

REPORT OF MARKET CONDUCT EXAMINATION

UNIVERSAL UNDERWRITERS INSURANCE COMPANY

NAIC # 41181

FEIN NO. 43-1249228

7045 COLLEGE BLVD

OVERLAND PARK, KS 66211-1523

AS OF

DECEMBER 31, 2004

BY

KANSAS INSURANCE DEPARTMENT

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Honorable Sandy Praeger
Kansas Insurance Department
420 SW Ninth Street
Topeka, KS 66612

Dear Commissioner Praeger:

In accordance with your respective authorization, and pursuant to K.S.A. 40-222, a market conduct examination has been conducted on the business affairs of:

Universal Underwriters Insurance Company
7045 College Blvd
Overland Park, KS 66211-1523

hereafter referred to as “UUIC” or “the Company”, and the following report as such examination is respectfully submitted,

Lyle Behrens, CPCU, CIE, ARM
Market Conduct Supervisor
Examiner in Charge

EXECUTIVE SUMMARY

The Kansas Insurance Department, hereafter referred to as KID, performed a market conduct examination of UUIIC. The exam team reviewed company general operations, underwriting, claim, and complaint files in the company's home office in Overland Park, KS. A series of meetings were held with UUIIC staff that focused on their current operations. To supplement and verify the understanding of how the company does business, a series of samples were selected for review to verify their procedures and practices in claims, underwriting and rating.

The company passed most tests, and in terms of delivering good service to its insureds, the examiners were impressed with the overall positive and very professional performance by the UUIIC staff and management to their policyholders. The exam team has made recommendations on several issues.

LIST OF RECOMMENDATIONS

Company Operations/Management

1. There was no follow up by the Company on its 2001 audit report and there was no systematic review schedule by UUIIC of their field operation during the exam period. Given the large number of rating errors found in the exam (See Underwriting Standard 1) and no ongoing audit program conducted on their field office, the exam team recommends UUIIC present to KID a plan to monitor their policy rating and issuance systems to insure that UUIIC is in compliance with K.S.A. 40-955 and K.A.R. 40-3-12. UUIIC has already drawn up a strategy to correct the rating errors and has presented to KID an action plan to remedy this deficiency.
2. The exam team recommends that a targeted follow up exam be completed in 18 months to insure that UUIIC has taken the necessary steps to correct the problem of not using justified ERP factors for their Unicovert V business and properly monitor their compliance per K.S.A. 40-222.

Underwriting

1. Within 30 Days UUIIC must present a plan to KID on how the Company is going to refund the over charge to their customers that occurred from the mis-application of the ERP factor. This is to correct the violation of K.A.R. 40-3-12 (3)(b)(2). UUIIC has presented a plan to KID to issue premium refunds to those Kansas Insureds whose policies were issued with the incorrect ERP factor.
2. Within 30 days UUIIC must review their procedures and provide KID with a plan to insure that the ERP & IRPM worksheets are in the underwriting files to conform of KAR 40-3-12. UUIIC has incorporated this item into their action plan that was addressed in the Company/Management Operations Recommendation #1.

3. Within 30 days UIIC must review their procedures to insure that their cancellation notices show the correct policy number to conform to K.S.A. 40-216. UIIC has presented to KID their action plan to correct this issue.

4. Within 30 days UIIC must file a revision to End – Uncover V State Amendatory Part (1-02) to conform to the court's interpretation of K.S.A. 5-401. UIIC has filed a revision to their forms to conform to the courts interpretation of K.S.A. 5-401.

SCOPE OF REVIEW

A market conduct examination of UUIIC's operations was completed to determine compliance with applicable statutes, regulations and bulletins of the state of Kansas. The exam focused on the Company's general operations, underwriting, rating and the claim processing of their property and casualty business.

The examination was conducted according to the guidelines and procedures recommended in the NAIC Market Conduct Examiners Handbook.

