

**REPORT ON EXAMINATION  
OF  
CARIBBEAN AMERICAN LIFE ASSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2010**

**NAIC CODE 73156**

**BY THE**

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

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

December 14, 2011

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-2011-133A dated May 5, 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 Life Assurance Company**  
Plaza Scotiabank  
273 Ponce de Leon Ave, Suite 1300  
San Juan, PR 00917-1838

hereinafter referred to as CALAC 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, 2007 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.

### ***Commissions Due to 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 Commissions Due to Agents with these debit balances. These balances should have been reported as non-admitted assets as required by 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 was not 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 life, accidental death, dismemberment, and disability insurance on consumer loans, mortgage, and credit card balances for banks and other financial institutions doing business in Puerto Rico and the US Virgin Islands.

The Company is a wholly owned subsidiary of American Bankers International Division, Inc. (ABID), which was incorporated in November 1997 under the laws of the Commonwealth of Puerto Rico. Besides the Company, ABID owns Caribbean American Property Insurance Company, 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 520,000 common stock shares authorized, issued, and outstanding with a par value of \$5 per share. CALAC is a direct subsidiary of ABID, which owns 519,975 of the 520,000 shares outstanding.

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  
Álvaro 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>
2007	\$8,000,000	\$17,589,298
2008	1,931,850	13,847,537
2009	7,796,900	18,725,062
2010	3,756,700	16,668,959

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, CALAC	San Juan, Puerto Rico
Alberto Baco	Lawyer	San Juan, Puerto Rico
Alvaro Rafael Calderón	Lawyer	San Juan, Puerto Rico
Ivan 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 of securities. The purchases of the securities were acquired 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 10 years of service. The total net benefit obligation for vested employees for 2010 was \$62,745.

### **Defined Contribution Plan**

The Company sponsors a 401K defined contribution plan. Employees may contribute up to 10 percent of their salary and the Company matches up to 7 percent, depending on years of service. Employees are fully vested after 3 years of service. The Company's matching contribution for 2010 was \$177,656.

### **Intercompany Agreements**

The Company has the following unwritten 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 \$379,690.

#### 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 30 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 \$893,000.

#### IT Agreement

This agreement entered into on September 21, 2000 is between the Company and affiliate American Bankers Life Assurance 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 \$612,816.

### 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	\$47,224,278	\$30,074,542	\$2,600,000	\$2,770,165	\$11,779,571
2009	54,000,808	37,331,849	2,600,000	2,770,165	11,298,794
2008	64,000,658	45,275,596	2,600,000	2,770,165	13,354,897
2007	69,296,095	55,448,558	2,600,000	2,770,165	8,477,372

### Insurance Products and Related Practices

The Company is authorized to write life and disability 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:

	2007	2008	2009	2010
Credit Life	\$28,076,300	\$21,966,461	\$12,988,711	\$11,061,305
Group Life	1,328,540	1,263,701	1,193,022	1,070,008
A&H Group	1,841,480	1,558,039	1,515,499	1,346,925
A&H Credit	19,198,705	15,360,760	9,974,846	7,522,466
<b>TOTAL</b>	<b>\$50,445,025</b>	<b>\$40,148,961</b>	<b>\$25,672,078</b>	<b>\$21,000,704</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:

	2007	2008	2009	2010
Puerto Rico	\$49,460,613	\$39,457,967	\$25,062,231	\$20,310,672
USVI	984,412	690,994	609,847	690,032
<b>TOTAL</b>	<b>\$50,445,025</b>	<b>\$40,148,961</b>	<b>\$25,672,078</b>	<b>\$21,000,704</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
PR Comwlth Pub IMPT	8/01/36	\$1,300,000	\$1,327,456
<b>TOTAL</b>		<b>\$1,300,000</b>	<b>\$1,327,456</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 deposits 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 Puerto Rico securities. The Company maintained investments in Puerto Rico securities in excess of \$1,500,000 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**

The Company maintained several reinsurance contracts in force as of December 31, 2009, with both affiliates and nonaffiliates. All of the contracts are coinsurance arrangements with varying ceding percentages based on written premium.

The reinsurance contracts reviewed complied with NAIC guidelines with respect to the insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information deadlines as stated in SSAP No. 62 of the *NAIC Accounting Practices and Procedures Manual*.

## **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 Maria 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 Life Assurance Company  
Assets

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 29,049,467		\$ 29,049,467
Common stocks	4,893,242		4,893,242
Cash and short-term investments	11,722,234		11,722,234
Investment income due and accrued	212,315		212,315
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	177,007		177,007
Amounts recoverable from reinsurers	762,650		762,650
Current federal and foreign income tax recoverable	380,260		380,260
Net deferred tax asset	18,757	\$ 135,246	154,003
Aggregate write-ins for other than invested assets	8,346		8,346
Total Assets	<u>\$ 47,224,278</u>	<u>\$ 135,246</u>	<u>\$ 47,359,524</u>

