

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2014
CASE NO. EX-2015-29

NAIC CODE 30590
REPORT DATE: MARCH 17, 2016

Barry W. Lupus, CFE, CPA, CFE (Fraud)
Examiner-in-Charge
INSRIS-PR, LLC

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	3
CURRENT EXAMINATION FINDINGS.....	3
PRIOR EXAMINATION FINDINGS.....	5
COMPANY HISTORY	5
CAPITAL STOCK	5
CORPORATE RECORDS	5
ARTICLES OF INCORPORATION AND BYLAWS	6
MINUTES	6
MANAGEMENT AND CONTROL.....	6
BOARD OF DIRECTORS	6
OFFICERS	7
COMMITTEES	8
CONFLICT OF INTEREST	9
INVESTMENTS	9
DIVIDENDS TO STOCKHOLDERS	10
HOLDING COMPANY SYSTEM.....	10
INTERCOMPANY AGREEMENTS.....	11
TERRITORY AND PLAN OF OPERATIONS	14
GROWTH OF THE COMPANY.....	14
REINSURANCE.....	15
ASSUMED.....	15
CEDED	15
ACCOUNTS AND RECORDS.....	15
FINANCIAL STATEMENTS.....	16
ASSETS.....	17
LIABILITIES, SURPLUS AND OTHER FUNDS.....	18
STATEMENT OF INCOME.....	19

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....20

RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION21

NOTES ON FINANCIAL STATEMENTS.....22

NOTE 1: LOSSES AND LOSS ADJUSTMENT EXPENSES22

NOTE 2: AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUNDS22

NOTE 3: TOTAL CAPITAL AND SURPLUS23

SUBSEQUENT EVENTS23

SUMMARY OF RECOMMENDATIONS.....23

REQUIREMENT OF DEPOSIT, DOMESTIC INSURERS23

REQUIRED INVESTMENT IN PUERTO RICAN SECURITIES (NORMATIVE LETTER NO. 2010-118-AF) 23

REGULAR AND SPECIAL MEETINGS OF STOCKHOLDERS OF MEMBERS.....23

CONCLUSION.....24



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 22, 2016

Honorable Angela Weyne Roig
Commissioner of Insurance
Commonwealth 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-2015-29, dated October 29, 2015, a financial condition examination has been made of the affairs, financial condition and management of the

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
273 PONCE DE LEON AVENUE, SUITE 1300
SAN JUAN, PUERTO RICO 00917-1838

hereinafter referred to as "Company" or "CAPIC", incorporated under the laws of the Commonwealth of Puerto Rico. 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 CAPIC 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 covered the period from January 1, 2011, through December 31, 2014, including any material relevant

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

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("NAIC Handbook")* and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the Commonwealth of Puerto Rico. The *NAIC Handbook* requires that we plan and perform the examination 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 risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of 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.

All accounts and activities of the Company were considered in accordance with the *NAIC Handbook* risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers, LLP (PwC). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

The examination of the Company was conducted concurrently with the examination of Caribbean American Life Assurance Company (CALAC).

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.

REQUIREMENT OF DEPOSIT, DOMESTIC INSURERS

As of the examination date, the Company had common capital stock in excess of the \$2,800,000 required under Article 3.090 of the Insurance Code of Puerto Rico. As a result, the Company must maintain a deposit in excess of \$1,400,000 to be in compliance with Article 3.151 of the Insurance Code of Puerto Rico.

According to CAPIC's 2014 Annual Statement, the book value of the deposit maintained under Article 3.151 of the Insurance Code of Puerto Rico equaled \$1,306,980. Therefore, the Company is not in compliance with Article 3.151 of the Insurance Code of Puerto Rico as of the examination date.

As presented above, the Company was not in compliance with Article 3.151 of PRC for the year 2014. Subsequently, we obtained documents pertaining to a request from the Company to the OCI in which they asked permission to substitute the bond and deposit in cash the amount required of \$1,400,000 in a financial institution of Puerto Rico. The OCI approved the petition. However, as per our review, the Company did not retire

the bond; instead they deposited in cash the difference between the value of the bond and the required amount.

