

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



TRANS-OCEANIC LIFE INSURANCE COMPANY

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2018
CASE No. EX-2019-07

NAIC CODE 69523
REPORT DATE: APRIL 24, 2020

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.....	6
CAPITAL STOCK	8
CORPORATE RECORDS.....	9
ARTICLES OF INCORPORATION	9
BYLAWS	9
MINUTES.....	10
MANAGEMENT AND CONTROL.....	10
BOARD OF DIRECTORS.....	10
OPERATIONS.....	11
OFFICERS	11
COMMITTEES	12
INVESTMENTS	12
DIVIDENDS TO STOCKHOLDERS	13
HOLDING COMPANY SYSTEM	14
INTERCOMPANY AGREEMENTS.....	15
TERRITORY AND PLAN OF OPERATIONS.....	16
GROWTH OF THE COMPANY	17
REINSURANCE	17
ASSUMED.....	17
CEDED.....	17
ACCOUNTS AND RECORDS	18
FINANCIAL STATEMENTS.....	20
ASSETS	21
LIABILITIES, SURPLUS AND OTHER FUNDS.....	22

SUMMARY OF OPERATIONS..... 23

CAPITAL AND SURPLUS ACCOUNT..... 24

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 25

RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION 26

NOTES ON FINANCIAL STATEMENTS..... 27

 NOTE 1: ACTUARIAL REVIEW 27

 NOTE 2: SURPLUS AS REGARDS POLICYHOLDERS..... 28

SUBSEQUENT EVENTS 28

SUMMARY OF RECOMMENDATIONS..... 30

CONCLUSION..... 32



GOVERNMENT OF PUERTO RICO
Office of the Commissioner of Insurance

July 1, 2020

Honorable Rafael Cestero-Lopategui, CIC
Chief Deputy Commissioner of Insurance
Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
San Juan, Puerto Rico 00918

Dear Chief Deputy Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2019-07, dated April 11, 2019, a financial condition examination has been made of the affairs, financial condition and management of the

TRANS-OCEANIC LIFE INSURANCE COMPANY
121 ONEILL
SAN JUAN, PUERTO RICO 00918

hereinafter referred to as "Company" or "TOLIC", 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 TOLIC 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, 2011, through December 31, 2012. This examination covered the period from January 1, 2014, through December 31, 2018, including any material

relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. Due to natural disasters that impacted Puerto Rico in 2017, along with our fiscal condition, the examination was delayed, which resulted in a one year gap between exams.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in the *Model Law on Examinations* (#390) 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.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, RSM Puerto Rico (RSM). 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.

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.

(1) Board of Directors - Election of Officers

The Company is not in compliance with Article 29.210 of the Insurance Code of Puerto Rico, which requires its Board of Directors to formally elect the Officers of the Company. Mr. Milton Burgos Bula, Assistant Vice President, CPA, Esq. has not been formally appointed. Also, this is required by the Company's By-Laws as per Article IV, Section 1.

(2) Required Investment in Puerto Rico Securities

The Company is required to maintain invested at least one-half of its capital requirement, or \$1,250,000 in Puerto Rico securities. For the years 2014, 2015 and 2016 the Company maintained the corresponding amount in PR Securities but were not

included in the certificates submitted to the OCI. The Company submitted amended certificates to represent its compliance with Article 3.160 of the Puerto Rico Insurance Code of Puerto Rico during the examination. For the years 2017 and 2018 the Company did not comply with Article 3.160 because the Company did not have PR Securities in the amount required nor obtained a waiver from the OCI to comply with the Article 3.160 of the Puerto Rico Insurance Code with other securities.

(3) Stockholder's Dividends

For the 2014 year, the Company failed to comply with Article 44.060(b) and Section 21(B) of Rule No. 83 of the Regulations of the Puerto Rico Insurance Code by not notifying the Commissioner of a stockholder's dividend paid of \$1,653,990.

(4) Electronic Storage System

The Company failed to comply with Rule No. 76 of the Regulations of the Puerto Rico Insurance Code by not filing, with the OCI, the required certification of its electronic storage system on July 2018.

