

RATING ACTION COMMENTARY

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

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Fitch Ratings - Hong Kong - 24 Jan 2025: Fitch Ratings has affirmed the Long-Term 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'. The agency has also affirmed Taiping Life Insurance Company Limited's (TPL) Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and the IFS Rating on Taiping Reinsurance Company Limited (TPRe) at 'A' (Strong).

The Outlook on all the ratings is Negative, except for the Stable Outlook on TPRe's rating. Simultaneously, Fitch has affirmed CTIH's perpetual subordinated bonds at 'BBB+'.

The affirmation reflects TPG's solid capital position, strong new business value (NBV) growth and diversified market presence. We view TPL as 'Core' and TPRe as 'Very Important' to TPG under Fitch's group rating methodology. TPL's rating is based on the credit profile of TPG as a whole, and TPRe's rating reflects its standalone credit quality.

KEY RATING DRIVERS

Negative Outlook Remains, Except for TPRe: The Negative Outlook on the ratings on TPG and rated subsidiaries continues to mirror the Negative Outlook on China's 'A+' sovereign rating as their ratings incorporate government ownership support. TPRe's Stable Outlook reflects our assessment of its credit profile on a standalone basis, and our expectation that the reinsurer will maintain a satisfactory financial performance and risk-based capitalisation.

Rating Uplift: TPG's rating benefits from a two-notch uplift from its standalone credit quality, reflecting Fitch's expectation that the Chinese government is likely to support the

group, when needed. This considers the 90.7% stake held by the Ministry of Finance (MoF), and TPG's track record of receiving financial support from the government.

Solid Capital Position: TPG's capital score under the Fitch Prism Global model was well into 'Very Strong' at end-2023, compared with the lower end of the 'Very Strong' category at end-2022, with the contractual service margin (CSM) net of tax included as part of available capital under IFRS17. The enhanced capital buffer reflects a slowdown in the growth of risk assets, along with external capital replenishment, including the issuance of USD2 billion and CNY11 billion of perpetual subordinated bonds by CTIH and TPL in March 2023 and December 2023, respectively.

The comprehensive solvency ratio stood at 268% by end-1H24, (end-2023: 270%), with the core solvency ratio rising to 159%, from 156%. TPG's organic capital growth offset the impact of TPL's repurchase of CNY11.6 billion of capital supplementary bonds in June 2024. We estimate TPG's financial leverage ratio (end-2023: 17%) to be commensurate with its rating over 2024-2025.

TPRe's Stronger Capitalisation: TPRe's Prism score improved by end-1H24 from end-2023, with a wider capital buffer on strategic business restructuring and continued investment risk management. The reinsurer stopped underwriting new savings-type business and long-term financial reinsurance. Its risk-based capital (RBC) ratio was 173% at end-September 2024 under the RBC regime implemented in July 2024 in Hong Kong. The solvency ratio was 302% at end-1H24 (2023: 277%) under the old capital regime.

TPRe's Low Financial Leverage: The reinsurer's consolidated financial leverage ratio stood at 10% at end-September 2024, following issuance of CNY1.3 billion of capital supplemental bonds by TPRe (China) in March 2023.

Strong NBV Growth: The group continues to focus on quality sales, with a 28.3% yoy increase in new business CSM to CNY12.2 billion in 1H24. TPL's reported NBV rose by 84% yoy in 1H24, driven by its core individual agent channel and supported by the bancassurance channel on regulatory rules to reduce commission costs and related expenses. TPG's return on equity (ROE) was 10.3% for the nine months to September 2024 on strong investment returns (2023: 6.0%). We believe the stability of its overall earnings remains susceptible to swings in equity markets, considering the continued low interest rates.

Limited California Wildfire Impact for TPRe: The operating result is unlikely to be considerably affected by the California wildfires in January 2025, given that TPRe does not

participate in the California FAIR Plan. The reinsurer expects its retrocession arrangement to shield its financial position from significant losses from the wildfires. It has reduced its business in the U.S. market in the past few years to control catastrophe exposure accumulation.

