STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE
		WARRANT NUMBER: 6651-MC08-0326-002
IN THE MATTER OF:	)	
	)	
Universal Casualty Company	)	
	)	
150 Northwest Point Blvd, 2nd Floor	)	
Elk Grove Village, Illinois 60007	)	
	)	
NAIC ID: 42862	)	

FILED

JUN 11 2009

STATE OF INDIANA
DEPT. OF INSURANCE

FINAL ORDER

The Indiana Department of Insurance ("the Department") and Universal Casualty Company, their subsidiaries and affiliates ("the Respondent") signed a Settlement Agreement to resolve all issues concerning the market conduct examination of the Respondent.

The Commissioner, after reviewing the Settlement Agreement, finds it has been entered into fairly and without fraud, duress or undue influence, and is fair and equitable between the parties. The Commissioner hereby incorporates the Settlement Agreement and its terms and conditions, the Final Verified Written Report, and the Rebuttal as if fully set forth herein, and as attached as "Exhibit 1," and approves and adopts the Settlement Agreement as a resolution of the examination.

IT IS NOW ORDERED, ADJUDGED AND DECREED:

1. The Commissioner has subject matter jurisdiction over the matters at issue in this administrative proceeding and personal jurisdiction over the Respondent.

2. The Respondent was represented by legal counsel, understands the terms and scope of this Settlement Agreement and voluntarily entered into this Settlement Agreement without duress and has waived their right to a hearing on the matter.

3. The Respondent understands that failure to comply with the Settlement Agreement and resulting Order may result in further administrative actions or consequences.

4. The Respondent shall remit to the Department an administrative fine in the amount of two hundred thousand dollars ($200,000.00) within ninety (90) days of the date of this Order.

5. In the event the Respondent fails to submit a compliance plan to the Department within sixty (60) days of the date of this Final Order, the Respondent shall immediately remit an additional administrative fine in the amount of one hundred thousand dollars ($100,000.00) to the Department.

6. This Order, as per the agreement, is not subject to judicial review.

ALL OF WHICH IS ORDERED THIS 11 DAY OF June, 2009.

James Atterholt

James Atterholt, Commissioner
Indiana Department of Insurance

Distribution:

Carol A. Mihalik
Chief Deputy Commissioner and Counsel
INDIANA DEPARTMENT OF INSURANCE
Enforcement Division
311 W. Washington Street, Ste. 300
Indianapolis, IN 46204

Nikolas Mann
Lisa Harpenau
INDIANA DEPARTMENT OF INSURANCE
311 W. Washington Street, Ste. 300
Indianapolis, IN 46204

Marc Romanz
President and Chief Executive Officer
Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, IL 60007

Nick Pearson
Counsel for Universal Casualty Company
Edwards Angell Palmer & Dodge LLP
750 Lexington Avenue
New York, NY 10022

STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE
		WARRANT NUMBER: 6651-MC08-0326-002
IN THE MATTER OF:	)	
	)	
Universal Casualty Company	)	
	)	
150 Northwest Point Blvd, 2nd Floor	)	
Elk Grove Village, Illinois 60007	)	
	)	
NAIC ID: 42862	)	

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is executed by Nikolas Mann, Attorney for the Indiana Department of Insurance ("Department"), Lisa Harpenau, Attorney for the Department, and Marc Romanz, President and Chief Executive Officer of Universal Casualty Company. This Agreement is subject to the review and approval of James Atterholt, Commissioner of Indiana Department of Insurance.

WHEREAS, Universal Casualty Company ("Respondent") is a duly licensed foreign stock insurance company, domiciled in Illinois, authorized to engage in the business of soliciting, selling and issuing property and casualty insurance policies to Indiana residents; and

WHEREAS, a Market Conduct Examination of Respondent for the period January 1, 2005 to March 31, 2008 was conducted by duly appointed independent examiners under contract with the Indiana Department of Insurance pursuant to Indiana Code IC §27-1-3.1-8 and 27-1-3-1.9; and

WHEREAS, on October 1, 2008, the Department received the Final Verified Written Report ("Report") detailing the examiners' findings and recommendations, a copy of which is attached hereto; and

EXHIBIT 1

WHEREAS, the Report cited areas in which Universal Casualty was alleged not to be in compliance with the Indiana Insurance Code and the Commissioner's Order of December 29, 2005; and

WHEREAS, the Respondent disagrees with the findings of the Report and on December 31, 2008, filed its written rebuttal ("Rebuttal") of the Report with the Department, a copy of which is attached hereto; and

WHEREAS, this Settlement Agreement includes the compromise and settlement of disputed claims, and nothing herein contained, nor any action taken by any of the parties hereto in connection herewith, shall constitute, or be construed as, or be deemed to be, an admission of fault, liability or wrongdoing of any kind whatsoever on the part of any party hereto; and

WHEREAS, in lieu of a hearing on the matter the Department and the Respondent now agree to the following:

1. This Agreement is in lieu of the filing of a Final Order adopting the market conduct examination report pursuant to Indiana Code 27-1-3.1-11 and in lieu of formal administrative action against the Respondent as to each and every consumer complaint received between January 1, 2005 and the date of this Agreement.

2. This Agreement resolves all pending and closed consumer complaints received by the Department between January 1, 2005 and the date of this Agreement unless the Respondent fails to materially comply with any term of this Agreement.

3. The Department is not otherwise barred from taking action against the Respondent for any consumer complaint received after the date of this Agreement which involves a claim that occurred between January 1, 2005 and the date of this Agreement. Any and all consumer complaints received by the Department after

the date of this Agreement will be handled by the Department in the ordinary course of business and on a case by case basis.

4. If the Respondent fails to materially comply with any term of this Agreement, the Department is free to pursue any and all available administrative action to resolve said consumer complaints.

5. The Respondent shall cease writing new personal lines business in Indiana by July 1, 2009, and shall cease writing personal lines renewal business and commercial insurance in Indiana by October 1, 2009.

6. The Respondent shall transfer all claims handling on its personal lines business to its affiliate, American Service Insurance Company ("ASI"), an Indiana licensed insurer, except for those claims that are the subject of a consumer complaint or are in litigation and being defended by counsel appointed by UCC. Such transfer will commence on or before July 1, 2009. All such transferred claims shall be handled in the same manner as claims arising under ASI personal lines policies in the course of the restructuring of the business operations of UCC, ASI and their affiliate companies.

7. The Respondent shall submit a compliance plan to the Department for approval within sixty (60) days of approval of this Agreement by the Commissioner. The Respondent's compliance plan shall establish specific processes, procedures and protocols to implement changes to the Respondent's claims handling and complaint handling practices and address appropriate review of applicants' loss history, which shall include a motor vehicle report, as part of underwriting procedures. Any and all documentation relating to the compliance plan will be confidential pursuant to Indiana Code section 27-1-3.1-15.

8. Failure of the Respondent to submit the compliance plan to the Department within sixty (60) days of approval of this Agreement by the Commissioner shall result in

the immediate imposition of an administrative fine in the amount of one hundred thousand dollars ($100,000.00).

9. Respondent shall not resume writing new business until the Department's approval of the implementation of the compliance plan. Implementation of the compliance plan will be verified by INS. The expenses of said verification will be borne by the Respondent pursuant to Indiana Code section 27-1-3.1-9(d).

10. Promptly upon approval of this Agreement by the Commissioner:

    i. The Respondent shall re-open and/or review and/or re-adjudicate all claims which are the subject of a consumer complaint received by the Department between January 1, 2005 and the date of this Agreement. The Department has furnished a list of said consumer complaints to the Respondent, a copy of which is attached hereto as Exhibit A. The Respondent agrees it shall complete this undertaking within six months of the approval of this Agreement by the Commissioner.

    ii. The Respondent shall employ the services of a third party consultant experienced in market conduct regulation to assist in making a determination of whether consumers are owed monies associated with said claims. The third party consultant will have a continued physical presence at the Department which will consist of regularly scheduled visits to the Department consumer services division and regularly scheduled meetings with Terry Bower, the Department Senior Consumer Services Liaison.

    iii. The Respondent shall submit written summaries and conclusions regarding each consumer complaint on a monthly basis to the Department.

iv. The Respondent's determination of whether consumers are owed monies associated with said claims will be subject to the approval of the Department. The Department will collaborate with INS to review and analyze the written summaries and conclusions from the Respondent. The cost of INS' services will be borne by the Respondent. If the Department disagrees with the respondent's determination it shall do so in writing, setting forth the basis for its disagreement.

v. After the Department's approval of the Respondent's determination, any monies or additional monies owed to consumers will be remitted immediately to those consumers who can be located by the Respondent. The Respondent shall be required to try and locate consumers to whom additional monies are owed by utilizing their last known address or any reported forwarding address, last know telephone number or any reported forwarding number, or, if those methods are unsuccessful, conducting a skip trace search, after which Respondent may close its file.

vi. The Respondent shall provide the Department with a detailed list of amounts of monies paid to consumers in a format approved by the Department on a monthly basis. Such list will be due on the first of each month. Submission of such lists will commence on the first day of the first month immediately following the date of approval of this Agreement by the Commissioner

vii. Each consumer complaint received by the Department between January 1, 2005 and the date of this Agreement will be closed without further action pending the Department's approval of the Respondent's submitted resolution of the complaint.

viii. If the Department cannot approve the Respondent's determination of whether consumers are owed monies associated with the claims that are the subject of a consumer complaint, then the Department is not barred from filing charges under Indiana Code 27-4-1-5 against the Respondent regarding the consumer complaint.

11. The Respondent shall remit an administrative fine in the amount of two hundred thousand dollars ($200,000.00) to the Department within ninety (90) days of approval of this Agreement by the Commissioner.

12. The Respondent understands and waives all rights to a hearing on this matter.

13. The Respondent waives all right to judicial review of the Final Order adopting this Agreement.

14. Failure to comply with the Order adopting this Agreement may result in the Department seeking administrative action against the Respondent including the permanent revocation of the Respondent's Certificate of Authority.

