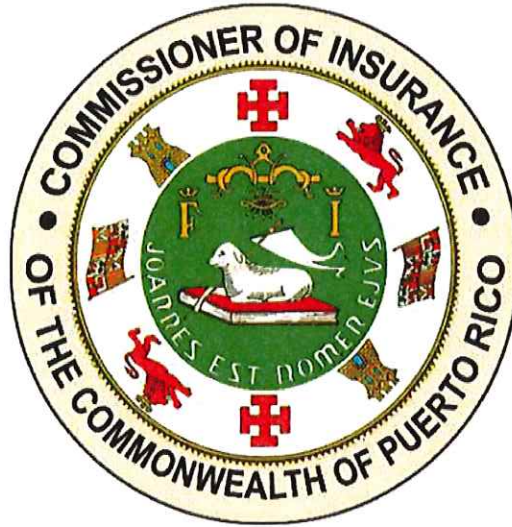


GOVERNMENT OF PUERTO RICO

**OFFICE OF THE COMMISSIONER OF INSURANCE**



**MAPFRE PRAICO INSURANCE COMPANY**

REPORT ON EXAMINATION

AS OF DECEMBER 31, 2020

CASE No. EX-2022-01

NAIC CODE 43052

REPORT DATE: JULY 8, 2022

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

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July 8, 2022

Honorable Alexander S. Adams Vega  
Commissioner of Insurance  
Commonwealth of Puerto Rico Office of the Commissioner of Insurance  
Edificio World Plaza  
9<sup>th</sup> Floor  
268 Ave. Luis Muñoz Rivera  
San Juan, Puerto Rico 00918

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Order Case Number EX-2022-01, dated January 20, 2022, a full-scope financial condition examination has been made of the records, affairs, financial condition and management of the

**MAPFRE PRAICO INSURANCE COMPANY**  
**Urb. Tres Monjitas Industrial**  
**297 Carlos Chardón Avenue**  
**San Juan, Puerto Rico 00918-1410**

hereinafter referred to as "Company" or "MAPFRE PRAICO", incorporated under the laws of the Commonwealth of Puerto Rico, as of December 31, 2020. The examination was conducted remotely. The report on this examination is respectfully submitted.

**SCOPE OF EXAMINATION**

A multi-state examination of MAPFRE PRAICO was performed by examiners from Eide Bailly, LLP, representing the Office of the Commissioner of Insurance of Puerto Rico (OCI) and financial examiners from OCI. The last examination covered the period of January 1, 2011 through

December 31, 2015. This examination covers the period from January 1, 2016, through December 31, 2020, 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, 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 Section 2.030(12) of the Insurance Code of Puerto Rico (the Code) 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, KPMG, and the Company's Internal Audit Unit. 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, risk assessments and in 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. Compliance with Article 8 of Rule No. 72 of the Regulations of the Code**

The Company did not comply with CC-2021-1984-EX and Article 8 of Rule No. 72 of the Code, which required insurers to establish a reserve in the amount of two percent (2%) of the Company's Hurricane Probable Maximum Loss (PML), gross of all reinsurance, and recognize the reserve liability in its 2020 Annual Statement. The Company's reserve liability was calculated to be \$7,998,800. The Company recorded a liability in the amount of \$3,098,666 in the 2020 Annual Statement. The unrecognized difference is \$4,900,134 and is an adjustment to the 2020 Annual Statement, for purposes of this report, as a decrease to surplus and increase to Minimum CAT Retention for aggregate write-ins for liabilities. This liability requirement was repealed for years ending 2021 and forward by Law 12-2022 to amend Article 25.030(6) of the Code; whereby, the reserve is reported as an aggregate write ins for special surplus funds.

*It is recommended that the Company amend its 2020 and 2021 Annual Statements to accurately report the liability.*

2. Compliance with Article 9 of Rule No. 72 of the Regulations of the Code

The Company did not comply with Article 9 of Rule No. 72 of the Code, which requires insurers to submit reinsurance contracts for catastrophic insurance losses to OCI ninety (90) days from the effective date of protection.

*It is recommended that the Company submit reinsurance contracts for catastrophic losses to the OCI ninety (90) days from the effective date of protection.*

3. Compliance with By-Laws

The Company's By-Laws, Article IV, Section 1 states there shall be an Executive Committee and Section 3 states there shall be an Investments Committee. The Company did not have these committees as of December 31, 2020; therefore, the Company was not acting in accordance with its By-Laws as of the examination date.

During examination field work, the Company's Board of Directors (Board) approved an amendment to Article IV Committees of the By-Laws, which was submitted to the OCI for approval. The amendment established the Executive Committee and Investments Committee as discretionary committees. The amendment to the By-Laws was approved by the OCI on May 9, 2022.

