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Sompo Insurance Singapore Pte. Ltd.

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Sompo Insurance Singapore Pte. Ltd.

Major Rating Factor

- High likelihood of group support if needed as a highly strategic subsidiary of Sompo Group.

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A/Stable/--

Rationale

The rating on Sompo Insurance Singapore Pte. Ltd. (Sompo Singapore) reflects the insurer's important role to support the Japanese group's Asian strategy. We view Sompo Singapore as a highly strategic subsidiary of Sompo Group. The rating on Sompo Singapore is one notch lower than the 'a+' group credit profile of Sompo Group to reflect this status.

We believe the parent is highly unlikely to sell its interest in Sompo Singapore. Our assessment of Sompo Singapore's strategic importance to Sompo Group reflects our view that the company's structure and continued focus on local business are integral to the group's strategy. Historically, the group has shown a strong commitment to support Sompo Singapore through a net-worth maintenance agreement and capital injections when required (such as post Thailand flood crisis).

Sompo Singapore is closely linked to the group's name, reputation, and risk management, and is highly integrated with its parent through the group's Singapore-based regional office--Sompo Holdings (Asia) Pte. Ltd. The company continues to be an underwriting agent for the regional sister companies and once the risks are accepted they are placed with the home office in Japan. At the same time, Sompo Singapore remains focused on growing the local business while providing underwriting support to the group's overseas business. The company plans to achieve this growth through further diversification of business lines, product innovation, and enhancing its underwriting and system capabilities.

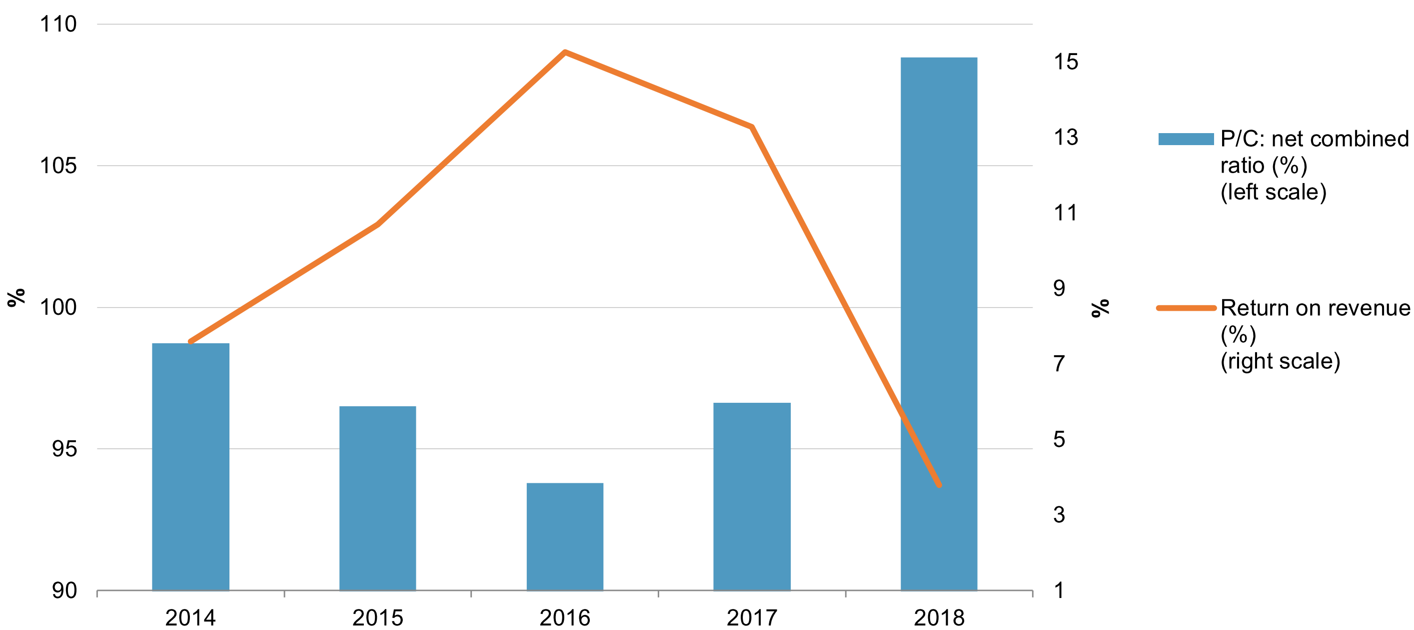
The company's integrated approach is reflected through its continued alignment with the group's strategy, its operation in similar lines of business, provision of underwriting support to the group, and ongoing guidance on risk management from its headquarters in Japan. Additionally, the parent uses Sompo Singapore to cross sell to its existing Japanese policyholders, mainly in the construction and trading businesses. Sompo Singapore continues to benefit from business referrals and technical support in areas of underwriting and investment from Sompo Group. However, we do not consider Sompo Singapore as material relative to the size of the group with about 1.5% of the group's capital and earnings, reflecting its modest contribution within the group. As such, we differentiate the rating by one notch from that on core subsidiaries of the group.

