

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE



AIG LATIN AMERICA I.I.
Report of Examination

As of November 30, 2013
Case Number EX-2014-36

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Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

March 9, 2015

Ms. Ángela Weyne Roig
Commissioner of Insurance
Office of the Commissioner of Insurance of Puerto Rico
B5 Tabonuco Street - Suite 216
PMB 356
Guaynabo, PR 00968-3029

Dear Commissioner:

In compliance with your instructions and pursuant to the Exam Order EX-2014-36 dated October 10, 2014, and the Puerto Rico Insurance Laws and Regulations, a compliance focused examination was made of the books, records, and financial condition of

AIG Latin America I.I.
#250 Muñoz Rivera Avenue
Hato Rey, Puerto Rico 00918

hereinafter referred to as "the Insurer".

SCOPE OF EXAMINATION

The current examination was conducted at the home office of the Insurer located at #250 Munoz Rivera, San Juan, Puerto Rico. This examination covers the period of December 1, 2008 through November 30, 2013 including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to evaluate the compliance of the Insurer with the provisions of Chapter 61 of the Insurance Code of Puerto Rico and Rules 80, 81, and 82, as applicable. In addition, we will ascertain that the Insurer is in compliance with the Business Plan submitted to the Commissioner of Insurance of Puerto Rico.

HISTORY

The Insurer was organized under the laws and provisions of the Insurance Code of the Commonwealth of Puerto Rico on November 17, 2006. The Insurer operates as an international insurer under the provisions of Law 399, "International Insurers and Reinsurers Act", and was authorized to start operations as an International Insurer Class 4 and 5 insurer effective February 20, 2007. Effective November 14, 2008, the Company was authorized to change its classification from a Class 4 and 5 authorized insurer to a Class 3 and 5 authorized insurer. In February 2013, the Commissioner of Insurance of Puerto Rico accepted a request from the Insurer to be eligible to underwrite surplus lines. However, as of review date, the Insurer has not written any policy under this authorization.

In March 2011, the Commissioner of Insurance of the Commonwealth of Puerto Rico (the "Commissioner") endorsed the amendment to the Insurer's articles of incorporation to change the company name from Chartis I. I. Puerto Rico to Chartis Latin America I.I. In November 2012, the Commissioner of Insurance endorsed another amendment to the Insurer's articles of incorporation to change the Insurer name from Chartis Latin America I. I. to AIG Latin America I. I.

Effective September 1, 2011, the operations of two affiliates of the Insurer, Underwriters Adjustment Company, Inc. and Chartis Caribbean, Inc., were combined into the Insurer. Both companies ceased to exist after the effective date of the combination and the Insurer has continued offering their services. This transaction was approved by the Commissioner of Insurance of Puerto Rico.

For the period reviewed, the Insurer main business was the underwriting of Kidnap and Ransom ("K&R") and No Additional Cost Program ("NAC") policies. The NAC program is a regional program managed by the Insurer, that provides insurance benefits at no additional costs to eligible persons of the policyholder, mainly multinational credit card issuers. Core and optional benefits consist of accidental death & dismemberment, baggage loss, baggage delay, trip cancellation, trip delay, auto rental insurance, purchase protection, extended warranty, and hotel burglary, among others. The K&R policies provide coverage for reimbursement of various defined expenses incurred as a result of a kidnap, extortion, detention, disappearance or hijack event. Effective March 1, 2014, the Insurer is no longer issuing K&R policies; this business was transferred to AIG Europe Limited, an affiliate, who assumed the risk of new and related renewal policies.

For the period reviewed, the Insurer reinsured substantially all of its insurance risk to Chartis Overseas Association, an affiliate (the "Reinsurer"). As of November 30, 2013, the Insurer had a continuous quota share reinsurance agreement with the Reinsurer, to cede 100% of its K&R and accident and health "NAC" premiums.

MANAGEMENT AND CONTROL

The Bylaws state that the Board of Directors shall have no less than three (3) nor more than nine (9) members who shall be elected at the annual meeting of the stockholders.

As of the examination date, the Directors of the Insurer, who were elected at the annual meeting of stockholders on September 25, 2013, were as follows:

Directors	Principal Occupation
Francisco Díaz	President AIG Latin America I.I.
Pedro Fernández	Latin America Regional CFO
Alejandro Pedroza	Latin America Regional Counsel
James Dwane	Latin America Regional President

As of November 30, 2013, the Officers of the Insurer were as follows:

Officers	Position
Francisco Díaz	President, CEO and Chairman
Agustin Montalvo	Vice President for Operations
Gustavo Sarabia	Vice President for Regional Claims
Aníbal Ortiz	Vice President for Claims
Angel Torres	Vice President for Commercial Lines
Ada Michelle Lugo	General Counsel as Secretary
Miguel Díaz	Controller as Treasurer
Waldo Oliver	Senior Accounting Manager as Assistant Treasurer

CAPITAL STOCK

As of November 30, 2013 the Company had 1,000 common stock shares authorized, issued and outstanding with a par value of \$2,750, for a total paid in capital of \$2,750,000. The Insurer is 100% owned by Chartis Latin America Investments, LLC, which is ultimately owned by American International Group, Inc.