4. Custodial Agreement Termination Clause

The Company's custodial agreement with The Bank of New York Mellon (BNYM), executed August 26, 2008, did not include language for the custodian providing written notification within three business days of termination or withdrawal to the insurer's domiciliary commissioner if the custodial agreement has been terminated or if 100% of

the account assets in any one custody account have been withdrawn in accordance with *NAIC Handbook*.

Effective June 7, 2022, the Company obtained an amendment to the custodial agreement with BNYM to include the notice of termination or withdrawal of 100% of the assets from the custodial account to the domiciliary commissioner and amend the names of the parties to the agreement.

### **Prior Examination Findings**

#### **1. Actuarial Report to the Board or Audit Committee**

The Company did not comply with Rule No. 96 of the Regulations of the Code and the NAIC Property and Casualty Annual Statement Filing Instructions requirements on the Actuarial Opinion by having the Appointed Actuary report to the Board or the Audit Committee regarding the items within scope of the Actuarial Opinion and have such presentation properly reflected in the minutes of the Board or the Audit Committee.

*It was recommended the Company comply with the NAIC Property and Casualty Annual Statement Instructions requirements on the Actuarial Opinion by having the Appointed Actuary report to the Board or the Audit Committee.*

The Company complied with this recommendation. The Board received the Appointed Actuary's written Actuarial Report and supporting documents annually during the current examination period. Meeting minutes document review, discussion and approval of the annual actuarial report, presented to the Board by Company management.

*It was recommended that future MAPFRE PRAICO Actuarial Reports contain sufficient content and presentation documentation to comply with Rule No. 96 and the*

*NAIC Annual Statement Instructions, to allow another actuary practicing in the same field to evaluate the work more comprehensively and effectively.*

The Company complied with this recommendation.

## 2. Holding Company Registration Filing

Company did not comply with Section 13 and 14 of Rule No. 83 of the Regulations of the Code for Holding Company Registration Statement Filing.

*It was recommended the Company comply with Section 13 and 14 of Rule No. 83 of the Code.*

The Company complied with this recommendation.

## **COMPANY HISTORY**

MAPFRE PRAICO was incorporated on November 5, 1990, under the provisions of the Insurance Code of Puerto Rico, as MAPFRE Insurance Company of Puerto Rico. It commenced operations on December 28, 1990. The Company amended its Articles of Incorporation on January 8, 1991 to change its name to Puerto Rican-American Insurance Company. The Company amended its Articles of Incorporation on January 13, 2004 to change its name to the current name.

The Company is organized under MAPFRE PRAICO Corporation, an intermediate holding company domiciled in Puerto Rico, which is wholly-owned by MAPFRE International S.A., formerly known as MAPFRE America S.A., which is wholly owned by MAPFRE S.A., a publicly traded company headquartered in Madrid, Spain. On December 5, 2016, MAPFRE America S.A. merged with MAPFRE Internacional S.A. with MAPFRE America S.A. being the surviving entity. MAPFRE America S.A. subsequently changed its name to MAPFRE Internacional and is ultimately owned by Fundación MAPFRE, the Ultimate Controlling Person (UCP). As of December 31, 2020,



Cartera MAPFRE, S.L. owned 67.7% of MAPFRE, S.A. and is wholly owned by Fundación MAPFRE, S.A., a non-profit organization with no owners or shareholders.

### **Mergers, Acquisitions, and Major Corporate Events**

On December 8, 2015 the OCI approved the Plan of Merger of the Company with MAPFRE Preferred Risk Insurance Company (PRICO), its wholly owned subsidiary. Effective January 1, 2016, and under the agreement and plan of merger, MAPFRE PRAICO became the surviving entity under the laws of the Commonwealth of Puerto Rico.

### **Dividends**

Article 44.060(b) of the Code and Section 21(B) of Rule 83 of the Regulations of the Code provide that a domestic stock insurer shall not pay any cash dividend to stockholders, except out of any realized net profits on its business. The following ordinary dividends paid during the examination period were properly notified to the OCI in compliance with Article 44.050(e) of the Code:

Year	Dividend Paid
2016	\$15,000,000
2017	\$0
2018	\$0
2019	\$6,000,000
2020	\$1,500,000

There were no capital contributions to the Company made during the examination period.

### **CAPITAL STOCK**

The Company has 150,000 shares of common stock authorized, with 50,000 shares issued and outstanding at \$100 per share par value. MAPFRE PRAICO Corporation owns 49,994 of the shares with the remaining 6 shares being owned by members of the Board of MAPFRE PRAICO in compliance with Article 29.150(1)(9) of the Code. There are no other classes of capital stock.

## **CORPORATE RECORDS**

The Articles of Incorporation, By-Laws and all amendments thereto, and the minutes of the meetings of the Board, Board committees, and shareholders were reviewed for the period under examination.