Nikolas P. Mann — 6/9/09

By: Nikolas P. Mann
Chief of Enforcement
Indiana Department of Insurance

Date

Lisa Harpenau — 6/9/09

By: Lisa Harpenau
Market Regulation Attorney
Indiana Department of Insurance

Date

Marc Romanz — June 8, 2009

By: Marc Romanz
President and Chief Executive Officer
Universal Casualty Company

Date

OFFICIAL SEAL
HEATHER A ROTONDO
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:03/06/13

Heather A. Rotondo
6/8/09

INDIANA DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

ON

UNIVERSAL CASUALTY COMPANY

NAIC Code 42862

150 Northwest Point Blvd., Suite 200
Elk Grove Village, Illinois 60007

October 1, 2008

CONFIDENTIAL EXAMINATION WORK PAPERS

TABLE OF CONTENTS

SALUTATION

October 1, 2008

Honorable James Atterholt
Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner Atterholt:

In compliance with the instructions contained in Examination Warrant Number 6651-MC08-0326-002 and pursuant to statutory provisions including IC §27-1-3.1-9, a Market Conduct Examination has been conducted of the affairs and practices of:

(42862) Universal Casualty Company

Universal Casualty Company, hereinafter referred to as the "Company," or as "UCC," is incorporated under the laws of the State of Illinois. The examination was conducted at the following Company location:

150 Northwest Point Blvd, Suite 200
Elk Grove Village, Illinois 60007

The report of examination thereon is respectfully submitted.

FOREWORD

This examination reflects Universal Casualty Company's insurance activities in the State of Indiana. This Market Conduct Examination Report is, in general, a report by exception. As such, some of the information reviewed by the examiners will not be referenced in this written report. Reference to or comment about any practices, procedures, or files that did not result in any errors or irregularities is generally not made.

In performing this examination, the Indiana Department of Insurance selected a limited portion of the Company's operations for review. This report does not reflect a review of all of the practices and activities of the Company.

Failure to comment on specific products, procedures or files does not constitute approval thereof by the Indiana Department of Insurance.

The final public examination report consists of three parts: the examiners' report, the company's response to that report and the administrative action, if any, based upon the findings of the examiners.

Where used in the report:

"Company" or "UCC" refers to Universal Casualty Company.
"IC" refers to the Statutes of Indiana.
"IN Admin. Code" refers to Indiana's Regulations
"IDOI" refers to the Indiana Department of Insurance
"NAIC" refers to the National Association of Insurance Commissioners
"NAIC MCEH" refers to the NAIC's *Market Conduct Examiners' Handbook*

SCOPE OF EXAMINATION

The Indiana Department of Insurance has authority to perform this examination pursuant to, but not limited to, IC §27-1-3.1-9. This Market Conduct Examination of Universal Casualty Company began on May 5, 2008 and covered the period of April 1, 2004 through March 31, 2008. This examination focused on a review of the Company's complaints handling and claims handling.

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures established by the NAIC. While the examiners report on the errors found in individual files, the examination also addresses general business practices of the Company.

The NAIC standards recommend to cite companies for errors or apparent violations of a statute or regulation when the results of a sample review show errors/noncompliance at, or above, the following levels: 10 percent (10%) for all areas other than claims and seven percent (7%) for claims. Any operation with an error ratio in excess of these criteria indicates a general business practice. For Complaints, the examiners reviewed the entire population of files so all errors were noted.

EXECUTIVE SUMMARY

This Market Conduct Examination focused on the complaint handling and claims handling of Universal Casualty Company. The Company is authorized by the IDOI to market Class 2M, Class 3B, Class 2A, Class 2E, Class 2KT, Class 3D, Class 2L, Class 2C, Class 2F, Class 3C, Class 2D, Class 2H, Class 2G, Class 2I, Class 3A and Class 2B lines of business.

During the exam period, the Company reported the following growth:

Year	Gross Premium Written	Growth Rate
2004	90,874,424	
2005	89,013,506	-2.0%
2006	95,707,563	7.5%
2007	116,958,838	22.2%.

The majority of the Company's personal auto coverage is issued in the following states:

	Direct Premiums Written	Percent of Total
Illinois	57,864,436	55.8%
California	10,916,039	10.5%
Indiana	7,104,005	6.8%
Texas (Surplus Lines)	6,122,269	5.9%
		79.1%

The examiners noted deficiencies in the Company's procedures and practices in the areas of claims and complaint handling. The details of these findings are provided in the respective sections of the report. In summary, the examiners noted the following:

- Complaint handling
  - The Company maintains that it receives "very few" direct complaints and that it received no direct complaints during the exam period. The examiners found evidence to the contrary. The failure to maintain complaints from Indiana citizens in the Company's complaint register is a violation of Commissioner's Order Number 1 of the Stipulation and Consent Order dated December 29, 2005. Numerous complaint files reviewed contained statements from the complainants regarding the Company's poor communications practices.

- The NAIC's Closed Complaint Index for 2007 is 20.946. The national median index is 1.079. This is 1,941 percent above the national median.

- Claims
  - Review of sampled claims revealed a pattern or practice of delayed claims payments.
  - Numerous instances of poor communication practices were noted. Many claimants complained of being forced to leave voice messages numerous times in attempts to talk to company personnel. Review of claim file memo logs (chronological notes of communications and actions taken; diaries) corroborated the claimants' complaints.
  - The review revealed evidence of post-claims underwriting. In many instances, the Company refused to pay claims citing information withheld during the application process. Also, examiners noted instances where the Company billed policyholders for additional premiums due generated by post-claim underwriting.
  - The Company frequently inflated comparative negligence percentages which resulted in arbitrary reduction of claims payments.

- In numerous instances, claimants were forced to institute litigation to recover amounts due. Nine of these instances are shown in the exam's TeamMate project.
  - Many claimants wished to choose the repair shop and submitted repair estimates from the shop of their choice. In these instances, the Company limited claim payments to the equivalent of the estimated cost of repairs that would have been created if the damaged vehicles had been repaired at one of the Company's preferred repair shops. This has the effect of forcing claimants to deliver damaged vehicles to the Company's preferred shops at the claimant's expense. The Company has only one outside appraiser that works at the Company's preferred repair shops only. The rates charged by the Company's preferred repair shops were far below the average contemporaneous rates charged by other shops, raising concern for the quality of the repair work. Some claim files contained statements from claimants that the Company's preferred repair shops were not located within convenient distance, evidencing a violation of Commissioner's Order Number 4 of the Stipulation and Consent Order dated December 29, 2005.
  - As it did during the exam period, the Company creates and uses its own repair estimates. Although the Company receives estimates from both its preferred shops and claimants' shops of choice, no

repairs are started until the Company's in-house appraisers issue an estimate they have approved. This procedure results in the need for numerous supplemental estimates and delay in returning the claimant's repaired vehicle.

- The Company provided, at the examiners' request, a copy of its claims manual. The section on Reserves begins on the document's twenty-first page. The fifth paragraph of the Reserves section states "It is very helpful if a claim reserve can be realistically set on a file as soon as possible, but at least prior to the end of the year in which it was opened." This could have an adverse affect on the Company's financial reporting because the Company's process allows for up to 12 months to establish a realistic reserve estimate.

A market conduct examination was previously conducted on this Company by the IDOI. The previous examination was conducted as of March 31, 2004. As a result of the examination findings, the following items were included in the Stipulation and Consent Order:

1. Universal Casualty will maintain appropriate procedures to ensure complaints received directly from Indiana residents as well as complaints received from the Indiana Department of Insurance are maintained in a complaint registry with an accompanying function code.
2. Universal Casualty will maintain appropriate procedures to ensure that all Indiana Department of Insurance complaint correspondence includes the appropriate NAIC number.
3. Universal Casualty will maintain appropriate procedures to ensure correspondence distributed with Insurance Department Consumer Service Office contact information includes accurate contact information applicable to Indiana policyholders.
4. Universal Casualty will maintain appropriate procedures to ensure all drive-in facility lists distributed to Indiana claimants include facilities in reasonable proximity to where claimant vehicle is located.
5. Universal Casualty will maintain appropriate procedures to ensure appropriate notice and consent has been distributed or obtained concerning use of auto body replacement parts in accordance with provisions outlined in IC §27-4-1.5-10.
6. Universal Casualty will maintain appropriate procedures to ensure that no claim is closed without conducting a reasonable investigation based upon information in accordance with provisions outline in IC §27-1-4.5(4).
7. Universal Casualty will retain the services of a third party trainer to assist in developing and providing training to its claims handling employees. A report shall be provided to the Department no later than March 1, 2006 describing programs and changes that have been implemented by the trainer.

References to the Company's failure to comply with provision 1. and provision 6. are included in the following report. In addition, the Company appears to have also violated

provision 7. There is no evidence in the IDOI files of the Company's compliance with this provision.

For the cited exceptions in the report, Recommendations have been made to address the issues and concerns noted by the examiners.

Some unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in this State or in other jurisdictions does not constitute acceptance of such practices.

EXPLANATION OF EXAMINATION PROCESS

FORMS, FILINGS AND UNDERWRITING GUIDELINES

The examiners reviewed the Company's policy forms and underwriting guidelines to determine Company compliance with policy terms and conditions while adjudicating claims. In addition, the examiners reviewed the Company's underwriting guidelines and compared them with the claim files, in order to determine if the Company adhered to said guidelines.

COMPLAINTS

The examiners reviewed the complaints listed on the register provided for review. The review determined the accuracy of handling and the resolutions of the complaints, the completeness of the register and the timeliness of the responses.

CLAIMS

The examiners reviewed the claims handling practices of the Company in order to determine the efficiency of handling, accuracy of payment, timeliness of investigation, adherence to contract provisions, compliance with the Indiana Code and Regulations as well as compliance with the Stipulation and Consent Order of December 29, 2005. A claim is considered to be a request or demand for payment of a loss, reimbursement of an expense or a request or demand for any other payment under the policy, such as for the return of unearned premium. Claims paid and closed without payment were reviewed.

SAMPLING OF FILES

Because of the relatively small number of complaints listed on the Company's register, all complaint files were reviewed.

Due to the large number of claims files, the examiners reviewed a sample of the Company's files. A claim file, as a sampled unit, is an individual demand or request for payment or action under an insurance contract for benefits which may or may not be

payable. Using the NAIC's *Market Conduct Examiners Handbook* standards, systematic sample lists of one hundred (100) paid claims and fifty (50) closed without payment claims were created.

It was originally intended that projections of the results found in the samples would be applied to the claims population as a whole. However, as the examination progressed, a decision was made to stop the review process due to the large number of violations found and the practices discovered.

EXAMINATION FINDINGS

I. COMPANY OVERVIEW

A. History

Universal Casualty Company, Inc., formerly Universal Mutual Casualty Company ("Universal Mutual"), was incorporated on January 12, 1949 in Illinois. Universal Mutual voluntarily ceased underwriting in June of 1956. Claims adjudication was not interrupted.

