

Commonwealth of Puerto Rico  
OFFICE OF THE COMMISSIONER OF INSURANCE

MULTINATIONAL LIFE INSURANCE COMPANY  
NAIC CODE 72087

REPORT ON EXAMINATION  
AS OF  
DECEMBER 31, 2012

AMENDED

Donald W. Sirois, CFE, CPA  
Examiner-in-Charge

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COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE INSURANCE COMMISSIONER

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November 10, 2014

Ms. Ángela Weyne Roig  
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-2013-07 dated June 20, 2013, 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

**Multinational Life Insurance Company**  
470 Ponce de Leon Ave.  
Hato Rey, PR 00918

hereinafter referred to as MLife or the Company.

**Scope of Examination**

The current examination was conducted at the home office of the Company located at 470 Ponce de Leon Ave., Hato Rey, PR. This examination covered the period of January 1, 2011 through December 31, 2012, 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 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, 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.

#### **PRIOR EXAMINATION FINDINGS**

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

##### ***Company Insolvency***

On January 23, 2012, the Company issued a restated 2010 annual statement, which indicated MLife was insolvent with capital and surplus totaling (\$96,219).

##### ***Company Failed to Obtain Adequate Fidelity Bond Coverage***

The Company failed to obtain adequate fidelity bond coverage as recommended by the NAIC Financial Examiners Handbook.

***Company Failed to Hold Annual Stockholder Meeting***

During 2010, the Company held its annual stockholder meeting on May 19 rather than on a date in April as required by the Company's bylaws Article I, Section 1 - Regular Annual Meetings. The Company was not in compliance with its bylaws or with Article 29.140 of the Insurance Code of Puerto Rico, which requires that the annual meeting of stockholders be held according to the Company's bylaws.

***Insufficient Number of Directors***

During the period under examination, it was noted that the board of directors contained only five directors. The Company was not in compliance with Article II, Section 1 of its bylaws which requires ten directors.

***No Evidence of Required Committees***

The Company did not provide any minutes of an Executive Committee or Finance Committee or any other evidence that these two committees ever met during the period under examination. The bylaws require that the Company have both an Executive Committee and Finance Committee.

***Company Failed to Properly Report Uncollectible Reinsurance Recoverables***

The reinsurance recoverable amounts, reported in the 2010 annual statement, included a balance of \$1,081,010 due from Munich Re. Of this balance, \$751,010 has been in dispute with Munich Re since 2007. SSAP No. 61 states, "The ceding and assuming companies must determine if reinsurance recoverable amounts are collectible. If it is probable that reinsurance recoverables on paid or unpaid claims or benefit payments will be uncollectible, pursuant to SSAP No. 5, these amounts should be written off through a

charge to the Statement of Operations". A financial statement adjustment totaling \$750,010 will be made as part of this examination.

***Late Filing of Audited Financial Report***

The Company was required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico to file an audited financial report for the year ending December 31, 2010, on or before June 1, 2011. The Company was granted two extensions to July 31, 2011 by the Office of the Insurance Commissioner (OCS). All further extension requests were denied. The Company filed its audited financial report on January 20, 2012. The Company was not in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

***Actuarial Review Recommendations***

Based upon the examination actuarial review of the reserves as of December 31, 2010, the following findings and recommendations were noted:

- Reserves for term plans were not determined in compliance with Actuarial Guideline 32 and do not reflect provisions for immediate payment of claims. It is recommended that MLife either include an adjustment to curtail reserves or calculate reserves on a continuous payment of claims basis.
- For ten and twenty year term contracts, MLife calculates reserves using incorrect valuation interest rates. It is recommended that MLife use the proper valuation interest rates required for contracts with guaranteed durations of more than twenty years.

**History**

The Company was originally incorporated as National Life Insurance Company on May 8, 1969, and began business on July 3, 1969, under the provisions of the Insurance Code of Puerto Rico. The Company was authorized to write life and disability insurance

pursuant to Chapter 4 of the Insurance Code of Puerto Rico. The Company was licensed to write business in Puerto Rico and Florida (the Florida license was subsequently suspended on June 29, 2011).

On January 1, 2011, the Company was a member of the National Financial Group, a closely held insurance holding company. The Company was 48.81% owned by its affiliate, National Insurance Company (NIC), and 46.64% by its parent company, National Promoters and Services, Inc. (National Promoters). The remaining shares were owned by directors, officers and other individuals. The Company also held an 18.90% interest in NIC with the remaining ownership of NIC held by National Promoters.