The examination included, but was not **limited to the following:**

COMPANY OVERVIEW

- History and Profile
- Territory and Plan of Operation
- Prior Market Conduct Examination Report
- Company Agreements
- Fines and/or Penalties
- Company Operations and Management
- Certificates of Authority
- Internal Audit Procedures
- Computer Systems
- Disaster Recovery Procedures
- Privacy

COMPLAINT HANDLING

- Record Keeping
- Timely Response

MARKETING AND SALES

- Advertising
- Training
- Communication

PRODUCER LICENSING

- Appointment/Termination
- Training
- Communication

POLICYHOLDER SERVICE

- Processing
- Communication

UNDERWRITING & RATING

Proper Rating
Underwriting Acceptance/Termination
Use of Appropriate Forms
Promptness of Policy Issuance
Proper Maintenance of Underwriting Files

CLAIMS

Claim Processing
Timeliness and Accuracy of Claim Payment
Proper Maintenance of Claim Files

SUMMARY OF REVIEW

The market conduct examination focused on UUIC. The testing and file review consisted of sampling from the Company's underwriting and processing center in Overland park and Kansas City, Missouri. The claim processing for the Company is also handled out of these offices

The examination included a review of the Company's underwriting and settled claim files from January 1, 2002 to December 31, 2004.

General topics were covered in Interrogatories submitted to the Company for written response. Subjects covered were complaints, underwriting and claims. The response received adequately addressed the issues presented.

DESK EXAMINATION/ON-SITE EXAMINATION

COMPANY OVERVIEW

History and Operation

UUIC was founded in 1922 to provide fire insurance for automobile dealerships. Through the years, the company continued to focus on their specialized business of providing casualty, workers compensation and pollution coverage to auto, truck, motorcycle and equipment dealerships. The company has also expanded to serve the automotive aftermarket industry.

On February 17, 1982 UUIC was acquired by Zurich Holding Company of America , UUIC has operated as an autonomous company within the Zurich North America Group. Today UUIC corporate headquarters in Overland Park, KS supports 27 regional offices nationwide, each staffed with sales, claims and underwriting staff.

Territory and Plan of Operation

UUIIC is a multi-lines carrier that is licensed in all 50 states. The company only writes commercial business in the state of Kansas. Company had written motorcycle and other recreational vehicle coverage. UUIIC decided to exit that line of business in 2002.

Kansas Written Premium 2004

Line	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
Fire	502,711	483,118	62,796	61,187	8,745
Allied lines	761,715	744,590	174,226	168,437	12,096
Inland marine	410,918	404,118	275,180	83,154	20,824
Earthquake	9,543	8,025	0	-17	0
WC	1,506,608	1,698,385	1,050,004	1,567,694	3,007,949
Other liability	2,777,322	2,432,588	804,390	1,141,936	2,020,210
Products liability	405,203	426,753	63,341	386,581	735,420
Other PPA liability	43	75	39,700	28,328	59,869
Comm auto no-fault (PIP)	47,957	45,007	13,730	30,934	26,649
Other comm auto liability	1,801,135	1,835,634	1,157,970	658,170	1,390,177
PPA physical damage	30	124	2,518	3,922	-82
Comm auto phy. damage	2,687,786	2,819,802	609,880	704,856	125,893
Fidelity	100,928	126,681	-26,260	-28,281	19,816
Surety	50,928	49,677	0	-2,555	5,449
Burglary & theft	28,736	37,692	51,384	49,245	1,184
Boiler & machinery	123,616	123,114	10,485	10,654	2,009
Aggregate write-ins for other lines of business	306,310	796,016	611,183	582,332	21,696
Totals	11,521,489	12,031,398	4,900,528	5,443,079	7,457,903

UUIIC's Divisions

- Dealer Division

The Dealer Division provides specialized property and casualty insurance to franchised automobile, truck, motorcycle, and equipment dealerships. In addition the division offers a full line of finance and insurance products to automobile dealers.

The Dealer Division underwrites, processes and services policies issued to Kansas risks from their Kansas City Regional Office located in Kansas City, MO. Claims are also processed out of that office.

- ASM Division

The Automotive e Specialty Markets(ASM) Division concentrates on customized protection for automotive-related businesses, including retail and wholesale parts businesses, service and repair facilities, collision repair centers and tire stores.

Policies for Kansas Risks insured by the ASM Division are underwritten, processed and serviced by the ASM Regional Office that is located in UUIIC's home office. Claims are processed out of the Kansas City Regional Office.

- SAS Special Account Services

Special Account Services (SASD) partners with the Dealer and ASM Divisions to offer loss-sensitive solutions to qualified customers. Designed for large multi-location businesses, SAS products and services include loss-sensitive programs, specialized risk management services, multi-location underwriting and policy issuance, and centralized account management.

