

**AMENDED
REPORT ON EXAMINATION
OF
INTEGRAND ASSURANCE COMPANY**

AS OF

DECEMBER 31, 2011

NAIC CODE 26778

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

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE INSURANCE COMMISSIONER

October 10, 2012

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

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2012-08 dated March 21, 2012, 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, PUERTO RICO, 00920

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, 2010 through December 31, 2011, 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.

Use of Unauthorized Reinsurers

The Company was not in compliance with Article 4.120(1) of the Insurance Code of Puerto Rico because it used one unauthorized reinsurer, New India Assurance, Ltd. without prior written approval from the Commissioner.

Stockholders' Meeting

The dates the stockholders' meetings were held did not conform to the terms of Article I, Section 1 of the bylaws of the Company. This is a repeat finding from the prior examination.

Insufficient Oversight by the Board of Directors

The board of directors did not perform the annual certification during the examination period of investments pursuant to Article 6.040, Section 2 of the Insurance Code of Puerto Rico.

The board of directors did not perform the annual appointment of the actuary during the examination period and did not approve the actuarial report pursuant to the NAIC Annual Statement Instructions.

Board of Directors' Meeting

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. This is a repeat finding from the prior examination.

Failure to Comply with Rule 51 - Uninsured Deposits

The Company was not in compliance with Rule 51, Section 1 of the Insurance Code of Puerto Rico since it reported \$11,724,891.94 in uninsured deposits in the form of cash, cash equivalents, money market instruments, and certificates of deposit held at two banks as of December 31, 2011.

Compliance with Prior Examination Findings

The prior examination report covered the period of January 1, 2009 to December 31, 2009. The following issues were not resolved during the current examination period:

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:

- September 2, 2010
- July 28, 2011
- August 22, 2012

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

Board of Directors' Meeting

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 II, Section 3 of the bylaws of the Company.

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 Company has 100% ownership in two subsidiaries, Key Insurance Agency and Intercontinental Insurance Agency, Inc. Intercontinental Insurance Agency, Inc. is currently inactive. 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, 2011, the Company had 1,333,333 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 399,995 of the 400,000 shares outstanding.

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

Stockholders	Shares
Victor Jose Salgado, Sr.	1
Victor Jose Salgado, Jr.	1
Ana Maria Salgado	1
Francisco Javier Cobian	1
Mariana Martinez Mattei	1

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>
2011	\$5,000,000	\$38,610,742

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

Management and Control

The Company 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.

On November 22, 2011, Chairman Victor Jose Salgado, Sr. passed away, leaving only four (4) members during the period of November 22, 2011 through August 22, 2012. The vacancy was filled on August 22, 2012 with the appointment of José J. Gil de Lamadrid Jiménez to the board of directors.

The Company was in compliance with the Bylaws and Article 29.160 of the Insurance Code of Puerto Rico.

- The Company's overall investment procedures were not in compliance with Article 6.040(2), of the Insurance Code of Puerto Rico because the board of directors did not ratify the investment transactions which were approved by the finance committee.

- The board of directors did not perform the annual appointment of the actuary and did not review and approve the actuarial report pursuant to the NAIC Annual Statement Instructions.
- 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 Article 29.150 of the Insurance Code of Puerto Rico.

As of the examination date, the directors of the Company who were elected at the annual meeting of stockholders on July 28, 2011, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Víctor José Salgado, Sr. San Juan, Puerto Rico	Chairman of the Board
Víctor José Salgado, Jr. San Juan, Puerto Rico	President and CEO

Directors

Principal Occupation

Ana María Salgado
San Juan, Puerto Rico

Secretary, Treasurer,
Executive Vice President
and COO

Francisco Javier Cobian
San Juan, Puerto Rico

Owner, Cobian and
Cobian Law Firm

Mariana Martínez Mattei
San Juan, Puerto Rico

Retired

The officers of the Company, as elected in the annual meeting of the board of directors on July 28, 2011, were the following:

Víctor José Salgado, Jr.

President and CEO

Ana María Salgado

Secretary, Treasurer,
Executive Vice President and COO

Carman Esther Navas

Vice President, Administration

Javier Enrique Muñiz

Vice President, MIS

María Asunción Contreras

Vice President, Financial

The Executive Committee, as appointed by the board of directors on July 28, 2011, consists of the following:

Víctor José Salgado, Sr.

Chairman of Executive Committee

Víctor José Salgado, Jr.