Universal Mutual began underwriting direct business in December 1964. Reinsurance was assumed from Prudence Mutual Casualty Company of Chicago at that time. Universal Mutual was ordered by the Illinois Department of Insurance to cease underwriting new and renewal business and placed under supervision in May 1970.

The order was removed on April 13, 1979, after re-capitalization of the Company through the purchase of existing guaranty fund certificates and additional guaranty fund certificates issued in 1979.

Universal Mutual de-mutualized in 1983, changing its name to Universal Casualty Company, Inc. Its guaranty fund certificates were exchanged for subordinated surplus debentures. Shares of common stock were acquired by the parent UCC Corporation.

UCC Corporation was subsequently purchased by Kingsway Financial Services, Inc., a Canadian corporation on January 13, 1998. Kingsway's primary business is non-standard auto insurance.

B. Profile

In 2007, the Company was licensed to market its products in forty (40) states and was approved for surplus lines operations in six (6) states. The Company is licensed in Indiana to transact the business of Property, Casualty excluding Workers Comp, and Marine and Transportation.

II. COMPLAINT HANDLING

The examiners reviewed each of the one hundred twenty four (124) complaints listed in the Company's Complaint Register. The Company's Complaint Handling Procedures were also reviewed for compliance with Indiana Code and Regulations.

Standard 1
All complaints are recorded in the required format on the company complaint register.

Findings: The Company stated it receives very few direct complaints and the Complaint Register did not contain any consumer direct complaints for the examination period. However, evidence of a direct complaint recorded during the period was found. A claims supervisor wrote a note instructing an employee to log a claimant's complaint and give it to an adjuster. When asked about it, the Company identified the incident as a mistake made by the supervisor. This is in violation of Commissioner's Order Number 1 of the Stipulation and Consent Order dated December 29, 2005.

Recommendation: It is recommended that the Company modify its Complaint Handling policies, procedures and standards so as to recognize and record all complaints as required by Commissioner's Order number 1 of the Stipulation and Consent Order dated December 29, 2005.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Complaint Handling.

Standard 2
The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

Findings: Numerous complaint files reviewed contained statements from the complainants regarding the Company's poor communications practices.

{First Alternate} Recommendation: It is recommended that the Company develop a Customer Service Representative (CSR) business unit. This unit should receive communications from interested parties such as policyholders, claimants, legal representatives and etc. Its duties should include facilitating telephone conversations, responding to inquiries by mail, E-mail and walk-ins. This unit should be provided:

- staffing adequate to answer all inquiries,
- physical space and equipment necessary to execute its duties,
- proper supervision and management,
- metrics adequate for use in providing information to management to be used to determine the unit's performance and needed changes,
- performance standards requiring that ninety-seven (97) percent of initial telephone calls received be answered by a CSR,
- performance standards requiring that no more than three (3) percent of telephone calls be unanswered or routed to voice mail,
- a written procedure manual,

- inclusion in internal auditing procedures and
- permanent inclusion in the Company's organizational chart showing proper reporting policy.

{Second Alternate} Recommendation: It is recommended that the Company establish policies and procedures to ensure proper handling of consumer telephone inquiries, written inquiries or walk-in inquiries. The policies and procedures should include measurable performance standards that evaluate the Company's compliance with the policies and procedures.
Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Complaint Handling.

Finding: The Company has, in place, an Internet website (http://univcas.com/UCCWeb/uccweb_contactus.jsp) enabling communications, such as complaints, from the public. However, this web page gives no mention of using it to convey a complaint nor does it mention the Indiana Department of Insurance. Insurers licensed to do business in the state of Indiana are required to provide a one-time written notice of the remedies provided in the law on unfair claim settlement practices. This notice is provided when coverage is issued.

Findings: The Company did not provide the examiners records of direct consumer complaints. In fact, Company personnel stated that they receive very few complaints directly from consumers. However, the examiners found a note in a claim file directing an adjuster to log the direct consumer complaint. When asked about it, the Company stressed that the supervisor that wrote the note made a mistake. In the previous examination report, it was noted that the Company stated it does not maintain consumer direct complaints in its complaint register. It was recommended, in that report, that the Company include consumer direct complaints in its register.

Recommendation: It is recommended the Company comply with the procedures and guidelines of Complaint Handling Standard 1 of the NAIC's *Market Conduct Examiners Handbook, by which* the Company should record all complaints, both consumer direct and Department of Insurance. IC 27-1-3.1 Sec. 9. (a) requires adherence to those of the *MCEH.*

Alternative Recommendation: The Company should develop and maintain a procedure that ensures all grievances submitted via mail and electronic conveyance are recorded and maintained on the Company's complaint register. In addition, the Company should ensure that these grievances are resolved in compliance with Indiana statutes and regulations.

III. CLAIMS

In the planning stage of the exam, it was decided to adhere to the standards of Chapter V, Sampling, of the *Market Conduct Examiners Handbook*. Statistical sample lists of one hundred (100) paid claims and fifty (50) claims closed without payment were created using ACL's sampling tools.

Paid claims were the last classification of claims that were reviewed. While reviewing paid claims, the examiners determined that completion of the review was unnecessary. Hereinafter, this determination is referred to as closure. This determination was prompted by the noted exceptions, violations and discoveries of harmful business practices. These exceptions, violations and practices are described in the Findings of the following Paid Claims and Claims Closed without Payment sections.

PAID CLAIMS

For the exam period, the Company presented 5,140 transactions which represented 2,851 claims numbers and 2,861 policy numbers. Sixty-four paid claims files were reviewed prior to closure. The claims data population was provided at transaction level, meaning that if a claim number had three transactions, all three are presented in the data population.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims

Standard 6
Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

Findings: The Company misrepresented facts of damages incurred and misinterpreted policy provisions to avoid claim payments. Three (3) of the thirty-eight (38) transactions, or eight (8) percent, reviewed were in violation of IC 27-4-1-4.5 (1). This is a violation of the requirements of Commissioner's Order number 6 of the Stipulation and Consent Order dated December 29, 2005

Recommendation: It is recommended that the Company comply with IC 27-4-1-4.5 (1), which addresses misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue.

It is also recommended that the Company train its claims personnel to properly adhere to policy provisions, statutes and regulations. In addition, the management of the claims personnel should be trained to adhere to policy provisions, statutes and regulations. Management should also be expected to ensure that the business behavior of all claims personnel exclude misrepresentation and misinterpretation of policy provisions. Also, the Board of Directors should devise and maintain control and reporting procedures that ensure these recommendations are implemented and followed.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims

Standard 4
The company responds to claim correspondence in a timely manner.

Findings: The Company failed to acknowledge and act reasonably promptly, within 10 working days, to communications concerning claims. Twelve (12) of the sixty-four (64) paid claims files reviewed, or eighteen point eight (18.8) percent, were in violation of IC 27-4-1-4.5 (2), failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies. This is also a violation of the requirements of Commissioner's Order number 6 of the Stipulation and Consent Order dated December 29, 2005

Recommendation: It is recommended the Company comply with IC 27-4-1-4.5 (2) which addresses failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

The Company should develop and maintain standards to promptly acknowledge and act on all communications received concerning claims. The Company should develop performance measuring procedures for appropriate exercise of acknowledgments and claims actions. The Company should frequently and regularly review management information reports of the acknowledgment and action metrics. Claims management personnel should report the status of acknowledgments and actions directly to the Board of Directors.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims

Standard 2
Timely investigations are conducted.

Findings: The Company did not maintain standards for the prompt investigation of claims. Of the sixty-four (64) paid claims files reviewed, eighteen violations of IC 27-4-1-4.5 (3) were found. This is twenty-eight percent (28%) of those reviewed.

Recommendation: It is recommended that the Company comply with IC 27-4-1-4.5 (3), failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Company should develop and maintain standards for the prompt investigation of claims. The Company should frequently and regularly review management information reports of the aging of claims investigations. Claims management personnel should report the status of investigations directly to the Board of Directors.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims

Standard 3 Claims are resolved in a timely manner.

Standard 6 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

Findings: The Company failed to affirm or deny coverage within a reasonable time after proofs of loss were completed. Within the sixty-four (64) paid claims files reviewed, eight (8), or twelve and one half percent (12.5%), violations of IC 27-4-1-4.5 (5) were found.

Recommendations: It is recommended that the Company comply with IC 27-4-1-4.5 (5).

The Company should develop and maintain procedures that enable it to affirm or deny coverage within a reasonable time after receiving necessary information.

Findings: The Company did not attempt, in good faith, to promptly and fairly settle claims, in which liability had become reasonably clear. Within the sixty-four paid claims files reviewed, seventeen (17), or twenty-six point six percent (26.6%) violations of IC 27-4-1-4.5 (6) were found.

Recommendations: It is recommended that the Company comply with IC 27-4-1-4.5 (6).

The Company should develop and maintain standards for the prompt and fair settlement, in good faith, of claims in which liability becomes reasonably clear. The Company should frequently and regularly review management information reports of claims settlement. Claims management personnel should report the status of claims settlement directly to the Board of Directors.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims

Standard 13 Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Findings: The Company compelled insureds to institute litigation to recover amounts due by offering substantially less than the amounts ultimately recovered in actions brought by such insureds. Six (6) violations of IC 27-4-1-4.5 (7) were found within the sixty-four (64) paid claims files reviewed.

Recommendations: It is recommended that the Company comply with IC 27-4-1-4.5 (7).

The Company should develop and maintain procedures that ensure claimants would not be compelled to institute litigation because of reduced offerings to claimants. The Board of Directors should maintain adequate oversight of claims handling.

Findings: Within the sixty-four (64) paid claims files reviewed, the examiners found eight (8) violations of IC 27-4-1-4.5 (8), attempting to settle a claim for less than the amount to which a reasonable individual would have believed the individual was entitled by reference to written or printed advertising material accompanying or made part of an application. That is twelve and a half percent (12.5%).

Recommendations: It is recommended that the Company comply with IC 27-4-1-4.5 (8).

The Company should ensure claims are adjudicated according to the provisions of the contracts.

Findings: Within the sixty-four (64) paid claims files reviewed, the examiners found seven (7) violations of IC 27-4-1-4.5 (12), delaying the investigation or payment of claims by requiring an insured or a claimant, to submit a preliminary claim report and then requiring the subsequent submission of formal proof of loss forms, both of which submissions contain substantially the same information.

