

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMMISSIONER OF INSURANCE



**UNIVERSAL INSURANCE COMPANY**

REPORT ON EXAMINATION

AS OF

DECEMBER 31, 2013

NAIC CODE 31704

CASE NO. EX-2014-17

Donald W. Sirois, CPA, CFE  
Examiner In Charge  
INSRIS-PR, LLC

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COMMONWEALTH OF PUERTO RICO  
Office of the Commissioner of Insurance

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September 15, 2015

Honorable Ángela Weyne Roig  
Commissioner  
Commonwealth of Puerto Rico  
Office of the Commissioner of Insurance  
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2014-17, dated August 29, 2014, a financial examination has been made of the affairs, financial condition and management of the

**UNIVERSAL INSURANCE COMPANY**

hereinafter referred to as “Company” or “UIC”, incorporated under the laws of the Commonwealth of Puerto Rico. The examination was carried out in the main offices of the Company located at Metro Office Park, Street 1, Lot 10, Guaynabo, Puerto Rico. The report on this examination is respectfully submitted.

**SCOPE OF EXAMINATION**

The last examination was completed as of December 31, 2007, by the Office of the Commissioner of Insurance of Puerto Rico. This examination covered the period of January 1, 2008 through December 31, 2013, and encompassed a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial

condition of the Company at December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the Commonwealth of Puerto Rico. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk- focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Deloitte & Touche LLP. Certain auditor work papers of their 2013 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing. The examination of

the Company was conducted concurrently with the examination of the Company's subsidiary company, Universal Life Insurance Company (ULIC).

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Fidelity Bond and Other Insurance
- Pensions
- Statutory Deposits

## SUMMARY OF SIGNIFICANT FINDINGS

### **Current Examination Findings**

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

#### Other Assets

In December 2013, the Company entered into an agreement with affiliate, Eastern America Insurance Agency (EAIA), to acquire EAIA's right to collect the future commissions on certain Double-Interest Policies effective on December 31, 2013, for \$8,967,941. The Company recorded the transaction as an admitted asset. Per the examination, it was determined that the transaction was not recorded in accordance with SSAP No. 4, SSAP No. 6 and accordance with accounting guidance prescribed or permitted by the Office of the Commissioner of Insurance of Puerto Rico and should have been recorded as a non-admitted asset in the 2013 statutory financial statements.

## Bylaws

The Company's bylaws, Article II, Section 2, state "The number of directors shall be seven (7)." As of the examination date, the Company had only six (6) directors.

## **Prior Examination Recommendations**

The Company was in compliance with recommendations made in the prior December 31, 2007, Report on Examination.

## **HISTORY**

The Company was incorporated and organized on May 15, 1971, and commenced business under the dispositions of the Code of Insurance of Puerto Rico on March 1, 1972, with an authorized capital of \$17,250,000, divided among various classes of common stocks totaling \$2,250,000 and preferred stocks totaling \$15,000,000. The Company is a domestic insurer authorized in the lines of insurance of property and casualty, disability, marine and transportation, vehicle, guarantee and title, and surety. Ultimate financial control of the Company resides with Universal Group, Inc. (UIG), which assumed majority control in 1995. Prior to that time, the Company was owned 100% by the Kirby Corporation. As of December 31, 2013, the Company is owned in 99.99% by UIG, with the remaining .01% owned by the individuals that make up the Company's Board of Directors, each of the six with one (1) share or .0002% ownership.

Effective June 1, 2010, the following subsidiaries were merged into the Company: Eastern America Insurance Company (EAIC), Caribbean Alliance Insurance Company (CAIC) and Richport Insurance Company (RPIC). The Company operated as the lead member of the family of companies through June 1, 2010, at which point the merger was

approved by the Commissioner of Puerto Rico. As a result of the merger, the Company assumed the obligations, responsibilities and rights of EAIC, CAIC and RPIC with regard to all policies in force on the date of the merger.

During 2012, the Company received 100% of the outstanding stocks of ULIC from its Parent through a capital contribution of \$36,519,650. The transfer and capital contribution were approved by the Commissioner of Insurance of Puerto Rico on June 27, 2012, with the effective date of the transaction as January 1, 2012. ULIC is engaged in the life, annuity, and accident and health insurance business, generating the majority of its business from individual annuities, group life, group accident and health, and credit life policies.

