

ANNUAL REPORT 2013

OFFICE OF THE COMMISSIONER OF INSURANCE OF PUERTO RICO
COMMONWEALTH OF PUERTO RICO



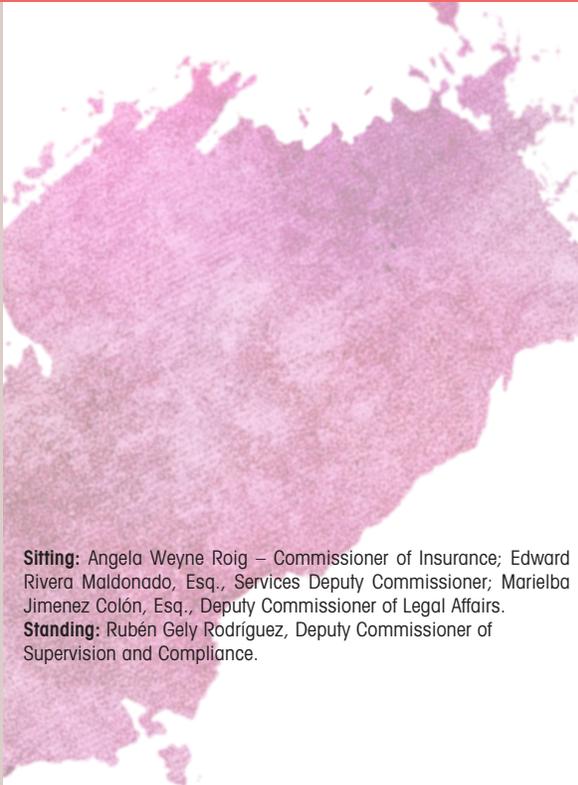
GAM Tower
B5 Calle Tabonuco, Suite 216
PMB 356, Guaynabo, PR 00968-3020
Tel. (787) 304-8686 • Fax (787) 273-6082
www.ocs.gobierno.pr

Table of Contents

Message from the Commissioner.....	4
The Puerto Rico Economy.....	6
The Insurance Industry.....	7
A. Property and Casualty Insurance.....	10
B. Life and Annuity Insurance.....	14
C. Health Insurance.....	17
i. Implementation of the Affordable Care Act in Puerto Rico	21
International Insurance Center.....	22
New Legislation	23
Regulations and Ruling Letters.....	24
Operational Divisions of the Office of the Commissioner of Insurance.....	25
Attachments (CD).....	27



MESSAGE FROM THE COMMISSIONER



Sitting: Angela Weyne Roig – Commissioner of Insurance; Edward Rivera Maldonado, Esq., Services Deputy Commissioner; Marielba Jimenez Colón, Esq., Deputy Commissioner of Legal Affairs.
Standing: Rubén Gely Rodríguez, Deputy Commissioner of Supervision and Compliance.



Greetings,

The 2013 Annual Report of the Office of the Commissioner of Insurance describes the most significant indicators of the insurance industry in Puerto Rico as well as the events that impacted the industry in 2013. This report not only provides an overview of the 2013 results and historical data, but it is also a tool for projecting economic trends and opportunities for the development and growth of the industry.

One of the most important matters covered in this annual report is the stability of the financial indicators, a result of the financial soundness of participants, appropriate regulations, and effective supervision. This stability is in contrast with the results of the indicators for the overall economy.

It is highly satisfying to report that the insurance industry is a major contributor to the development of the Puerto Rico economy in areas such as:

- **direct job creation**
- **investment of funds in the economy**
- **promoting savings**
- **compensation of losses that allow businesses and individuals to recover and re-establish their financial and personal situation during unforeseeable events.**

Total written premium in Puerto Rico reached \$10.7 billion. Health and disability insurance maintain its position as the most significant line of insurance, with 72% of the market in 2013. This segment has depended greatly on federal and state government health plans.

While there is no significant growth in the total written premium compared to 2012, it is quite revealing that the factor that caused the 2013 results to reach and surpass those of 2012 was precisely the business written by international insurers through the International Insurance Center, given that the total written premium on risks located in Puerto Rico for 2013 was less than the written premium for 2012. The International Insurance Center has been shown to be one of the key elements for growth of the insurance industry in Puerto Rico. It affords both local and foreign insurance industries the opportunity to expand their business and to export their insurance products from Puerto Rico, thereby benefitting from incentives while generating jobs, investment, and financial transactions that contribute to the expansion of the economy.

Participants in the insurance industry generated 11,733 direct jobs in 2013, and incurred \$470 million in payroll expenses. In addition to the direct jobs, this industry is a source of work for thousands who are self-employed, under licenses issued by the Office of the Commissioner of Insurance. These sources of direct jobs, along with the exponential effect produced by each employed person, exemplify just one of the areas where this industry generates economic activity on our island. Another area is the injection of capital generated by the businesses we regulate. The total assets held by domestic companies are \$7.5 billion. And our economy benefits from nearly \$2.5 billion in funds invested in Puerto Rico securities and other shares in Puerto Rican companies, and from funds that remain in local banks. Finally, we must mention how the insurance industry, because of the nature of the business, plays a role in financial planning, loss compensation, and recovery during unforeseeable events. In 2013, the insurance industry paid out \$7.8 billion in benefits. The funds disbursed as benefits or compensation were re-injected into the economy and are essential to personal and commercial recovery.

Last year, legislation was approved that had a significant impact on the operations and finances of the participants in our industry. The chapters of the Health Insurance Code needed to implement the federal health reform were finally adopted. This, along with several ruling letters, a consumer information campaign, the approval of several health plans, and compliance enforcement, led to the successful implementation of health insurance reform in accordance with federal provisions, guaranteeing access to health coverage for all Puerto Ricans. In addition, the aim of some of the laws passed in 2013 was to strengthen our office as a regulatory entity. To this end, our office has streamlined our operations to meet the needs and initiatives of our licensees more forcefully and efficiently and to provide better service to insurance consumers. Our contribution to the discussion of insurance issues on an international level in both the United States and Latin America should also be mentioned, as we are the only jurisdiction that is a member of the National Association of Insurance Commissioners as well as the Association of Insurance Commissioners of Latin America.

The industry is facing a number of state and federal tax measures, which represent an even greater contribution by the industry, yet at the same time proves to be a challenge in light of market demands. Another challenge faced by different sectors of the industry is the growing intervention by the federal government through federal legislation and regulation on matters such as reinsurance, insurance business intermediaries, and multi-state policies.

In addition to industry developments, there are theoretical and regulatory trends that will have an influence on our regulatory environment. In particular, the industry is facing significant challenges with the adoption of the capital, valuation, disclosure, and supervision processes and requirements established by ORSA and Enterprise Risk Management, as well as increasing interest in follow-up on Global Systemically Important Insurers (GSIIs) and Systemically Important Financial Institutions (SFIIs).

The stability and maturity demonstrated by the insurance industry in light of the challenges presented by the Puerto Rico economy over the past 10 years positions this industry as one of the most prosperous and stable economic sectors that we can count on to develop and contribute to the socio-economic progress of Puerto Rico and to our future as a country.



Angela Weyne Roig
Commissioner of Insurance

“Our economy benefits from nearly \$2.5 billion in funds invested in Puerto Rico securities and other shares in Puerto Rican companies, and from funds that remain in local banks.”



THE PUERTO RICO ECONOMY

By: Dr. Juan Lara - Fontáñez

Since February of 2014, when the debt of the Puerto Rican government was downgraded below investment grade, economic policy has been focused on achieving a balanced government budget no later than by fiscal year 2015. This objective must be met while also stimulating job creation and reactivating the economy.

An encouraging fact is that during the first six months of 2014, the economic indicators have shown some stability. If this tendency continues throughout the year, economic growth will be close to zero, which will mean that the prolonged recession could be reaching an end. This is a necessary transition so that in the next two years there may be gradual expansion in production, employment, and earnings.

In order to sustain economic growth after stabilizing the economy, it is imperative to rely on public and private investments. An example of these projects is the German company Lufthansa Technik's proposed plan for the Rafael Hernández International Airport in Aguadilla, scheduled for 2015. The multinational will create a new aviation maintenance, repair and overhaul ("MRO") facility in Puerto Rico. Its first client will be Jet Blue Airlines, which has been steadily increasing its presence in Puerto Rico for the last three years. Another emblematic venture is the rum production expansion plan by Destilería Serrallés.

In addition to balancing the budget and stimulating investment and job creation, economic policy must focus on reforms that are needed to infuse agility, competitiveness and vitality into the Puerto Rican economy. The Treasury Department and the Legislature have been working on a tax reform that will stabilize government revenues, once the budget is balanced, and improve incentives for private economic activity. There are also plans for an energy reform that will reduce long-term energy costs, while also diversifying energy alternatives to include renewable energy sources.

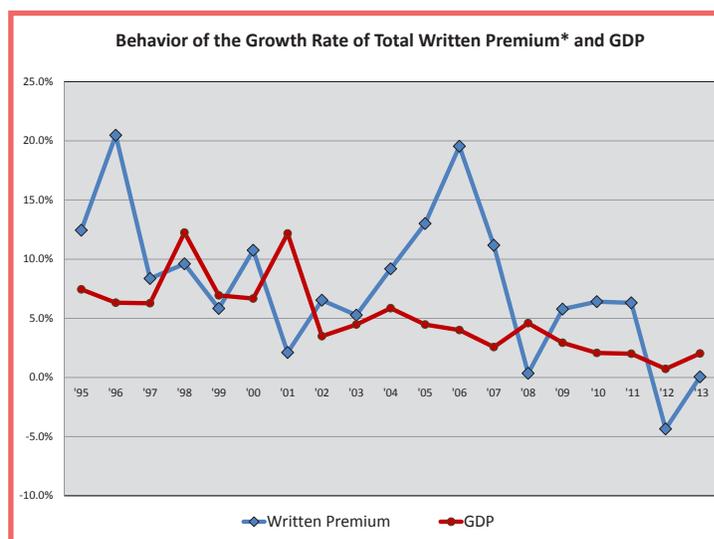
In this economic environment, the insurance industry plays an important role. The insurance industry has had notably more staying power to endure the economic crisis in the financial sector. Unlike other financial industries, the insurance industry has not suffered drastic economic downturns in assets or profitability, although it has not been completely immune to the overall fragility of the economy. This staying power has allowed the industry to continue to contribute to the local economy with jobs and income for Puerto Ricans during these hard times.

The industry has still a lot to contribute to the economic recovery of the island by facilitating the management and coverage of risk in all productive areas, including strategic areas such as the health sector. In addition, the continuing efforts leading to the internationalization of the insurance industry contribute to positioning Puerto Rico in the global scenario, while improving the island's competitiveness.

