

NEWS RELEASE

AM Best Affirms Credit Ratings of BUPA México, Compañía de Seguros, S.A. de C.V.

10/12/2023

MEXICO CITY--(BUSINESS WIRE)-- **AM Best** has affirmed the Financial Strength Rating of C++ (Marginal), the Long-Term Issuer Credit Rating of "b+" (Marginal), and the Mexico National Scale Rating of "bbb.MX" (Good) of BUPA México, Compañía de Seguros, S.A. de C.V. (Bupa Mexico) (Mexico). The outlook of these Credit Ratings (ratings) is positive.

The ratings reflect Bupa Mexico's balance sheet strength, which AM Best assesses as weak, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management.

The positive outlooks reflect sustained improvement in the company's balance sheet strength underpinned by an adequate level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), following the change in its reinsurance program, and fully retained quality business.

Bupa Mexico is a subsidiary of The British United Provident Association Limited and is tied to the Bupa group's commercial strategy of expanding into Mexico's insurance market by leveraging its brand. Bupa Mexico's focus is on the individual and group major medical coverage segment, while the individual lines segment represents its biggest share of business, at approximately 89%. The company's target market has been small clients with high net worth; however, it is trying to diversify by opening coverage to other sectors, with a higher volume of lower premium business.

The company's historically favorable financial flexibility was achieved through the capital and reinsurance support historically provided by its ultimate parent. Beginning in third-quarter 2021, changes in the Mexico-based subsidiary's reinsurance program significantly raised its underwriting risk, pressuring BCAR. Nonetheless, the

company's flagship business, which previously was ceded for the most part, historically has demonstrated operating performance in line with industry benchmarks, enhancing the company's balance sheet strength assessment.

Bupa Mexico's business volume has outpaced the market for the past five years, resulting in a compound annual growth rate of 13.7%. However, an offsetting rating factor is the small size of the subsidiary, reflected in a market share of over 3% (as of December 2022) in an industry led by bigger participants. As of June 2023, Bupa Mexico posted a positive bottom-line result of MXN 90.5 million, which was mainly a result of contained claims, as well as its internal service team, which includes synergies between areas of customer service and a core business system. The company also has continued to reduce operating expenses; however, a challenging and concentrated operating environment raises uncertainty over the expected success of this new business strategy.

Positive rating actions could occur as a result of sustained improvement in balance sheet strength as a consequence of the new business strategy being successfully executed. Negative rating actions could occur if the strategic importance of the company to Bupa group decreases, which could diminish AM Best's expectation of parental support toward the Mexico-based subsidiary. Negative rating actions could also take place as a result of the execution risk derived from the new business strategy.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's **Recent Rating Activity** web page. For additional information regarding the use and limitations of Credit Rating opinions, please view **Guide to Best's Credit Ratings**. For information on the proper use of Best's Credit Ratings, Best's Performance Assessments, Best's Preliminary Credit Assessments and AM Best press releases, please view **Guide to Proper Use of Best's Ratings & Assessments**.

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