

Best's Credit Rating Effective Date

September 23, 2022

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

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Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Taiping Reinsurance Company Limited

AMB #: 085029 | **AIIN #:** AA-5324100

Ultimate Parent: AMB # 055742 - China Taiping Insurance Group Ltd.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

<h1 style="font-size: 2em;">A</h1> <h2 style="font-size: 1.2em;">Excellent</h2> <p>Outlook: Stable Action: Affirmed</p>

Issuer Credit Rating (ICR)

<h1 style="font-size: 2em;">a</h1> <h2 style="font-size: 1.2em;">Excellent</h2> <p>Outlook: Stable Action: Affirmed</p>

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Adequate
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Unit - Members

Rating Unit: Taiping Reinsurance Co Limited | **AMB #:** 085029

AMB # **Rating Unit Members**
094637 Taiping Re China

Rating Rationale

Balance Sheet Strength: **Very Strong**

- Taiping Reinsurance Company Limited's (TPRe) risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), remained at the strongest level as of year-end (YE) 2021, albeit it posted a decline due to higher investment exposure. Consolidated capital and surplus slightly dropped by 3% in 2021, mainly due to a decrease in the net fair value of investments. Over the short to intermediate term, AM Best expects TPRe's BCAR to remain at the strongest level.
- The investment portfolio comprises mainly fixed-income securities including bonds, bank deposits and loan-type investments. The credit rating of TPRe's fixed-income securities portfolio as of YE 2021 is lower than it was at YE2020, and the reinsurer has invested in more listed equities in 2021. The higher investment risk exposure is supported by the company's bolstered capitalisation with the introduction of a strategic investor, Ageas Insurance International NV (Ageas), in 2020.
- The reinsurer manages its global catastrophe risk by arranging retrocession programmes that are aligned with its risk tolerance to protect its capital and surplus.

Operating Performance: **Adequate**

- TPRe's return on equity (ROE) partly recovered from -1.6% in 2020 to 0.1% in 2021, but it is still weaker than its five-year average ROE, due to both weaker-than-average underwriting results and investment returns. TPRe projects its ROE will gradually return to the mid-single-digit level in three years.
- Non-life net premium written (NPW) grew significantly in 2021, mainly driven by property reinsurance business. The overall non-life net combined ratio (COR) remained relatively high in 2021, as the decrease in net COR of motor is offset by the increase from property and other key lines. The catastrophe losses in 2021 amounted to the mid-single-digit range of its non-life net earned premium.
- TPRe's investments have consistently yielded positive results over the past five years, underpinned by a strong and stable stream of interest income from fixed-income investments. Net investment returns (including gains) were stable over the period of 2017 to 2021.

Business Profile: **Neutral**

- Headquartered in Hong Kong, TPRe has established and maintained a leading position in the non-life reinsurance markets of Hong Kong and Macau. TPRe also leveraged its status as a subsidiary of China Taiping Insurance Holdings Company Limited (CTIH) to establish a strong foothold in the Greater China region. As of YE 2021, TPRe owns reinsurance subsidiaries in mainland China and the United Kingdom; a branch office in Labuan, Malaysia; as well as representative offices in Japan and Macau.
- While maintaining its strong presence in the Greater China region, TPRe continues to expand to other Asian countries. During the first half of 2022, Asia accounted for about 83% of the overall non-life portfolio; of this, mainland China dominated with 57% and Hong Kong made up 8%. The proportion from other Asian markets represented 18% over the first half of 2022.
- The reinsurer generates all life premiums through the direct channel, while 56% of its non-life reinsurance is written by direct distribution.
- The company provides a variety of non-life and life reinsurance solutions. Over 60% of its gross premium written comes from non-life reinsurance business, which is predominantly property. TPRe is optimising the product mix of its life portfolio by reducing saving-type products and expanding protection lines of business.

Enterprise Risk Management: **Appropriate**

- TPRe's risk management policies are well established and regularly reviewed to address risk governance and control procedures of key risk exposures. The reinsurer also closely monitors a suite of key risk indicators to ensure adherence to defined risk appetite and tolerance levels.
- The company's enterprise risk management capability is considered appropriate to support its risk profile.

Rating Lift/Drag

- TPRe benefits from the brand recognition and enhanced financial flexibility of its parent, CTIH, which is a publicly listed company. AM Best believes that as the controlling shareholder, CTIH will continue to render strong capital and financial support to TPRe in a timely manner when necessary, as evidenced by its track record of capital injections to TPRe over the years.
- TPRe has been well integrated into the wider group in terms of investment strategy, risk management and operational support.