THE INSURANCE INDUSTRY

During 2013, the insurance industry in Puerto Rico continued to confront great challenges in the face of social phenomena such as a decrease in the population resulting from emigration and a reduction in the number of births, as well as economic tendencies which influenced the capacity of Puerto Rican homes to use funds for discretionary spending. These factors, among others, have a direct effect on the insurance industry's capacity for growth and require ingenuity and discipline to be overcome successfully.

During last year, the insurance industry in Puerto Rico exhibited virtually a static behavior, as was observed when the growth rate of written premium was evaluated.



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

Written premium increased in 2013, at a rate of 0.1%, compared to the decrease of 4% experienced during 2012.

Total written premium as related to risk located within Puerto Rico, reported by insurers and health maintenance organizations, reached \$10,540,760,104. It should be noted that 90.3% of the premium was written by domestic insurers and health maintenance organizations created under the laws of Puerto Rico. Foreign insurers doing business in Puerto Rico wrote the remaining 9.7%.

Written Premium	Domestic	Foreign	Surplus Lines	Total
Life and Annuities	\$423,613,957	\$629,351,794	\$0	\$1,052,965,751
Health and Disability	7,462,784,539	137,343,266	830,502	7,600,958,307
Property and Casualty	1,633,678,342	230,898,359	22,259,345	1,886,836,046
Total	\$9,520,076,838	\$997,593,419	\$23,809,847	\$10,540,760,104

There is also an observable concentration in the market. This is precisely because domestic insurers and health maintenance organizations, which control approximately 90% of the written premium in Puerto Rico, only represent 12% of the authorized entities in Puerto Rico.

This table shows the number of insurers and health maintenance organizations, which write different insurance lines, by domicile:

Entity	Domestic	Foreign	Surplus Lines	Total
Life and Disability Insurers	14	95	1	110
Property and Casualty Insurers	21	144	64	229
Health Services Organizations	14	-	-	14
Reinsurers	1	54	-	55
Total	50	293	65	408

There is a 3% increase of business in 2013 as compared to 2012, which occurred in foreign entities authorized to do business in Property and Casualty lines.

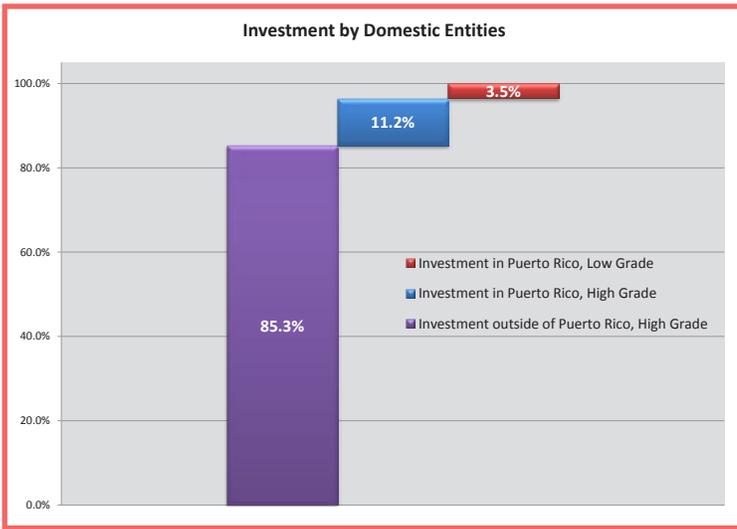
One of the areas in which the insurance industry continues to contribute to the economy is in its capacity to generate employment and the corresponding injection of funds in the economy. Domestic insurers and health maintenance organizations report that they have generated 9,286 direct jobs during 2013, with payroll expenditures of \$470,154,566. Reported for 2012 are 9,979 direct jobs, with payroll expenditures of \$468,571,398; of the total number of direct jobs generated in 2013, it was reported that 3,198 persons hold one or more licenses issued by the Office of the Commissioner of Insurance ("OCI").

In addition to the insurers and health maintenance organizations, the insurance industry includes a wide range of legal entities regulated by the OCI. The table below shows the number of licenses issued according to the type of license as well as the number of direct jobs with or without licenses which each of these generates.

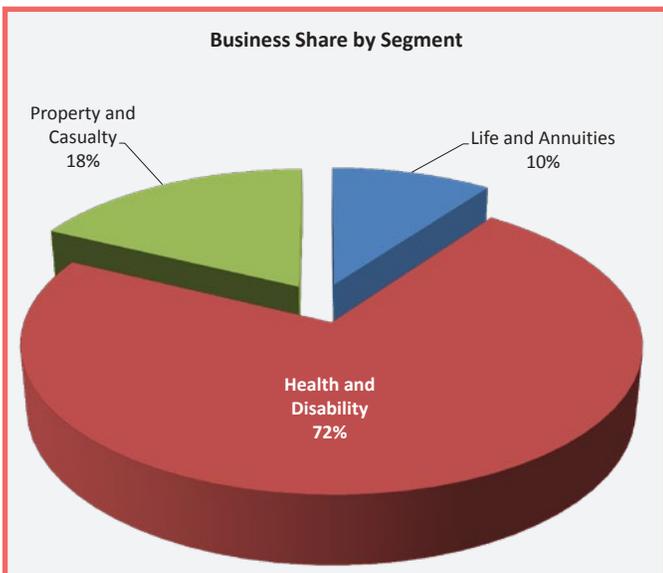
Types of Legal Entities Regulated by the OCI	Number of Legal Entities Authorized	Number of Employees with a License Issued by OCI	Number of Employees Without a License Issued by OCI	Number of Direct Jobs
General Agents	14	79	52	131
Adjusters	16	12	15	27
Insurers	35	1,707	4,167	5,874
Insurance Consultants	1	-	-	-
Health Maintenance Organizations	14	611	2,801	3,412
Surplus Line Producers/ Brokers	41	206	225	431
Surplus Line Producers/ Brokers/Consultants	2	33	51	84
Producers	66	61	78	139
Contract Services Providers	6	-	16	16
Authorized Representatives/ General Agents	93	150	309	459
Surplus Line Authorized Representatives/General Agents/ Brokers	20	118	496	614
Surplus Line Authorized Representatives/ Brokers	1	1	6	7
Authorized Representatives	230	220	319	539
Grand Total	533	3,198	8,535	11,733

It follows from this analysis that, after insurers and health maintenance organizations, general insurance agencies (including when these hold other licenses) are the regulated entities that generate the most jobs and employ the largest number of people with OCI licenses. In addition to the licenses issued to legal entities, OCI licenses individuals. Last year, the OCI granted at least one license type to 7,519 individuals, and of these, 3,198 persons were employed by one of the legal entities described in the table.

Another matter that was of special interest during the past year and which is expected to be even more relevant in the coming years is the investment in Puerto Rico securities made by the Insurance Industry. The graph presented below shows that 96.4% of the investments made by domestic insurers and domestic health maintenance organizations maintain a high rating. In early 2014, several investments made by insurers, reinsurers and domestic health services organizations were classified as low-rated investments. However, it should be noted that for 73% of these entities, these low-rated investments represent 10% or less of their capital and surplus. Strict rules apply to insurer investments and the discipline they exercised in their investment policies was key to successfully confronting the impact of the reclassification of Puerto Rico bonds.



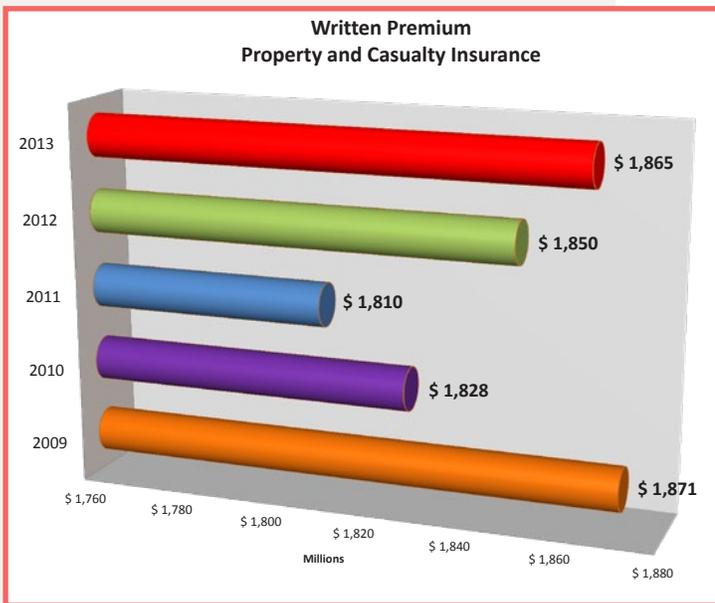
A decrease in total written premium for risks located within Puerto Rico can be seen in this graph. However, since it is minimal compared to the significant change experienced last year, the reduction actually reflects a degree of stability. The drastic reduction experienced in 2012 was mainly due to the change implemented by the Health Insurance Administration (ASES) for provider contracts in the Mi Salud Plan. During 2012, ASES assumed part of the risk and paid for the administration. This change resulted in more than \$500 million in premiums not being recognized. Without this change, it is possible to conclude that other insurance lines also remained stable.



Insurance premiums were concentrated in the three lines into which the insurance business is divided. Health and disability is the line that has the largest share, at about 72% of written premium. This line is followed by property and casualty insurance with an 18% share, and finally, life and annuity with 10% of written premium.

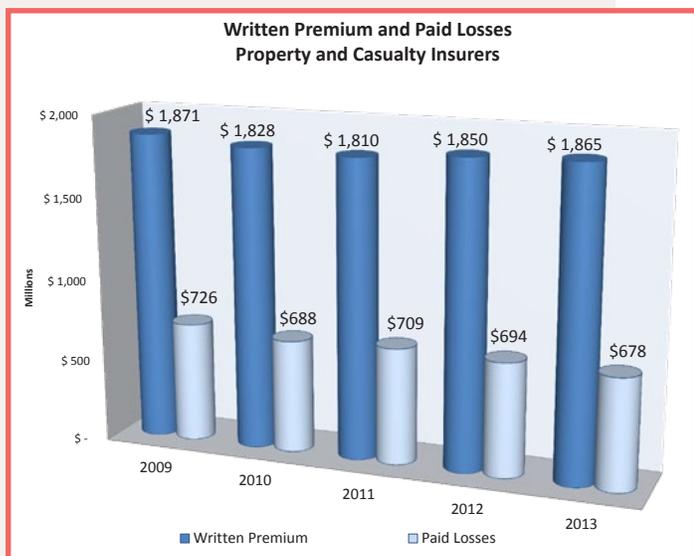
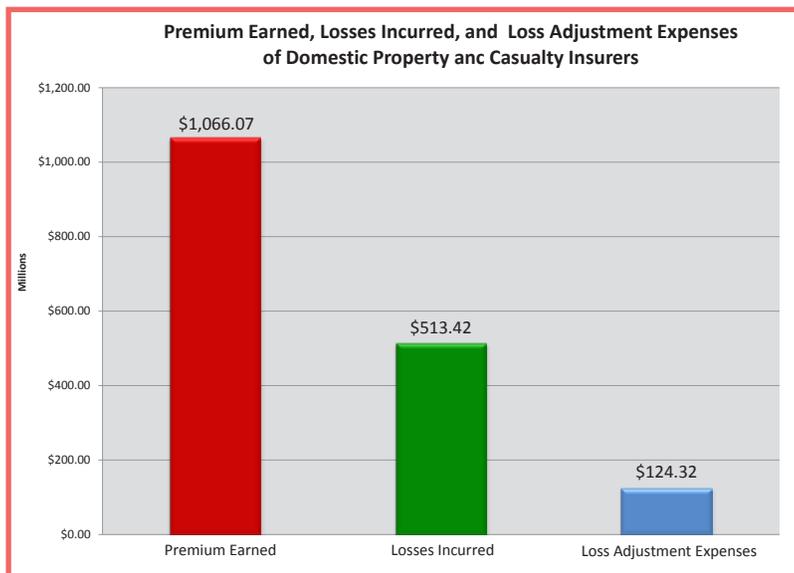
The marked difference between the health and disability insurance lines with the rest is the result of federal and local government subsidies which are channeled through Mi Salud. In the Puerto Rico economy, the health and disability industry has become one of the vehicles for receiving transfer funds from the United States and, with new federal taxes, a vehicle for remitting funds to the federal government. An entire economic structure consisting of intermediaries, professionals, and other providers is based in the health and disability sector.