On October 11, 2011 and November 10, 2011, Multinational Insurance Company (MIC), authorized to do business in Puerto Rico, received OCS approval to purchase the Company through a series of transactions. At December 31, 2012, the Company was 48.81% owned by MIC a wholly owned subsidiary of Aseguradora Ancon S.A., and 47.79% owned by an affiliate in the holding company group, Nacalui, N.V., and 2.22% by another affiliate, Nacato, Inc. The holding company group consists of insurance companies established in various countries within Latin America and the Caribbean. The remaining shares were owned by directors, officers and other individuals. On December 14, 2011, the OCS approved a change in name from National Life Insurance Company to Multinational Life Insurance Company.

**Insurance Products and Related Practices**

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

	2012	2011
Ordinary Life Insurance	\$14,728,390	\$15,110,255
Ordinary Individual Annuities	576,929	642,018
Credit Life (Group & Individual)	2,434,894	2,818,691
Group Life Insurance	1,566,493	1,759,757
A&H - Group	3,287,961	24,696,718
A&H - Credit (Group & Individual)	432,132	720,313
A&H - Other	15,361,719	18,310,950
<b>TOTAL</b>	<b>\$38,388,518</b>	<b>\$64,058,702</b>

**Statutory Deposits**

As of December 31, 2012, the Company maintained the following statutory deposits with the OCS in compliance with Article 3.151 of the Insurance Code of Puerto Rico.

Description	Maturity Date	Par Value	Amortized Value
PR Commonwealth Bond	07/01/13	\$300,000	\$302,517
Employees Ret. System Government Bond	07/01/38	1,000,000	1,000,000
<b>TOTAL</b>		<b>\$1,300,000</b>	<b>\$1,302,517</b>

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 not less than fifty percent (50%) of the amount of the paid-in capital. The Company was in compliance with Article 3.151 of the Insurance Code of Puerto Rico as of December 31, 2012.

Article 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$2,500,000 and statutory deposits of not less than

\$1,250,000 of amortized value. The Company was in compliance with Article 3.090 of the Insurance Code of Puerto Rico as of December 31, 2012.

Article 3.160 of the Insurance Code of Puerto Rico requires that fifty percent (50%) of the minimum paid in capital be in Puerto Rico securities. The Company maintained investments in Puerto Rico securities in excess of \$1,250,000 at amortized cost. The Company was in compliance with Article 3.160 of the Insurance Code of Puerto Rico as of December 31, 2012.

### Territory and Plan of Operations

For the period covered under this examination, the Company was licensed to transact insurance business in the following territories with the corresponding gross written premiums:

	2012	2011
Puerto Rico	\$38,065,043	\$63,709,044
Florida	235,760	311,487
American Samoa	87,715	38,171
<b>TOTAL</b>	<b>\$38,388,518</b>	<b>\$64,058,702</b>

Premiums listed on Schedule T of the 2012 Annual Statement reflected \$38,065,043 as being written in Puerto Rico. A portion of this amount was actually related to premiums written in various countries in South America and the Dominican Republic. These non-Puerto Rico premiums should have been identified as Aggregate Other Alien on Schedule T.

### Growth of the Company

The following data was obtained from the annual statements filed with the OCS:

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Surplus Notes	Unassigned Surplus
2012	\$130,454,991	\$118,821,030	\$4,741,720	\$16,622,090	\$5,000,000	(\$14,729,849)
2011	132,927,745	126,074,912	4,741,720	16,622,090	5,000,000	(19,510,977)

### Corporate Records

The articles of incorporation, bylaws and all amendments thereto were reviewed for the period under examination. On December 14, 2011, the OCS approved an amendment to the articles of incorporation to change the name of the Company from National Life Insurance Company to Multinational Life Insurance Company. There were no changes made to the bylaws during the period under examination.

### Capital Stock

As of December 31, 2012, the Company had 250,291 common stock shares authorized, issued, and outstanding with a par value of \$10 per share. Majority ownership was held between Multinational Insurance Company with 122,154 shares, Nacalui, N.V. with 119,622.50 shares, and Nacato, Inc. with 5,571 shares. The remaining shares were held by individuals including the following directors, in compliance with Article 29.150(1) of the Insurance Code of Puerto Rico:

Tobias Carrero-Nacar	Rafael Carrero-Valentiner
Carlos Iguina	Miguel Vazquez
Yelitza Cruz	Fernando Rivera-Munoz
Tobias Enrique Carrero-Valentiner	Bartolome Gamundi
Luis Manuel Pimental	Juan Carlos Puig

On December 28, 2011, MLife received approval from the OCS for a solicitation permit to issue 300,000 shares of convertible preferred stock, \$10 par value, at a \$67 purchase price. On December 28, 2011, 223,881 shares of the preferred stock were issued for a total issuance of \$15,000,027. The issuance had a favorable impact on capital and allowed the Company to meet the risk based capital requirements of the Insurance Code of Puerto Rico.

#### **Dividends to Stockholders**

The Company did not pay dividends during the period under examination.

