Government of Puerto Rico
Office of the Commissioner of Insurance

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY

Regular Report on Examination

AMENDED

As of December 31, 2009

Rafael Ruffat Pastoriza
Examiner

Diana Maldonado
Examiner

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June 30, 2011

Mr. Ramón Cruz Colón, CPCU, AU, ARe
Insurance Commissioner
Office of the Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Mr. Commissioner:

According to the Notice and Order of Investigation Number EX- 2010-229, dated September 28, 2010 and in accordance with the provisions of Article 2.140 of the Puerto Rico Insurance Code, 26 L.P.R.A. sec. 246, as amended, we performed an examination of operations and financial condition of the Insurer:

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY,

hereinafter referred to as the "Insurer. "

SCOPE OF EXAMINATION

The examination covered the financial transactions and operations of the Insurer from January 1, 2005 to December 31, 2009, and those subsequent transactions, which in the opinion of the examiners were relevant. We examined the assets, liabilities and disbursements made by the Insurer to verify compliance with accounting standards and practices recommended by the National Association of Insurance Commissioners (NAIC), and the provisions of the Puerto Rico Insurance Code and its regulations.

The examination was conducted at the Insurer's home offices located at 273 Ponce de León Avenue, Plaza Scotiabank, Suite 1300, San Juan, Puerto Rico.

The accounts were evaluated using the approach of financial risks in the applications in accordance with the guidelines and procedures. From the years 2005 to 2009, PricewaterhouseCoopers, as external auditors performed the audits of the Insurer and issued an unqualified opinion for each of the mentioned years, based on generally accepted accounting principles. Reference to their work papers was made and included as part of the examination.

HISTORY

As of December 31, 2009, the Insurer was 74.3% directly owned by American Bankers International Division, Inc. (ABID). ABID is a subsidiary of American Bankers Insurance Group, Inc. (ABIG), a company domiciled in the state of Florida, which is owned by Interfinancial, Inc., a wholly owned subsidiary of Assurant, Inc. Caribbean American Life Assurance Company, an affiliate and domestic insurer, owns the remaining 25.7% of the Insurer's shares.

The Office of the Commissioner of Insurance of Puerto Rico (hereinafter referred to as the Office) approved a change of indirect control of the Insurer, in letter AF-322 dated May 18, 2007, under the provisions of Article 29.200 of the Puerto Rico Insurance Code. Through this exchange, shares of ABID would be owned by ABI International rather than American Bankers Insurance Group, Inc.

TERRITORY AND PLAN OF OPERATIONS

As of December31, 2009, the Insurer was licensed to underwrite insurance risks of disability, property, marine and transportation, agricultural and vehicles in the jurisdiction of Puerto Rico.

At the time of our review, the Insurer had written policies in the following lines of insurance:

	Business Lines	Business Direct	Ceded	Written Net Premium
9	Inland marine	$29,790,909	952,714	$28,838,195
13	Group accident and health	157,581		157,581
15	Other accident and health	2,835		2,835
17.1	Other liabilities -occurrence	222,743		222,743
28	Credit	6,619,434	3,650,381	2,969,053
34	Aggregate write-ins for other lines of business -Home Protector	231,482		231,482
	Total	$37,024,984		$32,421,889

Based on the lines of business to which the Insurer is authorized to do business and pursuant Article 4.150 of the Puerto Rico Insurance Code, the Insurer is required to maintain a minimum policyholder's surplus of $ 10.8 million. As of December 31, 2009, the Insurer had a surplus of $16.9 million, which fulfills the minimum requirement.

ADMINISTRATION AND CONTROL

As of December 31, 2009, the Insurer had 910,000 common shares issued and outstanding with a par value of $5 per share for a paid in capital of $4,550,000. Insurer stocks as of December 31, 2009, were distributed as follows:

Name of Shareholders	Total Share
Class A Stock	
American Bankers International Division, Inc.	676,336
Eduardo Alberto Arthur	5
Álvaro R. Calderón Jr.	5
Miguel A. López	5
Iván López Morales	5
Alberto Bacó	5
Class Share B	
Caribbean American Life Assurance Company	233,639
Total shares issued and outstanding	**910,000**

BOARD OF DIRECTORS

As of December 31, 2009, the Board of Directors of the Insurer consisted of the following members:

Name	Position
Eduardo Alberto Arthur	Chairman of the Board of Directors
Álvaro R. Calderón	Director
Iván López Morales	Director
Miguel López	Director
Alberto Bacó	Director

Each of the directors are stockholders, pursuant to the requirements of Article 29.150 (1) (a) of the Puerto Rico Insurance Code.