REQUIRED INVESTMENT IN PUERTO RICAN SECURITIES (NORMATIVE LETTER NO. 2010-118-AF)

In the Certificate of Investments as filed with the OCI for 2014, a bond was presented at an amortized value of \$80,000 while in Schedule D of the Annual Statement; this bond was reported with a value of \$85,000. The examiners determined that the value of this bond as reported in the annual statement should have been \$80,000, and therefore the Annual Statement Schedule D was not in compliance with NAIC Annual Statement Instructions.

Although the Company is in compliance with Article 3.160 of the Insurance Code of Puerto Rico, according to Ruling Letter Num. 2010-118-AF, the annual statement must follow the NAIC's "Annual Statement Instructions." The instructions for Schedule D Part 1 state that the bond should be presented at its amortized value as of year-end. The Company failed to comply with NAIC's Annual Statement Instructions and therefore, with Ruling Letter No. 2010-118-AF.

REGULAR AND SPECIAL MEETINGS OF STOCKHOLDERS OF MEMBERS

Section 4 of Article III of the Company's bylaws requires that the President of the Company shall preside at all meetings of the stockholders. In 2011, the Secretary of the Company presided over the annual meeting of the stockholders resulting in the Company not being in compliance with its bylaws.

AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUNDS

The Company failed to comply with Article 3 of Rule 72 by using only one entity for the PML model. The Company failed to comply with Article 25.030(7) of the Insurance Code as it withheld less than two percent (2%) of its catastrophic risk for hurricanes.

PRIOR EXAMINATION FINDINGS

The Company was in compliance with recommendations made in the prior December 31, 2010, Report on Examination.

COMPANY HISTORY

The Company was incorporated on April 15, 1988, under the provisions of the Insurance Code of Puerto Rico. The Company has been engaged in the underwriting of warranty, credit involuntary unemployment, and credit property insurance, for banks and other financial institutions doing business in Puerto Rico and the US Virgin Islands.

CAPITAL STOCK

The Company has 676,371 shares of Class A common stock issued and outstanding, of which 676,336 are owned by Assurant Solutions Holding Puerto Rico, Inc. (ASHPRI) and the remaining 35 shares are owned by several officers. All 233,639 outstanding Class B shares of common stock are owned by CALAC.

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 committees, and shareholders were reviewed for the period under examination. The following amendments to the Articles of Incorporation and bylaws were noted:

ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation and bylaws were amended to have the common stockholders elect the Board of Directors at the annual stockholders meeting and to appoint committees of the Board. These amendments were approved by the Board in an ordinary meeting held on November 15, 2011, in compliance with Article 29.070, PRS.

The bylaws were amended to authorize the common stockholders to set the number of Directors of the corporation at the Annual Meeting of the Stockholders. The amendment was approved by the Board in an ordinary meeting held on July 3, 2013. The amendment was approved by the stockholders and the Commissioner of Insurance in compliance with Articles 29.080(2) and 29.080(3), PRS.

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 in compliance with Article 29.160, were as follows:

NAME, POSITION AND LOCATION	PRINCIPAL OCCUPATION
Christian W. Formby President San Juan, Puerto Rico	President CAPIC and CALAC
Pedro Andres Director San Juan, Puerto Rico	President & CEO Neptuno Networks
Luis F. Rivera Director Vega Alta, Puerto Rico	Treasurer & Comptroller CAPIC and CALAC
Alvaro Rafael Calderón Director Guaynabo, Puerto Rico	Lawyer Alvaro R. Calderon Law Firm
Roberto L. Guglielmucci Director Miami, Florida	Senior Vice President & CFO Assurant Solutions Global Strategic Finance
Iván Carlos López Director Atlanta, Georgia	Senior Vice President & CFO Assurant Solutions
Miguel Soto Director Guaynabo, Puerto Rico	President Center for a New Economy

OFFICERS

Officers are elected by the Board of Directors on an annual basis. A list of the officers elected or appointed during 2014 and serving as of December 31, 2014 appears below. The officers were elected in compliance with Article 29.210, PRS.

