

DHIPAYA GROUP HOLDINGS PUBLIC COMPANY LIMITED

No. 218/2023
31 October 2023

FINANCIAL INSTITUTIONS

Company Rating:	AA
Issue Rating:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 03/05/23

Company Rating History:

Date	Rating	Outlook/Alert
21/09/22	AA	Stable

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RATIONALE

TRIS Rating affirms the issuer credit rating (ICR) of “AA” on Dhipaya Group Holdings Public Company Limited (TIPH) and the issue rating of “AA” on its senior unsecured debentures, with a “stable” outlook. The ratings reflect TIPH’s status as an insurance holding company of Dhipaya Insurance Public Company Limited (TIP) and other investments under TIPH (TIPH Group). The ratings on TIPH are two notches below the group credit profile (GCP) of TIPH Group, assigned at “aaa”.

The GCP reflects the credit profile of TIPH Group, whose core operating entity is TIP. The GCP therefore largely reflects TIP’s excellent business risk profile and very strong financial risk profile, as well as the highly regulated insurance industry. We also take into consideration the strong governance and liquidity position of TIPH as well as TIP.

KEY RATING CONSIDERATIONS

An insurance group holding company

We assign the ICR on TIPH based on the credit profile of TIPH Group, which largely reflects the credit profile of TIP, the core operating entity of the group. As a non-operating holding company (NOHC), TIPH relies on dividend payments from TIP to service its debt obligations. As of September 2023, TIP was 99.05% owned by TIPH. The total assets of TIP represented over 98% of TIPH’s consolidated assets in the same period. The two companies share almost identical board structures and members.

We expect TIPH to maintain its status as the NOHC of the insurance group in the foreseeable future. Under the three- to five-year business plan, TIPH will operate with four business units: TIP, Insurance Business (TIP IB), Insurance Support (TIP ISB), and Other Businesses (TIPX). It expects that these businesses, once scaled up, will create a business ecosystem that provides synergies and diversified earnings sources to the group. The company expects to retain the proportion of investment capital in the core businesses (insurance business and insurance supporting business) at no less than 75% of its total assets.

Diversified leader in Thai non-life insurance

We expect TIPH’s core operating subsidiary, TIP, to maintain its competitive position as one of the leading non-life insurers in Thailand. This is supported by its strong market shares, well-established brand, and diversified businesses. TIP’s overall market share in direct written premium was 11.3% during the first half of 2023 (1H2023), ranked 2nd in the Thai non-life insurance industry. The company has the largest market share of 20.2% in non-motor insurance and 4.4% in motor insurance, ranked 6th, over the same period.

In our view, diversified exposure, prudent underwriting, and effective uses of reinsurance have contributed to TIP’s resilience to adverse operating conditions. Key sources of earnings include strong underwriting profits, meaningful earnings contributions from fees and commission income from reinsurance, and relatively stable investment yields. TIP underwrites a meaningful proportion of commercial- and personal-line businesses. The share of underwriting profits before operating expenses comprised personal accidents (45%), fire (20%), motor (18%), miscellaneous (15%), and marine and transport (2%) in 2017-2022.

Favourable distribution network

We assess TIP's insurance distribution network as favorable. The strategic distribution arrangements with TIPH's major shareholders including PTT PLC (PTT), Government Savings Bank (GSB), and Krungthai Bank PLC (KTB), which are government-related entities, allow TIP to offer products through their extensive branch networks and to a wide base of government employees with less price pressure. Besides, these entities provide business referrals for the commercial-line and personal-line segments. Product distribution via non-bank insurance brokers and digital platforms also enhances TIP's competitive edge. TIPH's subsidiaries operating digital insurance, brokerage, and lending businesses could further strengthen TIP's distribution network.

Sound profitability

We expect TIP's profitability to remain strong relative to its peers. Profitability should normalize towards a pre-COVID-19 level with a return on average equity (ROAE) in the range of 20%-25% in 2023-2025. Key drivers include healthy underwriting performance with a combined ratio of 82%-85%, a loss ratio of 65%-70%, sizeable reinsurance commissions of around a third of total income, and investment yields of 4%-5% per year.