DIVIDENDS TO STOCKHOLDERS

The Insurer paid dividends to stockholders of \$167,040 and \$6,200,000 during the fiscal years ended 2013 and 2011, respectively. The 2013 dividend was paid \$16,704 in cash and a promissory note issued for \$156,336, the remaining balance. Both payments were approved by the Commissioner of Insurance and were in compliance with Article 61.120 of the Insurance Code of Puerto Rico.

AUTHORIZATION REQUIREMENTS

Article 61.050 of the Puerto Rico Insurance Code requires the Insurer to provide certain information to the Commissioner in order to be authorized as an International Insurer. These requirements include the payment of a fee for the examination, investigation and processing of the authorization application. The information required has to be filed for initial authorization and thereafter every year for renewal of the Certificate of Authority issued by the Commissioner.

The information filed by the Insurer to comply with the requirements was reviewed for the period under examination. The Insurer was in compliance with Article 61.050 of the Puerto Rico Insurance Code.

SEGREGATION OF BOOKS AND RECORDS

As part of the approval from the Commissioner for the business combination of Underwriters Adjustment Company, Inc. and Chartis Caribbean, Inc., with the Insurer, it was required that the accounting books and records should be kept separate in order to identify the specific income and expenses related to each company and also identify the assets available for the payment of insurance liabilities. As of review date, the Insurer

was in compliance with this requirement, properly maintaining separate accounting books for the identification of revenues, expenses and assets corresponding to each company. The following is the detail of total income and expenses before income taxes segregated by each operation from 2011 (effective year of operations merger) through 2013:

AIG Latin America I.I. Operations		
Year Ending November 30,	Total Income	Total Expenses (Before Income Taxes)
2011	\$ 9,479,976	\$ 6,167,021
2012	\$ 8,602,670	\$ 7,774,280
2013	\$ 9,594,949	\$ 7,668,702

Underwriters Adjustment Company Operations		
Year Ending November 30,	Total Income	Total Expenses (Before Income Taxes)
2011	\$ 1,345,858	\$ 1,277,614
2012	\$ 5,163,552	\$ 5,068,716
2013	\$ 4,419,208	\$ 4,363,831

Chartis Caribbean Operations		
Year Ending November 30,	Total Income	Total Expenses (Before Income Taxes)
2011	\$2,108,203	\$ 1,496,294
2012	\$3,763,614	\$ 5,356,069
2013	\$4,223,064	\$ 5,000,246

MINIMUM CAPITAL AND SURPLUS

Article 61.080 of the Puerto Rico Insurance Code requires the Insurer to maintain a minimum capital and surplus depending on the Class of International Insurer for which

it is authorized to transact business. The requirements of capital and surplus for Class 3 authority insurer is an amount not less than \$1,500,000 and for Class 5 authority insurer, not less than \$750,000, in addition to the requirements for other classes of authority. As such, the Insurer was required to maintain a total combined capital and surplus of not less than \$2,250,000.

In respect to the amounts mentioned on the paragraph above, the Insurer, being a Class 3 and 5 International Insurer is required to maintain a minimum capital of \$500,000 and \$750,000, respectively, for a total amount combined of \$1,250,000. The following data was obtained from the audited financial statements filed in the Commissioner's Office:

Year	Capital	Surplus	Total Capital and Surplus
2009	\$ 2,750,000	\$ 7,937,203	\$ 10,687,203
2010	\$ 2,750,000	\$ 17,417,396	\$ 20,167,396
2011	\$ 2,750,000	\$ 16,811,056	\$ 19,561,056
2012	\$ 2,750,000	\$ 14,958,422	\$ 17,708,422
2013	\$ 2,750,000	\$ 15,862,198	\$ 18,612,198

As shown on the table above, the Insurer was in compliance with Article 61.080 (1-5) for the period under review.

