

COMMONWEALTH OF PUERTO RICO  
**OFFICE OF THE COMMISSIONER OF INSURANCE**



**MULTINATIONAL LIFE INSURANCE COMPANY**

AMENDED REPORT ON EXAMINATION  
AS OF DECEMBER 31, 2018  
CASE No. EX-2019-08

NAIC CODE 72087  
REPORT DATE: MAY 31, 2020

Jan Pierre Santiago, CFE, CPA  
Examiner-in-Charge  
INSRIS-PR, LLC



# GOVERNMENT OF PUERTO RICO

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## Office of the Commissioner of Insurance

### TABLE OF CONTENTS

SCOPE OF EXAMINATION .....	1
SUMMARY OF SIGNIFICANT FINDINGS.....	3
CURRENT EXAMINATION FINDINGS .....	3
PRIOR EXAMINATION FINDINGS.....	10
COMPANY HISTORY.....	11
LINES OF BUSINESS/OPERATIONS .....	12
CAPITAL STOCK .....	14
CORPORATE RECORDS.....	14
ARTICLES OF INCORPORATION .....	15
BYLAWS .....	15
MINUTES.....	15
MANAGEMENT AND CONTROL .....	15
BOARD OF DIRECTORS.....	15
OFFICERS .....	16
COMMITTEES .....	16
HOLDING COMPANY SYSTEM .....	17
INTERCOMPANY AGREEMENTS.....	18
TERRITORY AND PLAN OF OPERATIONS.....	20
GROWTH OF THE COMPANY .....	20
REINSURANCE .....	20
ASSUMED .....	20
CEDED.....	20
FINANCIAL STATEMENTS.....	22
ASSETS .....	23
LIABILITIES, SURPLUS AND OTHER FUNDS.....	24
SUMMARY OF OPERATIONS .....	25

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS .....	27
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION .....	28
SUBSEQUENT EVENTS .....	29
SUMMARY OF RECOMMENDATIONS .....	30
INTERCOMPANY AGREEMENTS ISS.1 .....	30
REINSURANCE RESERVE CREDITS ISS.7 .....	30
INVESTMENT POLICY ISS.8 .....	30
INVESTMENTS – ANNUAL CERTIFICATIONS ISS.9 .....	31
ELECTION OF OFFICERS ISS.11 .....	31
HOLDING COMPANY FILINGS ISS.12 .....	31
ULTIMATE CONTROLLING PERSON ISS.13 .....	31
OFFICER CERTIFICATION ISS.14 .....	31
REINSURANCE COMMISSIONS ISS.15 .....	32
DIVIDENDS DECLARED ISS.16 .....	32
QUALIFICATION OF DIRECTORS ISS.19 .....	32
CONTINGENCIES ISS.20 .....	32
ACTUARIAL OPINION MEMORANDUM ISS.22 .....	32
CONCLUSION .....	33



GOVERNMENT OF PUERTO RICO  
Office of the Commissioner of Insurance

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May 31, 2020

Honorable Rafael Cestero-Lopategui, CIC  
Chief Deputy 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-2019-08, dated September 25, 2019, a financial condition examination has been made of the affairs, financial condition and management of the

**MULTINATIONAL LIFE INSURANCE COMPANY  
470 PONCE DE LEON AVENUE  
HATO REY, PUERTO RICO 00918**

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

**SCOPE OF EXAMINATION**

An examination of MLIC 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, 2011, through December 31, 2012. This examination covered the period from January 1, 2014, through December 31, 2018, including any material relevant

transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. Due to natural disasters that impacted Puerto Rico in 2017, along with local fiscal conditions, the examination was delayed; thus resulting in a one year gap between examinations.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook (Handbook)*. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in the *Model Law on Examinations* (#390) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.) are not

included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, LPG CPA, P.S.C (LPG). 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.

#### **(1) Inter-Company Agreements**

MLIC has reported their affiliated, intercompany agreements or transactions in the 2018 Annual Statement Footnote #10. However, MLIC failed to disclose the same in the 2018 Annual Statement Schedule Y - Part II, pursuant to Puerto Rico Insurance Code or "Insurance Code". Article 3.310 of the Insurance Code, Ruling letter No. 2010-118-AF with reference to the 2018 Annual Statement instructions and SSAP No. 25 paragraph 19, which states: "the financial statements shall include disclosures of all material related party transactions" (i.e., those that exceed one-half of one percent of the total admitted assets of the reporting entity).

Identified agreements or transactions meeting these criteria are as follows: (1) Impulse Finance Corporation "line of credit" contract and (2) inter-company expense sharing agreement with Multinational Insurance Company.

**(2) Reinsurance Reserves Credits**

In its 2018 Annual Statement, Schedule S, Part 3, Section 1, the Company did not disclose a total of \$4,067,567 of reserve credits taken under various ceded life reinsurance treaties. A revised Schedule S, Part 3, Section 1 was provided for review by the examiner which indicated that the subject reserve credits pertained to business ceded to Swiss Reinsurance Company, Ltd., and MAPFRE RE, Compañía de Reaseguros, S.A. The Company failed to disclose the reserve credits in the 2018 Annual Statement filing Schedule S as required by Puerto Rico Insurance Code, Article 3.310, and Ruling Letter No. 2010-118-AF with reference to the 2018 Annual Statement Instructions for Schedule S.