Article 29.150 (1) (a), 26 L.P.R.A sec 29151a, provides a follow:

"(1) Each Director of an insurer shall meet the following requirements:

(a) Must be a stockholder of the insurer, if a stock insurer, or a member of the insurer, if a mutual insurer."

Officers

As of December 31, 2009, the officers were the following:

Name	Position
Eduardo Alberto Arthur	President
John Frobose	Senior Vice President
Marta Cortés	Vice President Finance, Treasurer and Controller
Elaine Soto	Vice President of Premiums
Ana Rosado	Vice President of Human Resource
Margarita López	Vice President of Operation
Ann Kremer	Assistant Vice President
Jeannie Aragón-Cruz	Secretary
Wendall Stocker	Assistant Treasurer

Article 29.210 (1) of the Puerto Rico Insurance Code, provides:

> "The insurer's officers shall consist of a president, vice president, treasurer, secretary, and such other officers as may be necessary and provided for in the bylaws. All officers shall be elected by the board of directors, and shall have such qualifications, such power and duties, and serve for such terms as may prescribe in the bylaws."

Article II, Section 2 of the Insurer's By-Laws, provides that the officers of the corporation shall be elected by the Board of Directors. These consist of a President, Executive Vice President, a Secretary and a Treasurer, in addition, other officials as necessary. Consequently, the Insurer complied with the provisions of Article II of the By-Laws and with the requirements of Article 29.210 of the Puerto Rico Insurance Code.

COMMITTEES

In each of the years covered in our review, the Board of Directors elected board members to constitute the following committees: Executive Committee, Investment Committee and Audit Committee, as required by Article IV, Section 2 of the By-Laws.

Executive Committee

Eduardo Alberto Arthur (Chairman)
Álvaro Calderón, Jr.
Iván López Morales
Alberto Bacó

Under Article IV, Section 1 of the Insurer's By-Laws, the Executive Committee shall have the authority delegated by the Board of Directors to make management decisions, except to fill vacancies on the Board of Directors, or the Executive Committee, or amend the By-laws of the corporation, or refuse to comply with the actions taken by the Board of Directors.

Investment Committee

Alberto Bacó (Chairman)
Álvaro Calderón, Jr.
Eduardo Alberto Arthur
Iván López Morales
Miguel López

The Investment Committee is responsible for managing the investments of the Insurer. This Committee maintained a record of minutes concerning the purchase and sale of securities, and performance review in accordance with the Investment Policy of the Insurer.

Audit Committee

Álvaro Calderón, Jr (Chairman)

Alberto Bacó

The Audit Committee consisted of two members; they have the responsibility to evaluate the findings of audits performed by the internal auditor and the results of external audits conducted by the firm of Certified Public Accountants. We noted that the By-Laws indicate that most committees should consist of more than two members.

Although the By-Laws of the Insurer establish that the majority of the committees shall be composed of more than two members, this committee in particular should have appointed more than two members.

CONFLICT OF INTEREST

Article 29.230 of the Puerto Rico Insurance Code provides that any director or officer will be not the beneficiary or be peculiarly interested in transactions in any capacity except as a representative of the Insurer.

Under that provision of law, the Insurer maintained a procedure for potential conflicts of interest of the members of the Board of Directors and the Officers of the Insurer.

CORPORATE BOOKS

ARTICLES OF INCORPORATION AND BY-LAWS

During the period under review, the Insurer's Articles of Incorporation and By-laws were not amended. These were reviewed and found in order, according to Articles 28.050 and 29.080 of the Puerto Rico Insurance Code.

CAPITAL, INVESTMENT AND DEPOSIT REQUIRED

Public Law No. 303 of December 16, 2003, amended several provisions of Chapter 3 of the Puerto Rico Insurance Code, in order to increase the minimum capital requirement, deposits and investments in securities in Puerto Rico.

Articles 3.090, 3.151 and 3.160, of the Puerto Rico Insurance Code, require any insurer as a condition to be allowed to do business to keep capital, deposits and investments in Puerto Rico securities, in the amounts set forth therein. This Office, in

Letter AF-65 dated November 30, 2004, notified the insurers of new capital requirements, statutory deposits and investments in Puerto Rico securities, which had to be met.

Pursuant to this provision, we ascertained compliance with the new requirements. Below is a summary of the requirements with which the Insurer successfully complied.

CAPITAL

The insurer must maintain a minimum capital of $2,800,000. For the years ended December 31, 2007, 2008 and 2009, the Insurer maintained its capital at $4.5 million fulfilling the minimum capital requirement.

