Singapore
Full Rating Report

EQ Insurance Company Ltd

Ratings

Insurer Financial Strength Rating	BBB

Sovereign Risk

Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Insurer Financial Strength Rating	Stable
Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

EQ Insurance Company Ltd

	31 Dec 08	31 Dec 09
Total assets (SGDm)	45	54
Total equity (SGDm)	16	21
Gross premiums (SGDm)	33	33
Net income (SGDm)	-2	5
ROA (%)	-7	9
ROE (%)	-17	26

Analysts

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Related Research

Applicable Criteria

- *Insurance Rating Methodology* (December 2009)
- *Non-Life Insurance Rating Methodology* (March 2010)

Rating Rationale

- In June 2010, Fitch Ratings upgraded the Insurer Financial Strength (IFS) rating of EQ Insurance Company Ltd (EQI) to 'BBB' from 'BBB–'. The upgrade reflects EQI's significant improvement in operating performance in 2009 despite challenging operating conditions as a result of the recent financial crisis. This was largely driven by the prudent underwriting approach taken by the seasoned management team, which places heavy emphasis on bottom-line profitability rather than only on top-line growth. The company managed to turn around its profitability in 2009, its third year of operation. This is better than expected for start-ups, which typically can take about five to six years to become profitable. The company also has healthy operating and financial fundamentals.
- EQI sources almost 100% of its business from Singapore, which is largely free from exposure to natural catastrophes, unlike other Asian markets. Fitch views EQI's investment strategy as very conservative. About 90% of its funds reside in cash, fixed deposits and fixed-income instruments.
- The company also maintains a good level of capital buffer, commensurate with its business profile. Its regulatory risk-based capital (RBC) ratio was above 300% at end March 2010. EQI's capital quality is sound, made up entirely of equity capital and retained earnings, with no debt issuance.
- However, EQI faces the continued challenges of building its franchise, gaining market recognition and position in the Singapore market, as well as properly executing its business plans. Fitch expects the company to continue adopting a prudent underwriting approach and maintaining healthy financial fundamentals as the business expands.
- Current market conditions in the Singapore non-life primary insurance industry are challenging, with generally soft premium rates driven by intensive competition. Nonetheless, expected volatility in the underwriting results is also partially mitigated by management's conservative underwriting and investment strategy.

Key Rating Drivers

- The Stable Outlook reflects Fitch's expectation that EQI will be able to maintain its current level of financial and operating fundamentals.
- Positive factors derive from the company's seasoned management team, healthy capitalisation, liquid investment mix and prudent underwriting approach, with a heavy emphasis on bottom-line profitability as opposed to top-line growth.
- Negative pressure arises from the company's limited track record and modest size, given that it is a relatively new start-up, as well as possible operating plan execution risks in a challenging and increasingly competitive operating environment. While a certain degree of financial variability is to be expected, Fitch believes that this is cushioned by the company's healthy capitalisation.

Key Rating Issues

Capital Level

EQI has a regulatory RBC ratio comfortably exceeding the minimum requirement of 100%. At end-March 2010, its RBC ratio amounted to about 300%. The company aims to maintain its RBC ratio at above 200%. In Fitch's view, EQI has a good level of capitalisation relative to its current business profile.

Financial Leverage

As with many Asian insurance companies, capital quality is very good, comprising entirely equity capital and retained earnings. EQI does not issue any corporate debt and does not intend to issue any in the short to medium term.

Stable, Experienced Senior Management

Mr Leow Siak Fah (chairman), Mr Freddie Sim (principal officer) and Ms Rina Tan (CFO) are all seasoned industry veterans with at least 100 years of insurance experience collectively, with very extensive business contacts in the region.

Building Market Positioning

Since it began its underwriting business in 2007, EQI has gradually built its market position and presence in Singapore. Thus far, premium growth has generally met business projections.