**(3) Investment Policy**

The Insurer maintained an investment policy that had been reviewed by Mr. Tobias Carrero Nacar, Chairman of the Board of Directors, and approved on November 30, 2016 in compliance with Article 6.040(1) of the Insurance Code. The examiner reviewed the policy to verify that it contained all parts required by Article 6.040(1), finding that the investment policy did not comply with the Article since it does not include the professional qualifications of the persons that shall be making routine investment decisions.

This violation is also noted below in the *Prior Examination Findings*.

**(4) Investments – Annual Certifications**

Article 6.040(2) of the Insurance Code of establishes that the board of directors (Board) shall certify in writing, through a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the delegation, 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. The examiner reviewed the formal resolutions made by the Company and found that the resolutions of 2014 and 2018 did not comply with the aforementioned Article because the formal resolutions are made in a stockholder annual meeting and not in a board of director meeting.

This violation is also noted below in the *Prior Examination Findings*.

**(5) Investments – Election of Officers**

Article 29.210(1) establishes that 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 powers and duties, and serve for such terms as may be prescribed in the bylaws. The Insurer did not comply with Article 29.210(1) as a secretary was not elected.

Article 29.210(3), among other things, establishes that one of such officers shall be a corporate secretary. For 2014, until July 2015, the Corporate Secretary was Attorney Yelitza Cruz. Per the minutes of the board of director's meeting for July 2, 2015, Ms. Cruz presented her resignation to the position. The board of directors appointed Ms. Maria



Cruz as corporate secretary since July 2015 (to the present). This appointment was not in compliance with the aforementioned Article because Ms. Cruz is not an officer of the Insurer and therefore cannot be the corporate secretary.

**(6) Holding Company Filings**

Rule No. 83 - Sections 14 and 15, among other things, establishes that "All insurers authorized to transact insurance business in Puerto Rico and that are part of a holding company system shall make an annual filing on or before March 31, as provided in Article 44.050 of the Insurance Code with the information required on Form B, which is made of part of this Rule".

The Insurer did not comply with these sections for the years 2014, 2016 and 2018. Refer to the following table for details:

FORM B	DATE SUBMITTED
2014	June 10, 2015
2016	May 9, 2017
2018	June 14, 2019

The Insurer did not comply with Section 14 and Section 15 because they submitted Form B after the date required by Rule 83 of the Insurance Code.

**(7) Ultimate Controlling Person**

The Company was not in compliance with Item 8 of Form B of the Rule No. 83 of the Insurance Code of Puerto Rico. For the examination period (2014 to 2018) the Insurer did not include as part of the Form B the financial statement of the ultimate controlling person, Mr. Tobías Carrero Nácar.

**(8) Officer Certification**

Rule No. 83 - Item 10 of Form B Signature and Certification, establishes that "Pursuant to the requirements of Article 44.050 of the Insurance Code this annual registration statement... I so Witness: (Signature of the Officer) (Title)... The undersigned certifies he/she completed the statement in the statement in this form dated... and who is (Title of the Officer) of such corporation or entity, and who is authorized to execute and file this document. The undersigned further states that he/she is familiar with the content of this form and states that to his/her knowledge and belief the information provided is correct..."

For the year 2018, the Insurer was not in compliance with item 10 of Form B because it was signed by Maria Cruz, who is not an officer of the Insurer, as required by Rule No. 83 of the Insurance Code of Puerto Rico.

**(9) Reinsurance Commissions**

In the 2018 Annual Statement, the Company netted \$8,379,319 of commissions ceded to Mapfre Re, Compañía de Reaseguros, S.A. (Mapfre Re) against all other direct commissions, reporting the net balance as "Commissions on Premiums, Annuity Considerations and Deposit-type Funds" on Line 21 of the Summary of Operations. Annual Statement instructions for Line 21 specifically exclude commissions on reinsurance, either assumed or ceded. The amount should have been reported on Line 6 of the Summary of Operations and therefore, the Company was not in compliance with Puerto Rico Insurance Code, Article 3.310 and Ruling Letter No. 2010-118-AF with reference to the 2018 Annual Statement Instructions for the Summary of Operations.

**(10) Dividends Declared**

Article 44.050 and Rule No. 83 – Section 21, among other things, establish that “All domestic insurers or health services organizations that are registered in a holding company system must report to the Commissioner, within fifteen (15) days of the declaration thereof, the dividends and other distributions to be paid to the shareholders”.

The Insurer was not in compliance with Article 44.05 and Rule No. 83 - Section 21, because it did not report to the Commissioner, within fifteen (15) days of the declaration thereof, the dividends and other distributions to be paid to the shareholders as required by Article and Rule for the year 2016.

**(11) Statutory Deposit**

For the year 2015, the Insurer was not in compliance with Article 3.151 of the Puerto Rico Insurance Code regarding statutory deposits. The statutory deposit maintained by the Insurer at December 31, 2015 was \$1,216,052, which is below the minimum required of \$1,250,000.

Subsequently, the Insurer remediated the breach by pledging an additional bond with an amortized value of \$270,155.79 on May 2, 2016.