#### **DIVIDENDS TO STOCKHOLDERS**

Dividends in common stock are paid as declared by the Board of Directors of the Company. Under Article 29.340 of the Insurance Code of Puerto Rico, the maximum amount of dividends which the Company may pay to shareholders without approval of the Commissioner of Insurance is restricted to statutory surplus limitations. Shareholders' dividends declared and paid were \$20,000,000 for the period ended December 31, 2013.

Pursuant to Puerto Rico Regulations, Rule 83 Section 19(b), an insurer may not pay extraordinary dividends or make any other extraordinary distribution to shareholders until thirty (30) days after notifying the Commissioner of Insurance and the Commissioner of Insurance has not disapproved such payment or has expressly approved the extraordinary dividend within the thirty (30) day period. In October 2013, the Commissioner of Insurance authorized an extraordinary dividend to UIG for \$21,000,000.

## MANAGEMENT AND CONTROL

### Board of Directors

The following individuals, elected by unanimous vote, constitute the Company's current Board of Directors as of December 31, 2013:

<u>Name</u>	<u>Principal Business Affiliation</u>
Monique Miranda-Merle	CEO and President, Universal Group, Inc.
Jorge J. Amadeo Sr.	President, Eastern America Insurance Agency
Rafael Rodriguez	Consultant, Eastern America Insurance Agency
Jorge J. Amadeo Jr.	Vice President, Underwriting Universal Insurance Company
Donald Kevane	External Certified Public Accountant
Plinio Perez Marrero	External Lawyer

### Officers

The following were elected by unanimous vote of the Board of Directors as Officers of the Company as of December 31, 2013:

<u>Name</u>	<u>Title</u>
Monique Miranda-Merle	President
Josely Vega	Secretary
Maritere Jiménez	Treasurer
Maria Vale	Vice President
Linda Viera Orengo	Vice President
Brenda Rivera	Vice President
Jorge Amadeo Pérez	Vice President
Joe Ortiz	Vice President

### **Corporate Records**

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, committees, and shareholders were reviewed for the period under examination. The Company was not in compliance with its bylaws as Article II, Section 2, state "The number of directors shall be seven (7)." As of the examination date, the Company had only six (6) directors.

### **Conflict of Interest**

The conflict of interest policy was reviewed during the period under examination. The Company has a conflict of interest policy that is in compliance with Article 29.230 of the Insurance Code of Puerto Rico.

### **Investment Plan**

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that all investments acquired and held under this Chapter shall be acquired and owned under the supervision and direction of the Board of Directors of the insurer. The Board of Directors shall certify in writing, through a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the standards, limitations and investment goals established by the Board, or by a committee authorized by the Board with the responsibility to administer the investments of the insurer. Review of the Board of Directors minutes noted that the Company did certify in writing through a formal resolution that all investments were made pursuant to standards, limitations and investment goals established by the Board.

