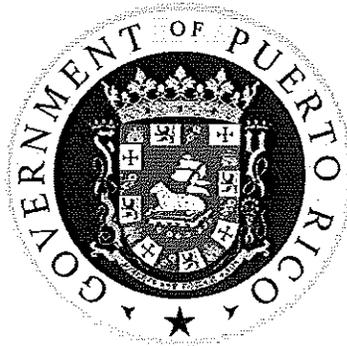


GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2017
CASE NO. EX-2019-11

NAIC CODE 30590
REPORT DATE: MAY 20, 2019

Robbie Robinson, CFE
Examiner-in-Charge
INSRIS-PR, LLC

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GOVERNMENT OF PUERTO RICO
Office of the Commissioner of Insurance

July 18, 2019

Honorable Javier Rivera Rios
Commissioner of Insurance
Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
Guaynabo, Puerto Rico 00968-3029

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2019-11, dated March 6, 2019, a financial condition examination has been made of the affairs, financial condition and management of the

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
350 CARLOS CHARDON AVENUE, SUITE 1101
SAN JUAN, PUERTO RICO 00918

hereinafter referred to as "Company" or "CAPIC", incorporated under the laws of the Commonwealth of Puerto Rico. The examination was carried out in the corporate offices of the Company in Miami, Florida and Puerto Rico. The report on this examination is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state, full-scope risk-focused financial condition examination of the Company in coordination with the examination of the Assurant, Inc. Group (Assurant), with Delaware designated as the lead state. The last examination covered the period of January 1, 2011, through December 31, 2014. This examination

covered the period from January 1, 2015, 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.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC Handbook)* and other 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 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 Company 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 Company's external accounting firm, PricewaterhouseCoopers, LLP. 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 Company was conducted concurrently with the examinations of the other insurance company members of the Assurant Group, including: Caribbean American Life Assurance Company (CALAC), American Standard Insurance Company (ASIC), Standard Guaranty Insurance Company (SGIC), American Bankers Insurance Company of Florida (ABIC), Reliable Lloyds Insurance Company (RLIC), Voyager Indemnity Insurance Company (VIIC), American Bankers Life Assurance Company of Florida (ABLAC), American Memorial Life Insurance Company (AMLIC), John Alden Life Insurance Company (JALIC), and Union Security Life Insurance Company of New York (USLICNY).

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.

APPOINTED ACTUARY'S REPORT

The Company's 2017 Actuarial Report was not consistent with the documentation and disclosure requirements of Actuarial Standard of Practice (ASOP) No. 41 and NAIC Annual Statement Instructions. The Company failed to comply with Article 5.100 (d) of the Insurance Code of Puerto Rico and Section 2 of Rule No. 96 of the Regulations of the Insurance Code of Puerto Rico.

SUBMISSION OF REINSURANCE CONTRACTS

The Company did not comply with Section 9(B) of Rule No. 72 of the Regulations of the Insurance Code by failure to submit catastrophic reinsurance contracts to the OCI in 2016 and 2017 by the required due dates.

PRIOR EXAMINATION FINDINGS

The Company was in compliance with recommendations made in the prior December 31, 2014, Report on Examination.

COMPANY HISTORY

The Company was incorporated on April 15, 1988, under the provisions of the Insurance Code of Puerto Rico. The Company has been engaged in the underwriting of fire, allied lines, homeowners, inland marine, earthquake, group accident and health, other liability, credit involuntary unemployment, and credit property insurance for banks and other financial institutions doing business in Puerto Rico and the US Virgin Islands.

CAPITAL STOCK

The Company has 676,366 shares of Class A common stock issued and outstanding, of which 676,336 are owned by Assurant Solutions Holding Puerto Rico, Inc. (ASHPRI) and the remaining 30 shares are owned by several officers. All 233,639 outstanding Class B shares of common stock are owned by CALAC.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, Board of Directors committees, and

shareholders were reviewed for the period under examination. There were no amendments to the Articles of Incorporation or Bylaws during the examination period.

