

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



TRIPLE-S SALUD, INC.

AMENDED REPORT ON EXAMINATION
AS OF DECEMBER 31, 2017
CASE No. EX-2018-05

NAIC CODE
REPORT DATE: NOVEMBER 22, 2019

Pat Neesham, CFE
Examiner-in-Charge
INSRIS-PR, LLC

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS.....	3
CURRENT EXAMINATION FINDINGS	3
PRIOR EXAMINATION FINDINGS.....	4
INSURER HISTORY	4
CAPITAL STOCK	5
CORPORATE RECORDS.....	6
MANAGEMENT AND CONTROL	6
BOARD OF DIRECTORS.....	7
OFFICERS	7
COMMITTEES	7
CONFLICT OF INTEREST	8
INVESTMENTS	8
DIVIDENDS TO STOCKHOLDERS	9
HOLDING INSURER SYSTEM	10
INTERINSURER AGREEMENTS	15
TERRITORY AND PLAN OF OPERATIONS.....	16
GROWTH OF THE INSURER.....	17
REINSURANCE	17
ACCOUNTS AND RECORDS	18
FINANCIAL STATEMENTS.....	19
ASSETS	20
LIABILITIES, SURPLUS AND OTHER FUNDS.....	21
STATEMENT OF REVENUE AND EXPENSES.....	22
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION	24
NOTES ON FINANCIAL STATEMENTS.....	25
NOTE 1: ACTUARIAL REVIEW	25
NOTE 2: TOTAL CAPITAL AND SURPLUS.....	26

SUBSEQUENT EVENTS	26
SUMMARY OF RECOMMENDATIONS.....	26
CONCLUSION	28



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

December 17, 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 instructions and pursuant to statutory provisions contained in Order Number EX-2018-05, dated December 10, 2018, a financial condition examination has been made of the affairs, financial condition and management of

TRIPLE-S SALUD, INC.
F. D. ROOSEVELT AVENUE 1441
SAN JUAN, PUERTO RICO 00920

hereinafter referred to as "Insurer" or "TSS", incorporated under the laws of the Commonwealth of Puerto Rico. The examination was carried out in the main offices of the Insurer. The report on this examination is respectfully submitted.

SCOPE OF EXAMINATION

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

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.

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.

Rule No. 66

Based on our review, the Insurer failed to comply with Section 4(c)(7) of Rule No. 66 by selecting Optum Insight, Inc. (Optum) to provide claims processing services outside of Puerto Rico. Optum claims processing services are located in India.

Qualifications of Investment Personnel

Based on our review, the Insurer failed to comply with Article 6.040(1) because its investment plan does not state the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior.

Electronic Storage System

The Insurer did not comply with Rule No. 76 of the Regulations of the Puerto Rico Insurance Code by not presenting to the OCI the certification of the electronic storage system of a certified information systems auditor.

Investment in Equity

During 2013, the Insurer maintained an investment in SPDR S&P 500 ETF Trust Index Fund Large in an amount that exceeded the limitation on investments issued,

assumed or guaranteed by one single person or business entity per Article 6.070(1) of the Insurance Code of Puerto Rico.

Requirements to Report Grievances

The Insurer failed to comply with Article 22.050(f)(2)(A) of the Puerto Rico Health Insurance Code and Ruling Letter CN-2013-157-1 by not completing Form CSS-I-22-002 for years 2013 through 2015. Insurer failed to comply with Article 22.060(c) of the Puerto Rico Health Insurance Code and Circular Letter CC-2013-1832-D by not completing Form CSS-I-22-001 for years 2013-2015.

Statement of Statutory Accounting Principles (SSAP) No. 41R

The Insurer failed to comply with paragraph 9(b) of SSAP No. 41R by reporting its surplus note investment in its subsidiary, Triple-S Advantage (TSA), as an admitted asset in its 2016 Annual Statement. As of December 31, 2016, TSA's Risk Based Capital (RBC) ratio was 176.2% which represent an Insurer action level event.

