



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

November 10, 2016

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Raleigh, North Carolina
November 10, 2016

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

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

Universal Insurance Company (NAIC #32972)
NAIC Exam Tracking System Exam Number: NC-NC131-5
Winston-Salem, North Carolina

hereinafter generally referred to as the Company, at the Company's home office located at 770 Highland Oaks Drive, Winston-Salem, North Carolina, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. This examination commenced on September 12, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through November 9, 2016. All comments made in this report reflect conditions observed during the period of the examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, and consisted of an examination of the Company's practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated using an Audit Command Language software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Company's procedures and practices in the following areas:

Marketing – Private passenger Automobile: Use of an unfiled/unapproved declarations page.

Underwriting Practices – Private Passenger Automobile: Rating and underwriting errors and errors involving the inexperienced operator surcharge.

Specific violations 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 “Insurance Industry”, and then “Legislative Services” under “Other Divisions”.

This examination identified various statutory violations, 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 must be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Private Passenger Automobile

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau and the North Carolina Reinsurance Facility on behalf of the Company. Deviations for this line of business were made to the Department by the Company.

The Company did not adhere to the provisions of NCGS 58-3-150 and administrative code 11 NCAC 10.1201(c) as 63 policies were issued using a declarations page that had not been submitted to or approved by the Department. These errors did not affect the premium.

UNDERWRITING PRACTICES

Overview

The Company’s marketing in North Carolina is directed to the personal lines of business. The Company provided the examiner with listings of the following type of active policies for the period under examination:

- Private Passenger Automobile

The company provided a listing of 53,811 private passenger automobile policies issued during the period under examination. Six hundred and nine policies consisted of owner and named non-owner policyholders 16 and 17 years of age. An additional policy was chosen from the total population as a special review of policyholders under the age of 16. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Private Passenger Automobile

One hundred nineteen policies were randomly selected for review. The Company's private passenger automobile policies were written on an annual or semi-annual basis. Coverages were written utilizing manual rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of NCGS 58-36-30(a), NCGS 58-37-35(l), and Rule 4.F.1. of the North Carolina Rate Bureau Personal Auto Manual (Personal Auto Manual) as 70 policies were rated using an incorrect inexperienced operator surcharge. The errors resulted in 67 undercharges and three overcharges to the insureds. At the request of the examiners, the Company issued refunds in the amount of \$335.01.

The Company did not adhere to the provisions of NCGS 58-37-35(l), Rule 3.B.5 of the Personal Auto Manual, and Rule P.1. of the North Carolina Reinsurance Facility (NCRF) Standard Practice Manual as 11 policies were rated using Clean rates when Other Than Clean rates should have been used. All 11 errors resulted in undercharges to the insured.

Private Passenger Automobile (Special Review)

One policy, consisting of a policyholder under the age of 16, was identified and selected from the total population of private passenger automobile policies.

The Company did not adhere to the provisions of NCGS 58-37-35(l), Rule 3.B.5 of the Personal Auto Manual, and Rule P.1. of the NCRF Standard Practice Manual as the policy was rated using Clean rates when Other Than Clean rates should have been used. The error resulted in an undercharge to the insured.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must apply the correct inexperienced operator surcharge where appropriate, and charge Clean rates or Other Than Clean rates as applicable. The Company is directed to issue policies that use only declaration pages that have been filed with and approved by the Department.

CONCLUSION

An examination has been conducted on the market conduct affairs of Universal Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through November 9, 2016.

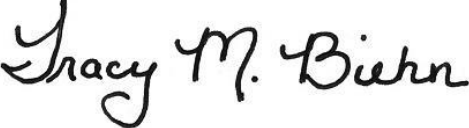
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Company's operations in the areas of marketing and underwriting practices.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,
AIAF, AAI, MCM
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.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive, flowing style.

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