

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



TRIPLE-S BLUE, INC. I.I.
AMENDED REPORT ON EXAMINATION
AS OF DECEMBER 31, 2017
CASE No. EX-2018-03

NAIC CODE 61158
REPORT DATE NOVEMBER 22, 2019

Patricia G. Neesham, CFE
Examiner-in-Charge
INSRIS-PR, LLC

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GOVERNMENT OF PUERTO RICO

Office of the Commissioner of Insurance

November 22, 2019

Honorable Javier Rivera Ríos
Commissioner of Insurance
Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
San Juan, Puerto Rico 00918

Dear Commissioner:

In compliance with your instructions and pursuant to statutory provisions contained in Order Number EX-2018-03, dated December 6, 2018, a financial condition examination has been made of the affairs, financial condition and management of

TRIPLE-S BLUE, INC., I.I.
1052 MUNOZ RIVERA
SAN JUAN, PUERTO RICO 00920

hereinafter referred to as "the Insurer" or TSB.

SCOPE OF EXAMINATION

The current examination was conducted at the office of the Insurer's principal representative in Puerto Rico located at 1052 Muñoz Rivera, San Juan, Puerto Rico. The last examination covered the period of January 1, 2010, through December 31, 2011. This examination covered the period from January 1, 2013, through December 31, 2017, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The purpose of this examination is to evaluate the compliance of the Insurer with the provisions of Chapter

61 of the Insurance Code of Puerto Rico and its Rules 80, 81, and 82, since 2015 when it became an International Insurer. In addition, we will ascertain that the Insurer complied with the Business Plan submitted to the Commissioner of Insurance ("the Commissioner") of Puerto Rico.

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 Insurer by obtaining information about the Insurer including corporate governance, identifying and assessing inherent risk within the Insurer and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of 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.

All accounts and activities of the Insurer were considered in accordance with the NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Insurer's external accounting firm, Deloitte & Touché, LLP (D&T).

Certain auditor work papers 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 Insurer was conducted concurrently with the examination of Triple-S Salud, Inc. (TSS) and Triple-S Vida, Inc. (TSV).

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.

Failure to Comply with Section 8 of Rule No. 80

The Insurer failed to comply with Section 8 of Rule No. 80 of the Insurance Code Regulations, by not presenting the denomination "International Insurer" or "II" as part of the official documents.

Authentication of annual reports

The Insurer failed to comply with Article 61.100 of the Insurance Code of Puerto Rico for the years 2015 and 2016, by not authenticating the reports with the sworn statement of at least two (2) principal officers. Subsequently, the Insurer submitted the sworn statements for the reports of 2015, 2016, 2017 and 2018.

Failure to Respond Timely to Requests

During the course of the examination there were a number of requests for documentation or information that were fulfilled significantly beyond the time stipulated. The Insurer was not in compliance with Rule 1-A of the Insurance Code of Puerto Rico which requires full cooperation with the investigation being carried out by the Commissioner.

COMPANY HISTORY

The Insurer was originally incorporated in December 29, 1945, under the provisions of the Insurance Code of Puerto Rico. The Insurer was a wholly owned subsidiary of North America Life Insurance Company from November 15, 2001 until November 7, 2013 when it was purchased by Triple-S Vida, Inc. ("TSV"). Effective September 1, 2015, the Insurer changed its name from Triple S Blue Inc., to Triple-S Blue Inc., I.I. becoming an International Insurer Class 5.

The Insurer's principal market is in Costa Rica, British Virgin Islands, Anguilla and U.S. Virgin Islands. The Insurer operates as a life and health insurance company dedicated to the sale of individual life, cancer insurance, and individual and group health insurance products in its principal market. The Insurer's management is primarily responsible for the Insurer's underwriting activities, including review of pricing.

OPERATIONS

The Insurer engages a consulting actuary to provide the actuarial opinion, perform asset adequacy testing, and determine the assets, reserves and liabilities for the life and

individual accident and health business. The Insurer's personnel determine the group accident and health asset and liability items and prepare the Annual Statement.

For the period under examination, the Insurer utilized Steve Griffith, FSA, MAAA, a principal and consulting actuary with the firm of Griffith, Ballard & Company. The appointed actuary has issued the Insurer's actuarial opinion every year during the examination period.