DEPOSIT IN PUERTO RICO

Article 61.080 (6) of the Puerto Rico Insurance Code requires the Insurer to maintain whichever is less between the capital and surplus required on the referred article, or \$5,000,000. In the case of the Insurer, the amount to be maintained in Puerto Rico would be \$2,250,000. For the period reviewed, the Insurer complied with the requirement maintaining bonds from the Government of Puerto Rico and cash deposits in banks of Puerto Rico in the amount of \$2,750,000.

PREMIUM AND LIQUIDITY RATIO

The Insurer is required by Section 9 of Rule 80 and Article 61.090 of the Puerto Rico Insurance Code to maintain, at all times, sufficient liquid assets (as defined by Rule 80) and capital and surplus to satisfy the premium and liquidity ratios established by the Puerto Rico Insurance Code.

For international insurers with Class 3 Authority, one of the requirements is that the Insurer shall maintain admitted assets in excess of liabilities of \$1,500,000 or 33% of the net premiums written for the actual fiscal year, whichever is greater. For Class 5 Authority, the amount required is the larger of \$750,000 and 25% of the net premiums written for the actual fiscal year. In the case of AIG Latin America I.I., for all of the fiscal years reviewed, the corresponding threshold according to Class 3 and 5 Authority would be \$1,500,000 and \$750,000, respectively, for a total of \$2,250,000 of required excess of admitted assets over liabilities. The Insurer complied with this provision for the period reviewed. The following is a detail of the relation between the amount of Capital and Surplus maintained by the Insurer, in relation to the 33% of Net Premiums Written for each year:

Year	Gross Premiums Written	Premiums Ceded	Net Premiums Written	33% of Net Premiums Written	Minimum Capital and Surplus Required	Total Capital and Surplus
2009	\$ 17,254,756	\$ 17,254,836	\$ (80)	\$ (26)	\$ 2,250,000	\$ 10,687,203
2010	\$ 21,857,366	\$ 21,779,364	\$ 78,002	\$ 25,741	\$ 2,250,000	\$ 20,167,396
2011	\$ 23,685,581	\$ 23,179,113	\$ 506,468	\$ 167,134	\$ 2,250,000	\$ 19,561,056
2012	\$ 22,978,326	\$ 22,983,290	\$ (4,964)	\$ (1,638)	\$ 2,250,000	\$ 17,708,422
2013	\$ 24,069,920	\$ 24,069,920	\$ -	\$ -	\$ 2,250,000	\$ 18,612,198

Rule 80, Section 9, also requires that all international insurers shall maintain an amount of liquid assets not less than 80% of their total amount of liabilities. The following data was obtained and recalculated from the financial figures presented in the audited financial statements of the Insurer, to adjust them to the definition of "Liquid Assets" as per Rule 80:

Year End	Total Liquid Assets as Defined by Rule 80	80% of Total Liabilities
2009	\$ 20,767,092	\$ 17,769,992
2010	\$ 31,074,968	\$ 18,773,139
2011	\$ 31,422,714	\$ 23,331,433
2012	\$ 25,295,125	\$ 25,263,974
2013	\$ 33,417,977	\$ 26,823,522

As presented in the table above, the Insurer was in compliance with Rule 80, Section 9 and with Article 61.090 of the Insurance Code of Puerto Rico.

ANNUAL REPORT

Section 10 of Rule 80 and Article 61.100 of the Puerto Rico Insurance Code require that all international insurers prepare an annual statement of its financial condition and business transactions for the closing of each fiscal year. The annual report shall be audited by an independent certified public accountant and shall be prepared using the generally accepted accounting principles (GAAP) with a reconciliation of the difference between the net profit and the capital and surplus based on statutory accounting principles (SAP) established herein. This report shall be filed before the Commissioner before the last day of the fourth month following the international insurer's preceding

fiscal year. For AIG Latin America, I.I., the annual report deadline would be March 31. For the fiscal years 2009, 2011, 2012 and 2013, the Insurer requested a deadline extension which was granted by the Commissioner. The Insurer filed the annual report before the due date of the extension requested.

In addition to the financial information mentioned above, Article 61.100 requires that the annual report be filed accompanied of an actuarial opinion with respect to the adequacy of the reserves for losses and adjustment expenses and a certification of its outstanding obligations with respect to the business transacted according to its Class 5 Authority. The Insurer complied with this requirement for the period reviewed.

Article 61.100 also requires the Insurer to file the annual report authenticated with the sworn statement of at least two of its principal officers. The Insurer was not in compliance with this provision of the Insurance Code, due to the fact that for the fiscal years ended 2009 and 2010 the Insurer did not file a sworn statement from at least two principal officers. In addition, for the years 2011, 2012 and 2013 the sworn statement was filed after the established deadline.

We require the Insurer to prospectively submit to the Commissioner the required Sworn Statement along with the Annual Report before the deadline established.