- The new strategic investor, Ageas, is a long-term business partner with CTIH. It owns 24.9%, 25%, 12%, and 20% of equity interests in Taiping Life Insurance Company Limited, TPRE, Taiping Financial Services Company Limited, and Taiping Asset Management Company Limited, respectively. The synergy with Ageas is expected to further improve TPRE's governance and business expansion in target markets.

Outlook

- The stable outlooks reflect the expectations that the company's operating performance will maintain long-term profitability, supported by stable investment returns and underwriting performance.

Rating Drivers

- Negative rating actions could occur if there is a material deterioration in operating performance such that it no longer supports the current adequate assessment.
- Negative rating actions could also occur if there is a material deterioration in the credit profile of China Taiping Insurance Holdings Company Limited (CTIH) or if CTIH reduces the level of support it provides to Taiping Reinsurance Company Limited.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	64.9	53.3	48.0	46.1

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 HKD (000)	2020 HKD (000)	2019 HKD (000)	2018 HKD (000)	2017 HKD (000)
Net Premiums Written:					
Life	6,407,646	5,243,086	5,628,314	693,809	4,259,326
Non-Life	9,583,443	8,439,655	8,287,306	7,518,064	5,733,468
Composite	15,991,089	13,682,741	13,915,620	8,211,873	9,992,794
Net Income	9,628	-169,637	321,063	539,261	760,421
Total Assets	62,848,509	55,709,140	50,415,340	43,867,048	37,038,874
Total Capital and Surplus	11,756,071	12,073,825	9,041,410	8,082,360	8,201,874

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2021 HKD (000)	2020 HKD (000)	2019 HKD (000)	2018 HKD (000)	2017 HKD (000)	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	-284,440	-386,835	208,897	191,607	-109,740	...
Balance on Non-Life Technical Account	-364,424	-322,149	52,923	98,492	195,537	...
Net Income Return on Revenue (%)	0.1	-1.1	2.1	5.8	7.1	2.2
Net Income Return on Capital and Surplus (%)	0.1	-1.6	3.7	6.6	10.1	3.1
Non-Life Combined Ratio (%)	103.9	104.0	99.4	98.7	96.4	100.9
Net Investment Yield (%)	3.7	3.8	4.3	4.5	4.2	4.0
Leverage:						
Net Premiums Written to Capital and Surplus (%)	136.0	113.3	153.9	101.6	121.8	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Capitalisation

Taiping Reinsurance Company Limited's (TPRe) risk-adjusted capitalisation declined in 2021 due to higher investment exposure, but it still remained at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). The company's consolidated capital and surplus (C&S) slightly dropped by 3% to HKD 11.8 billion, mainly due to a decrease in the net fair value of investments. Over the short to intermediate term, AM Best expects TPRe's BCAR to remain at the strongest level.

Following the implementation of CROSS phase 2, the regulatory solvency ratio of the key subsidiary of TPRe, Taiping Reinsurance (China) Company Limited (TPRe China), reported a mild decline, but it stayed above the regulatory minimum with a buffer. TPRe China has been approved by the China Banking and Insurance Regulatory Commission (CBIRC) to adopt transitional arrangements and issue capital supplementary bonds to reduce the impact of the new regulatory capital requirements.

Capital Generation Analysis	2021 HKD (000)	2020 HKD (000)	2019 HKD (000)	2018 HKD (000)	2017 HKD (000)
Beginning Capital and Surplus	12,073,825	9,041,410	8,082,360	8,201,874	6,870,923
Net Income	9,628	-169,637	321,063	539,262	760,420
Net Unrealized Capital Gains (Losses)	-348,679	192,358	453,786	-257,650	99
Currency Exchange Gains (Losses)	21,297	65,498	-54,019	-93,186	115,722
Net Change in Paid-In Capital and Surplus	...	3,041,346	400,000	...	635,000
Stockholder Dividends	...	-97,150	-161,780	-307,940	-180,290
Net Change in Capital and Surplus	-317,754	3,032,415	959,050	-119,514	1,330,951
Ending Capital and Surplus	11,756,071	12,073,825	9,041,410	8,082,360	8,201,874
Net Change in Capital and Surplus (%)	-2.6	33.5	11.9	-1.5	19.4

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	79.7	80.9	76.3	71.8	82.5
Total Investments to Total Liabilities	94.3	96.1	94.0	90.7	106.5

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

TPRe's total invested assets rose by 15% to HKD 48.2 billion as of year-end (YE) 2021, with a stable investment mix. Fixed-income securities are the major type of investment asset held by the company, followed by cash and bank deposits. The credit rating of TPRe's bond portfolio is lower as of YE 2021 than that it was at YE 2020, which has driven down the BCAR in 2021. TPRe's overall investment portfolio is subject to concentration risk as of YE 2021 due to two bond issuers with sound credit fundamentals.

