FILED

MAY 30 2013

OFFICE OF INSURANCE REGULATION

Docketed by:

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF: CASE NO.: 130508-13-CO

UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY
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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 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 advisor 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 De Heer will continue to serve as the Chief Financial Officer. 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. 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. The Report is hereby incorporated in its entirety, by reference. [Attached as Exhibit "A"].

Claims Review

10. Prompt Payment of Claims – The practice of requiring separate notarized Proof of Loss statements for claims that include multiple payments, (not including supplemental payments), when known exposures have already been determined by UPCIC's adjusters results in unnecessary cost and claim delays as well as complaints from claimants. UPCIC is ordered to stop the practice of requiring separate Proof of Loss statements for claims that include multiple payments as described hereinabove. 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].

11. Cancellation and Nonrenewal Review – UPCIC is ordered to comply with Rule 69O-167.001, Florida Administrative Code, which requires unearned premium to be mailed within fifteen (15) working days after the effective date of cancellation.[1]

12. UPCIC was unable to produce proof that notices of cancellation or nonrenewal were mailed to insureds on a timely basis. UPCIC indicated that subsequent to the examination period, it had changed systems regarding proof of mailing and that the current system places a bar code on each piece of mail allowing the company to track the status of the mail. UPCIC is ordered to comply with Rule 69O-167.010, Florida Administrative Code.[2]

13. UPCIC is ordered to comply with the cancellation and nonrenewal provisions of Sections 627.4133(1)(b)2. and 627.4091(2), including but not limited to citing specific and valid

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[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.

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]

14. Post-Claim Underwriting – After the review of 300+ policies during the initial field work, it became evident that UPCIC performed post-claim underwriting evidenced by policies cancelled ab initio if the company discovered a material misrepresentation or misinformation through its Special Investigation Unit, when a claim is filed.[4] In those instances a refund of premiums was paid to the cancelled insured. The current company practice, 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. Background investigations and verifications are performed on the remaining 5 policies issued post-claim only. 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.

15. The plain language of 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.[5] 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.

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[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] The company's MGA, Universal Risk Advisors ("URA"), was at the time of the examination compensated by the company to underwrite each application.

[5] 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.

16. 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. These cancellations did not afford the insured the benefit of the cancellation provision of the policy when a material misstatement was discovered nor the time to find new coverage as provided by Section 627.4133, Florida Statutes. The Office finds this to be a violation of Sections 627.4133 and 627.409, Florida Statutes, and orders UPCIC to comply with these provisions including performing complete underwriting of all policy applications including verification of all statement and representations, credit reviews, public records, and public information within 90 days of application.

17. The Office reviewed an additional 29 claims and cancellations ab initio and determined that in 19 of those instances the insureds were not granted the benefit of the 100-day notice of cancellation required by UPCIC's filed and approved underwriting rule/guideline 4.D.2.b.(1). UPCIC is ordered to comply with its filed and approved underwriting rules and guidelines.

18. UPCIC is further ordered with regard to the 262 cancellations listed hereinabove to conduct a review of each of those cancellations and report to the Office:

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 been known to the insurer pursuant to a policy requirement or other requirement, the insurer <u>in good faith</u> 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.

19. UPCIC shall pursuant to Section 624.3161, Florida Statutes, beginning on July 15 for the period ending June 30, 2013, and continuing on a quarterly basis, submit to the Office a list of all policy rescissions/cancellations including the information listed in paragraph 18 hereinabove to the Office, Bureau of Market Investigations.

20. Complaint Handling – Although the company has maintained a complete record of all complaints received from the Florida Department of Financial Services since the date of its last examination, UPCIC was unable to produce a database of complaints received directly from consumers in violation of Consent Order No. 90788-07 issued on November 9, 2009. UPCIC is ordered to maintain the same documentation for each consumer complaint received from any sources from the date of this Order going forward in compliance with Section 626.9541(1)(j), Florida Statutes.

21. Affiliates – UPCIC has agreements with a number of its affiliates. For example, Universal Risk Advisors, Inc. (hereinafter referred to as "URA") receives the largest share of all payments and provides underwriting and policy issuance services as well as reinsurance advisory services, loss prevention, and analysis and premium collection services. URA is part of a three-party agreement between UPCIC, Blue Atlantic Reinsurance Corporation, and itself. The Office determined that there has been the occurrence of losses at UPCIC and profits in the affiliates. This raised the concern as to the fairness and reasonableness of intercompany arrangements in times of declining market conditions. However, the company indicated that it has consistently paid its

affiliates the same percentage compensation for a number of years and that losses are primarily attributable to declining premiums, increased fraud, and suspicious claims.

22. UPCIC is ordered to provide the Office an itemized list that includes all entities affiliated with UPCIC within thirty (30) days of the date of this 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 is ordered to 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.

24. Financial Transactions and Investments – The examiners reviewed UPCIC's financial transactions and investment activity from year-end 2009 through June 30, 2011. During that 18-month time period UPCIC paid $2,300,000 in commissions and the company executed more than 5,700 individual trading transactions on a 12-month annualized basis. Nearly 50% of the common stock trades involved companies in mining and precious metals and other mineral exploration ventures. The examiners noted 23 stocks and mutual fund sales activity "spike days[7]" correlating to the six quarter-end dates, followed by investment purchases within days of the onset of the following quarter. At the time of examination, UPCIC's investment functions were solely handled by then President and Chief Executive Officer, Bradley I. Meier.

25. 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

[6] All agreements with affiliates are considered "material" pursuant to Rule 69O-143-047(4)(e), Florida Administrative Code.
[7] "Spike days" is descriptive of the occurrence of trading activity transactions at or coinciding within trading days before or after quarter-end and year-end financial reporting dates.

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.

26. UPCIC has stated that it updated its admitted asset totals as each quarter's end results became available and managed its assets to remain within the newly established thresholds. The company indicates that this was an effort to be financially prudent and conservative and represents their interpretation of Section 625.302, Florida Statutes. 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 is also ordered to comply with Rule 69O-143-047(6), Florida Administrative Code, and not enter into transactions the purpose of which is to avoid statutory threshold amounts.

27. A summary of the impact of UPCIC's investment activity over the past 5 calendar years unfavorably shows that in spite of the company's investment strategy, it has not produced results comparable to the U.S. property and casualty industry.

28. UPCIC is ordered not to 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.

29. Reinsurance – During the course of the initial exam period, concerns were raised regarding transactions with Segregated Cell T25 – Universal Insurance Holdings of White Rock Insurance (SAC) Ltd., funded by UIH. In 2010 and 2011 the Underlying Property Excess of Loss contract had a premium provision indicating that the final rate for reinsurance was based on a

guarantee or reinsurer margin of 25.1% for each year. Because the reinsurer is always guaranteed a profit, there is no complete transfer of risk. 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.

30. 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, it is ordered that the same language used in the 2012 agreement regarding transfer of risk, be utilized in any future contracts.

31. It is further ordered that any future captive reinsurance programs be 100% fully collateralized by UPCIC by depositing with the Bureau of Collateral Management in cash the sum of the total coverage provided. Any future captive reinsurance programs shall further comply with the terms of the Consent Order issued on September 18, 2012, in Case Number: 126101-12-CO. UPCIC is also ordered to structure all future captive reinsurance agreements such that there is no guarantee of profit to the reinsurer in accordance with Statement of Statutory Accounting Principle ("SSAP") 62R.

