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## Bangkok Insurance Public Co. Ltd.

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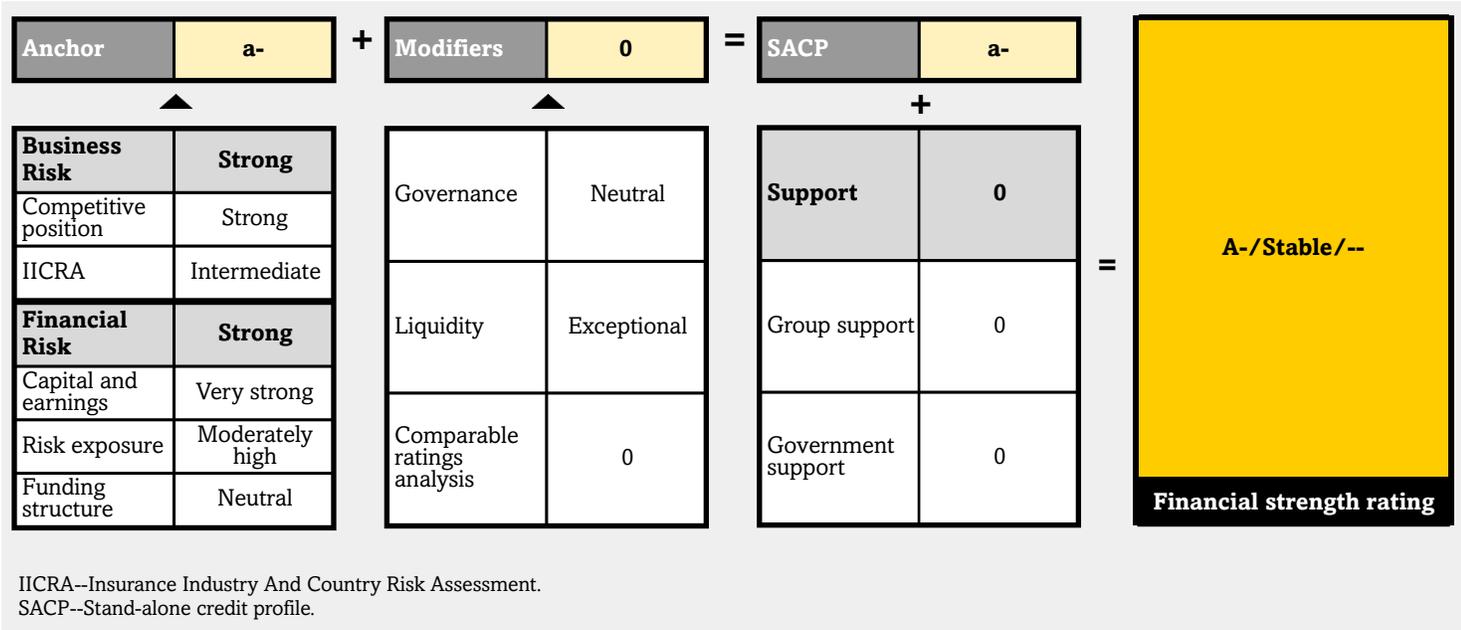
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# Bangkok Insurance Public Co. Ltd.



## Credit Highlights

### Overview

Key strengths	Key risks
Strong market position in Thailand with established franchise and broad distribution network.	Concentrated equity investment holdings.
Healthy capital buffer with ability to withstand our hypothetical sovereign stress scenario.	Sound underwriting performance under strain from COVID-19-related claims.
Exceptional liquidity profile with limited refinancing needs.	

**Bangkok Insurance Public Co. Ltd. will maintain its strong competitive position in the Thai property and casualty (P&C) insurance market.** The insurer's established franchise and broad product offering underpin its market leadership. We expect the insurer's prudent underwriting and strong distribution arrangements to attract and maintain quality business.

**Healthy capital buffer to remain despite expected weaker underwriting performance and market volatility.** The company's very strong capital buffer is supported by solid underwriting performance from 2020, despite material revaluation losses on its equity investments. Over the next two years, however, we expect a slightly weaker underwriting performance because of a surge in COVID-19-related lump-sum claims. This should be offset to a degree by the revaluation gain of Thai baht (THB) 1.9 billion on its available-for-sale portfolio, which includes bonds and equities in first half of 2021.

**Bangkok Insurance has a moderately high-risk exposure because of sector and obligor concentrations.** The insurer allocates about 62% of its invested assets to high-risk investments, comprising equities, loans, and other investments. The company's substantial concentration in three equity stocks highlights its sensitivity to market swings. While these holdings have been long-term, Bangkok Insurance continues to hold sizeable investments (about 40% of invested assets) in three family-related entities: Bangkok Bank Public Co. Ltd., Bumrungrad Hospital Public Co. Ltd., and

Bangkok Life Assurance Public Co. Ltd.

