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## Bangkok Insurance Public Co. Ltd.

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# Bangkok Insurance Public Co. Ltd.

## Credit Highlights

Operating Company Covered  
By This Report

Financial Strength Rating

Local Currency

A-/Stable/--

### Overview

Key Strengths	Key Risks
Strong competitive position in Thailand with solid operating performance	High concentration in its equity and investment portfolio
Very strong capital adequacy with ability to hold up even under a hypothetical sovereign stress scenario	
Exceptional liquidity profile with limited refinancing needs and ample liquid assets	

**Bangkok Insurance Public Co. Ltd. will maintain its strong competitive position supported by consistent operating performance.** The 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 its prudent underwriting, resulting in a stable operating performance over the next two years.

**Capital adequacy will continue to be very strong, despite high equity exposures.** In our view, Bangkok Insurance's substantive exposure to equities (of about 71%) increases its sensitivity to material revaluation swings towards investment market risks. However, we expect the insurer to maintain its capitalization, despite the market volatilities due to its earnings stability.

**Bangkok Insurance has high risk exposure on account of sector and obligor concentration.** The insurer allocates about 74.4% of its invested assets to high-risk investments, comprising equity, loans, and other investments. While these holdings have been long-term, Bangkok Insurance continues to hold sizable investments (about 57.6% 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 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 performance 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 exposure and funding structure; or (2) improved risk exposure through reduced investment concentration or increased investment diversification.

## Key Assumptions

- Subdued real GDP growth for Thailand of around 3% for 2019-2021.
- Inflation of 1.2%-1.4% over the period.
- Moderate decline in policy rates during this time.

**Table 1**

Bangkok Insurance Public Co. Ltd.--Key Metrics						
	--Year-ended Dec. 31--					
(Mil. THB)	2021F	2020F	2019F	2018	2017	2016
Gross premiums written	20,441.1	19,284.1	18,192.5	17,326.2	15,940.9	16,031.3
Net income (attributable to all shareholders)	2,193.8	2,223.4	2,314.9	2,406.8	2,403.1	2,425.8
Financial leverage (%)	0.0	0.0	0.0	0.0	0.0	0.0
Return on shareholders' equity (%)	6.2	6.1	6.2	6.9	7	7.2
Net investment yield (%)	2.1	2.1	2.1	2.1	2.2	2.1
Net combined ratio (%)	88.0	88.5	88.5	87.0	87.3	86.1
Return on revenue (%)	20.4	20.1	20.1	21.6	21.5	22.4

THB--Thai baht. F--Forecast.

