

GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



**MAPRE PRAICO INSURANCE COMPANY
AMENDED**

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2015
CASE No. EX-2016-14

NAIC Code 43052
REPORT DATE: FEBRUARY 27, 2017

Joseph G. Jacobs, CFE
Examiner-in-Charge
INSRIS-PR, LLC

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

May 9, 2017

Honorable Javier Rivera Ríos
Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2016-14, dated September 20, 2016, a financial condition examination has been made of the affairs, financial condition and management of the

MAPFRE PRAICO INSURANCE COMPANY
Tres Monjitas Industrial - 297 Carlos Chardón Avenue
San Juan, Puerto Rico 00918-1410

hereinafter referred to as "Company" or "MAPFRE PRAICO", incorporated under the laws of the Commonwealth of Puerto Rico, as of December 31, 2015. The examination was carried out in the main offices of the Company located at Tres Monjitas Industrial- 297 Carlos Chardon Avenue, San Juan, Puerto Rico 00918-1410. The report on this examination is respectfully submitted.

SCOPE OF EXAMINATION

An examination of MAPFRE PRAICO was performed by examiners representing the Office of the Commissioner of Insurance of Puerto Rico (OCI). The last examination covered the period of January 1, 2010 through December 31, 2010. This examination

covers the period from January 1, 2011, through December 31, 2015, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("NAIC Handbook")* and generally accepted statutory insurance examination standards consistent with the insurance laws 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 risk within the Company and evaluating its system of internal controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. Key activities of the Company were determined to include Investments, Premiums and Underwriting, Claims and Reserves, Reinsurance and Financial Reporting. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately

following the Company's financial statements. This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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.

Actuarial Opinion Results Reporting to the Board of Directors

The NAIC Property and Casualty Annual Statement Instructions require the following of the Company:

- The Qualified Actuary must be appointed by the Board, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered.
- The Appointed Actuary must report to the Board or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board should indicate that the Appointed Actuary has presented

such information to the Board of Directors or the Audit Committee and that the Actuarial Opinion and the Actuarial Report were made available.

While the appointment of the Actuary was noted in the minutes of the Board of Directors, there was no mention of the Appointed Actuary making a report each year on the items within the scope of the Actuarial Opinion. This was confirmed in discussions with the Appointed Actuary. Compliance with the establishments of the NAIC Annual Statement Instructions is required per the OCI Ruling Letter No. 2010-118-AF and Rule No. 96.

Actuarial Report – Content Requirements

Rule No. 96 (Actuarial Opinion for Property and Casualty Insurers), Section 2, requires companies to follow the NAIC instruction manual for the “Property and Casualty Annual Statement” in preparing the Summary of the Actuarial Opinion (SAO) and the Actuarial Report supporting the SAO. In addition, OCI’S Ruling Letter No. 2010-118-AF requires the Company to follow the NAIC Annual Statement Instructions. The 2015 NAIC Property and Casualty Annual Statement Instructions require:

- “The Actuarial Report should be consistent with the documentation and disclosure requirement of ASOP No. 41. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to company management, the Board of Directors, the regulator, or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same

field to evaluate the work. The technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions.”

The examination found that the content and presentation of documentation in the MAPFRE PRAICO’s Actuarial Report are not complete and are not in compliance with the NAIC requirements. The MAPFRE PRAICO Actuarial Report is missing reserve segment narratives, explanations, and/or details related to varying methodology weighting schemes, undocumented (other than to refer to another work product not included in the Actuarial Report) expected loss ratios as used in the Bornhuetter-Ferguson methods, and varying age-to-age loss development factor selection strategies.

Holding Company Registration Statement Filing – Rule No. 83

Pursuant to Puerto Rico Regulations, Rule No. 83, Section 14 and 15, all insurers or health services organizations authorized to transact insurance business in Puerto Rico and who are part of a holding company system shall make an annual filing with the information required on Form B and Form C, which are made a part of the Rule. Ruling Letter No. 2011-126-AF of June 1, 2011 requires that insurers file Form B and Form C with the OCI before March 31st of each year.