A. PROPERTY AND CASUALTY INSURANCE



This graph shows the total written premium for property and casualty insurance between 2009 and 2013. Comparing the behavior of the property and casualty segment from 2009 to 2013, it can be concluded that the net result was that the total written premium decreased by 0.3%. However, it cannot be ignored that after showing a decrease in 2010 and 2011, since 2012 the number has reflected an upward trend, although less distinct in 2013. The 0.8% growth rate experienced in 2013 in fact coincides with the annual increase seen in the United States for this segment. The trend in premium growth is an important consideration when making projections not only for the future of this segment, but regarding its ability to hold up in the face of events producing major losses.

The following graph compares the total amount of earned premium, incurred losses, and loss adjustment expenses corresponding to 2013 for Puerto Rico property and casualty insurers.

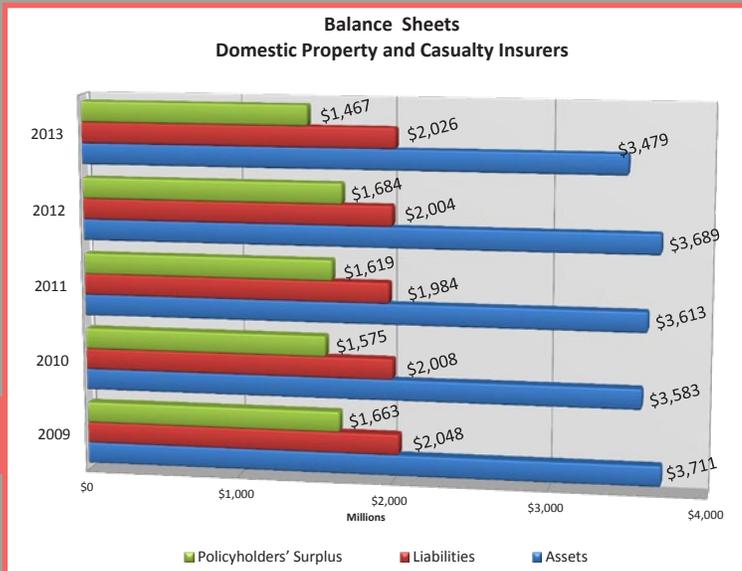
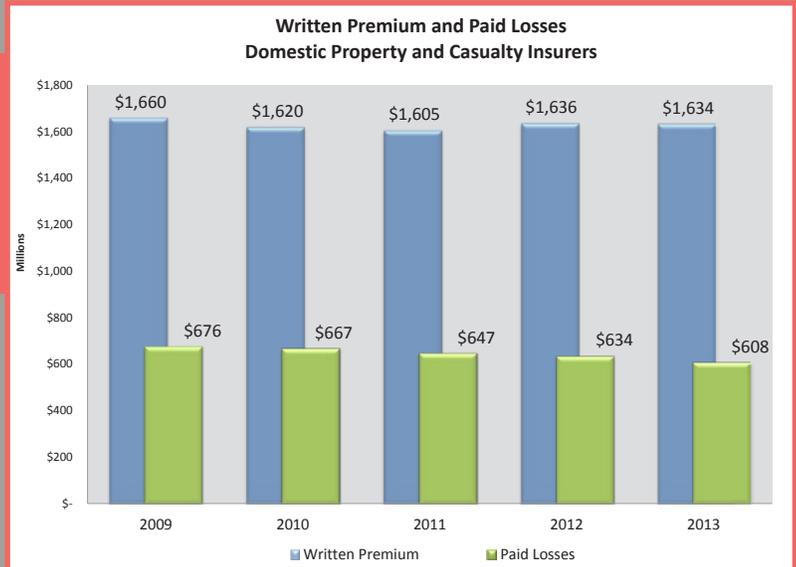


The loss ratio experienced by the property and casualty segment was only 59.7%, which is less than 65%; the expected national standard¹, whereas the loss ratio for 2012 was 60.3%. It can be concluded that the underwriting results show that the property and casualty insurance business is a stable and economically viable segment.

The historical data of written premium and paid losses as outlined in the graph below more clearly shows the cash flow between insurers and insureds.

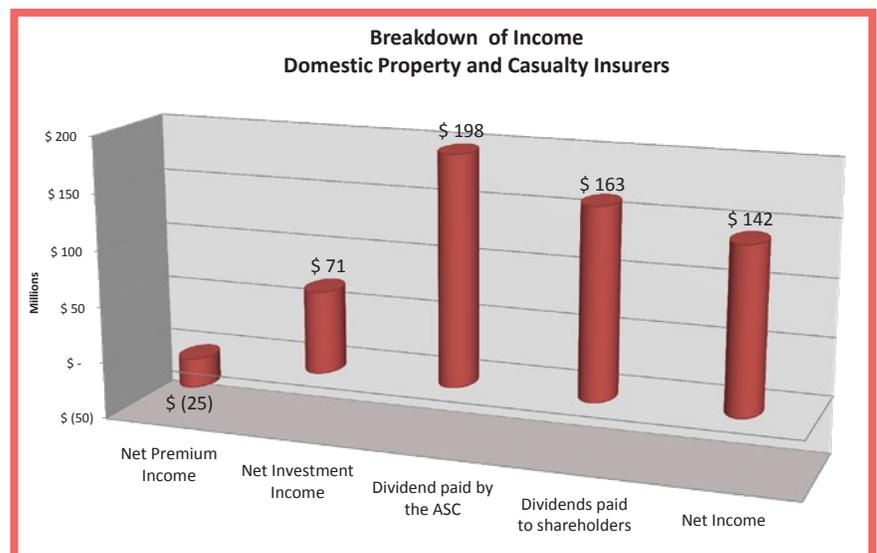
¹2013 General Benchmarking Guidelines Prepared by the NAIC Financial Regulatory Services Division

The following graph is the same analysis on written premium and paid losses but relating only to business carried out by domestic property and casualty insurers.

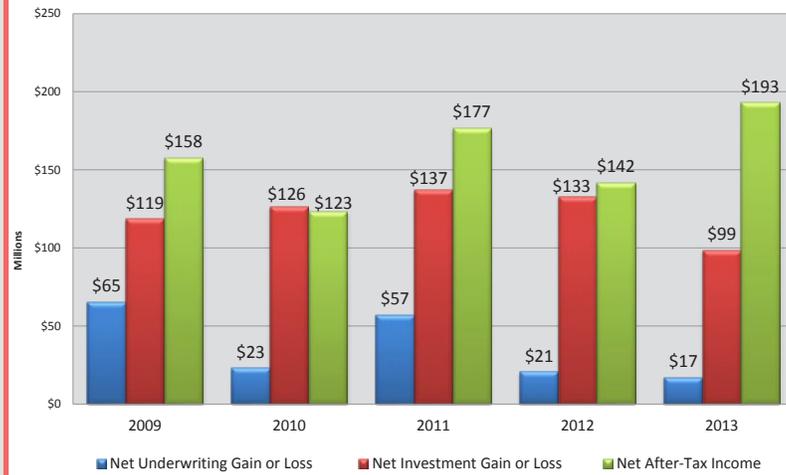


To the extent that a solid platform of property and casualty insurers is developed locally, resident capital is strengthened and solidified and the development of risk management activity is facilitated, encouraging other business projects related to insurance activity.

The decline experienced during 2013, in both eligible assets and policyholders surplus directly reflects the distribution of a \$200 million special dividend declared by the Joint Underwriting Association (ASC), pursuant to Public Law 60-2013. The following graph shows the impact of this special dividend on the net income of the industry and the fact that, in turn, the member insurers passed said income on to their shareholders by declaring dividends.



**Statement of Income and Expenses
Domestic Property and Casualty Insurers**



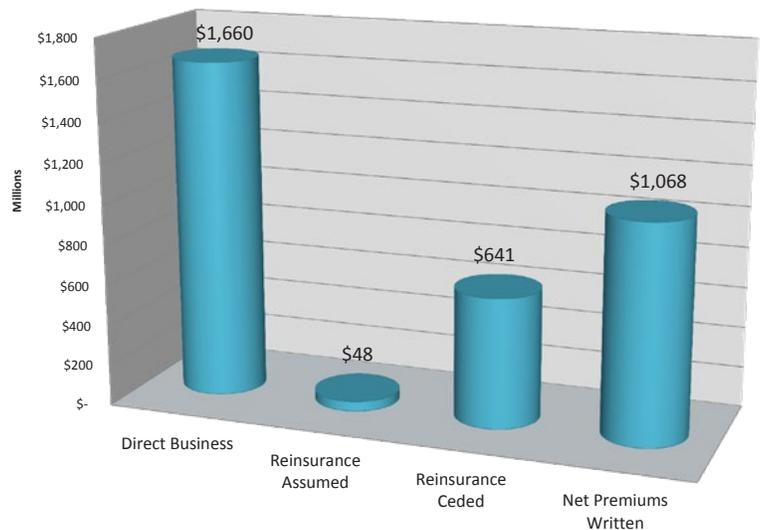
This graph shows the results for Underwriting Earnings, Investment Earnings, and Net Income after taxes.

In the past five years the results of investment activities, that is to say, investment income, has become the largest item among the components of the net income of domestic property and casualty insurers.

Ratios	2013	2012	2011
Cash Ratio	84.1%	84.5%	1.15%
Income Yield	14.7%	11.7%	14.1%
Combined Ratio	98.3%	98.6%	95.5%

Furthermore, if the most important financial ratios are evaluated, it can be observed that the property and casualty segment maintains healthy levels and has both liquidity and operational profitability. The increase in revenue performance was largely fueled by the special dividend described above.