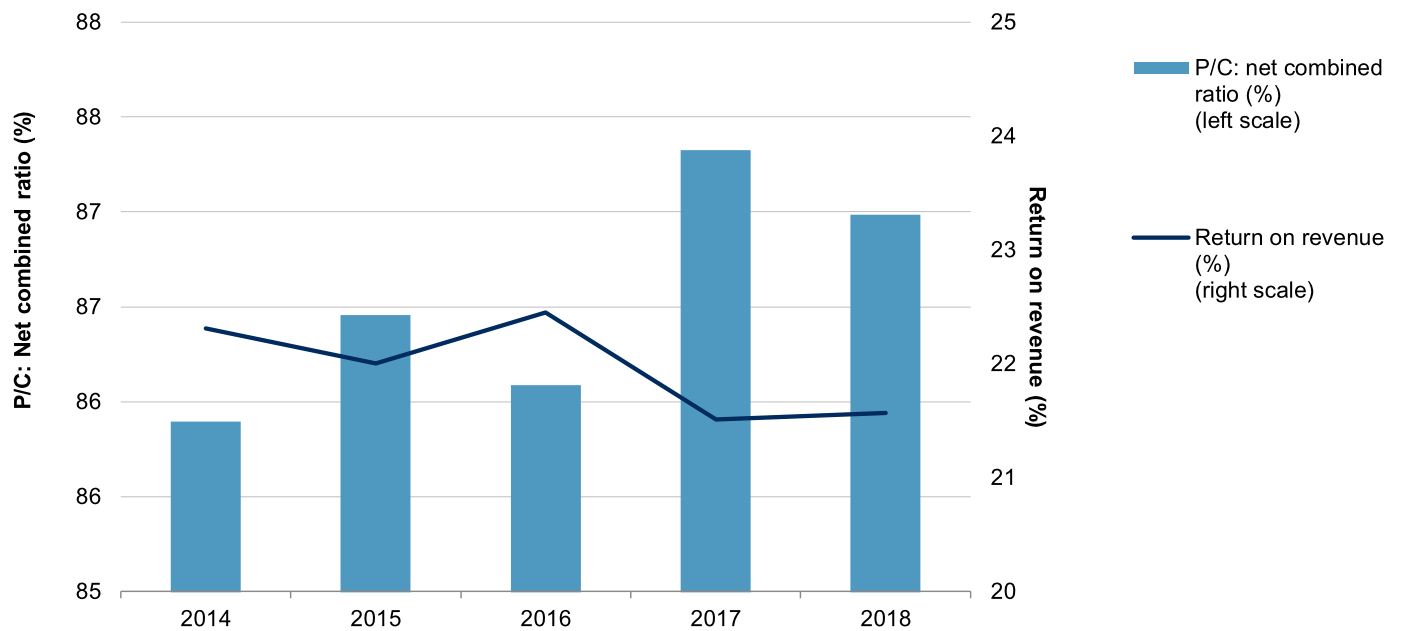
## Business Risk Profile

We believe Bangkok Insurance will maintain its strong competitive position over the next two years, underpinned by its robust underwriting performance, good market presence, and brand recognition.

Bangkok Insurance's prudent underwriting and business diversity support its operating performance, which has been typically better than the overall Thailand P&C industry's. We expect the insurer's combined ratio to be 85%-90% in 2019-2021 (a ratio of less than 100% indicates underwriting profit). Bangkok Insurance's underwriting performance has been good, as measured by combined ratio with a five-year average of 86.5% (2014-2018). Similarly, its five-year average return on revenue was about 22% over the same period.

Chart 1

Operating Performance

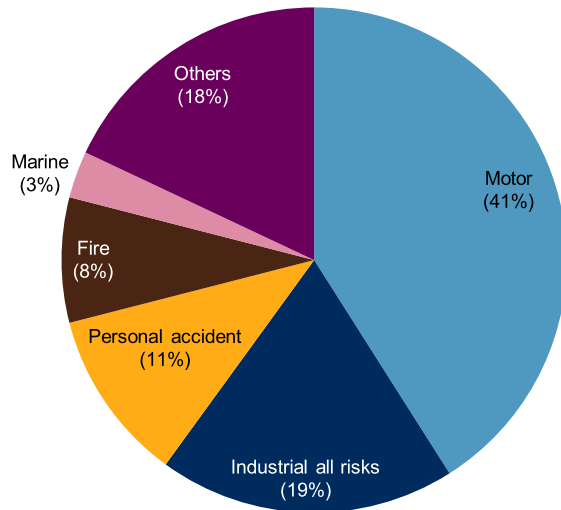


Source: Bangkok Insurance PCL. S&P Global Ratings.  
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Bangkok Insurance has maintained its position as the third-largest insurer, with a market share of 7.0%-8.0% for the past seven years. Its strong brand and reputation are underpinned by the insurer's good business mix, with a particular focus on motor, personal accident, and health. While intense competition continues within Thailand's motor segment (largest line on gross premiums basis), a marginal uptick in rates in the first half of 2019 indicates gradually improving industry prudence. We expect Bangkok Insurance to maintain its underwriting discipline while managing its business diversity.