DEPOSIT REQUIREMENT

Article 3.151 of the Puerto Rico Insurance Code, as amended, requires the insurer to hold in trust assets worth not less than 50% of the principal amount paid to the Secretary of the Treasury, through the Office. In the case of the Insurer, the minimum deposit was $1,400,000.

The Insurer held on deposit as of December 31, for each of the following years, 2007, 2008 and 2009 the amounts of $1,866,617, $1,954,043 and $2,145,626, respectively, thereby complying with the minimum deposit required by Law.

REQUIREMENT OF PUERTO RICO SECURITIES

Article 3.160 (1) of the Puerto Rico Insurance Code, requires all insurers to keep invested in securities of Puerto Rico, an amount not less than 50% of required capital.

As of December 31, 2007, 2008, 2009, the Insurer presented investments with amortized carrying values of $6,317,925, $5,512,662 and $1,587,426, respectively.

The Insurer complied with Article 3.160 of the Puerto Rico Insurance Code, as amended, by maintaining the required amount of investments in securities in Puerto Rico.

REINSURANCE

As of December 31, 2009, the Insurer maintained several reinsurance contracts with the participation of reinsurers authorized by the Office in accordance with the provisions of Article 4.120 (b) of the Puerto Rico Insurance Code and Ruling Letter N - AF-4-63-2005 dated April 11, 2005.

Various reinsurance contracts were reviewed for compliance with insolvency and intermediary clauses, as required by SSAP No. 62 of the Accounting Practice and Procedures Manual of NAIC.

Reinsurer	Contract Effective date	According to AM Best
American Bankers Insurance Company of Florida	October 1, 2006	A (Excellent)
Yosemite Insurance Company	October 1, 2006	A (Excellent)
Popular Life Re	February 12, 2004	B (Fair)

Assurant, Inc., the parent company of the group that owns the Insurer, has control guidelines for the management of credit risk in the recruitment of new reinsures or renewals. In 2009, the Insurer assessed the renewal of the contract with Popular Life Re, Inc., in response to the AM Best downgrade rating to B (fair) effective on August 4, 2009, with a financial category of VI ($25 million to $50 million). This downgrade represents deterioration in the standings, with negative outlook, assigned to companies that have a fair ability to meet their ongoing insurance obligation, but are financially vulnerable to adverse change in underwriting and economic condition.

A control measure to renew the contract was implemented by the reinsurance committee of Assurant, Inc. to quarterly review the financial results of the reinsurer and monitor the extent of the contract. The Insurer subscribed gross premiums of $37,024,984 from which $3,111,929 or eight percent (8%) are business related to Banco Popular de Puerto Rico.

The analysis made from the information provided by the Insurer, relating to its catastrophic exposure and the purchase of catastrophe reinsurance, shows that it is acquiring protection that far exceeds its probable maximum loss. In this regard, we find that in the catastrophe reinsurance contract in effect As of December 31, 2009, the reinsurance protection purchased holds retention of $1 million and reinsurance ceded $4,000,000 to its affiliate American Bankers Insurance Company of Florida.

Insurer's exposure is $411,000 according to the study of probable maximum loss (PML), so maintaining reinsurance coverage up to $4,000,000 is unnecessary to the catastrophic risks they write. We noted that the 2009 PML study does not include business written for cellular phones, which are classified under the business line of Land Transportation. The absence of this business line affects the calculation of which would represent the accumulation of catastrophe exposure, as provided in Article 25.030(4) of the Puerto Rico Insurance Code. In addition, the reinsurance coverage purchases with affiliates resulted in that the insurer bought coverage in excess of its probable maximum loss.

According to the above and pursuant with SSAP No. 25 of the NAIC Accounting Practice and Procedures Manual, provides that transactions that involve payment for services must be fair and reasonable, for example, the number and size the risk insured in each line of business. The present case does not necessarily reflect this, in the Insurer's commitment to maintain adequate reinsurance; Insurer purchased coverage for Land Transportation and Credit Risks Road for losses that occur directly as a result of a disaster or accident in Puerto Rico.

EMPLOYEE BENEFITS

The Insurer provides participation in a savings plan and a retirement plan for employees through Assurant Solution, which provides clients with other risk management solutions in collaboration with leading financial institutions, among others, to reduce risk and increase income.