**(12) Qualification of Directors**

Article 29.150(2) Qualifications of Directors establishes: “Not less than the majority of directors of an insurer shall be residents of and actually reside in Puerto Rico. At least three fourths of the directors shall be citizens of the United States.” For the examination period, the board of directors of the Company has consisted of ten directors. Having ten directors would require at least eight (three fourths of ten) to be citizens of the United

States.

The Insurer was not in compliance with Article 29.150(2) for the examination period as follows: (a) 2014 to 2017 - Insurer had seven directors who are citizens of the United States (US) and three directors who are citizens of Venezuela; (b) 2018 - Insurer had six directors who are citizens of the US and four directors who are citizens of Venezuela.

**(13) Contingencies**

The Company has not updated the Annual Statement Note #14 Contingencies for the years under examination of 2014 through 2018. This is not in compliance with Puerto Rico Insurance Code Article 3.310 and Ruling letter No. 2010-118-AF with reference to the Annual Statement instructions.

**(14) Lead Audit Partner**

Section 7(D) of Rule No. 13-A of the Regulations of the Insurance Code of Puerto Rico establishes that "The lead or coordinating audit partner having primary responsibility for the audit may not act in that capacity for more than five (5) consecutive years." The Insurer did not comply with Section 7(D) of Rule No. 14-A, because Mr. Luis Santiago acted as audit partner from 2012 through 2017, or 6 consecutive years. As presented in the Audit Committee's Minute of October 2018, the new partner, Mr. Gabriel Mendez, was appointed for the 2018 audit.

**(15) Actuarial Opinion Memorandum**

Exhibit 6 of the December 31, 2018 Annual Statement indicated that the Company was holding \$533,546 as additional actuarial reserves - asset/liability analysis. However,

these reserves were not discussed in the Actuarial Opinion Memorandum. MLIC confirmed that this reserve is incorrectly being shown in Exhibit 6, Line 3, and instead should be shown on Exhibit 6, Line 2 as additional contract reserves. The Insurer did not comply with Ruling Letter No. CN-2010-118-AF; which establishes that annual statements must be prepared following the instructions of the NAIC and discuss in the Actuarial Opinion Memorandum pursuant to Puerto Rico Insurance Code Article 5.100(d) and Rule No. 95, Section 8(B).

This violation is also noted below in the *Prior Examination Findings*.

#### **PRIOR EXAMINATION FINDINGS**

The Company was in compliance with recommendations made in the prior December 31, 2012 Report on Examination; except for the following three (3) findings noted below.

#### **Actuarial Opinion Memorandum**

Exhibit 6 of the December 31, 2018 Annual Statement indicated that the Company was holding \$533,546 as additional actuarial reserves – asset/liability analysis. However, these reserves were not discussed in the Actuarial Opinion Memorandum.

#### **Investment Policy**

The Insurer maintained an investment policy that had been reviewed by Mr. Tobias Carrero Nacar, Chairman of the Board, and approved on November 30, 2016. The examiner reviewed the policy to verify if it contained all parts required by Article 6.040(1) of Insurance Code of Puerto Rico, finding that the investment policy did not comply with

the Article since it does not include the professional qualifications of the persons that shall be making routine investment decisions.

### **Lack of Certification of Investments**

Article 6.040(2) of the Insurance Code of Puerto Rico, establishes that 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 delegation, 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. The examiner reviewed the formal resolution made by the Insurer and found that the resolution of 2014 and 2018 did not comply with the aforementioned Article because the formal resolutions are made in a stockholder annual meeting and not in a board of director meeting.

## **COMPANY HISTORY**

The Company was originally incorporated as National Life Insurance Company (NALIC) on May 8, 1969, under the provisions of the Insurance Code of Puerto Rico. The Company, a stock company, primarily underwrites individual, group and credit life insurance, individual annuities and accident and health insurance contracts. At December 31, 2018, the Company was licensed to write business only in Puerto Rico. A license previously held in the State of Florida was suspended in June 2011 and expired in June 2013. A nominal amount of run-off premium remains in Florida. The last regulatory examination performed was as of December 31, 2012.

At December 31, 2010, the Company was a member of the National Financial Group. A change of ownership occurred on November 10, 2011, when Multinational Insurance Company, a property and casualty insurance company authorized to do business in Puerto Rico, received OCI approval to purchase the Company through a series of transactions. On December 14, 2011, the OCI approved a change in name from National Life Insurance Company to Multinational Life Insurance Company.

On December 28, 2011, 223,881 shares of preferred stock were issued to the Company's Panama domiciled affiliate, Consultoria Avanzada, at \$67 a share for total proceeds of \$15,000,027.

In April 2012, the Company's former parent, Multinational Insurance Company sold 47.79% of the Company to Nacalui, N. V., an affiliate investment company domiciled in Curacao, Venezuela. In December 2015, Multinational Insurance Company sold its remaining 48.81% interest in the Company's common stock to Aseguradora Ancon, S.A., another affiliate insurance company doing business in Panama.

At December 31, 2018, 48.81% of the Company's common stock is owned by Aseguradora Ancon, S.A., 47.79% by Nacalui, N. V., and 2.23% by Nacato, Inc. The remaining 1.17% was owned by directors, officers and other individuals.