### **Articles of Incorporation**

There were no amendments to the Company's Articles of Incorporation during the examination period.

### **By-Laws**

There were no amendments to the Company's By-Laws during the examination period.

Article IV – Committees, of the By-Laws in effect during the period under examination, provided for Executive and Investment Committees. The Executive Committee became inactive after the July 12, 2017 Board meeting. The Company's Board dissolved the Investment Committee by resolution on June 26, 2018. The Company was not operating in accordance with its By-Laws as of December 31, 2020.

The Company's Board approved an amendment to its By-Laws, Article IV – Committees at the March 2022 meeting to change Investment and Executive Committees to discretionary committees. The amended By-Laws were submitted to OCI for approval April 28, 2022. The OCI approved the amendment to the By-Laws May 9, 2022.

### **Minutes**

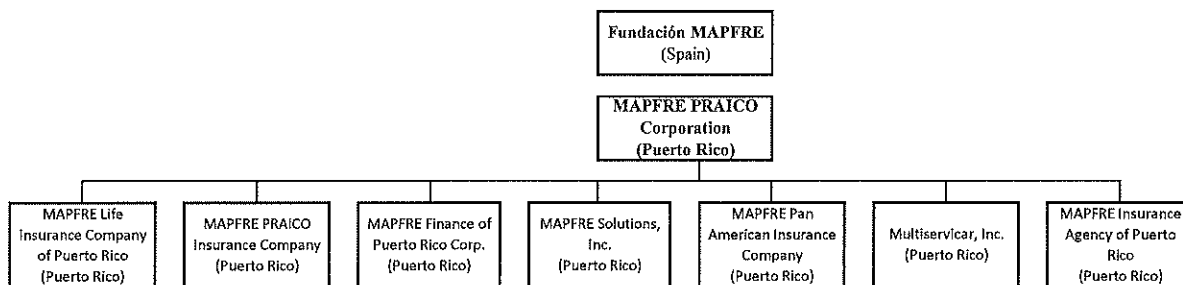
The recorded minutes adequately documented its meetings and approval of Company transactions and events, in compliance with the Code.

## MANAGEMENT AND CONTROL

### Holding Company

The Company is a member of an Insurance Holding Company System, as defined under the Insurance Laws of Puerto Rico. Fundación MAPFRE (Spain) is the ultimate controlling person (UCP). The Company is part of the MAPFRE Puerto Rico Group (Group), comprised of seven companies that operate in the Government of Puerto Rico and the U.S. Virgin Islands (USVI), which are wholly-owned by MAPFRE PRAICO Corporation (Corporation or Parent). The Group is comprised of three insurance companies, one insurance agency, a premium financing company, an automobile club and a company that operates an auto body repair shop and inspection centers.

The following simplified organizational chart reflects the identities and interrelationships between the Company, its Parent, its UCP and other affiliates as of December 31, 2020:



All companies in the Group share common administration, business policies, and integrated operations. There are seven branch offices throughout Puerto Rico and one branch office in the USVI as of December 31, 2020. Subsequent to December 31, 2020, the branch office in the USVI was closed.

#### MAPFRE PRAICO Group:

- MAPFRE PRAICO Insurance Company is an insurer writing vehicle, property, casualty, surety, title, agriculture, marine & transportation and disability business.
- MAPFRE Pan American Insurance Company is an insurer writing vehicle, property, casualty, surety, title, agriculture, marine & transportation and disability business.

- MAPFRE Life Insurance Company of Puerto Rico is an insurer writing health, life and disability business.
- MAPFRE Insurance Agency of Puerto Rico, Inc. is an authorized representative for the insurance companies, general agency and surplus lines broker.
- MAPFRE Solutions, Inc. is a service contract company.
- MAPFRE Finance of Puerto Rico, Corp. offers premium financing for the insurer's policyholders.
- Multiservicar, Inc. is an automobile body repair shop.

Effective May 1, 2021, Multiservicar, Inc. was merged with and into MAPFRE Solutions, Inc. with MAPFRE Solutions, Inc. being the surviving entity.

### **Board of Directors**

Article 29.150 of the Code states that not less than the majority of directors of an insurer shall be residents of, and actually reside in, Puerto Rico. The Company was in compliance with Article 29.150 of the Code.

The Company's By-Laws, Article II, Section 3 states the Board of Directors of not less than five nor more than fifteen directors shall be chosen annually by the stockholders at their annual meeting. At least a majority of the elected members of the Board shall be residents of Puerto Rico and not less than three quarters of the total number of directors shall be U.S. Citizens.