SASD also handle special association accounts. This program is serviced in UUIIC's home office.

Company Agreements

UUIIC provided the exam team a series of inter-service agreements between UUIIC and several other Zurich subsidiaries where certain services and administrative functions were shared. The exam team reviewed them and did not have any questions.

Prior Market Conduct Examination Report(s)

The Kansas Insurance Department's Financial Surveillance Division filed a report in the winter 2002 reviewing the current financial condition of the Company. There were no recommendations in that report that required a follow up by the market conduct unit.

The Insurance Departments of Missouri and Connecticut had examined UUIIC within the past 5 years, and California had done a rating audit during that same period.

Fines and/or Penalties

The NAIC I-Site database was reviewed to see what regulatory actions had been taken against UUIIC in the past 5 years. There was nothing noted in the NAIC Regulatory Actions that warranted follow-up by this exam team.

Tests for Company Operations/Management

Standard 1

The company has an up-to-date, valid internal or external audit program.

The company had not completed a review of their Kansas City Service Center during the exam period. The last review completed by UUIC on their Kansas City operation was in 2001.

Standard 2

The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

The company provided the exam team with Zurich Financial Services (ZFS) Information Security Principles Manual which is binding for all units of the ZFS Group. UUIC has also developed their own back up and recovery process for their home office and regional centers servers.

Standard 4

The company has a valid disaster recovery plan.

The company provided the exam team with a copy of their disaster recovery plan.

Standard 5

The company adequately monitors the activities of the MGA.

Not applicable.

Standard 6

Company contracts with MGA's comply with applicable statutes, rules and regulations.

Not applicable.

Standard 7

Records are adequate, accessible, consistent and orderly and comply with state record retention requirements. K.S.A. 40-222 (a)(b)(c)(g)

The company provided the exam team with the necessary records and documents in a timely fashion.

Standard 8

The company is licensed for the lines of business that are being written. K.S.A. 40-216

The Certificate of Authority was reviewed and found to be in order, and the company was complying with it.

Standard 9

The company cooperates on a timely basis with examiners performing the examinations. K.S.A. 40-222 (c)(g)

The company was very cooperative and provided the exam team with the items requested within the time frames established for this exam.

Standard 10

The company has procedures for the collection, use, and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

See Standard 2. The company has also established their own information security procedures manual which provides the means by which access to such systems is implemented, changed and revoked.

Standard 11

The company had developed and implemented written policies, standards and procedures for the management of insurance information.

The company passed Standard 11.

Standard 12

The company has policies and procedures to protect the privacy of nonpublic information relating to its customers, former customers and consumers that are not customers.

The UUIC does not have a separate Privacy Compliance office. Instead, several UUIC Corporate Legal Department attorneys serve as the Privacy Section of the Corporate Legal Department to update, republish and maintain UUIC's Best Practices regarding the collection, use, disclosure and security of information to comply with applicable laws and regulations. A "Best Practices Manual" is maintained and used by UUIC.

Standard 13

The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

The company provides initial privacy notices to companies as policyholders on behalf of all of their current and future beneficiaries covered under Workers Compensation. Also, initial privacy notices are sent to individuals who either own or are covered by insurance or are using other financial products or services issued by the UUIC.

Standard 14

If the company discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

N/A

Standard 15

The company's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

Company privacy procedures meet and exceed the provisions required in K.S.A. 40-1-46.

Standard 16

In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

Nonpublic Personal Health Information is not disclosed unless the customer has provided written authorization to the UUIC.

Standard 17

Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

The company security program is outlined in the Best Practices Manual and applies to all company employees, temporary employees and contractors. Security measures include obtaining an NPI confidentiality and non-redisclosure agreement from affected service providers. Security measures include: an automated screen saver passwords on PCs, storing paper files, sign on and log off requirements, password discipline, virus control, internet connections, electronic mail, encryption and reporting responsibilities.