SAVING PLAN 1165(E)

Employees may begin contributions to the 1165(e) Plan to save for retirement, the next quarter as employees of Assurant Solution. They may contribute from 1% of eligible pay before or after taxes, subject to the limits set by the Treasury Department of Puerto Rico. Assurant Solution contributes to the savings plan once the employee has 1 year of service with the Insurer.

PENSION PLAN

The Insurer will contribute to the employees once they have three or more years of service a certain percent of their average final income in the last years of service.

DECLARATION OF DIVIDENDS

The Insurer declared the following dividends and payment to American Bankers International Division (ABID) $10,771,250 and Caribbean American Life Assurance Company (CALAC) $3,728,750 for 2008 and 2009. In 2007, there was no dividend payment. The following dividends and dates were approved by the Board of Directors and thus recorded in the minutes:

DATE	DIVIDENDS	INSURER
5-12-2008	$1,480,000	ABID
5-12-2008	520,000	CALAC
9-19-2008	2,973,200	ABID
9-19-2008	1,026,800	CALAC
12-15-2008	1,114,950	ABID
12-15-2008	385,050	CALAC
5-11-2009	2,229,900	ABID
5-11-2009	770,100	CALAC
11-12-2009	2,973,200	ABID
11-12-2009	1,026,800	CALAC

RECORDS AND ACCOUNTING SYSTEM

The Insurer shall keep accounts on a combination of cash and accrual basis for purposes of preparing financial statements and the Annual Statement. The records consisted of a general ledger, subsidiary of premiums receivable, a revenues and disbursements subsidiary, and other journal entries.

For the period under review, the Insurer's financial statements were audited by the Certified Public Accountants' Firm PricewaterhouseCoopers. Actuarial services were performed by María Silvia Vargas-Ayala, MAAA, and actuary of the Insurer.

FINANCIAL STATEMENTS

Below are the following financial statements as of December 31, 2009.

- Balance Sheet, reflecting adjustment pursuant to the examination.
- Statement of Revenues and Expenses, as presented in the Annual Statement.
- Statement of Cash Flows, as presented in the Annual Statement.
- Reconciliation of Surplus not assigned as of December 31, 2009.

Caribbean American Property Insurance Company
BALANCE SHEET
As of December 31, 2009

Description	Annual Statement Balance	Adjustment		Reclassification		Examiantion Balance
		Dr	Cr	Dr	Cr	
Assets						
Bonds	22,893,425					22,893,425
Cash	2,989,621					2,989,621
Interest Receivables	220,444					220,444
Premiums Receivable	3,279,994		158,393	76,133		3,197,734
Reinsure Receivable	54,938					54,938
Deferred Net Asset	16,013					16,013
Electronic Equipment	5,564					5,564
Affiliates Accounts Receivable	226,817					226,817
Other Receivables	899			307,279		308,178
Total Asset	$29,687,715	$3,113,648	$25,394	$383,412		$29,912,734
Liabilities						
Loss Reserve	5,203,034					5,203,034
Loss Adjustment Expenses	141,311					141,311
Commissions Payable	302,788		1,564,964		307,279	2,175,031
Other Expenses Payable	426,328					426,328
Taxes, Licenses and other Fees	5,241					5,241
Income Tax Payable	410,241					410,241
Unearned Premium Reserve	5,942,803		141,204			6,084,007
Ceded Reinsure Premium Payable	212,500		337,152			549,652
Quantities Retained	12,75					12,752
Affiliated Accounts Payable	44,002					44,002
Other Accounts Payable	70,193				76,133	146,326
Total Liabilities	$12,771,193		$2,128,458		$383,412	$15,197,925
Capital and Surplus						
Paid in Capital-Common Stock	4,550,000					4,550,000
Special Surplus- Catastrophic Reserve	5,138,645					5,138,645
Paid for and Contributed Surplus	2,880,565					2,880,565
Unassigned Surplus	4,347,312	2,201,713				2,145,599
Surplus to Policyholders	$16,916,522					$14,714,809
Total Liabilities, Capital and Surplus	$29,687,715					$29,912,734

Caribbean American Property Insurance Company
STATEMENT OF REVENUES AND EXPENSES
As of December 31, 2009

Subscription Revenues:		
Earned Premiums		$34,205,438
Deduction:		
Incurred Losses	$18,699,684	
Adjustment Expenses Incurred	1,423,363	
Other Underwriting Expense	6,490,588	
Total Deduction		26,613,635
Gain or (Loss) Subscription		$ 7,591,803
Investment Income		
Earned Net Investment Income	$1,112,439	
Gain o (Loss) Realized Capital	5,959	
Net Investment Income		1,118,398
Other Income or (loss)		5,981
Profit Before Income Tax		$ 8,716,182
Income Tax		3,140,891
Net Income		**$ 5,575,291**

