Fitch Ratings-Jakarta-06 August 2019: 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 11% market share based on domestic non-life gross written premiums (GWP) at end-2018. 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 10% based on life insurance GWP at end-2018. Fitch considers ASJ a core subsidiary due to its significant contribution to the group's top line (66% of GWP in 2018).

The company's capitalisation, measured by the regulatory risk-based capital (RBC) ratio, has remained consistently above 300% for the past five years. The RBC ratio was strong at 404% at end-2018. Fitch expects the capitalisation of the company to remain satisfactorily above the regulatory minimum RBC ratio of 120%.

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-2018. Its exposure to risky assets is kept at a manageable level relative to equity. The remaining investment portfolio consists of various instruments, including stocks and mutual funds. Fitch expects ASM to maintain its prudent investment practices and manage its risky-asset exposure in light of its varied investment mix.

ASM's underwriting performance, measured by its combined ratio, remained below 100% during the last three years (2016-2018). Steady healthy investment returns and prudent underwriting performance have contributed favourably to the company's bottom-line profitability. Fitch believes ASM's operating performance can continue improving its capitalisation through surplus growth.

ASM mitigates its catastrophe risks through proportional and non-proportional reinsurance treaties. Its protection limit for 2018 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
Upgrade rating sensitivities include:
- The company's ability to consistently enhance its business profile, with diverse product lines and distribution
channels, and
- Maintenance of strong capitalisation, with the RBC ratio consistently above 350%,
- Sustainable improvement in operating performance, with the combined ratio staying consistently below 95%

Downgrade rating sensitivities include:
- Significant deterioration in ASM's capitalisation relative to its business profile, with the RBC ratio consistently below 300%, or
- Deterioration in its operating performance, with the combined ratio above 100%, and a sustained decline in profitability, with return on assets lower than 1%

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Additional information is available on www.fitchratings.com
Applicable Criteria
Insurance Rating Criteria (pub. 11 Jan 2019)
National Scale Ratings Criteria (pub. 18 Jul 2018)

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