

Office of the Commissioner of Insurance

REPORT ON EXAMINATION
OF
PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY

As of December 31, 2011

NAIC Code: 12332

AMENDED

Rafael Ruffat Pastoriza
Examiner

María I. Pedrosa Rosa
Examiner

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COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

December 5, 2012

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

Dear Commissioner:

According to the Notice and Order of Investigation Number EX-2012-01, and in harmony with the provisions of Section 2.140 of the Insurance Code of Puerto Rico, 26 L.P.R.A., sec. 214, as amended, on February 24, 2012 we performed an examination of the operations and financial condition of the domestic insurer:

PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY,

hereinafter referred to as PRMDIC or the Company.

SCOPE OF THE EXAMINATION

The survey covered the financial transactions and operations of the Company from January 1, 2008 through December 31, 2011, and those subsequent transactions that in the opinion of the examiner were relevant. We examined the assets, obligations and disbursements made by the Company, to verify compliance with accounting standards and practices issued by the National Association of Insurance Commissioners (NAIC) and the provisions of the Insurance Code of Puerto Rico and its Regulations.

The examination was held at the offices of the Company, located in VIG Tower #1225, Suite 1400 Ponce de León Avenue, San Juan, Puerto Rico.

We conducted our examination in accordance with the *National Association of Insurance Commissioners 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.

During the years from 2008 to 2011, the accounting firm RSM ROC, carried out audits of the Company, which gave a satisfactory opinion on each of the years, based on statutory accounting principles. Some relevant data was used to supplement in our worksheets.

HISTORY

The Company was incorporated in the Commonwealth of Puerto Rico in March 3, 2005. Principal line of business is casualty insurance products, primarily medical

malpractice coverage. The Company was converted from a mutual insurer to a stock insurer on July 1, 2009. The Company business is to provide medical malpractice insurance to individual physicians and medical corporations with two basic coverages. The excess coverage provides policy limits of up to \$1,000,000 per medical incident and \$3,000,000 in the aggregate for an insured incident during one original policy period. These policy limits only apply in claims in excess of \$100,000 per medical incident and \$300,000 in the aggregate.

The primary coverage provides policy limits of up to \$100,000 per medical incident and \$300,000 in the aggregate for an insured incident during one original policy period. The total authorized capital of the Company, consists of 350,000 shares of common stock with a par value of \$7.50 and \$2.50 premium for a total of \$10.00. The Company recorded erroneously, for the years 2009, 2010 and 2011, common stock at a par value of \$10.00, instead of at \$7.50 with a premium of \$2.50, as approved by the Office.

TERRITORY AND PLAN OF OPERATIONS

For the period covered under this examination, the Company was licensed to transact casualty line of business only in Puerto Rico, in conformity with Section 4.080 of the Insurance Code of Puerto Rico.

GROWTH OF THE COMPANY

The following data was obtained from the annual statements filed with the Office of the Commissioner of Insurance, hereinafter (OCI):

Year	Admitted Assets	Liabilities	Company Capital Stock or Surplus	Aggregate write-in for other than Special Surplus Funds	Gross Paid Contributed Surplus	Unassigned Surplus
2011*	\$4,631,916	\$2,479,179	\$1,851,188	\$80,174	\$617,062	(\$395,687)
2010*	\$3,701,517	\$1,528,951	\$1,851,188	\$55,179	\$617,062	(\$350,863)
2009	\$3,240,469	\$1,018,133	\$2,682,789	\$0	\$0	(\$460,453)
2008	\$1,020,619	\$221,898	\$834,874	\$0	\$0	(\$36,155)

*Amended Annual Statement as of December 31, 2011.

INSURANCE PRODUCTS

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

	2008	2009	2010	2011
Primary Coverage *	\$0	\$0	\$0	\$369,306
Excess Coverages	\$1,323,118	\$1,334,813	\$1,543,097	\$2,057,286
TOTAL	\$1,323,118	\$1,334,813	\$1,543,097	\$2,426,592

* The Company began to write business in primary insurance policy from July 2011.

ADMINISTRATION AND CONTROL

As of December 31 2011, the Company had 246,825, as authorized capital common stock with a sale price of \$10, consisting of a par value of \$7.50 and a premium of \$2.50. This consists of 218,000 common shares issued to Resolve Holding Corporate and 28,825 common shares issued to members that exercised the option to convert their participation in the mutual company into common stock of the Company on July 2009. See topic Capital-Stock.

