

08 May 2020 | Rating Changed Outlook to Negative

Fitch Revises Outlook on Muang Thai Life Assurance to Negative; Affirms IFS Rating at 'A-'

Fitch Ratings-Bangkok/Singapore-08 May 2020:

Fitch Ratings has revised the Outlook on Muang Thai Life Assurance Public Company Limited's (MTL) Insurer Financial Strength (IFS) Rating to Negative from Stable and affirmed the IFS Rating at 'A-' (Strong).

At the same time, Fitch has revised the Outlook on the insurer's National IFS Rating to Negative from Stable and affirmed the National IFS Rating at 'AAA(thai)'.

Key Rating Drivers

The rating actions noted above are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of rating assumptions described below. These assumptions were used by Fitch to develop pro forma financial metrics for MTL that Fitch compared with both ratings guidelines defined in its criteria and previously established rating sensitivities for MTL.

The Negative Outlook reflects the risks to MTL's capitalisation and earnings due to the uncertainty of the impact of the pandemic and the financial-market volatility. The rating affirmation also takes into consideration MTL's substantive franchise with a large market share, broad product lines, sound distribution strength and strong brand recognition. Fitch scores the insurer's business profile as 'Favourable' compared with that of all other Thai peers, resulting in its business profile ranking of 'a-' under our credit-factor scoring guidelines.

MTL's pro forma capital score, indicated by Fitch Prism Model, would drop to the 'Adequate' level under the rating-case scenario, compared with a 'Strong' Position in 2019. The weaker assumed capitalisation was driven mainly by potential rising loss exposure of investments susceptible to the capital-market volatility, which taking into the consideration the MTL's larger-than-peer stock investment of about 15% of its total investments. We believe MTL's reasonable non-risk-based capital position will help cushion the insurer's credit profile against asset and earnings risks. MTL's risk-based capital-adequacy ratio is still likely to be well above the 140% regulatory minimum level.

Fitch believes the insurer's pro forma financial performance will decline, affected by lower

investment yields and higher coronavirus-related claim expenses. MTL's assumed pretax return on assets (ROA) will fall under the rating-case scenario, but still commensurate with Fitch's expectation for 'A' IFS-rated insurers. Fitch believes MTL's explicit commitment on a cautious premium setting to ensure its sound product margin will continue to support its strong earnings profile.

MTL's investment and asset risk profile will face pressure from volatile capital markets. The insurer's pro forma risky-asset ratio could jump materially under the rating case and exceed the guideline scoring for insurers with 'A' range IFS Ratings, suggesting rising investment risk exposure to its weaker capitalisation. However, the agency believes MTL will strictly uphold its prudent long-term investment strategy with the aim of maintaining stable investment returns with a risk appetite commensurate with its rating level.

Assumptions for Coronavirus Impact (Rating Case)

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro forma rating analysis discussed above:

- Decline in key stock market indices by 35% relative to 1 January 2020.
- Increase in two-year cumulative high-yield bond default rate to 16%, applied to current non-investment-grade assets, as well as 12% of 'BBB' assets.
- Both upward and downward pressure on interest rates, with spreads widening (including high-yield by 400 basis points) coupled with notable declines in government rates.
- Capital markets access is limited for issuers at senior debt levels of 'BBB' and below.
- A COVID-19 infection rate of 5% and a mortality rate (as a percentage of infected) of 1%.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government action in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. An indication of how we expect ratings would be affected under a set of stress-case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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

IFS Rating/ National IFS Rating

- A material adverse change in Fitch's ratings assumptions with respect to the coronavirus impact.
- A persistent drop in either Fitch's assumed pro forma, or the company's actual, capitalisation - measured by MTL's risk-based capital ratio - to below 280% and deterioration in the Fitch Prism Model score to below 'Strong' for an extended period.
- A prolonged weakening in profitability, indicated by either Fitch's assumed pro forma, or the company's actual, pretax return on assets of below 1%.

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

IFS Rating

- MTL's ability to maintain its capitalisation, indicated by the Fitch Prism Model score, at 'Strong' will lead to a revision of the Outlook to Stable.
- A material positive change in Fitch's ratings assumptions with respect to the coronavirus impact.
- A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the Thai life insurance industry and MTL.
- Improvement in MTL's capitalisation level, with Fitch Prism Model score maintained at well into the 'Strong' level based on both Fitch's assumed pro forma and MTL's actual result.
- 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

- MTL's ability to maintain its capitalisation, indicated by the Fitch Prism Model score, at 'Strong' will lead to a revision of the Outlook to Stable.
- An upgrade is not possible as its 'AAA(tha)' National IFS Rating is already the highest score on the National Rating scale.

Stress Case Sensitivity Analysis

- Fitch's stress case assumes the following: a 60% stock market decline; two-year cumulative high-yield bond default rate of 22%; high-yield bond spreads widening by 600 basis points and more prolonged declines in government rates; heightened pressure on capital-market access; a COVID-19 infection rate of 15%; and mortality rate of 0.75%.

- The implied rating impact under the stress case would be a downgrade of one-to-two notches.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions 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

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

Muang Thai Life Assurance Public Company Limited; Insurer Financial Strength; Affirmed; A-;
RO:Neg
; National Insurer Financial Strength; Affirmed; AAA(tha); RO:Neg

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

Applicable Model

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

Prism Factor-Based Capital Model, v1.7.1 [\(1\)](#)

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