(5) Rule 83 - Holding Company System

The Company failed to comply with Sections 14 and 15 of Rule No. 83 of the Regulations of the Insurance Code of Puerto Rico by failing to timely submit its 2015 Forms B and C.

(6) Election of Directors- Inspectors Not Appointed

For the examination period, the Company did not comply with Article 29.170 of the Insurance Code of Puerto Rico, which requires that for every election of directors

there shall be appointed, in the manner provided by the bylaws, three inspectors of the election from among individuals present at such election.

(7) Stock Certificate - Corporate Seal

Subject to Article 28.140(5) of the Insurance Code of Puerto Rico, as to stock in insurers being formed, each stockholder who has paid in full for the shares to which he has subscribed, shall be entitled to have issued to him by the Company a stock certificate or certificates representing such shares. The certificate shall be signed by the president or vice president and the secretary or treasurer of the Company and be authenticated by its corporate seal. Based on our review, for the examination period, four (4) stock certificates (No. 136, 139, 141, and 142) were not authenticated by the Company corporate seal. The Company did not comply with Article 29.270 of the Insurance Code of Puerto Rico.

PRIOR EXAMINATION FINDINGS

The Company was in compliance with recommendations made in the prior December 31, 2012 Report on Examination; except for the following two (2) findings noted below:

(8) Shareholders Meeting

The annual shareholders meetings were held at the current principal place of business, but the Company's Bylaws state the old business address. The Company was not in compliance with Article 29.140(1) of the Insurance Code of Puerto Rico and its own corporate bylaws regarding meetings of stockholders.

The shareholders of TOLIC signed a unanimous written consent (resolution) effective December 31, 2013, to update their current principal place of business (#121 O'Neill, San Juan, PR, US 00918-2404) and 4th amendment to its Articles of Incorporation in 2014. However, the Company's By-laws were not amended accordingly. Thus, the Company failed to comply with Articles 29.070, 29.080 and 29.140(1) of the Insurance Code of Puerto Rico and its own corporate bylaws regarding current principal place of business and meetings of stockholders.

(9) Authorization of Investments

The Company is not in compliance with Section 3 of Article 6.040 of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer meet at least every three months to review and authorize the investment plan and investment portfolio. The Company met every six months and properly approved the investment plan and investments.

The Board of Directors has continued to meet regularly every six months; in 2019 the Board of Directors planned to meet at least 3 times.

COMPANY HISTORY

Trans-Oceanic Life Insurance Company ("TOLIC" or "the Company") was incorporated on December 22, 1959. TOLIC has Certificates of Authority and writes business in Puerto Rico, the U.S. Virgin Islands and Florida, but writes the vast majority of its business in Puerto Rico. TOLIC also has a reinsurance license in Colombia and previously requested permission from the Office of the Insurance Commissioner of

Puerto Rico to create an organization in Panamá. TOLIC does not currently writes business in neither Panamá nor Colombia.

In 2008, TOLIC enhanced its market share in the accident and health market through the acquisition of Universal Life Insurance Company's accident and health policies portfolio. Today, that segment of TOLIC's business accounts for approximately 93% of the Company's premium income. Formerly, the majority of the Company's customers were government employees who pay premiums through payroll deductions. However, the Company has diversified its base and focused more on the private sector; which currently accounts for approximately 50% of the total policyholder population.

Effective December 31, 2010, with the prior written approval of the OCI and in compliance with Section 1112 of the Puerto Rico Internal Revenue Code, the Company completed a tax-free reorganization involving TOLIC and its parent company until that date, Victory Insurance Corporation ("Victory"). As a result of the reorganization, Victory was merged into TOLIC, and TOLIC became a subsidiary of a new corporation, Trans-Oceanic Group, Inc. ("T-Group"), which owned from the effective date the same number of common shares of TOLIC that Victory had owned until then. In addition, the common and preferred stockholders of Victory became the common and preferred stockholder of T-Group in the same proportional percentages of ownership participation.

