

GOVERNMENT OF PUERTO RICO  
OFFICE OF THE COMMISSIONER OF INSURANCE



**AIG INSURANCE COMPANY-PUERTO RICO**

**AMENDED**

REPORT ON EXAMINATION  
AS OF DECEMBER 31, 2015  
CASE NO. EX-2015-22

NAIC Code 31674  
REPORT DATE: MAY 19, 2017

Barry W. Lupus, CFE, CPA, CFE (Fraud)  
Examiner-in-Charge  
INS Regulatory Insurance Services, Inc.

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GOVERNMENT OF PUERTO RICO  
OFFICE OF THE COMMISSIONER OF INSURANCE

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June 9, 2017

Honorable Javier Rivera Ríos  
Commissioner of Insurance  
Government of Puerto Rico  
Office of the Commissioner of Insurance  
Guaynabo, Puerto Rico 00968-3029

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2015-22, dated August 18, 2015, a financial condition examination has been made of the affairs, financial condition and management of the

**AIG INSURANCE COMPANY - PUERTO RICO**  
250 Muñoz Rivera Avenue - Suite 500  
San Juan, Puerto Rico 00918

hereinafter referred to as “Company” or “AIGPR”, incorporated under the laws of the Government of Puerto Rico, as of December 31, 2015. The examination was carried out in the main offices of the Company. The report on this examination is respectfully submitted.

**SCOPE OF EXAMINATION**

An examination of AIGPR was performed by examiners representing the Office of the Commissioner of Insurance of Puerto Rico (OCI). The last examination covered the period of January 1, 2010, through December 31, 2010. This examination covers the period from January 1, 2011, through December 31, 2015, including any material relevant

transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This examination was conducted concurrently as part of the coordinated examination of the AIG Combined Property and Casualty Pool (the Combined Pool). The New York State Department of Financial Services (NYDFS) was the Lead State and the Pennsylvania Insurance Department (PID) was the Facilitating State. Separate reports of examination were filed for each company within the Combined Pool. The OCI was a participant in the examination.

We conducted our examination in accordance with the *National Association of Insurance Commissioners* (“NAIC”) *Financial Condition Examiners Handbook* (“NAIC Handbook”) and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the Government of Puerto Rico. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is

identified, the impact of such adjustment will be documented separately following the Company's financial statements. This examination report includes significant findings of fact and general information about the Insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

#### 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.

##### Application for Tax Exemption

Section 5(A) of Rule 66 of the Regulations of the Insurance Code of Puerto Rico states:

Every insurer who qualifies under Article 4 of this Rule for exemption from tax shall, on or before January 31 of each year file in the OCI forms that provide:

- i. An application for the concession of tax exemption for the current year.
- ii. A report on the operations of the insurer for the previous year.

The Company failed to comply with Section 5(A) of Rule No. 66 of the Regulations of the Insurance Code of Puerto Rico because its application for tax exemption was filed on February 5, 2015, after the January 31, 2015 deadline.

The Company has subsequently complied with the tax exemption application filing due date for 2016 and advised it will comply with subsequent due dates. Per our

review, the Company was in compliance with the requirements established in the rule for the tax exemption for the period under review. No recommendation is necessary.

Investment Policy Plan

Article 6.040(1) of the Insurance Code of Puerto Rico states that the investment plan must include the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior.

The Company is not in compliance with Article 6.040(1) of the Insurance Code of Puerto Rico, because the investment plan did not establish the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior.

Certification of Investments

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 Company is not in compliance with Article 6.040(2) of the Insurance Code of Puerto Rico, because the Board of Directors did not certify through a written formal resolution that investments were made as established by the board.

