

GOVERNMENT OF PUERTO RICO  
OFFICE OF THE COMMISSIONER OF INSURANCE



**COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO  
AMENDED**

REPORT ON EXAMINATION  
AS OF DECEMBER 31, 2015  
CASE NO. EX-2016-19

NAIC Code 18163  
REPORT DATE: FEBRUARY 24, 2017

Peter Bliss, CFE  
Examiner-in-Charge  
INSRIS-PR, LLC

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GOVERNMENT OF PUERTO RICO  
OFFICE OF THE COMMISSIONER OF INSURANCE

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May 11, 2017

Honorable Javier Rivera Ríos  
Commissioner of Insurance  
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-2016-19, dated October 11, 2016, a financial condition examination has been made of the affairs, financial condition and management of the

**COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO**  
38 Nevárez Street  
San Juan, Puerto Rico 00927-4608

hereinafter referred to as "Company" or "CSM", incorporated under the laws of the Commonwealth 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 CSM 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.

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

#### Contingent Commission

The Company did not comply with Ruling Letter No. 2008-92-EX regarding the required submission of contingent commission reporting forms and affidavits. The Company stated that no contingent commissions were paid during the examination period. Nonetheless, in a year where no payments are made, this information is required to be filed annually on the required form and affidavit.

#### Investment Policy Plan

The Company did not comply with Article 6.040(1) of the Insurance Code regarding its written investment policy plan. The written plan in place did not state the professional qualifications of the persons that shall be making routine investment decisions.

#### Actuarial Opinion Filing

The Company failed to comply with Article 5.100 of the Puerto Rico Insurance Code regarding the timely filing of the opinion of a qualified actuary. The 2011, 2012, 2014, and 2015 filings were made after the required filing date.

#### Submittal of Catastrophe Reinsurance

The Company failed to comply with Section 9 (B) of Rule No. 72 of the Puerto Rico Insurance Code regarding the timely filing of evidence of catastrophe reinsurance coverage. For the years 2012, 2014, and 2015 the filings were made after the required filing date.

#### **PRIOR 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 prior examination.

##### *Unauthorized Reinsurance*

Article 4.120(1) (b) of the Insurance Code of Puerto Rico and Ruling Letter N-AF-4-63-2005, require that domestic insurers may only reinsure with unauthorized insurers if prior authorization is obtained from the Office of the Commissioner of Insurance of Puerto Rico (OCS). The Company did not obtain authorization in accordance with Ruling Letter N-AF-4-63-2005 from the OCS to use unauthorized reinsurers.

##### *Unexecuted Representative Contracts*

Article 49er(3) of the Insurance Code of Puerto Rico states that: "No producer may act or state that he/she acts as authorized representative of an insurer unless there is a written contract subscribed to those effects between the latter and the insurer." As a result of the testing procedures performed by the examination team, a total of four contracts were provided without signature.

## COMPANY HISTORY

The Company was incorporated as a non-profit corporation on April 23, 1963, according to the provisions of Chapter 34 of the Puerto Rico Insurance Code, under the name of Cooperativa de Seguros Multiples de Puerto Rico, beginning its operations on February 8, 1965. The Company is authorized by the Office of the Commissioner of Insurance to engage in property, marine and transportation, title, casualty, and surety insurance business.

In 2003, the Company acquired 100% of the outstanding shares of Royal & Sun Alliance (Puerto Rico), Inc., now known as Real Legacy Assurance Company. In addition, the Company owns 100% of outstanding shares of CSM Investors, Inc. During 2008, the Company acquired 100% of the outstanding shares of Martingale National Insurance Company. On December 15, 2010, the Company acquired 100% of the outstanding and issued stocks of Multiples Mortgage Corporation, formerly Wall Street Mortgage Bankers Corp.

The Company is licensed to write business in Puerto Rico. The Company is no longer actively writing business in Florida, but is servicing business that is in runoff.

## CAPITAL STOCK

The Company has 41,523 shares of Class A preferred stock with a par value of \$1 issued and outstanding, 246,368 of Class B preferred stock with a par value of \$1 issued and outstanding, 105,000 of Class C preferred stock with a par value of \$10 issued and outstanding and 5,852,742 of common stock with a par value of \$10 issued and outstanding. Total paid in capital totaled \$59.9 million.