#### **LINES OF BUSINESS/OPERATIONS**

The Company sells ordinary and group life policies, individual annuities, credit life (group and individual), credit (group and individual), group A&H, cancer and disability income, primarily in the Puerto Rico market (about 82% of 2018 Schedule T premiums and annuity considerations); but also in Florida, American Samoa and in about

14 countries reported in the "aggregate other alien" line in Schedule T. The Company's international business (outside of PR) is the business on the Company's book from the legacy run-off business dating back as far as 1968 that the current owners acquired during the 2011 acquisition. A large percentage of the business is universal life business (and some term life insurance) produced through independent producers, some of whom continue to have relationships with the Company. Through those existing relationships, there is some new business produced mainly in Ecuador and Peru, but the Company does not actively market new business in any country outside of Puerto Rico. The Company is not required to obtain a license to transact business from those foreign jurisdictions so long as they remain licensed in Puerto Rico. The Company does not maintain an office in any foreign jurisdiction. All policy services, underwriting (new and renewals) and claims are done out of Puerto Rico.

The Company formerly held a license in the State of Florida, but it was suspended prior to the change in control of the Company. The Company is currently seeking a license in the State of Florida to expand its business.

On a net basis, the majority of business is in ordinary life; but followed closely by cancer; then group life and group A&H. The credit, credit life, disability income, and individual annuities are currently in run-off and resulted in small losses in 2018.

MLIC has four main distribution channels (general agencies - 88% of new sales; brokers and authorized representatives - 5% of new sales each; and bank agencies - 2%). Individual business is written mainly through general agencies, and group business is produced through brokers and authorized representatives.



Company's administrative offices are located in Hato Rey, Puerto Rico (main financial district in the Capital of Puerto Rico) and has three regional offices (Arecibo, Mayaguez, Ponce) run by Company personnel to provide sales, customer service and claims support.

### CAPITAL STOCK

Authorized capital is comprised of 300,000 preferred shares and 500,000 common shares with a par value of \$10 per share for a total of \$8,000,000. At December 31, 2018, preferred stock issued and outstanding is \$2,238,810 (223,881 shares at par value) and common stock issued and outstanding is \$2,502,910 (250,291 shares at par value).

As of December 31, 2018, the Company ownership structure is as follows:

#### Holders of Common Shares

Aseguradora Ancon S.A.	122,154 shares	48.81%
Nacalui, N.V.	119,623.5 shares	47.79%
Nacato, Inc.	5,571 shares	2.23%
All others (none greater than 1.0%)	2,942.5 shares	1.17%
		<u>100.00%</u>

#### Holders of Preferred Shares

Consultoria Avanzada	223,881 convertible shares	<u>100.00%</u>
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### CORPORATE RECORDS

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the board of directors and shareholders were reviewed for the period under examination.

## ARTICLES OF INCORPORATION

The Articles of Incorporation were not amended during the examination period.

## BYLAWS

The bylaws were amended during the examination period and approved by the OCI on October 6th, 2015. Article VI, Section I - Executive Committee and Article VII, Section 5 - Indemnification of Officers and Directors were amended.

## MINUTES

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

## MANAGEMENT AND CONTROL

Article 29.150 of the Insurance Code of Puerto Rico states that not less than the majority of directors of an insurer shall be residents of, and actually reside in, Puerto Rico. The Company was not in compliance with Article 29.150 of the Insurance Code of Puerto Rico. See *Current Examination Finding #12*.

## BOARD OF DIRECTORS

As of December 31, 2018, the directors of the Company, who were elected at the annual meeting of stockholders were as follows:

<b>Name</b>	<b>Principal Occupation</b>
Tobias Carrero-Nacar	Chairman of the Board
Carlos Iguina Oharriz	President
Yelitza Cruz Melendez	Senior VP, Secretary, and Corporate Legal
Tobias Enrique Carrero-Valentiner	EVP Technology Information, Operations
Rafael Andres Carrero-Valentiner	President, Impulse Finance Corporation
Miguel Vazquez Deynes	Retired Insurance Company Executive
Fernando Rivera-Muñoz	Retired Insurance Company Executive
Bartolome Gamundi	Retired Business Executive
Juan Carlos Puig	Retired Business Executive & Consultant
Luis Alejandro Carrero-Valentiner	Attorney

#### **OFFICERS**

Officers are elected by the board of directors. A list of the officers elected or appointed and serving as of December 31, 2018, appears below.

<b>Name</b>	<b>Title</b>
Carlos Iguina-Oharriz	Executive President
Yadira Mercado	SVP Finance and Administration & Treasurer
Tobias Enrique Carrero-Valentiner	EVP Technology Information & Operations
Rafael Andres Carrero-Valentiner	Chief Executive Financial Advisor
Javier Ortíz	Senior VP Sales
Yolanda Márquez	VP Accounting
Maria Nelly Collazo	VP Group Underwriting
Raymond Pérez	VP Claims
Victor Acosta	VP Underwriting
César Alvarez	VP Reinsurance
Luis Forteza	Manager - Finance & Accounting

#### **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, 2018, MLIC had the following committees of the Board:

**EXECUTIVE COMMITTEE**

Tobias Enrique Carrero-Valentiner (President of Executive Committee)  
Tobias Carrero-Nacar  
Carlos Iguina-Oharriz  
Miguel Vázquez-Deynes  
Bartolome Gamundi Cestero  
Yelitza Cruz Meléndez