PRIOR EXAMINATION FINDINGS

The Insurer was in compliance with recommendations made in the prior December 31, 2011, Report on Examination.

INSURER HISTORY

TSS was formed in 1959 by a group of physicians and dentists. TSS is a managed care organization that provides health benefits services to subscribers through contracts with hospitals, physicians, dentists, laboratories and other organizations in Puerto Rico. The Insurer was formerly known as Triple S, Inc., and changed its name to Triple-S Salud, Inc. on February 16, 2009.

TSS is a member of the Blue Cross and Blue Shield Association (BCBSA), and is subject to the regulations of the OCI of the Commonwealth of Puerto Rico and the applicable regulations of the Division of Banking and Insurance of the Government of the United States Virgin Islands (USVI), with respect to operations in the USVI.

On February 7, 2011, TSS acquired 100% of the outstanding capital of Socios Mayores en Salud Holdings, Inc. (SM SH). SM SH was the parent Insurer of American Health, Inc. (AH), a provider of Medicare Advantage managed care services in Puerto Rico. AH changed its name to Triple-S Advantage, Inc. (TSA) in 2014. On June 30, 2017, as part of a re-organization project, Triple-S Management (TSM) performed a downstream merger of SM SH into Triple-S Advantage Solutions, Inc. (TSAS). SM SH was a wholly owned subsidiary of TSM. SM SH was the parent Insurer of TSAS. TSAS was the parent Insurer of TSA. SM SH, TSAS and TSA, collectively were known as the Medicare Advantage (MA) operation. Effective January 1, 2018, TSAS merged with and into TSS in order for TSS to own directly the stocks of TSA. This transaction was approved by the Puerto Rico Insurance Commissioner.

The Insurer is a wholly owned subsidiary of TSM, a public Insurer traded on the New York Stock Exchange.

CAPITAL STOCK

As of December 31, 2017, the Insurer had 20,000,000 common stock shares authorized, and 3,750,000 issued and outstanding with a par value of \$40 per share, for a reported value of \$150,000,000.

The Insurer is a direct subsidiary of TSM, which owns 3,749,995 of the 3,750,000 shares outstanding. The remaining five (5) shares are held by directors. The Insurer has no preferred stock outstanding.

CORPORATE RECORDS

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the board of directors, board of director committees, and shareholders were reviewed for the period under examination. There were no amendments to the Insurer's Articles of Incorporation or bylaws during the examination period.

On June 28, 2018, the Articles Incorporation were amended in order to include transacting life insurance, as defined in the Puerto Rico Insurance Code, as part of the business or purposes to be conducted or promoted by the Insurer.

MINUTES

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

MANAGEMENT AND CONTROL

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

BOARD OF DIRECTORS

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

NAME AND LOCATION	PRINCIPAL OCCUPATION
Roberto García Rodríguez San Juan, Puerto Rico	TSM President & CEO
Juan José Román Jiménez San Juan, Puerto Rico	Executive Vice President, CEO
Madeline Hernández Urquiza San Juan, Puerto Rico	President
Carlos L. Rodríguez Ramos San Juan, Puerto Rico	TSM Chief Legal Counsel
Fernando Ruiz Jiménez San Juan, Puerto Rico	TSM Chief Marketing & Comm Officer

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, Puerto Rico Insurance Code.

