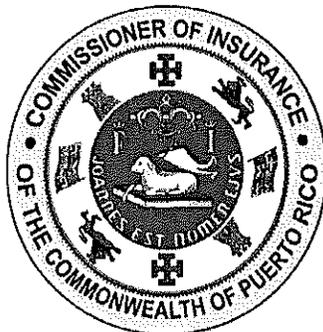


COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



INTEGRAND ASSURANCE COMPANY

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2017
CASE No. EX-2018-23

NAIC CODE 26778
REPORT DATE: SEPTEMBER 30, 2019

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.....	4
COMPANY HISTORY	4
CAPITAL STOCK	5
CORPORATE RECORDS	5
ARTICLES OF INCORPORATION AND BYLAWS	5
MINUTES	6
MANAGEMENT AND CONTROL.....	6
BOARD OF DIRECTORS	6
OFFICERS	7
COMMITTEES	7
CONFLICT OF INTEREST.....	8
INVESTMENTS.....	8
DIVIDENDS TO STOCKHOLDERS.....	9
CONTINGENT COMMISSIONS.....	10
ELECTRONIC STORAGE SYSTEM	10
HOLDING COMPANY SYSTEM.....	11
INTERCOMPANY AGREEMENTS.....	12
TERRITORY AND PLAN OF OPERATIONS	13
GROWTH OF THE COMPANY.....	13
REINSURANCE.....	14
ASSUMED.....	14
CEDED	14
ACCOUNTS AND RECORDS.....	17
FINANCIAL STATEMENTS.....	17
ASSETS.....	19

LIABILITIES, SURPLUS AND OTHER FUNDS.....	20
STATEMENT OF INCOME.....	21
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION	24
NOTES ON FINANCIAL STATEMENTS.....	25
NOTE 1: LOSSES AND LOSS ADJUSTMENT EXPENSES	25
NOTE 2: TOTAL CAPITAL AND SURPLUS	26
SUBSEQUENT EVENTS.....	26
SUMMARY OF RECOMMENDATIONS.....	27
PROFESSIONAL QUALIFICATIONS – INVESTMENT WRITTEN PLAN	27
CEDED REINSURANCE – 75% STATUTORY LIMIT	28
UNCLAIMED FUNDS.....	28
RULE 83 – FILING DUE DATES FORMS B, C AND F.....	28
FAILURE TO NOTIFY 2017 DIVIDENDS PAID	28
RULE NO. 84 – PAYMENT OF CONTINGENT COMMISSIONS.....	28
RULE NO. 76 – ELECTRONIC STORAGE SYSTEM.....	28
CONCLUSION.....	29



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

December 19, 2019

Honorable Javier Rivera Rios
Commissioner of Insurance
Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
San Juan, Puerto Rico 00918

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2018-23, dated December 6, 2018, a financial condition examination has been made of the affairs, financial condition and management of the

INTEGRAND ASSURANCE COMPANY
FD ROOSEVELT AVENUE, ENSENADA CORNER # 369
SAN JUAN, PUERTO RICO 00920

hereinafter referred to as "Company" or "INTEGRAND", 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 INTEGRAND 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, 2011. This examination covered the period from January 1, 2013, through December 31, 2017, including any

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

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC Handbook)* and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the Commonwealth of Puerto Rico. The *NAIC Handbook* requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

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

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

Professional Qualifications - Investment Written Plan

The Company failed to comply with Article 6.040(1) of the Insurance Code of Puerto Rico by not including in its written investment plan the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior.

Ceded Reinsurance- 75% Statutory Limit

The Company did not comply with the provisions of Article 43.030(3) of the Puerto Rico Insurance Code for the years 2015 and 2016, when exceeding statutory limit of 75% on Reinsurance Ceded.

Unclaimed Funds

The Company failed to comply with Article 26.040(2)(a) by not including the policy number or contract in the unclaimed funds report for the years 2013, 2014 and 2015.

Rule No. 83 - Filing Due Dates Forms B, C and F

The Company failed to comply with Sections 14, 15 and 20 of Rule No. 83 of the Regulations of the Puerto Rico Insurance Code by not filing, by the due date, Forms B and C for the years 2016 and 2017, and Form F for years 2015 to 2017.