Ana María Salgado

Francisco Javier Cobian

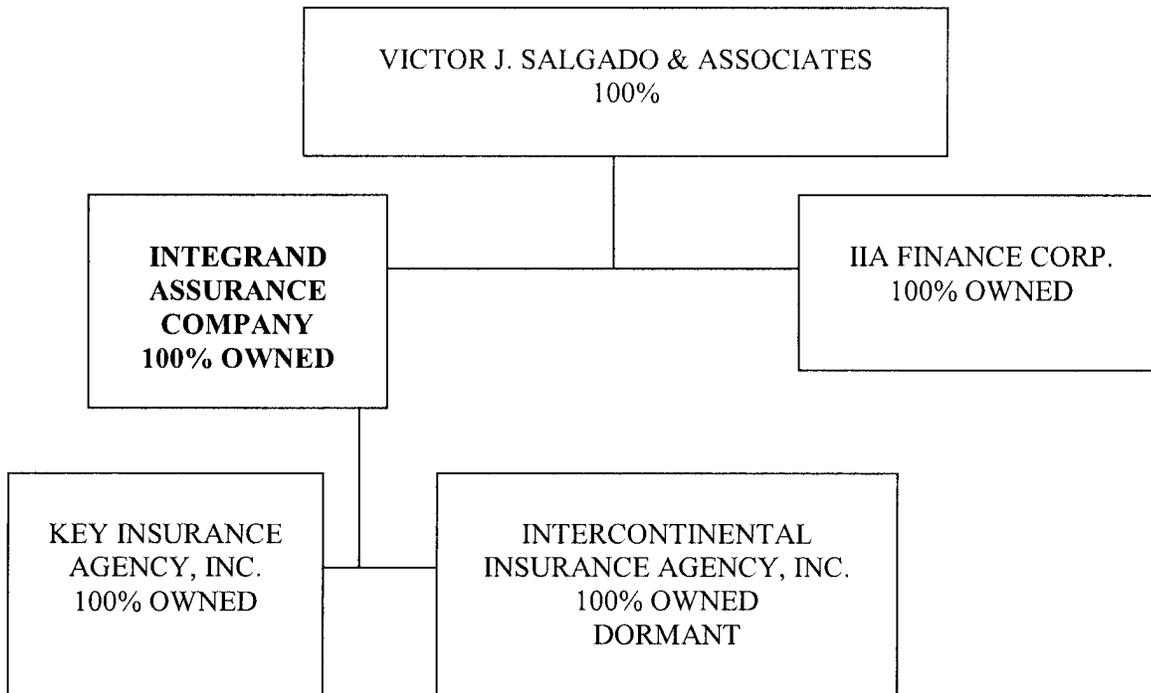
The Finance Committee, as appointed by the board of directors on July 28, 2011, consists of the following:

- Víctor José Salgado, Sr. Chairman of Finance Committee
- Víctor José Salgado, Jr.
- Ana María Salgado
- Francisco Javier Cobian

Integrand Assurance Company

Organization Chart

December 31, 2011



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 with Article 29.230 of the Insurance Code of Puerto Rico.

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 stockholders were reviewed for the period under examination. There were no amendments to the Articles of Incorporation or Bylaws during the examination period.

Board of Directors and Committee Minutes

The recorded minutes of the board of directors adequately documented its meetings 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 Company's overall investment procedures were not in compliance with Article 6.040, Section 2 of the Insurance Code of Puerto Rico because the board of directors did not ratify 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, Errors and Omissions, 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 to the plan was \$162,653 and \$152,947 for 2011 and 2010, respectively. The fair value of the plan

assets was \$4,196,159 in 2011. The custodian for the plan at December 31, 2011, was UBS Financial Services effective on April 1, 2010.

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 agreement was amended effective January 1, 2010, and the annual fee to be paid to the Company was reduced from \$150,000 to \$100,000.
- 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
2011	\$158,915,123	\$86,929,913	\$3,000,000	\$5,950,000	\$35,634,793	\$27,400,417
2010	167,511,894	96,061,399	3,000,000	5,950,000	38,610,742	23,889,753

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:

Lines of Business	2010	2011
Commercial Multi-Peril	\$38,362,816	\$38,772,722
Homeowners Multi-Peril	104,025	74,271
Commercial Auto Liability	8,937,236	8,904,178
Auto Physical Damage	8,540,442	8,403,946

Lines of Business	2010	2011
Other Liability Occurrence	7,268,429	4,012,353
Ocean Marine	619,855	528,880
Inland Marine	652,808	600,223
Earthquake	3,165,177	4,203,814
Allied Lines	2,894,475	3,479,127
Group A&H	1,897,478	2,125,792
Fire	2,112,916	2,415,703
All Other	4,495,557	4,770,787
Totals	\$79,051,214	\$78,291,796

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:

	2010	2011
Puerto Rico	\$78,463,185	\$77,761,573
U.S. Virgin Islands	588,029	530,223
Total	\$79,051,214	\$78,291,796

Statutory Deposits

As of December 31, 2011, the Company maintained the following statutory deposits with the Office of the Commissioner of Insurance (OCS) in compliance with the Article 3.151 of the Insurance Code of Puerto Rico.