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 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.

BOARD OF DIRECTORS

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders in compliance with Article 29.160, were as follows:

NAME, POSITION AND LOCATION	PRINCIPAL OCCUPATION
Federico Grosso President San Juan, Puerto Rico	President CAPIC and CALAC
Pedro Andrés Director (Independent) Guaynabo, Puerto Rico	President & CEO Neptuno Networks
Luis F. Rivera Director Cutler Bay, Florida	Vice President CAPIC and CALAC
José D. Ramirez	Treasurer

NAME, POSITION AND LOCATION	PRINCIPAL OCCUPATION
Director Gurabo, Puerto Rico	CAPIC and CALAC
Iván Carlos López-Morales Director Atlanta, Georgia	Senior Vice President & CFO Assurant Solutions
Miguel Soto Director Guaynabo, Puerto Rico	President Center for a New Economy

OFFICERS

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. The officers were elected in compliance with Article 29.210 of the Insurance Code.

NAME	TITLE
Federico Grosso	President
Jeannie Aragón-Cruz	Secretary
José David Ramírez Rivera	Treasurer
Yadira Rivera Cintrón	Assistant Secretary
Andrew Chung	Assistant Treasurer

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, 2017, CAPIC had the following committees of the Board:

<i>Audit Committee</i>
Pedro Andrés López
Miguel Andrés Soto Class

Executive Committee

Federico Grosso (Chair)
José David Ramírez Rivera
Pedro Andrés López

Investment Committee

Federico Grosso (Chair)
José David Ramírez Rivera
Pedro Andrés López
Miguel Andrés Soto Class

CONFLICT OF INTEREST

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

INVESTMENTS

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. The Company is in compliance with all provisions of Article 6.040 of the Insurance Code. Additionally, the Company is in compliance with the following Articles of Chapter 6 of the Insurance Code:

- 6.030 - Qualification and eligibility of investments
- 6.050 - Prohibited investments
- 6.060 - Valuation of investments
- 6.070 - General requirements for diversification
- 6.100 - Investment in Subsidiaries

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 during the examination period and the balance of unassigned surplus for the corresponding year:

Year	Dividend Paid	Unassigned Surplus Previous Year
2015	\$4,200,000	\$10,252,538
2016	\$7,500,000	\$ 9,812,305
2017	\$0	\$ 6,647,967

Pursuant to Section 19(b) Rule 83 of the Regulations of the Insurance Code, 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. Extraordinary dividends were paid during the examination period in compliance with Rule No. 83. In addition, the

Company was in compliance with the provisions of Article 29.340 of the Insurance Code of Puerto Rico.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined under the Insurance Laws of Puerto Rico. The Company is 74% owned by ASHPRI, an intermediate holding company incorporated in the Commonwealth of Puerto Rico, and 26% owned by CALAC, an insurance company domiciled in the Commonwealth of Puerto Rico. ASHPRI and CALAC are each indirectly owned by Assurant, Inc., the ultimate controlling parent. Assurant, Inc. is a publicly traded insurance holding company that trades on the New York Stock Exchange under the ticker symbol AIZ. The Vanguard Group, Inc. owns approximately 11% of Assurant, Inc. and has filed disclaimers of control and/or exemption filings, as applicable, with the departments of insurance in all the Assurant companies' states of domicile, including Delaware, Florida, Georgia, Kansas, New York, Puerto Rico, South Dakota, Texas and Wisconsin.

The OCI obtained Rule No. 83 forms submitted by Assurant, Inc. (Insurance Holding Company System Registration Statement) for the period of examination and reviewed all forms. No significant matters were noted in the disclosures.

