

Report on Examination
of
BUPA Insurance Company
Miami, Florida
as of
December 31, 2008

By The
Florida Office of Insurance Regulation

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Gentlemen:

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, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
April 14, 2010

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of BUPA Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2005.

This examination covered the period of January 1, 2006 through 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.

The Company's main administrative office was in Miami, Florida, where this examination was conducted.

SUMMARY OF SIGNIFICANT FINDINGS

During this examination, we found that the Company's net writing ratio, as defined by Section 624.4095, Florida Statutes (F.S.), exceeded 4:1 as of December 31, 2008, and that the Company filed its 2007 and 2008 audited financial reports after the due dates. We also found that the Company's independent auditor reported certain weaknesses in the Company's internal controls over financial reporting. Finally, we found that the Company overstated the amounts of certain assets, incorrectly classified certain other assets, and overstated its total capital and surplus by \$7.6 million in its 2008 annual statement. Recommendations relating to all significant findings of the examination are summarized beginning on page 18.

COMPANY HISTORY

The Company was incorporated in Florida on July 12, 1973. On July 16, 1973, it was licensed by the Office to operate as an accident and health insurer in accordance with Section 624.401, F.S. On September 9, 2005, the Company was acquired by Grupo BUPA Sanitas S.L., formerly BUPA Iberia S.L. (BUPA Sanitas), a Spanish corporation. The Company was a member of the Amedex Insurance Group which was acquired through a stock purchase agreement by The British United Provident Association Limited (BUPA), of which BUPA Sanitas was a subsidiary. BUPA is a health care company incorporated in England. The Company's name was changed from Amedex Insurance Company to BUPA Insurance Company effective October 11, 2007.

The Company was authorized by the State of Florida to operate as an insurer in the following lines:

- Life
- Accident and health
- Group life and annuities

Dividends and Capital Contributions

In 2008, the Company received \$2 million from the issuance of common stock. No dividends were distributed by the Company during the period of the examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S.; however, the minutes did not include a record of the Board's authorization of the Company's investments as required by Section 625.304, F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by BUPA Sanitas which was ultimately owned by BUPA. It was affiliated through common ownership and control with numerous other entities. The Company's senior officers, directors and members of the principal committees of its Board were as shown below.

Senior Officers

Name	Title
Alfred D. Maltby	President
Corinna J. Bishopp	Secretary and Treasurer
Francisco Lopez-Preusse	Chief Operating Officer

Board of Directors

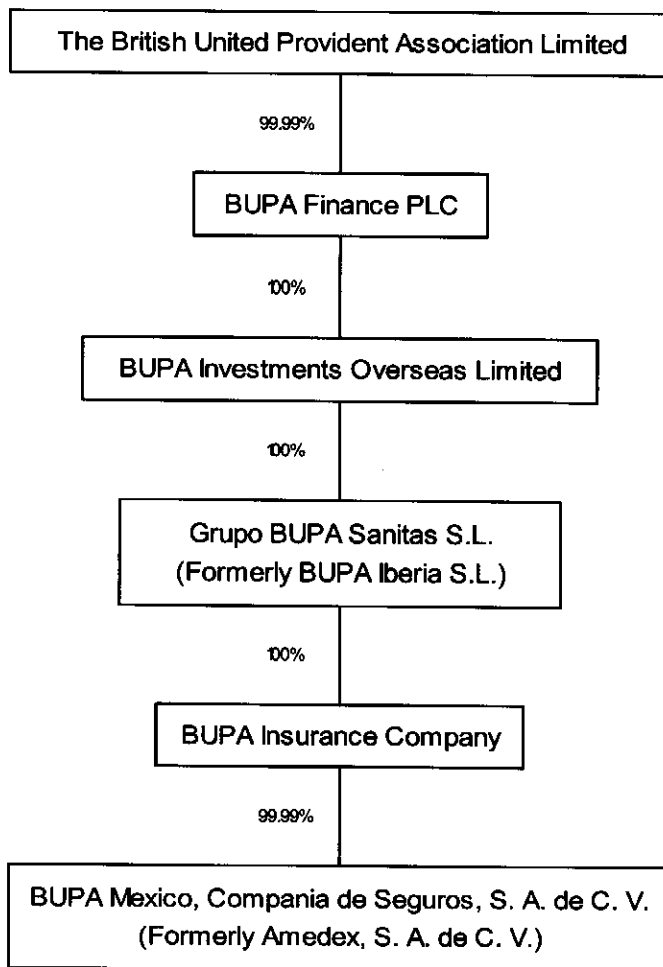
Name	Location
David Capote	Miami, Florida
Pablo A. Juantegui	Madrid, Spain
Francisco Lopez-Preusse	Doral, Florida
Antonio V. Morales	London, England
Elizabet Narciandi	Miami, Florida
John P. Smith	London, England
Emma J. Zipper	London, England