**PRIOR EXAMINATION FINDINGS***Use of Unauthorized Reinsurers without Prior Approval*

The Company improperly identified several unauthorized reinsurers as authorized on Schedule F-Part 3 of the 2010 annual statement and, in addition to two other properly identified authorized reinsurers, did not obtain prior approval from the Commissioner before their use. The Company failed to comply with Article 4.120(3) of the Insurance code of Puerto Rico which requires insurers to obtain prior written approval before the use of an unauthorized reinsurer. The Company failed to comply with the instructions regarding the determination of the authorized status of reinsurers listed on Schedule F contained in the 2010 *NAIC Annual Statement Instructions for Property & Casualty Companies*. The OCI Analyst noted no issues in the Annual Statement evaluations of AIGPR for the years 2011 through 2015 related to the use of unauthorized reinsurers.

**COMPANY HISTORY**

AIGPR was incorporated in Puerto Rico on October 17, 1971, as American International Insurance Company of Puerto Rico and commenced operations on July 8, 1974. On September 30, 2009, the OCI approved a request submitted by the Insurer to change its name to Chartis Insurance Company - Puerto Rico. Then, on October 17, 2012, the OCI approved the change of name to AIG Insurance Company - Puerto Rico.

American International Group Inc. (AIG) owns 100% of AIG Latin American Investment, LLC. AIG Latin American Investment, LLC owns 99.9% of AIG Insurance Company - Puerto Rico.

### CAPITAL STOCK

The Company has 260,000 shares of \$10.00 par value common stock authorized, issued and outstanding. AIG Latin America Investment, LLC owns 259,993 shares. The remaining shares were issued equally to the following directors:<sup>1</sup>

- Francisco Díaz
- Carlos González Rodríguez
- Lara López
- Margarita López
- Tanya Sánchez

### CORPORATE RECORDS

The Articles of Incorporation, Bylaws and all amendments thereto, and the minutes of the meetings of the board of directors, board of director's committees, and shareholders were reviewed for the period under examination.

### ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation and Bylaws were amended in 2012 to change the name of the Company to AIG Insurance Company - Puerto Rico. The amended Articles of Incorporation and Bylaws were in compliance with Article 29.070 of the Insurance Code of Puerto Rico and approved by the OCL, effective October 17, 2012.

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<sup>1</sup> Per Michelle Lugo, General Counsel and Secretary of the AIGPR Board of Directors, the 2 other shares have not been reissued since the shares for Mr. James Dwyane and Mr. Pedro Fernández were canceled after the last election in 2015.

MINUTES

The recorded minutes adequately documented its meetings and approval of Company transactions and events, in compliance with the Insurance Code of Puerto Rico.

**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.

**BOARD OF DIRECTORS**

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

<u>Name and Location (City and State of Residence)</u>	<u>Principal Occupation</u>
Francisco Diaz Carolina, Puerto Rico	President and General Manager AIG Insurance Company - Puerto Rico
Carlos González Rodríguez <sup>2</sup> Guaynabo, Puerto Rico	Senior Vice President and Chief Financial Officer AIG Insurance Company - Puerto Rico
Lara López San Juan, Puerto Rico	Director AIG Insurance Company - Puerto Rico
Margarita López San Juan, Puerto Rico	Director AIG Insurance Company - Puerto Rico
Tanya Sánchez San Juan, Puerto Rico	Director AIG Insurance Company - Puerto Rico

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<sup>2</sup> Mr. Carlos González resigned from the Company on summer of 2016. Mr. Alexis Sánchez Pérez is the Senior Vice President and Chief Financial Officer of the Company since July of 2016.