BUSINESS NAME

As required by Rule 80, Section 7, the designation of "International Insurer" or "I.I." shall appear as part of the official name of the Insurer and should be used on all policies, applications and other documents. In addition, the rule requires that as part of any policy, binder, certificate or any other proof of insurance transacted by an

international insurer or any other person acting on behalf of the insurer, the following notice should appear in a prominent place, in bold type, on the 1st page of any such documents:

**[NAME OF THE INTERNATIONAL INSURER], ORGANIZED UNDER CHAPTER 61 OF THE PUERTO RICO CODE.
NO COVERAGE ISSUED BY THIS INSURER IS PROTECTED BY ANY GUARANTEE OR INSOLVENCY FUND IN
PUERTO RICO.**

The policies of the Insurer did not contain the notice mentioned above. As such, the Insurer did not comply with Rule 80, Section 7. We require that the Insurer includes the notice required, as mentioned above, on top of their policy form and any other document presented to the policyholders.

PRINCIPAL REPRESENTATIVE

The Insurer has a Principal Representative which is a resident of Puerto Rico appointed to supervise the insurance business and oversee that is conducted pursuant to the provisions of the Insurance Code of Puerto Rico. As of review date, Francisco Diaz, the Insurer's President, is the Principal Representative approved by the Commissioner. The Insurer was in compliance with Article 61.170 of the Insurance Code of Puerto Rico.

INVESTMENTS PLAN

Section 11 of Rule 80 of the Insurance Code of Puerto Rico provides that the Insurer submits its Investment Plan to the Commissioner for review and approval and, among other requirements that the Plan has to comply with provisions established in Article 61.110 of the Code.

The Insurer was not in compliance with Section 11 of Rule 80 due to the fact that

the Investment Plan that the Insurer has in force as of the date of review was not presented to the Commissioner for approval. Rule 80 requires that the Insurer submits its current Investments Plan along with any changes made in the future.

CONTRIBUTIONS AND FEES

Section 13 of Rule 80, requires all international insurers to pay every year on or before its Certificate of Authority Renovation date, a contribution depending on the amount of premiums written or assumed. The Insurer was in compliance with Section 13 of Rule 80 for the period reviewed. The following is a detail of the fees paid by the Insurer for the period under review pursuant to the premiums written for each of the five years ended November 30:

Year	Fees paid to the Commissioner of Insurance	Total Gross Premiums Written
2009	\$ 5,000	\$ 17,254,756
2010	\$ 5,000	\$ 21,857,366
2011	\$ 5,000	\$ 23,685,581
2012	\$ 10,000	\$ 22,978,326
2013	\$ 5,000	\$ 24,069,920

The following are the Balance Sheet, Income Statement of the Insurer in GAAP Basis, and the reconciliation to Statutory Accounting Principles as per Rule 80, for the fiscal years ended on November 30, 2013 and 2012:

AIG Latin America I.I.
Statement of Balance Sheet
November 30, 2013 and 2012

	2013	2012
ASSETS		
Bonds available for sale	\$ 25,621,391	\$ 16,272,897
Investment in common stock of affiliates	-	147,361
Certificates of deposit	2,772,010	2,521,793
Cash and cash equivalents	1,736,226	1,877,502
Premiums receivable	974,972	1,167,056
Due from affiliates		
Reinsurance recoverable	1,933,475	3,245,041
Other	7,049,936	11,901,123
Unearned Premiums Ceded	8,962,146	9,004,028
Accrued Investment Income	379,903	210,836
Prepaid income tax	93,391	-
Deferred tax asset	866,873	825,025
Property and equipment, net	515,382	609,553
Prepaid expenses and other assets	209,339	102,961
	\$ 51,115,044	\$ 47,885,176
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,971,433	\$ 1,367,594
Commissions Payable	1,587,682	1,630,985
Premiums refund payable	3,878,638	3,554,067
Reserve for unearned premium	8,962,146	9,004,029
Reserve for unpaid losses and loss adjustment expenses	1,215,612	1,763,324
Due to affiliate		
Reinsurance premiums payable	10,062,423	7,213,260
Other	1,906,761	2,421,997
Accrued post-retirement benefits	3,142,774	3,691,125
Income tax payable	-	9,741
Unearned reinsurance commissions, net	801,933	923,845
Total liabilities	33,529,402	31,579,967
Stockholder's equity:		
Common stock, \$2,750 par value; 1,000 shares authorized, issued and outstanding	2,750,000	2,750,000
Additional paid-in-capital	8,905,000	8,905,000
Retained earnings	6,165,921	5,160,540
Accumulated other comprehensive income (loss), net of tax of \$226,129 and \$430,228	(235,279)	(510,331)
Total stockholder's equity	17,585,642	16,305,209
Total liabilities and stockholder's equity	\$ 51,115,044	\$ 47,885,176