On December 30, 2010, the Fideicomiso Touma-Taveras Trust acquired 16,667 shares (one-third of those issued and outstanding) of Victory common stock from

Roberto A. Tirado. As a result of this acquisition, which also had prior written approval from the OCI, the Fideicomiso Touma-Taveras Trust became the owner of one half of the common shares of Victory as of December 30, 2010, and as such became owners of one-half of the common shares of T-Group as of December 31, 2010. Also as of December 31, 2010 and pursuant to the corporate reorganization, Touma-Taveras, Inc. became the owner of one-third of the common shares of T-Group and Nicolás Touma Correa became the owner of the remaining one-sixth of those common shares.

The principal economic effect of the merger of Victory into TOLIC was that a storage building and parking lot adjacent to the TOLIC offices, previously owned by Victory Insurance Corporation, came to be owned by TOLIC. In addition, as part of the reorganization, T-Group also became the parent company of two new corporations - Victory Insurance Agency, Inc. and Tuchman Travel & Leisure, Inc. which will operate under licenses that until then belonged to Victory.

CAPITAL STOCK

As of December 31, 2018, the Company had 10,000,000 common stock shares authorized and 250,000 issued and outstanding with a par value of \$10 per share, for paid in capital of \$2,500,000. TOLIC is a direct subsidiary of T-Group, which owns 249,992 of the 250,000 shares outstanding.

The remaining eight shares were issued to the following Directors in compliance with Article 29.150(1) of the Insurance Code of Puerto Rico:

Nicolás Touma Correa

Jorge Luis Mendín

Carmen Taveras Burgos

Edrick Touma Taveras

Carlos Eduardo Girod

Humberto Tapia Taveras

Luis Marques Guillermet

Christian Touma Taveras

CORPORATE RECORDS

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the board of directors and shareholders were reviewed for the period under examination. The following amendments to the Articles of Incorporation were noted:

ARTICLES OF INCORPORATION

The Articles of Incorporation were amended in 2014 for the 4th time to update its current principal place of business.

BYLAWS

The Company did not amend its corporate bylaws during the period under examination.

The Company failed to fully address the prior examination finding regarding updating its corporate bylaws for its current principal place of business and the place for its annual shareholders meeting. The shareholders of TOLIC signed a unanimous written consent (resolution) effective December 31, 2013, to update their current principal place of business (#121 O'Neill, San Juan, PR, US 00918-2404) and 4th amendment to its Articles of Incorporation in 2014. However, the Company's bylaws were not amended accordingly. Thus, the Company failed to comply with Articles 29.070, 29.080 and 29.140(1) of the Insurance Code of Puerto Rico and its own corporate bylaws regarding current principal place of business and meetings of stockholders. This

violation is noted above in the *Summary of Prior Examination Findings* Section and below in the *Summary of Recommendations* Section.

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 December 31, 2018, the directors of the Company, who were elected at the annual meeting of stockholders, in compliance with Article 29.160, were as follows:¹

NAME AND LOCATION	PRINCIPAL OCCUPATION
Nicolás Touma Correa San Juan, Puerto Rico	Chairman, President & CEO
Carmen Taveras Burgos San Juan, Puerto Rico	Retired & Board member
Jorge Luis Mendín San Juan, Puerto Rico	Secretary of the Board of Directors
Carlos Eduardo Girod San Juan, Puerto Rico	Physician & Board member

¹ Subsequent to the examination date, Carmen Taveras Burgos, Jorge Luis Mendín and Carlos Eduardo Girod retired from the Board and were replaced by Fernando Nido and Mickey Carrero.

NAME AND LOCATION	PRINCIPAL OCCUPATION
Luis Marques Guillermety San Juan, Puerto Rico	Certified Public Accountant & Treasurer of the Board of Directors
Humberto Tapia Taveras San Juan, Puerto Rico	Assistant Secretary of the Board of Directors and Vice President of Marketing
Edrick Touma Taveras San Juan, Puerto Rico	Assistant Secretary of the Board of Directors and Vice President of Operations
Christian Touma Taveras Guaynabo, Puerto Rico	Marketing & Multimedia Manager and Board member

OFFICERS

Officers are elected by the Board of Directors. A list of the officers elected or appointed and serving as of December 31, 2018, appears below. The officers were elected in compliance with Article 29.210 of the Puerto Rico Insurance Code.