32. Reserves – UPCIC's documented reserve practices require Universal Adjusting Corporation (hereinafter referred to as "UAC") to set an initial reserve for a claim and adjust the claim's reserve as information becomes available. Initial reserves are set at $2,500 upon the filing of a claim. Typically, claims reserves are increased or decreased depending on the circumstances of the loss. UPCIC uses the Atlas System for claims management and reserving. P2P is a system which gathers and utilizes the company's own historical data to set reserves. A review of UPCIC's practices shows that UPCIC does not make periodic adjustments to the reserves maintained in the Atlas System. If the company is not making periodic adjustments or providing information about

significant events to the actuaries (as reported by the attorneys or adjusters) then the methodology of determining reserves is deficient.

33. The Office orders UPCIC to provide full actuarial reports on a semi-annual basis beginning with the second quarter ending June 30, 2013, (to be filed August 15) demonstrating active and appropriate management of case reserves to the Bureau of Property and Casualty Financial Oversight.

34. UPCIC is further ordered to submit its P2P System and Atlas System to its auditors for review pursuant to the Sarbanes Oxley Act of 2002.

35. Based on the results of the examination in addition to the corrective actions required hereinabove, it is ORDERED and ADJUDGED that:

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) for its violations of Florida Statutes, the Florida Administrative Code, Consent Order No.: 90788-07, and repeat violations of the company's 2005 market conduct examination, within thirty (30) days of the date of issuance of this Order.

36. The Office may upon written request extend the time frames in this Order by letter based on good cause.

DONE and ORDERED this 30th day of May, 2013.

KEVIN M. MCCARTY
Commissioner
Office of Insurance Regulation

NOTICE OF RIGHTS

Pursuant to Sections 120.569 and 120.57, Florida Statutes, and Rule Chapter 28-106, Florida Administrative Code (F.A.C.), you may have a right to request a proceeding to contest this action by the Office of Insurance Regulation (hereinafter the "Office"). You may request a proceeding by filing a Petition. Your Petition for a proceeding must be in writing and must be filed with the General Counsel acting as the Agency Clerk, Office of Insurance Regulation. If served by U.S. Mail the Petition should be addressed to the Florida Office of Insurance Regulation at 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-4206. If Express Mail or hand-delivery is utilized, the Petition should be delivered to 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-0300. The written Petition must be received by, and filed in the Office, no later than 5:00 p.m. on the twenty-first (21) day after your receipt of this notice. Unless your Petition challenging this action is received by the Office within twenty-one (21) days from the date of the receipt of this notice, the right to a proceeding shall be deemed waived. Mailing the response on the twenty-first day will not preserve your right to a hearing.

If a proceeding is requested and there is no dispute of material fact, the provisions of Section 120.57(2), Florida Statutes, may apply. In this regard you may submit oral or written evidence in opposition to the action taken by this agency, or a written statement challenging the grounds upon which the agency has relied. While a hearing is normally not required in the absence of a dispute of fact, if you feel that a hearing is necessary, one may be conducted in Tallahassee, Florida, or by telephonic conference call upon your request.

If you dispute material facts which are the basis for this agency's action, you may request a formal adversarial proceeding pursuant to Sections 120.569 and 120.57(1), Florida Statutes. If you request this type of proceeding, the request must comply with all of the requirements of Rule Chapter 28-106.2015, F.A.C., including but not limited to:

a) A statement requesting an administrative hearing identifying those material facts that are in dispute. If there are none, the petition must so state; and

b) A statement of when the respondent received notice of the agency's action.

These proceedings are held before a State Administrative Law Judge of the Division of Administrative Hearings. Unless the majority of witnesses are located elsewhere, the Office will request that the hearing be conducted in Tallahassee.

In some instances, you may have additional statutory rights than the ones described herein.

Failure to follow the procedure outlined with regard to your response to this notice may result in the request being denied. Any request for administrative proceeding received prior to the date of this notice shall be deemed abandoned unless timely renewed in compliance with the guidelines as set out above.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing ORDER has been furnished by Certified Mail to: Universal Property & Casualty Insurance Company, Sean P. Downes, President, 1110 West Commercial Boulevard, Fort Lauderdale, Florida, 33309, this 30th day of May, 2013.

ELENITA GOMEZ, ESQUIRE
Legal Services Office
Office of Insurance Regulation
612 Larson Building
Tallahassee, FL 32399-4206
(850) 413-4186

Attorney for the Office of Insurance Regulation

THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY

AS OF

May 2, 2013

NAIC COMPANY CODE: 10861
NAIC GROUP CODE: 04663

EXHIBIT

A

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EXECUTIVE SUMMARY

A market conduct examination of **Universal Property and Casualty Insurance Company** (UPCIC), a Florida domestic property and casualty insurer, was conducted beginning April 11, 2011. The examination's initial scope period reviewed the company's activities from January 1, 2009, through May 31, 2011. The exam was subsequently expanded due to additional areas of concern coming to light through the exam process and meetings with the company (and its representatives) as recently as Winter and Spring 2012-2013. The examination reviewed the Company's practices regarding, but not limited to, claims handling, complaint handling, rate filings, financial transactions, and underwriting in an effort to determine compliance with the Florida Insurance Code. A data validation review of the claims and policy system was also performed. UPCIC records were examined at the company's home office located in Fort Lauderdale, Florida. In reviewing materials for this final report, the examiners relied on records provided by UPCIC. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

The examination team examined a sample of two hundred and fifty (250) claims, cancellations, and underwriting files, and two hundred and ninety-eight (298) complaint files, financial transactions, underwriting and loss expenses, and investment portfolios. Rate filings, cash accounts, investment accounts, other financial transactions, and data validation supporting files were also reviewed over the course of the examination. This report presents general findings and the Office of Insurance Regulation has met with the company since the field work was completed. Some issues have been resolved, some have resulted in modifications to the company's operations, and others have resulted in additional investigation by the Office.

Fees for Affiliated Company Transactions

The company has experienced significant growth since 2004 holding nearly 600,000 in-force policies in 2010, and nearly 543,000 policies at year-end 2012. Direct written premiums in Florida rose from $41,799,000 in 2004 to $653,279,000 in 2010. Underwriting Expense Ratios in 2010 are at 49.6%. Loss Adjustment Expense Ratios (LAE) have risen since 2007 to 19.0%. Of the $220,000,000 gross underwriting and loss adjustment expenses before ceded reinsurance allowances in 2010, $86,000,000 relates to fees paid to Universal affiliates. Analysis of contracts with affiliates indicates that fees paid by the company are higher than those charged by other competitors writing Florida homeowners insurance.

Investments

Examiners reviewed investment activity from year-end 2009 through June 30, 2011. The company executed more than 5,700 individual trading transactions on a 12-month annualized basis. This level of trading activity resulted in the company paying $2,300,000 in commissions over the trading period examined. Nearly 50% of the common stock trades involved companies in mining and precious metals and other mineral exploration ventures. The examiners noted 23 stocks and mutual funds sales activity "spike days" correlating to the six quarter-end dates followed by investment purchases within days of the onset of the following quarter.

Reinsurance Agreements

Reinsurance Agreements regarding transactions with Segregated Cell T-25 – Universal Insurance Holdings of White Rock Insurance (SAC) Ltd., funded by UIH were reviewed during the course of the examination. The agreements through 2011 guaranteed the reinsurer a 25.1% margin of profit. Due to this guaranteed provision there was no transfer of risk to the reinsurer in the event of a catastrophic loss exhausting the reinsurance. The agreement was amended in 2012 deleting the guaranteed profit provision.