Strong capital buffer

We expect TIP to maintain a strong capital adequacy ratio (CAR) of above 200% over the next few years. We forecast the CAR in a range of 230%-250% in 2023-2024 to reflect improving profitability, a 50% dividend payout, annual growth in the gross written premium (GWP) of around 7%, and no material change to the underwriting exposure. The CAR fell to 202% at the end of June 2023, from 243% a year earlier, as a result of the following developments, which we expect to be largely non-recurring: 1) subdued net profits in 2022 mainly due to large COVID-19 claims, 2) temporally early dividend payments leading to a sizable payout of THB1.2 billion to TIPH in 2022, and 3) unrealized losses of the fair value through other comprehensive income (FVOCI) investments in 1H2023.

We consider its total capital available (TCA) of THB7.2 billion at the end of June 2023 to be medium-sized, relative to its peers.

Capital volatility risk contained

We expect improved stability in TIP's capital metrics over the next few years, thanks to well-managed underwriting exposure, effective use of reinsurance, and investment strategies that focus on stable income. TIP's strong underwriting performance reflects its ability to offer products with risk-based premiums validated by an in-house team of qualified actuaries. Product segmentation based on behavioral profiles of target markets allows TIP to sell insurance policies with less price pressure. There are also established working relationships and expertise sharing with reinsurers that support joint product development.

TIP uses reinsurance more extensively compared to its peers. In our view, its reinsurance arrangement has been effective in limiting the company's net loss exposure, lowering the volatility of its underwriting performance, and operating within its maximum retention limits. TIP internally monitors credit ratings, CAR, and exposure concentration of each reinsurer on a monthly basis. Exposure to foreign reinsurers accounted for around 90% of total reinsurance assets as of June 2023. The company retains more underwriting exposure in diversified retail exposure, such as personal accident (PA), motor and fire insurance. There are combined uses of proportional treaties for capacity sharing of identical risks, and non-proportional treaties to mitigate catastrophic and idiosyncratic risks. The company obtains facultative reinsurance prior to underwriting any large risk. There are also mechanisms to provide liquidity from reinsurers in an event of large claims, such as cash call limits, partial claims, and netted settlement with ceded premiums.

We expect volatility from TIP's investment portfolio to be contained, thanks to income-focused investment strategies and segregation of permitted investments by asset classes based on purpose of use. The segregation includes working capital, asset-liability management (ALM) for insurance claims, yield enhancement, and surplus management. TIP only invests in cash, money-market instruments, government securities, and corporate debentures for working capital and ALM management. The investment process adheres to exposure limits for each asset class, the minimum credit ratings of "A-" based on the Thai national rating scale for corporate debentures, and value-at-risk (VAR) for equity price volatility risk.

Moderate leverage at TIPH level

Leverage at TIPH should remain moderate. The financial leverage ratio, our measure of leverage, should remain below 20% in the next few years even after incorporating additional borrowing as per the company's financial plan. Accordingly, TIPH aims to issue an additional THB1 billion of senior unsecured bonds in the next few years. Borrowing includes THB685 million from commercial banks at the end of June 2023, which matured in mid-August 2023, and THB1 billion of senior unsecured bonds issued in mid-August 2023.

There is no leverage at TIP.

Comprehensive risk management and governance

TIPH and TIP have nearly identical board structures with dedicated sub-committees in Corporate Governance (CG), Audit and Risk Management. Several board members at TIPH are serving, or have previous experience serving, the same board roles at TIP. They also have extensive working experience in the public sector, including with entities that are TIPH's major shareholders. In our view, the board members generally have relevant experience in their roles. Although TIPH as a holding company is not subject to the Office of Insurance Commission (OIC) regulations, the company aims to streamline the governance, audit, and risk management practices across all other subsidiaries besides TIP.

The risk management and governance at TIP are in line with the Enterprise Risk Management (ERM) and Own Risk and Solvency Assessment (ORSA) frameworks specified by the OIC. TIP conducts strategic risk control and monitoring of key risk indicators (KRIs) on a monthly basis. There are specified risk parameters and trigger points, tolerance levels, and pre-defined responses to identified vulnerabilities. Key risk categories include capital, underwriting, credit, liquidity, and market risks. TIP assesses economic capital adequacy to better reflect the company's risk exposure, in addition to the OIC's standard capital adequacy requirements. Multiple-scenario stress tests are performed regularly to ensure a CAR is above an internal risk appetite of 180%. The stress tests simulate the impacts of large claims from major natural catastrophes, uncontrollable pandemic events, and adverse economic conditions. The company also conducts enterprise risk monitoring and reviews its internal risk management framework at least annually.