NAME	TITLE
Madeline Hernández Urquiza	President & CEO
Carlos L. Rodríguez Ramos	Secretary
Juan José Román Jiménez	Treasurer
Juan José Rodríguez	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 Insurer. As of December 31, 2017, TSS used the following Committees of the Board of TSM:

Audit Committee

David H. Chafey, Jr. Chai, Financial Expert
 Antonio F. Faria-Soto, Chairman
 Roberto Santa Maria-Ros, Financial Expert
 Adamina Soto Martínez, Financial Expert

Finance and Investment Committee

David H. Chafey Jr. Chai
 Luis A. Clavell-Rodríguez
 Antonio F. Faría-Soto
 Jorge L. Fuentes-Benejam
 Roberto Santa María-Ros

CONFLICT OF INTEREST

The Insurer 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 Insurer's business in order to comply with Article 29.230 of the Insurance Code of Puerto Rico. The review of the conflict of interest questionnaires revealed that the Insurer 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 and Finance Committee minutes noted that the Insurer did certify in

writing through a formal resolution that all investments were made pursuant to standards, limitations and investment goals established by the Board. However, the Insurer is in violation of Article 6.040(1), Puerto Rico Insurance Code which establishes that the written investment plan must state the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior. In addition, during 2013 the Insurer maintained an investment in SPDR S&P 500 ETF Trust Index Fund Large in an amount that exceeded the limitation on investments issued, assumed or guaranteed by one single person or business entity. These violations of Article 6.070(1) and Article 6.040(1) are noted above in the *Summary of Significant Findings* section and below in the *Summary of Recommendations* section.

DIVIDENDS TO STOCKHOLDERS

Article 29.340 of the Insurance Code of Puerto Rico provides that a domestic stock Insurer shall not pay any cash dividends 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	Total Capital and Surplus Previous Year
2013	\$7,000,000	\$334,310,505
2014	25,000,000	381,797,954
2015	32,000,000	395,107,351
2016	7,000,000	404,827,505
2017	90,000,000	371,156,520

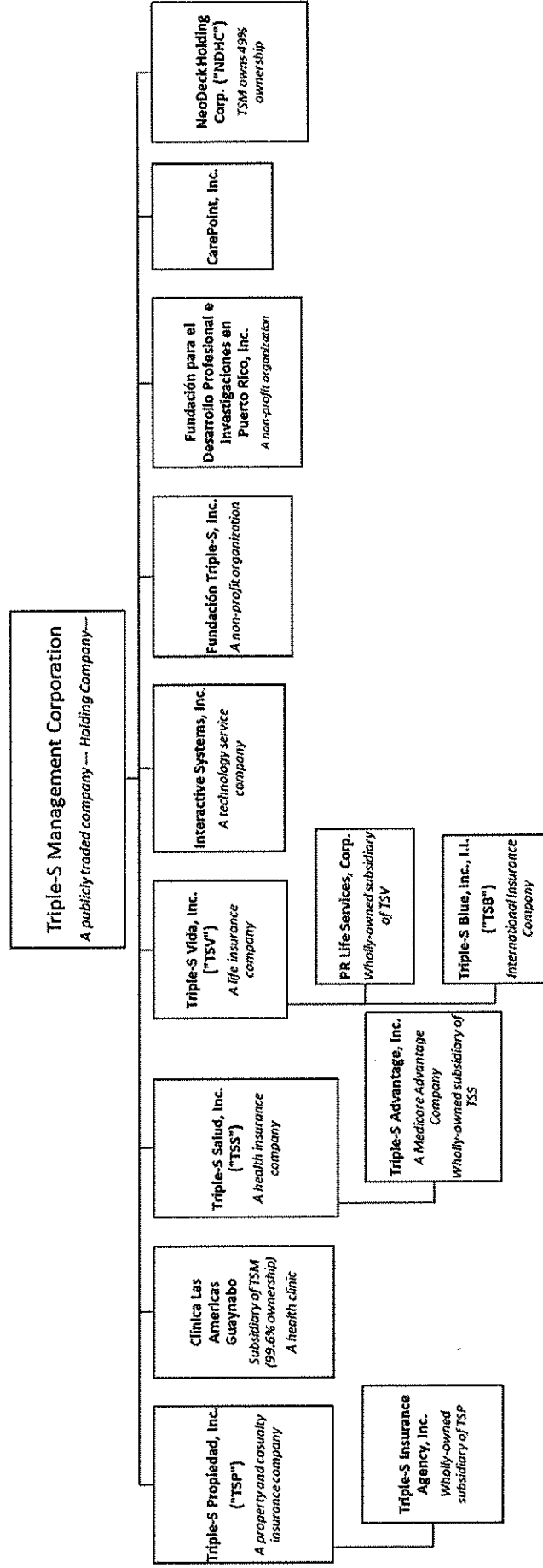
Pursuant to Puerto Rico Regulations, Rule No. 83 Section 19(b), an Insurer may not pay extraordinary dividends or make any other extraordinary distribution to shareholders until thirty (30) days after notifying the Commissioner of Insurance and the Commissioner of Insurance has not disapproved such payments or has expressly approved the extraordinary dividend within the thirty (30) day period. Extraordinary dividends for 2016 were in violation of Article 44.060(b), without prior approval of the Commissioner. In addition, the Insurer did not comply with Article 44.050(e) and Section 19(b) of Rule No. 83 on 2013 and 2014 by not notifying the Commissioner of the payment of ordinary dividends. The OCI acted over these non-compliance events prior to this examination. On the other hand, the Insurer did comply with Article 29.340 of the Insurance Code of Puerto Rico.