#### **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 Company did not provide minutes for an executive committee or other evidence that this committee ever met during the period under examination. The bylaws require that the Company have an executive committee (Article VI, Section 1 - Executive Committee).

#### **Management and Control**

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 in compliance with Article 29.150 of the Insurance Code of Puerto Rico and its own corporate bylaws.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on April 25, 2012 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Tobias Carrero-Nacar	Chairman of the Board, MLife	Caracas, Venezuela
Carlos Iguina	President, MLife	Carolina, Puerto Rico
Yelitza Cruz	Secretary of the Board, MLife	San Juan, Puerto Rico
Tobias Carrero Valentiner	Insurance Executive	Caracas, Venezuela
Luis Manuel Pimental	Executive Vice President and Chief Executive Officer, MLife	San Juan, Puerto Rico
Rafael Carrero Valentiner	Insurance Executive	Caracas, Venezuela
Miguel Vazquez	Retired	San Juan, Puerto Rico
Fernando Rivera-Munoz	Retired	San Juan, Puerto Rico
Bartolome Gamundi	Management Consultant	San Juan, Puerto Rico
Juan Carlos Puig	Business Consultant	San Juan, Puerto Rico

The officers of the Company, as appointed during the annual meeting of the board of directors on April 25, 2012 were the following:

<u>Name</u>	<u>Title</u>
Carlos Iguina	President
Luis Manuel Pimental	Executive Vice President & CEO
Yadira Mercado	Senior Vice President - Finance & Accounting
Javier Ortiz	Senior Vice President - Sales
Yolanda Marquez	Vice President - Accounting
Maria Nelly Collazo	Vice President - Sales
Lourdes Guzman	Vice President - Sales
Pedro Medina	Vice President - Sales
Luis Forteza	Manager - Finance & Accounting

#### **Investment Plan**

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that the board of directors of the insurer shall adopt a written plan to acquire and maintain investments, and to outline their investment practices. The Company adopted a plan of investment, which was approved by the board of directors.

The Company's 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 Article 6.040 of the Insurance Code of Puerto Rico.

### **General Agent Records**

The Company did not comply with the record keeping requirements of Article 3.300 of the Insurance Code of Puerto Rico and Rule IX of the Regulations of the Insurance Code of Puerto Rico for failure to maintain, in the Company's main office, the books of accounts for all its business and transactions with Redbridge Reinsurance Managers (Redbridge) under an Underwriting Management Agreement effective January 1, 2012. The business conducted with Redbridge was pursuant to a contract which was an arrangement for General Agent services as defined by Article 9.040 of the Insurance Code of Puerto Rico.

Premiums received by Redbridge under the Underwriting Management Agreement effective January 1, 2012 did not comply with the fiduciary requirements of Article 9.380(2) of the Insurance Code of Puerto Rico. The premiums received in a fiduciary capacity were not transferred to accounts in the name of the Company within 90 days of receipt by the General Agent(s).

The Company did not comply with Article 29.240 of the Insurance Code of Puerto Rico for failure to file the Redbridge and/or Blackpoint Life Insurance Service Agreement and the Redbridge Underwriting Management Agreement effective January 1, 2012 with the OCS for approval.

### **Fidelity Bonds and Other Insurance**

The Company failed to obtain adequate fidelity bond coverage as recommended by the NAIC Financial Examiners Handbook. The Company was the named insured on various other policies providing directors and officers and employment practices liability, commercial property & liability, crime, and inland marine coverage.

### **Pension and Benefit Plans**

#### **Defined Benefit Plan**

As a former member of the National Financial Group, the Company's employees participate in the Carlos M. Benitez, Inc. Employees' Pension Plan (the "Plan"). The Plan is a qualified noncontributory defined benefit pension plan covering substantially all employees of the National Financial Group who have attained 21 years of age and completed 1,000 hours of service. The plan was organized in 1969, under the laws of the Commonwealth of Puerto Rico and subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Company is required to make annual contributions to the plan, as determined by consulting actuaries, that should be at least the minimum funding requirement of ERISA. The Company charged to operations its annual contribution amounting to \$107,631 and \$127,883 for 2012 and 2011, respectively. Plan assets consist mainly of U.S. Government securities, bonds, stocks, cash and cash surrender values on life insurance policies.

Effective December 31, 2004, the Plan was amended as follows:

- Benefit accruals under the Plan were frozen as of December 31, 2004, with no increase in the accrued benefit to any participant after that date.

- Employees of any of the companies which participated in the Plan, who were employed after December 31, 2004, are not permitted to participate in the Plan. Notwithstanding, active participants of the Plan as of December 31, 2004, shall continue to accrue years of services of vesting service subsequent to December 31, 2004, for purposes of eligibility for benefits and vesting.