Following discussions between the Office and the company, the reinsurance agreements and funding arrangements were amended for the 2012 hurricane season. The reinsurance is required to be fully funded by a combination of accounts in the Bureau of Collateral Management as a statutory deposit and the reinsurance trust account.

Corporate Governance

As a publicly traded company, the governing board and committees are required to maintain minutes of their meetings. The examiners reviewed the minutes provided and noted that the company does not maintain detail regarding the matters or items discussed at the meetings. Based upon the minutes, it cannot be ascertained whether UPCIC requests, or affiliates prepared, financial statements for the benefit of management or board review. However, UPCIC's directors also serve as directors of Universal Insurance Holdings and the company has represented that the Board has "ready access to information about the financial performance of the group as a whole, including its operating subsidiaries." The company has further represented that "[t]he board of directors meets regularly, receives and reviews detailed company information, asks questions of management and company advisors, and is otherwise active in its duties." (Response, p. 13).[1]

MANAGEMENT/COMPANY OPERATIONS

UPCIC, a wholly owned subsidiary of Universal Insurance Holdings, Inc. (UIH), is a domestic property and casualty insurer licensed on December 31, 1997, to conduct business in the State of Florida. In February 1998, UPCIC began issuing policies after acquiring homeowner insurance policies issued by the Florida Residential Property and Casualty Joint Underwriting Association (JUA). UPCIC's primary product is homeowners' insurance, which it writes in four states, with Florida representing the majority of the business written during the scope of this examination. Other lines of business written in the State of Florida include fire, allied lines, inland marine and other liability. UPCIC is currently licensed to transact insurance business in the states of Florida, North Carolina, South Carolina, Hawaii, Georgia, Maryland, and Massachusetts. The company has grown into the second largest homeowners property insurer in the state.

UPCIC is 100% owned by Universal Insurance Holdings Company of Florida which, in turn, is 100% owned by UIH, the ultimate parent and registrant with the Securities and Exchange Commission (SEC).

UIH's stock is closely held with approximately 41 shareholders of record as of year-end 2010, with nine officers and directors beneficially owning 54.1% of UIH's common stock as of April 4, 2011. Of those nine individuals, UIH Chief Executive Officer, President, and Director Bradley I. Meier owned 41.5%, and UIH's Senior Vice President, Chief Operating Officer, and Director Sean P. Downes owned 9.1%.

[1] References herein to the "Response" are to the company's response dated December 3, 2012.

UIH's Board of Directors is comprised of the following individuals serving also as directors of UPCIC (the year shown is that in which they first served as a Director of UIH):

- Bradley I. Meier, President, Chief Executive Officer and Director – 1990
- Norman M. Meier, Director and Secretary – 1992
- Sean P. Downes, Chief Operating Officer, Senior Vice President, and Director – 2005
- Michael A. Pietrangelo, Director – 2010
- Ozzie A. Schindler, Director – 2007
- Reed J. Slogoff, Director – 1997
- Joel M. Wilentz, M.D., Director and Acting Secretary – 1997

Several officers of UPCIC are under Employment Agreements with UIH, and not UPCIC. If UPCIC has any obligations under these agreements, there is no reserve or contingent reserve in place for those obligations. The company has indicated that "UPCIC has no obligations under these agreements." (Response p. 14).

On February 7, 2013, UPCIC, through its then Chief Operating Officer, Sean Downes, notified the Office of several significant changes in leadership at the company. Effective February 22, 2013, Bradley Meier was resigning from his positions as President and Chief Executive Officer of UPCIC. He also resigned from the Board of Directors of the ultimate parent, Universal Insurance Holdings, Inc., and all of its subsidiaries. Mr. Meier was retained by UPCIC in an advisor capacity and entered into a "Founder and Adviser Agreement" effective February 22, 2013, which replaced Mr. Meier's prior Employment Agreement dated August 11, 1999. The terms of the agreement indicate that Mr. Meier shall continue as an employee of UPCIC with the title of 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. Mr. Meier will be compensated by UPCIC annually for his role as Founder and Adviser.

The successor President and Chief Executive Officer is Sean Downes; George DeHeer will continue to serve as the Chief Financial Officer; Jon Springer is the new Chief Operating Officer; Stephen Donaghy will function as the Chief Administrative Officer and the heads of operation areas such as underwriting and claims will continue in their current positions.

CLAIMS REVIEW

PROMPT PAYMENT OF CLAIMS

The claims review consisted of liability, wind, theft, mold, water damage, sinkhole, and fire claims on personal lines residential property policies. Complaints relating to claims were also reviewed. Licensing and appointments of adjusters were also verified. UPCIC's claims procedures with respect to first notice reports, setting of reserves and proof of loss requirements were reviewed.

The company is entitled to require a notarized proof of loss be provided prior to a claim payment. It is UPCIC's practice to require separate notarized Proof of Loss statements for claims that include multiple payments, (not including supplemental payments), when known exposures had already been determined by its adjusters. This practice results in unnecessary cost and claim delays as well as complaints from claimants. These procedural delays constitute a failure to act promptly upon communications with respect to claims and appear to be a violation of Section 626.9541(1)(i)3(c), Florida Statutes.

DENIED CLAIMS

The denied claims review consisted of liability, wind, theft, mold, water damage, sinkhole, and fire claims on personal lines residential property policies. Complaints relating to the denial of claims were also reviewed. Fifty (50) randomly selected claims from the electronic system with the status reflected as "denied," ten (10) randomly selected hard copy claim files, and 298 complaints were examined.

Findings:

- In all electronic claim files reviewed, the denial letters were included under the claim in the Atlas System, listed as "blank letters," but were not maintained on Company letterhead and did not reflect a mailing date. While not required, the examiners were unable to determine if UPCIC timely issues claim denial letters. UPCIC representatives indicated that the proof of mailing was maintained **in a duplicate** hard copy file and not on the Atlas System. Further review of a sample of hard copy claim files found only two of the ten files reviewed contained proofs of mailing.

CANCELLATION and NONRENEWAL REVIEW

Fifty (50) cancelled and/or nonrenewed policies, and 298 complaints, were examined.

Findings:

- Twenty-six (26) exceptions were noted due to failure to comply with return of unearned premium requirements. Rule 69O-167.010, Florida Administrative Code, states that unearned premium should be mailed within fifteen (15) working days. UPCIC failed to make refunds timely. These exceptions appear to be a **repeat violation** from the 2005 Market Conduct Examination.
- Nine (9) exceptions were noted due to use of invalid reasons for cancellation. Section 627.4133(1)(b)2., Florida Statutes, states that only specific reasons support cancellation after the policy has been in effect for ninety (90) days. These exceptions were due to UPCIC cancelling policies after the policy had been in effect for more than ninety (90) days for reasons other than those prescribed by law. These exceptions appear to be a **repeat violation** from the 2005 Market Conduct Examination.
- Three (3) exceptions were noted due to failure to provide a specific reason for policy cancellation or nonrenewal. Section 627.4091(2), Florida Statutes, requires UPCIC to identify the specific reason for cancellation. These exceptions appear to be a **repeat violation** from the 2005 Market Conduct Examination.
- Two (2) exceptions were noted due to failure to provide timely notice of policy nonrenewal in accordance with Section 627.4133(1)(b)2., Florida Statutes.
- UPCIC was unable to produce proof that notices were mailed to insureds on any given date. Rule 69O-167.010, Florida Administrative Code, requires an insurer to maintain

proof that notices were mailed or to establish any other system to provide proof of notice of cancellation or nonrenewal so long as the system clearly indicates the method of notification, the name of the Insured, the policy number, and the date mailed. This appears to be a **repeat violation** from the 2005 Market Conduct Examination. The company disputes this finding and indicates that subsequent to the examination period, UPCIC switched from using a United States Postal Service proof of mailing form to send out notices, to using a Pitney Bowes system that places a bar code on each piece of mail, allowing the company to track the status of the mail. (Response, p. 40).