Effective January 1, 2014, the Insurer completed an assumption reinsurance agreement with TSV. The assumption reinsurance effected a novation whereby TSV assumed all of the assets and liabilities related to the entire life block of business from Puerto Rico. This transaction was approved by the Office of the Commissioner of Insurance.

As of December 31, 2017, there are still policies for which TSV assumed the risk that are under the Insurer's systems. These policy transactions are executed by the Insurer and the revenue collected and claims related disbursements are settled through intercompany accounts.

In the normal course of business, the Insurer limits its exposure that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk mainly with the following reinsurers: Swiss Re, Optimum Re, Munich Reinsurance, Hannover, and Redbridge Reinsurance.

- The Insurer has several reinsurance agreements covering individual life business on an excess of loss basis up to a maximum retention of \$100,000.

- The Insurer has an automatic excess of loss reinsurance agreement covering the individual major medical business where the Insurer reinsures 70% of losses in excess of \$100,000 up to \$2,000,000 per covered person, per lifetime.
- The Insurer has a quota share agreement for group major medical and an excess of loss agreement for group and individual major medical, where the Insurer cedes 40% of the premiums, net of 28% commission and 40% of benefits in excess of \$100,000 and 70% of the excess of \$100,000.
- For the Costa Rica major medical business, the Insurer has an automatic excess of loss reinsurance agreement where the Insurer reinsures 100% of the Insurer's gross liability from \$25,000 up to \$2,000,000 per covered person per contract year.
- The Insurer has a 100% quota share accidental death bulk reinsurance agreement covering accidental death benefits, accidental death and dismemberment benefit and group personal accident benefits for all contracts, riders and endorsements issued.

The Insurer does not assume any reinsurance.

MANAGEMENT AND CONTROL

The articles of incorporation were amended on July 3, 2015. The name of the corporation was change to Triple-S Blue, Inc., I.I. and the purpose of the incorporation was amended for the purpose of transacting business as a Class 5 International Insurer. In addition, the articles of incorporation were amended such that the Board of Directors shall consist of not less than three (3) and no more than five (5) directors. Each director

shall serve for the term of one (1) year. The directors serving at December 31, 2017 are as follows: Triple S- Management Company (TSM) is the insurer's ultimate controlling entity.

Name	Principal Residence	Principle Occupation
Roberto García Rodríguez	San Juan, Puerto Rico	TSM President and CEO
Juan José Román-Jiménez	Guaynabo, Puerto Rico	TSM Exec. VP and CFO
Arturo Carrión Crespo	San Juan, Puerto Rico	TSV President
Carlos L. Rodríguez Ramos	San Juan, Puerto Rico	TSM Chief Legal Counsel

Officers are elected by the Board of Directors on an annual basis. A list of the officers elected or appointed during 2017 and serving as of December 31, 2017 appears below.

Name	Title
Arturo Carrión Crespo	President
Carlos L. Rodríguez Ramos	Secretary
Juan José Román Jiménez	Treasurer
Carlo LaRussa Jiménez	Assistant Treasurer
Edgardo Díaz Usero	Senior Vice President
Michael Báez Rodríguez	Executive Vice President
José A. Soto Ríos	Vice President

CAPITAL STOCK

As of December 31, 2017, the Insurer had 200,000 common stock shares authorized, 131,695 issued and outstanding with a par value of \$20 per share for paid in capital of

\$2,633,900. The Insurer is a direct subsidiary of TSV, which owns all of the shares outstanding.

DIVIDENDS TO STOCKHOLDERS

The Insurer did not declare or pay dividends during the period of examination.

AUTHORIZATION REQUIREMENTS

The Insurer is in compliance with Article 61.050(8). Mr. Arturo Carrión was named as the International Insurer's principal representative and hasn't been changed since then. On the other hand, Article 61.050(13) and (15) does not apply to TSB since it does not conduct business not incidental to the insurance business, and all its insurance business is outside Puerto Rico.

