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Ratings

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Sompo Insurance Singapore Pte. Ltd.

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Sompo Insurance Singapore Pte. Ltd.

Major Rating Factor

- Strong support from Japan-based Sompo group, given its status as a highly strategic subsidiary.

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 supporting the Japanese insurance group's strategy in Asia. We view Sompo Singapore as a highly strategic subsidiary of Sompo group and rate the insurer one notch lower than the 'a+' group credit profile of the Sompo group.

Close alignment with the parent's overseas expansion and growth strategy demonstrates Sompo Singapore's important role within the ASEAN region. We believe the parent is highly unlikely to sell its interest in the Singapore subsidiary. Our assessment of Sompo Singapore's strategic importance to the Sompo group reflects our view that the company's structure and continued focus on local businesses are integral to the group's strategy. Historically, the group has shown strong commitment to the insurer through a net worth maintenance agreement and with capital injections when required (such as after flooding in Thailand).

In our view, legal restructuring of Sompo Singapore carried out in early 2020 aligns with the group strategy of further strengthening its retail platform globally. Sompo Singapore was consolidated under Sompo International Holdings Ltd. (Sompo International), the group's overseas platform, as were a few other overseas subsidiaries.

We believe Sompo Singapore will remain closely linked with the group in terms of name, reputation, and risk management, and remain highly integrated with its parent through the latter's regional office--Sompo Holdings (Asia) Pte. Ltd. The company continues to be an underwriting agent for regional companies in the group; once risks are accepted, they are placed with Japan headquarters. At the same time, Sompo Singapore remains focused on expanding locally while providing underwriting support to group overseas business. The company plans to expand by further diversifying business lines, offering innovative products, and enhancing its underwriting and system capabilities.

The company's integrated approach remains 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 existing Japanese policyholders, mainly in the construction and trading businesses. The insurer continues to benefit from business referrals and technical support in areas of underwriting and investment from Sompo group. However, we do not equalize ratings with the parent as 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.

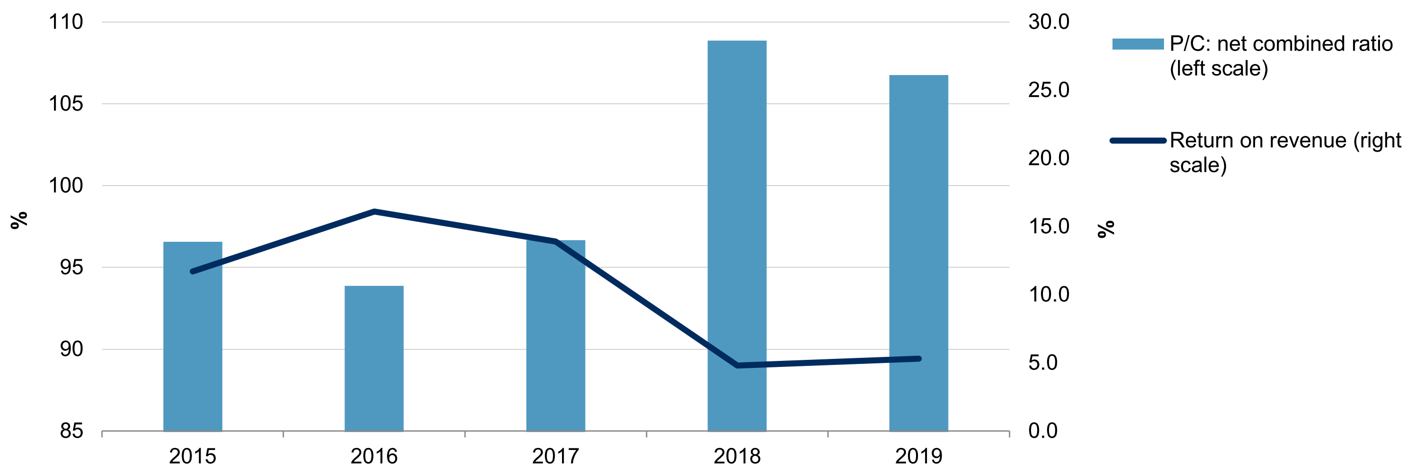
We expect sustained pressure on earnings through 2021, given ongoing measures to improve underwriting discipline and weakened market conditions. We believe the combined ratio will gradually return to below 100%, in line with the parent group's expectations. This reflects the insurer's focus on improving its bottom line through diversification, prudent underwriting, and better cost controls. As of June 2020, the insurer had reported a combined ratio of about 84.9%. For 2019, combined ratio improved to 107% from 109%, because of lower losses in major lines such as motor and health.

