

**Report on Examination**  
**of**  
**Bupa Insurance Company**  
**Miami, Florida**  
**as of**  
**December 31, 2013**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Bupa Insurance Company as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation  
November 7, 2014

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## SCOPE OF EXAMINATION

We have completed a financial condition examination of Bupa Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. Our examination covered the period of January 1, 2009 through December 31, 2013 and took place primarily in the Company's Miami, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2008.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so 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. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **COMPANY HISTORY**

The Company was incorporated in Florida on July 12, 1973 and licensed by the Office as an insurer on July 16, 1973. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.). The Company was acquired in September 2005 by Grupo Bupa Sanitas S.L. (GBS), a Spanish corporation wholly owned by Bupa Investments Overseas Limited (BIOL), a corporation domiciled in England & Wales. In October of 2013, the Company issued 1,702,370 shares of its common stock to BIOL.

### Dividends and Capital Contributions

In years 2009 through 2013, the Company received \$1.2 million, \$11.0 million, \$17.0 million, \$26.3 million, and \$31.2 as paid-in and contributed surplus and proceeds from the sale of common stock. It did not distribute dividends during the period examined.

## **CORPORATE RECORDS**

We reviewed the minutes of meetings held by the Company's shareholder and board of directors, and by its audit and finance committees. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

## **MANAGEMENT AND CONTROL**

Until October of 2013, the Company was wholly owned by GBS. At December 31, 2013, it was owned 66.8% by GBS and 33.2% by BIOL. The ultimate parent of BIOL was the British United Provident Association Limited, a private company domiciled in England & Wales. The Company owned 99.9% of Bupa Mexico Compañía de Seguros, S.A. de C.V. (Bupa Mexico), domiciled in Mexico, and was affiliated with numerous entities throughout the U.S. and other countries.

The Company's senior officers, directors, and members of principal board committees were:

**Senior Officers**

<b>Name</b>	<b>Title</b>
Anthony F. Cabrelli	President
Paul A. Staines	Chief Financial Officer, Treasurer & Secretary
Marcelo Larrabure Vera	Chief Operations Officer
Ricardo E. Gonzalez Padilla	Senior Vice President of Sales

**Board of Directors**

<b>Name</b>	<b>Location</b>
John Peter Erik Akesson	Madrid, Spain
Jorge E. Bandin	Miami, Florida
Jeffrey A. Doctoroff	Boston, Massachusetts
Robert A. Lang	London, England
Francisco A. Lopez-Preusse	Miami, Florida
Jose V. Quesada, M.D.	Miami, Florida
Paul A. Staines	Miami, Florida

**Committees of the Board**

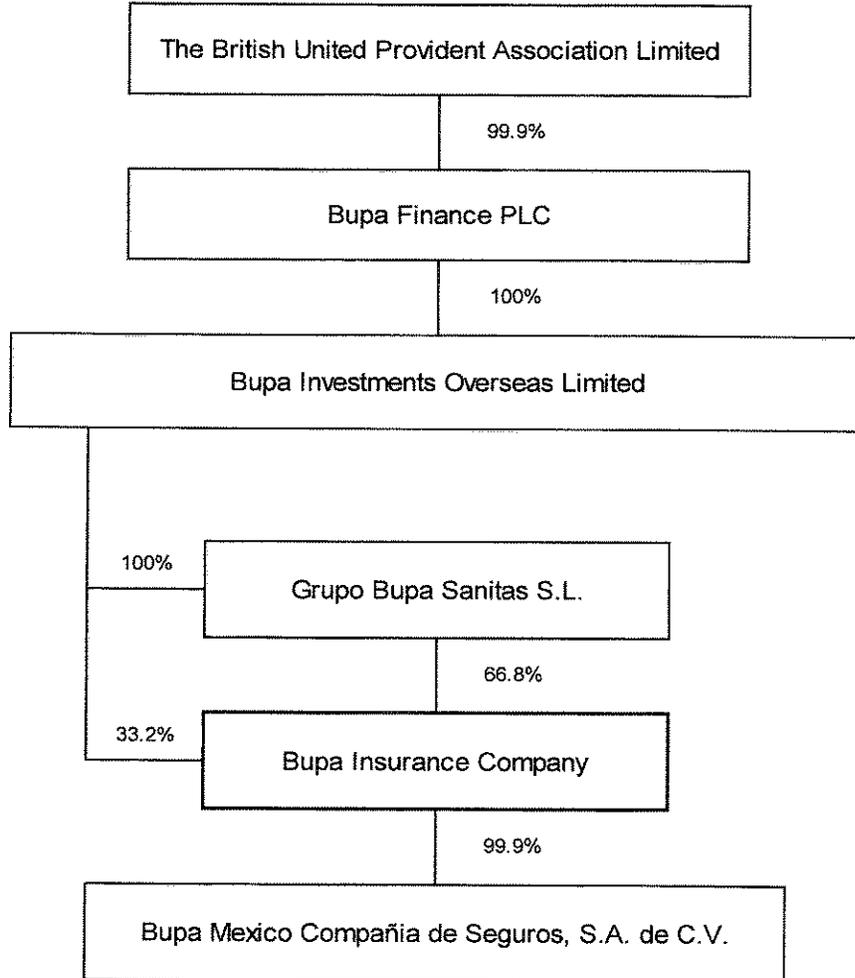
<b>Investment</b>	<b>Audit</b>
John Peter Erik Akesson	John Peter Erik Akesson
Jose V. Quesada, M.D.	Francisco A. Lopez-Preusse
Paul A. Staines	Jose V. Quesada, M.D.

