

Taiping Reinsurance Co. Ltd.

Primary Credit Analyst:

WenWen Chen, Hong Kong + 852 2533 3559; wenwen.chen@spglobal.com

Secondary Contact:

June Wang, Hong Kong +852 25333590; june.wang2@spglobal.com

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Major Rating Factor

- Implicit parental support under all circumstances, if required, given the reinsurer's status as a core subsidiary of China Taiping Insurance Group (HK) Co. Ltd. and China Taiping Insurance Holdings Co. Ltd.--collectively the China Taiping Insurance Group.

Operating Company Covered By This Report
Financial Strength Rating
<i>Local Currency</i>
A/Stable/--

Rationale

The rating on Taiping Reinsurance Co. Ltd. (Taiping Re) reflects our view that the reinsurer plays a key role in the internationalization strategy of its ultimate parent, China Taiping Insurance Group. The reinsurer provides reinsurance support and regional insurance market insights to the group's affiliates.

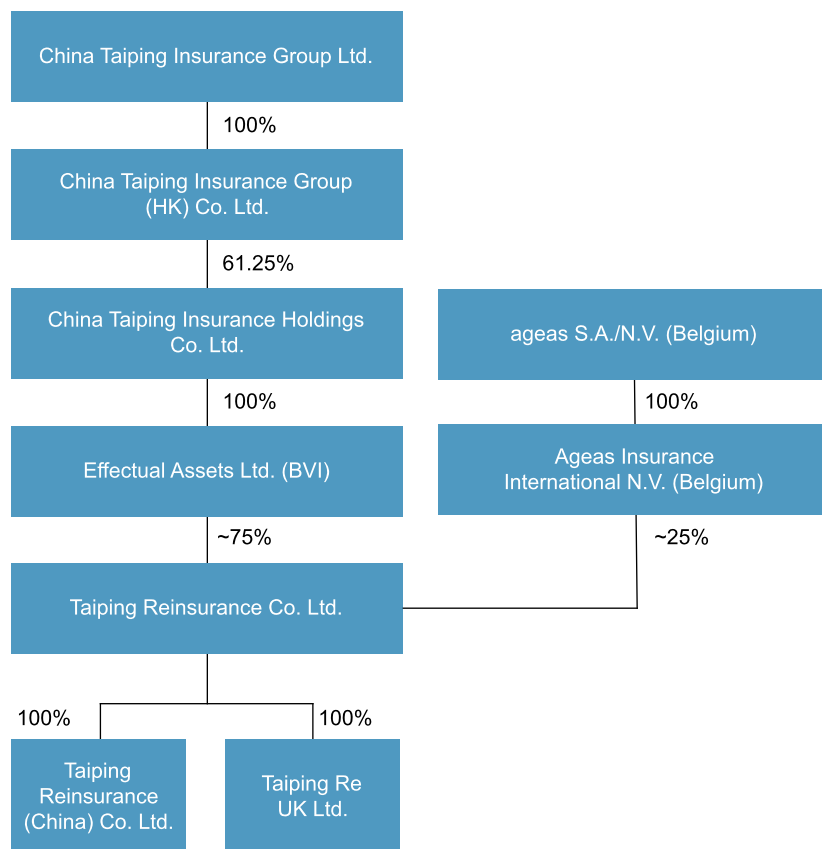
The support and insights facilitate the parent group's expansion in the Greater Bay Area (Hong Kong, Macau, and Guangdong) and international markets. We therefore view Taiping Re as a core subsidiary of China Taiping Insurance Group, and equalize the rating on Taiping Re with our assessment of the parent's group credit profile.

We believe the reinsurer will likely benefit from extraordinary support, if required, from the Chinese government through its parent group. We anticipate China Taiping Insurance Holdings Co. Ltd. (CTIH) will remain Taiping Re's dominant shareholder over the next two years.

China Taiping Insurance Group (HK) Co. Ltd. (TPGHK) owns 61.25% of CTIH, which in turn owns 75% of Taiping Re through Effectual Assets Ltd. (BVI). Ageas Insurance International NV became a strategic minority investor in 2020, with a 25% stake.

Taiping Re's organizational structure

As of Dec. 31, 2023



Source: Company disclosure.

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We believe the parent group will provide ready support to fund the reinsurer's business development and ensure it maintains sufficient regulatory solvency at all times, particularly amid the preparation of upcoming Hong Kong risk-based regime.

Hong Kong-based Taiping Re shares its parents' "Taiping" branding, and benefits from China Taiping Insurance Group's strong long-term commitment to providing it with parental support. This is demonstrated by the provision of assistance in asset management, capital, information technology, and risk management governance. As of Dec. 31, 2023, Taiping Re contributed about 8.4% to CTIH's total equity, under International Financial Reporting Standard (IFRS) 17 basis.

Taiping Re will likely maintain its moderate growth appetite in 2024. This reflects the reinsurer's continuous portfolio overhaul and tightening risk selection for new business.

That said, premium rates continue to increase across the industry, at a moderating rate. This will likely facilitate Taiping Re's expansion in the property and casualty (P/C) reinsurance segment. The reinsurer will also likely increase

its collaboration with Belgium-based Ageas, enabling Taiping Re to gain experience in Ageas' markets. The reinsurer's P/C reinsurance premium contracted 9.0% year-on-year in 2023, partly due to exiting loss-making accounts as part of its portfolio overhaul.

Volatility of underwriting results is likely to increase for Taiping Re, particularly amid increase in risk retention. The reinsurer's underwriting performance are sensitive to natural catastrophe-related large losses, given its increasing exposure to property reinsurance. This is despite a more selective growth and risk retention strategy could help ease underwriting pressure for Taiping Re over the next two years. The reinsurer had a P/C net combined ratio of about 101.6% in 2023, compared with 102.7% in 2022. This is based on IFRS4. [Net combined ratio = (Total net operating expense + net claims incurred)/Net premium earned] A combined ratio of greater than 100% indicates an underwriting loss.