## CORPORATE RECORDS

The Articles of Incorporation, Bylaws and all amendments thereto, and the minutes of the meetings of the Board, Board committees, and shareholders were reviewed for the period under examination. The following amendments to the Bylaws were filed and approved by the OCI:

### ARTICLES OF INCORPORATION AND BYLAWS

The Bylaws were amended, effective 2015, to comply with provisions of Article 34.070 (1) and (2) of the Puerto Rico Insurance Code, as amended as follows:

- Article V, Section 16 - Ordinary and Extraordinary Meetings of the Board of Directors.

*The Board of Directors shall meet as many times as the activities of the Insurance Cooperative so require; but must meet at least once a month. Such meeting shall be held on the date, time and place fixed by the Board of Directors.*

*Meetings, both ordinary and extraordinary, may be held by remote conference by telephone, closed circuit, teleconference, or other technology available to the Board of Directors. Provided, however, that an absolute majority of the directors should always be physically present, so that the meeting can be held. Principals participating under this method will count for quorum. The Board of Directors shall establish the procedure providing for such measures as may be necessary to adequately implement this form of participation in meetings of the Board.*

*Extraordinary meetings of the Board of Directors shall be convened by the Chairman of the Board of Directors motu proprio or whenever at least three*

*directors request it in writing. The Secretary shall notify the directors in writing, at least forty-eight (48) hours before the date set for the holding of such meetings. Provided that, in case of emergency, it may be convened with a shorter term.*

- Article V, Section 20 - Composition and Duties of the Education Committee.
  - A. *The Education Committee shall be composed of not less than three (3) persons and no more than five (5), designated annually by the Board of Directors. Provided that, the Board of Directors may delegate the function of appointing the Chairman of the Board.*
  - B. *Be responsible for preparing and implementing an annual cooperative education plan in accordance with the educational policy established by the Board of Directors. The Board of Directors shall allocate adequate and necessary funds annually to carry out the management of the Education Committee.*
  - C. *To render monthly a written report to the Board of Directors on the work done.*
  - D. *Provide an annual report to the Ordinary Members' Meeting.*

These amendments were approved at the annual stockholders meeting held on May 30, 2015 and approved by the OCI on September 4, 2015, in compliance with Article 34.070 of the Insurance Code of Puerto Rico.

#### MINUTES

The recorded minutes adequately documented meetings and the 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 34.120 of the Insurance Code of Puerto Rico, were as follows:

Name and Location	Principal Occupation
Aníbal Fuentes Flores San Sebastián, PR	Professional Social worker
Christian E. Cruz Colón Toa Baja, PR	Teacher
Iván A. Otero Matos Trojillo Alto, PR	Accountant
Iván Flores Pérez Navarro Gurabo, PR	Conflict Mediator
José A. Morales Burgos Humacao, PR	Industrial Engineer
Juan Reyes Caraballo Arecibo, PR	Attorney
Karla J. Acosta Morales Bayamon, PR	Attorney
Luis A. Velázquez Vera Cidra, PR	Profesor

<b>Name and Location</b>	<b>Principal Occupation</b>
María del Mar Pérez Ortiz Aibonito, PR	Teacher
Maritza Florán Hernández Toa Baja, PR	Teacher
Mayra W. Rivera Rodríguez Utuaado, PR	Investigation Assistant
Milagros Ortiz Marrero Aibonito, PR	Teacher
Wilson Feliciano López Guaynabo, PR	Legislative Advisor

**OFFICERS**

Officers are elected by the Board on an annual basis. A list of the officers elected or appointed during 2015, in compliance with Article 34.130 of the Insurance Code of Puerto Rico, and serving on December 31, 2015 is as follows:

<b>Name</b>	<b>Title</b>
Roberto Castro Hiraldo	President
Ruth E. Gómez Arias	Secretary
Ramón A. Rodríguez Rosa	Vice President, Finance
Pedro González Cerrud	Chief Financial Officer
Luis M. Cordero Rivera	Vice President, Sales
Gidel H. Méndez Martínez	Vice President, Underwriting
Dennis A. Cabán Guzmán	Vice President, Information Systems
Luis J. Vilaro Suárez	Vice President, Administration
Rizick Rosario Peña	President's Assistant, Cooperatives Area
Fermín M. Contreras Gómez	Vice President, Business Synergy Center