Description	Maturity Date	Par Value	Amortized Value
PR Commonwealth	01/08/13	\$850,000	\$850,000
PR Sales Tax FING Corporation	01/08/36	650,000	650,000
Total		\$1,500,000	\$1,500,000

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 deposits 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, 2011.

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 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, 2011.

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 period 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, 2011.

Reinsurance cessions are made under excess of loss treaties, quota share and facultative agreements. The principal reinsurance agreements are as follows:

- Casualty 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 \$6 million resulting from any catastrophe, subject to a maximum loss of approximately \$164 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 \$19 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 2011, the Company did not request permission from the OCS to use one unauthorized reinsurer. Article 4.120(1), of the Insurance Code of Puerto Rico states an insurer may reinsure the total or part of the risks in Puerto Rico with other insurers only as follows:

- (a) in any insurer authorized to transact the same kind of insurance in Puerto Rico,
- or

(b) with the prior written approval of the Commissioner when with any foreign insurer not authorized to transact insurance in Puerto Rico.

The Company was not in compliance with Article 4.120(1) of the Insurance Code of Puerto Rico because it used one unauthorized reinsurer without prior written approval from the Commissioner.

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 2011 in compliance with Rule XIVa of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule XIVa of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Scott P. Weinstein, FCAS, MAAA, actuary for KPMG, LLP.

Financial Statements

Below are the financial statements of the Company:

- Balance Sheet Statement for the year ended 2011, according to adjustments made in this examination
- Statement of Income and Expenses for the year ended 2011, according to the Annual Statement
- Capital and Surplus as December 31, 2011
- Reconciliation of Surplus as Regards Policyholders as of December 31,2011

Integrand Assurance Company
Assets
As of December 31, 2011

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$125,849,137		\$125,849,137
Preferred stocks	1,140,582		1,140,582
Common stocks	1,800,954		1,800,954
Properties occupied by the company	6,667,995		6,667,995
Cash and short-term investments	14,080,961		14,080,961
Investment income due and accrued	921,209		921,209
Uncollected premiums and agents' balances in the course of collection	7,511,010		7,511,010
Amounts recoverable from reinsurers	659,892		659,892
Net deferred tax asset	253,749		253,749
Electronic data processing equipment and software	29,634		29,634
Total Assets	<u>\$158,915,123</u>		<u>\$158,915,123</u>

Integrand Assurance Company
Liabilities, Surplus and Other Funds
As of December 31, 2011

	Annual Statement	Examination Adjustments	Examination Balance
Losses	\$31,563,792		\$31,563,792
Loss adjustment expenses	4,100,000		4,100,000
Commissions payable, contingent commissions and other similar charges	155,906		155,906
Other expenses (excluding taxes, licences and fees)	1,471,023		1,471,023
Taxes, licenses and fees (excludng federal and foreign income taxes)	130,123		130,123
Current Federal and Foreign Income Taxes	(68,117)		(68,117)
Unearned premiums	31,812,065		31,812,065
Ceded reinsurance premiums payable (net of ceding commissions)	1,322,699		1,322,699
Amounts withheld or retained for account of others	870,766		870,766
Provision for reinsurance	46,400		46,400
Drafts outstanding	1,155,386		1,155,386
Payable for securities	4,065,543		4,065,543
Aggregate write-ins for liabilities	10,304,327		10,304,327
Total Liabilities	<u>\$86,929,913</u>		<u>\$86,929,913</u>
Catastrophe insurance reserve	\$27,400,417		\$27,400,417
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	5,950,000		5,950,000
Unassigned funds (surplus)	35,634,793		35,634,793
Surplus as regards policyholders	<u>71,985,210</u>		<u>71,985,210</u>
Total Liabilities Capital & Surplus	<u><u>\$158,915,123</u></u>		<u><u>\$158,915,123</u></u>

Integrand Assurance Company
Capital and Surplus
As of December 31, 2011

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	<u>\$71,450,495</u>
Net income	4,512,620
Change in net unrealized capital gains	520,556
Change in net deferred income tax	(104,852)
Change in non-admitted assets	(112,084)
Change in provision for reinsurance	64,600
Dividends to stockholders	(5,000,000)
Aggregate write-ins for gains and losses in surplus	<u>653,875</u>
Change in surplus as regards policyholders for the year	<u>534,715</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$71,985,210</u></u>

**Integrand Assurance Company
 Reconciliation of Surplus as Regards Policyholders
 For the Year Under Examination
 As of December 31, 2011**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2011, per Annual Statement	\$71,985,210
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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, 2011, Per Examination			\$71,985,210

Comments on Balance Sheet Items

Liabilities

Losses and Loss Adjustment Expenses	\$35,663,792
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The Office of the Commissioner of Insurance of Puerto Rico retained the services of INS Consultants, Inc. to perform actuarial services in conjunction with the financial examination of the Company. INS Consultants, Inc. performed an independent analysis of Company's loss and loss adjustment expense reserves as of December 31, 2011.