As of December 31, 2020, the Board was comprised of six directors, five of which were residents of Puerto Rico and U.S. Citizens. The Company was in compliance with this provision of its By-Laws during the examination period.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders, and documented in the corporate meeting minutes, were as follows:

<b><u>Name and Location</u></b>	<b><u>Title</u></b>
Alfredo Castelo Boston, Massachusetts	President and Chief Executive Officer MAPFRE USA Corporation

Joaquín A. Castrillo San Juan, Puerto Rico	Board Chairman Retired from MAPFRE in 2017
Teresita Fuentes San Juan, Puerto Rico	Certified Public Accountant Self-Employed
María Celeste Martínez Hatillo, Puerto Rico	Consulting Self-Employed
Gilberto J. Marxuach Guaynabo, Puerto Rico	President Universidad Del Sagrado Corazon
Alexis Sánchez San Juan, Puerto Rico	President, Chief Executive Officer and Vice Chairman of the Board MAPFRE Life Insurance Company

### **Officers**

The Company's By-Laws, Article III, Section 1 states the officers shall be at least a President, a Vice President, a Treasurer and a Secretary, all of whom shall be elected by the Board. Officers are elected by the Board on an annual basis. A list of the officers elected, as documented in the corporate meeting minutes, and serving as of December 31, 2020, were as follows:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Alexis Sánchez	President and Chief Executive Officer
Hilda M. Surillo	Secretary
Sheila A. Quiñones	Treasurer
Luis Negrón	Senior Vice President
Pedro E. Rosario	Senior Vice President, Comptroller and Chief Risk Officer
Javier Arechalde	Senior Vice President
José De La Mata	Executive Vice President
Orlando Ríos	Executive Vice President
Diego Maldonado	Executive Vice President and Chief Information Officer
Irtha Morales	Vice President
Manel Ortega	Vice President
Edgardo López	Vice President
Leopoldo García	Vice President
Jocelyn Grafals	Vice President, Chief Compliance Officer and Assistant Secretary
Karla Gnocchi	Vice President
Alex Negrón	Vice President
Rafael Rivera	Vice President

## **Committees**

The Company's By-Laws provide that the Board shall designate an Executive Committee, an Audit Committee, and an Investments Committee. The Executive Committee became inactive after the July 12, 2017 Board meeting. The Board dissolved the Investments Committee in 2018. See discussion above in By-Laws.

As of December 31, 2020, the Company's appointed Audit Committee was comprised of three independent directors, Teresita Fuentes, Audit Chair and financial expert, María Celeste Martínez, and Gilberto Marxuach. The Audit Committee operates under a formal charter and is compliant with Article 44.06(c)(4) of the Code as of December 31, 2020.

## **Investment Plan**

Article 6.040 of the Code 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 the insurer. The 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 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 minutes evidenced that the Company certified annually, in writing through a formal resolution, that all investments were made pursuant to standards, limitations and investment goals established by the Board.

## **INTERCOMPANY AGREEMENTS**

The Company was party to the following intercompany agreements in effect as of December 31, 2020:

**MAPFRE Pan American Insurance Company Collaboration and Distribution of Costs Agreement**

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, MAPFRE Pan American Insurance Company (MAPFRE PANAM), part of the underwriting and operational expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of MAPFRE PANAM.

**MAPFRE Life Insurance Company of Puerto Rico Collaboration and Distribution of Costs Agreement**

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, MAPFRE Life Insurance Company of Puerto Rico (MAPFRE Life), part of the underwriting and operational expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of MAPFRE Life.

**Pan American Finance Corporation Collaboration and Cost Sharing Agreement**

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, Pan American Finance Corporation (PAFCO a.k.a. MAPFRE Finance), part of the underwriting and operational expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of PAFCO.

**Puerto Rican Insurance Agency Collaboration and Cost Sharing Agreement**

MAPFRE PRAICO, as part of a cost-sharing agreement, has agreed to distribute to its affiliate, Puerto Rican Insurance Agency (PRIA), part of the underwriting and operational expenses. The costs to be distributed are the costs incurred by MAPFRE PRAICO on behalf of PRIA.

### **Commerce Insurance Company Services and Cost Allocation Agreement**

The Commerce Insurance Company (Commerce), a Massachusetts domiciled insurance Company, and MAPFRE Life, MAPFRE PRAICO, and MAPFRE PANAM (collectively known as the MAPFRE Puerto Rico Companies) entered into a services and cost allocation agreement with Commerce whereby Commerce may provide to one or more of the MAPFRE Puerto Rico Companies the personnel, property, and services reasonably necessary to perform accounting, actuarial, audit, ERM consulting, information technology support and security, online marketing and tax functions. MAPFRE PRICO was a party to this agreement until December 1, 2016, when it was merged with and into MAPFRE PRAICO as discussed above at Mergers, acquisitions and major corporate events.

### **Puerto Rican Insurance Agency, Inc. General Agency Agreement**

The Company and Puerto Rican Insurance Agency, Inc. entered into a general agency agreement effective January 1, 1994. The agreement grants authority for the General Agent to receive and accept proposals for classes of insurance covering risks the Company is authorized to write in accordance with the Company's underwriting guidelines. The agreement is continuous unless terminated in accordance with the agreement.