NAME	TITLE
Christian W. Formby	President
Jeannie Aragon	Secretary

NAME	TITLE
Luis F. Rivera	Treasurer and Vice President Accounting & Finance
Ana M. Rosado	Assistant Secretary and Vice President Human Resource
Isabel M. Davila	Chief Operation Officer and Vice President Operations
Elaine Soto	Vice President
Teonna White	Vice President
Eduardo Arthur	Vice President
Temikia La Tonia	Vice President
German Torres	Vice President Business Development, Sales & Marketing
Adriana Rayneri	Assistant Secretary
Ana Garzon	Assistant Treasurer
Julie Mackinson	Assistant Treasurer
Andrew Chung	Assistant Treasurer

COMMITTEES

The bylaws provide that the Board may designate one or more committees as determined to be necessary for the conduct of the business of the Company. As of December 31, 2014, CAPIC had the following Committees of the Board:

<i>Audit Committee</i>
Alvaro Rafael Calderon (Chair)
Pedro Andres
Miguel Soto

<i>Executive Committee</i>
Christian W. Formby (Chair)
Alvaro Rafael Calderon
Pedro Andres
Roberto L. Guglielmucci

<i>Investment Committee</i>
Christian W. Formby (Chair)
Alvaro Rafael Calderon
Ivan Carlos Lopez
Pedro Andres
Roberto L. Guglielmucci

CONFLICT OF INTEREST

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

INVESTMENTS

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 Board of Directors minutes noted that the Company did certify in writing through a formal resolution that all investments were made pursuant to standards, limitations and investment goals established by the Board. The Company is in compliance with all provisions of Article 6.040, PRS. Additionally, the Company is in compliance with the following Articles of Chapter 6 of the Insurance Code:

- 6.030 - Qualification and eligibility of investments
- 6.050 - Prohibited investments
- 6.060 - Valuation of investments

- 6.070 - General requirements for diversification

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 during the examination period and the balance of unassigned surplus for the corresponding year:

Year	Dividend Paid	Unassigned Surplus Previous Year
2011	\$5,600,000	\$11,628,127
2012	\$4,500,000	\$11,156,130
2013	\$5,100,000	\$10,568,776
2014	\$5,300,000	\$9,961,992

Pursuant to Puerto Rico Regulations, Rule 83 Section 19(b), 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 the Commissioner of Insurance has not disapproved such payments or has expressly approved the extraordinary dividend within the thirty (30) day period. Extraordinary dividends were paid during the examination period in compliance with Rule 83 (19b). In addition, the Company was in compliance with the provisions of Article 29.340 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. Assurant, Inc. is the ultimate controlling parent. CAPIC is 74% owned by ASHPRI and 26% owned by CALAC, an affiliated

insurance Company domiciled in the Commonwealth of Puerto Rico. Assurant, Inc. is a publically traded insurance holding company that trades on the New York Stock Exchange under the ticker symbol AIZ. The OCI obtained Rule 83 forms submitted by Assurant, Inc. (Insurance Holding Company System Registration Statement) for the period of examination and reviewed all forms and noted they were submitted by the required date. No significant matters were noted in the disclosures.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries, and other affiliates with direct business relationships with the Company as of December 31, 2014:

- Assurant, Inc. (DE)
 - Interfinancial, Inc. (GA)
 - American Bankers Insurance Group, Inc. (FL)
 - ABI International (Cayman Islands)
 - Assurant International Division, Ltd. (Malta Islands)
 - Assurant Solutions Holding Puerto Rico, Inc. (PR)
 - Caribbean American Property Insurance Company (PR) (74%)**
 - Caribbean American Life Assurance Company (PR) (CALAC**
owns remaining 26% of CAPIC)

INTERCOMPANY AGREEMENTS

The Company was involved in the following intercompany agreements in effect during the examination period:

INFORMATION TECHNOLOGY SYSTEMS AGREEMENT

This agreement dated September 21, 2000, is between the Company and affiliate American Bankers Life Assurance Company of Florida (ABLAC). Pursuant to the agreement, ABLAC is to provide certain information systems and corresponding support.

In return, the Company pays an annual fee of \$750,000 for the first \$90 million of annualized net written premium. For each additional \$10 million of premium, an additional \$10,000 is charged. The agreement was for an initial term of three years and automatically renews for successive two- year terms until either party elects to terminate the agreement. Such termination is effective after giving 90 days prior written notice. The amount due is as of the close of business on the last business day of each year and is paid by the Company quarterly within 30 days of receipt of bill.

