



RATING ACTION COMMENTARY

Fitch Affirms Muang Thai Life's IFS Rating at 'A-'; Stable Outlook

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Fitch Ratings - Singapore - 31 Mar 2022: Fitch Ratings has affirmed the Insurer Financial Strength (IFS) Rating on Muang Thai Life Assurance Public Company Limited (MTL) at 'A-' and the Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook on the ratings is Stable.

At the same time, Fitch has affirmed the National IFS Rating at 'AAA(tha)' with Stable Outlook and affirmed the rating on MTL's USD400 million regulatory compliant Tier-2 subordinated note at 'BBB'.

KEY RATING DRIVERS

The affirmation reflects MTL's 'Favourable' company profile, 'Strong' capitalisation, and 'Strong' underwriting performance and liquidity risk. It also takes into consideration MTL's material exposure to risky assets in its investment portfolio and ongoing challenges in the operating environment as a result of the Covid-19 pandemic.

Fitch ranks MTL's company profile as 'Favorable' as a result of the 'Favorable' business profile and 'Moderate/Favourable' corporate governance compared with that of all other Thai life insurance companies.

MTL has maintained a substantive franchise with large market share of 12%-13% by total premium income and receives consistent operational support from major shareholders, KASIKORNBANK Public Company Limited (Long-Term IDR: BBB/Stable)

and Ageas Insurance International N.V. (Long-Term IDR: A+/Stable). MTL also has sound business diversification in light of its comprehensive product lines, client base and balanced distribution channels. Fitch scores MTL's company profile at 'a-' under the agency's credit-factor scoring guidelines.

MTL maintains a strong capital buffer against asset volatility and downside risks. Its risk-based capital (RBC) ratio stood at 316% at end-3Q21, well above the 120% regulatory minimum in Thailand. Its capital score under the Fitch Prism model is estimated to be close to 'Strong' at end-3Q21 as it is weighed down by high exposure to risky assets. Nevertheless, we expect its capitalisation to remain robust, with the RBC ratio above 300%. MTL expects its capitalisation to be enhanced by the issuance of regulatory Tier-2 compliant debt in October 2021. We also expect the company's leverage to be below 25%, well within the median guidelines for its rating category.

The insurer's exposure to Fitch-defined risky assets remained high in line with the company's strategy to support overall investment yield. The risky-asset ratio stood at 258% at end-3Q21 (2020: 249%), which was much higher than the guideline for IFS 'A' rated insurers. The ratio is driven by MTL's investments in equities and bonds rated below investment grade on the international scale, as well as exposure to sovereign bonds, which are scaled at 15% per Fitch's criteria. MTL's sovereign investments-to-capital ratio was 306% at end of 3Q21.

MTL's profitability remains robust despite a muted economic environment. The insurer reported an annualised return on equity of 11.5% as of end-3Q21, which was above Fitch's expectation for insurers with 'A' IFS ratings. Fitch also expects MTL's continued expansion in protection and health insurance to improve its overall earnings profile over time.

RATING SENSITIVITIES

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

IFS and National IFS Ratings

- A persistent drop in capitalisation, measured by a lower RBC ratio of below 280% and deterioration in the Fitch Prism model score to below 'Strong' for an extended period.
- A prolonged weakening in profitability, as indicated by return on equity falling below 8%
- A material increase in investment and asset risk including a further rise in the risky-asset ratio

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

IFS Rating

- Improvement in MTL's capitalisation level, with the Fitch Prism model score maintained at well into the 'Strong' level.
- A significant improvement in MTL's operating scale and business diversification; for instance, the insurer participates in many business lines, geographies and distribution sources.

National IFS Rating

- An upgrade is not possible as its 'AAA(thai)' National IFS Rating is already the highest score on the National Rating scale.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

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.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Muang Thai Life Assurance Public Company Limited	Ins Fin Str A- Rating Outlook Stable Affirmed	A- Rating Outlook Stable
	LT IDR BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
	Natl Ins Fin Str AAA(thai) Rating Outlook Stable Affirmed	AAA(thai) Rating Outlook Stable
subordinated	LT BBB Affirmed	BBB

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

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

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

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Muang Thai Life Assurance Public Company Limited

EU Endorsed, UK Endorsed

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EU Endorsed, UK Endorsed

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Insurance Asia-Pacific Thailand
