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**Instituto Nacional de Seguros**

**Best's Credit Rating Effective Date**

May 18, 2023

**Best's Country Risk Reports Utilized**

Costa Rica - CRT - 4

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**Information**

Best's Credit Rating Methodology  
 Guide to Best's Credit Ratings  
 Market Segment Outlooks

**Financial Data Presented**

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: .

**AMB #:** 086238 | **AIIN #:** AA-2381000

**Best's Credit Ratings**

**Financial Strength Rating (FSR)**

<b>A</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Affirmed</b>

**Issuer Credit Rating (ICR)**

<b>a</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Affirmed</b>

**Assessment Descriptors**

Balance Sheet Strength	<b>Strongest</b>
Operating Performance	<b>Strong</b>
Business Profile	<b>Neutral</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Rationale

### Balance Sheet Strength: **Strongest**

- Risk-adjusted capitalization is at the strongest level as measured by Best's Capital Adequacy Ratio (BCAR), even with a 25% dividend paid to the state.
- Surplus adequately protected by reinsurance program with guidelines set by law.
- Adequate asset and liability management protects balance sheet.

### Operating Performance: **Strong**

- Stable trends with regard to its underwriting and profitability metrics, discounting the effect of mark-to-market capital losses.
- Investment income continues to support the company's operating performance.
- Results are subject to compulsory contributions to the state.

### Business Profile: **Neutral**

- Market dominance of the Costa Rican market.
- Governmental company with underwriting leadership in key social insurance segments.
- Geographical diversification is in its early stages.

### Enterprise Risk Management: **Appropriate**

- Recent actuarial and compliance functions established.
- Revised risk appetite profile makes way for further improvement in ERM framework.
- Capital position based on regulatory model instead of proprietary model.

### Outlook

- The stable outlooks reflect the expectation that Instituto Nacional de Seguros will maintain a balance sheet assessment in the strongest range over the intermediate term with strong operating results contributing to surplus growth needed to support an expanding book of business. The outlooks also reflect the stability the company has in the market and the strategic role it plays in public finances.

### Rating Drivers

- Positive rating movements are not expected in the intermediate term. Negative rating actions could occur if technical results deteriorate or there is a reduction in net income, given any kind of loss that significantly affects the company's profitability or risk-adjusted capitalization to levels that are no longer supportive of the current ratings.

## Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	56.0	53.0	52.0	52.0

Source: Best's Capital Adequacy Ratio Model - Global

<b>Key Financial Indicators</b>	<b>2022 CRC (000)</b>	<b>2021 CRC (000)</b>	<b>2020 CRC (000)</b>	<b>2019 CRC (000)</b>	<b>2018 CRC (000)</b>
Net Premiums Written:					
Composite	571,913,901	513,312,263	519,527,484	525,282,324	485,142,470
Net Income	37,212,629	123,749,880	73,471,864	59,983,293	62,198,391
Total Assets	2,343,655,831	2,352,837,973	2,206,859,135	2,237,822,556	2,092,120,771
Total Capital and Surplus	1,081,669,477	1,145,369,208	1,036,224,505	1,054,276,048	931,772,078

Source: BestLink® - Best's Financial Suite

<b>Key Financial Indicators &amp; Ratios</b>	<b>2022 CRC (000)</b>	<b>2021 CRC (000)</b>	<b>2020 CRC (000)</b>	<b>2019 CRC (000)</b>	<b>2018 CRC (000)</b>	<b>Weighted 5-Year Average</b>
Profitability:						
Net Income Return on Revenue (%)	4.8	15.0	9.9	7.5	9.5	9.4
Net Income Return on Capital and Surplus (%)	3.3	11.3	7.0	6.0	6.9	6.9
Net Investment Yield (%)	4.7	6.7	6.2	7.0	5.5	6.0
Leverage:						
Net Premiums Written to Capital and Surplus (%)	52.9	44.8	50.1	49.8	52.1	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

The assessment of INS's balance sheet is strongest due to its large capital base supporting the arising risks from its well managed balance sheet, which is also protected by adequate laws that limit capital outflows and set terms for reinsurance counterparts.