For the year 2011, the Company submitted the forms on May 31, 2012. For the year 2012, the Company submitted the forms on May 9, 2013. These filings are in violation of the deadline established in Ruling Letter No. 2011-126-AF and Rule No. 83.

Contingent Commission Payment – Rule No. 84, Section III

The Company failed to comply with Section III of the Rule No. 84 of Puerto Rico Insurance Code Regulations and Ruling Letter No. 2008-92-EX. The contingent

commission annual reports filed by the Company indicated commission payment for years 2013 to 2015. The Company paid contingent commissions in excess of the average established by the Rule for the year 2014. In addition, the Company did not submit the required report to this office for the years 2011 and 2012.

The contingent commission payment in excess made for 2014 is being dealt through a Market Conduct investigation. As of the date of this report, this issue is part of an administrative process of this Office, and therefore is included in this report as a disclosure of our examination findings, recognizing it's being subject to another process.

PRIOR EXAMINATION FINDINGS

No material adverse findings, significant non-compliance findings, or material changes in the financial statements were noted during the prior examination.

COMPANY HISTORY

The Company was incorporated on November 5, 1990, under the provisions of the Insurance Code of Puerto Rico, as MAPFRE Insurance Company of Puerto Rico. It commenced operations on December 28, 1990. The Company amended its Articles of Incorporation on January 8, 1991 to change its name to Puerto Rican-American Insurance Company. The Company amended its Articles of Incorporation on January 13, 2004 to change its name to the current name.

The Company is organized under MAPFRE PRAICO Corporation, an intermediate holding company domiciled in Puerto Rico, which is wholly-owned by MAPFRE America, headquartered in Madrid, Spain. MAPFRE S.A. owns 99.22% of

MAPFRE America. MAPFRE America is 67.8% owned by Cartera MAPFRE S.L., which in turn is wholly-owned by Fundación MAPFRE, the Ultimate Controlling Person (UCP).

The Company is engaged in the underwriting of personal and commercial lines of property and casualty insurance. The Company writes dwelling, commercial multiple peril, earthquake, flood and general liability. The Company is licensed to write business in Puerto Rico and U.S. Virgin Islands.

CAPITAL STOCK

The Company has 150,000 shares of common stock authorized, with 50,000 shares issued and outstanding at \$100 par value. MAPFRE PRAICO Corporation owns 49,994 of the shares with the remaining 6 shares being owned by members of the Board of Directors (Board) of the Company in compliance with Article 29.150(1)(a). There are no other classes of capital stock.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws and all amendments thereto, and the minutes of the meetings of the Board, Board committees, and shareholders were reviewed for the period under examination. The following amendments to the Bylaws were filed and approved by the OCI:

“Article IV-The Committees of the Board of Directors” effective August 29, 2012, to read as follows:

- “Section 1 - The Executive Committee may hold its meetings at such place or places as it may find convenient. Special meetings of the Committee may be called, at any time by its Chairperson or at the request of two of its members. Except as

otherwise provided by the Board of Directors, at all regular meetings of the Executive Committee there shall be present the majority of its members in order to constitute a quorum.

- Section 2 - There shall be an Audit Committee constituted by at least three directors a majority of which will be independent directors.”

This amendment was approved at the annual stockholders meeting held on July 20, 2012 and approved by the OCI on December 20, 2012.

MINUTES

The recorded minutes adequately documented its meetings and approval of Company transactions and events, in compliance with the Insurance Code of Puerto Rico.