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

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

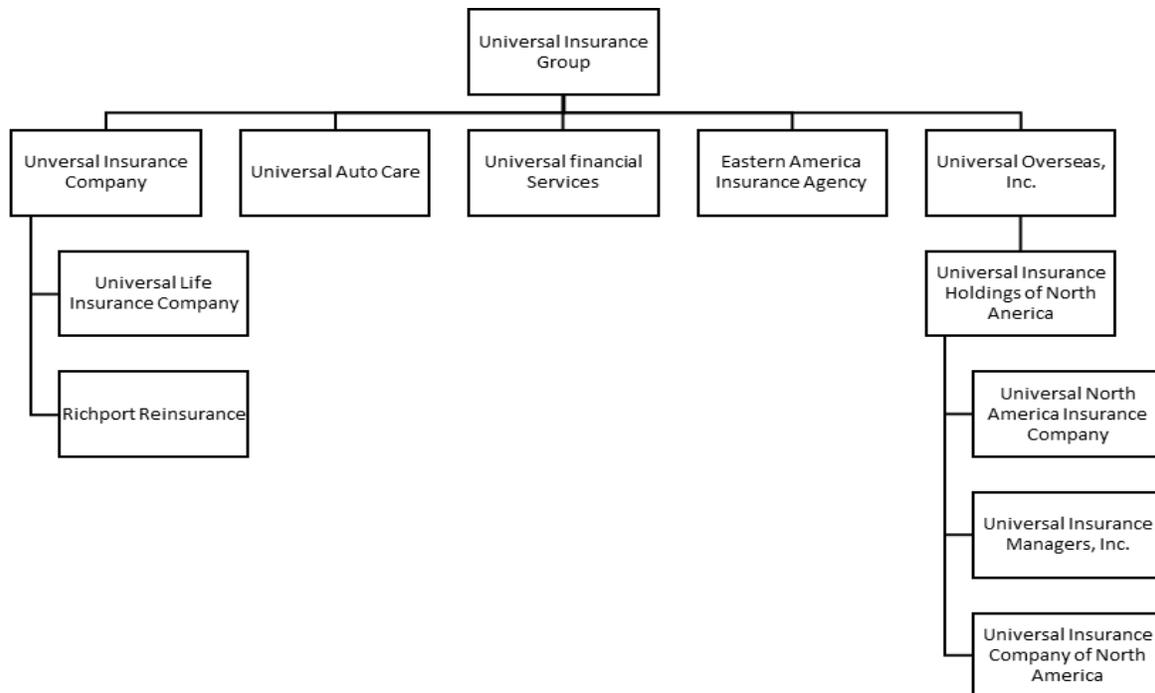
### **HOLDING COMPANY**

The Company is a wholly owned subsidiary of Universal Insurance Group (UIG). The ultimate controlling person of the UIG is Luis Miranda Casañas. UIG is owned by the following individuals or entities:

- Luis Miranda Casañas (50%)
- Jose Andreu Garcia - voting trustee (26.9%)
- Ismael Ruiz (0.5%)
- Plinio Pérez Marrero (3.3%)
- Naranjales, Inc. (19.3%)

## **Organizational Chart**

An organizational chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2013, follows:



Insurance is the major business segment within the holding company system. Property and casualty business accounts for approximately 74% of the overall revenue in the group, with the remaining 26% to life and annuity business. Puerto Rico is the largest segment by revenue within the holding company system. Puerto Rico accounts for approximately 60% of the total group's revenue, with the remaining 40% to business in the United States. For the group, the major lines of business are distributed as follows:

- 1) Homeowners - 37%
- 2) Annuities - 23%
- 3) Auto - 19%
- 4) Commercial Multi-Peril - 8%
- 5) Fire - 4%

### **AFFILIATED TRANSACTIONS**

The Company was involved in the following significant affiliated transactions throughout the examination period:

On November 7, 2011, the Company loaned \$7,000,000 to its affiliate, Universal

Insurance Holdings of North America (UIHNA). The intercompany loan had a maturity date of November 1, 2014, and the interest was payable monthly computed annually on the anniversary date based on the 90-day LIBOR, plus 400 basis points with a floor of 5.50%. As of December 31, 2013, the balance on the loan amounted to approximately \$7,000,000 and was presented as part of other invested assets within the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus.

During December 2011, the Company acquired from Universal Finance, Inc. (UF), seven (7) loans receivable from unrelated parties totaling approximately \$7,200,000. The Company recorded these loans at their outstanding balances, plus the current accumulated interest at the date of the transfer. These loans had multiple due dates with an average duration of 2.6 years and variable interest structure. Their outstanding loan balances ranged from approximately \$172,000 to \$2,000,000. As of December 31, 2013, the outstanding loan balances amounted to \$3,646,520. All loan receivables are collateralized, mostly with real estate, in excess of the outstanding balances. These loans were presented as part of other invested assets within the accompanying statutory-basis statements of admitted assets, liabilities and capital and surplus.

On September 27, 2012, the Company entered into a revolving credit line facility loan (Credit Facility) with UIG amounting to \$23,000,000. The intercompany Credit Facility will mature five (5) years from the closing date of September 27, 2017. The interest rate that will apply to the outstanding amounts under the Credit Facility determined based on a 90-day LIBOR in effect on the applicable interest repricing date, on a floating basis, plus margin of 1.25% (Margin), provided no event of default exists at

such time. For purposes hereof, interest repricing date will be the closing date each first of January, April, July and October of each year during the term commencing on the closing date. Interest will be payable in arrears on the first day of each month. The borrower will have the right to make partial principal payments through the life of the Credit Facility, and will be paid in full by the maturity date. This loan is within the allowed limits permitted by Chapter 44 of the Insurance Code of Puerto Rico. As of December 31, 2013, the loan balance was approximately \$23,000,000 and was presented as part of other invested assets within the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

In December 2013, the Company entered into an agreement with its affiliate insurance agency Eastern America Insurance Agency (EAIA), to acquire for approximately \$8.9 million the EAIA's right to collect future commissions on certain Double-Interest policies over the next five years in the amount of approximately \$11.8 million. The amount paid to the EAIA under this agreement was presented as other assets in the accompanying 2013 statutory-basis statements of admitted assets, liabilities and capital and surplus.