### Capitalisation

As of 2022, risk-adjusted capitalization assessment was strongest, without material changes with respect to 2021 levels. Increase in APHS is mostly explained by its net income. From the required capital side, main risk stems from the investment portfolio, as a significant portion of the instruments are concentrated in Costa Rica. The rest of the risks are relatively evenly distributed, with no volatility in current or projected years. There is no significant increase in any of them, as the company has prudent risk mitigation practices.

Investment assets are allocated responsibly. The company is focused on matching its obligations to its resources in terms of tenure and currency. Premium leverage is adequate, and the company does not have any financial leverage. Financial flexibility is limited as it is constrained by a 25% dividend to the state and 4% of EBITDA corresponds to the premiums sold (paid). On the upside, capital outflows are also constrained by this same law.

Balance sheet is considered strongest. The risk adjusted capitalization of the company relies on a large capital base supported by a profitable operation. In addition, as it is a state company, capital outflows are limited to those set by the law, as well as the quality of its reinsurers. The company also follows an adequate investment strategy focused on maintaining assets and liabilities being matched.

<b>Capital Generation Analysis</b>	<b>2022 CRC (000)</b>	<b>2021 CRC (000)</b>	<b>2020 CRC (000)</b>	<b>2019 CRC (000)</b>	<b>2018 CRC (000)</b>
Beginning Capital and Surplus	1,145,369,208	1,036,224,505	1,054,276,048	931,772,078	861,438,851
Net Income	37,212,629	133,700,694	73,471,864	59,983,293	62,198,391
Net Unrealized Capital Gains (Losses)	...	-38,414,486	14,656,532	101,214,190	-7,719,693
Change in Equalisation and Other Reserves	-107,433,142	24,918,498	-22,356,042	-33,724,836	4,765,261
Net Change in Paid-In Capital and Surplus	...	62,411,861	-23,840,604	57,646,115	65,709,903
Other Changes in Capital and Surplus	6,520,782	-73,471,864	-59,983,293	-62,614,792	-54,620,635
Net Change in Capital and Surplus	-63,699,731	109,144,703	-18,051,543	122,503,970	70,333,227
Ending Capital and Surplus	1,081,669,477	1,145,369,208	1,036,224,505	1,054,276,048	931,772,078
Net Change in Capital and Surplus (%)	-5.6	10.5	-1.7	13.1	8.2

Source: BestLink® - Best's Financial Suite

## Balance Sheet Strength (Continued...)

<b>Liquidity Analysis (%)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Liquid Assets to Total Liabilities	125.5	139.1	139.4	137.0	128.9
Total Investments to Total Liabilities	149.3	162.7	161.9	156.8	145.9

Source: BestLink® - Best's Financial Suite

## Asset Liability Management - Investments

<b>Composition of Cash and Invested Assets</b>	<b>2022 CRC (000)</b>	<b>2021 CRC (000)</b>	<b>2020 CRC (000)</b>	<b>2019 CRC (000)</b>	<b>2018 CRC (000)</b>
Total Cash and Invested Assets	1,884,340,081	1,964,041,177	1,895,829,227	1,855,834,164	1,692,519,765
Cash (%)	6.3	4.5	4.7	7.0	5.1
Bonds (%)	77.8	81.0	81.4	80.4	83.2
Real Estate, Mortgages and Loans (%)	10.4	9.7	9.9	8.8	7.0
Total Cash and Unaffiliated Invested Assets (%)	94.5	95.2	96.0	96.2	95.3
Investments in Affiliates (%)	5.5	4.8	4.0	3.8	4.7
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

## Operating Performance

During 2022, underwriting performance improved in comparison to 2021, posting a lower composite combined ratio.. Nevertheless, INS presented reduced profitability mainly due to mark-to-market losses. Return On Equity and Return On Assets stood at 1.6% and 3.3%, respectively.

INS has not relaxed its underwriting standards from the adjustments done in previous years, like the abandonment of poor performing products in auto, personal property and group life.

For the last years, the company has presented good underwriting results and operating results from adjustments in its products offerings and prices, despite variations in business volume. Looking forward, we expect the company to meet its growth targets. It is also expected for management to continue adjusting strategy to remain profitable, which has been the key directive since the current CEO took office in 2015.