POST-CLAIM UNDERWRITING

Post-claim underwriting is a practice whereby the underwriting of a policy application is actually performed for the first time when a claim is filed. The practice reduces a company's underwriting costs at the time of application as well as provides a subsequent opportunity to resolve deficient underwriting. Post-claim underwriting ab initio cancellations produce a hardship on the policyholder particularly when the homeowner suffers an insurance loss. In addition to the loss of insurance coverage for the claim, the policyholder is left without coverage for the property due to the cancellation. This often results in a homeowner being forced to accept a very expensive premium for a 'lender-placed' policy initiated by the mortgage-holder (including payment of premiums for previous years). Additionally, the homeowner may become an uninsurable risk because the prior insurance policy was cancelled by the insurer.

During the initial field work conducted by the examination team, the examiners looked at a group of 300+ policies that the company had cancelled ab initio back to the inception date of the policy. Due to this reported practice, it is evident that the company performs post claim underwriting. When a claim is filed, the company automatically forwards the file to the Special Investigation Unit (SIU). Using multiple information sources which include searching public records, the company seeks to determine if the policy application contained material misrepresentations or misinformation. If the company discovered a material misrepresentation or misinformation, the policy was cancelled ab initio, with a refund of premiums paid to the cancelled insured.

The current company practice, implemented subsequent to the exam, is to perform background investigations and verification of all application statements in one out of every six applications received. Background investigations and verifications are performed on the remaining 5 policies issued post-claim only.[2] The company indicates that during the SIU investigation of claims they may discover misinformation in the application and in those cases it justifies the cancellation as an "incorrect statement on the application." The company has stated that if it had known of the material misstatements initially, it would not have issued the policy. The company states it relies on the accuracy and truth in the application regarding the ab initio cancellations, and thus places the burden solely on the policyholder.

In the policy provided to insureds, the plain language states that if a material misstatement is uncovered, the policy (if in-force 90 or more days) may be cancelled. If cancelled, the insured must be notified at least 100 days before the cancellation date takes effect. If the cancellation

[2] The company's MGA, URA, was at the time of the examination compensated by the company to underwrite each application.

occurs between June 1 and November 30 the company is required to give the insured 100 days notice or notice by June 1, whichever is earlier. The Office has determined that of the policies reviewed, 262 cancellations of policies in-force more than 90 days, occurring between March 2010 and May 2011 did not afford the insured the benefit of the cancellation provision of the policy when a material misstatement was discovered. The Office finds this to be a violation of Section 627.4133, Florida Statutes. The company disagrees that Section 627.4133, Florida Statutes, is violated or even involved in this issue. They believe instead that the relevant statute is Section 627.409, Florida Statutes. (Response, p. 41). While the Office continues to believe that Section 627.4133, Florida Statutes, is violated, it also acknowledges that Section 627.409, Florida Statutes, is relevant to the issue of recovery in the event of a loss and as such, it too has been violated.

The Office reviewed 29 additional claims and cancellations "ab initio" and determined that 19 insureds were not granted the benefit of the 100-day notice of cancellation required by UPCIC's filed and approved underwriting rule/guideline 4.D.2.b.(1).

COMPLAINT HANDLING

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

Per the company's prescribed procedures for handling complaints received directly from consumers, such complaints are to be scanned and logged into a database. Electronic copies of the complaints are also to be maintained in either the relevant claim or underwriting file. Such database(s) should be capable of producing a manifest of consumer complaints, thereby enabling the Office to identify every instance when a complaint was made to UPCIC, and to confirm compliance with Section 626.9541(1)(j), Florida Statutes. After numerous requests by the examiners, UPCIC was unable to produce a database of complaints received directly from consumers. Michael Moran, Claims Manager, specifically stated to the examiners that UPCIC does not keep track of the consumer complaints. The company responded that it maintains notes in its files regarding inquiries and communications with consumers, which often include status inquiries or other questions.

Section 626.9541(1)(j), Florida Statutes, and Consent Order 90788-07, require UPCIC to establish methods or procedures to allow the Office to identify and review any complaint received by UPCIC directly from consumers. The company appears to be in violation of the requirements of Consent Order 90788-07 and Section 624.418(2)(a), Florida Statutes.

CLAIMS IN LITIGATION

The litigation department consists of a Claims Litigation Manager whose background is as a paralegal, and a staff of three (3) employees. Subsequent to the examination, the company stated it hired a General Counsel.

Per discussions with the Claims Litigation Manager, cases move to his area after a Civil Remedy Notice has been filed. Typically, litigated claim files have reserves set at $0 or at the initial reserve amount of $2,500, due in part to the fact that UPCIC has initially denied the claim. As of May 31, 2011, the Atlas System reflected 944 open claims in litigation with 786 of those with reserves set at $0 to $2,500. In accordance with UPCIC's documented reserve practices, an initial reserve for a claim is set and then adjusted as more information becomes available.

One hundred (100) open claims with the status of "litigation" were selected randomly for review to determine compliance with UPCIC's reserving practices. Dates of loss ranged from 2005 through 2011, and consisted of fire, wind, sinkhole, vandalism, liability, fallen object, mold, hail, and water damage claims on personal lines residential property policies.

In thirty (30) of the claim files reviewed, it was apparent UPCIC received information which should have warranted an increase to reserves. However, as this knowledge became available, a corresponding increase to the claim reserve was not indicated in the file.

In one claim file, outside counsel recommended reinstating a previously cancelled policy in an effort to defend against the policyholder's claim. UPCIC did in fact reinstate the policy.

Based upon the trending noted in the review of the full population of litigated claims, the number of claims going to litigation is increasing.

FINANCIAL REVIEW

AFFILIATED AGREEMENTS and TRANSACTIONS

The company has experienced significant growth since 2004 having nearly 600,000 in-force policies in 2010. Direct written premiums in Florida rose from $41,799,000 in 2004 to $653,279,000 in 2010. Underwriting Expense Ratios in 2010 are at 49.6%. Loss Adjustment Expense Ratios (LAE) have risen since 2007 to 19.0%. Of the $220,000,000 gross underwriting and loss adjustment expenses before ceded reinsurance allowances in 2010, $86,000,000 relates to fees paid to Universal affiliates. Analysis of contracts with affiliates indicates that fees paid by the company are higher than those charged by other competitors writing Florida homeowners insurance.

