

ANNUAL REPORT 2015

OFFICE OF THE COMMISSIONER OF INSURANCE
COMMONWEALTH OF PUERTO RICO

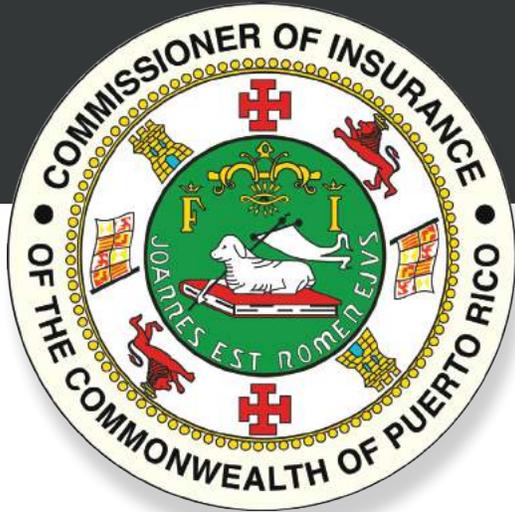
GAM Tower
B5 Tabonuco Street, Suite 216
PMB 356, Guaynabo, PR 00968-3029
Tel. (787) 304-8686 • Fax (787) 273-6082
www.ocs.pr.gov

Authorized by the State Elections Commission. Filing Number CEE-SA-16-11085.

TABLE OF CONTENTS

Message from the Commissioner.....	4
On The Economy of Puerto Rico.....	6
The Insurance Industry by Business Segment.....	7
a. Property and Casualty.....	11
b. Life and Annuities.....	15
c. Health.....	18
1. Health Services Organizations.....	21
International Insurance Center.....	23
New Legislation and Regulations.....	24
Operational Divisions of the OCI.....	26
Contacts.....	28
Appendixes.....	CD





In fulfillment of our ministerial duty, the Office of the Commissioner of Insurance of Puerto Rico presents the 2015 Annual Report which provides an analysis of the statistics and financial results of the insurance industry in Puerto Rico, as well as the issues that had an impact on the insurance industry during 2015.

Data reported by insurers shows that the insurance industry has sustained a stable financial situation over these years that have brought different challenges driven principally by the situation of the economy on our Island. This stability, among other factors, has been the result of effective regulation, focusing on solvency, and competent participants that have collaborated in developing an industry with the financial capacity to face extended periods of economic deceleration. During this year the Property and Casualty and Life and Annuities segments did not experience an increase in written premium. On the other hand, the Health segment did show growth, as a result of the implementation of the Mi Salud program. Likewise, international insurers have continued to grow, with an increase in written premium of 51% as compared to the previous year.

There are several issues that have drawn attention or continued to draw attention during this period. Health services organizations, which during 2014 suffered significant losses due to the reduction of Medicare premiums and taxes related to health reform, reported data that suggest a slight improvement during 2015, largely due to a reduction in administrative expenses. Another financial issue that has drawn the attention of the industry is the devaluation

of Puerto Rico bonds. Domestic insurers increased their total investments from \$5.9 billion to \$6.2 billion and decreased from 8.5% to 4.2% the share represented by investments in Puerto Rico bonds with regard to their total investment portfolios.

There are other matters, while not being strictly financial, that played an important role during 2015. The Office of the Commissioner of Insurance has been refocusing its strategies. In addition to providing services for insurance consumers, the Office is seeking ways to empower them, educating consumers with useful information for a better understanding of insurance products and creating awareness of their rights and obligations. Other tools are being provided for consumers so that they may effectively enforce their rights in a complex and technical industry like the insurance industry.

Being aware that the insurance industry is of high public interest, it is necessary to continue to promote concrete measures directed at consumer protection, while not forgetting the responsibility of the Office of the Commissioner of Insurance to monitor the industry, and ensure the solvency of insurers and compliance with statutory standards, which is of vital importance for the operations of the industry. Along those lines, the Market Conduct division of our Office monitors compliance of our licensees with current regulations, and identifies and prevents generalized unfair practices that directly impact consumers. For this reason, this division has increasingly gained importance and must continue to be developed.

MESSAGE FROM THE COMMISSIONER

Another highlight in 2015 was the implementation of a new mechanism for consumers to select the insurer for the Compulsory Liability Insurance of their preference. The successful implementation of this required, and still requires, that there be follow-up investigations to monitor Market Conduct and compliance of the participants with fair competition standards and the principal provisions of Public Law 245-2015, which advance the consumer's right to have the opportunity to select the insurer of his or her preference among the participants in the Compulsory Liability Insurance selection form at the time of renewing their vehicle registration. The monitoring of unfair practices requires consistency and timely corrective action, to deter new strategies that may endanger consumer rights.

It should be noted that health insurance and the objective of providing greater access to better health services for the population had a great impact on the insurance industry during 2015, the second year of the implementation of the health reform made possible by the Affordable Care Act and the Health Insurance Code. The legislation is far-reaching, but has also been found to be complex and subject to change. The Office of the Commissioner has kept abreast of the new standards that have been developed along this period of health reform implementation, in order to respond with sensitivity and flexibility to the changes and new directives, with a view to making it possible for Puerto Ricans be able to have access to the health insurance coverage

of their selection. In view of the new opportunities, the Office has responded with a new bill submitted at the legislature, proposing new alternative plans with a view to providing all sectors of the population with greater access to health insurance. The health insurance sector has required that regulators be sensitive to the needs of consumers, while being accessible and acting with urgency and perseverance. Health insurance industry participants and regulators will face important challenges in the future, especially with regard to continuing the efforts to eliminate federal taxes on health insurance and obtaining parity for federal Medicare and Medicaid funds.

As a country, we face many challenges and opportunities. The insurance industry, as a vital sector of the Puerto Rican economy, must continue with its efforts. We see as priorities the need to continue strengthening the financial capacity of industry participants and promoting fair practices for consumers. This will strengthen consumer trust in insurance products as an important mechanism for dealing appropriately with financial risk. As regulators of this industry, the Office of the Commissioner of Insurance must continue with its efforts to train the staff that monitors a technical and complex industry, and ensure greater efficiency in its procedures, with a view to achieving the common good under the law.



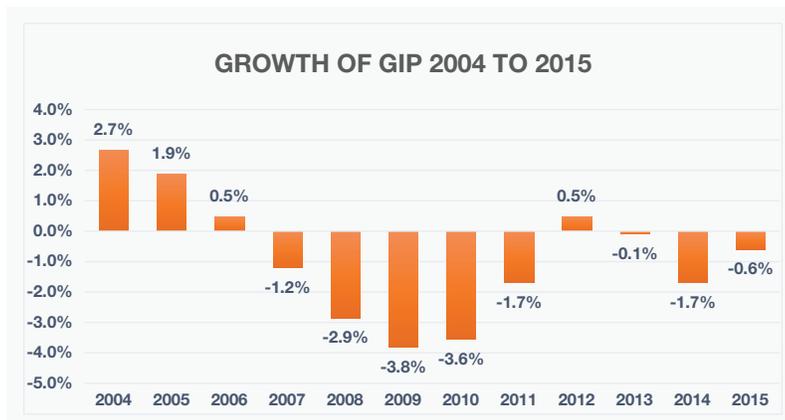
Ángela Weyne Roig
Commissioner of Insurance

José J. Villamil

Estudios Técnicos, Inc.

The performance of the economy shown in the figure to the right is evidently sluggish. The economy has experienced ten years of contraction with the consequent impact on different sectors of the economy and the population.

During 2015 economic indicators sent mixed signals, which do not indicate any change in the trend of the past decade. Total employment increased, but employment in the private sector and non-agricultural salaried employment decreased, exports grew at a very positive rhythm, but manufacturing continued to lose jobs, an issue that is of great concern because of the importance of this sector of the economy.



While the Puerto Rico economy had this aggregate performance, it is no less true that it has experienced a significant transformation, migrating from what could be called the material economy to the intangible or service economy. It is interesting to note that a report prepared by Estudios Técnicos, Inc. for PRIDCO some years ago, indicated that the opportunities for Puerto Rico in CAFTA + RD countries were in advanced services, including those related to the insurance industry.

SELECTED INDICATORS FOR THE PUERTO RICO ECONOMY
(GROWTH WITH REGARD TO THE SAME PERIOD OF THE PREVIOUS YEAR)

INDICATOR	2014				2015			
	T1	T2	T3	T4	T1	T2	T3	T4
Total Employment (Housing Survey)	-1.7%	-1.8%	-2.1%	-1.7%	0.9%	1.0%	1.6%	2.4%
Non-agricultural Employment	-1.9%	-1.9%	-1.7%	-1.4%	-1.0%	-0.9%	-0.7%	-0.8%
Private Employment	-0.4%	-0.8%	-0.9%	-1.1%	-0.8%	-0.6%	-0.7%	-0.6%
Manufacturing (Establishment Survey)	-2.7%	-2.2%	-0.4%	-1.0%	-0.9%	-0.4%	-1.1%	-1.8%
Merchandise Exports	3.6%	-0.1%	12.9%	21.0%	17.3%	3.9%	3.4%	5.4%

This transition to an intangible economy has important implications. For example, these are activities with higher productivity levels, in which land and sea transportation services lose importance and in which technology is the most important production factor in many of the activities. It is interesting to note that many local businesses have benefited from Public Law 20, which stimulates the export of advanced services, export technology-related services, particularly informatics.

This indicates that while it is true that the economy has been contracting since 2006 and this has impacted employment, the populations, and different sectors, such as notably housing construction, it is also true that the economy has been going through a period of important transformation. This transformation has the potential to bring us to a new stage in the development of the country in which our economy is inserted in global currents through technology and the development of advanced services. In 2015 this transformation process began to consolidate and new doors were opened for a Puerto Rican economy that is much more attuned to the new global environment.

Evidently, the fiscal situation of our Government is an important risk factor for successfully achieving this migration towards an advanced services economy and for the future development of Puerto Rico. It is vital that the fiscal issue be resolved in order to redirect the economy to a new structure that is more in step with global trends. However, the measure for solving the situation, including a reduction in Government expenses, increases in the cost of infrastructure services, and increases in taxes, will have a negative impact on

the economic horizon in the short term. Therefore, our projections, like those of the Planning Board, for 2016 and 2017 continue to be that there will be contraction in the economy.

Given this economic scenario, it is evident that the insurance sector, which is part of the essential infrastructure for the development of Puerto Rico, will need to adapt to an economy that is very different from the one that existed until quite recently. Markets that in the 1990s grew rapidly have been contracting in these years. The best example is the market for new housing units, which decreased from 13,400 units ten years ago to 2,300 in 2015. The requirements of an economy in which technology assumes a core function means there must also be adjustments by the industry.

The internationalization of the industry is a route to be considered. This may be achieved in several ways, including selling specialized insurance services abroad, for which, as we have said, there is a need in the region and, of course, through the International Insurance Center, which opens an important door to the global economy and may be a channel for communicating the message that Puerto Rico is an attractive place to do business in, and even as a generator of new economic activities, which has already begun.

The local insurance industry, in spite of the economic contraction of the past decade, has the human resources, the technical capacity, and no less important, a healthy financial situation. This means that the industry is in a position to confront the challenges that have been referred to here.