Recommendation:

1. There was no follow up by the Company on its 2001 audit report and there was no systematic review schedule by UUIC of their field operation during the exam period. Given the large number of rating errors found in the exam (See Underwriting Standard 1) and no ongoing audit program conducted on their field office, the exam team recommends UUIC present to KID a plan to monitor their policy rating and issuance systems to insure that UUIC is in compliance with K.S.A. 40-955 and K.A.R. 40-3-12. UUIC has already drawn up a strategy to correct the rating errors and has presented to KID an action plan to remedy this deficiency.
2. The exam team recommends that a targeted follow up exam be completed in 18 months to insure that UUIC has taken the necessary steps to correct the problem of not using justified ERP factors for their Unicover V business and properly monitor their compliance per K.S.A. 40-222.

COMPLAINT HANDLING

Company Complaint Handling Procedures

The following procedures outline the Company's complaint handling program.

UUIC treats each complaint, regardless of the source or validity, as a serious matter deserving the highest degree of professional attention.

All complaints are immediately forwarded to the Governmental Affairs Department in the home office. Upon receipt, the Governmental Affairs Department reviews the complaint and assigns it to the appropriate individual for handling and response. The Governmental Affairs staff member enters the complaint into the Regulatory Affairs Management System (RAMS). The RAMS system sends an e-mail notifying the appropriate individual that a complaint has been assigned him/her for response.

Within one business day after entry of the complaint in the RAMS system, a copy of the complaint is faxed or mailed to the person assigned to handle the complaint or his/her designee. It is the responsibility of the assignee to research the complaint and submit a response to the appropriate regulatory authority.

Once the complaint response has been finalized, the assignee mails his/her response, along with all supporting documentation, to the initiating regulatory authority or agency. A copy of the complaint response and the Notice of Complaint form is returned to the Governmental Affairs Department no later than two business days after the response is mailed to the regulatory authority.

Once this form is received by Governmental Affairs, the complaint records will be updated and closed in the RAMS system. The Governmental Affairs Department maintains the official record of all written complaints submitted through regulatory authorities.

A copy of the complaint response is included in the associated claim or underwriting file.

Each year a report of the previous year's complaint activity is created and provided to the General Counsel for his review.

Tests for Complaint Handling

Standard 1

All complaints are recorded in the required format on the company complaint register. K.S.A. 40-2404 (10)

The Company did provide a complaint register. It was up-to-date and contained all columns as required by Kansas statute. There were a total of 9 KID P&C complaints for

the exam period, all of which were reviewed. There were no direct consumer complaints for the Company during the exam period.

The company passed Standard 1.

Standard 2

The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

The procedures written into the company policies are adequate and work quite well.

The company passed Standard 2.

Standard 3

The company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language. K.A.R. 40-1-34 8(e)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
KID Complaints	9	0	100%

The company passed Standard 3.

Standard 4

The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations. K.A.R. 40-1-34 6(b)(c)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
KID Complaints	9	0	100%

The company passed Standard 4.

MARKETING AND SALES

A sample of the following production reports were reviewed by the exam team:

1. Dealer Division Sales Reports and Usage
 - a.) Office Recap.-This report tracks the Account Executive, FIE and Regional Office progress toward goals in property & casualty, life, vehicle service contracts and credit life insurance. It is reviewed by the Regional Sales Manager and General Manager.
 - b.) Production Report.-This report tracks the Account Executive and Regional Office progress toward goals for Property & Casualty and Life

Insurance and to track timeliness of policy processing. This report is reviewed by Regional Sales Manager and General Manager.

2. ASM Division Sales Reports and Usage

- a.) Production Report. - This report lists the amount of new business written and revenue by account executive. This report is reviewed by the regional sales manager and the general manager.

The Company has procedures for the approval of marketing and advertising materials. All materials must be approved by the Corporate Law Department.

Tests for Marketing and Sales

Standard 1

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

UUIC has a series of marketing materials for each of their 2 major Divisions, Dealer and ASM. The brochures and ad slicks are fairly generic and talk about the company programs and services. These were reviewed by the exam team and there were no criticism of the documents.

Standard 2

Company internal producer training materials are in compliance with applicable statutes, rules and regulations.

The Company does not use independent Agents. They use their own account executives (AE's). Both Divisions have a very extensive 180 day training program and checklist for the employee that is reviewed by his/her supervisor.

Standard 3

Company communications to producers are in compliance with applicable statutes, rules and regulations.