Name of Shareholders	Total Share
Resolve Holding Corporation	218,000
Physician's	28,825
Total shares issued and outstanding	246,825

BOARD OF DIRECTORS AND COMMITTEE MINUTES

The recorded minutes of the meetings of the Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes documented its meetings and approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico. Notwithstanding, there were no minutes for the Investment and Audit Committees.

Section 29.150 of the Insurance Code of Puerto Rico states, among other things, that each Director of an insurer shall be a stockholder of the insurer, if a stock insurer, or a member of the insurer, if a mutual insurer.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on August 24, 2011, were as follows:

Name	Position
Mr. Dennis Hanftwurz	** Chairman of the Board of Directors
Mr. Juan A. Terrassa Nolla	** Director
Dr. Luis Oms	** Director
Mr. Eitel Gómez	** Director
Dr. Sixto R. Aymerich	** Director
Dr. Charles Juarbe	Director
Dra. Vanessa Marcial	Director
Dr. José Anibal Collazo	Director

** These Directors were found not to hold at least one stock of PRMDIC in compliance with the requirement of Section 29.150.

The Company is not in compliance with Section 29.150 of the Insurance Code of Puerto Rico and its own corporate Bylaws which requires each director to be a stockholder of the Insurer.

In addition, Section 29.210(2) of the Insurance Code of Puerto Rico provides that unless otherwise required by the bylaws, no officer other than the president needs to be a stockholder, director, or member of the insurer. In our review it was found that Corporate President, Mr. Dennis Hanftwurz, does not hold at least one stock in compliance with the requirements of said section.

As a subsequent event, in 2012 the finding was corrected by PRMDIC, except for Dr. Sixto R. Aymerich, who resigned on April 27, 2011. Dr. José A. Collazo was appointed from the mentioned date to occupy the vacant position. Mr. Collazo owns 383 shares of the PRMDIC, in compliance with article 29.150.

OFFICERS

The officers of the Company, as appointed during the annual meeting of the Board of Directors on May 11, 2011, were the following:

Name	Position
Mr. Dennis Hanftwurz	President
Mr. Juan A. Terrassa Nolla	Vice-president
Mr. Francisco Uriarte	Secretary & Treasurer
Mrs. Griselle M. Fernández	Controller

Section 29.210 (1) of the Insurance Code of Puerto Rico, provides:

"Insurance officials consist of a president, vice president, treasurer, secretary and other officials as necessary and for which is provided in the bylaws. Officers will be elected by the board of directors and

meet the requirements, shall have the powers and duties and shall serve for terms prescribed in the statutes.”

Article VII of the Bylaws of the Company, provides that the officers of the corporation shall be elected by the Board of Directors. These consist of a President, Executive Vice President, a Secretary and a Treasurer, in addition to other officials as necessary. The Company complied with the provisions of Article VII of its Bylaws, and with the requirements of Section 29.210 (1) of the Insurance Code of Puerto Rico. As a subsequent event, in 2012 the finding was corrected by PRMDIC.

COMMITTEES

Pursuant to the provisions of the Bylaws in Article VI, Section 1, 4 and 5, and in compliance with these, the Board of Directors elected members would constitute the following committees: Executive Committee, Investment Committee and Audit Committee.

EXECUTIVE COMMITTEE

Under Article VI, Section 1 of the Bylaws of the Company, the Executive Committee shall be empowered to act, between meetings of the board, on matters requiring immediate attention or resolution. Any determination made by the Executive Committee shall be presented for ratification by the Board of Directors in the next regular meeting.

The Executive Committee as appointed were the following:

Name	Position
Mr. Dennis Hanftwurz	Chief Operating Officer
Mr. Juan A. Terrassa Nolla	Chief Executive Officer
Mr. Francisco Uriarte	Chief Financial Officer
Mrs. Griselle M. Fernández	Controller

INVESTMENT COMMITTEE

The Board of Directors of an insurer shall adopt a written plan to acquire and maintain investments and to outline their investment practices. This plan shall establish guidelines with regard to the quality, maturity, diversity of investments and other requirements, including investment strategies.

