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Sompo Insurance Singapore Pte. Ltd.

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Sompo Insurance Singapore Pte. Ltd.

Major Rating Factor

- A highly strategically important 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 status as a highly strategic subsidiary of Sompo Group (core subsidiaries rated A+/Stable/--). The rating on Sompo Singapore is one notch lower than the 'a+' group credit profile of Sompo Group to reflect this status. In May 2016, the legal name for the subsidiary was changed to Sompo Insurance Singapore Pte. Ltd. from Tenet Sompo Insurance Pte. Ltd. This is in line with the group's strategy to strengthen the "Sompo" brand by renaming its subsidiaries with the same brand name.

Under the group's revised business model in 2015, Sompo Singapore started operating as an underwriting agent for the head office, rather than as a reinsurance hub. Our assessment of Sompo Singapore's strategic importance to Sompo Group reflects our view that the company's revised structure and continued focus on local business are integral to the group's strategy. In 2016, Sompo Singapore repatriated about Singapore dollars (S$) 100 million to the parent due to excess capital at the subsidiary level following the change in its business model and its reduced focus on overseas business. Historically, the group has shown a strong commitment to support Sompo Singapore through a networth maintenance agreement. The parent injected S$333.7 million in 2011 and S$50 million in 2012 to support Sompo Singapore (previously named Tenet Sompo), following losses after the Thailand flood crisis.

We believe the parent is highly unlikely to sell its interest in Sompo Singapore. The company is closely linked to the group's name, reputation, and risk management, and is highly integrated with its parent through the latter's regional office--Sompo Holdings (Asia) Pte. Ltd. In line with the group's revised business model in 2015, the company is now 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 continues to focus 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.

We expect Sompo Singapore's operating performance to be largely in line with the expectations of the parent group's management over the next two to three years, at least. This is despite a volatile underwriting performance over the past five years. However, we do not consider Sompo Singapore as a core entity of the parent group because it accounts for less than 5% of the group's capital and earnings.

We expect Sompo Singapore to maintain its competitive position over the next two years at least. The company's overall competitive position has not changed significantly since it assumed the business of the Singapore branch of Japan-based Nipponkoa Insurance Co. Ltd. in early 2015. This move followed a merger at the parent level in September 2014. However, the enlarged entity will reinforce the group's niche position in servicing Japanese corporate accounts. Sompo Singapore's size (in terms of premium income) is modest in Singapore, generating 2.9% of total non-life insurance premiums in 2015.

We expect the diversity in Sompo Singapore's portfolio to further increase, given its greater focus on the Singapore market. The company's business portfolio has become more diversified over the years following a merger with sister company Tenet Insurance Co. Ltd. in January 2013 and Nipponkoa in January 2014. Revenue from personal lines business has increased. For year-end 2015, fire (34%), motor (15%), cargo (11%), personal accident (9%), and work injury compensation (7%) were the company's largest business lines.

In our view, Sompo Singapore is in a position to expand its Singapore portfolio, given its stable and profitable Japanese books, strengthened by the Nipponkoa merger. Sompo Singapore has enacted new underwriting guidelines and reduced flood coverage in the past few years. After the revision in its structure, the company has streamlined its reinsurance by removing proportional insurance from its property treaty to reduce its regional and catastrophe exposure. Sompo Group now has a whole account surplus treaty, with similar retention levels.

We expect Sompo Singapore's operating performance to remain adequate over the next two years, despite a volatile underwriting performance over the past few years. Due to the structural changes, we expect the overseas business to decline in the coming years. However, the management team is focusing on further development of the Singapore business by entering into new lines, through product innovation and enhancement, and by improving its risk management in coordination with the group. The combined ratio improved marginally to 96.5% in 2015, from 99% in 2014, mainly due to the fire segment's better underwriting results along with the decline in overseas business. A combined ratio of less than 100% indicates an underwriting profit.