Recommendations: It is recommended that the Company comply with IC 27-4-1-4.5 (12).

The Company should stop making duplicate requests for information or documentation already provided by insureds and claimants.

Findings: The Company failed to provide reasonable explanations of decisions and actions in relation to facts or law while denying claims or offering compromise settlements. The examiners found ten (10), or fifteen point six percent (15.6%), violations of IC 27-4-1-4.5 (14), failing to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of a claim or for the offer of a compromise settlement..

Recommendations: It is recommended that the Company comply with IC 27-4-1-4.5 (14).

The Company should develop and maintain procedures that ensure claimants would be provided reasonable explanations of decisions and actions. The Board should maintain adequate oversight of claims handling.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims

Standard 6
Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

Findings: In the previous examination report, it was recommended that the Company review reserving practices to ensure adequacy of claims reserves. The Company's claims manual contains a section on Reserves which contains the following instruction:

> "It is very helpful if a claim reserve can be realistically set on a file as soon as possible, but at least prior to the end of the year in which it was opened." This dilutes confidence in the Company's financial reporting.

Recommendations: It is recommended that the Company comply with IC 27-1-13-8 (c) which requires class 2 or class 3 companies to charge liabilities with a reserve outstanding losses at least equal to the aggregate estimated amounts due or to become due on account of all losses or claims of which the company has received notice.

Findings: The Company practiced post-claims underwriting. Within the sixty-four (64) paid claims files reviewed, the examiners found seven (7), or ten point nine percent (10.9%), violations of IC 27-4-1-3 Sec. 3 which states "No person shall engage in this state in any trade practice which is defined in this chapter or determined pursuant to this chapter as an unfair method of competition or as an unfair or deceptive act or practice in the business of insurance as defined in IC 27-1-2-3." An additional six (6) instances of post-claim underwriting were found in the reviewed complaint files. It should be noted, again, that complaints have a tolerance of zero. When viewed as a total, the one hundred eighty eight (188) files reviewed contained sixteen (16) instances of post-claim underwriting which is eight and one half percent (8.5%) percent of the files reviewed.

Additionally, the Company's Property Damage unit used a check list in its business processing. This checklist included items such as:

- BRING THE FILE TO UNDERWRITING TO CALCULATE AN ADDITIONAL PREMIUM
- NEED PREVIOUS CARRIER INFORMATION
- NEED BILL OF SALE
- I.D.O.T. (Indiana Department of Transportation) CLAIMANT and
- SEE UNDERWRITING REGARDING NON-RENEWING OUR INSURED.

These items and their related functions are abnormal duties for a physical damage business unit. Each item is directly related to post-claim underwriting.

Each of the Company's underwriting guidelines used during the exam period contained a rule defining surcharges to be applied during a policy's underwriting. Each of these surcharge rules contains one of the following paragraphs:

- If an application is unacceptable because of an operator's driving record or because of the vehicle, the policy will be cancelled or rescinded.
- The Company has established point surcharges for driving records and certain vehicles which are applicable whether or not disclosure was made on the application. If an application is unacceptable because of an operator's driving record or because of the vehicle, the policy will be cancelled or rescinded.

Note that both address unacceptable applications. Also note that both go on to state that the policy will be cancelled or rescinded. No policy should be issued if an application is unacceptable. The surcharge rules show the Company's intent to collect premium until a claim is submitted, then exercise post-claim underwriting.

In addition to adversely affecting individual policyholders, post-claim underwriting eliminates the possibility of accurate rating. This, in turn, affects the Company's solvency.

Recommendations: It is recommended that the Company develop and maintain standards for accurate and adequate underwriting procedures. The Company should ensure these procedures produce accurate assessment of risk at the proper time in policy lifecycles. The Company should exercise due diligence in eliminating post-claim underwriting practices. Additionally, the Board of Directors should maintain proper and adequate oversight of the Company's solvency.

CLAIMS CLOSED WITHOUT PAYMENT

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims.

Standard 11
Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

For the exam period, the Company presented 3,626 transactions which represented 3,133 claims numbers and 2,861 policy numbers. All of the fifty (50) sampled claims closed without payment were reviewed.

Finding: Of those sampled, the Company identified ten (10) paid claims as closed without payment. The cause of these errors lies either in the programming of the Company's automated systems or in monitoring human decisions. Failure of either indicates poor controls due to the fact that the errors were not recognized and corrected. If these errors are created in automated edits and transactions, this is indication of significant problems in the Company's reporting systems.

Recommendation: It is recommended the Company determine the cause, inform the Department of its determination and correct the cause of the errors.

Findings: Five (5) of the fifty (50) claims closed without payment sampled, ten (10) percent, were not Indiana claims. This is indicative of poor controls. At the very least, it indicates a lack of effort to audit or check work.

Recommendation: It is recommended the Company develop and maintain controls that ensure correct identification of the origin of its claims.

IV. OPERATIONS

CLAIMS HANDLING

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims.

Standard 2 Timely investigations are conducted.

Standard 3 Claims are resolved in a timely manner.

Findings: The Company's procedures flow adds a good amount of time to the claims investigation and adjudication process. The Company established a large business unit, Property Damage (PD), which processes much more than physical damage. All first party claims are given to the PD immediately. If the PD appraiser needs more information, the claim file is reassigned to a feature adjuster, such as bodily injury, medical payments, subrogation and so forth. The files are physically moved to the adjuster's area. The adjuster requests the additional information. When the additional information that the PD appraiser needed is received, the claim is reassigned to the PD appraiser and, once again, physically moved to the PD area. There are often multiple features present in a single claim. For each feature, the file must be reassigned and physically moved to each feature's adjuster. This creates risk of losing files and losing file documentation. It creates a great number of entries in the memo logs. It delays investigation and adjudication of claims.

Recommendation: It is recommended the Company change its process flow to eliminate multiple physical claims file transfers.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims.

Standard 2 The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Findings: The Company's claims files maintenance procedures are inefficient. Documentation standards are not enforced uniformly. Numerous files were found to lack adequate documentation. Because much communication was generated automatically by the Company's Information Systems, the exam team was given access to the Company's claims network and applications. The examiners insisted that the Company provide "read-only" authority to avoid any possibilities of editing the Company's production data. Four consecutive attempts to access the claims data revealed the examiners were given edit authority. Because this is unacceptable, the examiners did not attempt to access the electronic data again. This required the provision of the claims documentation in electronic format that could be transported by CD-ROM or DVD. The Company provided

the documentation for the complaint files, not the claim files. This added approximately two weeks of delay to the exam.

Recommendation: It is recommended the Company commission an independent external audit of its Information Systems provider and make changes as recommended in the audit report.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims.

Standard 7 Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

Findings: The Company did not enforce file maintenance standards. Specifically, six (6) of twenty-four (24) paid claims files, or twenty-five (25) percent, and one (1) complaint file contained documents that either lacked date stamps or the dates stamped contradicted the automated records. That is an error rate of twenty-eight (28) percent. This is indicative of poor controls.

Recommendation: It is recommended the Company review its system of internal controls and apply changes that will ensure adequate maintenance of claims files documentation.

V. COMPANY COOPERATION

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims.

Standard 9 The company cooperates on a timely basis with examiners performing the examinations.

Although the authorized contacts were professional and courteous, mistakes were made.

Finding: The claims review was delayed because the Company could not provide the examiners access to the electronic claims records without authorization to edit or delete claims records.

Recommendation: No recommendation.

Reference: NAIC's *MCEH* Chapter VIII Examination of Property and Casualty Examination, Claims.

Standard 5 Claim files are adequately documented.

Because the physical files did not contain documentation adequate for examination, it was necessary to request the claims file documentation be provided on CD-ROM or DVD in tif format. The Company provided documentation files in PDF format. A second request was made and the Company provided the files in tif format but the Company referred to the complaints sample list to create the file documentation copies. This was made known to the Company and it was ultimately corrected. These mistakes delayed access to claims file documentation for approximately two weeks.

Recommendation: It is recommended the Company make every effort to respond to examination requests within the response time frames the Company agrees to with examiners. . It is also recommended that the Company review prepared responses to ensure compliance with request details.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company modify its Complaint Handling policies, procedures and standards so as to recognize and record all complaints as required by Commissioner's Order number 1 of the Stipulation and Consent Order dated December 29, 2005.
2. *{First Alternate} Recommendation*: It is recommended that the Company develop a Customer Service Representative (CSR) business unit. This unit should receive communications from interested parties such as policyholders, claimants, legal representatives and etc. Its duties should include facilitating telephone conversations, responding to inquiries by mail, E-mail and walk-ins. This unit should be provided:

    - staffing adequate to answer all inquiries,
    - physical space and equipment necessary to execute its duties,
    - proper supervision and management,
    - metrics adequate for use in providing information to management to be used to determine the unit's performance and needed changes,
    - performance standards requiring that ninety-seven (97) percent of initial telephone calls received be answered by a CSR,
    - performance standards requiring that no more than three (3) percent of telephone calls be unanswered or routed to voice mail,
    - a written procedure manual,
    - inclusion in internal auditing procedures and
    - permanent inclusion in the Company's organizational chart showing proper reporting policy.

3. *{Second Alternate} Recommendation*: It is recommended that the Company establish policies and procedures to ensure proper handling of consumer telephone inquiries, written inquiries or walk-in inquiries. The policies and procedures should include measurable performance standards that evaluate the Company's compliance with the policies and procedures.

4. It is recommended the Company comply with the procedures and guidelines of Complaint Handling Standard 1 of the NAIC's *Market Conduct Examiners Handbook, by which* the Company should record all complaints, both consumer direct and Department of Insurance. IC 27-1-3.1 Sec. 9. (a) requires adherence to those of the *MCEH.*

5. ***Alternative*** *Recommendation*: The Company should develop and maintain a procedure that ensures all grievances submitted via mail and electronic conveyance are recorded and maintained on the Company's complaint register. In addition, the Company should ensure that these grievances are resolved in compliance with Indiana statutes and regulations.

6. It is recommended that the Company comply with IC 27-4-1-4.5 (1), which addresses misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue. It is also recommended that the Company train its claims personnel to properly adhere to policy provisions, statutes and regulations. In addition, the management of the claims personnel should be trained to adhere to policy provisions, statutes and regulations. Management should also be expected to ensure that the business behavior of all claims personnel exclude misrepresentation and misinterpretation of policy provisions. Also, the Board of Directors should devise and maintain control and reporting procedures that ensure these recommendations are implemented and followed.