The Investments Committee was constituted with three members; they have the responsibility to evaluate and manage the investments that the company will acquire.

The Investment Committee as appointed was the following:

Name	Position
Mr. Juan A. Terrassa Nolla	Chairman
Mr. Francisco Uriarte	Secretary
Mr. Eitel Gómez	Member

The Company does not have an approved written Plan (Investment Policies) to acquire and maintain investments and to outline its investment practices during the period of examination. Also, the Board of Directors did not meet at least every three months to receive and review a summary report of the investment portfolio by the Investment Committee.

The Company did not comply with Sections 6.040(1) and (3) of the Insurance Code of Puerto Rico because it does not have a written Investment Plan and did not

hold meetings at least every three months to review its investments. In other matters, the Company did not comply with Section 6.040(4) of the Insurance Code of Puerto Rico, failing to discharge fully their duties and maintain records of any authorization or approval. Based upon the documents provided (by the Company) and the procedures performed, at 2011 and 2010, the portfolio was not properly approved by the Board of Directors.

Eventually, the Company adopted an investment plan, which was approved by the Board of Directors on March 2012. The Company investment plan established the professional qualifications of the persons who will make routine decisions to ensure their investment competence and ethical conduct in compliance with the provisions of Section 6.040 of the Insurance Code of Puerto Rico.

AUDIT COMMITTEE

The Audit Committee is composed of three members; shall be directly responsible for the appointment and oversight of the work of any accountant regarding the preparation of the audited financial reporting or any other work related issue.

The Audit Committee, as appointed, was the following:

Name	Position
Dr. Luis Oms	Chairman
Mr. Eitel Gómez	Secretary
Mr. Antoine De Marsily	Member

Rule 14 A of the Regulations of the Insurance Code of Puerto Rico provides that persons appointed to the Audit Committee will be part of the Board of Directors.

However, in 2011, Mr. Antoine De Marsily, an appointed member in the Audit Committee, was not a member of the Board of Directors.

Also, Mr. Francisco Uriarte, who replaced Mr. Marsily when he resigned, was not a member of the Board.

The Company does not have minutes of the meetings to the Audit Committee, and of the Investment Committee. This action of the Company is contrary to Rule IX of the Rules of the Insurance Code of Puerto Rico.

SALARIES AND COMPENSATION

Pursuant to Section 29.220 of the Puerto Rico Insurance Code, unless the board of directors had in advance authorized a salary, compensation or emolument, or the contract by virtue of which it has been earned, an insurer shall not pay any salary, compensation or emoluments to any director, officer or employee which in the aggregate exceeds twelve thousand dollars (\$12,000) in any one year, and no such salary, compensation, or emolument shall be considered earned.

At least two Officers and Directors received during the period of examination salaries in excess of 12,000. In the review of the minutes of the Board of Directors, evidence was not found that any discussion on the issues related to wages that exceed twelve thousand dollars (\$12,000) in any one year paid to directors, officers or employees of the Company took place. Notwithstanding, we acknowledge that an estimate annual budget for wages was presented and approved by the Board of Directors for the years under review. We recommend that for future years the wages in

excess of \$12,000 should be approved and included in the corporate minutes in order to comply with Article 29.220 of the Insurance Code of Puerto Rico.

Moreover, in our examination we noted that wages paid to the President and Vice President of the Company are based on the employment agreement signed April 29, 2009, subscribed with Resolve Holding Corp. However, these wages have not been honored in accordance with the contracts, being paid an amount less than that established.

CONFLICT OF INTEREST

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

FIDELITY BONDS AND OTHER INSURANCE

The Company does not have a fidelity Bond for the period covered by this examination. However, during the examination the Company acquired coverage for such purposes and maintained fidelity bond coverage with a single loss limit of \$200,000 with a deductible of \$1,000. These amounts are in excess of the suggested minimum amount as recommended by the NAIC of \$75,000. The Company is also a named insured on various other policies providing commercial property & liability, and umbrella coverages.

CORPORATE RECORDS

ARTICLES OF INCORPORATION AND BY-LAWS

The Company made changes to its Articles of Incorporation during the period under examination. The Articles of Incorporation, Bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors and shareholders were reviewed for the period under examination.

