

GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



**MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
AMENDED**

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2015
CASE NO. EX-2016-05

NAIC Code 77054
REPORT DATE: JANUARY 6, 2017

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

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

May 2, 2017

Honorable Javier Rivera Ríos
Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2016-05, dated March 10, 2016, a financial condition examination has been made of the affairs, financial condition and management of the

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
Tres Monjitas Industrial - 297 Carlos Chardón Avenue
San Juan, Puerto Rico 00918-1410

hereinafter referred to as "Company" or "MAPFRE Life", 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 located at Tres Monjitas Industrial- 297 Carlos Chardón Avenue, San Juan, Puerto Rico 00918-1410. The report on this examination is respectfully submitted.

SCOPE OF EXAMINATION

An examination of MAPFRE Life 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, 2007, 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.

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 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 of internal 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. Key activities of the Company were determined to include Investments, Premiums and Underwriting, Claims and Reserves, Reinsurance and Financial Reporting. 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.

Ultimate Controlling Person (UCP)

Mapfre Life's 2015 Annual Statement and Form B listed Mapfre S.A. as its ultimate controlling person (UCP).

As defined in the *Insurance Holding Company System Model Regulation* (#450), the "ultimate controlling person" is defined as that person which is not controlled by any other person. Further, Item 3 of Form B of Rule No. 83 of the Insurance Code of Puerto Rico requires that the Company furnish the following information regarding the ultimate controlling person in the Holding Company System:

- (a) Name;
- (b) Address of home office;
- (c) Address of main offices;
- (d) Organizational structure of the person, e.g., corporation, partnership, individual, trust, etc.

- (e) Principal business of the person;
- (f) Name and address of any entity that holds or owns 10% or more of any class of voting securities, the classes of such securities, the number of shares held of record or known to be beneficially owned and the percentage of each class of shares held or owned by the entity;
- (g) If there are any pending legal proceedings related to reorganization or liquidation, state the court, the nature of the proceedings and the date such were commenced.

The Company failed to properly list Fundación MAPFRE as its UCP in accordance with Item 3 of Form B of Rule No. 83 of the Insurance Code of Puerto Rico. As a result, the Company failed to file part 1 of Schedule Y of its 2015 Annual Statement in accordance with Annual Statement Instructions. However, during the current field examination of the Company, an amended Schedule Y and Form B was filed listing Fundación MAPFRE as the UCP.

Unclaimed Funds

The Company did not report correct policy numbers in its written reports of unclaimed funds to the Commissioner of Insurance for 2012, 2013 and 2014 in violation of Article 26.040(2)(a) of the Insurance Code of Puerto Rico. In addition, the written reports to the Commissioner of Insurance for 2013 and 2015 did not include the last known address for all insureds in violation of Article 26.040(2)(d) of the Insurance Code of Puerto Rico. This finding was also noted in the prior examination. It should be noted also, that the Company, incorrectly, included as unclaimed funds payments to providers.

Written Agreements with Affiliates

The Company failed to comply with SSAP Number 25 of NAIC's Accounting Practices and Procedures Manual and Articles 3.340 and 9.212 of the Insurance Code of

Puerto Rico because they have not maintained a written agreement with its General Agent, MAPFRE Insurance Agency.

Authorization of Investments by the Board of Directors (Board)

Article 6.040 (2) of the Insurance Code of Puerto Rico states as follows:

"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 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."

Based upon our review of the minutes of the Board of Directors and Investment Committee for the period under examination, the Company did not certify through a formal resolution that its investments were made in accordance with its established guidelines, in violation of Article 6.040(2) of the Insurance Code of Puerto Rico.

Life Reserves Ceded in Exhibit 5 of the Amended Annual Statement for the year ended December 31, 2015 do not reconcile to Schedule S, Part 3, Section 1 of the Amended Annual Statement

Section 1 of Part 3 of Schedule S of the amended annual statement for the year ended December 31, 2015 did not include ceded amounts for Disability-Disabled lives in the amount of \$1,885,759. According to the Annual Statement Instructions for Schedule S, amounts recorded in Column 9 (Reserve Credit Taken Current Year) of Section 1 of Part 3 should agree with the appropriate lines in Exhibit 5, which include life, annuities and disability. The Company failed to comply with Ruling Letter No. CN-2010-118-AF, which requires insurers to follow NAIC's Annual Statement Instructions in the preparation of the annual statement.

