

**RATING ACTION COMMENTARY**

# Fitch Affirms Asuransi Sinar Mas's IFS at 'AA+(idn)'; Outlook Stable

Feedback

Sun 18 Jul, 2021 - 11:44 PM ET

Fitch Ratings - Jakarta - 18 Jul 2021: PT Fitch Ratings Indonesia has affirmed Indonesia-based PT Asuransi Sinar Mas's (ASM) National Insurer Financial Strength (IFS) Rating at 'AA+(idn)'. The Outlook is Stable.

'AA' National IFS Ratings denote a very strong capacity to meet policyholder obligations relative to all other obligations or issuers in the same country or monetary union, across all industries and obligation types.

**KEY RATING DRIVERS**

The rating affirmation reflects ASM's satisfactory capitalisation, which provides a buffer against adverse shocks, and its prudent investment risk profile. The rating also takes into account ASM's 'Favourable' business profile with a substantive business franchise within its sector, a 'Favourable' operating scale, a risk appetite that is on a par with the sector, and well-diversified business lines.

ASM remains Indonesia's leading non-life insurer, with around 16% market share based on domestic non-life gross written premiums (GWP) at end-2020. The company owns Asuransi Simas Jiwa (ASJ), a life insurance company. ASJ's financial performance has been strong, with market share of around 11% based on life insurance GWPs at end-2020. Fitch considers ASJ a core subsidiary due to the significant contribution to the

group's top line, making up more than 40% of GWPs in 2020. In addition, ASM established in 2020 a credit guarantor subsidiary, PT Sinarmas Penjaminan Kredit (SPK), to capture market share in credit guarantees.

ASM's capitalisation, measured by its regulatory risk-based capital (RBC) ratio, has remained consistently above 300% for the past five years. The RBC ratio was strong at 500% at end-2020 (ASJ's RBC Ratio: 1113%). Fitch expects the capitalisation of the company to remain satisfactorily above the regulatory minimum RBC ratio of 120%.

The company's exposure to risky assets, including unaffiliated stocks and non-investment-grade bonds, is manageable compared with its equity. Hence, Fitch believes that the impact of the pandemic on the company's investment risk will be limited. The insurer maintained an adequate level of liquid assets, with cash equivalents and fixed-income securities of more than 80% of its investment portfolio as of end-2020.

ASM's underwriting performance, measured by its combined ratio, remained below 100% during 2018-2020. Steady healthy investment returns and prudent underwriting performance contributed favourably to the company's bottom-line profitability. Nonetheless, Fitch assesses that failure to maintain a stable operating performance could undermine the company's ratings stability, in light of the high business portion in risky business lines, such as credit insurance which could face slower premium growth and higher claims as a result of the weaker economy.

ASM mitigates its catastrophe risks through proportional and non-proportional reinsurance treaties. Its protection limit for 2020 was sufficient, covering the aggregate probable maximum loss of its property, engineering and motor lines. Its reinsurance programme is backed by reinsurers of sound credit quality that are rated at least 'A-' internationally or 'BBB(idn)' for local reinsurers.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- The company's ability to enhance its business profile with more effective risk management on its diversified business lines;
- Sustainable improvement in operating performance, with the combined ratio staying consistently well-below 95%;

- Maintenance of strong capitalisation, with ASM's and ASJ's RBC ratio consistently above 350%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in its operating performance, with the combined ratio above 100%, and a decline in profitability for a sustained period, with return on assets (pretax) lower than 1%;

- Significant deterioration in ASM's and ASJ's capitalisation relative to its business profile, with the RBC ratio consistently below 300%.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
PT Asuransi Sinar Mas	Natl Ins Fin Str	AA+(idn) Rating Outlook Stable Affirmed AA+ (idn) Rating Outlook Stable

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## APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 23 Dec 2020\)](#)

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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PT Asuransi Sinar Mas

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