Failure to Notify 2017 Dividends Declared

The Company failed to comply with Article 44.050(e) and Section 21B of Rule 83 by not notifying dividends declared on June 12, 2017 to shareholders within fifteen (15) business days following their declaration.

Rule No. 84 - Payment of Contingent Commissions

Based on our review, the Company should not have paid contingent commissions in 2014 as it had no underwriting gain, recognized losses in the previous year and the average of the past three (3) also resulted in losses.

Rule No. 76 - Electronic Storage System

Based upon our review, the Company did not provide to the OCI, within 90 days following the date on which Aquarius, the digital repository system used by INTEGRAND, began to operate (January 22, 2016), the certification of the electronic storage system of a certified information systems auditor, failing to comply with Section 7 of Rule No. 76.

PRIOR EXAMINATION FINDINGS

The Company was in compliance with recommendations made in the prior December 31, 2011, Report on Examination.

COMPANY HISTORY

The Company was incorporated under the provisions of the Insurance Code of Puerto Rico on December 21, 1972, under the name of Tropical Insurance Company as a stock company. Effective May 31, 1973, the Company's name was changed to CNA Casualty of Puerto Rico. CNA Casualty of Puerto Rico began operations on July 1, 1973.

On February 13, 1992, the Company changed its name to INTEGRAND Assurance Company. The Company is authorized to underwrite the risks of agricultural, casualty, disability, marine & transportation, property, surety, title and vehicle insurance pursuant to Sections 4.030, 4.040, 4.050, 4.060, 4.070, 4.080, 4.090 and 4.100 of the Insurance Code of Puerto Rico. The Company is a wholly owned subsidiary of Victor J. Salgado & Associates (Parent). The Company is licensed in Puerto Rico and the U.S. Virgin Islands.

CAPITAL STOCK

The Company has 1,333,333 of common shares authorized and 400,000 shares issued and outstanding. The Company is a direct subsidiary of Victor J. Salgado & Associates, Inc., which owns 399,995 of the 400,000 shares outstanding. The Company has no preferred stock outstanding.

CORPORATE RECORDS

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

ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation were amended to appoint a new resident agent. The amendment was approved by the Executive Committee of the Board of Directors on August 3, 2015.

MINUTES

The recorded minutes adequately documented its meetings and approval of Company transactions and events, in compliance with the Insurance Code of Puerto Rico. However, it was noted that some discussions regarding a Board director's resignation were not included in the minutes because they were discussed in the BOD meeting of the Parent.

MANAGEMENT AND CONTROL

Article 29.150 of the Insurance Code of Puerto Rico states that not less than the majority of directors of a Company shall be residents of, and actually reside in, Puerto Rico. The Company was in compliance with Article 29.150 of the Insurance Code of Puerto Rico.

BOARD OF DIRECTORS

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders, in compliance with Article 29.160, were as follows:

NAME AND LOCATION	PRINCIPAL OCCUPATION
Víctor José Salgado Micheo	Chairman, President & CEO
Guaynabo, Puerto Rico	
Ana María Salgado Micheo	Executive Vice President, COO,
San Juan, Puerto Rico	Secretary and Treasurer
Mariana Martínez Mattei	Director
Guaynabo, Puerto Rico	
María Eugenia Rosas Salgado	Attorney and Independent
Aguadilla, Puerto Rico	Director
Jose J. Gil De Lamadrid Jiménez	Independent Director
Caguas, Puerto Rico	

OFFICERS

Officers are elected by the Board of Directors Board on an annual basis. A list of the officers elected or appointed during 2017 and serving as of December 31, 2017 appears below. The officers were elected in compliance with Article 29.210, of the Insurance Code.

