



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

Fitch Ratings-Hong Kong-06 April 2017: Fitch Ratings has affirmed the 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 Co Ltd (CTIH) at 'A'.

Fitch also affirmed Taiping Life Insurance Co., Ltd.'s (TPL) Insurer Financial Strength (IFS) Rating at 'A+' and the IFS Rating of Taiping Reinsurance Co. Ltd (TPRe) at 'A'. The Outlook is Stable.

A full list of rating actions can be found at the end of this commentary.

KEY RATING DRIVERS

The rating affirmation reflects TPG's solid capitalisation on a consolidated basis, consistently profitable operating results, diversified premium sources and ongoing business growth. Fitch views TPL as a core operating entity within TPG as the life insurer accounts for a significant proportion of TPG's overall earnings.

Fitch has factored in a one-notch uplift to the group's IDRs to take into account the Chinese Ministry of Finance's (MOF) 100% direct ownership of the company. Fitch believes that there is a high probability that the Chinese government (Long-Term Local-Currency IDR: A+) would provide capital or policy support, if needed.

TPG continued to maintain a solid capital buffer to support the growth of its operating subsidiaries in China and overseas. TPG's risk-based capitalisation on a consolidated basis, in terms of Fitch's Prism factor-based model (FBM) score, still stood at 'Very Strong' at end-1H16. Based on the unaudited financial results of TPG in 1H16, the ratio of TPG's consolidated shareholder's equity to total non-linked assets, however, dropped to 12.4% at end-1H16, from 14.3% at end-2015. Fitch no longer gives equity credit to the USD600 million perpetual subordinated securities issued in 2H14 in the capital adequacy assessment or financial leverage calculation, given the presence of a step-up margin feature.

The local comprehensive solvency ratio of TPL and Taiping General Insurance Company Limited (TPI) computed under China Risk Oriented Solvency System (C-ROSS) was at end-2016 was 251% and 206%, respectively. These are well above the 100% regulatory minimums. TPG's consolidated financial leverage was 29% at end-1H16, excluding the bank loans for finance lease receivables. Fitch believes TPG has maintained sound financial flexibility to facilitate the expansion of its insurance subsidiaries in the coming year.

Fitch estimated that TPG's risky assets, which are mainly equities, funds with equity exposure and investment properties, accounted for about 103% of TPG's equity capital on a consolidated basis at end-1H16. This ratio is higher than the median for life insurers rated 'A' by Fitch. Nonetheless, Fitch believes that TPG's overall exposure to risky assets has remained manageable relative to capitalisation, as reflected in TPG's Fitch Prism FBM score.

TPG has been able to sustain its profitable operating result in 1H16 despite capital market volatility. TPG's annualised pretax operating return on assets amounted to 2.8% in 1H16. TPL's new business value (NBV) growth remained strong in 2016 given its focus on the sales of regular longer-term protection type life policies. Individual agents are still key contributors to TPL's NBV. TPL's value of in-force (VIF) business after cost of capital under C-ROSS grew by 14.3% to about HKD48 billion in 2016.

The affirmation of TPre's IFS rating reflects the company's consistent underwriting profitability from its non-life reinsurance portfolio, ongoing expansion of its life reinsurance business and solid solvency position. The rating also considers its strategic status as a "very important" subsidiary within the group, as defined by Fitch.

The combined ratio of TPre's non-life operation in 1H16 was 87% despite persistently soft pricing market conditions. TPre kept its regulatory solvency margin ratio at 394% at end-2016, although its life reinsurance portfolio expanded by 24% in 2016. Additionally, underwriting profitability from TPG's other non-life insurance subsidiaries, including TPI, remained favourable in 2016, further reinforcing the earnings stability of TPG on a consolidated basis.

TPG is the ultimate holding company of China Taiping Insurance's operations in China, Hong Kong, Macau and several overseas markets. TPG has 100% ownership interest in TPG(HK), which holds a controlling stake in Hong Kong-listed CTIH. In terms of direct written premiums, TPL is the ninth-largest Chinese life insurer, capturing a market share of about 4.4% in 2016 while TPI has a market share of 2% in the Chinese non-life insurance segment. TPL is still the largest earning contributor to the group, accounting for more than 75% of CTIH's net earnings in 2016.

RATING SENSITIVITIES

Downgrade rating triggers for TPG, TPG(HK), CTIH and its operating subsidiaries include:

- Significant reduction in the Chinese Ministry of Finance's shareholding in TPG and CTIH, with MOF losing its controlling interest in both holding entities;
- Weakening in TPG's Fitch Prism capital score to below 'Strong' for a prolonged period,
- An increase in TPG's financial leverage to higher than 40% on a sustained basis;
- Deterioration in the underwriting result of TPG's non-life and reinsurance operations with combined ratio consistently higher than 100%; or
- TPG's inability to maintain its pre-tax operating return on assets at higher than 0.9%.

An upgrade of ratings on TPG and its operating subsidiaries in the near term is unlikely, given existing credit fundamentals. An upgrade of TPL's IFS Rating is unlikely because the rating would be constrained by China's sovereign rating. Upgrade triggers for TPG's IDRs over the medium term include:

- Maintaining TPG's earnings stability with pre-tax operating return on assets higher than 2%;
- A reduction in TPG's financial leverage to persistently below 25%; and
- TPG's ability to uphold its 'Very Strong' capital score as measured by Fitch's Prism factor-based capital model.

FULL LIST OF RATING ACTIONS

TPG

- Long-Term IDR affirmed at 'A'; Outlook Stable

TPG(HK)

- Long-Term IDR affirmed at 'A'; Outlook Stable
- USD400m 6% senior unsecured notes due 2023 issued through China Taiping New Horizon affirmed at 'A'

CTIH

- Long-Term IDR affirmed at 'A'; Outlook Stable
- USD300m 4.125% senior unsecured notes due 2022 issued through China Taiping Capital Limited affirmed at 'A'
- USD600m cumulative perpetual subordinated securities affirmed at 'BBB+'

TPL

- IFS Rating affirmed at 'A+'; Outlook Stable

TPre

- IFS Rating affirmed at 'A'; Outlook Stable

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Applicable Criteria

Insurance Rating Methodology (pub. 15 Sep 2016) (<https://www.fitchratings.com/site/re/887191>)

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