

Government of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

Triple-S Salud, Inc.

Examination Report
as of December 31, 2009

AMENDED

Eva Ginorio-Zayas
Principal Examiner

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 29, 2011

Ramón L. Cruz Colón, CPCU, AU, ARe
Commissioner of Insurance
Office of the Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2010-233 dated September 28, 2010, and the Puerto Rico Insurance Laws and regulations, a comprehensive risk focused examination and financial affairs examination was made of the books, records, and financial condition of

Triple-S Salud, Inc.
1441 Roosevelt Avenue
San Juan, Puerto Rico 00927

hereinafter referred to as the "Insurer."

SCOPE OF THE EXAMINATION

This examination of the Insurer's operations covered the period of January 1, 2005 to December 31, 2009, including such subsequent transactions that the examiners considered necessary.

The examination commenced on October 6, 2010, and ended on December 31, 2010. It was conducted at the home office of the Insurer, located at 1441 F.D. Roosevelt Avenue, San Juan, Puerto Rico.

The examination consisted of the verification and evaluation on a test basis, of assets and liabilities reported by the Insurer in the 2009 Annual Statement, for the purpose of determining the financial condition of the Insurer as of December 31, 2009. The operations and transactions of the Insurer were examined, based on various tests and evaluations, including cash transactions and claims, in order to determine whether they were in accordance with the provisions of the Insurance Code of Puerto Rico and its Regulations, in compliance with the standards and practices recommended by the National Association of Insurance Commissioners (NAIC for its acronym in English). In addition, we verified the use and management of the internal controls of the operating system of the Insurer.

In the examination, some of the worksheets prepared by the Insurer's external auditors were used and added to our own worksheets, as well as worksheets prepared by the Insurer's internal auditors, in order to perform the different tests and evaluations.

HISTORY

The Insurer was incorporated on July 31, 1959, to operate as a for-profit corporation. The operations of the Insurer began on March 1, 1960, under the name of "Seguros de Servicios de Salud de Puerto Rico, Inc". In 1993, the Insurer changed its name to Triple-S, Inc.

In April of 1998, as part of a restructuring, the Insurer was merged with Triple-S Salud, Inc., and its assets and liabilities were transferred to the surviving insurer Triple-S Salud, Inc., which subsequently changed its name to Triple-S, Inc., and then, in

September 2008, once again changed its name to Triple-S Salud, Inc., the name by which it is currently known.

The Insurer is a publicly-traded corporation listed on the New York Stock Exchange, under the symbol GTS (Grupo Triple-S), since 2007. In addition, it is a member of the National Blue Cross & Blue Shield Association.

ADMINISTRATION AND CONTROL

SHAREHOLDERS

As of December 31, 2009, the Insurer had 3,750,000 outstanding shares with a par value of \$40.00, per share, for a total paid in capital of \$150,000,000.

The shareholders of the Insurer as of December 31, 2009 were the following:

Name of Shareholder	Number of Shares
Triple-S Management Corp.	3,749,989
E. Rodríguez Díaz, Esq.	1
Mr. Manuel Figueroa Collazo	1
Dr. José Hawayek Alemañy	1
Socorro Rivas, CPA	1
Dr. Jesús R. Sánchez Colón	1
Dr. Luis A. Clavell Rodríguez	1
Mr. Antonio Faría	1
Ramón Ruíz Comas, CPA	1
Mr. Jorge Fuentes Benejam	1
Dr. Roberto Muñoz Zayas	1
Jaime Morgan Stubbe, Esq.	1
Total	<u>3,750,000</u>

BOARD OF DIRECTORS

The business and affairs of the Insurer are administered by a Board of Directors, which as of December 31, 2009, was comprised of:

Name	Position
Dr. Jesús R. Sánchez Colón	Chairman of the Board
Dr. José Hawayek Alemañy	Vice President
Mr. Jorge Fuentes Benejam	Secretary
Dr. Luis A. Clavell Rodríguez	Director
Mr. Manuel Figueroa Collazo	Director
Dr. Roberto Muñoz Zayas	Director
Jaime Morgan Stubbe, Esq.	Director
Mr. Antonio Faría	Director
Socorro Rivas, CPA	Director
Juan E. Rodríguez Díaz, Esq.	Director
Ramón Ruíz Comas, CPA	Director

As of December 31, 2009, every one of the Directors was a shareholder of the Insurer and complied with various requirements of Law.

