

Taiping Reinsurance Co. Ltd.

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Taiping Reinsurance Co. Ltd.

Major Rating Factors

- Core entity of China Taiping Insurance Group.

**Operating Company Covered
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Financial Strength Rating

Local Currency

A/Stable/--

Rationale

We believe Taiping Reinsurance Co. Ltd. (Taiping Re) will continue to play an integral role to the group strategy of China Taiping Insurance Group (HK) Co. Ltd. (TPGHK). We therefore assess Taiping Re as a core subsidiary of TPGHK, which has a group credit profile of 'a'.

In our view, TPGHK is highly unlikely to sell its stake in Taiping Re. As of Dec. 31, 2015, Taiping Re's contribution to the group's net income is approximately 5.4%, and the reinsurer's capital represents about 8.4% of the group's capital.

We recognize the long-term commitment of group support provided to Taiping Re, as shown by provision of actuarial, asset management, internal controls, and enterprise risk management support. In addition, TPGHK has a track record of providing additional capital to the reinsurer to support its business expansion.

TPGHK owns 59.6% of China Taiping Insurance Holdings Co. Ltd. (CTIH), which in turn owns 100% of Taiping Re. We therefore expect that the high likelihood of extraordinary government support to TPGHK will flow through to Taiping Re. We view the reinsurer's majority ultimate ownership by the Chinese government as a positive factor for the development of its franchise in China. In November 2015, Taiping Re received the regulatory approval to convert its Beijing branch into a subsidiary.

Taiping Re faces intermediate industry and country risk. The reinsurer's premium contribution from China exposes it to higher life and non-life insurance industry and country risks than in Hong Kong and Macau. Approximately 78.5% of Taiping Re's gross premiums written in the first half of 2016 were derived from China, Hong Kong, and Macau.

We expect Taiping Re's operating performance in the non-life reinsurance business to remain sound over the next 18-24 months. Taiping Re's non-life combined ratio increased to 94.1% in 2015, from 90.1% in 2014, mainly due to the Tianjin explosion in August 2015. However, we anticipate that the non-life segment's underwriting performance will gradually become more volatile over the next two years, given a potential increase in Taiping Re's catastrophe exposures following its international business expansion. A combined ratio of less than 100% indicates underwriting profits.

In our view, Taiping Re's capital buffer is likely to reduce over the next few years, given the continued growth in the company's life reinsurance portfolio and rising asset risk. We consider Taiping Re's coinsurance life reinsurance policies to be capital intensive, reflecting their significant reserving requirements at the inception stage. The reinsurer's increase in alternative investments, which we consider to be less liquid, will also expose it to higher credit risks. However, we view the ongoing financial support from TPGHK as a supporting factor for the reinsurer's capital

position. In March 2016, the group injected Hong Kong dollar (HK\$) 500 million into Taiping Re to fund the reinsurer's business expansion.

In our base case, we assume that Taiping Re's non-life reinsurance business will grow 7%-10% over the next two years. In our view, prolonged soft premiums and high competition in the Asia Pacific insurance market are likely to curtail growth, although the company continues to diversify its non-life businesses and endeavor to grow in China following the conversion of the Beijing branch into a subsidiary. We continue to expect Taiping Re's life reinsurance business to primarily drive premium growth in the next two years.

Taiping Re benefits from the wider group's holistic risk management approach. At a subsidiary level, senior management attends regular committees to address different risk exposures. The reinsurer has also appointed third-party consulting services to perform catastrophe analyses and actuarial reviews. The reinsurer's liquidity remains strong, given its sufficient holdings of liquid assets.

Outlook

The stable outlook on Taiping Re reflects the outlook on TPGHK. The ratings and outlook on Taiping Re will move in tandem with that on TPGHK. We expect Taiping Re to maintain its core group status over the next 12-24 months.

Downside scenario

We may lower the rating on Taiping Re if we consider that the reinsurer's strategic importance to TPGHK has reduced. We consider this likelihood to be remote over the next two years. We may also downgrade Taiping Re if we lower the group's credit profile assessment. The group credit profile may be lowered if government support to TPGHK weakens.

Upside scenario

We may raise the rating on Taiping Re if we believe the group's credit profile will improve. We consider the likelihood of this happening to be remote over the next 12-24 months.

