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## Sompo Insurance Singapore Pte. Ltd.

**Primary Credit Analyst:**

Trupti U Kulkarni, Singapore (65) 6216-1090; [trupti.kulkarni@spglobal.com](mailto:trupti.kulkarni@spglobal.com)

**Secondary Contact:**

Billy Teh, Singapore (65) 6216-1069; [billy.teh@spglobal.com](mailto:billy.teh@spglobal.com)

**Research Contributor:**

Ankeet Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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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.

We believe the parent is highly unlikely to sell its interest in Sompo Singapore. Under the group's revised business model (since 2015), the Singapore subsidiary 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 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 network 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.

Sompo Singapore 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. 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.

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 based on the improving trend in underwriting performance over the past three 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, and therefore is not material relative to the size of the group.

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 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 2.8% of total non-life insurance premiums in 2016.

We expect the diversity in Sompo Singapore's portfolio to further increase, given its greater focus on the Singapore market. Revenue from personal lines business has increased. For 2016, the insurer had a diversified business mix in the Singapore non-life insurance market with motor (24%), personal accident (16%), fire (14%), health (12%), work injury compensation (11%), cargo (7%), and miscellaneous lines (16%).

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. In the past few years, Sompo Singapore has enacted new underwriting guidelines and reduced its flood coverage. 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, as reflected in improving underwriting performance since 2014. 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 93.9% in 2016, from 96.5% in 2015, mainly due to the fire and motor segment's better underwriting results along with the intended 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. We could also upgrade Sompo Singapore if its importance to the Sompo Group improves considerably such that the company becomes core to the group. We consider the likelihood of this 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\$)	2016	2015	2014	2013	2012
Gross premiums written	120.6	174.6	210.3	144.9	83.2
Change in Gross Premiums Written (%)	(31.0)	(17.0)	45.1	74.3	1.4
Net premiums written	79.6	99.3	104.9	72.4	19.5
Change in Net Premiums Written (%)	(19.8)	(5.4)	45.0	272.0	(14.6)
P/C: reinsurance utilization - premiums written (%)	34.0	43.2	50.1	50.1	76.6

S\$--Singapore dollar.

**Table 2**

Sompo Insurance Singapore Pte. Ltd. Capitalization Statistics					
	--Year-ended Dec. 31--				
(Mil. S\$)	2016	2015	2014	2013	2012
Common shareholders' equity	281.2	368.1	357.7	346.6	222.3
Change in common shareholders' equity (%)	(23.6)	2.9	3.2	55.9	114.2
Total reported capital	281.2	368.1	357.7	346.6	222.3
Change in total capital (reported) (%)	(23.6)	2.9	3.2	55.9	114.2

S\$--Singapore dollar.

**Table 3**

Sompo Insurance Singapore Pte. Ltd. Earnings Statistics					
	--Year-ended Dec. 31--				
(Mil. S\$)	2016	2015	2014	2013	2012
Total revenue	101.1	110.7	96.1	64.9	22.9
EBIT adjusted	15.3	12.0	7.3	35.7	70.3
EBITDA adjusted	16.2	12.9	8.1	36.7	70.6
Net income (attributable to all shareholders)	13.3	12.4	10.0	41.3	68.3
Return on revenue (%)	15.2	10.9	7.6	55.0	307.6
Return on shareholders' equity (reported) (%)	4.1	3.4	2.9	14.5	41.9
P/C: net expense ratio (%)	58.8	54.7	47.9	66.8	84.2
P/C: net loss ratio (%)	35.0	41.8	50.8	(14.8)	(326.1)
P/C: net combined ratio (%)	93.8	96.5	98.7	52.0	(241.9)

S\$--Singapore dollar.

**Table 4**

Sompo Insurance Singapore Pte. Ltd. Risk Position					
	--Year-ended Dec. 31--				
(Mil. S\$)	2016	2015	2014	2013	2012
Total invested assets	372.0	478.9	445.5	419.9	292.2

Table 4

Sompo Insurance Singapore Pte. Ltd. Risk Position (cont.)					
(Mil. S\$)	--Year-ended Dec. 31--				
	2016	2015	2014	2013	2012
Net investment income	7.2	6.4	5.6	3.9	1.9
Net investment yield (%)	1.7	1.4	1.3	1.1	0.5
Net investment yield including realized capital gains/(losses) (%)	1.6	1.7	1.7	1.6	(0.9)
Cash and short term investments (%)	51.1	63.2	75.0	72.3	94.9
Bonds (%)	45.1	33.8	21.3	24.1	5.1
Equity investments (%)	3.4	2.6	3.7	3.6	0.0
Investments in affiliates (%)	0.5	0.4	N/A	N/A	N/A

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

## Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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 Japan Nipponkoa Group's Core Subsidiaries, May 18, 2017

### Ratings Detail (As Of January 9, 2018)

#### 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/--

**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.

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