7. It is recommended the Company comply with IC 27-4-1-4.5 (2) which addresses failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies. The Company should develop and maintain standards to promptly acknowledge and act on all communications received concerning claims. The Company should develop performance measuring procedures for appropriate exercise of acknowledgments and claims actions. The Company should frequently and regularly review management information reports of the acknowledgment and action metrics. Claims management personnel should report the status of acknowledgments and actions directly to the Board of Directors.

8. It is recommended that the Company comply with IC 27-4-1-4.5 (3), failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies. The Company should develop and maintain standards for the prompt investigation of claims. The Company should frequently and regularly review management information reports of the aging of claims investigations. Claims management personnel should report the status of investigations directly to the Board of Directors.

9. It is recommended that the Company comply with IC 27-4-1-4.5 (5). The Company should develop and maintain procedures that enable it to affirm or deny coverage within a reasonable time after receiving necessary information.

10. It is recommended that the Company comply with IC 27-4-1-4.5 (6). The Company should develop and maintain standards for the prompt and fair settlement, in good faith, of claims in which liability becomes reasonably clear. The Company should frequently and regularly review management information reports of claims settlement. Claims management personnel should report the status of claims settlement directly to the Board of Directors.

11. It is recommended that the Company comply with IC 27-4-1-4.5 (7). The Company should develop and maintain procedures that ensure claimants would not be compelled to institute litigation because of reduced offerings to claimants. The Board of Directors should maintain adequate oversight of claims handling.

12. It is recommended that the Company comply with IC 27-4-1-4.5 (8). The Company should ensure claims are adjudicated according to the provisions of the contracts.

13. It is recommended that the Company comply with IC 27-4-1-4.5 (12). The Company should stop making duplicate requests for information or documentation already provided by insureds and claimants.

14. It is recommended that the Company comply with IC 27-4-1-4.5 (14). The Company should develop and maintain procedures that ensure claimants would be provided reasonable explanations of decisions and actions. The Board should maintain adequate oversight of claims handling.

15. It is recommended that the Company comply with IC 27-1-13-8 (c) which requires class 2 or class 3 companies to charge liabilities with a reserve outstanding losses at least equal to the aggregate estimated amounts due or to become due on account of all losses or claims of which the company has received notice.

16. It is recommended that the Company develop and maintain standards for accurate and adequate underwriting procedures. The Company should ensure these procedures produce accurate assessment of risk at the proper time in policy lifecycles. The Company should exercise due diligence in eliminating post-claim underwriting practices. Additionally, the Board of Directors should maintain proper and adequate oversight of the Company's solvency.

17. It is recommended the Company determine the cause of the classifying paid claims as closed without payment, inform the Department of its determination and correct the cause of the errors.

18. It is recommended the Company develop and maintain controls that ensure correct identification of the origin of its claims.

19. It is recommended the Company change its process flow to eliminate multiple physical claims file transfers.

20. It is recommended the Company commission an independent external audit of its Information Systems provider and make changes as recommended in the audit report.

21. It is recommended the Company review its system of internal controls and apply changes that will ensure adequate maintenance of claims files documentation.

22. It is recommended the Company pay particular attention to examination requests. It is also recommended that the Company review prepared responses to ensure compliance with request details.

CONCLUSION

The examiners wish to thank the authorized Company contacts for their professional attitude and courtesy. Their cooperation is appreciated.

This examination was conducted by Keith Perry and Cynthia Campbell and is respectfully submitted.

Keith Perry, CIE, AFE, AES, CISA, MCM
Market Conduct Examiner-in-Charge

Shelly Schuman, MCM
Market Conduct Supervising Examiner

INS Regulatory Insurance Services, Inc.
Regulatory Consultants

New Market
Suite 206
419 S. 2nd Street
Philadelphia, PA 19147
Phone: (215) 625-2927
Fax: (215) 625-8323

Rodney Building
2nd Floor
841 Silver Lake Blvd.
Dover, DE 19904
Phone: (302) 678-2444
Fax: (302) 678-4822

AFFIDAVIT

STATE OF TEXAS }
} ss
COUNTY OF Denton }

Keith Perry, being duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Indiana;

That a limited scope market conduct examination was made of the company complaints and claims of Universal Casualty Company, Inc. for the period of April 1, 2004 through March 31, 2008;

That these twenty-six (26) pages constitute the report to the Commissioner of Insurance of the State of Indiana; and

The statements, exhibits and data therein contained are true and correct to the best of his knowledge and belief.

Keith Perry, CIE, AFE, AES, CISA, MCM
Examiner-In-Charge
For the State of Indiana

Subscribed and sworn to before me on the 2nd day of October, 2008.

Notary Public
My Commission Expires 4-9-2012

DLYNN V VILLARREAL
Notary Public, State of Texas
My Commission Expires 4-09-2012

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

To: **Indiana Department of Insurance**
Attention: Lisa Harpenau

FROM: **Cary J. Loseau, VP Claims**

DATE: **November 11, 2008**

RE: **REBUTTAL OF THE INDIANA MARKET CONDUCT EXAMINATION REPORT**

This will serve as a rebuttal to the findings relative to Standard 1, Complaint Handling:

> As previously indicated to the examiner, Universal Casualty Company receives very few direct complaints from Indiana consumers. The company did agree that relative to claim number 5031112, a simple mistake occurred and this is not a standard practice of Universal Casualty Company, as the direct consumer complaint was identified and noted to be logged into the register. Universal Casualty Company disagrees that this was in violation of Commissioner's Order No. 1 of the Stipulation and Consent Order dated December 29, 2005, as the subject direct consumer complaint was forwarded under date of February 10, 2005, or prior to the consent order.

As indicated to the examiner, the company currently records all complaints direct and otherwise in the company complaint register. As such, policies, procedures and standards to recognize and record all complaints are currently in place.

This will serve as a rebuttal to the Standard 2 findings and, specifically, the first alternate recommendation:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Universal Casualty Company disagrees with this finding and notes that as of August 1, 2007, the Universal Casualty Company claim department instituted a dedicated Indiana claim unit to address all of the issues relative to communications from interested parties as noted in the examiners finding. This unit has proven effective with the number of Indiana complaints filed with the Indiana Department of Insurance being reduced by approximately 26%. The noted percentage drop in complaints was obtained by comparing that number of complaints received by the third quarter of 2007 versus the same period in 2008. The team's files are randomly audited on a monthly basis to ensure that proper investigation and handling exists. The Indiana unit supervisor reports on the team's performance at monthly supervisor meetings held with management.

This will serve as a rebuttal to the examiners finding under Section 3 Claims Standard 6:

Relative to claim number 5031646, Universal Casualty Company disagrees with the examiner's findings that this was a violation of IC27-4-1-4.5 (1) as it was the insured (claimant) who contacted the company under date of March 3, 2005 and withdrew her claim (see attached exhibit 5031646). In fact, a claim was filed with American Family, the adverse carrier, and this company did not misrepresent any facts or policy provisions relating to coverage at any time.

Relative to claim number 5032282, and specifically the medical bills submitted under date of June 27, 2005, our medical pay letter was forwarded to the insured (claimant) on June 29, 2005 in response to same (see exhibit 5032282-1). As can be seen, the letter advises that if a claim is to be made, the enclosed form must be completed, with the requisite documentation attached and returned to Universal Casualty Company. The insured (claimant) never responded to our letter, and, as such, never asserted a medical payments claim. As can be seen by the exhibits, the company clearly acknowledged the subject communication, attempted to investigate same and has documentary evidence that reasonable standards have been implemented to properly investigate this matter. Based on the aforementioned, Universal Casualty Company disagrees that it was in violation of IC27-4-1-4.5 (1) as a claim was not asserted.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to the physical damage claim element of 5032282, Universal Casualty Company disagrees that the damages to the engine's timing belt cover arose from this loss. The first report of this loss, as conveyed by the insured, was clear in that the insured attempted to repair his vehicle by removing a number of engine bolts and, in the process, damaged the timing belt cover as the "engine shifted". This vehicle was inspected and photographed by an independent appraiser of Cook Claim Service, Alex Richards, who noted in his report "it is easy to identify that the insured tried to repair his vehicle, various bolts and nuts were missing on several key locations on the vehicle" (see exhibit 5032282-4). Since damage caused at the direction of the insured is excluded in the policy, and this was clearly explained to the insured in verbal and written form (see attached exhibit 5032282-2 and 3), the company disagrees that it was in violation of IC27-4-1-4.5 (1).

Relative to the alleged violation of IC27-4-1-4.5 (1) as it relates to claim number 5031112, it is apparent from the letter between Mr. Clark of Universal Casualty Company and Mr. Connor on March 29, 2005 memorializing their conversation, that a "meeting of the minds" existed (see attached exhibit 5031112-1) attached. As such, the company requests that this violation be removed from the record as the company maintains that it was not in violation of IC27-4-1-4.5 (1).

The examiner indicates that it is recommended that the company properly train its claim personnel to adhere to policy provisions, statutes and regulations. Please be advised that Universal Casualty Company has instituted new adjuster training programs for new hires, as well as monthly claim training sessions for all adjusters. These training sessions are mandatory and focus on policy interpretation and structure, statutes and regulations. As can be seen in our response, the company disagrees that policy provisions are misrepresented, as asserted by the examiner. It should further be noted that the Board of Directors maintains proper and adequate oversight of the claim training programs.

Regarding Standard 4 examiner findings, the company submits the following rebuttal:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim numbers 4028761, 6056727, 6057217, 7062762, 7066325 and 7066575, the company is not aware of any companion criticisms provided by the examiner. Due to the non specific nature of these alleged violations, Universal Casualty Company finds it impossible to respond in any useful or cogent manner. As such, Universal Casualty Company would require specific examples of what the examiner believes are violations of IC27-4-1-4.5 (2), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the noted alleged violations be stricken from the record.