NAME	TITLE
Nicolás Touma Correa	President & CEO
Jorge Luis Mendín	Secretary
Humberto Tapia Taveras	Assistant Secretary, Vice President Marketing
Carlos Eduardo Girod	Physician
Luis Marques Guillermety	Treasurer
Edrick Touma Taveras	Assistant Treasurer, Vice President Operations
Milton Burgos Bula	Assistant Vice President

The Company is not in compliance with Article 29.210 of the Insurance Code of Puerto Rico, which requires its Board of Directors to formally elect the Officers of the Company. Mr. Milton Burgos Bula, Assistant Vice President, CPA, Esq. has not been formally appointed. Also, this is required by the Company's bylaws as per Article IV,

Section 1. This violation is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

COMMITTEES

The By-Laws 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, 2018, TOLIC had the following Committees of the Board:

Audit Committee

Luis Marques Guillermety
Jorge Luis Mendín
Edrick Touma Taveras

Investment Committee

Nicolás Touma Taveras
Edrick Touma Taveras
Luis Marques Guillermety
Milton Burgos Bula
Jorge Padilla

ERM Committee

Edrick Touma Taveras
Nicolás Touma Taveras
Humberto Tapia Taveras
Milton Burgos Bula
Michael Cohen
Gary Lake

INVESTMENTS

The Company is required to maintain invested at least one-half of its capital requirement, or \$1,250,000 in Puerto Rico. For the years 2017 and 2018 the Company did not comply with Article 3.160 because the Company did not have PR Securities in the amount required nor obtained a waiver from the OCI to comply with Article 3.160

of the Puerto Rico Insurance Code with other securities. The violation of Article 3.160 of the Insurance code of Puerto Rico is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

In addition, the Company is not in compliance with Section 3 of Article 6.040 of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer meet at least every three months to review and authorize the investment plan and investment portfolio. The Company met every six months and properly approved the investment plan and investments.

The Board of Directors has continued to meet regularly every six months. For 2019, the Board of Directors planned to meet at least 3 times. The violation of Article 6.040, Section 3 of the Puerto Rico insurance code is noted above in the *Prior Examination Findings* Section and below in the *Summary of Recommendations* Section.

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
2013	\$820,847	\$22,464,581
2014	\$1,653,990	\$29,454,038
2015	\$2,013,854	\$33,734,781
2016	\$3,100,000	\$35,246,338
2017	\$1,200,000	\$32,846,502
2018	\$1,880,000	\$33,343,871

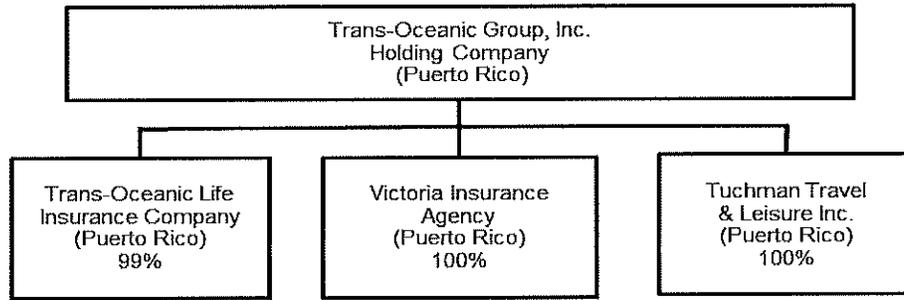
Pursuant to Puerto Rico Regulations, Section 19(b) of Rule No. 83, an insurer may not pay extraordinary dividends or make any other extraordinary distribution to shareholders until thirty (30) days after notifying the Commissioner of Insurance and the Commissioner of Insurance has not disapproved such payments or has expressly approved the extraordinary dividend within the thirty (30) day period. No extraordinary dividends were paid during the examination period.