### **Defined Contribution Plan**

Effective September 1, 2004, the Company established a qualified savings plan under section 1165(e) of Puerto Rico Internal Revenue Code of 1994, as amended. It covered substantially all employees who have completed three months of service and have reached the age of eighteen. For the years ended December 31, 2012 and 2011, the Company made matching contributions that amounted to \$1,460 and \$40,783, respectively. Effective February 6, 2012 the plan was terminated.

### **Subsequent Events**

Effective June 1, 2013, the Company has elected to withdraw from the Defined Benefit Plan. As of December 31, 2012, the Company has recorded its estimate of the unfunded liability at \$1,636,720 based on the latest available actuarial report as of January 1, 2011. An additional liability of \$1,034,849 was recorded in 2013 to record the increase in unfunded liability from 12/31/11 to 6/1/13 resulting in a recorded liability of \$2,648,277 at 12/31/13. The allocation of the adjustment between 2012 and 2013 was not determinable, therefore an adjustment was not recorded for a portion of the adjustment in 2012. It however was recorded in the entirety in 2013.

On June 30, 2014, LPG CPA, P.S.C. issued an Independent Auditors' Report on the financial statements of MLIC as of December 31, 2013. Their opinion was a qualified opinion and the basis provided in their report was "*Because the accounting records related*

*to an underwriting management agreement between the Company and a third party administrator were inadequate, we were unable to obtain sufficient appropriate audit evidence to support the accuracy, completeness and existence about the amount of the reinsurance pools in the accompanying financial statements as of December 31, 2013”.*

### **Intercompany Agreements**

The Company has the following written agreements with affiliates.

#### **Claims Services Agreement**

This agreement, entered into on February 1, 2007, between the Company and its affiliate Insurance Adjusters & Appraisers (IAA) provided claims management services. Services under the contract included receipt and processing of claims, claim evaluation and claim payment. Fees under this agreement amounted to \$1,060,000 for 2011. The agreement was cancelled in December 2011.

#### **Intercompany Services Agreement**

This agreement, entered into on January 15, 2007, was between the Company and its former parent, National Promoters and Services, Inc., to provide certain services related to finance, accounting, reinsurance administration and human services. Fees under this agreement amounted to \$1,265,000 for 2011. The agreement was cancelled in December 2011.

#### **Cost Sharing Agreement**

The Company is party to a Cost Sharing Agreement for certain office expenses and management services with an affiliate, Multinational Insurance Company. The largest single individual expense is rent for office space which amounted to \$437,760 in 2012. Other allocated expenses were \$1,435,333 in 2012 for a total of \$1,873,093.

### **Unclaimed Funds**

The Company complied 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 Articles 26.050 and 26.060 of the Insurance Code of Puerto Rico.

### **Reinsurance**

#### **Reinsurance Assumed**

The Company assumed certain risks under agreements that meet the Company's risk profile. During 2012, the Company reported assumed premiums of \$2,828,017.

#### **Reinsurance Ceded**

The Company ceded all risks in excess of \$250,000 on individual life insurance and \$75,000 for individual risks written under group life policies. For accident and health, the Company ceded 85% of the risk for all long-term disability (LTD) policies. For group health, the Company ceded 65% of the risk through a fronting agreement with a reinsurer during the year 2012. Presently, the Company is doing business with six reinsurance companies, one of which reinsures exclusively LTD. For the cancer business, the Company ceded 60% of the risk. During 2012, the Company ceded premiums of \$11,579,442.

### **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 2012 in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule IX-A of the Regulations of the Insurance Code of Puerto Rico.

The Company was required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico to file an audited financial report for the year ending December 31, 2012, on or before June 1, 2013. The Company was granted an extension to August 1, 2013 by the Office of the Insurance Commissioner (OCS). The Company filed its audited financial report on August 15, 2013. In addition, Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico requires the annual Audited financial statements to be comparative with the previous year. The 2012 Audited financial statements only included the Balance Sheet.

The Company was not in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico relating to these two issues.

The actuarial study and opinion for the period under examination was prepared by Clark Himmelbeger, FSA, MAAA, Milliman, Inc.

### **Financial Statements**

Below are the financial statements of the Company:

- Assets
- Liabilities, Surplus, and Other Funds
- Summary of Operations
- Capital and Surplus Account

Multinational Life Insurance Company

**Assets**

As of December 31, 2012

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$96,022,950		\$96,022,950
Preferred stocks	110		110
Common stocks	65,516		65,516
Properties occupied by the Company	12,612,209		12,612,209
Properties held for the production of income	459,000		459,000
Cash and short-term investments	8,248,741		8,248,741
Contract loans	2,828,891		2,828,891
Investment income due and accrued	768,748		768,748
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,134,668		2,134,668
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,231,902		4,231,902
Reinsurance:			
Amounts recoverable from reinsurers	2,051,486		2,051,486
Electronic data processing equipment and software	349,168		349,168
Aggregate write-ins for other than invested assets	681,602		681,602
Total Assets	\$ 130,454,991		\$ 130,454,991