Caribbean American Property Insurance Company
CASH FLOWS
As of December 31, 2009

Operating Cash	
Premiums Collected Net of Reinsurance	$32,647,687
Net Investment Income	1,012,044
Miscellaneous Income	5,981
Total	$33,665,712
Profit and loss Payment	19,357,303
Fees and Expenses Paid	8,228,322
Income Tax	3,422,468
Total	$31,008,093
Net Operating Cash	$ 2,657,619
Cash Investment	
Benefits of Investment Sold Bonds:	
Bonds	10,759,593
Cost of Investment Acquired:	
Profit before Income Tax	7,320,759
Net Cash Investment	$ 3,438,834

Caribbean American Property Insurance Company
RECONCILIATION OF SURPLUS NOT ASSIGNED
As of December, 31 2009

	Examination Adjustment		Balance
	Increase	Decrease	
Unassigned Surplus as Annual Statement			$ 4,347,312
Assets:			
Premiums Receivables		$158,393	
Liabilities:			
Commissions Payable		$1,564,964	
Unearned Premiums Reserve		141,204	
Ceded Reinsurance Premiums Payable		337,152	
Total Consideration Adjustment			$ 2,201,713
Unallocated Surplus According Review			**$ 2,145,599**

AUDIT, COMMENTS AND FINDINGS

Following are our audit comments and findings related to some of the accounts presented in the Annual Statement of the Insurer as of December 31, 2009.

BONDS **$22,893,425**

The balance of this account represents the market value of the investments held by the Insurer as of December 31, 2009, summarized as follows:

Descriptions	Balance Annual Statement
Public Obligations of Puerto Rico and the United States	$ 19,521,221
Status Obligations	2,005,599
Other Public Obligations	1,366,605
Total	$ 22,893,425

As of December 31, 2009, the total investment in government bonds from Puerto Rico amounted to $2,145,626, which were originally in the custody of Citibank, NA Puerto Rico; then transferred to the Secretary of the Treasury, through the Office. The above mentioned, represented the market value of the statutory deposit required by Article 3.150 of the Puerto Rico Insurance Code, as amended. The Insurer subsequently requested the withdrawal of the bond CUSIP 74527PBB8, which expired on July 1, 2010, and was part of its statutory deposit. The Office determined that the Insurer complied with the required deposit and handed the check number 5071373 in the amount of one hundred seventy five thousand dollars ($175,000), by letter dated September 8, 2010.

The other securities were in the custody of: Banco Popular de Puerto Rico and Federated Services Company. We checked the existence and valuation of investments of the Insurer, through trustee's confirmations. We performed some tests of the purchases and sales of investments during 2009; we found no discrepancies in this regard. Investments held by the Insurer as of December 31, 2009, complied with the investment limits set forth in Article 6.080 of the Puerto Rico Insurance Code.

Moreover, as required by Article 6.040 of the Puerto Rico Insurance Code, the Insurer's Board of Directors adopted a new written plan as its Investment Policy, effective September 2008. The Articles requires that the Investment Policy shall express the qualifications of the persons called upon to make investment decisions to ensure routine competence and ethical behavior compliance. Investment Policy of the Insurer skills and competence is in compliance with this requirement.

PREMIUM RECEIVABLES **$3,197,734**

As of December 31, 2009, the Insurer's Annual Statement reflects a balance of $3,279,994. The balances presented differ from the balance in the aging, which was $3,259,325.

The Insurer improperly records its premium as revenue in the month following the inception date of the insurance contract. Statement of Statutory Accounting Principles (SSAP) No. 53 states that "Written premiums for all contracts (excludes workers' compensation) shall be recorded as of the effective date of the contract." The Company should change the method for recording premium so that the revenue is recorded as of the inception date of the contract.

From our analysis, we have determined to recommend an adjustment in the amount of $158,393. This corresponds to a difference of $132,999 by the production of

January 2010 that affects the period ended December 31, 2009 and $25,394 of the premium receivable over ninety days.

Moreover, the Insurer, credited the balance overpaid ($76,132.53) of premiums collected from the business conducted with the cellular service provider, to an outstanding balance. This action of the Insurer is contrary to the provisions of Article 5.030 of the Puerto Rico Insurance Code, which provides: An asset shall be considered as non-admitted if it is identified specifically as non-admitted by the Practices and Procedures of Accounting, or is not specifically identified as an asset admitted by the Practices and Procedures of Accounting.