The Company; however, failed to comply with Article 44.060(b) and Section 21(B) of Rule No. 83 of the Regulations of the Puerto Rico Insurance Code by not notifying the Commissioner for stockholder's dividends paid of \$1,653,990 in 2014. This violation is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under the Insurance Laws of Puerto Rico. TOLIC is 99% owned by T-Group and 1% by 8 individuals. Victoria Insurance Agency and Tuchman Travel & Leisure, Inc. are wholly-owned subsidiaries of T-Group.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries as of December 31, 2018:



INTERCOMPANY AGREEMENTS

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

- On September 15, 2017; TOLIC and T-Group, Inc. entered into a management services agreement where T-Group Inc. will provide TOLIC with strategic planning services, marketing consulting, business relationship management and other services to be agreed to in writing by the parties. The compensation for these services is \$50,000 a month. In 2018, total payments amounted to \$600,000.

- On April 1, 1988; TOLIC entered into a Managing General Agreement (MGA) with Touma & Taveras, a shareholder of Trans-Oceanic Group, Inc. The MGA was based on override commissions on premiums earned by TOLIC in PR business. Effective in 2015, the override commissions were capped at a flat rate of \$500,000 annually; and at the end of 2015; the cap was replaced by a flat MGA commission of \$500,000 annually.

- In 2013, TOLIC loaned the T-Group a sum of \$1,475,000, an amount that T-Group, Inc. used to buy office furniture and audio-visual equipment; which in turn, it leases to TOLIC. The loan is guaranteed with said furniture and equipment. As of

December 31, 2018, the balance of this loan is \$763,287.00. The monthly payments from T-Group, Inc. to TOLIC in 2018 were 13,179.31 (\$158,151.72 annually). The monthly lease payments made from TOLIC to T-Group, Inc. were \$13,309.39 (\$159,712.68 annually).

- Expense sharing arrangement (not a contract) where Victory Insurance Agency makes an annual payment to TOLIC for certain expenses incurred on their behalf related mainly to accounting/tax, utilities and office space. The 2016 and 2017 expenses paid to TOLIC in 2018 were \$48,265 and \$43,557, respectively. There is no TOLIC's recorded income accrual of \$38,563 for the 2018 expenses incurred on behalf of Victory Insurance Agency.

The Company did not initially disclose all of its intercompany agreements in its 2018 Annual Statement as required by the annual statement instructions and paragraph 25 of SSAP Number 18. However, the Company did file an amended 2018 Annual Statement correcting this, which thus eliminated the inclusion of this item as an examination finding.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the Commonwealth of Puerto Rico and is also authorized to write business in Florida and the U.S. Virgin Islands. The Company is authorized to underwrite the risks of life and disability pursuant to Sections 4.020 and 4.030 of the Insurance Code of Puerto Rico.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the past six years through December 31, 2018. No financial adjustments were made as a result of the examination.

YEAR	ADMITTED ASSETS	SURPLUS	DIRECT WRITTEN PREMIUMS	NET INCOME
2013	\$58,903,955	\$26,954,038	\$30,146,714	\$6,011,042
2014	65,114,148	31,234,781	30,043,343	4,593,687
2015	67,396,765	32,746,338	30,644,094	4,728,126
2016	70,576,913	30,346,502	31,043,232	1,203,127
2017	72,500,944	30,843,871	30,305,855	1,881,888
2018	74,198,338	30,260,015	29,721,936	1,866,568

REINSURANCE

ASSUMED

The Company did not assume any risks during the examination period.

CEDED

The Company primarily writes indemnity coverage for cancer policies. The payout is limited by the policy terms, and the Company does not reinsure these risks. The Company also writes small amounts of other business and reinsures the coverage as follows:

- Individual life risks (1) in excess of \$50,000 per individual on policies issued 1972 to September 2006 up to \$365,000 per life; (2) 50% of the face amount up to \$25,000 and 100% in excess of \$25,000 for policies issued October 2005 to June 2011 up to \$475,000 per life; (3) in excess of \$25,000 for policies issued July 2011 to present up to \$500,000 per life.

