FitchRatings

Fitch Affirms China Taiping Insurance Group's IDR at 'A'; Outlook Stable

Fitch Ratings - Hong Kong - 16 March 2020:

Fitch Ratings has affirmed the Issuer Default Ratings (IDR) on China Taiping Insurance Group Ltd. (TPG), China Taiping Insurance Group (HK) Company Limited (TPG (HK)) and China Taiping Insurance Holdings Company Limited (CTIH) at 'A' (Strong).

Simultaneously, Fitch has affirmed Taiping Life Insurance Company Limited's (TPL) Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and the IFS Rating of Taiping Reinsurance Company Limited (TPRe) at 'A' (Strong). The Outlook on all the ratings is Stable.

Fitch views TPL and TPRe as TPG's 'Core' and 'Very Important' subsidiaries, respectively. TPL's rating is based on the agency's evaluation of the group's credit profile as a whole, while TPRe's rating reflects its Standalone Credit Profile.

Key Rating Drivers

The affirmation on TPG - a Chinese state-owned financial and insurance group - reflects its strong financial performance, 'Favourable' business profile and sustained strong risk-based capitalisation amid rising asset risk. The group's IDR benefits from a one-notch uplift from its Standalone Credit Profile because it is fully owned by China's Ministry of Finance (sovereign rating: A+/Stable), which is likely to extend support to TPG in times of stress.

Fitch ranks TPG's business profile as 'Favourable' against other insurers in China due to its substantive business franchise and established business focus within the domestic insurance sector. In addition, the group has well diversified business lines and geographies via its operating subsidiaries in mainland China, Hong Kong and other parts of the world. The diversification of premium sources mitigates potential earning volatility in a single sector. TPG's life, property and casualty (P&C), reinsurance, pension and group life businesses generated approximately 78%, 13%, 7% and 2%, respectively, of total premiums written in 1H19. As a result, Fitch scores TPG's business profile at 'a+' under its credit-factor scoring guidelines.

Fitch estimates that TPG's net profit improved by end-2019 due to the pre-tax deduction of underwriting and policy-acquisition costs following the implementation of revised regulations in May 2019. The group's annualised return on equity (ROE) stood at 19.6% in 1H19, compared with 10% in 2018.

The agency expects a manageable COVID-19 impact on the credit profile of Chinese insurers, including TPG, at the moment. Nonetheless, rating implications could be more pronounced if the epidemic lasts into 2H20, which could challenge new business growth and the financial performance of TPG's major insurance subsidiaries due to rising vulnerability in capital markets.

Fitch views TPL's financial performance as 'Strong', despite a moderate decline in new business value (NBV) in 1H19. The agency does not expect the life insurer's NBV margin by end-2019 was above the 2018 level of 36% because of increasingly competitive market conditions. However, continued focus on regular premiums and health insurance allowed TPL to sustain growth of its value of in-force business after the cost of capital at 10.7 % in 1H19. The share of long-term health insurance increased to 18% of direct premiums written, from 15% in 1H18. TPL's annualised pre-tax return on assets was 2.8% in 1H19 and averaged 2.0% during 2016-2018, which is better than the guideline for IFS 'A+' rated life insurers.

The affirmation of TPRe's IFS Rating reflects its continued strong underwriting results from its P&C reinsurance portfolio and robust premium growth in its major markets of mainland China, Hong Kong and Macau. The combined ratio of its non-life portfolio stood at 93.4% in 9M19 and averaged at 94.9% during 2017-3Q19, compared with 97.4% in 2018. Fitch believes the reinsurer is able to continue making underwriting profits in the near term, despite its narrower margin. Annualised ROE was 5.3% in 1H19, compared with an average of 7.3% during 2017-1H19.

Fitch expects TPG to be strongly capitalised to support the business growth of its operating subsidiaries in China and overseas in the coming 12 months. Its consolidated capital score under Fitch's Prism Factor-Based Model remained at the 'Strong' level at end-June 2019. TPG's comprehensive solvency ratio remained strong at 236% in 1H19 under the China Risk-Oriented Solvency System, contributed by a moderate capital buffer from its insurance subsidiaries. The local solvency ratios of TPL and TPRe stood at 230% and 259%, respectively, as of 3Q19.

Fitch estimates that TPG's financial leverage ratio remained well within the guideline for IFS 'A' rated insurers by end-2019, despite an increase in bank borrowings to partially finance its redemption of USD600 million of perpetual subordinated debt in September, alongside CNY3 billion capital supplemental bonds issued by Taiping General Insurance Company Limited in 4Q19. TPG's consolidated financial leverage declined to about 21% by end-1H19, from 25% at end-2018. The agency expects TPG's financial leverage to remain stable through 2020 as there are no plans to issue debt at the group standalone level or at key subsidiaries, including TPL.

Fitch considers TPG's risky-assets exposure as moderate. These risky assets, which include stocks, equity-type funds, long-term equity investments and investment properties, accounted for 140% of consolidated capitalisation at end-1H19, compared with 136% at end-2018.

TPG is the ultimate holding entity of its insurance subsidiaries and wholly owns TPG (HK), which holds 59.64% in Hong Kong-listed CTIH. TPG's consolidated assets and equity totalled CNY732 billion and CNY77 billion, respectively, at end-June 2019.

RATING SENSITIVITIES

Downgrade rating sensitivities include:

- a significant change in shareholding that results in the Ministry of Finance losing its controlling interest in TPG and CTIH, or downgrade of China's Long-Term Local-Currency IDR (A+/Stable); or

- TPG failing to maintain its Prism score at a level well into 'Strong' and consolidated financial leverage above 35% consistently; or

- pre-tax return on assets falling below 1.0% and a deterioration in underwriting profitability of the group's P&C and reinsurance operations, with the combined ratio persistently above 100%.

Upgrade rating sensitivities include:

- TPG's Prism score at 'Very Strong' and the consolidated financial leverage ratio below 20% on a sustained basis; and

- the group's ROE consistently exceeding 12%.

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
China Taiping Insurance Group Ltd.	LT IDR A ⭘ Affirmed		A ⭘

China Taiping Insurance Group (HK) Company Limited	LT IDR A Affirmed		A
China Taiping Insurance Holdings Company Limited	LT IDR A Affirmed		A
Taiping Life Insurance Company Limited	Ins Fin Str A+ Affirmed		A+
Taiping Reinsurance Company Limited	Ins Fin Str A Affirmed		A
China Taiping Capital Limited			
senior unsecured	LT A- Affirmed		A-
China Taiping New Horizon Limited			
senior unsecured	LT A- Affirmed		A-

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Stella Ng
Director
+852 2263 9615
Fitch (Hong Kong) Limited
19/F Man Yee Building 60-68 Des Voeux Road Central
Hong Kong

Secondary Rating Analyst
Terrence Wong
Senior Director
+852 2263 9920

Committee Chairperson
Jeffrey Liew
Senior Director
+852 2263 9939

MEDIA CONTACTS

Alanis Ko
Hong Kong
+852 2263 9953
alanis.ko@thefitchgroup.com

Wai Lun Wan
Hong Kong
+852 2263 9935
wailun.wan@thefitchgroup.com

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Insurance Rating Criteria (pub. 02 Mar 2020)

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