HOLDING INSURER SYSTEM

The Insurer is a member of an insurance holding Insurer system as defined under the Insurance Laws of Puerto Rico. TSM is the ultimate controlling parent. TSM is a publicly traded insurance holding Insurer that trades on the New York Stock Exchange under the ticker symbol GTS. The OCI reviewed Rule No. 83 forms submitted by TSM (Insurance Holding Insurer System Registration Statement) for the period of examination and reviewed all forms and noted they were submitted by the required date. No significant matters were noted in the disclosures.

The following is an organizational chart that reflects the identities and interrelationships between the Insurer, its parents and subsidiaries, and other affiliates. As noted above, effective January 1, 2018, TSAS merged with and into TSS in order for

TSS to own directly the stocks of TSA. This transaction was approved by the Puerto Rico Insurance Commissioner and is reflected in the organizational chart below.



The following is a summary of each entity in the Insurer structure:

- TSM serves as the holding Insurer of a group of entities primarily involved in the insurance industry.
- Triple-S Advantage, Inc. (TSA) is a provider of Medicare Advantage services to dual and non-dual eligible members in Puerto Rico that offers a comprehensive network of primary care and specialty providers, facilities and ancillary services as a Health Maintenance Organization. TSA is a wholly owned subsidiary of the Insurer.
- Triple-S Propiedad, Inc. (TSP) is engaged and authorized to underwrite property and casualty insurance policies in Puerto Rico. Predominant insurance products are commercial multi-peril package, personal package, commercial auto, hospital malpractice, commercial liability, and commercial property. Business is written through various general agents including Triple-S Insurance Agency, Inc. (TSIA), a wholly owned subsidiary of TSP.
- TSIA, a wholly owned subsidiary of TSP, is a general agency that represents TSP and other property and casualty insurance companies doing business in Puerto Rico.
- Triple-S Vida, Inc. (TSV), a wholly owned subsidiary of TSM, offers a wide variety of life, accident and health and annuity products to all markets in Puerto Rico. TSV offers guaranteed issue, funeral and cancer policies to market segments

directly to people in their homes. TSV also markets group life and disability coverage through independent producers.

