

**REPORT ON EXAMINATION
OF
INTEGRAND ASSURANCE COMPANY
SAN JUAN, PUERTO RICO**

AS OF

DECEMBER 31, 2009

NAIC CODE 26778

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

TABLE OF CONTENTS

Scope of Examination	2
Summary of Significant Findings	3
Current Examination Findings	3
Compliance with Prior Examination Findings	4
History	6
Capital Stock	6
Dividends to Stockholders.....	7
Management and Control.....	7
Corporate Governance	10
Conflict of Interest.....	10
Corporate Records	10
Board of Directors and Committee Minutes	11
Fidelity Bond and Other Insurance	11
Pension and Insurance Plans.....	12
Employees' Retirement Plan	12
Intercompany Agreements	13
Growth of the Company	14
Insurance Products and Related Practices.....	14
Territory and Plan of Operations.....	15
Statutory Deposits.....	15
Unclaimed Funds	16
Reinsurance.....	17
Reinsurance Assumed	17
Reinsurance Ceded	17
Accounts and Records.....	19
Financial Statements	20
Comments on Balance Sheet Items.....	24
Subsequent Events	24
Summary of Examination Recommendations	25
Conclusion	27



GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 27, 2011

Mr. Ramón L. Cruz Colón, CPCU, AU, ARe
Commissioner of Insurance
Office of the Commissioner of Insurance
B5 Tabonuco Street - Suite 216
PMB 356
Guaynabo, PR 00968-3029

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2010-272 dated December 3, 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

Integrand Assurance Company
Franklin D. Roosevelt Avenue, Ensenada Corner
San Juan, PR

hereinafter referred to as Integrand or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at Franklin D. Roosevelt Avenue, Ensenada Corner, San Juan, Puerto Rico, 00920. This examination covers the period of January 1, 2009 through December 31, 2009, 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* (Handbook)). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, as applicable to the Puerto Rico Insurance Laws and Regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Summary of Significant Findings

Current Examination Findings

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

Board of Directors' Members

For the period of August 2009 to January 21, 2011, the Board of Directors had only four members. The Company was not in compliance with Article 29.140, Insurance Code of Puerto Rico "Regular and Special Meeting of Stockholders or Members," Article 29.160, Insurance Code of Puerto Rico "Election of Directors," and the Company's bylaws, Article II, Section 1, which requires the minimum number of Board members to be five.

Stockholders' Meeting

Article I, Section 1 of Integrand's bylaws stipulates that the annual stockholders meeting shall be held on the fourth Thursday of June. The annual stockholders meetings were held on the following dates:

- July 15, 2009
- September 2, 2010

The dates the stockholders meetings were held did not conform to the terms of Article I, Section 1 of the bylaws of the Company.

Article II, Section 3 of the Integrand's bylaws stipulates the following:

"After each meeting of stockholders at which a Board of Directors shall have been elected, the Board of Directors so elected shall meet..."

Article I, Section 1 of Integrand's bylaws stipulates that the annual stockholders meeting shall be held on the fourth Thursday of June.

The Board of Directors' meetings were held following the stockholders meetings; thus, the meetings did not conform to the terms of Article I, Section 1, and Article II, Section 3 of the bylaws of the Company.

Compliance with Prior Examination Findings

The prior examination report covered the period of January 1, 2006 to December 31, 2008, and was sent to the Company on January 14, 2011. Per discussion with the Office of the Commissioner of Insurance (OCS), there has been no final resolution to the following findings:

- The Company, in the years 2006, 2007 and 2008, used facultative reinsurance contracts with reinsurers Ecclesiastical Insurance Office Plc, and Wurttembergische Versicherung AG. The Company was not authorized to use those reinsurers. This was not in compliance with the provisions of Article 4.120 of the Insurance Code of Puerto Rico and Rulling Letter No. N-AF-4-63-2005 dated April 11, 2005.