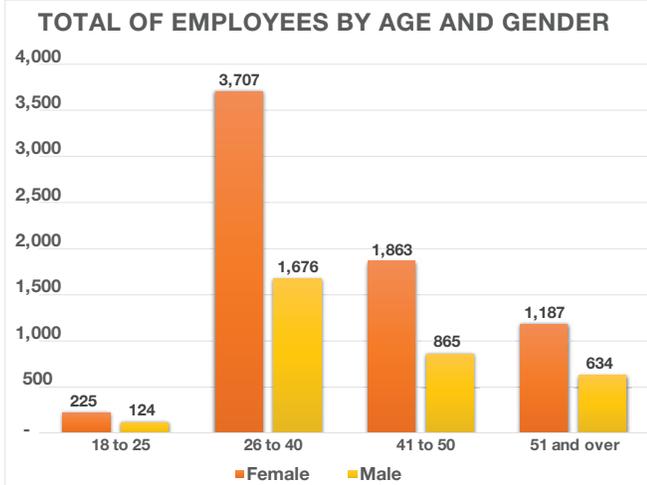
At this point in history, in which Puerto Rico is currently experiencing economic challenges, the insurance industry continues to contribute to the economy. This contribution includes the payment of claims and commissions, administrative expenses incurred on the island, and a large payroll of skilled managerial personnel. In 2015 the insurance industry was comprised of 395 insurers that provided more than twelve thousand direct jobs.

The following table shows the number of insurers and health services organizations that write different kinds of insurance, with a breakdown according to the jurisdiction of domicile:

KIND OF ENTITY	DOMESTIC	FOREIGN	SURPLUS LINES	TOTAL
Life and Disability Insurers	13	94	1	108
Property and Casualty Insurers	22	145	54	221
Health Services Organizations	14	-	-	14
Reinsurers	1	51	-	52
Total	50	290	55	395

When comparing the number of insurers doing business in 2015 with the number in 2014, a 2.7% decrease in the total number may be observed, and the reduction may be identified as related to authorized foreign insurers and surplus lines insurers.

Domestic insurers and health services organizations reported having generated 10,281 direct jobs during 2015, which represented an increase of 10% in comparison with jobs reported in 2014. Of the total number of direct jobs generated in 2015, 2,509 individuals hold one or several licenses issued by the Office of the Commissioner of Insurance ("OCI").

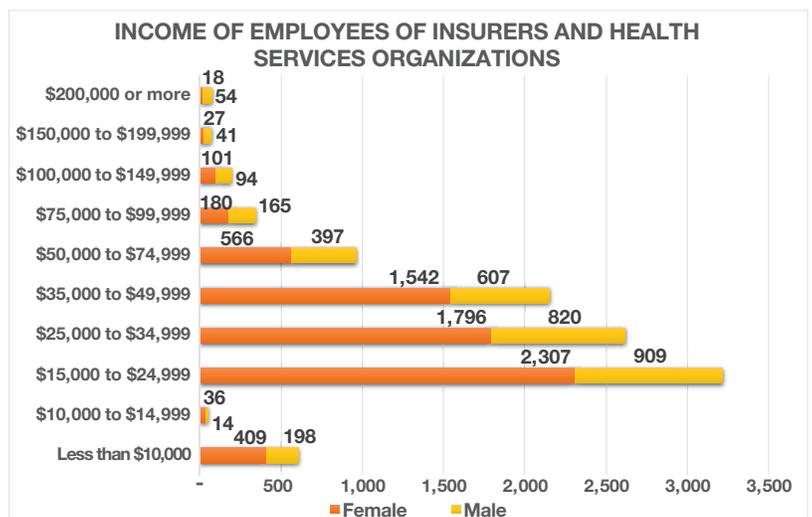


This figure shows that the workforce of domestic insurers and health services organizations is predominantly female. In addition, it is an industry that offers employment opportunities for young talent. Although the insurance industry is by nature conservative, it welcomes the inputs and energy of young minds.

The next figure shows the number of employees by gender and average income. Among the employees, 99.7% are full-time. It is interesting to note that there is a greater presence of the female gender than the male in most of the categories, except the higher-income positions.

Another interesting fact is the educational level of the workforce of the insurers and health services organizations. It can be seen that 75% of the employees have at least some post-secondary education, while 54% of the employees hold a bachelor's degree.

In addition to insurers and health services organizations, the insurance industry is comprised of several legal entities that are regulated by the OCI. The following table shows the number of licenses issued by type of license and the number of direct jobs, with or without a license, generated by each.

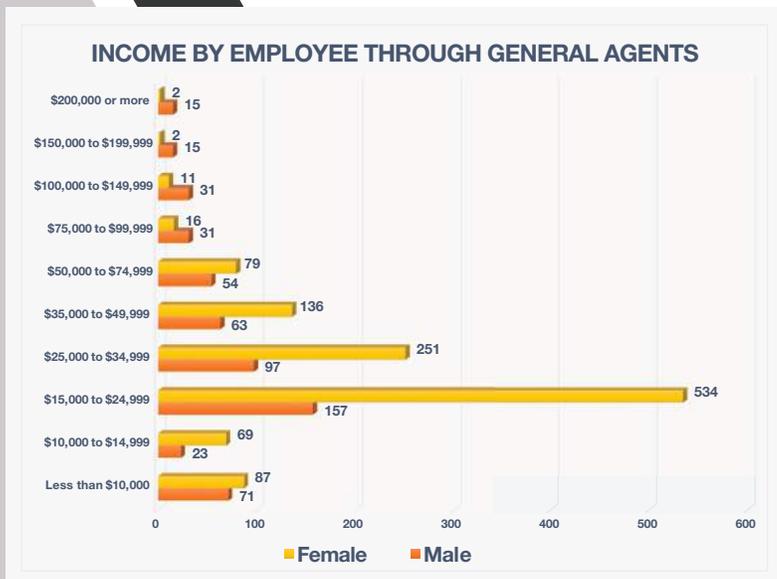
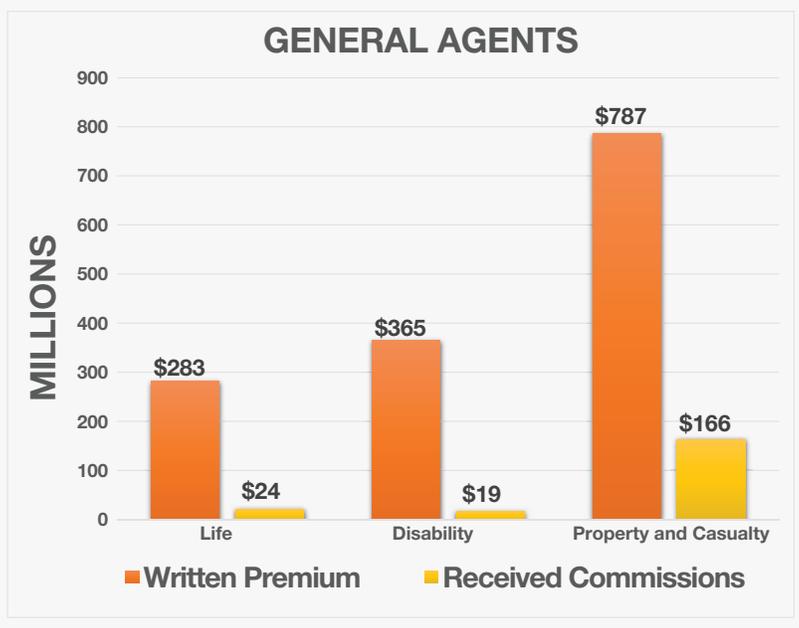


Kinds of legal entities regulated by the OCI	Number of authorized legal entities	Number of employees with an OCI license	Number of employees that do not have an OCI license	Number of direct jobs
Insurers	35	2,311	3,178	5,489
Corporations (General Agents, Brokers, Producers, Consultants, and Authorized Representatives)	513	1,289	1,330	2,619
Health Services Organizations	14	839	3,953	4,792
Grand Total	562	4,439	8,461	12,900

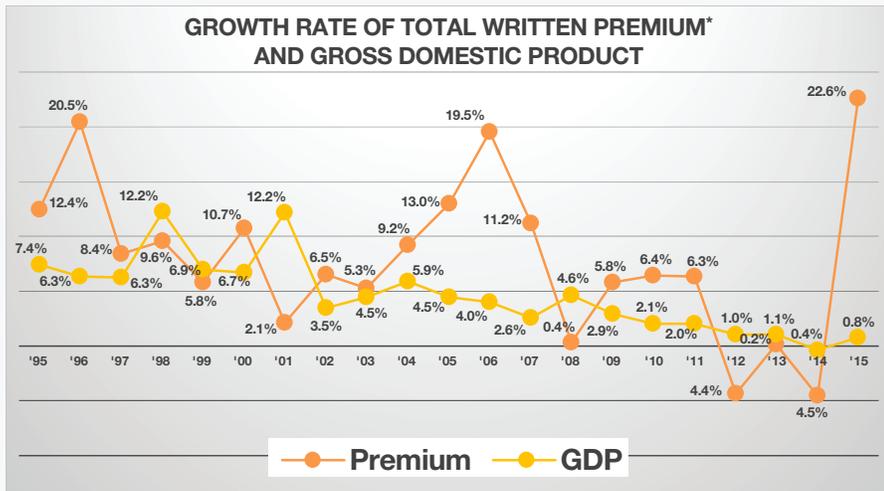
This analysis shows the capacity of the intermediary sector, which is organized as Corporations, to generate direct jobs. In addition to the licenses issued to legal entities, the OCI also issues licenses to individuals. During the past year, the OCI issued at least one kind of license to 10,402 individuals, and of these, 4,439 were employed by a legal entity. Individuals that reported working independently generated some 1,888 jobs.

In the intermediary sector, general agents are legal entities or persons appointed by an insurer to represent it in insurance services operations. General agents reported writing in 2015, \$1,435,267,412 in premium and having received commissions in the amount of \$208,075,820. The following show written premium and commissions received by line of business.

It may be seen that the Property and Casualty segment has more subscriptions through general agents as compared to the other lines of business.



This figure shows the number of employees by gender and average income generated by general agents. The same tendency of predominance of the female gender may be seen when compared to the jobs generated by insurers and health services organizations.



Written Premium grew in 2015, at a rate of 22.6%, compared to a decrease of 0.4% experienced during 2014. This figure compares the rate of growth of Total Written Premium with the rate of growth of the Gross Domestic Product.

*Includes premium written by insurers, health services organizations, surplus lines insurers, and international insurers.