**Total Reinsurance Assumed and Ceded by
Property and Casualty Domestic Insurers 2013**

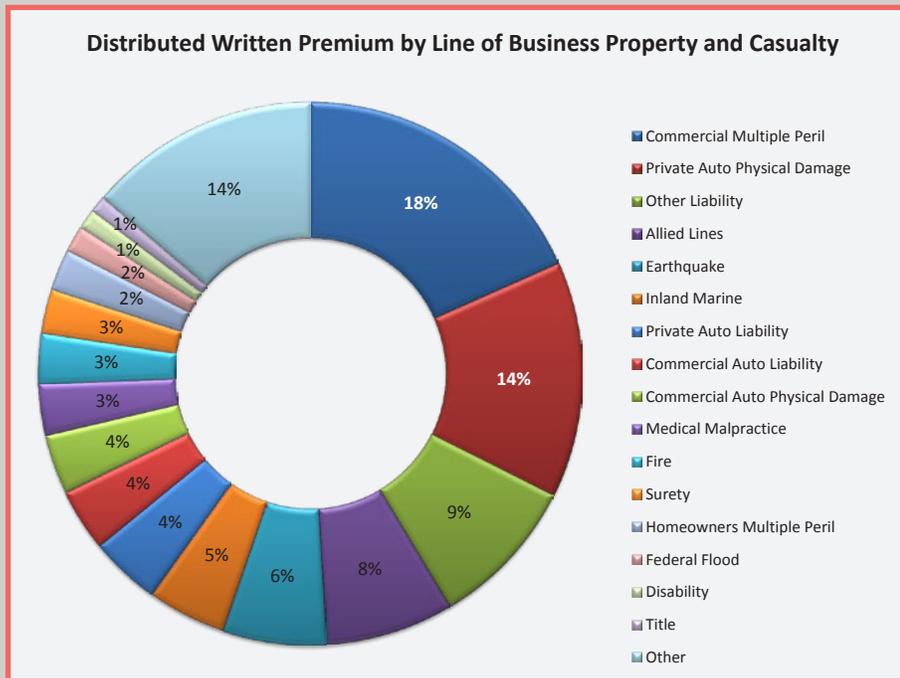


Reinsurers play a key role in our insurance industry.

A total of 44 reinsurers backed by a surplus of \$64 billion are authorized and are active in the property and casualty segment. Domestic property and casualty insurers are clearly net cedents since they cede approximately \$641 million in reinsurance premiums. The following graph describes how reinsurers absorbed 38.6% of the written premium in the segment.

The reinsurance market is divided into proportional and non-proportional reinsurance. As indicated above, the average loss ratio experienced by the segment was favorable for insurers. This favorable result also has implications for reinsurers in their proportional treaty reinsurance. Meanwhile, considering the absence of a major catastrophic event, reinsurers with non-proportional treaty reinsurance also experienced favorable results.

The pie chart below breaks down the lines of business that comprise property and casualty insurance and which by 2013 amounted to more than one percent of total written premium by insurers authorized to do business in Puerto Rico.

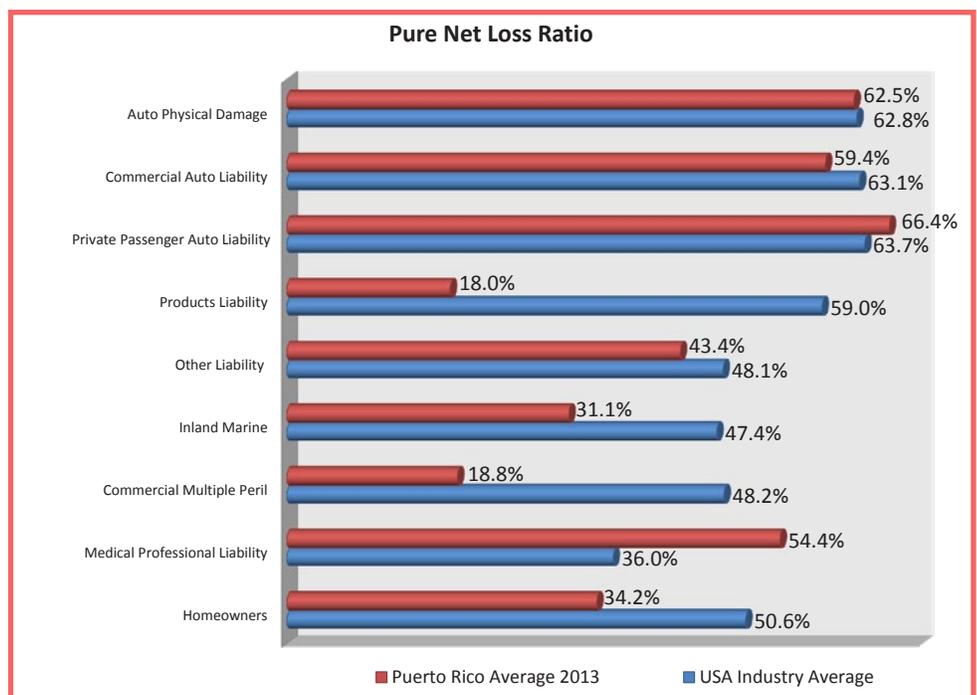


The multiple commercial risk (18%); private auto physical damage (14%), liability insurance (9%) and allied perils (8%) business lines represent about 50% of the written premium in the property and casualty segment.

*Others include the following lines: Maritime Transport; Mortgage Insurance, Machinery and Boilers, Financial Guaranty, Fidelity, Credit, Product Liability, Aircraft, Burglary and Theft, Workers Compensation Insurance, Farm Owners and Multiple Peril Crop.

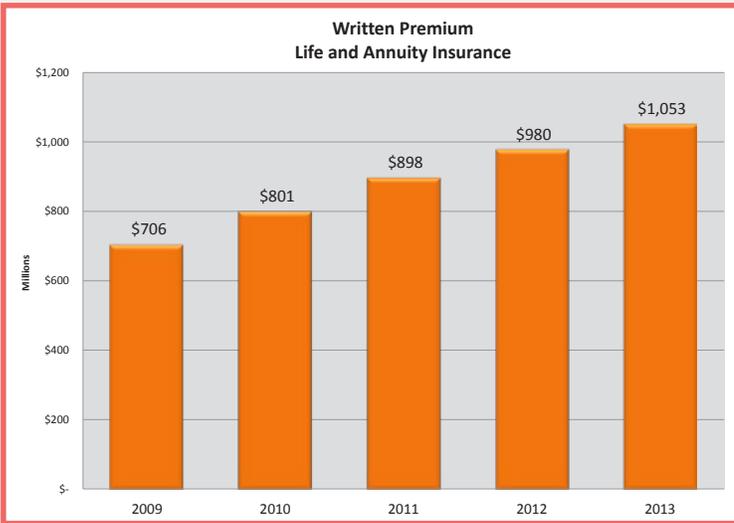
Finally, the following graph permits a comparison of the pure net loss ratio for the main business lines underwritten by Puerto Rico property and casualty insurers, with the United States industry average or 2013 General Benchmarking Guidelines².

Except for the private passenger auto liability and medical malpractice lines most of the business lines that comprise the property and casualty segment showed a pure loss ratio lower than the average reported in the U.S. insurance industry. The attachment section of this report includes several tables documenting key performance indicators in the property and casualty sector.



²Prepared by the NAIC Financial Regulatory Services Division

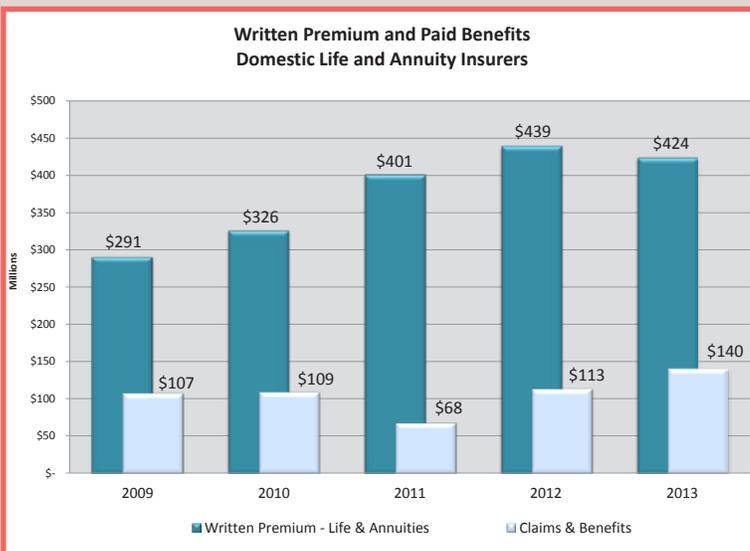
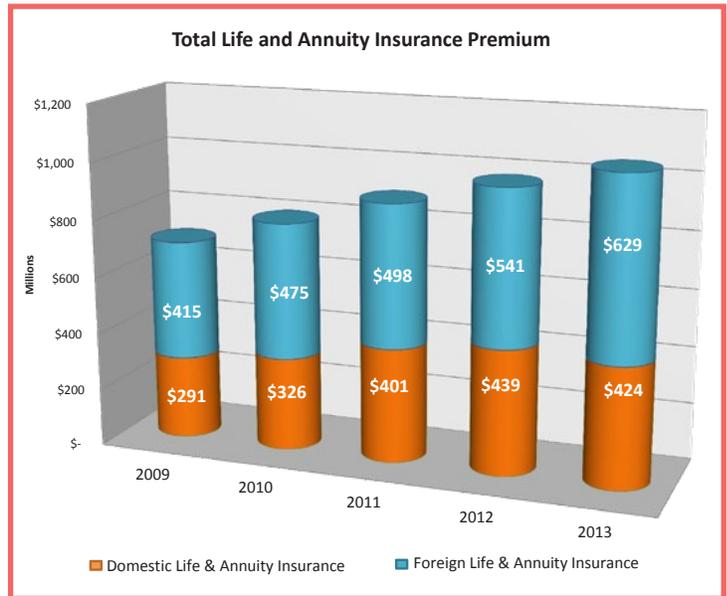
B. LIFE AND ANNUITY INSURANCE



The following graphs show the performance of total written premium for life and annuities from 2009 until 2013, one that has been showing a steady growth factor. In a comparison by line of business, the life insurance segment showed the biggest rise by 8.9%, while the annuities segment had an increase of 7.9%, for a total increase of 8.3% during the last five years. In comparison, the same segment decreased 0.39% in the United States for the same period.

