



RATING ACTION COMMENTARY

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

Wed 22 Mar, 2023 - 5:52 AM ET

Fitch Ratings - Bangkok/Singapore - 22 Mar 2023: 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 a Stable Outlook and affirmed the rating on MTL's USD400 million regulatory compliant Tier 2 subordinated note at 'BBB'.

The affirmation reflects MTL's 'Favourable' company profile, 'Strong' capitalisation and sound liquidity. Fitch expects earnings to recover from an improving economy and good margins from new business sales. MTL's investment portfolio has material exposure to risky assets.

KEY RATING DRIVERS

'Favourable' Company Profile: Fitch ranks MTL's company profile 'Favourable' as a result of its 'Favourable' business profile and 'Moderate/Favourable' corporate governance compared with other life insurers in Thailand.

The ranking reflects a substantive franchise, with sound market share of around 11% by total premium income, and consistent operational support from major shareholders KASIKORNBANK Public Company Limited (KBank, IDR: BBB/Stable) and Ageas

Insurance International N.V. (IDR: A+/Stable). MTL also has sound business diversification in light of its comprehensive product lines, client base and balanced distribution channels.

'Strong' Capitalisation: MTL maintains a strong capital buffer to support its business. We estimate that its capitalisation, measured by the Fitch Prism Model score, was 'Strong' at end-3Q22, including the benefit of capital treatment in regulatory Tier 2 compliant debt. Its risk-based capital (RBC) ratio stood at 320% at end-3Q22, well above the 140% regulatory minimum in Thailand. Its financial leverage is at 16%, well within the median guidelines for its rating category.

Risky-Asset Ratio Remains High: MTL's risky-asset ratio was 250% at end-3Q22 (2021: 245%), as a reduction in shareholder's capital due to a loss on investment valuation was mitigated by a shift from stocks and unit trusts to sovereign bonds in its investment mix. The ratio is driven by MTL's investment in equities and bonds rated below investment grade on the international scale, as well as exposure to sovereign bonds, which are scaled at 15% under Fitch's criteria.

Moderate Earnings: MTL's three-year average return on equity of 8.9% from 2020 to 9M22 (annualised) remained within the range of its rating category, although the annualised return on equity in 9M22 dropped below 6.5%, dampened by weaker operating results. This was due to the challenges it faced in maintaining some businesses under the subdued economy. However, a robust new business margin and strong growth in the savings-type business, including largely stable total underwriting and operating expenses, helped to offset some of the effects.

Fitch expect its underwriting results to normalise due to continued strong demand for health-related products, a good record of sound profitability in new business, new market opportunities from increased collaboration with Kbank, and cost-saving initiatives such as digitalisation of its distribution channels.

Narrow Duration Gap: MTL has narrowed its duration gap to nearly match asset duration with that of liabilities. This will help minimise its exposure to interest-rate volatility. We expect this to continue over the medium term.

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, indicated by return on equity falling below 6.5%, and a sustained material decline in the value of new business;
- 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, 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(tha)' 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	LT IDR BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
	LT IFS A- Rating Outlook Stable Affirmed	A- Rating Outlook Stable
	Natl LT IFS 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 \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

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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Muang Thai Life Assurance Public Company Limited

EU Endorsed, UK Endorsed

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Insurance Asia-Pacific Thailand