The Company's reserves were certified by Scott P. Weinstein, FCAS, MAAA, actuary from KPMG, LLP.

Capital and Surplus

The amount of capital and surplus reported by the Company as of December 31, 2011, was \$71,985,210. The Company exceeded the minimum paid in capital of \$3,000,000 required by Article 3.090 of the Insurance Code of Puerto Rico.

The Company was not in compliance with Rule 51, of the Insurance Code of Puerto since it reported \$11,724,891.94 of uninsured deposits in the form of cash, cash equivalents, money market instruments, and certificates of deposit held at two banks as of December 31, 2011.

Subsequent Events

The vacancy on the board of directors that occurred in November 2011 was not filled until August 22, 2012, with the appointment of José J. Gil de Lamadrid Jiménez. 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 November 2011 to August 22, 2012; however, the Company is now in compliance.

Summary of Examination Recommendations

Use of Unauthorized Reinsurers

Article 4.120, Section 1 of the Insurance Code of Puerto Rico states an insurer may reinsure the total or part of the risks in Puerto Rico with other insurers only as follows:

- (a) in any insurer authorized to transact the same kind of insurance in Puerto Rico,
- or
- (b) with the prior written approval of the Commissioner when with any foreign insurer not authorized to transact insurance in Puerto Rico.

The Company was not in compliance with Article 4.120(1) of the Insurance Code of Puerto Rico because it used one unauthorized reinsurer without prior written approval from the Commissioner.

We recommend the Company comply with Article 4.120(1) of the Insurance Code of Puerto Rico and obtain prior written authorization from the Commissioner prior to use of unauthorized reinsurers.

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:

- September 2, 2010
- July 28, 2011
- August 22, 2012

The dates the stockholders' meetings were held did not conform to the terms of Article I, Section 1 of the Bylaws of the Company. This is a repeat finding from the prior examination.

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.

Insufficient Oversight by the Board of Directors

Article 6.040(2) of the Insurance Code of Puerto Rico states "The board of directors shall certify in writing, through a formal resolution to be adopted at least once a year, that all

investments have been made pursuant to the delegation, standards, limitations and investment goals established by the board, or by a committee authorized by the board with the responsibility to administer the investments of the insurer."

The board of directors did not certify the investments during the examination period pursuant to Article 6.040(2) of the Insurance Code of Puerto Rico.

The NAIC Annual Statement Instructions state insurers must make an annual appoint of an actuary and approve the annual actuarial report issued by the appointed actuary.

The board of directors did not perform the annual appointment of the actuary and did not review and approve the actuarial report pursuant to the NAIC Annual Statement Instructions during the examination period.

We recommend the Company comply with Article 6.040(2) of the Insurance Code of Puerto Rico and have the board of directors perform an annual certification of investments of the Company, and perform an annual appointment of the actuary and approve the actuarial report annually pursuant to the NAIC Annual Statement Instructions.

Board of Directors' Meeting

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. This is a repeat finding from the prior examination.

We recommend the Company adhere to Article I, 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.

Failure to Comply with Rule 51 - Uninsured Deposits

Rule 51, Section 1 of the Insurance Code of Puerto Rico states the following:

"No insurer may at any time or in any manner maintain a deposit in any bank, finance company, saving and loan association, trust company or any other institution engaged in the business of lending money in Puerto Rico:

(a) Amounts in checking accounts in excess of the amount necessary to cover disbursements made in normal operation of the insurer for more than the amount insured by the Federal Deposit Insurance Corporation.”

The Company had \$11,724,891.94 of uninsured deposits in the form of cash, cash equivalents, money market instruments, and certificates of deposit held at two banks as of December 31, 2011.

We recommend the Company comply with Rule 51, of the Insurance Code of Puerto Rico and reduce its concentration of cash and cash equivalents held in banks to be no more than the maximum insured limits of the Federal Deposit Insurance Corporation plus amounts necessary to cover disbursements made in the normal course of operations.

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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, 2011, consistent with the insurance laws of the Puerto Rico.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, Manager, Charlie McMorrow, CFE, CPCU, CIA, CPA, Staff Examiner; Don Gaskill, CFE, Staff Examiner, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, CRISC Senior Manager, Claude Granese, CPA, IS Specialist, and David Gordon, MBA, CIA, CISA, CFE, IS Specialist, all of INS Services, Inc.; Eugene Thompson, ACAS, MAAA, Actuary, of INS Consultants, Inc.; and , Maritza Burgos, Staff Examiner, and Jesus Rivera, Examination Technician, both of the Office of the Commissioner of Insurance of Puerto Rico participated in the examination.



Patrick White, CFE
Examiner-in-Charge