**Outlook: Stable**

The stable outlook reflects our view that the insurer will maintain its dominance in the Thai P&C insurance market, supported by business prudence and tightened risk exposure management. We expect Bangkok Insurance's capital buffer to remain supportive of its credit profile, underpinned by its prospective underwriting profits over the next 24 months.

**Downside scenario**

We may lower the rating if the company's capitalization weakens because of a decline in underwriting performance and persistent deterioration in equity markets, and a resulting substantial capital impairment. We could also lower the rating if Bangkok Insurance's catastrophe risks increase substantially; we view this as unlikely over the next 24 months.

We may also downgrade the company 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**

We could upgrade Bangkok Insurance in the next 24 months, if its financial risk profile strengthens, which could happen due to: (1) consistently higher prospective levels of capital adequacy, with no deterioration in the company's risk exposure and funding structure; or (2) improved risk exposure by reducing investment concentration or increasing investment diversification.

**Key Assumptions**

- A gradual growth in real GDP in the range of 1.1% to 4.2% for the forecast period (2021-2023).
- Inflation will be range-bound between 0.9% to 1.1% for the forecast period.
- Policy rates will remain low and flat over the next two years.

**Bangkok Insurance Public Co. Ltd. --Key Metrics**

(Mil. THB)	--Year-ended Dec. 31--					
	2023f	2022f	2021f	2020	2019	2018
Gross premiums written	26,333.0	24,842.0	23,773.0	22,858.0	21,009.0	17,326.2
Net income (attributable to all shareholders)	2,721.0	1,514.0	932.0	2,706.0	2,451.0	2,406.8
Financial leverage (%)	2.5	2.6	2.6	2.6	2.0	0.9
Return on shareholders' equity (%)	8.9	5.1	3.1	8.8	7.4	6.9
Net investment yield (%)	2.2	2.1	2.0	2.3	2.4	2.1
Net combined ratio (%)	88.0	96.0	100.0	87.3	91.2	87.0

**Bangkok Insurance Public Co. Ltd. --Key Metrics (cont.)**

(Mil. THB)	--Year-ended Dec. 31--					
	2023f	2022f	2021f	2020	2019	2018
Return on revenue (%)	17.8	10.4	6.7	19.4	17.3	21.6

THB--Thai baht.

**Business Risk Profile: Strong**

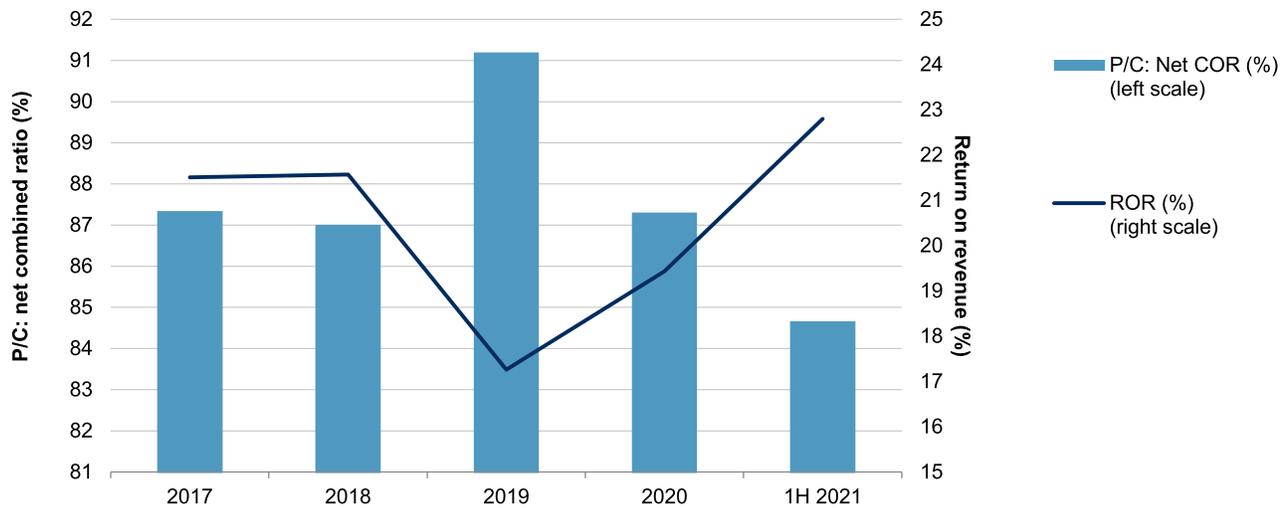
We expect Bangkok Insurance to maintain its strong competitive position, underpinned by its sound underwriting capability, broad distribution and product offering, and established and well recognized brand. These factors support the insurer's top-three position in Thailand's competitive P&C insurance sector; it has a market share of about 8.7% as of June 30, 2021. Bangkok Insurance operates in the Thai P&C insurance market, which we assess as having intermediate industry risk.