### **Provision of Services Agreement**

The Company and indirect affiliate MAPFRE Tech, S.A. (MAPFRE Tech), a company located in Madrid, Spain, entered into an agreement August 1, 2017 whereby MAPFRE Tech provides certain information and communication technological services to the Company.

### **Provision of Services Agreement**

The Company and indirect affiliate Mexico Asistencia S.A de C.V. (Mexico Asistencia), a commercial company of the United Mexican States, entered into an agreement January 16, 2020



whereby Mexico Asistencia provides travel assistance services for MAPFRE PRAICO policyholders. Services include contact service center for emergency transportation, medical assistance in case of accident or illness, emergency dental and dental assistance, physical therapy assistance, travel and hotel expenses for designated individuals, travel interruption and trip cancellation, and luggage and personal effects transport.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company is authorized to write agricultural, casualty, disability, marine and transportation, property, surety, title, and vehicle insurance in the Commonwealth of Puerto Rico and all lines of insurance except life in the USVI. The Company has seven distribution branches in Puerto Rico and one in the USVI. The USVI branch was closed subsequent to the examination period. The branches offer service to all of the Company's customers, authorized representatives, general agents and producers. The distribution channels for MAPFRE PRAICO's products are through independent agents, regular agencies, bank agencies and brokers.

Direct business written by the Company increased \$50.6 million, or 20.5%, during the examination period. The Company's largest lines of business are Commercial Multi-Peril (Non-Liability), Allied Lines, Fire, Other Liability – Occurrence and Earthquake. These lines of business represent 61.3% of the Company's 2020 premiums.

During the examination period, the Commercial Multi-Peril (Non-Liability) line decreased from a high of \$94.5 million in 2018 to \$62.3 million at 2020. Allied Lines has seen a steady increase after a low of \$12.4 million in 2017 to a high of \$36.5 million for 2020. Fire experienced growth in four of the five years under examination and is at a high of \$28.7 million in 2020. The Other Liability – Occurrence business has seen minimal growth the past three years, and is strong

at \$28.2 million in 2020. Earthquake coverage dipped in 2017, but is at a solid level of \$27.1 million for 2020.

### **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the past five years through December 31, 2020.

<b>Year</b>	<b>Admitted Assets</b>	<b>Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Income</b>
2016	\$407,295,598	\$161,932,837	\$247,531,026	\$14,882,968
2017	494,806,248	127,855,356	213,851,475	(15,067,989)
2018	449,138,568	157,291,758	313,728,812	33,494,927
2019	466,053,501	171,840,914	306,572,036	18,282,288
2020	428,645,428	160,125,832	298,170,734	18,843,374

Policyholders' surplus decreased from \$162,482,296 as of December 31, 2015 to \$160,125,832 as of December 31, 2020. This decrease is attributed to the Company's use of cash and invested assets to pay losses related to catastrophic events during the period.

### **REINSURANCE**

#### **Assumed**

The Company assumes business from its affiliate, MAPFRE PANAM, through a 71.5% quota share reinsurance agreement. Total reinsurance premiums assumed for 2020 was \$31,980,000.

#### **Ceded**

MAPFRE PRAICO's primary reinsurer is an authorized affiliated Spanish company, MAPFRE RE Compañía de Reaseguros S.A. (MAPFRE Re), under multiple reinsurance agreements. MAPFRE Re accounts for 90.6% (\$154.6 million) of the total ceded premiums (\$170.7 million) and 90.4% (\$497.7 million) of the total net amount recoverable from reinsurers (\$550.4

million) as of December 31, 2020. The Company is party to Excess of Loss and Quota Share reinsurance agreements with MAPFRE Re.

The effective date of the 2020 excess of loss agreement was July 1, 2020 and was filed on November 9, 2020. Article 9 of Rule No. 72 of the Code requires insurers to submit reinsurance contracts for catastrophic insurance losses to OCI ninety (90) days from the effective date of protection. The excess of loss agreement is renewed annually and requires filing under this Rule but was not filed within ninety (90) days of the effective date for any year under examination. The Company was in violation of Article 9 of Rule No. 72 of the Code.

The Company ceded an immaterial amount of business to MAPFRE Life in 2020. MAPFRE PRAICO's other significant reinsurers as of December 31, 2020 are as follows:

- The Hartford Steam Boiler Inspection and Insurance Company provides a 100% ceded program for equipment breakdown coverage that accounts for \$1.2 million in ceded premiums.
- Endurance Assurance Corporation provides reinsurance for the Company's Surety business via a 50% quota share reinsurance agreement that accounts for \$927 thousand in ceded premiums.
- MAPFRE PRAICO ceded Flood business under the National Flood Insurance Program, which accounted for \$1.3 million in ceded premiums.