MANAGEMENT AND CONTROL

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

BOARD OF DIRECTORS

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

<u>Name and Location</u>	<u>Principal Occupation</u>
Jaime Tamayo, Chairman Webster, Massachusetts	President and CEO MAPFRE U.S.A. Corporation
Joaquín A. Castrillo San Juan, Puerto Rico	President & Chief Executive Officer, Vice Chairman of the Board of Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
	MAPFRE PRAICO Insurance Company
Alexis Sánchez San Juan, Puerto Rico	Executive Vice President, Chief Operating Officer MAPFRE PRAICO Insurance Company
Jorge Fernández-Silva Miami, Florida	Former Executive MAPFRE's Insurance Operations - State of Florida
Manuel R. Pietrantoni San Juan, Puerto Rico	Attorney at Law, Founding Partner / Member Pietrantoni, Méndez & Alvarez, LLC
Federico Sánchez San Juan, Puerto Rico	President and CEO Interlink Group
Hilda M. Surillo San Juan, Puerto Rico	Senior Vice President, General Counsel, Corporate Secretary (Non-Voting) MAPFRE PRAICO Insurance Company

OFFICERS

Officers are elected by the Board on an annual basis. A list of the officers elected or appointed during 2015, and serving on December 31, 2015 is as follows:

<u>Name</u>	<u>Title</u>
Joaquín A. Castrillo	President & Chief Executive Officer, Vice Chairman of the Board
Alexis Sánchez	Executive Vice President, Chief Operating Officer
Hilda M. Surillo	Senior Vice President, General Counsel, Corporate Secretary
Orlando Ríos	Senior Vice President, Chief Financial Officer
Sheila A. Quiñones	Treasurer and Vice President
Diego Maldonado	Senior Vice President and Chief Information Officer
José De La Mata	Senior Vice President - Human Resources and Administration
Iraida Meléndez	Senior Vice President - Communications and Marketing
Jaime Berríos	Senior Vice President - Property and Casualty Underwriting
Pedro Rosario	Vice President and Comptroller
Luis Negrón	Vice President - Property and Casualty Claims
Manuel Ortega	Vice President - Auto Claims
Alex Negrón	Vice President - Commercial Structure Unit Sales and Premium Financial
Glorimar Pérez	Vice President - Sales Portfolio Retention
Gloria Medina	Vice President and Compliance Officer (Property, Casualty and Life)
Karla Gnocchi	Vice President - Quality and Research Unit and Control

Name

Title

COMMITTEES

The Bylaws provide that the Board may designate one or more committees as determined to be necessary for the conduct of the business of the Company. As of December 31, 2015, the Company had the following Committees of the Board:

- Executive Committee
 - Jaime Tamayo, Chairman
 - Joaquín A. Castrillo
 - Alexis Sánchez
 - Hilda M. Surillo, Secretary (Non-Voting)
- Audit Committee
 - Manuel R. Pietrantoni, Chairman
 - Federico Sánchez
 - Alexis Sánchez
 - Hilda M. Surillo, Secretary (Non-Voting)
 - Edgardo López, Assistant Vice President, Internal Audit Director (Non-Voting Permanent Guest)
- Investment Committee
 - Joaquín A. Castrillo, Chairman
 - Alexis Sánchez
 - Jorge Fernández Silva
 - Sheila Quiñones, Vice President and Treasurer (Non-Voting Permanent Guest)
 - Orlando Ríos, Senior Vice President & CFO (Non-Voting Permanent Guest)
 - Erick Trigiglio, Investment Officer, MAPFRE's North American Region (Non-Voting Permanent Guest in an oversight role)

As of December 31, 2015, the Company had the following key Management Committees in place to aid in directing the affairs of the organization:

- Compliance Committee
 - Joaquín A. Castrillo

- Alexis Sánchez
- Hilda M. Surillo
- Gloria Medina
- Jamie Berríos
- Luis Negrón
- José De La Mata
- Edgardo López, Assistant Vice President, Internal Audit Director (Non-Voting Guest)
- Thaira Gómez, Internal Control & Risk Management (Non-Voting Guest)
- Risk Management Committee
 - Alexis Sánchez
 - Orlando Ríos
 - Hilda M. Surillo
 - José de la Mata
 - Karla Gnocchi
 - Thaira Gómez, Internal Control & Risk Management
 - Edgardo López, Assistant Vice President, Internal Audit Director (Non-Voting Guest)
- Safety and Environment Committee
 - Alexis Sánchez
 - José De La Mata
 - Diego Maldonado
 - Thaira Gómez, Internal Control & Risk Management
 - Celso Collazo
 - José E. Rivera

CONFLICT OF INTEREST

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

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 the insurer. The Board 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. Our review of the Board minutes we 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.

