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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 Factor

- Implicit parent support under all circumstances as a 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). This includes the parent group's expanding footprint in overseas markets and the Greater Bay Area (Hong Kong, Macau, and Guangdong). The reinsurer also provides reinsurance support and insurance market insights to the group's affiliates. We therefore assess Taiping Re as a core subsidiary of TPGHK and equalize the rating on Taiping Re with TPGHK's 'a' group credit profile.

We believe China Taiping Insurance Holdings Co. Ltd. (CTIH) will remain Taiping Re's dominant shareholder. TPGHK currently owns 60.7% of CTIH, which in turn owns approximately 75% of Taiping Re. The recent addition of strategic investor, Ageas Insurance International N.V. (Ageas), will likely bring in expertise in areas such as international business exposures, risk management, and governance. On Nov. 27, 2020, Taiping Re completed the issuance of new shares to Ageas, which represented around 25% of its expanded share capital base.

Taiping Re will continue to benefit from strong long-term commitment of parental support from the wider China Taiping Insurance Group, in our view. This is demonstrated by the provision of asset management, capital, information technology, and risk management governance. In addition, we believe Taiping Re will benefit from extraordinary government support provided to TPGHK, if needed. As of June 30, 2020, Taiping Re contributed to about 11.3% of CTIH's capital.

Underwriting results for Taiping Re's property/casualty (P/C) reinsurance portfolio will likely come under pressure in 2020, in view of adverse loss experiences, particularly in its overseas portfolio. This is despite the relatively moderate impact from COVID-19 related claims, compared to international peers. We expect Taiping Re to execute a proactive review of its retained exposures amid business expansion. We anticipate the reinsurer will resume thin underwriting profit in 2021 and 2022. Taiping Re's P/C combined ratio stood at 99.8% as of Dec. 31, 2019 (99.5% at Dec. 31, 2018). A combined ratio of less than 100% indicates underwriting profits.

Taiping Re's China subsidiary, Taiping Reinsurance (China) Co. Ltd. (Taiping Re China), will likely resume its growth momentum in 2021, in light of rising demand associated with accelerated non-motor coverage growth in China. This is in addition to the China-based reinsurer's continuous initiative in life reinsurance exposures. Further to constrained P/C reinsurance underwriting performance, Taiping Re China's life reinsurance segment will likely be in the loss-making phase due to high reserve overheads. We consider Taiping Re China's stand-alone credit profile as weaker than that of Taiping Re. As of June 30, 2020, Taiping Re China accounted for 50% and 3% (in Hong Kong dollar terms) of Taiping Re's P/C and life reinsurance premium income, respectively.

We expect Taiping Re's expanded capital base to support its business expansion and weather prospective earnings volatility over the next two years. Asset impairment loss amid heightened counterparty risk will further constrain the reinsurer's 2020 earnings. The reinsurer's holdings of high-risk investment assets are attributable to previous rapid growth of savings-type focused life reinsurance business, which will continue to weigh on its capital position. We believe Taiping Re will follow its parent group's tightened risk control over investment risks and actively monitor its investment portfolio. As of June 30, 2020, Taiping Re's regulatory solvency ratio was 261% (272% as of Dec. 31, 2019). In our view, Taiping Re has lower net retained catastrophe exposures compared with global peers, despite non-modelled risks arising from rapid urbanization in China.

Taiping Re is integrated to the wider parent group's broad governance and risk management framework. The reinsurer regularly reviews and revises its risk limit indicators along with its business development. We believe Taiping Re will also leverage Ageas' experience in risk control as it continues its expansion in overseas markets. 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 rating 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 TPGHK's group 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, 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, Sept. 28, 2020

Appendix

Table 1

Taiping Reinsurance Co. Ltd.--Credit Metrics History

Ratio/Metric (Mil. HK$)	2019	2018	2017	2016	2015
Total invested assets	38,888.7	32,398.3	30,650.0	22,556.0	15,835.0
Total shareholder equity	9,041.4	8,082.4	8,201.9	6,870.9	6,193.4
Gross premiums written	15,884.4	13,551.8	11,057.6	9,175.4	8,005.0
Net premiums written	13,915.6	8,211.9	9,992.8	8,358.0	6,370.5
Net premiums earned	13,486.9	7,954.4	9,633.2	8,326.3	6,214.1
P/C: net premiums earned	7,875.9	7,284.3	5,376.4	4,193.1	3,722.5
Reinsurance utilization (%)	12.4	39.4	9.6	8.9	20.4
EBIT	385.3	602.5	918.3	567.4	526.8
Net income (attributable to all shareholders)	321.1	539.3	760.4	434.1	422.4
Return on revenue (%)	5.8	9.7	5.3	7.7	7.8
Return on shareholders' equity (reported) (%)	3.7	6.6	10.1	6.6	7.9
P/C: net combined ratio (%)	99.8	99.5	97.6	94.0	94.1
P/C: net expense ratio (%)	35.3	40.0	40.9	37.5	35.8
Net investment yield (%)	4.8	4.8	4.6	4.7	4.6
Net investment yield including investment gains/(losses) (%)	3.4	3.8	5.9	4.0	4.5

P/C--Property/casualty.

Ratings Detail (As Of January 29, 2021)*	
Operating Company Covered By This Report	
Taiping Reinsurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of January 29, 2021)*(cont.)	
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.