The Company obtained facultative reinsurance coverage through the following reinsurers as of December 31, 2020:

- Lloyd's Syndicate 1458 (Renaissance Re) – \$2.1 million in ceded premiums
- AIG Insurance Company – Puerto Rico – \$1.4 million in ceded premiums
- Fidelis Underwriting Ltd – \$1.2 million in ceded premiums
- Swiss Reinsurance America Corporation – \$923 thousand in ceded premiums
- Lloyd's Syndicate 5151 (Endurance) – \$749 thousand in ceded premiums
- Hannover Ruck SE – \$718 thousand in ceded premiums
- QBE Reinsurance Corporation – \$682 thousand in ceded premiums
- Lloyd's Syndicate 2003 (Catlin) – \$562 thousand in ceded premiums

- Lloyd's Syndicate 1084 (Chaucer) – \$510 thousand in ceded premiums

The reinsurance contracts reviewed complied with NAIC guidelines with respect to the insolvency clause, arbitration clause and transfer of risk guidelines as stated in Statements of Statutory Accounting Principles (SSAP) No. 62R – Property and Casualty Reinsurance, of the *NAIC Accounting Practices and Procedures Manual*.

### **ACCOUNTS AND RECORDS**

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified, and significant controls were documented and tested as deemed appropriate. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated. A review and assessment of the Company's information systems and the related control environment was performed. There were no reportable examination findings with respect to the Company's information technology systems and controls.

### **SUBSEQUENT EVENTS**

Effective May 1, 2021, Multiservicar, Inc. was merged with and into MAPFRE Solutions, Inc. with MAPFRE Solutions, Inc. being the surviving entity.

The Company's Board approved an amendment to its By-Laws, Article IV – Committees at the March 2022 meeting to change Investment and Executive Committees to discretionary committees. The amended By-Laws were submitted to OCI for approval on April 28, 2022. The OCI approved the amendment to the By-Laws on May 9, 2022.

Effective March 30, 2022, the Company and MAPFRE Life amended the Collaboration and Cost Sharing Agreement executed September 25, 2009 to define the services being provided by the Company and fees paid to the Company.

Effective June 7, 2022, the Company obtained an amendment to the custodial agreement with BNYM to include the notice of termination or withdrawal of 100% of the assets from the custodial account to the domiciliary commissioner and amend the names of the parties to the agreement.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the amended statutory financial statements filed by the Company with the OCI and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the work papers for each individual key activity.

## Assets

**December 31, 2020**

	<u>Assets</u>	<u>Assets Not Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$258,988,806		\$258,988,806
Common stocks	17,036,290		17,036,290
Properties occupied by the company	31,555,451		31,555,451
Properties held for the production of income	3,314,553		3,314,553
Cash, cash equivalents and short-term investments	<u>69,723,545</u>		<u>69,723,545</u>
Subtotal, cash and invested assets	\$380,618,645		\$380,618,645
Investment income due and accrued	1,542,280		1,542,280
Uncollected premiums and agents' balances in the course of collection	24,788,057	\$ 5,282,821	19,505,236
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,305,533		3,305,533
Amounts recoverable from reinsurers	8,735,898		8,735,898
Current federal income tax recoverable	3,514,920		3,514,920
Net deferred tax asset	5,334,273	707,717	4,626,556
Electronic data process equipment and software	867,599		867,599
Furniture and equipment, including health care delivery assets	2,563,831	2,563,831	
Receivables from parent, subsidiaries And affiliates	4,642,871	697,529	3,945,342
Aggregate write-ins for other than invested assets	<u>6,915,338</u>	<u>4,931,919</u>	<u>1,983,419</u>
Totals	<u>\$442,829,245</u>	<u>\$14,183,817</u>	<u>\$428,645,428</u>

## Liabilities, Surplus, and Other Funds

December 31, 2020

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$ 87,288,234		\$ 87,288,234
Reinsurance payable on paid losses and loss adjustment expense	887		887
Loss adjustment expenses	13,212,526		13,212,526
Commissions payable, contingent comm- ions and other similar charges	6,026,588		6,026,588
Other expenses	3,652,073		3,652,073
Unearned premiums	113,448,953		113,448,953
Advance premium	4,230,379		4,230,379
Ceded reinsurance premiums payable	15,585,822		15,585,822
Funds held by company under reinsurance	1,082,891		1,082,891
Amounts withheld or retained by company for account of others	1,042,100		1,042,100
Provision for reinsurance	451,458		451,458
Payable to parent, subsidiaries and affiliates	1,623,710		1,623,710
Aggregate write-ins for liabilities	<u>20,873,975</u>	<u>\$ 4,900,134</u>	<u>25,774,109</u>
Total liabilities	<u>\$268,519,596</u>	<u>\$ 4,900,134</u>	<u>\$273,419,730</u>
Common capital stock	\$ 5,000,000		\$ 5,000,000
Gross paid in and contributed surplus	65,000,000		65,000,000
Unassigned funds	<u>90,125,832</u>	<u>\$(4,900,134)</u>	<u>85,225,698</u>
Surplus as regards policyholders	\$160,125,832	<u>\$(4,900,134)</u>	<u>\$155,225,698</u>
Totals	<u>\$428,645,428</u>	<u>=====</u>	<u>\$428,645,428</u>

