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Taiping Reinsurance Co. Ltd.

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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 a critical role in the internationalization strategy of its parent group, China Taiping Insurance Group (HK) Co. Ltd. (TPGHK). Furthermore, the Hong Kong-based reinsurer provides reinsurance support and 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 enjoys a strong long-term commitment of support from its parent group, as demonstrated by the provision of capital injections, actuarial support, asset management, and risk management governance. The reinsurer received yearly capital injections from TPGHK over 2012-2017, supporting its ongoing business expansion. In December 2019, the parent group injected capital of HK$400 million into Taiping Re to fund its growth initiatives.

Taiping Re also benefits from extraordinary support from the Chinese government through TPGHK. TPGHK currently owns 59.6% of China Taiping Insurance Holdings Co. Ltd. (CTIH), which owns 100% of Taiping Re. We believe the parent group's established strategic partnerships with local governments and state-owned enterprises will support the reinsurer's business growth initiatives. We expect CTIH to remain a majority shareholder of Taiping Re, in view of its critical role in the parent group's internationalization strategy. As of June 30, 2019, Taiping Re contributed about 2.4% to CTIH's net income, and about 9.0% to its capital.

Taiping Re's non-life portfolio faced underwriting pressure in 2019, owing to heightened market competition and adverse weather-related loss experiences. We anticipate the reinsurer will resume thin underwriting profit in 2020 and 2021. We expect the accumulated impact from losses associated with catastrophe events (e.g., typhoon Dorian, Faxai, and Hagibis) during the second half of 2019 to account for approximately 5.0% of Taiping Re's net combined ratio. The reinsurer's retained exposures are likely moderated by the catastrophe retrocession arrangement in place. While Taiping Re remains exposed to the non-modelled risks arising from rapid urbanization in China, the reinsurer has lower net retained catastrophe exposures compared with global and regional peers. Taiping Re's non-life combined ratio stood at 99.5% as of Dec. 31, 2018 (97.6% in Dec. 31, 2017). A combined ratio of less than 100% indicates underwriting profits.

Taiping Re's China subsidiary, Taiping Reinsurance (China) Co. Ltd. (Taiping Re China), is likely to continue the volatile underwriting performance of its property and casualty portfolio. Furthermore, the China-based subsidiary's recently expanded life reinsurance portfolio will likely be in the loss-making phase amid high reserve overheads. We consider Taiping Re China's stand-alone credit profile as weaker than Taiping Re. Taiping Re China will drive overall business growth over the next two years. This is despite the slower growth momentum of its non-life reinsurance business amid intensifying competition (year-on-year growth in renminbi terms as of first half of 2019: 10%, first half of 2018: 58%). We expect Taiping Re China to maintain its pace of double-digit growth over the next two years. Taiping Re China accounted for 56% (in Hong Kong dollar terms) of Taiping Re's non-life reinsurance premium income as of June 30, 2019.

Taiping Re's capital strength will likely dilute over the next two years, amid sustained business expansion in China and increased investment risk from its life reinsurance portfolio. The reinsurer's increase in alternative investments (such as debt schemes and trust plans), which we consider to be less liquid, exposes it to higher credit risks. Taiping Re's previous rapid growth of savings-type focused life reinsurance business weighs heavily on its capital position, given the significant reserving requirements at inception. The reinsurer's placement of a financial reinsurance arrangement in 2018 has helped sustain its regulatory capital position. As of June 30, 2019, Taiping Re's regulatory solvency ratio was 273% (261% in Dec. 31, 2018).

Taiping Re benefits from the wider group's broad governance and 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 has an adequate liquidity position, 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 remain a core subsidiary of its parent group 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

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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, Oct. 24, 2019

Table 1

Taiping Reinsurance Co. Ltd.--Key Metrics

	--Year ended Dec. 31--				
(Mil. HK$)	**2018**	**2017**	**2016**	**2015**	**2014**
Net premium earned	7,954.4	9,633.2	8,326.3	6,214.1	5,569.5
Net income (attributable to all shareholders)	539.3	760.4	434.1	422.4	387.6
Net investment yield (%)	4.8	4.6	4.7	4.6	4.4
P/C: net combined ratio (%)	99.5	97.6	94.0	94.1	90.1
Return on shareholders' equity (%)	6.6	10.1	6.6	7.9	9.3
Return on revenue (%)	9.7	5.3	7.7	7.8	8.2

HK$--Hong Kong dollar.

Ratings Detail (As Of January 21, 2020)*	
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.