Audit Committee	Investment Committee	Executive Committee
David Capote Pablo A. Juantegui Francisco Lopez-Preusse Antonio V. Morales	Pablo A. Juantegui Francisco Lopez-Preusse Antonio V. Morales	Pablo A. Juantegui Francisco Lopez-Preusse Antonio V. Morales

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C., on August 21, 2009.

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

**BUPA Insurance Company
Abbreviated Organizational Chart
December 31, 2008**



BUPA Worldwide Corporation, formerly Amedex Worldwide Corporation, an affiliate, served as the Company's managing general agent pursuant to an agreement originally entered into on July 1, 1997.

U.S.A. Medical Services Corporation (USAMed), an affiliate, provided administrative services to the Company pursuant to a third party administration service agreement originally entered into on July 1, 1997. The agreement did not contain a specified due date for payment of amounts owed under the agreement as required by Statement of Statutory Accounting Principles (SSAP) No. 25, as amended by SSAP No. 96. However, the agreement was amended on August 4, 2009 and the payment due date was added.

Effective April 13, 2007, the Company and certain of its affiliates entered into an intercompany expense allocation agreement providing for the allocation of direct and indirect costs among the parties.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$1,000,000 with a deductible of \$25,000, which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$800,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered health, dental, life, and short-term and long-term disability insurance, a Section 401(k) retirement plan, and other benefits to eligible employees.

TERRITORY AND PLAN OF OPERATION

The Company provided accident and health insurance and life insurance primarily to individuals in Latin America and the Caribbean. It was authorized to transact insurance business in Florida, Puerto Rico, the U.S. Virgin Islands and Aruba.

COMPANY GROWTH

The Company reported the following for years 2006, 2007 and 2008:

(In millions)	2006	2007	2008
Net premiums	\$94.4	\$104.6	\$112.0
Total revenues	\$96.8	\$107.6	\$120.0
Net income (loss)	(\$6.3)	(\$2.0)	\$1.6
Capital and surplus	\$21.2	\$19.1	\$23.1

REINSURANCE

Pursuant to an indemnity assumption reinsurance agreement effective January 2, 2007, the Company assumed 90% of the risk for certain individual medical policies issued by its subsidiary BUPA Mexico, Compania de Seguros, S. A. de C. V., formerly Amedex, S. A. de C. V. (BUPA Mexico).

Pursuant to an excess of loss agreement effective January 1, 2008, the Company was indemnified against major medical losses in excess of \$200,000 up to \$800,000 per individual per year. Pursuant to an agreement effective June 1, 1997, the Company was indemnified against life insurance losses in excess of \$50,000 up to \$450,000.

ACCOUNTS AND RECORDS

On January 12, 2009, the Company was fined by the Office because the ratio of the Company's adjusted annual net written premiums to its adjusted surplus as to policyholders, determined in accordance with Section 624.4095, F.S., (net writing ratio) exceeded 4:1 in four consecutive quarters ending September 30, 2008. As of December 31, 2008, the Company's net writing ratio again exceeded 4:1.

The Company was required by Section 624.424(8)(a), F.S., to file an audited financial report with the Office annually no later than June 1 for the preceding calendar year. However, its 2007 report was filed on June 20, 2008, and its 2008 report was filed on August 10, 2009.