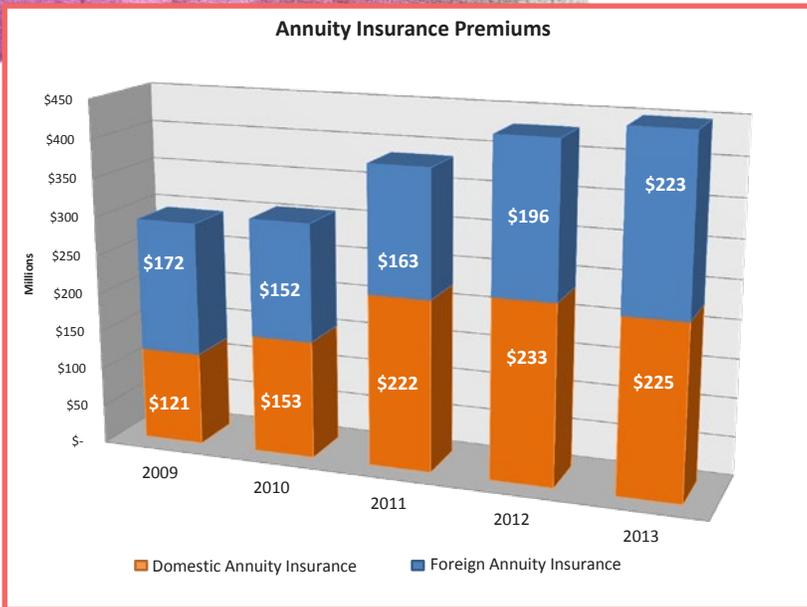
Unlike other lines of business within the insurance market, foreign life and annuity insurance companies have the largest share of this line, probably due to the fact that important global competitors generate more volume and offer competitive prices to local consumers. Also, of the investment and administrative requirements for domestic insurance companies, that must be noted, compared to the moderate return of the sector, offer an advantage to foreign companies.

As shown in the graph, foreign life and annuity insurance companies had a growth rate of 16%, while domestic life and annuity insurance companies decreased by 3.4%.



The total volume of life and annuity written premium decreased by 3%, while claim and benefits grew 23.9%. As shown in the next graph, this occurrence did not adversely affected the surplus.

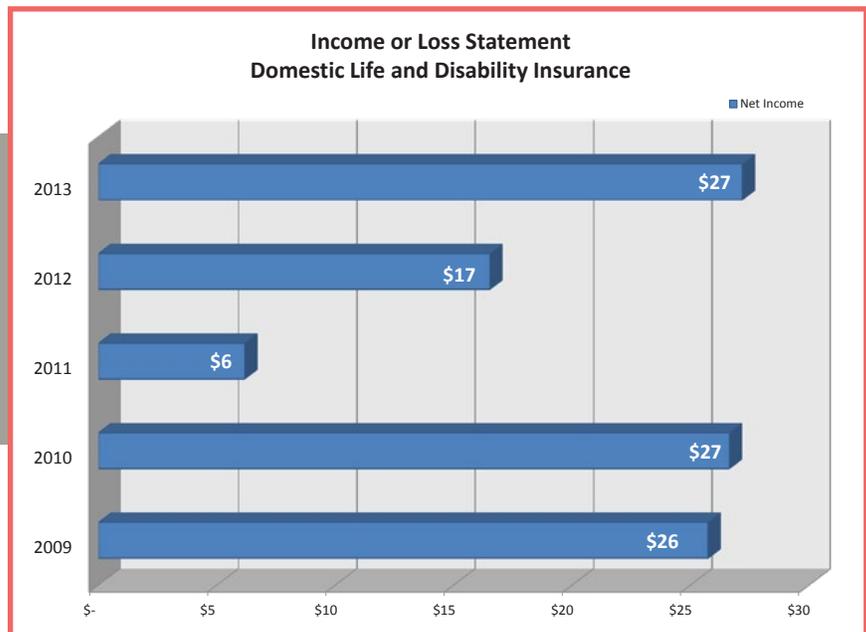
The aggregate financial condition of domestic life and disability insurers shows an average growth of 8.3% in admitted assets and 9% in surplus between 2009 and 2013. On the other hand, the domestic annuity sector has not grown during recent years. Nevertheless, foreign annuity insurers increased their income by 13%, while domestic insurers decreased 3.4%.



From the total of written premiums in the domestic life and disability segment, 97.1% are considered investment grade. For 67% of insurers whose investments were downgraded during 2014, those investments represented less than 10% of the capital and surplus.

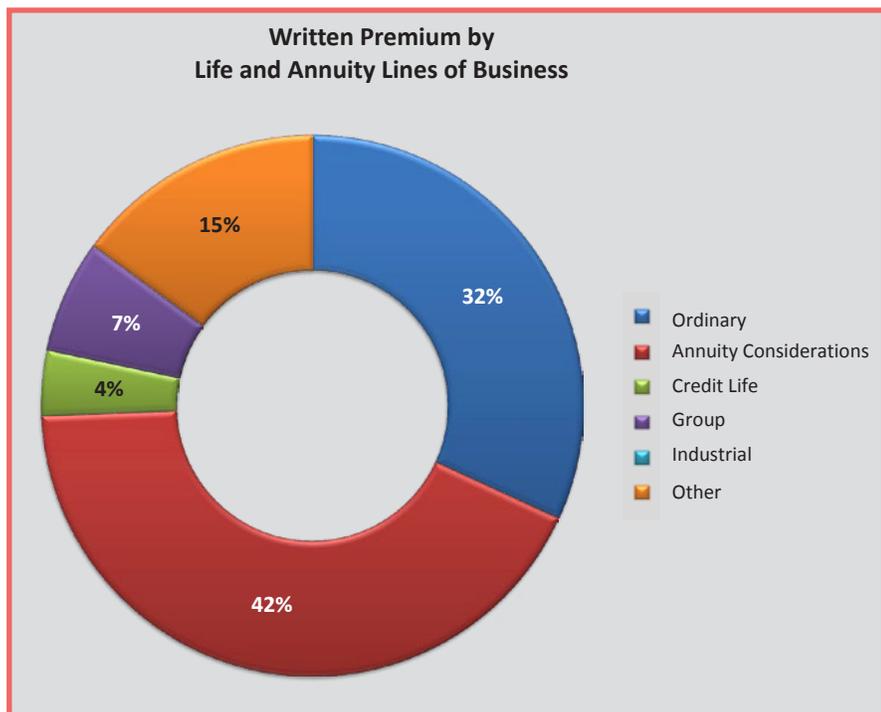
On the other hand, domestic life and disability insurers showed a recovery with a net income that surpassed those of 2010, as shown in this graph.

The profitability of the life and disability insurers for the domestic market has shown a recovery after the shrinkage reported in 2011.



This trend was caused by a consistency in the loss ratio for this segment. A favorable and constant change within the life and disability sector would imply an increase in the profitability of this segment.

Ratio	2013	2012	2011	2010
Loss Ratio	73.3%	76.5%	77.5%	73.2%
Return on Assets	1.3%	0.9%	0.1%	1.8%
Return on Revenue	3.0%	1.7%	0.2%	3.1%



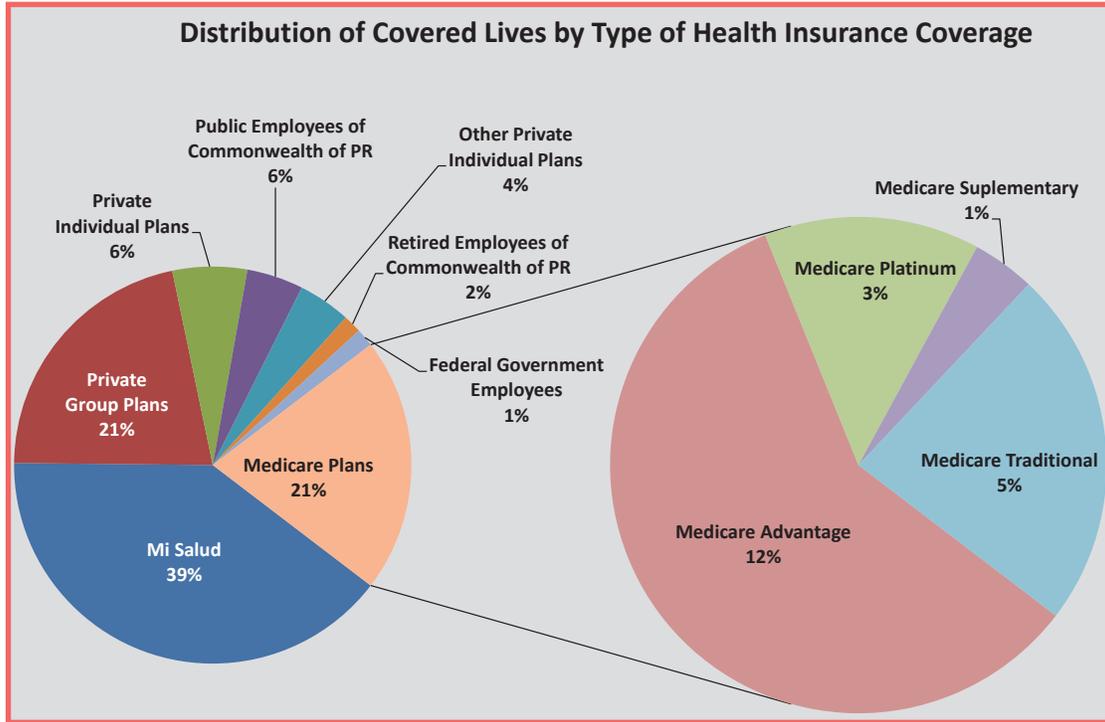
The pie chart shows the composition, by lines of business, of the life and annuity sector. Annuities represent 42% of the total volume for this segment. The strengthening of this line of business is very positive for Puerto Rico’s economy, mainly because it shows a tendency towards thriftiness. Demographic factors, such as the average population age and particular tax issues should be used to further encourage this tendency. As we have said, it is important to achieve a healthy pace of growth by domestic insurers within this segment.

Detailed information regarding the life and annuity segment is included in the attachment section of this report.



C. HEALTH INSURANCE

Insurers and health insurance providers played an important role by providing access to health care and quality of life to Puerto Rico’s population.

