



RATING ACTION COMMENTARY

Fitch Affirms China Taiping Insurance Group's IDR at 'A'; Outlook Stable

Sun 26 Feb, 2023 - 11:00 PM ET

Fitch Ratings - Hong Kong - 26 Feb 2023: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) on China Taiping Insurance Group Ltd. (TPG), China Taiping Insurance Group (HK) Company Limited (TPG (HK)) and China Taiping Insurance Holdings Company Limited (CTIH) at 'A'.

The agency has also affirmed Taiping Life Insurance Company Limited's (TPL) Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and the IFS Rating on Taiping Reinsurance Company Limited (TPRe) at 'A' (Strong). The Outlook on all the ratings is Stable.

KEY RATING DRIVERS

Support from State Ownership: The rating of TPG benefits from a two-notch uplift from its standalone credit quality because TPG is 90%-owned by China's (A+/Stable) Ministry of Finance, which is likely to extend support to the group in times of stress. We view TPL as 'Core' and TPRe as 'Very Important' to TPG under Fitch's group rating methodology. TPL's rating is based on our evaluation of TPG's credit profile as a whole, while TPRe's rating reflects its standalone credit quality.

'Most Favourable' Company Profile: We assess TPG's business profile as 'Most Favourable' and corporate governance as 'Moderate/Favourable' compared with that of other insurers in China. TPG has strong brand recognition and a portfolio of diversified business lines and geographies through its operating subsidiaries in mainland China, Hong Kong and other parts of the world. The diversity of its premium sources mitigates

event risk in any single market segment. The group has presence in the life, non-life, reinsurance and pension markets.

Resilient but Challenging Profitability: We expect TPG's financial performance to have weakened in 2022 from 2021, on a decrease in investment returns due to continued volatility in global capital markets. Its annualised return on equity (ROE) was about 6% in 1H22, averaging 7% over 2020-1H22, which remains commensurate with the rating. TPL reported yoy premium growth of 3.6% in 2022, versus the industry's growth of 2.8%, amid lingering coronavirus-related disruptions.

We expect the decline of TPL's new business value to moderate in 2023 (a yoy drop of 11% in 1H22), given China's reopening, TPL's continued focus on its individual agency channel and regular-premium new business, and more contributions from bancassurance despite its lower margins. TPre's combined ratio was 97% in 1H22 and averaged 101% during 2020-1H22, commensurate with that of IFS 'A' rated reinsurers. The loss ratio rose to 66%, from 60% in 1H21; catastrophe losses including floods in Malaysia and South Africa, typhoons in the Philippines and storms in Europe offset an improved expense ratio.

'Good' Capitalisation and Leverage: TPG's risk-based capitalisation, as measured by the Fitch Prism Model, remained 'Adequate' at end-1H22. Higher life reserve provision and decreased investment income, due to low interest rates in China, reduced TPG's earnings and organic capital growth. The group's consolidated financial leverage ratio rose to 36% at end-1H22, from 28% at end-2021. We expect the ratio to gradually fall, taking into account some debt repayments made in 2H22.

TPG's and TPL's comprehensive solvency ratio under the China Risk-Oriented Solvency System phase 2 was 231% at end-2Q22 and 206% at end-3Q22, respectively.

Robust Capitalisation at TPre: TPre's balance sheet strength remained strong at end-1H22, as measured by the Fitch Prism Model. The regulatory solvency ratio declined to 214% by end-June 2022, from 278% at end-2021. We expect TPre to manage its asset risks and optimise the structure of its life reinsurance business, which will consume more capital under the risk-based capital regime to be implemented in Hong Kong in 2024.

Risky-Asset Ratio Remains High: The group's consolidated asset risk is driven largely by TPL, and we expect the life insurer's risky-asset ratio to have risen by end-2022 from end-2021. TPL's high-risk asset exposure (mainly equity-type investments), with adjustment for loss sharing of the participating life business, was above 2x of its total equity at end-2021, which was far in excess of Fitch's criteria guideline for the 'A' IFS

rating category. The high exposure to equity investments made TPL's earnings vulnerable to volatile and falling equity markets in 2022.

RATING SENSITIVITIES

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

- A significant change in shareholding that results in the Ministry of Finance losing its controlling interest in TPG and CTIH, or a downgrade of China's Long-Term Local-Currency IDR (A+/Stable).

Factors that could, individually or collectively, lead to lowering of the standalone credit quality:

- TPG fails to improve its Fitch Prism Model score to marginally 'Strong' on a sustained basis;
- The group's consolidated financial-leverage ratio remains above 35% consistently;
- A material increase in TPL's risky-asset ratio based on Fitch's definition;
- Sustained weakening in financial performance, including TPG's ROE falling below 7% and a sharp decline in TPL's new business value.

For TPRE:

- TPRE's Fitch Prism Model score consistently at the lower end of the 'Strong' level;
- Combined ratio above 101% for a sustained period.

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

- An upgrade of China's Long-Term Local-Currency IDR

Factors that could, individually or collectively, lead to raising of the standalone credit quality:

- TPG's Fitch Prism Model score improves to a level well into 'Strong' and the consolidated financial leverage ratio remains below 24% on a sustained basis;
- The group's ROE consistently exceeding 11%.

For TPRe:

- TPRe's Fitch Prism Model score sustained well into the 'Very Strong' level;
- The combined ratio below 98% consistently.

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 ◆
China Taiping Insurance Group Ltd.	LT IDR A Rating Outlook Stable Affirmed	A Rating Outlook Stable

China Taiping Insurance Group (HK) Company Limited	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
China Taiping Insurance Holdings Company Limited	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
Taiping Life Insurance Company Limited	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
Taiping Reinsurance Company Limited	LT IFS	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
China Taiping New Horizon Limited			
senior unsecured	LT	A-	Affirmed
			A-

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.8.0 (1)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

China Taiping Capital Limited	EU Endorsed, UK Endorsed
China Taiping Insurance Group (HK) Company Limited	EU Endorsed, UK Endorsed
China Taiping Insurance Group Ltd.	EU Endorsed, UK Endorsed
China Taiping Insurance Holdings Company Limited	EU Endorsed, UK Endorsed
China Taiping New Horizon Limited	EU Endorsed, UK Endorsed
Taiping Life Insurance Company Limited	EU Endorsed, UK Endorsed
Taiping Reinsurance Company Limited	EU Endorsed, UK Endorsed

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