A review of all agreements to which UPCIC was a party to was made during the examination. The following exhibit reflects amounts earned by affiliates from business related to UPCIC's business:

- Policy fees paid by UPCIC's policyholders directly to URA -- $15.1 million
- Reinsurance brokerage commissions earned by Blue Atlantic -- $18.2 million
- Premiums earned by White Rock/T-25 -- $11.8 million
- Reinsurer's margin earned by White Rock/T-25 -- $6.1 million

The company has indicated that the reinsurer's margin is "the part of the earned premium the reinsurer keeps in a no-loss year," and that the premiums earned and the margin earned by T-25 are not separate dollars. (Response, p. 17).

Universal Risk Advisors, Inc. ("URA"):
URA receives the largest share of all payments paid by UPCIC to its affiliates. For 2010, URA received $52.7 million (61.0%) of the total affiliate payments of $86.3 million listed on Schedule Y, Part 2 of UPCIC's 2010 Annual Statement.

URA provides underwriting and policy issuance services, reinsurance advisory services, loss prevention, analysis and premium collection services. URA acts as regulatory liaison, insurance advisor, and consultant for policy, business, and strategic decisions. URA provides reinsurance advisory services via a three-party agreement between URA, UPCIC, and Blue Atlantic whereby Blue Atlantic assumes the primary role of reinsurance intermediary broker in developing, negotiating and placing UPCIC's reinsurance program. URA's compensation is based on 4% of the gross written premiums earned by UPCIC each month and an annual policy fee of $25 charged to each policy. UPCIC has the authority to monitor the operational and financial performance of URA.

URA also provides policy administration and service functions to UPCIC's insurance business providing implementation and testing services, policy processing services, financial reporting services, consumer assistance services, system and data backup and policy systems consulting. URA receives first notice of loss for claims. UPCIC may request operating budgets for URA, copies of subcontracts relating to its performance under the contract, conduct annual on-site operations reviews, and reviews of URA's books and records pertaining to the business administered.

Universal Adjusting Corporation ("UAC")
As claims adjuster for UPCIC, UAC receives the second largest share of all payments paid by UPCIC to its affiliates. In 2010, UPCIC incurred expenses of approximately $30 million in loss adjustment expenses related to claims adjusting services provided, representing approximately 34.2% of the total affiliate payments of $86.3 million listed on Part 2 of UPCIC's 2010 Annual Statement, Schedule Y. The fee schedule in use by UAC is not the same as the fee schedule approved by the Office.

In a February 2000 memorandum from Sean Downes, Executive Vice President of UAC and Chief Operating Officer of UPCIC, to Bradley Meier, President of UPCIC, UAC began to administer property insurance claims for UPCIC. Services performed by UAC pursuant to the memorandum include arranging inspection of the insured loss within 24 hours of assignment; completing itemized appraisals for each loss, reaching agreements with insureds on the scope and cost; completing inventories of contents loss; obtaining photos to document damages; applying coverages and making settlement recommendations to UPCIC. UAC has settlement authority up to $5,000 to assist policyholders in the initial stages of the claims process.

In July 2011, a Claims Services Agreement was executed under which UAC performs adjusting and claims handling services assigned by UPCIC. The agreement more formally memorializes the fee structure differentiating between catastrophe and non-catastrophe pricing, and fees for catastrophe claims over $10,000. More complicated losses are billed to UPCIC at Time and Expense (T&E) regardless of the claim value and with a 20% markup of the independent adjuster's invoice as are appraisals, mediation and subrogation claims. Liability and litigation claims are billed at T&E.

Universal Inspection Corporation ("UIC")

UIC, a wholly owned subsidiary of UIH, performs property inspections for UPCIC, and received $3,286,345 in fees (3.8%) of the total affiliate payments of $86.3 million listed on Part 2 of UPCIC's 2010 Annual Statement Schedule Y, Part 2. A UIC fee schedule was provided indicating the charges to UPCIC for exterior and interior inspections as well as for photos and utility inspection fees. In July 2011, an Inspection Fee Agreement with UIC memorialized UIC's services to UPCIC and related fees. Under the Agreement, UIC performs residential property insurance inspections as UPCIC may assign.

Coastal Homeowners Insurance Specialists, Inc. ("Coastal")

Coastal received $871,700 (1.0%) of the total affiliate payments of $86.3 million listed on Part 2 of UPCIC's 2010 Annual Statement Schedule Y, Part 2. Coastal, wholly-owned by UIH, is part of the agency operations and produces new and renewal insurance business on behalf of UPCIC. UPCIC does not have a direct contract to do business with Coastal. Under terms of the MGA agreement between UPCIC and URA, all policies are issued through the MGA. The Agent Agreement authorizes Coastal to transact insurance through URA on behalf of insurers having contracts with URA. Coastal earns a base rate commission of 12% on all policies that it produces. Coastal can participate in an annual profit sharing bonus based on net profit.

Blue Atlantic Reinsurance Corporation ("Blue Atlantic")

Blue Atlantic is a licensed reinsurance intermediary broker with responsibilities including catastrophe modeling, risk and competitive analysis, reinsurance program analysis and development, reinsurance marketing and reinsurance administration. It is part of a three-party Agreement for Reinsurance Intermediary Services with UPCIC and URA. The agreement provides that UPCIC and URA retain Blue Atlantic as a reinsurance intermediary broker for assistance in developing, negotiating and placing UPCIC reinsurance programs. While URA is UPCIC's advisor regarding reinsurance matters, URA sub-contracts that responsibility to Blue Atlantic pursuant to the three-party agreement. Compensation for services are the usual and customary reinsurance intermediary brokerage revenues paid by reinsurers participating in the UPCIC reinsurance programs for which Blue Atlantic is designated as the reinsurance intermediary, individually or in connection with one or more other reinsurance intermediaries. The agreement allows UPCIC access to and the right to copy and audit all accounts and records maintained by Blue Atlantic related to its business on behalf of UPCIC. Annually, Blue Atlantic is to make available to UPCIC a copy of its financial statements.

Blue Atlantic earned $18,227,823 in broker fee revenues in 2010. While the reinsurance brokerage fees are not paid to Blue Atlantic directly by UPCIC, the fees received are based on reinsurance premium payments made by UPCIC to Aon Benefield, a non-affiliated reinsurance brokerage firm with whom Blue Atlantic serves in a co-broker capacity with respect to UPCIC's reinsurance program. Blue Atlantic's sole source of operating revenue is UPCIC's insurance business.

UPCIC's Cost Structure Compared to Peers

Underwriting expense ratios were quite favorable from 2006 to 2008. However, UPCIC reported in 2010 a direct earned premium underwriting expense ratio of 49.6%.

UPCIC's loss adjustment expense ratio has steadily risen since 2007. In 2010, UPCIC reported a LAE ratio of 19.0%.

The Company reported underwriting gains in 2007 and 2008, but reported $91 million in underwriting losses for 2009 through mid-year 2011. Of the $220 million gross underwriting and loss adjustment expenses (before reduction for ceded reinsurance allowances) reported by UPCIC in 2010, approximately $86 million relates to fees of UPCIC's affiliates. UPCIC reported a statutory basis net loss for 2010 of $9.9 million, while UIH reported consolidated GAAP net income of $36.9 million. The occurrence of losses at UPCIC and profits in the affiliates raises concern as to the fairness and reasonableness of intercompany arrangements in times of declining market conditions. However, the company has indicated that it has consistently paid its affiliates the same percentage compensation for a number of years, losses are primarily attributable to declining premiums, increased fraud, and suspicious claims. (Response, p. 16).