**Caribbean American Life Assurance Company**  
**Liabilities, Surplus and Other Funds**

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Aggregate reserve for life contracts	\$ 11,585,925		\$ 11,585,925
Aggregate reserve for accident and health contracts	12,462,873		12,462,873
Contract claims:			
Life	798,504		798,504
Accident and health	1,451,215		1,451,215
Other amounts payable on reinsurance	574,665		574,665
Interest maintenance reserve	407,602		407,602
Commissions to agents due or accrued - life and annuity contracts	144,778	\$ 1,170,958	1,315,736
General expenses due or accrued	280,680		280,680
Taxes, licenses and fees due or accrued	15,881		15,881
Amounts withheld or retained by as agent	743,324		743,324
Amounts held for agents' account	127,065		127,065
Asset valuation reserve	548,655		548,655
Payable to parent, subsidiaries and affiliates	861,826		861,826
Aggregate write-ins for liabilities	71,548		71,548
<b>Total Liabilities</b>	<b>\$30,074,542</b>	<b>\$ 1,170,958</b>	<b>\$ 31,245,500</b>
Common capital stock	\$2,600,000		\$2,600,000
Gross paid in and contributed surplus	2,770,165		2,770,165
Unassigned funds (surplus)	11,779,571	\$(1,035,712)	10,743,859
<b>Total Surplus</b>	<b>\$17,149,736</b>	<b>\$(1,035,712)</b>	<b>\$ 16,114,024</b>
<b>Total Liabilities and Surplus</b>	<b>\$ 47,224,278</b>	<b>\$ 135,246</b>	<b>\$ 47,359,524</b>

**Caribbean American Life Assurance Company**  
**Summary of Operations**

As of December 31, 2010

Premiums and annuity considerations for life and accident and health contracts	\$9,145,136
Net investment income	2,299,272
Amortization of interest maintenance reserve	(70,747)
Commissions and expense allowances on reinsurance ceded	5,623,573
Aggregate write-ins for miscellaneous income	19,902
Total	\$17,017,136
Death benefits	\$3,181,331
Disability benefits and benefits under accident and health contracts	4,526,057
Increase in aggregate reserves for life and accident and health contracts	(6,536,113)
Total	\$1,171,275
Commissions on premiums, annuity considerations and deposit-type contract funds	\$8,053,768
General insurance expense	5,130,815
Insurance taxes, licenses and fees	336,129
Total	\$14,691,987
Net gain from operations	\$2,325,149
Federal and foreign income taxes incurred	24,486
Net realized capital gain	26,110
Net (Loss)/Income	\$2,326,773

**Caribbean American Life Assurance Company**  
**Capital and Surplus Account**

As of December 31, 2010

Capital and surplus, December 31, prior year	<u>\$16,668,959</u>
Net income (loss)	\$2,326,773
Change in net unrealized capital gains	1,869,320
Change in net deferred income tax	(9,665)
Change in nonadmitted assets	85,631
Change in asset valuation reserve	(34,582)
Aggregate write-ins for gains and losses in surplus	(3,756,700)
Financial examination adjustment	(1,035,712)
Net change in capital and surplus for the year	<u>\$(554,935)</u>
Capital and surplus, December 31, current year	<u>\$16,114,024</u>

**Caribbean American Life Assurance 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 \$17,149,736

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
Net deferred tax asset	\$18,757	\$154,003	\$135,246
<b>LIABILITIES:</b>			
Commissions to agents due or accrued	144,778	1,315,736	(1,170,958)
<b>Net Change in Surplus:</b>			<b>(1,035,712)</b>
<b>Capital and Surplus Account December 31, 2010, Per Examination</b>			<b>\$16,114,024</b>

## **Comments on the Financial Statements**

**Net Deferred Tax Asset**  
**Commissions Due to Agents**  
**Unassigned Surplus**

The Company improperly offset Commissions Due to Agents with debit balances 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 recognize the commission due from agents as non-admitted assets because they are in the form of unsecured loans or advances.

**Aggregate Reserve for Life Contracts**  
**Aggregate Reserve for Accident and Health Contracts**  
**Contract Claims: Life**  
**Contract Claims: Accident and Health**  
**Uncollected Premiums and Agents' Balances in Course of Collection**

An independent review of aggregate reserves was performed.

We identified the risks related to reserve determination procedures and methodologies associated with each product segment and in some cases with certain product types within the product segment. The risk assessment process included consideration of the likelihood that the reserve for a particular product group would fall below statutory requirements, the likelihood that the reserve would fail to provide for future cash flow demands and the potential impact on surplus if the reserve established failed to meet its goals. We also took into

account its knowledge of CALAC in particular and the insurance industry in general and applied professional judgment in assessing the risks. For each product type, examination procedures were performed depending on the residual risk assessments as determined.

Examination procedures called for sample reserve calculations, where appropriate, and reserves for sample contracts were calculated in accordance with standard actuarial practice. We concluded that sample reserve testing was not warranted for certain product groups and liability items with a residual risk assessment of low. For these items, it was relied on general analyses and/or a review of the trend analysis.

The balance sheet items enumerated in the examination scope appear to be calculated using valuation parameters, which appear to be free of any material error and valuation files that appear to be complete. We concluded that the December 31, 2010, balance sheet items covered in the examination scope appear fairly stated.

#### **Subsequent Events**

There were no subsequent events required to be disclosed

## Summary of Examination Recommendations

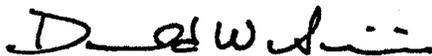
### *Commissions Due to Agents*

We recommend that the Company properly report amounts due/from agents according to 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 Life Assurance Company as of December 31, 2010, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Patrick White, CFE, Examiner-in-Charge; John V. Normile, CFE, Staff Examiner; and Patricia Casey Davis, CPA, CFE, Manager, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and Rachel Jenerett, CISA, IT Specialist, both of INS Services, Inc.; Frank Edwards, ASA, MAAA, Actuary, INS Consultants, Inc.; and Rafael Ruffat, Examiner of the Office of the Commissioner of Insurance of Puerto Rico, participated in the examination.



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Donald W. Sirois, CFE  
Examiner-in-Charge