The Articles of Incorporation of the Company were amended on January 2009, to declare the Company's change from mutual insurer to a stock insurance company and to change the name of Company from Puerto Rico Medical Defense Mutual Insurance Company to Puerto Rico Medical Defense Insurance Company.

According to Sections 28.050 and 29.080 of the Insurance Code of Puerto Rico these amendments were reviewed and found in compliance.

CAPITAL, INVESTMENT AND DEPOSIT REQUIRED

Law No. 303 of December 16, 2003, amended several provisions of Chapter 3 of the Insurance Code of Puerto Rico, in order to increase the minimum capital requirement, deposits and investments in securities of Puerto Rico.

Sections 3.090, 3.151 and 3.160 of the Puerto Rico Insurance Code, require any insurer, as a condition to be authorized, to keep capital, deposits and investments in securities of Puerto Rico, in the amounts set forth therein. Below is a summary of the analysis of each of these requirements that apply to the Company.

CAPITAL

The OCI notified by Letter of September 7, 2005, the Company's new capital requirements, surplus, deposit and investments in securities of Puerto Rico, which the Company had to meet. The OCI granted the Company a deferment for two years for its implementation of Section 3.090 of the Insurance Code of Puerto Rico. For this reason, this compliance would begin after 2008, gradually increasing its surplus by \$280,000 for the next five years.

It was not until the time of the conversion that the Company, in order to raise additional funds, established a premium on the sale of the capital stock. Consequently, on July 1, 2012, the Company filed an amended annual statement as of December 31, 2011 in which it reclassified \$617,062 from common stock to gross paid in and contributed surplus to present correctly balances in its annual statement.

DEPOSIT AND INVESTMENT REQUIREMENT

Section 3.151 of the Insurance Code of Puerto Rico requires any insurer authorized to transact insurance in Puerto Rico, to deposit and hold on deposit with this Office assets for a value of no less than fifty percent (50%) of the required amount of surplus funds. On September 7, 2005, this Office granted the Insurer the option to comply with this requirement by annual installments, beginning on year 2006 and ending on 2010. In spite of the fact that the Insurer failed to make some of the installments in a timely manner, as of December 31, 2011, the Insurer fully complied with the deposit required by Section 3.151, *supra*.

Section 3.160 of the Insurance Code of Puerto Rico, requires that 50% of the minimum paid in capital shall be invested in Puerto Rico securities. The Company complied with this Section, maintaining the required investments in securities of Puerto Rico, in excess of \$1,000,000 at amortized cost, as of 31 December 2011.

REINSURANCE

As of December 31, 2011, the Company maintained several reinsurance contracts with the participation of reinsures authorized by the OCI in accordance with the provisions of Section 4.120(b) of the Insurance Code of Puerto Rico and Ruling Letter N -AF-4-63-2005, issued on April 11, 2005.

The reinsurance programs for 2011 include contracts for Medical Liability Primary and Excess of Loss. Contracts were reviewed for compliance with insolvency and intermediary clause, as required by SSAP No. 62 of the Accounting Practices and Procedures Manual of the NAIC.

Reinsurer	Contract Effectiveness	AM Best Rating	Distribution
	Primary Treaty		
Aspen Insurance UK Limited, UK	July 1, 2011	A (Excellent)	100%
	Excess Treaty		
Lloyd's Syndicate SMA 727	July 1, 2011		14.29%
Lloyd's Syndicate ARK 4020	July 1, 2011		9.52%
Lloyd's Syndicate BAR 1955	July 1, 2011		9.52%
Lloyd's Liberty Syndicate 4472	July 1, 2011		23.81%
Aspen Insurance UK Limited, UK	July 1, 2011	A (Excellent)	42.86%
Total Excess Treaty			100%

For 2008, the Company subscribed only excess policies which ceded risk, pursuant Section 4.140 of the Insurance Code of Puerto Rico, to the following reinsurers:

Lloyd's Underwriters, Aspen Insurance UK Limited and which provide:

“As per business subject to this contract, the Company shall cede to the Reinsurers and the Reinsurers agree to accept 91% of the Company’s net liability, each medical incident, each insured, each policy, up to the maximum limits (\$1,000,000/\$3,000,000). The Reinsurer shall pay its proportionate share of any loss plus loss adjustment expense each medical incident, each insured and each policy”.