- Preferred stock investments were considered ineligible due to a low investment grade rating, which is pursuant to Section 6.030 (8) of the Insurance Code of Puerto Rico. The Company was not in compliance with the provisions of SSAP No. 40, Paragraph 14, of the *NAIC Accounting Practices and Procedures Manual*.
- Premiums receivable were reclassified to Premiums Received in Advance in the amount of \$355,697 due to the policies having an effective date of 2009.
- The Company was not in compliance with the provisions of SSAP No. 16, Paragraph 3 of the *NAIC Accounting Practices and Procedures Manual*, which provides that the depreciation computed beginning in 2001 shall not exceed three (3) years for electronic equipment.
- Reserves established by the Company to pay claims and adjustment expenses were redundant by \$7,221,242. The Company is required to maintain adequate reserves as provided in Article 5.050 (2) of the Insurance Code of Puerto Rico.
- Contingent Commissions were adjusted by \$33,835 to recognize the balance paid in excess of the cumulative balance for the payment of contingent commissions, under the provisions of Article 5.020 of the Insurance Code of Puerto Rico.
- Other Expenses was increased \$235,534 to recognize the correct balance. This is in accordance with Article 5.020 of the Insurance Code of Puerto Rico.

- Premiums Collected in Advance of \$355,697 were reclassified to Other Expenses due to the effective date of the policies being 2009.
- Catastrophic Reserve was reclassified to present the minimum catastrophe reserve requirement as a liability of the Insurer, as required by Article 25.030 (6) of the Insurance Code of Puerto Rico and Circular Letter Number E-06-1611-2001 dated September 14, 2001, with the remaining portion of the reserve reported as an Aggregate Write In for Special Surplus Funds.

History

The Company was incorporated on December 21, 1972, with the name of Tropical Insurance Company. On May 31, 1973, the Company changed its name to CNA Casualty of Puerto Rico and began operations on July 1, 1973. On February 13, 1992, the Company changed its name to Integrand Assurance Company. The organization of the Company was prescribed by the laws and the provisions of the Insurance Code of Puerto Rico.

Capital Stock

As of December 31, 2009, the Company had 1,333,333 of common stock shares authorized and 400,000 shares issued and outstanding with a par value of \$7.50 per share, for paid in capital of \$3,000,000. The Company is a direct subsidiary of Victor J. Salgado & Associates, Inc., which owns 399,996 of the 400,000 shares outstanding.

The remaining four shares were issued to the following directors in compliance with Article 29.150(1) of the Insurance Code of Puerto Rico:

Víctor José Salgado, Sr.
Víctor José Salgado, Jr.
Ana María Salgado
Francisco J. Cobian

Dividends to Stockholders

Article 29.340 of the Insurance Code of Puerto Rico provides that a domestic stock insurer shall not pay any cash dividend to stockholders, except out of that part of its available surplus funds which is derived from any realized net profits on its business.

The following table shows dividends paid to stockholders and the balance of unassigned surplus during the examination period:

<u>Year</u>	<u>Dividend Paid</u>	<u>Unassigned Surplus Previous Year</u>
2009	\$1,000,000	\$30,624,951

The Company was in compliance with the provisions of Article 29.340 of the Insurance Code of Puerto Rico.

Management and Control

The bylaws state that the Board of Directors shall have no less than five (5) or more than eleven (11) members who shall be elected at the annual meeting of the stockholders.

The bylaws state that the Board of Directors shall have no less than five (5) or more than eleven (11) members who shall be elected at the annual meeting of the stockholders. The Company was not in compliance with the bylaws and the Insurance Code of Puerto Rico.

- For the period of August 2009 to January 21, 2011, the Board of Directors had only four members which did not comply with Article 29.140, of the Insurance Code of Puerto Rico "Regular and Special Meeting of Stockholders or Members," Article 29.160, of the Insurance Code of Puerto Rico "Election of Directors," and the Company's bylaws, Article II, Section 1.
- The dates the stockholders' meetings were held did not conform to the terms of Article I, Section 1 of the bylaws of the Company.
- The dates the Board of Directors' meetings were held did not conform to the terms of Article I, Section 1 and Article II, Section 3 of the bylaws of the Company.

