

Bangkok Insurance Public Co. Ltd.

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Credit Highlights

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Financial Strength Rating

Local Currency

A-/Stable/--

Overview

Key strengths

Strong competitive position in Thailand with solid operating performance.

Resilient capitalization with ability to hold up even under a hypothetical sovereign stress scenario.

Exceptional liquidity profile with limited refinancing needs and ample liquid assets.

Key risks

High concentration in its equity and investment portfolio.

Bangkok Insurance Public Co. Ltd. will maintain its strong competitive position supported by sound operating performance. Bangkok Insurance's solid market position is underpinned by its strong brand recognition, profitability, and business diversity within the Thai property and casualty (P&C) insurance market. We expect the insurer to maintain prudent underwriting, resulting in stable operating performance over the next two years.

Capital adequacy to remain healthy despite some contraction due to market volatility. While the company's capital buffer has narrowed amid material revaluation losses on its equity investments, its strong underwriting performance supports its prospective earnings stream. In the first half of 2020, Bangkok Insurance reported a revaluation loss of Thai baht (THB) 6.1 billion on its available-for-sale portfolio, which includes bonds and equities.

Bangkok Insurance has high risk exposure on account of sector and obligor concentration. The insurer allocates about 65% of its invested assets to high-risk investments, comprising equity, loans, and other investments. The company's substantive concentration in three equity stocks reflects its sensitivity to market swings. While these holdings have been long-term, Bangkok Insurance continues to hold sizeable investments (about 49% 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

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 narrowed 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 due to a decline in underwriting and persistent deterioration in equity markets, resulting in substantial capital impairment. We could also lower the rating if Bangkok Insurance's catastrophe risks increase substantially, which we view 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

An upgrade is less likely in the next 24 months. We could upgrade Bangkok Insurance 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 decline in real GDP growth of about -7.2% in 2020 and rebounding to 6.2% and 4.4% for 2021 and 2022 respectively.
- While inflation will dip to -1.3% in 2020, it will increase to 1.1% in 2021 and gradually reduce to 0.8% by 2022.
- Policy rates will remain low and flat during the next three years.

Key metrics

Bangkok Insurance Public Co. Ltd.--Key Metrics

	--Year ended Dec. 31--					
(Mil. THB)	2022f	2021f	2020f	2019	2018	2017
Gross premiums written	23,623.0	22,286.0	21,429.0	21,009.0	17,326.2	15,940.9
Net income (attributable to all shareholders)	2,264.0	1,966.0	1,834.0	2,451.3	2,406.8	2,403.1
Financial leverage (%)	1.8	1.9	1.9	2.0	0.9	0.9
Return on shareholders' equity (%)	6.8	6.1	5.8	7.4	6.9	7.0
Net investment yield (%)	2.0	2.3	2.3	2.4	2.1	2.2
Net combined ratio (%)	88.0	91.0	93.0	91.2	87.0	87.3

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

(Mil. THB)	--Year ended Dec. 31--					
	2022f	2021f	2020f	2019	2018	2017
Return on revenue (%)	17.6	15.4	14.4	17.3	21.6	21.5

THB--Thai baht. f--Forecast.

Business Risk Profile

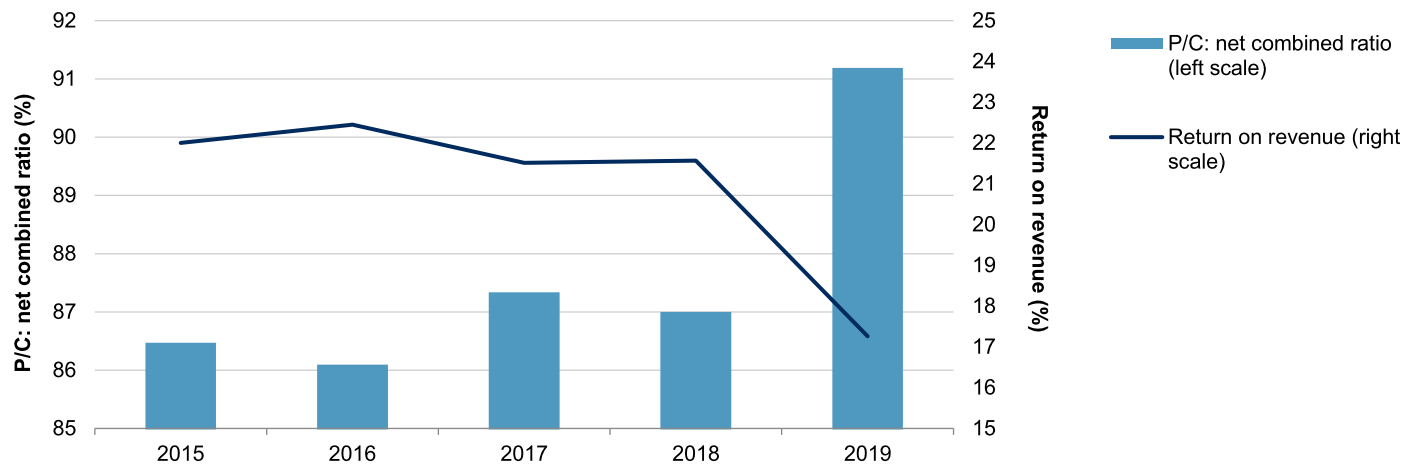
We expect Bangkok Insurance to maintain its strong competitive position, underpinned by its sound underwriting performance, good market presence and brand recognition. This reflects our view of the company's ability to retain its top-three position in Thailand's competitive P&C insurance sector, with an improved market share of about 8.6% as of June 30, 2020, compared with 7.8% for the same period in 2019. 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 operating performance. In our view, the Thai insurer's earnings stability and sound underwriting performance reinforce its competitive strength, when compared with its rated regional peers such as India International Insurance Pte. Ltd. We expect Bangkok Insurance's combined ratio to be 88%-93% (a ratio of less than 100% indicates underwriting profit) over 2020-2022. Bangkok Insurance's underwriting performance has been good, as measured by combined ratio with a five-year average of 87.6% (2015-2019) compared with about 94% for the Thailand P&C market for the same period. Similarly, its five-year average return on revenue was about 21% over the same period.

