DHIPAYA INSURANCE PUBLIC COMPANY LIMITED

No. 219/2023
31 October 2023

FINANCIAL INSTITUTIONS

Financial Strength Rating: AAA
Outlook: Stable

Last Review Date: 06/01/23

Company Financial Strength Rating History:

Date	Rating	Outlook/Alert
06/01/23	AAA	Stable

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RATIONALE

TRIS Rating affirms the financial strength rating (FSR) of "AAA" with a "stable" outlook on Dhipaya Insurance PLC (TIP). The rating reflects TIP's status as an insulated entity under the insurance group led by Dhipaya Group Holdings PLC (TIPH, rated "AA/stable"). TIP is TIPH Group's core non-life insurance business and a subsidiary of TIPH.

The stand-alone credit profile (SACP) of TIP is assessed at "aaa". As a core operating entity of TIPH Group, TIP's SACP represents the group credit profile (GCP). The SACP reflects TIP's excellent business risk profile, very strong financial risk profile, as well as strong governance and liquidity position. We continue to assess Thailand's insurance sector as low risk, reflecting the industry's tight regulatory and supervisory framework.

KEY RATING CONSIDERATIONS

An insulated and core operating entity under TIPH Group

We expect TIP to remain a core operating entity of TIPH Group in the foreseeable future. The company will continue to operate as the core insurance business under TIPH's three- to five-year business plan, comprising four business units: TIP, Insurance Business (TIP IB), Insurance Support (TIP ISB), and Other Businesses (TIPX).

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 consider TIP as an insulated entity under TIPH Group, based on regulatory restrictions that prevent TIP from supporting TIPH and other group entities financially if such support were to unduly impair TIP's capital strength.

Diversified leader in Thai non-life insurance

We expect 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.

Comprehensive risk management and governance

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 Office of Insurance Commission (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 TIP's 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

We could revise the FSR downward 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 risk management and governance could also pressure the rating.

COMPANY OVERVIEW

TIP was founded in 1951 as a state-owned enterprise (SOE) by Field Marshal Chom Phon 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 raised its capital by a further 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's 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 Co., Ltd., to invest in insurance-support businesses. TIP continues to operate the non-life insurance business as TIPH's core business and engage in investment activities as prescribed by the Non-life Insurance Act under the supervision of the OIC.

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 H1/2022, 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

		-----------Year Ended 31 December ----------			
	Jan-Jun 2023[1]	2022	2021	2020	2019
Gross premium written	16,270	32,575	29,410	25,399	21,846
Net premium written	5,290	8,135	8,184	7,671	6,531
Net earned premium	4,524	8,445	7,809	7,573	5,620
Fee and commission income on reinsurance	2,696	5,701	4,839	4,362	3,827
Investment income	485	693	864	755	1,007
Other income	48	310	102	51	92
Gross claim and loss adjustment expenses	6,924	16,925	16,240	13,414	8,688
Net claim and loss adjustment expenses	3,135	7,208	5,460	4,218	2,904
Commission and brokerage expenses	1,543	2,803	2,298	2,237	2,226
Other underwriting expenses	869	1,600	1,623	1,529	1,298
Operating expenses	965	2,026	1,974	2,203	1,879
Finance costs	0	0	0	0	0
Expected credit loss	1	(2)	1	0	0
Profit for the year	1,001	1,238	1,843	2,065	1,863
Cash and cash equivalent	1,669	2,907	2,474	3,773	1,828
Premium receivables - net	7,631	6,159	4,474	3,611	4,063
Reinsurance assets - net	19,418	21,093	18,305	15,521	12,597
Reinsurance receivables	4,861	3,694	4,466	3,174	2,978
Investment assets	16,201	15,026	15,071	13,026	13,992
Other assets	6,474	6,051	4,864	5,368	5,442
Total assets	56,254	54,931	49,653	44,472	40,900
Insurance contract liabilities	26,236	27,457	24,253	21,445	17,701
Loss reserves and outstanding claims	9,355	10,120	8,716	7,962	5,520
Unearned premium reserves	16,881	17,336	15,537	13,482	12,182
Premiums received in advance	7,317	6,697	5,403	5,926	7,240
Due to reinsurers	10,611	8,401	7,127	5,750	5,237
Debt issued and borrowings	0	0	0	0	0
Other liabilities	3,105	3,730	3,180	2,908	2,364
Total liabilities	47,268	46,285	39,963	36,029	32,543
Total shareholders' equity	8,986	8,646	9,690	8,443	8,358

Unit: %

		-----------Year Ended 31 December -----------			
	Jan-Jun 2023[1]	2022	2021	2020	2019
Loss ratio	69.3	85.4	69.9	55.7	51.7
Expense ratio[2]	15.1	8.6	13.5	21.2	28.0
Combined ratio	84.3	94.0	83.4	76.9	79.7
Ceding ratio	67.5	75.0	72.2	69.8	70.1
Investment income ratio[3]	10.7	8.2	11.1	10.0	17.9
Investment yields[4]	4.5	3.9	5.1	4.7	6.1
Return on average assets[5]	3.4	2.4	3.9	4.8	4.3
Return on average equities[5]	21.6	13.5	20.3	24.6	23.2
Return on revenue[6]	12.9	8.2	13.5	16.2	17.7
Capital adequacy ratio	202.1	206.6	246.3	260.0	320.1
Liquidity ratio[7]	189.4	175.7	199.6	209.0	283.8

[1] *Based on unaudited financial statements*

[2] *((Commission and brokerage expenses – Fees and commission income) + Other underwriting expenses + Operating expenses + Service cost + Expected credit losses))/Net earned premium*

[3] *(Income on investments (net) + Gains on investments + Gains on the revaluation of investments)/Net earned premiums*

[4] *(Income on investments (net) + Gains on investments + Gains on the revaluation of investments)/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] *(Cash and cash equivalents + Invested assets)/Gross claim reserves*

RELATED CRITERIA

- Insurance Rating Methodology, 9 September 2022
- Group Rating Methodology, 7 September 2022

Dhipaya Insurance Public Company Limited (TIP)

Financial Strength Rating:	AAA
Rating Outlook:	Stable

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