PRIOR EXAMINATION FINDINGS

Reinsurance Agreement, Insolvency Clause

The 100% Quota Share reinsurance agreement on the Group Life and Group Long Term Disability insurance for all Group International Insurance Plans between MAPFRE Re, Compañía De Reaseguros S.A. and the Company did not contain an insolvency clause as required by Section 5.060 (2) of the Insurance Code of Puerto Rico. However, during the prior field examination of the Company, the above reinsurance contracts were amended on November 4, 2011, in order to include the insolvency clause, as required in Section 5.060 (2) of the Insurance Code of Puerto Rico.

Unclaimed Funds

The Company did not include in the written report to the Commissioner of Insurance the last known address of twenty-three (23) of the insureds or beneficiaries entitled to receive the unclaimed funds for the examination period. The Company was not in compliance with Section 26.040 (2) (a) of the Insurance Code of Puerto Rico. It should be noted also, that the Company, incorrectly, included as unclaimed funds payments to providers.

COMPANY HISTORY

MAPFRE Life was incorporated on June 16, 1971, and commenced business on February 3, 1984. The Company is organized under MAPFRE PRAICO Corporation, an intermediate holding company domiciled in Puerto Rico, which is wholly-owned by MAPFRE America, headquartered in Madrid, Spain. MAPFRE S.A. owns 99.22% of

MAPFRE America. MAPFRE America is 67.8% owned by Cartera Mapfre S.L., which in turn is wholly-owned by Fundación MAPFRE, the Ultimate Controlling Person (UCP).

CAPITAL STOCK

The Company has 500,000 shares of common stock authorized, with 303,200 shares issued and outstanding at \$10 par value. 303,194 of the shares are owned by MAPFRE PRAICO Corporation, and the remaining 6 shares are owned by members of the Board of Directors of MAPFRE Life. There are no other classes of capital stock.

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 filed and approved by the OCI:

ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation and bylaws were amended effective March 1, 2014 to change the name of the company to MAPFRE Life Insurance Company of Puerto Rico. This amendment was approved by unanimous written consent of the stockholders on January 21, 2014. In addition, Section 2 of Article V of the bylaws was amended and approved by the OCI on July 24, 2014, to exclude reference to the Medicare Compliance Committee, given the fact that the Company is no longer participating in that line of business.

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</u>	<u>Principal Occupation</u>
Jaime Tamayo (Chair) Webster, Massachusetts	President and CEO MAPFRE U.S.A. Corporation
Joaquín A. Castrillo San Juan, Puerto Rico	President & Chief Executive Officer, Vice Chairman of the Board of Directors MAPFRE Life Insurance Company of Puerto Rico
Alexis Sánchez San Juan, Puerto Rico	Executive Vice President, Chief Operating Officer MAPFRE Life Insurance Company of Puerto Rico
Jorge Fernández Silva Miami, Florida	Former Executive MAPFRE's Insurance Operations - State of Florida
Manuel R. Pietrantoni San Juan, Puerto Rico	Attorney at Law, Founding Partner/Member Pietrantoni, Méndez & Alvarez, LLC
Federico Sánchez Ortiz San Juan, Puerto Rico	President and CEO Interlink Group

<u>Name and Location</u>	<u>Principal Occupation</u>
Hilda M. Surillo San Juan, Puerto Rico	Senior Vice President, General Counsel, Corporate Secretary (Non-Voting) MAPFRE Life Insurance Company of Puerto Rico

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:

Name	Title
Joaquín A. Castrillo	President & Chief Executive Officer, Vice Chairman of the Board
Alexis Sánchez	Executive Vice President, Chief Operating Officer
Hilda M. Surillo	Senior Vice President, General Counsel, Corporate Secretary
Orlando Ríos	Senior Vice President, Chief Financial Officer
Sheila Quiñones	Treasurer and Vice President
Diego Maldonado	Senior Vice President and Chief Information Officer
José de la Mata	Senior Vice President - Human Resources and Administration
Iraida Meléndez	Senior Vice President - Communications and Marketing
Pedro Rosario	Vice President and Comptroller
Sergio Castaneda	Vice President - Group Life and Health Operations
Heriberto Crespo	Vice President - Individual Life and Disability Insurance
Leopoldo García	Vice President - Sales Individual life and Disability Insurance
Alex Negrón	Vice President - Sales
Glorimar Pérez	Vice President - Sales (Branch Operations) ¹
María de L. Rodríguez	Vice President - Compliance and Privacy Officer (Health Insurance) ²
Gloria Medina	Vice President and Compliance Officer (Life Insurance)
Karla Gnocchi	Vice President ³