- PR Life Services, Corp, a wholly owned subsidiary of TSV, is a general agency that represents TSV and provides sales and marketing of TSV products in Puerto Rico.
- TSB is a life insurance Insurer (formerly known as Atlantic Southern Insurance Insurer (ASICO)) engaged in the underwriting of life and accident and health insurance policies and the administration of annuity contracts. This subsidiary is engaged to do business in the Republic of Costa Rica, Anguilla and British Islands.
- International Systems & Services Corporation is currently an inactive corporation.
- Interamerican Marketing Corporation is currently an inactive corporation.
- Interactive Systems, Inc. (ISI) is a wholly owned subsidiary of TSM. The entity is engaged in providing data processing services to TSM and its subsidiaries.
- Triple-S International, LLC is a wholly owned subsidiary of TSM, a Puerto Rico corporation. It is a limited liability Insurer and operates as an International Banking Entity.
- Fundación para el Desarrollo Profesional e Investigaciones en Puerto Rico, Inc. is an inactive nonprofit corporation.
- Triple-C, Inc. is an inactive corporation.
- Clínica Las Americas en Guaynabo is a subsidiary of TSM (90.8% ownership) and a health care service provider.
- NeoDeck Holding Corp is not a subsidiary, TSM owns 49% of the outstanding stock but does not have control over this entity.

INTERINSURER AGREEMENTS

The Insurer has a note receivable including accrued interest from TSM in the amount of \$17,260,000. This note was approved by the OCI and bears interest at an annual rate of 4.70% and is due on December 31, 2020. The Insurer has a note receivable including accrued interest from its subsidiary TSA in the amount of \$32,087,000 as of December 31, 2017. This note was approved by the OCI and bears interest at an annual rate of 4.70% and shall be due and payable in a single installment including principal and interest accrued, on December 29, 2021.

The Insurer also has entered into the following agreements with its affiliated entities:

Services Agreement TSM - TSS

A Management Services Agreement was entered into with the Insurer's parent, TSM, executed on April 10, 2012. Pursuant to the agreement, management fees and expense allocations are paid to TSM.

Services Agreement TSS- TSA

A Management Agreement was entered into with the Insurer's subsidiary, TSA, executed on December 13, 2016. Pursuant to the agreement, management fees and expense allocations are paid to TSS.

Shared Services Agreements

Shared Services Agreements are in place between TSS and ISI, STP, and TSV. Except for the service agreement with ISI, which was executed on January 1, 2009, the service agreements were executed on January 1, 2008. Pursuant to the agreements,

certain administrative services are provided by the Insurer to the affiliates. The agreement with ISI was dissolved effective August 31, 2018.

Information Technology Systems Agreement

An Information Technology Services Agreement between TSS and ISI was executed on January 1, 2008. The agreement provides for general technology processing services to be provided by ISI to TSS. The agreement with ISI, was dissolved effective August 31, 2018 and the Insurer began transferring IT services to a third-party provider under a separate agreement. In 2018, the transition was completed.

Lease Agreement

A Lease Agreement was entered into effective September 1, 2017 by which TSM leases to TSS certain office space located in San Juan and Guaynabo, Puerto Rico.

Facilities and Real Estate Management Agreement

A Facilities and Real Estate Management Agreement was executed on April 17, 2012 where TSS provides facilities and real estate services to TSM. Pursuant to the agreement, facilities and real estate services fees and expense allocations are paid to TSS.

TERRITORY AND PLAN OF OPERATIONS

The Insurer is licensed in the Commonwealth of Puerto Rico and is also authorized to write business in the U.S. Virgin Islands. The Insurer writes credit accident & health insurance that are subject to regulations issued by the OCI. TSS offers managed care and related products in the commercial and Medicare markets. The managed care products are marketed through an extensive network of independent agents and brokers located throughout Puerto Rico as well as an internal salaried sales force. On June 28, 2018, the

Board of Directors amended the fourth paragraph of its Amended and Restated Articles of Incorporation in order to include transacting life insurance as part of the business or purposes to be conducted or promoted by the Insurer.

Based upon the most recent A.M. Best Credit Rating Report dated May 22, 2019, TSS has a financial strength rating of "B++" with a stable outlook and an issuer credit rating of "bbb+" with a stable outlook.

GROWTH OF THE INSURER

The following information was obtained from the Insurer's filed Annual Statements and covers the past five years through December 31, 2017.