- Group life and group accidental death & death rider 50% of the first \$40,000 and 100% in excess of \$40,000 up to \$100,000.
- Stand-alone accidental death, disability, and dismemberment risks in excess of \$10,000 up to \$100,000.

The total reported ceded premiums and related reinsurance balances are not material as of December 31, 2018.

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.

Pursuant to Puerto Rico Regulations, Rule No. 76, an insurer that uses an electronic storage system shall be required to obtain an opinion from a certified information system auditor, to the effect that the electronic storage system used meets the requirements of the Code and this Rule. The finance director or person in charge of the area of information systems must certify further that the information on which the auditor based his opinion is correct and complete. The certifications required under this Article, shall be initially presented to the OCI, within the 90 days of the implementation of the electronic storage system and every three (3) years thereafter. The Insurer submitted its last certification on July 3, 2015.

The Company failed to comply with Rule No. 76 of the Regulations of the Puerto Rico Insurance Code by not filing, with the OCI, the required certification of its electronic

system storage. This violation is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

INS Services, Inc. performed a review and assessment of the Company's information systems and the related control environment. There were some examination findings noted in the management letter 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 Commonwealth of Puerto Rico, Office of the Commissioner of Insurance and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments 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.

TRANS-OCEANIC LIFE INSURANCE COMPANY

ASSETS

DECEMBER 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$43,406,020	\$0	\$43,406,020
Common Stocks	8,781,675	0	8,781,675
Properties occupied by the company	7,250,095	0	7,250,095
Cash, cash equivalents and short-term investments	7,237,526	0	7,237,526
Contract loans	39,340	0	39,340
Other invested assets	1,695,432	0	1,695,432
Investment income due and accrued	369,910	0	369,910
Uncollected premiums and agents' balances in the course of collection	1,050,930	0	1,050,930
Deferred premiums, agents' balances and installments booked but deferred and not yet due	163,834	0	163,834
Amounts recoverable from reinsurers	45,000	0	45,000
Electronic data processing equipment and software	725,831	0	725,831
Receivables from parent, subsidiaries and affiliates	1,267,260	0	1,267,260
Aggregate write-ins for other than invested assets	2,165,485	0	2,165,485
Total Assets	\$74,198,338	\$0	\$74,198,338

TRANS-OCEANIC LIFE INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2018

	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$3,889,437	\$0	\$3,889,437
Aggregate reserve for accident and health contracts	25,628,589	0	25,628,589
Contract claims - life	103,089	0	103,089
Contract claims - accident and health	6,645,738	0	6,645,738
Commissions to agents due or accrued - accident and health	2,931,404	0	2,931,404
General expenses due or accrued	436,448	0	436,448
Taxes, licenses and fees due or accrued	362,013	0	362,013
Remittances and items not allocated	15,676	0	15,676
Asset valuation reserve	970,534	0	970,534
Drafts outstanding	77,859	0	77,859
Aggregate write-ins for liabilities	377,536	0	377,536
Total Liabilities	\$41,438,323	\$0	\$41,438,323
Common capital stock	2,500,000	0	2,500,000
Gross paid in and contributed surplus	50,000	0	50,000
Unassigned funds (surplus)	30,210,015		30,210,015
Surplus as regards policyholders (Note 2)	\$32,760,015	\$0	\$32,760,015
Total liabilities, surplus and other funds	\$74,198,338	\$0	\$74,198,338

TRANS-OCEANIC LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
DECEMBER 31, 2018

Operating Income

Premiums and annuity considerations	\$29,467,637
Net investment income	1,740,563
Amortization of interest maintenance reserve	(24,500)
Aggregate write-ins for miscellaneous income	322,147
Net Operating Income	<u>31,505,847</u>