In addition, subsection 9 of SSAP No. 6 of the Accounting Practice and Procedures Manual of NAIC, provides that any balance of premiums receivable over 90 days, will not be an admitted asset.

We concluded based upon the transaction described above, to reclassify the amount of $76,133 to other accounts payable and adjust $25,394 of the premium receivable over ninety days to present the correct balance of premiums receivable as of December 31, 2009.

The subsidiary ledger contains transactions debit and credit that were recorded incorrectly in the books of the Insurer. This makes it impossible to determine which amount should be reimbursement to policyholders. See the topic of Other Accounts Payable for more details.

OTHER ACCOUNTS RECEIVABLE **$308,178**

Based on our analysis we determined to reclassify this account in the amount of $307,279 which was decreasing the balance of commission's payable as of December 31, 2009.

RESERVE AND LOSS ADJUSTMENTS **$5,344,345**

In the Annual Statement as of December 31, 2009, the Insurer reflects a loss reserve of $5,203,034. It corresponds to $3,757,348 on known claims, and $1,445,685 in claims incurred but not reported (IBNR). The $141,311 loss adjustment reserve was determined by the Insurer as of December 31, 2009. It considers $52,090 for the costs of adjustments in the known cases, and $89,221 for unknown cases or IBNR. These reserves were reviewed and certified by the actuary of the Insurer.

We evaluated the accrual of these reserves through September 30, 2010, for the purpose of determining whether the reserves established by the Insurer were adequate as of December 31, 2009.

Consequently, we considered the payments made by the Insurer from the period of January 1 to September 30, 2010, on claims and adjustment expenses for which the time of incurrence was 2009 or earlier.

From the examination, it was determined that the reserves established by the Insurer to pay claims and adjustment expenses as of September 30, 2010 reflected a saving of $384,177. However, the Insurer must maintain adequate reserves, by segregating them from known cases and unknown (IBNR). The reserve established for the known cases as of December 31, 2009, was understated but was offset by the overstatement in the unknown cases reserve.

Below is a summary of the calculation

Description	Amounts	
Reserves and Loss Adjustment Expenses held as of December 31, 2009		$5,344,344
Claims and adjustment expenses paid from January 1 to September 30, 2010	$3,888,974	
Book Claims and adjustment expenses Outstanding as of September 30, 2010	1,071,193	
Total development claims and adjustment expenses		$4,960,167
According examination		$384,177

SSAP No. 55 of the Accounting Practices and Procedures Manual of NAIC provides, that the IBNR reserve is for those claims occurred and covered in a period that has not been reported to the Insurer at the time of the financial statements or as of each December 31 and that it must be estimated, considering the future development of these claims. It may take an additional provision in the reserves to mitigate deficiencies in the known cases (IBNR-Bulk). Although the cases reserve was established, it proved to be inadequate to mitigate the deficiency in the reserve of the known cases.

The Insurer shall ensure maintain adequate reserves as provided in Article 5.050(2) of the Puerto Rico Insurance Code.

COMMISSIONS PAYABLE **$2,175,031**

The balance of the item in the annual report amounted to $302,788; it is composed of the accumulation that made the Insurer to pay regular commissions by $419,968, the accumulation of the costs of contingent commissions by $159,051 and the net balance of contingent compensation (Profit sharing) for ($276,231). The latter results from the balance of ($307,279) from Santander Financial Services and the accumulation of $31,048 payable to RG Premier Bank, based on the experience of losses incurred and change in reserve for claims reported but not paid and claims incurred but not reported.

We selected 76% of regular pay commissions to determine if the accumulation was appropriate, in addition verified the payment by the Insurer. We determined to recognize the balance of $1,564,964 for commission payable and charges for services of the business written in December 2009 and recognized by Insurer in January 2010. In accordance with Article 5.020 of the Puerto Rico Insurance Code, as amended, this provides that the liabilities are defined as probable future economic sacrifices arising from present obligations of an insurer.

In our review we are reclassifying to Other Accounts Receivable the contingent compensation of Santander Bank in the amount of $307,279. This compensation is based on the resulting change between the permissible and the losses incurred which at the time of our review, the change resulted in an excess of loss, in a negative balance, reflecting a balance in favor of Insurer.

UNEARNED PREMIUM **$6,084,007**

As of December31, 2009, the Insurer's balance sheet showed $5,942,803 in the account of unearned premiums in the Annual Statement.

We selected the business lines "Inland Marine" and "Credit" to verify the method used by the Insurer to compute the unearned premium reserve and whether it is in accordance with Article 5.040 of the Insurance Code.

