrectly.

2. Terminations

- a. The Company was reminded of the provisions of NCGS 58-36-85(c) and the policy termination provisions as the nonrenewal notice for 2.0 percent of the nonrenewed private passenger automobile files reviewed was not issued at least 60 days prior to the nonrenewal date of the policy.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-36-30	Deviations.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-37-35	The Facility; functions; administration.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 4.0123	Use of specific company name in responses.
11 NCAC 10.0602	Consent to rate procedures: Rate Bureau Coverages.
11 NCAC 10.1201	General requirements.

CONCLUSION


An examination has been conducted on the market conduct affairs of Universal Insurance Company for the period January 1, 2008 through December 31, 2008 with analyses

of certain operations of the Company being conducted through July 6, 2009. The Company's response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, underwriting and rating, and terminations.

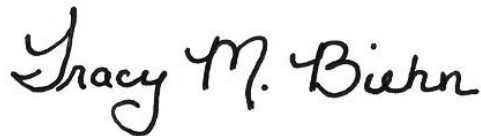
In addition to the undersigned, James P. McQuillan, CPCU and Letha Lombardi, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

Handwritten signature of Norma M. Rafter in black ink.

Norma M. Rafter, CPCU
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

Handwritten signature of Tracy M. Biehn in black ink.

Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina