

United Surety & Indemnity Company

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[Best's Credit Rating Methodology](#) | [Disclaimer](#) | [Best's Credit Rating Guide](#)

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United Surety & Indemnity Company

Credit Report

Report Release Date:

March 1, 2018

Group Members Rating Effective Date:

March 1, 2018

Disclosure Information: View A.M. Best's [Rating Disclosure Form](#)

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Ultimate Parent: [051221 - MRM Group, Inc.](#)

A.M. Best Rating Unit: 011138 - United Surety & Indemnity Company

Best's Credit Ratings:

Rating Effective Date: March 1, 2018

Best's Financial Strength Rating:	A	Outlook:	Stable	Action:	Affirmed
Best's Issuer Credit Rating:	a+	Outlook:	Stable	Action:	Affirmed

Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
03/01/2018	A	Stable	Affirmed	a+	Stable	Affirmed
02/16/2017	A	Stable	Affirmed	a+	Stable	Affirmed
02/12/2016	A	Stable	Affirmed	a+	Stable	Affirmed
01/28/2015	A	Stable	Affirmed	a+	Stable	Affirmed
12/13/2013	A	Stable	Affirmed	a+	Stable	Affirmed

Rating Rationale:

Balance Sheet Strength: Very Strong

- Strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR level.

- The group has stable loss reserving trends as it has reported favorable loss reserve development in nine straight calendar years.
- Prudent investment portfolio that consists of fixed income securities, cash and short-term investments and a well-diversified stock portfolio.
- Strong liquidity measures that are enhanced by positive underwriting and operating cash flows.
- Limited financial flexibility and stockholder dividend requirements.

Operating Performance: Strong

- Favorable return measures (ROR and ROE) that have outperformed its industry composite.
- Strong operating and underwriting performance over the past five years that also significantly outperformed its industry composite.
- Solid investment returns over the past five years, as the company's investment yields have outperformed the industry composite.
- Elevated underwriting expense ratio primarily driven by a commission rate that is nearly three times the composite average.

Business Profile: Neutral

- Geographical concentration in Puerto Rico, which exposes results to weather-related events, economic pressure and to judicial and regulatory challenges.
- The company is one of the market leaders in the surety line of business and one of the market leaders in dwelling and flood lines in Puerto Rico.
- Strong management team with successful track record and depth across senior levels.
- Modest product diversification led by surety, dwelling, flood and earthquake lines of business.

Enterprise Risk Management: Appropriate

- Risk management capabilities are considered appropriate and aligned with the company's risk profile.
- The company continues to enhance its formal Enterprise Risk Management program.
- The company has a comprehensive reinsurance program with strong partners, which was tested and proved successful in 2017.
- The company has some tail risk, as evidenced by the BCAR at the 99.8% VaR level.

Outlook

The stable outlooks are based on continued profitable underwriting and operating performance along with maintaining its strongest level of risk-adjusted capitalization as measured by the BCAR model.

Rating Drivers

Negative rating action could result if the company's underwriting and operating performance deteriorates markedly.

Negative rating action could result if there is a material weakening of risk-adjusted capitalization.

Financial Data Notes:

Time Period: Annual - 2016

Status: A.M. Best Quality Cross Checked

Key Financial Indicators:

Key Financial Indicators (000)

	Year End - December 31				
	2016	2015	2014	2013	2012
Premiums Written					
Direct	38,424	37,167	35,966	35,925	37,069
Net	26,324	25,854	24,450	22,404	20,997
Pre-tax Operating Income (\$000)	13,873	15,114	8,433	8,635	7,111
Net Income	10,818	-4,122	8,046	8,364	8,861
Total Admitted Assets	98,754	94,218	98,932	108,960	106,168
Policyholders' Surplus	59,784	54,078	55,319	60,330	62,802

Source: Bestlink - Best's Statement File - P/C, US

Key Financial Indicators - A.M. Best Ratios (%)

	Year End - December 31				
	2016	2015	2014	2013	2012
Profitability					
Combined Ratio	56.0	50.0	76.3	80.9	81.9
Investment Yield	2.4	3.3	3.8	3.8	3.8
Pre-Tax Return on Revenue	52.5	60.2	36.5	37.5	35.0
Leverage					
Non-Affiliated Investment Leverage	21.4	29.6	48.0	17.3	16.8
Net Premiums Written to Policyholders' Surplus	0.4	0.5	0.4	0.4	0.3
Net Leverage	1.1	1.2	1.2	1.2	1.0
Liquidity					
Overall Liquidity	253.4	234.7	226.8	224.1	244.8
Operating Cash-Flow	114.5	142.6	139.6	138.0	125.9

Source: Bestlink - Best's Statement File - P/C, US

(*) Within several financial tables of this report, this company is compared against the Commercial Property Composite.

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Best's Capital Adequacy Ratio Summary - AMB Rating Unit (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	89.6	85.2	47.0	25.8

Source: Best's Capital Adequacy Ratio Model - P/C, US

Credit Analysis:

Balance Sheet Strength: Very Strong

Capitalization:

The company's underwriting, investment and reinsurance risks are fully supported by its strongest level of capitalization as measured by Best's Capital Adequacy Ratio (BCAR). The capital position reflects the company's conservative underwriting leverage, stable loss reserving trends and prudent investment portfolio. Despite strong earnings, surplus growth has been tempered by sizable annual stockholder dividends over the past five-year period as well as realized capital losses. Management has indicated that future dividend allocation remains flexible and dependent upon company performance. A.M. Best anticipates that capitalization will remain fully supportive of the rating over the near term as additional surplus growth should be driven by profitable earnings.

Capital Generation Analysis

	Year End - December 31				
	2016	2015	2014	2013	2012
Pre-tax Operating Income (\$000)	13,873	15,114	8,433	8,635	7,111
Realized Capital Gains (\$000)	575	-15,151	869	1,535	1,878
Income Taxes (\$000)	3,630	4,085	1,256	1,806	128
Unrealized Capital Gains (\$000)	597	10,974	-7,211	-1,772	-403
Net Contributed Capital (\$000)	-6,000	-6,940	-4,000	-8,861	-10,000
Other Changes (\$000)	292	-1,153	-1,846	-204	16
Change in Policyholders' Surplus (\$000)	5,707	-1,241	-5,011	-2,472	-1,526
Change in Policyholders' Surplus (%)	10.6	-2.2	-8.3	-3.9	-2.4

Source: Bestlink - Best's Statement File - P/C, US

Liquidity Analysis (%)

	Company					Industry Composite				
	Year End - December 31					Year End - December 31				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Quick Liquidity	82.2	87.0	61.9	60.1	84.6	59.7	57.7	58.0	52.2	53.1
Current Liquidity	233.4	224.6	216.5	213.7	234.7	116.8	118.7	115.5	113.4	107.9
Overall Liquidity	253.4	234.7	226.8	224.1	244.8	188.0	191.3	180.1	172.8	167.2

Source: Bestlink - Best's Statement File - P/C, US

Industry Composite: Commercial Property Composite - Bestlink - Best's Statement File - P/C, US

Asset Liability Management – Investments:

The company maintains a prudent investment portfolio which consists of mostly fixed income securities, a well diversified equity portfolio and cash and short-term investment. Currently, the company holds a small percentage of investments in Puerto Rico debt holdings. The group's investment portfolio has generated approximately fourteen points to their operating ratio over the past five years.

Bond Portfolio - 2016 Bonds Distribution by Maturity (%)

	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	4.0	13.4	7.6	0.8	0.4	4.6
Government Agencies and Municipal Bonds	3.9	25.1	28.0	6.8	0.1	6.1
Industrial and Misc.	0.6	4.8	4.2	0.1	0.3	5.5
Total	8.4	43.4	39.8	7.7	0.8	5.7

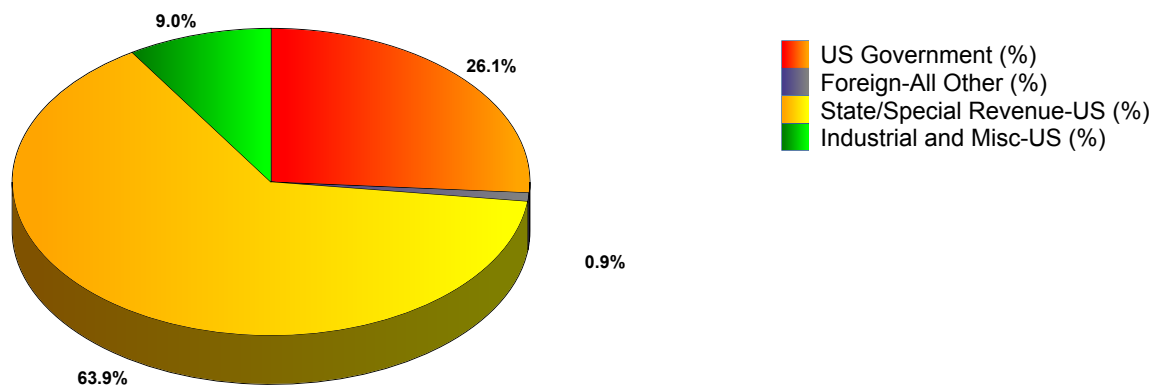
Source: Bestlink - Best's Statement File - P/C, US

Bond Distribution by Issuer Type

	Year End - December 31				
	2016	2015	2014	2013	2012
Bonds (\$000)	69,948	64,569	80,039	87,074	83,198
US Government (%)	26.1	28.3	23.4	21.5	19.8
Foreign Government (%)	...	...	1.6	1.5	1.6
Foreign-All Other (%)	0.9	...	...	...	...
State/Special Revenue-US (%)	63.9	68.5	72.9	75.7	78.6
Industrial and Misc-US (%)	9.0	3.2	2.1	1.3	...

Source: Bestlink - Best's Statement File - P/C, US

2016 Bond Distribution By Issuer Type



Source: Bestlink - Best's Statement File - P/C, US

Reserve Adequacy:

USIC has reported favorable loss reserve development in nine straight calendar years which reflects management's conservative underwriting guidelines for contract surety bonds, and improved monitoring of construction projects. However, the company reported slight adverse reserve development on one of the recent nine accident years. The adverse loss reserve development in accident year 2012 was driven by a spike in surety losses and incorrect allocation between accident years which were corrected in 2013. Subsequently, management implemented a number of initiatives including, corrective underwriting actions to limit future potential loss and reserves are set at the worst case scenario and do not reflect potential recoverables.

Loss and Allocated Loss Adjustment Expense Reserve Development

Calendar Year:	Year End - December 31				
	2016	2015	2014	2013	2012
Original Loss Reserves (\$000)	8,461	10,882	16,119	17,664	18,087
Developed Reserves Thru Latest Year End (\$000)	8,461	8,491	9,930	11,106	12,464
Development to Original (%)	...	-22.0	-38.4	-37.1	-31.1
Development to Policyholder Surplus (%)	...	-4.4	-11.2	-10.9	-9.0
Developed Reserves to Net Premiums Earned (%)	32.0	33.8	43.0	48.3	61.3
Unpaid Reserves @ Latest Year End (\$000)	8,461	7,325	7,002	4,269	3,368
Unpaid Reserves to Developed Reserves (%)	100.0	86.3	70.5	38.4	27.0

Accident Year:	Year End - December 31				
	2016	2015	2014	2013	2012
Original Loss Reserves (\$000)	1,136	1,419	4,109	5,816	894
Developed Reserves Thru Latest Year End (\$000)	1,136	855	3,735	2,048	2,833
Development to Original (%)	...	-39.7	-9.1	-64.8	216.9
Unpaid Reserves @ Latest Year End (\$000)	1,136	323	2,733	901	833
Accident Year Loss Ratio (%)	6.3	5.0	18.8	14.7	16.9
Accident Year Combined Ratio (%)	65.1	65.1	77.8	76.8	79.7

Source: Bestlink - Schedule P (Loss Reserves) - P/C, US

Operating Performance: Strong

United Surety & Indemnity Company (USIC) has produced strong operating earnings over the long term as evidenced by its total return measures (Revenue and Surplus) which outperform the commercial property composite over the recent five and ten-year period. The strong operating performance reflects consistently profitable underwriting results given its local market expertise along with benefiting from consistent favorable loss reserve development occurring on prior accident years, augmented by solid investment income. USIC has generally reported realized capital gains over the current five year period, although on a total return basis, results have been impacted by a significant decline in realized capital losses occurring in 2015. Conversely, unrealized capital losses were reported in three out of the past five years but a large unrealized capital gain was reported in 2015 for a positive five year total return. Going forward, A.M. Best anticipates that USIC will continue to generate strong earnings despite ongoing competitive market conditions.

