

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE



USIC LIFE INSURANCE COMPANY

Report on the Examination of the Insurer

Period of Examination January 1, 2009 to December 31, 2013

Case No. EX-2014-09

AMENDED

Vanessa Pellot-Tirado
Examiner

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Commonwealth of Puerto Rico
Office of the Commissioner of Insurance

March 19, 2015

Ángela Weyne-Roig
Commissioner of Insurance
Office of the Commissioner of Insurance

Dear Commissioner:

Pursuant to the provisions of the Puerto Rico Insurance Code, the Regulations of the Code, and Investigation Order Number EX-2014-09 dated September 3, 2014, a regular examination was made of:

USIC Life Insurance Company
Urb. Caparra Hills Ind Park, B-7 Tabonuco
Suite 1201 Guaynabo, PR 00968-3003

hereinafter referred to as "the Insurer."

SCOPE OF EXAMINATION

This examination covered the period between January 1, 2009 and December 31, 2013, and all subsequent transactions that in the judgment of the examiner were relevant.

An examination was made of the assets and liabilities as shown in the Amended Annual Report as of December 31, 2013, as well as of the disbursements made by the Insurer, and the procedures indicated in the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC) were applied. Compliance with the provisions of the Puerto Rico Insurance Code, the

Regulations of the Code, and Ruling and Circular Letters issued by the Commissioner of Insurance was also reviewed.

BACKGROUND

The Insurer was incorporated on July 30, 2002 at the Puerto Rico Department of State as a for-profit corporation. The Insurer originated from the corporate restructuring of the United Surety & Indemnity Company. The Insurer was authorized by the Office of the Commissioner of Insurance, hereinafter "this Office" on July 12, 2005, to transact life insurance.

After being authorized, on September 13, 2005, the insurance requested an amendment to the certificate of authority to include disability insurance. On June 6, 2006, this Office mended the certificate of authority, as had been requested.

The Insurer initiated operations on May 1, 2006, with paid-in capital of \$1,000,000, divided into 100,000 common shares, with a par value of \$10.

The Insurer is controlled 100% by USIC Group, Inc., which after April 15, 2014 is to be known as "MRM Group, Inc."

The stock certificate maintained by the insurer shows its affiliate United Surety & Indemnity Company as part of the certificate, both of which are authorized under the provisions of the Puerto Rico Insurance Code.

ADMINISTRATION AND CONTROL

SHAREHOLDERS

As part of the examination, the shareholder records kept by the Insurer were reviewed. As of December 31, 2013, the paid-in capital of the Insurer was \$2,500,000, distributed in 250,000 shares with a par value of \$10, held by the following shareholders:

Shareholders	Number of Shares	Percent Represented	Paid-in capital
USIC Group, Inc.	249,992	99.9968%	\$2,499,920
María G. Blanes	1	0.0004%	10
Héctor Saldaña-Egozcue	1	0.0004%	10
Frederick Millán-Benítez	1	0.0004%	10
Duhamel Iglesias-Cacho	1	0.0004%	10
Carlos R. Irizarry-Lozada	1	0.0004%	10
Carlos González-Inclán	1	0.0004%	10
María de Lourdes Blanes-González	1	0.0004%	10
Rafael Blanes-González	1	0.0004%	10
Total	250,000	100.00%	\$2,500,000

For the period that was examined the shareholder records did not indicate the addresses of the assignor and assignee of the shares. The Insurer failed to comply with Section 29.280(1) of the Puerto Rico Insurance Code. Subsequently, during our procedures, the Insurer corrected this issue.

During the examination a list of shareholders was requested for all of the years that were examined to verify compliance with Ruling Letter No. 2009-104-AF dated September 22, 2009. This Letter requires that on or before March 31 of every year all insurers shall file a list of shareholders as of December 31 of the previous year, along with the number of shares held by each and the percentage that that number is of the total of the outstanding shares. The Insurer complied with the requisites of the Ruling Letter, with regard to filing the list of shareholders for the years that were examined.

BOARD OF DIRECTORS

The affairs of the Insurer were managed by a Board of Directors, which as of December 31, 2013 was constituted by the followings members:

Name	Position
María González-Inclán	Chair
Carlos González-Inclán	Director
María de Lourdes Blanes-González	Director
Frederick Millán-Benítez	Director
Rafael Blanes-González	Secretary
Carlos R. Irizarry-Lozada	Treasurer
Duhamel Iglesias-Cacho	Director

Section 2.1 of Article II, of the By-laws of the Insurer, establishes that the Board of Directors of the Insurer will be constituted by five (5) or more persons, who are to be elected by the Shareholders.

Section 4.4 of Article IV of the By-laws of the Insurer provides that in the absence of the Chair of the Board and the Vice Chair of the Board, the president of the Insurer may chair all of meeting of the board of directors and shareholders where they are present; that the president will be the highest executive officer and will generally oversee the affairs, as well as performing all of the functions that are inherent to the position of president of a corporation, and any other functions witch from time to time may be assigned by the Board of Directors or as provided by law.

As established in the by-laws, the Board of Directors will meet periodically during the year, or from time to time, as may be determined by the Board of Directors. The Board of Directors will also hold special meetings that may be called by the President or the

Vice President of the Insurer, or the Chair or the Vice Chair of the Board of Directors, as well as otherwise by two or more members of the Board of Directors.

For the years that were examined, the election of the Board of Directors of the Insurer complied with the provisions of Sections 29.150 and 29.160 of the Puerto Rico Insurance Code, and the Regulations of the Insurer.

OFFICERS

Section 29.210(1) of the Puerto Rico Insurance Code provides, among other things, that the officers of the insurer will consist of a president, a vice president, a treasurer, a secretary, and other officers as provided in the by-laws. In addition, Section 4.1 of Article IV of the By-laws of the Insurer provides that the officers of the corporation will be a president, a vice president, a treasurer, and a secretary, as well as any other that these may determine. As of December 31, 2013, the Officers of the Insurer were the following:

Name	Position
Frederick Millán-Benítez	President
Duhamel Iglesias-Cacho	Vice President
Carlos R. Irizarry Lozada	Treasurer
Rafael Blanes-González	Secretary

MINUTES

As part of the examination that was made of Insurer, the minutes of the meetings of the Shareholders, Board of Directors, and other committee of the Insurer were requested for review. It was verified that the matters and decisions made at the meetings,

such as the election of the directors and officers and the holding of such meetings were as set forth in the Articles of Incorporation and By-laws of the Insurer.

The Insurer failed to comply with Section 1.1 of Article I of its By-laws, as well as; with Section 29.140 of the Puerto Rico Insurance Code by failing to hold meetings in 2010, 2011, 2012, and 2013 on the first Monday of March every year or in the case of a holiday, to reschedule for the next business day, as provided in its By-laws. The following are the dates of the shareholder meetings that were held during the period that was examined:

Year	Dates the Meetings Were Held	Dates per the By-laws
2010	March 11, 2010	March 1, 2010
2011	March 10, 2011	March 7, 2011
2012	March 8, 2012	March 5, 2012
2013	March 13, 2013	March 4, 2013

ARTICLES OF INCORPORATION

The authorized capital of the Insurer, according to its Articles of Incorporation, is \$3,000,000, comprised of 300,000 voting common shares. These common shares have a par value of ten dollars (\$10).

The Insurer filed its Articles of Incorporation with this Office, which were evaluated under the provisions of Section 28.040(4) of the Puerto Rico Insurance Code. In letter E-58(I), dated July 30, 2002, this Office approved such Articles and filed them with the Department of State.

The Corporation was registered at the Department of State under number 433, and the five (5) initial incorporators were the following:

- María C. Blanes
- Frederick Millán-Benítez

- Carlos R. Irizarry-Lozada
- Duhamel Iglesias-Cacho
- Marta I. Benítez

As of December 31, 2013, the Insurer had 250,000 outstanding common shares, for capital in common shares of \$2,500,000.

INVESTMENT POLICY

Section 6.040(1) of the Puerto Rico Insurance Code provides that the Board of Directors of an insurer shall adopt a written plan to acquire and maintain investments, and to establish its investment practices in terms of quality, maturity, diversity of investments, and other requisites. This plan should also include investment strategies that are directed at ensuring that the investments and investment practices are appropriate for the business transacted by the insurer, its liquidity needs, and its capital and surplus.

For the period that was examined, the Board of Directors of the Insurer adopted a written plan to acquire and maintain investments and to establish its investment practices in terms of quality, maturity, diversity of investments, and other requisites, including investment strategies directed at ensuring that the investments and the investment practices are appropriate for the Insurer, as provided in Section 6.040(1) of the Puerto Rico Insurance Code. This written plan was approved on April 9, 2012 by the Board of Directors.

Furthermore, Section 6.040(2) of the Puerto Rico Insurance Code, provides that all investments that are acquired and held under Chapter 6, shall be acquired and held under the supervision and direction of the Board of Directors of the insurer.

The Board of Directors shall certify in writing, in a formal resolution to be approved at least once a year, that all of the investments have been made according to the delegation, standards, limitations, and objectives of the investments as established by the Board of Directors, or by a committee that was authorized by the Board of Directors and that has the responsibility of managing the investments of the insurer. The Insurer complied with Section 6.040(2) in terms of approving at least once a year a formal resolution regarding all of the investments that were acquired.

Section 3.1 of Article III of the Regulations of the Insurer provides that the Board of Directors may establish one or more committees comprised of the Directors of the Insurer by means of a resolution approved by the majority of the Directors.

During the period that was examined, the Investment Committee held meetings as provided in Section 6.040(2) of the Puerto Rico Insurance Code and Section 3.1 of Article III of the By-laws of the Insurer. The members of the Investment Committee as of December 31, 2013, were the following:

Members

María González-Inclán
Carlos González-Inclán
Frederick Millán-Benítez
Carlos Irizarry-Lozada
Rafael Blanes-González

For the period that was examined, the Investment Committee held its meetings to approve and determine which investments qualified under Section 6.040(3) of the Puerto Rico Insurance Code.

At each meeting the Chair of the Committee, Mr. Carlos R. Irizarry-Lozada submitted a Report on market fluctuations and the investments that qualified as adequate investments for the Insurer. The report showed the investments that were acquired and sold.

REQUIRED CAPITAL, DEPOSIT, AND INVESTMENTS

Public Law No. 303, enacted on December 16, 2003, amended several provisions of Chapter 3 of the Puerto Rico Insurance Code, for the purpose of increasing the minimum capital requisites as well as the deposit and Puerto Rico securities investment requisites. Public Law No. 303 provided that the paid-in capital and surplus requisites for Life and Disability insurance were \$2,500,000.

Section 3.150 of the Puerto Rico Insurance Code, as amended, provides the following:

“Every insurer authorized to transact insurance in Puerto Rico with capital or surplus funds or with a deposit and/or investment in Puerto Rico securities, in an amount that is less than that otherwise required under this Code, may continue to be so authorized without immediately increasing capital or surplus funds or the deposit and/or investment in Puerto Rico securities, if within each one (1) of the five (5) years immediately following

the effective date of any increase in said requirement, the insurer increases capital or surplus funds, the deposit and/or investment in Puerto Rico securities, in such amounts as may be proportionally needed, within such five (5)-year period, up to the amounts otherwise required

If the authorized insurer is not doing business in Puerto Rico at the date of any increase in such requirement, it shall not be necessary for the insurer to immediately increase capital or surplus funds, the deposit and/or investment in Puerto Rico securities, if within said five (5)-year period, or at that date if later, on which the insurer commences or resumes insurance business activity in Puerto Rico, the insurer increases capital or surplus funds, the deposit and/or investment in Puerto Rico securities in the amounts as may be proportionally needed within such five (5)-year period, up to the amounts otherwise required.”

Furthermore, Section 8 of the Law provides that:

“The escalator provision provided in Section 3.150 of the Puerto Rico Insurance Code shall be applicable to all companies that on the date of approval of the Law may have initiated or commenced with this Office the process of organization and authorization as an insurer. The company therefore may be authorized as an insurer without the need for immediately increasing capital funds or surplus or the deposit and/or investment in Puerto Rico securities, if within each of the five (5) years immediately following the date of authorization as an insurer, the insurer increases capital fund or surplus, the deposit and/or investment in Puerto Rico securities for the amounts in the necessary proportions to meet the amounts that are otherwise required by this Law.”

The Insurer had the obligation to increase capital, the deposit, and investments in Puerto Rico securities in a scaled manner in 2006, as provided in Sections 3.151 and 3.160 of the Puerto Rico Insurance Code, and Section 8 of Public Law No. 303, as amended.

In view of the provisions of said Chapter 3, we analyzed the Insurer’s compliance with the new requisites for capital, deposit, and investment in Puerto Rico securities, which are commented on as follows:

MINIMUM CAPITAL REQUIREMENT

Pursuant to Section 3.090 of the Puerto Rico Insurance Code, as amended, the Insurer should maintain minimum capital of \$2,500,000.

The Insurer commenced with a capital of \$1,000,000. After being authorized in 2005, the Insurer needed to begin to comply with the scaled increase of minimum capital required in 2006, at the rate of \$300,000 a year, in consideration of the life insurance and disability insurance classes, until reaching the minimum capital requirement of \$2,500,000, no later than on December 31, 2010.

The Office analyzed the compliance by the Insurer with the minimum capital requirement. It was found that as of December 31, 2009, the capital that was maintained as of that date was only \$2,110,000, which failed to comply with Sections 3.090 and 3.150 of the Puerto Rico Insurance Code, as amended.

In a letter dated March 8, 2010, the Insurer was required to immediately increase the amount of capital and cover the deficiency that as of December 31, 2009 amounted to \$390,000. The following are the transactions that the Insurer effected to correct the deficiency:

- At a meeting of the Board of Directors held on May 6, 2010, dividends on shares for the shareholders of record as of that date were approved in the amount of \$390,000.
- In a letter dated July 30, 2010, the Insurer notified this Office that the Board of Directors had approved an additional capital contribution of \$500,000, which was made on June 10, 2010.

- In a letter dated July 30, 2010, the Insurer notified this Office that the Insurer at the same time as the additional capital contribution issued dividends in shares in the form of 39,000 shares with a par value of \$10.

It should be noted that in analyzing the accounting records for these transactions we found that that the Additional Paid-in Capital item did not increase in the amount of \$500,000, which was the contribution that was made, but rather by the difference between the contribution and the alleged dividend in shares that was issued. This means that in effect the Insurer did not issue a Dividend in Shares but rather that the shareholders paid for such. The following is a statement of these items, before and after the transactions.

	2010 After the Transaction	2009 Before the Transaction	Discrepancy
<i>Capital Stock</i>	\$2,500,000	\$2,110,000	\$390,000
<i>Gross Paid In Capital</i>	2,000,000	1,890,000	110,000
		Total	\$500,000

As of December 31, 2010, the Insurer corrected the deficiency and complied with the provisions Sections 3.090 and 3.150 of the Puerto Rico Insurance Code, as amended. However, since a majority shareholder made a disbursement of \$500,000, of which \$390,000 was allocated to Capital in Common shares, the effect was that the shares were paid for. A dividend in shares does not require disbursements by the shareholders.

Therefore, the Insurer failed to comply with Section 28.170 of the Puerto Rico Insurance Code, since no insurer may solicit or receive funds in exchange for any new issue of issue of securities until it has received from the Commissioner a Permit for Solicitation. Subsequently the Insurer corrected this issue.

DEPOSIT REQUISITE

Section 3.151 of the Puerto Rico Insurance Code, as amended, provides that no insurer may be authorized to transact insurance in Puerto Rico unless the insurer deposits and maintains in deposit assets for a value of not less than fifty percent (50%) of the amount of the paid-in capital, in the case of a publicly held insurer.

According to the classes of insurance that the Insurer is authorized to write, the amount of the required deposit is \$1,250,000.

As of December 31, 2009, the Insurer held \$1,000,000, which failed to comply with the aforementioned Section, and represented a deficiency of \$250,000. In a letter dated March 18, 2010, this Office requested that Insurer correct the deficiency in the required deposit. On May 19, 2010, the Insurer deposited in bonds of the Puerto Rico Government Development Bank (GDB) the amount of \$250,000, thereby correcting the deficiency.

ADMINISTRATION CONTRACT

During the examination we requested all of the service contracts of the Insurer for the period that was examined. In the review we found that one of the contracts the Insurer held was an agreement with its affiliate United Surety & Indemnity Insurance Company, hereinafter "USIC," for the payment of the employees of the Insurer by means of using the affiliate's payroll.

For the period that was examined the Insurer did not have any administration contract. Commencing on January 1, 2013, the Insurer had a written contract, but the contract was not submitted to this Office. The Insurer failed to comply with Section 29.240 of the Puerto Rico Insurance Code and SSAP No. 25 of the Accounting Practices and

Procedures Manual promulgated by the NAIC, by not submitting the administration contract to this Office for approval or having such a contract for the period that was examined.

As part of this agreement, described in Clause 5 of the Service Charges of the contract, in exchange for the services rendered by USIC to the Insurer, the Insurer agreed to reimburse the cost of processing (payroll disbursement) by USIC and to pay a service charge of fifteen percent (15%) of the compensation that was processed.

Year	Charges	Profit \$
2013	15%	\$598,037

The contract also provides that the Insurer will issue payment of the payroll to USIC on or before of the 20th day of the month after receiving the services. USIC shall provide the Insurer with the monthly documentation of the commission, with a final annual reconciliation within 90 days after the last day of the calendar year. It was found that all of the payments for 2013 were made after the date that was established in clause 5 of this contract. See Appendix I.

REINSURANCE

During the period that was examined, the Insurer had five (5) reinsurance contracts with the following reinsurers:

Munich Reinsurance Company Canada Branch (Life)
United Surety & Indemnity Company
Compañía Suiza de Reaseguro, S. A.
Hannover Life Reassurance Company of America
Reliance Standard Life Insurance Company

The Insurer complied with the provisions of Section 4.120(1)(a) of the Puerto Rico Insurance Code by using reinsurers that are authorized by this Office to transact business in Puerto Rico.

OTHER MATTERS

RULE NO. 66 PREMIUM TAX RETURN

Rule No. 66 sets forth the procedure to be followed in filing an application for tax exemption on premium for domestic insurers and health services organizations. Section 7.021(3) of the Puerto Rico Insurance Code and Section 5 of the aforementioned Rule establish, among other things, that all qualified insurers shall file with this Office an application form for tax exemption on or before January 31 of each year. The Rule also provides that failure to comply with the filing of the application for exemption within the aforementioned term shall be deemed to be a waiver by the insurer of the application for tax exemption.

For the period that was examined the Insurer filed the forms and the supporting evidence of qualification for tax exemption on premium.

RULE NO. 76 ELECTRONIC STORAGE SYSTEM

Rule No. 76 of the Regulations of the Puerto Rico Insurance Code establishes the characteristics of electronic storage systems and the standards for data security.

In a letter dated May 12, 2014, the Insurer consulted with this Office regarding the applicability of Rule No. 76. In an email dated May 15, 2014, this Office confirmed that since 100% of the insurer's documents are stored physically, the provisions of the Rule are not applicable.

RULE NO. 83 HOLDING COMPANY SYSTEMS

The Insurer is member of a holding company system as defined in Rule No. 83 of the Regulations of the Puerto Rico Insurance Code, which entered into effect on January 26, 2011. The Rule establishes standards and procedures to regulate Holding Company Systems of insurers and health services organizations. Ruling Letter No. 2011-126-AF requires insurers that are authorized to write insurance in Puerto Rico and who are part of a holding company system to file Forms B and C with this Office, on or before March 31 of every year B and C.

The Insurer complied with the provisions of Rule No. 83 and of Ruling Letter No. 2011-126-AF by submitting the required forms for 2012 and 2013.

RULE NO. 95 REQUISITES FOR THE ACTUARIAL OPINION

Rule No. 95 of the Regulations of the Puerto Rico Insurance Code establishes the requisites for the actuarial opinion that shall be submitted by all insurers. The actuarial opinion of the Insurer was prepared by the Actuary Darrell D. Spell, FSA., MAAA.

For the years that were examined, the Insurer complied with the provisions of the Rule by submitting the actuarial opinion in the established form and on the established date. The Insurer also complied with the Instructions for the Annual Report promulgated by the NAIC, with regard to the content and presentation of the actuarial opinion.

RULE XIV-A DELIVERY OF THE AUDITED FINANCIAL STATEMENTS

Rule XIV-A of the Regulations of the Puerto Rico Insurance Code requires, among other things, that insurers file audited financial statements with this Office on June 1 of

each year. As of December 31 2013, the external auditors retained by the Insurer were the firm of BDO Puerto Rico, PSC.

The Insurer filed its audited financial statements with this Office for the period that was examined on the date that is established in Section 4 of Rule XIV-A of the Regulations of the Puerto Rico Insurance Code.

In 2013, the Insurer failed to comply with Section 6 of Rule XIV-A of the Regulations of the Puerto Rico Insurance Code by failing to notify the resignation or dismissal of the accountant within five business days of the event. BDO Puerto Rico, PSC was retained by the Insurer for 2013.

UNCLAIMED FUNDS

As provided in 26.030 of the Puerto Rico Insurance Code, as amended, on August 12, 2012, the funds that are retained and that have not been claimed or paid within five (5) years, will be known as unclaimed funds. Before the amendment, the established period was seven (7) years.

For the period that was examined, the Insurer had an unclaimed funds account as part of the general ledger. However, the Insurer failed to comply with the requirements of Section 26.040(3) of the Puerto Rico Insurance Code, since for 2012 and 2013, the Insurer submitted the Negative Certification for the Unclaimed Funds after the date that is required in that Section of the Law.

The aforementioned Section of the law establishes that the Unclaimed Funds Report or the Negative Certification of Unclaimed Funds shall be submitted to this Office on or before May 1 of each year. The Insurer submitted the negative certifications for 2012

and 2013 to this Office on October 14, 2014. Subsequently the Insurer submitted negative certifications for 2012 and 2013 [sic].

ANTI-FRAUD ACTION PLAN

For the period that was examined, the Insurer failed to comply with Section 27.230 of the Puerto Rico Insurance Code by not maintaining a written action plan, adopted by the Board of Directors, to detect, prevent, and combat fraudulent acts in the insurance business. This action plan should at least contain a description of the established procedures for complying with the obligation to detect and investigate the possible acts of fraud in the insurance business and to report such acts of fraud to the Anti-fraud Special Investigations Unit of this Office, among other things. Subsequently, in a letter dated December 22, 2014, received by this Office on January 22, 2015, the Insurer submitted a copy of the Fraud Prevention, Detection, and Management Plan that it will be implementing during the first quarter of 2015, as a way of correcting this issue.

ACCOUNTING RECORDS

The Insurer used the accrual accounting method for the purpose of preparing its financial statements and the Annual Report.

During the period that was examined the Insurer changed the external auditors it used to prepare its financial statements. For 2009, its external auditors were Deloitte & Touche LLP, while for 2010 to 2012, the external auditors were Ernst & Young LLP. As of December 31, 2013, the external auditors contracted by the Insurer were BDO Puerto Rico, PSC.

In addition, for the period that was examined, the Insurer used SunGuard software for its accounts. The software includes a function for processing the disbursement of cash under the payment module.

In addition, the Insurer maintains the TAM system for life insurance that is used for billing in the group life and severe and critical illness insurance business and the QLAdmin system for commissions transactions.

ANNUAL REPORT

Section 3.310 of the Puerto Rico Insurance Code provides, among other things, that each authorized insurer authorized shall submit annually to the Commissioner an accurate statement of its financial position and its transactions and business as of December 31 of the preceding year, on or before March 31, which shall be certified under oath by at least two of the executive officers of the insurer.

Ruling Letter No. 2010-118-AF, dated December 13, 2010, establishes that all insurers shall file annual and quarterly reports with the Commissioner of Insurance, which shall follow the instructions promulgated by the NAIC, the *NAIC Annual Statement Instructions*.

The Insurer complied with Section 3.310 of the Puerto Rico Insurance Code and Ruling Letter No. 2010-118-AF by submitting the annual and quarterly reports for each of the years that were covered in this examination.

The following are the financial statements of the Insurer as of December 31, 2013 and 2012:

USIC Life Insurance Company
COMPARATIVE BALANCE SHEET
as of December 31, 2013 and 2012

	2013	2012
ASSETS		
Bonds	\$6,373,966	\$5,816,010
Common Stock	204,821	-
Cash	592,524	717,898
Interest Receivable	54,997	45,492
Premium Receivable	60,300	53,110
Taxes Payable	94,452	-
Electronic Equipment	11,758	-
Total Assets	<u>\$7,392,818</u>	<u>\$6,632,510</u>
LIABILITIES		
Aggregate Reserve - Life	\$23,841	\$5,279
Aggregate Reserve - Accident and Health	237,138	5,436
Claims Payable - Life	54,079	97,809
Claims Payable - Accident and Health	661,265	778,461
Interest Maintenance Reserve (IMR)	46,909	51,265
Commissions Payable	119,374	35,552
Reinsurance Commissions and Expenses Payable	1,606	172
General Expenses Payable	115,721	65,001
Taxes Payable	-	52,559
Retained Amounts	6,661	5,015
Unidentified Remittances	32,453	33,360
Asset Valuation Reserve (AVR)	43,556	32,859
Accounts Payable Affiliates	113,246	-
Total Liabilities	<u>\$1,455,849</u>	<u>\$1,162,768</u>
CAPITAL AND SURPLUS		
Capital - Common Stock	\$2,500,000	\$2,500,000
Paid-in and Contributed Surplus	2,500,000	2,500,000
Unassigned Surplus	936,969	469,742
Total Capital and Surplus	<u>\$5,936,969</u>	<u>\$5,469,742</u>
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	<u><u>\$7,392,818</u></u>	<u><u>\$6,632,510</u></u>

USIC Life Insurance Company
STATEMENT OF INCOME AND EXPENSES
as of December 31, 2013

Income

Earned Premium	<u>\$4,670,415</u>
Minus Ceded Reinsurance	<u>540,313</u>
Net Earned Premium	<u><u>\$4,130,102</u></u>
Benefits and other Deductions	
Benefits	\$1,148,937
Increased in Life, Accident and Health Aggregate Reserve	250,265
Commissions and Expenses	1,423,256
Taxes and Licenses of the Insurer	<u>1,195,380</u>
Total Benefits and other Deductions	<u>4,017,838</u>
Net Underwriting Income	<u><u>\$112,264</u></u>
Other Net Income:	
Profit Net of Investment	\$300,018
Amortization of Interest Maintenance Reserve	<u>4,356</u>
Total other Net Income	<u>304,374</u>
Income before Taxes	\$416,638
Taxes	<u>(6,348)</u>
Net Income	<u><u>\$410,290</u></u>

USIC Life Insurance Company
ADJUSTED BALANCE SHEET
as of December 31, 2013

	Annual Report Balance	Adjustment and/or Reclassifications		Examination Balance
		DR	CR	
ASSETS				
Bonds	\$6,373,966			\$6,373,966
Common Stock	204,821			204,821
Cash	592,524			592,524
Interest Receivable	54,997			54,997
Premium Receivable	60,300			60,300
Taxes Payable	94,452			94,452
Electronic Equipment	11,758			11,758
Total Assets	\$7,392,818			\$7,392,818
LIABILITIES				
Aggregate Reserve - Life	\$23,841			\$23,841
Aggregate Reserve - Accident and Health	237,138			237,138
Claims Payable - Life	54,079			54,079
Claims Payable - Accident and Health	661,265			661,265
IMR	46,909			46,909
Commissions Payable	119,374			119,374
Commissions and Expenses of Reinsurance Payable	1,606			1,606
General Expenses Payable	115,721			
Retained Amounts	6,661			6,661
Unidentified Remittances	32,453			32,453
AVR	43,556			43,556
Account Payable Affiliates	113,246			113,246
Total Liabilities	\$1,455,849			
CAPITAL AND SURPLUS				
Capital - Common Stock	\$2,500,00			\$2,500,000
Paid-in and Contributed Surplus	2,500,000			2,500,000
Unassigned Surplus	936,969			
Total Capital and Surplus	\$5,936,969			
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	\$7,392,818			\$7,392,818

COMMENTS AND FINDINGS OF THE EXAMINATION

The following are the comments and findings for some of the items show in the Amended Annual Report of the Insurer as of December 31, 2013.

BONDS **\$6,373,966**

The balance shown in the Amended Annual Report of the Insurer as of December 31, 2013 for the bonds item was \$6,373,966 in security instruments of Puerto Rico and/or its instrumentalities, which represented 86% of the total admitted assets of the Insurer.

The investment portfolio held by the Insurer as of December 31, 2013, complied with investment limits provided in Section 6.080 of the Puerto Rico Insurance Code. The existence and valuation of the investments was confirmed directly with the custodial statements. The investments of the Insurer were in the custody of UBS Financial Services and Citibank, N. A.

The Insurer was authorized in July, 2005, so that under the escalator clause the Insurer had until 2010 to complete the required deposit. As of December 31, 2010, the Insurer completed the required deposit of \$1,250,000.

As of December 31, 2013 the Insurer held bonds with a par value in the amount of \$1,255,000, and to maintain the paid-in capital or surplus said deposit was held in trust by the Secretary of the Treasury, through this Office.

It was also verified that the investments shown on Schedule D-Part I of the Amended Annual Report 2013 were shown in the custodial statement as of December 31, 2013. The analysis showed that they were reported in the Annual Report at their

amortized value, using the scientific amortization method as provided in SSAP No. 26 of the Accounting Practices and Procedures Manual of the NAIC.

CASH **\$592,525**

The balance shown by the Insurer in the Amended Annual Report as of December 31, 2013 represented 8% of the total admitted assets and was constituted by the following:

Financial Institution	Kind of Account	Account Number	Balance
Santander de Puerto Rico	Operational	3004141821	\$75,495
Oriental Bank	Commercial	7807945505	478,310
UBS Financial Services	Investment	JX96408DG	38,719
Balance as of December 31, 2013			<u>\$592,524</u>

The balances of the respective bank accounts were verified, and it was found that there was no discrepancy between the balances submitted by the Insurer in its books, the Amended Annual Report, and the bank confirmations.

PREMIUM RECEIVABLE **\$60,300**

As of December 31, 2013 the Insurer showed in the Annual Report the amount of \$60,300 as Premium Receivable. Of the balance, 98% was for premium pending payment from the authorized representatives of the Insurer. As part of the examination a review was made of 95% of collections of outstanding premium and it was found that they were collected by the Insurer during the first two (2) months of 2014.

In compliance with Section 3.340 of the Puerto Rico Insurance Code the Insurer had appointed and retained the following general agents:

Name
Colonial Insurance Agency, Inc.

Daily Health Insurance Group
 Enroll Now PR, LLC
 FirstBank Insurance Agency, Inc.
 Global Insurance Agency, Inc.
 Island Wide Insurance Agency, Inc.
 J. Jaramillo Insurance, Inc.
 New Alliance Insurance Agency, Inc.
 Oliver Financial Group, Inc.
 Oriental Insurance, Inc.
 Popular Insurance LLC
 Redbridge Assist of Puerto Rico
 Retention Strategies Insurance Agency Corp.
 Erme Rivera Carrillo
 Santander Insurance Agency, Inc.
 TRAM Insurance Group Corp.

GENERAL EXPENSES PAYABLE **\$115,721**

As of December 31, 2013, the balance shown by the Insurer in the Amended Annual Report for the General Expenses Payable account was \$115,721, which represented 7.95% of total liabilities.

During the examination the subsequent payment of expenses made between January and June of 2014 was verified in order to determine the sufficiency of the accrual. The Insurer complied with the provisions of Section 5.020 and the provisions of SSAP. No. 70 of the Accounting Practices and Procedures Manual promulgated by the NAIC in terms of the appropriate accrual of the expenses.

ACCOUNTS PAYABLE AFFILIATES **\$113,246**

In the amended annual report as of December 31, 2013 the Insurer showed a balance of \$113,246 for accounts payable to its affiliate United Surety & Indemnity

Insurance Company for service charges under the administration contract, which consists of reimbursement for salaries and an additional 15% on reimbursed compensation.

During the review of the account we found that one of the check requests that was issued did not include the correct description of the payment, since it did not list the months that were being paid in the check. In addition, each of the check vouchers failed to indicate that the payment was for service charges under the administration contract and merely indicated that it was for the reimbursement of salaries. The Insurer failed to comply with Section 29.260 of the Puerto Rico Insurance Code by not describing correctly the reason for the payment. We recommend that the Insurer submit a correct description of the payment.

LOSS RESERVE

\$976,323

The balance shown by the Insurer in the Amended Annual Report as of December 31, 2013, in the Loss Reserve item of is the following:

Description	Reserve
Aggregate Reserve-Life	\$ 23,841
Aggregate Reserve-Accident & Health	237,138
Claims-Life	54,079
Claims-Accident and Health	661,265
	<u>\$976,323</u>

As part of the examination the development of the reserve as of September 30, 2014 was reviewed. In the review it was determined that the reserves of the Insurer as of September 30, 2014 were adequate.

CONCLUSION

The financial position of the Insurer as of December 31, 2013, according to the adjustments made in the examination, is the following:

Assets		<u>\$ 7,392,818</u>
Paid-in Capital	\$2,500,000	
Paid-in and Contributed Surplus	2,500,000	
Total Capital and Surplus Liabilities		<u>\$7,392,818</u>

Respectfully,

Vanessa Pellot-Tirado
Examiner

SUMMARY OF IMPORTANT POINTS

1. The Insurer failed to comply with Section 29.280(1) of the Puerto Rico Insurance Code by not indicating the addresses of the transferor and transferee of the shares. Subsequently, during our procedures the Insurer corrected the issue. Pages 2-3
2. The Insurer failed to comply with Section 1.1 of its By-laws and Section 29.140 of the Puerto Rico Insurance Code by not holding Shareholder, Board of Directors, and any other Committee meetings for 2010, 2011, 2012 and 2013 on the first Monday of March each year. Pages 5-6
3. The Insurer failed to comply with Section 28.170 of the Puerto Rico Insurance Code, since no insurer may solicit or receive funds in exchange for a new issue of securities until it has requested a Permit for Solicitation from the Commissioner. Subsequently the Insurer corrected this issue Pages 10-12
4. The Insurer failed to comply with Section 29.240 of the Puerto Rico Insurance Code and SSAP No. 25 of the Accounting Practices and Procedures Manual promulgated by the NAIC, by not maintaining an administration contract from 2009 to 2012 and failing to submit the contract for 2013 to this Office for approval. Pages 13-14
5. The Insurer failed to comply with the administration contract with the affiliate by making the payment for service charges after the established date for such, for all of 2013. Pages 13-14
6. For 2013, the Insurer failed to comply with Section 6 of Rule XIV-A of the Regulations of the Puerto Rico Insurance Code by not notifying the resignation or dismissal of the

accountant, within five business days following the resignation or dismissal. BDO Puerto Rico, PSC was retained by the Insurer for 2013. Page 17

7. The Insurer failed to comply with Section 26.040(3) of the Puerto Rico Insurance Code, since for 2012 and 2013, the Insurer filed the Negative Certification of Unclaimed Funds after the date required under said Section of the Law. Subsequently the Insurer submitted the negative certifications for 2012 and 2013. Pages 17-18
8. The Insurer failed to comply with Section 27.230 of the Puerto Rico Insurance Code by not maintaining a written action plan adopted by the Board of Directors to detect, prevent, and combat fraudulent acts in the insurance business. Subsequently, in a letter dated December 22, 2014, received by this Office on January 22, 2015, the Insurer, submitted a copy of the Fraud Prevention, Detection, and Management Plan, which will be implemented during the first quarter 2015, in order to correct this comment. Page 18
9. In one of the check requests issued by the Insurer for the administration contract the months covered by the payment were not listed. In addition, each one of the check vouchers failed to indicate that the payment was for service charges for the administration contract. The Insurer failed to comply with Section 29.260 of the Puerto Rico Insurance Code by not describing correctly the reason for the payment. Page 28

APPENDIX I

Payments under the Administration Contract

Month of Service	Established Date Payable	Date payment made	Comments
January	2/20/13	6/13/13	Paid with the same check (#2298).
February	3/20/13	6/13/13	
March	4/20/13	6/13/13	
April	5/20/13	9/11/13	Paid with the same check (#2528).
May	6/20/13	9/11/13	
June	7/20/13	9/11/13	
July	8/20/13	11/14/13	Paid with the same check (#2675).
August	9/20/13	11/14/13	
September	10/20/13	11/14/13	
October	11/20/13	12/10/13	Paid with check #2738.
November	12/20/13	12/27/13	Paid with check #2757.
December	1/20/13	2/25/14	Paid with check #2878.