OFFICERS

As of December 31, 2009, the Officers of the Insurer were the following:

Name	Position
Socorro RivasRodríguez, CPA	President and Chief Executive Officer
Mr. Pablo Almodóvar Scalley	Executive Vice President
Mr. Carlos A. Vivaldi Oliver	Vice President for Finance and Administration
Dr. Francisco Joglar Pesquera	Vice President for Medical, Dental, and Professional Affairs
Mr. Carlos D. Torres Díaz	Senior Vice President and Chief Operations Officer
Mr. Juan Espinosa	Senior Vice President for Sales
Mr. John Wagner	Vice President for Actuarial and Underwriting Services
Mr. Héctor Rodríguez	Vice President for Quality and Innovation
Mr. Luis A. Rodríguez	Vice President for Facilities
Mrs. Iraida T. Ojeda	Vice President for Human Resources
Mrs. Gloria M. Lebrón	Vice President for Provider Services
Dr. Carlos González	Medicare Director
Mrs. Carmen L. Sandín	Vice President
Mrs. Vivian López	Vice President for Public Relations
Mrs. Elena Díaz	Vice President for Marketing and Product Development
Mrs. Rosa Silva	Vice President for Customer Service
Mrs. Mayra Plumey	Vice President for Federal Programs and Medicare Advantage
Dalila Allende, Esq.	Compliance Director
Mr. Roberto Náter	Legal Affairs Director

TERRITORY AND OPERATIONS PLAN

The Insurer is authorized to do business in Puerto Rico and in the United States Virgin Islands. The Insurer provides health care, hospitalization, dental, laboratory and pharmacy services, among others, through different contracted providers.

Until 2010, the Insurer participated in the Puerto Rico government health program known as "La Reforma de Salud de Puerto Rico", (Puerto Rico Health Reform) offering services in the North Metropolitan and Southwest areas of the Puerto Rico, through a contract with the Puerto Rico Health Insurance Administration (PRHIA or ASES for its acronym in Spanish). This business was operated by Triple-C, Inc., a wholly-owned subsidiary of Triple-S Management Corporation.

In addition, the Insurer provides insurance for federal government employees in Puerto Rico and is the intermediary for the Medicare-Part B Plan in Puerto Rico, for which it processes and pays claims, and receives reimbursement of the expenses incurred for providing this service. Beginning in January 2005, the Insurer became a Medicare Advantage provider, offering health insurance to qualified Medicare beneficiaries.

Effective January 4, 1999, the Insurer began to operate under a new corporate structure, which included a merger plan. This was directed at continuing the Insurer and its subsidiaries, in a position of distinction and leadership in the insurance industry in Puerto Rico, and to establish a more efficient corporate structure from a managerial perspective, which would allow the Insurer to tackle current and future changes in the field of health. In this structure, a holding company was organized, Triple-S Salud Inc., Management Corporation, at the same proportion and conditions the Insurer's

shareholders had at the time of the reorganization. Various transactions were required in the reorganization, including the creation of the new disability insurer, Triple-S Salud, a publicly-owned insurer under the provisions of the Puerto Rico Insurance Code, owned 100% by Triple-S Management Corporation.

ACQUISITION OF "LA CRUZ AZUL DE PUERTO RICO"

In May 2009, the Insurer purchased the business portfolio of "La Cruz Azul de Puerto Rico" (LCA). This transaction was made through a contract denominated "Asset Purchase Agreement", in which the Insurer is the buyer and the following are the sellers: "La Cruz Azul de Puerto Rico, Inc.", Independence Holding, Inc., QCC Insurance Company, and Independence Blue Cross, Inc. The purchase price was \$10.5 million.

ACCOUNTING RECORDS AND SYSTEM

The Insurer uses the accrual basis accounting for the purpose of preparing its financial statements and the Annual Statement. The operating system of the Insurer was managed by an affiliated company named Interactive Systems, Inc., which provided data-processing services for the Insurer and the affiliates.

The Insurer maintains, in accordance with Generally Accounting Principles (GAAP), separate accounts and subsidiary ledgers where transactions are recorded in connection with the operations in Federal areas, Fair Trade, Health Reform, and Medicare Advantage. For the preparation of the Annual Statement, corresponding entries were made to present the statements in a statutory basis.

For the years 2005 to 2008, the Insurer was audited by the certified public accounting firm KPMG LLP. In 2009, the Insurer changes auditors and was audited by the firm of PricewaterhouseCooper LLP.

