THANACHART INSURANCE PLC

No. 184/2022
17 October 2022

FINANCIAL INSTITUTIONS

Financial Strength Rating:	AA-
Outlook:	Stable

Last Review Date: 22/11/21

FSR History:

Date	Rating	Outlook/Alert
22/11/21	AA-	Stable

Contacts:

Annop Supachayanont, CFA
annop@trisrating.com

Jantana Taveeratanasilp
jantana@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com

RATIONALE

TRIS Rating affirms the financial strength rating (FSR) on Thanachart Insurance PLC (TNI) at "AA-" with a "stable" outlook. The rating reflects TNI's status as an insulated entity under Thanachart Group (TGROUP), represented by Thanachart Capital PLC (TCAP, rated "A/Stable" by TRIS Rating). The stand-alone credit profile (SACP) of TNI is at "aa-", two notches above the group credit profile (GCP) of TGROUP and the company rating on TCAP.

The SACP reflects the industry risk profile of Thailand's non-life insurance industry, which we view as a prudentially regulated industry. It also reflects TNI's satisfactory business risk profile, anchored by its established market position as a top-10 non-life insurer and its expertise in motor insurance. The SACP also takes into account TNI's very strong financial risk profile, supported by good profitability, very strong capital, and abundant liquidity, underpinned by a strong risk management framework.

KEY RATING CONSIDERATIONS

A strategically important and insulated entity under TGROUP

In TRIS Rating's opinion, TNI is a strategically important entity of TGROUP. As of end-2021, TNI was 51% owned by TGROUP, 39% by Scotia Netherlands Holdings B.V. (BNS), and 10% by TMB Thanachart Bank (PLC) (TTB). The board of directors of TNI comprises directors with working experience with TGROUP and TTB. It includes one director from BNS and three independent directors.

We view TNI as an insulated entity under TGROUP, as we believe it is unlikely that TNI's financial strength would be impaired by a weakening credit profile of the group. TNI has limited operational, business, and financial linkages with the rest of the group. Even though there is some cross-selling of insurance products, each of TCAP's subsidiaries operates independently. TNI does not rely on financing from other members of TGROUP. There are also strong regulatory restrictions that prevent TNI from providing financial support to other entities of the group to an extent that would unduly impair TNI's SACP.

An established motor insurer

Our assessment of TNI's competitive position reflects its established franchise in motor insurance, supported by good underwriting performance and overall healthy profitability. TNI is a relatively large non-life insurer in the Thai market as measured by direct premiums with a market share of 3.7% as of mid-2022, ranked seventh out of a total of 52 non-life insurers. The company operates a strong franchise in motor insurance with a 4.8% market share in direct premiums in 2021, ranked sixth in the industry.

TNI operates a retail-focused strategy through an established distribution relationship with related companies of TGROUP, and an expanding network of leasing companies, brokers, and auto dealers nationwide. The company is gradually expanding beyond conventional motor insurance into newer areas of trucks and electric vehicles (EVs). TNI also offers non-motor products through these distribution channels, including personal accident (PA), credit protection, home and property, and travel accident (TA) insurance. In 2021, TNI's direct premiums from brokers accounted for 60% of the total, followed by bancassurance (36%) and direct (4%). Direct premiums comprised motor insurance (86%), PA (11%), fire (1%), and others (2%).

TNI's performance has proven resilient to adverse operating environments, thanks to its diversified retail exposure, consistent underwriting performance, and income-focused investment strategy. The company's relatively stable loss ratio, with the 2021 figure at 52.3%, reflects its underwriting expertise and well-managed claims. Operating efficiency has also been at a satisfactory level, with an expense ratio of 39.7% in the same period. TNI delivered overall satisfactory profitability, with a return on average equity (ROAE) of 13.7% in 2021. We expect higher interest rates to further benefit its income-focused investment portfolio, as the company allocates a larger proportion of its investments to corporate debt securities.

Very strong capital

We expect TNI to sustain a very strong capital adequacy ratio (CAR) over the next few years. The figure stood at 976% as of June 2022, the highest among Thai non-life insurers. However, TNI's total capital available (TCA) of THB5.81 billion is considered medium-sized by our metrics. Over the next few years, we expect TNI to maintain a 70% dividend pay-out ratio and generate an ROAE of 13%-15% per annum, driven by consistent underwriting performance and improving investment yields. We also forecast a strong growth in gross premium written (GWP) of 20% in 2022, after strong year-on-year (y-o-y) growth in the first half of 2022 (1H/2022). We expect the growth to normalise to the 7% level in 2023 and 2024.

Well-managed exposure contains capital volatility risk

We assess TNI's capital volatility risk to be limited, thanks to its prudent growth strategy, well-managed counterparty exposure to reinsurers with strong credit standings, and conservative investment portfolio. TNI has been able to sustain a relatively stable loss ratio over the past few years, thanks to its focus on the motor segment where its strong expertise lies, and careful expansion into new areas. The impact from the Coronavirus Disease 2019 (COVID-19) insurance was immaterial due to the company's limited exposure. TNI's growth in loss reserves, which has been commensurate with the growth in written premiums, is another positive development, in our view.

TNI collaborates closely with reinsurers when expanding into new product areas where it lacks full expertise, via knowledge-sharing and combined uses of quota-share and excess-of-loss (XOL) reinsurance. The latter helps mitigate the risk of major losses from catastrophe risk, where TNI conducts internal stress tests to simulate the magnitude of these losses. All reinsurance counterparties have strong credit standings, with a minimum credit rating of "A-" in the international rating scales. TNI's reinsurance assets as a percentage of equity increased from the previous year but remained modest at 14.2% as of mid-2022.

