



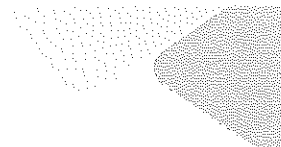
CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2022
CASE No. EX-2023-08

NAIC CODE 30590
REPORT DATE: MAY 29, 2024

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May 29, 2024

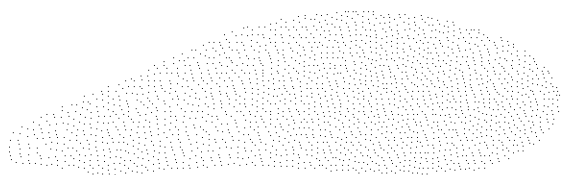
Honorable Alexander S. Adams Vega
Commissioner of Insurance
Commonwealth of Puerto Rico Office of the Commissioner of Insurance
World Plaza Building, 9th Floor
268 Muñoz Rivera Avenue
San Juan, Puerto Rico 00918

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Information Requirement Case Number EX-2023-08, dated February 9, 2023, a full-scope financial condition examination has been made of the records, affairs, financial condition, and management of the

**CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
350 Carlos Chardon Avenue Suite 1101
San Juan, Puerto Rico 00918**

hereinafter referred to as “Company” or “CAPIC,” incorporated under the laws of the Commonwealth of Puerto Rico, as of September 8, 1992. The examination was conducted remotely. The report on this examination is respectfully submitted.



SCOPE OF EXAMINATION

This multi-state examination of the Company was performed in coordination with the examination of the Assurant, Inc. Group (Assurant), with Florida designated as the lead state, by examiners from Noble Consulting Services, Inc., (Noble) representing the Office of the Commissioner of Insurance of Puerto Rico (OCI), and financial examiners from the OCI. The Company is licensed as an insurer in Puerto Rico and the United States Virgin Islands (USVI). The last examination covered the period of January 1, 2015, through December 31, 2017. This examination covered the period of January 1, 2018 through December 31, 2022, 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 Government 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, PricewaterhouseCoopers, LLP (PwC), and Assurant's Internal Audit Department. 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.

The examination of the Company was conducted concurrently with the examinations of the other insurance company members of the Assurant Group, including American Bankers Life Assurance Company of Florida (ABLAC), American Bankers Insurance Company of Florida (ABIC), American Standard Insurance Company (ASIC), Caribbean American Life Assurance Company (CALAC), Reliable Lloyds Insurance Company (RLIC), Standard Guaranty Insurance Company (SGIC), Union Security Life Insurance Company of New York (USLIC), Voyager Indemnity Insurance Company (VIIC), and Virginia Surety Company, Inc. (VSC).

SUMMARY OF SIGNIFICANT FINDINGS

CURRENT EXAMINATION FINDINGS

The following is a summary of material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

1. Article 7 of Rule No. 76 of the Regulations of the Code

The Company failed to file its Electronic Storage System Certification of Independent Auditor's Report in accordance with the requirements of Rule No. 76 of the Regulations of the Code which requires the certifications to be filed every three years.

2. Article 7.021(3) of the Code

The Company failed to file its Tax Exemption Form for 2018 on or before January 31, 2018, in accordance with the requirements of Article 7.021(3) of the Code which requires the Tax Exemption Form to be filed on or before January 31 of each year.

3. Rule 72, Articles 6(A) and 9(A) of the Regulations of the Code

The Company failed to purchase adequate reinsurance to cover its catastrophic exposure for years ended December 31, 2021 and December 31, 2022 in accordance with Rule 72, Articles 6(A) and 9(A) of the Regulations of the Code which requires all insurers to acquire and maintain reinsurance protection to cover Catastrophe Exposure not covered by its Catastrophe Reserve.

4. Article 38.160 of the Code and Circular Letter No. E-05-1651-2002

The Company failed to file its semiannual reports within 45 days after the end of the semesters ending in June for years 2018, 2019, 2020 and 2021 in accordance with the requirements to report amounts recovered pursuant to Article 38.160 of the Code.

5. Article 5.100(d) of the Code and Section 2 of Rule No. 96 of the Regulations of the Code

The Company's 2022 Actuarial Report was not consistent with the documentation and disclosure requirements of Actuarial Standard of Practice (ASOP) No. 41 nor the NAIC *Annual Statement Instructions*. This is a repeat recommendation from the prior examination.

PRIOR EXAMINATION FINDINGS

1. Article 5.100(d) of the Code and Section 2 of Rule No. 96 of the Regulations of the Code

The Company's 2017 Actuarial Report was not consistent with the documentation and disclosure requirements of Actuarial Standard of Practice (ASOP) No. 41 and the NAIC *Annual Statement Instructions*.

The company did not fully comply with this recommendation.

2. Rule No. 72 of the Regulations of the Code – Submission of Reinsurance Contracts

The Company failed to comply with Section 9(B) of Rule No. 72 of the Regulations of the Code by failing to submit catastrophic reinsurance contracts to the OCI in 2016 and 2017 by the required due dates.

The company complied with this recommendation.

COMPANY HISTORY

CAPIC was incorporated in Puerto Rico on September 8, 1992 and commenced business on September 8, 1992. The Company is 74.3% owned by Assurant Solutions Holding Puerto Rico, Inc. (ASHPRI) and 25.7% owned by CALAC, an affiliated insurance company domiciled in Puerto Rico.

The Company is authorized to write agricultural, casualty, disability, marine and transportation, property, surety and vehicle insurance in Puerto Rico and the U.S. Virgin Islands (USVI).

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company paid dividends of \$18,893,754, \$7 million and \$7.5 million in 2022, 2019 and 2018, respectively, to its shareholders.

CAPITAL STOCK

The Company has 5,000,000 shares of \$5 par value Class A non-assessable common stock, 5,000,000 shares of \$5 par value non-assessable Class B common stock and 500,000 shares of no par value preferred stock authorized by its Articles of Incorporation. The Company had 910,010 shares of common stock issued and outstanding as of December 31, 2022. The Company had no shares of preferred stock issued or outstanding. As of December 31, 2022, ASHPRI and CALAC owned 676,336 and 233,639 shares, respectively. The remaining 35 shares are owned by members of the CAPIC Board of Directors in compliance with Article 29.150(1)(a) of the Code.

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 Articles of Incorporation during the examination period.

BY-LAWS

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

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 SYSTEM

The Company is a member of an Insurance Holding Company System, as defined under the Insurance Laws of Puerto Rico. Assurant, Inc., a Delaware corporation that serves as a holding company for its subsidiaries and publicly traded on the New York Stock Exchange under the ticker symbol AIZ, is the ultimate controlling parent. The Vanguard Group, Inc., T. Rowe Price Investment Management, Inc. and BlackRock, Inc. own 13.3%, 10.8% and 10.7%, respectively, of Assurant, Inc. as of December 31, 2022. Each of the aforementioned owners filed disclaimers of control and/or exemption filings with the Puerto Rico Office of the Commissioner of Insurance.

The Company is 74.3% owned by ASHPRI, an intermediate holding company incorporated in the Commonwealth of Puerto Rico, and 25.7% owned by CALAC, an insurance company domiciled in the Commonwealth of Puerto Rico as of December 31, 2022. ASHPRI and CALAC are each indirectly owned by Assurant, Inc. ASHPRI is comprised of two insurance companies domiciled in Puerto Rico and that operate in Puerto Rico and the USVI.

The following is a simplified organizational chart that reflects the identities and interrelationships between the Company, Assurant and other affiliates as of December 31, 2022:

<u>Company</u>	<u>Domicile</u>	<u>% owned</u>
Assurant, Inc.	Delaware	
Interfinancial, Inc.	Georgia	100%
American Bankers Insurance Group, Inc.	Florida	100%
ABI International	Cayman Islands	100%
Solutions Holding	Cayman Islands	100%
Protection Holding Cayman	Cayman Islands	27.6%
Assurant International Division Limited	Malta	99%
Assurant Services of Puerto Rico, Inc.	Puerto Rico	100%
Assurant Solutions Holding Puerto Rico, Inc.	Puerto Rico	100%
Caribbean American Property Insurance Company	Puerto Rico	74.33%
Caribbean American Life Assurance Company	Puerto Rico	100%
Caribbean American Property Insurance Company	Puerto Rico	25.67%
Solutions Cayman	Cayman Islands	70%
Assurant International Division Limited	Cayman Islands	1%
American Bankers Insurance Company of Florida	Florida	100%
American Bankers General Agency, Inc.	Texas	100%
Reliable Lloyds Insurance Company ⁽¹⁾	Texas	100%
American Bankers Life Assurance Company of Florida	Florida	100%
American Security Insurance Company	Delaware	100%
Standard Guaranty Insurance Company	Delaware	100%
Voyager Group, Inc.	Florida	100%
Voyager Indemnity Insurance Company	Georgia	100%
Union Security Life Insurance Company of New York	New York	100%
Insureco, Inc.	California	100%
The Warranty Group, Inc.	Delaware	100%
TWG Holdings, Inc.	Delaware	100%
Virginia Surety Company, Inc.	Illinois	100%

⁽¹⁾Controlled by American Bankers General Agency, Inc. through a management agreement.

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.

Article 44.060(c)(3) of the Code requires that one-third of the directors of insurers be natural persons who are not officers or employees of the insurer or of an entity that controls the

insurer. The Company was in compliance with Article 44.060(c)(3) of the Code as of December 31, 2022.

The Company's By-Laws, Article II, Section 1 states the corporate powers of the corporation shall be exercised by a Board of Directors in number not less or more than as authorized by the Charter of the corporation as from time to time amended. The number of Directors of the corporation shall be set by resolution of the common stockholders at the Annual Meeting of Stockholders each year immediately prior to the nomination and election of Directors for the ensuing year. The Company's Articles of Incorporation provide that the business of the corporation shall be conducted by a President; one or more Vice-Presidents, the number to be set from time to time by the Board of Directors; a Treasurer; and such other officers and the Board of Directors may from time to time, by appropriate resolution, designate; and a Board of Directors of not less than five nor more than nineteen persons, as may be set by the By-Laws of this corporation. Each director shall be elected by the stockholders and serve for the term of one year. The Company's Board of Directors was elected in accordance with the provisions of its By-Laws and Articles of Incorporation 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:

<u>Name and Location</u>	<u>Principal Occupation</u>
Federico Grosso - Chairman San Juan, Puerto Rico	President Assurant
Iván C. López Atlanta, Georgia	Chief Executive Officer (CEO) López Consulting
Pedro G. Andrés Guaynabo, Puerto Rico	President and CEO Neptuno Networks
José D. Ramírez Palmetto Bay, Florida	AVP LATAM Chief Financial Officer Assurant

Luis F. Rivera
Palmetto Bay, Florida

Vice President, Finance
Assurant

Miguel A. Soto
Guaynabo, Puerto Rico

President
Center for a New Economy

Isabel M. Dávila
San Juan, Puerto Rico

Vice President, International Operations
Assurant

OFFICERS

The Company's By-Laws, Article III, Section 1 states the Board of Directors shall elect from its members a President of the corporation, a Chairman of the Board, a Vice President, a Secretary and a Treasurer. Officers are elected by the Board on an annual basis. The Board may also elect a Vice Chairman of the Board of Directors and one or more other agents as may be deemed proper. Any two or more offices may be held by the same person; provided, however, that the office of President and Secretary or Assistant Secretary may not be held by the same person. Officers elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Federico Grosso	President, Puerto Rico
Isabel M. Dávila	Vice President, International Operations
Luis Rivera	Vice President, Finance Housing CFO
Teonna Nicole Icen	Vice President, AVP Tax
Eduardo Arthur	Vice President, SVP Home Solutions
Jeannie A. Cruz	Secretary, AVP Global Legal
Yadira R Cintrón	Assistant Secretary, VP Managing Attorney
Rosario Rivera Colón	Assistant Secretary, Paralegal
José D. Ramírez	Treasurer, AVP LATAM CFO
Vincenzo Padula	Assistant Treasurer, VP Treasury Management
Juan C. Del Barrio	Assistant Treasurer, VP Finance
Eric Kurzrok	Assistant Treasurer, VP Actuary Rating and Capital
Ezequiel Garibotti	Assistant Treasurer, VP Treasury Management
Jeffrey A. Lamy	Vice President, Sr. Actuary, Appointed Actuary

As of December 31, 2022, the Company was operating in accordance with its By-laws and Article 29.210 of the Code that states the insurer's officers shall consist of a president, vice president, treasurer, and secretary and all officers shall be elected by the board of directors.

COMMITTEES

The Company's By-Laws provide that the Board shall designate an Executive Committee to consist of not less than three Directors and by resolution designate the Chairman of said Committee. The Board may designate one or more committees composed of more than two members. An Executive Committee and Chairman were designated for all years under examination.

As of December 31, 2022, the Investment Committee and the Audit Committee assisted the Board of Directors in oversight for the Company.

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 for all years 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 as of December 31, 2022:

Cost Allocation/Cost Sharing Agreements

Multicedent Catastrophe Reinsurance Allocation Agreement

This agreement, effective January 1, 2008, between ABIC, ASIC, RLIC, SGIC, and ABIC as successor in interest to Voyager Property and Casualty Insurance Company, VIIC, and Reliable Insurance Company and CAPIC, as cedents under various reinsurance agreements relating to hazard and credit property related catastrophic risks collectively referred to as Catastrophe Reinsurance Agreements, provides for the allocation of the reinsurance premium based on estimated losses in respect to each reinsurance layer set forth in the Multicedent Catastrophe Reinsurance Agreements.

Affiliate Services Agreement

This agreement, effective January 1, 2010, among ASIC, SGIC, CALAC, CAPIC, United Service Protection, Inc., United Service Protection Corp., Federal Warranty Service Corp., Sureway, Inc., Assurant Service Protection, Inc., and Assurant Services of Puerto Rico, Inc., provides for the payments for vendor services, collection of premiums and claims payment. Affiliates agree to cooperate in the performance of certain services and to share in the day-to-day use of certain property, equipment and facilities of the affiliates in Atlanta, Georgia, Miami, Florida, San Juan, Puerto Rico and other locations. Pursuant to the terms of the agreement, each member agrees to reimburse other members for services and facilities provided. Intercompany balances are settled within thirty days following month-end if the net payable is greater than five

thousand dollars or within thirty days following quarter-end if the net payable is less than five thousand dollars.

International Affiliate Services Agreement

This agreement, effective January 1, 2012, and subsequently amended effective January 1, 2014, October 31, 2014 and October 1, 2015, between American Bankers Insurance Group, Inc., CAPIC, CALAC and various other international subsidiaries of Assurant, Inc. provides for the performance of certain administrative and operational services for each other. Entities agree to cooperate in the performance of certain services and to share in the use of day-to-day operations of certain property, equipment and facilities of group members.

Inter-Company Services and Payment Intermediary Agreement

This agreement, effective July 1, 2018, is between CAPIC and Insureco Agency and Insurance Services, Inc., whereby each party agrees to reimburse the other party for certain actual expenses paid on behalf of or for the benefit of the other. Intercompany balances are settled within thirty days following month-end if the net payable is greater than five thousand dollars or within thirty days following quarter-end if the net amount of payable is less than five thousand dollars.

Intercompany Reinsurance Agreements

Property and Casualty Reinsurance Contract

This agreement, effective October 1, 2005, between CAPIC and ABIC, whereby CAPIC cedes one hundred percent of the property, involuntary unemployment, and leave of absence insurance policies and certificates written through specific producers to ABIC in exchange for ceding commission.

Non-Catastrophe Losses Property Quota Share Reinsurance Contract

This agreement, effective January 1, 2011, and subsequently amended January 1, 2012, December 1, 2014, January 1, 2015, and January 1, 2020, between CAPIC and ABIC, whereby CAPIC cedes non-catastrophe dwelling policy insurance risk losses to ABIC in exchange for ceding commission.

Excess of Loss Catastrophe Losses Reinsurance Contract

This agreement, effective January 1, 2011, and subsequently amended January 1, 2012, December 1, 2014, January 1, 2015, January 1, 2016, January 1, 2020, December 15, 2020, and January 1, 2021, between CAPIC and ABIC, whereby CAPIC cedes a percentage of the catastrophe losses under dwelling policies, contracts and binders of insurance issued or renewed by or for the benefit of specified entities and classified by CAPIC as dwelling policies under the fire, allied lines and earthquake lines of business in exchange for ceding commission.

Property and Casualty Reinsurance Contract

This agreement effective January 1, 2011, between CAPIC and ABIC whereby CAPIC cedes one hundred percent of the credit involuntary unemployment insurance policies and certificates written by specific producers to ABIC in exchange for ceding commission.

Catastrophe and Non-Catastrophe Losses Property Quota Share Reinsurance Contract

This agreement effective May 1, 2019, between CAPIC and ABIC, whereby CAPIC cedes one-hundred percent of gross liability for catastrophe and non-catastrophe losses under Homeowner's policies, contracts and binders of insurance issued or renewed and classified by CAPIC as fire, allied lines, earthquake and homeowner's multiple peril business policies issued and written by specified producer in exchange for ceding commission.

Property and Casualty Reinsurance Contract

This agreement effective January 1, 2021, between CAPIC and ABIC, whereby CAPIC cedes one-hundred percent of gross liability for certain property and casualty insurance policies and certificates written by a specific producer to ABIC in exchange for ceding commission.

Catastrophic Excess of Loss Reinsurance Contract

This agreement, effective June 1, 2022 to June 1, 2023, is between CAPIC and ABIC, whereby CAPIC cedes net losses in excess of \$1 million to ABIC in exchange for ceding commission. ABIC is not liable for more than \$3 million in each and every loss occurrence nor for more than \$9 million in aggregate for all loss occurrences during the contract period. The agreement was renewed for the period June 1, 2023 to June 1, 2024 with no changes in coverage.

TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write agricultural, casualty, disability, marine and transportation, property, surety and vehicle insurance in Puerto Rico and the USVI.

The Company operates in the Global Housing segment of the Assurant Group, offering various property and casualty lines of business, the most significant of which are dwelling, credit insurance programs (unemployment and property), and mobile device coverage. The Company's products are marketed through financial institutions, retailers, mobile carriers, and other entities which provide business to business coupled with business to consumer products as a regular part of their business.

Approximately 99.5% of the Company's premiums for 2022 is attributed to business written in Puerto Rico. The largest lines of business, representing approximately 95.6% of direct premiums written for 2022, are Inland Marine, Earthquake, Allied Lines, Credit, and Other Liability - Occurrence.

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, 2022.

Year	Admitted Assets	Surplus	Gross Premiums Written	Net Income
2018	\$45,162,199	\$21,847,985	\$54,975,974	\$6,205,402
2019	40,074,538	20,389,155	58,721,466	5,444,193
2020	47,915,027	23,725,999	51,809,001	6,178,214
2021	54,528,531	34,629,289	48,784,872	8,210,255
2022	38,221,347	20,748,057	45,465,134	4,958,260

Since the previous examination, conducted as of December 31, 2017, the Company's policyholder surplus increased by \$199,372 which is primarily attributed to dividends paid to stockholders in 2018, 2019 and 2022.

Gross premiums written declined steadily during the examination period while the net income had significant fluctuations primarily attributed to the increased expenses partially offset with net investment gains.

REINSURANCE

ASSUMED

The Company assumed \$185,553 in premiums from Seguros Universal S.A., a non-affiliated company, as of December 31, 2022 pursuant to a reinsurance agreement that was terminated as of October 30, 2021. CAPIC assumes one hundred percent of the risk under the Device Protection Program that is in runoff.

CEDED

The Company maintained excess of loss and quota share reinsurance for all years under examination with affiliated and unaffiliated authorized reinsurers. The Company ceded approximately \$12,203,000, approximately 81%, of the \$15,081,000 total ceded premiums to an

affiliate in 2022. The Company was in compliance with Article 46.030(3) of the Code that states no domestic insurer shall reinsure seventy-five percent or more of all its direct risks in any class of insurance, without first obtaining written authorization from the Commissioner.

The Company entered into various quota share and excess of loss reinsurance agreements with affiliate, ABIC, during the period under examination as discussed above at Intercompany Agreements.

The reinsurance contracts reviewed complied with NAIC guidelines with respect to the insolvency clause and Statement of Statutory Accounting Principles No. 62R – Property and Casualty Reinsurance, with respect to transfer of risk.

The Company reported \$8,804,610 for Catastrophe Fund Reserve at December 31, 2022 as a special surplus fund in accordance with Article 25.030 of the Code that requires domestic insurers underwriting catastrophic insurance in Puerto Rico to establish and accrue a reserve for all policies that provide catastrophic insurance coverage.

The Company failed to purchase adequate reinsurance to cover its catastrophic exposure for years ended December 31, 2021 and December 31, 2022 in accordance with Rule 72, Articles 6(A) and 9(A) of the Regulations of the Code that provide all insurers shall acquire reinsurance to cover catastrophic exposure in excess of minimum retention.

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.

A review of the Company's corporate meeting minutes for the period under examination was performed. The review evidenced the Company failed to accurately report in the minutes officers elected for 2022.

SUBSEQUENT EVENTS

The Company's Board of Directors declared, authorized and approved dividends totaling \$5,000,000 to its shareholders, ASHPRI and CALAC, during December 2023.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the OCI and present the financial condition of the Company for the period ending December 31, 2022. 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.

Caribbean American Property Insurance Company
Assets
December 31, 2022

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 12,460,769		\$ 12,460,769
Cash, cash equivalents and short-term investments	<u>14,428,373</u>	_____	<u>14,428,373</u>
Subtotal, cash and invested assets	\$ 26,889,142		\$ 26,889,142
Investment income due and accrued	95,996		95,996
Uncollected premiums and agents' balances in the course of collection	6,083,829	\$ 37,719	6,046,110
Amounts recoverable from reinsurers	994,406		994,406
Other amounts receivable under reinsurance contracts	534,291		534,291
Current federal and foreign income tax recoverable and interest thereon	1,846,653		1,846,653
Furniture and equipment, including health care delivery assets	36		36
Receivables from parent, subsidiaries and affiliates	1,305,065		1,305,065
Health care and other amounts receivable	903		903
Aggregate write-ins for other than invested assets:			
Miscellaneous Accounts Receivable	<u>508,745</u>	_____	<u>508,745</u>
Totals	<u>\$ 38,259,066</u>	<u>\$ 37,719</u>	<u>\$ 38,221,347</u>

Caribbean American Property Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2022

Losses	\$ 2,678,058
Loss adjustment expenses	15,290
Commissions payable, contingent commissions and other similar charges	455,400
Other expenses (excluding taxes, licenses and fees)	860,044
Taxes, licenses and fees (excluding federal and foreign income taxes)	706,317
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$6,373,388)	7,069,269
Ceded reinsurance premiums payable	1,276,821
Funds held by company under reinsurance treaties	2,767,883
Amounts withheld or retained by company for account of others	532,203
Payable to parent, subsidiaries and affiliates	283,305
Aggregate write-ins for liabilities:	
Other Payable	<u>828,700</u>
Total liabilities	<u>\$ 17,473,290</u>
Aggregate write-ins for special surplus funds:	
Catastrophe fund reserve	\$ 8,804,610
Common capital stock	4,549,975
Gross paid in and contributed surplus	2,880,565
Unassigned funds	4,512,882
Less treasury stock, at cost:	
Shares common	<u>(25)</u>
Surplus as regards policyholders, December 31	<u>\$ 20,748,057</u>
Total liabilities, capital and surplus	<u>\$ 38,221,347</u>

Caribbean American Property Insurance Company
Statement of Income
December 31, 2022

Underwriting Income	
Premiums earned	\$ 30,925,962
Deductions:	
Losses incurred	\$ 14,032,106
Loss adjustment expenses incurred	1,919,315
Other underwriting expenses incurred	6,905,335
Total underwriting deductions	<u>22,853,756</u>
Net underwriting gain	\$ 8,072,206
Investment income	
Net investment income earned	592,613
Net realized capital (losses)	<u>(1,468,348)</u>
Net investment (loss)	\$ (875,735)
Other income	<u>624,559</u>
Net loss from agents' or premium balances charged off	\$ (216)
Aggregate write-ins for miscellaneous income	<u>420,147</u>
Total other income	419,931
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes	7,616,402
Federal and foreign income taxes incurred	<u>2,658,142</u>
Net income	<u>\$ 4,958,260</u>

**Caribbean American Property Insurance Company
Capital and Surplus Account**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Surplus as regards policyholders, December 31 prior year	\$ 34,629,289	\$ 23,725,999	\$ 20,389,155	\$ 21,847,985	\$ 20,548,685
Net income	\$ 4,958,260	\$ 8,210,255	\$ 6,178,214	\$ 5,444,193	\$ 6,205,402
Change in net deferred income tax	(1,828)	(4,360)	(155,283)	(4,945)	(8,088)
Change in nonadmitted assets	56,090	(76,775)	88,083	101,922	175,460
Dividends to stockholders	(18,893,754)			(7,000,000)	(7,500,000)
Aggregate write-ins for gains or (losses) in surplus		<u>2,774,170</u>	<u>(2,774,170)</u>		<u>2,426,526</u>
Change in surplus as regards Policyholders for the year	<u>\$(13,881,232)</u>	<u>\$ 10,903,290</u>	<u>\$ 3,336,844</u>	<u>\$ (1,458,830)</u>	<u>\$ 1,299,300</u>
Capital and surplus, ending	<u>\$ 20,748,057</u>	<u>\$ 34,629,289</u>	<u>\$ 23,725,999</u>	<u>\$ 20,389,155</u>	<u>\$ 21,847,985</u>

Since the previous examination, made as of December 31, 2017, the Company's assets decreased by \$21,166,213, its liabilities decreased by \$21,365,585, and its surplus increased by \$199,372.

COMMENTS ON FINANCIAL STATEMENT ITEMS

INVESTED ASSETS

As of December 31, 2022, the Company's invested assets were distributed as follows:

	<u>Amount</u>	<u>Percentage</u>
Bonds	\$ 12,460,769	46.3%
Cash	5,695,093	21.2%
Cash Equivalents	284,003	1.1%
Short-term investments	<u>8,449,277</u>	<u>31.4%</u>
Total	<u>\$ 26,889,142</u>	<u>100.0%</u>

The Company's bond portfolio consisted of NAIC 1 and NAIC 2 investment grade bonds with laddered maturities of one year or less (40.4%), one to five years (31.5%), and five to ten years (28.1%).

The Company and Banco Popular de Puerto Rico entered into a custodial agreement effective September 23, 1992, and subsequently amended September 1, 2011. The agreement terms comply with the *NAIC Handbook*.

RESERVES

As of December 31, 2022, the Company reported net reserves for losses and loss adjustment expenses of \$2,678,058 and \$15,290, respectively, direct and assumed reserves for losses and loss adjustment expenses of \$9,562,000 and \$971,000, respectively. The Company also reported premium reserves for long duration contracts in the amounts of \$1,004,572 and \$946,117, direct and assumed, and net reserves, respectively.

