S&P Global
Ratings

RatingsDirect®

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

Table Of Contents

Taiping Reinsurance Co. Ltd.

Major Rating Factors

- Implicit support from parent China Taiping Insurance group under all circumstances as a core subsidiary.

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A/Stable/--

Rationale

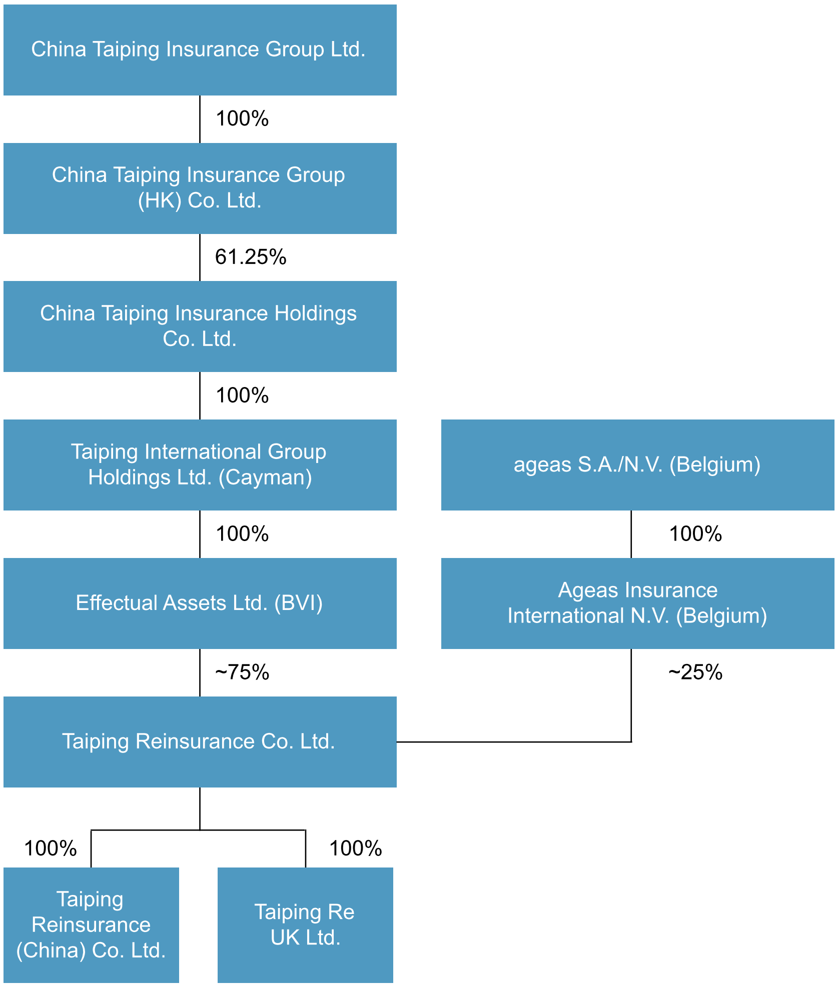
The rating on Taiping Reinsurance Co. Ltd. (Taiping Re) reflects our view that the reinsurer plays a key role in the internationalization strategy of its ultimate parent, China Taiping Insurance Group. The parent group is expanding its footprint in international markets and the Greater Bay Area (Hong Kong, Macau, and Guangdong). The Hong Kong-based Taiping Re also provides reinsurance support and regional insurance market insights to the group's affiliates. We therefore assess Taiping Re as a core subsidiary of China Taiping Insurance Group, and equalize the rating on Taiping Re with our assessment of the parent's group credit profile.

Through increasing collaboration with strategic minority investor, Ageas Insurance International N.V. (Ageas), Taiping Re will gradually facilitate the group's expanding international footprint. This is given Ageas' presences in Asia and Europe. In addition, we believe Ageas could bring in expertise in risk management and corporate governance. On Nov. 27, 2020, Taiping Re completed an issuance of new shares to Ageas, which represented around 25% of its expanded share capital base.

We believe China Taiping Insurance Holdings Co. Ltd. (CTIH) will remain Taiping Re's dominant shareholder. China Taiping Insurance Group (HK) Co. Ltd. (TPGHK) owns 61.25% of CTIH, which in turn owns approximately 75% of Taiping Re through Taiping International Group Holdings Ltd. (Cayman) and Effectual Assets Ltd. (BVI).

Taiping Re's Organizational Structure

As of Sept. 30, 2021



Source: Company disclosure.

Taiping Re shares its parent's "Taiping" branding and benefits from a strong long-term commitment of parental support from China Taiping Insurance Group. This is demonstrated by the provision of assistance in asset management, capital, information technology, and risk management governance. In addition, we believe Taiping Re will benefit from extraordinary government support to TPGHK, if needed. As of June 30, 2021, Taiping Re contributed about 10.5% to CTIH's total equity (2020 year-end: 10.3%).

