

Best's Credit Rating Effective Date

May 19, 2022

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: [Best's Financial Report](#).

Instituto Nacional de Seguros

AMB #: 086238 | AIN #: AA-2381000

Best's Credit Ratings

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Strongest
Operating Performance	Strong
Business Profile	Neutral
Enterprise Risk Management	Appropriate

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**

- Profitability has shown a positive trend for the last three periods.
- 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 reclassify 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	59.0	57.0	56.0	55.0

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 CRC (000)	2020 CRC (000)	2019 CRC (000)	2018 CRC (000)	2017 CRC (000)
Net Premiums Written:					
Composite	513,312,263	519,527,484	525,282,324	485,142,470	494,746,413
Net Income	133,700,694	66,834,692	43,351,719	65,413,305	65,489,455
Total Assets	2,352,837,973	2,206,859,135	2,237,822,556	2,092,120,771	1,986,787,462
Total Capital and Surplus	1,145,369,208	1,036,224,505	1,054,276,048	931,772,078	861,438,850

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2021 CRC (000)	2020 CRC (000)	2019 CRC (000)	2018 CRC (000)	2017 CRC (000)	Weighted 5-Year Average
Profitability:						
Net Income Return on Revenue (%)	16.1	9.1	5.5	9.9	10.2	10.3
Net Income Return on Capital and Surplus (%)	12.3	6.4	4.4	7.3	7.9	7.7
Net Investment Yield (%)	6.7	6.2	7.0	5.5	5.1	6.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	44.8	50.1	49.8	52.1	57.4	...

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

INS 2021, risk-adjusted capitalization assessment was strongest, without changes from its 2020 level. 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.

Capital Generation Analysis	2021 CRC (000)	2020 CRC (000)	2019 CRC (000)	2018 CRC (000)	2017 CRC (000)
Beginning Capital and Surplus	1,036,224,505	1,054,276,048	931,772,078	861,438,851	796,206,434
Net Income	133,700,694	73,471,864	59,983,293	62,198,391	59,291,645
Net Unrealized Capital Gains (Losses)	-38,414,486	14,656,532	101,214,190	-7,719,693	-21,701,954
Change in Equalisation and Other Reserves	24,918,498	-22,356,042	-33,724,836	4,765,261	16,148,119
Net Change in Paid-In Capital and Surplus	62,411,861	-23,840,604	57,646,115	65,709,903	59,162,856
Other Changes in Capital and Surplus	-73,471,864	-59,983,293	-62,614,792	-54,620,635	-47,668,249
Net Change in Capital and Surplus	109,144,703	-18,051,543	122,503,970	70,333,227	65,232,417
Ending Capital and Surplus	1,145,369,208	1,036,224,505	1,054,276,048	931,772,078	861,438,851
Net Change in Capital and Surplus (%)	10.5	-1.7	13.1	8.2	8.2

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Liquidity Analysis (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	139.1	139.4	137.0	128.9	125.2
Total Investments to Total Liabilities	162.7	161.9	156.8	145.9	143.2

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Composition of Cash and Invested Assets	2021 CRC (000)	2020 CRC (000)	2019 CRC (000)	2018 CRC (000)	2017 CRC (000)
Total Cash and Invested Assets	1,964,041,177	1,895,829,227	1,855,834,164	1,692,519,765	1,610,948,565
Cash (%)	4.5	4.7	7.0	5.1	8.8
Bonds (%)	81.0	81.4	80.4	83.2	78.6
Real Estate, Mortgages and Loans (%)	9.7	9.9	8.8	7.0	7.6
Total Cash and Unaffiliated Invested Assets (%)	95.2	96.0	96.2	95.3	95.0
Investments in Affiliates (%)	4.8	4.0	3.8	4.7	5.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Operating Performance

During 2021, profitability improved in comparison to 2020, despite a higher combined ratio, consolidating a positive trend for the last 3 periods, mainly due to other non-technical activities, such as uncollectibles and reserve releases, as well as an increase in capital gains.

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 the reduction 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 improving bottom line results.

The results have shown improvement in the most recent years. 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 Rican market, the company is adequately set to meet its future targets in terms of profitability and quality of underwriting.

Financial Performance Summary	2021 CRC (000)	2020 CRC (000)	2019 CRC (000)	2018 CRC (000)	2017 CRC (000)
Pre-Tax Income	166,751,606	87,271,672	49,692,216	74,271,478	77,238,405
Net Income after Non-Controlling Interests	133,700,694	66,834,692	43,351,719	65,413,305	65,489,455

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	5.9	3.0	2.0	3.2	3.3
Return on Capital and Surplus	12.3	6.4	4.4	7.3	7.9

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 has exclusivity for underwriting compulsory insurance which include workers' compensation, auto, and comprehensive crop insurance for the local market.

As of December 2021, INS presented USD 939 million in GWP, contracting 0.3%, as economic activity in Costa Rica suffered from less domestic demand and infrastructure projects, and overall challenging global economic situation. INS holds 67% of the Costa Rican market, including 100% of compulsory insurance.

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 in addition to a captive segment. 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 advance in the implementation of best practices for risk management by developing quantitative models and new methodologies. Additionally, the risk appetite profile has been renewed. ERM is considered appropriate for the size and complexity of the operations as its structure is in line with good practices, however, the company will further develop its capacity as it moves forward towards Solvency II.

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.

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

	12/31/2021		12/31/2021
	CRC (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	89,126,997	3.8	141,712
Bonds	1,590,452,220	67.6	2,528,819
Other Invested Assets	284,461,960	12.1	452,295
Total Cash and Invested Assets	1,964,041,177	83.5	3,122,825
Reinsurers' Share of Reserves	51,942,692	2.2	82,589
Debtors / Amounts Receivable	161,033,920	6.8	256,044
Other Assets	175,820,184	7.5	279,554
Total Assets	2,352,837,973	100.0	3,741,012
Unearned Premiums	88,313,778	3.8	140,419
Non-Life - Outstanding Claims	114,497,209	4.9	182,051
Life - Outstanding Claims	443,495,068	18.8	705,157
Life - Long Term Business	127,236,843	5.4	202,307
Other Technical Reserves	32,830,135	1.4	52,200
Total Gross Technical Reserves	806,373,033	34.3	1,282,133
Debt / Borrowings	9,166,431	0.4	14,575
Other Liabilities	391,929,301	16.7	623,168
Total Liabilities	1,207,468,765	51.3	1,919,875
Capital Stock	744,355,359	31.6	1,183,525
Retained Earnings	133,700,694	5.7	212,584
Other Capital and Surplus	267,313,155	11.4	425,028
Total Capital and Surplus	1,145,369,208	48.7	1,821,137
Total Liabilities and Surplus	2,352,837,973	100.0	3,741,012

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit .00159 = 1 Costa Rican Colon (CRC)

	12/31/2021			12/31/2021
	Non-Life CRC (000)	Life CRC (000)	Other CRC (000)	Total USD (000)
Income Statement				
Gross Premiums Written	939,433
Net Premiums Earned	824,077
Net Investment Income	130,166,130	206,964
Other Income	292,881
Total Revenue	130,166,130	1,323,922
Benefits and Claims	510,632
Net Operating and Other Expense	17,413,119	548,155
Total Benefits, Claims and Expenses	17,413,119	1,058,787
Pre-Tax Income	112,753,011	265,135
Income Taxes Incurred	52,551
Net Income before Non-Controlling Interests	212,584
Net Income/(loss)	212,584

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit .00159 = 1 Costa Rican Colon (CRC)

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Evaluating Country Risk, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Global BCAR, 07/22/2021](#)

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