¹ As of the end of December 31, 2015, G. Pérez was assigned to other functions in the Company, but remains appointed as Vice President.

² Resigned position effective December 31, 2015. The position remains vacant. The functions of Compliance and Privacy Officer have been temporarily assigned to the General Counsel, Hilda Surillo, until the position is filled.

³ At the time of her appointment, Mrs. Gnocchi was in charge of the Internal Audit Department. She was transferred to another unit in charge of Quality and Fraud Prevention in October of 2015.

COMMITTEES

MAPFRE Life has the following constituted committees of the Board, which exist as per provided in the By Laws of the Company: Executive Committee, Audit Committee and Investment Committee. In addition, the bylaws provide that the Board may designate one or more committees as determined necessary for the conduct of the business of the Company; further to that provision, the Company's Board, during the period of examination, created via Resolution the Compliance Committee for the Life Insurance operations and the Health and Privacy Committee. These two committees are constituted as top management committees and report directly to the Audit Committee of the Board. As of December 31, 2015, MAPFRE Life's committees were composed of the following:

- Executive Committee
 - Jaime Tamayo, Chairman
 - Joaquín A. Castrillo
 - Alexis Sánchez
 - Hilda M. Surillo, Secretary (Non-Voting)
- Audit Committee
 - Manuel R. Pietrantoni, Chairman
 - Federico Sánchez
 - Alexis Sánchez
 - Hilda M. Surillo, Secretary (Non-Voting)
 - Edgardo López, Assistant Vice President, Internal Audit Director (Non-Voting Permanent Guest)
- Investment Committee
 - Joaquín A. Castrillo, Chairman
 - Alexis Sánchez
 - Jorge Fernández Silva
 - Sheila Quiñones, Vice President and Treasurer (Non-Voting Permanent Guest)
 - Orlando Ríos, Senior Vice President & CFO (Non-Voting Permanent Guest)
 - Erick Trigiglio, Investment Officer, MAPFRE's North American Region (Non-Voting Permanent Guest in an oversight role)

- Compliance Committee- Life Insurance Operations
 - Joaquín A. Castrillo
 - Alexis Sánchez
 - Hilda M. Surillo
 - Gloria Medina
 - Heriberto Crespo, Vice President, Individual Life Insurance
 - José de la Mata, Senior Vice President, Human Resources & Administration
 - Edgardo López (Non-Voting Guest)
 - Thaira Gómez, Internal Control & Risk Management (Non-Voting Guest)

- Compliance Committee- Health Insurance and Privacy
 - Joaquín A. Castrillo
 - Alexis Sánchez
 - Hilda M. Surillo
 - María de Lourdes Rodríguez, Vice President, Privacy and Compliance Officer
 - Sergio Castaneda, Vice President, Health Insurance Operations
 - José de la Mata
 - Celso Collazo, Information Security
 - Edgardo López (Non-Voting Guest)
 - Thaira Gómez (Non-Voting Guest)

CONFLICT OF INTEREST

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

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. Per our review of the minutes of the Investment Committee we noted this committee included in its quarterly reports to the Board of Directors a conclusion that investments were made pursuant to the provisions of the Insurance Code of Puerto Rico. However, per our review of the Board of Directors minutes, we noted that the Board of Directors did not certify in writing through a formal resolution that all investments were made pursuant to standards, limitations and investment goals established by the Board. This item has been noted above as a current examination finding.

