

Research Update:

Muang Thai Life Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

July 8, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Based on the new criteria, our assessment of Muang Thai Life Assurance Public Co. Ltd.'s (MTL) capital and earnings position remains satisfactory.
- We also revised our liquidity assessment to exceptional from adequate, and believe that MTL has no constraints in meeting its obligations.
- In our view, MTL will remain strategically important to KASIKORNBANK PCL (KBank), but the ratings on the Thailand-based insurer will continue to be insulated from those on KBank and capped by the Thailand sovereign ratings.
- We therefore affirmed our 'BBB+' long-term issuer credit and financial strength ratings on MTL.
- The stable outlook on MTL reflects our sovereign credit rating on Thailand. In our assessment, MTL will maintain its stand-alone credit profile (SACP) and remain a strategically important subsidiary of KBank over the next 12-24 months.

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Rating Action

On July 8, 2024, S&P Global Ratings affirmed its 'BBB+' long-term issuer credit and financial strength ratings on MTL. The rating outlook remains stable.

Impact Of Revised Capital Model Criteria

- The implementation of our revised criteria of analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions") does not lead to any rating changes for MTL.
- Under the revised criteria, MTL will maintain satisfactory capital and earnings through 2025, relative to its risk profile. This is underpinned by an increase in the insurer's total adjusted capital due to removal of haircuts to value-in-force and benefits from risk diversification, which

are captured more explicitly in our analysis.

- That said, capital buffers were slightly pressured due to a recalibration of our capital charges to higher confidence levels and increased risk differentiation, particularly in interest-rate risk capital requirements.

Credit Highlights

Overview

| Key strengths | Key risks |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| Established franchise in Thailand's life insurance industry, underpinned by substantial level of controlled distribution channels and a highly reputable brand. | Modest capitalization sensitive to revaluation losses from interest-rate movements and investment-market fluctuations. |
| Stronger operating performance than domestic peers amid challenging business conditions and ongoing product transition. | Concentrated exposure to Thailand-based assets, resulting in high correlation with sovereign-related stresses. |
| Proactive and experienced management team. | |

Outlook

The stable outlook on MTL reflects that on our sovereign credit rating on Thailand. We expect the life insurer to maintain its competitive position in Thailand, with support from its established brand and market position. We believe MTL will be able to sustain its strong operating performance and modest capitalization over the next two years. This is amid slower growth due to ongoing product changes.

Downside scenario

We may downgrade MTL if:

- The insurer's financial position deteriorates substantially, as indicated by weakening capitalization and earnings. Such a deterioration could occur if the insurer undertakes a more aggressive investment strategy or geographical business expansion; or
- The insurer's competitive position wanes, due to factors such as a sustained decline in market share and our expectation of a substantial contraction in prospective earnings.

Upside scenario

We could upgrade MTL if the insurer maintains its credit profile and we raise the sovereign credit rating on Thailand.

Rationale

MTL's capitalization should remain satisfactory amid ongoing product transition with our expectation of gradual improvement in earnings over the next two years.

The insurer's prospective capital buffers will likely remain stable given its prudent business growth and investment strategy. Profit generation and product margins may be restrained due to its ongoing product shifts and higher policy maturities, amid improving but still-slow growth trends. Nonetheless, still-high market interest rates will result in lower reserve requirements, partially mitigating potential capital strain.

We continue to observe MTL's progress on its product transition and margins from its new offerings, which include relatively less capital-intensive products such as health, protection, and investment-linked policies. Sensitivity to capital market conditions could affect the insurer's capital cushions over the next couple of years.

However, MTL's robust control over its investments and asset-liability management should help to moderate this sensitivity. We anticipate the insurer will maintain modest capitalization through 2025, amid a likely improvement in Thailand's economic growth. Resilient earnings as higher policy maturities are disbursed during this period will underpin MTL's capitalization.