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

As of the examination date, the directors of the Company who were elected at the annual meeting of stockholders on July 15, 2009, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Víctor José Salgado, Sr.	Chairman of the Board	San Juan, Puerto Rico
Víctor José Salgado, Jr.	President and CEO	San Juan, Puerto Rico
Ana María Salgado	Secretary, Treasurer, Executive Vice President and COO	San Juan, Puerto Rico
Francisco Javier Cobian	Owner, Cobian and Cobian Law Firm	San Juan, Puerto Rico

The officers of the Company, as elected in the annual meeting of the Board of Directors on July 15, 2009, were the following:

Víctor José Salgado, Jr.	President and CEO
Ana María Salgado	Secretary, Treasurer, Executive Vice President and COO
Carmen Esther Navas	Vice President, Administration
Javier Enrique Muñiz	Vice President, MIS
María Asunción Contreras	Vice President Financial

The Finance Committee, as appointed by the Board of Directors, consists of the following:

Víctor José Salgado, Sr.
 Víctor José Salgado, Jr.
 Ana María Salgado
 Francisco Javier Cobian

Corporate Governance

The Board of Directors is responsible for providing general oversight over corporate governance matters, including the development and implementation of the appropriate governance policies and procedures.

The Company is not a publicly traded corporation and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

Conflict of Interest

The Company requires its directors, officers, and key employees to sign conflict of interest questionnaires concerning items that could have an impact on the way they conduct the Company's business in accordance with Article 29.230 of the Insurance Code of Puerto Rico. The review of the conflict of interest questionnaires reveals that the Company is in compliance.

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, Board of Directors' committees, and shareholders were reviewed for the period under examination. There were no amendments to the Articles of Incorporation and bylaws during the examination period.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the shareholders, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board of Directors adequately documented its meetings, approval of Company transactions, and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico.

The Board of Directors delegates the authority to make investment decisions to the Finance Committee. The Finance Committee held meetings during the examination period to approve the purchases of securities. The purchases of the securities were in compliance with the provisions of the Articles 6.080 and 6.090 of the Insurance Code of Puerto Rico.

The Company's overall investment procedures were in compliance with Article 6.040(2) of the Insurance Code of Puerto Rico because the Board of Directors ratified the investment transactions, which were approved by the Finance Committee.

Fidelity Bond and Other Insurance

The Company maintained fidelity bond coverage up to \$1,000,000, which adequately reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers liability insurance, Errors and Emissions, Commercial Inland Marine, Commercial Property, Employment Practices Liability, Commercial General Liability and Commercial Umbrella coverages.

Pension and Insurance Plans

Employees' Retirement Plan

All of the Company's employees are covered by a qualified defined contribution retirement plan sponsored by the Company. The Company matches employee contributions up to 5% of the employee's salary. The Company's contribution for the plan was \$157,709 and \$153,365 for 2009 and 2008, respectively. The fair value of the plan assets was \$3,568,337 and \$2,842,500 in 2009 and 2008, respectively. The custodian for the plan at December 31, 2009, was WesternBank.

In addition, the Company provides postretirement medical and life insurance benefits to all retirees and employees who were fully eligible for benefits under the employees' retirement plan as of July 1, 1996. Employees who were not fully eligible for benefits as of that date are not covered by that plan.

Intercompany Agreements

The Company has the following three administrative agreements with affiliates.

- The Company entered into an agreement with IIA Finance Corporation (IIA) under which the Company provides IIA underwriting, management, accounting, rent, maintenance, audit, tax service, and payment of all insurance. The annual fee to be paid to the Company is \$150,000.
- The Company entered into an agreement with Key Insurance Agency, Inc., under which the Company provides underwriting, management, accounting, rent, maintenance, audit, tax service, and payment of all insurance. The annual fee to be paid to the Company is \$150,000.
- The Company entered into an agreement with its parent, Victor J. Salgado & Associates Inc., under which the Company provides underwriting, management, accounting, rent, maintenance, audit, tax service, and payment of all insurance. The annual fee to be paid to the Company is \$150,000.

The transactions with affiliates were in conformity with SSAP No. 25 of the *NAIC Accounting Practices and Procedures Manual*.

Growth of the Company

The following data was obtained from the filed annual statements.