The Dealer Division produces the "Specialist" which is a newsletter to their dealers covering a variety of current topics such as sexual harassment or using video cameras on a dealer's lot. "Loss prevention" is another news letter dealing with loss prevention tips for dealers. The ASM Division produces a newsletter called "The Force" offering information and tips for their AE's. These were reviewed by the exam team, and there were no criticisms of these documents.

Standard 4 – Mass Marketing

Company mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

Not Applicable

PRODUCER LICENSING

UUIIC has policies and procedures spelled out for the recruiting, hiring and training of their new AE's. The team reviewed these policies and procedures.

The Company's AE's are notified of new products and changes via the company's intranet. Product changes are distributed to the marketing staff through a database created and administered by the Product Development Department in the home office. Changes in insurance statutes and rules are distributed by the Corporate Law Department. Notice of changes are sent via email or with a paper copy sent through interoffice mail. If additional training is needed, it is conducted by the Director of Underwriting and Regional Sales Manager at divisional sales meetings.

UUIIC has written guidelines for appointment and termination of an AE's agent's license. The exam team had not concerns or criticisms with these procedures.

Standard 1

Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

<u>Type</u>	<u>Sample</u>	<u>Error</u>	<u>Passed</u>
Appointed Agents	45	1	98%

The company passed Standard 1.

Standard 2

The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.

<u>Type</u>	<u>Sample</u>	<u>Error</u>	<u>Passed</u>
New Business Applications	19	0	100%

The company passed Standard 2.

Standard 3

Termination of producers complies with statutes regarding notification to the producer and notification to the state if applicable.

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>Passed</u>
Terminated Agencies	25	6	76%

UUIC transferred their Recreational Products Unit to Foremost Insurance Company in 2002. UUIC had appointed independent agencies to market this line of insurance. As part of the conversion of the Recreational Products program to Foremost, these agencies were terminated since UUIC no longer offered any insurance products for them to sell. The Company did not give at least 180 days prior notice to 3 agencies that their contract was being terminated. This is a violation of K.S.A. 40-2,107. The company did not give 180 day notice to 3 other agencies that had their contracts terminated.

The company failed Standard 3.

Standard 4

The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

The company passed Standard 4.

Standard 5

Records of terminated producers adequately document reasons for terminations.

See Standard 3

Recommendation

At this time there are no recommendations for agency terminations. UUIC is currently using only company employees to sell their products. The Recreation Products Division that utilized independent agents has been transferred to Foremost insurance Co.

POLICYHOLDER SERVICE

Tests for Policyholder Service

Standard 1

Premium notices and billing notices are sent out with an adequate amount of advance notice.

This was not specifically tested for. In the course of reviewing a file for the underwriting/rating review, any problems or delays would have been noticed by the examiner and commented on.

Standard 2

Policy issuance and insured-requested cancellations are timely.

This was not specifically tested for. In the course of reviewing a file for the underwriting/rating review, any problems or delays would have been noticed by the examiner and commented on.

Standard 3

All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.

This was not specifically tested for. In the course of reviewing a file for the underwriting/rating review, any problems or delays would have been noticed by the examiner and commented on.

Standard 4 – Primarily Commercial Lines

Claims history and loss information is provided to insured in timely manner.

This was not specifically tested for. In the course of reviewing a file for the underwriting/rating review, any problems or delays would have been noticed by the examiner and commented on.

UNDERWRITING

The company provided the exam team with flow charts and descriptions of both their new an renewal underwriting and policy issuance processes for both divisions.

Tests for Underwriting and Rating

Standard 1: Rating Practices

The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan. K.S.A 40- 955 & K.A.R. 40-3-12

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Unicover V Policy	50	8	84%

The Company could not justify the ERP factor on 8 commercial accounts. This is in violation of K.A.R. 40-3-12 (3)(b)(2).

The Company failed the Unicover V Policy portion of Standard 1.

Standard 2: Rating Practices

Disclosures to insureds concerning rates and coverage are accurate and timely. K.S.A 40- 955 K.A.R. 40-3-25 & K.A.R. 40-3-26

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%

Unicover V Policy	50	8	84%
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The company did not disclose their using an unapproved rating factor to the insured. This is in violation of KAR 40-3-25 & K.A.R. 40-3-26.

The Company failed the Unicover V Policy portion of Standard 2.

Standard 3: Rating Practices

Company does not permit illegal rebating, commission cutting or inducements.