Relative to claim number 4029060, and specifically the companion lawsuit which was forwarded to Universal Casualty Company on or about March 13, 2005, we note that defense of this lawsuit was assigned to an independent law firm under the same date. When the company transferred the defense of this matter to company staff counsel, Paul Pobereyko in October of 2005, it was discovered that this matter was in judgment. Specifically, under date of October 19, 2005, the subject judgment was brought to Universal Casualty Company's attention, with a copy of the judgment order forwarded to Universal Casualty Company on October 24, 2005. The check for judgment and costs was immediately forwarded under date of October 25, 2005, or within six days of notification of same and not the 107 as indicated by the examiner. The company disagrees that it was in violation of IC27-4-1-4.5 (2), as it did not fail to act reasonably and promptly, as once we were advised of the judgment order, Universal Casualty Company acted in a prompt and expeditious fashion. The company requests that this violation be stricken from the record.

Relative to claim 5031646, Universal Casualty Company disagrees with the examiner's findings that this was a violation of IC27-4-1-4.5 (2) as the company did acknowledge and act reasonably promptly relative to the insured's wish to withdraw her claim under date of March 3, 2005 (see exhibit 5031646). As such, this alleged violation should be stricken from the record.

Relative to claim 5032282, our medical payment acknowledgement letter was promptly forwarded to the insured on June 29, 2005 in response to bills submitted to the company on June 27, 2005 (see attached exhibit 5032282-1). As such, Universal Casualty Company disagrees with the examiner's assertion that the company failed to acknowledge this communication and requests that this violation be stricken as it is our belief that this is not a violation of IC27-4-1-4.5 (2).

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to the physical damage element of claim number 5032282, communication was acknowledged and the company's position was conveyed in both written and verbal form (see attached exhibits 5032282-2 and 3). As such, the company disagrees that it was in violation of IC27-4-1-4.5 (2) and requests this violation be stricken.

Relative to claim number 5034880, Universal Casualty Company disagrees with the examiner's assertion that the company failed to acknowledge and act reasonably promptly upon communications. As can be seen in exhibit 5043880-1 under date of July 22, 2005, Erie Insurance Company submitted its subrogation proofs. Within two working days or on July 27, 2005, an offer was forwarded to Erie Insurance (see exhibit 5034880-2 attached). Additionally, a company representative spoke with the claimant carrier under date of October 6, 2005 and again on January 13, 2006. A third offer was extended to claimant counsel under date of April 24, 2006 in an attempt to resolve this matter. Universal Casualty Company is of the opinion that it was at all times acknowledging communications promptly in an effort to negotiate the subrogation claim in good faith (see exhibit 5034880-1). As such, the company requests that this alleged violation of IC27-4-1-4.5 (2) be stricken from the record.

Relative to claim number 7065416, the examiner requested a copy of a companion negotiated check which was provided, but the company is not aware of any criticism. As such, the company cannot respond in any useful manner. Universal Casualty Company disagrees that this was a violation of IC27-4-1-4.5 (2) and requests that the violation be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim number 7066774, the company disagrees that it failed to acknowledge and act upon communications. In fact, examination of this claim discloses that this was a "paper repossession" involving the insured's vehicle and any delay in payment of this claim was solely due to the insured's non-cooperation. As can be seen by the log note memo screen, exhibit 7066774-1 attached, approximately 24 memo notes reveal a multiplicity of conversations between the company, the insured and the lien holder. The lien holder, Honor Finance, ultimately advised this company that the insured was not cooperating with her finance company and, as such, they were proceeding to repossess the subject vehicle with a repossession claim. The State of Indiana requires a repossession title, which was not received until on or about February 14, 2008, with Universal Casualty Company processing the check immediately and forwarding same to Honor Finance. As can be seen, Universal Casualty Company acknowledged all communications and stipulates that the insured was simply uncooperative with all parties involved and was the sole cause of any delays. Universal Casualty Company maintains that it was in no way in violation of any unfair claim settlement practices IC27-4-1-4.5 (2), and asks that this violation be stricken.

In regard to the examiner's recommendations, relative to compliance with IC27-4-1-4.5 (2), it should be noted that all incoming communications are documented in the memo log. Monthly audits of the Indiana unit claim adjusters are conducted by the unit supervisor and involve approximately ten randomly selected files per adjuster. All files are checked for accuracy in investigation and prompt claim handling. All files are on adjuster diary and the Indiana unit supervisor conducts weekly audits of adjuster's workstations to gauge that file loads are current. Immediate action is undertaken in the event of backlog due to illness, leave of absence and related matters. Management reviews and signs off on monthly audits. Corrective action is taken as needed. The Board of Directors maintains adequate oversight of the company's claim practices.

Relative to Standard 2, examiner findings, the company offers the following rebuttals:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim numbers 4027417, 4028761, 6056727, 6057217, 7062762, 7066325, 7066575, 7068292, 8073975 and 8076591, the company is not aware of any companion criticisms produced by the examiner. Due to the non specific nature of these alleged violations, Universal Casualty Company finds it impossible to respond in any useful or cogent manner. As such, Universal Casualty Company would require specific examples of what the examiner believes are violations of IC27-4-1-4.5 (3), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the noted alleged violations be stricken from the record.

Relative to claim number 4028380, examination of our claim file discloses that, in fact, the claimant submitted repair estimates with his report under date of December 23, 2004 (date stamped exhibit 4028380 attached). As this was just prior to the Christmas holiday, the next business day, December 27, 2004, the estimate was forwarded for review. Under date of January 3, 2005, and not January 13, 2005 as indicated by the examiner, or within four business days during this holiday period, our initial offer was extended to the claimant (see exhibit 4028380-2 attached). Based on the documentary evidence provided, Universal Casualty Company disagrees that it was in violation of IC27-4-1-4.5 (3) and requests that this violation be stricken.

Relative to claim number 5031112, examination of the subject claim file reveals that this was a "probable total loss" on February 15, 2005 (see exhibit 5031112-2 attached). Additionally, a potential excluded driver scenario existed as the individual reporting the accident was an excluded driver. Verification of the driver was received by the handling adjuster on February 24, 2005, and the CCC valuation ordered two business days later under date of February 28, 2005. The subject proof of loss was issued within two business days of the total loss valuation on March 2, 2005 (see exhibit 5031112-2, 3 and 4 attached). Based on the attached documentary evidence, the company disagrees that it was in violation of IC27-4-1-4.5 (3) and requests that this violation be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim number 5031646, the company disagrees that this was a violation of IC27-4-1-4.5 (3), as it was the insured (claimant) who contacted the company under date of March 3, 2005 and withdrew her claim (see exhibit 5031646 attached). As can be seen, a claim was filed with the adverse carrier, American Family. This company promptly investigated this matter, and had reasonable standards in place pursuant to our insured's wish to withdraw her claim. As such, Universal Casualty Company requests that this violation be stricken.

Relative to claim number 5032282, as can be seen with review of exhibit 5032282-1, our medical payment letter was issued to the claimant, pursuant to receipt of medical bills submitted to the company, and requested that the requisite form and documentation be submitted to Universal Casualty Company in the event a claim was to be asserted. The claimant did not respond to Universal Casualty Company's request for documentation and, in fact, did not assert a claim. As can be seen, the company acknowledged the communication and had standards in place for prompt investigation of same. As such, Universal Casualty Company disagrees that it was in violation of IC27-4-1-4.5 (3) and requests that this violation be stricken.

Relative to claim number 5035856, the company disagrees that it delayed adjudication of this claim and was in violation of IC27-4-1-4.5 (3). Upon receipt of the requested photographs from the claimant under date of July 5, 2005, the documentation was reviewed, estimate written and offer with check (number 353807) was issued to the claimant under date of July 13, 2005, or within six working days (see exhibits 5035856-1 and 2). As such, the company requests that this violation be stricken from the record.

Relative to claim number 5035966, a review of this file disclosed that the insured in this matter was difficult to contact as evidenced by log memos dated June 14, 2005, June 16, 2005 and June 23, 2005. While the company representative attempted to contact the insured under the aforementioned dates, to go over the total loss valuation, each time the company representative was advised that the insured was unavailable. It should further be noted that Universal Casualty Company was awaiting the theft report which wasn't received until June 24, 2005 (see exhibits 5035966-1 and 2 attached). As can be seen by the attached exhibits, it was seven working days from the date the theft report was received and the proof of loss issued (under date of July 7, 2005). The company disagrees that it delayed adjudication of this claim, and in fact, it would appear that the insured contributed to any delay. Universal Casualty Company disagrees that it was in violation of IC27-4-1-4.5 (3) and asks that this be stricken from the record.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim number 7065416, the examiner requested a copy of a companion negotiated check, which was provided, but the company is unaware of any criticism. Due to the non-descript nature of this criticism, Universal Casualty Company finds it impossible to respond in any useful manner. Universal Casualty Company would require specific examples of what the examiners believe are violations of IC27-4-1-4.5 (3), and the basis for that belief, prior to any response. At this time, the company requests that this violation be stricken.

Relative to claim number 7066774, the company disagrees that it failed to adopt and implement reasonable standards for the prompt investigation of this claim. In fact, examination of the claim file reveals that this was a "paper repossession" involving the insured's vehicle and any delay in payment of this claim was solely due to the insured's non-cooperation. As can be seen by the log note memo screen, exhibit 7066774-1 attached, approximately 24 memo notes reveal a multiplicity of conversations between the company, the insured and the lien holder. The lien holder, Honor Finance, ultimately advised this company that the insured was not cooperating with her finance company and, as such, they were proceeding to repossess with the filing of a repossession claim. The State of Indiana requires a repossession title, which was not received until on or about February 10, 2008 with Universal Casualty Company processing the check immediately and forwarding same to Honor Finance. As can be seen, Universal Casualty Company did in fact adopt reasonable standards for the prompt investigation of this claim and stipulates that the insured was simply uncooperative with all parties involved and was the sole cause of any delays. Universal Casualty Company disagrees that it was in any way in violation of IC27-4-1-4.5 (3) and requests that this violation be stricken.

The company maintains that it currently has standards in place relative to the prompt investigation of claims (see recommendation response under Standard 2).

Regarding the examiners findings that 8 of 64 paid claim files reviewed were found to be in violation of IC27-4-1-4.5 (5), the company offers the following rebuttal:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim number 5032282, our medical payment acknowledgement letter was promptly forwarded to the insured under date of June 29, 2005 in response to bills submitted to the company on June 27, 2005 (see attached exhibit 5032282-1). As can be seen, the letter advises the insured that if a claim is to be made, the enclosed form must be completed with a requisite documentation attached and returned to Universal Casualty Company. The insured (claimant) never responded to our letter, and, as such, never asserted a medical payments claim. As can be seen by the attached exhibit, documentary evidence exists that reasonable standards were implemented to properly investigate this claim, however, the insured chose not to assert same. Since Universal Casualty Company cannot affirm or deny coverage on a claim that was never properly asserted, the Company disagrees that this claim was in any way in violation of IC27-4-1-4.5 (5), and asks that this violation be stricken.

