



**LIMITED SCOPE EXAMINATION REPORT
OF
UNITED AUTOMOBILE INSURANCE COMPANY**

NAIC Company Code: 35319

**Miami Gardens, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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January 20, 2020

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope examination of the gross and net Loss and Loss Adjustment Expenses (LAE) reserves as of December 31, 2018, of:

United Automobile Insurance Company

1313 NW 167th Street
Miami Gardens, Florida 33169

hereinafter referred to as “the Company.” Such report of examination is herewith respectfully submitted

SCOPE OF EXAMINATION

This was a limited scope examination of United Automobile Insurance Company as directed by the Florida Office of Insurance Regulation (“the Office”). Representatives of the Office last performed an examination of the Company as of December 31, 2015.

To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner’s Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. This examination was limited to particular risk areas of operational processes and the focus is less comprehensive than a full-scope examination. This report is for a limited-scope examination, and is not intended to communicate all matters of importance for an understanding of the Company’s financial condition.

The field work commenced on January 1, 2020 and concluded as of January 20, 2020. The limited scope examination included material events occurring subsequent to December 31, 2018 and noted during the course of the examination as they related to the foregoing areas within the limited scope of the examination.

This examination was conducted by SL FINANCIAL, Inc. and, covered the gross and net Loss and Loss Adjustment Expenses (LAE) reserves as of December 31, 2018, based upon the following factors:

- The Company experienced one-year adverse development in excess of five percent of surplus in each of the last five calendar years.
- The Company experienced a changing legal environment that has influenced personal injury protection claims settlements in Florida, coupled with changes in business mix, and changes in claims management and underwriting. Furthermore, the Company has established a practice of commuting past quota share reinsurance treaties, resulting in risk of material adverse deviation in its carried reserves.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, and intermediary clause, transfer of risk, and reporting and settlement information deadlines.

Reinsurance Assumed

The Company assumed risk on an excess of loss basis and quota share basis from insurers under two reinsurance treaties. Effective April 1, 2010, the Company assumed risk on a one hundred percent (100%) quota share basis of all private passenger auto business written by the reinsured, Old American County Mutual Fire Insurance Company ("Old American"), through the Company's affiliated managing general agent, United Group Underwriters, LLC. All the business assumed from Old American was written in Texas. The Company is currently applying for licensure in Texas to write business on a direct basis in Texas.

Effective May 27, 2011, the Company assumed risk on an excess of loss basis from its subsidiary, Argus Fire & Casualty Insurance Company, for each loss occurrence over \$100,000, with a limit of \$5,100,000 for any one loss occurrence, and an aggregate limit of \$5,100,000. Effective October 24, 2018 Argus Fire & Casualty Insurance Company was merged into the Company.

Reinsurance Ceded

As of December 31, 2018, the Company ceded risk on a quota share basis under various treaties, which had effective terms ranging from three (3) months to a year depending on the treaty. Quota share treaties covered risks for the Company's business written in Florida and Texas in accordance with the terms of the reinsurance treaty. The Company retained losses in the 5-point loss ratio corridor between fifty-seven percent (57%) and sixty-one percent (61%) and above one hundred percent (100%), which roughly caps the ceded loss-only ratio at ninety-five percent (95%) (equals the one hundred percent (100%) limit minus the five percent (5%) corridor). Each of these quota share treaties were commuted within 24 months of the treaties' effective date for each year under

examination. Effective April 1, 2018, the 50/50 quota share treaty with an effective date of April 1, 2016, was commuted.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's Board of Directors appointed and the Company contracted with an outside actuarial firm, who rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, Achille Sime Lanang, FIAF, FSA, MAAA, CERA of SL FINANCIAL, Inc., to review the Losses and Loss Adjustment Expenses carried in the Company's balance sheet as of December 31, 2018. The examination actuary concluded that the carried reserves make an inadequate provision for the unpaid losses and loss adjustment expense obligations of the Company under the terms of its contracts and agreement.