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Unicover V Policy	50	0	100%

The company passed Standard 3.

Standard 4: Rating Practices

Credits and deviations are consistently applied on a non-discriminatory basis.

K.S.A. 40-955; K.A.R. 40-3-12

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Unicover V Policy	50	0	100%

The company passed Standard 4.

Standard 5: Rating Practices - Commercial P & C

Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation. K.S.A. 40-953; K.S.A. 40-954, K.S.A. 40-955 & K.A.R. 40-3-12

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Unicover V Policy	50	18	64%

- 17 files did not have ERP & IRPM worksheet. They were in violation of KAR 40-3-12.

- 1 Account had the ERP for the Garage Coverage as .95 and the ERP for the other coverages as .98. This is a violation K.S.A. 40-955.

The company failed the Unicover V Policy portion of Standard 5.

Standard 6: Rating Practices - WC

Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Department. K.S.A. 40-955

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%

The company passed Standard 3.

Standard 7: Rating Practices - WC

Verification of premium audit accuracy and the proper application of rating factors.

Not tested for as part of the exam review.

Standard 8: Rating Practices - WC

Verification of experience modification factors. K.S.A. 40-955

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%

The company passed Standard 8.

Standard 9: Rating Practices – WC

Verification of loss reporting.

Not tested for as part of the exam review.

Standard 10: Rating Practices - WC

Verification of company data provided in response to the NCCI call on deductibles.

Not tested for as part of the exam review.

Standard 11: Underwriting Practices

The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks. K.S.A. 40-953

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Other Commercial Lines	50	0	100%

The company passed Standard 11.

Standard 12: Underwriting Practices

All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable). K.S.A. 40- 216

- Four files were reviewed: 2 for the Dealer Division and 2 with the ASM Division. A total of 32 different forms were reviewed from those 4 policies and filed with KID.

- End # 505 Driver Exclusion, Coverage Parts 300,500, 900 & 980, Unicover V (Kansas), Edition 2/96. This form was not approved by KID. UUIC did catch their mistake and took corrective action to fix this oversight. There were 7 files from the sample that had the form attached during the exam period. This is a violation of K.S.A. 40-216 (a) and K.S.A. 40-955 (a).

- End – Unicover V State Amendatory Part (1-02). While this form was originally approved by KID in 2002, KID had since issued Bulletin 2004 – 1 advising companies that a mandatory arbitration clause is in violation of K.S.A. 5-401. The court had interpreted K.S.A. 5-401 in the Friday case as meaning that an insured and insurer can agree to arbitrate a controversy or conduct appraisals only after a dispute had arisen. This decision means that any contractual agreement to arbitrate future disputes is unenforceable. The Company is refilling their form to conform to the court's interpretation of K.S.A. 5-401.

-End # 61 Blanket Limits Coverage Part 330, Unicover V (Kansas), Edition 7/93. This form was withdrawn on 1/1/03 and was still being used by the Dealer Division; this is in violation of K.S.A. 40-216 (a) and K.S.A. 40-955 (a). The Company has since issued a bulletin to their field office to stop using this form.

Standard 13: Underwriting Practices

The producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.

UUIC uses company employees to market their products. 19 new business accounts were reviewed, and all were handled by people who were licensed and appointed per KID's records.

The company passed Standard 13.

Standard 14: Underwriting Practices

Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

The company passed Standard 14.

Standard 15: Underwriting Practices

File documentation adequately supports decisions made.

The company passed Standard 15.

Standard 16: Underwriting Practices

Policies and endorsements are issued or renewed accurately, timely and completely.

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Other Commercial Lines	50	0	100%

The company passed Standard 16.

Standard 17: Underwriting Practices – Commercial Lines

Audits when required are conducted accurately and timely.

Not tested for as part of the exam review.

Standard 18: Underwriting Practices

Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized. K.S.A. 40-953; K.S.A. 40-954

This was reviewed as part of the overall rating of the account.

Standard 19: Underwriting Practices

The company does not engage in collusive or anti-competitive underwriting practices.

<u>Line of Business</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Other Commercial Lines	50	0	100%

The company passed Standard 19.

Standard: 20 Underwriting Practices – Mass Market auto

The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.

Not Applicable.

Standard 21: Underwriting Practices – group accounts

All group personal lines property and casualty policies and programs meet minimum requirements.