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**FINANCE AND INVESTMENT COMMITTEE**

Juan Carlos Puig (President of Finance and Investment Committee)  
Tobias Carrero-Nacar  
Carlos Iguina-Oharriz  
Miguel Vázquez-Deynes  
Tobias Enrique Carrero-Valentiner  
Rafael Andrés Carrero-Valentiner  
Yelitza Cruz Meléndez

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**RISK COMMITTEE**

Bartolomé Gamundi-Cestero (President of Risk Committee)  
Tobias Carrero-Nacar  
Carlos Iguina-Oharriz  
Miguel Vázquez-Deynes  
Tobias Enrique Carrero-Valentiner  
Juan Carlos Puig  
Fernando Rivera-Muñoz

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**AUDIT COMMITTEE**

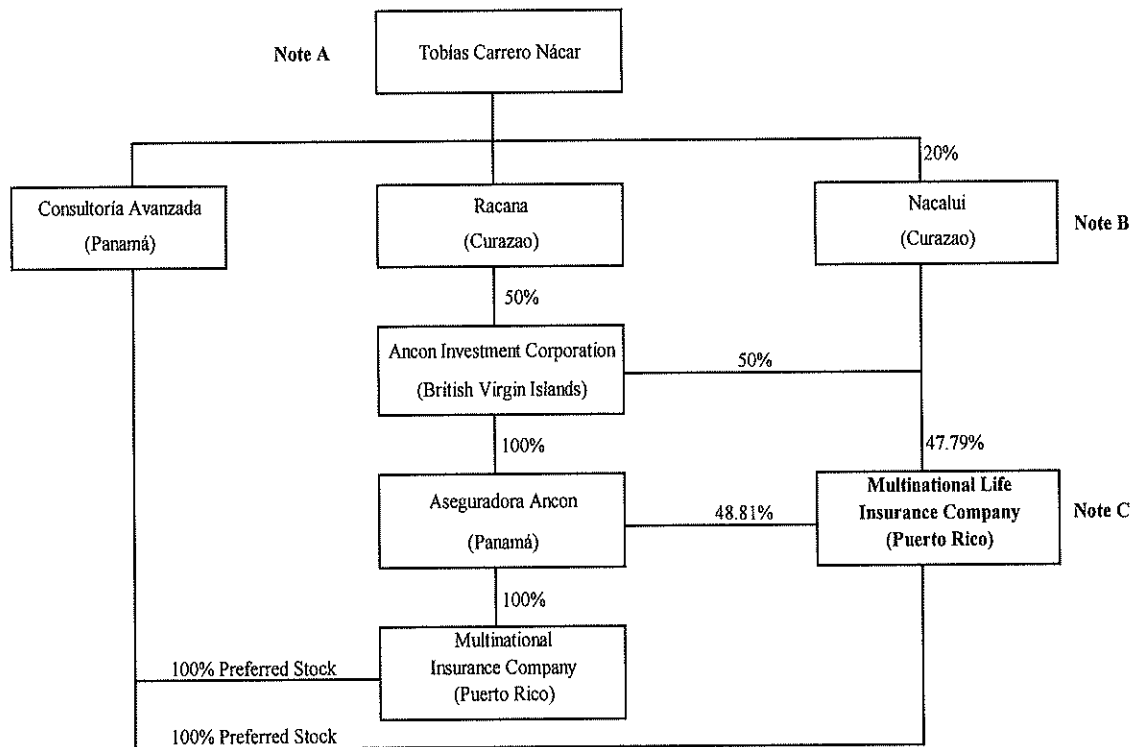
Fernando Rivera-Muñoz, President of Audit Committee (Independent Director)  
Tobias Carrero-Nacar  
Tobias Enrique Carrero-Valentiner  
Carlos Iguina-Oharriz  
Bartolomé Gamundi-Cestero (Independent Director)  
Miguel Vázquez-Deynes (Independent Director)  
Juan Carlos Puig (Independent Director)

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**HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined under the Insurance Laws of Puerto Rico. MLIC is directly owned by various entities with ultimate control under Mr. Tobías Carrero Nácar.

The following is an abbreviated organizational chart



Note A - Other insurance and non-insurance entities owned by Tobias Carrero Nacar.

Note B - The remaining 80% ownership held by 4 individuals of the Carrero-Valentiner family.

Three out of those four individuals collectively owned Impulse Finance Corp. (Puerto Rico).

Note C - 2.23% of the remaining shares are owned by Nacato Corporation (Puerto Rico); which in turn, is owned 100% by Tobias Carrero Nacar.

See 2018 A/S Schedule Y for full organizational chart.

that reflects the identities and interrelationships between the Company, its parents and subsidiaries as of December 31, 2018:

## INTERCOMPANY AGREEMENTS

Following are the intercompany agreements as of December 31, 2018:

On March 23, 2017, the board of directors of the Company approved a line of credit of \$1,000,000 to an affiliate, Impulse Finance Corporation, a company domiciled in Puerto Rico to operate in the premium finance business under the supervision of the Office of the Commissioner of Financial Institutions. The line of credit was increased to \$3,000,000

on December 31, 2017, and to \$3,400,000 on March 28, 2018. The loan balance as of December 31, 2018 amounted to \$3,300,000. Impulse Finance Corporation serves affiliated Multinational Insurance Company policyholders to finance property and casualty premiums. Total interest charges amounted to \$14,858 and \$150,378 in 2017 and 2018, respectively.