In connection with its audits of the Company's 2006, 2007 and 2008 statutory basis financial statements, the Company's independent auditor reported certain weaknesses in the Company's internal controls over financial reporting. As of December 31, 2008, the auditor reported:

- Multiple information technology general control deficiencies;
- The lack of effective controls over reconciliations of certain financial statement accounts;
- The lack of proper procedures and the failure to maintain consistent and effective controls over the preparation of financial statements captions and footnote disclosures;
- That Company personnel were not kept current with an appropriate level of technical accounting knowledge, experience and training in the application of statutory accounting principles commensurate with the Company's financial accounting and reporting requirements; and
- That some of the Company's intercompany transactions were not appropriately accounted for.

U.S. Bank N.A. provided custody and other services to the Company in connection with securities, cash and other property pursuant to an agreement entered into on November 29, 2006. The Company was unable to demonstrate that the agreement was authorized by a resolution of its board of directors or an authorized board committee, as required by Rule 690-143.042(2), F.A.C.

During the examination, the Company did not always provide examiners with requested information and documentation on a timely basis in the manner requested. For example, it was unable to provide examiners with all requested documentation relating to its policies, claims and reserves. As a result, the examination was needlessly prolonged.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other states and territories as required or permitted by law:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury bond	\$100,000	\$122,590
Florida	U.S. Treasury note	200,000	216,760
Total Florida deposits		300,000	339,350
Aruba	Letter of credit	170,000	170,000
British Virgin Islands	Certificate of deposit	37,471	37,471
U.S. Virgin Islands	U.S. Treasury notes	500,000	560,390
Total deposits		\$1,007,471	\$1,107,211

BUPA Insurance Company
Assets
December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$1,319,506	\$532,399	\$1,851,905
Common stocks	5,451,623	(1,882,623)	3,569,000
Cash, cash equivalents and short-term investments	63,407,144	(1,138,589)	62,268,555
Contract loans	472,702	0	472,702
Aggregate write-ins for invested assets	14,310	0	14,310
	70,665,285	(2,488,813)	68,176,472
Investment income due and accrued	45,450	193,819	239,269
Uncollected premiums and agents' balances	7,963,921	0	7,963,921
Deferred premiums, agents' balances and installments	17,699	0	17,699
Amounts recoverable from reinsurers	4,217,277	0	4,217,277
Current federal and foreign income tax recoverable	1,751,332	0	1,751,332
Net deferred tax asset	1,136,622	0	1,136,622
Receivables from parent, subsidiaries and affiliates	15,698,659	(5,298,953)	10,399,706
Aggregate write-ins for other than invested assets	24,647	0	24,647
Total assets	\$101,520,892	(\$7,593,947)	\$93,926,945

BUPA Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2008

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$3,198,735	\$0	\$3,198,735
Aggregate reserve for A&H contracts	45,266,181	0	45,266,181
Liability for deposit-type contracts	90,132	0	90,132
Contract claims - life	118,131	0	118,131
Contract claims - accident and health	19,958,417	0	19,958,417
Policyholders' dividends	295	0	295
Premiums received in advance	1,071,664	0	1,071,664
Other amounts payable on reinsurance	834,936	0	834,936
Commissions and allowances payable	4,127,829	0	4,127,829
General expenses due or accrued	921,106	0	921,106
Current federal and foreign income taxes	235,741	0	235,741
Remittances and items not allocated	720,391	0	720,391
Asset valuation reserve	708,721	0	708,721
Funds held under reinsurance treaties	7,815	0	7,815
Aggregate write-ins for liabilities	1,119,615	0	1,119,615
Total liabilities	78,379,709	0	78,379,709
Capital and Surplus			
Gross paid in and contributed surplus	8,916,876	0	8,916,876
Unassigned funds	12,843,409	(7,593,947)	5,249,462
Surplus	21,760,285	(7,593,947)	14,166,338
Common capital stock	1,380,898	0	1,380,898
Total capital and surplus	23,141,183	(7,593,947)	15,547,236
Total liabilities, capital and surplus	\$101,520,892	(\$7,593,947)	\$93,926,945