DIVIDENDS TO STOCKHOLDERS

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

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

Year	Dividend Paid	Unassigned Surplus Previous Year
2011	\$26,500,000	\$95,958,962
2012	\$17,100,000	\$86,159,624
2013	\$73,100,000	\$92,839,788
2014	\$14,675,000	\$42,251,255
2015	\$9,000,000	\$40,102,288

Pursuant to Puerto Rico Regulations, Rule No. 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 payments or has expressly approved the extraordinary dividend within the thirty (30) day period. The dividend of \$73,100,000, paid in 2013, was an extraordinary dividend and it was properly approved for payment by the Commissioner of Insurance. The Company was in compliance with the provisions of Articles 29.340 and 44.060(b) of the Insurance Code of Puerto Rico. Ordinary dividends paid during the examination period were properly notified to the Commissioner in compliance with Article 44.050(e).

HOLDING COMPANY SYSTEM

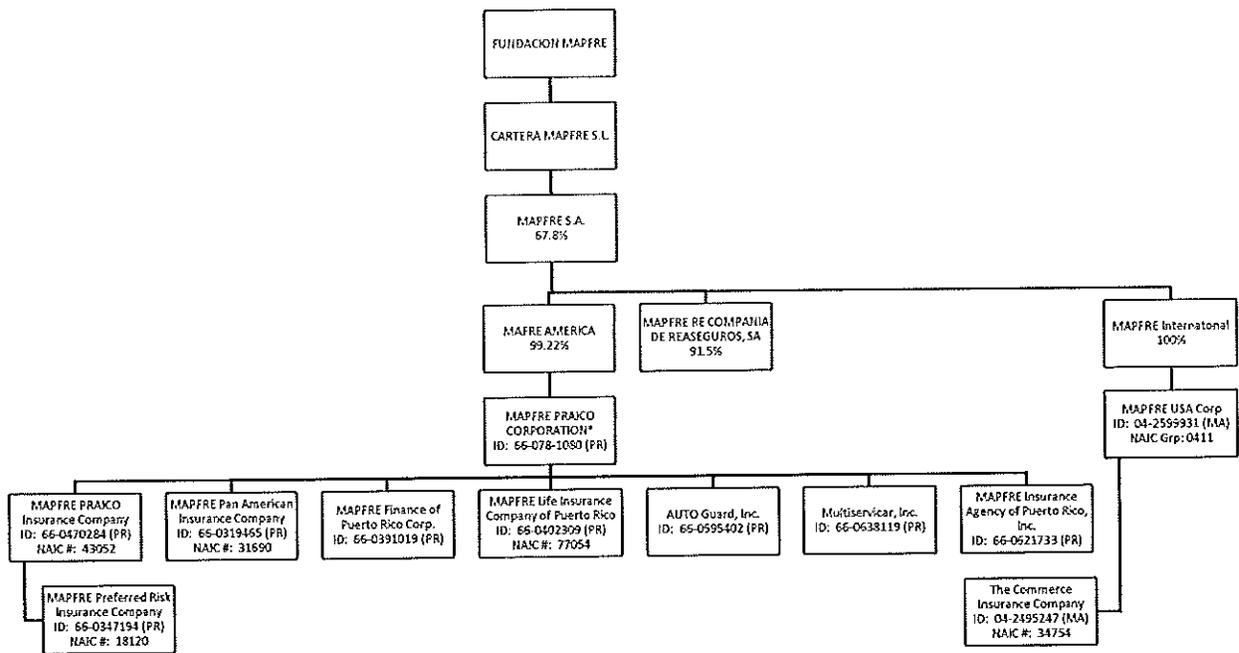
The Company is a member of an Insurance Holding Company System as defined under the Insurance Laws of Puerto Rico. Fundación MAPFRE (Spain) is the ultimate controlling parent. The Company is part of the MAPFRE Puerto Rico Group, which is mainly comprised of four insurance companies that operate in the Commonwealth of Puerto Rico and the U.S. Virgin Islands, which are wholly-owned by MAPFRE PRAICO Corporation. The Group is also comprised of one insurance agency, a premium financing company, an extended warranty company for automobiles and a company that operates an auto body repair shop.

