

REPORT ON EXAMINATION
OF THE
PERICO LIFE INSURANCE COMPANY
N/K/A MAPFRE LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

**PERICO LIFE INSURANCE COMPANY
NKA: MAPFRE LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

Date: May 26, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 26th day of May, 2015.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
PERICO LIFE INSURANCE COMPANY
NKA: MAPFRE LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 26th day of May, 2015

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SALUTATION

April 23, 2015

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.025, dated June 06, 2014, a risk focused examination has been made of the affairs, financial condition and management of the

PERICO LIFE INSURANCE COMPANY

hereinafter referred to as “the Company” and incorporated under the laws of the State of Delaware. The Company’s registered office in the State of Delaware is located at 160 Greentree Drive, Suite 101, Dover, Delaware.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2009. This examination covered the period of January 1, 2010 through December 31, 2013, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally

accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. 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 risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing 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 when applicable to Delaware state regulations.

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

During the examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers LLP (PwC), Atlanta, Georgia. Certain auditor work papers of their 2013 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was Sarbanes Oxley (SOX) Section 404 compliant as of the examination date and we reviewed and relied on that work where deemed necessary.

The Delaware Department of Insurance performed a full scope coordinated multi-state risk focused examination of the Company. The California, Indiana, Maryland, Nevada, Oklahoma and Texas Departments of Insurance participated in this coordinated examination. Texas was the lead state. The following nine HCC Insurance Holdings Inc. insurance companies were examined concurrently:

Property & Casualty

Houston Casualty Insurance Company (Texas)
U.S. Specialty Insurance Company (Texas)
Avemco Insurance Company (Maryland)
HCC Specialty Insurance Company (Oklahoma)
American Contractors Indemnity Company (California)
United States Surety Company (Maryland)

Life & Health

HCC Life Insurance Company (Indiana)
Perico Life Insurance Company (Delaware)
HCC Risk Solutions Company (Nevada) – Captive insurer of HCC Life

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

Corporate Records
Fidelity Bonds and Other Insurance
Risk Based Capital
Employees and Agents Welfare
Statutory Deposits
Legal Actions
Pensions, Stock Ownership and Insurance Plans
All Assets and Liability Items Not Mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

The Company's parent, HCC Life Insurance Company (HCC Life), entered into a Purchase agreement with MAPFRE USA Corporation ("MAPFRE") for the sale of the Company. The Purchase Agreement was dated February 25, 2014. The transaction was approved by the Delaware Department and the Company was sold effective June 1, 2014.

MAPFRE intends to use the Company as a platform to sell life insurance products in the U.S., including to its existing customer base of property and casualty policyholders. The Company's initial product offering was comprised of simplified issuance term life insurance

policies sold first in Massachusetts with guaranteed level premiums for 10, 15 and 20 years, with coverage ranging from \$25,000 to \$200,000 per policy. It launched its simplified issue level term product in Massachusetts on August 4, 2014.

COMPANY HISTORY

The Company was incorporated under the laws of the State of Delaware on June 24, 1975 and commenced business on October 9, 1975. The primary business was credit life and credit accident and health coverages produced through automobile dealerships when it was formerly known as MIC Life Corporation (MIC). MIC made a decision to exit this business effective November 1, 1995, and allow the inforce business to run-off. This business is still in run-off on the Company's books as of December 31, 2013. MIC was sold to HCC Insurance Holdings, Inc. in December 2005 and MIC's name was changed to Perico Life Insurance Company. In March 2006, HCC Insurance Holdings, Inc. contributed all the shares of the Company to HCC Life Insurance Company (HCC Life), a subsidiary. Effective in January 2006, the Company began to underwrite medical stop loss and group term life insurance.

Effective July 1, 2011, the Company consolidated its operations into HCC Life. With the consolidation, new and renewal business written by the Company was renewed on HCC Life paper effective July 1, 2011. The Company is administering the run off for policies with effective dates prior to July 1, 2011 with no change in the existing reinsurance agreements.

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than four members or more than ten. Each

director shall be elected for a term of one year and serve until such director's successor is elected and qualified.