NAME	TITLE
Víctor José Salgado Micheo	President & CEO
Ana María Salgado Micheo	Executive Vice President, COO, Secretary and Treasurer
Javier Enrique Muñiz	Vice President, Information Technology
María A. Contreras	Vice President, Finance
Carmen Esther Navas	Vice President, Administration

COMMITTEES

The Bylaws provide that the Board of Directors may designate one or more committees as determined to be necessary for the conduct of the business of the Company. As of December 31, 2017, INTEGRAND had the following Committees of the Board:

<i>Executive and Finance Committee</i>
Victor Jose Salgado Micheo
Ana Maria Salgado Micheo
Maria Eugenia Rosas Salgado
Jose J. Gil De Lamadrid Jimenez

<i>ERM Committee</i>
Ana María Salgado Micheo, <i>Chief Risk Officer</i>
Victor Jose Salgado Micheo
María A. Contreras
Juan Carlos Casellas
Roberto Molina
Frances Cabrera

CONFLICT OF INTEREST

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

INVESTMENTS

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that all investments acquired and held under this Chapter shall be acquired and owned under the supervision and direction of the Board of Directors of the Company. 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 Company. Review of the Board of Directors and Finance Committee 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. However, the Company is in violation of Article 6.040(1), PRS which establishes that the written investment plan must state the professional qualifications of the persons that shall be making routine investment decisions in order to ensure their competence and ethical behavior. The violation of Article 6.040(1), PRS is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

Additionally, the Company is in compliance with the following Articles of Chapter 6 of the Insurance Code:

- 6.030 - Qualification and eligibility of investments
- 6.070 - General requirements for diversification
- 6.100 - Investments in subsidiaries

DIVIDENDS TO STOCKHOLDERS

Article 29.340 of the Insurance Code of Puerto Rico provides that a domestic stock Company 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	\$3,000,000	\$76,415,234
2017	\$3,500,000	\$61,884,916

Pursuant to the Insurance Code's Puerto Rico Regulations, Rule No. 83, Section 19(b), an Company 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 failed to comply with Article 44.050(e), PRS and Section 21(B) of Rule No. 83 of the Regulations of the Puerto Rico Insurance Code by not notifying to the

Commissioner dividends declared on June 12, 2017 to shareholders within fifteen (15) business days following their declaration. This violation is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

CONTINGENT COMMISSIONS

The provisions of Rule 84, Section III, as amended on March 14, 2008, *Payment of Contingent Commissions by Companys to General Agents and Authorized Representatives*, establishes:

“...that the total amount of contingent commissions paid to all general agents and authorized representatives does not exceed fifty percent (50%) of the total net profit generated from underwriting by the Company during the preceding year, as reflected in the annual report, or fifty percent (50%) of the average net profit or loss generated from underwriting during the past three (3) years, as shown on the annual report.”

Based on our review below, the Company should not have paid contingent commissions in 2014 as it had no underwriting gain on 2014, recognized losses in the previous year and the average of the past three (3) also resulted in losses.

Year	Contingent Commissions Paid	Net Underwriting Gain or Loss - Previous Year	Net Underwriting Gain or Loss - Average 3 Years
2014	\$49,590	(\$1,943,586)	(\$1,841,102)

ELECTRONIC STORAGE SYSTEM

Section 7 of Rule No. 76 of the Regulations of the Insurance Code of Puerto Rico establishes, among other things that:

“Every Company, health services organization, agent, general agent, broker, adjuster, rating agency and advisory body, or service that uses an electronic storage system shall be required to obtain an opinion from a certified information systems auditor, to the effect that the electronic storage system used meets the requirements of the Code and this Rule. [...] The certifications required in this Section shall be filed with the OCI within 90 days following the date on which the electronic storage system began to operate.”

Based upon our review, the Company did not provide to the OCI, within 90 days following the date on which Aquarius, the digital repository system used by Integrand, began to operate (January 22, 2016), the certification of the electronic storage system of a certified information systems auditor, failing to comply with the rule.