FINANCIAL STATEMENTS

The following financial statements of the Insurer are included below:

1. Balance Sheet as of December 31, 2009, as presented in the Annual Statement.
2. Income and Expenses Statement for the year ended December 31, 2009, as presented in the Annual Statement.
3. Reconciliation of Unassigned Surplus as of December 31, 2009.

Triple-S Salud, Inc.
Balance Sheet
as of December 31, 2009

	Annual Statement Balance	Examination Adjustments	Examination Balance
ASSETS			
Bonds	\$374,780,432		\$374,780,432
Preferred Shares	180,320		180,320
Common Shares	53,297,002		53,297,002
Cash	14,156,224		14,156,224
Uncollected Interest	3,920,151		3,920,151
Uncollected Premiums	84,515,688		84,515,688
Other Uncollected Premiums	730,029		730,029
Uncollected Reinsurance	10,006,197		10,006,197
Accounts Receivable - Cost Plus	58,222,700		58,222,700
Taxes to be Recovered	3,700,104		3,700,104
Net Deferred Assets	12,453,455		12,453,455
Electronic Equipment	4,365,264		4,365,264
Accounts Receivable from Affiliates	6,043,392		6,043,392
Uncollected Health Care	10,896,299		10,896,299
Other Assets	24,484,962		24,484,962
Total of Assets	\$661,752,219		\$661,752,219
LIABILITIES			
Claims Reserve	\$244,126,119	\$2,884,422	\$247,010,542
Claims Adjustment Expenses	4,768,567		4,768,567
Aggregate Health Reserve	931,504		931,504
Premium Collected in Advance	6,064,169		6,064,169
General Expenses Payable	37,470,878		37,470,878
Reinsurance Payable	8,934,564		8,934,564
Amounts Retained	13,887,355		13,887,355
Other Amounts Payable	524,401		524,401
Loan	51,944,761		51,944,761
Payable to Affiliates	10,484,930		10,484,930
Accounts Payable - Cost Plus	12,354,205		12,354,205
Other Accounts Payable	13,001,974		13,001,974
Total of Liabilities	\$404,493,427	\$2,884,422	\$407,377,850
CAPITAL and SURPLUS			
Paid-in Capital	\$150,000,000		\$150,000,000
Unassigned Surplus	107,258,796	\$2,884,422	\$104,374,374
Total Capital and Surplus	\$257,258,796		\$254,374,374
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$661,752,223		\$661,752,224

There is a negligible difference of \$5.

Triple-S Salud, Inc.
Income and Expenses Statement
as of December 31, 2009

Income		
Premiums	\$1,678,127,617	
Total Income		\$1,678,127,617
Expenses		
Physicians and of Hospitals:		
Hospital and Physician Benefits	\$1,007,329,418	
Emergency Room	107,061,383	
Pharmacy	397,660,793	
Total of Expenses Physicians and Hospitals	<u>\$1,512,051,594</u>	
Minus: Recovered Reinsurance	(2,820,044)	
Plus: Administrative Expenses	106,064,500	
Claims Adjustment Expenses	<u>22,341,277</u>	
Total Expenses		\$1,637,637,327
Net Underwriting Profit		\$40,490,290
Net Return on Investment		17,648,663
Other Income or Aggregate Expenses		<u>3,809,782</u>
Net Income Before Taxes		\$61,948,735
Federal Income Tax		<u>\$19,351,210</u>
Net Income		<u>\$42,597,525</u>

Triple-S Salud, Inc.
Reconciliation Unassigned Surplus
as of December 31, 2009

	<u>Examination Adjustments</u>	<u>Balance</u>
Unassigned Surplus (as Annual Statement)		\$107,258,796
Liabilities		
Claims Reserve	\$2,884,422	
Total Adjustments		<u>\$2,884,422</u>
Unassigned Surplus		<u><u>\$104,374,374</u></u>

SUBSEQUENT EVENTS

Puerto Rico Government Health Reform Events

The Insurer was a participant of the Puerto Rico government health plan, providing services to the North and Southwest regions of the Puerto Rico, under a contract with the Puerto Rico Health Insurance Administration. This business was administered by Triple-C, Inc., a wholly-owned subsidiary of Triple-S Management Corporation.

In October 2010, the Insurer ceased to participate in this business, since its contract was not renewed. Nevertheless, the Insurer continued to provide health services to the people of Puerto Rico, through its network of independent providers, offering or maintaining different kinds of health coverage, including individual, family and group coverage under Medicare Advantage, federal and commercial plans.