For 2020, we expect a small increase in losses mainly from miscellaneous and fire lines due to intensified competition, while we anticipate likely reduction in traffic activity to result in fewer auto claims. The company's combined ratio was about 88% for the first half of 2020, mainly owing to better expense management albeit slightly higher losses in miscellaneous lines. For 2019, the company reported a slight deterioration in its combined ratio at 91.2% in 2019, compared with prior years, reflecting higher losses in the motor and miscellaneous lines.

Chart 1

Strong Operating Performance Track Record

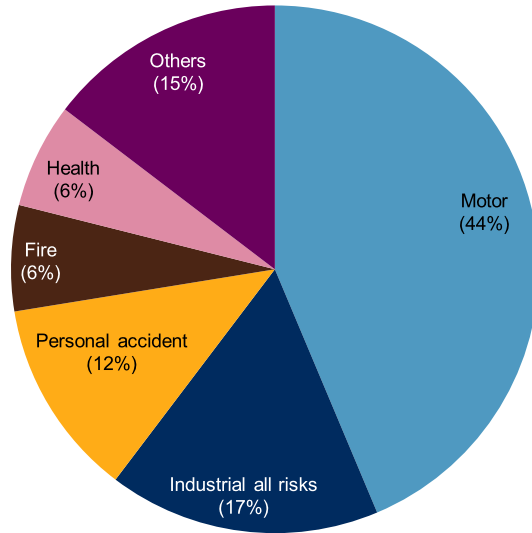


P/C--Property and casualty. Source: S&P Global Ratings.
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Bangkok Insurance's strong brand and reputation are underpinned by the insurer's good business mix, with particular focus on motor, personal accident, and health. We believe weak economic conditions will limit the insurer's growth momentum over the next two years. We view competition to further intensify particularly within Thailand's motor segment (largest line on gross premiums basis), due to reduced auto sales in 2020 (resulting in lower renewals in 2021) and weakened macroeconomic conditions. That said, Bangkok Insurance's premium growth of about 14% in the first half of 2020 indicates its ability to effectively leverage business partnerships while maintaining underwriting discipline and managing its business diversity.

Chart 2

Bangkok Insurance PCL--Business Portfolio Breakdown In Terms Of Direct Premium Written In The First Half Of 2020