In comparison to the strong operating benchmark, metrics are consistent for INS, except ROE, as the company has a very large capital base, and is subject to a 25% dividend charge by the government. Premium level presents a moderate degree of contraction, however, this has not reflected in losses for the company in any year. Investment income has also been stable and strong during the last 5 years, further enhancing bottom-line results.

here is no material observed volatility in operating results, but rather stable trends on its underwriting and profitability metrics, discounting the effect of mark-to-market capital losses. The metrics are still within those of the strong operating performance benchmark. Furthermore, the company has met its forecasts consistently in the past, and given its position in the Costa Rica market, the company is adequately set to meet its future targets in terms of profitability and quality of underwriting.

<b>Financial Performance Summary</b>	<b>2022 CRC (000)</b>	<b>2021 CRC (000)</b>	<b>2020 CRC (000)</b>	<b>2019 CRC (000)</b>	<b>2018 CRC (000)</b>
Pre-Tax Income	52,149,137	156,800,792	93,908,844	66,323,790	71,056,564
Net Income after Non-Controlling Interests	37,212,629	123,749,880	73,471,864	59,983,293	62,198,391

Source: BestLink® - Best's Financial Suite

<b>Operating and Performance Ratios (%)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Overall Performance:					
Return on Assets	1.6	5.4	3.3	2.8	3.0
Return on Capital and Surplus	3.3	11.3	7.0	6.0	6.9

Source: BestLink® - Best's Financial Suite

## Business Profile

INS was established in 1924 as an independent insurance company fully owned by the government of Costa Rica. In 1975, the company had all insurance and reinsurance operations in the form of a statutory monopoly until 2008 when the market was open for other participants. However, the company remains as the largest insurer in Costa Rica, underwriting life insurance lines, health insurance, automobile, property and casualty, surety bonds, and compulsory insurance, which includes workers' compensation, auto, and comprehensive crop insurance for the local market.

As of December 2022, INS presented USD 1.1 billion in GWP, expanding 11.3%, as economic activity in Costa Rica recovered after the challenging global economic situation. INS holds 64.6% of the Costa Rican market, and 72.8% of auto business lines.

The current insurance law, which was enacted in August 2008, states that the Costa Rican government provides a guarantee for all obligations arising from INS' insurance operations at the local level.

This guarantee however, does not apply to debt issued by INS or any operations outside of Costa Rica, directly or indirectly. INS is required by law from 2014 and onward to provide the Costa Rican government a dividend-type quota of 25% of its available net income besides the 4% contribution to the firefighters decentralized entity. Capital outflows are limited by law to the taxes and benefits described above. Difficult changes to the law would be needed to obtain additional resources from INS.

In 2016, the company implemented a new strategic plan to maintain its leadership in the market while putting emphasis on efficiency and sustainability of its own business. To accomplish this plan, it reorganized its business model by segments and abandoned some very specific products that were not profitable. The main objective of the strategic plan was to increase profitability, reduce costs, and make products more attractive for current and new customers.

For the above reasons, the company has started to participate in fronting businesses in Latin America looking for revenue diversification.

Business Profile is considered neutral for the rating. INS has an indisputable leadership in the Costa Rican market. While the degree of competition has increased in the last years, the company has made strategic changes to further diversify internationally, as well as significant efforts to remain competitive despite the currently challenging economic conditions. The company is also improving its distribution channels by reaching new brokers.

## Enterprise Risk Management

ERM continues to be developed by participating in the regulator's risk-based capitalization exercises, and arrangements to its risk manuals. Additionally, a risk appetite profile has been implemented. The company works with external consultants to further develop its ERM framework and implementation.

The risk appetite profile document is a starting point for the company to better develop its ERM capabilities. It properly identifies risks and sets the limits to those risks and a revision plan for when breached. Additionally, there is Risk Area in charge of overseeing all risks to the organization reporting to the board and to the CEO. A new actuarial function department took office in 2018 as well as a compliance position. The company also has in place an audit area reporting to the board as well as the appropriate committees for major risk categories. The company is able to identify the largest risks it has and its impact on the capital of the company.