### **GROWTH OF THE COMPANY**

The following information, obtained from the Company's filed 2013 Annual Statement, Five-Year Historical Data, reflects the Company's growth over the last five years:

Year	Admitted Assets	Surplus	Gross Premiums	
			Written	Net Income
2009	\$742,919,062	\$232,956,989	\$305,799,540	\$31,103,928
2010	708,861,512	245,350,043	287,482,811	31,967,010
2011	769,664,445	251,938,446	277,233,805	28,552,814
2012	778,286,593	258,854,816	278,189,160	25,214,376
2013	802,788,944	253,059,963	267,430,454	38,079,404

The Company had no unusual fluctuations in amounts reported as reflected in the five-year historical data above.

## **REINSURANCE**

### Assumed

The Company does not assume any business.

### Ceded

The Company maintains a comprehensive reinsurance program that protects surplus from both aggregate and catastrophe losses while limiting the net retention to a manageable level. The reinsurance program utilizes a combination of quota share agreements and excess of loss contracts to manage per risk and aggregate exposures across various business lines.

The property treaties provide coverage in excess of Company retention of \$1,000,000 up to \$3,000,000 for personal and up to \$10,000,000 for commercial. Coverage is in force in the event of a catastrophe with varying coverage up to \$316,000,000. The casualty treaty provides coverage in excess of Company retention of \$500,000 up to \$9,000,000.

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

## **ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statements for the year 2013 in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Thomas R. Bayley, FCSA, MAAA, of Towers Watson.

### **FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2013, as determined by this examination, with supporting detailed exhibits below.

Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Capital and Surplus Account

**Assets**  
**As of December 31, 2013**

**Analysis of Assets**  
**As of December 31, 2007**

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 501,996,157	\$ -	\$ 501,996,157
Common stocks	64,552,381		64,552,381
Real estate:			
Properties occupied by the company	56,553,601		56,553,601
Properties held for sale	4,155,760		4,155,760
Cash, cash equivalents, and short-term investments	28,573,751		28,573,751
Other invested assets	33,646,519		33,646,519
Investment income due and accrued	4,339,054		4,339,054
Uncollected premiums and agents balances in the course of collection	42,688,000		42,688,000
Deferred premiums, agents' balances and installments booked but not yet due	10,459,513		10,459,513
Amounts recoverable from reinsurers	3,346,089		3,346,089
Current federal and foreign income tax recoverable	579,734		579,734
Net deferred tax asset	188,405		188,405
Electronic data processing equipment and software	1,382,765		1,382,765
Furniture and equipment, including health care delivery assets			
Receivables from parent, subsidiaries and affiliates	34,509,222		34,509,222
Health care and other amounts receivable	5,762,242		5,762,242
Aggregate write-ins for other than invested assets	10,055,750	8,967,941	1,087,809 (1)
Total Assets	\$ 802,788,944	\$ 8,967,941	\$ 793,821,003

**Liabilities, Surplus and Other Funds  
December 31, 2013**

	Annual Statement	Examination Adjustments	Examination Balance
Losses	\$ 52,144,398	\$ -	\$ 52,144,398 (2)
Reinsurance payable on paid losses and LAE			
Loss adjustment expenses	14,395,994		14,395,994 (2)
Commissions payable	1,598,657		1,598,657
Other expenses	729,192		729,192
Taxes, licenses and fees	1,043,952		1,043,952
Borrowed money	165,530,811		165,530,811
Unearned premiums	120,815,719		120,815,719
Advance premiums	185,204,414		185,204,414
Ceded reinsurance premiums payable	7,415,860		7,415,860
Amounts withheld or retained by company for account of others	833,655		833,655
Payable to parent, subsidiaries, and affiliates	16,329		16,329
Aggregate write-ins for liabilities			
Total Liabilities	\$ 549,728,981		\$ 549,728,981
Aggregate write-ins for special surplus funds	56,314,062		56,314,062
Common capital stock	2,800,000		2,800,000
Gross paid in and contributed surplus	76,627,486		76,627,486
Unassigned funds (surplus)	117,318,415	8,967,941	108,350,474 (3)
Surplus as regards policyholders	\$ 253,059,963	\$ 8,967,941	\$ 244,092,022
Totals	\$ 802,788,944	\$ 8,967,941	\$ 793,821,003

**Statement of Income  
December 31, 2013**

**UNDERWRITING INCOME**

Premiums earned	\$ 205,012,944
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**DEDUCTIONS**