**OFFICERS**

Officers are elected by the Board of Directors on an annual basis. A list of the officers elected or appointed during 2015 and serving on December 31, 2015 is as follows:

<u>Name</u>	<u>Position</u>
Francisco Díaz	President and General Manager
Carlos González Rodríguez	Senior Vice President and Chief Financial Officer
Ada Michelle Lugo	Secretary
Miguel Díaz	Assistant Treasurer
Lara López	Assistant Secretary
Gustavo Sarabia	Vice President
Marie Liza Rodríguez	Vice President

**COMMITTEES**

The bylaws provide that the Board may establish Committees to assist the Board in the management of the business and affairs of the Corporation. As of December 31, 2015, AIGPR had the following Committees of the Board:

**Audit and Compliance Committee**

Francisco Díaz, Chairman  
Margarita Lopez  
Carlos González Rodríguez

**Investment Committee**

Carlos González Rodríguez, Chairman  
Francisco Díaz  
Margarita López  
Risk and Capital Committee

Carlos González Rodríguez, Chairman  
Francisco Díaz  
Tanya Sánchez  
Lara López

**Trust Committee**

Carlos González Rodríguez, Chairman  
Francisco Díaz  
Margarita López

**CONFLICT OF INTEREST**

The Company maintains a Code of Conduct that provides ethical guidelines for conducting business on behalf of all AIG companies. All employees have a mandatory training for compulsory review and attestation of the Code of Conduct, which establishes the conflict of interest policy of the Company. Per our review, we can conclude that AIGPR is in compliance with Article 29.230 of the Insurance Code of Puerto Rico.

**INVESTMENT PLAN**

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that all investments acquired and held under this Chapter shall be acquired and owned under the supervision and direction of the Board of Directors of the insurer. 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 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.

Review of the Investment Policy noted that the Company is not in compliance with Article 6.040(1) of the Insurance Code of Puerto Rico, because the policy did not establish the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior. Review of the Board of Directors minutes noted that the Company is not in compliance with Article 6.040(2) of the Insurance Code of Puerto Rico, because the Board of Directors did not certify through a written formal resolution that investments were made as established by the board. These items have been noted above as current examination findings.

#### **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 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:

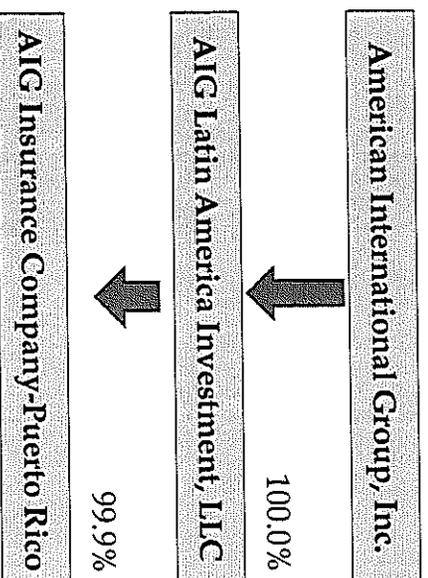
<b>Year</b>	<b>Dividend Paid</b>	<b>Unassigned Surplus Previous Year</b>
2011	\$13,000,000	\$79,055,243
2012	\$10,167,039	\$72,453,074
2013	\$13,000,000	\$67,494,994
2014	\$48,000,000	\$55,884,192
2015	\$0	\$5,964,514

Pursuant to Puerto Rico Regulations, Rule No. 83 Section 19(b), of the Regulations of the Insurance Code of Puerto Rico an insurer may not pay extraordinary dividends or make any other extraordinary distribution to shareholders until thirty (30) days after notifying the

Commissioner of Insurance and he has not disapproved such payments or has expressly approved the extraordinary dividend within the thirty (30) day period. No extraordinary dividends were paid during the examination period. The Company was in compliance with the provisions of Article 29.340, 44.050 and 44.060(B) of the Insurance Code of Puerto Rico.