Adequate liquidity

We expect TIP to maintain adequate liquidity, supported by a large portfolio of highly liquid investments relative to its claim reserves. The OIC-compliant liquidity ratio of TIP stood at 193% as of June 2023. Besides cash, money-market instruments, and deposits, TIP invests in tradable securities, including government bonds, corporate debts, equities, mutual funds, real-estate investment trusts, and infrastructure funds. We also expect TIPH's shareholders, which are major financial institutions, to provide additional liquidity to TIP in the form of credit lines, when needed.

Highly regulated industry

Our risk assessment of the non-life insurance industry reflects its status as a highly regulated industry under the supervision of the OIC. The regulatory framework governs all major aspects of insurance operations, including capital adequacy, premium pricing, product terms and conditions, governance and risk management framework, valuation of insurance contracts, and eligible scope of investments. The capital adequacy is regulated through a risk-based capital adequacy framework (RBC-2 standards), with clearly specified risk weights assigned to each risk exposure. The early warning system (EWS) outlines a structured approach to monitor the health of insurance companies and intervention steps for vulnerable players. Additionally, an insurance fund helps mitigate systemic risks arising from major claims and insolvent insurers.

BASE-CASE ASSUMPTIONS FOR 2023-2025

- Direct premium growth: Around 7% per annum
- Loss ratio: 65%-70%
- Combined ratio: 82%-85%
- Investment yields: Around 4%-5% per annum

RATING OUTLOOK

The "stable" outlook reflects our expectation that TIPH will remain a NOHC of TIPH Group, which means that TIPH will continue to rely on its core insurance subsidiary, TIP, for dividend payments. We also expect the group's core non-life insurance business will remain solid, underpinned by an excellent business risk profile, healthy underwriting performance, strong capital, prudent risk management, and adequate liquidity on a sustained basis.

RATING SENSITIVITIES

An upward rating revision on TIPH could occur due to a narrower notch-down from the GCP if there is evidence that TIPH's ability to service its own obligations has been enhanced. This could happen if the company has control over multiple material operating units that are diverse and independent; if the company is able to generate enough cash flows from its own operations or investments or from its controlled unregulated operating subsidiaries; and/or if the company maintains significant unencumbered cash or high-quality fixed income investments on a sustained basis.

A downward rating revision could be triggered by a downward revision on the GCP of TIPH Group. This could happen if there is material deterioration in TIP's capital or liquidity position, possibly resulting from potential or sustained large losses. Any evidence of a material deficiency in the risk management and governance could also pressure the ratings. We could also downgrade the ratings from a wider notch-down from the GCP if there is significantly heightened asset-liability risk, liquidity risk, or high double leverage at the TIPH level, defined as TIPH's investments in subsidiaries relative to its shareholders' equity.

COMPANY OVERVIEW

TIPH was incorporated on 31 July 2020 as a public limited company to operate as a holding company for its core business of insurance. The company's subsidiary TIP operates the core businesses, which engage in the non-life insurance business. TIPH's main revenue is in the form of dividends received from the holding of shares in TIP, other subsidiaries and associate companies, and future investments. The major shareholders of the company are PTT, GSB, and KTB.

TIP was founded in 1951 as a state-owned enterprise (SOE) by Field Marshal Sarit Thanarat. In 1995, the company changed its status from an SOE to a public company, with PTT, GSB and KTB becoming the major shareholders. TIP was also listed on the Stock Exchange of Thailand (SET), raising its capital to THB240 million from THB80 million. In 2018, TIP further raised its capital by THB300 million to THB600 million. TIPH was set up in July 2020 as part of the group restructuring plan. Between June and August 2021, TIPH launched a share offering with a tender offer for TIP shares via a 1:1 share swap. In September 2021, TIPH replaced TIP as a listed company on the SET. In October 2021, TIPH set up a new subsidiary, TIP ISB, to invest in insurance-support businesses.

TIPH's goal is to be the leading insurance business in the region. It strategizes investments in the insurance business and other insurance-related businesses in the country and abroad through the segregation of potential business as a new company, forming strategic alliances, joint ventures, and/or mergers and acquisitions. These can be divided into the following core business lines: domestic non-life insurance, domestic life insurance, international insurance, and insurance-related businesses.