In 2009, after the conversion plan, the Company entered into a reinsurance contract which was renewed on July 1, 2011. This reinsurance agreement covers the period from 2011 to 2013, and establishes the retention parameters as follows:

“For the 1st and 2nd Underwriting Year: The Company shall retain and be liable for the first \$200,000 of ultimate net loss each claim, each insured. The Reinsurer shall be liable for the amount by which such ultimate net loss exceeds the Company’s retention, but the liability of the Reinsurer shall not exceed \$1,800,000 each claim, each insured. For the 3rd year, the Company shall retain \$150,000 and Reinsurer shall not exceed \$1,850,000.”

On July 1, 2011, the Company entered into a reinsurance contract for primary business with the reinsurer Aspen Insurance UK Limited, which covers the period from 2011 to 2013, establishing the retention parameters as follows:

“By this Contract the Reinsurer agrees to reinsure the liability which may accrue to the Company under its policies of insurance (\$100,000/\$300,000), issued or renewed on or after the effective date hereof, and underwritten and classified by the Company as Physicians, Surgeons and Dentist Professional Liability, subject to the terms, conditions and limitations. The Company shall retain and be liable for the first \$30,000 of ultimate net loss each claim, each insured. The Reinsurer shall be liable for the amount by which such ultimate net loss exceeds the Company’s retention, but the liability of the Reinsurer shall not exceed \$70,000 each claim, each insured.”

UNCLAIMED FUNDS

Section 26.040 of the Insurance Code of Puerto Rico establishes that the Company, or his general agent, manager or producer, shall submit a written report to the Commissioner on all unclaimed funds, as defined in Section 2603(b) of the Insurance Code, withheld and indebted to others as of the immediately preceding December 31.

The Company did not have to comply with this rule since existing funds did not reach the seven years period provided by law. The Company commenced business on September 1, 2005.

RECORDS AND ACCOUNTING SYSTEM

The Company kept accounts on a combination of cash and accrual for purposes of preparing financial statements and the annual statement. The records consisted of a general ledger, subsidiary of premiums receivable, subsidiary receipts and disbursements, and other journal entries.

For the period under review, the insurer's financial statements were audited by certified public accountants RSM ROC & Company. The actuarial study and opinion was performed by Mr. Michael Delvaux, FCAS, MAAA, of Illinois Risk Management Services.

FINANCIAL STATEMENTS

Below are the following financial statements at December 31, 2011:

- Balance Sheet
- Summary of operations
- Reconciliation of Capital and Surplus

The Insurer, on June 1, 2012, submitted an amended annual statement as of December 31, 2011, with detail of adjustments to present correctly balances in its annual statement.

PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY
BALANCE SHEET
DECEMBER 31, 2011

	Annual Statement	Examination Adjustments (A) or Reclasifications (R)	Examination Balance
Bonds	\$ 2,737,294		\$ 2,737,294
Common Stocks	198,322	(\$187,790) (R)	10,532
Cash and short-term investments	994,021	235,279 (R)	1,229,300
Receivable for Securities	32,499		32,499
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	411,584	10,826 (R)	422,410
Amounts recoverable from reinsurers	22,933		22,933
Net deferred tax asset	229,100	(54,100) (A)	175,000
Electronic data processing equipment and software	1,948		1,948
Total Assets	\$ 4,627,701		\$4,631,915

PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY
BALANCE SHEET
DECEMBER 31, 2011

	Annual Statement	Examination Adjustments	Examination Balance
Losses	\$1,002,788		\$1,002,788
Loss adjustment expenses	53,972		53,972
Commissions payable, contingent commissions and other similar charges	0	6,398(R)	6,398
Other expenses	43,096		43,096
Taxes, licenses and fees	11,260		11,260
Unearned premiums	1,216,695		1,216,695
Advance Premiums		4,428(R)	4,428
Ceded reinsurance premiums payable	195,116		195,116
Draft Outstanding		47,488(R)	47,488
Funds held by company under reinsurance treaties			
Amounts withheld or retained by company for account of others			
Aggregate write-ins for liabilities	(102,063)		(102,063)
Total Liabilities	\$2,420,864		\$2,479,178
Common capital stock	2,468,250	(617,062)	1,851,188
Aggregate write-ins for special surplus funds	80,174		80,174
Gross paid in and contributed surplus		617,062	617,062
Unassigned funds (surplus)	(341,587)	(54,100)	(395,687)
Total Surplus	2,206,837		2,152,737
Total Liabilities and Surplus	\$4,627,701		\$4,631,915

PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY
SUMMARY OF OPERATIONS
DECEMBER 31, 2011

Subscription Revenues:		
Earned Premiums		\$1,524,123
Deduction:		
Incurred Losses	\$392,878	
Adjustment Expenses Incurred	49,237	
Other Underwriting Expense	<u>1,152,796</u>	
Total Deduction		<u>\$1,594,911</u>
Gain or (Loss) Subscription		\$(70,788)
Investment Income		
Earned Net Investment Income	\$82,145	
Gain o (Loss) Realized Capital		
Net Investment Income		\$82,145
Other Income or (loss)		
Profit Before Income Tax		<u>\$11,357</u>
Income Tax		<u>0</u>
	Net Income	<u><u>\$11,357</u></u>

PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY
CASH FLOW
DECEMBER 31, 2011

Operating Cash	
Premiums Collected Net of Reinsurance	\$1,663,744
Net Investment Income	80,706
Miscellaneous Income	0
Total	\$1,744,450
Profit and loss Payment	13,157
Fees and Expenses Paid	1,145,050
Income Tax	0
Total	\$1,158,207
Net Operating Cash	\$586,243
Cash Investment	
Cost of Investment Acquired:	
Bonds	985,000
Stock	59,673
Miscellaneous Applications	24,811
Net Cash Investment	\$2,314,363

PUERTO RICO MEDICAL DEFENSE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER, 31 2011

	Examination Adjustment		Balance
	Increase	Decrease	
Capital and Surplus per Annual Statement			\$2,206,837
Assets:			
Net Deferred Tax Assets		54,100	
Total Consideration Adjustment		\$54,100	(54,100)
Capital and Surplus per Examination			<u>\$2,152,737</u>

COMMENTS ON THE FINANCIAL STATEMENT

Following are the review comments and findings related to some of the accounts presented in the annual statement report of the Company as of December 31, 2011.

BONDS	\$2,737,294
COMMON STOCK	10,532
CASH	1,229,300

The balance of the Bonds account represents the depreciated value of the investments held by the Company at December 31, 2011, as detailed below:

Descriptions	Balance Annual Statement
Public Obligations of Puerto Rico	\$1,826,873
Public Obligations of United State	910,421
Total	\$2,737,294

At December 31, 2011, the total invested in government bonds from Puerto Rico, the amount of \$1,029,065 was in the custody of Citibank NA Puerto Rico, transferred in trust to the Secretary of the Treasury, through the OCI. The above-mentioned, represented the amortized value of the statutory deposit required by Section 3.150 of the Insurance Code of Puerto Rico.

The other values were in the custody of Merrill Lynch. We checked the existence and valuation of investments of the Company by the trustee's confirmations. Tests were carried out for purchases and sales of investments during 2011, and found no discrepancies in this regard. Investments held by the Company at December 31, 2011, complied with the investment limits set forth in Section 6.080 of the Insurance Code of Puerto Rico.

Upon a detailed analysis of the prospectus of funds maintained at Merrill Lynch, management decided to reclassify from mutual funds to cash held in financial institutions, the funds held at Merrill Lynch deposit program with Bank of America, NA and FIA Card Services, NA in the amount of \$187,790.

All schedules related to Cash and Investment in Common Stock were modified as per analysis. Checks with more than six months of issuance were reclassified to unclaimed funds. Cash held at Banco Popular and unclaimed funds increased by \$47,488.

PREMIUMS RECEIVABLE	\$422,410
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As of December 31, 2011, the Company filed its annual statement with a balance of \$411,422 of Premium Receivables. The Company improperly offsetted the commission payable with amounts of Premiums Receivable balance by \$6,398. This amount was reclassified to commission's payable. Moreover, the amount of \$4,428 of Premiums Receivable from agents collected in advance from a policy with effective date January 2012, were reclassified to the correct account, Premium in Advance, according to Statement of Statutory Accounting Principle (SSAP) No. 6.

The Company amended its annual statement to reflect these adjustments or reclassifications as of December 31, 2011. The amended statement was submitted to this Office on June 1, 2012.