The following is an abbreviated organizational chart of the companies within the Assurant holding company system as of December 31, 2017:

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
The Vanguard Group, Inc.		11.11%
Assurant, Inc.	Delaware	100.00%
Union Security Life Insurance Company of New York	New York	100.00%
Interfinancial, Inc.	Georgia	100.00%

American Security Insurance Company	Delaware	100.00%
Standard Guaranty Insurance Company	Delaware	100.00%
American Memorial Life Insurance Company	South Dakota	100.00%
John Alden Insurance Company	Wisconsin	100.00%
Union Security Insurance Company	Kansas	100.00%
Time Insurance Company	Wisconsin	100.00%
American Bankers Insurance Group, Inc.	Florida	100.00%
ABI International	Cayman Islands	100.00%
Protection Holding Cayman	Cayman Islands	72.00%
Assurant International Division Limited	Malta	99.00%
Assurant Solutions Holdings Puerto Rico, Inc.	Puerto Rico	100.00%
Caribbean American Property Insurance Company	Puerto Rico	74.33%
Caribbean American Life Assurance Company.	Puerto Rico	100.00%
Caribbean American Property Insurance Company	Puerto Rico	25.67%
American Bankers Insurance Company of Florida	Florida	100.00%
American Bankers General Agency, Inc.	Texas	100.00%
Reliable Lloyds Insurance Company	Texas	100.00%
American Bankers Life Assurance Company of Florida	Florida	100.00%
Voyager Group, Inc.	Florida	100.00%
Voyager Indemnity Insurance Company	Georgia	100.00%

INTERCOMPANY AGREEMENTS

The following intercompany agreements were in effect during the examination period:

INFORMATION TECHNOLOGY SYSTEMS AGREEMENT

This agreement, dated September 21, 2000, is between the Company and affiliate ABLAC. Pursuant to the agreement, ABLAC is to provide certain information systems and corresponding support.

In return, the Company pays an annual fee of \$750,000 for the first \$90 million of annualized net written premium. For each additional \$10 million of premium, an additional \$10,000 is charged. The agreement was for an initial term of three years and automatically renews for successive two-year terms until either party elects to terminate the agreement. Such termination is effective after giving 90 days prior written notice.

The amount due is as of the close of business on the last business day of each year and is paid by the Company quarterly within 30 days of receipt of bill.

AFFILIATE SERVICES AGREEMENT

This agreement, effective January 1, 2010, is between the Company and several other affiliated insurers and affiliated service providers in respect to payments for vendor services, collection of premium, and claims payments in addition to the sharing of costs of certain services and daily operations of certain property, equipment, and facilities of group members in Atlanta, Georgia; Miami, Florida; San Juan, Puerto Rico and other locations. All intercompany balances subject to the agreement are settled within 30 days following the end of the month if the net payable amount is greater than \$5,000 or within 30 days following the end of the quarter if the net amount payable is less than \$5,000.

INTERNATIONAL AFFILIATE SERVICES AGREEMENT

This agreement, effective January 1, 2012, is between the Company, CALAC, American Bankers Insurance Group, Inc., and other international affiliates. The affiliates agree to cooperate in the performance of certain services and to share in the use day to day of certain property, equipment, and facilities of the affiliates in various locations. Under the terms of the agreement, each group member agrees to reimburse other group members for services and facilities provided.

MULTI-CEDENT CATASTROPHE REINSURANCE ALLOCATION AGREEMENT

This agreement, effective January 1, 2008, is between ASIC, RLIC, SGIC and ABIC as successor in interest to Voyager Property and Casualty Insurance Company, Voyager Indemnity Insurance Company and American Reliable Insurance Company. Pursuant to

the agreement, certain catastrophic reinsurance ceded by the Company and other affiliates to ABIC is allocated amongst other affiliates.

INTERCOMPANY PAYMENT INTERMEDIARY AGREEMENT WITH ABLAC

This agreement, effective December 31, 2008, between the Company and ABLAC provides for the reimbursement of certain expenses paid on behalf of the other party.

All intercompany net balances equal to or greater than \$5,000 shall be settled monthly based on the prior month's ending balances. Balances less than \$5,000 shall be settled on the third month of the quarter based on the second month's ending balance.

