

**REPORT ON EXAMINATION  
OF  
CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2010**

**NAIC CODE 30590**

**BY THE  
OFFICE OF THE COMMISSIONER OF INSURANCE**

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GOVERNMENT OF PUERTO RICO  
**OFFICE OF THE INSURANCE COMMISSIONER**

January 10, 2012

Mr. Ramón L. Cruz Colón, CPCU, AU, ARe  
Commissioner of Insurance  
Office of the Commissioner of Insurance  
B5 Tabonuco Street - Suite 216  
PMB 356  
Guaynabo, PR 00968-3029

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2011-03 dated August 10, 2011, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk focused examination and financial affairs examination was made of the books, records, and financial condition of

**Caribbean American Property Insurance Company**  
Plaza Scotiabank  
273 Ponce de Leon Ave, Suite 1300  
San Juan, PR 00917-1838

hereinafter referred to as CAPIC or the Company.

## Scope of Examination

The current examination was conducted at the home office of the Company located at Plaza Scotiabank, 273 Ponce de Leon Ave., San Juan, Puerto Rico. This examination covers the period of January 1, 2010 through December 31, 2010, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, as applicable to the Puerto Rico Insurance Laws and Regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

## **Summary of Significant Findings**

### **Current Examination Findings**

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during the examination.

### *Amounts Due from Agents*

The Company's agent contracts have a profit sharing component. Pursuant to the contract, if losses associated with the business produced by a particular agent exceed the related premiums, there will be a resulting amount recoverable from the agent. The Company improperly offset the commission liability with these debit balances. These balances should have been reported as non-admitted assets as required by Statement of Statutory Accounting Principles (SSAP) No. 6, Paragraph 6, which states that: "Balances are non-admitted if (a) the amounts are in the form of unsecured loans or advances, (b) the contractual terms for repayment are through application of future renewal commissions and/or other credits, or (c) the terms of repayment do not provide readily available cash for the satisfaction of policyholder liabilities.

### **Compliance with Prior Examination Findings**

The prior examination report has not been finalized.

## **History**

The Company was incorporated on April 15, 1988, under the provisions of the Insurance Code of Puerto Rico. The Company has been engaged in the underwriting of warranty, credit involuntary unemployment, and credit property insurance, for banks and other financial institutions doing business in Puerto Rico and the US Virgin Islands.

The Company is a subsidiary of American Bankers International Division, Inc. (ABID), which was incorporated in November 1997 under the laws of the Commonwealth of Puerto Rico. Along with the Company, ABID owns Caribbean American Life Assurance Company (CALAC), Assurance Services Puerto Rico, and American Bankers Holding of Spain. ABID is a wholly owned subsidiary of ABI international; a holding company domiciled in the Cayman Islands, which in turn is an indirect subsidiary of the ultimate parent, Assurant, Inc. (AIZ).

## **Capital Stock**

As of December 31, 2010, the Company had 910,000 common stock shares authorized, issued, and outstanding with a par value of \$5 per share. ABID, the direct parent, owns 676,336 shares and affiliated company, CALAC, owns 233,639 shares.

The remaining twenty-five shares were issued equally to the following directors in compliance with Article 29.150(1) of the Insurance Code of Puerto Rico:

Eduardo Alberto Arthur  
Alberto Baco  
Alvaro Rafael Calderón  
Iván Carlos López  
Miguel Antonio López

### **Dividends to Stockholders**

Article 29.340 of the Insurance Code of Puerto Rico provides that a domestic stock insurer shall not pay any cash dividend to stockholders, except out of that part of its available surplus funds which is derived from any realized net profits on its business.

The following table shows dividends paid to stockholders and the balance of unassigned surplus during the examination period:

<u>Year</u>	<u>Dividend Paid</u>	<u>Unassigned Surplus Previous Year</u>
2010	\$1,000,000	\$16,916,522

The Company was in compliance with the provisions of Article 29.340 of the Insurance Code of Puerto Rico.

## Management and Control

Article 29.150 of the Insurance Code of Puerto Rico states that not less than the majority of directors of an insurer shall be residents of, and actually reside in Puerto Rico. The Company was in compliance with Article 29.150 of the Insurance Code of Puerto Rico and its own corporate bylaws.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on May 11, 2010, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Eduardo Alberto Arthur	President, CAPIC	San Juan, Puerto Rico
Alberto Baco	Lawyer	San Juan, Puerto Rico
Alvaro Rafael Calderón	Lawyer	San Juan, Puerto Rico
Iván Carlos López	CFO, Assurant Solutions	Atlanta, Georgia
Miguel Antonio López	Former CEO, Doral Bank	San Juan, Puerto Rico

The officers of the Company, as appointed during the annual meeting of the Board of Directors on May 11, 2010, were the following:

Eduardo Alberto Arthur	President
Luis F. Rivera	Treasurer
Ana M Rosado	Assistant Secretary
María Silvia Vargas-Ayala(a)	Actuary
Margarita López(b)	Vice President
Elaine Soto	Vice President

(a) Resigned as of February 28, 2011, and was replaced by Esperanza Borja on February 28, 2011.

