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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			ERM and Management	0		Liquidity	0	Group Support	0	A-/Stable/--
Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Moderately Strong										

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

Rationale

Business Risk Profile: Strong

- Intermediate Insurance Industry and Country Risk Assessment (IICRA) of the Thai property and casualty (P/C) insurance market.
- Strong competitive position stemming from the insurer's consistent presence among the top three players in the market, and its brand recognition.

Financial Risk Profile: Moderately Strong

- Strong capital and earnings.
- Moderate risk position because of high investment leverage and investment concentration.

Other Factors

- Satisfactory management and governance, and adequate enterprise risk management.
- Exceptional liquidity profile with no refinancing needs and ample liquid assets.
- Moderately sensitive to country risk but can withstand a hypothetical Thailand sovereign default on foreign-currency debt.

Outlook: Stable

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

We expect the insurer to maintain its profitability over the next 12-18 months due to tepid economic growth in Thailand and strong price competition. We see a low likelihood that Bangkok Insurance will face losses similar to those in late 2011, given changes to its underwriting strategy and tighter management of flood risk over the years.

Downside scenario

We may lower the rating if Bangkok Insurance's financial risk profile weakens, which we view as unlikely over the next 12-18 months. This could occur because of a significant deterioration in equity markets. We may also lower the rating if we believe the insurer's susceptibility to a sovereign default has increased or our industry and country risk assessment on Thailand's property and casualty sector deteriorates.

Upside scenario

An upgrade is less likely in the next 12-18 months. We could upgrade Bangkok Insurance if the insurer's financial risk profile strengthens, which could happen due to: (1) higher prospective capital adequacy levels with no deterioration in risk position and financial flexibility; or (2) improved risk position through reduced investment exposure.

Base-Case Scenario

Macroeconomic Assumptions

- Subdued real GDP growth for Thailand of 3.4% in 2017-2018.
- Inflation of 1.8%-2.2% in the same period.
- Moderate increase in policy rates during this time.
- Continued downside risk from political uncertainty.

Company-Specific Assumptions

- Capital adequacy will be very strong.
- Continued 2%-5% growth in premiums.
- Combined ratio of 85%-90% in 2017-2019.
- Moderate risk position because of strategic long-term holdings in family-related entities.

Key Metrics

	2018F	2017F	2016	2015	2014	2013
Gross premiums written (mil. THB)	~16,800	~16,300	16,031	15,867	15,779	15,802
Combined ratio (%)	85-90	85-90	86.1	86.5	85.9	91.3
Return on revenue	17-22	17-22	22.5	22	22.4	17.7
S&PGR capital adequacy	Very strong					

F—Forecast.

Company Description

Bangkok Insurance is a P/C insurer based in Thailand. The company's services include travel, motor, personal accident, health, residential and commercial property, personal property, third party liability, business all risks, industry all risks, marine and cargo, and miscellaneous insurance services. The company is listed on the Thailand stock exchange.

The Sophonpanich family holds a high level of controlling interest under the company's shareholding structure; However, this does not necessarily translate to board and executive management control. Historically, the professional management team and majority independent board have effectively served the interests of all stakeholders.

Business Risk Profile: Strong**Insurance industry and country risk: Intermediate risk**

Bangkok Insurance operates in the Thai P/C insurance market, which has an intermediate IICRA, in our view. We consider the industry risk faced by P/C insurers in Thailand as intermediate largely because we believe that the segment's growth prospects, though slow in the last couple of years, should revert back to its earlier growth rate of high single digits. We view the industry's profitability, barriers to entry, and product risks as neutral factors for insurers operating in this market.

Competitive position: Strong

We believe Bangkok Insurance will maintain its strong competitive position over the next two years, supported by its good market presence and brand recognition. In 2017, the company ranked third among P/C insurers in Thailand with a 7.3% market share of direct premiums written in the first five months of the year.

Price competition across most lines continues to put pressures on premium growth and underwriting profitability. The company's strong brand and reputation is based on its traditional strength in commercial lines, where it has strong client relationships. However, over the past few years, Bangkok Insurance has expanded its focus on personal lines 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. Additionally, regional expansion remains one of the key growth strategies for Bangkok insurance in 2017 as it set up two new branches last year, closer to the borders of neighboring countries. We expect Bangkok

Insurance to continue to expand its branches and distribution channels, and position itself to benefit from the Association of Southeast Asian Nations Economic Community integration over the coming years.

Table 1

Bangkok Insurance Public Co. Ltd. Competitive Position					
	--Year-ended Dec. 31--				
(Mil. THB)	2017*	2016	2015	2014	2013
Gross premiums written	7,978.1	16,031.3	15,867.4	15,778.8	15,802.4
Change in Gross Premiums Written (%)	2.1	1.0	0.6	(0.1)	19.9
Net premiums written	5,518.9	11,095.8	11,169.1	10,943.7	10,873.2
Change in Net Premiums Written (%)	0.5	(0.7)	2.1	0.6	20.8
P/C: reinsurance utilization - premiums written (%)	30.8	30.8	29.6	30.6	31.2

*Data as of June 30. THB--Thai baht.