Bangkok Insurance's prudent underwriting and business diversity support its sound operating performance, which has exceeded the overall Thailand P&C industry over recent years. That said, we expect Bangkok Insurance's combined ratio to deteriorate to close to 100% in the next two years, owing to a substantial increase in claims from the COVID-19 insurance policies launched in 2020.

These COVID-19 insurance policies, which provide a lump sum payment between THB100,000 to THB300,000 upon diagnosis of COVID-19, cost about THB500 in premium. These policies were sold by most insurers in the Thai market in 2020 when COVID-19 infection rates remained low. In the third quarter of 2021, Thailand experienced a third COVID-19 wave where the number of newly infected cases increased by five-digits daily. This led to a surge in COVID-19-related lump-sum claims. Bangkok Insurance stopped selling such policies at the end of June 2021. The regulator, while barring insurance companies from canceling in-force COVID-19 insurance policies, has established a taskforce to help the industry tackle fraudulent claims. We expect this to affect Bangkok Insurance's combined ratio over the next two years. The insurer's combined ratio will normalize to about 88% in 2023 (a ratio of less than 100% indicates underwriting profit) as COVID-19 insurance liabilities wind down. Bangkok Insurance's underwriting performance has been good, with a five-year average combined ratio of 87.8% (2016-2020). The insurer's five-year average return on revenue was a solid 20% over the same period.

**Chart 1**

**Bangkok Insurance Maintains Strong Operating Performance**

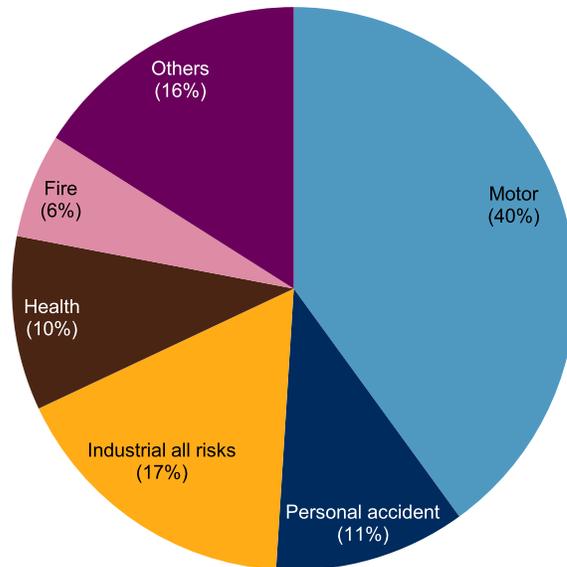


Source: Bangkok Insurance PCL, S&P Global Ratings.  
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Bangkok Insurance's strong brand and reputation stem from the insurer's good business mix, with a particular focus on motor, personal accident, and health. We believe Thailand's slow economic recovery due to the resurgence of COVID-19 and a low vaccination rate, will limit the insurer's growth momentum over the next two years. Weakened macroeconomic conditions have led to consecutive years of low auto demand, which have in turn intensified the competition within Thailand's motor segment (the largest line on gross premiums basis). That said, Bangkok Insurance's premium growth in the first half of 2021 shows its ability to effectively leverage business partnerships while sustaining underwriting discipline and managing its business diversity.

