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Ratings

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Taiping Reinsurance Co. Ltd.

Primary Credit Analyst:
WenWen Chen, Hong Kong (852) 2533-3559; wenwen.chen@spglobal.com

Secondary Contacts:
Judy Chen, Hong Kong (852) 2532-8059; Judy.Chen@spglobal.com
Eunice Tan, Hong Kong (852) 2533-3553; eunice.tan@spglobal.com

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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 our view that the reinsurer plays an integral role in the internationalization strategy of its insurance-centric parent group, China Taiping Insurance Group (HK) Co. Ltd. (TPGHK). Taiping Re, which has its headquarters in Hong Kong, provides reinsurance and various regional insurance market insights to the group's affiliates. Therefore, we assess Taiping Re as a core subsidiary of TPGHK and equalize the rating with TPGHK's 'a' group credit profile.

Taiping Re benefits from a long-term commitment of support from its parent group, as shown by the provision of capital, actuarial, asset management, and risk management support. Taiping Re has received yearly capital injections from TPGHK since 2012, supporting its ongoing business expansion. In 2017, Taiping Re received capital injection of Hong Kong dollar (HK$) 635 million from its parent group to fund the expansion of the reinsurer's China subsidiary, Taiping Reinsurance (China) Co. Ltd. (Taiping Re China). We believe the sale of Taiping Re by TPGHK is very unlikely, given the reinsurer's critical role to support the group's international strategy.

We anticipate that Taiping Re will benefit from extraordinary support from the Chinese government through TPGHK. TPGHK owns 59.6% of China Taiping Insurance Holdings Co. Ltd. (CTIH), which 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. We expect CTIH to remain a majority shareholder of Taiping Re. As of June 30, 2018, Taiping Re contributes about 5.84% to CTIH's net income, and about 9.7% to its capital.

We expect Taiping Re's non-life portfolio to maintain its profitable underwriting, although with increased volatility, over the next two years. This is due to more frequent catastrophe events, and the reinsurer's expansion in mainland China and international markets. Taiping Re reported a non-life combined ratio of 96.8% for the half year ended June 30, 2018 (94.0% for the same period in 2017). A combined ratio of less than 100% indicates underwriting profits.

We anticipate the net loss associated with catastrophe events (e.g. typhoon Mangkhut and typhoon Jebi) during the second half of 2018 to be moderate for Taiping Re. This is because the reinsurer's corresponding exposure should fall within its retained reinsurance capacity.

We anticipate that the diversification benefit stemming from Taiping Re China will be marginal over the next two years. Following intensified competition in China's reinsurance markets, Taiping Re China's overall operating performance will likely be volatile over the next two years. As of June 30, 2018, Taiping Re China's non-life reinsurance business grew by 58% (in Chinese renminbi terms) year-on-year and the company accounted for 57% (in Hong Kong dollar terms) of Taiping Re's non-life reinsurance premium income. In addition, we expect Taiping Re to gradually grow its life reinsurance portfolio in China over the next two years.

Taiping Re's capital buffer will likely remain thin over the next few years, given the business expansion in China and increased asset risk arising from the investments undertaken by its life reinsurance portfolio. The reinsurer's increase in alternative investments, which we consider to be less liquid, will also expose it to higher credit risks. Furthermore, we consider Taiping Re's life reinsurance business as more capital intensive, when compared to P&C reinsurance, given the former's significant reserving requirements at the inception stage. As of June 30, 2018, Taiping Re's regulatory solvency ratio is 273%.

Taiping Re benefits from the wider group's broad risk management approach. At a subsidiary level, senior management attends regular committees to address different risk exposures. The reinsurer 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, Sep. 28, 2018

Key Metrics

(mil. HK$)	2013A	2014A	2015A	2016A	2017A
Net premium earned	3,280.3	5,569.5	6,214.1	8,326.3	9,633.2
Net income	404.5	387.6	422.4	434.1	760.4
Return on equity (%)	11.6	9.3	6.8	6.3	9.3
Net investment yield (%)	4.1	4.4	4.6	4.7	4.6
P/C: Net combined ratio (%)	96.9	90.1	94.1	94.0	97.6
Return on revenue (%)	11.8	8.3	7.8	7.7	5.3

HK$-Hong Kong dollar. A--Actual.

Ratings Detail (As Of January 31, 2019)

Operating Company Covered By This Report	
Taiping Reinsurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer 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.