- The Cost Allocation Agreement between the parent (UIH) and several affiliates (UPCIC, UAC, and URA) defines that fees charged under the agreement would be based upon the Proportional Benefit Rule or the Interrelationship Rule. Rent expenses were not allocated to the Proportional Benefit Rule. Per the monthly rent expenses charged, Coastal Homeowners Insurance (not a party to the Cost Allocation Agreement) was charged for 380 square feet of space; Universal Adjusting Corporation (UAC) was charged for 2,983 square feet of space; URA was charged for 2,368 square feet of space; UPCIC was charged for 14,679 square feet of space; and UIH was not charged nor allocated any square footage for rent expense allocations. Other entities identified on the Consolidated Tax Return were parties to the Cost Allocation Agreement but they were not included in the office space allocations for the sharing of rent expenses. The expenses allocated to UPCIC under this agreement are not allocated in conformity with customary insurance accounting practices, in violation of Rule 69O-143.047(1), FAC.
- Services performed for UPCIC by an affiliate, URA, are under the terms of a MGA Agreement and a Policy Administration Agreement. Fees paid under the MGA Agreement are 4% of gross written premiums plus a fully-earned, per-policy fee of $25. Under the Policy Administration Agreement or Servicing Agreement, fees charged are 5.5% of earned premium up to the first $30 million and 4.5% over $30 million. Fees paid to URA for commissions and administration fees for the years ending December 31, 2010 and 2009, were approximately $53 million and $46 million, respectively. A review of the filed 2009 Consolidated Federal Income Tax Return finds that URA reported net income of approximately $44 million compared to UPCIC's reported net loss of approximately $3 million.
- Under terms of the MGA Agreement, URA provides reinsurance negotiations on behalf of UPCIC. An affiliate, Blue Atlantic, was formed in 2009 for the purpose of providing reinsurance negotiations and to act as a reinsurance intermediary. Then, UPCIC, URA, and Blue Atlantic entered into a Reinsurance Intermediary Agreement. These various arrangements create the appearance of duplicative fees paid for such services. The company has indicated that this is not an accurate characterization of the relationship between the parties and explains that UPCIC has used the services of its affiliated managing general agency since 1998 and that the managing general agency has been involved in analyzing reinsurance options on behalf of UPCIC since that time. URA hired

a dedicated employee who formerly worked in the reinsurance industry and continued to use the services of third party reinsurance intermediaries. Blue Atlantic was created to supplant some of these services and its revenues come from sharing in the reinsurance brokerage fees the intermediary would otherwise receive. (Response, p. 24). In the 2009 Consolidated Federal Income Tax Return, Blue Atlantic reported commission fee income of approximately $17 million and net income of approximately $15.5 million, compared to UPCIC's reported net loss of approximately three ($3) million.

- The 2009 Consolidated Federal Income Tax Return lists all twenty-nine (29) entities with the same home address as UPCIC. Sixteen (16) of those listed are reflected as inactive. UPCIC's method of cost allocation was not provided. The examiners gathered the following information:

Name of Entity	No. of Employees	Salary Allocation	Square Footage	Rent Allocation
Blue Atlantic Reinsurance Corp.	3	$ 1,500,000**	0*	Separate Office
Coastal Homeowners Ins. Specialists	2	230,000**	380*	$ 1,008**
Universal Adjusting Corp.	52	2,600,000**	2,983*	7,917**
Universal Inspection Corp.	1	667,000**	0*	0**
The Company (UPCIC)	29	17,600,000**	14,679*	38,957**
Universal Risk Advisors, Inc.	126	8,600,000**	2,368*	6,285**
Universal Ins. Holdings, Inc.	3	6,500,000**	0*	0**
American Platinum P & C Ins. Co.	0	0**	0*	0**
Universal Ins. Holding Co. of FL	0	0**	0*	0**
TOTALS * Data Provided By Company during exam ** As Reported By Company	213*	$37,697,000**	20,410*	$54,167**

- As indicated in the table above, not all active entities listed on the 2009 Consolidated Tax Return were reflected as having employees, nor did they share in the cost of the home office. The number of employees and the office space needed to accommodate them does not accurately reflect the rental allocation based on square footage utilized.
- As reflected above, UPCIC had 29 employees (14% of total employees), but paid $17,600,000 in salaries (47% of total salary). UPCIC housed 14% of the total UIH employees. The rental space allocated to UPCIC was 72% of the total square footage and 72% of the total rental cost. UPCIC disagrees with the salary amount in this finding.
- Fees paid to UAC included charges for "adjusting" costs that were not billable by independent adjusters, i.e. first set number of photos and a set number of miles driven. Per the claims review, it was noted that independent adjusters were not permitted to charge UAC for these charges; however, UAC billed UPCIC for them.
- Fees charged by in-house adjusters were based upon a pre-set fee schedule, per activity, with a pre-set time allocated. The schedules of fees currently in use were found to be in excess of the Billing Guidelines and Fee Schedule submitted to the Office for approval.
- On a direct basis, industry loss adjusting expenses over gross losses paid for 2010 claims ranged from 1% to 8%, whereas UPCIC's direct loss adjusting expenses over gross losses paid was 39%.

The company has stated that discussion of salaries and rental expenses are "irrelevant to the examination." (Response, p. 24).

FINANCIAL TRANSACTIONS and INVESTMENTS

Examiners reviewed financial transactions and investment activity for the 18-month period from year-end 2009 through June 30, 2011. Analysis reveals the company executed more than 5,700 individual trading transactions on a 12-month annualized basis averaging 23 trades every trading day. The extent of UPCIC's trading activity resulted in corresponding increased brokerage commission costs. The company paid $2,300,000 in commissions over the 18-month trading period examined. Nearly 50% of the common stock trades involved companies in mining and precious metals and other mineral exploration ventures. The examiners noted 23 stocks and mutual funds sales activity "spike days" correlating to the six quarter-end dates, followed by investment purchases within days of the onset of the following quarter.

In late 2008, UPCIC implemented an active securities trading program. The cash and short-term investment component of the portfolio dropped to 59% at year-end 2009 and to 33% at year-end 2010, the result of the reallocation of a significant portion of invested assets to bonds, stocks, and derivatives. Once reallocated, UPCIC began to actively trade within the bond and stock components of its portfolio, resulting in a bond portfolio turnover rate of approximately 12 and 6 times (compared to 0.4 and 0.4 times for the U.S. property and casualty insurance industry), and a common stock portfolio turnover rate of approximately 4 and 2 times (compared to 0.3 and 0.2 times for the industry), for 2009 and 2010, respectively.

UPCIC reported $352 million in cash and invested assets on its year-end 2010 Annual Statement. Most of the cash and securities comprising that balance are physically held in two custodial accounts maintained by UPCIC at SunTrust Bank and U.S. Bank; the respective balances on December 31, 2010, were approximately $298 million and $40 million. Monthly account statements for those two accounts reveal an extensive amount of activity in the SunTrust Bank account but very little activity in the U.S. Bank account.

UPCIC's Annual Statement Schedule D for 2010 lists approximately 196 line items for investments purchased (bonds, stocks, and mutual funds) during the year and another 194 line items for investments sold that year. Because the amounts for a given security are aggregated for Schedule D reporting pursuant to the NAIC Annual Statement instructions, Schedule D does not demonstrate the daily trading activity of UPCIC's portfolio since 2008.