**Chart 2**

**Bangkok Insurance PCL--Business Portfolio Breakdown In Terms Of Direct Premiums Written In The First Half Of 2021**

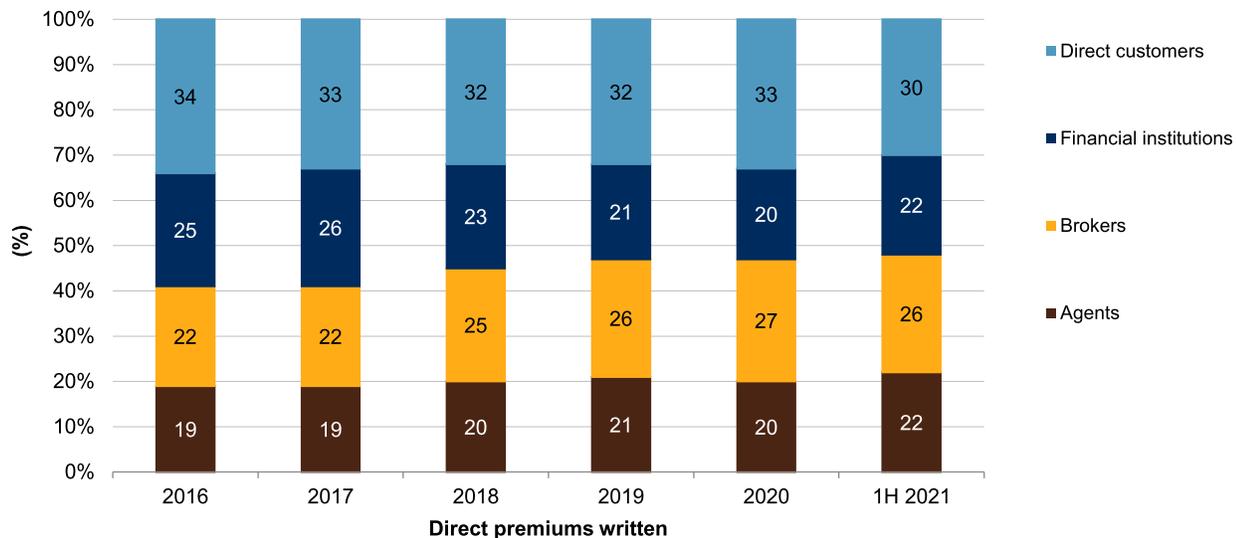


Source: Bangkok Insurance PCL.  
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Despite moderate economic conditions, we expect solid premium contributions to continue due to the insurer's strong distribution relationships, particularly with the bank and broker channels. The company's premium growth is well supported through its multi-channel approach, which includes bancassurance, telemarketing, brokers, and agents.

Chart 3

## Bangkok Insurance PCL's Distribution Mix Remains Well Diversified



Source: Bangkok Insurance PCL.

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## Financial Risk Profile: Strong

We believe Bangkok Insurance's very strong capital position will remain so over the next two years, aided by steady earnings. This is despite a tough macroeconomic environment and an increase in claims. However, we moderate our broader view of Bangkok Insurance's financial profile to strong given its substantial exposure to equities (about 40% of total invested assets as of the first half of 2021), which exposes the company to market fluctuations.

For 2021 and 2022, our base-case scenario projects Bangkok Insurance will withstand the substantial claims surge owing to the lump sum COVID-19 insurance policies sold. We expect capital cushions to narrow because of these losses. However, they will be partially offset by the strong equity market rebound observed through September 2021. In the first half of 2021, Bangkok Insurance reported a revaluation gain of THB1.9 billion on its available-for-sale portfolio, which includes bonds and equities.

The company's equity investments remain exposed to sectoral and obligor concentration, namely in 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 40% of invested assets as of end-2020. That said, Bangkok Insurance's strong balance sheet suggests it can withstand stock market volatility over the next two years.

**Table 2**

<b>Investment holdings (based on market value as at Dec. 31, 2020)</b>	<b>Exposure (%)</b>
Bumrungrad Hospital Public Co	27%
Bangkok Bank Public Co. Ltd	9%
Bangkok Life Assurance Public Co. Ltd	4%

In our view, Bangkok Insurance has a prudent funding structure supported by its access to a moderate range of capital resources (as a listed company) and external liquidity, with no outstanding debt or financial leverage.

## Other Key Credit Considerations

### Governance

We view Bangkok Insurance's governance as satisfactory. The Sophonpanich family has a high level of controlling interest in the company's shareholding structure. However, this does not necessarily extend to board and executive management control. Bangkok Insurance continues to benefit from a majority independent board (nine independent directors out of 12) and professional management team.

Bangkok Insurance's risk management culture is transparent, with clearly articulated limits set within its underwriting and investment guidelines. The company's risk exposure is straightforward, with processes in place to monitor and control risks. Investment risks appear broadly controlled except for investments in related entities. The company's basic catastrophe risk controls (such as monitoring of flood exposure and treaty limits) are the same as those of other Thai companies. While the company undertakes business by selecting risks, it has also developed online codes to enforce its risk management framework. Over the years, we have observed some tightening within risk exposure management.

### Liquidity

We view Bangkok Insurance's liquidity as exceptional. This reflects its substantial holdings of liquid assets and a strong liquidity ratio of 4.0x as of Dec. 31, 2020. We believe the insurer's liquid investment profile will support the surge in lump-sum claim payouts owing to the COVID-19 insurance sold in 2020; and we don't expect the company to have liquidity constraints.

### Ratings above the sovereign

We rate Bangkok Insurance above our foreign currency sovereign credit rating on Thailand (foreign currency BBB+/Stable/A-2; local currency A-/Stable/A-2). In our assessment of the insurer's capital, we apply a hypothetical sovereign default on its asset exposure. The stresses include devaluation of the insurer's investments in bonds, deposits, and equities. Bangkok Insurance's capital and liquidity ratio remain substantive to meet the risks under our stress scenario.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And

Assumptions, Nov. 19, 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

- Bangkok Insurance Public Co. Ltd., Nov. 9, 2020

Business And Financial Risk Matrix								
Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	<b>a/a-</b>	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of November 9, 2021)\*

### 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

\*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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