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

Fitch Ratings - Hong Kong - 05 Feb 2024: 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. Simultaneously, Fitch has affirmed CTIH's perpetual subordinated bonds at 'BBB+'.

The affirmation reflects TPG's 'Strong' financial performance, 'Good' capitalisation and 'Most Favourable' company profile. We view TPL as 'Core' and TPRe as 'Very Important' to TPG under Fitch's group rating methodology. TPL's rating is based on the credit profile of TPG as a whole, and TPRe's rating reflects its standalone credit quality.

Key Rating Drivers

Rating Uplift on Government Linkage: TPG's rating benefits from a two-notch uplift from its standalone credit quality, reflecting the stakes held by China's (A+/Stable) Ministry of Finance (MoF) in TPG and the support to the group. The MoF injected CNY2.5 billion into TPG in May 2023 to support the group's deleveraging and stable growth, although the amount is small relative to TPG's operating scale. The MoF holds a 90.7% stake in TPG following the capital injection, from 90% previously. We believe the Chinese government is likely to support the group in times of stress.

'Good' Capital Adequacy: We expect TPG's capital buffer under the Fitch Prism Model to widen by end-2023, driven by a contractual service margin (CSM) after tax was included as available capital after the group's implementation of IFRS 17 on 1 January 2023 and earnings recovery. TPG's Prism Model score remained at the 'Adequate' level at end-2022 but with a thinner buffer against 2021, mainly because of lower investment returns and a rise in asset impairment losses. TPG's continued exposure to high-risk assets will determine the sustainability of our assessment.

The comprehensive solvency ratio improved to 205% by end-1H23, from 190% at end-2022, with the core solvency ratio rising to 114%, from 101%. The increase in the core solvency ratio was due mainly to USD2 billion of perpetual subordinated debt issued by CTIH in March 2023, which qualified for core capital recognition at a consolidated level with TPG under the C-ROSS phase 2 regime. We estimate TPG's financial leverage ratio (end-2022: 34%) to be commensurate with its rating over 2023-2024. The retrospective ratio under IFRS 17 would be lower, taking CSM into consideration.

Solid Capitalisation at TPre: The reinsurer's Prism Model score is likely to be stronger by end-2023 compared with the prior year-end due to a reduction in life reinsurance business, a portfolio restructuring with an increase in protection business, and the CNY1.3 billion of capital supplemental bonds issued by TPre (China) in March 2023. We expect TPre to manage its business and asset risks in response to the upcoming implementation of the risk-based capital regime in Hong Kong. The regulatory solvency ratio was 326% at end-1H23, up from 315% at end-2022.

Resilient Operating Results Under Challenge: Insurance revenue from TPG's life business remained flat in 1H23 against 1H22, while new business CSM improved by 9.4% yoy to CNY9.5 billion. TPL's ability to sell higher-margin new business - a key driver of structural CSM growth - will boost the group's insurance profit growth. TPL's new business value rose by 29% yoy in 1H23, driven mainly by the individual agency channel. TPG's annualised return on equity was 13% in 9M23 (2020-2022 average: 6%). Global capital-market volatility continues to affect its financial performance and earnings.

Unprofitable Underwriting at TPre: We expect the reinsurer to report an underwriting loss for 2023 due to catastrophic events, including claims arising from the Turkey earthquake and a record-breaking rainstorm in Hong Kong in September. Extreme weather-related losses continue to put pressure on underwriting performance despite better cost controls. The combined ratio was 106% in 1H23 based on IFRS 17, up from the retrospective ratio of 101% in 1H22, largely due to higher loss reserve provisions. The average combined ratio under IFRS 4 was 102% during 2020-2022.

Asset Risk Remains Key: We think TPG is unlikely to reduce its large holding of high-risk assets meaningfully in the near term, for better yield in light of the continued low interest rates in China. This will be driven by TPL's portfolio, with a risky-asset ratio (after adjustment for loss sharing of the participating life business) of 237% at end-2022, far in excess of Fitch's criteria guideline for the 'A' IFS rating category.

The high exposure to equity-type assets makes TPL's earnings vulnerable to stock-market movement and increasing counterparty risks, although the retrospective risky-asset ratio under IFRS 17 would be lower after including CSM as equity capital. TPre's risky-asset ratio remained stable at 62% at end-2022 (2021: 61%), commensurate with its rating. Lower exposure to equity investments was offset by higher holdings of non-investment-grade bonds. We expect TPre to practise greater caution in managing asset risk, to reinforce its regulatory solvency position under the coming risk-based capital regime.

'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. The group operates in the life, non-life, reinsurance and pension markets, hence mitigating event risk in any single market segment. It has strong brand recognition and diversified geographies through its operating subsidiaries in mainland China, Hong Kong and other parts of the world.

RATING SENSITIVITIES

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

- A significant change in shareholding that results in the MoF 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's Fitch Prism Model score weakens significantly on a sustained basis;
- A sharp rise in TPL's risky-asset ratio;
- Prolonged weakening in financial performance and earnings, including a sharp decline in TPL's new business value.

For TPre:

- Sustained deterioration in the Fitch Prism Model score;
- Consistently weakening in financial performance, in terms of combined ratio and earnings.

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:

- A significant improvement in TPG's Fitch Prism Model score and a persistent decrease in its consolidated financial leverage ratio;
- The group's profitability improves for a prolonged period.

For TPre:

- A significant strengthening in the Fitch Prism Model score on a sustained basis;
- A material improvement in profitability, including a consistent decline in the combined ratio.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
China Taiping Insurance Group Ltd.	LT IDR	A	Affirmed	A
China Taiping Insurance Group (HK) Company Limited	LT IDR	A	Affirmed	A
China Taiping Insurance Holdings Company Limited	LT IDR	A	Affirmed	A
• subordinated		BBB+	Affirmed	BBB+
Taiping Life Insurance Company Limited	LT IFS	A+	Affirmed	A+
Taiping Reinsurance Company Limited	LT IFS	A	Affirmed	A

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		

RATINGS KEY OUTLOOK WATCH

STABLE



Applicable Criteria

[Insurance Rating Criteria \(pub.20 Jul 2023\) \(including rating assumption sensitivity\)](#)

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

[Solicitation Status](#)

Endorsement Status

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
Taiping Life Insurance Company Limited	EU Endorsed, UK Endorsed
Taiping Reinsurance Company Limited	EU Endorsed, UK Endorsed

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