The Company shares certain expenses with Multinational Insurance Company such as salaries, professional services, information technology, and other general expenses. Amounts are billed and settled on monthly basis. Amounts billed from the counterparty amounted to \$603,434 and \$713,874 in 2017 and 2018, respectively. Amounts billed to the counterparty amounted to \$1,722,689 and \$3,023,589 in 2017 and 2018, respectively.

The Company leases office space from Multinational Insurance Company under an operating lease agreement. The contract was renewed on December 31, 2016 for a period of five years. The lease is related to the building owed by the counterparty at 510 Ave. Munoz Rivera, San Juan, PR 00918. Rent expense amounted to \$235,880 and \$233,708 in 2017 and 2018, respectively.

The Company, in the normal course of business, may from time to time incur expenses on behalf of its affiliates. The majority of these expenses are information technology related. As of December 31, 2017; amounts due from Aseguradora Ancon and ASKA Insurance were \$10,000 and \$7,832, respectively. As of December 31, 2018; amounts due from Aseguradora Ancon and ASKA Insurance were \$10,000 and \$11,492, respectively.

## TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the Commonwealth of Puerto Rico and has business in Florida, American Samoa and about 14 countries reported in the "aggregate other alien" line in Schedule T of the Annual Statement. The Company is authorized to underwrite the risks of life and disability pursuant to Articles 4.020 and 4.030 of the Insurance Code of Puerto Rico.

## GROWTH OF THE COMPANY

The following information was obtained from the Company's filed annual statements and covers the past six years through December 31, 2018. No financial adjustments were made as a result of the examination. The table below is shown in US dollars.

YEAR	ADMITTED ASSETS	SURPLUS	EARNED PREMIUMS	NET INCOME
2013	128,491,805	13,553,472	26,029,310	3,546,822
2014	122,244,588	13,997,828	26,043,403	1,397,306
2015	112,854,036	13,088,630	30,081,297	5,806,943
2016	112,798,823	17,278,662	31,975,803	4,260,096
2017	115,032,460	19,450,645	31,786,837	2,736,481
2018	121,211,068	21,543,744	31,221,061	3,065,078

## REINSURANCE

### ASSUMED

The Company did not report any assumed reinsurance in its filed 2018 Annual Statement.

### CEDED

The Company reinsures certain risks in the ordinary course of business in order to

limit maximum loss, provide greater diversification of risk, minimize exposure on larger risks, and to meet regulatory ratios. At December 31, 2018, the Company ceded all risks in excess of \$250,000 on individual life insurance and \$75,000 for individual risks written under group life policies. For accident and health business, the Company ceded 85% of the risk for all long-term disability (LTD) policies. For the Company's cancer business, the Company ceded 70% of the risk during 2018. Ceded premiums under the cancer treaty totaled \$20,948,976 for 2018.

The Company maintains reinsurance relationships with six companies, but is presently doing business with three reinsurance companies, one of which reinsures exclusively LTD. Reinsurance partners include Swiss Reinsurance Company, Ltd.; MAPFRE Re, Compania de Reaseguros, S.A.; RGA Reinsurance Company; Hannover Life Reassurance Company of America; General Reinsurance AG, and Munchener Ruckversicherlungs Geshellschaft.



## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Commonwealth of Puerto Rico, Office of the Commissioner of Insurance and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments 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.

MULTINATIONAL LIFE INSURANCE COMPANY

ASSETS

DECEMBER 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$88,157,217	\$0	\$88,157,217
Common stocks	136,191	0	136,191
Mortgage loans on real estate	1,902,357	0	1,902,357
Properties occupied by the company	8,890,493	0	8,890,493
Properties held for the production of income	382,500	0	382,500
Cash, cash equivalents and short-term investments	7,461,886	0	7,461,886
Contract loans	1,800,021	0	1,800,021
Investment income due and accrued	749,784	0	749,784
Uncollected premiums and agents' balances in the course of collection	2,057,106	0	2,057,106
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,535,409	0	3,535,409
Amounts recoverable from reinsurers	1,957,760	0	1,957,760
Electronic data processing equipment and software	70,022	0	70,022
Receivables from parent, subsidiaries and affiliates	3,900,414	0	3,900,414
Aggregate write-ins for other than invested assets	209,908	0	209,908
Total Assets	\$121,211,068	\$0	\$121,211,068