#### **HOLDING COMPANY SYSTEM**

The Company is a member of an Insurance Holding Company System as defined under the Insurance Laws of Puerto Rico. American International Group, Inc. is the ultimate controlling parent. A summary organizational chart as of December 31, 2015 appears below:



#### **INTERCOMPANY AGREEMENTS**

In the ordinary course of business the Company utilizes the services of affiliated companies for claims management and lease of space for the Company's operation. Also, the Company provides data processing services and other miscellaneous services to affiliated companies. As of December 31, 2015, the Company had the following written agreements with affiliates:

Agency Agreement

This agreement, entered into on January 1, 2011, is between the Company and its wholly owned subsidiary Chartis Insurance Agency, Inc. (CIA). Pursuant to the agreement, the Company appointed CIA as General Agents. The agreement gives CIA limited power and authority to receive and accept proposals for insurance, to charge the premiums for such proposals, to collect, receive and issue receipts for premiums on insurance tendered by CIA. CIA does not have any underwriting authority. Premiums are remitted to the Company no later than 60 days after each month's reporting.

Claims Services Agreement

This agreement, entered into on February 1, 2010, is between the Company and its affiliate Underwriters Adjustment Company, Inc. (UNACO). Pursuant to the agreement, the Company appointed UNACO to investigate and negotiate settlements of claims and perform all other services customarily performed by insurance adjustors. An estimated fee is paid on a monthly basis payable 15 days after receipt of invoice. True up between fees and actual fees is charged or deducted from fees for the following quarter.

Intercompany Services Agreement

This agreement, entered into on December 1, 2008, is between various named affiliates of American International Group, Inc., including the Company. Pursuant to the agreement, the participating members and their respective non-U.S. affiliates, subsidiaries and branches have entered into an agreement for the provision of services and the allocation of costs in order to meet U.S. and worldwide transfer pricing requirements. Each party to the agreement may ask another party to provide services,

which include, but are not limited to, administration and other services associated with an insurance and financial services business. All services are provided at cost. However, any services that require a mark-up or other transfer pricing basis to comply with any applicable transfer pricing principles must use the cost schedule attached to the agreement. Each service provider will provide, on a quarterly basis, a written invoice to the requesting company. The requesting company shall pay the invoice within sixty (60) days after receipt.

Administrative Agreements

The Company is a party to four (4) separate administrative agreements with affiliates including CIA, UNACO, New Hampshire Insurance Company and Chartis Caribbean, Inc. Pursuant to these agreements, the Company provides management services to the respective affiliate. These services include production administration, human resources, administration, accounting, executive, operations, marketing and client services. A fixed annual fee is paid in monthly installments due no later than thirty (30) days after conclusion of each month.

Management Agreements

The Company is party to two (2) separate management agreements with affiliates including UNACO, Chartis Caribbean, Inc., and Chartis I.I.-Puerto Rico. Pursuant to the agreements, the Company provides services in the areas of general business administration, human resources, operations, marketing, customer service, telephone system support and information systems services. A fixed annual fee is paid.

IT Agreements

The Company is party to three (3) separate information technology agreements with affiliates including CIA, UNACO and Charis Caribbean, Inc. Pursuant to the agreements, the Company provides information technology services including data backup, application support, technical assistance, installation, and maintenance. A fixed annual fee is paid in quarterly installments, payable no later than thirty (30) days after the conclusion of each quarter.

**TERRITORY AND PLAN OF OPERATIONS**

AIGPR is a multiline insurance company that transacts disability, property, marine and transportation, agricultural, vehicle, casualty and surety types of business. The Company is authorized to write business in both Puerto Rico and the U.S. Virgin Islands. The Company's current core business is commercial property, financial lines and casualty business. During the fourth quarter of 2014, the Company commenced the runoff of its Consumer business, completed during 2015, to concentrate efforts and resources in Commercial lines of business.

**GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the past five years through December 31, 2015:

Year	Admitted Assets	Surplus	Gross Premiums Written	Net Income
2011	\$197,256,444	\$142,547,172	\$112,313,183	\$9,586,151
2012	186,991,450	140,152,188	99,246,597	6,749,150
2013	179,724,712	134,545,176	90,114,901	6,897,092
2014	134,334,856	86,031,294	87,407,521	1,509,500
2015	129,427,888	83,314,897	69,371,112	(4,827,058)

Policyholders' surplus decreased from \$142,547,172 to \$83,314,897 as of December 31, 2015. The decrease was primarily the result of continued increases in the percentage of other underwriting expenses incurred as compared to premiums earned and continued decreases in net investment gains.