Pursuant to Puerto Rico Regulations, Rule No. 83, Section 13 and 14, all insurers or health services organizations authorized to transact insurance business in Puerto Rico and who are part of a holding company system shall make an annual filing with the

information required on Form B and Form C, which are made a part of this Rule. Ruling Letter No. 2011-126-AF of June 1, 2011 requires that insurers file Form B and Form C with the OCI before March 31st of each year.

For the year 2011, the Company submitted the forms on May 31, 2012. For the year 2012, the Company submitted the forms on May 9, 2013. These filings were in violation of the deadline established in Ruling Letter No. 2011-126-AF and Rule No. 83.

The following is an organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries, and other affiliates with direct business relationships with the Company as of December 31, 2015:



INTERCOMPANY AGREEMENTS

The Company was involved in the following intercompany Cost Sharing/Expense Allocation Agreements in effect during the examination period:

MAPFRE Preferred Risk Insurance Co. and MAPFRE Pan American Insurance Co. Agreement

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its subsidiary, MAPFRE Preferred Risk Insurance Company (MAPFRE PRICO), and its affiliate, MAPFRE Pan American Insurance Company (MAPFRE PANAM), part of the underwriting and investment expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of its subsidiary, MAPFRE PRICO, and its affiliate, MAPFRE PANAM.

MAPFRE Life Insurance Company of Puerto Rico Agreement

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, MAPFRE Life Insurance Company of Puerto Rico (MAPFRE Life), part of the underwriting and investment expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of MAPFRE Life.

Pan American Finance Corporation Agreement

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, Pan American Finance Corporation (PAFCO a.k.a. MAPFRE Finance), part of the underwriting and investment expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of PAFCO.

Puerto Rican Insurance Agency Agreement

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, Puerto Rican Insurance Agency (PRIA), part of the underwriting and investment expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of PRIA.

Commerce Insurance Company Agreement

The Commerce Insurance Company (Commerce), a Massachusetts domiciled insurance Company, and MAPFRE Life, MAPFRE PRAICO, MAPFRE PRICO, and MAPFRE PANAM (collectively known as the MAPFRE Puerto Rico Companies) entered into a services and cost allocation agreement with Commerce whereby Commerce may provide to one or more of the MAPFRE Puerto Rico Companies the personnel, property, and services reasonably necessary to perform accounting, actuarial, audit, ERM consulting, information technology support and security, online marketing and tax functions. No transactions have been processed under this agreement since its inception in 2014.

TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write agricultural, casualty, disability, marine and transportation, property, surety, title, and vehicle insurance in the Commonwealth of Puerto Rico and all lines of insurance except life in the U.S. Virgin Islands (USVI). The Company has seven distribution branches in Puerto Rico and one in the USVI. The branches offer service to all of the Company's customers, authorized representatives, general agents and producers. The distribution channels for MAPFRE PRAICO's products are through independent agents, regular agencies, bank agencies and brokers. For the period covered by this examination, the significant lines of insurance and gross premiums written were as follows:

Line of Business	2011	2012	2013	2014	2015
Commercial multi-peril	\$ 70,648,179	\$ 80,725,994	\$ 84,242,086	\$ 75,047,774	\$ 73,874,508
Allied lines	43,374,687	46,699,975	45,930,121	39,307,587	36,498,556
Auto physical damage	39,469,643	38,075,787	35,542,926	34,839,795	36,043,013
Earthquake	23,399,537	27,291,831	26,422,461	26,400,957	23,632,782
Other liability-occurrence	13,811,705	14,115,078	18,430,000	18,942,302	19,799,183
Commercial auto liability	15,232,994	13,447,128	13,641,733	14,255,366	15,442,312
Homeowners multi-peril	14,019,115	8,111,983	8,328,566	8,976,749	10,876,426
Private passenger auto liability	3,818,644	6,432,755	6,661,737	7,053,231	10,643,581
Fire	6,442,167	8,383,832	8,571,780	7,975,156	6,622,259
Surety	5,841,843	5,259,380	5,361,748	5,924,420	4,979,899
Travel assistance	1,721,633	2,058,834	2,262,199	2,602,665	2,958,678
Inland marine	3,267,899	2,571,603	4,419,695	2,333,307	1,772,629
Ocean Marine	1,442,115	1,116,186	838,277	782,840	1,090,526
Boiler and machinery	847,742	878,448	540,316	540,264	528,632
Aircraft (all perils)	0	0	125,949	320,465	303,137
Fidelity	133,681	152,193	124,634	132,105	87,322
Workers' compensation	405,219	423,775	210,270	273,647	62,421
Group accident and health	64,245	58,662	38,343	39,703	25,183
Total	\$243,941,048	\$255,803,444	\$261,692,841	\$245,748,333	\$245,241,047

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the past five years through December 31, 2015.

Year	Admitted Assets	Surplus	Gross Premiums Written	Net Income
2011	\$430,413,722	\$189,953,002	\$243,941,048	\$24,696,032

Year	Admitted Assets	Surplus	Gross Premiums Written	Net Income
2012	427,695,799	196,533,270	255,803,444	21,825,899
2013	375,752,800	148,645,466	261,692,841	18,545,432
2014	376,298,759	148,995,466	245,748,333	15,599,676
2015	382,944,290	162,482,296	245,241,047	20,975,357

Policyholders' surplus decreased from \$189,953,002 to \$162,482,296 during the exam period. The primary reason for the decrease in admitted assets and surplus was the payment of \$140,375,000 in dividends by the Company to its parent during the examination period as compared to net income of \$101,642,396. Premium has not changed significantly over the period under examination due to the highly competitive environment that the Company operates in and its commitment to only write business that can produce profitable underwriting results.

REINSURANCE

ASSUMED

The Company assumes business from its subsidiary, MAPFRE PRICO, and its affiliate, MAPFRE PANAM, through a 71.5% quota share reinsurance agreement with each company. Total reinsurance premiums assumed for 2015 was \$37,111,010.

CEDED

MAPFRE PRAICO's primary reinsurer is an authorized affiliated Spanish company, MAPFRE RE Compañía de Reaseguros S.A. (MAPFRE RE), under multiple reinsurance agreements. This affiliate accounts for 91.9% (\$74.7 million) of the total ceded premiums (\$81.3 million) and 89.1% (\$39.3 million) of the total net amount recoverable from reinsurers (\$44.1 million) as of December 31, 2015.

MAPFRE PRAICO's other significant reinsurers, as of December 31, 2015, are as follows:

- Endurance Reinsurance Corporation of America and Swiss Reinsurance America Corporation provide reinsurance for the Company's Surety business via a 50% quota share reinsurance agreement that accounts for \$2.5 million in ceded premiums.
- The Hartford Steam Boiler Inspection and Insurance Company provide a 100% ceded program for equipment breakdown coverage that accounts for \$714 thousand in ceded premiums.
- MAPFRE PRAICO ceded Flood business under the National Flood Insurance Program, which accounted for \$1.8 million in ceded premiums as of December 31, 2015.

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

ACCOUNTS AND RECORDS

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified and controls were identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

INS Services, Inc. performed a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

FINANCIAL STATEMENTS

The following financial statements are based on the amended statutory financial statements filed by the Company with the OCI and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

MAPFRE PRAICO Insurance Company
ASSETS
December 31, 2015

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$240,408,983	\$0	\$240,408,983
Common stocks	38,896,851		38,896,851
Properties occupied by the company	34,526,899		34,526,899
Cash, cash equivalents and short-term investments	27,850,743		27,850,743
Investment income due and accrued	2,029,671		2,029,671
Uncollected premiums and agents balances in course of collection	23,332,514		23,332,514
Deferred premiums	96,472		96,472
Amounts recoverable from reinsurers	64,437		64,437
Net deferred tax asset	10,243,317		10,243,317
Electronic data processing equipment and software	134,112		134,112
Receivables from parent, subsidiaries and affiliates	3,285,491		3,285,491
Aggregate write-ins for other than invested assets	2,074,800		2,074,800
Total Assets	\$382,944,290	\$0	\$382,944,290