USIC has consistently produced strong underwriting results despite the challenges associated with ongoing competitive market conditions, as evidenced by reported combined ratios which have outperformed the peer composite by a wide margin over the long term. The strong

underwriting performance is reflected in low loss and loss adjustment expense ratios which outperform the commercial property composite by a considerable margin, partially offset by the above average expense ratio which is reflective of the competitive market in which the company operates. USIC's strong underwriting results and low loss ratios are reflective of the large personal dwelling book of business, and commitment to conservative reserving practices, especially over the most recent five year period. While surety claims negatively impacted results in earlier years, management implemented tighter underwriting guidelines for the surety lines and non-renewing specific accounts which significantly improved results. Given management's cautious approach towards underwriting, In 2017, despite being impacted by two hurricane events (Irma and Maria), the company expects to report a very profitable underwriting year. The company benefited from their comprehensive reinsurance program which reduced gross losses from the hurricanes (approximately \$35 million) to a manageable level of \$2 million which equates to about eight points to the combined ratio.

The company maintains a significant level of short term holdings which allows the company to address claim and other short term obligations. USIC's invested asset base has declined over the past five-year period largely due to stockholder dividends payouts, capital losses and an accounting change in certain investments as a result of downgrades on select Puerto Rico bonds. The company's net investment income has declined over the current five year period primarily due to the reduced invested assets base and the low interest rate environment. Despite the decline, investment yields have outperformed the peer composite over the long term. USIC typically invests approximately 95% of admitted assets, primarily in a portfolio consisting of government bonds, tax exempt securities, corporate bonds, and to a lesser extent, common stocks.

Financial Performance Summary (000)

	Year End - December 31				
	2016	2015	2014	2013	2012
Pre-tax Operating Income	13,873	15,114	8,433	8,635	7,111
Net Income	10,818	-4,122	8,046	8,364	8,861

Source: Bestlink - Best's Statement File - P/C, US

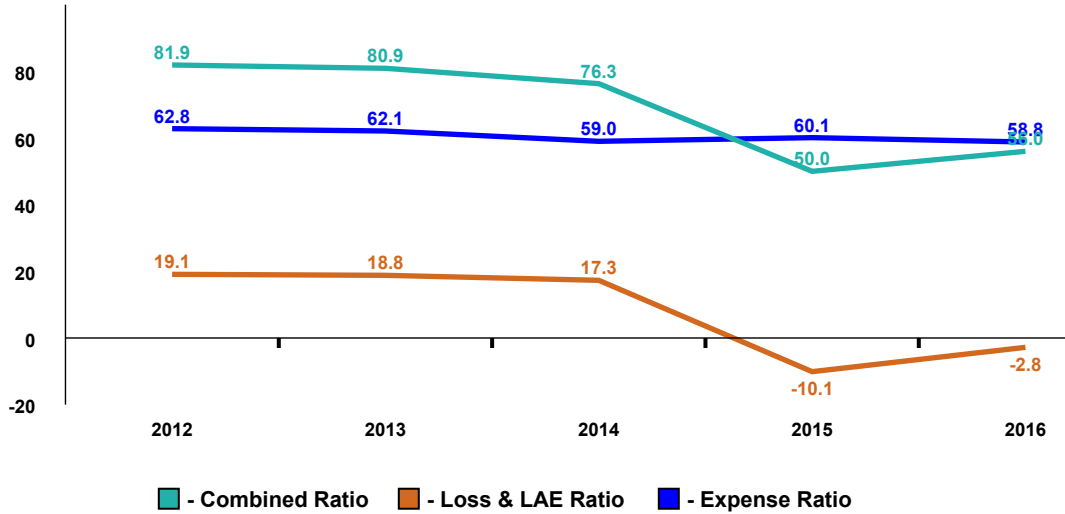
A.M. Best Ratios (%)

	Company					Industry Composite				
	Year End - December 31					Year End - December 31				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Operating Ratio	47.7	37.8	60.0	64.1	62.9	85.6	86.7	87.7	90.3	94.9
Realized Return on Invested Assets	3.1	-12.1	4.7	5.4	5.7	2.8	2.8	3.3	3.3	3.2
Pre-Tax Return on Revenue	52.5	60.2	36.5	37.5	35.0	12.8	14.7	12.5	10.7	6.0
Return on Surplus	20.0	12.5	1.4	10.7	13.3	7.8	4.8	7.4	11.4	3.8
Loss & LAE Ratio	-2.8	-10.1	17.3	18.8	19.1	57.7	60.8	62.9	64.6	71.9
Expense Ratio	58.8	60.1	59.0	62.1	62.8	33.7	31.5	30.0	30.7	29.3
Combined Ratio	56.0	50.0	76.3	80.9	81.9	92.4	93.3	93.8	96.2	101.4
Net Investment Yield	2.4	3.3	3.8	3.8	3.8	2.0	2.0	2.0	2.1	2.4