AFFILIATE SERVICES AGREEMENT

This agreement effective January 1, 2010 is between the Company and several other affiliated insurers and service contract providers in respect to payments for vendor services, collection of premium, and claims payments. All intercompany balances subject to the agreement are settled within 30 days following the end of the month if the net payable amount is greater than \$5,000 or within 30 days following the end of the quarter if the net amount payable is less than \$5,000.

INTERNATIONAL AFFILIATE SERVICES AGREEMENT

This agreement effective January 1, 2012 is between American Bankers Insurance Group, Inc. (ABIC) and various other international subsidiaries, including both CAPIC and CALAC. The agreement provides for the performance of certain administrative and operational services.

Under the terms of the agreement, each group member agrees to reimburse other group members for services and facilities provided.

MULTI-CEDENT CATASTROPHE REINSURANCE ALLOCATION AGREEMENT

This agreement effective January 1, 2008 between ABIC, American Security Insurance Company, Reliable Lloyd's Insurance Company, Standard Guaranty Insurance Company, ABIC as successor in interest to Voyager Property and Casualty Insurance Company, Voyager Indemnity Insurance Company, American Reliable Insurance Company and CAPIC provides for the allocation of reinsurance premiums and recoverables.

INTERCOMPANY PAYMENT INTERMEDIARY AGREEMENT WITH ABLAC

This agreement between ABLAC and CAPIC effective December 31, 2008 provides for the reimbursement of certain expenses paid on behalf of the other party.

All inter-Company net balances equal to or greater than \$5,000 shall be settled monthly based on the prior month's ending balances. Balances less than \$5,000 shall be settled on the third month of the quarter based on the second month's ending balance.

INTERCOMPANY PAYMENT INTERMEDIARY AGREEMENT WITH ABIC

This agreement between ABIC and CAPIC is effective as of January 1, 2008 and provides for the reimbursement of mailing costs, travel costs, costs of supplies, executive stock options, communication services costs, printing costs, corporate incentives and legal expenses paid on behalf of the other party.

All inter-Company net balances equal to or greater than \$5,000 shall be settled monthly based on the prior month's ending balances. Balances less than \$5,000 shall be settled on the third month of the quarter based on the second month's ending balance.

At December 31, 2014, the Company reported \$775,612 and \$2,365,219 as amounts due from and due to, respectively, parent and affiliates.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the Commonwealth of Puerto Rico and is also authorized to write business in the U.S. Virgin Islands. The Company writes credit property and accident & health insurance that are subject to regulations issued by the Office of Insurance Commissioner of the Commonwealth of Puerto Rico. The Company also writes wireless protection plans and in 2011, began writing dwelling products covering the structures of insured properties. CAPIC's dwelling line of business is an area where the Company anticipates growth in its future operations. Based upon the most recent A.M. Best Credit Rating Report dated July 1, 2015, CAPIC has a Financial Strength Rating of "A" with a stable outlook and an Issuer Credit Rating of "a" with a positive outlook.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the past four years through December 31, 2014. No financial adjustments were made as a result of the examination.

YEAR	ADMITTED ASSETS	SURPLUS	GROSS PREMIUM WRITTEN	NET INCOME
2011	\$41,444,943	21,654,238	\$54,837,370	\$5,727,351
2012	44,081,341	21,620,447	53,586,491	4,400,677
2013	44,163,744	21,557,011	52,437,855	5,347,437
2014	45,614,615	22,391,474	49,825,219	5,947,505

The Company had no unusual fluctuations in amounts reported as reflected in the four-year historical data above.

REINSURANCE

ASSUMED

As of the year ended December 31, 2014, the Company assumed \$42,126 in inland marine premiums in compliance with Article 46.020, PRS.

CEDED

The Company maintains several quota share and excess of loss reinsurance contracts in force as of December 31, 2014, both with affiliates and non-affiliates. Coverages include credit property and inland marine, credit involuntary unemployment, dwelling catastrophic and non-catastrophic lines of business. In compliance with Article 46.030(3), the Company did not cede reinsurance in the aggregate amount of more than seventy-five percent (75%) of all its direct risks in any kind of insurance without first securing the Commissioner's written authorization.