Underwriting Performance

EQI's operating performance improved significantly in 2009, its third year of operation, despite difficult economic conditions and operating environment. EQI managed to break even, with a net profit of SGD4.7m for 2009. The company's performance in 2010 to date is generally in line with its projection for the full year. Management expects the profitability to be sustained at current levels.

Investment Mix

Fitch views the company's investment strategy as prudent. The company's investment mix is generally liquid, with about 90% in cash and deposits and fixed-income instruments at end-March 2010. As a result of this conservative mix, the company has not incurred material investment losses so far (in contrast to some Asian peers).

Competitive Operating Environment

Fitch regards Singapore's non-life market as highly competitive and will continue to evaluate the company's pricing practices to assess whether products are designed prudently. Pricing discipline is particularly important in the initial years of operation, when an insurer has yet to develop a comprehensive internal claims database.

Peer Analysis

Although EQI has a relatively modest business portfolio compared with rated peers, its financial performance and capitalisation are comparable to those of peers.

Selected Non-Life Insurers in Asia-Pacific, End-2009

Country	Singapore	Taiwan	Australia
(SGDm)	EQI	Union Insurance Company	QBE Insurance Group Limited
IFS Rating	**BBB**	**BB+**	**A+**
Outlook	**Stable**	**Stable**	**Stable**
Gross Premiums Written	33.2	340.0	17,403.5
Net Premiums Written	26.7	207.7	14,910.1
Net Premiums Earned	26.5	205.3	14,627.2
Net expenses	7.9	82.8	4,285.0
Net claims incurred	14.7	123.2	8,822.8
Total assets	53.8	574.5	49,319.8
Shareholders' equity	20.6	69.5	12,398.6
Loss ratio (%)	55.4	60.0	60.3
Expense ratio (%)	29.8	40.0	29.3
Combined ratio (%)	85.2	100.0	89.6
Shareholders' equity/total assets (%)	38.3	12.1	25.1

Source: Company information, Fitch's estimates

Company Profile

- Relatively new operation, which began underwriting in 2007

Equatorial Re, which was formerly known as United Asia Reinsurance (Singapore) Ltd, was established in Singapore in 1980. That company went into run-off in 1997 and ceased writing new business. After formulating a new business plan, the founding shareholder of Equatorial Re decided to re-capitalise the company and pursue opportunities in the city-state's non-life primary insurance market.

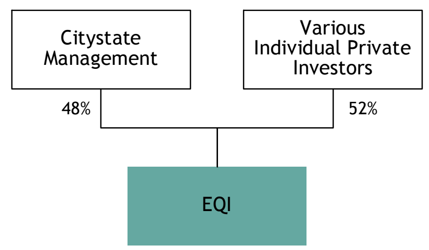
Licensed in early 2007 by the regulator, the Monetary Authority of Singapore, to underwrite primary general insurance business in Singapore, the company was renamed EQ Insurance Company Ltd. The company was capitalised at SGD12.5m at inception, but this was increased to SGD20.0m during 2008 as the portfolio grew.

Ownership Structure

EQI is 48% owned by Citystate Management Group Holdings Pte Ltd (Citystate Management), a Singapore conglomerate with interests in a number of industries, including real estate, food and travel. The other major shareholder is Leow Siak Fah, who is the chairman and CEO of Citystate Management. Mr Leow, an industry veteran with over 50 years' experience in the insurance industry, holds a 12% stake in EQI.

The remaining shares were secured by a number of seasoned individual investors in Singapore and Malaysia, with shareholdings of 1% to 10%. Fresh capital totalling SGD14.5m was subsequently injected by the shareholders over 2007 and 2008, raising the company's share capital from SGD5.5m to SGD20m.

Structure Diagram



Source: Company information

While Citystate Management and Mr Leow combined hold a majority share of 60% in EQI, Fitch understands from discussions with management that the insurance operation is managed independently.

Management

The company, led by seasoned management with long industry experience, appears to have established a good level of corporate governance. The board of directors meets every three months to review the operations of the company. Several bodies have been set up to monitor the company's operations on a weekly to monthly basis: the executive committee, the management committee, and the internal audit department. Most of the staffing positions at the operational level have also been filled according to plan.