**MULTINATIONAL LIFE INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2018**

	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$65,784,498	\$0	\$65,784,498
Aggregate reserve for accident and health contracts	19,001,606	0	19,001,606
Liability for deposit-type contracts	723,516	0	723,516
Contract claims - life	1,409,572	0	1,409,572
Contract claims - accident and health	1,707,079	0	1,707,079
Other amounts payable on reinsurance	1,515,302	0	1,515,302
Interest maintenance reserve	514,431	0	514,431
Commissions to agents due or accrued - accident and health	476,269	0	476,269
General expenses due or accrued	836,912	0	836,912
Taxes, licenses and fees due or accrued	530,782	0	530,782
Unearned investment income	64,922	0	64,922
Amounts withheld or retained by company as agent or trustee	246,380	0	246,380
Amounts held for agents' account	2,424,440	0	2,424,440
Remittances and items not allocated	629,572	0	629,572
Asset valuation reserve	1,731,657	0	1,731,657
Payables for securities	2,005,175	0	2,005,175
Aggregate write-ins for liabilities	65,211	0	65,211
<b>Total Liabilities</b>	<b>\$99,667,324</b>	<b>\$0</b>	<b>\$99,667,324</b>
Common capital stock	2,502,910	0	2,502,910
Preferred capital stock	2,238,810	0	2,238,810
Surplus Notes	5,000,000	0	5,000,000
Gross paid in and contributed surplus	16,622,090	0	16,622,090
Unassigned funds (surplus)	(4,820,066)		(4,820,066)
<b>Surplus as regards policyholders</b>	<b>\$21,543,744</b>	<b>\$0</b>	<b>\$21,543,744</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$121,211,068</b>	<b>\$0</b>	<b>\$121,211,068</b>

**MULTINATIONAL LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**DECEMBER 31, 2018**

**Operating Income**

Premiums and annuity considerations	\$31,221,061
Net investment income	2,951,705
Amortization of IMR	81,680
Aggregate write-ins for misc. income	2,855,974
Net Operating Income	<u>37,110,420</u>

**Benefits and Reserves**

Death benefits	9,608,615
Annuity benefits	295,453
Disability & benefits under A&H contracts	5,965,154
Surrender benefits and withdrawals	2,452,777
Interest and adjustments on contracts	270
Increase in aggregate reserves	151,905
Benefits and Reserves	<u>18,474,174</u>

**Other Expenses**

Commissions	4,834,382
General insurance expenses	9,935,432
Insurance taxes, licenses and fees	1,036,369
Increase in loading on premiums	(2,360)
Total expenses	<u>34,277,997</u>

Net gain from operations before dividends to policyholders and federal income taxes	\$2,832,423
Dividends to policyholders	0
Net gain from operations after dividends to policyholders and before federal income taxes	<u>2,832,423</u>
Federal and foreign income taxes incurred	0
Net gain from operations after dividends to policyholders and federal income taxes and before net realized capital gains (losses)	<u>2,832,423</u>
Net realized capital gains (losses) less capital gains tax (benefit)	232,655
Net Income	<u><u>\$3,065,078</u></u>

### Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$19,450,645
Net income	3,065,078
Change in net unrealized capital gains or (losses)	742,709
Change in nonadmitted assets	(84,460)
Change in asset valuation reserve	(159,335)
Dividends to stockholders	<u>(1,470,893)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$21,543,744</u></u>

**MULTINATIONAL LIFE INSURANCE COMPANY**  
**COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**  
**DECEMBER 31, 2018**

Surplus as regards policyholders  
 December 31, 2018, per Annual Statement \$21,543,744

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Surplus</u>
Assets	\$121,211,068	\$121,211,068	\$ 0
Liabilities	\$99,667,324	\$99,667,324	\$ 0
Net Change in Surplus			<u>\$ 0</u>

Surplus as regards policyholders  
 December 31, 2018, per examination \$21,543,744

**MULTINATIONAL LIFE INSURANCE COMPANY**  
**RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION**  
**DECEMBER 31, 2018**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus at 12/31 prior year	\$11,633,961	\$13,553,472	\$13,997,828	\$13,088,629	\$17,278,660	\$19,450,645
Net Income	3,546,822	1,397,306	5,806,943	4,260,096	2,736,481	3,065,078
Change in net unrealized capital gains	(684,933)	(787,855)	(5,868,108)	719,900	(511,891)	742,709
Change in non-admitted assets	(967,456)	46,739	205,515	206,667	998,880	(84,460)
Change in asset valuation reserve	25,903	(211,834)	(128,549)	(161,942)	202,209	(159,335)
Dividends to stockholders	0	0	(925,000)	(834,690)	(1,253,694)	(1,470,893)
Aggregate write-ins for gains and losses in surplus	(825)	0	0	0	0	0
Net change in capital & surplus	1,919,511	444,356	(909,199)	4,190,031	2,171,985	2,093,099
Capital & surplus at end of year	<u>\$13,553,472</u>	<u>\$13,997,828</u>	<u>\$13,088,629</u>	<u>\$17,278,660</u>	<u>\$19,450,645</u>	<u>\$21,543,744</u>

## SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States including Puerto Rico. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on Puerto Rico and the insurance and reinsurance industry is still unknown at the time of releasing this report. The OCI is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The OCI and all insurance regulators, with the assistance of the National Association of Insurance Commissioners (NAIC), are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The OCI has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. On April 14, 2020, the OCI issued Ruling Letter CN-2020-276-D requiring insurers to complete the NAIC COVID-19 Information Request Template to disclose the impact, assessment and business continuity plans to address the COVID-19 pandemic. The Company reported no significant changes to the operations or financial



impact to the Company. However, this situation is evolving and represents a prospective risk to the Company.