Year	Admitted Assets	Surplus	Total Revenues	Net Income
2013	\$714,192,085	\$381,797,954	\$1,455,123,560	\$23,964,569
2014	653,632,964	\$395,107,351	1,355,707,881	42,490,974
2015	734,630,571	404,827,505	1,453,562,258	28,448,888
2016	701,075,752	371,156,520	1,626,315,932	38,376,640
2017	761,822,494	354,605,615	1,558,043,864	66,680,213

REINSURANCE

ASSUMED

As of the year ended December 31, 2017, the Insurer assumed premiums of \$288,091 from BCBS-Uruguay.

CEDED

The Insurer had three automatic excess of loss reinsurance contracts in force as of December 31, 2017, providing the following:

- Group organ transplant coverage through which the Insurer cedes either 100% of the risk up to \$1,000,000 per organ transplant or up to \$500,000 per organ transplant, depending on which option is chosen, per covered person, per lifetime.
- Coverage of all in-force, new and renewed medical insurance business issued by TSS under their Medicare Advantage Plan, including group organ transplant coverage. The Reinsurer accepts 75% of TSS' liability over \$100,000 to a maximum of \$675,000 per covered person, per contract year.
- Group organ transplant coverage for active or retired employees of the Government of Puerto Rico (ELA Employees), under which the Reinsurer accepts 100% of TSS' liability up to a maximum of \$500,000 per covered person, per lifetime.

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. 61 of the *NAIC Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The accounts and records review included an assessment of the Insurer'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 Insurer's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

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

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Insurer with the Office of the Commissioner of Insurance of Puerto Rico and present the financial condition of the Insurer 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.

TRIPLE-S SALUD, INC.

ASSETS

DECEMBER 31, 2017

	<u>Per Insurer</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$298,047,447	\$0	\$298,047,447
Common stocks	157,090,957		157,090,957
Cash and cash equivalents	45,479,304		45,479,304
Other invested assets	18,917,785		18,917,785
investment income due and accrued	3,680,281		3,680,281
Uncollected premiums and agents' balances in the course of collections	78,467,363		78,467,363
Amounts recoverable from reInsurers	246,561		246,561
Amounts recoverable relating to uninsured plans	37,960,526		37,960,526
Net deferred tax asset	43,703,600		43,703,600
Electronic data processing equipment and software	2,747,444		2,747,444
Receivable from parent, subsidiaries and affiliates	55,146,043		55,146,043
Health care receivable	20,335,183		20,335,183
Total assets	<u>\$761,822,494</u>	<u>\$0</u>	<u>\$761,822,494</u>

TRIPLE-S SALUD, INC.
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2017

	<u>Per Insurer</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Claims unpaid (Note 1)	\$175,299,175	\$0	\$175,299,175
Accrued medical incentive pool and bonus amounts (Note 1)	32,585,160		32,585,160
Unpaid claims adjustment expenses (Note 1)	2,994,500		2,994,500
Aggregate health policy reserves (Note 1)	13,460,352		13,460,352
Premiums received in advance	1,646,722		1,646,722
General expenses due or accrued	90,040,743		90,040,743
Current federal and foreign income tax payable	9,247,896		9,247,896
Ceded reinsurance premiums payable	459,353		459,353
Amounts withheld or retained on account of others	26,274,267		26,274,267
Remittances and items not allocated	747,183		747,183
Amounts payable to parent, subsidiaries and affiliates	744,562		744,562
Liability for amounts held under uninsured plans	555,303		555,303
Aggregate write-ins for other liabilities	53,161,663		53,161,663
Total liabilities	\$407,216,879	\$0	\$407,216,879
Health Insurance Provided Fees Special Surplus	30,412,542		30,412,542
Common capital stock	150,000,000		150,000,000
Unassigned funds	174,193,073		174,193,073
Total capital and surplus (Note 2)	354,605,615	0	354,605,615
Total liabilities, capital and surplus	\$761,822,494	\$0	\$761,822,494