The examiners analyzed the activity reported by UPCIC's primary custodial bank, SunTrust Bank, from year-end 2009 through June 30, 2011.[3] Examiners identified 8,593 individual purchases or sales during the time period equating to approximately 5,700 individual transactions on an annualized basis. During the period, for every trading date UPCIC made on average 23 trades.

During the period ending June 30, 2011, UPCIC bought and sold common stock in 73 companies, the vast majority concentrated in mining or the exploitation of precious metals and

[3] The U.S. Bank custodial account was excluded from analysis due to little activity.

minerals. Trades in the top ten stocks comprised 47% of the total 4,114 common stock trades by UPCIC during this timeframe.

During the time-period UPCIC bought and sold shares in 74 mutual funds. The majority concentrated in mining, precious metals, minerals, oil, gas and agricultural-based commodities. Trades in the top ten mutual funds comprised 45% of the total of 3,941 mutual fund trades by UPCIC during this period. Market Vectors ETF TR JR Gold Miners was the fund traded most often being bought or sold 274 times during the 18-month period for a total dollar volume (purchases and sales combined) exceeding $16 million.

The size of UPCIC's common stock portfolio (including mutual funds) has grown in absolute dollar terms as well as a percentage of UPCIC's surplus and excess surplus:

	12/31/08	12/31/09	12/31/10	6/30/11
Common Stock Investments	$1,314,370	$59,123,174	$78,898,624	$72,107,048
Surplus	93,993,302	87,827,413	115,926,200	108,574,704
Stock as % of Surplus	1.4%	67.3%	68.1%	66.4%
Excess Surplus	$70,241,247	$57,501,359	$83,061,905	$66,091,091
Stock as % of Excess Surplus	1.9%	102.8%	95.0%	109.1%

Bond trades have been significant in dollar amounts as well as in shifts between types of bond issues.

	12/31/08	12/31/09	12/31/10	6/30/11
Bond Investments	$4,334,404	$42,335,583	$138,201,763	$3,313,679
Surplus	93,993,302	87,827,413	115,926,200	108,574,704
Bonds as % of Surplus	4.6%	48.2%	119.2%	3.1%
Excess Surplus	$70,241,247	$57,501,359	$83,061,905	$66,091,091
Bonds as % of Excess Surplus	6.2%	73.6%	166.4%	5.0%

Through the second quarter of 2011, UPCIC went from holding $4.3 million in bonds at year-end 2008, to over $138 million at year-end 2010, to under $4 million at the end of the 2nd quarter 2011. The tradeoff was in short-term investments, i.e., when bonds decreased by approximately $135 million during the first six months of 2011, short-term investments increased. The $138 million balance at year-end 2010 included over $80 million with maturities over 20 years, and almost $25 million with maturities ranging from 10-20 years. While holding long-maturity bonds, UPCIC was exposed to a significant degree of interest rate risk.

The examiners were not provided with any evidence of any stress testing by UPCIC, e.g., to determine what the potential magnitude of interest rate risk could be and the ability of UPCIC to absorb those risks without significant adverse financial impacts.

The extent of UPCIC's trading activity resulted in corresponding increased brokerage commission costs. Over the 18-month trading period examined, UPCIC paid $2.3 million in commissions to Deutsche Bank relating to UPCIC's trading in stocks and mutual funds but excluding commissions paid relative to trading in bonds. UPCIC's Chief Financial Officer was unable to provide the examiners an accounting of commissions paid for bond trades. UPCIC pays custodial fees to SunTrust Bank and U.S. Bank, as well as fees to SunGuard for investment accounting and reporting services.

A distinguishing characteristic of UPCIC's trading activity includes the occurrence of transactions at or coinciding within trading days before or after quarter-end and year-end financial reporting dates (referred to as "spike days"). Sales activity typically occurred immediately prior to a quarter-end and was then followed by purchases at the beginning of the next quarter. The company indicates that "[i]n an effort to be financially prudent and conservative in its interpretation of the statute, the company analyzed Section 625.302 and determined that it should update its allocations quarterly. Thus, UPCIC would update its admitted asset totals as each quarter end's results became available, and the company would manage its assets to remain within the newly established thresholds." (Response, p. 28). A summary of the impact of UPCIC's investment activity over the past 5 calendar years unfavorably shows that in spite of the company's investment strategy, they have not produced results comparable to the U.S. property and casualty industry.

UPCIC data:

	2006	2007	2008	2009	2010
Net Investment Income	$3,639,130	$8,784,765	$1,613,603	$467,961	$252,908
Net Realized Gains	0	0	0	19,224,433	16,386,448
Net Unrealized Gains	0	0	26,279	855,655	5,280,770
Net Surplus Impact	$3,639,130	$8,784,765	$1,639,882	$20,548,049	$21,920,126
Capital and Surplus	$62,018,676	$98,686,993	$93,993,302	$87,827,413	$115,926,200
Net Surplus Impact as % of Prior Surplus	6.2%	9.8%	1.8%	30.5%	23.3%
Total Cash and Investments	$237,406,553	$219,888,566	$234,122,113	$269,094,884	$352,339,196
Net Inv. Income as % of Average Investment Base	2.5%	3.8%	0.7%	0.2%	0.1%

Industry data from SNL Financial:

	2006	2007	2008	2009	2010
Net Investment Income	$53,141,633	$56,498,949	$53,132,865	$48,401,892	$48,465,373
Realized Capital Gains	3,576,762	9,021,914	-20,106,330	-7,796,242	7,829,069
Unrealized Capital Gains	22,051,149	-2,536,391	-58,150,242	24,797,071	12,462,534
Net Surplus Impact	$78,769,544	$62,984,472	-$25,123,707	$65,402,721	$68,756,976
Capital and Surplus	$497,082,058	$529,132,893	$461,756,316	$517,970,768	$561,861,699
Net Surplus Impact as % of Prior Surplus	18.8%	13.5%	-5.2%	14.5%	13.9%
Total Cash and Investments	$1,230,772,769	$1,287,675,522	$1,205,368,271	$1,260,404,124	$1,315,940,824
Net Inv. Income as % of Average Investment Base		4.5%	4.3%	3.9%	3.8%

UPCIC's results for the first six months of 2011 as compared to the industry (industry amounts are in thousands of dollars):

	UPCIC	P&C Industry
Net Investment Income	-$228,966	$25,393,596
Net Realized Gains	4,091,612	3,744,100
Net Unrealized Gains	-8,619,790	4,275,200
Net Surplus Impact	-$4,757,144	$33,412,896
Capital and Surplus	$108,574,704	$555,973,214
Net Surplus Impact as % of Prior Surplus	-4.2%	6.4%
Net Yield on Invested Assets	-0.12%	3.84%

During the first six months of 2011, the impact on surplus of UPCIC's investment activity resulted in a net decrease to surplus of 4.2% as compared to an increase of 6.4% reported by the industry as a whole. UPCIC's investment yield was negative, the result of very low returns on cash and short-term investments, and the impact of investment expenses. The company has responded that these results should be viewed in the broader context of UPCIC investment performance and not in isolation from the results as a whole. (Response, p. 29).

The company's investment strategies highlight the current volatility in the markets in which UPCIC's portfolio is concentrated. UPCIC's surplus has grown by almost $21 million from year-end 2009 to June 30, 2011. This increase would not have occurred without capital contributions of $30 million and $5 million in 2010 and 2011. UPCIC achieved no organic surplus growth since 2009 when its trading portfolio was launched and during a period when net premiums continued to increase. The company responded it did not experience surplus growth during this period due to declining premiums relative to exposure and an unfavorable claims environment.

