



COMMONWEALTH OF PUERTO RICO

## OFFICE OF THE COMMISSIONER OF INSURANCE

IN REPLY PLEASE  
REFER TO:

Circular Letter No. CA-I-5-1275-92  
May 12, 1992

### TO ALL INSURERS AUTHORIZED TO TRANSACT PROPERTY AND CASUALTY INSURANCE IN PUERTO RICO

RE: Statutory Meeting of the  
Insurers Syndicate for the  
Joint Underwriting of  
Medical-Hospital Professional  
Liability Insurance

Gentlemen:

Section 41.040 of the Insurance Code of Puerto Rico, as amended by Act No. 4, approved on December 30, 1986, created the Insurers Syndicate for the Joint Underwriting of Medical-Hospital Professional Liability Insurance (the Syndicate) to provide said insurance to qualified applicants. The Syndicate shall be composed of all insurers authorized in Puerto Rico to contract insurance of the kinds defined in sections 4.040 (property), 4.050 (marine and transportation), 4.060 (agricultural), 4.070 (vehicle), 4.080 (casualty) and 4.090 (surety) of the Insurance Code of Puerto Rico. Said insurers shall be members of the Syndicate and their participation in the same shall be an indispensable condition to continue writing insurance in the Commonwealth of Puerto Rico.

Section 41.040(3) and (4) of the Insurance Code of Puerto Rico, stipulates that the Syndicate shall operate under the supervision and direction of a Board of Directors which shall consist of seven insurers elected by its members, and by two private citizens, representing the public interest, appointed by the Governor of Puerto Rico. The members of said board shall be elected annually in a meeting of the members, or their authorized representatives, on the date and place designated by the Commissioner of Insurance.

Pursuant to section 41.040(4), supra, a meeting of the Syndicate is hereby called to take place on May 28, 1992 at 9:30 am at the Office of the Commissioner of Insurance, Cobian's Plaza Building, Ponce de León Avenue 1607, Stop 23, Santurce, Puerto Rico. In said meeting three directors of the Syndicate will be elected and several matters regarding the preceding year of operation of the Syndicate will be discussed,

including the submission of the reports from the president, treasurer, and secretary, copy of which we enclose.

The votes of the members in said election shall have weight in the proportion that the net direct premiums written by each member during the preceding calendar year for the aforesaid kinds of insurance bear to the total net direct premiums written in Puerto Rico by all the members of the Syndicate in said year for such kinds of insurance. For this purpose, a distribution of the premiums written by all members of the Syndicate for the aforementioned kinds of insurance, as well as of the premiums written for Medical-Hospital Professional Liability Insurance during 1990 will be distributed at the meeting.

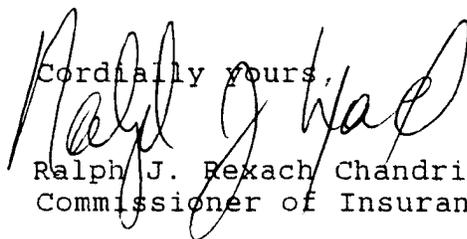
A Designation of Authorized Representative form is also enclosed. The same should be completed by your President or Secretary, or any other authorized representative, and returned to us in time for the meeting. In said designation form you may appoint any representative of your own. If you do not wish to designate a representative of your own, the selection of a representative may be made from one of the following persons, in which case the designation form must be executed and returned to us before the meeting:

Mr. Alex González  
Chairman of the Board of Directors  
in representation of National Insurance Co.

Mr. Edwin Quiñones  
President  
Cooperativa de Seguros Múltiples  
de Puerto Rico

Due to the great importance of this matter, we strongly urge you to designate an authorized representative who shall vote on your behalf in said meeting .

Cordially yours,



Ralph J. Rexach Chandri  
Commissioner of Insurance

Enclosure

DESIGNATION OF AUTHORIZED REPRESENTATIVE

WHEREAS, \_\_\_\_\_ is an  
(Insurer's Name)  
insurer duly authorized to write property, marine and  
transportation, agricultural, vehicle, casualty and surety  
insurance in the Commonwealth of Puerto Rico and thus is member  
of the Insurers Syndicate for the Joint Underwriting of  
Medical-Hospital Professional Liability Insurance.

WHEREAS, a meeting shall be held on May 28, 1992, to elect  
the Board of Directors of said Syndicate pursuant to Section  
41.040 of the Insurance Code of Puerto Rico.