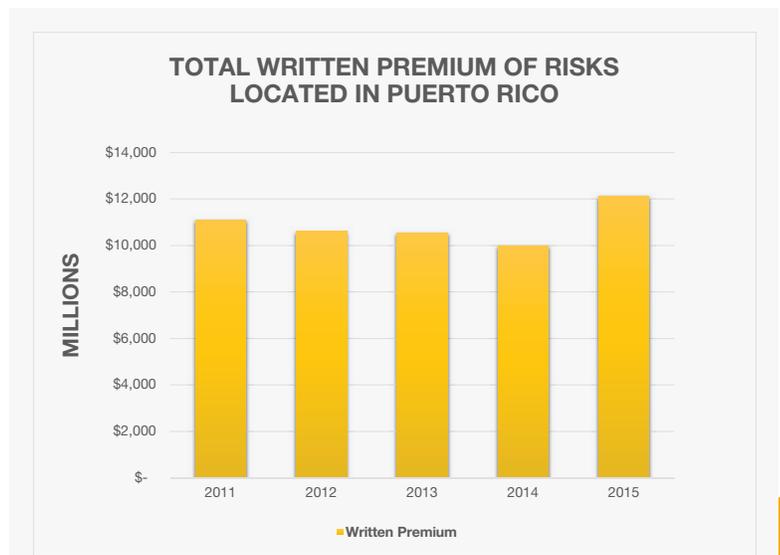
The growth of the written premium was due in a large degree to the change in the contract made by the Health Services Administration (ASES). Effective April 1, 2015, five (5) entities were selected to provide physical and mental health services to the beneficiaries of the health insurance plan of the government of Puerto Rico. This kind of contract has the consequence of being recognized as written premium on an amount of more than \$2,040 million. Therefore, the growth observed in Premium Income in the Health sector between 2011 and 2015 was 11%. If the effect of this contract is discounted, written premium increased in 2015 by 1.1%.

The total of written premium related to risk located in Puerto Rico, as reported by insurers and health services organizations was \$12,127,439,604. It should be noted that 91% of the premium was written by domestic insurers and health services organizations organized under the laws of Puerto Rico, that is to say, 13% of the authorized entities wrote 91% of the premium.

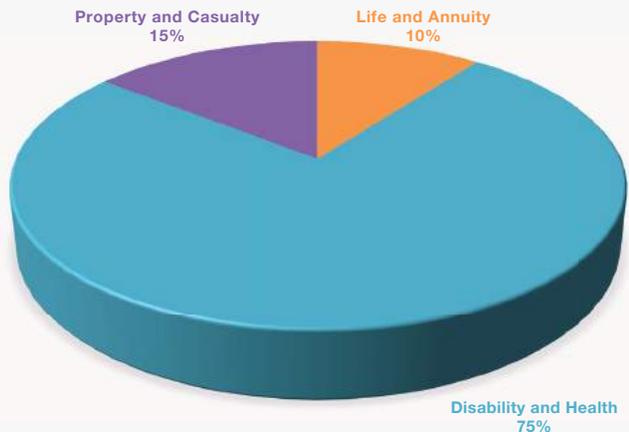
Written Premium	Domestic	Foreign	Surplus Lines	Total
Life and Annuities	\$543,673,709	\$707,932,265	\$0	\$1,251,605,974
Disability and Health	\$8,963,891,343	\$149,232,227	\$1,220,030	\$9,114,343,600
Property and Casualty	\$1,531,870,015	\$216,365,464	\$13,254,551	\$1,761,490,030
Total	\$11,039,435,067	\$1,073,529,956	\$14,474,581	\$12,127,439,030

This figure confirms the pattern of a decrease in the total of written premium on risk located in Puerto Rico from 2011 to 2014. However, as was projected in 2014, the change in the ASES contract produced a significant increase in 2015.

The three sectors in which the insurance business is divided are Health and Disability, Life and Annuities, and Property and Casualty. Of these, Health and Disability accounts for 75% of written premium, followed by 15% for Property and Casualty, and finally, Life and Annuities with 10% of written premium.



MARKET SHARE BY BUSINESS LINE



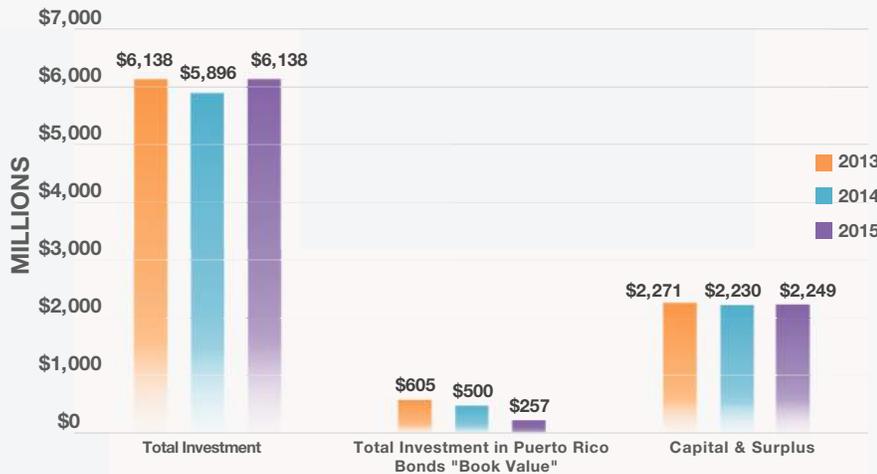
This pronounced difference between the sectors of the industry is mainly due to subsidy programs of the federal and local governments. In the Puerto Rico economy, the health and disability insurance industry has become one of the vehicles for receiving transfers of funds from the United States and, with the new federal taxes, a vehicle for remittance of funds to the federal government.

Another matter that continued to be of public interest during 2015 was the investments of domestic insurers and their impact on the financial situation of insurers. As shown below, income from investments has a different importance in each segment of the industry. However, in 2015 the Property and Casualty and Life, Annuities and Disability segments showed a decrease in comparison with the previous year.

INVESTMENT INCOME



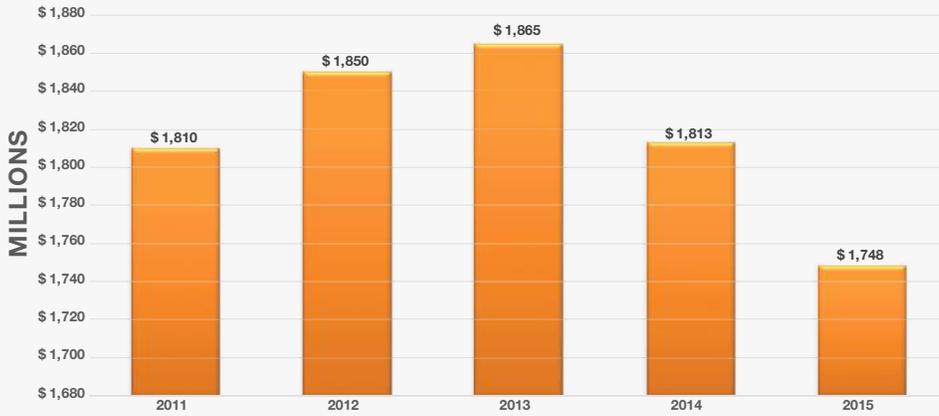
IMPACT ON CAPITAL AND SURPLUS DOMESTIC INSURERS



In this figure it can be seen that the adjustment for the value of the investments was offset by other factors such as net income and additional capital. In addition, it may be observed that the investments in Puerto Rico securities were reduced to 4.2% of total investments, as compared to 8.5% in 2014.

A. PROPERTY AND CASUALTY INSURANCE

PROPERTY AND CASUALTY INSURANCE WRITTEN PREMIUM



This figure shows the total written premium for Property and Casualty insurance from 2011 to 2015. From 2011 to 2015 the segment has seen a net reduction of 3.4%. In the United States, this segment has seen growth for the same period of 4.54%.

The following figure compares the total amount of earned premium, losses incurred, and expenses of loss adjustment in 2015 for domestic Property and Casualty insurers.

EARNED PREMIUM, INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSE PROPERTY AND CASUALTY INSURERS

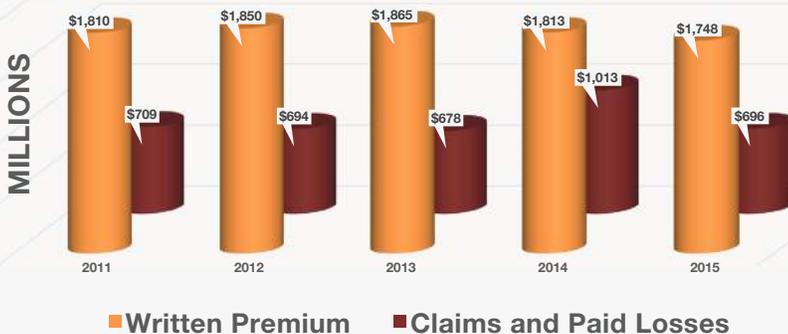


The loss ratio experienced by the Property & Casualty segment was 55.9%, which is less than 65%, the expected national¹ standard. Considering that the loss ratio for 2014 was 57.3%, it may be concluded that the underwriting results for Property and Casualty may be projected as stable and economically viable.

The historical series of written premium and losses paid set forth in the following figure clearly shows the cash flow between insurers and the insured.

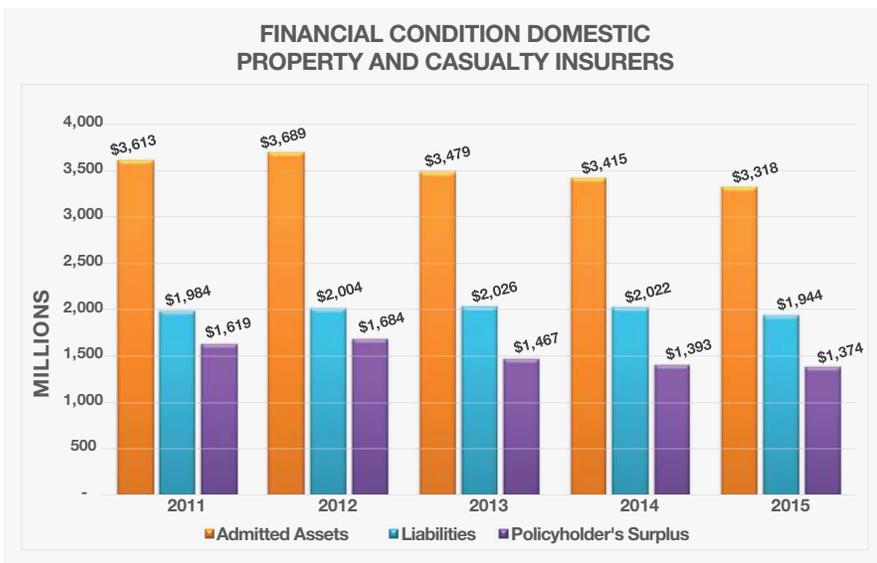
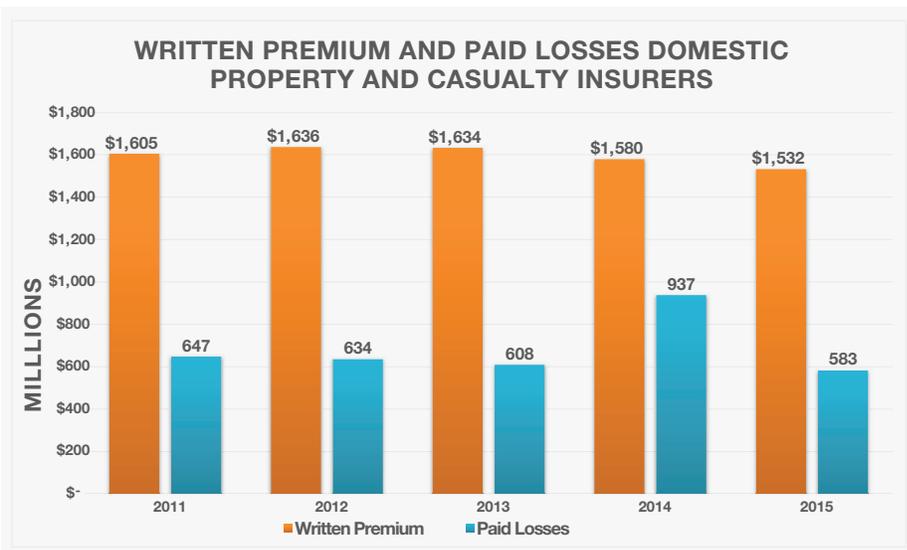
¹ 2015 General Benchmarking Guidelines Prepared by the NAIC Financial Regulatory Services Division

WRITTEN PREMIUM AND PAID LOSSES PROPERTY AND CASUALTY INSURERS



In this figure, the same analysis is made for written premium and losses paid, but only with regard to business transacted by domestic property and casualty insurers.