**COMMITTEES**

As of December 31, 2015, the Board had designated the following Committees to facilitate the work of the Board of Directors:

### **Executive Committee**

José A. Morales Burgos, Committee President  
Iván Flores Pérez  
Christian E. Cruz Colón  
Maritza Florán Hernández  
Juan Reyes Caraballo  
Roberto Castro Hiraldo, President

### **Education Committee**

Maritza Florán Herández, Committee President  
Iván Flores Pérez  
María del Mar Pérez Ortiz  
Luis A. Velázquez Vera  
Milagros Ortiz Marrero  
Rizick Rosario Peña, President's Assistant - Cooperatives Area

### **Committee on Legislation and Regulation**

Iván Flores Pérez, Committee President  
Christian E. Cruz Colón  
Maritza Florán Hernández  
Mayra W. Rivera Rodríguez  
Karla J. Acosta Morales  
Ruth E. Gómez Arias, Secretary  
Cathleen Feliciano Torres, Director, Legal Division

### **Public Relations, Promotion and Development Committee**

Christian E. Cruz Colón, Committee President  
José A. Morales Burgos  
Milagros Ortiz Marrero  
Luis A. Velázquez Vera  
Aníbal Fuentes Flores  
Rizick Rosario Peña, President's Assistant - Cooperatives Area  
Oscar F. Medrano Monroy, Mgr Marketing, Public Relations & Communications

### **Finance Committee**

Juan Reyes Caraballo, Committee President  
Iván A. Otero Matos  
María Del Mar Pérez Ortiz

Mayra W. Rivera Rodríguez  
José A. Morales Burgos  
Ramón A. Rodríguez Rosa, Vice President, Finance Division  
Pedro González Cerrud, Chief Financial Officer

**Audit Committee**

Iván A. Otero Matos, Committee President  
Juan Reyes Caraballo  
Karla J. Acosta Morales  
Aníbal Fuentes Flores  
Luis A. Velázquez Vera  
Carlos E. Huertas Pizarro, Director, Audit Division

**CONFLICT OF INTEREST**

The Company requires its directors to file a conflict of interest statement at the time they are originally elected to the Board of Directors concerning items that could have an impact on the way they conduct the Company's business in accordance with Article 34.121 of the Insurance Code of Puerto Rico. The review of the conflict of interest questionnaires revealed that the Company was in compliance with the aforementioned article.

**INVESTMENT PLAN**

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that all investments acquired and held under Chapter 6 shall be acquired and owned under the supervision and direction of the Board of the insurer. The Board 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 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 did not comply with Article 6.040(1) of the Insurance Code regarding its written investment policy plan. The written plan in place did not state the professional qualifications of the persons that shall be making routine investment decisions.

**DIVIDENDS TO STOCKHOLDERS**

Article 34.020(6) requires that insurance cooperatives pay or accredit interest on fund contribution certificates issued and outstanding, according to the insurance cooperatives surplus. CSM was on compliance with the aforementioned article. During the examination period, CSM paid interest on fund contribution certificates, as follows:

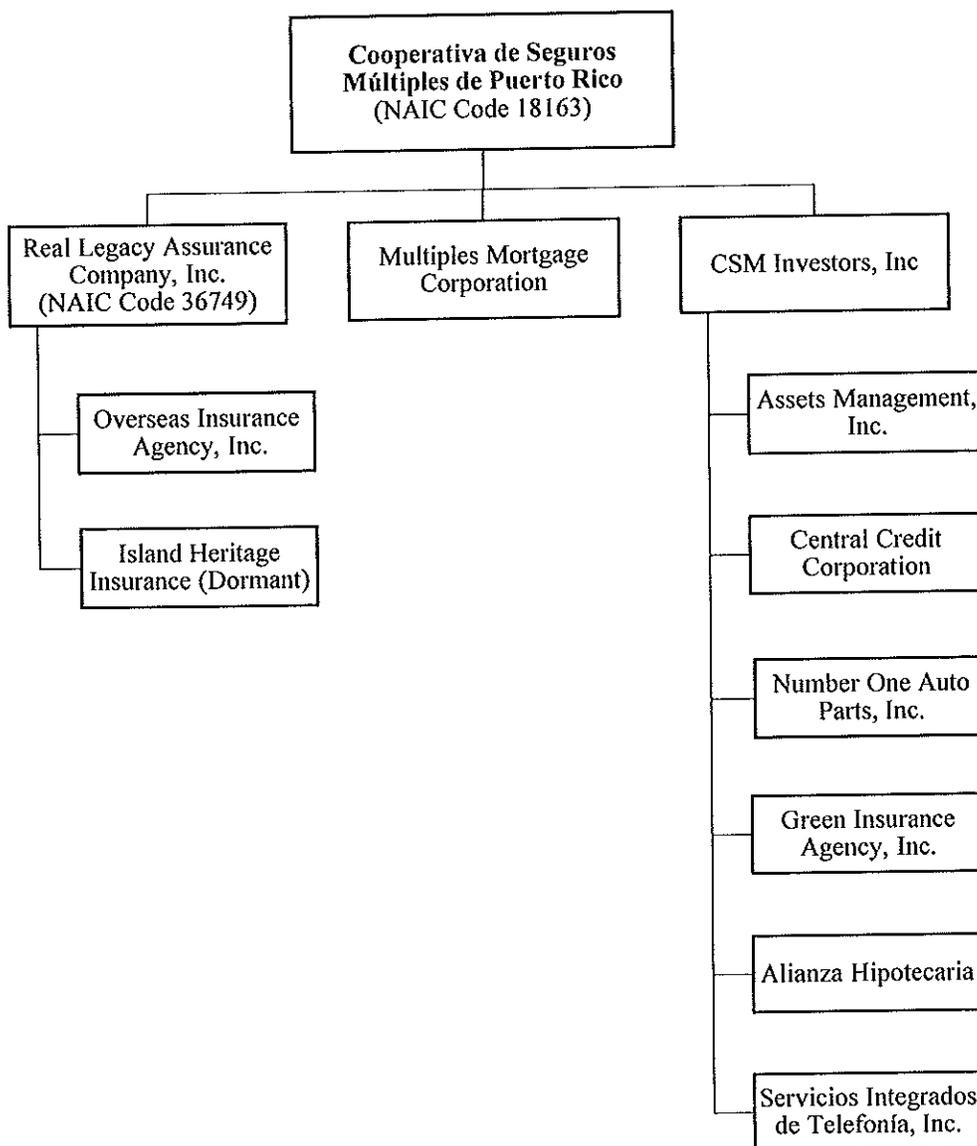
Year	Interest Paid	Unassigned Surplus Previous Year
2011	\$1,523,763	\$32,173,749
2012	1,632,888	14,916,012
2013	2,207,293	6,996,202
2014	2,439,167	17,704,999
2015	1,941,855	5,570,396

**HOLDING COMPANY SYSTEM**

As of December 31, 2015, CSM was the ultimate parent of a group of companies that include insurers, insurance agencies, and other for profit businesses. CSM also owns 100% of the outstanding stocks of CSM Investor's, Inc., which was incorporated with the purpose of controlling and directing the complementary business operations of the group. CSM Investor's, Inc., owns 100% of the outstanding stocks of the following for-profit corporations: Assets Management, Inc., Number One Auto Parts, Inc., Central

Credit Corporation, Green Insurance Agency, Inc., Alianza Hipotecaria, and Servicios Integrados de Telefonía, Inc. In addition, CSM is the 70% owner of Multiples Mortgage Corporation, a mortgage bank.

The following is an organizational chart that reflects the identities and interrelationships between the Company, and its subsidiaries as of December 31, 2015:



**INTERCOMPANY AGREEMENTS**

The Company was involved in the following intercompany cost sharing/expense allocation agreements in effect during the examination period:

**Cooperative Deposit Agreement between Number One Auto Parts, Inc. (NOAP) and CSM**

Establishes the terms and conditions for the provision of storage services for CSM salvage cars as warehousing and auction services. The contract was amended on December 22, 2015 to set the payment amount to be paid by CSM to NOAP at a fixed amount of \$ 41,000 per month.