ERM is considered appropriate for the size and complexity of the operations and its structure is in line with good practices.

## Reinsurance Summary

INS retains most of its business, and has a warranty given by law by the Costa Rican government for any of its insurance activities. Besides that financial protection, the company is obliged to follow reinsurance regulations specific to it as stated in the in the INS Regulation.

INS uses mainly proportional contracts in its reinsurance programs for life, property & casualty; and uses non-proportional for auto products, transport, marine, and personal accident products.

## **Enterprise Risk Management (Continued...)**

### **Environmental, Social & Governance**

AM Best considers INS' exposure to material environmental, social and corporate governance (ESG) risks to be low.

## Financial Statements

	12/31/2022		12/31/2022
	CRC (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	119,107,804	5.1	208,439
Bonds	1,465,134,615	62.5	2,563,986
Other Invested Assets	300,097,662	12.8	525,171
<b>Total Cash and Invested Assets</b>	<b>1,884,340,081</b>	<b>80.4</b>	<b>3,297,595</b>
Reinsurers' Share of Reserves	58,653,814	2.5	102,644
Debtors / Amounts Receivable	158,553,455	6.8	277,469
Other Assets	242,108,481	10.3	423,690
<b>Total Assets</b>	<b>2,343,655,831</b>	<b>100.0</b>	<b>4,101,398</b>
Unearned Premiums	88,740,804	3.8	155,296
Non-Life - Outstanding Claims	129,803,023	5.5	227,155
Life - Outstanding Claims	452,746,334	19.3	792,306
Life - Long Term Business	128,611,240	5.5	225,070
Other Technical Reserves	35,281,207	1.5	61,742
Total Gross Technical Reserves	835,182,608	35.6	1,461,570
Debt / Borrowings	7,098,004	0.3	12,422
Other Liabilities	419,705,742	17.9	734,485
<b>Total Liabilities</b>	<b>1,261,986,354</b>	<b>53.8</b>	<b>2,208,476</b>
Capital Stock	872,559,855	37.2	1,526,980
Retained Earnings	37,212,629	1.6	65,122
Other Capital and Surplus	171,896,993	7.3	300,820
<b>Total Capital and Surplus</b>	<b>1,081,669,477</b>	<b>46.2</b>	<b>1,892,922</b>
<b>Total Liabilities and Surplus</b>	<b>2,343,655,831</b>	<b>100.0</b>	<b>4,101,398</b>

Source: BestLink® - Best's Financial Suite  
 US \$ per Local Currency Unit .00175 = 1 Costa Rican Colon (CRC)

	12/31/2022			12/31/2022
	Non-Life CRC (000)	Life CRC (000)	Other CRC (000)	Total USD (000)
<b>Income Statement</b>				
Gross Premiums Written	...	...	...	657,366,920
Net Premiums Earned	...	...	...	582,311,390
Net Investment Income	...	...	89,995,529	89,995,529
Other Income	...	...	...	95,592,559
Total Revenue	...	...	89,995,529	767,899,478
Benefits and Claims	...	...	...	347,110,631
Net Operating and Other Expense	...	...	38,223,953	368,639,710
Total Benefits, Claims and Expenses	...	...	38,223,953	715,750,341
<b>Pre-Tax Income</b>	...	...	51,771,576	52,149,137
Income Taxes Incurred	...	...	...	14,936,508
<b>Net Income before Non-Controlling Interests</b>	...	...	...	37,212,629
<b>Net Income/(loss)</b>	...	...	...	37,212,629

Source: BestLink® - Best's Financial Suite  
 US \$ per Local Currency Unit .00175 = 1 Costa Rican Colon (CRC)

## Related Methodology and Criteria

Best's Credit Rating Methodology, 11/13/2020

Catastrophe Analysis in A.M. Best Ratings, 03/10/2023

Available Capital & Holding Company Analysis, 10/13/2017

Evaluating Country Risk, 05/04/2023

Scoring and Assessing Innovation, 02/27/2023

Understanding Global BCAR, 06/30/2022

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