To the degree that Property and Casualty domestic insurers develop a solid platform, the capacity of the local economy to manage its risk will be strengthened, and dependence on foreign capital will be reduced.

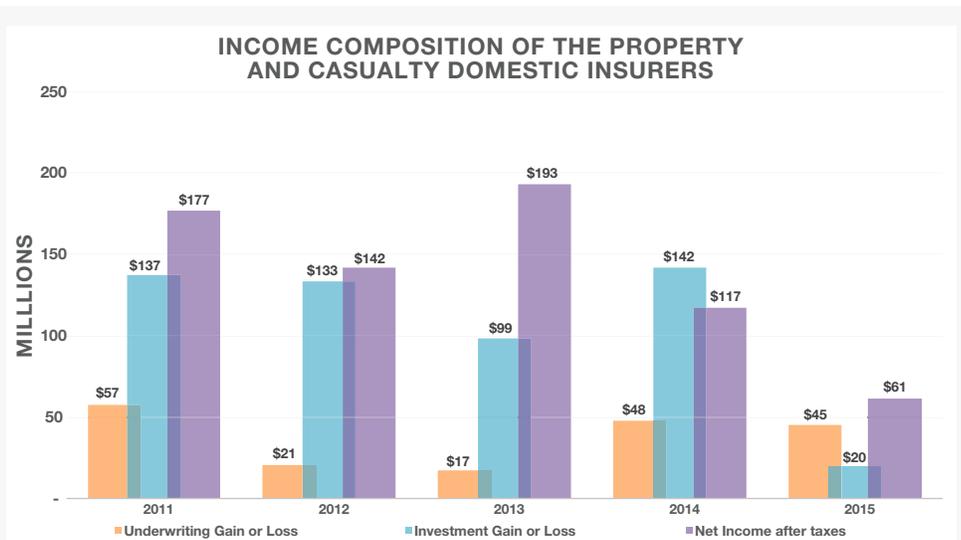


During 2015 a decrease of 3.8% was observed in liabilities for the segment and of 1% for the policyholder's surplus. However, the segment is in solid condition in terms of assets and reserves.

The figure shows Underwriting Profit, Investment Profit, and Net After-tax Income.

During the past five years the results of investment activities, investment income, had become the largest portion of the net income components of domestic property and casualty insurers. However, this year investment income decreased, with the result of a decrease in net income of 48%.

In evaluating the most relevant financial ratios, it can be seen that the Property and Casualty segment maintains healthy and constant levels, in terms of liquidity and operational profitability.

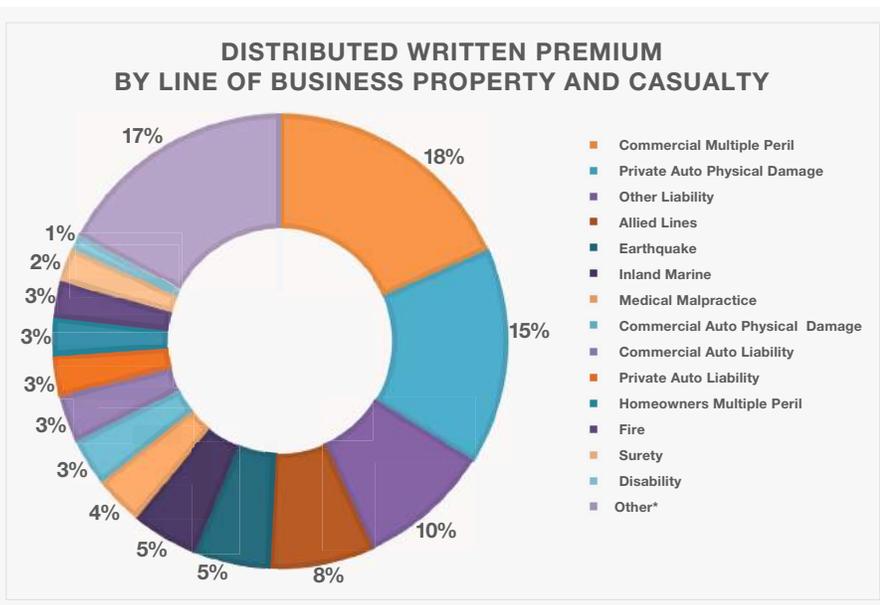
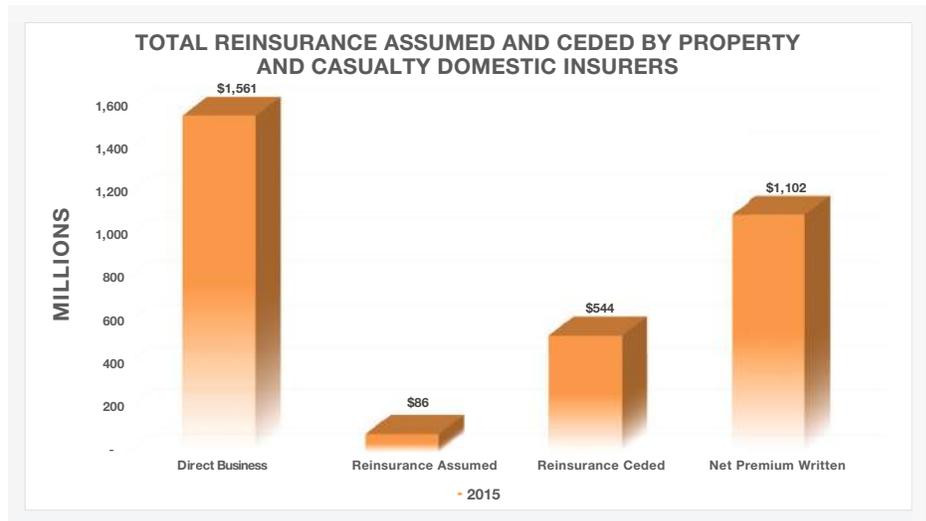


Ratios	2015	2014	2013	2012	2011
Cash Ratio	81.9%	84.7%	84.1%	84.5%	1.15%
Return on Income	5.3%	9.9%	14.7%	11.7%	14.1%
Combined Ratio	96.5%	95.7%	98.3%	98.6%	95.5%

Reinsurers play a key role in the insurance industry. A total of 52 reinsurers backed by a surplus of \$57.4 billion are authorized and participate in the Property and Casualty segment. Property and Casualty domestic insurers are evidently net cedents since they cede some \$544 million in premium to reinsurance. The following figure describes how reinsurers absorbed 35% of written premium in the segment.

The reinsurance market is divided into the “proportional” and “non-proportional markets.” As was stated above, the loss ratio average experienced by the segment was favorable to insurers. This favorable result also has an effect for reinsurers in their “proportional” treaties. Therefore, absent a major catastrophic event, reinsurers with non-proportional treaties also showed favorable results.

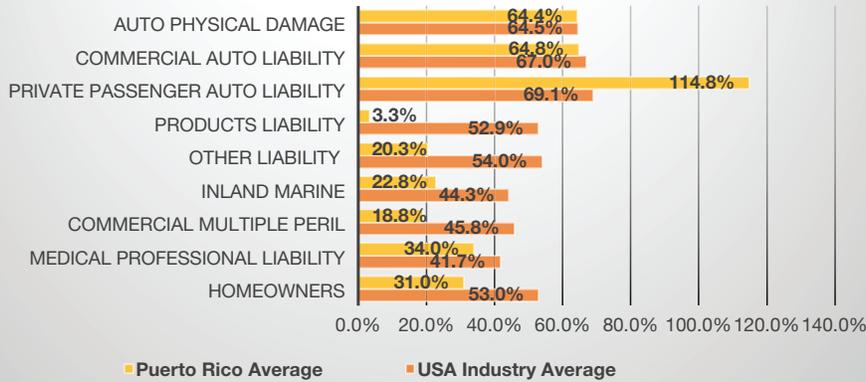
The doughnut figure below breaks down the Property and Casualty insurance segment into the lines of business that comprise the segment and that in 2015 had more than one percent of total written premium of insurers that are authorized to transact business in Puerto Rico.



The “multiple commercial risk” (18.4%), “physical damage to private automobiles” (15.4%), “liability” (9.5%) and “allied lines” (7.5%) lines of business are about 50.7% of the written premium in the Property and Casualty segment.

*Others includes the following lines: Title, Maritime Transport, Mortgage Guaranty, Boiler and Machinery, Flood, Fidelity, Credit, Product Liability, Aircraft, Burglary and Theft, Worker’s Compensation Insurance, Farmers, Multiple Risk, Financial Guaranty, and Crop Multiple Risk.

PURE NET LOSS RATIO

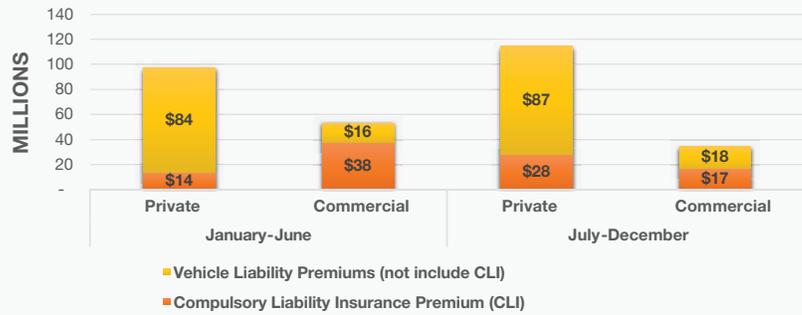


In this figure pure net loss ratio is compared for the principal lines of business written by Property and Casualty domestic insurers to the industry average of the United States or the 2015 General Benchmarking Guidelines².

The business lines that constitute the Property and Casualty segment, showed a pure loss ratio lower than that was reported on average for the insurance industry of the United States, with the exception of the Private Automobile Liability line. The commercial vehicle liability or personal vehicle line does not include the Compulsory Liability Insurance (CLI) for Motor Vehicles, Public Law 253, 1995.

The following figures show written premium for the CLI as compared to written premium for non-CLI automobile liability insurance. It may be noted that 80% of private automobiles in Puerto Rico only have CLI coverage. However, only 38% of commercial vehicles have CLI coverage. In addition, the loss ratio for personal CLI is 64.5% and for commercial CLI it is 55.9%.