Regarding the following claim numbers cited by the examiner as being in violation of IC27-4-1-4.5 (5) and specifically; 6056727, 6057217, 7062762, 7065416, 7066325 and 7066575, the company is not aware of any companion criticisms provided by the examiner. Due to the non specific nature of the alleged violations, Universal Casualty Company finds it impossible to respond in any useful or cogent manner. As such, Universal Casualty Company would require specific examples of what the examiners believe are violations of IC27-4-1-4.5 (5), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the aforementioned six violations be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Regarding claim number 7066774, as indicated previously, this was a "paper repossession" that involved the insured's failure to cooperate with their lien holder and the company. As can be seen by the log note memo screen, exhibit 7066774-1 attached, approximately 24 memo notes reveal a multiplicity of conversations between the company, the insured and the lien holder. Under date of August 17, 2007, the company forwarded its total loss Proof of Loss forms to the insured. As such, affirmation of coverage was not an issue (see exhibits 7066774-2, & 3 attached). The lien holder, Honor Finance, ultimately advised this company that the insured was not cooperating with her finance company and, as such, they were proceeding to repossess the subject vehicle. Since the State of Indiana requires a repossession title, which was not received until on or about February 14, 2008, any delay that exists was due to this lengthy process. As can be seen, Universal Casualty Company immediately processed its settlement check subsequent to receipt of the repossession title and forwarded same to Honor Finance. Universal Casualty Company stipulates that the insured was simply uncooperative with all parties involved and was the sole cause of any delays with respect to this loss. As such, Universal Casualty Company believes that it was not in violation of IC27-4-1-4.5 (5) as failing to affirm coverage was not an issue.

Relative to the examiner's findings and specifically alleged violations of IC27-4-1-4.5 (6), the company offers the following rebuttal:

Relative to claim number 4028380, examination of the claim file reveals that the claimant in this instance submitted repair estimates with his report under date of December 23, 2004 (date stamped exhibit 4028380 attached for department review). As this was just prior to the Christmas holiday, on the next business day or December 27, 2004, the estimate was forwarded for audit and review. Under date of January 3, 2005 our initial offer was extended to the claimant. This offer was extended within four business days during this holiday period on January 3, 2005, and not January 13, 2005 as indicated by the examiner (see exhibit 4028380-2 attached). Based on the documentary evidence provided, Universal Casualty Company disagrees that it was in violation of IC27-4-1-4.5 (6) and asks that this violation be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Regarding 4029060, a review of this claim file discloses that a lawsuit filed in this matter was forwarded to an independent law firm in March of 2005 for defense. When the company transferred this matter, and others, to our staff counsel Paul Pobereyko in October of 2005, it was discovered that this matter was in judgment. Specifically, under date of October 19, 2005, the subject judgment order was brought to Universal Casualty Company's attention, with a copy of the judgment order forwarded to Universal Casualty Company on October 24, 2005. The check for judgment and costs was immediately forwarded under date of October 25, 2005, or within six days of notification of same and not the 107 days as indicated by the examiner. The company disagrees that it was in violation of IC27-4-1-4.5 (6) and attempted in good faith to effectuate prompt settlement, as once it was advised of the judgment order it acted in an expeditious fashion to process and immediately forward the settlement check. It should be noted that any delay in payment of the judgment was solely the responsibility of the independent attorney hired to defend this matter. Errors of this nature, while uncommon, have not reoccurred in this jurisdiction since Universal Casualty Company elected to provide better service to our insured's and opened the Munster, Indiana office (see attached exhibits 4029060-1 & 2). Based on the documentary evidence provided, Universal Casualty Company requests that this violation be stricken.

Relative to the alleged violation of IC27-4-1-4.5 (6) regarding claim number 5031112, it is evident from the letter forwarded by Mr. Clark of Universal Casualty Company to the claimant, Mr. Connor, dated March 29, 2005, that a "meeting of the minds" existed. The question wasn't whether or not liability existed, but rather whether the claimant in this instance had standing to file this claim. Universal Casualty Company is of the opinion that no violation of IC27-4-1-4.5 (6) occurred and asks that this be stricken from the record.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim number 5032282, as can be seen with review of exhibit 5032282-1, our medical pay letter was issued to the claimant, pursuant to receipt of medical bills submitted to the company. This letter requested that the requisite form and documentation be submitted to Universal Casualty Company in the event a claim was to be asserted. The claimant did not respond to Universal Casualty Company's request for documentation and, in fact, did not assert a claim. As can be seen, the company did attempt in good faith to effectuate a prompt, fair and equitable settlement, but for whatever reason, the claimant simply did not forward the required documentation and submit a claim to the company. As such, Universal Casualty Company disagrees that it was in violation of IC27-4-1-4.5 (6) and asks that this be stricken from the record.

Relative to claim number 5036516, examination of the claim file discloses that, upon receipt of documentation requested by Universal Casualty Company from the claimant carrier and attorney, our offer of $6,531.82 was accepted. This offer was conveyed on May 8, 2006 and prior to suit being filed (May 19, 2006). Universal Casualty Company is of the opinion that it was at all times negotiating in good faith, and did not "compel the claimant to institute litigation to recover the amount due by offering substantially less then the amount ultimately recovered". As can be seen by the attached exhibits 5036516, it is clear that the amount recovered after litigation was exactly the $6,531.82 offered prior to suit. As such, Universal Casualty Company maintains that the documentary evidence provided refutes the examiners assertion that a violation of IC27-4-1-4.5 (6) occurred and requests that this violation be stricken from the record.

Regarding the following claim numbers cited by the examiner as being in violation of IC270-4-1-4.5 (6): 4027417, 6056727, 6057217, 7059739, 7065416, 7065684, 7066325, 7066575, 7067650, 7068292, 7069931 and 8073975, the company is not aware of any companion criticisms provided by the examiner. Due to the non specific nature of the alleged violations, Universal Casualty Company finds it impossible to respond in any useful or cogent manner. As such, Universal Casualty Company would require specific examples of what the examiners believe are violations of IC27-4-1-4.5 (6), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the aforementioned 12 violations be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

The company, as previously indicated, has standards in place to address the recommendations suggested by the examiner to comply with IC274-1-4.5 (6) (see rebuttal to the Standard 2 finding). The Board of Directors maintains proper and adequate oversight of claim department procedures and standards.

Relative to the examiners findings as they relate to alleged violations of IC27-4-1-4.5 (7), the company offers the following rebuttal:

Regarding claim number 5031697, examination of the subject file discloses that a 70% offer of Universal Casualty Company's estimate with companion check number 348516 was forwarded to claimant's carrier on April 26, 2005 (see exhibit 5031697-2). A representative of Universal Casualty Company contacted the Progressive adjuster on June 23, 2005 to verify that our offer was accepted. It appears from the memo logs, exhibit 5031697-1 that Progressive never rejected our offer, returned our telephone calls and kept the settlement check which led the adjuster to believe that the offer was acceptable. Notice of a companion lawsuit was received on November 2, 2005, but the settlement check was not returned to Universal Casualty Company until April 11, 2006.

Based on the aforementioned, Universal Casualty Company disagrees that the company compelled litigation as our offer was never rejected, and claimant carrier accepted our check prior to suit being filed. As such, Universal Casualty Company requests that this alleged violation of IC27-4-1-4.5 (7) be stricken.

Regarding claim number 5034880, Universal Casualty Company disagrees that it compelled the claimant to institute litigation by offering an amount substantially less than the amount ultimately recovered through such action. As can be seen in exhibit 5034880, a number of negotiation discussions were had with the claimant carrier prior to suit being filed. In fact, Erie's demand of $1,913.65 was ultimately settled in litigation for $1,500.00. Universal Casualty Company stipulates that the claimant carrier was simply seeking an amount in excess of the actual value of the claim as the carrier **did not** recover the amount sought in litigation. Universal Casualty Company requests that this alleged violation of IC27-4-1-4.5 (7) be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Regarding claim number 5036516, examination of the claim file discloses that, upon receipt of documentation requested by Universal Casualty Company from the claimant carrier and attorney our offer of $6,531.82 was accepted. This offer was conveyed on May 8, 2006 and prior to suit being filed (May 19, 2006). Universal Casualty Company is of the opinion that it was at all times negotiating in good faith, and did not "compel the claimant to institute litigation to recover the amount due by offering substantially less then the amount ultimately recovered". As can be seen by the attached exhibit 5036516, it is clear that the amount recovered after litigation was exactly the $6,531.82 offered prior to suit. As such, Universal Casualty Company maintains that the documentary evidence provided refutes the examiners assertion and requests that this alleged violation of IC27-4-1-4.5 (7) be stricken from the record.

Regarding claim numbers 6058076, 7067650 and 7068292 which the examiner indicates are in violation of IC27-4-1-4.5 (7), the company is not aware of any companion criticisms provided by the examiner. Due to the non specific nature of the alleged violations, Universal Casualty Company finds it impossible to respond in any useful or cogent manner. As such, Universal Casualty Company would require specific examples of what the examiners believe are violations of IC 27-4-1-4.5 (7), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the aforementioned three violations be stricken.

The company is of the opinion that adequate procedures exist to ensure that claimants are not compelled to institute litigation. As noted in the rebuttal, a review of the criticisms provided, have not shown that claimants are compelled to litigate.

This will serve as a rebuttal to the examiner's findings relative to the alleged eight violations of IC27-4-1-4.5 (8):

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Regarding claim number 7066774, as indicated previously, this was a "paper repossession" involving the insured's vehicle. As can be seen by the log note memo screen, exhibit 7066774-1 attached, approximately 24 memo notes reveal a multiplicity of conversations between the company, the insured and the lien holder. The lien holder, Honor Finance, was of the opinion that the settlement offer was more than adequate and ultimately advised Universal Casualty Company that the insured was not cooperating with them. Based on the insured's/finance company's customers non-cooperation, Honor Finance was proceeding to repossess the subject vehicle. Universal Casualty Company is of the opinion that at all times it attempted to settle this claim in a reasonable fashion but, unfortunately, the insured was simply uncooperative. Universal Casualty Company maintains that it was not in violation of IC27-4-1-4.5 (8), and asks that this violation be stricken.