INTERCOMPANY PAYMENT INTERMEDIARY AGREEMENT WITH ABIC

This agreement, effective January 1, 2008, between the Company and ABIC provides for the reimbursement of various administrative, vendor and regulatory payments. All intercompany net balances equal to or greater than \$5,000 shall be settled monthly based on the prior month's ending balances. Balances less than \$5,000 are settled on the third month of the quarter based on the second month's ending balance.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the Commonwealth of Puerto Rico and is also authorized to write business in the U.S. Virgin Islands. The Company writes credit property and accident & health insurance that are subject to regulations issued by the Office of the Commissioner of Insurance of the Commonwealth of Puerto Rico. The Company also writes wireless protection plans and in 2011, began writing dwelling products covering the structures of insured properties. Based upon the most recent A.M.

Best Credit Rating Report dated May 4, 2018, CAPIC has a Financial Strength Rating of "A" with a stable outlook and an Issuer Credit Rating of "a+" with a positive outlook.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the past three years through December 31, 2017. No financial adjustments were made as a result of the examination.

YEAR	ADMITTED ASSETS	SURPLUS	GROSS PREMIUM WRITTEN	NET INCOME
2015	\$42,307,862	\$22,399,154	\$47,969,052	\$4,342,128
2016	\$39,881,389	\$19,703,429	\$50,551,038	\$4,571,441
2017	\$59,387,560	\$20,548,685	\$54,832,080	\$3,403,863

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

REINSURANCE

ASSUMED

The Company did not assume any material premiums or loss reserves as of December 31, 2017.

CEDED

The Company maintains quota share and excess of loss reinsurance contracts in force as of December 31, 2017, both with affiliates and non-affiliates. Coverages include credit property and inland marine, credit involuntary unemployment and dwelling for catastrophic and non-catastrophic exposures. In compliance with Article 46.030(3), the Company did not cede reinsurance in the aggregate amount of more than seventy-five

percent (75%) of all its direct risks in any kind of insurance without first securing the Commissioner's written authorization.

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

The Company failed to comply with Section 9 of Rule 72 of the Regulations of the Insurance Code, with respect to timely submission of the required catastrophe reinsurance contract filings for the years 2016 and 2017 (no later than March 31 for calendar year contracts or otherwise within ninety (90) days from the effective date of the agreement). Effective dates of the contracts were June 1, 2017 and June 1, 2018. The Company submitted its reinsurance contracts on November 8, 2017 and October 12, 2018. It is recommended that the Company comply with Section 9 of Rule 72 of the Regulations of the Insurance Code in future periods.

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.

A review of the Company's information technology general controls and general application controls was performed as required by the NAIC Handbook. The

information technology review was completed by the Delaware Department of Insurance for the coordinated examination in accordance with the coordination plan. Results of the review were discussed with management and/or included in a management letter.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Office of the Commissioner of Insurance of Puerto Rico and present the financial condition of the Company for the period ending December 31, 2017. The accompanying notes on financial statements reflect no adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
ASSETS
DECEMBER 31, 2017

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Bonds	\$23,485,412	\$0	\$23,485,412
Cash, cash equivalents and short-term investments	10,215,650		10,215,650
Investment income due and accrued	102,128		102,128
Uncollected premiums and agents balances in course of collection	9,535,140		9,535,140
Amounts recoverable from reinsurers	31,463		31,463
Current federal and foreign income tax recoverable and interest thereon	223,921		223,921
Net deferred tax asset	174,502		174,502
Electronic data processing equipment and software	1,725		1,725
Furniture and equipment, including health care delivery assets	36		36
Receivables from parent, subsidiaries and affiliates	15,593,280		15,593,280
Miscellaneous accounts receivable	24,303		24,303
Total Assets	<u>\$59,387,560</u>	<u>\$0</u>	<u>\$59,387,560</u>