Security in the Insurer's Information Systems

In September 2010, the Insurer was notified by Medical Card Systems, Inc. (MCS) that they had accessed a database portal of the Insurer. The Insurer immediately initiated an investigation, in which the preliminary finding was that the portal that was accessed was one of which the IPAs had access and that the Insurer's security system had not been compromised.

This investigation is currently ongoing, and the Insurer has implemented additional security procedures to prevent other incidents, and strengthen and update its security procedures. The procedures included having the Insurer assume responsibility and absolute control of everything related to Data Security, thereby assuming all matters related to granting and cancelling access to different portals, for example password,

usernames, etc., since the Insurer had delegated that task and responsibility to its affiliate, Interactive Systems, Inc.

It should be noted that the Insurer notified the incident to the following agencies: DACO, CMS, ASES, and HHS, and to the Office of the Commissioner of Insurance. The Insurer also notified by letter, the insured participants of the Puerto Rico government health plan in the North and Metro North regions in November 2010.

COMMENTS AND FINDINGS OF THE EXAMINATION

The following are comments and findings related to some of the items informed in the Insurer's Annual Statement as of December 31, 2009.

BONDS **\$374,780,432**

In the Bonds item of the Annual Statement as of December 31, 2009, the Insurer informed a balance of \$374,780,432.

This item represented 57% of the total assets of the Insurer, and the Bonds were acquired as provided in Chapter 6 of the Puerto Rico Insurance Code, as amended by Public Law Number 126, enacted on July 14, 1998.

The Bonds include securities of the United States Government, its agencies and/or instrumentalities and mortgage-backed securities as listed below:

Description	Balance
Securities of the U.S. Treasury and its Agencies	\$282,172,907
CMO'S	79,440,737
Other Securities (including Hybrid)	11,561,034
Mortgage-backed Securities	1,605,754
Total	\$374,780,432

The Insurer maintains in fiduciary deposits the amount of \$565,000, invested in Bonds at the Puerto Rico Treasury Department, through the Office of the Commissioner, in compliance with the deposit required in Section 3.150 of the Puerto Rico Insurance Code.

The existence and value of the investments was confirmed directly with the custodial statements.

In addition, as of December 31, 2009, the Insurer has an Investment Policy which was submitted to the Board of Directors for approval. All investment transactions were carried out according to this Policy and to Chapter 6 of the Puerto Rico Insurance Code.

The effective interest rate method was used to amortize the Insurer's Bonds, except for amortization of the CMO's premiums and discounts, whose computation is affected by prepayments. When the Insurer receives a prepayment, the Insurer reevaluates the remaining life of the investment and adjusts the amortization accordingly. At that time the premium or discount portion is recognized with regards to the prepayment.

CASH	\$14,156,224
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In the Annual Statement as of December 31, 2009, the Insurer informed a balance of \$14,156,224. This item represented 2% of the total assets of the Insurer, and corresponded to the Cash balance in several bank accounts at Citibank Puerto Rico, RG Premier Bank, Banco Popular de Puerto Rico, Banco Bilbao Vizcaya, Federal Government Office of Personnel, Banco Santander and UBS.

The balances shown by the Insurer in the Annual Statement were verified by the bank confirmations and statements of the fiduciary institutions, and no discrepancies were found in this regard.

UNCOLLECTED PREMIUMS \$84,515,688

In the Annual Statement as of December 31, 2009, the Insurer showed a balance of Uncollected Premiums of \$84,515,688. This balance included the following business lines:

Business Line	Amount
SSS- Commercial	\$27,743,753
CCC- Reform	41,391,863
MMA- CMS Premiums	5,813,356
FED- Federal	10,296,743
Retro Premiums	(730,027)
Total	\$84,515,688

These premiums balances were evaluated considering the SSAPs No. 6 and 84 of the NAIC Accounting Practices and Procedures Manual.

The balance of \$27,743,753 corresponded to uncollected premiums of private groups, government agencies and uncollected premiums of the business obtained from "La Cruz Azul de Puerto Rico".

The following is a detail of the premiums with their respective allowances for doubtful accounts:

Business Line	Amount
Private Groups	\$20,595,716
Allowances	(1,634,300)
Agency of Commonwealth Government	4,505,607
Allowances	(175,000)
La Cruz Azul (LCA)	4,158,277
Allowances	(54,954)
Dental-Federal	348,407
Total	\$27,743,753

It should be noted that the Insurer subsequently collected all these balances.