THEREFORE, \_\_\_\_\_ hereby  
(Insurer's Name)  
appoints and names Mr. \_\_\_\_\_ to be  
its representative and to vote on its behalf at said meeting  
and upon any question or questions which may come before such  
meeting.

This \_\_\_\_\_ day of \_\_\_\_\_.

\_\_\_\_\_  
President or Vice President

\_\_\_\_\_  
Secretary

Corporate Seal

**SINDICATO DE LA SUSCRIPCION CONJUNTA DE SEGUROS DE  
RESPONSABILIDAD PROFESIONAL MEDICO HOSPITALARIA**

Asamblea del 28 de mayo de 1992

**A G E N D A**

- 1) Registro y determinación de Quorum
- 2) Bienvenida
- 3) Aprobación de Minutas de Asamblea Anterior
- 4) Informes del Presidente, Secretario y Tesorero
- 5) Tratamiento contable de pérdidas o ganancias atribuibles a la participación en el Sindicato
- 6) Entrega y explicación de tablas estadísticas
- 7) Elección de nuevos directores
- 8) Asuntos Nuevos
- 9) Cierre



SINDICATO DE ASEGURADORES  
PARA LA SUSCRIPCIÓN CONJUNTA  
DE SEGUROS DE RESPONSABILIDAD  
PROFESIONAL MEDICO-HOSPITALARIA

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San Juan, Puerto Rico 00902

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**PRESIDENT'S MESSAGE TO THE STATUTORY MEETING OF THE INSURERS  
SYNDICATE FOR THE JOINT UNDERWRITING OF MEDICAL-HOSPITAL  
PROFESSIONAL LIABILITY INSURANCE (SIMED)**

During calendar year 1991 two situations arose which were of great impact to SIMED. First of all, the negotiations and the agreements reached with the Medical Association of Puerto Rico, and then, the withdrawal of Corporación Insular de Seguros from the medical malpractice writings.

At the beginning of 1991 SIMED was involved in negotiations with the Medical Association to attend various requests from this Association dealing with the performance of the Law that created SIMED and the rates filed and approved by the Insurance Commissioner of Puerto Rico. Once Corporación Insular withdrew from the medical malpractice writings, a new subject of discussion arose with the Medical Association. It was the inclusion of the retroactive coverage, since Corporación Insular was charging 200% for the extended reporting period or "tail". In addition, the Association was requesting that SIMED provides higher limits for those doctors with high exposures if they so request it. After various meetings a final agreement was reached. In these meetings the following parties were present: SIMED's Board of Directors, the Insurance Commissioner (former and actual), representatives of the Medical Association, officers from different governmental departments (including the Health Department and the Governor's Office), and our legal counselors.

During the year SIMED was required to make presentations before various legislative hearings that were requested by different committees of the Senate and the House of Representatives of Puerto Rico. In these hearings we had the opportunity to present the work done by SIMED and to reaffirm the Law creating SIMED.

SIMED actually is in the final phase of two actuarial studies for the revision of our rates for both doctors and hospitals.

Another matter that can have a great impact in our operations is the resolution that our Superior Court dictated in which it declares that SIMED is obliged to provide coverage to public hospitals. SIMED understands that the law does not oblige it to do so and that its rate filings do not contemplate this exposure. It is the recommendation of SIMED to take this resolution to the Supreme Court.

SIMED has incorporated within its financial statement various important points. Due to an audit performed by the Insurance Commissioner until 1989, it was determined a bulk reserve of \$1.4 million for the losses and expenses due to claim development. The Board of Directors of SIMED determined to reflect 80% of its premium in the financial statement as reserves for 1991 and subsequent years. This action brought an adjustment in reserves of \$3.9 million resulting in a total reserve amount of \$12.7 million. As a request by the Board, we commended the actuarial department of Deloitte and Touche to perform a revision of our reserves as of November 30, 1991. After this revision, Deloitte recommended a total reserves of \$12.5 million, showing that our position to this respect was adequate.

Regarding the two legal actions presented by Corporación Insular before the Superior and Federal Courts where the constitutionality of Law #4 that creates SIMED was impeached, I want to inform that with respect to the case before the Superior Court that on October 31, 1991 this Court granted the request of SIMED to reject all claims of Corporación Insular, and that this Court has denied the requests for revision from Corporación Insular. At present, Corporación Insular has requested a reconsideration before the Supreme Court. With respect to the Federal Court, it is important to point out that the plaintiff in this case is the Insurance Commissioner and not SIMED. On June 15, 1990 in a conference with the honorable Judge Pérez Jiménez, he indicated a possible adjudication to the Motion Requesting a Summary Judgement presented by the Insurance Commissioner. It is the opinion of our legal counselors that because the constitutional issues made in both Courts are similar, it is probable that the decision of the Superior Court prevails in the Federal Court.