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:

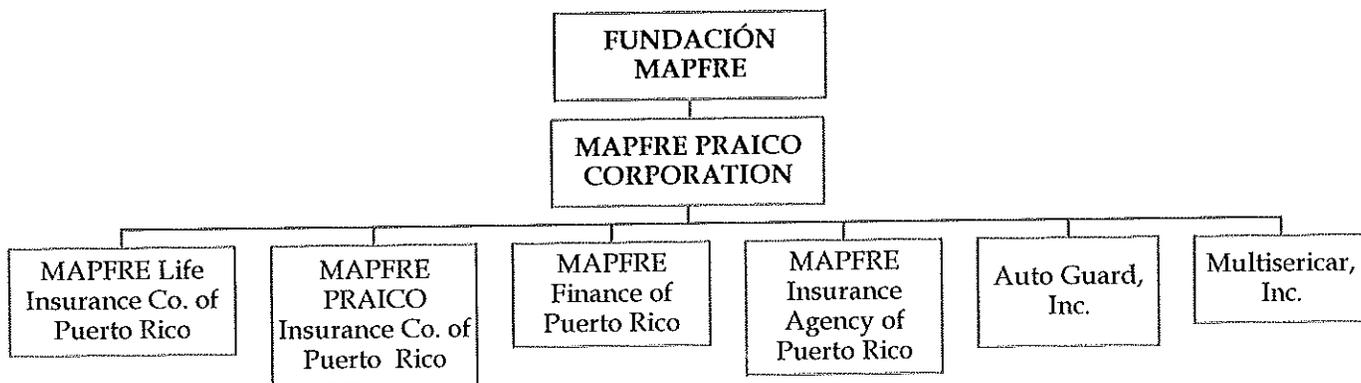
Year	Dividend Paid	Unassigned Surplus Previous Year
2011	\$2,500,000	\$4,063,293
2012	0	808,341
2013	0	(9,657,710)
2014	0	(10,529,002)
2015	0	(15,961,157)

Pursuant to Puerto Rico Regulations, Section 19(b) of Rule No. 83 states that 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. The Company was in compliance with the provisions of Article 29.340, 44.050, 44.060(b) and Rule 83 of the Insurance Code of Puerto Rico.

HOLDING COMPANY SYSTEM

The Company is member of an Insurance Holding Company System as defined under the Insurance Laws of Puerto Rico. Fundación MAPFRE (Spain) is the ultimate controlling person. The Company is part of the MAPFRE Puerto Rico Group, which is comprised of six insurance companies that operate in the Government of Puerto Rico and the U.S. Virgin Islands, which are wholly-owned by MAPFRE PRAICO Corporation. The Group is also comprised of one insurance agency, a premium financing company, an extended warranty company for automobiles and a company that operates an auto body repair shop.

The following is an 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, 2015:



INTERCOMPANY AGREEMENTS

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

Intercompany Expense Allocation Agreement

This agreement, effective January 1, 2004, is between the Company and MAPFRE PRAICO Insurance Company and provides for cost sharing of professional services, electronic data processing equipment and software, office material and equipment between the two entities. Total administrative charges for each year of the examination period were as follows:

<u>Year</u>	<u>Amount</u>
2011	\$3,443,000
2012	3,520,000
2013	3,530,000
2014	3,449,000
2015	2,660,000

TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write ordinary life, credit life, group life, disability, accident and group health insurance in the Government of Puerto Rico and the U.S.

Virgin Islands (USVI). The Company has seven distribution branches in Puerto Rico (Arecibo, Caguas, Carolina, Mayagüez, Ponce, San Juan and Bayamón) and one in the USVI. The branches offer service to all of the Company's customers, authorized representatives, general agents and producers. Approximately 88% of MAPFRE Life's business is group health insurance. MAPFRE Life's annuity business has been in run-off since 2005 and in 2013 the Company terminated its Medicare business and entered into a run-off period.

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	\$73,794,650	\$19,492,667	\$171,941,972	\$756,063
2012	62,596,625	8,787,436	161,229,945	(11,419,774)
2013	63,994,100	27,916,144	90,602,300	5,493,948
2014	67,911,305	23,849,925	116,667,395	(2,974,625)
2015	60,533,900	16,619,628	133,700,849	(13,821,976)

Policyholders' surplus decreased during the exam period from \$19,492,667 to \$16,619,628, as of December 31, 2015.

REINSURANCE

ASSUMED

The Company assumes accident & health reinsurance with MAPFRE PRAICO Insurance Company and MAPFRE RE Compañía de Reaseguros S.A., both of whom are affiliated entities. Total reinsurance premiums assumed for 2015 was \$1,023,313.