At the time of examination, UPCIC's investment functions were solely handled by the President and CEO, Bradley I. Meier. Subsequently, Mr. Meier announced his retirement and is currently no longer the President and CEO. He is however contractually serving as an advisor and paid consultant. 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. During the course of the examination, UPCIC recognized the opportunity to improve the governance structure relating to its investments by establishing in 2012 an investment committee consisting of three directors. The investment committee adopted a charter and increased its role in the investment oversight and review process. (Response, p. 29). The company has indicated that Deutsche Bank will be managing UPCIC's investment portfolio going forward within the investment parameters adopted by the Board.

UPCIC has an Audit Committee of its Board, comprised of outside directors. The Charter of the Audit Committee states that among its responsibilities is the following: "Discuss with management UPCIC's major financial risk exposures and the steps management has taken to monitor and control such exposures, including UPCIC's risk assessment and risk management policies." The examiners met with the Chair of UPCIC's Audit Committee to better understand how the committee functions, including with respect to areas of risk. The chairman generously shared many comments and information with the examiners regarding investment functions. The Audit Committee recognized there were issues with trading activities being controlled and executed by a single individual and has initiated steps to increase their oversight of investments.

Interviews were also conducted between the examiners and UPCIC's CFO, its Internal Auditor, and the coordinating partner of its registered accounting firm.

Findings:

- For each month reviewed that represented a quarter end, the custodial accounts reflected a large number of trades that were done at month end shown as "unsettled trades." At the regulatory filing periods of December 31, 2010 and March 31, 2011, included in the review of investments, unsettled trade balances were approximately $16 million and $35 million, respectively. Unsettled trade balances were recorded as receivables. UPCIC reconciling transactions at quarter end seems to be part of a plan or series of like transactions to avoid statutory threshold amounts occurring during the quarter period and appears to be a violation of Rule 69O-143.047(6), F.A.C. By recording unsettled trade balances as receivables from the broker, the company effectively reduced its reported assets to maintain them below statutory limits. The company responded that its assets have been maintained in conformity with the diversification requirements of the Florida Insurance Code. (Response, p. 30).
- Based upon the review of investment activities for the six-month period, trades averaging 4,500 per day were noted with average trade fees of $730,000 for the six-month period.
- Investment in equity securities proved to be profitable for the 2010 period reviewed, however, the first quarter of 2011 reflected significant unrealized losses.
- The examiners were provided with bank statements representing 99 separate accounts maintained by UPCIC and their affiliates. Many accounts have minimal balances with little or no activity for the months reviewed other than maintenance fees. The company does not perform routine or periodic reconcilements of all of its banking accounts. The company indicates that while the group chooses not to reconcile some of the non-UPCIC accounts on a monthly basis when there is no activity in them, every UPCIC account is reconciled every month whether or not there has been any activity in the account for that month. (Response, p. 30).
- The majority of the checking accounts, either for operating accounts or premium refund accounts, reflected gaps in the check sequence. The company explained that the gaps in check number sequence were the result of checks that either became jammed in the printer or checks that printed incorrectly. Damaged or incorrect checks are shredded. UPCIC does not maintain a log or other type of record of the checks that have been shredded. However, the company represents that there was a control process in place and subsequently the company revised its claims administration and accounting process such that the system generates draft numbers to be printed directly on the draft stock. Draft numbers therefore will be sequential with no gaps. (Response, p. 31).

REINSURANCE

Reinsurance Agreements were reviewed during the course of the examination. Concerns were noted regarding transactions with Segregated Cell T25 – Universal Insurance Holdings of White Rock Insurance (SAC) Ltd., funded by UIH. In 2010 and 2011, the Underlying Property Excess of Loss contract had a premium provision indicating that the final rate for reinsurance was based on a guarantee or reinsurer margin of 25.1% for each year. Because the reinsurer is always guaranteed a profit, there is no complete transfer of risk. The company addressed the Office's concerns by amending the 2012 agreement which clarified 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. In order for the transfer of risk to be maintained, the same language used in the 2012 contract will need to be included in the 2013 contract, as well as all contracts going forward.

The original contracts underwent commutations in 2010 and 2011. The reinsurance is required to be fully funded by a combination of accounts in the Bureau of Collateral Management as a statutory deposit and the reinsurance trust account.

On May 1, 2013, the company notified the Office that it will not be utilizing the Segregated Cell T25 of White Rock Insurance (SAC) Ltd. for 2013, due to its successful placement in the open market for the portion of the reinsurance program previously written by T25.

RESERVE PRACTICES

UPCIC's documented reserve practices require UAC to set an initial reserve for a claim and adjust the claim's reserve as information becomes available. Initial reserves are set at $2,500 upon the filing of a claim. Typically, claims reserves are increased or decreased depending on the circumstances of the loss. It is the role of the adjuster to submit a first report where the amount of the reserve to be set by the insurance carrier is recommended. The first report is reviewed and approved by the in-house claims adjuster or manager for authorization of the suggested reserve. Once a claim has been processed, the outstanding reserve is removed unless recoverable depreciation is applied to a claim. A recoverable depreciation reserve is set based on the replacement cost endorsement on contents and depreciation withheld on the building for repairs. Generally, this reserve is in effect for 180 days, during which time the insured has the opportunity to recover the depreciation withheld. If the recoverable depreciation is not claimed within the 180 days, the reserve is removed.

Atlas System and P2P Summary:

UPCIC uses the Atlas System for claims management and reserving. P2P is a system which gathers and utilizes the company's own historical data to set reserves. The Atlas System exports data directly to the P2P system. A random sampling of claims' reserves was pulled from the Atlas system and reviewed. A review of reserves from a random sampling of open litigation claims was also conducted. As of May 31, 2011, the Atlas system reported 6,134 open claims, of which 1,353 of the open claims reported a reserve of $0. The Atlas system reported 944 open litigation claims with the following reserve categories: 579 open litigation claims have a reserve of "0"; 107 open litigation claims have a reserve of $1-$2500; 60 open litigation cases have a reserve of $2,501-$5,000; 73 open litigation files have a reserve of $5,001-$20,000; 117 open litigation files have a reserve of $20,001-$100,000; and 8 open litigation claims have a reserve greater than $100,001.

Findings:

- Based upon review of UPCIC's practices regarding the setting of reserves and their making adjustments to the reserves it was determined that UPCIC does not make periodic adjustments to the reserves maintained in the Atlas System. If the company is not making periodic adjustments or providing information about significant events to the actuaries (as reported by the attorneys or adjusters) then the methodology of determining reserves is deficient. The company disputes this finding.
- The P2P system and its integration with the Atlas System have not been reviewed by internal auditors as part of the Sarbanes Oxley Act of 2002 (SOX).
- It is not evident that the present system for reserving has been submitted for actuarial review. The company has responded that UPCIC uses Towers Watson for its reserve analyses and that its carried reserves routinely meet or exceed the actuarial firm's best estimates. (Response, p. 37). However, the Office remains concerned that the company does not establish and maintain case reserves and as a result the actuaries may not be receiving full and complete information to establish or review the adequacy of loss reserves.

EXAMINATION FINAL REPORT SUBMISSION

The Office hereby issued this Final Report based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the company.