Losses incurred	117,267,374
Loss expenses incurred	24,935,118
Other underwriting expenses incurred	70,121,104
Total underwriting deductions	212,323,596
Net underwriting gain or (loss)	\$ (7,310,652)

**INVESTMENT INCOME**

Net investment income earned	\$ 17,068,952
Net realized capital gains or (losses)	4,455,668
Net investment gain or (loss)	\$ 21,524,620

**OTHER INCOME**

Finance and service charges not included in premiums	713,066
Aggregate write-ins for miscellaneous income	43,983,403
Net income before dividends to policyholders and before federal income taxes	\$ 58,910,977
Dividends to policyholders	
Net income after dividends to policyholder but before federal income taxes	\$ 58,910,977
Federal and foreign income taxes incurred	20,831,573
Net income	\$ 38,079,404

**Capital and Surplus Account  
December 31, 2013**

Surplus as regards policyholders, December 31, 2012	<u>\$ 258,854,816</u>
Net income	\$ 38,079,404
Change in net unrealized capital gains or (losses)	(2,750,046)
Change in net deferred income tax	(238,458)
Change in nonadmitted assets	(8,853,694) #
Dividends to stockholders	<u>(41,000,000)</u>
Change in surplus as regards policyholders for the year	<u>\$ (14,762,794)</u>
Surplus as regards policyholder, December 31, 2013	<u><u>\$ 244,092,022</u></u>

# Includes examination adjustment of \$8,967,941.

**NOTES TO FINANCIAL STATEMENTS**

**Assets**

(1) Aggregate write-ins for other than invested assets \$1,087,809

The Company reported an admitted asset of \$10,055,750 for "Aggregate write-ins for other than invested assets". One of the write-in assets, entitled "Other asset" in the amount of \$8,967,941 was related to the Company acquiring EAIA's right to collect the future commissions on certain Double-Interest Policies effective on December 31, 2013, per an affiliated agreement. During the examination, it was determined that the transaction was not recorded in accordance with SSAP No. 4, SSAP No. 6 and accordance with accounting guidance prescribed or permitted by the Office of the Commissioner of Insurance of Puerto Rico and should have been recorded as a non-admitted asset in the 2013 statutory financial statements.

Liabilities

(2) Losses	\$52,144,398
(2) Loss Adjustment Expenses	\$14,395,994

The Office of the Commissioner of Insurance of Puerto Rico retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company’s loss and LAE reserves as of December 31, 2013. The Consulting Actuary’s analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Financial Condition Examiner’s Handbook. The conclusions set forth in the Consulting Actuary’s report were based on information provided by the Company, including the 2013 Annual Statement. The Statement of Actuarial Opinion and the Actuarial Report for the Company were signed by the outside actuarial firm Towers Watson, Leigh S. Oates, ACAS, MAAA.

Based on work performed, the Consulting Actuary found the Company’s carried December 31, 2013 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

<b>(3) <u>Unassigned funds (surplus)</u></b>	\$108,350,474
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Refer to Note (1) above. The Company reported \$117,318,415 for “Unassigned funds (surplus) “in the Company’s 2013 statutory financial statements. The effect of non-admitting \$8,967,941 reported by the Company as an admitted asset resulted in a reduction to surplus, “Change in non-admitted assets” for that amount.

## **SUBSEQUENT EVENTS**

On March 3, 2015, the Office of the Commissioner of Insurance approved the transaction that the Company acquire 100% of the common stock of Point Guard Insurance Agency, Inc., who owns 100% of the common stock of Point Guard Insurance Company.

## **SUMMARY OF RECOMMENDATIONS**

We recommend that the Company non-admit the asset related to EAIA's right to collect future commissions on certain Double-Interest Policies for \$8,967,941 in the statutory financial statements as of December 31, 2013.

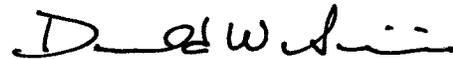
We recommend that the Company adhere to its bylaws regarding the number of required directors, or amend its bylaws to allow for a number of directors that will comply with the number of directors that the Company maintains.

**CONCLUSION**

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Universal Insurance Company as of December 31, 2013, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, James M. Perkins, CFE, Staff Examiner, INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and David Gordon, CISA, CIA, CFE (Certified Fraud Examiner) IT Specialist, both of INS Services, Inc., and Michael W. Morrow, ACAS, MAAA, Actuary, of INS Consultants, Inc., participated in the examination.

Respectfully submitted,




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Donald W. Sirois, CPA, CFE  
 Examiner-In-Charge  
 INSRIS-PR, LLC