The proportion of listed equities increased in 2021 but remained moderate compared with peers. The proportion of unlisted investments in TPRe's investment portfolio remained unchanged in YE 2021 but is expected to decline in 2022.

TPRe actively manages its liquidity risk by monitoring the adjusted liquidity of different assets against liquidity needs from insurance liabilities over one-month and one-year periods. The company's ratio of liquid assets to net technical reserves remains healthy.

Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	2021 HKD (000)	2020 HKD (000)	2019 HKD (000)	2018 HKD (000)	2017 HKD (000)
Total Cash and Invested Assets	48,204,142	41,948,173	38,888,745	32,472,790	30,724,849
Cash (%)	11.7	12.6	11.8	11.5	13.7
Bonds (%)	67.4	69.1	68.5	66.1	61.2
Equity Securities (%)	5.4	2.5	0.9	1.6	2.5
Real Estate, Mortgages and Loans (%)	0.5	0.6	0.6	0.4	0.4
Other Invested Assets (%)	15.0	15.2	18.2	20.5	22.2
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

TPRe has engaged an external actuarial consultant to perform reviews of its non-life reserves and benchmarks the results against its in-house actuary's evaluations. To comply with local regulations, the reserve analysis is performed separately for the Hong Kong and Labuan offices, as well as for its subsidiary in China. Various actuarial methods are used to estimate claims liability and premium liability on both a gross and net basis. The external actuarial report suggests TPRe's estimates are reasonable and adequate. In addition, most of the company's non-life products are short-tailed in nature, while claims development generally flattens out within three years.

Operating Performance

TPRe's return on equity (ROE) partly recovered from -1.6% in 2020 to 0.1% in 2021, which was lower than its five-year average ROE. Both the investment and underwriting results are weaker than the reinsurer's five-year average over the period of 2017 to 2021, but TPRe projects its ROE will gradually return to the mid-single-digit level in three years.

Non-life net premium written (NPW) grew significantly in 2021, mainly driven by property reinsurance business. Property and motor continued to be the largest premium contributors in 2021.

The overall non-life net combined ratio (COR) remained relatively high in 2021, as the decrease in net COR of motor was offset by the increase from property and other key lines. As a comprehensive reinsurer with global exposure, TPRe reported several catastrophe losses, which amounted to the mid-single-digit range of its non-life net earned premium.

For the life reinsurance segment, gross premium written (GPW) edged up significantly in 2021, but it plunged in the first half of 2022, as the reinsurer is shrinking its portfolio of saving products to reduce capital requirements. In the first six months of 2022, the proportion of GPW from saving products, including universal policies, decreased to 30%. While the GPW of financial reinsurance recorded a decrease, its proportion of GPW increased to 48% due to a lower total GPW base, and it became the largest product line in terms of GPW. Protection products posted a jump in GPW and made up 22% of the total, which aligns with the company's plan to focus on protection products.

TPRe's investments have consistently yielded positive results over the past five years, underpinned by a strong and stable stream of interest income from fixed-income investments. Net investment returns (including gains) were stable yet exhibited a decreasing trend from 4.5% in 2018 to 3.7% in 2021.

TPRe maintains a sizable unhedged exposure to foreign currency-denominated investment assets, a majority of which are in US dollars. Although the Hong Kong dollar is pegged to the US dollar within a narrow range, the company's C&S remains subject to fluctuations in currency exchange rates. Net foreign exchange results improved with a higher profit in 2021.

As a key subsidiary of TPRe, TPRe China's non-life GPW represented 56% of TPRe's consolidated non-life GPW in 2021. Although TPRe China was still under pressure to make an underwriting profit, its underwriting results improved slightly in 2021, and its investment performance was steady and positive to support the overall net profit results. Going forward, AM Best expects TPRe China to continue to enhance its strategic importance to the wider TPRe organisation.

Operating Performance (Continued...)