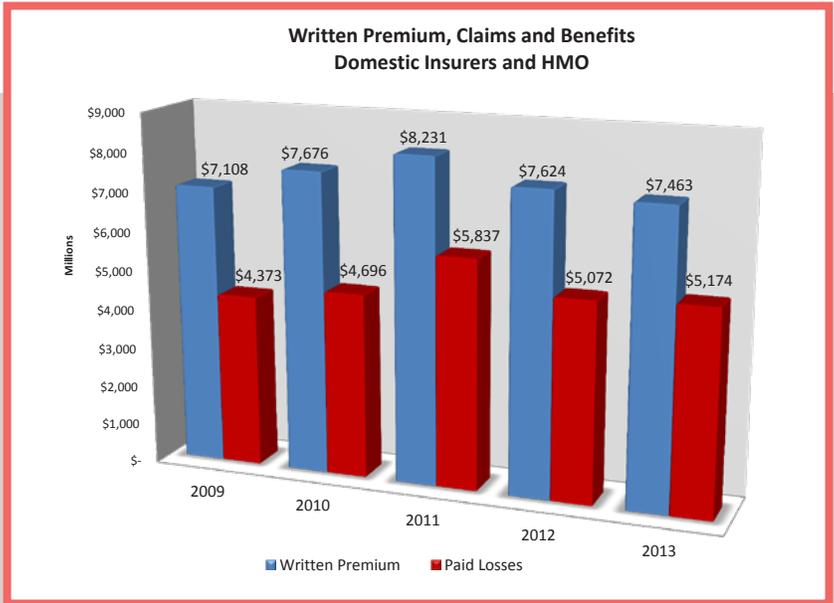


The previous graph shows the market share for all health insurance plans. From all the lives insured, 60% is in some type of insurance funded by the federal government: 39% Medicaid (Mi Salud which provides medical coverage and medicines to medically indigent families in Puerto Rico) and 21% for Medicare, divided in turn into 12% Medicare Advantage, 5% traditional Medicare, and 3% Medicare Platinum.

If we analyze the health and disability segment for the past five years there has been an increase of 1.0%. In the United States, this segment had an increase of 3.8%. After a decrease in written premium reported for 2012, caused by changes in the agreement by the Puerto Rico Health Insurance Administration (ASES) Mi Salud plan, there was an additional decrease of 2% for this segment. This decrease is due primarily to a reduction of federal funds under the Medicare Advantage Program.



The next graph, shows the co-relation between written premium and paid losses, showing that although there was a decrease of 2.1% in written premium by domestic insurers and health care providers between 2012 and 2013, paid losses increased by 1.4%.



Premiums Earned, Losses Incurred, Loss Adjustment Expenses Incurred, and Administrative Expenses in Health Maintenance Organizations

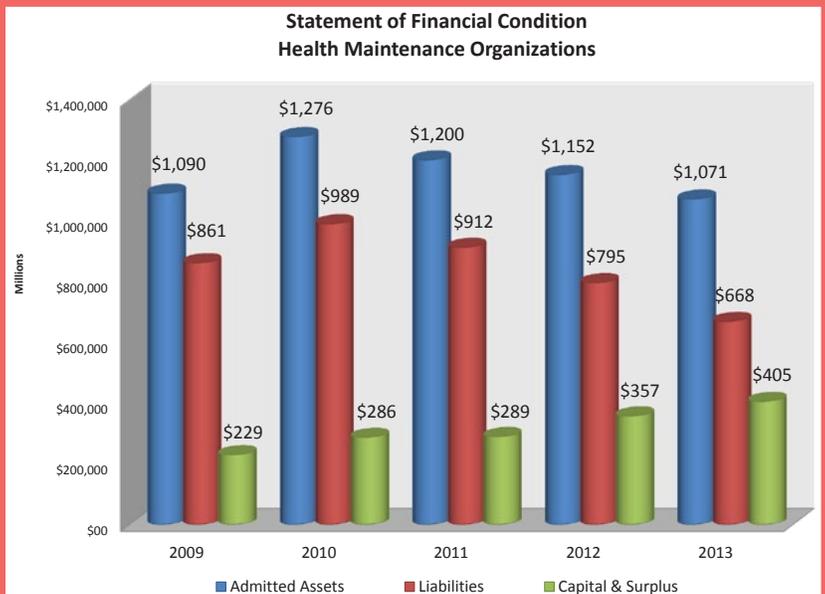


The graph shows Health Maintenance Organizations (HMO) indicators on earned premiums, incurred loss, loss adjustment expenses incurred, and administrative expenses.

The results of this comparison show that the Health Maintenance Organization sector still leads the segment with a loss ratio of 71.8% compared to insurers at 76%.

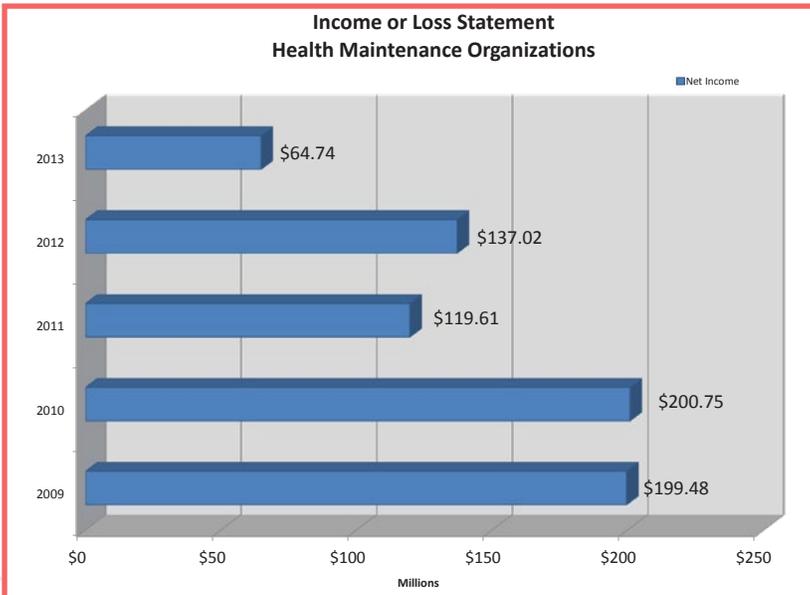
The following graph shows the general outlook of this important line of business:

The base of all admitted assets in the health sector continued to decrease with a reduction of 7.3% between 2012 and 2013. On the other hand, there was a significant change in capital and surplus for this segment. Considering there was a decrease in marginal earnings, the surplus was due to the reduction in liabilities.



Domestic Health Services Organizations and Disability Insurers showed a positive profit margin. The following are some of the most relevant ratios for this segment of the insurance industry.

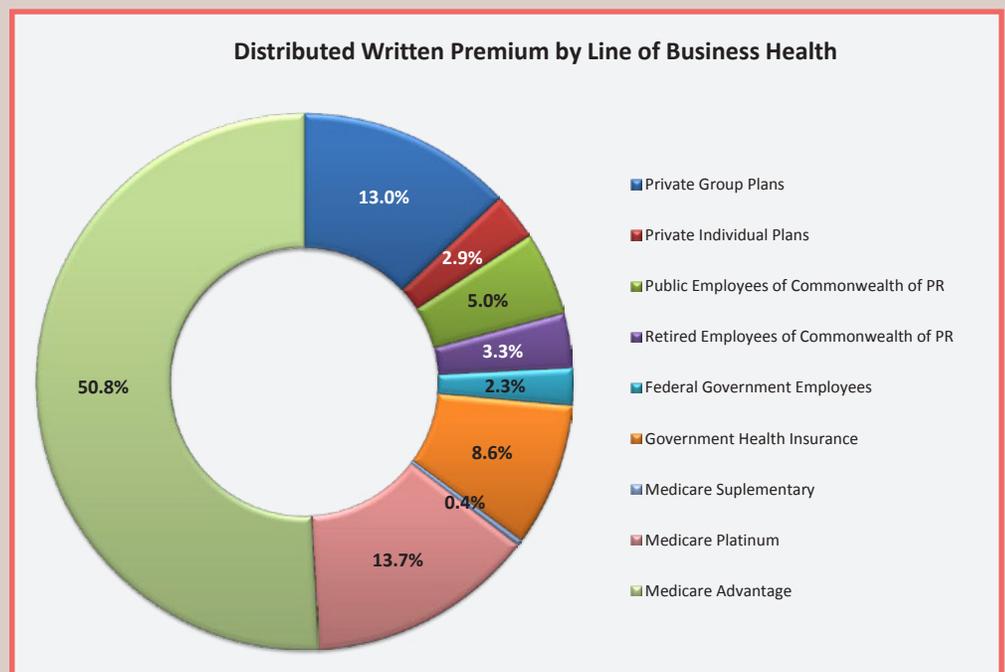
Ratio	2013	2012	2011	2010
Medical Loss Ratio	86.0%	86.5%	87.4%	84.6%
Combined Ratio	98.7%	97.2%	97.6%	94.8%
Profit Margin Ratio	1.2%	2.5%	1.9%	2.2%



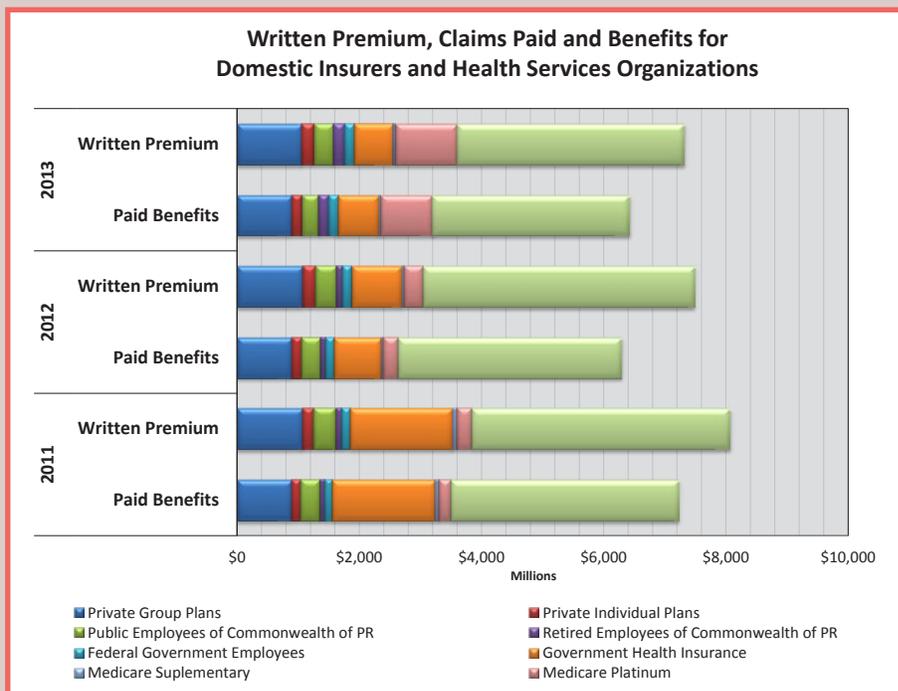
Comparing the domestic medical loss ratio of 86% with the average in the United States of 86.1%, there is a difference of -0.1%; while the domestic industry combined ratio is 98.7% with a difference of +1.0% with that of the United States, at 97.7%. Profit margin ratio by local industry is 1.2% in comparison to the average in the United States of 2.2%, a difference of 1.0% less.

In spite of a 52.7% in net income, the segment continues to be profitable.

The chart demonstrates the composition of the total written premium for this segment. Medicare plans dominate this market, holding 66% of the total written premium. Private group plans hold 14%, and due to changes in the agreements, Mi Salud³ is now in third place. Subsidized plans (federal or local) account for 70% of the segment, including Medicare and Mi Salud (providing medical coverage and medicines to the medically indigent in Puerto Rico).