**Manatí Lease Agreement between Assets Management, Inc. (AMI) and CSM**

Establishes the terms and conditions for the lease of space at the Manatí branch of CSM. The Agreement specified a monthly fee of \$14,470. This contract does not include reimbursement of administration and maintenance costs.

**Arecibo Lease Agreement between Assets Management, Inc. (AMI) and CSM**

Establishes the terms and conditions for the lease of space at the Arecibo branch of CSM. The Agreement specified a monthly fee of \$15,830. This contract does not include reimbursement of administration and maintenance costs.

**Office Space Lease Agreement between CSM Investors, Inc. (CSMI) and CSM**

Establishes the terms and conditions for the lease of office areas for the establishment of the facilities of CSM Investors, Inc. and Assets Management, Inc., in the Annex and Fourth Floor building of the CSM headquarters. CSMI paid CSM \$6,000 in 2015 under this agreement.

**Lease Agreement between Servicios Integrados de Telefonía, Inc. (SITI) and CSM**

Establishes the terms and conditions for subletting office areas for the establishment of SITI facilities in the CSM headquarters building. SITI paid CSM \$36,000 in 2015 under this agreement.

**Promotion and Advisory Services Contract between CSM Investors, Inc. (CSMI) and CSM**

Establishes the terms and conditions for CSM to provide advertising services and advice consistent with the development of trademarks, concepts and projection of affiliation between the subsidiaries of CSMI and CSM. Under the terms of the agreement CSM will receive the fixed amount of \$ 300,000 annually, payable monthly, in exchange for the services provided.

**General Agency Agreement between CSM and Green Insurance Agency, Inc. (GIA)**

Establishes the terms and conditions for GIA to represent CSM as its general agency with general powers to inspect the execution and operations of CSM's policy services and to carry out other administrative and managerial functions, as established in the contract.

**TERRITORY AND PLAN OF OPERATIONS**

CSM primarily writes automobile property and liability coverages. Other significant business lines include commercial multiple peril, earthquake, other liability, fidelity, travel assistance and title insurance. CSM writes business through general agencies including their subsidiary, GIA. For the period covered by this examination, the significant lines of insurance and direct premiums written were as follows:

Direct Written Business by Line of Business	2015	2014	2013	2012	2011
Fire	\$1,252,587	\$1,068,297	\$1,078,012	\$1,161,984	\$1,142,305
Allied lines	9,642,701	9,761,601	10,027,367	10,058,822	8,831,543
Farm owners multiple peril	106,194	114,045	116,542	102,826	116,163
Homeowners multiple peril	688,619	713,684	795,712	886,440	1,721,351
Commercial multiple peril	14,530,044	15,949,343	17,545,497	20,474,629	24,110,343
Ocean marine	600,388	604,803	658,584	695,555	872,824
Inland marine	84,286	92,337	110,648	141,390	138,657
Earthquake	7,333,072	7,637,932	7,631,600	7,871,640	7,832,488
Other liability - occurrence	7,180,560	7,233,599	6,966,839	7,010,730	6,980,062
Other liability - claims made	1,982,903	2,104,805	2,043,531	2,023,622	1,897,579
Products liability - occurrence	188,551	166,009	153,371	192,871	197,669
Private passenger auto liability	32,238,026	22,284,873	23,024,569	24,205,888	24,231,409
Commercial auto liability	5,572,968	4,185,366	4,551,927	5,241,141	5,528,554
Auto physical damage	106,071,638	104,346,098	100,664,495	92,938,503	84,214,212
Fidelity	3,064,471	3,677,681	3,545,410	3,795,501	3,652,954
Surety	711,816	806,762	976,532	934,053	432,399
Burglary and theft	11,039	12,598	7,922	10,705	11,971
Travel and road assistance	5,482,084	5,286,611	5,241,467	5,247,898	5,085,141
Home Assistance	314,932	317,026	387,915	420,072	424,440
Title Insurance	1,605,650	1,383,834	1,104,930	491,587	450,998
Total	\$198,662,529	\$187,747,304	\$186,632,870	\$183,905,857	\$177,873,062