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

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 Office of the Commissioner of Insurance of Puerto Rico and present the financial condition of the Company for the period ending December 31, 2014. The accompanying notes on financial statements reflect no adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
ASSETS
DECEMBER 31, 2014

	<u>Per</u>	<u>Examination</u>	<u>Per</u>
	<u>Company</u>	<u>Adjustments</u>	<u>Examination</u>
Bonds	\$27,978,262	\$0	\$27,978,262
Cash, cash equivalents and short-term investments	10,221,718		10,221,718
Investment income due and accrued	185,098		185,098
Uncollected premiums and agents balances in course of collection	6,239,287		6,239,287
Amounts recoverable from reinsurers	6,050		6,050
Net deferred tax asset	48,346		48,346
Electronic data processing equipment and software	16,288		16,288
Furniture and equipment, including health care delivery assets	37		37
Receivables from parent, subsidiaries and affiliates	775,612		775,612
Aggregate write-ins for other than invested assets	143,917	-	143,917
Total Assets	<u>\$45,614,615</u>	<u>\$0</u>	<u>\$45,614,615</u>

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2014

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Losses (Note 1)	\$7,109,508	\$0	\$7,109,508
Loss adjustment expenses (Note 1)	171,460		\$171,460
Commissions payable, contingent commissions and other similar charges	1,500,714		\$1,500,714
Other expenses (excluding taxes, licenses and fees)	691,024		\$691,024
Taxes, licenses and fees (excluding federal and foreign income taxes)	346,218		\$346,218
Current federal and foreign taxes	685,455		\$685,455
Unearned premiums	6,975,483		\$6,975,483
Ceded reinsurance premiums payable (net of ceding commissions)	1,585,496		\$1,585,496
Funds held by company under reinsurance treaties	1,499,507		\$1,499,507
Amounts withheld or retained by company for accounts of others	129,266		\$129,266
Payable to parent, subsidiaries and affiliates	2,365,219		\$2,365,219
Aggregate write-ins for liabilities	163,791		\$163,791
Total liabilities	\$23,223,141	\$0	\$23,223,141
Aggregate write-ins for special surplus funds (Note 2)	4,708,371		4,708,371
Common capital stock	4,550,000		4,550,000
Gross paid in and contributed surplus	2,880,565		2,880,565
Unassigned funds (surplus)	10,252,538		10,252,538
Surplus as regards policyholders (Note 3)	\$22,391,474	\$0	\$22,391,474
Total liabilities, surplus and Other funds	\$45,614,615	\$0	\$45,614,615

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2014

Underwriting Income	
Premiums earned	<u>\$29,884,915</u>
Deductions	
Losses incurred	\$9,115,757
Loss adjustment expenses	1,473,440
Other underwriting expenses incurred	<u>10,473,921</u>
Total underwriting deductions	<u>21,063,118</u>
Net underwriting gain or (loss)	\$8,821,797
Investment Income	
Net investment income earned	\$729,657
Net realized capital gains or (losses)	<u>(317,591)</u>
Net investment gain	\$412,066
Other Income	
Net gain (loss) from agents' or premium balances charged off	(\$129,789)
Aggregate write-ins for miscellaneous income	<u>203,925</u>
Total other income	74,136
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,307,999
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	9,307,999
Federal and foreign income taxes incurred	<u>3,360,494</u>
Net income	<u><u>\$5,947,505</u></u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$21,557,011
Net Income	5,947,505
Change in net unrealized capital gains or (losses)	(119,998)
Change in net deferred income tax	17,503
Change in non-admitted assets	289,453
Dividends to stockholders	<u>(5,300,000)</u>
Change in surplus as regards policyholders for the year	834,463
Surplus as regards policyholders, December 31 current year	<u><u>\$22,391,474</u></u>

CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2014

Surplus as Regards Policyholders
December 31, 2014, Per Annual Statement \$22,391,474

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS	\$45,614,615	\$45,614,615	\$ -
LIABILITIES	\$23,223,141	\$23,223,141	\$ -
Net Change in Surplus			<u>\$ -</u>