Benefits and Reserves

Death benefits	326,054
Disability benefits and benefits under accident and health contracts	10,832,533
Surrender benefits and withdrawals for life contracts	238,898
Increase in aggregate reserves for life and accident and health contracts	2,553,415
Benefits and Reserves	<u>13,950,900</u>

Other Expenses

Commissions on premiums, annuity considerations and deposit-type contract funds	6,281,549
General insurance expenses	8,814,051
Insurance taxes, licenses and fees	793,596
Increase in loading on deferred and uncollected premiums	4,750
Total expenses	<u>29,844,846</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$1,661,001
Dividends to policyholders	<u>0</u>
Net gain from operations after dividends to policyholders and before federal income taxes	1,661,001
Federal and foreign income taxes incurred	106,282
Net gain from operations after dividends to policyholders and federal income taxes and before net realized capital gains (losses)	<u>1,554,719</u>
Net realized capital gains (losses) less capital gains tax (benefit)	311,849
Net Income	<u><u>\$1,866,568</u></u>

TRANS-OCEANIC LIFE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2018

Surplus as regards policyholders, December 31 prior year	\$33,343,871
Net income	1,866,568
Change in net unrealized capital gains or (losses)	(1,246,669)
Change in nonadmitted assets	219,277
Change in asset valuation reserve	456,968
Dividends to stockholders	(1,880,000)
Change in surplus as regards policyholders for the year	<u>(583,856)</u>
Surplus as regards policyholders, December 31 current year	<u>\$32,760,015</u>

TRANS-OCEANIC LIFE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2018

Surplus as Regards Policyholders
December 31, 2018, Per Annual Statement \$32,760,015

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS	\$74,198,338	\$74,198,338	\$ -
LIABILITIES	\$41,438,323	\$41,438,323	\$ -
Net Change in Surplus			<u>\$ -</u>

Surplus as Regards Policyholders
December 31, 2018, Per Examination \$32,760,015

TRANS-OCEANIC LIFE INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2018

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus 12/31 prior year	\$22,464,581	\$29,454,038	\$33,734,781	\$35,246,338	\$32,846,502	\$33,343,871
Net Income (Loss)	6,011,042	4,593,687	4,728,126	1,203,127	1,881,888	1,866,568
Change in net unrealized capital gains	74,403	(124,164)	(613,177)	(390,049)	1,222,930	(1,246,669)
Change in nonadmitted assets	1,860,370	1,586,923	778,469	(106,360)	(661,222)	219,277
Change in asset valuation reserve	(135,511)	(121,713)	(118,007)	(6,554)	(746,227)	456,968
Dividends to stockholders	(820,847)	(1,653,990)	(2,013,854)	(3,100,000)	(1,200,000)	(1,880,000)
Aggregate write-ins for gains and losses in surplus	0	0	(1,250,000)	0	0	0
<hr/>						
Net Change in Capital & Surplus	<u>6,989,457</u>	<u>4,280,743</u>	<u>1,511,557</u>	<u>(2,399,836)</u>	<u>497,369</u>	<u>(583,856)</u>
<hr/>						
Capital & Surplus at end of year	<u>\$29,454,038</u>	<u>\$33,734,781</u>	<u>\$35,246,338</u>	<u>\$32,846,502</u>	<u>\$33,343,871</u>	<u>\$32,760,015</u>

NOTES ON FINANCIAL STATEMENTS

NOTE 1: ACTUARIAL REVIEW

Aggregate reserve for life contracts	\$3,889,437
Aggregate reserve for accident and health contracts	25,628,589
Contract claims: Life	103,089
Contract claims: Accident and health	6,645,738
Uncollected premiums and agent’s balances in course of collection	1,050,930
Deferred premiums agents’ balances and installments booked but deferred and not yet due	163,834

The OCI retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company’s liabilities listed above as of December 31, 2018. 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 2018 Amended Annual Statement. The Statement of Actuarial Opinion and Actuarial Memorandum for 2018 were prepared and signed by the appointed actuary, Gary D. Lake, FSA, MAAA of Lake Consulting, Inc. The Actuarial Opinion was prepared and submitted timely in accordance with Article 5.100 and Rule No. 95 of the Insurance Code of Puerto Rico.