The Board may, by resolution passed by a majority of the entire Board, designate one or more committees. The bylaws provide that the committees shall keep regular minutes of their meetings and the findings of the committees shall be reported to the Board.

Dividends on the Company may be declared by the Board at any regular or special meeting. Dividends may be paid in cash, property or in shares of Company.

Board of Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2013, are as follows:

Craig John Kelbel	President
Mark Roberts Sanderford	EVP and CFO
Brad Terry Irick	EVP
Christopher John Williams	EVP
Jeffery Eric Perry	Director
Norman Fogt	Assistant VP and Assistant Secretary

Officers

The bylaws of the Company state that officers shall be elected or appointed by the Board. As of December 31, 2013, the Company's principal officers and their respective titles are as follows:

Craig John Kelbel	President
Mark Roberts Sanderford	EVP and CFO
Brad Terry Irick	EVP
Christopher John Williams	EVP
William Norbert Burke	EVP
Mark Wesley Callahan	EVP
Karen Sue Johnson	SVP
Andrew Jay Ritchie	SVP and Assistant Secretary
Thomas Edward Weist	SVP and Chief Actuary
Alexander M. Ludlow	Secretary
Dwayne Jonathan Lee	VP and Treasurer

Committees

The Company's bylaws provide that the Board may establish one or more committees. There are no committees at the Company level. Corporate governance is administered at the ultimate controlling party level by HCC Insurance Holdings, Inc. (HCC Holdings). HCC Holding's audit committee is designated as the Company's audit committee.

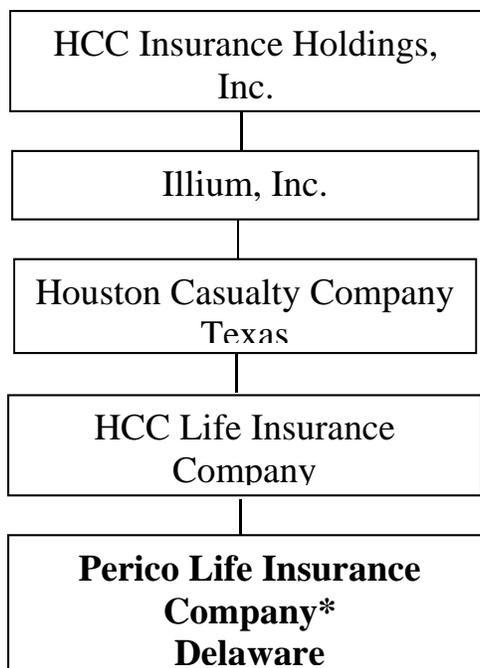
Conflict of Interest

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee, which is likely to conflict with their official duties. The signed conflict of interest disclosure statement for each director and officer serving during 2013 was reviewed with no exceptions noted.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 Del. C. Ch. 50, "Insurance Holding Companies" of the Delaware Insurance Code. Holding company registration statements were properly filed by the Company with the Delaware Insurance Department.

The Company is a wholly owned subsidiary of HCC Life, which is ultimately owned by HCC Holdings. The following abbreviated organizational chart depicts the Company's relationship within the holding company system at December 31, 2013:



*The Company was sold to MAPFRE USA Corporation on June 1, 2014 as part of a stock purchase agreement dated February 25, 2014. The name of the Company was changed to MAPFRE Life Insurance Company. This transaction was approved by the Delaware Department. Please see the "Subsequent Event" of this report for further details of this transaction.

Intercompany Management and Service Agreements

The Company was party to the following affiliated agreements in effect as of December 31, 2013.

Service and Cost Allocation Agreement

Effective November 30, 2005, the Company entered into a Participation Agreement which made the Company party to the Service and Cost Allocation Agreement in place between HCC Holdings and its subsidiaries. Under this agreement, HCC Service Company, Ltd. provides the Company with services and facilities required to conduct its insurance operations. Costs incurred are based on actual cost to HCC Service Company, Ltd. and are settled in conformity with customary accounting principles and practices.