As EQI establishes its operations over time, Fitch will continue to monitor management's ability to:

- train and retain personnel in the underwriting, claims management and other supporting departments;
- install comprehensive information management systems;
- establish a brand name that is well recognised by the brokerage community and individual consumers; and
- formulate policies to address operational risks.

Fitch views favourably the extensive experience and personal networks of the senior management at EQI. It remains a challenge for the company to build up its portfolio, market positioning and franchise in competitive market conditions.

Products

- Underwriter of primary general insurance business from Singapore market

EQI is principally an underwriter of primary general insurance business categorised across a comprehensive list of classes, including fire, motor, marine, transport, and miscellaneous.

EQI initially planned for growth of 2% in gross premiums for 2009, its third year of operation. Given the tough operating conditions in 2009, the actual premium volume was at about the same level as 2008.

The business mix for 2009 was largely in line with its business projection. The key business classes include motor (31%), work injury compensation (24%), and foreign-workers-related insurance[1] (22%). Appropriate risk management controls are in place to ensure prudent underwriting. Management expects the business mix for 2010 to remain largely similar.

With respect to the motor portfolio underwritten, EQI has avoided those businesses it has assessed to be of higher risk — such as rental vehicles, taxis, buses, coaches and motor-cycles. It adopts stringent underwriting screening criteria to ensure prudent underwriting, considering such features as the type and extent of usage of the vehicle and the driver's driving record, occupation, lifestyle and income.

Being mindful of its start-up status and its capital levels, EQI does not underwrite large complex commercial and industrial property and casualty accounts or work injury compensation for shipyard workers and ship crew. The work injury compensation business that EQI writes mainly relates to small and medium-scale building construction and additions and alterations to homes and commercial premises, where the risk of injury of the workers is assessed to be low compared with complex projects.

The foreign workers' and maids' guarantee (as required by the Singapore authorities) is short-tail, with the exposure capped at SGD5,000 per worker/employee. The provision of guarantees for foreign workers is also written in such a way that it is typically backed to some extent by collateral or personal guarantee from the directors or employers. Additionally, EQI tracks its accumulated exposure per client.

[1] Based on the Singapore regulations, following the successful application/renewal of the work permit of a foreign worker, the Immigration Department would require the employer to submit a security deposit of SGD5,000, and provide related personal accident insurance and medical benefits (including medical treatment and hospitalisation expenses). The security deposit can be in the form of cash or a banker's or insurance guarantee

In view of the smaller and less complex risks being underwritten, management expects to settle about 80% of the claims within the first year. No claims are expected to remain unsettled for more than three years. As required by regulation, the adequacy of loss provisioning is certified at least once a year by an external independent actuary at a minimum confidence level of 75%. The appointed actuary has to be approved by the regulator. Any deficiency in existing provisions, as recommended by the appointed actuary, will be topped up by the insurer.

Premium growth for the first four months of 2010 was in line with projections. The company expects overall business for 2010 to grow by about 20% from SGD33.2m in 2009 to above SGD40m. As EQI expands its business portfolio, the agency expects the company to also extend its reinsurance capacity and capital levels, as appropriate, to remain commensurate with its business profile.

Target Markets

EQI sources almost 100% of its business from Singapore. The company is focusing its efforts on building its presence in the local market, with no plans to venture overseas in the short to medium term.

Distribution Channels

Businesses for 2009 were sourced from direct agents (50%) as well as brokers (47%), given the senior management's extensive contacts with brokers in the local market. The distribution mix is unlikely to change significantly in 2010.

Currently, EQI has 120 agents. It does not intend to expand the size of the agency force aggressively. Rather, the focus is to review regularly the productivity of the agents and ensure they receive proper training and updated knowledge about the company's products.

Financial Analysis

Given the start-up nature of the company, the rating analysis is based on less than five years of audited information.