Financial Risk Profile: Moderately Strong

Capital and earnings: Strong

We expect Bangkok Insurance's capital and earnings to remain strong over the next 12-24 months. The very strong capital adequacy levels at end-2016 reflect stable earnings over the past couple of years (following flood losses recorded in 2011 and 2012) and marginal reduction in equity risks. That was partially offset by a revaluation loss from the AFS portfolio of THB2.3 billion. Bangkok Insurance also reported a revaluation loss of THB586 million on its AFS portfolio in the first half of 2017. We expect the company to maintain its very strong capital adequacy levels over the next 12–18 months despite slower growth in overall capitalization and earnings.

We expect Bangkok Insurance to maintain its prudent underwriting policy and strategy. In our view, the insurer's continued measures to reduce its risk exposure will limit the impact of future natural catastrophe losses on its capital base. However, increasing reinsurance capacity, a slower pace of economic growth, and competition in Thailand will likely increase pressure on the company's margin. We expect the insurer's combined ratio to be 85%-90% in 2017-2019 (a ratio of less than 100% signifies underwriting profit).

Table 2

Bangkok Insurance Public Co. Ltd. Capitalization Statistics					
	--Year-ended Dec. 31--				
(Mil. THB)	2017*	2016	2015	2014	2013
Common shareholders' equity	33,103.1	33,253.7	34,456.2	27,971.4	21,673.0
Change in common shareholders' equity (%)	3.8	(3.5)	23.2	29.1	6.4
Total reported capital	33,103.1	33,253.7	34,456.2	27,971.4	21,673.0
Change in total capital (reported) (%)	3.8	(3.5)	23.2	29.1	6.4

*Data as of June 30. THB--Thai baht.

Table 3

Bangkok Insurance Public Co. Ltd. Earnings Statistics					
	--Year-ended Dec. 31--				
(Mil. THB)	2017*	2016	2015	2014	2013
Total revenue	6,272.5	12,277.2	12,406.4	11,970.1	11,158.9
EBIT adjusted	1,447.2	2,755.8	2,729.0	2,670.4	1,975.3
EBITDA adjusted	1,447.2	2,755.8	2,729.0	2,670.4	1,975.3
Net income (attributable to all shareholders)	1,287.0	2,425.8	2,342.3	2,297.8	1,748.5
Return on revenue (%)	23.1	22.4	22.0	22.3	17.7
Return on shareholders' equity (reported) (%)	7.9	7.2	7.5	9.3	8.3
P/C: net expense ratio (%)	34.1	35.8	35.9	32.5	36.9
P/C: net loss ratio (%)	52.9	50.3	50.6	53.3	54.4
P/C: net combined ratio (%)	87.0	86.1	86.5	85.9	91.3

*Data as of June 30.

Risk position: Moderate

We anticipate that Bangkok Insurance's risk position will remain moderate. The insurer allocates about 76.5% of its invested assets to high-risk investments, comprising equities, 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 61% of the invested assets.

Table 4

Bangkok Insurance Public Co. Ltd. Risk Position					
	--Year-ended Dec. 31--				
(Mil. THB)	2017*	2016	2015	2014	2013
Total invested assets	48,008.6	47,891.0	49,970.1	42,004.2	32,897.5
Net investment income	633.4	1,047.3	1,049.7	985.4	957.7
Net investment yield (%)	2.7	2.1	2.3	2.6	3.1
Net investment yield including realized capital gains/(losses) (%)	2.7	2.3	2.3	2.7	3.6
Cash and short term investments (%)	18.0	17.2	15.3	16.9	13.3
Bonds (%)	6.8	6.3	5.7	6.3	10.6
Equity investments (%)	71.5	72.7	74.5	71.4	69.2
Real Estate (%)	0.4	0.4	0.4	0.5	0.7
Loans (%)	2.9	3.0	3.7	4.5	5.8
Investments in affiliates (%)	0.4	0.4	0.4	0.4	0.4

*Data as of June 30. THB--Thai baht.

Financial flexibility: Adequate

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

Enterprise risk management: Adequate

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. It manages insurance risks through underwriting guidelines and reinsurance purchases. Investment risks are well controlled except for investments in related entities. The company's catastrophe risk controls appear simple, similar to those of other Thai companies. However, the insurer has reduced flood exposure over the years, post the 2011 flood losses. Bangkok Insurance continues to enhance modelling for its flood exposure and further improve its use of risk models as they develop over the years.

We expect Bangkok Insurance to continue to enhance its ERM practices to effectively support its strategic plans and growth targets. In the past two years, Bangkok Insurance made minor organizational changes, wherein it formed an ERM division along 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.

Management and Governance: Satisfactory

Bangkok Insurance's management and governance is satisfactory, in our opinion. The Sophonpanich family holds a high level of controlling interest under the company's shareholding structure; however, this does not necessarily translate to board and executive management control. Historically, the professional management team and majority independent board (nine independent directors out of 12) have effectively served the interests of all stakeholders and not exclusive to 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.

Liquidity: Exceptional

We regard Bangkok Insurance's liquidity as exceptional, given its sufficient holdings of liquid assets and the strong liquidity ratio of 4.2x as of Dec. 31, 2016. 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 might strain the insurer's liquidity, such as 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.

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

Related Research

- Bangkok Insurance Public Co. Ltd. 'A-' Rating Affirmed; Outlook Stable, Oct. 17, 2016

Ratings Detail (As Of January 12, 2018)

Operating Company Covered By This Report

Bangkok Insurance Public Co. Ltd.

Financial Strength Rating

Local Currency

A-/Stable/--

Counterparty 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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