A majority of the Company's directors were U.S. citizens as required by Section 628.231(3), F.S.

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code, on July 15, 2014.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Bupa Insurance Company  
Abbreviated Organizational Chart  
December 31, 2013**



### Third Party Administration Service Agreement

U.S.A. Medical Services Corporation (USMed), an affiliated Florida third party administrator, provided claims administration and medical referral services to the Company pursuant to an agreement originally entered into on July 1, 1997 and subsequently amended. Fees for the services were based on a percentage of each paid claim processed and actual costs, and were settled monthly and reconciled annually. These fees, which were recorded as hospital and medical benefits, amounted to \$8,030,195, \$6,097,793, \$5,262,898, \$6,587,440 and \$6,135,675 in years 2009 through 2013, respectively.

### Managing General Agent Agreement

Bupa Worldwide Corporation (BWC), a Florida affiliate, provided marketing, agent administration and policy administration services to the Company pursuant to an agreement originally entered into on July 1, 1997 and subsequently amended. Commissions related to the agreement were \$36,771,496, \$40,330,041, \$15,457,325, \$15,152,297 and \$18,098,359 in years 2009 through 2013, respectively. Effective January 1, 2013, the agreement was amended to include profit-sharing fees which amounted to \$4,899,560 in 2013.

### Trust Agreement

The Company, BWC, and Wells Fargo Bank entered into a trust agreement on December 15, 2010, calling for premiums collected by BWC pursuant to the managing general agent agreement to be deposited into a trust account and administered in accordance with the terms of the trust agreement.

#### Intercompany Expense Allocation Agreement

Direct and indirect costs were allocated among the Company and certain of its affiliates pursuant to an intercompany allocation agreement originally entered into on April 13, 2007 and subsequently amended.

#### Services Agreement

Bupa Insurance Services Limited, an affiliate based in England & Wales, provided executive management consulting and marketing services to the Company pursuant to an agreement effective January 1, 2013. The fee was settled annually and amounted to \$4,899,560 in 2013.

#### Commercial Lease Agreement

The Company leased its Miami office space from Onup Group Corporation, an affiliate, pursuant to a lease agreement dated January 1, 1999. Rent expense under the agreement was \$19,173 per year in years 2009 through 2013.

#### Sublease Agreement

The Palmetto Bay office space was leased from an unaffiliated landlord and subleased to BWC and USMed effective November 1, 2013. Rent expense under the lease was \$295,694 in 2013.