#### REINSURANCE

##### ASSUMED

As of December 31, 2015, AIGPR assumed reinsurance premiums totaling \$218,000 from Real Legacy Assurance Company, Inc., a U.S. unaffiliated insurer domiciled in Puerto Rico.

##### CEDED

The Company places substantially all of its reinsurance with the following affiliated reinsurers:

- New Hampshire Insurance Company (IL)
- American Home Assurance Company (NY)
- National Union Fire Insurance Company of Pittsburgh (PA)

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

The Company ceded more than 75% of its direct business for the following years per lines of business:

- 2011: Property and Casualty
- 2012 and 2014: Warranty

## ACCOUNTS AND RECORDS

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified, and controls were identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

INS Services, Inc. performed a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the OCI and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

AIG INSURANCE COMPANY - PUERTO RICO  
ASSETS  
DECEMBER 31, 2015

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$107,965,360	\$0	\$107,965,360
Common stocks	\$1,949,856		\$1,949,856
Cash, cash equivalents and short-term investments	7,129,762		\$7,129,762
Investment income due and accrued	1,245,177		\$1,245,177
Uncollected premiums and agents' balances in the course of collection	4,875,413		\$4,875,413
Amounts recoverable from reinsurers	2,883,042		\$2,883,042
Net deferred tax asset	3,012,814		\$3,012,814
Electronic data processing equipment and software	<u>366,464</u>	<u>—</u>	<u>\$366,464</u>
Total Assets	\$129,427,888	\$0	\$129,427,888

**AIG INSURANCE COMPANY - PUERTO RICO**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2015**

	<u>Per</u>		<u>Per</u>
	<u>Company</u>	<u>Adjustments</u>	<u>Examination</u>
Losses (Note 1)	\$6,151,605	\$0	\$6,151,605
Loss adjustment expenses (Note 1)	6,813,343		6,813,343
Commissions payable, contingent commissions and other similar charges	1,068,950		1,068,950
Other expenses (excluding taxes, licenses and fees)	11,313,677		11,313,677
Taxes, licenses and fees (excluding federal and foreign income taxes)	470,608		470,608
Current federal and foreign income taxes	493,291		493,291
Unearned premiums (after deducting unearned premiums for ceded reinsurance of 19,767,000)	9,825,588		9,825,588
Advance premiums	(6,813)		(6,813)
Ceded reinsurance premiums payable (net of ceding commissions)	2,788,000		2,788,000
Amounts withheld or retained by company for account of others	448,984		448,984
Provision for reinsurance	390,508		390,508
Payable to parent, subsidiaries and affiliates	2,333,902		2,333,902
Aggregate write-ins for liabilities-Deferred net commission	713,047		713,047
Aggregate write-ins for liabilities- Other liabilities and unprocessed items	1,212,197		1,212,197
Aggregate write-ins for liabilities-Guaranty fund assessments payable	454,813		454,813
Aggregate write-ins for liabilities-SSAP 92 transition liability	1,641,291		1,641,291
<b>Total Liabilities</b>	<b>\$46,112,991</b>	<b>\$0</b>	<b>\$46,112,991</b>
Aggregate write-ins for special surplus funds-Reserve for catastrophic insurance losses pursuant to Chapter 25 of the Insurance Code of Puerto Rico	\$61,368,074		\$61,368,074
Common capital stock	2,600,000		2,600,000
Gross paid in and contributed surplus	18,089,000		18,089,000
Unassigned funds (surplus)	1,257,823		1,257,823
Surplus as regards policyholders (Note 2)	\$83,314,897	\$0	\$83,314,897
<b>Total liabilities, surplus and Other funds</b>	<b>\$129,427,888</b>	<b>\$0</b>	<b>\$129,427,888</b>