In other matter, on March 31, 2012, the Company canceled at the date of inception 15 policies for non-payment, which were registered as business written at December 31, 2011, even though they had not received a partial or full payment by the prospective insured or on his behalf. This affected several accounts such as: accounts

receivable, unearned premiums and commission expenses, thus affecting the net income reported by the Company at December 31, 2011. Although the effect was not considered material and therefore is not reflected as an adjustment, the Company shall create internal controls, in order for these transactions not to happen subsequently.

We remind to the Company it should not place a policy contract into effect without the insured having paid at least a partial or full payment.

DEFERRED TAX **\$175,000**

Deferred Tax Asset was reduced to \$175,000 (\$229,100 in previous filing) in order to reflect the change in the Puerto Rico tax law rates. This adjustment reduces capital and surplus by \$54,100. As a subsequent event, on June 1, 2012, the company submitted an amended annual statement showing the corrected balance.

RESERVE AND LOSS ADJUSTMENTS **\$1,002,788**

In the annual statement as of December 31, 2011, the Company reflected in this reserve a balance of \$1,002,788. During the examination period the Company had received (42) complaints of which (39) are claims for Medical Professional Liability Excess of Loss and (3) cases for Professional Medical Liability -Primary Cover. Of these claims, only (5) have been reserved.

	Professional Liability Excess of Loss		Professional Medical Liability	
	Claims	%	Claims	%
Cases with reserve	5	13%	0	
Cases without reserve	34	87%	3	100%
Total Claims	39	100%	3	100%

The reserve established by the Company for five claims at December 31, 2011, was \$495,000. This represents a net reserve of \$ 44,550 or 9% of its responsibility. The Company ceded 91% to Lloyd's Underwriters and Aspen Insurance UK Limited. These placements were initially made through the broker intermediary Benfield and then, in 2011, through the new intermediary Trean Reinsurance Broker.

These reserves are established upon the judgment of the preliminary assessment made by the legal representatives of Corral & De Mier, LLP, Delgado & Fernández, LLP, and Quiñones Tridas PSC, hired by the Company, which analyzed claims and issued opinions as to the potential risk to the Company in those cases that may exceed the limits covered by the policy that provided primary insurance. They recommended establishing an adequate reserve, according to their expertise in the cases, and that such reserve shall be subject to revision as the discovery of evidence develops.

On the other hand, in relation to primary business, the Company has received three claims for which legal representatives have recommended establishing a reserve. The Company is not diligent to establish a preliminary reserve when registering the receipt of a claim. We recommend implementing a procedure to evaluate and assign a preliminary reserve for any notice of claim received.

COMMISSIONS PAYABLE **\$6,398**

As of December 31, 2011, the Company filed its annual statement with zero balance in this account. This amount of \$6,398, is composed of the accumulation by Company to pay regular commissions that was presented net in the account of the premiums receivable, which was reclassified to be presented correctly. In accordance with Section

5.020 of the Insurance Code of Puerto Rico, liabilities are defined as probable future economic sacrifices arising from present obligations of an insurer. As a subsequent event on June 1, 2012, the company submitted an amended annual statement showing the corrected balance.

ADVANCED PREMIUMS**\$4,428**

As of December 31, 2011, the Company filed its annual statement with a balance of \$0 for this account. This amount of \$4,428 corresponds to premiums received in advance which were reclassified from premium receivable to be presented correctly.

OTHER MATTERS**SALES REPRESENTATIVE LICENSES**

Pursuant Section 28.130 of the Insurance Code of Puerto Rico, the license to solicit stock subscriptions shall expire as of midnight on the June 30 following date of issue, and may be renewed for another year upon application thereof and payment of license fee.

The representative license issued by the OCI was for the period of September 5, 2008 through June 30, 2009, for Mr. Juan Terrassa Nolla. Notwithstanding, on March 9, 2009, the licensee was substituted for Dr. Charles Juarbe Santos, for the remaining period until June 30, 2009.

The stock certificate issuance to Resolve Holding Corp., which represented 88% of the shareholders of the Company, took place when the transaction from the sale of the shares was performed on July 7, 2009; also, the payment for shares representing 12% of the shareholders of the Company was received during the year 2010.

