

# RatingsDirect®

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## Bangkok Insurance Public Co. Ltd.

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# Bangkok Insurance Public Co. Ltd.

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a-	+	Modifiers	0	=	a-	+	0	=	Financial Strength Rating
Business Risk	Strong		ERM and Management	0		Liquidity	0	Group Support	0	A-/Stable/--
Financial Risk	Moderately Strong		Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	

\*Stand-alone credit profile.  
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

## Major Rating Factors

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Strong competitive position stemming from the insurer's consistent presence among the top three players in Thailand's P&amp;C insurance market, and its good brand recognition.</li> <li>Healthy capital adequacy buffer, despite the high equity holdings.</li> <li>Exceptional liquidity with no refinancing needs and ample liquid assets.</li> </ul>	<ul style="list-style-type: none"> <li>Modest risk position because of high concentration in the equity and investment portfolio.</li> <li>Material exposure to Thailand based assets, although the insurer can withstand a hypothetical Thailand sovereign default on foreign-currency debt.</li> </ul>

## Rationale

The rating on Bangkok Insurance Public Co. Ltd., a Thailand-based property and casualty (P/C) insurer, reflects our view of the company's strong competitive position supplemented by its solid operating performance and brand recognition. Bangkok Insurance also has exceptional liquidity with no constraints in meeting its obligations, given steady premium income and investment portfolio.

Counterbalancing these factors are Bangkok Insurance's high equity investments and some sectoral and obligor concentration. The insurer's outsized equity investments also expose it to material revaluation swings on its available for sale (AFS) portfolio.

**Outlook: Stable**

The stable outlook reflects our view that Bangkok Insurance will maintain its strong competitive position, capitalization, and earnings over the next 24 months.

We expect the insurer's profitability to stay at current levels over the next 24 months due to tepid economic growth in Thailand and strong price competition. In our view Bangkok Insurance will maintain consistent operating performances due to its prudent underwriting and tightened risk exposure management over the years.

**Downside scenario**

We may lower the rating if Bangkok Insurance's capitalization weakens (e.g. from a significant deterioration in equity markets) or its catastrophe risks increase substantially. Such a scenario is unlikely over the next 24 months, in our view. We may also lower the rating if we believe the insurer's susceptibility to a sovereign default has increased or if our industry and country risk assessment on Thailand's P/C sector deteriorates.

**Upside scenario**

An upgrade is less likely in the next 24 months. We could upgrade Bangkok Insurance if the insurer's financial risk profile strengthens, which could happen due to: (1) consistently higher prospective capital adequacy levels with no deterioration in risk position and financial flexibility; or (2) an improved risk position through reduced investment exposure.

**Macroeconomic Assumptions**

- Subdued real GDP growth for Thailand of around 4% for 2018-2020.
- Inflation of 1.1%-1.8% over the period.
- Moderate increase in policy rates during this time.

**Key Metrics**

<b>(Mil. THB)</b>	<b>2020F</b>	<b>2019F</b>	<b>2018F</b>	<b>2017</b>	<b>2016</b>
Gross premiums written	17,417.0	16,748.0	16,260.0	15,940.9	16,031.3
Net income (attributable to all shareholders)	2,287.0	2,271.0	2,209.0	2,403.1	2,425.8
Return on revenue (%)	20.1	20.6	20.5	21.5	22.4
Return on shareholders' equity (reported) (%)	5-7	5-7	5-7	7.0	7.2
P/C: net combined ratio (%)	89.0	88.5	88.5	87.3	86.1
Net investment yield (%)	2.2	2.2	2.2	2.2	2.1
S&P Global Ratings capital adequacy	Very strong	Very strong	Very strong	Very strong	Very strong

F--Forecast.

## **Business Risk Profile: Strong**

Bangkok Insurance operates in the Thai P/C insurance market, which we assess as having intermediate industry risk. We see market growth prospects, profitability (as measured by return on equity [ROE]), product risk, barriers to entry, and the institutional framework as neutral factors in our assessment of industry risk. In our opinion, economic uncertainty and premium growth constraints persist in Thailand due to lower domestic spending and delays in government projects.

We believe Bangkok Insurance will maintain its strong competitive position over the next two years, supported by its good market presence and brand recognition. The company ranks third among P/C insurers in Thailand, with a 7.0% market share of direct premiums as of Dec. 31, 2017, and 7.1% as of Aug. 31, 2018. Bangkok Insurance has maintained its position as the third-largest insurer, with a market share of 6.9%-7.7% for the past seven years.

Bangkok Insurance's strong brand and reputation are underpinned by the insurer's traditional strength in commercial lines, where it has strong client relationships. Nonetheless, personal lines contribute considerably to the business mix, with particular focus on motor, personal accident, and health. The company's premium growth is well supported through a multi-channel approach that includes bancassurance, telemarketing, brokers, and agents. The company's direct and employed sales force, along with its bancassurance and tied agents, substantially contributes to its steady stream of premiums. Regional expansion remains one of the key growth strategies for Bangkok Insurance. We expect the insurer to maintain a strategic mindset toward branch expansion as it positions itself to benefit from the Association of Southeast Asian Nations Economic Community integration over the next few years.