**Chart 2**

**Bangkok Insurance PCL--Business Portfolio Breakdown In Terms Of Direct Premium Written In 2018**



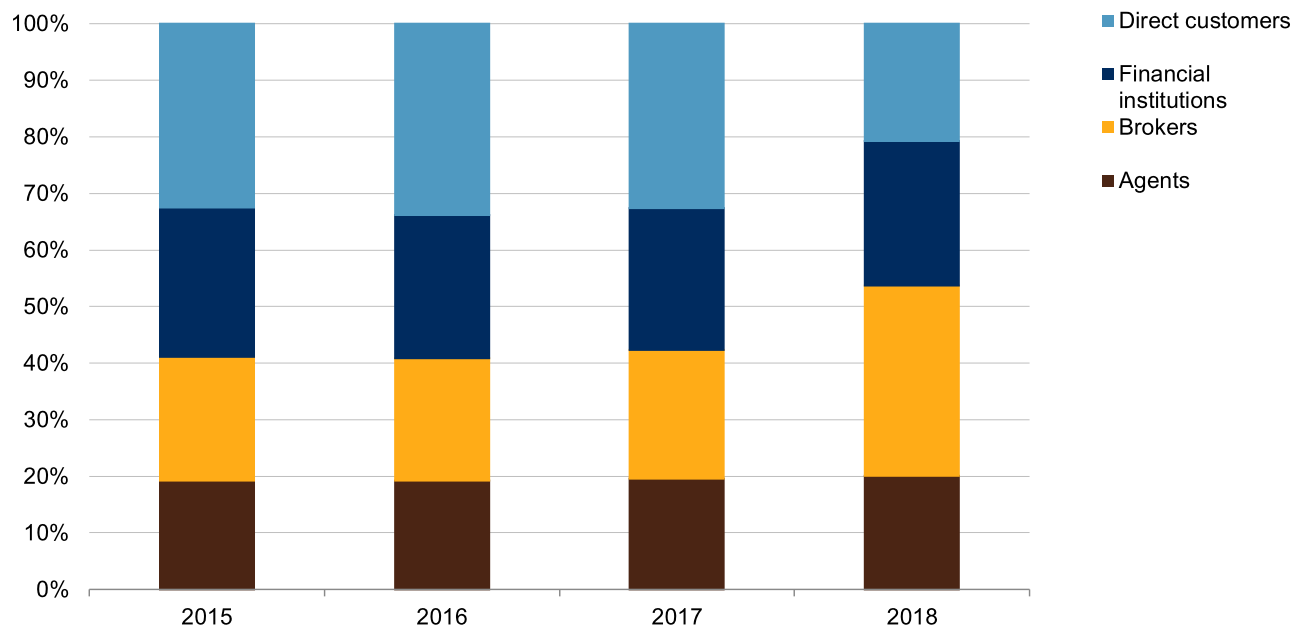
Source: S&P Global Ratings.

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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. The company's premium growth is well-supported through a multichannel approach that includes bancassurance, telemarketing, brokers, and agents.

Chart 3

## Bangkok Insurance PCL--Distribution Mix In Terms Of Direct Premium Written



Source: Bangkok Insurance. S&P Global Ratings.

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Bangkok Insurance operates in the Thai P&C insurance market, which we assess as having intermediate industry risk. In our view, the insurer's diversified book will support its gradual premium growth amidst a subdued economic growth within Thailand over the next two years. We anticipate the sector to broadly sustain its profitability despite slower growth prospects and competitive entry barriers.

## Financial Risk Profile

We expect Bangkok Insurance's capital and earnings to remain strong over the next 12-24 months despite high market sensitivities due to risk concentration within its equity and investment portfolio. The insurer's very strong capital adequacy levels as of end-2018 reflect its stable earnings over the past couple of years and a marginal reduction in equity risks.

While Bangkok Insurance maintains healthy capitalization, it reported a revaluation loss of Thai baht (THB) 1.3 billion on its available-for-sale portfolio in the first half of 2019. As such in our view, Bangkok Insurance's prudent underwriting strategy and reinsurance arrangements help offset such fluctuations and sustain strong capital buffers. The insurer's regulatory solvency ratio is about 253% as of June 2019, well above the minimum requirement of 140%.

We anticipate Bangkok Insurance's prospective capital and earnings will remain sensitive to material concentration risk over the next 24 months. The insurer allocates about 74.3% of its invested assets to high-risk investments, comprising equity, loans, and other investments. The insurer's equity investments in three family-related entities, albeit long-term holdings, constitute about 58% of the invested assets.

**Table 2**

<b>Bangkok Insurance Public Co. Ltd.--Investment Holdings*</b>	
	<b>Exposure (%)</b>
Bumrungrad Hospital Public Co.	40%
Bangkok Bank Public Co. Ltd.	14%
Bangkok Life Assurance Public Co. Ltd.	4%

\*Based on market value as at Dec. 31, 2018.

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. 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. It continues to be run by a professional management team and a majority independent board (nine independent directors out of 12) have effectively served the interests of all stakeholders. The board maintains sufficient independence from management to provide effective oversight.

We view Bangkok Insurance's risk culture as reasonable, reflecting that the company has a good risk management culture with underwriting and investment guidelines clearly articulated with limits set. 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. While the company undertakes business through selecting risks, it has also developed online codes to enforce its risk management framework. As such, there has been some tightening within risk exposure management 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 4.7x as of Dec. 31, 2018.

### 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). 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.

## Ratings Score Snapshot

<b>Business Risk Profile</b>	<b>Strong</b>
Competitive position	Strong
IICRA	Intermediate Risk
<b>Financial Risk Profile</b>	<b>Strong</b>
Capital and earnings	Very Strong
Risk exposure	Moderately High
Funding structure	Neutral
Anchor*	a-
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	<b>A-</b>

\*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 Rating Affirmed At 'A-'; Outlook Stable, Aug 22, 2019

### Ratings Detail (As Of November 22, 2019)\*

#### 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/--



**Ratings Detail (As Of November 22, 2019)\*(cont.)**

**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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