AIG INSURANCE COMPANY - PUERTO RICO  
STATEMENT OF INCOME  
DECEMBER 31, 2015

	<b>UNDERWRITING INCOME</b>
Premiums earned	\$16,143,339
<b>DEDUCTIONS</b>	
Losses Incurred	\$ 1,303,479
Loss adjustment expenses incurred	1,397,180
Other underwriting expenses incurred	11,815,709
Total Underwriting Deductions	<u>\$14,516,368</u>
Net underwriting gain or (loss)	<u>\$ 1,626,971</u>
<b>INVESTMENT INCOME</b>	
Net investment income earned	\$ 2,029,795
Net realized capital gains (losses) less capital gains tax of \$0	<u>(2,724,774)</u>
Net investment gains or (loss)	<u>\$ (694,979)</u>
Totals	
<b>OTHER INCOME</b>	
Aggregate write-ins for miscellaneous income	\$(3,000,000)
Reserve JUA legal case	
Aggregate write-ins for miscellaneous income	<u>\$(1,520,990)</u>
Restructuring costs paid	
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$(3,588,998)
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$(3,588,998)
Federal and foreign income taxes incurred	<u>1,238,060</u>
Net income	<u><u>\$(4,827,058)</u></u>

AIG INSURANCE COMPANY - PUERTO RICO  
CAPITAL AND SURPLUS ACCOUNT  
DECEMBER 31, 2015

Surplus as regards policyholders, December 31 prior year	\$86,031,294
Net Income	(4,827,058)
Change in net unrealized capital gains or (losses) less capital gains tax of (\$24,189)	(96,756)
Change in net deferred income tax	2,878,539
Change in non-admitted assets	(2,449,216)
Change in provision for reinsurance	683,917
Surplus adjustments: Paid-in	556,000
Aggregate write-ins for gains and losses in surplus	
Post retirement SSAP 92 transition balance	638,867
Aggregate write-ins for gains and losses in surplus	
Assessment payable to AGSM	(100,690)
Change in surplus as regards policyholders for the year	<u>\$(2,716,397)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$83,314,897</u></u>

AIG INSURANCE COMPANY - PUERTO RICO  
 COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS  
 DECEMBER 31, 2015

Surplus as Regards Policyholders  
 December 31, 2015, Per Annual Statement \$83,314,897

	Per <u>Company</u>	Per <u>Exam</u>	Increase (Decrease) <u>In Surplus</u>
ASSETS	\$ 129,427,888	\$ 129,427,888	\$0
LIABILITIES	\$ 46,112,991	\$ 46,112,991	\$0

Net Change in Surplus \$0

Surplus as Regards Policyholders  
 December 31, 2015, Per Examination \$83,314,897

**AIG INSURANCE COMPANY - PUERTO RICO**  
**RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION**  
**DECEMBER 31, 2015**

	2011	2012	2013	2014	2015
Capital and Surplus 12/31 prior year	\$147,319,007	\$142,547,172	\$140,152,188	\$134,545,176	\$86,031,294
Net Income (Loss)	9,586,151	6,749,150	6,897,092	1,509,500	(4,827,058)
Change in net unrealized capital gains (or losses) less capital gains tax	(540,343)	695,627	(917,942)	(501,033)	(96,756)
Change in net deferred income tax	(398,864)	(423,194)	908,764	(506,561)	2,878,539
Change in non-admitted assets	(484,964)	1,319,525	(51,748)	698,980	(2,449,216)
Change in provision for reinsurance	66,185	(569,053)	666,376	1,091,177	683,917
Dividends to stockholders	(13,000,000)	(10,167,039)	(13,000,000)	(48,000,000)	0
Aggregate write-ins for gains and losses in surplus-Post retirement SSAP 92 transition balance			(109,554)	(2,170,604)	638,867
Aggregate write-ins for gains and losses in surplus-assessment payable to AGSM				(656,341)	(100,690)
Surplus adjustments: Paid-in				21,000	556,000
Net change in Capital and Surplus	(4,771,835)	(2,394,984)	(5,607,012)	(48,513,882)	(2,716,397)
Capital and Surplus at end of year	\$142,547,172	\$140,152,188	\$134,545,176	\$86,031,294	\$83,314,897