Profitability

In terms of underwriting, Fitch believes the company adopts a conservative approach to writing business, with a strong emphasis on bottom-line profitability rather than top-line growth. Management also keeps abreast of market conditions and industry trends through its long-established contacts to sieve out more profitable business, as it strives to build its portfolio.

- Improved operating performance in 2009 driven by prudent underwriting approach

The operating performance in the initial years for a start-up is typically constrained by the loss reserve provisions and unearned premium reserving for new businesses as well as the high operating expenses. EQI's performance has significantly improved since its inception in 2007. The company managed to break even in its third year of operation. The improved performance was mainly driven by the prudent and selective underwriting approach adopted by management.

Additionally, EQI sources almost 100% of its business from Singapore, which is largely free of exposure to natural catastrophes, as compared to other Asian markets. Fitch expects the company to maintain its 2009 levels of profitability for 2010.

Loss, Expense and Combined Ratios

(%)	2007	2008	2009
Incurred loss	107.7	70.7	55.4
Expense	89.9	36.6	29.9
Combined	197.5	107.3	85.3

Source: Company information, Fitch's estimates

- Conservative and liquid investment mix, reflecting prudent management

Investments and Liquidity

Fitch views the investment mix as conservative and highly liquid.

At end-2009, EQI invested about 83% of its funds in cash and fixed deposits and 9% in fixed-income instruments. In terms of credit quality, the bond investments are all rated in the 'AA' band. The equity investments selected are only those local blue-chip and government-linked companies with good dividend yield.

In the next few years, EQI is looking to place about 65% in government bonds and fixed-income instruments (with ratings of at least 'A'), about 15%-20% in equities, with the balance in cash and deposits. In the absence of suitable investments, EQI will park its funds in cash and deposits. The company does not invest in any derivatives and does not plan to do so. There is also negligible forex risk. Close to 100% of the assets are denominated in Singapore dollars, for the purpose of currency matching/backing of its SGD-denominated liabilities.

Investment Mix

(%)	2007	2008	2009
Cash	100	89	83
Bonds	-	3	9
Equity	-	9	8
Total	100	100	100
Total invested assets (SGD000)	**14,793**	**36,391**	**47,613**

Source: Company information, Fitch's estimates

Reinsurance Protection and Credit Quality

EQI's retention ratio was 80% in 2009, broadly in line with the industry average. The current reinsurance programme, comprising a quota share and surplus treaty as well as a combined portfolio excess-of-loss treaty, is structured to limit exposure of any one loss/event to about 2% of shareholders' funds. The panel of reinsurers used consists mainly of those rated 'A' and above. At the moment, the lead reinsurers include XL Re Ltd (rated by Fitch with an IFS Rating of 'A'/Negative Outlook) and Swiss Reinsurance Company.

Fitch considers that EQI's current level of protection appears appropriate. The agency expects the company to review its reinsurance programme and negotiate for higher limits as the company grows and expands its business portfolio.

Reserve Adequacy and Development

The company's unearned premium reserve (UPR) is calculated using the 1/365th method, except for the marine line, whose UPR is based on an amount not less than 25% of premiums. This is generally in line with industry practice.

The outstanding claims reserve is projected based on the industry loss ratios adjusted for the company's business profile and includes allowances for policy maintenance, claims adjustment and reinsurance expenses, as well as a provision for an adverse deviation of 20% across all lines of business. Fitch believes that the reserving methodology used is conservative and it takes further comfort from the fact that the company's reserves are subject to an annual independent actuarial review, as required by regulation. The appointed actuary has to be approved by the regulator. Any deficiency in existing provisions, as recommended by the appointed actuary, will be topped up by the insurer.

- Healthy capitalisation with very good capital quality

Capitalisation

In Fitch's view, EQI has a good level of capitalisation relative to its current business profile. During 2008, EQI received a capital injection of SGD7.5m from its shareholders to enhance its underwriting capacity as it expands its business. As a result, its paid-up capital increased from SGD12.5m to SGD20m. Fitch understands that the shareholders remain committed to inject more capital into the company as the portfolio grows.