Multinational Life Insurance Company

**Liabilities, Surplus and Other Funds**

As of December 31, 2012

	Annual Statement	Examination Adjustments	Examination Balance
Aggregate reserve for life contracts	\$ 80,507,451		\$ 80,507,451
Aggregate reserve for accident and health contracts	11,494,277		11,494,277
Contract claims:			
Life	2,008,007		2,008,007
Accident and health	12,559,347		12,559,347
Other amounts payable on reinsurance	2,361,632		2,361,632
Interest maintenance reserve	1,919,555		1,919,555
Commissions to agents due or accrued	201,841		201,841
General expenses due or accrued	1,430,607		1,430,607
Taxes, licenses and fees due or accrued	200,130		200,130
Current federal and foreign income taxes	14,334		14,334
Unearned investment income	97,929		97,929
Amounts withheld or retained by Company as agent	422,510		422,510
Amounts held for agents' account	1,765,822		1,765,822
Remittances and items not allocated	130,612		130,612
Asset valuation reserve	1,298,112		1,298,112
Payable to parent, subsidiaries, and affiliates	120,639		120,639
Payable for securities	14,013		14,013
Aggregate write-ins for liabilities	2,274,212		2,274,212
<b>Total Liabilities</b>	<b>\$118,821,030</b>		<b>\$118,821,030</b>
Common capital stock	\$2,502,910		\$2,502,910
Preferred capital stock	2,238,810		2,238,810
Surplus notes	5,000,000		5,000,000
Gross paid in and contributed surplus	16,622,090		16,622,090
Unassigned funds (surplus)	(14,729,849)		(14,729,849)
<b>Total Surplus</b>	<b>11,633,961</b>		<b>11,633,961</b>
<b>Total Liabilities and Surplus</b>	<b>\$ 130,454,991</b>		<b>\$ 130,454,991</b>

Multinational Life Insurance Company

Statement of Operations

As of December 31, 2012

Premiums and annuity considerations for life and accident & health contracts	\$29,637,093
Net investment income	3,358,453
Amortization of interest maintenance reserve	645,872
Aggregate write-ins for miscellaneous income	1,700,798
Total	<u>\$35,342,216</u>
Death benefits	\$5,758,514
Annuity benefits	196,281
Disability benefits and benefits under accident and health contracts	6,200,901
Surrender benefits and withdrawals for life contracts	4,856,952
Interest and adjustments on contract or deposit-type contract funds	898
Decrease in aggregate reserves for life and accident and health contracts	(1,250,992)
Total	<u>\$15,762,554</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	2,222,697
Commissions on expense allowances on reinsurance assumed	401,632
General insurance expense	11,852,873
Insurance taxes, licenses and fees	747,371
Increase in loading on deferred and uncollected premiums	(4,599)
Total	<u>\$30,982,528</u>
Net gain from operations	\$4,359,688
Net realized capital gain	76,680
Net (Loss)/Income	<u><u>\$4,436,368</u></u>

**Multinational Life Insurance Company**  
**Capital and Surplus Account**  
As of December 31, 2012

Capital and surplus, December 31, prior year	<u>\$6,852,833</u>
Net income (loss)	\$4,436,368
Change in net unrealized capital gains or (losses)	18,242
Change in non-admitted assets	314,507
Change in asset valuation reserve	<u>12,011</u>
Net change in capital and surplus for the year	<u>\$4,781,128</u>
Capital and surplus, December 31, current year	<u>\$11,633,961</u>

**Multinational Life Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
As of December 31, 2012

Capital and Surplus Account						
December 31, 20110, per Annual Statement						\$11,633,961
	PER	PER	INCREASE			
	COMPANY	EXAM	(DECREASE)			
	-	-	IN SURPLUS			
ASSETS:						
No adjustments proposed	\$	-	\$	-	\$	-
LIABILITIES:						
No adjustments proposed	\$	-	\$	-	\$	-
Net Change in Surplus:						<u>\$ 0</u>
Capital and Surplus Account						
December 31, 2012, Per Examination						<u>\$ 11,633,961</u>

## Actuarial Report

**Aggregate Reserve for Life Contracts**

**Aggregate Reserve for Accident and Health Contracts**

**Contract Claims: Life**

**Contract Claims: Accident and Health**

**Uncollected Premiums and Agents' Balances in the Course of Collection**

An independent review of aggregate reserves was performed by INS Consultants, Inc. (INS), Philadelphia, Pennsylvania.

INS identified the risks related to reserve determination procedures and methodologies associated with each product segment and in some cases with certain product types within the product segment. The risk assessment process included consideration of the likelihood that the reserve for a particular product group would fall below statutory requirements, the likelihood that the reserve would fail to provide for future cash flow demands and the potential impact on surplus if the reserve established failed to meet its goals. INS also took into account its knowledge of MLife in particular and the insurance industry in general and applied professional judgment in assessing the risks. For each product type, examination procedures were performed by INS depending on the residual risk assessments as determined by INS.