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2017

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses (Note 1)	\$4,947,957	\$0	\$4,947,957
Loss adjustment expenses (Note 1)	35,108		35,108
Commissions payable, contingent commissions and other similar charges	1,438,187		1,438,187
Other expenses (excluding taxes, licenses and fees)	606,309		606,309
Taxes, licenses and fees (excluding federal and foreign income taxes)	394,790		394,790
Current federal and foreign taxes	0		\$0
Unearned premiums	8,166,184		8,166,184
Ceded reinsurance premiums payable (net of ceding commissions)	2,121,718		2,121,718
Funds held by company under reinsurance treaties	15,114,976		15,114,976
Amounts withheld or retained by company for accounts of others	270,948		270,948
Payable to parent, subsidiaries and affiliates	80,976		80,976
Agents' credit balances	167,112		167,112
Other payables	3,068,084		3,068,084
2% PML liability as per Rule 72	2,426,526		2,426,526
Total liabilities	\$38,838,875	\$0	\$38,838,875
Aggregate write-ins for special surplus funds (Note 2)	3,716,557		3,716,557
Common capital stock	4,549,975		4,549,975
Gross paid in and contributed surplus	2,880,565		2,880,565
Unassigned funds (surplus)	9,401,563		9,401,563
Less treasury stock, at cost	(25)		(25)
Surplus as regards policyholders (Note 3)	\$20,548,685	\$0	\$20,548,685
Total liabilities, surplus and other funds	\$59,387,560	\$0	\$59,387,560

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2017

Underwriting Income	
Premiums earned	<u>\$33,583,619</u>
Deductions	
Losses incurred	\$17,355,917
Loss adjustment expenses	764,330
Other underwriting expenses incurred	<u>10,934,333</u>
Total underwriting deductions	<u>\$29,054,580</u>
Net underwriting gain	\$4,529,039
Investment Income	
Net investment income earned	<u>\$524,043</u>
Net investment gain	\$524,043
Other Income	
Other miscellaneous income	<u>\$9,662</u>
Total other income	\$9,662
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	5,062,744
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	5,062,744
Federal and foreign income taxes incurred	<u>1,658,881</u>
Net income	<u><u>\$3,403,863</u></u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$19,703,429
Net Income	3,403,863
Change in net deferred income tax	165,345
Change in non-admitted assets	(297,426)
Dividends to stockholders	0
Capital changes: Transferred to surplus	(25)
Change in treasury stock	25
Change in PML liability	<u>(2,426,526)</u>
Change in surplus as regards policyholders for the year	845,256
Surplus as regards policyholders, December 31, 2017	<u><u>\$20,548,685</u></u>

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2017

Surplus as Regards Policyholders
December 31, 2017, Per Annual Statement \$20,548,685

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS	\$59,387,560	\$59,387,560	\$ -
LIABILITIES	\$38,838,875	\$38,838,875	\$ -
Net Change in Surplus			<u>\$ -</u>

Surplus as Regards Policyholders
December 31, 2017, Per Examination \$20,548,685

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus 12/31 prior year	<u>\$22,391,474</u>	<u>\$22,399,154</u>	<u>\$19,703,429</u>
Net Income (Loss)	4,342,128	4,571,441	3,403,863
Change in net unrealized capital gains	119,998		
Change in net deferred income tax	(32,077)	(7,113)	165,345
Change in nonadmitted assets	(222,369)	239,947	(297,426)
Dividends to stockholders	(4,200,000)	(7,500,000)	0
Aggregate write-ins for gains and losses in surplus			<u>(2,426,526)</u>
Net Change in Capital & Surplus	<u>7,680</u>	<u>(2,695,725)</u>	<u>845,256</u>
Capital & Surplus at end of year	<u>\$22,399,154</u>	<u>\$19,703,429</u>	<u>\$20,548,685</u>

NOTES ON FINANCIAL STATEMENTS

NOTE 1: LOSSES AND LOSS ADJUSTMENT EXPENSES

Losses	\$4,947,957
Loss Adjustment Expenses (LAE)	\$35,108

The OCI 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, 2017. 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 2017 Annual Statement. The Statement of Actuarial Opinion and Actuarial Memorandum for 2017 were prepared by the Company and signed by the appointed actuary, Jeffrey A. Lamy, ACAS, MAAA. The Actuarial Opinion was prepared and submitted timely in accordance with Rule 96, Section 2 of the Insurance Code of Puerto Rico.