NOTICE OF OPTION - PARTICIPATION IN THE COMPANY

During the examination, it was noted that the Company made imposition of options without proper acceptance of the mutual members.

In the process of converting mutual participation of members to shareholders, the Company sent a communication in which it offered three options. The communications that were sent to the mutual members expressed that if no answer was received on or before April 5, 2010, selecting an option, the Company would understand that the participating member decided not to acquire its proportionate share of the Company's capital proposed, and actual participation would be converted into shares as described in Option A.

Having not received a reply within the deadline, as stated in the letter sent, the Company proceeded to convert to Option A the participation of 105 members who did not respond to the alternatives offered on their participation. However, the Company could not confirm how many of the members did not answer, or who received notice and did not respond or have never received the certified mail notification. The return receipt mail form (PS Form 3811, February 2004) with the signature of the receiver, or the letter returned to the Company, were not submitted for evaluation.

The Company did not conduct additional procedures to confirm the acceptance of the participant members before imposing Option A.

If the Company does not contact the shareholders that did not respond it could be a serious problem. As a result, shareholders could not capitalize the company according to their participation. Additionally, such shareholders could reject the

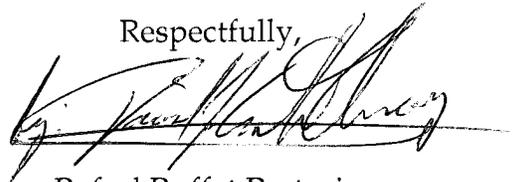
liability imposed by the Company to convert their participation in shareholders under a presumption of acceptance of the member under Option A.

CONCLUSION

Company's financial position at December 31, 2011, after adjustments and reclassifications is:

Assets	<u>\$4,631,916</u>
Liabilities	\$2,479,179
Common Capital	1,851,188
Gross paid and contributed surplus	617,062
Aggregate write ins for other than Special Funds	80,174
Unassigned Funds (Surplus)	<u>(395,687)</u>
Total Liabilities, Capital y Surplus	<u>\$4,631,916</u>

Respectfully,



Rafael Ruffat Pastoriza
Examiner

SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. For the period covered under this examination, the Company did not comply with Section 29.150 of the Insurance Code of Puerto Rico. We found five Directors who do not own at least one share. Page 6
2. For the period examination, Mr. Dennis Hanftwurz, Corporate President, does not own at least one share, contrary to the requirement of Article 29.210(2) of the Puerto Rico Insurance Code. Page 6
3. The Company does not have an approved written Plan (Investment Policy) to acquire and maintain investments and to outline its investment practices during the period examination, pursuant Section 6.040(1) of the Insurance Code of Puerto Rico. Page 8
4. During the examination, it was noted that the Company did not meet at least every three months to review the investments report to comply with Section 6.040(3) of the Insurance Code of Puerto Rico. Page 8
5. During the examination, it was noted that the Company did not comply with Section 6.040(4) of the Insurance Code of Puerto Rico, failing to discharge fully their duties and maintain records of any authorization or approval of investments. Page 8
6. An appointed member in the Audit Committee was not a member of the Board of Directors, contrary to the provisions of Section 14 of Rule 14 A of the Regulations of the Insurance Code Puerto Rico. Page 9
7. The Company failed to maintain minutes of the meetings of the Investment Committee and of the Audit Committee, failing to comply with Rule IX. Page 9

8. The Company improperly offset the commission payable and premiums in advance with amounts of Premiums Receivable. The Company must properly record the transaction in their books to comply with the Statement of Statutory Accounting Principle (SSAP) No. 6. The Insurer corrected the finding during the exam. Page 23
9. On March 31, 2012, the Company canceled at the date of inception 15 policies for non-payment, which were registered as business written at December 31, 2011, even though they had not received a partial or full payment by the prospective insured or on his behalf. We remind to the Company that it should not place a policy contract into effect without having received at least a payment. Page 23
10. Deferred Tax Asset was reduced to \$175,000 (\$229,100 in previous filing) in order to reflect the change in the Puerto Rico tax law rates. This adjustment reduces capital and surplus by \$54,100. The insurer corrected the finding during the exam. Page 24
11. The Company has not established procedures to assign a preliminary reserve when it records the receipt of a claim in cases of primary business. We recommend implementing a procedure to evaluate and assign a reserve for all claims received. Page 25