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Unassigned Surplus	Catastrophe Reserve
2009	\$144,515,010	\$78,711,173	\$3,000,000	\$5,950,000	\$33,560,200	\$23,293,637
2008	143,699,876	81,180,179	3,000,000	5,950,000	30,624,951	22,944,746
2007	159,187,263	92,592,761	2,610,000	5,950,000	36,255,584	21,778,918
2006	153,378,846	90,973,454	2,220,000	5,950,000	33,400,773	20,824,619
2005	152,216,475	92,003,510	1,830,000	5,950,000	32,498,148	19,934,817

Insurance Products and Related Practices

The Company is authorized to write all kinds of property and casualty insurance in conformity with the Chapter 4 of the Insurance Code of Puerto Rico. For the period covered by this examination, the major kinds of insurance and gross premiums written were as follows:

	2005	2006	2007	2008	2009
Commercial Multiperil	\$35,390,888	\$34,222,656	\$34,359,070	\$33,646,665	\$34,997,747
Commercial Auto Liability	7,374,263	7,049,589	9,739,769	4,695,707	9,277,229
Auto Physical	14,307,881	12,769,886	11,269,191	6,363,252	8,829,364
Other Liability Occurrence	4,932,839	5,020,731	4,662,968	5,448,922	4,815,524
Flood Plan	4,671,718	4,981,352	4,957,324	3,994,056	3,569,346
Earthquake	7,276,956	6,928,351	5,643,571	3,072,970	2,888,776
Allied Lines	6,973,457	6,376,174	5,355,943	3,176,192	2,564,248
Group A&H	4,179,914	2,250,329	2,398,233	2,343,111	2,060,725
Fire	2,310,476	1,876,350	2,361,874	1,900,954	1,555,255
All Other	4,316,611	4,656,960	5,079,489	3,480,642	2,491,443
Totals	\$91,735,003	\$86,132,378	\$85,827,432	\$68,122,471	\$73,049,657

The Market Conduct Division of OCS completed an examination of the Company regarding claims handling for the period ending on December 31, 2008, and the report is pending.

Territory and Plan of Operations

During the examination period, the Company was licensed to transact insurance business in the territories with the corresponding written gross premiums outlined below:

	2005	2006	2007	2008	2009
Puerto Rico	\$91,107,622	\$85,506,118	\$85,202,992	\$67,529,427	\$72,288,944
U.S. Virgin Islands	627,381	626,260	624,440	593,044	760,713
Total	\$91,735,003	\$86,132,378	\$85,827,432	\$68,122,471	\$73,049,657

Statutory Deposits

As of December 31, 2009, the Company maintained the following statutory deposits with the OCS in compliance with the Article 3.151 of the Insurance Code of Puerto Rico.

Description	Maturity Date	Par Value	Amortized Value
PR Public Finance Corporation	08/01/12	\$1,000,000	\$912,684
PR Sales Tax FING Corporation	08/01/36	650,000	650,000
Total		\$1,650,000	\$1,562,684

Article 3.151, of the Insurance Code of Puerto Rico requires that a domestic insurer shall not be authorized to transact insurance in Puerto Rico unless it deposits and maintains on deposit assets with a value of not less than fifty percent (50%) of the amount of the paid in capital. The deposit is held to protect the Puerto Rico insurance policyholders and creditors.

Article 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid in capital of \$3,000,000 and statutory deposit of not less than \$1,500,000 of amortized value. The Company was in compliance with Article 3.090 of the Insurance Code of Puerto Rico as of December 31, 2009.

Article 3.160 of the Insurance Code of Puerto Rico requires that 50% of the minimum paid in capital be in Puerto Rico securities. The Company maintained investments in Puerto Rico securities in excess of \$1,500,000 at amortized cost. The Company was in compliance with Article 3.160 of the Insurance Code of Puerto Rico as of December 31, 2009.

Unclaimed Funds

The Company was in compliance with Article 26.040 of the Insurance Code of Puerto Rico by reporting unclaimed funds to the OCS on or before May 1 for the year under examination.

The Company submitted to the OCS the notice of unclaimed funds owed, and the payment of the unclaimed funds and was in compliance with the Articles 26.050 and 26.060 of the Insurance Code of Puerto Rico.

Reinsurance

Reinsurance Assumed

The Company did not assume any risks during the examination period.

Reinsurance Ceded

The Company maintained several reinsurance contracts in force as of December 31, 2009.

Reinsurance cessions are made under excess of loss treaties and facultative agreements.

