

22 FEB 2022

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

Fitch Ratings - Bangkok - 22 Feb 2022: 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' company profile, 'Strong' capitalisation, and 'Good' investment and liquidity risk. It also takes into consideration its poor underwriting performance in 2021 and ongoing challenges to sustain its earnings.

THRE has maintained 'Strong' capitalisation, with its risk-based capital (RBC) ratio at 250%, well above the 120% local regulatory minimum at end-September 2021. We expect its RBC ratio to remain above 280% in 2022. We estimated its score on Fitch's Prism model to be at 'Extremely Strong' in 2021, even though earnings in 2021 are likely to have been weaker due to high claims from Covid-19 related health policies, particularly in lump-sum payout policies.

The "combined ratio" increased to 114% in 9M21 from the average in 2018-2020 of 106%. However, we expect the operating performance to recover to below 103% from 2022, supported by lapsing Covid-19 related lump-sum payout policies in 1H22, additional allocated reserves and robust performance in other businesses, such as motor and property. The company also continues to focus on sustaining its profitability and limiting losses in all product lines.

The investment strategy is generally conservative and liquid, with more than 75% of the portfolio in cash, deposits and fixed-income instruments. THRE has reduced the proportion of stocks in its holdings during the pandemic to enhance the liquidity position, which led to a lower risky-asset ratio of 46% by end-of September 2021. However, we expect the ratio to return to its usual level of 50%-60% over the medium term to maintain higher investment returns, and the company to keep its investment risks manageable. The company's sovereign investment-to-capital ratio was 67% at end-September 2021, and its ratio of liquid assets to reserves was over 180%.

Fitch assesses THRE's company profile as 'Favourable', as a result of a 'Favourable' business profile and 'Moderate/Favourable' corporate governance compared with that of all other Thai non-life insurance companies. Its business profile is supported by its competitive position as the sole local non-life reinsurer with consistent market share of 30%-40% of locally ceded premiums, and well-diversified business lines with the capacity to serve non-conventional businesses. The business profile is balanced by its 'Least Favourable' operating scale as a reinsurance company and the volatile earnings performance. Fitch has therefore scored THRE's company profile at 'a-' under our credit-factor scoring

guidelines.

RATING SENSITIVITIES

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

- 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 score to below well into the 'Strong' level for an extended period

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

- Consistent strengthening in profitability, indicated by a combined ratio of below 96%, with return on equity of above 10% for a sustained period
- Improvement in capitalisation, with the Prism score 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	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Insurance Rating Criteria \(pub.26 Nov 2021\) \(including rating assumption sensitivity\)](#)

[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 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

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