INS' examination procedures called for sample reserve calculations, where appropriate, and reserves for sample contracts were calculated by INS in accordance with standard actuarial practice. INS concluded that sample reserve testing was not warranted for certain product groups and liability items with a residual risk assessment of low. For these items, INS relied on general analyses and/or a review of the trend analysis.

The balance sheet items enumerated in the examination scope appear to be calculated using valuation parameters, which appear to be free of any material error and valuation files that appear to be complete. INS concluded that the December 31, 2012, balance sheet items covered in the examination scope appear fairly stated.

### SUBSEQUENT EVENTS

- The insurer, Multinational Life Insurance Company (MLIC), was a defendant in Case No. 1:13-CV-21529-UU, filed in the United District Court, Southern District of Florida, by BAC Financial Services, Inc. (BAC), Plaintiff. BAC was a General Agent in the health Insurance program under the servicing agreement with Blackpoint. A settlement agreement was finalized during January 2015 between the parties that resulted in MLIFE conveying to BAC a property owned by Mlife in settlement of the case.
- On June 12, 2014, the Office of the Commissioner received a copy of an administrative claim by Instituto Nacional de Seguros against the Insurer. The claim relates to certain Medic Expenses and Travel Insurance Quota Share and Excess reinsurance treaty with the Instituto Nacional de Seguros, a Costa Rica domiciled reinsurer controlled by the government of that country. During March, 2015 a settlement agreement was signed in full settlement of the case that resulted in a payment being made to the Instituto Nacional de Seguros by Mlife.
- In addition, as of June 6, 2014, the Company is party to an arbitration case with regard to a reinsurance contract with United Insurance Company (UIC) that was managed by the same third party administrator as noted above. United Insurance Company is seeking to recover claims costs under a Quota-Share Health Reinsurance agreement between UIC and the Company that was effective February 1, 2010.
- Effective June 1, 2013, the Company has elected to withdraw from the Defined Benefit Plan. An additional liability of \$1,034,849 was recorded in 2013 to record the increase in unfunded liability from 12/31/11 to 6/1/13 resulting in a recorded liability of \$2,648,277 at 12/31/13. The allocation of the adjustment between 2012 and 2013 was not determinable, therefore an adjustment was not recorded for a portion of the adjustment in 2012. It however was recorded in the entirety in 2013.

- On June 30, 2014, LPG CPA, P.S.C. issued an Independent Auditors' Report on the financial statements of MLIC as of December 31, 2013. Their opinion was a qualified opinion and the basis provided in their report was *"Because the accounting records related to an underwriting management agreement between the Company and a third party administrator were inadequate, we were unable to obtain sufficient appropriate audit evidence to support the accuracy, completeness and existence about the amount of the reinsurance pools in the accompanying financial statements as of December 31, 2013"*.

## 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.

#### ***Company Failed to Obtain Adequate Fidelity Bond Coverage***

The Company failed to obtain adequate fidelity bond coverage as recommended by the NAIC Financial Examiners Handbook.

#### ***No Evidence of Required Committees***

The Company did not provide any minutes of an Executive Committee or any other evidence that this committee ever met during the period under examination. The bylaws require that the Company have both an executive committee and finance committee.

The Company did not comply with Article 3.330 of the Insurance Code of Puerto Rico and Rule IX of the Regulations of the Insurance Code of Puerto Rico for failure to maintain the records for all its business and transactions.

#### ***Late Filing of Audited Financial Report***

The Company was required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico to file an audited financial report for the year ending December 31, 2012, on or before June 1, 2013. The Company was granted an extension to August 1, 2013 by the Office of the Insurance Commissioner (OCS). The Company filed its audited financial report on August 15, 2013. In addition Rule XIV-A of the Regulations of the

Insurance Code of Puerto Rico requires the annual Audited financial statements to be comparative with the previous year. The 2012 Audited financial statements only included the Balance Sheet.

The Company was not in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico relating to this issue.

*Failure to maintain record of transactions of General Agents*

The Company did not comply with the record keeping requirements of Article 3.300 of the Insurance Code of Puerto Rico and Rule IX of the Regulations of the Insurance Code of Puerto Rico for failure to maintain, in the Company's main office, the books of accounts for all its business and transactions with Redbridge Reinsurance Managers (Redbridge) under an Underwriting Management Agreement effective January 1, 2012. The business conducted with Redbridge was pursuant to a contract which was an arrangement for General Agent services as defined by Article 9.040 of the Insurance Code of Puerto Rico.