Not Applicable.

Standard 22: Termination Practices

Rejections/Declinations Rejections and declinations are not unfairly discriminatory.

Of the 15 WC policies and 10 Unicover policies reviewed there were no accounts that had rejection/declination activity taken.

The company passed Standard 22.

Standard 23: Termination Practices

Cancellation/Non-renewal and Declination notices comply with policy provisions and state laws and company guidelines. K.S.A. 40-276a (6); K.A.R. 40-3-15

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	15	4	73%
Other Commercial Lines	<u>10</u>	<u>0</u>	<u>100%</u>
Total	25	4	84%

- 3 accounts were cancelled for no pay. The account included both a WC and a Unicovert policy. The termination notice did not specifically identify that WC policy that was being cancelled. This is a violation of K.S.A. 40-216.

-1 account was cancelled because the business was sold and had a new owner. There was no notice of cancellation or statement from the insured requesting cancellation. This is a violation of the UUIC policy contract and K.S.A. 40-216.

The company failed Standard 23.

Standard 24: Termination Practices

Cancellation/Non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	15	0	100%
Other Commercial Lines	<u>10</u>	<u>0</u>	<u>100%</u>
Total	25	0	100%

The company passed Standard 24.

Standard 25: Termination Practices

Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

N/A.

Standard 26: Terminations

Rescissions are not made for non-material misrepresentation.

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Work Comp	24	0	100%
Other Commercial Lines	50	0	100%

The company passed Standard 26.

Recommendations:

1. Within 30 Days UUIC must present a plan to KID on how the Company is going to refund the over charge to their customers that occurred from the mis-application of the ERP factor. This is to correct the violation of K.A.R. 40-3-12 (3)(b)(2). UUINC has presented a plan to KID to issue premium refunds to those Kansas Insureds whose policies were issued with the incorrect ERP factor.
2. Within 30 days UUIC must review their procedures and provide KID with a plan to insure that the ERP & IRPM worksheets are in the underwriting files to conform of KAR 40-3-12. UUIC has incorporated this item into their action plan that was addressed in the Company/Management Operations Recommendation #1.
3. Within 30 days UUIC must review their procedures to insure that their cancellation notices show the correct policy number to conform to K.S.A. 40-216. UUIC has presented to KID their action plain to correct this issue.
4. Within 30 days UUIC must file a revision to End – Unicover V State Amendatory Part (1-02) to conform to the court’s interpretation of K.S.A. 5-401. UUIC has filed a revision to their forms to conform to the courts interpretation of K.S.A. 5-401.

CLAIMS PROCESSING

The interrogatory questions pertaining to claim processing were reviewed by the exam team to gain a better understanding of UUIC’s claims operation.

Tests for Claims

Standard 1

The initial contact by the company with the claimant is within the required time frame. K.A.R. 40-1-34 Section 6 (a)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	2	96%

- 1 file did not have an initial acknowledgement sent within 10 days. This is a violation of K.S.A. 40-1-34 Section 6(a).
- 1 file did not have an initial PIP claims sent when the company was advised of injuries in an auto accident. This is a violation of K.S.A. 40-1-34 Section 6(d).

The company passed Standard 1.

Standard 2

Timely investigations are conducted. K.A.R. 40-1-34 Section 7

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	1	98%

- 1 file did not have the investigation completed within 30 days after receiving the necessary documentation. This is a violation of K.A.R. 40-1-34 Section 7.

The company passed Standard 2.

Standard 3

Claims are resolved in a timely manner. K.A.R. 40-1-34 Section 8(a)(c)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	2	
Claim complaint file	<u>1</u>	<u>1</u>	
Total Claims Rvwd.	50	3	94%

- 3 files did not have a settlement made within 15 days of receiving the appropriate documents. This is a violation of K.A.R.40-1-34 (8)(a) & K.S.A. 40-2404 (9)(e)&(f).

The company passed Standard 3.

Standard 4

The company responds to claim correspondence in a timely manner.

K.A.R. 40-1-34 Section 6(c)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	1	98%

- One file did not contain an appropriate reply within ten working days of receiving pertinent communications. This is a violation of K.A.R. 40-1-34 Section 6(c).

The company passed Standard 4.