AMOUNTS WITHHELD AND RETAINED **\$13,887,355**

In the Annual Statement as of December 31, 2009, the Insurer showed a balance of \$13,887,355, in the Amounts Withheld and Retained. This balance corresponded to the following:

Description	Balance
Outstanding checks for more than 1 year	\$6,022,762
Unearned Income- Pharmacy Rebates	3,343,513
Provider Withholding 7% [for taxes]	3,596,641
Other amounts withheld and retained	924,439
Total	\$13,887,355

As shown in the above table, 44% of \$6,022,762 corresponded to checks issued by the Insurer and that were outstanding for more than one year as of December 31, 2009. These include checks issued by the Insurer from 2001 until 2009, for payments to providers, insured and vendors, as shown below:

Year check was issued	Balance	
	C†	R‡
2002	\$133,637	\$348,546
2003	87,821	1,181,946
2004	222,430	416,712
2005	62,056	471,796
2006	136,321	743,527
2007	162,508	838,848
2008	170,259	970,493
2009	75,950	(88)
Total	\$1,050,982	\$4,971,780
Total of both Balances	<u>\$6,022,762</u>	

† "C" corresponds to checks issued for the return of premiums to insured and payments to vendors.

‡ "R" corresponds to checks issued for payment of claims to providers and insureds

Furthermore, the Insurer did not make any effort, during the period of the examination, to return the retained and owed funds to the insured. The principal intention of the Law is to grant a seven (7) year holding period for the Insurer to attempt to find the corresponding insured and pay or return any unclaimed premiums or claims. Therefore, the Insurer is required to make all possible efforts to return all outstanding balances before considering them to be unclaimed funds.

CLAIMS RESERVE**\$247,010,542**

In the Annual Statement as of December 31, 2009, the Insurer showed a balance of \$244,126,119 as a Claims Reserve. This balance represents sixty percent (60%) of the total of liabilities of the Insurer, showing an 18% increase in comparison to the reserve of the previous year.

It is important to mention that the Claims Reserve maintained by the Insurer during the two (2) years prior to 2009, that is to say 2008 and 2007, was deficient in the amounts of \$17 and \$12 million, respectively, based on the numbers submitted by the Insurer itself in its Annual Statement.

During our examination we verified the development of the Reserve as of December 31, 2009, the payments made by the Insurer from January 1 to December 31, 2010, and the reserve for pending claims payment considered by the Insurer as of that same date, as shown in the 2010 Annual Statement. This was done for the purpose of determining whether the reserve maintained by the Insurer as shown in the Annual Statement as of December 31, 2009, was adequate.

In the analysis it was determined that the Reserve maintained by the Insurer as of December 31, 2009, was deficient in the amount of \$2.8 million. The following is a summary of the development of the reserve:

Description	Amounts
Reserve maintained as of 12/31/2009	\$244,126,117
Payment of Claims incurred before 2010	\$235,409,114
Pending Claims Reserve	<u>\$11,601,428</u>
Net Development of Reserve as of 12-31-2010	<u>\$247,010,542</u>
Deficiency in Reserve	<u>(\$2,884,422)</u>

The deficiency in the claims reserve was corrected by the insurer prospectively.

CONCLUSION

The financial condition of the Insurer as of December 31, 2009, was as follows:

Assets	<u>\$661,752,219</u>
Liabilities	\$407,377,850
Capital	\$150,000,000
Unassigned Surplus	<u>\$104,374,374</u>
Total Liabilities, Capital and Surplus	<u>\$661,752,224</u>

The unassigned surplus of the Insurer decreased in the amount of \$2,884,422, due to the adjustment to the Claims Reserve, made during this examination.

Respectfully,

Eva Ginorio Zayas

Eva Ginorio Zayas
Principal Examiner

SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. In October 2010, the Insurer ceased to participate in the Puerto Rico Government Health Reform, since its contract was not renewed. Page 11
2. The Insurer is being required to take the appropriate arrangements to return the retained and owed funds and to deliver the funds to the person who have right to them, before considering them to be unclaimed funds. Pages 15-16
3. The Claims Reserve of the Insurer was deficient in the amount of \$2.8 million. The deficiency was adjusted during our examination. The deficiency in the claims reserve was corrected by the insurer prospectively. Pages 16 and 17