Financial Performance Summary	2021 HKD (000)	2020 HKD (000)	2019 HKD (000)	2018 HKD (000)	2017 HKD (000)
Pre-Tax Income	66,522	-189,496	385,336	602,530	918,341
Net Income after Non-Controlling Interests	9,628	-169,637	321,063	539,261	760,421

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	...	-0.3	0.7	1.3	2.4
Return on Capital and Surplus	0.1	-1.6	3.7	6.6	10.1
Non-Life Performance:					
Loss and LAE Ratio	71.0	70.7	64.5	59.4	56.7
Expense Ratio	32.9	33.3	34.9	39.2	39.6
Non-Life Combined Ratio	103.9	104.0	99.4	98.7	96.4

Source: BestLink® - Best's Financial Suite

Business Profile

TPRe is a wholly owned subsidiary of CTIH, an insurance holding company headquartered in Hong Kong and listed on the Hong Kong Stock Exchange. Headquartered in Hong Kong, TPRe has established and maintained a leading position in the non-life reinsurance markets of Hong Kong and Macau. Meanwhile, TPRe has leveraged its status as a subsidiary of CTIH to establish a strong foothold in the Greater China region. As of year-end 2021, TPRe owns reinsurance subsidiaries in mainland China and the United Kingdom; a branch office in Labuan, Malaysia; as well as representative offices in Japan and Macau.

TPRe has a composite reinsurer's licence in Hong Kong. Since 2014, TPRe has developed its life reinsurance business and grew its life reinsurance GPW to HKD 7.0 billion in 2021, which accounted for 38% of TPRe's total GPW during the year. TPRe is adjusting the product mix of its life portfolio by reducing saving-type products and expanding its protection line of business. Currently, all life premiums are generated through direct distribution.

The company's non-life reinsurance portfolio continued to be focused on property business, which generated 66% of its non-life GPW in 2021. Other major lines included motor and marine, while the remainder comprised liability, bond and credit, and accident and health. Approximately 75% of the company's non-life GPW consists of proportional treaties, while the remainder is almost equally contributed by excess-of-loss (XOL) treaties and facultative business.

In terms of geographical breakdown, during the first half of 2022, Asia remained TPRe's core source of non-life premiums, accounting for about 83% of the overall portfolio; of this, mainland China dominated with 57%, Hong Kong made up 8%, and other Asian markets represented 18%. With the establishment of TPRe China as a subsidiary, the company continues to strengthen business relationships with major domestic insurers in China, for instance, through supporting their reinsurance programmes as the treaty leader. Approximately 56% of TPRe's non-life business is generated through the direct channel, while the remainder comes from brokers.

Enterprise Risk Management

TPRe designed its enterprise risk management (ERM) framework with support from its parent group. The company's risk appetite focuses on maintaining operational stability and risk prudence, while proactively developing business opportunities. Risk appetite and risk tolerance are defined in relation to underwriting performance, investment returns, catastrophe protection, solvency, compliance and reputational risk, and are assessed on an annual basis and submitted to the board of directors for approval. The company reviews different categories of risk with a self-assessment system and manages them through a comprehensive list of monitoring indices on a regular basis. Moreover, the company has engaged with external consultants to review and refine its ERM framework to comply with the ERM guidelines issued by Hong Kong's Insurance Authority.

Internal risk policies are regularly reviewed and enhanced to address evolving risk exposures, for example, in relation to the assignment of risk ownership and refinement of operational procedures. The company continues to invest in improving the capabilities of its risk and pricing tools.

For its life reinsurance business, the company focuses on striking a balance between business expansion and solvency, with an emphasis on promoting products that are less capital consuming while closely monitoring the asset-liability management and liquidity

Enterprise Risk Management (Continued...)

risk. Regarding the recent market volatility in the equity markets, TPRE has a cut loss and impairment recognition mechanism in place and imposed a concentration limit. It has reduced some exposure related to investments that are relatively more volatile over the past year.

Reinsurance Summary

TPRe is exposed to worldwide catastrophe risk and has arranged various retrocession covers to protect its balance sheet against tail risks accumulated in peak zones while benefitting from enhanced underwriting capacity. TPRE assesses its catastrophe risk exposure through monitoring the accumulation of exposures in key markets. The retrocession structure is based on catastrophe modelling results. Over the past year, TPRE increased its risk appetite to catastrophe risk of China Earthquake from 1-in-150 years to 1-in-100 years. A majority of the retrocessionaires in TPRE's catastrophe XOL and aggregate XOL retrocession programme have strong financial strength.