Financial and Statutory Tax Allocation Agreement

Effective November 30, 2005, the Company entered into a Tax Allocation Agreement with other members of the consolidated group. This agreement provides for the allocation of federal income tax liability and tax credits between parties in accordance with their respective contributions to the tax liability for each taxable year.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2013, the Company was licensed in 49 states and the District of Columbia.

Plan of Operation

The Company discontinued writing all lines of business, medical stop loss and group term life insurance. Other run off lines for the Company considered ancillary lines are credit life and credit accident and health produced through automobile dealerships, ordinary term life, accidental death & disability and hospital indemnity. These ancillary lines are ceded 100%.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the three proceeding years since its last examination (2009):

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Surplus</u>	<u>Net Written Premiums</u>	<u>Net Income</u>
2009	\$78,626,261	\$28,846,233	\$47,280,028	\$83,744,179	\$10,308,199
2010	\$70,757,582	\$20,359,312	\$47,898,270	\$83,753,281	\$ 6,641,279
2011	\$69,449,918	\$19,579,463	\$47,370,455	\$75,257,703	\$ 5,906,984
2012	\$55,174,530	\$ 5,093,651	\$47,580,879	\$10,564,283	\$ 6,388,296
2013	\$20,904,960	\$ 3,277,913	\$15,127,047	\$ 2,942	\$ 2,766,539

Since December 31, 2009, growth of the Company has taken the form of the following:

- Approximately 74% decrease in admitted assets
- Approximately 89% decrease in liabilities
- Approximately 68% decrease in unassigned surplus
- Approximately 100% decrease in net written premiums
- Approximately 73% decrease in net income

The large decreases described above are due to the Company ceasing to write or renew business during 2011 and effectively going into run-off.

The large decrease in unassigned funds in 2013 was primarily due to the Company declaring and paying an extraordinary dividend in the amount of \$35,000,000.

REINSURANCE

The Company reported \$195,490 in direct written premiums during 2013 and ceded \$192,548, or approximately 99%, of those premiums to non-affiliated reinsurers.

Assumed

The Company did not assume any business at December 31, 2013.

Ceded

The following ceded reinsurance contracts were in effect at December 31, 2013:

- **Union Fidelity Life Insurance Company** – Effective January 22, 1990, MIC Life Insurance Corporation entered into an agreement with Union Fidelity Life Insurance Company (formerly Montgomery Ward Life Insurance Company). The agreement provided for a 100% cession of all remaining ordinary life and accident and health business. This business remained on the books of MIC when it was purchased by HCC and renamed Perico. All lines of business in the MIC run-off are reinsured 100% and serviced by Union Fidelity.

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.

In accordance with these coordinated exam efforts, the examiners relied on the Texas Department of Insurance IT examiner's review of the Evaluation of Controls in Information Technology (Exhibit C). The review included tests of the operating effectiveness of specific policies and procedures relating to the Company's controls over information systems and its control environment.

There were no reportable examination findings with respect to the Company's information technology systems and controls.

FINANCIAL STATEMENTS

The financial condition of the Company and the results of its operations for the-year ended December 31, 2013 are reflected in the following statements:

Assets;
Liabilities, Surplus and Other Funds;
Summary of Operations;
Capital and Surplus
Reconciliation of Capital and Surplus for the exam period

Perico/Mapfre Life Insurance Company

Assets

For The Year Ended December 31, 2013

		<u>Note</u>
Bonds	\$ 6,284,487	1
Cash and short term investments	<u>13,955,457</u>	1
Subtotals	<u>\$ 20,239,944</u>	
Investment income due and accrued	56,369	
Other amounts receivable under reinsurance contracts	1,610	
Receivables from parent, subsidiaries and affiliates	80,062	
Aggregate write-ins for other than invested assets	<u>526,975</u>	
Total Assets	<u>\$ 20,904,960</u>	