SEGREGATION OF BOOKS AND RECORDS

Apart from the sale of individual life, cancer insurance and individual and group health insurance products, the Insurer does not conduct any other business and Section 15 of Article 61.050 of the Insurance Code of Puerto Rico does not apply. Therefore, the Insurer is not required to establish separate accounts to segregate the assets of the insurance business from the assets of the businesses not incidental to the insurance business.

MINIMUM CAPITAL AND SURPLUS

The Insurer was authorized as a Class 5 International Insurer, therefore, it is required to maintain a total combined capital and surplus of no less than \$750,000, as per Article 61.080(e). As well, the Insurer shall have and maintain a minimum capital of not

less than \$750,000 of capital in addition to any other capital required for another authority class. Lastly, the Insurer is required to keep in Puerto Rico, at all times, whichever is less among the following:

- (a) The capital and surplus that is required to maintain pursuant to subsection (1)(e), of Article 61.080 of the Code, or (b) five million dollars (\$5,000,000).

The following data was obtained from the audited financial statements (GAAP format) filed in the Commissioner's Office:

Year	Capital	Surplus	Total Capital and Surplus
2015	\$2,633,900	\$5,181,791	\$7,815,691
2016	2,633,900	3,907,638	6,541,538
2017	2,633,900	2,577,479	5,211,379

Under Chapter 61 of the Insurance Code of Puerto Rico, Article 61.080 requires that International Insurers to maintain statutory surplus of \$750,000. The Insurer has capital and surplus of \$5,211,379 as of December 31, 2017, complying with the Code.

PREMIUM AND LIQUIDITY RATIOS

According to the information presented in the audited financial statements for the years 2015, 2016 and 2017, the Insurer complied with Section 10, subsection 1(e) of Rule No. 80, and Article 61.090 of the Insurance Code of Puerto Rico.

Premium Ratio:

It is important to clarify that as of 2016, Rule No. 80 was amended regarding premium ratio. The previous Rule No. 80 stated the following:

- i. Seven hundred fifty thousand dollars (\$750,000), or

ii. Twenty-five percent (25%) of the net premiums written in the current accounting year.

The following tables provides information related to the compliance of the Insurer with both versions of Rule 80:

Premium Ratio - Per Rule 80 (February 25, 2011)			
	Excess of Assets over Liabilities	25% of net premium written	Actual relation
2015	\$7,815,691	\$1,415,987	138%

Premium Ratio - Per Rule 80 (February 24, 2016)			
	Excess of Assets over Liabilities	Premiums / Surplus as stated in Business Plan	Actual Premiums / Surplus
2016	\$6,541,538	2.23	1.20
2017	\$5,211,379	2.14	1.60

Liquidity Ratio:

The audited financial statements for the years 2015, 2016 and 2017, were reviewed in order to assess compliance with Article 61.090 of the Insurance Code, and Section 10, subsection 2 of Rule No. 80. The following data was obtained and recalculated from the financial figures presented in the audited financial statements of the Insurer, to adjust them to the definition of "Liquid Assets" as per Rule No. 80. See the following table:

Liquidity Ratio			
	80% of Liabilities	Liquid Assets	Current Ratio
2015	3,761,230	8,572,089	182%
2016	5,457,878	9,674,615	142%
2017	5,944,083	9,647,942	130%

DEPOSIT IN PUERTO RICO

Regarding subsection 1 of section 12 of Rule No. 80, the Insurer complied by maintaining more than the capital and minimum surplus required in accordance with Section 61.080 of the Insurance Code of Puerto Rico, in cash, and in the form of a special deposit made in trust with the Secretary of the Treasury of the Commonwealth of Puerto Rico, through the Office of the Commissioner, as required on Article 3.150 of the Code for a domestic insurer.

ANNUAL REPORT

As per Article 61.100 of the Insurance Code of Puerto Rico, the Insurer must file its audited annual statement before the last day of the fourth month following the international insurer's preceding fiscal year, which in this case will be on April 29. The audited financial statements presented to the Office were reviewed. The audited financial statements were prepared by the auditing firm RSM, LLC Puerto Rico, which is authorized as an independent certified public accountant for international insurance business.