Outlook

The stable outlook on Sompo Singapore reflects the stable outlook on the core entities of the 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. However, we consider the likelihood of an upgrade to be remote as we do not expect the company to contribute materially to the group.

Financial Statistics

Table 1

Sompo Insurance Singapore Pte. Ltd. Competitive Position

	--Year-ended Dec. 31--				
(Mil. S$)	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written	174.6	210.3	144.9	83.2	82.0
Change in gross premiums written (%)	(17.0)	45.1	74.3	1.4	27.8
Net premiums written	99.3	104.9	72.4	19.5	22.8
Change in net premiums written (%)	(5.4)	45.0	272.0	(14.6)	(17.6)
Net premiums earned	101.5	89.2	59.6	19.7	24.6
P/C: reinsurance utilization - premiums written (%)	43.2	50.1	50.1	76.6	72.2

S$--Singapore dollar.

Table 2

Sompo Insurance Singapore Pte. Ltd. Capitalization Statistics

	--Year-ended Dec. 31--				
(Mil. S$)	**2015**	**2014**	**2013**	**2012**	**2011**
Common shareholders' equity	368.1	357.7	346.6	222.3	103.8
Change in common shareholders' equity (%)	2.9	3.2	55.9	114.2	(13.1)
Total reported capital	368.1	357.7	346.6	222.3	103.8
Change in total capital (reported) (%)	2.9	3.2	55.9	114.2	(13.1)

S$--Singapore dollar.

Table 3

Sompo Insurance Singapore Pte. Ltd. Earnings Statistics

	--Year-ended Dec. 31--				
(Mil. S$)	**2015**	**2014**	**2013**	**2012**	**2011**
Total revenue	110.7	96.1	64.9	22.9	29.4
EBIT adjusted	12.0	7.3	35.7	70.3	(351.6)
EBITDA adjusted	12.9	8.1	36.7	70.6	(351.4)
Net income (attributable to all shareholders)	12.4	10.0	41.3	68.3	(345.6)
Return on revenue (%)	10.9	7.6	55.0	307.6	(1,195.5)
Return on shareholders' equity (reported) (%)	3.4	2.9	14.5	41.9	(309.6)
P/C: net expense ratio (%)	54.7	47.9	66.8	84.2	39.6
P/C: net loss ratio (%)	41.8	50.8	(14.8)	(326.1)	1,510.9
P/C: net combined ratio (%)	96.5	98.7	52.0	(241.9)	1,550.5

S$--Singapore dollar. P/C--Property and casualty.

Table 4

Sompo Insurance Singapore Pte. Ltd. Risk Position					
	--Year-ended Dec. 31--				
(Mil. S$)	**2015**	**2014**	**2013**	**2012**	**2011**
Total invested assets	476.9	445.5	419.9	292.2	486.6
Net investment income	6.4	5.6	3.9	1.9	4.1
Net investment yield (%)	1.4	1.3	1.1	0.5	1.3
Net investment yield including realized capital gains/(losses) (%)	1.7	1.7	1.6	(0.9)	1.2
Portfolio composition (% of general account invested assets)					
Cash and short term investments	63.1	75.0	72.3	94.9	66.7
Bonds	33.9	21.3	24.1	5.1	33.3
Equity investments	2.6	3.7	3.6	0.0	0.0
Investments in affiliates	0.4	N/A	N/A	N/A	N/A

S$--Singapore dollar. N/A--Not applicable.

Related Criteria And Research

Related Criteria

- Standard & Poor's National and Regional Scale Mapping Tables, June 1, 2016
- National and Regional Scale Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Ratings On SOMPO Holdings' Subsidiaries Affirmed After Announcement To Acquire Endurance Specialty Holdings, Oct. 6, 2016
- Sompo Japan Nipponkoa Group's Core Subsidiaries, May 19, 2016

Ratings Detail (As Of December 20, 2016)	
Operating Company Covered By This Report	
Sompo Insurance Singapore Pte. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
ASEAN Regional Scale	axAAA/--/--
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.