CEDED

The Company maintains its primary life and accident & health treaty reinsurance agreements with MAPFRE RE Compañía de Reaseguros S.A. In 2015, approximately \$3.3 million in premiums were ceded to MAPFRE RE Compañía de Reaseguros S.A.

The Company also ceded approximately \$33,000 in life and accident & health premiums to two (2) non-affiliated entities.

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*.

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 amended 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, 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.

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
ASSETS
DECEMBER 31, 2015

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Bonds	\$28,938,748	\$0	\$28,938,748
Preferred stock	499,850		\$499,850
Common stocks	260,590		\$260,590
Cash, cash equivalents and short-term investments	18,008,934		\$18,008,934
Contract loans	232,289		\$232,289
Investment income due and accrued	317,210		\$317,210
Uncollected premiums and agents balances in course of collection	9,005,283		\$9,005,283
Deferred premiums	228,489		\$228,489
Amounts recoverable from reinsurers	1,519,098		\$1,519,098
Amounts recoverable for insured plans	164,066		\$164,066
Net deferred tax asset	455,254		\$455,254
Receivables from parent, subsidiaries and affiliates	112,495		\$112,495
Health Care and other receivables	584,698		\$584,698
Aggregate write-ins for other than invested assets	206,896		\$206,896
Total Assets	<u>\$60,533,900</u>	<u>\$0</u>	<u>\$60,533,900</u>

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2015

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Aggregate reserve for life contracts (Note 1)	\$7,442,323	\$0	\$7,442,323
Aggregate reserve for accident and health contracts (Note 1)	7,894,641		\$7,894,641
Liability for deposit-type contract (Note 1)	2,288,580		\$2,288,580
Contract claims: Life (Note 1)	1,134,874		\$1,134,874
Contract claims: Accident and Health (Note 1)	13,321,280		\$13,321,380
Premium and annuity considerations for life and accident and health contracts	42,307		\$42,307
Provisions for experience rated refunds	252,088		\$252,088
Other amounts payable on reinsurance	934,243		\$934,243
Interest maintenance reserves	1,481,086		\$1,481,086
Commissions to agents due or accrued	2,156,353		\$2,156,353
Commission on reinsurance assumed	2,151		\$2,151
General expenses due and accrued	2,163,348		\$2,163,348
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,622,123		\$1,622,123
Remittance items not allocated	1,402,568		\$1,402,568
Asset valuation reserve	294,266		\$294,266
Payable to parent, subsidiaries and affiliates	4,122		\$4,122
Liabilities for amount held under insured plans	21,000		\$21,000
Aggregate write-ins for liabilities (other liabilities)	1,456,919		\$1,456,919
Total liabilities	\$43,914,272	\$0	\$43,914,272
Common capital stock	3,032,000		3,032,000
Aggregate write-ins for other than special surplus funds	1,370,000		1,370,000
Gross paid in and contributed surplus	35,413,143		35,413,143
Unassigned funds (surplus)	(23,195,515)		(23,195,515)
Surplus as regards policyholders (Note 2)	\$16,619,628	\$0	\$16,619,628
Total liabilities, surplus and Other funds	\$60,533,900	\$0	\$60,533,900

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
SUMMARY OF OPERATIONS
DECEMBER 31, 2015

Premiums and annuity considerations for life and accident and health contracts	\$131,388,581
Net investment income	1,333,905
Amortization of Interest Maintenance Reserve (IMR)	456,110
Commissions and expense allowances on reinsurance ceded	396,610
Aggregate write-ins for miscellaneous income	44,639
Total	<u>133,619,845</u>
Death benefits	1,648,474
Annuity benefits	19,350
Disability benefits and benefits under accident and health contracts	108,352,890
Surrender benefits and withdrawal for life contracts	201,446
Increase in aggregate reserves for life and accident and health contracts	5,181,188
Total	<u>115,403,348</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	12,898,349
Commission and expenses allowance on reinsurance assumed	218,225
General insurance expenses	14,322,423
Insurance taxes, licenses and fees, excluding federal income taxes	3,978,680
Aggregate write-ins for deductions	209,662
Total	<u>147,030,687</u>
Net gain from operations before dividends to policyholders and federal income taxes	(13,410,842)
Dividends to policyholders	<u>0</u>
Net gain from operations after dividends to policyholders and before federal income taxes	(13,410,842)
Federal and foreign income taxes incurred	<u>(7,198)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(13,418,040)
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	(403,936)
Net income	<u><u>\$(13,821,976)</u></u>