During the last Statutory Meeting, the Assembly requested SIMED to investigate the following matters:

1. Release of interim financial statements
2. Definition of when SIMED would be required to establish an assessment
3. Treatment to the financial statements for the government's contribution, if it is to be considered a debt

The first and second matters were submitted to our legal counselors who have recommended to the Board of Directors with reference to point number one the following, and I quote:

"...la información financiera del Sindicato, que aún no ha sido publicada, mediante los estados anuales o mediante los estados financieros auditados por los contadores externos del Sindicato, es información de carácter confidencial que no debe ser divulgada en vista de que podría poner al Sindicato en una posición de competencia desventajosa." unquote

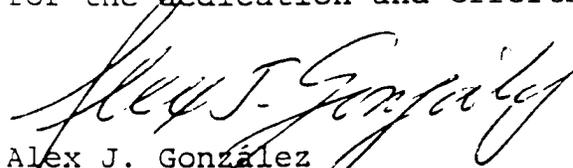
With reference to the definition of assessment, the Law #4 establishes the proportions in which company members of the Syndicate will participate in the profit or losses, but does not establish under statute when specifically an assessment will be imposed on the members. Our legal counselors indicate the following, and I quote:

"...el término 'pérdida' en el Artículo 41.04(10) antes citado presume la necesidad de una falta de liquidez para satisfacer las obligaciones que pueda tener el Sindicato. Es decir, que por el mero hecho de que exista un balance negativo en los estados financieros del Sindicato no necesariamente significa que sea imperante imponer una derrama. Ello es así ya que existen partidas en los estados financieros, particularmente las relacionadas con las reservas, que si bien deben ser consideradas como pasivos, las mismas responden a la existencia de liquidez en el caudal del Sindicato."

"En resumen, la necesidad de una derrama dependerá de la falta de liquidez ("cash flow") del Sindicato que no necesariamente está directamente relacionada con un balance negativo en los estados financieros de éste."  
unquote

The third point referring to the government's contribution has been incorporated within SIMED's financial statements as an obligation and not part of its surplus.

The Year 1991 has been very active for SIMED. I wish to take this opportunity to thank all the directors and our advisors for their efforts and time given to SIMED. I would like to make a special mention for the employees who work day to day in SIMED for the dedication and efforts put into their performance.



Alex J. González  
President of the Board of Directors - SIMED  
Representing National Insurance Company



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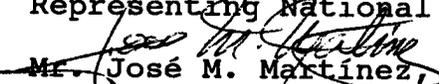
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San Juan, Puerto Rico 00901

April 28, 1992

M E M O R A N D U M

Mr. Alex González, President  
Board of Directors of Simed  
Representing National Insurance Company

  
Mr. José M. Martínez, Treasurer  
Board of Director of SIMED  
Representing Cooperativa de Seguros Múltiples

HIGHLIGHTS FROM THE STATUTORY FINANCIAL STATEMENTS AS OF  
NOVEMBER 30, 1991

I. STATUTORY BALANCE SHEET

A. Admitted Assets

Total admitted assets for the year amounted to \$20,505,831 representing an increase of \$8,054,142 or 65%. Such increase was mainly due to increase in debt securities (investments) as a result of the surge in premiums written during the year. SIMED portfolio is still composed of AAA securities from U.S. Government and Agencies, with a wider range of maturities. With this new strategy SIMED has committed funds to longer maturities, looking in today's higher yield, but also allowing some fund to be kept available for current claims needs.

B. Liabilities, Contributions And Surplus

Total liabilities for the year were \$18,217,994. This represent an increase of 56% from prior year. This increase was the result of the net effect of the following factors:

Mr. Alex González  
April 28, 1992  
Page #2

Increase in unpaid losses and loss adjustment expenses due to the normal increase in claims reported this year and also to the addition of a bulk reserve of \$3,969,702 for both losses and loss adjustment expenses. This bulk reserve includes \$1,460,000 arising from the adjustment agreed with the Office of the Commissioner of Insurance and \$2,509,702 as a result of a Board of Directors recommendation to increase 1991 loss ratio to at least 80% and, accordingly, provide for future development on new claims. With the inclusion of such bulk reserve, SIMED'S total reserves amount to \$12,723,453. Pursuant to the results of the actuarial review ordered by the Board of Directors, the ultimate cost of our reserves should have been \$12,500,000. These means that we are in a more conservative position by sharing larger reserves. At year end, 404 claims were outstanding versus 221 claims outstanding at the end of 1990. In addition, there were 29 and 60 claims closed with and without payment respectively during 1991.