Surplus as Regards Policyholders
December 31, 2014, Per Examination \$22,391,474

**CARIBBEAN AMERICAN PROPERTY INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2014**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Capital and Surplus 12/31 prior year	<u>\$21,572,700</u>	<u>\$21,654,238</u>	<u>\$21,620,447</u>	<u>\$21,557,011</u>
Net Income (Loss)	5,727,351	4,400,677	5,347,437	5,947,505
Change in net unrealized capital gains				(119,998)
Change in net deferred income tax	(3,753)	(5,961)	12,300	17,503
Change in nonadmitted assets	(50,460)	71,493	(323,173)	289,453
Dividends to stockholders	(5,600,000)	(4,500,000)	(5,100,000)	(5,300,000)
Aggregate write-ins for gains and losses in surplus	<u>8,400</u>			
Net Change in Capital & Surplus	<u>81,538</u>	<u>(33,791)</u>	<u>(63,436)</u>	<u>834,463</u>
Capital & Surplus at end of year	<u><u>\$21,654,238</u></u>	<u><u>\$21,620,447</u></u>	<u><u>\$21,557,011</u></u>	<u><u>\$22,391,474</u></u>

NOTES ON FINANCIAL STATEMENTS

NOTE 1: LOSSES AND LOSS ADJUSTMENT EXPENSES

Losses	\$7,109,508
Loss Adjustment Expenses (LAE)	\$171,460

The OCI retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2014. The consulting actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in the consulting actuary's report were based on information provided by the Company, including the 2014 Annual Statement. The Statement of Actuarial Opinion and Actuarial Memorandum for 2014 were prepared by the Company and signed by the appointed actuary, Jonathan Silver, FSA, MAAA. The Actuarial Opinion was prepared and submitted timely in accordance with Rule 96, Section 2 of the Insurance Code of Puerto Rico.

Based on the work performed, the consulting actuary found the Company's reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

NOTE 2: AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUNDS

Investments held under deposit to comply with certain catastrophic fund deposit requirements of the Office of the Commissioner of Insurance of Puerto Rico are reported as part of investments, recorded as aggregate write-ins for special surplus funds and reduced from unassigned surplus. The Company failed to comply with Article 3 of Rule

72 by using only one entity for the PML model. The Company failed to comply with Article 25.030(7) of the Insurance Code as it withheld less than two percent (2%) of its catastrophic risk for hurricanes.

NOTE 3: TOTAL CAPITAL AND SURPLUS

The total capital and surplus of the Company at December 31, 2014, as determined by this examination, is the same as the amount reported by the Company on its 2014 Annual Statement.

SUBSEQUENT EVENTS

No subsequent events or transactions that occurred after the December 31, 2014 examination date were noted that would have had a material effect on CAPIC's Financial Statements.

SUMMARY OF RECOMMENDATIONS

REQUIREMENT OF DEPOSIT, DOMESTIC INSURERS

We recommend that the Company maintain a deposit in excess of the amount required under Article 3.151 of the Insurance Code of Puerto Rico.

REQUIRED INVESTMENT IN PUERTO RICAN SECURITIES (NORMATIVE LETTER NO. 2010-118-AF)

We recommend that the Company review information included in its Schedule D with the respective supporting documents in order to ensure it is correctly presented on future Annual Statements.

REGULAR AND SPECIAL MEETINGS OF STOCKHOLDERS OF MEMBERS

We recommend that the Company comply with its bylaws and have the meetings of the stockholders presided over by the President of the Company.

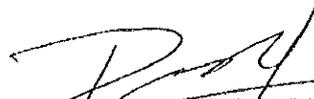
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Caribbean American Property Insurance Company as of December 31, 2014, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

The examiners wish to express their appreciation for the cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Donald W. Sirois, CFE, Examination Manager, of INS Regulatory Insurance Services, Inc. participated in this examination. Additionally, Nancy L. Arico, ACAS, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. Paul L. Berkebile, CISA, CFSA, CRISC, and David Gordon, MBA, CISA, CIA, CBA, CFE (Fraud), of INS Services, Inc. participated in the Information Technology General Controls portion of the examination. Yessica Galarza Algarín, Examiner, of the Office of the Commissioner of Insurance of Puerto Rico, participated in the compliance portion of the examination.

Respectfully submitted,



Barry W. Lupus, CFE, CPA, CFE (Fraud)
Examiner-in-Charge
INSRIS-PR, LLC