## Statement of Income

December 31, 2020

### Underwriting Income

Premiums earned	\$165,912,201
Losses incurred	61,191,383
Loss adjustment expenses incurred	21,633,902
Other underwriting expenses incurred	<u>69,020,555</u>
Total underwriting deductions	<u>\$151,845,840</u>
Net underwriting gain	<u>\$ 14,066,361</u>

### Investment Income

Net investment income earned	<u>\$ 5,061,542</u>
Net investment gain	<u>\$ 5,061,542</u>

### Other Income

Net gain from agents' or premium balances charged off	\$ (9,449)
Aggregate write-ins for miscellaneous income	<u>(6,017)</u>
Total other income	<u>\$ (15,466)</u>
Net income before federal income taxes	\$ 19,112,437
Federal income taxes incurred	<u>269,063</u>
Net income	<u>\$ 18,843,374</u>



### Capital and Surplus Account

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and surplus, beginning	\$171,840,914	\$157,291,758	\$127,855,356	\$161,932,837	\$162,482,297
Net income	\$ 18,843,374	\$ 18,282,288	\$ 33,494,927	\$ (15,067,989)	\$ 14,882,968
Change in net unrealized capital gains (losses)	(845,182)	59,409	(1,066,132)	431,794	1,120,633
Change in net deferred income tax	219,395	(1,584,867)	(9,695,056)	4,385,749	1,078,484
Change in nonadmitted assets	74,965	3,836,326	6,677,358	5,698,805	(2,200,275)
Change in provision for reinsurance	(395,458)	(44,000)	25,305	519,238	(431,270)
Dividends to stockholders	(1,500,000)	(6,000,000)			(15,000,000)
Reserve for catastrophe losses	<u>(33,012,310)</u>			<u>(30,045,079)</u>	
Net change for the year	<u>(\$16,615,216)</u>	<u>\$ 14,549,156</u>	<u>\$ 29,436,402</u>	<u>\$ (34,077,481)</u>	<u>\$ (549,460)</u>
Capital and surplus, ending	<u>\$155,225,698</u>	<u>\$171,840,914</u>	<u>\$157,291,758</u>	<u>\$127,855,356</u>	<u>\$161,932,837</u>

### Comparative Analysis of Changes in Surplus

Surplus as Regard Policyholders

December 31, 2020, Per Annual Statement

\$160,125,832

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS	\$428,645,428	\$428,645,428	
LIABILITIES	\$268,519,596	\$273,419,730	(\$4,900,134)
Net Change in Surplus			<u>\$ (4,900,134)</u>
Surplus as Regards Policyholders			
December 31, 2020, Per Examination			<u>\$155,225,698</u>

Since the previous examination, made as of December 31, 2015, the Company's assets increased by \$45,701,138, its liabilities increased by \$52,957,736, and its surplus decreased by \$7,256,598.

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Invested Assets

As of December 31, 2020, the Company's invested asset were distributed as follows:

	Amount	Percentage
Bonds	\$258,988,806	68.0%
Common Stocks	17,036,290	4.5%
Properties Occupied by the Company	31,555,451	8.3%
Properties Held for Production of Income	3,314,553	0.9%
Cash	43,667,747	11.5%
Cash Equivalents	10,159,638	2.7%
Short Term Investments	<u>15,896,160</u>	<u>4.1%</u>
Total	<u>\$380,618,645</u>	<u>100.0%</u>

The Company's bond portfolio consisted of NAIC 1 investment grade bonds with laddered maturities of one year or less (17.8%), one to five years (38.0%), five to ten years (41.8%) and over ten years (2.4%).

The Company and BNYM entered into a custodial agreement effective August 26, 2008. The agreement did not include the required clause for notification to the Company's domiciliary commissioner within three days in the event the assets were 100% withdrawn or if the agreement is terminated in accordance with the *NAIC Handbook*.

Effective June 7, 2022, the Company obtained an amendment to the custodial agreement with BNYM to include the notice of termination or withdrawal of 100% of the assets from the custodial account to the domiciliary commissioner and amend the names of the parties to the agreement.