PRIVATE PASSENGER AUTO LIABILITY AND COMMERCIAL AUTO LIABILITY PREMIUMS



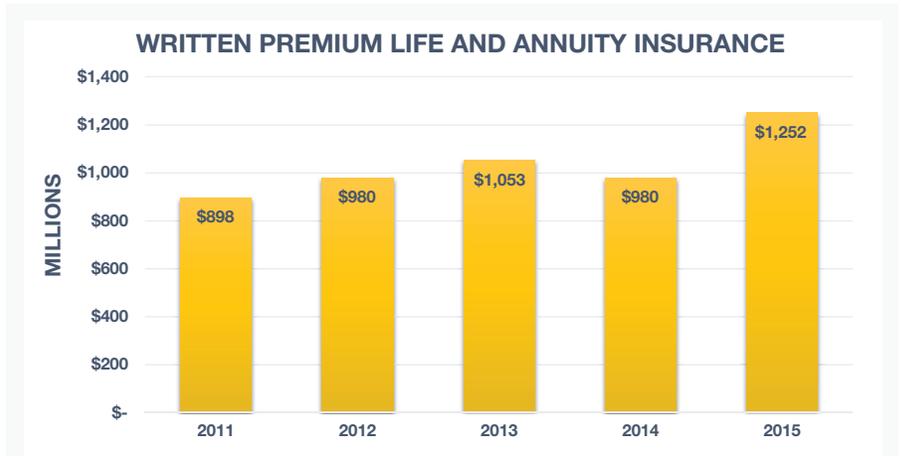
WRITTEN PREMIUM AND PAID LOSSES COMPULSORY LIABILITY INSURANCE



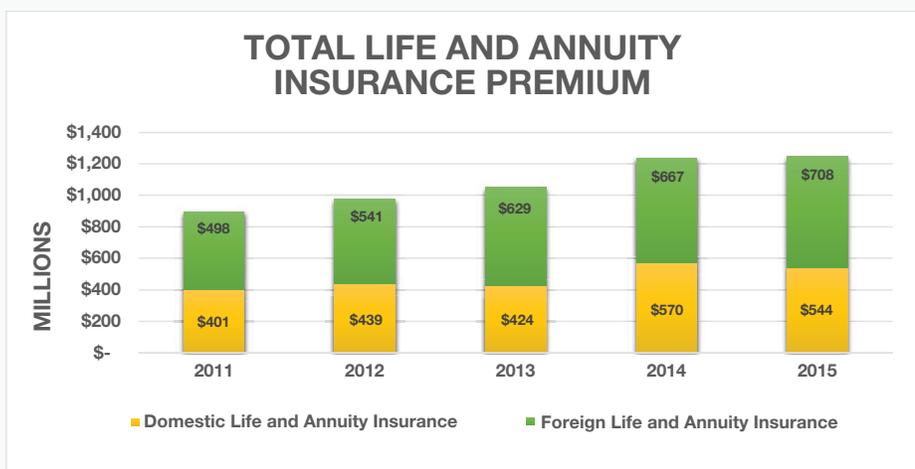
²Prepared by the NAIC Financial Regulatory Services Division.

B. LIFE INSURANCE AND ANNUITIES

The following figure shows written premium for life insurance and annuities from 2011 to 2015, which has been demonstrating growth. A separate evaluation of both insurance lines confirms that the line with the greatest growth is the Annuities line, which showed an increase of 10.20%, while Life showed a total increase 4.4%, for an increase between both lines of 6.86% in the past 5 years. This industry segment in the United States has had a 2.23% growth in the past 5 years.

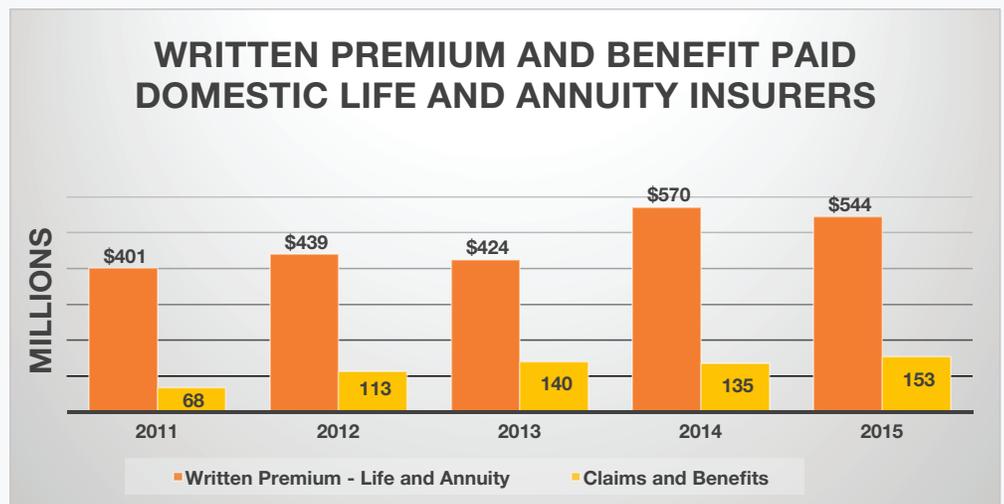


In contrast with other insurance sectors, the life insurance and annuities sector is still dominated by foreign insurers. In the Puerto Rico market, we observe the presence of important global competitors, who due to the volume of business are able to generate economies of scale in their premium per mil (PM). The investment and operational requirements that are applicable to the domestic insurers, and the modest return that is typical of this sector, may be some of the factors that explain dominance of this market by foreign insurers.



This figure shows the trend of written premium broken down by foreign and domestic insurers. Between 2014 and 2015, the former had a growth rate of 6.1% and the latter had a decrease rate of 4.6%.

The volume of written premium for domestic insurers decreased by 4.8%; the payment of claims and benefits increased by 13.3%. The surplus of the segment decreased by 2.7% as shown in the following figure.



FINANCIAL SITUATION DOMESTIC LIFE AND ANNUITY INSURERS



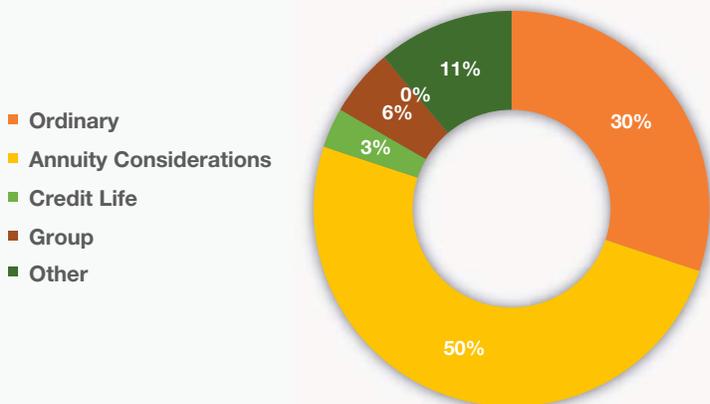
In the aggregate, the financial situation of domestic insurers that write life insurance and annuities for the period between 2011 and 2015 has shown an average growth of 6.5% in admitted assets and 5.3% in surplus.

The annuities business of domestic insurers has been growing in recent years. However, in 2015 it decreased by 8.6%. On the other hand, foreign insurers showed an increase of 11.7%. The line as a whole showed a slight decrease of 0.61%.

WRITTEN PREMIUM ANNUITY INSURANCE



WRITTEN PREMIUM, DISTRIBUTED BY LINES OF BUSINESS LIFE AND ANNUITY



As can be seen in this figure, annuities business represents 50% of the total volume of the premium of this segment. The strengthening of this line is a positive occurrence for the economy of Puerto Rico, because it is an indicator of savings practices. Factors such as the average age of the population and special tax treatment should encourage this trend. In addition, ordinary life insurance, which represents 30% of the total volume of business, has also had growth in written premium of 3.23% in the past 5 years. On the other hand, and as indicated above, domestic insurers need to sustain their rhythm of growth.

In the figure below it may be observed that domestic Life and Disability insurers showed a decrease in net profits during 2015.

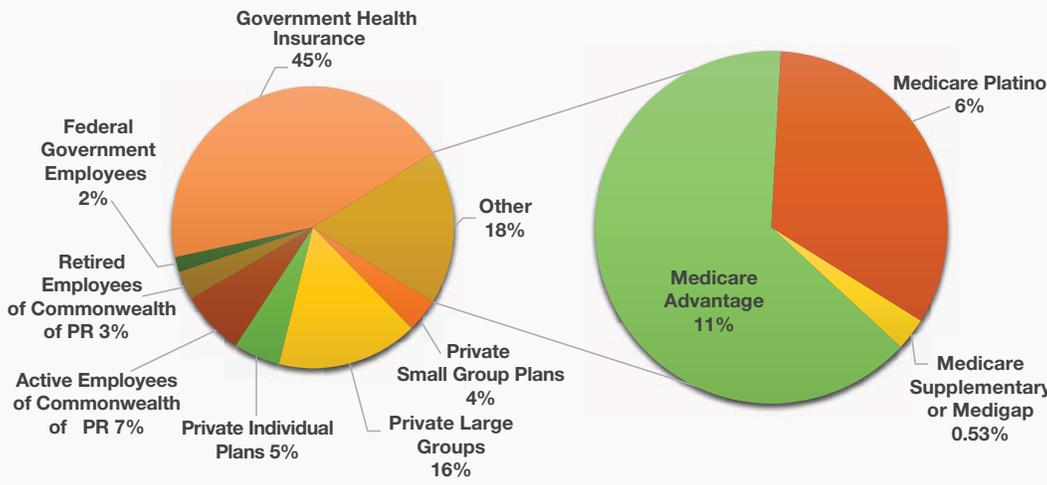


After a high point reached in 2014, the profitability of Life and Disability business of domestic insurers showed a decline in 2015, due to an appreciable increase in the loss ratio.

Ratios	2015	2014	2013	2012	2011
Loss Ratio	76.7%	70.7%	73.3%	76.5%	77.5%
Return on Assets	0.9%	1.3%	1.3%	0.9%	0.1%
Return on Income	2.3%	3.0%	3.0%	1.7%	0.2%

C.HEALTH INSURANCE

DISTRIBUTION OF COVERED LIVES BY TYPE OF HEALTH INSURANCE COVERAGE

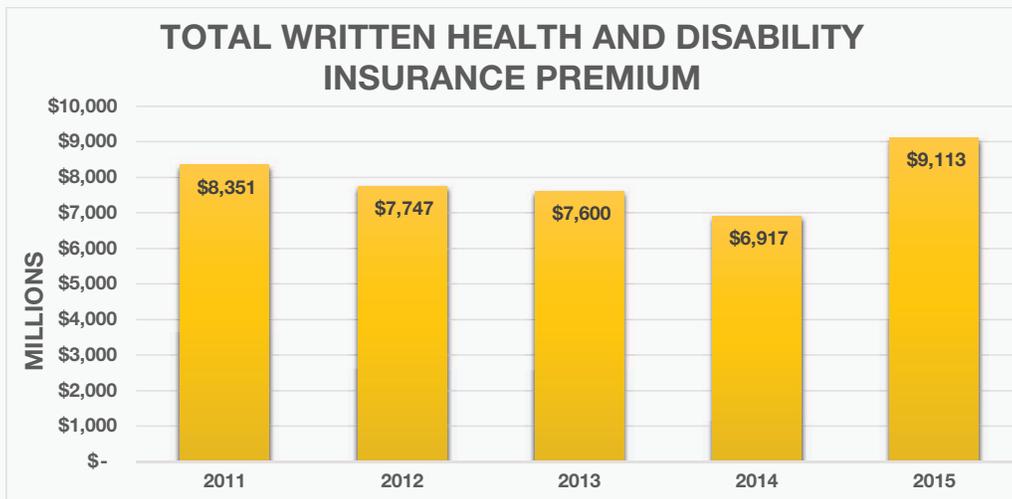


Insurers and health services organizations play a fundamental role in providing the people of Puerto Rico with access to health insurance plans that facilitate health services and promote quality of life.

