



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

Fitch Ratings-Hong Kong-29 March 2018: 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 Company Limited (CTIH) at 'A' (Strong).

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

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

KEY RATING DRIVERS

The affirmation of TPG's ratings reflects its consistently strong operating performance, strong capitalisation, wide revenue sources and ongoing new business growth. Fitch has explicitly 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 state (Long-Term Local-Currency IDR: A+) would provide capital or policy support, if needed.

Fitch views TPG's capital strength as strong. While ongoing business growth of its insurance subsidiaries in China and overseas has weakened TPG's capital buffer, TPG's risk-based capitalisation on a consolidated basis, in terms of Fitch's Prism Factor-Based Model (FBM) score, still stood at the upper range of 'Strong' at end-1H17. TPG's financial leverage on a consolidated basis remained at 28% at end-1H17.

TPL's comprehensive solvency ratio, as measured by China Risk Oriented Solvency System (C-ROSS), amounted to 251% at end-3Q17. This is in line with the median range for IFS 'A' rated life insurers. TPRe sustained its local solvency ratio at end-1H17 at 364%, which is well in excess of the regulatory minimum. CTIH made a capital infusion of HKD400 million in 1H17 to support the growth of its reinsurance book of business.

The operating performance of TPG remains strong and stable, given its diverse earnings profile. Based on unaudited financial statements, TPG's annualised pre-tax operating return, which includes realised and unrealised gains and losses, was 2% in 1H17. The growth of TPL's new business value was strong in 2017 as the scale of its agency force has further expanded. Business from long-term protection grew by 2.6% in 1H17 to 29.4% of TPL's first-year regular premium from agency channel, reflecting further improvement in its business structure. Fitch expects improving business structure to support the stability TPL's margin for value of new business.

Rating affirmation of TPre's IFS Rating reflects the strong underwriting results of the company's non-life reinsurance operation and ongoing premium growth in its core markets, such as Hong Kong and Macau. TPre's combined ratio was 83% in 1H17, although the overall pricing conditions in the reinsurance market remained weak. Fitch expects TPre to further strengthen its overall earnings stability as the operating results from its life reinsurance portfolio continues to improve. Fitch views TPre's strategic status as a 'Very Important' subsidiary within TPG, but no rating uplift has been applied.

Fitch considers TPG's business profile as strong. TPG has accumulated diverse revenue sources through its insurance operating subsidiaries in China, Hong Kong, Macau and several overseas markets. Premiums written through life, non-life and reinsurance operations accounted for about 79%, 11% and 5%, respectively, of TPG's total gross premiums written in 1H17. TPL is the largest premium and earnings contributor to the group, and had a market share of 4.4% by gross direct premiums in the competitive life market in China in 1H17.

TPG's exposure to risky assets remained stable relative to its equity capital in 1H17. The ratio of risky assets, which are mainly equities and funds with equity exposure and investment properties, remained at about 135% at end-1H17 (2016: 132%). While the risky asset ratio is higher than the median guideline for IFS 'A' rated life insurers, it has remained manageable relative to capitalisation, as reflected in TPG's Prism FBM score.

TPG is the ultimate holding entity of China Taiping Insurance's subsidiaries in mainland China, Hong Kong, Macau and several overseas markets. TPG has full ownership interest in TPG(HK), which holds a controlling stake in Hong Kong listed CTIH.

RATING SENSITIVITIES

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

- Significant change in the Chinese Ministry of Finance's shareholding in TPG and CTIH that results in the ministry losing its controlling interest in both holding entities;
- TPG's Prism FBM score at below 'Strong' for a prolonged period,
- TPG's financial leverage sustained above 40%;
- Weakening 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 the 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 operating stability with pre-tax operating return on assets higher than 2%;
- TPG's financial leverage persistently below 25%; and
- TPG's ability to uphold its 'Very Strong' capital score as measured by Fitch's Prism FBM.

FULL LIST OF RATING ACTIONS

TPG

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

TPG(HK)

- Long-Term IDR affirmed at 'A'; Outlook Stable
- USD400 million 6% senior unsecured notes due 2023 issued through China Taiping New Horizon affirmed at 'A'

CTIH

- Long-Term IDR affirmed at 'A'; Outlook Stable
- USD300 million 4.125% senior unsecured notes due 2022 issued through China Taiping Capital Limited affirmed at 'A'
- USD600 million 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 Criteria (pub. 30 Nov 2017)

(<https://www.fitchratings.com/site/re/905036>)

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