HOLDING COMPANY SYSTEM

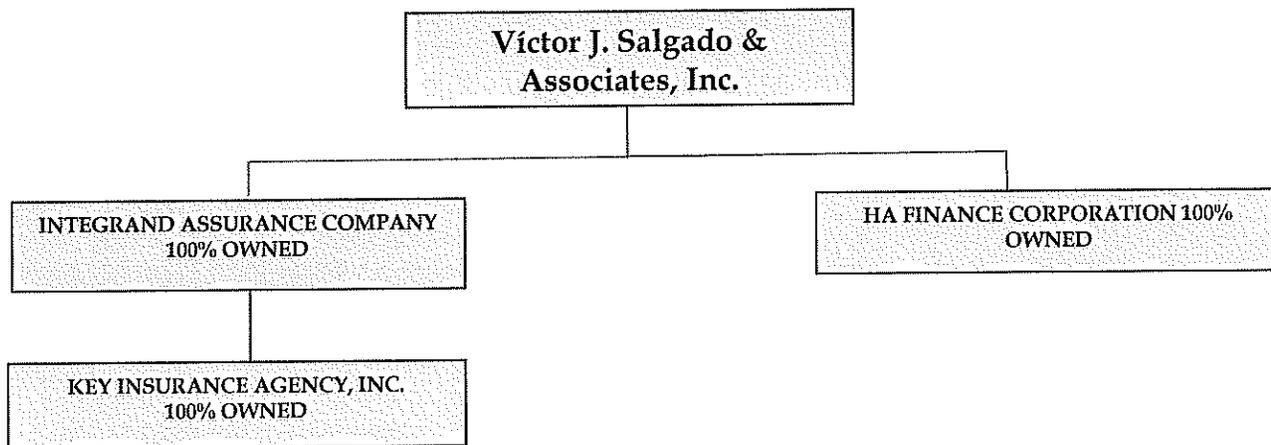
The Company is a member of an insurance holding company system as defined under the Insurance Laws of Puerto Rico. INTEGRAND is wholly-owned by Victor J. Salgado & Associates, Inc., who also wholly-owns IIA Finance Corporation. Key Insurance Agency, Inc. is a wholly-owned subsidiary of INTEGRAND.

The OCI obtained Rule No. 83 forms submitted by the Company (Insurance Holding Company System Registration Statement) for the period of examination. Our review noted that the Company failed to comply with Sections 14, 15 and 20 of Rule No. 83 of the Regulations of the Puerto Rico Insurance Code by not filing, by the due date, Forms B and C for the years 2016 and 2017, and Form F for years 2015 to 2017. This

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

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries, and other affiliates with direct business relationships with the Company as of December 31, 2017:

CORPORATE ORGANIZATION CHART



INTERCOMPANY AGREEMENTS

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

- The Company entered into an agreement with IIA Finance Corporation effective January 1, 2006, whereby INTEGRAND provides underwriting, management, accounting, rent and maintenance, audit, tax, payment of all insurance, provision of supplies and other such services as agreed upon. The annual fee to be paid to the Company is \$75,000 pursuant to the third amendment effective January 1, 2012.
- The Company entered into an agreement with Key Insurance Agency, Inc. effective January 1, 2006, whereby INTEGRAND provides underwriting, management,

accounting, rent and maintenance, audit, tax, payment of all insurance, provision of supplies and other such services as agreed upon. The annual fee to be paid to the Company is \$2,662,127.96 pursuant to the Fifth Amendment effective January 1, 2017. Subsequent to the exam date, the annual fee increased to \$2,884,936.18, pursuant to the sixth amendment effective January 1, 2018.

- The Company entered into an agreement with its Parent, Victor J. Salgado & Associates Inc. effective January 1, 2006, whereby INTEGRAND provides underwriting, management, accounting, rent and maintenance, audit, tax, payment of all insurance, provision of supplies and other such services as agreed upon. The annual fee to be paid to the Company is \$150,000 and has not changed since inception.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the Commonwealth of Puerto Rico and is also authorized to write business in the U.S. Virgin Islands. The Company is authorized to underwrite the risks of agricultural, casualty, disability, marine & transportation, property, surety, title and vehicle insurance pursuant to Sections 4.030, 4.040, 4.050, 4.060, 4.070, 4.080, 4.090 and 4.100 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 five years through December 31, 2017. No financial adjustments were made as a result of the examination.