The above figures show the market penetration of the different kinds of health insurance plans by insured lives. Some 63% of insured lives are covered by some kind of plan supported by federal funds. These are: 45% Medicaid (“Mi Salud,” the Health Insurance System that provides all medically indigent individuals or families in Puerto Rico with medical, hospital, and pharmacy coverage); and 17% Medicare, which in turn is comprised of 11% Medicare Advantage, 5% traditional Medicare, and 0.6% Supplementary Medicare.

In analyzing the conduct in the past five years, the Health and Disability segment has shown growth of 1.8%. The same segment in the United States, has a 7.3% increase. After the decrease in written premium reported for 2012 caused by the change in contracting practices of ASES for the Mi Salud plan, in 2013 and 2014 an additional reduction of 2.4% is observed in this segment. However, in the change in contracting made by the Health Services Administration (ASES), five (5) entities were selected to provide physical and mental health services for the beneficiaries of the Puerto Rico government health insurance plan. This kind of contract resulted in an increase in written premium of more than \$2,040 billion. Therefore, the growth of premium income in this sector was 1.8% between 2011 and 2015.

TOTAL WRITTEN HEALTH AND DISABILITY INSURANCE PREMIUM



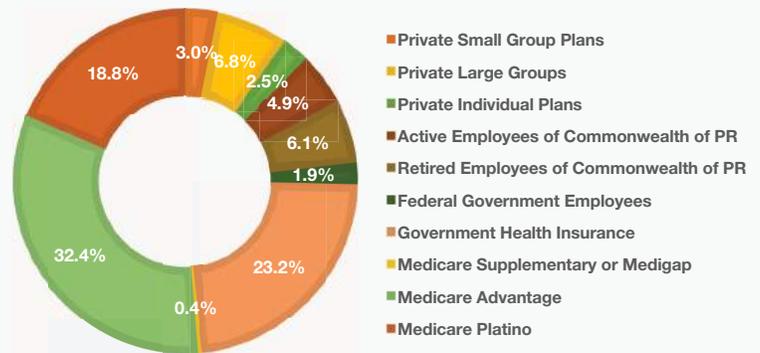
WRITTEN PREMIUM, CLAIMS AND BENEFITS DOMESTIC INSURERS AND HEALTH SERVICES ORGANIZATIONS



As shown in this figure, in comparing the ratio of written premium and losses paid, it can be seen that although written premium for the domestic insurers and health services organizations increased 32% between 2014 and 2015, the reported losses paid increased by 29%.

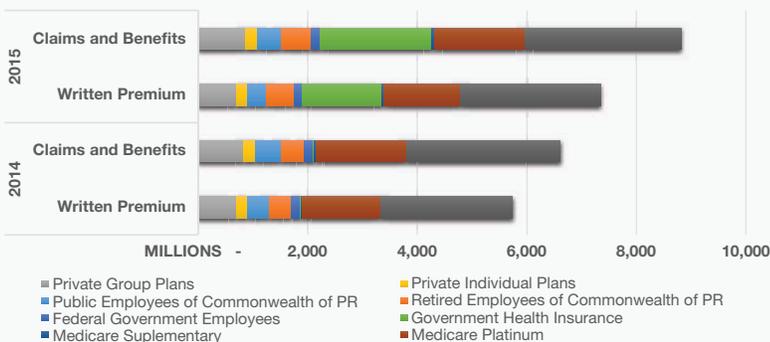
The next figure shows the composition of the segment by written premium for each line of health insurance business. Medicare health insurance plans dominate the health market in Puerto Rico with 32.4% of the total volume of written premium, followed by the “Mi Salud”³ program, with 23.2% of the premium and Medicare Platinum plans in third place with 18.8% of the premium. It should be noted that 74.7% of written premium in health is related to Medicare plans and the Mi Salud program, which are based on state or federal subsidies.

DISTRIBUTED WRITTEN PREMIUM BY LINE OF BUSINESS HEALTH



³A Health Insurance System that provides all medically indigent individuals or families in Puerto Rico with medical, hospital, and pharmacy coverage.

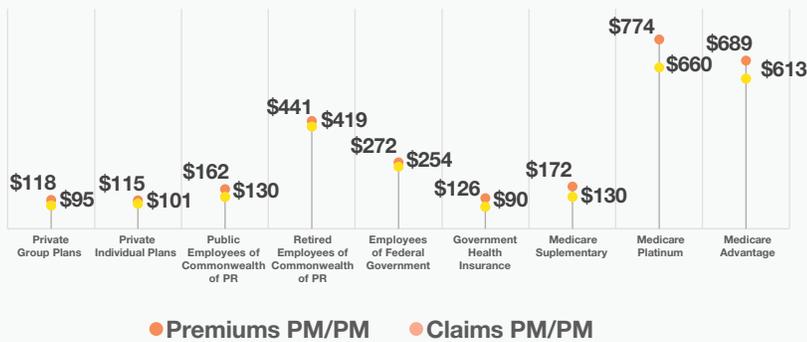
WRITTEN PREMIUM, CLAIMS PAID AND BENEFITS FOR DOMESTIC INSURERS AND HEALTH SERVICES ORGANIZATIONS



This figure shows the conduct of written premium and benefits during 2014 to 2015 for health coverage provided by insurers and health services organizations. In comparing the average change of written premium in the different segments, it can be seen that premium for group plans increased by 3.99%, individual coverage increased by 6.16%, and coverage of federal government employees increased by 5.34%. Given the changes in the contracting arrangement, the most dramatic change was in the “Mi Salud” premium, with an increase of slightly over \$2 billion in 2015.

It can also be seen that written premium for public employees of the Commonwealth of Puerto Rico decreased by 6.67%, for retired Commonwealth public employees there was an increase of 23.42%, and Medicare Supplementary products decreased by 10.73%. However, Medicare Advantage and Medicare Platinum increased by 1.51% and 0.3%, respectively.

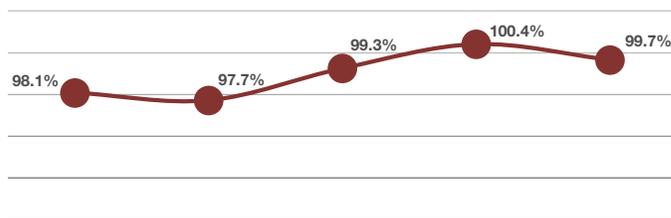
PREMIUMS AND CLAIMS PER MEMBER PER MONTH OF SUBSCRIBERS WITH HEALTH INSURANCE OF PUERTO RICO



This figure shows premium and average monthly claims per month (PM/PM) by kind of health coverage. It can be seen that the highest average costs are for Medicare coverage and the coverage for retired employees of the Commonwealth of PR. On the other hand, the lowest cost coverage is in private individual and group plans. In 2015, the combined ratio, that is to say, the ratio between the sum of claims plus administrative expenses and premium was 99.7%.

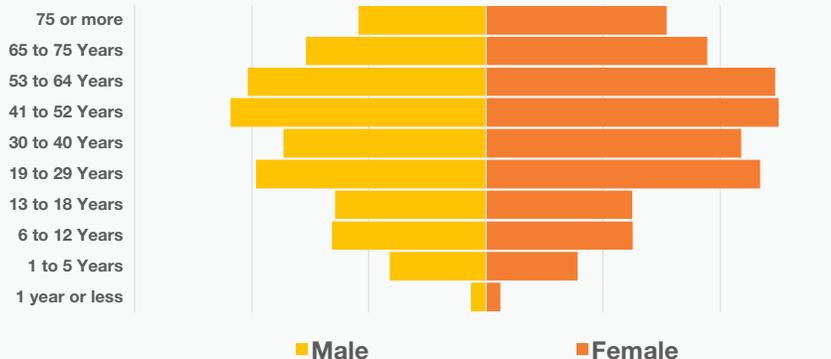
This figure shows the distribution of insured lives by age and gender. The distribution reflects the reality of the population of Puerto Rico, a principally adult population. Our insured population over 65 years old has increased in the past five years by 4.2%. On the other hand, although to a lesser degree, the population of minors (-3.5%) and the population between 19 and 64 years old (-2.5%) continues to decrease. If this trend continues, the population with the greatest need for medical attention will continue to increase, which poses new challenges for the health segment.

COMBINED RATIO FOR HEALTH LINE



	2011	2012	2013	2014	2015
Combined Ratio	98.1%	97.7%	99.3%	100.4%	99.7%

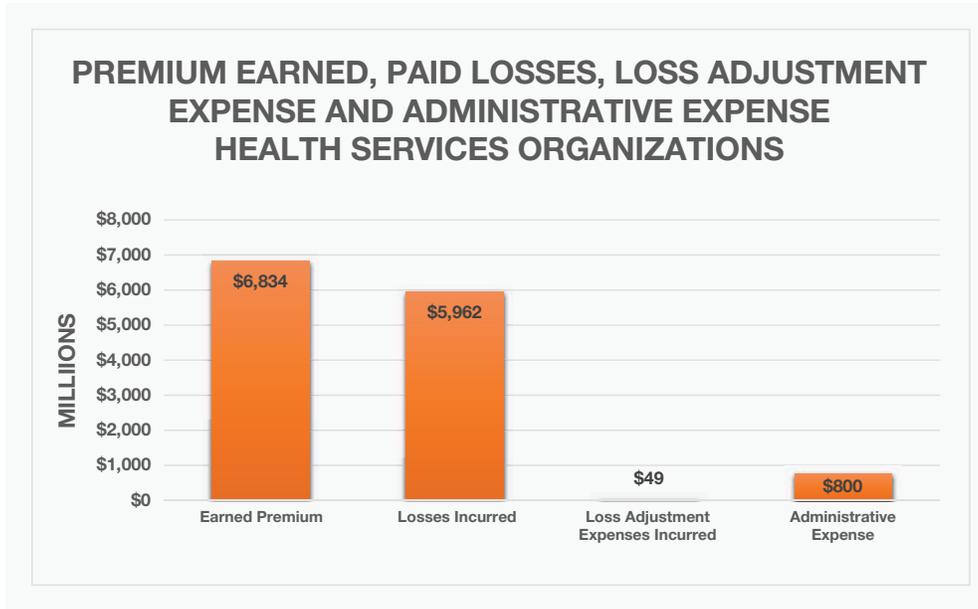
NUMBER OF CHILDREN AND ADULTS INSURED CLASSIFIED BY AGE AND GENDER 2015



This figure shows the distribution of insured lives by age and gender. The distribution reflects the reality of the population of Puerto Rico, a principally adult population. Our insured population over 65 years old has increased in the past five years by 4.2%. On the other hand, although to a lesser degree, the population of minors (-3.5%) and the population between 19 and 64 years old (-2.5%) continues to decrease. If this trend continues, the population with the greatest need for medical attention will continue to increase, which poses new challenges for the health segment.