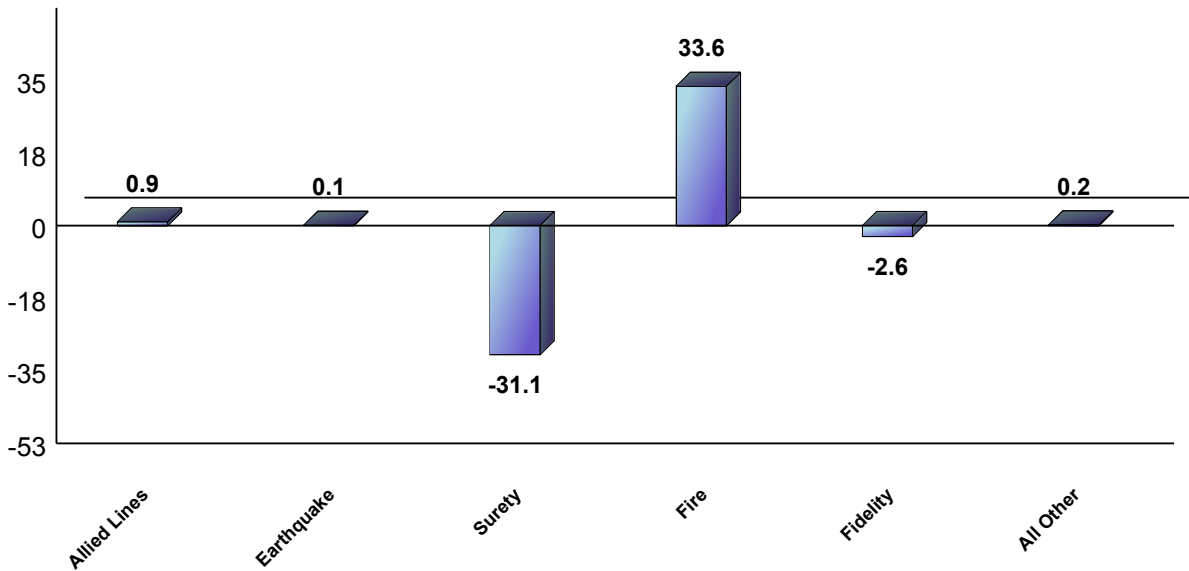
Source: Bestlink - Best's Statement File - P/C, US

Industry Composite: Commercial Property Composite - Bestlink - Best's Statement File - P/C, US

Combined Ratio (%)



2016 Pure Loss Ratio by Product Line (%)



Source: Bestlink - Best's Statement File - P/C, US

Business Profile: Neutral

USIC is licensed to write all property and casualty business in Puerto Rico. The business is placed through 18 general agents and a network of approximately 500 independent agents/brokers. While USIC is the largest surety writer in Puerto Rico and specializes in contract surety bonds, the majority of written premium is derived from residential dwelling coverage on single family, reinforced concrete properties which the company began writing in 1993. The company targets small surety contracts less than \$2 million, although has flexibility to underwrite up to \$6 million. USIC also offers builders' risk coverage as well as private flood insurance. USIC is a subsidiary of MRM Group, Inc., and is a sister company to USIC Life Insurance Company.