Revenue contributions from regular premium policies remain dwarfed by a gradually maturing portfolio of MTL's short-term endowment policies sold prior to 2017. The ongoing product shift should improve margins, and support prospective profitability and steady embedded-value generation. A decline in the insurer's premiums since 2018 reflects a deliberate slowdown in sales of short-term endowment plans as MTL continues to revamp its product offerings. Gross premiums declined to Thai baht (THB) 18.2 billion for the first quarter of 2024, from THB19.9 billion in the same period a year ago.

In our opinion, MTL's prudent risk management underpins its product shifts earlier than peers ahead of regulatory and accounting changes. We believe the insurer's proactiveness will continue to support value-in-force growth, albeit at a slower pace than in prior years, due to slow growth of higher-margin, long-term protection policies.

Our assessment of MTL's exceptional liquidity reflects its ability to maintain a well-diversified investment portfolio. The insurer will continue to benefit from sustained substantial holdings in good quality government bonds and corporate debentures, along with modest cash balances. We expect the insurer's liquid investment profile to support a continual increase in policy maturity payouts until 2024. MTL has no debt maturities over the next two years.

MTL's well-respected brand and multi-distribution strategy will continue to support its solid market position within the Thai life insurance sector. Despite modest growth in premiums owing to the ongoing product transition, the insurer's franchise strength will remain underpinned by its high level of controlled distribution and well-recognized brand. This reduction in premiums is because of a gradual transition in the insurer's product mix, a trend also observed for several other life insurers in Thailand, over the past few years. MTL's ongoing efforts to digitalize will also boost its customer reach. This should help generate modest new business amid our anticipated acceleration in economic growth, which will influence the pace of growth for the Thai life insurance sector.

MTL's shift to high-quality growth with the focused rollout of more health and protection-based insurance products will also better prepare the insurer ahead of upcoming accounting changes. This will result in more stable profit generation than peers' over the long term. We expect the insurer's expenses to increase slightly, given the ongoing product transition and its focus on improving channel diversity, which generally leads to higher acquisition costs. That said, we believe MTL's expense ratio will remain better than that of most of its peers.

Our higher anchor selection reflects MTL's dominant market position as one of the largest life insurers in Thailand and its ability to consistently outperform peers in terms of profitability.

MTL will remain exposed to sovereign-related stresses due to its substantial Thailand business concentration.

We consider the insurer's credit profile to be linked to that of the Thai sovereign. This reflects MTL's substantial exposure to Thailand-domiciled assets and businesses. More than 85% of its total assets are domiciled in Thailand. Given our expectation that the insurer's revenue and asset base will remain in Thailand for the foreseeable future, we equalize the rating on the insurer with our foreign-currency long-term sovereign credit rating on Thailand.

Environmental, social, and governance (ESG)

ESG factors have an overall neutral influence on our credit rating analysis of MTL.

Ratings Score Snapshot

| | To | From |
|-----------------------------|----------------|----------------|
| Financial strength rating | BBB+ | BBB+ |
| Anchor | a- | a- |
| Business risk | Strong | Strong |
| IICRA | Intermediate | Intermediate |
| Competitive position | Strong | Strong |
| Financial risk | Satisfactory | Satisfactory |
| Capital and earnings | Satisfactory | Satisfactory |
| Risk exposure | Moderately Low | Moderately Low |
| Funding structure | Neutral | Neutral |
| Modifiers | 0 | 0 |
| Governance | Neutral | Neutral |
| Liquidity | Exceptional | Adequate |
| Comparable ratings analysis | 0 | 0 |
| Support | 0 | 0 |
| Group support | 0 | 0 |
| Government support | 0 | 0 |

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Muang Thai Life's Capitalization Remains Satisfactory Post Buyback, July 19, 2023
- Muang Thai Life Assurance Public Co. Ltd., Jan 10, 2023

Ratings List

Ratings Affirmed

Muang Thai Life Assurance Public Co. Ltd.

Issuer Credit Rating

| | |
|----------------|----------------|
| Local Currency | BBB+/Stable/-- |
|----------------|----------------|

Financial Strength Rating

| | |
|----------------|----------------|
| Local Currency | BBB+/Stable/-- |
|----------------|----------------|

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