Profitable Underwriting in Reinsurance: The combined ratio for TPRE's non-life insurance portfolio was 97% in 1H24 (2023: 96%), recovering from the 106% in 1H23 that was driven by higher loss reserve provisions. The combined ratio decreased to 94% by end-3Q24. TPRE continued to balance domestic and international business, along with strategic business restructuring to manage its underwriting profitability.

Lower Asset Risk: The group's consolidated asset risk is driven by TPL, which is shifting its equity assets towards lower-risk options, such as government and policy bank bonds. By end-2023, TPL's high-risk assets, including stocks, equity funds, equity-type assets and Fitch-adjusted non-investment-grade fixed-income investments, adjusted for the loss-sharing of the participating life business, was 99% of its total equity, up from 95% at end-2022, due to lower allocation in equities by the participating business.

TPRE's risky-asset ratio fell to 58% by end-1H24, from 64% at end-2023 on a Fitch-adjusted basis, below its criteria guidelines for the 'A' IFS Rating category. We expect the reinsurer to maintain effective investment risk management, reinforcing its RBC ratio.

Diversified Geographies and Business: We assess TPG's business profile as 'Most Favourable' and corporate governance as 'Neutral' compared with that of other insurers in China. The group operates in the life, non-life, reinsurance and pension markets, reducing reliance upon and mitigating event risk in any single market segment. It has a strong brand and diversified market presence through its operating subsidiaries in mainland China, Hong Kong, APAC and other parts of the world.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

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

Factors that Could, Individually or Collectively, Lead to Lowering of the Standalone Credit Quality

For the group:

- Failure to maintain TPG's Prism score at 'Strong' for a sustained period;
- The group's consolidated financial leverage ratio remaining above 35% consistently;
- Sustained weakening in financial performance, including TPG's ROE falling below 7% and a sharp decline in TPL's new business value.

For TPre:

- Continuous deterioration in financial performance, including combined ratio above 101%;
- The Prism score at the lower end of the 'Strong' level for a sustained period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of China's Long-Term Local-Currency IDR.

Factors that Could, Individually or Collectively, Lead to Raising of the Standalone Credit Quality

For the group:

- A significant improvement in TPG's Prism score and the consolidated financial leverage ratio remaining below 24% for a sustained period;
- The group's ROE consistently exceeding 11%.

For TPre:

- A significant improvement in its company profile in terms of operating scale and international presence;
- An improvement in profitability, including a combined ratio below 98%, and a meaningful rise in the RBC ratio for a sustained period.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅		PRIOR ⇅
China Taiping Insurance Group Ltd.	LT IDR	A Rating Outlook Negative	A Rating Outlook Negative
	Affirmed		
China Taiping Insurance Group (HK) Company Limited	LT IDR	A Rating Outlook Negative	A Rating Outlook Negative
	Affirmed		
China Taiping Insurance Holdings Company Limited	LT IDR	A Rating Outlook Negative	A Rating Outlook Negative
	Affirmed		
subordinated	LT	BBB+ Affirmed	BBB+
Taiping Life Insurance Company Limited	LT IFS	A+ Rating Outlook Negative	A+ Rating Outlook Negative
	Affirmed		

Taiping Reinsurance
Company Limited

LT IFS A Rating Outlook Stable

A Rating
Outlook
Stable

Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Global (ex-U.S.) Model, v1.8.1 (1)

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China Taiping Insurance Group (HK) Company Limited	EU Endorsed, UK Endorsed
China Taiping Insurance Group Ltd.	EU Endorsed, UK Endorsed
China Taiping Insurance Holdings Company Limited	EU Endorsed, UK Endorsed
Taiping Life Insurance Company Limited	EU Endorsed, UK Endorsed
Taiping Reinsurance Company Limited	EU Endorsed, UK Endorsed

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