

07 MAR 2021

Fitch Affirms Thai Reinsurance at IFS 'A-'; Outlook Stable

Fitch Ratings - Singapore/Bangkok - 07 Mar 2021: Fitch Ratings has affirmed Thai Reinsurance Public Company Limited's (THRE) Insurer Financial Strength (IFS) Rating at 'A-' (Strong). The Outlook is Stable.

Key Rating Drivers

The affirmation reflects THRE's 'Favourable' business profile, 'Strong' capitalisation, and 'Good' investment and liquidity risk, which are offset by the challenges the company faces to sustain its financial performance and earnings.

Fitch assesses THRE's business profile as 'Favourable' compared with that of all other Thai non-life insurance companies and scores its business profile at 'a-' under the agency's credit-factor scoring guidelines. The company remains the sole local non-life reinsurer with market share of around 40% of locally ceded premiums in 2020 with a sound reputation for providing other insurance-related services, such as actuarial services. The business risk profile appears to be moderate in light of THRE's recovering profitability and favourable diversification in the local market in terms of product lines and domestic distribution channels.

Fitch's 'Strong' assessment of THRE's capitalisation is supported by its overall credit profile, which compares well with our guidelines for 'A' IFS-rated reinsurers. THRE has maintained its risk-based capital (RBC) ratio at over 300%, above the 120% local regulatory minimum, despite its weak operating performance in the last few years. The reinsurer's capital position was scored at 'Extremely Strong' in terms of Fitch's Prism Factor-Based Capital Model (FBM) using end-2020 financials.

Its combined ratio, a measure of its earnings profile, improved to 99% by end-2020 from a peak of 114% in 2018, supported by fewer claims from legacy unprofitable businesses and better performance from non-conventional businesses. The average combined ratio in 2018-2020 recovered to 106%, which is within the range for a 'BBB' IFS rating, and THRE expects its profitability to improve as unprofitable businesses are phased out. THRE's earnings risk from the coronavirus is minimal with limited exposure to health-related products in addition to low domestic infection rates.

Fitch expects THRE to maintain investment risks at a manageable level, even though returns have been under pressure from the low-yield environment. We estimate its risky assets ratio was about 52%, while its sovereign investment-to-capital ratio was 45% at end-2020. Its liquidity position was also robust with the ratio of liquid assets to reserves at 175% at end-2020.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A weakening profitability, indicated by a combined ratio of higher than 103% for a prolonged period
- A persistent drop in capitalisation, measured by a decline in THRE's RBC ratio to below 280% and deterioration in the Prism FBM score to below well into the 'Strong' level for an extended period

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Consistently strengthening profitability, indicated by THRE's combined ratio of below 96%, with return on equity of above 10% on a sustained basis
- Improvement in capitalisation, with Fitch's Prism FBM score consistently maintained at well into the 'Extremely Strong' level

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Thai Reinsurance Public Company Limited	Ins Fin Str A- 	Affirmed	A- 

RATINGS KEY OUTLOOK WATCH

POSITIVE  
NEGATIVE  

RATINGS KEY OUTLOOK WATCH

EVOLVING ◊ ◆

STABLE ○

Applicable Criteria

[Insurance Rating Criteria \(pub.25 Aug 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 [\(1\)](#)

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