MAPFRE PRAICO Insurance Company
LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses (Note 1)	\$ 64,636,178	\$0	\$ 64,636,178
Reinsurance payable on paid losses and loss adjustment expenses	3,755,020		3,755,020
Loss adjustment expenses (Note 1)	10,547,195		10,547,195
Commissions payable, contingent commissions and other similar charges	9,366,211		9,366,211
Other expenses	1,847,704		1,847,704
Current federal and foreign income taxes	2,705,450		2,705,450
Unearned premiums	110,088,033		110,088,033
Advance premiums	2,851,447		2,851,447
Ceded reinsurance premiums payable	3,451,443		3,451,443
Amounts withheld or retained by company for account of others	571,628		571,628
Provision for reinsurance	125,274		125,274
Payable to parent, subsidiaries and affiliates	609,995		609,995
Aggregate write-ins for liabilities	9,906,416		9,906,416
Total liabilities	\$220,461,994	\$0	\$220,461,994
Aggregate write-ins for special surplus funds	41,394,589		41,394,589
Common capital stock	5,000,000		5,000,000
Gross paid in and contributed surplus	65,000,000		65,000,000
Unassigned funds (surplus)	51,087,707		51,087,707
Surplus as regards policyholders (Note 2)	\$162,482,296	\$0	\$162,482,296
Total liabilities, surplus and other funds	\$382,944,290	\$0	\$382,944,290

MAPFRE PRAICO Insurance Company
SUMMARY OF OPERATIONS
December 31, 2015

Underwriting Income

Premiums earned	\$164,636,776
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Deductions

Losses incurred	54,323,383
Loss adjustment expenses incurred	18,156,903
Other underwriting expenses incurred	71,572,839
Total underwriting deductions	144,053,125
Net underwriting gain (loss)	20,583,651

Investment Income

Net investment income earned	5,818,730
Net realized capital gains (losses) less capital gains tax	223,026
Net investment gain (loss)	6,041,756

Other Income

Net gain (loss) from agents' premium balances charged off	(132,123)
Finance and service charges not included in premiums	25,997
Aggregate write-ins for miscellaneous income	1,829,233
Total other income	1,723,107

Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes

28,348,514

Federal and foreign income taxes incurred

7,373,157

Net income

\$ 20,975,357

MAPFRE PRAICO Insurance Company
CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Surplus as regards policyholders, December 31 prior year	\$148,995,466
Net Income	20,975,357
Change in net unrealized capital gains or (losses) less capital gains tax	2,877,427
Change in net deferred income tax	825,502
Change in non-admitted assets	(2,339,543)
Change in provision for reinsurance	148,087
Dividends to stockholders	<u>(9,000,000)</u>
Change in surplus as regards policyholders for the year	<u>13,486,830</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$162,482,296</u></u>

MAPFRE PRAICO Insurance Company
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
December 31, 2015

Surplus as Regards Policyholders
December 31, 2015, Per Annual Statement
(Amended) \$162,482,296

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	
ASSETS	\$382,944,290	\$382,944,290	\$	-
LIABILITIES	\$220,461,994	\$220,461,994	\$	-
Net Change in Surplus			\$	<u>-</u>

Surplus as Regards Policyholders
December 31, 2015, Per Examination \$162,482,296

NOTES ON FINANCIAL STATEMENTS

NOTE 1: LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Losses	\$64,636,178
Loss adjustment expenses	\$10,547,195

The OCI retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's reserves as of December 31, 2015. The consulting actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in the consulting actuary's report were based on information provided by the Company, including the 2015 Amended Annual Statement. The Statement of Actuarial Opinion for 2015 was prepared and signed by the appointed actuary, Warren S. Ehrlich, FCAS, MAAA, Assistant Vice President and Senior Actuary, Commerce Insurance Company. The Actuarial Opinion was prepared and submitted in accordance with Rule No. 96 and Article 5.100 of Insurance Code of Puerto Rico. However, the Actuarial Report supporting the Actuarial Opinion did not comply with the requirements of Rule No. 96, which requires the Actuarial Report to comply with the requirements of the NAIC Property and Casualty Annual Statement Instructions.