Jeffrey A. Lamy, ACAS, MAAA, an employee of Assurant, Inc., has served as the Company's Appointed Actuary and provided a Statement of Actuarial Opinion (Opinion) for all years in the examination period. As of December 31, 2022, Mr. Lamy issued an Opinion stating that loss and loss adjustment expense (LAE) reserve amounts “make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements”.

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the Department retained the services of Noble to perform a risk-focused review of the Company's reserving and pricing activities. Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company's carried loss and LAE reserve amounts are reasonably stated as of December 31, 2022.

SUMMARY OF RECOMMENDATIONS

1. Article 7 of Rule No. 76 of the Regulations of the Insurance Code of Puerto Rico

The Company failed to file its Electronic Storage System Certification of Independent Auditor's Report in accordance with the requirements of Rule No. 76 of the Regulations of the Code which requires the certifications to be filed every three years.

It is recommended that the Company comply with Article 7 of the Regulations of the Insurance Code of Puerto Rico by timely filing the certification of the electronic storage system by a Certified Information Systems Auditor.

2. Article 7.021(3) of the Code

The Company failed to file its Tax Exemption Form for 2018 on or before January 31, 2018, in accordance with the requirements of Article 7.021(3) of the Code which requires the Tax Exemption Form to be filed on or before January 31 of each year.

It is recommended that the Company file the Tax Exemption Form on or before January 31 of each year in accordance with the provisions on Article 7.021(3) of the Insurance Code of Puerto Rico.

3. Rule 72, Articles 6(A) and 9(A) of the Regulations of the Code

The Company failed to purchase and maintain reinsurance protection to cover its catastrophic exposure for years 2021 and 2022 in accordance with Article 6(A) Protection of Catastrophe of Exposure and Article 9(A) Purchase of Reinsurance to Cover Catastrophe of Rule 72 of the Regulations of the Code which requires all insurers to acquire and maintain reinsurance protection to cover Catastrophe Exposure not covered by its Catastrophe Reserve.

It is recommended that the Company develop and implement procedures to ensure adequate reinsurance to cover catastrophic exposure is purchased in accordance with Articles 6(A) and 9(A) of Rule 72 of the Regulations of the Code.

4. Circular Letter No. E-05-1651-2002

The Company failed to file its semiannual reports within 45 days after the end of the semesters ending in June for years 2018, 2019, 2020 and 2021 in accordance with the requirements to report amounts recovered pursuant to Article 38.160 of the Code.

It is recommended that the Company timely file its semiannual Report of Amounts Recovered on Assessments paid to the Puerto Rico and Casualty Insurance Guaranty Association pursuant to Article 38.160 of the Code with the Commissioner of Insurance in accordance with Circular Letter No. E-05-1651-2002.

5. Article 5.100(d) of the Code and Section 2 of Rule No. 96 of the Regulations of the Code

The Company's 2022 Actuarial Report failed to comply with the documentation and disclosure requirements of Actuarial Standard of Practice (ASOP) No. 41 and the NAIC *Annual Statement Instructions*.

It is recommended that the Company ensure its Actuarial Report is prepared in compliance with the Actuarial Standard of Practice (ASOP) No. 41 and the NAIC Annual Statement Instructions.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Caribbean American Property Insurance Company** as of December 31, 2022, 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, James Menck, CFE, Exam Manager and Melissa Greiner, Actuarial Examiner, all of Noble, and Solomon Frazier, FSA, FCAS, MAAA and Michael Starke, FCAS, MAAA, Consulting Actuaries affiliated with Taylor Walker Consulting, LLC, participated in this examination.

Yessica Galarza, Financial Examiner of the Office of the Commissioner of Insurance, participated in the compliance portion of the examination.

Respectfully submitted,



Robin Roberts, CFE
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the Office of the Commissioner of Insurance
of Puerto Rico



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