Taiping Re will likely gain growth opportunities from financial reinsurance for its life reinsurance business. This reflects potential demand for primary life insurers to supplement their regulatory capital positions in preparation for the upcoming risk-based capital regime in Hong Kong.

We also anticipate Taiping Re will seek growth from protection-type policies, given its shift in focus to insurance margins. Meanwhile, the upcoming risk-based capital regime in Hong Kong has prompted the reinsurer to focus on capital efficiency. This could continue to tame the reinsurer's development of savings-type reinsurance policies. The reinsurer's life reinsurance premium declined 7.0% year on year for 2023.

Taiping Re's China-based subsidiary, Taiping Reinsurance (China) Co. Ltd. (Taiping Re China; not rated), will contribute to Taiping Re's overall growth over the next two years. The reinsurer could benefit from rising demand for reinsurance support as primary P/C insurers in mainland China grow their lines of business thanks to government initiatives, such as agriculture insurance. Taiping Re China's premiums grew 4.4% year on year (in Chinese renminbi [RMB] terms) in 2023.

That said, the China subsidiary's business growth will continue to consume capital and require capital investment. Taiping Re China issued a RMB1.3 billion capital supplementary bond in the first half of 2023, to support its regulatory capital position. We consider Taiping Re China's credit profile to be weaker than that of Taiping Re.

We expect Taiping Re to maintain adequate regulatory capital buffer in preparation of the Hong Kong Risk-Based Capital Regime. Particularly, in consideration of its business development and prospective earnings volatility. Coupled with subdued underwriting results, investment losses associated with capital market turbulence and heightened counterparty risk will hit capital and earnings. As of June 30, 2023, Taiping Re's regulatory solvency ratio was 326% (315% as of Dec. 31, 2022).

Taiping Re is susceptible to credit and market risks due to its large holdings of high-risk assets. This is driven by its large life reinsurance portfolio (accounting for 49.6% of assets, as of end-2023) and its ongoing effort to bolster investment income to defend against underwriting margin pressures. The reinsurer faced earnings volatility in recent years, given subdued underwriting results and asset impairment losses.

Amid ongoing capital market volatility and heightened credit risks, we believe Taiping Re will continue to follow its

parent group's tightened risk control over investment risks, particularly following the substantial asset impairments of recent years.

Taiping Re has net retained catastrophe exposure similar with its regional peers. Increased frequency of extreme weather events and non-modelled risks arising from rapid urbanization could prompt a more active review of its risk accumulation. Meanwhile, costly retrocession could lead to increasing risk retention. This will further test Taiping Re's underwriting risk control.

Taiping Re is integrated within the wider parent group's broad governance and risk management framework. The reinsurer regularly reviews and revises its risk limit indicators along with its business development. We believe Taiping Re will also learn from Ageas' experience in risk control as it continues its expansion in overseas markets.

Outlook

The stable outlook on Taiping Re reflects the outlook on TPGHK. The rating and outlook on Taiping Re will move in tandem with that on the group. We expect Taiping Re to remain a core subsidiary of its parent group over the next two years.

Downside scenario

We may downgrade Taiping Re if we lower our assessment of China Taiping Insurance Group's group credit profile.

We may also lower the rating on Taiping Re if we consider that the reinsurer's importance to China Taiping Insurance Group has reduced. We consider this to be unlikely over the next two years.

Upside scenario

We may raise the rating on Taiping Re if we believe the group's credit profile will improve over the next two years.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- China Taiping Insurance Group (HK) Co. Ltd., China Taiping Insurance Holdings Co. Ltd., And Operating Subsidiaries, Oct. 30, 2023
- China Taiping Insurance Group Entities Outlook Revised To Stable On Easing Debt-Servicing Strain; Ratings Affirmed, Oct. 16, 2023

Appendix

Table 1

Taiping Reinsurance Co. Ltd.--Credit metrics history					
Ratio/Metric (Mil. HK\$)	2022	2021	2020	2019	2018
Total invested assets	44,617.3	48,204.1	41,948.2	38,888.7	32,398.3
Total shareholder equity	11,050.5	11,756.1	12,073.8	9,041.4	8,082.4
Gross premiums written	17,750.0	18,237.6	16,266.7	15,884.4	13,551.8
Net premiums written	15,868.9	15,991.1	13,682.7	13,915.6	8,211.9
Net premiums earned	14,576.4	15,787.9	13,491.0	13,486.9	7,954.4
P/C: net premiums earned	10,892.2	9,411.2	8,303.7	7,875.9	7,284.3
Reinsurance utilization (%)	10.6	12.3	15.9	12.4	39.4
EBIT	81.5	66.5	(189.5)	385.3	602.5
Net income (attributable to all shareholders)	61.4	9.6	(169.6)	321.1	539.3
Return on revenue (%)	5.3	0.9	0.9	5.8	9.7
Return on shareholders' equity (reported) (%)	0.5	0.1	(1.6)	3.7	6.6
P/C: net combined ratio (%)	102.7	104.1	104.5	99.7	99.0
P/C: net expense ratio (%)	38.2	33.1	33.7	35.2	39.6
Net investment yield (%)	4.1	3.8	4.2	4.8	4.8
Net investment yield including investment gains/(losses) (%)	2.4	3.6	3.4	3.4	3.8

P/C--Property/casualty.

Ratings Detail (As Of April 30, 2024)*

Operating Company Covered By This Report

Taiping Reinsurance Co. Ltd.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Hong Kong

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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