For the years 2015 through 2017, the Insurer provided reasonable evidence of compliance with Article 61.100, and Section 11 of Rule No. 80, with the exception of the submission of the sworn statement of at least two of its principal officers for the 2015 and 2016 filing, where no evidence of submission was found. Moreover, the Authentication presented for the 2017 annual statement, was not presented in conjunction with the audited Annual Statement as required in Article 61.100 (1)(b) of the Code. Subsequently, the Insurer presented the sworn statements duly completed for the reports of 2015, 2016, 2017 and 2018.

The Insurer complied with the requirement of presenting its actuary's certification of its outstanding obligations with respect to the business transacted according to its Class 5 Authority. Such actuary report was presented in conjunction with the presentation of its Annual Financial Statement using the NAIC format for each year.

BUSINESS NAME

As per our evaluations of copies of insurance policies issued by the Insurer, and the forms downloaded from its webpage, specifically the Costa Rica Branch <https://www.bcbscostarica.com/>, the wording provided in Section 8 of Rule No. 80 was not used as required. Per Section 8 of Rule No. 80, the denomination "International Insurer" or "II" should appear as part of the official name of the international insurer and must be used at all times as part of the official name or commercial name, if permitted,

on all policies, applications, and other documents, as well as in all publications and presentations.

PRINCIPAL REPRESENTATIVE

The Insurer has a Principal Representative which is a resident of Puerto Rico appointed to supervise the insurance business and oversee that it is conducting business pursuant to the provisions of the Insurance Code of Puerto Rico. As of the review date, Mr. Arturo Carrión Crespo, a Director and President of the Insurer, is the Principal Representative approved by the Commissioner. The Insurer complied with Article 61.170 of the Insurance Code of Puerto Rico.

INVESTMENTS PLAN

Section 11 of Rule No. 80 and Article 61.110 of the Insurance Code of Puerto Rico provide, among other requirements, that the Insurer submit its Investment Plan to the Commissioner for review and approval. During the examined period, the Insurer complied with Article 61.110 of the Insurance Code of Puerto Rico and Section 12 of Rule No. 80, by abiding with its Investment Policy and Guidelines as submitted with its authorization application and further amended versions dully approved and ratified by the Company's Board of Directors. Also, the Insurer complied with subsection 1 of section 12 of Rule No. 80 by maintaining more than the Capital and minimum surplus required in accordance with Section 61.080 of the Insurance Code of Puerto Rico.

**TRIPLE-S BLUE, INC. I.I.
STATEMENT OF BALANCE SHEET (GAAP Basis)**

ASSETS	<u>2017</u>	<u>2016</u>
Investments in available-for-sale securities, at fair value	\$7,848,792	\$7,794,496
Policy loans	30,227	50,300
Subtotal	<u>\$7,879,019</u>	<u>\$7,844,796</u>
Cash and cash equivalents	1,415,381	1,497,920
Certificates of deposit	383,769	382,199
Accumulated investment income	61,077	85,858
Premiums due and uncollected	23,460	36,661
Reinsurance receivable	372,369	1,371,221
Agents balances, net of allowance of \$712,687 in both years	619,650	593,369
Value of business acquired	115,514	313,798
Property and equipment, net	1,121,026	652,499
Prepaid expenses and other assets	650,218	585,564
Total assets	<u>\$12,641,483</u>	<u>\$13,363,885</u>
LIABILITIES		
Future policy benefits	\$780,604	\$630,374
Policy and contract claims	568,557	648,878
Amount due to reinsurers	516,870	851,247
Commissions payable	276,734	308,701
Other amounts payable on assumed reinsurance	2,370,653	2,139,044
Interest Maintenance Reserve	2,420,625	1,933,647
Commissions to agents due or accrued	496,061	310,456
Total liabilities	<u>\$7,430,104</u>	<u>\$6,822,347</u>
STOCKHOLDERS' EQUITY		
Common stock	\$2,633,900	\$2,633,900
Additional paid-in capital	7,028,854	6,778,854
Accumulated deficit	(4,500,044)	(3,076,884)
Accumulated other comprehensive income, net	48,669	205,668
Total stockholders' equity	<u>\$5,211,379</u>	<u>\$6,541,538</u>
Total liabilities and stockholders' equity	<u>\$12,641,483</u>	<u>\$13,363,885</u>