³The Health Insurance System offers all medically indigent persons and families in Puerto Rico medical, hospital and prescription medicine coverage.



The previous chart shows written premium, claims paid, and benefits from 2011 to 2013 for domestic insurers and health services organizations. When comparing the average change in written premium for each segment, public employees of the Commonwealth of Puerto Rico also decreased 13%, as did Mi Salud, which decreased 22.8%, and Medicare Advantage also decreased by 16.3%. However, premiums for the private group plans went up 0.2%, private individual plans also went up 0.7%, including 59.6% increase for the retired employees of the Commonwealth of Puerto Rico, 6.8% increase for federal government employees and a 219.4% increase for the Medicare Platinum segment, which is subsidized by the Commonwealth of Puerto Rico.

Changes in the public employees of the Commonwealth of Puerto Rico are directly related to the changes made by local government to the Commonwealth and Teachers' Pension Plans. These changes encourage many public employees to retire, therefore moving from the public employees segment into the retired employees sector. The decrease in written premiums for the Mi Salud segment was a result of the changes made in the agreements, as previously discussed. Finally, there is a considerable increase in the Medicare Platinum segment due to a rise in the aging population of Puerto Rico and their need to be subsidized by the government.

Detailed charts explaining key indicators to the performance of the health insurance sector are included in the attachment section of this report.



THE IMPLEMENTATION OF THE AFFORDABLE CARE ACT IN PUERTO RICO

The implementation of the federal health reform in Puerto Rico, through the Affordable Care Act, was one of the main efforts of the Office of the Commissioner of Insurance (OCI) during 2013. The Office of the Commissioner of Insurance made efforts to implement several alternatives in order to maintain a versatile health insurance market that could adapt to the new requirements of current legislation.

During 2013, new legislation was passed and included under the Puerto Rico Health Insurance Code, enabling the Office of the Commissioner of Insurance to put into effect all the reforms related to the health insurance market. Among the reforms included were the provisions for the open enrollment period for individuals, as well as for special enrollment periods. The first open enrollment period started October 1st, 2013 and ended on March 31st, 2014. The open enrollment periods for subsequent years will run from the 1st of October until the 31st of December of each year.

The Office of the Commissioner of Insurance issued nine (9) ruling letters and two (2) circular letters addressing topics ranging from premiums and policies approval, the extension of coverage for dependents, coverage structure and pricing, complaint procedures against health insurance organizations, the Summary of Benefits and Coverage (SBC), early renewal of health plans, the transition process to comply with new health reform regulations, and the design of the health plans, among others. The new regulations of these issues required the enactment of internal provisions within the Office of the Commissioner of Insurance in order to be able to comply with new legislation, as well as to create many new certifications and forms required by law. An example of these new forms is the private individual health insurance coverage extension for unmarried partners and their dependents. Chapter 10 of the Puerto Rico Insurance Code (CSSPR), approved under Law 69-2013, states that unmarried partners are eligible for individual health insurance plans and to extend their coverage to other persons.

One of the most important challenges was to obtain approval for new insurance policies and rates for the private individual marketplace due to the fact that, under federal legislation, all health insurance providers and their rates had to be pre-approved by our office before the open enrollment period started. Our office met that challenge and 92 health insurance plans were approved for the individual marketplace. In addition, a larger number of plans were approved for the small group markets, thereby offering a wide variety of products for both the

individual and small group markets. These approved health insurance plans include the four (4) types of health insurance plans available through the Affordable Care Act: bronze, silver, gold, and platinum and were presented by nine (9) health care providers under the individual and small group markets.

The early renewal process for the individual and small employers segments, permitted both under the ACA and the Puerto Rico Insurance Code, required our office to adopt specific parameters in order to ensure an orderly procedure. Also, on November 14, 2013, the US Department of Health and Human Services issued an extension, optional among the different jurisdictions, allowing individuals and small employers to extend their health insurance policies during 2014, without complying with certain regulations of the ACA. The Office of the Commissioner of Insurance also was able to put those changes into effect in an orderly and effective manner.

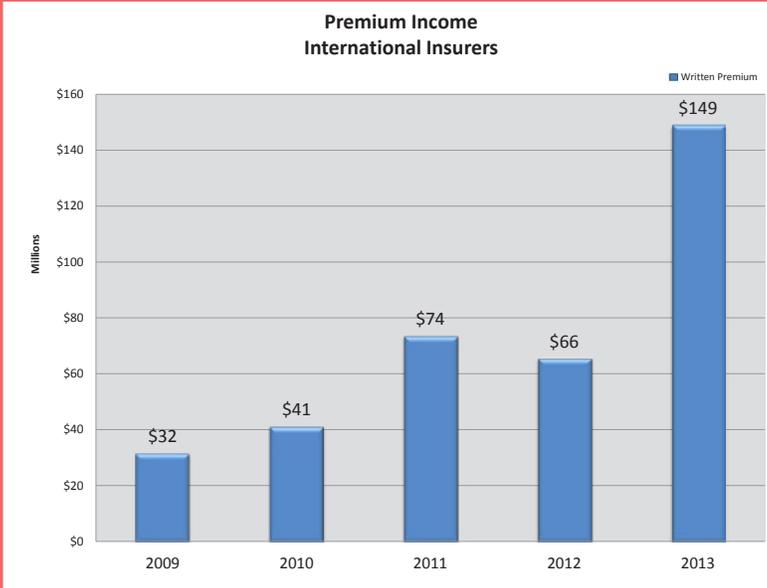
Finally, our office launched an information campaign that includes:

- A webpage with available health insurance plans and rates for individuals and small groups.
- Information on upcoming seminars offered by the OCI to all the different groups of the insurance sector.
- Q&A segment. Also, our educational efforts include representatives of our office in various public forums.
- A call center to address issues and answer any questions that consumers and insurance providers may have.

“The Office of the Commissioner of Insurance is committed to the implementation of the Affordable Care Act and will continue to do so, while also continuing to reduce the number of uninsured individuals in Puerto Rico.”

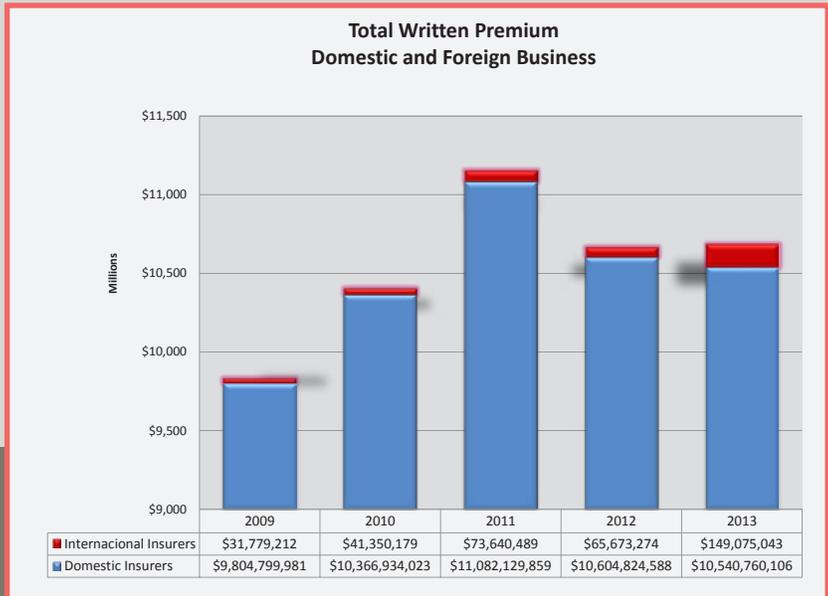
INTERNATIONAL INSURANCE CENTER

The International Insurers and Reinsurers Division, also known as the International Insurance Center (IIC), is the unit of the Office of the Commissioner of Insurance that administers the authorization and the regulatory supervision of international insurers. These companies are domiciled in Puerto Rico and do business outside the island. This initiative is one of the pillars for the development of the economy of Puerto Rico based on offering financial services on a global level.



The total population of international insurers and reinsurers is comprised of 12 authorized insurance companies and more than 100 segregated assets or protected cell plans in the property and casualty sector. This international sector has doubled its total premium in two years, maintaining a steady growth of 38% as compared to 2009. With a written premium volume of \$149 million, this sector has reached a critical mass, situating it as a principal factor in the development of the insurance industry. Approximately 50% of total premium came from protected cell plans.

The next chart compares the development of written premium volume generated by the insurance industry and that is produced by the International Insurance Center (IIC). It may be observed that historically, the written premium by international insurers was the determinant factor for the industry's growth during 2013. This is noteworthy, since this net growth was possible even when the international insurance sector comprises only 1.4% of the total written premium in the industry and 3% in terms of the total number of insurers.



Finally, it is important to note that the growth factor that has been identified here, both in absolute and relative terms, has been achieved by exogenous factors that have been inserted in our industry.

In other words, the International Insurance Center, even in its initial stages, has been able to promote economic growth.

The insurance industry is of great public interest and is therefore highly regulated. The industry is currently governed by the Puerto Rico Insurance Code, Public Law No. 77, June 19, 1957, as amended, and by the Puerto Rico Health Insurance Code, Public Law No. 111-2010, also as amended.

The legislation and regulations approved during 2013 to adapt these two codes to the changes affecting the insurance industry in Puerto Rico were the following:

- **Law 40-2013, Law 117-2013, and Law 167-2013** - Incorporates a new article, Section 7.022 in the Puerto Rico Insurance Code, in order to establish a new special contribution on premiums equivalent to 1% of the earned premium. The subsequent laws are amendments to clarify the abovementioned law.
- **Law 55-2013** - To approve several amendments to the Puerto Rico Insurance Code in order to adapt the Puerto Rico Insurance Code to applicable laws, eliminate provisions regarding the Health Plans Committee, eliminate the reinsurance program, and to require filing of rates with the Commissioner of Insurance, among others.
- **Law 63-2013** - Amends Section 9.170 of the Puerto Rico Insurance Code in order to require that a person must have a high school diploma or its equivalent as a condition to hold a life insurance broker license.
- **Law 69-2013** - Adds a new chapter, Chapter 10, to the Puerto Rico Insurance Code, in order to regulate in Puerto Rico the implementation of the federal health care reform, known as Obamacare, which governs all individual health care plans.
- **Law 81-2013** - Amends Section 9.061 of the Puerto Rico Insurance Code in order to establish that the payment of commissions or compensation fees only will be permitted when the managers or the persons that do not hire, negotiate, process or request insurance policies in Puerto Rico, are authorized to do so in their jurisdiction and that the payment does not constitute a violation of any legal provisions on discounts or incentives, as established in Section 27.100 of the Puerto Rico Insurance Code.
- **Law 85-2013** - Amends Section 45.040 of the Puerto Rico Insurance Code in order to address circumstances in which an insurer may take action as provided by the Risk Based Capital Model Act (RBC) issued by the National Association of Insurance Commissioners (NAIC).
- **Law 150-2013** - Amends Section 41.050 of the Puerto Rico Insurance Code in order to reinstate immunity to health professionals employed or working as contractors of the Commonwealth of Puerto Rico and its affiliates, including the University of Puerto Rico Comprehensive Cancer Center and the municipalities.
- **Law 5-2013** - Amends the Notary Act from the purpose of relieving the Office of the Commissioner of Insurance from the function of issuing notary bonds and administering the notary bond fund.