In our view, Sompo Singapore will continue to expand its Singapore portfolio, given its stable and profitable Japanese books. In the past few years, Sompo Singapore has enacted new underwriting guidelines, reduced its flood coverage and made revisions in its reinsurance structure. Sompo Group now has a whole account surplus treaty, with similar retention levels. While the reinsurance for the Singapore subsidiary is streamlined with the group, it continues to have local flexibility to manage coverage.

We expect Sompo Singapore's operating performance over the next two to three years to be largely in line with the parent group's expectations of combined ratios returning below 100%. This reflects the insurer's strategic focus to improve its bottom line through diversification and prudent underwriting. For 2018, combined ratio deteriorated to 108.8% mainly due to higher losses within a few of its major lines of motor, PA, and health. For the first half of 2019, the company continued to see a high, although improved, combined ratio of 104.9%. As the management team focuses on gradually strengthening its position within the Singapore market, we expect the insurer to underwrite new lines through product innovation, enhance its current product offerings, monitor costs, and further improve its risk management practices in line with the group.

Chart 1

Operating Performance

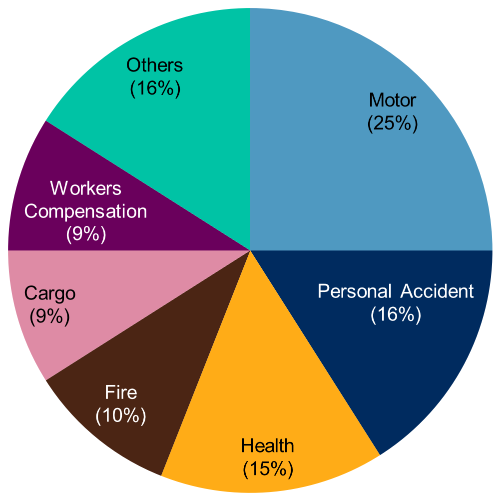


Source: Sompo Insurance Singapore Pte. Ltd.

We expect Sompo Singapore to maintain its competitive position over the next two years, as the company continues to reinforce the group's niche position in servicing Japanese corporate accounts. Sompo Singapore's size (in terms of premium income) remains modest in Singapore, generating 3.2% of total nonlife insurance premiums in 2018.

Chart 2

Business Portfolio Breakdown In Terms Of Gross Premium Written In 2018



Source: Sompo Insurance Singapore Pte. Ltd.

We expect the diversity in Sompo Singapore's portfolio to further increase, given its greater focus on the Singapore market. It has a well-diversified business mix in the Singapore nonlife insurance market at end of 2018.

We expect Sompo Singapore's capitalization to remain strong over the next two years, reflecting sound capital management and manageable risk exposures despite its modest capital size of Singapore dollar (S$) 299 million at year end 2018. We expect its capital adequacy ratio to be lower over the next two to three years though well above the regulatory minimum requirement mainly due to company's repatriation plans and impact from upcoming IFRS changes. For 2018, the regulatory solvency ratio was about 482%.

Outlook

The stable outlook on Sompo Singapore reflects the stable outlook on the core entities of Sompo Group. The outlook also reflects our expectation that the company will remain a highly strategic subsidiary of the group.

Downside scenario

We could downgrade Sompo Singapore if we lower our 'a+' group credit profile for Sompo Group. We could also downgrade Sompo Singapore if its importance to Sompo Group diminishes substantially, which we believe is unlikely in the next two years

Upside scenario

We could upgrade Sompo Singapore if we raise our group credit profile for Sompo Group. We also may raise the rating if Sompo Singapore's importance to Sompo Group improves considerably such that the company becomes core to the group. We consider this to be unlikely over the next two years as we do not expect the company to contribute materially to the group

Key Metrics

Table 1

Sompo Insurance Singapore Pte. Ltd.--Key Metrics

	--Year ended Dec. 31--				
(Mil. SGD)	**2018**	**2017**	**2016**	**2015**	**2014**
Gross premiums written	139.3	125.8	120.6	174.6	210.3
Net income (attributable to all shareholders)	5.3	13.9	13.3	12.4	10.0
Return on shareholders' equity (%)	1.8	4.8	4.1	3.4	2.9
Net investment yield (%)	2.3	1.8	1.7	1.3	1.3
Net combined ratio (%)	108.8	96.6	93.8	96.5	98.7
Return on revenue (%)	3.8	13.3	15.3	10.7	7.6

SGD--Singapore dollar.

Related Criteria

- Group Rating Methodology, July 1, 2019 Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Insurers Rating Methodology, July 1, 2019
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, Mon Jun 07 2010

Related Research

- Sompo Holdings' Core Companies Affirmed At 'A+', Thai Subsidiary Upgraded To 'A' After Criteria Change; Outlooks Stable , July 16, 2019

Ratings Detail (As Of January 21, 2020)*	
Operating Company Covered By This Report	
Sompo Insurance Singapore Pte. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Domicile	Singapore

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