**TRIPLE-S BLUE, INC. I.I.
INCOME STATEMENT (GAAP Basis)**

	2017	2016
PREMIUMS AND OTHER REVENUES		
Net premiums earned	\$8,129,667	\$6,609,656
Net investment income	231,613	270,647
Other income	73,389	
Subtotal	\$8,434,669	\$6,880,303
Net realized gains on investments	106,492	54,586
Total premiums and other revenues	\$8,541,161	\$6,934,889
 BENEFITS AND OTHER EXPENSES		
Policyholder benefits	4,668,132	3,927,596
Commissions	1,701,567	1,483,354
Amortization of blue of business acquired, net	198,284	36,235
General and administrative expenses	\$3,323,929	2,875,420
Total benefits and other expenses	\$9,891,912	\$8,322,605
Loss before income tax benefit (loss)	(1,350,751)	(1,387,716)
Income tax benefit (expense)	(72,409)	2,824
Net loss	(1,423,160)	(1,384,892)
Other comprehensive income (loss)	(156,999)	110,739
COMPREHENSIVE LOSS	(\$1,580,159)	(\$1,274,153)

TRIPLE-S BLUE, INC. I.I.
NET INCOME RECONCILIATION (GAAP TO STATUTORY)

	2017	2016
Net loss - GAAP basis	(\$1,423,160)	(\$1,384,892)
Amortization of interest maintenance reserve	46,667	57,913
Change in net investment income and other change in premium annuities	416,339	414,657
	14,016	6,474
Other expenses	(24,879)	3,525
Amortization of value of business acquired	198,284	36,235
Change in actuarial reserve	(23,611)	(2,023)
Change in net realized capital loss		32,967
Other changes	72,411	(2,824)
	(\$723,933)	(\$837,968)

STOCKHOLDERS' EQUITY RECONCILIATION (GAAP TO STATUTORY)

	2017	2016
Shareholder's Equity under GAAP	\$5,211,379	\$6,541,538
Business Combination	753,236	753,236
Cumulative capital gains	(1,062,452)	(1,062,452)
Cumulative reserves	(29,920)	(6,309)
Deferred premiums	6,309	7,081
Non-admitted assets	(723,192)	(221,470)
Interest maintenance reserve	(5,859)	(52,526)
Asset valuation reserve	(4,179)	(21,879)
Value of business acquired	(115,514)	(313,798)
Other expenses	10,860	32,170
Impairment on investments	9,657	61,807
Unrealized net gain on investments	50,887	(134,213)
Net assets and liabilities transferred on assumption reinsurance	(2,341,775)	(2,733,737)
Capital & Surplus under Statutory Basis	1,759,437	2,849,448

SUMMARY OF RECOMMENDATIONS

As per our evaluations of copies of insurance policies issued by the Insurer, and the forms downloaded from its webpage, the wording provided in Section 8 of Rule 80 was not used as required.

Failure to comply with Section 8 of Rule No. 80

We recommend the Insurer include "International Insurer" or "II" as part of its official name on all policies, applications and other documents as well as in all publications and presentations. We recommend the Insurer as well to include the required notice in its official documents.

Failure to comply with Article 61.100

We recommend the Insurer to authenticate all its annual reports with the sworn statement of at least two (2) of its officers, every year.

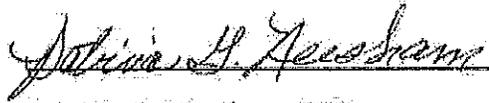
Failure to comply with Rule I-A

We recommended that the Insurer respond to all requests during an examination within the time stipulated as required by Rule I-A of the Insurance Code of Puerto Rico.

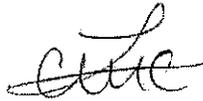
CONCLUSION

For the period reviewed, the Insurer complied with Chapter 61 of the Insurance Code of Puerto Rico and Rules 80, 81, and 82, as applicable, except for Section 8 of Rule 80, Article 61.100 and Rule I-A as described in the above paragraphs.

Respectfully submitted,



Patricia G. Neesham, CFE
Examiner-in-Charge
INSRIS-PR, LLC



Carla M. Colón León
Exams Supervisor
Commissioner of Insurance of Puerto Rico