Standard 5

Claim files are adequately documented. K.A.R. 40-1-34, Section 4, 8(f)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	0	100%

The company passed Standard 5.

Standard 6

Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. K.A.R. 40 -1-34, Section 5 (a), (b), (c), (d), (e), 6 (d), 8 (d), (e), (f), (g), 9 (a) (1), (a) (2) (A) (B), (a) (3), (b), (c), (e), (f), (g); K.S.A. 40-3110; K.S.A. 40-2,126

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	2	96%

- One file had a miscalculated adjustment amount for the damages to a car. This is a violation of K.A.R. 40 -1-34 Section 5 (a).
- 1 claim did not have an EMS bill paid. This is a violation of K.S.A. 40-2404 Section 9 (e) & (f).

The company passed Standard 6.

Standard 7

Company uses the reservation of rights and excess of loss letters, when appropriate.

This was not specifically tested for. Any concerns or irregularities would have been noted by the exam team. The company passed Standard 7.

Standard 8

Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. K.A.R. 40-1-34, Section 9 (d)

This was not specifically tested for. Any concerns or irregularities would have been noted by the exam team. The company passed Standard 8.

Standard 9

Company claim forms are appropriate for the type of product.

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	0	100%

The company passed Standard 9.

Standard 10

Claim files are reserved in accordance with the company's established procedures.

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	0	100%

The company passed Standard 10.

Standard 11

Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

Of the 49 files reviewed, 15 were closed without payment. The exam team had no issues with those 15 files. The company passed Standard 11.

Standard 13

Claim handling practices do not compel claimants to institute litigation, in clear cases of liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy. K.S.A. 40-2404 (9)(g)

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	0	100%

The company passed Standard 13.

Standard 14

Loss statistical coding is complete and accurate.

<u>Type</u>	<u>Sample</u>	<u>Errors</u>	<u>%Pass</u>
Claim files	49	0	100%

The company passed Standard 14.

GENERAL COMMENTS

Company Operations/Management

1. There was no follow up by the Company on its 2001 audit report and there was no systematic review schedule by UUIC of their field operation during the exam period. Given the large number of rating errors found in the exam (See Underwriting Standard 1) and no ongoing audit program conducted on their field office, the exam team recommends UUIC present to KID a plan to monitor their policy rating and issuance systems to insure that UUIC is in compliance with K.S.A. 40-955 and K.A.R. 40-3-12. UUIC has already drawn up a strategy to correct the rating errors and has presented to KID an action plan to remedy this deficiency.

2. The exam team recommends that a targeted follow up exam be completed in 18 months to insure that UUIC has taken the necessary steps to correct the problem of not using justified ERP factors for their Unicover V business and properly monitor their compliance per K.S.A. 40-222.

Underwriting

1. Within 30 Days UUIC must present a plan to KID on how the Company is going to refund the over charge to their customers that occurred from the mis-application of the ERP

factor. This is to correct the violation of K.A.R. 40-3-12 (3)(b)(2). UUINC has presented a plan to KID to issue premium refunds to those Kansas Insureds whose policies were issued with the incorrect ERP factor.

2. Within 30 days UUIC must review their procedures and provide KID with a plan to insure that the ERP & IRPM worksheets are in the underwriting files to conform of KAR 40-3-12. UUIC has incorporated this item into their action plan that was addressed in the Company Management/Operations - Recommendation #1.

3. Within 30 days UUIC must review their procedures to insure that their cancellation notices show the correct policy number to conform to K.S.A. 40-216. UUIC has presented to KID their action plain to correct this issue.

4. Within 30 days UUIC must file a revision to End – Uncover V State Amendatory Part (1-02) to conform to the court’s interpretation of K.S.A. 5-401. UUIC has filed a revision to their forms to conform to the courts interpretation of K.S.A. 5-401.

CONCLUSION

I would like to acknowledge the cooperation and courtesy extended to the examination team by the Mr. Benson Jeffress and the staff of UUIC.

The following examiners of the Office of the Commissioner of Insurance in the State of Kansas participated in the review:

Market Conduct Division

Lyle Behrens	Dick Cook	Tony Evans	Larry Fenske
Supervisor	Supervisor	Policy Examiner	Policy Examiner
Market Conduct	F&C Division	F&C Division	F&C Division

Respectfully submitted,

Lyle Behrens, CPCU, CIE, ARM