Paragraph 9.d. of Consent Order 206348-17-CO executed by the Company and filed on October 13, 2017 reads as follows:

“UNITED AUTO: agrees to, now and in the future, book and establish loss reserves at or above the midpoint indicated in the actuarial opinion summary issued by UNITED AUTO's appointed actuary.”

Data

The Company provided the following data and information in addition to data and information provided for past reports to perform the actuarial analysis:

- Paid and incurred Losses and Loss Adjustment Expenses data and open and reported count data by state and coverage as of December 31, 2018.
- Details of the 2018 and 2019 reinsurance agreements.
- Paid and incurred Losses and Loss Adjustment Expenses data and open and reported data used in the Perr&Knight reserve study at December 31, 2018.
- Miscellaneous information obtained from a number of discussions with the Company.

Analysis

The analysis followed the risk-focused examinations phases, with emphasis on:

- Detailed review of the Company's 2018 Statement of Actuarial Opinion (SAO), Actuarial Opinion Summary (AOS) and Appointed Actuary Report (AAR).
- Review of 2018 Annual Statement and Quarterly Statement as of June 30, 2019.
- Assessment of pricing and underwriting risks through discussion with the Company's management.
- Substantive and independent testing of the Company Loss and Loss Adjustment Expenses (LAE) reserves as of December 31, 2018.

The Actuarial Opinion Summary as of December 31, 2018 filed with the Office on March 14, 2019 provided a point estimate for net reserves, but did not include high and low estimates which would allow the Office to determine if the reserves were at or above the midpoint of the appointed actuary's range. An amended Actuarial Opinion Summary as of December 31, 2018 was filed with the Office on March 22, 2019. That Actuarial Opinion Summary also provided a point estimate for net reserves, but did not include high and low estimates which would allow the Office to determine if the reserves were at or above the midpoint of the appointed actuary's range.

As a part of the examination procedures, the examination actuary participated in a call on January 14, 2020 with representatives of the Company Jim Dwane and Paul Polachek. During the call the examination actuary asked for information regarding the range of the reserves, but was not provided with the opining actuary's range, or the specific high or low reserve estimates.

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the limited scope examination as of December 31, 2018.

Statement of Actuarial Opinion

For examination purposes, it is the opinion of the examination actuary that the carried reserve amounts as of December 31, 2018 make an inadequate provision for all net unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements. Further, that the Actuarial Opinion Summary does not provide information that allows for a determination that the Company booked reserves to the mid-point of the opining actuary's range.

The provision for net unpaid losses and loss adjustment expenses is \$4.2 million less than the minimum amount considered necessary to be within the range of reasonable estimates.

- **We recommend that given the significant risk and uncertainty in actuarial estimates, the opining Actuary's finding be formally presented to the Board and that the practice of commuting reinsurance agreements be revisited with an assessment of the impact of those commutations on the accuracy of the reported reserves.**
- **We recommend that the opining actuary provide both the high and low reserve estimates in the Actuarial Opinion Summary.**
- **We also recommend that the Company's opining actuary review the procedures used to establish the carried loss reserves.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **United Automobile Insurance Company** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

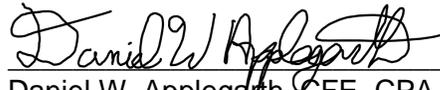
Per examination findings, the Company's Surplus as regards policyholders was \$90,589,997, which exceeded the minimum of \$32,059,765 or 10% of liabilities, required by Section 624.408, Florida Statutes.

In addition to the undersigned, Achille Sime Lanang, FIAF, FSA, MAAA, CERA, consulting actuary of SL FINANCIAL, Inc. and Jeffrey Rockwell, Financial Examiner/Analyst Supervisor of the Office participated in the examination.

Respectfully submitted,



Achille Sime Lanang, FIAF, FSA, MAAA,
CERA, AFFI CAS
SL FINANCIAL, Inc.
Representing the Florida Office of
Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
P&C Financial Oversight Florida Office of
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