YEAR	ADMITTED ASSETS	SURPLUS	GROSS PREMIUM WRITTEN	NET INCOME
2013	\$159,182,809	\$82,672,232	\$74,518,238	\$9,795,686
2014	152,387,111	84,547,598	64,823,674	3,223,339
2015	119,564,902	59,816,018	62,366,004	(13,655,217)
2016	121,187,410	61,884,916	65,979,052	3,786,411
2017	136,868,870	50,718,719	68,588,947	7,921,002

The net loss in 2015 mainly pertains to a \$17.8 million OTTI adjustment in the Puerto Rico Bond Portfolio.

REINSURANCE

ASSUMED

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

CEDED

Ceded reinsurance sessions are made on excess of loss treaties and facultative agreements. Reinsurance contracts are primarily for periods of one year and are subject to modifications and negotiations at renewal. The principal reinsurance agreements are as follows:

Property

- Property per risk excess of loss treaties, covering all commercial property business, providing for a maximum coverage of \$34 million under three layers for the year ending December 31, 2017, with a net retention of \$1,000,000 for 2017. There are ten (10) participating reCompanys providing coverage under two (2) separate agreements, both made effective May 1, 2017. Aon Benfield is the reinsurance intermediary under both reinsurance contracts.

- Quota share reinsurance treaty covering all commercial property business

under which a 30% quota share of a maximum \$35,000,000 on any one risk is ceded to eight (8) participating reCompanys, made effective May 1, 2017. One of the participants under the agreement is Taiping Reinsurance Company Limited, an unauthorized Company in Puerto Rico. A clean, irrevocable letter of credit has been issued for the benefit of the Company in the amount of \$2,183,999 as of the March 2018 amendment. Aon Benfield is the reinsurance intermediary under the reinsurance contract.

Casualty

- Liability excess of loss treaties covering the automobile, general, and other liability lines of business for a maximum coverage of \$21.5 million under four layers for the year ending December 31, 2017, with retention of \$500,000 for 2017. There are eight (8) participating reCompanys providing coverage under the agreement that was made effective January 1, 2017. Aon Benfield is the reinsurance intermediary under the reinsurance contract.

Catastrophe

- The Company also has coverage to protect itself from losses in excess of certain limits arising from a loss or disaster of a catastrophic nature. These treaties (3) provide reinsurance for losses in excess of \$5 million under seven layers resulting from any catastrophe, subject to a maximum loss of approximately \$175 million for the year ending December 31, 2017. There are twenty-four (24) participating reCompanys under the agreements; all made effective May 1, 2017. Swiss Reinsurance America Corporation is the only participant in the sixth and seventh layers of the program. One of the participants under one agreement is Taiping Reinsurance Company Limited, an

unauthorized Company in Puerto Rico. A clean, irrevocable letter of credit has been issued for the benefit of the Company in the amount of \$2,183,999 as of the March 2018 amendment. Aon Benfield is the reinsurance intermediary under all three reinsurance contracts.

Two (2) separate Reinstatement Premium Protection agreements covering layers 1-5 and layers 6-7 were also executed, effective May 1, 2017. There are four (4) participating reCompanys under the contract covering layers 1-5. Swiss Reinsurance America Corporation is the only participant under the contract covering layers 6-7. Aon Benfield is the reinsurance intermediary under all both reinsurance contracts.

- Clash casualty covers excess of loss treaties providing for coverage of \$10 million in 2016 was not renewed for 2017.

Other

- The Company has also entered into a surety bond quota share agreement covering construction and supply bonds (Section A), and miscellaneous surety bonds (Section B), effective January 1, 2017, under which the Company cedes a 92.5% quota share of Section A bonds and 80% of Section B bonds to four (4) participating reCompanys. Aon Benfield is the reinsurance intermediary under the reinsurance contract.

- The Company has also entered into a marine hull quota share agreement covering private pleasure vessels, effective March 1, 2017, under which the Company cedes a 75% quota share, up to a maximum \$1,500,000 on any one vessel, to two (2) participating reCompanys. Aon Benfield is the reinsurance intermediary under the

reinsurance contract.

In compliance with Article 46.030(1), 46.040 and, the Company's reinsurers are authorized by the OCI to receive reinsurance credit.