We selected a sample in which it noted that there were cancellations of certificates registered in other policies which resulted in a credit transaction. In some cases the original premium was incorrect. Although the amount of these certificates is not a significant amount, the Insurer must correct this situation so that the balances are presented correctly in the records of the Insurer and the unearned premium account in the Annual Statement.

Furthermore, the amount of $141,204 was adjusted for the premium that corresponding to business written in December 2009 and was recorded by the Insurer in January 2010. This is in accordance with Article 5.020 of the Puerto Rico Insurance Code, as amended, which provides, that the liabilities are defined as probable future economic sacrifices arising from present obligations of an insurer.

CEDED PREMIUMS PAYABLE **$549,652**

The balance of the item in the Annual Statement amounted to $212,500, it was increased by $351,200 for the premium ceded in reinsurance that the insurer recorded in January 2010 from the business written in the month of December, in accordance with Article 5.020 of the Puerto Rico Insurance Code, as amended, which provides that liabilities are defined as probable future economic sacrifices arising from present obligations of an insurer.

OTHERS ACCOUNTS PAYABLE **$146,326**

This account consists of the following items, balance of agents, miscellaneous accounts payable and the minimum retention of its exposure by the insurer in its liability. This item was reclassified by $76,133, as indicated in the topic of premiums receivable. It was also noted in this account that the amount in the balance of agents corresponds to a poorly recorded entry in the books of the Insurer.

AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUND

The Insurer as of December 31, 2009, on the item entitled "Aggregate Write-ins for special surplus fund" in its Annual Statement, amounted to $5,138,645. That amount represented the deposits made by the Insurer and the interest generated by these funds, through the years.

For 2007, 2008 and 2009, the Insurer was not required to deposit funds in the Catastrophic Reserve, as the amount accumulated in the same, exceeded the required amount representing 8% of exposure to catastrophic hurricanes, as provided in Article 25.030 (4) of the Puerto Rico Insurance Code.

In order to establish the catastrophe exposure, the Insurer used AON Benfield, a business risk management company, which evaluated the Insurer using the simulation risk model Risk Management Solution, Inc. (RMS)

According to the simulation model risk, the Insurer's probable maximum loss for 2009 was $411,000. Insurer should maintain a catastrophic reserve of not less than $8,220.

Furthermore, Article 25.030 (6) and (7) of the Puerto Rico Insurance Code, as amended, provides:

(6) "The reserve for catastrophic insurance loss liability will be part of the domestic insurer to the extent of at least two (2%) percent of their exposure to catastrophic hurricane. The remaining portion of the reservation will be part of the surplus of the insurer and shall not be required as a reserve. By regulation, order or administrative determination to that effect, the Commissioner will establish the mechanism used to reflect the insurer in its annual required amount of liability."

(7) "Every insurer, upon the purchase of reinsurance for catastrophic insurance, shall be obliged to establish a minimum holding of at least two (2%) percent of their exposure to catastrophic hurricane. By regulation, order or administrative determination to that effect, the Commissioner shall establish the procedure to be followed by the insurer to fulfill this obligation."

Although it was not until October 10, 2008 that the Office of the Commissioner of Insurance adopted the amendment to Rule 72 of the Regulations of the Puerto Rico Insurance Code, in order to grant the benefit of phase compliance to reflect the two (2%) percent of its probable maximum loss as a liability, for purposes of this test we are applying the provisions of Article 8 of the Rule 72. The Rule further provides that for the first year, that at least twenty (20%) percent of the minimum retention of the Insurer should be recognized at the closing of the most accounting period at the date of the enactment of this Rule.

In the previous review, to determine the insurer's financial position for 2006, the amount of $14,960 for the 2% of PML of the Insurer was reclassified to liabilities. The Insurer submitted calculations for 2008 and 2009, but not for 2007. This reclassified the heading "Aggregate write-ins for special surplus funds" to the part of other accounts payable, the amounts of $2,320 and $1,644 for 2008 and 2009, respectively. This amount represents the twenty (20%) percent of the minimum retention as presented below:

	2006	**2007**	**2008**	**2009**
Probable Maximum Loss (PML) - Gross Loss	$748,000	$265,000	$580,000	$411,000
Total Minimum Retention- 2% - PML	$14,960	$5,300	$11,600	$8,220
20% of Minimum Retention	N/A	$1,060	$2,320	$1,644

We note that under the line of inland marine business, are classified business phones, this line represents 89% of net business underwritten. However, by the same insurer's decision was not referred to determine the catastrophic risk exposure in 2009.