1. HEALTH SERVICES ORGANIZATIONS

The next figure shows the following indicators for health services organizations (HMO's): premium earned, losses incurred, loss adjustment expenses, and administrative expenses.



The following figure shows the financial condition of this important business sector:

Admitted assets of health services organizations show a growth of 5.1% between 2011 and 2015. There has also been a significant increase of 10.5% in capital and surplus in this sector, principally as a result of capital contributed by participants in the market.

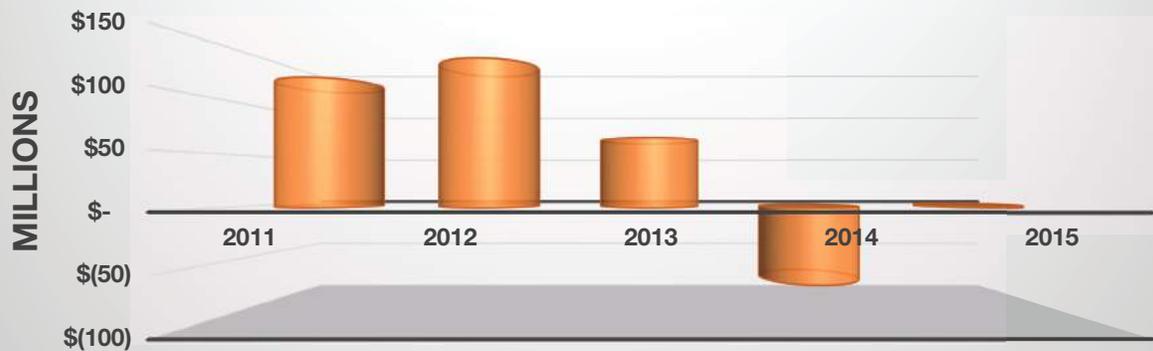


The following are some of the most important ratios for this sector of the insurance industry:

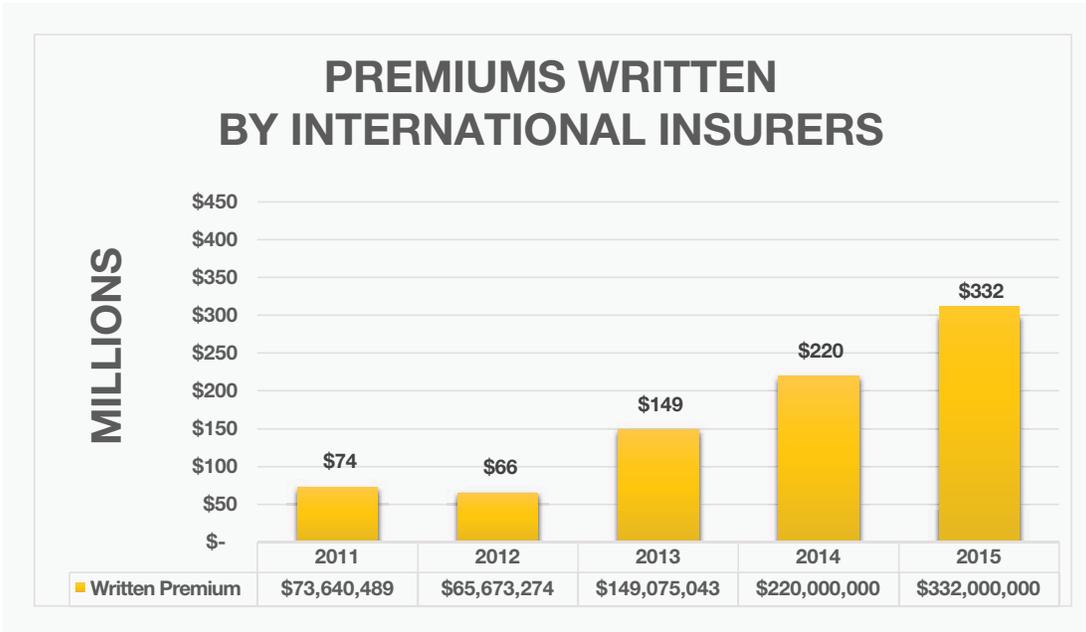
Ratios	2015	2014	2013	2012	2011
Medical Loss Ratio	87.2%	87.2%	86.0%	86.5%	87.4%
Combined Ratio	99.6%	98.5%	98.7%	97.2%	97.6%
Profit Margin Ratio	0.01%	-1.5%	1.2%	2.5%	1.9%

A comparison between the results of the ratios for Puerto Rico and the average for the insurance industry in the United States shows that the medical loss ratio for the local industry was 87.2%, while the United States average was 85.4%, a difference of 1.8%. The combined ratio of the industry in Puerto Rico was 99.6%, while the United States average was 98.5%, a difference of 1.1%. Finally, the profit margin ratio for the domestic industry was 0.01% compared with the United States average of 0.9%, that is to say, 0.89% below the latter.

INCOME OR LOSS STATEMENT HEALTH SERVICES ORGANIZATIONS



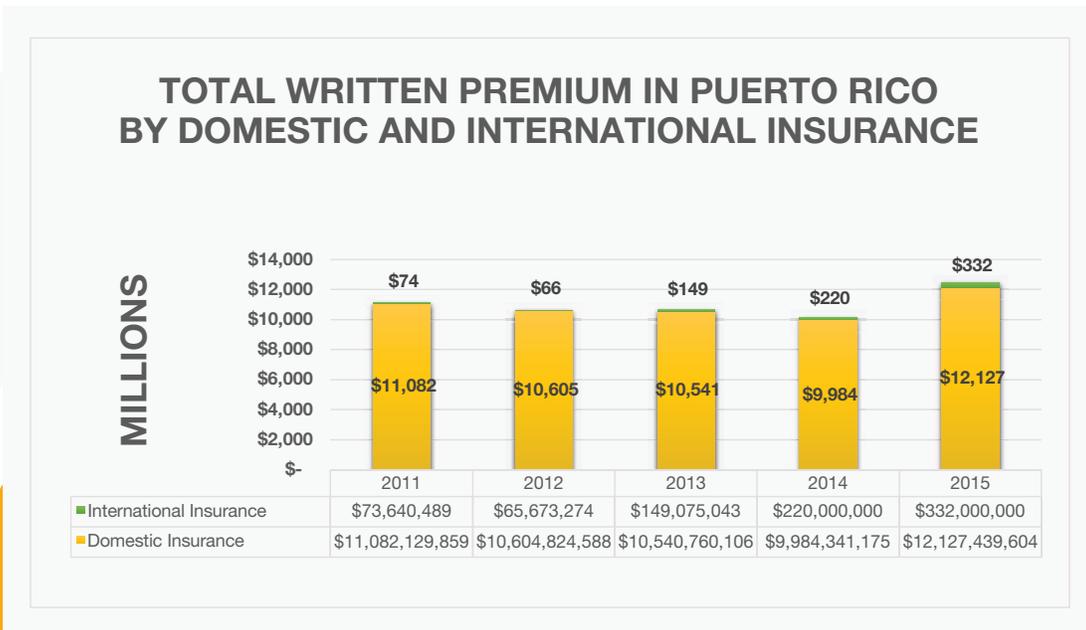
	2011	2012	2013	2014	2015
Net Gain	\$119,613,408	\$137,024,814	\$64,735,278	\$(70,354,748)	\$976,166



The International Insurers and Reinsurers Division, also known as the International Insurance Center (IIC) is the unit of the Office of the Commissioner that administers the authorization and regulatory oversight of international insurance entities. These entities are domiciled in Puerto Rico but transact insurance business abroad. This initiative is one of the pillars for the development of the Puerto Rican economy, based on providing financial services at a global level.

The population of international insurers and reinsurers is comprised of eighteen (18) authorized insurers and 302 active Protected Cell plans in the Property and Casualty sector. This international segment increased premium volume in 2015, by approximately 51% as compared to 2014. With an estimated volume of \$332 million of written premium, the segment has also reached a critical mass, making it not only an important element, but a principal factor for the development of the insurance industry. It is estimated that 73% of total premium is due to Protected Cells.

The next figure compares the development of the volume of premium generated by domestic insurers and the impact of the premium generated by the IIC. It can be seen that written premium of international insurers continues to have real growth at an accelerated pace.



Finally, it is very important to highlight that the growth that has been identified, both in absolute and relative terms, has been obtained with the insertion in our industry of totally exogenous factors. That is to say, that in its initial stages, the IIC has been a mechanism for promoting economic growth.

NEW LEGISLATION AND REGULATIONS

A. AMENDMENTS TO THE PUERTO RICO INSURANCE CODE:

Public Law 108-2015 - Amends paragraph (2) of Section 31.020 of the Puerto Rico Insurance Code, to exclude Cooperatives from the different ways of applying the definition of “person” as a legal entity, among other amendments for related purposes.

Public Law 228-2015 -Repeals Public Law No. 152, enacted on May 9, 1942, as amended, as it is unenforceable after the approval of Public Law No. 122-1998, and by virtue of the alternatives provided in Public Law No. 77, enacted on June 19, 1957, as amended, known as the Puerto Rico Insurance Code, for the development and growth of the entities that are part of the health insurance industry in Puerto Rico.

Public Law 105-2015 - Amends Section 14 of the Public Law 20-2012, as amended, for the Special Fund for the Development of Exports of Services and Promotion, among other matters, to establish that the moneys for this Special Fund will be administered by the Secretary of the Treasury, for among other purposes, to defray expenses associated with promotional campaigns in the United States and internationally regarding the incentives and activities of the International Insurance Center of Puerto Rico, created by Public Law No. 399-2004, as amended, and the International Finance Center, created by Public Law 273-2012, as amended, known as the International Finance Center Regulatory Act.

Public Law 157-2015 - Amends paragraph (h) of Section 6 of Public Law 253-1995, as amended, known as the “Compulsory Liability Insurance for Motor Vehicles Act,” to allow for declaring an extraordinary dividend for the minimum amount of forty-two (42) million dollars to the members of the Joint Underwriting Association, subject to the application of a special one time tax of fifty (50%) percent on such dividend, to be deposited as revenue in the General; Fund to create the “Community Impact Legislative Fund” under custody of the Government Development Bank.

Public Law 201-2015 - Amends paragraph (h) of Section 6 and adds a new Section 9 of Public Law 253-1995, as amended, known as the “Compulsory Liability Insurance for Motor Vehicles Act,” and amends Section 3 of Public Law 157-2015, for the purpose of authorizing the Joint Underwriting Association to declare an extraordinary dividend of 21 million and the payment of a special one-time tax of fifteen (15%) percent to be deposited in the GDB for the benefit of the “Community Impact Legislative Fund”; to establish more rigorous administrative procedures and modify penalties for the purpose deterring unfair competitive conduct in the compulsory liability insurance market; among other related purposes.

B. RULES OF THE REGULATIONS OF THE INSURANCE CODE

Rule No. 4 (IV) - Insurance Adjusters

The purpose of the Rule is to repeal the previous Rule No. 4 and establish a new rule with a view to establishing the license requirements applicable to insurance adjusters, the duties, responsibilities, and rules of conduct which all individuals who hold an adjuster license, whether as a public adjusters or independent adjusters, shall abide by and comply with in the adjustment of insurance claims, to ensure a more effective oversight of adjustment of claims procedures under the insurance coverage.