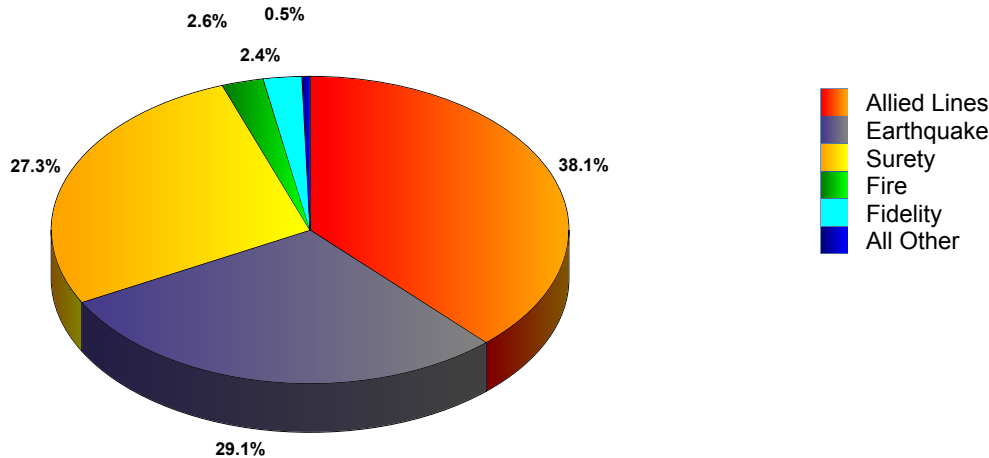
Leverage Analysis

A.M. Best Ratios (%)	Company					Industry Composite				
	Year End - December 31					Year End - December 31				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Business Retention	68.5	69.6	68.0	62.4	56.6	44.1	43.1	48.0	47.5	50.5
Net Premiums Written to Policyholders' Surplus	0.4	0.5	0.4	0.4	0.3	0.5	0.5	0.5	0.6	0.6

Source: Bestlink - Best's Statement File - P/C, US

Industry Composite: Commercial Property Composite - Bestlink - Best's Statement File - P/C, US

2016 Top Product Lines of Business (Net Premiums Written)



Source: Bestlink - Best's Statement File - P/C, US

2016 By-Line Business

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Allied Lines	12,256	31.9	...	...	2,227	18.4	10,029	38.1	81.8
Earthquake	8,964	23.3	...	...	1,316	10.9	7,648	29.1	85.3
Surety	14,518	37.8	...	...	7,319	60.5	7,199	27.3	49.6
Fire	812	2.1	...	...	119	1.0	693	2.6	85.3
Fidelity	693	1.8	...	...	69	0.6	624	2.4	90.0
Group A & H	796	2.1	...	...	796	6.6	...	...	...
All Other	384	1.0	...	...	254	2.1	130	0.5	33.9
Total	38,424	100.0	...	...	12,100	100.0	26,324	100.0	68.5

Source: Bestlink - Best's Statement File - P/C, US

Geographical Breakdown By Direct Premium Writings

	2016	2015	2014	2013	2012
Puerto Rico	38,424	37,167	35,966	35,925	37,069
Total	38,424	37,167	35,966	35,925	37,069

Source: Bestlink - Best's Statement File - P/C, US

Enterprise Risk Management: Appropriate

USIC has developed a comprehensive risk management process which is regularly evaluated. Management reviews a number of areas including Operational, Financial, Event, Geographic, Infrastructure, and Investment Risk, all of which potentially represent an exposure to the organization. While management has identified the 5 largest exposures (OTTI risk due to downgrade of PR bonds, Exposure to a series of surety losses, loss of main dwelling client, Internal systems and control failures, CAT risk) it has not yet quantified the potential correlation of the risks occurring in combination. However, management has identified its risk appetite statement (evaluated on an annual basis) which provides probabilities for specific loss occurring in various risk categories such as: Capital Risk, Rating Risk, Profitability Risk (ROE) and Profitability Risk (Combined Ratio). Management has identified risks which could potentially pose a threat to the organization, performing stress tests on both budgeted and actual results. Event risk from catastrophe losses are monitored weekly, as management monitors risk aggregation and concentration by producer with an effective reinsurance program. Excess EQ and Flood protection is in place to protect against a potential model error.

Financial Statements:

Balance Sheet:

Balance Sheet:

Admitted Assets	Year End - December 31			
	2016 (\$000)	2015 (\$000)	2016 (%)	2015 (%)
Bonds	69,948	64,569	70.8	68.5
Preferred Stock	1,805	1,678	1.8	1.8
Common Stock	8,829	7,789	8.9	8.3
Cash and Short-term Invest	9,732	15,394	9.9	16.3
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	1,600	1,375	1.6	1.5
Investments in Affiliates	...	...	...	...
Real Estate, Offices	...	...	...	...
Total Invested Assets	91,913	90,805	93.1	96.4
Premium Balances	2,197	2,076	2.2	2.2
Accrued Interest	653	708	0.7	0.8
All Other Assets	3,990	629	4.0	0.7
Total Assets	98,754	94,218	100.0	100.0