### 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	Direct Premiums Written	Net Income
2011	\$467,182,214	\$183,887,336	\$177,873,062	\$1,087,816
2012	481,098,728	178,332,705	183,905,857	8,236,477
2013	492,698,372	171,955,111	186,632,870	19,708,222
2014	485,050,829	143,166,738	187,747,304	3,978,786
2015	508,364,063	164,732,731	198,662,529	4,952,565

Policyholders' surplus decreased from \$183,887,336 to \$164,732,731 during the exam period. The decreases during the exam period have been largely a combination of changes in investment valuations. Notable changes include significant unrealized capital losses in 2014 and 2015, and the decrease in the value of investments in affiliated in 2013, 2014 and 2015.

## REINSURANCE

### ASSUMED

The Company did not assume any material premiums during the period under examination.

### CEDED

Various treaty reinsurance agreements are in effect as of December 31, 2015 to mitigate the impact of large and severe claim losses.

CSM entered into a three layered Property per Risk Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for property losses occurring between May 1, 2015 and April 30, 2016. The Company retains the first \$250,000 of ultimate net losses per risk per loss while the reinsurers assume the next \$9.7 million of ultimate net losses per risk per loss. The agreement specifically excludes losses caused by earthquake, hurricane and flooding caused by windstorm. The reinsurer's aggregate exposure for all property losses is \$3 million for the first layer, \$6 million for the second layer and \$14 million for the third layer.

CSM entered into a two layered Personal Lines Catastrophe Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for property losses

occurring from May 1, 2015 to April 30, 2016. The Company retains the first \$10 million of ultimate net losses per loss occurrence while the reinsurers assume the next \$40 million of ultimate net loss per loss occurrence. The reinsurer's aggregate exposure for all property loss occurrences is \$20 million for the first layer and \$60 million for the second layer.

CSM entered into a three layered Commercial Lines Catastrophe Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for property losses occurring from May 1, 2015 to April 30, 2016. The Company retains the first \$10 million of ultimate net losses per loss occurrence while the reinsurers assume the next \$90 million of ultimate net losses per loss occurrence. The reinsurer's aggregate exposure for all property loss occurrences is \$20 million for the first layer, \$40 million for the second layer and \$120 million for the third layer.

CSM entered into a Catastrophe Excess of Loss Umbrella Reinsurance Agreement with multiple subscribing reinsurers for property losses occurring from May 1, 2015 to April 30, 2016. The Company retains the first \$50 million of ultimate net losses per loss occurrence on the personal lines and \$100 million of ultimate net losses per loss occurrence on the commerce business. The reinsurers assume the next \$90 million of ultimate net losses per loss occurrence. The reinsurer's aggregate exposure for all property losses occurrences is \$180 million of ultimate net losses for all loss occurrences.

CSM entered into a Clash Catastrophe Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for personal and commercial property losses occurring from May 1, 2015 to April 30, 2016. The Company retains the first \$10 million of ultimate

net losses per loss occurrence while the reinsurers assume the next \$10 million of ultimate net losses per loss occurrence. The reinsurer's aggregate exposure for all property loss occurrences is \$20 million.

CSM entered into a two layered Automobile and Liability Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for liability losses occurring between January 1, 2015 and December 31, 2015. The Company retains the first \$1 million of ultimate net losses per loss occurrence while the reinsurers assume the next \$4.25 million of ultimate net losses per loss occurrence.

CSM entered into a two layered Fidelity per Risk Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for fidelity bond losses occurring between January 1, 2015 and December 31, 2015. The Company retains the first \$1 million of ultimate net losses per loss occurrence while the reinsurers assume the next \$7 million of ultimate net losses per loss occurrence.

CSM entered into a two layered Marine Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for marine losses occurring between January 1, 2015 and December 31, 2015. The Company retains the first \$100,000 of net loss per risk per event while the reinsurers assume the next \$1 million of net loss per risk per event.

CSM entered into a Professional Liability Quota Share Agreement with a reinsurer for professional liability losses occurring from January 1, 2015 to December 31, 2015. The reinsurer assumes 80% of the business written on coverages up to \$1 million per policy and pays CSM a 32% commission.