*Failure to transfer premiums received in a fiduciary capacity to Company accounts*

Premiums received by Redbridge under the Underwriting Management Agreement effective January 1, 2012 did not comply with the fiduciary requirements of Article 9.380(2) of the Insurance Code of Puerto Rico. The premiums received in a fiduciary capacity were not transferred to accounts in the name of the Company within 90 days of receipt by the General Agent(s).

*Failure to file agreements*

The Company did not comply with Article 29.240 of the Insurance Code of Puerto Rico for failure to file the Redbridge and/or Blackpoint Life Insurance Service Agreement and the Redbridge Underwriting Management Agreement effective January 1, 2012 with the OCS for approval.

*Schedule T - Premiums were misclassified*

Premiums listed on Schedule T of the 2012 Annual Statement reflected \$38,065,043 as being written in Puerto Rico. A portion of this amount was actually related to premiums written in various countries in South America and the Dominican Republic. These non-Puerto Rico premiums should have been identified as Aggregate Other Alien on Schedule T.

*Failure to record transactions related to the Blackpoint Health program*

During January 2013 a motion to compel arbitration was filed between Blackpoint and MLife under several agreements between the two parties including a Group Health Servicing Agreement with the Circuit Court in Miami-Dade County, Florida. Blackpoint contends that MLife had commenced a scheme to evade its responsibilities to its insureds and its agents. During this period MLife approached the office of the Insurance Commissioner in Puerto Rico and advised the Commissioner's office that the prior owners of MLife had failed to submit certain insurance agreements for review by the agency. The Insurance Commissioner issued a cease and desist order regarding the agreements. MLife according to Blackpoint then used this order as a pretext to deny claims to insureds and refused to pay Blackpoint amounts owed under these agreements.

The examiners reviewed the signed servicing agreement covering group health insurance business that indicates the Company is the risk bearing entity of this health insurance program. The premiums received, claims paid, and expenses of this program were not recorded since the inception of the program in 2009 until its termination in September 2012.

A settlement agreement was reached with Blackpoint Underwriters, LLC on November 11, 2014 as a result of the action at the Circuit Court in Miami-Dade County that MLIC has no liability regarding the payment of these claims. The agreement states that it should not be interpreted as an admission by the Company that the health business was related to Mlife or recorded in the accounting books of Mlife in any way or that Blackpoint was a servicing agent acting within the scope of its authority with respect to any applicable agreement relating to the health business. Claims from policyholders and other parties relating to this program may arise, but the magnitude cannot be estimated.

*Lack of Certification of Investments*

The Company did not comply with Article 6.040 of the Insurance Code of Puerto Rico, "Authorization of Investments by the Board of Directors" relating to (a) Article 6.040(1) where MLIC's Investment Policy Statement (IPS) does not identify the individuals making routine investment decisions who possess the qualifications described in the Company's Investment Policy, (b) Article 6.040(2) where the minutes of the Investment Committee demonstrate that the Committee is actively involved in MLIC's investment decision-making process, but do not include formal resolution of the Committee certifying that the investments have been made pursuant to the delegation,

standards, limitations and investment goals in accordance with the Company's Investment Policy, and (c) Article 6.040(3) where the minutes of the Investment Committee document review of MLIC's investment portfolio, but not conducted on a quarterly basis.

### *Actuarial Review Recommendations*

Based upon the examination actuarial review of the reserves as of December 31, 2012, the following findings and recommendations were noted:

- It is recommended that future Actuarial Opinion Memorandums should reconcile the reserve amounts and classifications of products between the Annual Statement and the Actuarial Opinion. Specifically, supplementary contracts with life contingencies should not be combined with annuities on Exhibit 5 and should be reported separately in the Actuarial Opinion.
- It is recommended that future Actuarial Opinion Memorandums should include a discussion of the sufficiency and suitability of the assets supporting liabilities excluded from Asset Adequacy Test.

### *Subsequent Events*

- The insurer, Multinational Life Insurance Company (MLIC), was a defendant in Case No. 1:13-CV-21529-UU, filed in the United District Court, Southern District of Florida, by BAC Financial Services, Inc. (BAC), Plaintiff. BAC was a General Agent in the health Insurance program under the servicing agreement with Blackpoint. A settlement agreement was finalized during January 2015 between the parties that resulted in MLIFE conveying to BAC a property owned by Mlife in settlement of the case.
- On June 12, 2014, the Office of the Commissioner received a copy of an administrative claim by Instituto Nacional de Seguros against the Insurer. The claim relates to certain Medic Expenses and Travel Insurance Quota Share and Excess reinsurance treaty with the Instituto Nacional de Seguros, a Costa Rica domiciled reinsurer controlled by the government of that country. During March, 2015 a settlement agreement was signed

in settlement of the case that resulted in a payment being made by Mlife to the Instituto Nacional de Seguros.