Liabilities & Surplus	Year End - December 31			
	2016 (\$000)	2015 (\$000)	2016 (%)	2015 (%)
Loss and LAE Reserves	8,464	10,882	8.6	11.5
Unearned Premiums	15,141	15,243	15.3	16.2
Derivatives	...	...	...	...
Conditional Reserve Funds	...	...	...	...
All Other Liabilities	15,364	14,016	15.6	14.9
Total Liabilities	38,970	40,140	39.5	42.6
Surplus notes	...	...	...	...
Capital and Assigned Surplus	20,368	19,741	20.6	21.0
Unassigned Surplus	39,416	34,337	39.9	36.4
Total Policyholders' Surplus	59,784	54,078	60.5	57.4
Total Liabilities and Surplus	98,754	94,218	100.0	100.0

Source: Bestlink - Best's Statement File - P/C, US

Summary of Operations and Operating Cash Flow:

Summary of Operations (000)

Year End - December 31

Statement of Income	2016	Net Operating Cash Flow	2016
Premiums earned	26,425	Premiums collected	26,466
Losses incurred	-1,781	Benefit & loss-related pmts	545
LAE incurred	1,046		
Undwr expenses incurred	15,479	LAE & undwr expenses paid	16,591
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	11,681	Underwriting cash flow	9,331
		Net transfer	...
Net investment income	2,192	Investment income	2,623
Other income/expense	...	Other income/expense	...
Pre-tax operating income	13,873	Pre-tax cash operations	11,954
Realized capital gains	575		
Income taxes incurred	3,630	Income taxes pd (recov)	8,260
Net income	10,818	Net oper cash flow	3,694

Source: Bestlink - Best's Statement File - P/C, US

United Surety & Indemnity Company

Report Revision Date:
August 14, 2018

Company Attributes:

Industry: Insurance
Business Type: Property/Casualty
Entity Type: Operating Company
Organization Type: Stock
Business Status: In Business - Actively Underwriting
Marketing Type: Broker
Financial Size: VII (\$50 Million to \$100 Million)

Company History:

Date Incorporated: 01/29/1990

Date Commenced: 1990

Domicile: United States: Puerto Rico

United Surety & Indemnity Company was incorporated on January 29, 1990 in Puerto Rico to write surety business, and commenced operations on August 31, 1990. In 1993, USIC became fully licensed in all property lines and began writing dwelling business.

Company Operations:

Licensed Territory: (Current since 11/16/2001).The company is licensed in Puerto Rico.

2017 Rank	Top 5 Lines of Business by NPW	
1	Allied Lines	40.1%
2	Surety	30.6%
3	Earthquake	24.1%
4	Fidelity	2.4%
5	Fire	2.2%

Source: Bestlink - Best's Statement File - P/C, US

2017 Rank	Top 5 Geographic Distribution by DPW	
1	United States: PR	100.0%

Company Management:

Last significant update on 02/14/2017

The company is ultimately a family owned enterprise controlled by Maria de Lourdes Gonzalez Inclán (50%), Rafael Blanes Gonzalez (25%) and Maria de Lourdes Blanes Gonzalez (25%). Effective January 2004, the shareholders transferred 100% of the shares of the company to USIC Group, Inc., the holding company, in exchange for 100% of the shares of USIC. In 2014, USIC Group, Inc. changed its name to MRM Group, Inc. This change did not impact company structure or lines of business. Daily operations of the company are under the direction of Frederick Millan, president, who has over 30 years of experience in the Puerto Rico insurance industry.

Company Management: (Continued...)

Officers

President: Frederick Millán
CFO: Jorge Junquera
Vice President: Duhamel Iglesias
Secretary and Chief Risk Officer: Rafael Blanes
Controller: Gretchen Manzanet

Directors

Maria de Lourdes Blanes González
Rafael A. Blanes González
Carlos González Inclán
Maria de Lourdes González Inclán
Duhamel Iglesias
Frederick Millán

Regulatory:

Auditor: BDO Puerto Rico, LLP

An examination of the financial condition was made as of December 31, 2012, by the insurance department of Puerto Rico. The 2017 annual independent audit of the company was conducted by BDO Puerto Rico, LLP. The annual statement of actuarial opinion is provided by Charles C. Pearl, Jr., FCAS, MAAA, Milliman.

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A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

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