BUPA Insurance Company
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2008

Premiums and annuity considerations	\$111,981,216
Net investment income	2,180,138
Amortization of interest maintenance reserve	(266,653)
Commissions and allowances on reinsurance ceded	8,273
Aggregate write-ins for miscellaneous income	6,077,519
	<hr/> 119,980,493
Death benefits	19,752
Annuity benefits	3,491
Disability benefits and benefits under A&H contracts	72,918,183
Surrender benefits and withdrawals for life contracts	244,966
Interest and adjustments on contract funds	3,502
Increase in aggregate reserves	4,838,594
	<hr/> 78,028,488
Commissions on premiums and annuity considerations	26,808,689
Commissions and allowances on reinsurance assumed	9,327,937
General insurance expenses	3,598,403
Insurance taxes, licenses and fees	394,554
Increase in loading on deferred and uncollected premiums	9,026
	<hr/> 118,167,097
Net gain before policyholder dividends and income taxes	1,813,396
Dividends to policyholders	295
Net gain before income taxes	1,813,101
Federal and foreign income taxes	211,082
Net income	<hr/> <hr/> \$1,602,019

BUPA Insurance Company
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2008

Capital and surplus - December 31, 2005	\$31,598,777
Net income (loss)	(6,348,586)
Change in net unrealized capital gains or (losses)	(239,789)
Change in net unrealized foreign exchange capital gain	48,644
Change in net deferred income tax	1,276,275
Change in nonadmitted assets and related items	(1,875,346)
Change in asset valuation reserve	155,414
Aggregate write-ins for gains and losses in surplus	(3,382,864)
<hr/>	
Capital and surplus - December 31, 2006	21,232,525
Net income (loss)	(1,951,826)
Change in net unrealized capital gains (losses)	(70,006)
Change in net deferred income tax	832,348
Change in nonadmitted assets and related items	262,883
Change in asset valuation reserve	55,842
Aggregate write-ins for gains and losses in surplus	(1,233,686)
<hr/>	
Capital and surplus - December 31, 2007	19,128,080
Net income (loss)	1,602,019
Change in net unrealized capital gains	1,494,145
Change in nonadmitted assets	349,878
Change in asset valuation reserve	(708,721)
Paid in capital	2,000,000
Aggregate write-ins for gains and losses in surplus	(724,218)
<hr/>	
	23,141,183
Examination adjustments	(7,593,947)
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Capital and surplus - December 31, 2008	\$15,547,236
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BUPA Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008

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

Capital and surplus, December 31, 2008 - per annual statement				\$23,141,183
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Bonds	\$1,319,506	\$1,851,905	\$532,399	
Common stocks	\$5,451,623	\$3,569,000	(\$1,882,623)	
Cash, cash equivalents and short-term investments	\$63,407,144	\$62,268,555	(\$1,138,589)	
Investment income due and accrued	\$45,450	\$239,269	\$193,819	
Receivables from parent, subsidiaries and affiliates	\$15,698,659	\$10,399,706	(\$5,298,953)	
Net change in capital and surplus				<u>(7,593,947)</u>
Capital and surplus, December 31, 2008 - per examination				<u>\$15,547,236</u>

COMMENTS ON FINANCIAL STATEMENTS

Bonds	\$1,851,905
Cash, Cash Equivalents and Short-Term Investments	\$62,268,555
Investment Income Due and Accrued	\$239,269

Amounts reported by the Company in its 2008 annual statement have been adjusted as follows.

The amount reported as bonds has been increased by \$532,399, the amount reported as 'cash, cash equivalents and short-term investments' has been decreased by \$1,138,589, and the amount reported as 'investment income due and accrued' has been increased by \$193,819.