Related Criteria And Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy

Using The Risk-Based Insurance Capital Model - June 07, 2010

Related Research

- China Taiping Insurance Group (HK) Co. Ltd., China Taiping Insurance Holdings Co. Ltd., And Operating Subsidiaries, Aug. 23, 2016

Table 1

Taiping Reinsurance Co. Ltd. Competitive Position					
	--Year-ended Dec. 31--				
(Mil. HK\$)	2015	2014	2013	2012	2011
Gross premiums written	8,005.0	6,108.1	3,737.5	3,435.3	3,431.1
Change in gross premiums written (%)	31.1	63.4	8.8	0.1	29.5
Net premiums written	6,370.5	5,706.5	3,390.0	3,073.2	3,073.7
Change in net premiums written (%)	11.6	68.3	10.3	(0.0)	29.6
Net premiums earned	6,214.1	5,569.5	3,280.3	2,994.5	2,905.2
Total assets under management	15,911.0	10,197.0	8,402.1	7,393.5	6,339.4
Growth in assets under management (%)	56.0	21.4	13.6	16.6	9.8
P/C: reinsurance utilization - premiums written (%)	15.0	10.0	9.4	10.7	10.5
Life: reinsurance utilization - reserves (%)	18.2	0.0	0.9	0.1	1.2
Business Segment (%age of gross premiums written)					
Life	42.5	34.4	1.2	1.1	0.8
P/C	57.5	65.6	98.8	98.9	99.2

HK\$--Hong Kong dollar. P/C--Property and casualty.

Table 2

Taiping Reinsurance Co. Ltd. Capitalization Statistics					
	--Year-ended Dec. 31--				
(Mil. HK\$)	2015	2014	2013	2012	2011
Common shareholders' equity	6,193.4	4,468.3	3,895.1	3,058.0	2,580.8
Change in common shareholders' equity (%)	38.6	14.7	27.4	18.5	(3.3)
Total reported capital	6,193.4	4,468.3	3,895.1	3,058.0	2,580.8
Change in total capital (reported) (%)	38.6	14.7	27.4	18.5	(3.3)

HK\$--Hong Kong dollar.

Table 3

Taiping Reinsurance Co. Ltd. Earnings Statistics					
	--Year-ended Dec. 31--				
(Mil. HK\$)	2015	2014	2013	2012	2011
Total revenue	6,819.1	5,973.2	3,604.5	3,309.3	3,185.0
EBIT adjusted	530.9	492.7	424.4	94.2	156.2
EBITDA adjusted	534.6	495.6	427.1	97.0	159.0
Net income (attributable to all shareholders)	422.4	387.6	404.5	112.1	(41.9)
Return on revenue (%)	7.8	8.2	11.8	2.8	4.9
Return on shareholders' equity (reported) (%)	7.9	9.3	11.6	4.0	(1.6)
P/C: net expense ratio (%)	35.8	35.8	34.0	31.0	31.0

Table 3**Taiping Reinsurance Co. Ltd. Earnings Statistics (cont.)**

(Mil. HK\$)	--Year-ended Dec. 31--				
	2015	2014	2013	2012	2011
P/C: net loss ratio (%)	58.4	54.3	62.9	76.6	73.5
P/C: net combined ratio (%)	94.1	90.1	96.9	107.6	104.4
Life: Net expense ratio (%)	5.2	9.4	20.3	17.6	22.0
Health: Medical Loss Ratio (%)	N.M.	N.M.	N.M.	N.M.	N.M.

HK\$--Hong Kong dollar. N.M.--Not meaningful.

Table 4**Taiping Reinsurance Co. Ltd. Risk Position**

(Mil. HK\$)	--Year-ended Dec. 31--				
	2015	2014	2013	2012	2011
Total invested assets	15,911.0	10,197.0	8,402.1	7,393.5	6,339.4
Net investment income	594.7	403.7	324.2	319.1	276.8
Net investment yield (%)	4.6	4.3	4.1	4.6	4.6
Net investment yield including realized capital gains/(losses) (%)	4.5	4.2	4.0	5.0	2.2
Portfolio composition (% of general account invested assets)					
Cash and short term investments	17.3	28.6	29.0	32.4	24.8
Bonds	78.3	67.3	66.1	64.4	65.0
Equity investments	1.9	1.3	1.7	0.8	8.4
Real estate	0.7	0.8	0.9	1.0	1.2
Other investments	1.9	2.0	2.2	1.4	0.7

HK\$--Hong Kong dollar.

Ratings Detail (As Of February 28, 2017)**Operating Company Covered By This Report****Taiping Reinsurance Co. Ltd.**

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

Greater China Regional Scale

cnAA+/-/--

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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