CSM entered into a Computer Crime Quota Share Agreement with a reinsurer for computer crime losses occurring from January 1, 2015 to December 31, 2015. The reinsurer assumes 50% of the business written on coverages up to \$1 million per policy and pays CSM a 30% commission on the assumed premium. The reinsurer will also pay CSM a 20% profit commission.

CSM entered into an Umbrella Liability Quota Share Agreement with a reinsurer for umbrella liability losses occurring from January 1, 2015 to December 31, 2015. The reinsurer assumes 80% of the business written on coverages up to \$5 million per policy and pays CSM a 37.5% commission on the assumed premium.

CSM entered into a Travel Assistance Quota Share Agreement with a reinsurer for travel assistance, home assistance and road assistance losses occurring from July 1, 2013 to June 30, 2016. The reinsurer assumes 75% of the cost of claims.

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 amended 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.

COOPERATIVA DE SEGUROS MÚLTIPLES DE 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	\$224,101,088	\$0	\$224,101,088
Preferred stocks	4,751,055		4,751,055
Common stocks	79,390,660		79,390,660
Properties occupied by the company	9,290,863		9,290,863
Cash, cash equivalents and short-term investments	131,148,749		131,148,749
Other invested assets	14,201,210		14,201,210
Receivables for securities	1,505,140		1,505,140
Investment income due and accrued	1,694,533		1,694,533
Uncollected premiums and agents balances in course of collection	3,764,659		3,764,659
Deferred premiums			
Amounts recoverable from reinsurers	860,986		860,986
Other amounts receivable under reinsurance contracts	166,310		166,310
Electronic data processing equipment and software	1,529,441		1,529,441
Receivables from parent, subsidiaries and affiliates	29,306,565		29,306,565
Aggregate write-ins for other than invested assets	6,652,804		6,652,804
Total Assets	<u>\$508,364,063</u>	<u>\$0</u>	<u>\$508,364,063</u>

COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO  
LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2015

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Losses (Note 1)	\$ 29,634,844	\$0	\$ 29,634,844
Reinsurance payable on paid losses and loss adjustment expenses	1,028,798		1,028,798
Loss adjustment expenses (Note 1)	5,979,188		5,979,188
Other expenses	5,724,058		5,724,058
Unearned premiums	103,555,179		103,555,179
Advance premiums	162,974,064		162,974,064
Ceded reinsurance premiums payable	1,941,365		1,941,365
Amounts withheld or retained by company for account of others	1,079,462		1,079,462
Provision for reinsurance	237,777		237,777
Payable to parent, subsidiaries and affiliates	904,931		904,931
Payable for securities	5,622,399		5,622,399
Aggregate write-ins for liabilities	24,949,267		24,949,267
<b>Total liabilities</b>	<b>\$343,631,332</b>	<b>\$0</b>	<b>\$343,631,332</b>
Aggregate write-ins for special surplus funds	\$95,291,512		\$95,291,512
Common capital stock	58,527,421		58,527,421
Preferred capital stock	1,337,891		1,337,891
Gross paid in and contributed surplus			
Unassigned funds (surplus)	9,575,907		9,575,907
Surplus as regards policyholders (Note 2)	\$164,732,731	\$0	\$164,732,731
<b>Total liabilities, surplus and other funds</b>	<b>\$508,364,063</b>	<b>\$0</b>	<b>\$508,364,063</b>

COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO  
SUMMARY OF OPERATIONS  
DECEMBER 31, 2015

**Underwriting Income**

Premiums earned	\$168,810,777
<b>Deductions</b>	
Losses incurred	94,066,085
Loss adjustment expenses incurred	10,550,629
Other underwriting expenses incurred	66,397,033
Total underwriting deductions	<u>171,013,747</u>
Net underwriting gain (loss)	(2,202,970)

**Investment Income**

Net investment income earned	8,834,259
Net realized capital gains (losses) less capital gains tax	<u>(7,181,462)</u>
Net investment gain (loss)	1,652,797