REGULATIONS AND RULING LETTERS

The Office of the Commissioner of Insurance exercised leadership in its oversight function by promulgating four (4) new rules and issuing 19 ruling letters to effectively address changes in the local and international insurance markets, as well as in local and federal legislation that affect the insurance industry.

Rules of the Puerto Rico Insurance Code

- **Rule No. 3 (Regulation 8355)** - Amends Rule No. 3 in order to: 1) eliminate the 30-day waiting period for a candidate for a license who failed to pass the examination to take the examination again, (2) modify the language regarding changes in the several insurance classes for which examinations are required, (3) empower the Commissioner to decide when and how examinations will be administered and alternative mechanisms that may substitute the examinations, (4) and allow for notification by electronic means of the date, time and place of the examination.
- **Rule No. 47A (Regulation 8386)** - Defines what constitutes a first-time request for reconsideration of a decision made by an insurance company and establishes the obligation of the insurance company to investigate, adjust, and resolve every first-time request as soon as may be reasonably possible within thirty (30) days of the filing of the request.
- **Rule No. 100 (Regulation 8387)** - Clarifies that what distinguishes an international reinsurer from a domestic reinsurer is that the international reinsurer's international business must be at least 51% of the total assumed premium before the ceded reinsurance.
- **Regulation 8365** - To repeal Regulation 8059 that designated the Office of the Commissioner of Insurance to administer the notary bond fund.
- **Ruling Letter No. 2013-155-AS, July 29, 2013** - Establishes the basic rulings to implement the Puerto Rico Health Insurance Code and the federal health reform changes.
- **Ruling Letter No. 2013-156-AS, September 30, 2013** - Replaces Ruling Letter No. CN-2013-155-AS, July 29, 2013, that established the rules for the Puerto Rico Health Insurance Code.
- **Ruling Letter No. 2013-157-I, October 3, 2013** - Clarifies that the Office of the Commissioner of Insurance understands that Health Insurance Organizations are responsible for complying with the "Dispute Committee" as required in Section 19.120 of Chapter 22 of the Health Insurance Code.
- **Ruling Letter No. 2013-158-AS, October 7, 2013** - Reaffirms the requisites of strictly compliance with the provisions of the open enrollment process.
- **Ruling Letter No. 2013-159-AS, October 22, 2013** - Notifies the maximum-shared costs to be paid by the insurer with the essential health benefits package in Puerto Rico.
- **Ruling Letter No. 2013-160-AS, October 25, 2013** - Establishes the applicable rules for the Early Renewal process in Puerto Rico.
- **Ruling Letter No. 2013-161-D, November 18, 2013** - Establishes the new applicable rules for certain health insurance plan renewals during the transition process in Puerto Rico in 2014.
- **Ruling Letter No. 2013-162-AS, November 26, 2013** - Clarifies the prohibitions of certain unlawful limitations to the mandatory immunization policy for children, teenagers, and adults.
- **Ruling Letter No. 2013-163-AS of November 26, 2013** - Adopts compulsory notifications to be used during the transition process for certain health insurance plans during 2014.
- **Ruling Letter No. 2013-164-AP, December 11, 2013** - Clarifies the effective coverage date and the changes in the effective date of filings approved for organizations on behalf of their members subscribers.
- **Ruling Letter No. 2013-165-EX, December 13, 2013** - Amends the Risk Circulation Process OCS28(C) that shall be used for all new businesses and renewals and establishes the terms for the risk circulation process.
- **Ruling Letter No. 2013-166-AF, December 20, 2013** - Reminds insurers of their duty to file the statistical report on professional liability insurance for doctors and hospitals in Puerto Rico.
- **Ruling Letter No. 2013-167-AF, December 20, 2013** - Establishes the compulsory use of the Uniform Certificate of Authority Application (UMA) of the National Association of Insurance Commissioners (NAIC).

Ruling Letters

- **Ruling Letter No. 2013-149 EX, February 25, 2013** - Stipulates the proportions in the direct net premium in order to be able to determine the amount of loss reserves in catastrophic insurance policies, according to Section 25.030 of the Insurance Code.
- **Ruling Letter No. 2013-150 AP-AV, March 1, 2013** - Reaffirms the requisite of using the SERFF program for the submission of forms, rules, rates, ruling manuals, rate plans, and rate certifications.
- **Ruling Letter No. 2013-151-EX, May 29, 2013** - Establishes the obligation to reimburse policyholders the excess amount charged to them by means of an assessment by the Miscellaneous Insurance Guaranty Association.
- **Ruling Letter No. 2013-152-SR, June 7, 2013** - Clarifies that life insurance policies that can be processed with limited licenses are funeral coverage and accidental or natural death policies with coverage not exceeding \$25,000.
- **Ruling Letter No. 2013-153-AP/AV, June 7, 2013** - Clarifies the standards for using credit or debit cards to collect premiums.
- **Ruling Letter No. 2013-154-PA, June 20, 2013** - Establishes the requirements needed to comply with the requests for Opinions and Consultations submitted to the Office of the Commissioner of Insurance.

OPERATIONAL DIVISIONS OF THE OFFICE OF THE COMMISSIONER OF INSURANCE

The Office of the Commissioner of Insurance performs a series of functions to fulfill its responsibility of safeguarding the public interest, ensuring the solvency of the insurers and health insurance organizations as well as addressing situations referred to us by consumers, in addition to ensuring full compliance with current legislation.

Since a system of performance metrics was established in 2013, it is now possible to highlight some of the administrative achievements of these divisions.

Actuarial Division for Property

Responsible primarily for applying public policy as established in the Puerto Rico Insurance Code as pertains to the structure and provisions of the insurance contracts in Puerto Rico, so that they do not contain misleading or unfair clauses. As for special projects, this division was in charge of supervising the actuarial analysis of fees charged for Compulsory Liability Insurance for Motor Vehicles (SRO), and the Compilation and Calculation of statistics for Physician – Hospital Liability Insurance. During 2013, this division received 497 filings of rules, fees, and insurance forms to be analyzed by our Actuarial Division for Property, having processed 489 during the year.

Life and Health Actuarial Division

Like the Actuarial Division for Property, this division is responsible primarily for applying the public policy established in the Puerto Rico Insurance Code, as pertains to the structure and provisions of insurance contracts, so that they do not contain misleading or unfair clauses in contracts related to coverage for life insurance, disability, and health. One of the events of greatest impact during 2013, which this division faced as a great challenge, was the implementation of insurance plans in compliance with the provisions of the “Affordable Care Act” and the Health Insurance Code. This event caused the division to evaluate 452 plans for compliance with the provisions of the “Affordable Care Act” in addition to the regular number of filings during the year. During this period, 100% of these filings were processed along with their fees. Filings of forms and fees totaled 723 during 2013.

Legal Affairs Office and Division

Responsible for providing legal advice to the entire OCI and to the general public. The Division participates in the regulatory and oversight work of the OCI by drafting legislation, regulations, circular and ruling letters, and opinions, as well as providing consultations. During 2013 this division was responsible for drafting, preparing and presenting more than 20 drafts of laws and/or regulations in the administrative and legislative process. The Division participated in 38 public hearings at the legislature and drafted and issued 30 circular and ruling letters. In addition, the Division issued 60 opinions and/or consultations of public interest, as well as more than 200 administrative orders for various violations of the Insurance Code and its Regulations.

Market Conduct Division

Its purpose is to measure the level of compliance of the various components of the insurance industry with applicable laws and regulations; with a view to taking timely corrective action as may be necessary with regard to problems that are identified. This division places particular emphasis on the prevention and detection of unfair competitive practices and fraud, for which it conducts special investigations and examinations. During 2013, 88 cases were received to investigate acts constituting fraud or misleading or unfair practices in the insurance market. During the same period, 69 cases were processed and closed. Additionally, six examination reports were completed on diverse components of the insurance industry regarding insurance consumer practices.

Examination Division

The primary role of this division is to conduct audits or examinations of the different components of the insurance industry, with the goal of monitoring economic solvency and business practices. In accordance with this responsibility, during 2013 they conducted and/or initiated 20 audits and/or examinations. A total of 30 examination reports were referred to the Division of Legal Affairs for final processing.

Division of Admissions and Financial Analysis

This is responsible for maintaining industry statistics, and evaluating annually and quarterly the financial statements of insurers and health services organizations. Additionally, it is responsible for the evaluation of authorizations for domestic and foreign companies to enter the insurance market of Puerto Rico. Among its other duties, this Division is in charge of evaluating contributions on premiums and other transactions. During 2013, 16 new companies were authorized, including one domestic insurer, and 200 financial analyses of the annual and quarterly financial statements of domestic insurers were performed.

Investigations Division

This division serves all citizens, insured or not, who request an investigation of an insurer or other insurance industry personnel. The Division analyzes and studies the investigation requests to determine if citizen rights have been violated with regard to their insurance coverage or claims, which may constitute violations of the Insurance Code or its Regulations. The Division is also responsible for receiving and handling requests for intervention for timely payment of claims from healthcare providers. Lastly, the Division informs the general public as to how to complete the claims process with their insurers. This activity involved the filing of 768 investigation and intervention requests during 2013. In addition, this division was responsible for closing 1,112 investigation or intervention requests in a timely fulfillment of this important responsibility.

Hearings Officers

These Officers are responsible for conducting the adjudication processes in accordance with the Puerto Rico Insurance Code and the Law of Uniform Administrative Procedure, in order to settle the disputes brought before the OCI. They preside over administrative hearings and evaluate testimony by witnesses and documentary and physical evidence found in the administrative files of the cases. They prepare a report with their recommendations, which contains the determinations of fact and relevant legal conclusions, for consideration by the Commissioner. In 2013, 37 administrative hearings were held and 74 resolutions and resolutions under reconsideration were issued.

Divisions of Licensee Services and Consumer Services

These divisions are in charge of offering examinations to candidates for insurance licenses, issuing provisional and regular licenses, renewals and license reactivations, and supervising compliance with continuing education as provided by law. Additionally, they serve the public that visits us requesting our intervention or to obtain some service provided by the OCI. During 2013, 10,400 visitors were served, over 4,500 licenses were issued, and more than 4,500 examinations were provided to candidates for insurance licenses.