TRIPLE-S SALUD, INC.
STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2017

Net premium income	\$1,557,972,311
Change in unearned premium reserves and reserve for rate credits	<u>71,553</u>
Total revenues	<u>1,558,043,864</u>
Hospital/medical benefits	734,320,555
Emergency room and out-of-area	101,883,585
Prescription drugs	474,905,834
Net reinsurance recoveries	<u>(462,697)</u>
Total hospital and medical	1,310,647,277
Claims adjustment expenses	30,341,705
General administrative expenses	<u>143,468,008</u>
Total underwriting deductions	<u>\$1,484,456,990</u>
Net underwriting gain	73,586,874
Net investment income earned	11,474,017
Net realized capital gains	9,601,885
Net investment gains	21,075,902
Other income	4,879,265
Net income after capital gains tax and before all other federal income taxes	99,542,041
Federal and foreign income taxes incurred	<u>32,861,828</u>
Net income	<u>\$66,680,213</u>
Capital and surplus prior reporting period	371,156,521
Net income	66,680,213
Change in net unrealized capital gains	47,449,696
Change in net deferred income tax	4,010,891
Change in nonadmitted assets	(15,749,987)
Dividends to stockholders	(90,000,000)
Capital contribution to wholly owned subsidiary	(20,000,000)
Other income	<u>(8,941,722)</u>
Capital and surplus end of reporting period	<u>\$354,605,612</u>

TRIPLE-S SALUD, INC.
Comparative Analysis of Changes in Surplus
DECEMBER 31, 2017

Total Capital and Surplus
 December 31, 2017, Per Annual Statement \$354,605,615

	<u>PER</u> <u>INSURER</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS	\$761,822,494	\$761,822,494	\$ -
LIABILITIES	\$407,216,879	\$407,216,879	\$ -
Net Change in Surplus			<u>\$ -</u>

Total Capital and Surplus
 December 31, 2017, Per Examination \$354,605,615

TRIPLE-S SALUD, INC.
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2017

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus 12/31 prior year	\$290,723,690	\$334,310,505	\$381,797,954	\$395,107,351	\$404,827,505	\$371,156,521
Net Income (Loss)	39,505,138	23,964,569	42,490,974	28,448,888	38,376,640	66,680,213
Change in net unrealized capital gains	(14,663,499)	28,460,756	(24,197,946)	33,717,129	(60,773,045)	47,449,696
Change in net deferred income tax	(6,870,000)	13,085,307	8,939,808	(11,257,558)	(1,954,890)	4,010,891
Change in nonadmitted assets	37,822,272	(20,634,896)	15,341,279	18,135,888	4,884,285	(15,749,987)
Cumulative change in accounting principles	3,635,000					
Dividends to stockholders	(15,000,000)	(7,000,000)	(25,000,000)	(32,000,000)	(7,000,000)	(90,000,000)
Aggregate write-ins for gains and losses in surplus	(842,096)	9,611,713	(4,264,718)	(27,324,193)	(7,203,974)	(28,941,722)
Net Change in Capital & Surplus	43,586,815	47,487,449	13,309,397	9,720,154	(33,670,984)	(16,550,909)
Capital & Surplus at end of year	<u>\$334,310,505</u>	<u>\$381,797,954</u>	<u>\$395,107,351</u>	<u>\$404,827,505</u>	<u>\$371,156,521</u>	<u>\$354,605,612</u>

NOTES ON FINANCIAL STATEMENTS

NOTE 1: ACTUARIAL REVIEW

Claims unpaid	\$175,299,175
Accrued medical incentive pool	\$32,585,160
Unpaid claims adjustment expenses	\$2,994,500
Aggregate health policy reserves	\$13,460,352

The OCI retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Insurer's liabilities listed above 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 Insurer, including the 2017 Annual Statement. The Statement of Actuarial Opinion and Actuarial Memorandum for 2017 were prepared by the Insurer and signed by the appointed actuary, Marc A. Lambright, FSA, MAAA, a principal and consulting actuary with the firm of Oliver Wyman Consulting Inc. The Actuarial Opinion was prepared and submitted timely in accordance with Section 2 of Rule No. 96, of the Regulations Insurance Code of Puerto Rico.