## **Financial Risk Profile: Moderately Strong**

We expect Bangkok Insurance's capital and earnings to remain strong over the next 12-24 months. The insurer's very strong capital adequacy levels as of end-2017 reflect its stable earnings over the past couple of years and a marginal reduction in equity risks. Bangkok Insurance reported a revaluation loss of Thai baht (THB) 2.9 billion on its AFS portfolio in the first half of 2018. We expect the insurer to maintain very strong capital adequacy over the next 12-24 months despite slower growth in overall capitalization and earnings.

Bangkok Insurance is likely to maintain its prudent underwriting policy and strategy. We believe the insurer's measures to reduce its risk exposure will limit the impact of future natural catastrophe losses on its capital base. However, a slower pace of economic growth, and competitive market conditions in Thailand will likely increase pressure on the company's margin. We expect the insurer's combined ratio to be 85%-90% in 2018-2020 (a ratio of less than 100% indicates underwriting profit).

We anticipate that Bangkok Insurance's risk position will remain moderate over the next 24 months. The insurer allocates about 76.5% of its invested assets to high-risk investments, comprising equity, loans, and other investments. Bangkok Insurance's investment portfolio also has some sector and obligor concentration. The company's equity portfolio is concentrated on three family-related entities: Bangkok Bank Public Co. Ltd., Bumrungrad Hospital Public Co. Ltd., and Bangkok Life Assurance Public Co. Ltd. These three investments are long-term holdings and constitute

about 59.6% of the invested assets.

Bangkok Insurance has adequate financial flexibility, in our view, reflecting its access to a moderate range of capital resources (as a listed company) and external liquidity. The insurer has no outstanding debt, and we do not expect its leverage to increase over the next two years.

## **Other Assessments**

We consider Bangkok Insurance's enterprise risk management (ERM) to be adequate. The company's risk exposure is straightforward, and it has processes to monitor and control risks. Investment risks appear broadly controlled except for investments in related entities. The company's catastrophe risk controls appear simple (such as monitoring of flood exposure and treaty limits), similar to those of other Thai companies.

We expect Bangkok Insurance to continue to enhance its ERM practices to effectively support its strategic plans and growth targets. The insurer has in recent years made minor organizational changes, setting up an ERM division with a moderately articulated framework. The ERM framework follows the key risk indicators metrics model, which is further categorized under corporate and department level targets. The ERM division has several scheduled meetings on an annual or quarterly basis to enable timely communication across different levels

Bangkok Insurance's management and governance is satisfactory, in our opinion. The Sophonpanich family has a high level of controlling interest in the company's shareholding structure. However, this does not necessarily translate to board and executive management control. Historically, a professional management team and a majority independent board (nine independent directors out of 12) have effectively served the interests of all stakeholders, and not exclusively of the controlling shareholders. The board maintains sufficient independence from management to provide effective oversight. The management team has extensive knowledge and industry experience, and its strategy has been consistent with its capabilities

We regard Bangkok Insurance's liquidity as exceptional, given its sufficient holdings of liquid assets and a strong liquidity ratio of 4.6x as of Dec. 31, 2017. We don't expect the company to have any liquidity constraints in meeting its obligations over the next two years due to its expected cash flows from premium income and its investment portfolio. We do not see factors that could strain the insurer's liquidity. These include material amounts of confidence-sensitive liabilities, collateral-posting requirements, or adverse debt covenants or rating triggers.

### **Sovereign risk**

We apply a test of hypothetical sovereign default on insurers that we rate higher than the sovereign that is their domicile and which have material exposure to investments in that domicile. We assess the potential impact of a hypothetical Thai sovereign default on Bangkok Insurance's invested assets, based on a hypothetical stress scenario. We estimate that the haircuts associated with the capital test would not lead to a full depletion of Bangkok Insurance's regulatory solvency capital, and the insurer's stressed liquidity ratio will exceed 100%. We also believe that Thailand's insurance industry regulator is unlikely to intervene in the operations of Bangkok Insurance if the sovereign defaults. Bangkok Insurance therefore passes our sovereign default stress test.

## Ratings Score Snapshot

<b>Financial Strength Rating</b>	<b>A-/Stable</b>
SACP	a-
Anchor	a-
Business Risk Profile	Strong
IICRA*	Intermediate Risk
Competitive Position	Strong
Financial Risk Profile	Moderately Strong
Capital & Earnings	Strong
Risk Position	Moderate Risk
Financial Flexibility	Adequate
Modifiers	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

\*Insurance Industry And Country Risk Assessment.

## Related Criteria

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 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

## Ratings Detail (As Of November 22, 2018)

### Operating Company Covered By This Report

#### **Bangkok Insurance Public Co. Ltd.**

Financial Strength Rating

*Local Currency*

A-/Stable/--

Issuer Credit Rating

*Local Currency*

A-/Stable/--

**Domicile**

Thailand

**Ratings Detail (As Of November 22, 2018) (cont.)**

\*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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