(b) Resigned as of January 14, 2011, and was replaced by Christian Formby on June 27, 2011.

### **Investment Plan**

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that the Board of Directors of the insurer shall adopt a written plan to acquire and maintain investments, and to outline their investment practices. The Company adopted a plan of investment, which was approved by the Board of Directors.

The Company's investment plan established the professional qualifications of the persons who will make routine decisions to ensure their investment competence and ethical conduct in compliance with the provisions of Article 6.040 of the Insurance Code of Puerto Rico.

### **Corporate Governance**

The ultimate parent company, Assurant, Inc. (AIZ), is a publicly traded corporation and, therefore, is subject to the Sarbanes-Oxley Act of 2002.

### **Conflict of Interest**

The Company requires its directors, officers, and key employees to sign the conflict of interest questionnaires concerning items that could have an impact on the way they conduct the Company's business in accordance with Article 29.230

of the Insurance Code of Puerto Rico. The review of the conflict of interest questionnaires revealed that the Company was in compliance.

### **Corporate Records**

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, committees, and shareholders were reviewed for the period under examination. There were no changes made to the Articles of Incorporation or bylaws during the period under examination.

### **Board of Directors and Committee Minutes**

The recorded minutes of the meetings of the Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes adequately documented its meetings and approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico.

The Board of Directors delegates the authority to make investment decisions to the Investment Committee. The Investment Committee held meetings during the examination period to approve the purchases and sales of securities. The purchases and sales of securities were in compliance with the provisions of the Articles 6.080 and 6.090 of the Insurance Code of Puerto Rico.

The Company's overall investment procedures were in compliance with Article 6.040(2) of the Insurance Code of Puerto Rico because the Board of Directors ratified the investment transactions, which were approved by the Investment Committee.

### **Fidelity Bonds and Other Insurance**

The Company, through the corporate insurance program managed by AIZ, maintained fidelity bond coverage with a single loss limit of \$10 million and an aggregate loss limit of \$20 million with a deductible of \$250,000. These amounts are in excess of the suggested minimum amount as recommended by the NAIC of \$4.5 million. The Company is also a named insured on various other policies providing directors and officers (D&O), errors and omissions (E&O), commercial property & liability, crime, and umbrella coverages.

### **Pension and Insurance Plans**

#### **Defined Benefits Plan**

The Company sponsors a qualified, noncontributory defined benefit pension plan covering substantially all of its domestic employees. The Company provides a "Retiree Premium Reimbursement Plan" to cover the cost of accident and health coverage after the employee reaches 55 year of age and ten years of service. The total net benefit obligation for vested employees for 2010 was \$42,761.

### **Defined Contribution Plan**

The Company sponsors a 401K defined contribution plan. Employees may contribute up to ten percent of their salary and the Company matches up to seven percent, depending on years of service. Employees are fully vested after three years of service. The Company's matching contribution for 2010 was \$58,047.

### **Intercompany Agreements**

The Company has the following written agreements with affiliates.

#### Inter-company Services Agreement

This agreement entered into on January 1, 2010, is between American Bankers Insurance Group, Inc. (ABIG) and various subsidiaries including the Company. ABIG is an upstream intermediary holding company of the subsidiaries party to the agreement. The agreement outlines, by subsidiary, the cost allocation method for each of the services provided. Payments are made through the inter-company payment system and all inter-company net balances are settled within 90 days. Amounts paid under this agreement for 2010 totaled approximately \$204,000.

### Affiliate Services Agreement

This agreement entered into on January 1, 2010, is between the Company and several other affiliated insurers and service contract providers domiciled in Delaware, Illinois, Oklahoma, and Puerto Rico. All companies involved are commonly owned by AIZ and agree to share the costs of certain services and day-to-day operations of certain property, equipment, and facilities of group members in Atlanta, Georgia; Miami, Florida; and San Juan, Puerto Rico. All inter-company balances subject to the agreement are settled within thirty days following the end of the month if the net payable amount is greater than \$5,000 or within thirty days following the end of the quarter if the net amount payable is less than \$5,000. Amounts paid under this agreement for 2010 totaled approximately \$1,546,000.

### IT Agreement

This agreement entered into on September 21, 2000, is between the Company and affiliate American Bankers Property Insurance Company of Florida (ABLAC). Pursuant to the agreement, ABLAC is to provide certain information systems and corresponding support. The amount due is as of the close of business on the last business day of each year and paid by the Company quarterly within 30 days of receipt of bill. Amounts paid under this agreement for 2010 totaled \$171,648.