REVIEW OF INTERNAL CONTROL

A review of the findings of the internal audit carried out between October and November of 2009, reflected on the assessment by internal auditors that the Insurer should implement corrective measures and controls to correct some deficiencies, which were seen between December 2009 and March 2010.

In our review certain aspects of internal controls of the Insurer to ensure the company complies with the administrative procedures were evaluated by determining the following:

- Management and Control Area Premium

We recommend the Insurer develop a more accurate processing of premiums and continued with efforts to correct the situations that have developed in the register of aging of premiums, just as in the log of premiums, so that implements controls and risk mitigation strategies in the internal proceedings.

- Unearned Premium

We recommend the Insurer that they continue efforts to strengthen internal controls in the processing of premium so that transactions are registered in the appropriate policy and present the correct balance in the account of unearned premiums.

CONCLUSION

Insurer's financial position As of December31, 2009, after adjusting for consideration is:

Assets	**$29,912,734**
Liabilities	$15,197,925
Capital	4,550,000
Special Surplus-Catastrophic Reserve	5,138,645
Paid for and Contributed Surplus	2,880,565
Unassigned surplus	2,145,599
Total Liabilities, Capital y Surplus	**$29,912,734**

The Insurer maintained an Unassigned Surplus of $4,347,312, according to the Annual Statement to December 31, 2009, which increased the amount of $959,976 as a result of examination adjustments. The Unassigned Surplus as consideration was $2,145,599.

Respectfully,

Rafael Ruffat Pastoriza
Examiner

COMPLIANCE WITH THE PREVIOUS REPORT

The previous review covered the period from January 1, 2003 to December 31, 2006, in the same no significant adjustments were made that impacted the financial position of the Insurer. However, within the notes discussed in the Summary of important points we made two recommendations, these were evaluated to determine compliance by the Insurer.

By-Laws

The Insurer does not comply with the provisions of Article III of its Bylaws by not choosing Officers Board of Directors. It is required to elect the officers thus complying with the Bylaws.

The Insurer complied with this requirement.

Transactions between Affiliates and Related Insurers

Are required establish in writing a reasonable mechanism for the distribution of expenditure that meets their operational needs.

The Insurer does not fully comply with this requirement.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. PML's study for 2009 does not include premiums insuring cell phones. These premiums are classified in the marine and transportation category. The exclusion of these premiums causes an understatement in the catastrophe reserve, as provided in Article 25.030 (4) of the Insurance Code of Puerto Rico. Page 10
2. The purchase of catastrophe reinsurance shows that it is acquiring protection in an amount that exceeds its probable maximum loss. SSAP No. 25 of the Accounting Practice and Procedures Manual of NAIC provides that transactions involving payment for services must be in a fair and reasonable amount. Pages 10 - 11
3. The Insurer should change the method for recording premium so that the revenue is recorded as of the inception date of the contract. Statement of Statutory Accounting Principles (SSAP) No. 53 states that "Written premiums for all contracts (excludes workers' compensation) shall be recorded as of the effective date of the contract." Page 20
4. The Insurer applied balance paid in excess by cellular services provider to a difference in their books, between what was billed and collected since 2008. This does not comply with the provisions of Article 5.030 of the Insurance Code of Puerto Rico, and paragraph 9 of SSAP 6 of the Accounting Practice and Procedures Manual of NAIC. Page 21
5. The subsidiary ledger contains transactions debit and credit recorded incorrectly, which makes it impossible to determine what amounts should be refunded to policyholders. Page 21

6. We reclassified the amount of $76,133 to the Other Accounts Payable, corresponding to an overpayment of cellular service provider, which the Insurer had credited to the Account Receivable. Page 21
7. The reserve established for the known cases as of December 31, 2009, was understated. SSAP No. 55 of the Accounting Practice and Procedures Manual of NAIC provide the requirement for establishing this reserve. Page 22
8. According to Article 5.020 of Insurance Code of Puerto Rico, as amended, we adjusted the balance of $1,564,964 for fees and charges payable for the services of business written in December 2009 and recognized in January 2010. Page 24
9. In accordance with Article 5.020 of the Insurance Code of Puerto Rico, as amended, we adjusted the amount of $141,204 for unearned premiums and unrecognized by the Insurer in the correct period. Page 25
10. In accordance with Article 5.020 of the Insurance Code of Puerto Rico, as amended, the balance of the item in the annual report amounted to $212,500, was increased by $337,152 for the premium ceded in reinsurance that the Insurer recorded in January 2010, from the business written in the month of December. Page 25