The *NAIC 2017 Annual Statement Instructions* require the Appointed Actuary's Actuarial Report (Report) to be consistent with documentation and disclosure requirements of Actuarial Standards of Practice No. 41. The following required information was not included in the CAPIC Report:

- The Report does not contain a Schedule P reconciliation; there is only a short explanation of how the data is reconciled.
- The Report only contains a gross IBNR loss and LAE reserve summary exhibit; there is not a ceded or net summary exhibit in the Report.

- Even though the reserve reviews for the individual products do not contain data through December 31, 2017, there is no mention of a roll forward or no roll forward exhibits to adjust the “Calculated IBNR” to a December 31, 2017 reserve level.
- There is a “Manual Adjustment” column in the gross IBNR loss and LAE reserve summary exhibit, but no explanation for how the “Manual Adjustment” was derived or exhibits that contain the derivation.

The Company did not comply with Article 5.100(d) of the Insurance Code, which establishes, among other things that actuarial opinions shall be based on the standards adopted by the Actuarial Standards Board. The Company did not comply as well with Section 2 of Rule No. 96 of the Regulations of the Insurance Code, which establishes, among other things, that the annual actuarial opinion shall be filed following the provisions of the NAIC instruction manual titled. Property and Casualty Annual Statement.

It is recommended that future Actuarial Reports contain the following:

- A Schedule P reconciliation;
- Gross, ceded, and net IBNR loss and DCC Expense summaries;
- If a roll forward is used to determine the year-end indicated loss and LAE reserves, that roll forward should be contained in the Report;
- Description and actuarial justification for any “Manual Adjustments” that are used to determine the year-end indicated loss and LAE reserves.

Based on the work performed, the consulting actuary found the Company’s reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

NOTE 2: AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUNDS

Investments held under deposit to comply with certain catastrophic fund deposit requirements of Rule No. 72 of the Insurance Code of Puerto Rico are reported as part of investments, recorded as aggregate write-ins for special surplus funds and reduced from unassigned surplus.

NOTE 3: TOTAL CAPITAL AND SURPLUS

The total capital and surplus of the Company at December 31, 2017, as determined by this examination, is the same as the amount reported by the Company on its 2017 Annual Statement.

SUBSEQUENT EVENTS

In 2017, the Company was impacted by hurricanes Irma and Maria. In the Company's December 31, 2018 Annual Statement, for policy year 2017, the Company reported gross and net development of Losses and Loss Expenses Incurred of \$67,719,000 (adverse) and (\$155,000) (favorable), respectively. These incurred losses were ceded to ABIC.

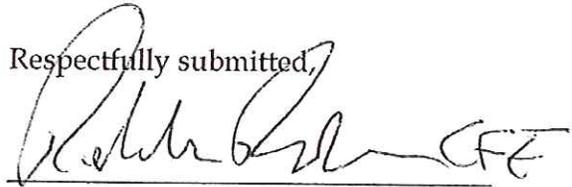
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Caribbean American Property Insurance Company** as of December 31, 2017, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

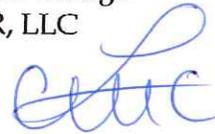
The examiners wish to express their appreciation for the cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Cheryl Plozizka, CFE, Examination Manager, of INSRIS-PR, LLC participated in this examination. Additionally, Dave J. Macesic, ACAS, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. David Gordon, MBA, CISA, CIA, CBA, CFE (Fraud), of INS Services, Inc. participated in the information technology general controls portion of the examination. Maribel Figueroa, Examiner, of the Office of the Commissioner of Insurance of Puerto Rico, participated in the compliance portion of the examination.

Respectfully submitted,



Robbie Robinson, CFE
Examiner-in-Charge
INSRIS-PR, LLC



Carla M. Colón León
Supervisor, Examiners Division
Office of the Commissioner of Insurance
of Puerto Rico