## NOTES ON FINANCIAL STATEMENTS

### NOTE 1: LOSS AND LOSS ADJUSTMENT EXPENSES

As part of the group examination, the Lead State retained the services of Oliver Wyman (OW) (A Marsh & McLennan Company) to conduct an independent review of the Company's reserves as of December 31, 2015. The consulting actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Financial Condition Examiners Handbook. The conclusions set forth in the consulting actuary's report were based on information provided by the Company, including the 2015 Annual Statement. The Statement of Actuarial Opinion for 2015 was prepared and signed by the appointed actuary, James McCoy, Vice President and Associate Actuary of AIG Property Casualty. The Actuarial Opinion was prepared and submitted in accordance with Rule No. 96 of the Regulations of the Insurance Code and Article 5.100 of the Insurance Code of Puerto Rico.

INS Consultants, Inc. (INS) performed the actuarial work in Phases 1 through 4 for the financial condition examination of AIGPR for the Key Activity – Actuarial Reserving, while OW performed the actuarial work in Phases 5 through 7. The work produced by INS and OW in each phase was performed on behalf of the PID as the lead state in the multi-state coordinated examination. INS' findings relate to the limited scope review of OW's Phase 5 work for AIGPR.

For Phase 5, INS reviewed only those risks where OW performed Phase 5 detailed procedures. For these risks, INS has reviewed the OW Report, dated March 28, 2017. OW's work was performed by Rajesh Sahasrabuddhe, FCAS, MAAA, Steven Symon,

FCAS, MAAA and Ted Zubulake, FCAS, MAAA. INS finds that the OW report provides reasonable analyses and conclusions with regard to the reserves held by AIGPR.

**NOTE 2: TOTAL CAPITAL AND SURPLUS**

The total capital and surplus of the Company at December 31, 2015, as determined by this examination, is the same as the amount reported by the Company on its 2015 Annual Statement.

**SUBSEQUENT EVENTS**

No subsequent events or transactions that occurred after December 31, 2015 examination date were noted that would have had a material effect on AIGPR's Financial Statements.

**SUMMARY OF RECOMMENDATIONS**

Investment Policy – Articles 6.040(1) and 6.040(2) of the Insurance Code of Puerto Rico

We recommend that in the future:

- The Board of Directors include in its Investment Policy the professional qualifications of the persons that shall be responsible for making routine investment decisions in accordance with Article 6.040(1) of the Insurance Code of Puerto Rico.
- The Board of Directors prepare, approve and document a formal written resolution of its investments in accordance with Article 6.040(2) of the Insurance Code of Puerto Rico.

**CONCLUSION**

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AIG Insurance Company- Puerto Rico** as of December 31, 2015, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

In addition to the undersigned, Donald W. Sirois, CFE, Examination Manager, of INS Regulatory Insurance Services, Inc. participated in this examination. Yajaira Torres Martínez, Examiner, of the Office of the Commissioner of Insurance, participated in the compliance portion of the examination.

Respectfully submitted,

*Barry W. Lupus*

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Barry W. Lupus, CFE, CPA, CFE (Fraud)  
Examiner-in-Charge  
INS Regulatory Insurance Services, Inc.  
Representing the Office of the Commissioner  
of Insurance of Puerto Rico



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Carla M. Colón León, CPA  
Supervisor, Examiners Division  
Office of the Commissioner of Insurance of  
Puerto Rico