Thailand's non-life insurance industry is highly fragmented, with the aggregate direct premium of the top-20 insurers accounting for about 80% of the total. The industry currently comprises 52 companies: 47 non-life insurers, four health insurers, and one reinsurer. Direct premium in 1H2023 totaled THB138.0 billion, a 3.9% year-on-year (y-o-y) growth, compared with 4%-5% growth over the past few years. Of the total direct premium in 1H2022, 58% was motor, 36% miscellaneous, 3% fire, and 3% marine. Most of the miscellaneous insurance related to personal accident and health insurance. The overall loss ratio has generally been relatively stable at about 50%. However, due to the large claims from COVID-19 policies, the loss ratio surged to 180% in 2022. The COVID-19 policies led to Thai insurers reporting aggregate net losses of THB50 billion in 2022 because of large claims at a few insurers, which have gone bankrupt. Nonetheless, most insurers have not been significantly impacted due to the low retention of the COVID-19 policies. They remain financially healthy with an average capital adequacy ratio of 195% as of June 2023, compared with the regulatory minimum requirement of 140%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2023 ¹	-----Year Ended 31 December -----		
		2022	2021	2020
Gross premium written	16,268	32,568	29,410	25,399
Net premium written	5,289	8,128	8,184	7,671
Net earned premium	4,520	8,442	7,809	7,573
Fee and commission income on reinsurance	2,700	5,714	4,839	4,362
Investment income	485	694	864	755
Other income	62	333	102	51
Gross claim and loss adjustment expenses	6,809	16,790	16,240	13,414
Net claim and loss adjustment expenses	3,020	7,074	5,460	4,218
Commission and brokerage expenses	1,557	2,839	2,298	2,237
Other underwriting expenses	830	1,545	1,623	1,529
Operating expenses	1,136	2,238	1,988	2,203
Finance costs	8	11	0	0
Expected credit loss	1	(2)	1	0
Profit for the year	975	1,185	1,829	2,065
Cash and cash equivalent	1,874	3,111	2,475	3,773
Premium receivables - net	7,636	6,148	4,474	3,611
Reinsurance assets - net	19,418	21,094	18,305	15,521
Reinsurance receivables	4,861	3,694	4,466	3,174
Investment assets	16,555	14,983	15,071	13,026
Other assets	6,858	6,805	4,849	5,368
Total assets	57,202	55,835	49,639	44,472
Insurance contract liabilities	26,191	27,416	24,253	21,445
Loss reserves and outstanding claims	9,312	10,084	8,716	7,962
Unearned premium reserves	16,879	17,332	15,537	13,482
Premiums received in advance	7,318	6,754	5,403	5,926
Due to reinsurers	10,611	8,401	7,127	5,750
Debt issued and borrowings	685	772	0	0
Other liabilities	3,188	2,163	3,181	2,908
Total liabilities	47,992	46,484	39,964	36,029
Total shareholders' equity	9,210	9,351	9,675	8,443

Unit: %

	Jan-Jun 2023 ¹	-----Year Ended 31 December -----		
		2022	2021	2020
Loss ratio	66.8	83.8	69.9	55.7
Expense ratio ²	18.4	10.9	13.7	21.2
Combined ratio	85.2	94.7	83.6	76.9
Ceding ratio	67.5	75.0	72.2	69.8
Investment income ratio ³	10.7	8.2	11.1	10.0
Investment yields ⁴	4.5	3.9	5.1	4.4
Return on average assets ⁵	3.3	2.2	3.9	4.8
Return on average equities ⁵	19.8	12.4	20.2	24.6
Return on revenue ⁶	12.6	7.8	13.4	16.2
Capital adequacy ratio ⁷	202.1	206.6	246.3	260.0
Liquidity ratio ⁸	193.0	178.9	199.6	209.0

¹ Based on unaudited financial statements

² $((\text{Commission and brokerage expenses} - \text{Fees and commission income}) + \text{Other underwriting expenses} + \text{Operating expenses} + \text{Service cost} + \text{Expected credit losses}) / \text{Net earned premium}$

³ $(\text{Income on investments} + \text{Gains on investments} + \text{Gains on the revaluation of investments}) / \text{Net earned premiums}$

⁴ $(\text{Income on investments} + \text{Gains on investments} + \text{Gains on the revaluation of investments}) / \text{Average invested assets}$; Investment yields are based on the last 12 months; Invested assets include net investments in securities, plus cash and cash equivalents.

⁵ Based on the last 12 months

⁶ Profit for the year/Total revenues

⁷ Based on TIP

⁸ Invested assets/Gross claim reserves

RELATED CRITERIA

- Insurance Rating Methodology, 9 September 2022
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Dhipaya Group Holdings Public Company Limited (TIPH)

Company Rating:	AA
Issue Rating:	
TIPH268A: THB1,000 million senior unsecured debentures due 2026	AA
Rating Outlook:	Stable

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