Perico/Mapfre Life Insurance Company

Liabilities, Surplus and Other Funds

For The Year Ended December 31, 2013

		<u>Note</u>
Aggregate reserve for life contracts	\$ -	2
Aggregate reserve for accident and health contracts	-	3
Contract claims: life	-	4
Contract claims: accident and health	-	5
Interest Maintenance Reserve	2,394,173	
General expenses due or accrued	148,990	
Taxes, licenses and fees	49,479	
Current federal income tax	132,465	
Net deferred tax liability	516,263	
Payable to parent, subsidiaries and affiliates	<u>36,543</u>	
Total Liabilities	\$ 3,277,913	
Common capital stock	\$ 2,500,000	
Gross paid in and contributed surplus	9,064,017	
Unassigned funds (surplus)	<u>6,063,030</u>	
Surplus as Regards Policyholders	<u>\$ 17,627,047</u>	
Total Liabilities, Surplus & Other Funds	<u>\$ 20,904,960</u>	

Perico/Mapfre Life Insurance Company

Summary of Operations

For The Year Ended December 31, 2013

Premiums and annuity considerations	\$ 2,942
Net investment income	1,479,172
Amortization of interest maintenance reserve	570,980
Commissions and expense allowance	<u>1,930</u>
Totals	<u>\$ 2,055,024</u>
Disability benefits and benefits under A & H contacts	<u>\$ (142,401)</u>
Totals	(142,401)
General insurance expense	497,842
Insurance taxes, licenses and fees	(328,956)
Totals	<u>\$ 26,485</u>
Net gain from operations before dividends	<u>2,028,739</u>
Net gain from operations after dividends	2,028,739
Federal and foreign income taxes incurred	<u>(737,800)</u>
Net gain from operations after dividends and federal tax and before realized capital gains	2,766,539
Net realized capital gains (losses)	<u>0</u>
Net Income	<u><u>2,766,539</u></u>

Reconciliation of Capital and Surplus for the exam period

	Common Capital Stock	Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2009	\$2,500,000	\$9,000,760	\$38,279,268	\$49,780,028
2010				
Operations (1)		1,257	6,616,985	6,618,242
Dividends (2)			(6,000,000)	(6,000,000)
2011				
Operations (1)		28,221	5,843,965	5,872,186
Dividends (2)			(6,400,000)	(6,400,000)
2012				
Operations (1)		33,779	6,082,645	6,116,424
Dividends (2)			(5,906,000)	(5,906,000)
2013				
Operations (1)		-	2,546,168	2,546,168
Dividends (2)		-	(35,000,000)	(35,000,000)
December 31, 2013	<u>\$2,500,000</u>	<u>\$9,064,017</u>	<u>\$6,063,031</u>	<u>\$17,627,048</u>

(1) Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in AVR, change in provision for reinsurance and aggregate write-ins for gains and losses in surplus.

(2) The Company paid an extraordinary dividend during 2013 in the amount of \$35,000,000. Prior approval from the Delaware Department of Insurance was obtained before payment. In addition, the Company paid ordinary dividends during the examination period in the amounts of \$6,000,000, \$6,400,000 and \$5,906,000 for the years ended 2010, 2011 and 2012, respectively.

Common Capital Stock

As of December 31, 2013, the Company had 15,000 shares of \$166 and 2/3 par value common stock authorized, issued and outstanding for a total paid in capital of \$2,500,000.

Dividends

The Company declared an extraordinary dividend in the amount of \$35,000,000 in 2013 and on August 22, 2013, the Company paid the dividend. The extraordinary dividend was

approved by the Delaware Department. The Company also declared and paid ordinary dividends during 2012, 2011 and 2010.

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

<u>Note 1 – Bonds</u>	\$ 6,284,487
<u>Note 1 - Cash</u>	\$ 13,955,457

The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Company's bond and cash holdings comprised 100% of total invested assets and approximately 96.8% of total admitted assets.

<u>Note 2 – Aggregate Reserve for Life Contracts</u>	\$ 0
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The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

This liability is reported on Page 3, Line 1 and in Exhibit 5 of Perico's 2013 Annual Statement. The reserve reported in Exhibit 5 is for a closed block of credit life insurance and consists of gross reserves of \$12,205, which are 100% ceded.

As part of the annual reserve certification process, Perico valuation runs and supporting workpapers for the reserves reported in Exhibit 5 were reviewed. INS Consultants Inc. (INS) found the workpapers to be in order. A trend analysis showed a reasonably decreasing trend over the examination period. Based on materiality, the asset adequacy testing (AAT) review and Perico's capital and surplus, no further work was deemed necessary.