Based on the work performed, the consulting actuary found the Insurer's liabilities provision for claims unpaid, accrued medical incentive pool and bonus payments, unpaid claim adjustment expense, and aggregate health policy reserves to be adequate. In addition, INS verified the liabilities comply with actuarial standards, and the methodologies appeared reasonable.

NOTE 2: TOTAL CAPITAL AND SURPLUS

The total capital and surplus of \$354,605,615 at December 31, 2017, as determined by this examination, is the same as the amount reported by the Insurer on its 2017 Annual Statement.

SUBSEQUENT EVENTS

No subsequent events or transactions that occurred after the December 31, 2017 examination date were noted that would have had a material effect on TSS' Financial Statements.

SUMMARY OF RECOMMENDATIONS

RULE NO. 66

We recommend the Insurer to maintain the adjudication of claims in Puerto Rico, in order to maintain its tax exempt status.

QUALIFICATIONS OF INVESTMENT PERSONNEL

We recommend that the Insurer include in its written investment plan the professional qualifications of the persons that shall be making routine investment decisions in compliance with Article 6.040 (1) of the Insurance Code of Puerto Rico.

ELECTRONIC STORAGE SYSTEM

We recommend the Insurer to comply with Rule No. 76 of the Regulations of the Puerto Rico Insurance Code. As soon as possible, the Insurer must present to the OCI the certification of the electronic storage system of a certified information systems auditor.

INVESTMENT IN EQUITY

We recommend the Insurer to comply with Article 6.070(1) of the Puerto Rico Insurance Code by not maintaining an investment in an amount greater than the limitation on investments under Article 6.070(1).

REQUIREMENTS TO REPORT GRIEVANCES

We recommend the Insurer to comply with Article 22.050, and 22.060 of the Puerto Rico Health Insurance Code Ruling Letter CN-2013-157-1 and CC-2013-1832-D, and complete the Grievances Report and its certification of compliance with Internal Complaint Procedures, Forms CSS-I-22-002 and CSS-I-22-001.

SSAP NO. 41 R

The Insurer failed to comply with paragraph 9(b) of SSAP No. 41 R by reporting its surplus note investment in TSA as an admitted asset in its 2016 Annual Statement. As of December 31, 2016, TSA's RBC ratio was 167.2% which represents a Insurer action level event. We recommend the Insurer comply with paragraph 9(b) in future Annual Statements.

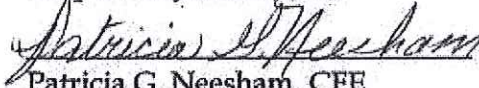
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Triple-S Salud, Inc.** 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 Insurer during the course of the examination.

In addition to the undersigned, Carolyn Maynard; Colette Sawyer, CFE, CPM, MSA, MCM; Stephen Feliu; and Barry M. Lupus, CFE, CPA, CFE (fraud), Examination Manager, of INS Regulatory Insurance Services, Inc. participated in this examination. Additionally, Peggy Hermann, FSA, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. John Albertini, MBA, CISO, CISA, CISM, CISSP, CHSS, CDFE, and David Gordon, MBA, CISA, CIA, CBA, CFE (Fraud), of INS Services, Inc. participated in the Information Technology General Controls portion of the examination. Yoani Ditrén Acosta, Examiner, of the Office of the Commissioner of Insurance of Puerto Rico, participated in the compliance portion of the examination.

Respectfully submitted,



Patricia G. Neesham, CFE

Examiner-in-Charge

INSRIS-PR, LLC



Carla M. Colón León

Exams Supervisor

Commissioner of Insurance of Puerto Rico