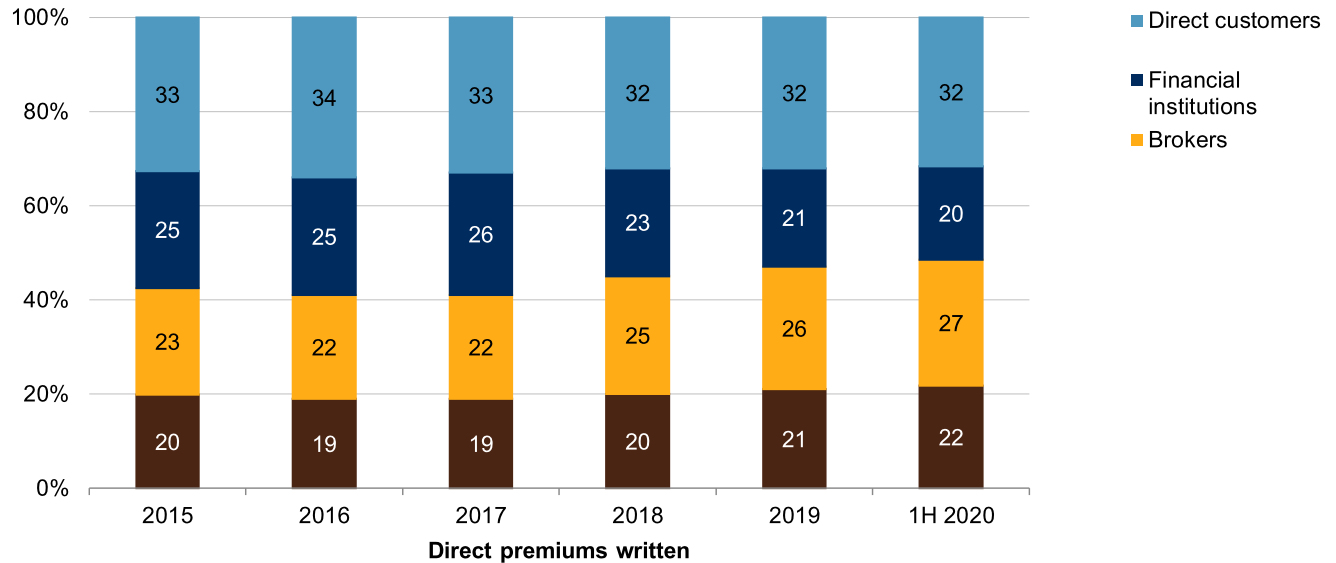


Source: Bangkok Insurance PCL.
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We expect the stability in premium contributions to continue due to the insurer's strong distribution relations particularly with the bank and brokers channel. While social distancing measures affected the insurer's sales from bank branches in the first quarter, the topline grew through the first half of 2020 from alternate channels. The company's premium growth continues to be well-supported through a multichannel approach that includes bancassurance, telemarketing, brokers, and agents.

Chart 3

Bangkok Insurance PCL Reflects Good Diversity Within Distribution Mix (In Terms Of Direct Premium Written)



Source: Bangkok Insurance PCL.

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Financial Risk Profile

We believe Bangkok Insurance will maintain healthy capitalization over the next two years despite some contraction in its capital buffer. The narrowing capital cushions reflect the still volatile capital markets and subdued top-line revenue generation. Bangkok Insurance's capitalization is sensitive to equity price swings given its substantial exposure to equities. In the first half of 2020, Bangkok Insurance reported a revaluation loss of THB6.1 billion on its available-for-sale portfolio, which includes bonds and equities.

The company's equity investments also have some sectoral and obligor concentration, namely in three family-related entities: Bangkok Bank, Bumrungrad Hospital, and Bangkok Life Assurance. These three investments are long-term holdings and constituted about 49% of invested assets as of end-2019. That said, Bangkok Insurance's strong balance sheet has the ability to withstand the stock market weakening owing to sustained earnings supported by its strong underwriting track record.

Investment Holdings (based on market value as of June 30, 2020)	Exposure Relative To Invested Assets (%)
Bumrungrad Hospital Public Co. Ltd.	28%
Bangkok Bank Public Co. Ltd.	8%
Bangkok Life Assurance Public Co. Ltd.	3%

Bangkok Insurance's funding structure is prudent, 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 Key Credit Considerations

Governance

Bangkok Insurance's governance is satisfactory, in our opinion. Although the Sophonpanich family has a high level of controlling interest in the company's shareholding structure, the company benefits from a majority independent board (nine independent directors out of 12) and professional management team.

We view Bangkok Insurance's risk management culture as conducive, with underwriting and investment guidelines clearly articulated with limits set. The company's risk exposure is simple, and it has processes to monitor and control risks. Enhancement of internal systems continue to provide timely impact analysis on bottom line to each branch and division as it expands across Thailand. Investment risks appear broadly controlled except for investments in related entities. The company's catastrophe risk controls appear basic (such as monitoring of flood exposure and treaty limits), similar to those of other Thai companies. While the company undertakes business through selecting risks, it has also developed online codes to enforce its risk management framework. As such some tightening within risk exposure management has been observed over the years.

Liquidity

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 regard Bangkok Insurance's liquidity as exceptional, given its substantial holdings of liquid assets and a strong liquidity ratio of 4.4x as of Dec. 31, 2019.

Ratings above the sovereign

We rate Bangkok Insurance above our foreign currency sovereign credit rating on Thailand. We apply a hypothetical sovereign default on insurers to assess the insurer's capital. 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.

Rating Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a-

Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A-

*This is influenced by our view of Bangkok Insurance's concentrated counterparty risk arising from substantial equity holding in three family-related entities.

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 'A-' Rating Affirmed; Outlook Stable, Jun 25, 2020

Ratings Detail (As Of November 9, 2020)*

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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