In the past few years, the insurer has enacted new underwriting guidelines, reduced its flood coverage, and revised its reinsurance structure. For 2020, Sompo Singapore's combined XOL cover for the marine and non-marine segments and increased retentions in medical lines will further contribute to cost efficiencies and improved claims experience. While the reinsurance for the Singapore subsidiary is streamlined with the group it continues to have local flexibility to manage coverage.

Chart 1

Profitability Is Gradually Recovering

Sompo Insurance Singapore Pte. Ltd.'s operating performance



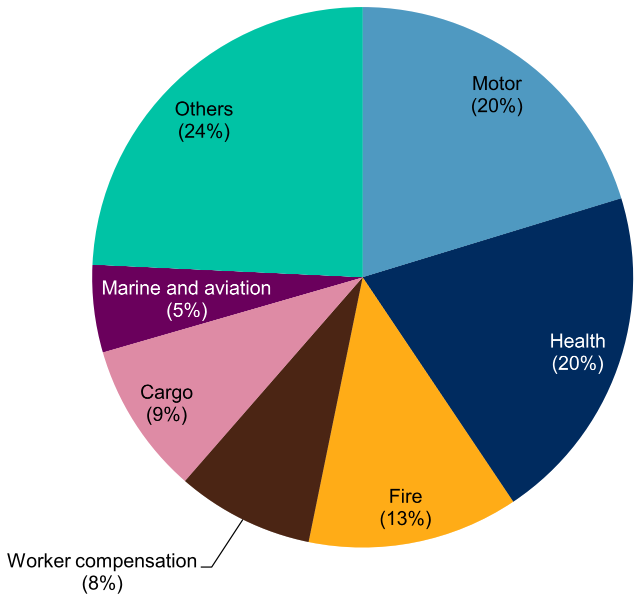
P/C--Property/casualty. Source: S&P Global Ratings, based on company materials.

Sompo Singapore should maintain its moderate presence within the competitive Singapore market, underpinned by its niche position in servicing Japanese corporate accounts. In our view, the insurer will sustain profitability through its stable Japanese accounts, while expanding its Singapore portfolio. The insurer's size (in terms of premium income) remains modest in Singapore, generating around 3.1% of total non-life insurance premiums in the first half of 2020.

In our view, the diversity in Sompo Singapore's portfolio will further increase (refer business mix in chart 2), given management's greater focus on the Singapore market. We expect the insurer to underwrite new lines through product innovation, enhance current product offerings, monitor costs, and further improve risk management practices in line with the group.

Chart 2

Business Is Diversified
Sompo Insurance Singapore Pte. Ltd.'s business portfolio breakdown in terms of gross premiums written



As of the second quarter of 2020. Source: Sompo Insurance Singapore Pte. Ltd.

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$) 303 million as of the end of 2019. We expect its capital adequacy ratio to be lower over the next two to three years, but well above the regulatory minimum requirement, mainly because of the company's repatriation plans. As of June 30, 2020, the regulatory solvency ratio was about 481% under Singapore's Risk-Based Capital 2 (RBC2) framework.

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

Sompo Insurance Singapore Pte. Ltd.--Key Metrics

	--Year ended Dec. 31--				
(Mil. S$)	**2019**	**2018**	**2017**	**2016**	**2015**
Gross premiums written	144.7	139.3	125.8	120.6	174.6
Net income (attributable to all shareholders)	1.8	5.3	13.9	13.3	12.4
Return on shareholders' equity (%)	0.6	1.8	4.8	4.1	3.4
Net investment yield (%)	2.5	2.3	1.8	1.7	1.3
Net combined ratio (%)	106.7	108.8	96.6	93.8	96.5
Return on revenue (%)	5.3	4.8	13.9	16.1	11.7

S$--Singapore dollar. Source: S&P Global Ratings, based on company materials.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Sompo Holdings Group's Core Subsidiaries, June 29, 2020

Ratings Detail (As Of December 16, 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

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.