The Company failed to comply with Article 46.030(3) for the years 2015 and 2016 by exceeding the aggregate amount of more than seventy-five percent (75%) of all its direct risks in the Guaranty lines of business (Fidelity and Surety) without first securing the Commissioner's written authorization. This violation is noted above in the *Summary of Significant Findings* Section and below in the *Summary of Recommendations* Section.

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.

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

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Office of the Commissioner of Insurance of Puerto Rico and

present the financial condition of the Company for the period ending December 31, 2017.

The accompanying notes on financial statements reflect no adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

INTEGRAND ASSURANCE COMPANY
ASSETS
DECEMBER 31, 2017

	Per Company	Examination Adjustments	Per Examination
Bonds	\$66,801,296	\$0	\$66,801,296
Common Stocks	6,871,146	0	6,871,146
Properties occupied by the company	6,000,546	0	6,000,546
Cash, cash equivalents and short-term investments	35,571,726	0	35,571,726
Investment income due and accrued	340,706	0	340,706
Uncollected premiums and agents' balances in the course of collection	13,266,484	0	13,266,484
Amounts recoverable from reCompany's	82,510	0	82,510
Net deferred tax asset	4,904,669	0	4,904,669
Electronic data processing equipment and software	358,741	0	358,741
Receivables from parent, subsidiaries and affiliates	128	0	128
Aggregate write-ins for other than invested assets (JUA Dividend Receivable)	2,670,918	0	2,670,918
Total Assets	\$136,868,870	\$0	\$136,868,870

INTEGRAND ASSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2017

	Per Company	Examination Adjustments	Per Examination
Losses (Note 1)	\$19,429,390	\$0	\$19,429,390
Loss adjustment expenses (Note 1)	2,581,000	0	2,581,000
Commissions payable, contingent commissions and other similar charges	200,910	0	200,910
Other expenses (excluding taxes, licenses and fees)	1,732,785	0	1,732,785
Current federal and foreign income taxes	(136,047)	0	(136,047)
Unearned premiums	31,231,936	0	31,231,936
Advance premium	1,701,008	0	1,701,008
ceded reinsurance premiums payable (net of ceding commissions)	16,574,545	0	16,574,545
Amounts withheld or retained by company for account of others	758,295	0	758,295
Drafts outstanding	8,052,042	0	8,052,042
Aggregate write-ins for liabilities	4,024,287	0	4,024,287
Total Liabilities	\$86,150,151	\$0	\$86,150,151
Common capital stock	3,000,000	0	3,000,000
Gross paid in and contributed surplus	5,950,000	0	5,950,000
Unassigned funds (surplus)	41,768,719		41,768,719
Surplus as regards policyholders (Note 2)	\$50,718,719	\$0	\$50,718,719
Total liabilities, surplus and other funds	\$136,868,870	\$0	\$136,868,870

INTEGRAND ASSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2017

Underwriting Income

Premiums Earned	\$45,237,575
-----------------	--------------

Deductions

Losses incurred	22,617,401
-----------------	------------

Loss adjustment expenses incurred	6,326,671
-----------------------------------	-----------

Other underwriting expenses incurred	16,200,554
--------------------------------------	------------

Total underwriting deductions	45,144,626
-------------------------------	------------

Net underwriting gain (loss)	\$92,949
------------------------------	----------

Investment Income

Net investment income earned	\$2,753,173
------------------------------	-------------

Net realized capital gains (losses)	(1,325)
-------------------------------------	---------

Net investment gain (loss)	\$2,751,848
----------------------------	-------------

Other Income

Net gain (loss) from agents' or premium balances charged off	\$836
--	-------

Aggregate write-ins for miscellaneous income	5,075,369
--	-----------

Total other income	\$5,076,205
--------------------	-------------

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	7,921,002
---	-----------

Dividends to policyholders	0
----------------------------	---

Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	7,921,002
--	-----------

Federal and foreign income tax incurred 0

Net Income \$7,921,002

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year \$61,884,916

Net income 7,921,002

Change in net unrealized capital gains or (losses) (8,178,095)