Based on the above analysis and discussion, INS concluded that the aggregate reserve for life contracts as reported by Perico on Page 3, Line 1 and in Exhibit 5 of the December 31, 2013 Annual Statement was fairly stated. It has been accepted for the purpose of this report.

Note 3 – Aggregate Reserve for Accident and Health Contracts

\$ 0

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

This liability is reported on Page 3, Line 2, and Exhibit 6 of Perico’s December 31, 2013 Annual Statement. Reserves consisted of the following:

<u>Reserve Item</u>	<u>Reserve</u>
Unearned Premium Reserve	\$44,833
Additional Contract Reserve	<u>71</u>
Total (Gross)	\$44,904
Reinsurance Ceded	<u>44,904</u>
Total (Net)	<u>\$ 0</u>

The closed block of accident and health (A&H) business (\$44,904) is 100% ceded to Union Fidelity Life Insurance Company. Based on materiality, the AAT review and Perico’s capital and surplus, no further work was deemed necessary. Based on the above analysis and discussion, INS concluded that the aggregate reserve for A&H contracts as reported by Perico on Page 3, Line 2 and in Exhibit 6 of the December 31, 2013 Annual Statement was fairly stated. It has been accepted for the purpose of this report.

Note 4 – Contract Claims: Life

\$ 0

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

This liability was reported on Page 3, Line 4.1 and in Exhibit 8, Part 1, columns 3 through 8 of Perico’s 2013 Annual Statement. The gross liability of \$4,182 consists of \$4,114 for ordinary life and \$68 for group term life. This closed block of Life business is 100% ceded to Union Fidelity Life Insurance Company. Based on materiality, the AAT review and Perico’s capital and surplus, no further work was deemed necessary.

Based on the above analysis and discussion, INS concluded that the liability for contract claims: life reported by Perico on Page 3, Line 4.1 and in Exhibit 8, Part 1, columns 3 through 8,

of the December 31, 2013 Annual Statement was fairly stated. It has been accepted for the purpose of this report.

Note 5 – Contract Claims: Accident and Health

\$ 0

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

This liability was reported on Page 3, Line 4.2 and in Exhibit 8, Part 1, columns 9 through 11, of Perico's 2013 Annual Statement. The gross liability of \$55,838 consists of \$19,553 for group A&H and \$36,285 for Other A&H. This closed block of A&H business is 100% ceded to Union Fidelity Life Insurance Company. Based on materiality, the AAT review and Perico's capital and surplus, no further work was deemed necessary. Based on the above analysis and discussion, INS concluded that the liability for contract claims: accident and health as reported by Perico on Page 3, Line 4.2 and in Exhibit 8, Part 1, columns 9 through 11 of the December 31, 2013 Annual Statement was fairly stated. It has been accepted for the purpose of this report.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2009 disclosed no recommendations.

SUMMARY OF RECOMMENDATIONS

There are no proposed financial adjustments to the Company's filed 2013 Annual Statement based on the results of this examination.

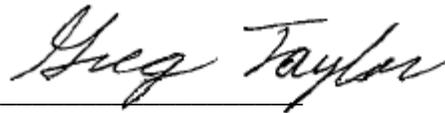
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2009</u>	<u>December 31, 2013</u>	Increase (Decrease)
Assets	\$78,626,261	\$20,904,960	(\$57,721,301)
Liabilities	\$28,846,233	\$3,277,913	(\$25,568,320)
Aggregate Write-ins for Special Surplus	-	-	
Common Capital Stock	2,500,000	2,500,000	-
Gross Paid In and Contributed Surplus	9,000,760	9,064,017	63,257
Unassigned Funds (Surplus)	38,279,268	6,063,030	(32,216,238)
Total Surplus as Regards Policyholders	<u>\$49,780,028</u>	<u>\$17,627,047</u>	<u>(\$32,152,981)</u>
Totals	<u>\$78,626,261</u>	<u>\$20,904,960</u>	<u>(\$57,721,301)</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Greg Taylor, CFE
 Examiner-In-Charge
 State of Delaware