### Growth of the Company

The following data was obtained from the annual statements filed with the Office of the Commissioner of Insurance (OCS):

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Unassigned Surplus
2010	\$33,123,189	\$11,550,489	\$4,550,000	\$2,880,565	\$11,628,127
2009	29,687,715	12,771,193	4,550,000	2,880,565	4,347,312

### Insurance Products and Related Practices

The Company is authorized to write Property and Casualty insurance in conformity with Chapter 4 of the Insurance Code of Puerto Rico. For the period covered by this examination, the major kind of insurance and gross premiums written were as follows:

	2009	2010
Inland Marine	\$29,790,909	\$28,465,485
Group A&H	157,581	108,502
Other A&H	2,835	2,019
Other Liability	222,743	279,270
Credit	6,619,434	6,141,036
Other	231,482	197,378
<b>TOTAL</b>	<b>\$37,024,984</b>	<b>\$35,193,690</b>

### Territory and Plan of Operations

For the period covered under this examination, the Company was licensed to transact insurance business in the following territories with the corresponding written gross premiums:

	2009	2010
Puerto Rico	\$36,595,533	\$34,739,651
USVI	429,451	454,039
<b>TOTAL</b>	<b>\$37,024,984</b>	<b>\$35,193,690</b>

### Statutory Deposits

As of December 31, 2010, the Company maintained the following statutory deposits with the OCS in compliance with Article 3.151 of the Insurance Code of Puerto Rico:

Description	Maturity Date	Par Value	Amortized Value
Federal Home Loan Bank	11/15/12	\$875,000	\$866,717
PR Housing Finance Corp.	07/01/11	440,000	429,687
PR Housing Finance Corp.	07/01/15	145,000	113,438
Federal home Loan Bank	11/15/12	240,000	237,728
<b>TOTAL</b>		<b>\$1,700,000</b>	<b>\$1,647,570</b>

Article 3.151 of the Insurance Code of Puerto Rico requires that a domestic insurer shall not be authorized to transact insurance in Puerto Rico, unless it deposits and maintains on deposit, assets with a value not less than fifty percent (50%) of the amount of the paid-in capital. The deposit is held to protect the Puerto Rico insurance policyholders and creditors.

Article 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$2,500,000 and statutory deposit of not less than \$1,250,000 of amortized value. The Company was in compliance with Article 3.090 of the Insurance Code of Puerto Rico as of December 31, 2010.

Article 3.160 of the Insurance Code of Puerto Rico requires that 50% of the minimum paid in capital be in investment Puerto Rico securities. The Company maintained investments in Puerto Rico securities in excess of \$1,250,000 at amortized cost. The Company was in compliance with Article 3.160 of the Insurance Code of Puerto Rico as of December 31, 2010.

### **Unclaimed Funds**

The Company complied with Article 26.040 of the Insurance Code of Puerto Rico by reporting unclaimed funds to the OCS, on or before May 1, for the years under examination.

The Company submitted to the OCS the notice of unclaimed funds owed and the payment of the unclaimed funds and was in compliance with Articles 26.050 and 26.060 of the Insurance Code of Puerto Rico.

## **Reinsurance**

### **Reinsurance Assumed**

The Company did not assume any risks during the examination period.

### **Reinsurance Ceded**

As of December 31, 2010, the Company maintained several reinsurance contracts with the participation of reinsurers authorized by the OCS in accordance with the provisions of Article 4.120 (b) of the Puerto Rico Insurance Code and Ruling Letter N -AF-4-63-2005 dated April 11, 2005.

Reinsurance contracts were reviewed for compliance with insolvency and intermediary clauses, as required by SSAP No. 62 of the *Accounting Practices and Procedures Manual* of the NAIC.

## **Accounts and Records**

The Company maintained its principal operational offices in San Juan, Puerto Rico where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2010 in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the

CPA as required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by María Silvia Vargas-Ayala, MAAA.

## **Financial Statements**

Below are the financial statements of the Company:

- Assets
- Liabilities, Surplus, and Other Funds
- Summary of Operations
- Capital and Surplus Account

Caribbean American Property Insurance Company  
**Assets**

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 23,065,450		\$ 23,065,450
Cash and short-term investments	5,335,006		5,335,006
Investment income due and accrued	230,030		230,030
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,607,216		3,607,216
Amounts recoverable from reinsurers	26,891		26,891
Current federal and foreign income tax recoverable	501,493		501,493
Net deferred tax asset	28,256	\$167,885	196,141
Electronic data processing equipment and software	248		248
Receivables from parent, subsidiaries and affiliates	322,582		322,582
Aggregate write-ins for other than invested assets	6,017		6,017
Total Assets	\$ 33,123,189	\$167,885	\$ 33,291,074

Caribbean American Property Insurance Company  
**Liabilities, Surplus and Other Funds**