EQI has a regulatory RBC ratio comfortably exceeding the minimum requirement of 100%. At end-December 2009, its RBC ratio amounted to 316%, up from about 260% at end-December 2008.

Management has indicated that the company is unlikely to pay dividends in its initial years of operation, thus maximising the funds retained within the company to support organic growth. Fitch believes that the shareholders have a long-term investment horizon and are likely to remain supportive of the company's growth plans.

Financial Leverage and Balance Sheet Quality

Capital quality is good, consisting entirely of ordinary equity and retained profits. The company does not issue any corporate debt and does not intend to do so in the short to medium term.

EQ Insurance Co Ltd – Balance Sheet

(SGD000)	2007	2008	2009
Assets			
Investments			
Shares	0.0	3,121.2	3,648.6
Bonds	0.0	1,003.1	4,597.2
Cash and bank deposits	14,793.1	32,266.8	39,367.6
Other invested assets			
Total investments (non-linked)	**14,793.1**	**36,391.1**	**47,613.4**
Insurance receivables	1,928.7	7,856.0	4,902.1
Other receivables	267.4	320.0	533.7
Tangible assets	595.7	903.0	797.5
Other assets			
Total assets	**17,584.9**	**45,470.2**	**53,846.7**
Liabilities			
Technical reserves			
Unearned premium reserve	3,748.6	18,941.8	18,257.9
Reinsurers' share	-877.6	-4,821.1	-3,997.6
Outstanding claims reserve	1,931.3	8,554.2	14,392.6
Reinsurers' share	-31.3	-206.2	-1,463.6
Other technical provisions			
Total non-life technical reserves	**4,771.0**	**22,468.6**	**27,189.3**
Insurance payables	970.2	3,642.1	4,101.6
Reinsurance payables	629.2	2,297.5	579.8
Short-term debt			
Long-term debt			
Other creditors	302.4	983.8	911.9
Other liabilities	200.3	348.7	454.7
Total liabilities	**6,873.0**	**29,740.8**	**33,237.3**
Equity			
Ordinary share capital	12,500.0	20,000.0	20,000.0
Revaluation reserve		-178.8	40.2
Other reserves			
Profit and loss account	-1,788.1	-4,091.8	569.2
Total shareholders' funds	**10,711.9**	**15,729.4**	**20,609.4**

Source: EQI; Fitch

EQ Insurance Co Ltd – Profit and Loss Account

(SGD000)	2007	2008	2009
Non-life technical account			
Gross written premiums	5,302.0	33,265.7	33,243.9
Premiums ceded	-1,509.9	-8,718.9	-6,586.8
Net written premiums	3,792.1	24,546.8	26,657.1
Change in UPR	-2,871.0	-11,249.6	-139.6
Net premiums earned	**921.1**	**13,297.2**	**26,517.4**
Gross claims paid	-103.1	-2,753.1	-12,704.8
Reinsurance recoveries	8.4	191.6	2,598.5
Net claims paid	-94.8	-2,561.6	-10,106.2
Change in claims case reserves	-897.0	-6,837.0	-4,581.0
Net claims incurred	**-991.8**	**-9,398.6**	**-14,687.2**
Acquisition costs	-393.4	-3,147.3	-3,707.4
Administrative expenses	-1,867.8	-3,549.6	-4,154.6
Other underwriting income/(expenses)	79.1	378.5	-78.4
Total underwriting expenses	**-2,182.1**	**-6,318.3**	**-7,940.4**
Non-life underwriting result	**-2,252.7**	**-2,419.7**	**3,889.8**
Investment income	**348.6**	**116.0**	**946.6**
Pre-tax income	**-1,904.1**	**-2,303.7**	**4,836.4**
Tax			-175.4
Net income	**-1,904.1**	**-2,303.7**	**4,661.0**

Source: EQI; Fitch