### Claims Reserves

As of December 31, 2020, the Company reported losses of \$87,288,234, loss adjustment expenses (LAE) of \$13,212,526, and a reserve for minimum catastrophic retention of \$3,098,666. Christopher Morkunas, FCAS, MAAA, an employee of Commerce Insurance Company, has served as the Company's Appointed Actuary since 2018. Commerce Insurance Company is part of the

MAPFRE USA Group. Prior to 2018, another MAPFRE USA actuary served as the Company's Appointed Actuary. Reserves and loss adjustment expenses as reported were accepted for the examination. See also Aggregate Write-Ins for Liabilities.

### **Aggregate Write-Ins for Liabilities**

CC-2021-1984-EX and Article 8 of Rule No. 72 of the Code required insurers to establish a reserve in the amount of two percent (2%) of the Company's Hurricane Probable Maximum Loss (PML), gross of all reinsurance, and recognize the reserve liability in its 2020 Annual Statement. The Company's reserve liability was calculated to be \$7,998,800. The Company recorded a liability in the amount of \$3,098,666 in the 2020 Annual Statement. The unrecognized difference is \$4,900,134 and is an adjustment to the 2020 Annual Statement, for purposes of this report, as a decrease to surplus and increase to Minimum CAT Retention for aggregate write-ins for liabilities. This liability requirement was repealed for years ending 2021 and forward by Law 12-2022 to amend Article 25.030(6) of the Code; whereby, the reserve is reported as an aggregate write ins for special surplus funds.

## **SUMMARY OF RECOMMENDATIONS**

### **1. Compliance with Article 8 of Rule No. 72 of the Code**

The Company did not comply with CC-2021-1984-EX and Article 8 of Rule No. 72 of the Code, which required insurers to establish a reserve in the amount of two percent (2%) of the Company's Hurricane Probable Maximum Loss (PML) and recognize the reserve liability in its 2020 Annual Statement. An adjustment of \$4,900,134 was made to the 2020 Annual Statement, for purposes of this Report, as a decrease to surplus and increase to Minimum CAT Retention for aggregate write-ins for liabilities.: This liability requirement was repealed for years ending

2021 and forward by Law 12-2022 to amend Article 25.030(6) of the Code; whereby, the reserve is reported as an aggregate write ins for special surplus funds.

*It is recommended that the Company amend its 2020 and 2021 Annual Statements to accurately report the liability.*

2. Compliance with Article 9 of Rule No. 72 of the Code

The Company did not comply with Rule No. 72, Article 9 of the Code which requires insurers to submit reinsurance contracts for catastrophic insurance losses to OCI ninety (90) days from the effective date of protection.

*It is recommended that the Company submit reinsurance contracts for catastrophic losses to the OCI ninety (90) days from the effective date of protection.*

3. Compliance with By-Laws

The Company's By-Laws, Article IV, Section 1 states there shall be an Executive Committee and Section 3 states there shall be an Investments Committee. The Company did not have these committees as of December 31, 2020; therefore, the Company was not acting in accordance with its By-Laws as of the examination date.

During examination field work, the Company's Board of Directors (Board) approved an amendment to Article IV Committees of the By-Laws, which was submitted to the OCI for approval. The amendment established the Executive Committee and Investments Committee as discretionary committees. The amendment to the By-Laws was approved by the OCI on May 9, 2022.

4. Custodial Agreement Termination Notice Clause

The Company's custodial agreement with The Bank of New York Mellon, executed August 26, 2008, did not include language for the custodian providing written notification within three

business days of termination or withdrawal to the insurer's domiciliary commissioner if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn in accordance with the *NAIC Handbook*.

Effective June 7, 2022, the Company obtained an amendment to the custodial agreement with BNYM to include the notice of termination or withdrawal of 100% of the assets from the custodial account to the domiciliary commissioner.

## CONCLUSION

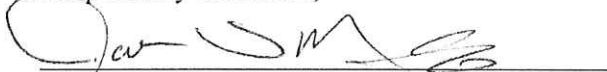
The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **MAPFRE PRAICO Insurance Company** as of December 31, 2020, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

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

In addition to the undersigned, Michael Nadeau, IT Manager, Steve Mahan, Actuarial Examiner, Robin Roberts, CFE, Karen Milster, CFE, David Habony, CFE, and Michelle Scaccia, all of EB, and Joanna Latham and Jenny Jeffers, IT Examiners of Jennan Enterprises, LLC engaged by EB, participated in this examination.

Rafael Ruffat Pastoriza, Examiner of the Office of the Commissioner of Insurance, participated in the compliance portion of the examination.

Respectfully submitted,



James Menck, CFE  
Examiner-in-Charge  
Eide Bailly LLP  
Representing the Office of the Commissioner of Insurance  
of Puerto Rico



María Morcelo, MBA APIR  
Special Aide II, Acting Chief Financial Examiner  
Office of the Commissioner of Insurance of Puerto Rico