- In addition, as of June 6, 2014, the Company is party to an arbitration case with regard to a reinsurance contract with United Insurance Company (UIC) that was managed by the same third party administrator as noted above. United Insurance Company is seeking to recover claims costs under a Quota-Share Health Reinsurance agreement between UIC and the Company that was effective February 1, 2010.
- Effective June 1, 2013, the Company has elected to withdraw from the Defined Benefit Plan. An additional liability of \$1,034,849 was recorded in 2013 to record the increase in unfunded liability from 12/31/11 to 6/1/13 resulting in a recorded liability of \$2,648,277 at 12/31/13. The allocation of the adjustment between 2012 and 2013 was not determinable, therefore an adjustment was not recorded for a portion of the adjustment in 2012. It however was recorded in the entirety in 2013.
- On June 30, 2014, LPG CPA, P.S.C. issued an Independent Auditors' Report on the financial statements of MLIC as of December 31, 2013. Their opinion was a qualified opinion and the basis provided in their report was *"Because the accounting records related to an underwriting management agreement between the Company and a third party administrator were inadequate, we were unable to obtain sufficient appropriate audit evidence to support the accuracy, completeness and existence about the amount of the reinsurance pools in the accompanying financial statements as of December 31, 2013"*.

## SUMMARY OF EXAMINATION RECOMMENDATIONS

### *Company Failed to Obtain Adequate Fidelity Bond Coverage*

It is recommended the Company obtain fidelity bond coverage in the amount suggested on Exhibit R of the NAIC Financial Condition Examiners Handbook.

### *No Evidence of Required Committees*

It is recommended the Company comply with its bylaws and establish the appropriate committees of the board of directors.

### *Late Filing of Audited Financial Report*

It is recommended the Company comply with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico and file the audited financial report by June 1.

### *Failure to maintain record of transactions of General Agents*

It is recommended the Company comply with the record keeping requirements of Article 3.300 of the Insurance Code of Puerto Rico and Rule IX of the Regulations of the Insurance Code of Puerto Rico to maintain, in the Company's main office, the records of all its business and transactions with General Agents. It is also recommended to establish guidelines following the NAIC Model Rule #225 regarding arrangements with MGA's.

### *Failure to transfer premiums received in a fiduciary capacity to Company accounts*

It is recommended that the Company comply with fiduciary requirements of Article 9.52h(2) of the Insurance Code of Puerto Rico and transfer premium funds to accounts in the name of the Company within 90 days of receipt of premiums by General Agents.

*Failure to file agreements*

It is recommended that the Company comply with Article 29.240 of the Insurance Code of Puerto Rico and file General Agent/producer contracts with the OCS prior to entering into such agreements

*Schedule T Premiums were misclassified*

It is recommended that the Company properly classify written premium by the location from which it is written on Schedule T of the Annual Statement.

*Failure to record transactions related to the Blackpoint Health program*

It is recommended that the Company determine the business associated with the Group Life, Health, Accident, Travel and Long-term Disability Servicing Agreement and reflect these transaction of its books and records.

*Lack of Certification of Investments*

It is recommended (a) that the Company revise its Investment Policy Statement to identify the individuals making routine investment decisions in compliance with Article 6.50 (1), (b) that the minutes of the Investment Committee include a formal resolution at least annually approving the investment transactions in accordance with the Company's Investment Policy in compliance with Article 6.50 (2), and (c) that the minutes of the Investment Committee on a more frequent basis (at least every three (3) months), document approval of the investment portfolio in accordance with the Company's Investment Policy and in compliance with Article 6.50 (3).

### *Actuarial Review Recommendations*

- It is recommended that future Actuarial Opinion Memorandums should reconcile the reserve amounts and classifications of products between the Annual Statement and the Actuarial Opinion. Specifically, supplementary contracts with life contingencies should not be combined with annuities on Exhibit 5 and should be reported separately in the Actuarial Opinion.
- It is recommended that future Actuarial Opinion Memorandums should include a discussion of the sufficiency and suitability of the assets supporting liabilities excluded from Asset Adequacy Test.

### CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Multinational Life Insurance Company** as of December 31, 2012, consistent with the Insurance Code of Puerto Rico.

In addition to the undersigned, Barry Lupus, CPA, CFE, CFE (fraud), Staff Examiner; Wayne J. Weber, CFE, CPA, Staff Examiner; Cynthia Sikorski, CFE, Staff Examiner; all of InsRis-PR, LLC; Paul Berkebile, CFSA, CISA, CRISC, Senior Manager; Robert Ficken, CFE, CPA, CIA, CISA, AES, IT Manager; all of INS Services, Inc.; and Frank G. Edwards, Jr., ASA, MAAA, Actuary, of INS Consultants, Inc. participated in the examination.



Donald W. Sirois, CFE, CPA  
Examiner-in-Charge