

21 Mar 2019 | Affirmation

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

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Fitch Ratings-Hong Kong-22 March 2019: 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 Company Limited (TPRe) at 'A' ('Strong'). The Outlook on all the ratings is Stable.

A full list of rating actions is at the end of this commentary.

### KEY RATING DRIVERS

The affirmation of the rating on TPG, a Chinese state-owned financial and insurance group, reflects its strong capitalisation, favourable business profile and sustained strong profitability in the direct and reinsurance businesses. The group's IDR benefits from a one-notch uplift from its standalone credit profile because it is 100%-owned by China's Ministry of Finance (sovereign rating: A+/Stable), which is likely to extend support to TPG in times of stress.

TPG is strongly capitalised to support business growth of its operating subsidiaries in China and overseas. Fitch expects the group's capital metrics to remain strong in the coming 12 months. TPG's score under Fitch's Prism Factor-Based Capital Model (FBM), stood at 'Strong' at end-1H18, and its consolidated financial leverage remained stable at about 26% (end-2017: 25%).

The solvency buffer of TPL, a 'Core' subsidiary of the group, remains strong, yet has narrowed. Its comprehensive solvency ratio under China's Risk-Oriented Solvency System was 232% at end-September 2018, compared with 246% at end-2017. TPRe's local solvency ratio dropped to 285% by end-September 2018 from 363% at end-2017 because of robust business growth.

Fitch views TPG's business profile as favourable compared with that of other Chinese insurance groups. Given this ranking, Fitch scores TPG's business profile at 'a+' under this credit factor scoring guidelines. The group has a substantive business franchise and market position, supported by diversified business lines and geographies via its operating subsidiaries in mainland China,

Hong Kong and a few other markets. The diversification of premium sources mitigates potential earnings volatility in a single sector. Premiums generated from life, property and casualty (P&C), reinsurance, pension and group businesses represented approximately 78%, 13%, 6% and 3% respectively, of TPG's total gross premiums written in 1H18.

TPG's financial performance remains resilient, with annualised return on equity at 15% in 1H18 versus 8% in 1H17 (2017: 11%). Fitch expects TPG to sustain strong profitability due to the value-focused growth of TPL. TPL's 'A+' IFS rating is based on Fitch's evaluation of the credit strength of TPG as a whole.

TPL's profitability has strengthened through improvement in its product mix. The insurer's new business margin widened to 29.9% in 1H18 from 27.7% in 1H17, as a result of its continued focus on protection and longer-term regular premium products with higher margins. Long-term protection products accounted for 35.9% of its first-year regular premiums from the agency channel in 1H18, an increase from 29.4% in 1H17. Fitch expects TPL to enhance underlying profitability by continuing to focus on high-margin business and expanding its agency force.

The affirmation of TPre's IFS Rating reflects its earnings stability with strong underwriting results from its P&C reinsurance portfolio and robust premium growth in its major markets of mainland China, Hong Kong and Macau. The combined ratio was 93% for the first nine months of 2018, compared with 94% in 2017. Fitch expects TPre to improve the earnings from its life reinsurance portfolio, which will contribute to overall earnings stability. Fitch assesses TPre as a 'Very Important' strategic subsidiary of TPG, and has not applied any rating uplift to TPre.

Fitch considers TPG's risky-assets exposure as moderate. These risky assets, which include stocks, equity-type funds, long-term equity investments and investment properties, accounted for 139% of its capitalisation on a consolidated basis at end-1H18, compared with 124% at end-2017. Fitch expects the group's risky-assets exposure to remain manageable relative to its capital buffer, which is reflected in TPG's Prism FBM score.

TPG is the ultimate holding entity of its insurance subsidiaries. TPG wholly owns TPG (HK), which holds 59.64% in Hong Kong-listed CTIH. At 31 December 2017, TPG's assets totalled CNY558.6 billion and shareholders' equity was CNY64.7 billion.

#### RATING SENSITIVITIES

Downgrade rating sensitivities include:

- A significant change in the Ministry of Finance's shareholding in TPG and CTIH that results in the ministry losing its controlling interest in both holding entities;

- TPG failing to maintain its Prism FBM score at a level well into 'Strong' category and consolidated financial leverage is maintained above 40%;
- TPG's pre-tax return on assets falling below 1.0%; or
- Deterioration in underwriting profitability of the group's P&C and reinsurance operations, with the combined ratio consistently above 100%.

Upgrade rating sensitivities include:

- TPG's Prism FBM score sustained at 'Very Strong';
- TPG's return on equity consistently exceeding 12%; and
- TPG's consolidated financial leverage sustained below 25%.

#### 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 Limited 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 \(pub. 11 Jan 2019\)](#)

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