Increase in unearned premiums of 42% as a result of the related increase in premiums written.

Elimination of the excess statutory reserve account basically due to the inclusion of the aforesaid bulk reserve, which turned the loss of the three most recent year over the 80 percent applicable for SIMED and based in NAIC guidelines.

Total member contributions and surplus increased from \$164,067 on 1990 to \$1,787,837 in 1991. Such increase principally attributed to the elimination of the excess statutory reserve account this year as explained above. Such elimination represented an increase of \$1,574,000 to the surplus. For financial statement presentation, the government contribution was reclassified from surplus to liabilities.

## II. STATUTORY STATEMENTS OF OPERATIONS

The Syndicate experimented an increase in premiums written of \$3,553,292 or 56%, while earned premiums surged by 72% for 1991. Such increase are due to the vigorous increase in the volume of business mainly caused by the fact that Corporación Insular de

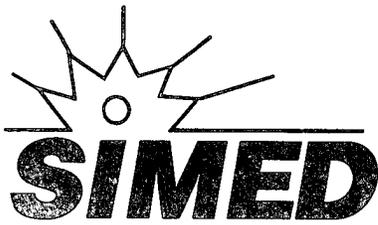
Mr. Alex González  
April 28, 1992  
Page Núm. 3

Seguros went out of the medical malpractice business during mid-year.

Losses and loss expenses incurred of \$7,940,300 were the result of claims payments of \$657,500, losses expense payments of \$971,159, increase in reserves by either establishment of new ones or development of those existing of approximately \$2,350,000 and the inclusion of a bulk reserve of \$3,969,702 as discussed before.

As a result of such losses and loss expenses and also the normal increase in commissions and other underwriting expenses, SIMED experienced an underwriting loss of \$959,109, which can be attributed to the conservative position adopted by the Syndicate toward its reserves and reserving methods.

The net investments income amounted to \$1,030,371. This represents an increase of \$383,740 or 59 percent. Such increase was attributed to the increase on invested assets, mainly mid-term debt securities. The average yield for 1991 was 6.77% versus 6.90% for 1990. This slight decline was the net result of the plunge in the interest rate due to the U.S. recession and the increase in length of the maturities within the SIMED portfolio, factor that mitigated in part such fall.



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MAY 6, 1992

M E M O R A N D U M

ALEX GONZALEZ, PRESIDENT  
BOARD OF DIRECTORS OF SIMED  
REPRESENTING NATIONAL INSURANCE CO.

ADRIAN ORTIZ SECRETARY  
REPRESENTING UNIVERSAL INSURANCE COMPANY

SECRETARY'S REPORT COVERING MEETINGS OF THE BOARD OF DIRECTORS.

During your period as President from May 29, 1991 to  
May 6, 1992, the Board of Director of Simed held ten (10) meetings:

<u>#</u>	<u>DATE</u>	<u>DIRECTORS PRESENT</u>
1	May 29, 1991	8
2	June 6, 1991	8
3	August 22, 1991	8
4	September 10, 1991	7
5	October 10, 1991	8
6	October 17, 1991	7
7	November 17, 1991	9
8	November 22, 1991	8
9	February 10, 1992	8
10	April 24, 1992	6

MEMORANDUM  
May 6, 1992  
Page Number 2

Director attendance to said meetings was as follows:

National Insurance Company	10 of 10	100%
Universal Insurance Company	07 of 10	70%
Cooperativa de Seguros Múltiples de Puerto Rico	10 of 10	100%
Eastern American Insurance Company	09 of 10	90%
1* Antilles Insurance Company	05 of 06	83.33%
Royal Insurance Company	04 of 05	80%
American International Ins. Co.	10 of 10	100%
Nationwide Mutual Insurance Company	09 of 10	90%
Public Interest-		
Rafael Florit	10 of 10	100%
*2 Ana E. del Toro	04 of 07	57.14%

All minutes of said meetings the Board of Directors are maintained at the offices of SIMED.

~~Secretary~~

\*1. Antilles Insurance Company resigned to the Board of Director of SIMED on October 17, 1991. Vacancy was covered by Royal Insurance Company.

\*2. Ana E. Del Toro resigned on November 17, 1991. Vacancy is pending until the Governor of Puerto Rico named a new member.

\*3. There where two convoked meetings in which no quorum was present.