The examination found that the content and presentation of documentation in the MAPFRE PRAICO's Actuarial Report are not complete and are not in compliance with the NAIC requirements. The MAPFRE PRAICO Actuarial Report is missing reserve segment narratives, explanations, and/or details related to varying methodology weighting schemes, undocumented expected loss ratios as used in the Bornhuetter-Ferguson methods

(other than to refer to another work product not included in the Actuarial Report), and varying age-to-age loss development factor selection strategies. In addition, the examination found that the Appointed Actuary did not report to the Board or the Audit Committee on the items within the scope of the Actuarial Opinion for each year under examination.

Based on the procedures performed, INS determined that the Company's loss and loss adjustment expense reserves as of December 31, 2015 appear reasonably stated and have been accepted for the purpose of this report.

NOTE 2: TOTAL CAPITAL AND SURPLUS

The total capital and surplus of the Company at December 31, 2015, as determined by this examination, is the same as the amount reported by the Company on its 2015 Amended Annual Statement.

SUBSEQUENT EVENTS

On December 8, 2015, the Office of the Commissioner of Insurance of the Government of Puerto Rico approved the Plan of Merger of the Company with MAPFRE PRICO, its wholly owned subsidiary. Effective January 1, 2016, and under the agreement and plan of merger, MAPFRE PRAICO became the surviving entity under the laws of the Government of Puerto Rico.

SUMMARY OF RECOMMENDATIONS

Actuarial Opinion Results Reporting to the Board of Directors

We recommend that the Company comply with the Rule No. 96 and the NAIC Property and Casualty Annual Statement Instructions requirements on the Actuarial

Opinion by having the Appointed Actuary report to the Board or the Audit Committee regarding the items within scope of the Actuarial Opinion and have such presentation properly reflected in the minutes of the Board or the Audit Committee.

Actuarial Report – Content Requirements

We recommend future MAPFRE PRAICO Actuarial Reports contain sufficient content and presentation documentation to comply with Rule No. 96 and the NAIC Annual Statement Instructions. This will aid the OCI and future examinations in their reviews of the Actuarial Report by allowing another actuary practicing in the same field to evaluate the work more comprehensively and effectively.

Holding Company Registration Statement Filing – Rule No. 83

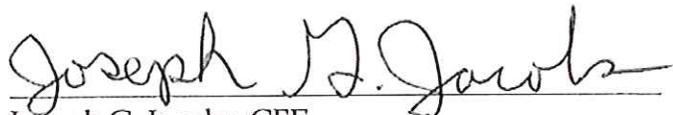
We recommend that the Company comply with Section 13 and 14 of Rule No. 83 of the Puerto Rico Insurance Code.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **MAPFRE PRAICO Insurance Company** as of December 31, 2015, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

In addition to the undersigned, Donald W. Sirois, CFE, Examination Manager, and Scott Slaughter, CPA, Staff Examiner, all of INSRIS-PR, LLC participated in this examination. Additionally, James F. Tygh, FCAS, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. Paul L. Berkebile, CISA, CFSA, CRISC, and Robert Ficken, CFE, CPA, CIA, CISA, AES, CDFE, of INS Services, Inc. participated in the Information Technology General Controls portion of the examination. Maribel Figueroa, APIR, Examiner of the Office of the Commissioner of Insurance, participated in the compliance portion of the examination.

Respectfully submitted,



Joseph G. Jacobs, CFE

Examiner-in-Charge

INSRIS-PR, LLC

Representing the Office of the Commissioner
of Insurance of Puerto Rico



Carla M. Colón León, CPA

Supervisor, Examiners Division

Office of the Commissioner of Insurance of
Puerto Rico