Cash in the amount of \$412,371 was unavailable due to an encumbrance and, therefore, nonadmitted in accordance with SSAP No. 4. Accrued investment income in the amount of \$193,819 was reclassified from 'cash, cash equivalents and short-term investments' to 'investment income due and accrued'. Certificates of deposit with maturity dates in excess of one year were reclassified from 'cash, cash equivalents and short-term investments' to bonds in the total amount of \$532,399. The previous examination of the Company by the Office resulted in findings that, in its 2005 annual statement, the Company overstated its cash and incorrectly classified certain investments as cash rather than as bonds.

Common Stocks	\$3,569,000
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The amount reported by the Company in its 2008 annual statement has been decreased by \$1,882,623. The Company incorrectly reported its investment in BUPA Mexico at \$5,451,623 rather than \$3,569,000 as required by SSAP No. 97. The previous examination of the Company by the Office resulted in a finding that the Company incorrectly reported the amount of the investment in its 2005 annual statement.

Receivables From Parent, Subsidiaries and Affiliates**\$10,399,706**

The amount reported by the Company in its 2008 annual statement has been decreased by \$5,298,953. Included in the total amount reported by the Company was \$5,298,953 due from USAMed pursuant to an agreement which did not contain a specified due date for payment of amounts owed under the agreement as required by SSAP No. 25, as amended by SSAP No. 96. The Company did not collect the receivable from USAMed within 90 days. For these reasons, the receivable has been nonadmitted.

SUMMARY OF RECOMMENDATIONS

Authorization of Investments

As reported on page 4, the minutes of the Board of Directors meetings did not include a record of the Board's authorization of the Company's investments as required by Section 625.304, F.S.

We recommend that the Company's board authorize the Company's investments in accordance with Section 625.304, F.S.

Net Writing Ratio

As reported on page 9, the Company's net writing ratio, as defined by Section 624.4095, F.S., exceeded 4:1 at December 31, 2008. **We recommend that the Company maintain a net writing ratio of not more than 4:1.**

Audited Financial Reports

As reported on page 9, the Company filed its 2007 and 2008 audited financial reports after the June 1 due dates. **We recommend that the Company annually file the reports no later than June 1 for the preceding calendar year as required by Section 624.424(8)(a), F.S.**

Internal Controls

As reported on page 9, the Company's independent auditor reported certain weaknesses in the Company's internal controls over financial reporting in connection with its audits of the Company's 2006, 2007 and 2008 statutory basis financial statements. **We recommend that the Company correct the deficiencies reported by the auditor and develop effective internal controls over financial reporting.**

Custodial Agreement

As reported on page 10, the Company was unable to demonstrate that its securities custodial agreement with U.S. Bank N.A. was authorized by a resolution of its board of directors or an authorized board committee. **We recommend that the Company comply with Rule 690-143.042(2), F.A.C.**

Cooperation With Examiners

As reported on page 10, the Company did not always provide examiners with requested information and documentation on a timely basis in the manner requested during the examination. As a result, the examination was needlessly prolonged. **We recommend that, in connection with future examinations of the Company by the Office, the Company be more responsive to examiner requests.**

Financial Statement Errors

In its 2008 annual statement, the Company incorrectly reported the amounts of certain assets and overstated its capital and surplus, as reported beginning on page 16. **We recommend that, in future statements filed with the Office, the Company correctly classify and report the amounts of its assets in accordance with Part I of Chapter 625, F.S., the annual statement instructions and the NAIC Statements of Statutory Accounting Principles.**

SUBSEQUENT EVENTS

In 2009, the Company issued \$1.2 million in common stock to BUPA Sanitas and invested an additional \$3 million in BUPA Mexico.

On March 15, 2010, the Company's board of directors elected Paul A. Staines as Chief Financial Officer and Anthony Cabrelli as Chief Operating Officer.

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 as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$15,547,236 which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$6,966,702.

In addition to the undersigned, the following individuals participated in this examination: Christine N. Afolabi, CPA, Financial Specialist; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; Robert Y. Meszaros, Financial Specialist; and Scott Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,

M. Alison Miele, CFE
Financial Examiner/Analyst
Florida Office of Insurance Regulation