Regarding the following claim numbers cited by the examiner as being in violation of IC27-4-1-4.5 (8), and specifically; 6056727, 6057217, 7062762, 7065416, 7066575, 7068292 and 7069931, the company is not aware of any companion criticisms provided by the examiner. Due to the non specific nature of the alleged violations, Universal Casualty Company finds it impossible to respond in any useful manner. As such, Universal Casualty Company would require specific examples of what the examiners believe are violations of IC27-4-1-4.5 (8), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the aforementioned seven violations be stricken.

Regarding the following claim numbers as cited by the examiners being in violation of IC27-4-1-4.5 (12), and specifically; 6056727, 6057217, 6058076, 7062762, 7066325 and 7067650, the company is not aware of any companion criticisms provided by the examiner. Due to the non specific nature of the alleged violations, Universal Casualty Company finds it impossible to respond in any useful manner. As such, Universal Casualty Company would require specific examples of what the examiners believe are violations of IC27-4-1-4.5 (12), and the basis for that belief, prior to any response. Absent specific examples, Universal Casualty Company requests that the aforementioned six violations be stricken.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Regarding claim number 7066774, Universal Casualty Company disagrees with the examiner's findings that this was in violation of IC27-4-1-4.5 (12) as no specific examples were cited or basis given as to how the company delayed the investigation or payment of this claim. As such, the company requests that this violation be stricken.

The company maintains that it does not request duplicate copies of documentation, but rather, the necessary documentation required to properly investigate and settle claims presented.

Relative to alleged violations of IC27-4-1-4.5 (14), the company submits the following in rebuttal:

Regarding the physical damage element of 5032282, the offer of a compromise settlement was clearly explained in verbal and written form, (see exhibits 5032282-2 & 3 attached). As such, Universal Casualty Company disagrees that this was a violation of IC27-4-1-4.5 (14) and requests that the violation be stricken from the record.

Regarding claim number 5034880, the company disagrees that the basis for a compromise settlement was not reasonably explained. In fact, our basis for compromise settlement was fully explained in both written and verbal form to the carrier and carrier's attorney, (see attached exhibits 5034880-1 & 2). As such, Universal Casualty Company believes it was not in violation of IC27-4-1-4.5 (14) and requests that this be stricken from the record.

Regarding claim number 5036516, in the companion criticism EXC-KSP008, the examiner did not note any violations relative to IC27-4-1-4.5 (14). As such, Universal Casualty Company issued a rebuttal where appropriate. Due to the non specific nature of this criticism as it relates to any violations of IC27-4-1-4.5 (14), Universal Casualty Company finds it impossible to respond in any useful manner. As such, Universal Casualty Company would require the basis for any suspected violation prior to any response. Absent a response, the company requests that this violation be stricken from the record.

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Regarding claim number 7066774, in the companion criticism CEC0050, the company could not find any alleged violations relative to IC27-4-1-4.5 (14). As such, Universal Casualty Company finds it impossible to respond in any useful manner to this alleged violation. Universal Casualty Company would require specific examples of what the examiners believe are violations of IC27-4-1-4.5 (14), and the basis for that belief, prior to any response. Absent a response, the company requests that this violation be stricken from the record.

Relative to the examiner's recommendations as they related to compliance with IC27-4-1-4.5 (14), the company is of the opinion that it maintains procedures to ensure that claimants would be provided reasonable explanations of decisions and actions. As previously indicated, the Board of Directors maintains adequate oversight of the claim department procedures.

Relative to the examiner's findings, wherein it was noted that "in the previous examination it was recommended that the company review reserving practices to ensure adequacy of claim reserves", the company offers the following in rebuttal:

The company disagrees with the examiner's findings that the company is not complying with IC27-1-13-8 (C). In fact, the company, as per the new adjuster trainee manual section on reserves that the examiner illuminates, stipulates that reserves should be set based on the information available, "coverage, liability and damages" and to set the reserve "as soon as possible, but at least prior to the end of the year in which it was opened". Since the vast majority of claim exposures are reported in the calendar year incurred, setting reserves "realistically as soon as possible, but at least prior to the end of the year in which it was opened", is a financially sound, prudent approach. The company is of the opinion that this practice would serve to increase confidence in the company's financial reporting, not dilute confidence as the examiner suggests. The company requests that this finding be stricken, as it has no basis in fact.

Relative to the examiners recommendations as it relates to IC27-1-13-8 (C), the company is of the opinion that it is currently in full compliance.

Relative to the examiners allegations of violations relative to IC27-4-1-3 (3), the company offers the following in rebuttal:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Relative to claim number 4028412, a review of the file revealed that no adverse action was taken based on the running of the MVR and there were no premium modifications to the term in question. As such, the company does not believe that it was in violation of IC27-4-1-3 (3) as it related to this claim.

Relative to claim number 4028380, a review of this file indicated that underwriting did not review this file during the claim process. As such, Universal Casualty Company is of the opinion that it was not in violation of IC27-4-1-3 (3), and requests that this violation be stricken from the record.

Relative to claim number 4027417, a review of the subject claim file discloses that underwriting utilized the information discovered during a claim investigation to ensure that their renewal re-underwriting of the policy is conducted according to all information available to the underwriter. No adverse action was taken during the claim process and there were no premium modifications to the term in question. As such, the company disagrees that it was in violation of IC27-4-1-3 (3) and asks that this violation be stricken.

In the companion findings paragraph relative to alleged violations of IC27-4-1-3 (3), the examiner indicates that seven violations were found. In as much as the company is aware of three noted violations, it is not aware of any companion criticisms for any additional alleged violations. Due to the non-descript nature of this finding, and specifically that no companion criticisms were provided for any alleged additional violations, Universal Casualty Company finds it impossible to respond in any useful manner. As such, Universal Casualty Company would require specific examples of what the examiners believe are any additional violations of IC27-1-13-8 (C), and the basis for their beliefs, prior to any additional response. Absent a response, the company requests that these alleged violations be stricken from the record.

Additionally, relative to alleged violations of IC27-1-13-8 (C), the company offers the following statement:

The company has in place standards for accurate and adequate underwriting procedures which include, but are not limited to, the monitoring of statute and regulation revisions, monitoring of relevant judicial proceedings and monthly underwriting audit processes. On July 25, 2008, the underwriting department made the following changes to our processes regarding the review of Indiana applications:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

Require motor vehicle reports be obtained without exception for all drivers disclosed and warranted by the applicant on automobile insurance applications.

We are experiencing our due diligence in eliminating any post claim underwriting of drivers disclosed to us in the application process.

As a matter of practice, no policy will be issued if an application is unacceptable.

New application underwriting will occur during the first 60 days. Policy cancellations mid-term are limited to those reasons specified in IC27-7-6-4 after the policy has been in force for 60 days.

The Board of Directors maintains proper and adequate oversight of the company's solvency.

In response to the examiners findings relative to Standard 11, the company offers the following in rebuttal:

Universal Casualty Company made every attempt to comply with the auditor's request for data in a timely manner. Initial request for electronic data was in e-mail format before the auditors were on site and was completed by the auditors first day on site. Additional CWP information was requested in electronic format once on site and this request was completed within a few business days. Although this additionally requested information included other state's data, the oversight was quickly corrected and new data was submitted to the auditor immediately upon their request. The company is of the opinion that it has in place adequate controls to oversee the integrity of its claims data.

Relative to the Standard 2 and Standard 3 findings of the examiner, the company offers the following in rebuttal:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

The company disagrees with the examiner's findings that the company's procedure flow adds a great deal of time to the claims investigation and adjudication process. Specifically, the examiner alludes to the risk of losing files and losing file documentation. The examiner also indicates that this creates a great number of entries into the memo logs. In fact, entry into the memo log serves to document the claim handling process and any additional documentation and/or investigation required. It should be noted that the company provided the examiners with every claim file requested, in a timely and efficient fashion with no claim files noted as "being lost".

This will serve as a rebuttal to the Standard 2 examiner findings:

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

The company controls access to production data by limiting access via the system applications exclusively. Although no "read only" access exists for the current claims application, rigid request/approval and audit controls are in place for gaining any access to the application. Universal Casualty Company follows and maintains the proper SOX controls for accessing production environments. Evidence of adherence to such controls can be furnished upon request. No unauthorized user gains access to production data via the system application. Production data base access is limited exclusively through the claims application. When the auditors requested access to the production claim data, it was granted to comply with such request.

If a user requests access to claims data outside of the current application for inquiry or reporting purposes, a secondary "report" data base and environment exists. This secondary environment gets refreshed and updated with production data every night. This secondary environment could have been accessed by the auditors using the current application. Universal Casualty Company IT simply responded to the auditor's request of accessing this production data with a production application. All proper approval and control processes were followed in granting such request. Access to the production environment would never have been granted to the auditors if Universal Casualty Company IT was aware of being in conflict with any auditor control.

In response to the examiner's findings as it relates to Standard 7, the company offers the following in rebuttal:

Universal Casualty Company
150 Northwest Point Blvd, 2nd Floor
Elk Grove Village, Il 60007

The company is unaware of any companion criticisms provided by the examiner that would reflect the "6 of 24 paid claim files" that either lack date stamps or dates that contradict it. In a related matter, under date of June 4, 2008 at 2:00 p.m. Daniel Adelman, Claims Manager, Keith Perry, Lead Examiner and Cary J. Loseau, Vice President Claims, met to discuss this very issue. Specifically, in Exception EXC-KSP003 it was noted that "numerous instances of inadequacy of documentation", existed. In our face to face meeting where a multiplicity of files were examined, the examiner could produce no examples of files that either lacked date stamps or that the date stamps contradicted the automated records. The meeting was concluded with the examiner noting "no real file problems". Based on the aforementioned, Universal Casualty Company disagrees with this finding and asks that it be stricken from the record.

Relative to the Standard 9 finding, the company offers the following in rebuttal:

While the claim review was delayed minimally because of a system issue, the company disagrees that the company could not provide the examiners access to electronic claim records without authorization to edit or delete claim records.

Relative to the Standard 5 finding as noted by the examiner, the company offers the following in rebuttal:

The company disagrees that it did not make every effort to respond to examination requests within the response times noted. While the company, as a whole, did experience system down time, the company made every effort to respond to examination requests in an expeditious and timely fashion.

Respectfully submitted,

Gary J. Loseau, CPCU, ARe, MBA
Vice President Claims
Universal Casualty Company