Change in net deferred income tax 867,393

Change in nonadmitted assets (7,655)

Dividends to stockholders (3,500,000)

Aggregate write-ins for gains and losses in surplus (Catastrophic Reserve Reduction) (8,268,842)

Change in surplus as regards policyholders for the year (11,166,197)

Surplus as regards policyholders, December 31 current year \$50,718,719

INTEGRAND ASSURANCE COMPANY
Comparative Analysis of Changes in Surplus
DECEMBER 31, 2017

Surplus as Regards Policyholders
December 31, 2017, Per Annual Statement \$50,718,719

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	
ASSETS	\$136,868,870	\$136,868,870	\$	-
LIABILITIES	\$86,150,151	\$86,150,151	\$	-
Net Change in Surplus			\$	<u>-</u>

Surplus as Regards Policyholders
December 31, 2017, Per Examination \$50,718,719

INTEGRAND ASSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
DECEMBER 31, 2017

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus 12/31 prior year	\$71,985,210	\$76,415,234	\$82,672,232	\$84,547,598	\$59,816,018	\$61,884,916
Net Income (Loss)	4,363,500	9,795,686	3,223,339	(13,655,217)	3,786,411	7,921,002
Change in net unrealized capital gains	139,560	(170,704)	(1,646,109)	(12,104,103)	(1,666,695)	(8,178,095)
Change in net deferred income tax	(93,194)	(9,487)	10,719	4,083,025	(207,535)	867,393
Change in nonadmitted assets	59,869	(370,619)	224,817	(579,665)	144,717	(7,655)
Change in provision for reinsurance	(44,800)	11,600	62,600	5,000	12,000	0
Dividends to stockholders	0	(3,000,000)	0	0	0	(3,500,000)
Aggregate write-ins for gains and losses in surplus	5,089	522	0	(2,480,620)	0	(8,268,842)
Net Change in Capital & Surplus	<u>4,430,024</u>	<u>6,256,998</u>	<u>1,875,366</u>	<u>(24,731,580)</u>	<u>2,068,898</u>	<u>(11,166,197)</u>
Capital & Surplus at end of year	<u><u>\$76,415,234</u></u>	<u><u>\$82,672,232</u></u>	<u><u>\$84,547,598</u></u>	<u><u>\$59,816,018</u></u>	<u><u>\$61,884,916</u></u>	<u><u>\$50,718,719</u></u>

NOTES ON FINANCIAL STATEMENTS

NOTE 1: LOSSES AND LOSS ADJUSTMENT EXPENSES

Losses	\$19,429,390
Loss Adjustment Expenses (LAE)	\$2,581,000

The OCI retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company’s loss and LAE reserves as of December 31, 2017. 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 2017 Annual Statement. The Statement of Actuarial Opinion and Actuarial Memorandum for 2017 were prepared by the Company and signed by the appointed actuary, Scott P. Weinstein, FCAS, MAAA. The Actuarial Opinion was prepared and submitted timely in accordance with Rule 96, Section 2 of the Insurance Code of Puerto Rico.

The INS estimate of the net loss and LAE reserve of \$35.285 million is higher than the INTEGRAND carried reserve of \$22.010 million by \$13.275 million, or 60.3% of December 31, 2017 net Annual Statement reserves. This \$13.275 million difference represents 26.2% of December 31, 2017 Policyholder Surplus of \$50.719 million. As of December 31, 2018, INTEGRAND strengthened \$14.292 million of net loss and LAE reserves for accident years 2017 and prior, which is 64.9% of December 31, 2017 net Annual Statement reserves. This strengthening of reserves was driven by Hurricane Irma and Hurricane Maria loss and LAE based on additional data through December 31, 2018 that is not part of the INS review and is considered a subsequent event.

NOTE 2: TOTAL CAPITAL AND SURPLUS

The total capital and surplus of the Company at December 31, 2017, as determined by this examination, is the same as the amount reported by the Company on its 2017 Annual Statement.