Rule No. 97 – Reinsurance Intermediaries

A new Rule No. 97 for the purpose of establishing the licensing requirements for reinsurance intermediaries to be authorized or continue to be authorized to act as reinsurance producers or intermediary managers in Puerto Rico, including the duties and obligations that will govern the contractual relationship between the reinsurance intermediaries, ceding insurers, and reinsurers, among other related matters.

Regulation No. 8667 of the Department of State - Repeal of Regulation No. 2272 "Regulation for the authorization and operation of non-profit associations to provide hospitalization and/or medical and surgical services."

The purpose of this Rule is to repeal Regulation No. 2272, as filed at the Department of State of the Commonwealth of Puerto Rico, as it is unenforceable after the approval of Public Law No. 122-1998.

C. RULING LETTERS PROMULGATED BY THE OCI

CN-2015-187-AS - March 26, 2015- Clarifies the guidelines for filing for authorization by the Commissioner of the forms and rates of the health insurance plans that will enter into effect during the 2016 calendar year.

CN-2015-188-AF - April 23, 2015 – Report on the approval of the new Chapter 46 of the Insurance Code on "Reinsurance" and the repeal of Ruling Letter N-AF-4-63-2005.

CN-2015-189-LR –May 21, 2015 – Clarifies the procedures related to the selection form for liability insurance and the implementation of Public Law 245-2014.

CN-2015-190-D - July 13, 2015 - Procedure for emitting the certificate of compliance or "voucher" as evidence of having complied with the requirement of liability insurance coverage to renew registration.

CN-2015-191-AF – November 23, 2015 – To clarify that as part of the business reports that must be submitted are shareholders or partner's meetings, there be included the Annual Report filed by insurers in the format promulgated by the NAIC.

CN-2015-192-ES – December 17, 2015 – Report on the new way to file electronically the annual report of General Agents, managers, producers, and authorized representatives.

CN-2015-193-AF – December 23, 2015 – To notify guidelines for statistical information on medical and hospital malpractice insurance in Puerto Rico



OPERATIONAL DIVISIONS OF THE OFFICE OF THE COMMISSIONER OF INSURANCE

PROPERTY ACTUARIAL DIVISION

The Division is principally responsible for applying public policy established in the Puerto Rico Insurance Code regarding the structure and provisions of insurance contracts in Puerto Rico, so that they will not contain misleading or unfair clauses. During 2015, the Division processed 580 filings of rules, rates, and forms.

LIFE AND HEALTH ACTUARIAL DIVISION

The main function of the Life and Health Actuarial Division is to enforce public policy established in the Puerto Rico Insurance Code, the Puerto Rico Health Insurance Code, Regulations, Ruling Letters, and Circular Letters, by evaluating the structure and language of forms such as insurance contracts, applications, riders, and endorsements. This Division also verifies that the language in these forms is not misleading or will not result in unfair practices. In addition to enforcing applicable regulations for forms, the Division also has the responsibility for evaluating the rates of health insurance plans in the individual and small group market in compliance with the provisions of the Affordable Care Act and the Puerto Rico Health Insurance Code, as well as consumer credit insurance rates, Medicare supplementary coverage, and long-term care insurance, among others. During 2015, the Division received 551 filings of forms and rates. During this period, 542 filings were evaluated, including the evaluation of all of the filings of forms and rates related to metallic coverage required by Affordable Care Act. During 2015, a total of 28 health insurance plans were approved for the individual market and 254 plans for the small group market.

REGULATORY AND LEGAL AFFAIRS DIVISION

During 2015 more than eight bills were drafted and submitted to the legislature. The division prepared 63 statements on legislative measures and participated 30 hearings held by the legislature. In addition, five amendments to rules of the Regulations of the Insurance Code were drafted, of which three went into effect in 2015. During this year, 23 Ruling and Circular Letters were issued, as well as 173 administrative orders for different violations of the Insurance Code. Finally, 98 consultations brought by our licensees or the general public were addressed.

MARKET CONDUCT DIVISION

The purpose of this Division is to measure the level of compliance of the different components of the insurance industry with applicable laws and regulations, with a view to taking necessary action for the timely correction of issues that are identified. This Division particularly emphasizes the prevention and detection of unfair competition and fraudulent practices, for which special examination and investigations are carried out. During 2015, the division received 231 cases to investigate fraudulent, misleading or unfair practices in the insurance market. During this period, the Division processed and closed 214 cases. In 74 of these cases, orders were issued; of these, in 36 cases administrative fines were imposed for a total of \$2,404,125, and insurance licenses were revoked or suspended for 39 licensees.

EXAMINATION DIVISION

The principal function of this unit is participate in fiscal intervention, for the purpose of verifying the economic solvency and business practices of insurers and health services organizations. The Division also examines the business of authorized representatives, general agents, surplus lines brokers, producers, adjusters, among others. During 2015, 21 examinations were initiated, broken down as follows among licensees: eight (8) insurers, three (3) surplus lines brokers, eight (8) general agents, and two (2) special investigations. Field work was concluded for 86% of the 21 examinations initiated in 2015. In addition, thirteen (13) examination reports were notified, or 62%, and five (5) examination reports were filed for public inspection, 38%.

ADMISSIONS AND FINANCIAL ANALYSIS DIVISION

The Admissions and Financial Analysis Division is responsible for maintaining the statistics of the industry, evaluating annual and quarterly financial statements of domestic insurers and health services organizations. In addition, the Division is responsible for the evaluation and authorization of domestic and foreign companies to enter the Puerto Rico insurance market. Among other functions, the Division is in charge of evaluating premium tax and others transactions of domestic and foreign insurers. During 2015, 7 new companies were authorized, including one domestic insurer and a health services organization, as well as 109 corporate transactions. In addition, 80 financial analyses were made of annual and quarterly financial statements of domestic insurers.

INVESTIGATIONS DIVISION

The Division assists any member of the public, whether or not an insured, who submits a request for investigation against an insurer or any individual in the insurance industry. The Division analyzes and studies the requests for investigation to determine if any of the public's rights have been violated with regard to insurance coverage or claims, which could be violations of the Insurance Code or its Regulations. In addition, the division is responsible for receiving and processing requests for intervention in the timely payment of claims of health services providers in compliance with Public Law No. 104 and Rule No. 73. Likewise, the Division orients the general public with regard to the claims process with an insurer. In 2015, 896 requests for investigation and 92 requests for intervention were received. In addition, this Division was responsible for closing 955 requests for investigation and 96 requests for intervention in an effort to comply with this important responsibility in a timely manner. Finally, the Division continued with orientation and awareness campaigns for the public regarding the Insurance Consumer's Bill of Rights and the procedures for enrolling in health insurance in compliance with the Puerto Rico Health Insurance Code and the Affordable Care Act.

HEARING OFFICERS

These Officials are responsible for carrying out the adjudicatory procedures under the Puerto Rico Insurance Code and the Uniform Administrative Procedure Act, to resolve controversies that are submitted to the OCI. The Officials preside administrative hearings and weigh testimonial, documentary, and physical evidence in the administrative records of the cases. They prepare reports with recommendations, which contain the appropriate findings of fact and conclusions of law, for consideration by the Commissioner of Insurance. In 2015, 29 administrative hearings were held and 48 resolutions and resolutions in reconsideration were issued.

LICENSEE SERVICE AND SERVICES FOR THE PUBLIC DIVISION

The divisions are responsible for issuing and renewing licenses for the sale of insurance, and for other personnel in the insurance industry. In addition, they are responsible for administering and directing examinations for applicants for insurance licenses. During 2015, 4,493 examinations were administered to applicants for insurance licenses, and 5,693 new or reactivated licenses were issued. Another of the principal functions of the Division is administering the continuing education program, governed by Rule 52 of the Regulations of the Puerto Rico Insurance Code. In addition, the public that visits the Office seeking intervention or any kind of service provided by the OCI is assisted. The number of visitors for 2015 was 7,470



CONTACTS:

Rubén N. Gely Rodríguez, CPCU, AAI, ARM	Deputy Commissioner for Supervision and Compliance
Glorimar Santiago Rivera, MCA, APIR	Interim Director, Admissions and Financial Analysis
Sugeil M. Díaz Serrano	Statistician, Admissions and Financial Analysis
Dirección Postal:	B5 Tabonuco St. Suite 216 PMB 356 Guaynabo, PR 00968-3029
Dirección Física:	GAM Tower Urb. Caparra Hills Industrial Park 2 Tabonuco St. Suite 400 Guaynabo, PR 00968-3020
Teléfonos:	(787) 304-8686 ext. 6604, 6602, 4400
Correos electrónicos:	rgely@ocs.pr.gov gsantiago@ocs.pr.gov sdiaz@ocs.pr.gov
Internet:	www.ocs.pr.gov

Date of Publication: June 30, 2016

Expected Publication Date of Next Reports: June 30

To obtain a copy of this report or specific data not contained in the report:

Send a written request to the portal address or emails indicated above. The request should indicate the data needed, the purpose of the request, and whether it is for a special entity or project. Depending on the data requested, the information will be provided in .pdf format, or in Excel tables or graphs.

Sources of Information: the statistics presented in this report are obtained from forms or templates in Excel compiled by the Division of Admissions and Financial Analysis from the following sources:

- **SBS Database provided by the NAIC (Reports related to licenses granted and active at the OCI)**
- **I-site Database provided by the NAIC1 (Annual Insurers Reports, Health Services Organizations, Reinsurers, Surplus Lines Insurers)**
- **Database of the Online Services Portal of the OCI (Annual Reports from General Agents, Managers, Authorized Representatives, and Producers)**
- **Database of the Online Services Portal of the OCI (Annual Reports on Jobs of all domestic licensees in the year)**
- **Report “Report of premiums written and claims paid for all kind of medical expense insurance and number of insureds” (Premiums, claims, and insured lives by health insurance)**

Legal or Administrative Framework: Article 2.040 of Puerto Rico Insurance Code, 26 L.P.R.A. § 236 requires the following:

§ 236. Duties of the Commissioner

(1) ... (3) Not later than June 30th of the following calendar year, the Commissioner shall render an annual report to the Governor, and through the Governor, to the Legislature. The report of the Commissioner shall include: (a) An abridged statement of significant information obtained from the annual reports of the insurers filed in the Office. (b) An analysis of the insurance underwritten in Puerto Rico during the preceding calendar year, obtained from the statistics available in the Office. (c) A supporting statement of the insurers authorized to do insurance business in Puerto Rico during the preceding calendar year, including the address, date of authorization, kind of insurance underwritten, funds, deposits for the benefit of policy holders in Puerto Rico, the manner in which such funds have been invested, and any other information deemed pertinent by the Commissioner. (d) The names of insurers that have terminated insurance operations in Puerto Rico and the reasons for such termination, if known. (e) Recommendations of the Commissioner with respect to any amendments to the insurance laws and issues affecting the Office. (f) Any other matters and information that the Commissioner may deem pertinent and useful.

1. SBS = State Based Systems

2. NAIC = National Association of Insurance Commissioners