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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.

We believe the parent is highly unlikely to sell its interest in Sompo Singapore. Sompo Singapore has been operating as an underwriting agent for the head office since 2015. 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. However, 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 net worth 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 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 enhancement of 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 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's operating performance over the next two to three years to be largely in line with the expectations of the parent group's management. Although combined ratios improved in 2014-2016, there was a slight reversal in trend in 2017. The combined ratio deteriorated on account of higher losses within multiple segments such as motor, workers compensation, and fire.

As anticipated, overseas business has declined in recent years due to structural changes. However, the management team is focusing on further development of the Singapore business by entering into new lines through product innovation and enhancement as well as by improving its risk management in coordination with the group. The combined ratio weakened slightly to 96.6% in 2017, from 93.8% in 2016, mainly due to an increase in loss ratio for some lines. A combined ratio of less than 100% indicates an underwriting profit.

We expect Sompo Singapore to maintain its competitive position for at least the next two years. 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. However, 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 3.0% of total non-life insurance premiums in 2017.

We expect the diversity in Sompo Singapore's portfolio to further increase, given its greater focus on the Singapore market. Revenue from the personal lines business has increased. For 2017, the insurer had a diversified business mix that included motor (26%), personal accident (16%), fire (13%), health (15%), work injury compensation (10%), cargo & hull (7%), and miscellaneous lines (13%).

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 business 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.

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 Statistics

Sompo Insurance Singapore Pte. Ltd. Key Metrics

	--Year-ended Dec. 31--				
	2017	**2016**	**2015**	**2014**	**2013**
Gross premiums written (mil. S$)	125.8	120.6	174.6	210.3	144.9
Net income (attributable to all shareholders) (mil. S$)	13.9	13.3	12.4	10	41.3
Return on shareholders' equity (reported) (%)	4.8	4.1	3.4	2.9	14.5
Net investment yield (%)	1.8	1.7	1.4	1.3	1.1
Net investment yield including realized capital gains or losses (%)	2.1	1.6	1.7	1.7	1.6
Net combined ratio (%)	96.6	93.8	96.5	98.7	52
Return on revenue (%)	13.3	15.2	10.9	7.6	55

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- 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, July 2, 2018

Ratings Detail (As Of January 17, 2019)	
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.