



RATING ACTION COMMENTARY

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

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Fitch Ratings - Jakarta - 30 Jul 2020: 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 strong 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 18% market share based on domestic non-life gross written premiums (GWP) at end-2019. The company acquired PT Asuransi Simas Jiwa (ASJ), a life insurance company, in 2017. ASJ's financial performance has been strong with market share of around 9% based on life insurance GWPs at end-2019. Fitch considers ASJ a core subsidiary

due to its significant contribution to the group's top line, making up 54% of GWPs in 2019.

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 432% at end-2019 (ASJ's RBC Ratio: 815%). 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 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-2019.

ASM's underwriting performance, measured by its combined ratio, remained below 100% during the last three years (2017-2019). Steady healthy investment returns and prudent underwriting performance contributed favourably to the company's bottom-line profitability. Nonetheless, Fitch believes credit insurance products, which are one of the company's main products, 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 2019 was strong, 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 consistently enhance its business profile, with diverse product lines and distribution channels
- Maintenance of strong capitalisation, with ASM's and ASJ's RBC ratio consistently above 350%

- Sustainable improvement in operating performance, with the combined ratio staying consistently below 95%

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

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

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

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
PT Asuransi Sinar Mas	Natl Ins Fin Str
	AA+(idn) Rating Outlook Stable
	Affirmed

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 08 Jun 2020\)](#)

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PT Asuransi Sinar Mas

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