



RATING ACTION COMMENTARY

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

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Fitch Ratings - Jakarta - 11 Jul 2022: Fitch Ratings Indonesia has affirmed 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

Favourable Company Profile: We assess the insurer's company profile as 'Favourable' compared with that of other domestic insurers. This is based on its 'Favourable' business profile and 'Moderate/Favourable' corporate governance. ASM is a leading Indonesian non-life insurer, with a market share of around 13% by gross written premium in 2021. Its robust market position stems from strong branding, multiple distribution channels and solid infrastructure.

Significant Life Operation: We consider ASM to be a composite insurers due to the large premium contribution from its life insurance subsidiary, PT Asuransi Simas Jiwa (ASJ). On a consolidated basis, life insurance premiums comprise more than half of ASM's total annual premiums, with ASJ, which has a market share of around 10% based on gross written premiums, showing a good financial performance.

Higher Combined Ratio: The combined ratio - aggregate of commission-expense ratio and incurred-loss ratio - reached 102% in 2021 (2020: 95%) due to higher commission expenses and claim reserves, while the company booked lower premiums amid a drop in its credit insurance portfolio. ASM aims to develop a more selective and prudent business portfolio, as the credit insurance business has been volatile, with underwriting losses in recent years. Nonetheless, unaudited financial results for 5M22 show that the combined ratio improved to 64% on lower claim expenses and reserves.

We believe ASM is likely to record lower growth over the medium-term to improve its business risk. This includes reducing its credit business and managing claims amid the economic uncertainty in 2022-2023. ASM forecasts lower premium growth for its life insurance, reinsurance and credit guarantee businesses.

Credit Insurance Claims a Challenge: We expect the company to continuously review its products to maintain profitability and ensure premium-rate and reserve adequacy. ASM's credit insurance business mix is dominated by working capital loan insurance. These policies generally have coverage terms of five years or more which could see a rise in claims as a result of economic volatility.

Solid Capital Buffer: We expect ASM to maintain an adequate capital buffer to support its business expansion. ASM's capital adequacy, measured by the regulatory risk-based capital (RBC) ratio, was 302% in 2021 (2020: 500%), well above the 120% minimum regulatory requirement. The ratio dropped in 2021 due to a higher credit insurance reserve. Capital quality is sound, as it consists of ordinary capital with no plans for near-term debt issuance and is underpinned by continued surplus growth.

Diverse Investment Asset Mix: We expect ASM to maintain prudent investment practices and manage its risky asset exposure, given its varied investment mix. Mutual funds made up 35% of ASM's investment portfolio on a consolidated basis, followed by cash equivalents and fixed-income securities, which accounted at 29% and 24%, respectively. The remainder comprised of a variety of instruments, including unaffiliated stocks, property and mortgages. Investments in unaffiliated common stock were low, at around 1% of total invested assets at end-2021.

Reinsurance Mitigates Catastrophe Risk: The insurer mitigates catastrophe risk, with almost all of its business coming from the catastrophe-prone Indonesian market, through several proportional and non-proportional reinsurance treaties. We consider its reinsurance coverage for a 250-year return to be adequate relative to capitalisation.

RATING SENSITIVITIES

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

- Significant deterioration in ASM's and ASJ's capitalisation relative to the company profile, with an RBC ratio consistently below 300%
- Deterioration in operating performance, with a combined ratio above 100% and a continued decline in profitability, with return on assets (pretax) lower than 1% and return on equity lower than 3%.

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

- An ability to consistently enhance the company profile with more effective risk management of ASM's 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%.

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+
	AA+(idn) Rating Outlook Stable	(idn) Rating Outlook Stable
	Affirmed	

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

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ENDORSEMENT STATUS

PT Asuransi Sinar Mas

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Insurance Asia-Pacific Indonesia