#### Intercompany Currency Hedging Agreements

To limit its exposure to fluctuations in foreign currency exchange rates, the Company entered into two currency hedging agreements. An intercompany agreement with Bupa Finance PLC became effective March 11, 2010, and an agreement with Bupa Investments Limited became effective July 3, 2001. The agreements were authorized by the Office on February 9, 2012. Net realized gains and losses under the arrangements were \$527,842, (\$2,308,000), \$1,222,654 and (\$559,328) in 2010, 2011, 2012 and 2013, respectively.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage of up to \$1 million with a deductible of \$25,000. This adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had a small number of employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of affiliates BWC and USMed performed substantially all functions on behalf of the Company. BWC provided eligible employees with various benefits, including medical, dental, vision, life and disability insurance, employee assistance, and a voluntary defined contribution Section 401(k) pre-tax savings plan.

## **TERRITORY AND PLAN OF OPERATION**

The Company primarily engaged in reinsurance of accident and health insurance policies in Latin America and the Caribbean. In addition, it directly issued accident and health insurance policies to individuals and groups in Latin America and the Caribbean. The Company carried a small, closed block of life policies in Florida and approximately 1,300 accident and health policies in Puerto Rico and the U.S. Virgin Islands.

## COMPANY GROWTH

The Company reported the following for years 2009 through 2013:

*(In millions)*

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums	\$ 136.9	\$ 155.4	\$ 190.2	\$ 219.8	\$ 513.3
Total revenues	\$ 136.7	\$ 153.0	\$ 185.5	\$ 215.7	\$ 439.9
Net income (loss)	\$ 2.6	\$ (7.2)	\$ (0.2)	\$ (9.2)	\$ (29.8)
Stockholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in capital received	\$ 1.2	\$ 11.0	\$ 17.0	\$ 26.3	\$ 31.2
Admitted assets	\$ 111.3	\$ 136.3	\$ 159.8	\$ 187.4	\$ 356.9
Liabilities	\$ 83.6	\$ 101.6	\$ 112.7	\$ 127.8	\$ 288.5
Capital and surplus	\$ 27.7	\$ 34.6	\$ 47.1	\$ 59.7	\$ 68.5

## REINSURANCE

The Company assumed proportional accident and health insurance risks pursuant to agreements with various affiliated and unaffiliated companies. The significant agreements are described below.

The Company entered into a 100% quota share assuming reinsurance agreement with Bupa Insurance Limited (BINS), an affiliate domiciled in England & Wales, for a closed block of accident and health policies based in Latin America, pursuant to an agreement effective January 1, 2013. Premiums assumed from BINS were \$261.8 million in 2013.

The Company assumed between 90% and 100% of all premiums net of commissions and major medical claims based on specified policy types from Bupa Mexico pursuant to an agreement effective January 1, 2013, which superseded an agreement effective January 2, 2007, and another agreement effective May 1, 2013. Under the January 2013 agreement, the Company

assumed 90% of specified policy types that included attachment points and maximum reinsurer liabilities, with attachment points that ranged from \$25,000 to \$500,000 and maximum reinsurer liabilities that ranged from \$900,000 to \$5,000,000. Under the May 2013 agreement, the Company assumed 100% of specified policy types without attachment points or maximum liabilities. In addition, Bupa Mexico maintained excess of loss reinsurance coverage from the Company for specified policy types for the period under examination pursuant to an agreement originating January 1, 2007. Premiums assumed from Bupa Mexico were \$18.3 million, \$24.1 million, \$31.3 million, \$39.3 million, and \$51.6 million for the years 2009 through 2013.

The Company assumed 100% of all premiums, net of commissions and eligible major medical claims, to a maximum of \$5 million, from Seguros Banamex, S.A. de C.V., domiciled in Mexico, pursuant to an agreement effective July 1, 2007. These policies were novated to Bupa Mexico effective August 1, 2013. Premiums assumed from Banamex were \$2.7 million, \$2.8 million, \$2.7 million, \$2.8 million and \$1.6 million in years 2009 through 2013.

The Company assumed 45% in 2013 and 95% in prior years of all premiums, net of commissions and claims, with 100% in excess of \$50,000, from Bupa Ecuador S.A., Compañía de Seguros y Reaseguros, S.A. (Bupa Ecuador), an affiliate domiciled in Ecuador, pursuant to an agreement effective January 1, 2010. Premiums assumed from Bupa Ecuador were \$3.0 million, \$5.1 million, \$7.7 million, \$8.9 million and \$7.2 million in years 2009 through 2013.