The principal reinsurance agreements are as follows:

- Liability excess of loss treaties covered the automobile, general, and other liability lines of business for a maximum coverage of \$12 million per risk, with retention of \$250,000.
- Clash casualty covers excess of loss treaties provided coverage of \$10 million.

- Property excess of loss treaties provided maximum coverage of \$20 million, with a net retention of \$250,000.

The Company also had commercial property catastrophe coverage to protect itself from losses in excess of certain limits arising from a loss or disaster of a catastrophic nature. These treaties provided reinsurance for losses in excess of \$5 million resulting from any catastrophe, subject to a maximum loss of approximately \$155 million.

In addition, the Company had coverage to protect itself from dwelling losses in excess of certain limits arising from a loss or disaster of a catastrophic nature. These treaties provided reinsurance for dwelling losses in excess of \$1 million resulting from any catastrophe, subject to a maximum loss of \$41 million.

The reinsurance contracts reviewed complied with NAIC guidelines with respect to the insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information deadlines as stated in SSAP No. 62 of the *NAIC Accounting Practices and Procedures Manual*.

During the year 2009, the Company requested and received permission from the OCS to use four non-authorized reinsurers.

The reinsurance contracts were reviewed by the Company's consulting actuary and were utilized in determining the ultimate loss opinion.

Accounts and Records

The Company maintained its principal operational offices in San Juan, Puerto Rico where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2009 in compliance with Rule IX of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule IX of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Catherine L. Depolo, ACAS, MAAA and Scott P. Weinstein, FCAS, MAAA, actuaries for KPMG, LLP.

Financial Statements

Below are the financial statements of the Company:

- Balance Sheet Statement for the year ended 2009, according to adjustments made in this examination
- Statement of Income and Expenses for the year ended 2009, according to the annual statement
- Capital and Surplus as December 31, 2009
- Reconciliation of Surplus as Regards Policyholders as of December 31,2009

Integrand Assurance Company
Balance Sheet as per Examination
As of December 31, 2009

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$106,567,460		\$106,567,460
Preferred stocks	3,837,066		3,837,066
Common stocks	7,891,447		7,891,447
Real estate	6,417,238		6,417,238
Cash and short-term investments	10,200,892		10,200,892
Investment income due and accrued	530,765		530,765
Uncollected premiums and agents' balances	7,497,563		7,497,563
Amounts recoverable from reinsurers	583,475		583,475
Net deferred tax asset	919,218		919,218
Electronic data processing equipment	69,886		69,886
Total Assets	\$144,515,010		\$144,515,010
Losses	\$31,690,513		\$31,690,513
Loss adjustment expenses	3,225,000		3,225,000
Commissions payable, contingent commissions	255,973		255,973
Other expenses	1,193,218		1,193,218
Taxes, licenses and fees	131,640		131,640
Income taxes payable	-92,000		-92,000
Unearned premiums	32,230,068		32,230,068
Ceded reinsurance premiums payable	2,124,879		2,124,879
Amounts withheld or retained for account of others	900,466		900,466
Provision for reinsurance	118,200		118,200
Drafts outstanding	1,098,707		1,098,707
Payable for securities	3,000,000		3,000,000
Aggregate write-ins for liabilities	2,834,509		2,834,509
Total Liabilities	\$78,711,173		\$78,711,173
Catastrophe insurance reserve	\$23,293,637		\$23,293,637
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	5,950,000		5,950,000
Unassigned funds (surplus)	33,560,200		33,560,200
Surplus as regards policyholders	65,803,837		65,803,837
Total Liabilities Capital & Surplus	\$144,515,010		\$144,515,010

Integrand Assurance Company
Statement of Income
As of December 31, 2009

Underwriting Income	
Premiums earned	\$43,016,537
Deductions:	
Losses incurred	18,983,474
Loss expenses incurred	6,242,352
Other underwriting expenses incurred	17,555,311
Total underwriting deductions	<u>\$42,781,137</u>
Net underwriting gain or (loss)	<u>\$235,400</u>
Investment Income	
Net investment income earned	\$5,857,007
Net realized capital gains or (losses)	<u>(3,535,075)</u>
Net investment gain or (loss)	\$2,321,932
Other Income	
Net gain (loss) from agents' or premium balances charged off	(\$287,192)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	36,469
Total other income	<u>(\$250,723)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,306,609
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders, but before federal & foreign income taxes	\$2,306,609
Federal & foreign income taxes	<u>(91,687)</u>
Net Income	<u><u>\$2,398,296</u></u>