SUBSEQUENT EVENTSRegulatory Matters and AM Best Downgrade

On March 12, 2019, the OCI issued Order # AF-2019-21. The order notes that the Commissioner, pursuant to Article 5 of Rule No. 94 (*Standards and Authority of the Commissioner of Insurance with Regard to Insurers showing an Adverse Financial Condition*), may determine that the operation of any Company engaged in insurance business in Puerto Rico is adverse to the interests of its policyholders, creditors or the public in general, taking into consideration, either separately or in combination, two (2) or more described in the regulation:

Following the aforementioned regulatory announcements, AM Best downgraded INTEGRAND's Financial Strength Rating to C++ (Marginal) from B++ (Good) and the Long-Term Issuer Credit Rating to 'b' from "bbb+". INTEGRAND's ratings were previously downgraded and placed under review with negative implications on November 29, 2018, in response to the Company's third-quarter statutory statement that reflected a sizable decline in policyholder surplus due to adverse development on losses related to hurricanes Maria and Irma of approximately \$15 million.

Permitted Practice

As of December 31, 2018, INTEGRAND reported approximately \$56.1 million in amounts recoverable from reCompanys. These amounts, which are currently in dispute with various reCompanys, include \$42.8 million in amounts due in excess of 90 days as of December 31, 2018. As the amount in dispute represents more than 10% of the Company's surplus, the Schedule F as of December 31, 2018 tentatively included a penalty of \$7,363,000. The OCI granted a permitted practice exclusively for the accounting periods of December 31, 2018 and March 31, 2019.

Rehabilitation Order

On May 31, 2019, the OCI Insurance Commissioner Javier Rivera Rios requested an order to take control of the Company and initiate a rehabilitation process. The order was granted under Civil No.: SJ2019CV05526 (504) by the Court of First Instance, Superior Court of the Commonwealth of Puerto Rico.

SUMMARY OF RECOMMENDATIONS

PROFESSIONAL QUALIFICATIONS – INVESTMENT WRITTEN PLAN

We recommend that the Company include in its written investment plan the professional qualifications of the persons that shall be making routine investment decisions in compliance with Article 6.040 (1) of the Insurance Code of Puerto Rico.

CEDED REINSURANCE - 75% STATUTORY LIMIT

We recommend that the Company comply with the reinsurance statutory limit of 75% on direct risks in any insurance class in compliance with Article 46.030 (3) of the Insurance Code of Puerto Rico.

UNCLAIMED FUNDS

We recommend that the Company include the policy number or contract in the Unclaimed Funds Report in compliance with Article 26.040 (2) of the Insurance Code of Puerto Rico.

RULE 83 - FILING DUE DATES FORMS B, C AND F

We recommend that the Company file Forms B, C and F by the required due date in compliance with Sections 14, 15 and 20 of Rule 83 of the Regulations of the Puerto Rico Insurance Code.

FAILURE TO NOTIFY 2017 DIVIDENDS PAID

We recommend that the Company notify the OCI of dividends declared to shareholders within fifteen (15) business days following their declaration in compliance with Article 44.050 (e) and Section 21B of Rule 83 of the Insurance Code of Puerto Rico.

RULE NO. 84 - PAYMENT OF CONTINGENT COMMISSIONS

We recommend that in the future, the Company comply with Rule 84 and only pay contingent commissions in years it meets the requirements of Rule 84.

RULE NO. 76 - ELECTRONIC STORAGE SYSTEM

We recommend that in the future, the Company comply with Rule No. 76 and all provisions of new applicable regulations.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **INTEGRAND Assurance Company** as of December 31, 2017, consistent with the insurance laws of the Office of the Commissioner of Insurance of Puerto Rico.

In addition to the undersigned, David J. Macesic, ACAS, MAAA, James McCreesh, FCAS, MAAA, and John R. Pedrick, FCAS, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. David Gordon, MBA, CISA, CIA, CFE (Fraud), CDFE, John Albertini, MBA, C|CISO, CISA, CISM, CISSP, CHSS, CDFE, and Lisa Bringman, CBA, CRP, of INS Services, Inc. participated in the Information Technology General Controls portion of the examination. Rafael Ruffat Pastoriza, 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
Supervisor, Examiners Division
Office of the Commissioner of Insurance of
Puerto Rico