The Company maintained excess of loss reinsurance coverage for the period under examination. For the year 2013, coverage was with Axis Insurance Company under an agreement that provided for reimbursement of 100% of eligible major medical expenses in excess of \$400,000 up to an aggregate of \$5,000,000 per member per year. For the years 2012, 2011 and 2010 coverage was with Sirius American Insurance Company, formerly known as White Mountain

Reinsurance Company. For the year 2009, coverage was with Paris Reinsurance America Insurance Company.

The Company continued to cede its closed block of life insurance risks on coinsurance and yearly renewable term treaties. The portfolio had \$9,574,610 in force, and was indemnified against losses in excess of \$50,000 with six reinsurers pursuant to agreements effective August 12, 1973 through July 1, 2003. Reserve credit taken was \$78,115, \$74,778, \$82,894, \$53,395, and \$46,990 in years 2009 through 2013.

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the insolvency clause, arbitration clause, transfer of risk, reporting requirements, and settlement deadlines.

## **ACCOUNTS AND RECORDS**

During the examination, examiners found that the Company did not always report its assets and liabilities in accordance with Chapter 625, F.S. No examination adjustments resulted. The Company reported as an admitted asset a particular asset which was not allowable under Statement of Statutory Accounting Principles (SSAP) No. 4, and offset the reported asset with a corresponding liability. In addition, the Company offset an allowable asset against a liability when the offsetting requirements of SSAP No. 64 were not met, and reported an amount due from an affiliate as 'aggregate write-ins for other than invested assets' rather than as 'receivables from parent, subsidiaries and affiliates'.

## **STATUTORY DEPOSITS**

The Company maintained \$300,000 on deposit with the State of Florida, as required by Section 624.411, F.S. In addition, it maintained \$500,000 on deposit with the U.S. Virgin Islands.

**Bupa Insurance Company**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2013**

<b>Admitted Assets</b>	<b>As Reported</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 68,970,452	\$ -	\$ 68,970,452
Common stocks	10,094,384	-	10,094,384
Cash, cash equivalents and short-term investments	227,672,173	-	227,672,173
Contract loans	254,506	-	254,506
	306,991,515	-	306,991,515
Investment income due and accrued	97,576	-	97,576
Uncollected premiums and agents' balances	5,847,491	-	5,847,491
Amounts recoverable from reinsurers	1,281,289	-	1,281,289
Other amounts receivable under reinsurance contracts	26,421,326	-	26,421,326
Net deferred tax asset	12,100,872	-	12,100,872
Health care and other amounts receivable	22,425	-	22,425
Aggregate write-ins for other-than-invested assets	4,151,501	-	4,151,501
<b>Total admitted assets</b>	<b>\$ 356,913,995</b>	<b>\$ -</b>	<b>\$ 356,913,995</b>

<b>Liabilities</b>			
Claims unpaid	\$ 61,927,915	\$ -	\$ 61,927,915
Aggregate health policy reserves	195,858,505	-	195,858,505
Aggregate life policy reserves	2,436,979	-	2,436,979
Premiums received in advance	2,497,087	-	2,497,087
General expenses due or accrued	6,492,357	-	6,492,357
Current federal and foreign income tax payable	8,497,767	-	8,497,767
Ceded reinsurance premiums payable	482,905	-	482,905
Remittances and items not allocated	2,012,761	-	2,012,761
Amounts due to parent, subsidiaries and affiliates	1,202,943	-	1,202,943
Aggregate write-ins for other liabilities	7,044,124	-	7,044,124
<b>Total liabilities</b>	<b>288,453,343</b>	<b>-</b>	<b>288,453,343</b>

<b>Capital and Surplus</b>			
Common capital stock	6,411,158	-	6,411,158
Gross paid in and contributed surplus	90,591,059	-	90,591,059
Unassigned funds (deficit)	(28,541,565)	-	(28,541,565)
<b>Total capital and surplus</b>	<b>68,460,652</b>	<b>-</b>	<b>68,460,652</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 356,913,995</b>	<b>\$ -</b>	<b>\$ 356,913,995</b>