## **SUMMARY OF RECOMMENDATIONS**

### **INTERCOMPANY AGREEMENTS**

The Company should disclose affiliated, intercompany agreements or transactions in the Annual Statement Schedule Y - Part II pursuant Puerto Rico Insurance Code, Article 3.310, Ruling letter No. 2010-118-AF and Annual Statement instructions and SSAP 25 paragraph 19, which states: "the financial statements shall include disclosures of all material related party transactions" (i.e., those that exceed one-half of one percent of the total admitted assets of the reporting entity).

### **Reinsurance Reserve Credits**

The Company should establish formal procedures to ensure that disclosure errors pertaining to reinsurance reserve credits do not occur in all future regulatory insurance financial statement filings in compliance with Puerto Rico Insurance Code, Article 3.310 and Ruling Letter No. 2010-118-AF with reference to the 2018 Annual Statement Instructions for Schedule S.

### **INVESTMENT POLICY**

The Company should include the professional qualifications of the persons who shall be making routine investment decisions in the investment policy as required per Article 6.040(1) of Insurance Code of Puerto Rico. This violation was also a prior examination finding.

## **INVESTMENTS – ANNUAL CERTIFICATIONS**

The Company should have the board of directors certify in writing, through a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the delegation, 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 as required per Article 6.040(2) of the Insurance Code of PR. This violation was also a prior examination finding.

## **ELECTION OF OFFICERS**

The Company should have all officers of the Company be formally elected by the board of directors and documented within the minutes of the Board to comply with Articles 29.210(1) and 29.210(3) of the Puerto Rico Insurance Code and the Company's bylaws.

## **HOLDING COMPANY FILINGS**

The Company should comply with Rule No. 83 – Sections 14 and 15, and submit the Holding Company filing Form B as provided in Article 44.050 of the Insurance Code by the required due date.

## **ULTIMATE CONTROLLING PERSON**

The Company should comply with Item 8 of Form B of Rule No. 83 of the Insurance Code of Puerto Rico and file the financial statement of the ultimate controlling person, Mr. Tobías Carrero Nácar, annually.

## **OFFICER CERTIFICATION**

The Company should comply with Item 10 of Form B, Signature and Certification,

of Rule No. 83 of the Insurance Code of Puerto Rico and have the form signed and certified by an officer of the Company.

#### **REINSURANCE COMMISSIONS**

The Company should adopt procedures to ensure adherence to all annual statement instruction reporting requirements in all future regulatory insurance financial statement filings in compliance with Puerto Rico Insurance Code, Article 3.310 and Ruling Letter No. 2010-118-AF with reference to the 2018 Annual Statement Instructions for the summary of operations.

#### **DIVIDENDS DECLARED**

The Company should comply with Article 44.050 and Rule No. 83 - Section 21, and report to the Commissioner, within fifteen (15) days of the declaration thereof, the dividends and other distributions to be paid to the shareholders.

#### **QUALIFICATION OF DIRECTORS**

The Company should comply with Article 29.150(2) of the Insurance Code of Puerto Rico and meet the director qualification requirements.

#### **CONTINGENCIES**

The Company should comply with Puerto Rico Insurance Code, Article 3.310 and Ruling letter No. 2010-118-AF with reference to the Annual Statement Instructions and update the Annual Statement Note #14 contingencies for the years under examination of 2014 through 2018.

#### **ACTUARIAL OPINION MEMORANDUM**

The Company should properly disclose the additional contract reserves in the

Annual Statement Exhibit 6, Line 2 pursuant to Ruling Letter No. CN-2010-118-AF; which establishes that annual statements must be prepared following the instructions of the NAIC and discuss in the Actuarial Opinion Memorandum pursuant to Puerto Rico Insurance Code, Article 5.100(d) and Rule No. 95, Section 8 (B). This violation was also a prior examination finding.

### CONCLUSION

The Accounting Practices and Procedures Manual as promulgated by the NAIC have been followed in ascertaining the financial condition of **MLIC** as of December 31, 2018, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

In addition to the undersigned, the following examiners participated in the examination:

#### Financial portion of the examination

Barry W. Lupus, CFE, CPA, CFE (Fraud), Manager, INSRIS-PR, LLC.

Jerry Kennedy, CPA, CFE, Staff Examiner, INSRIS-PR, LLC.

#### Information technology (IT) portion of the examination

David Gordon, MBA, CISA, CIA, CFE (Fraud), CDFE, INS Services, Inc.

Robert Ficken, CFE, CPA, CIA, CISA, AES, CRISC, INS Services, Inc.

#### Actuarial portion of the examination

Frank Edwards, Jr. ASA, MAAA, Chief Life/Health Actuary, INS Consultants, Inc.


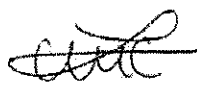
Vasileios Keisoglou, MSSA, INS Consultants, Inc.

Ankush Verma, INS Consultants, Inc.

Compliance portion of the examination

Yajaira Torres, Examiner, Office of the Commissioner of Insurance of Puerto Rico

Respectfully submitted,

  
\_\_\_\_\_  
Jan Pierre Santiago, CFE, CPA  
Examiner-in-Charge, INSRIS-PR, LLC  
\_\_\_\_\_  
Carla M. Colón León  
Examiners Supervisor  
Office of the Commissioner of Insurance