AIG Latin America I.I.
Income Statement (GAAP Basis)
 November 30, 2013 and 2012

	2013	2012
Revenues:		
Net premiums earned	-	(2,118)
Commission income, net of unearned reinsurance commission for the year	8,959,594	7,665,273
Claims adjusting fees from affiliates	4,111,650	4,701,112
Other services and management fees from affiliates	4,200,228	3,739,847
Interest income, net	635,298	629,068
Other income	22,893	34,768
Total revenues	17,929,663	16,767,950
Losses and expenses:		
Claims incurred	274,405	94,123
Commissions expense, net of amortization of deferred policy acquisition costs for the year	6,605,053	6,613,132
Loss on investment in affiliate	21,438	53,204
Operating expenses	9,824,325	10,676,721
Total expenses	16,725,221	17,437,180
Income (loss) before income taxes	1,204,442	(669,230)
Income tax expense	32,020	379,016
Net income (loss)	1,172,422	(1,048,246)
Other comprehensive income	275,052	153,938
Comprehensive income (loss)	\$ 1,447,474	\$ (894,308)

AIG Latin America I.I.
Net Income Reconciliation (GAAP to Statutory)
Accounting Principales as per Rule 80
 November 30, 2013 and 2012

	2013	2012
Net income - Generally Accepted Accounting Principles	\$ 1,172,422	\$ (1,048,246)
Change in DAC for the year	(270,237)	(172,523)
Change in unearned reinsurance commission for the year	392,149	288,503
Post-retirement benefits plan expense	130,151	214,000
Loss of investment in affiliate	21,438	53,204
Deferred income taxes	(246,924)	235,952
Net income - Statutory Basis of Accounting	\$ 1,198,999	\$ (429,110)

	2013	2012
Stockholder's equity - Generally Accepted Accounting Principles	\$ 17,585,642	\$ 16,305,209
Nonadmitted assets, net of tax of \$426 and \$299	(10,656)	(7,479)
DAC ending balance for the year	(1,103,063)	(1,373,300)
Unearned reinsurance commission at year end	1,904,996	2,297,145
Unrealized net (gain) loss on available-for-sale securities	94,037	(318,889)
Deferred income taxes	(226,129)	(430,228)
Post-retirement benefits plan liability	367,371	1,235,964
Capital and Surplus - Statutory Basis of Accounting	\$ 18,612,198	\$ 17,708,422

SUMMARY OF NON-COMPLIANCE FINDINGS

(1) Filing of Sworn Statement for Annual Report

The Insurer failed to accompany the Annual Report filing with a sworn statement of at least two principal officers authenticating the report for the fiscal years ended November 30, 2010 and 2009.

We require the Insurer to prospectively submit to the Commissioner the required Sworn Statement along with the Annual Report. Refer to pages 9-10 of this report.

(2) Timely Filing of Sworn Statement for Annual Report

For the years ended November 30, 2013, 2012 and 2011 the sworn statement required to accompany the Annual Report was submitted after the required deadline.

We require the Insurer to prospectively submit to the Commissioner the required Sworn Statement along with the Annual Report before the deadline established. Refer to pages 9-10 of this report.

(3) Business Name Notice

The Insurer did not comply with Section 7 of Rule 80 for International Insurers, which requires that all policy forms include the following notice on the first page:

[NAME OF THE INTERNATIONAL INSURER], ORGANIZED UNDER CHAPTER 61 OF THE PUERTO RICO CODE. NO COVERAGE ISSUED BY THIS INSURER IS PROTECTED BY ANY GUARANTEE OR INSOLVENCY FUND IN PUERTO RICO.

We require that the Insurer includes the notice required, as mentioned above, on top of their policy form and any other document presented to the policyholders.

Refer to pages 10-11 of this report.

(4) Approval of Investments Plan

The Insurer did not submit its latest Investments Plan to the Commissioner for proper approval as required by Section 11 of Rule 80 for International Insurers. We require that the Insurer submits its current Investments Plan along with any changes made in the future. Refer to page 11 of this report.

CONCLUSION

For the period reviewed, AIG Latin America I.I. is in compliance with Chapter 61 of the Insurance Code of Puerto Rico and Rules 80, 81, and 82 with exception of the findings noted on the "Summary of Non-Compliance Findings" section of this report.



Fernando Scherrer, CPA, MBA
BDO Puerto Rico, PSC