**Bupa Insurance Company**  
**Statement of Revenue and Expenses**  
**(As Reported By The Company)**  
**Year Ended December 31, 2013**

Net premium income	\$ 513,291,010
Change in unearned premium reserves and reserve for rate credits	(77,424,172)
Aggregate write-ins for other health care related revenues	3,988,145
<b>Total revenues</b>	<b>439,854,983</b>
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Hospital and medical benefits	99,650,188
Other professional services	12,216,059
Emergency room and out-of-area	1,270,559
Prescription drugs	5,963,642
	119,100,448
Net reinsurance recoveries	(173,512,806)
<b>Total hospital and medical</b>	<b>292,613,254</b>
Non-health claims (net)	255,861
Claims adjustment expenses	6,135,675
General administrative expenses	120,909,606
Increase in reserves for life and accident and health contracts	41,000,000
<b>Total underwriting deductions</b>	<b>460,914,396</b>
Net underwriting gain (loss)	(21,059,413)
Net investment gains (losses)	(64,446)
Income (loss) before federal income tax	(21,123,859)
Federal income tax	8,704,157
<b>Net income (loss)</b>	<b>\$ (29,828,016)</b>

**Bupa Insurance Company**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2013**

Capital and surplus - December 31, 2008	\$ 23,141,183
Net income (loss)	2,596,446
Change in net unrealized capital gains and losses	(1,792,687)
Change in net deferred income tax	1,134,357
Change in nonadmitted assets	347,629
Change in asset valuation reserve	664,373
Paid in capital and surplus received	1,200,000
Aggregate write-ins for gains and losses in surplus	417,984
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Capital and surplus - December 31, 2009	27,709,285
Net income (loss)	(7,241,350)
Change in valuation basis of aggregate policy and claim reserves	44,348
Change in net unrealized capital gains and losses	1,512,764
Change in net deferred income tax	(3,432,066)
Change in nonadmitted assets	5,052,690
Paid in capital and surplus received	11,000,000
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Capital and surplus - December 31, 2010	34,645,671
Net income (loss)	(214,819)
Change in net unrealized capital gains and losses	(1,121,258)
Change in net deferred income tax	(4,449,234)
Change in nonadmitted assets	1,205,872
Paid in capital and surplus received	17,000,000
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Capital and surplus - December 31, 2011	47,066,232
Net income (loss)	(9,170,235)
Change in net unrealized capital gains and losses	(4,562,169)
Change in net unrealized foreign exchange capital gain or loss	57,588
Change in nonadmitted assets	(1,457)
Paid in capital and surplus received	26,300,000
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Capital and surplus - December 31, 2012	59,689,959
Net income (loss)	(29,828,016)
Change in net unrealized capital gains and losses	(3,393,889)
Change in net unrealized foreign exchange capital gain or loss	(57,588)
Change in net deferred income tax	12,802,601
Change in nonadmitted assets	(1,956,857)
Paid in capital and surplus received	31,204,442
<hr/>	
	68,460,652
Examination adjustments	-
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Capital and surplus - December 31, 2013	<b>\$ 68,460,652</b>
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**Bupa Insurance Company**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2013**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

<b>Capital and surplus, December 31, 2013 - as reported</b>		<b>\$ 68,460,652</b>	
	<b>As Reported</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>
Total admitted assets	\$ 356,913,995	\$ 356,913,995	\$ -
Total liabilities	\$ 288,453,343	\$ 288,453,343	\$ -
Net change in capital and surplus			-
<b>Capital and surplus, December 31, 2013 - per examination</b>			<b><u>\$ 68,460,652</u></b>

## RECOMMENDATIONS

### Accounting and Reporting Errors

As reported on page 12, the Company did not always report its assets and liabilities in accordance with Chapter 625, F.S. **We recommend that, in future statements filed with the Office, the Company report its assets in accordance with Chapter 625, F.S.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Bupa Insurance Company consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Company's capital and surplus was \$68,460,652 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, examination participants included: Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Kerry Krantz, Actuary; and Lisa Parker, Actuary.

Respectfully submitted,



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Robert Y. Meszaros, AFE  
Financial Specialist  
Florida Office of Insurance Regulation