**Other Income**

Net gain (loss) from agents' premium balances charged off	(8,329)
Finance and service charges not included in premiums	10,092
Aggregate write-ins for miscellaneous income	5,984,865
Total other income	<u>5,986,628</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	5,436,455
Federal and foreign income taxes incurred	<u>483,890</u>
Net income	<u><u>\$ 4,952,565</u></u>

COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO  
 CAPITAL AND SURPLUS ACCOUNT  
 DECEMBER 31, 2015

Surplus as regards policyholders, December 31 prior year	\$143,166,738
Net Income	4,952,565
Change in net unrealized capital gains or (losses) less capital gains tax	(477,070)
Change in non-admitted assets	1,897,560
Change in provision for reinsurance	(127,126)
Capital paid in	16,715,610
Dividends to stockholders	(1,941,855)
Aggregate write-ins for gains and losses in surplus	546,309
Change in surplus as regards policyholders for the year	21,565,993
Surplus as regards policyholders, December 31 current year	\$164,732,731

**COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS  
DECEMBER 31, 2015**

Surplus as Regards Policyholders  
December 31, 2015, Per Annual Statement  
(Amended) \$164,732,731

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	
ASSETS	\$508,364,063	\$508,364,063	\$ -	
LIABILITIES	\$343,631,332	\$343,631,332	\$ -	
Net Change in Surplus			<u>\$ -</u>	

Surplus as Regards Policyholders  
December 31, 2015, Per Examination \$164,732,731

## NOTES ON FINANCIAL STATEMENTS

### NOTE 1: LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Losses	\$29,634,844
Loss adjustment expenses	\$5,979,188

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 for 2015 was prepared and signed by the appointed actuary, Ms. Martha A. Winslow, FCAS, MAAA, of Willis Towers Watson. The Actuarial Opinion was prepared and submitted in accordance with Rule No. 96 of the Insurance Code of Puerto Rico.

The Company failed to comply with Article 5.100 of the Puerto Rico Insurance Code regarding the timely filing of the opinion of a qualified actuary. The opinions for years 2011, 2013, 2014 and 2015 were filed after the required filing date.

Based on the procedures performed, INS determined that the Company's loss and loss adjustment expense reserves as of December 31, 2015 appear reasonably stated and have been accepted for the purpose of 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.

**SUBSEQUENT EVENTS**

Effective July 1st, 2016, CSM became a member of a newly formed insurance holding company named Grupo Cooperativo Seguros Múltiples (Grupo). Grupo was incorporated in the Government of Puerto Rico and is now the ultimate controlling party of the holding company. Grupo replaced CSM as the ultimate controlling party of the holding company. There were no changes to the downstream intercompany ownership of the other affiliates in the holding company. The holding company was created as part of a reorganizational business plan approved and ratified by a majority of the 161 members who owned CSM at the time of vote. The holding company is now privately held by the 161 members.

**SUMMARY OF RECOMMENDATIONS**

**Contingent Commissions**

It is recommended that the Company comply with Ruling Letter No. 2008-92-EX regarding the required submission of contingent commissions reporting forms and affidavits.

**Investment Policy Plan**

It is recommended that the Company comply with Article 6.040(1) of the Insurance Code regarding the inclusion of professional qualifications in the written investment policy plan.

**Actuarial Opinion Filing**

It is recommended that the Company comply with Article 5.100 of the Puerto Rico Insurance Code regarding the timely filing of the opinion of a qualified actuary.

**Submittal of Catastrophe Reinsurance**

It is recommended that the Company comply with Section 9 (B) of Rule No. 72 of the Puerto Rico Insurance Code regarding the timely filing of evidence of catastrophe reinsurance.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Cooperativa de Seguros Múltiples de 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, and Marty Warns, CFE, Staff Examiner, all of INSRIS-PR, LLC participated in this examination. Additionally, Michael W. Morro, ACAS, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. Paul L. Berkebile, CISA, CFSA, CRISC, and Joe Dobias, CISA, of INS Services, Inc. participated in the Information Technology General Controls portion of the examination. Yajaira Martínez Torres, Examiner with the Office of the Commissioner of Insurance, participated in the compliance portion of the examination.

Respectfully submitted,

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Peter Bliss, CFE  
 Examiner-in-Charge  
 INSRIS-PR, LLC  
 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