Integrand Assurance Company
Capital and Surplus
As of December 31, 2009

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$62,519,697
Net income	2,398,296
Change in net unrealized capital gains	3,122,959
Change in net deferred income tax	(27,321)
Change in non-admitted assets	(43,394)
Change in provision for reinsurance	(29,600)
Dividends to stockholders	(1,000,000)
Aggregate write-ins for gains and losses in surplus	(1,136,800)
Change in surplus as regards policyholders for the year	<u>3,284,140</u>
Surplus as regards policyholders, December 31 current year	<u>\$65,803,837</u>

**Integrand Assurance Company
Reconciliation of Surplus as Regards Policyholders
For the Year Under Examination
As of December 31, 2009**

Surplus as Regards Policyholders December 31, 2009, per Annual Statement	\$65,803,837
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2009, Per Examination			\$65,803,837

Comments on Balance Sheet Items

There were no comments on the balance sheet items.

Subsequent Events

The vacancy on the Board of Directors that occurred in August 2009 was not filled until January 21, 2011, with the appointment of Mariana Martínez-Mattei. Article II, Section 1 of the Company bylaws stipulates that the minimum number of Board members is to

be five. The Company was not in compliance with that provision for the period August 2009 to January 21, 2011; however, the Company is now in compliance.

Summary of Examination Recommendations

Board of Director' Members

For the period of August 2009 to January 21, 2011, the Board of Directors had only four members. The Company was not in compliance with Article 29.140, Insurance Code of Puerto Rico "Regular and Special Meeting of Stockholders or Members," Article 29.160, Insurance Code of Puerto Rico "Election of Directors," and the Company's bylaws, Article II, Section 1, which requires the minimum number of Board members to be five.

We recommend the Company adhere to Article 29.140, Insurance Code of Puerto Rico "Regular and Special Meeting of Stockholders or Members," Article 29.160, Insurance Code of Puerto Rico "Election of Directors," and the Company's bylaws.

Stockholders Meeting

Article I, Section 1 of Integrand's bylaws stipulates that the annual stockholders' meeting shall be held on the fourth Thursday of June. The annual stockholders' meetings were held on the following dates:

- July 15, 2009
- September 2, 2010

The dates the stockholders' meetings were held did not conform to the terms of Article I, Section 1 of the bylaws of the Company.

We recommend the Company adhere to Article I, Section 1 of the Company bylaws and hold the annual stockholders' meeting on the fourth Thursday in June or amend the bylaws to conform to actual practice.

Board of Directors' Meeting

Article II, Section 3 of Integrand's bylaws, stipulates the following:

“After each meeting of stockholders at which a Board of Directors shall have been elected, the Board of Directors so elected shall meet...”

Article I, Section 1 of Integrand's bylaws stipulates that the annual stockholders' meeting shall be held on the fourth Thursday of June. The Board of Directors' meetings were held following the stockholders' meetings; thus, the meetings did not conform to the terms of Article I, Section 1, and Article II, Section 3 of the bylaws of the Company.

We recommend the Company adhere to Article II, Section 3 of the Company bylaws and hold the annual Board of Directors' meeting on the fourth Thursday in June or amend the bylaws to conform to actual practices.

Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Integrand Assurance Company** as of December 31, 2009, consistent with the insurance laws of the Puerto Rico.

In addition to the undersigned, Don Gaskill, CFE, Examiner-in-Charge; Peter Bliss, CFE, Staff Examiner; Charlie McMorrow, CFE, CPCU, CIA, CPA, Staff Examiner; and Patricia Casey Davis, CPA, CFE, Manager, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and Rachel Jenerett, CISA, IT Specialist, both of INS Services, Inc.; Eugene Thompson, ACAS, MAAA, Actuary, INS Consultants, Inc.; and Carmelo Hernández Alicea, Supervising Examiner, Oficina del Comisionado de Seguros participated in the examination.



Don Gaskill, CFE
Examiner-in-Charge