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2015

Surplus as regards policyholders, December 31 prior year	\$23,849,925
Net Income	(13,821,976)
Change in net unrealized capital gains or (losses)	(159,103)
Change in net deferred income tax	1,076,338
Change in non-admitted assets	4,704,419
Change in asset valuation reserve	19,885
Aggregate write-ins for gains and losses in surplus	950,140
Net change in capital and surplus for the year	<u>(7,230,297)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$16,619,628</u></u>

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2015

Surplus as Regards Policyholders
December 31, 2015, Per Annual Statement
(Amended) \$16,619,628

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	
ASSETS	\$60,533,900	\$60,533,900	\$	-
LIABILITIES	\$43,914,272	\$43,914,272	\$	-
Net Change in Surplus			\$	<u>-</u>

Surplus as Regards Policyholders
December 31, 2015, Per Examination \$16,619,628

MAPFRE LIFE INSURANCE COMPANY OF PUERTO RICO
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and Surplus 12/31 prior year	\$22,508,439	\$19,492,667	\$8,787,437	\$27,916,144	\$23,849,925
Net Income (Loss)	756,063	(11,419,774)	5,493,948	(2,974,625)	(13,821,976)
Change in net unrealized capital gains	32,168	53,307	98,708	(9,758)	(159,103)
Change in net deferred tax	(46,467)	181,035	(127,289)	(549,118)	1,076,338
Change in non- admitted assets	(1,258,562)	450,300	(6,331,801)	(548,089)	4,704,419
Change in asset valuation reserve	1,026	29,902	(4,859)	15,371	19,885
Paid in surplus	0	0	20,000,000	0	0
Dividends to stockholders	(2,500,000)	0	0	0	0
Aggregate write-ins for gains and losses in surplus (Note 3)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>950,140</u>
Net change in Capital and Surplus	<u>(3,015,772)</u>	<u>(10,705,230)</u>	<u>19,128,707</u>	<u>(4,066,219)</u>	<u>(7,230,297)</u>
Capital and Surplus at end of year	<u>\$19,492,667</u>	<u>\$8,787,437</u>	<u>\$27,916,144</u>	<u>\$23,849,925</u>	<u>\$16,619,628</u>

NOTES ON FINANCIAL STATEMENTS

NOTE 1: AGGREGATE AND CONTRACT CLAIM RESERVES

Aggregate reserve for life contracts	\$7,442,323
Aggregate reserve for accident and health contracts	7,894,641
Liability for deposit-type contracts	2,288,580
Contract Claims - Life	1,134,874
Contract Claims - Accident and health	13,321,280

The OCI retained the services of INS Consultants, Inc. (INS), 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 Handbook. The conclusions set forth in the consulting actuary's report were based on information provided by the Company, including the 2015 Amended Annual Statement. The Statement of Actuarial Opinion and Asset Adequacy Analysis Actuarial Memorandum for 2015 were prepared and signed by the appointed actuary, Alberto Abalo, FSA, MAAA, CERA of Oliver Wyman Actuarial Consulting, Inc. The Actuarial Opinion was prepared and submitted in accordance with Rule 95 and Article 5.100 of the Insurance Code of Puerto Rico.

INS was unable to conclude that the balance sheet items enumerated in the Examination Scope are calculated using policy data parameters which are free of any material error. In addition, INS has determined that certain valuation assumptions and methodologies used by MAPFRE Life for certain products are not in compliance with minimum statutory reserve requirements. INS has concluded that the use of such incorrect assumptions for these products is likely not to have a material effect on reserves and surplus.

INS was unable to determine if reserves for cancer policies are determined in accordance with minimum statutory requirements. However, based on the results of the AAA conducted by MAPFRE Life's appointed actuary, INS concluded that there were no immediate or short term cash flow concerns associated with the cancer products and the reserves appear adequate.