Based on the work performed, the consulting actuary found the Company’s liabilities provision for aggregate reserve for life contracts, aggregate reserve for accident and health contracts, life contract claims, and accident and health contract claims were adequate. In addition, INS verified the liabilities comply with actuarial standards, and the methodologies appeared reasonable.

NOTE 2: SURPLUS AS REGARDS POLICYHOLDERS

The total capital and surplus of the Company at December 31, 2018, as determined by this examination, is the same as the amount reported by the Company on its 2018 Amended Annual Statement.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States including Puerto Rico. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown have also caused extreme volatility in the financial markets.

The full effect of COVID-19 on Puerto Rico and the insurance and reinsurance industry is still unknown at the time of releasing this report. The OCI is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The OCI and all insurance regulators, with the assistance of the National Association of Insurance Commissioners (NAIC), are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The OCI has been in communication with the Company regarding the impact of COVID-19 on its business

operations and financial position. On April 14, 2020, the OCI issued Ruling Letter CN-2020-276-D requiring insurers to complete the NAIC COVID-19 Information Request Template to disclose the impact, assessment and business continuity plans to address the COVID-19 pandemic. The Company reported no significant changes to the operations or financial impact to the Company. However, this situation is evolving and represents a prospective risk to the Company.

SUMMARY OF RECOMMENDATIONS

Shareholder Meetings

We recommend the Company amends its corporate bylaws to update its stated principal place of business in accordance with Articles 29.070, 29.080 and 29.140(1) of the Insurance Code of Puerto Rico. This finding was also noted in the prior Report on Examination for the period of January 1, 2011 through December 31, 2012.

Board of Directors - Authorization of Investments

We recommend that the Company meets at least every three (3) months to review and authorize the investment plan and portfolio to comply with Section 3 of Article 6.040, of the Insurance Code of Puerto Rico. This finding was also noted in the prior Report on Examination for the period of January 1, 2011 through December 31, 2012.

Election of Officers

We recommend that all officers of the Company be formally elected by the Board of Directors and documented within the minutes of the Board to comply with Article 29.210 of the Puerto Rico Insurance Code and the Company's By-Laws.

Required Investment in Puerto Rico Securities

We recommend that the Company invests in Puerto Rico securities at least on the minimum required amounts to comply with Article 3.160 of the Insurance Code of Puerto Rico or request a waiver from the OCI.

Notification of Dividend Payments

We recommend that the Company notify the OCI of dividends payments in compliance with Article 44.060(b) and Section 21(B) of Rule No. 83 of the Insurance Code of Puerto Rico.

Electronic Storage System

We recommend that the Company files its required certification of its electronic storage system every three (3) years with the OCI to comply with Rule No. 76 of the Puerto Rico Insurance Code.

Rule 83 - Holding Company System

We recommend that the Company file its Forms B and C on a timely basis as required by Sections 14 and 15 of Rule No. 83 of the Insurance Code of Puerto Rico.

Election of Directors - Inspectors Not Appointed

We recommend that the Company comply with Article 29.170 of the Insurance Code of Puerto Rico, which requires that for every election of directors there shall be appointed in the manner provided by the bylaws, three inspectors of the election from among individuals present at such election.

Stock Certificate - Corporate Seal

We recommend that that the Company comply with Article 29.270 of the Insurance Code of Puerto Rico by authenticating stock certificates with the Company's corporate seal.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of TOLIC as of December 31, 2018, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

In addition to the undersigned, Jan Pierre Santiago, CPA, CFE, participated in the examination. Frank Edwards, ASA, MAAA, Actuary of The INS Companies, participated in the actuarial portion of the examination. David Gordon, MBA, CISA, CIA, CFE (Fraud), CDFE, and George Lentini, CISA, GCFE, participated in the Information Technology General Controls portion of the examination. Maribel Figueroa, 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

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



Carla M. Colón León
 Examiners Supervisor
 Office of the Commissioner of Insurance