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## 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  
By This Report**

**Financial Strength Rating**

*Local Currency*

A/Stable/--

## Rationale

The rating on Taiping Reinsurance Co. Ltd. (Taiping Re) reflects the reinsurer's status as a core entity of China Taiping Insurance Group (HK) Co. Ltd. (TPGHK). Taiping Re, as the sole reinsurance company under TPGHK, provides reinsurance and various regional insurance market insights to the group's affiliates. The reinsurer plays an integral role to the group's insurance-centric strategy and continues to increase its international presence, in our view. We assess TPGHK's group credit profile as 'a'.

We believe TPGHK has a long-term commitment of support to Taiping Re, as shown by the group's provision of actuarial, asset management, internal controls, and enterprise risk management support. In addition, TPGHK has a record of providing additional capital to fund the reinsurer's business expansion. Therefore, we believe TPGHK is highly unlikely to dispose of its interest in Taiping Re. As of June 30, 2017, Taiping Re's contribution to its immediate parent's net income is approximately 15.4%, and the reinsurer's capital represents about 10.4% of the immediate parent's capital.

We anticipate that the high likelihood of extraordinary government support from the Chinese government to TPGHK would extend to Taiping Re. TPGHK owns 59.6% of China Taiping Insurance Holdings Co. Ltd. (CTIH), which in turn owns 100% of Taiping Re. We view the reinsurer's majority ultimate ownership by the central government as a supportive factor for the development of its franchise in China, given the group's established strategic relationships with state-owned enterprises.

Taiping Re faces intermediate industry and country risk, in our view. We expect Taiping Re's insurance industry and country risk profile to remain stable over the next two years despite the reinsurer gradually growing its international presence.

We expect Taiping Re's non-life portfolio to maintain its profitable underwriting over the next two years. Taiping Re reported a non-life combined ratio of 94.0% for the first half of 2017 (92.7% for the same period in 2016). A combined ratio of less than 100% indicates underwriting profits. That said, we anticipate that the non-life segment's underwriting performance will gradually become more volatile following Taiping Re's business expansion in mainland China and international markets. The hurricanes in the U.S. during the second half of 2017 had a limited impact on Taiping Re's underwriting margin because the reinsurer's exposures fall within their retained reinsurance capacity.

We expect Taiping Re's life reinsurance portfolio's growth momentum to slow as the reinsurer seeks to achieve a balanced portfolio between life and non-life. Taiping Re's life reinsurance premium grew by 24.1% to Hong Kong dollar

(HK\$) 4,224 million in 2016 and accounted for 46.0% of the reinsurer's total premium income.

Taiping Re's capital buffer will likely reduce over the next few years, given the increased asset risk arising from its life reinsurance portfolio. 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 capitalization. In March 2017, Taiping Re received capital injection of HK\$400 million from its parent group to fund the reinsurer's business expansion.

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 also regularly reviews and revises its risk limit indicators along with its business development. The reinsurer's liquidity is 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 two years.

### 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 to be unlikely over the next two years. We may also downgrade Taiping Re if we lower our assessment of the group's credit profile.

### 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

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- China Taiping Insurance Group (HK) Co. Ltd., China Taiping Insurance Holdings Co. Ltd., And Operating Subsidiaries, Aug. 31, 2017

**Table 1**

Taiping Reinsurance Co. Ltd. -- Competitive Position					
	--Year ended Dec. 31--				
(Mil. HK\$)	2016	2015	2014	2013	2012
Gross premiums written	9,175.4	8,005.0	6,108.1	3,737.5	3,435.3
Change in Gross Premiums Written (%)	14.6	31.1	63.4	8.8	0.1
Net premiums written	8,358.0	6,370.5	5,706.5	3,390.0	3,073.2
Change in Net Premiums Written (%)	31.2	11.6	68.3	10.3	(0.0)
Total assets under management	22,556.1	15,835.0	10,120.7	8,325.3	7,393.5
Growth in Assets Under Management (%)	42.4	56.5	21.6	12.6	16.6
P/C: reinsurance utilization - premiums written (%)	14.6	15.0	10.0	9.4	10.7
Life: reinsurance utilization - reserves (%)	10.9	18.2	0.0	0.9	0.1

HK\$--Hong Kong dollar.

**Table 2**

Taiping Reinsurance Co. Ltd. -- Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. HK\$)	2016	2015	2014	2013	2012
Common shareholders' equity	6,870.9	6,193.4	4,468.3	3,895.1	3,058.0
Change in common shareholders' equity (%)	10.9	38.6	14.7	27.4	18.5
Total reported capital	6,870.9	6,193.4	4,468.3	3,895.1	3,058.0
Change in total capital (reported) (%)	10.9	38.6	14.7	27.4	18.5

HK\$--Hong Kong dollar.

**Table 3**

Taiping Reinsurance Co. Ltd. -- Earnings Statistics					
	--Year ended Dec. 31--				
(Mil. HK\$)	2016	2015	2014	2013	2012
Total revenue	9,236.3	6,819.1	5,973.2	3,604.5	3,309.3
EBIT adjusted	710.4	530.9	492.7	424.4	94.2
EBITDA adjusted	714.8	534.6	495.6	427.1	97.0
Net income (attributable to all shareholders)	434.1	422.4	387.6	404.5	112.1
Return on revenue (%)	7.7	7.8	8.2	11.8	2.8
Return on shareholders' equity (reported) (%)	6.6	7.9	9.3	11.6	4.0
P/C: net expense ratio (%)	37.5	35.8	35.8	34.0	31.0
P/C: net loss ratio (%)	56.6	58.4	54.3	62.9	76.6
P/C: net combined ratio (%)	94.0	94.1	90.1	96.9	107.6

HK\$--Hong Kong dollar.

**Table 4**

<b>Taiping Reinsurance Co. Ltd. -- Risk Position</b>					
<b>(Mil. HK\$)</b>	<b>--Year ended Dec. 31--</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total invested assets	22,556.1	15,835.0	10,120.7	8,325.3	7,393.5
Net investment income	908.9	594.7	403.7	324.2	319.1
Net investment yield (%)	4.7	4.6	4.3	4.1	4.6
Net investment yield including realized capital gains/(losses) (%)	4.0	4.5	4.2	4.0	5.0
Cash and short term investments (%)	11.8	17.4	28.8	29.3	32.4
Bonds (%)	84.2	78.6	67.8	66.7	64.4
Equity investments (%)	3.3	1.9	1.3	1.7	0.8
Real Estate (%)	0.2	0.2	0.8	0.9	1.0
Other investments (%)	0.6	1.9	1.3	1.3	1.4

HK\$--Hong Kong dollar.

**Ratings Detail (As Of January 31, 2018)****Operating Company Covered By This Report****Taiping Reinsurance Co. Ltd.**

Financial Strength Rating

*Local Currency*

A/Stable/--

Counterparty 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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