INS has concluded that generally, the December 31, 2015 balance sheet items covered in the Examination Scope for non-cancer policies appear fairly stated and have been accepted for the purpose of this report, subject to the recommendations and suggestions made in this report.

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 Amended Annual Statement.

NOTE 3: AGGREGATE WRITE-INS FOR GAINS AND LOSSES IN SURPLUS

During 2015, the Company identified an error in the prior year financial statements related to revenue recognition in commercial group health contracts. As of December 31, 2014, the Company deferred revenues totaling \$950,140 that should have been reported as earned in the statement of operations for the year ended December 31, 2014. Accordingly, the Company recorded a \$950,140 reduction of deferred revenues and an increase to beginning capital and surplus as of January 1, 2015 in accordance with Statement of Statutory Accounting Principles (SSAP) No. 3, *Accounting Changes and Corrections of Errors*.

SUBSEQUENT EVENTS

The OCI has adopted risk-based capital (RBC) standards for insurance companies domiciled in the territory. The RBC Law serves as a standard for the regulation of financial solvency of insurance companies by insurance regulators. RBC requirements provides a targeted surplus level based on formulas which identify various weighting factors that are applied to the financial balances or various levels of activity based upon historical degrees of financial risk and determined required surplus based on the calculated results. The calculation determines the authorized control level (ACL) surplus requirement.

The RBC law provides specific minimum capital levels based on a company's ACL that are determined by the ratio of the company's total adjusted capital (TAC) to its ACL. The calculation is based on the year end annual statement as filed with the Insurance Commissioner of Puerto Rico. There are four levels of action that a company can attain under the formula:

1. Company Action Level - TAC is lower than 2.0 times ACL or 3.0 times with other negative trends
2. Regulatory Action Level - TAC is less than or equal to 1.5 times ACL
3. Authorized Control level - TAC is less than or equal to 1.0 times ACL
4. Mandatory Control Level - TAC is less than or equal to .7 times ACL

An insurer at Company Action Level must submit a plan to the Commissioner that documents how the entity will cure its shortfall in capital and surplus. At December 31, 2015, the Company's TAC was \$16,913,894, or 281% times its ACL. The Company did trigger regulatory attention at the Company Action Level because they failed the trend

test. As a result, the OCI required the filing of a comprehensive financial plan outlining its plans for attaining TAC above the Company Action Level as of December 31, 2016.

The financial plan included steps to meet the RBC requirement by December 31, 2016. Based on the plan, the Company was projected to have Capital and Surplus of 17,089,985 and TAC of \$5,301,999 at year end. The September 30, 2016 Quarterly Statement, as filed by the Company, reported total capital and surplus of \$12,931,761 and a net loss for the period of \$3,873,030. On December 29, 2016, the Company's parent, MAPFRE PRAICO Corporation, contributed \$5,000,000 of capital resources to meet the capital and surplus level as disclosed in the comprehensive financial plan as filed with OCI.

SUMMARY OF RECOMMENDATIONS

Unclaimed Funds

We recommend that the Company comply with the provisions of Article 26.040 (2) (a) and (d) of the Insurance Code of Puerto Rico and include correct policy numbers and the last known address for all insureds in its written report of unclaimed funds to the Commissioner of Insurance.

Written Agreements with Affiliates

We recommend that the Company maintain copies of written agreements with its affiliates and other related parties.

Authorization of Investments by the Board of Directors

We recommend that in the future, the Board of Directors prepare, approve and document a formal resolution of its investments in accordance with Article 6.040 (2) of the Insurance Code of Puerto Rico.

Life Reserves Ceded in Exhibit 5 of the Amended Annual Statement for the year ended December 31, 2015 do not reconcile to Schedule S, Part 3, Section 1 of the Amended Annual Statement

We recommend that in the future, the Company correctly report reserves ceded in Schedule S, Part 3, Section 1 to agree with reinsurance ceded amounts in Exhibit 5 in accordance with Annual Statement Instructions.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **MAPFRE Life Insurance Company of Puerto Rico** as of December 31, 2015, 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, Joseph C. Higgins, FSA, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. Paul L. Berkebile, CISA, CFSA, CRISC, and Robert Ficken, CFE, CPA, CIA, CISA, AES, CDFE, of INS Services, Inc. participated in the Information

Technology General Controls portion of the 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

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



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