The overseas property/casualty (P/C) reinsurance segment will likely be the key driver of Taiping Re's growth in premiums over the next two years. The reinsurer's P/C reinsurance premium outside Greater China accounted for 38.1% of overall P/C reinsurance book as of June 30, 2021, and grew 22.2% from a year earlier. The reinsurer's expansion in this segment amid favorable industrywide premium rate developments underpin our view. We also expect the reinsurer to evolve its risk selection process for new businesses and proactively review its retained exposures.

We anticipate narrowing underwriting losses for Taiping Re in 2022 and 2023, backed by the reinsurer's ongoing portfolio optimization and hardening premium rates in some markets. Taiping Re will likely report underwriting losses for the second consecutive year in 2021 due to additional reserve provision for COVID-19-related claims and large losses associated with extreme weather events in China and overseas markets (particularly the U.S. and Europe). Taiping Re's P/C combined ratio was at 104.9% as of Dec. 31, 2020 (99.8% at Dec. 31, 2019). For 2021, we expect a stable combined ratio of 104%-105%. A combined ratio of greater than 100% indicates underwriting losses.

Taiping Re's topline growth in the life reinsurance segment will likely moderate over the next two years. Taiping Re's more proactive review of liability costs and development of protection-type policies reflect a shift in focus to insurance margin. That said, high reserve provision and lower investment returns will continue to pressurize the life reinsurance segment's profitability in 2021-2023. The reinsurer saw a 16.3% year-on-year growth in topline for the first nine months of 2021 after a decline in 2020.

The life reinsurance business will likely facilitate growth of Taiping Re's China-based subsidiary Taiping Reinsurance (China) Co. Ltd. (Taiping Re China; not rated) over the next two years. The China-based reinsurer is exploring protection-type business opportunities in the domestic market. Taiping Re China's life reinsurance premium doubled in 2020. That said, high reserve overheads could strain margins in this segment in the initial stage. Taiping Re China's P/C reinsurance segment will likely grow at a moderate pace, along with the wider Taiping Re's portfolio optimization initiative. As of Dec. 31, 2020, Taiping Re China accounted for 55.4% and 3.7% (in Hong Kong dollar terms) of Taiping Re's P/C and life reinsurance premium income, respectively. We consider Taiping Re China's credit profile as weaker than that of Taiping Re.

Taiping Re's capital buffer will likely reduce over the next two years amid business expansion and prospective earnings volatility. Given heightened counterparty risk, the reinsurer booked a further asset impairment loss of approximately HK$290 million in 2021, after HK$710 million in 2020. As of June 30, 2021, Taiping Re's regulatory solvency ratio was 317% (354% as of Dec. 31, 2020), indicating sufficient regulatory solvency capital.

We attribute the reinsurer's holdings of high-risk investment assets to rapid growth in the savings-type focused life reinsurance business in the past. This business will continue to weigh on its capital position. Despite Taiping Re's increased allocation to good quality fixed income instruments, the greater exposure to equity could expose the reinsurer to capital market volatility.

We believe Taiping Re will continue to follow its parent group's tightened risk control over investment risks and actively monitor its investment portfolio. In our view, Taiping Re has lower net retained catastrophe exposure 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.

Outlook

The stable outlook on Taiping Re reflects the outlook on TPGHK. The rating and outlook on Taiping Re will move in tandem with those 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 China Taiping Insurance Group 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. 30, 2021.

Appendix

Taiping Reinsurance Co. Ltd.--Credit Metrics History

Ratio/Metric (Mil. HK$)	2020	2019	2018	2017	2016
Total invested assets	41,948.2	38,888.7	32,398.3	30,650.0	22,556.0
Total shareholder equity	12,073.8	9,041.4	8,082.4	8,201.9	6,870.9
Gross premiums written	16,266.7	15,884.4	13,551.8	11,057.6	9,175.4
Net premiums written	13,682.7	13,915.6	8,211.9	9,992.8	8,358.0
Net premiums earned	13,491.0	13,486.9	7,954.4	9,633.2	8,326.3
P/C: net premiums earned	8,303.7	7,875.9	7,284.3	5,376.4	4,193.1
Reinsurance utilization (%)	15.9	12.4	39.4	9.6	8.9
EBIT	(189.5)	385.3	602.5	918.3	567.4
Net income (attributable to all shareholders)	(169.6)	321.1	539.3	760.4	434.1
Return on revenue (%)	1.8	5.8	9.7	5.3	7.7
Return on shareholders' equity (reported) (%)	(1.6)	3.7	6.6	10.1	6.6
P/C: net combined ratio (%)	104.9	99.8	99.5	97.6	94.0
P/C: net expense ratio (%)	34.2	35.3	40.0	40.9	37.5
Net investment yield (%)	4.2	4.8	4.8	4.6	4.7
Net investment yield including investment gains/(losses) (%)	3.0	3.4	3.8	5.9	4.0

P/C--Property/casualty.

Ratings Detail (As Of January 7, 2022)*

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.