Environmental, Social & Governance

The concepts of sustainability and ESG are steadily gaining traction in Asia. As a writer of property policies with a focus on China and the Asia-Pacific region, TPRE is exposed to the impact of changing climate trends, namely increasing severity and frequency of natural catastrophe losses. The reinsurer uses retrocession to protect its balance sheet. Catastrophe modelling and accumulations are managed to ensure that the company's exposure to natural catastrophes is maintained within its risk appetite. In addition, TPRE offers a range of life reinsurance products and is therefore exposed to social factors. These include changes in demographic and biometric assumptions such as mortality and morbidity, which have been taken into consideration in the company's product development and underwriting processes. TPRE's parent, CTIH, as a listed company, issues an ESG report with details and guidelines. TPRE follows its group's requirements on ESG development.

Rating Lift/ Drag

TPRe benefits from the continued implicit and explicit support from its parent, CTIH. TPRE has a high degree of integration with CTIH in terms of business development, operations and risk management. While CTIH's stake in TPRE has been diluted to about 75% after the introduction of Ageas as a strategic shareholder, AM Best believes CTIH will maintain its controlling shareholding status in TPRE for the foreseeable future and will continue to render capital and financial support to TPRE in a timely manner when necessary.

CTIH's largest shareholder is China Taiping Insurance Group Limited (TPG), one of the major state-owned insurance groups in China that is directly supervised by the Ministry of Finance. The group has a global business presence in mainland China, Hong Kong, Macau, Southeast Asia, East Asia, Europe, North America and Oceania. It also operates in various segments including life insurance, general insurance, pension, reinsurance, reinsurance brokerage and insurance agency, securities brokerage and non-financial investments.

Financial Statements

	12/31/2021		12/31/2021
	HKD (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	5,640,104	9.0	723,231
Bonds	32,499,894	51.7	4,167,461
Equity Securities	2,593,164	4.1	332,521
Other Invested Assets	7,470,980	11.9	958,004
Total Cash and Invested Assets	48,204,142	76.7	6,181,217
Reinsurers' Share of Reserves	3,692,047	5.9	473,431
Debtors / Amounts Receivable	9,395,499	14.9	1,204,785
Other Assets	1,556,821	2.5	199,631
Total Assets	62,848,509	100.0	8,059,064
Unearned Premiums	2,987,428	4.8	383,078
Non-Life - Outstanding Claims	11,021,160	17.5	1,413,243
Life - Outstanding Claims	248,956	0.4	31,924
Life - Long Term Business	27,784,974	44.2	3,562,867
Total Gross Technical Reserves	42,042,518	66.9	5,391,112
Other Liabilities	9,049,920	14.4	1,160,471
Total Liabilities	51,092,438	81.3	6,551,583
Capital Stock	8,822,446	14.0	1,131,302
Retained Earnings	3,074,463	4.9	394,238
Other Capital and Surplus	-140,838	-0.2	-18,060
Total Capital and Surplus	11,756,071	18.7	1,507,481
Total Liabilities and Surplus	62,848,509	100.0	8,059,064

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit .12823 = 1 Hong Kong Dollar (HKD)

	12/31/2021			12/31/2021	
	Non-Life HKD (000)	Life HKD (000)	Other HKD (000)	Total HKD (000)	Total USD (000)
Income Statement					
Gross Premiums Written	11,284,668	6,952,917	...	18,237,585	2,338,606
Net Premiums Earned	9,411,178	6,376,685	...	15,787,863	2,024,478
Net Investment Income	...	998,618	647,740	1,646,358	211,112
Other Income	2,577	...	...	2,577	330
Total Revenue	9,413,755	7,375,303	647,740	17,436,798	2,235,921
Benefits and Claims	6,679,070	7,251,379	...	13,930,449	1,786,301
Net Operating and Other Expense	3,099,109	408,364	-67,646	3,439,827	441,089
Total Benefits, Claims and Expenses	9,778,179	7,659,743	-67,646	17,370,276	2,227,390
Pre-Tax Income	-364,424	-284,440	715,386	66,522	8,530
Income Taxes Incurred	...	...	...	56,894	7,296
Net Income before Non-Controlling Interests	...	...	...	9,628	1,235
Net Income/(loss)	...	...	...	9,628	1,235

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit .12823 = 1 Hong Kong Dollar (HKD)

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)



[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Global BCAR, 06/30/2022](#)

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