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Losses	\$ 5,140,076		\$ 5,140,076
Loss adjustment expenses	130,572		130,572
Commissions payable, contingent commissions and other similar charges	78,726	\$409,975	488,701
Other expenses	985,419		985,419
Taxes, licenses and fees	5,676		5,676
Unearned premiums	4,175,343		4,175,343
Ceded reinsurance premiums payable	217,372		217,372
Funds held by company under reinsurance treaties	115,463		115,463
Amounts withheld or retained by company for account of others	11,171		11,171
Payable to parent, subsidiaries and affiliates	42,932		42,932
Aggregate write-ins for liabilities	647,739		647,739
Total Liabilities	<u>\$11,550,489</u>	<u>\$409,975</u>	<u>\$11,960,464</u>
Aggregate write-ins for special surplus funds	\$2,514,008		\$2,514,008
Common capital stock	4,550,000		4,550,000
Gross paid in and contributed surplus	2,880,565		2,880,565
Unassigned funds (surplus)	11,628,127	\$(242,090)	11,386,037
Total Surplus	<u>\$21,572,700</u>	<u>\$(242,090)</u>	<u>\$21,330,610</u>
Total Liabilities and Surplus	<u>\$ 33,123,189</u>	<u>\$167,885</u>	<u>\$ 33,291,074</u>

Caribbean American Property Insurance Company  
**Statement of Income**

As of December 31, 2010

<b>Underwriting Income</b>	
Premiums earned	\$32,567,100
<b>Deductions:</b>	
Losses incurred	15,780,295
Loss expenses incurred	1,237,151
Other underwriting expenses incurred	7,400,761
Total underwriting deductions	<u>\$24,418,207</u>
Net underwriting gain or (loss)	<u>\$8,148,893</u>
<b>Investment Income</b>	
Net investment income earned	<u>\$999,803</u>
Net investment gain or (loss)	\$999,803
<b>Other Income</b>	
Aggregate write-ins for miscellaneous income	<u>8,393</u>
Total other income	\$8,393
Net income before dividends to policyholders and before federal & foreign income taxes	\$9,157,089
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders, but before federal & foreign income taxes	\$9,157,089
Federal & foreign income taxes incurred	<u>3,460,209</u>
Net Income	<u><u>\$5,696,880</u></u>

Caribbean American Property Insurance Company  
**Capital and Surplus Account**

As of December 31, 2010

Capital and surplus, December 31, prior year	<u>\$16,916,522</u>
Net income (loss)	\$5,696,880
Change in net deferred income tax	12,243
Change in nonadmitted assets	(46,189)
Dividends to stockholders	(1,000,000)
Aggregate write-ins for gains and losses in surplus	(6,756)
Financial examination adjustment	<u>(242,090)</u>
Net change in capital and surplus for the year	<u>\$4,414,088</u>
Capital and surplus, December 31, current year	<u>\$21,330,610</u>

Caribbean American Property Insurance Company  
**Reconciliation of Capital and Surplus Account**

As of December 31, 2010

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Capital and Surplus Account	
December 31, 2010, per Annual Statement	\$21,572,700

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
Net deferred tax asset	\$28,256	\$196,141	\$167,885
<b>LIABILITIES:</b>			
Commissions payable, or similar charges	78,726	488,701	(409,975)
Net Change in Surplus:			<u>(242,090)</u>
Capital and Surplus Account			
December 31, 2010, Per Examination			<u><u>\$21,330,610</u></u>

## **Comments on the Financial Statements**

### **Net Deferred Tax Asset Commission Payable or Similar Charges Unassigned Surplus**

The Company improperly offset the commission liability with amounts due from agents. These balances should have been reported as non-admitted assets as required by SSAP No. 6, Paragraph 6. The adjustments to these accounts in the financial statement adjust the balances to properly non-admit these balances.

### **Subsequent Events**

There were no subsequent events required to be disclosed.

### **Summary of Examination Recommendations**

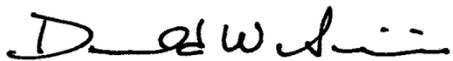
#### *Amounts Due from Agents*

We recommend that the Company properly report amounts due from agents in accordance with SSAP No. 6.

## Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Caribbean American Property Insurance Company** as of December 31, 2010, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, Manager; James M. Perkins, CFE, Staff Examiner; Barry W. Lupus, CPA, Staff Examiner; and John V. Normile, CFE, Staff Examiner, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and Rachel Jenerett, CISA, IT Specialist, both of INS Services, Inc.; Eugene G. Thompson, ACAS, MAAA, Actuary, of INS Consultants, Inc.; and Rafael Ruffat Pastoriza, Examiner of the Office of the Commissioner of Insurance, participated in the examination.



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Donald W. Sirois, CFE  
Examiner-in-Charge