TNI's conservative investment portfolio reflects an income-focused investment strategy, a relatively large proportion of low-risk assets and low single-name exposure. Notwithstanding, in early 2022 the company revised its investment strategy by modestly increasing the investment allocation to corporate debt and equity securities. As of mid-2022, the portfolio comprised fixed deposits (30% of total investments), government and government-related securities (37%), and corporate debt securities (25%) with a minimum rating of "A-" on the national rating scales. The remainder was made up of domestic equities (4%), real-estate investment trusts (REIT) and infrastructure funds (IFF) (3%), and mutual funds (0.5%) with exposure to foreign equities.

Comprehensive risk management and governance

We do not see any deficiency in the company's risk management and governance framework. The company's risk management and governance 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). The frameworks outline scopes for risk management, responsibilities of the risk management committees, and relevant control functions, including actuary, compliance, and an internal audit. The process also covers all major aspects of insurance operations.

As an indication, TNI internally conducts strategic risk analysis, monthly risk monitoring, and multiple-scenario stress tests on an ongoing basis. The company regularly refines capital and liquidity stress-test assumptions and makes necessary adjustments to risk tolerance levels and risk responses. The tests apply consistent assumptions across scenarios with differing degrees of severity. In effect, they simulate the impacts of large claims from climate changes and pandemics, reinsurer's defaults, and volatile business environments and investment performance. The test assumptions are generally more conservative than those under the OIC-imposed stress tests for regulatory compliance, in our view.

Abundant liquidity

TNI has a strong liquidity position. The company's OIC-compliant liquidity ratio declined from 710% as of June 2021 but remained robust at 622% as of June 2022, well above the minimum requirement of 100%. TNI's investment portfolio comprises fixed deposits and liquid assets, including publicly traded government securities, private debt securities, equity securities, real-estate investment trusts, and infrastructure funds.

Highly regulated industry

Our risk assessment of the non-life insurance industry reflects its status as a prudentially 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

- Direct premium growth: 20% for 2022, 7% annually for 2023-2024.
- Loss ratio: 52%-54%.
- Expense ratio: 42%-44%.
- Investment yields: 2%-3%.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TNI will maintain its strong competitive position in motor insurance, whilst gradually diversifying into the non-motor insurance space. We also expect the company to maintain its very strong capital position, prudent risk management, and adequate liquidity.

RATING SENSITIVITIES

We could downgrade the FSR if there is a material deterioration in TNI’s capital or liquidity position that leads to a downward revision of the SACP of TNI. This could happen, for instance, after sustaining a large loss. Any evidence of a material deficiency in the risk management and governance could also put pressure on its SACP. As the FSR on TNI is capped at two notches above the GCP of TGROUP and the company rating on TCAP, a downgrade of the GCP of TGROUP and the company rating on TCAP could also result in a downgrade of the FSR on TNI.

We could revise the SACP upward if TNI is able to improve its competitive position, for instance, by materially expanding its market share in direct premiums, whilst maintaining good underwriting results and profitability, very strong capital, and prudent risk management. However, an upward revision of SACP above the current level would not result in an upgrade on the FSR unless the GCP of TGROUP and the company rating on TCAP are also upgraded.

COMPANY OVERVIEW

TNI was established as a juristic person, i.e., a limited company, and received insurance licenses covering all types of insurance products in 1997. TNI subsequently became a public company in 2012. TNI was one of Thailand’s top-ten non-life insurance companies in 2021 by total written premiums. The company’s services cover non-life insurance, including motor insurance, fire insurance, accident insurance, miscellaneous insurance, and investment insurance. TNI serves both personal line customers and institution line customers. The majorities of the customers are personal line customers with the sum insured not exceeding THB5 million. TNI offers products and services through a wide variety of distribution channels, including banks, financial institutions, non-life insurance agents, and sales networks nationwide.

Thailand’s non-life insurance industry is highly fragmented, with the aggregate direct premiums 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 1H/2022 totalled THB132.7 billion, a 2.1% y-o-y growth, compared with 4%-5% annual growth over the past few years. Of the total direct premiums in 1H/2022, 57% were motor, 36% miscellaneous, 4% fire, and 3% marine. Of the miscellaneous insurance, most relate to personal accident and health insurance. The overall loss ratio has generally been relatively stable at about 50% with the exception of a surge to 176% in 2011 during the major floods. However, due to the large claims from COVID-19 policies, the loss ratio surged to 121% in H1/2022. The COVID-19 policies have led Thai insurers to report aggregate net losses of THB45 billion in 1H/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 177% as of March 2022, compared with the regulatory minimum requirement of 140%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		---------------Year Ended 31 December ------------			
	Jan-Jun 2022[1]	2021	2020	2019	2018
Gross premium written	4,851	8,334	8,682	8,368	7,987
Net premium written	4,125	7,688	7,750	6,965	7,018
Net earned premium	3,922	7,775	7,271	6,963	6,951
Fee and commission income on reinsurance	222	194	283	398	281
Investment income	55	169	250	1,016	370
Other incomes	4	8	20	13	15
Gross claim and loss adjustment expenses	2,217	4,479	4,540	4,810	4,309
Net claim and loss adjustment expenses	1,978	4,065	3,769	3,986	3,911
Commission and brokerage expenses	813	1,406	1,467	1,418	1,336
Other underwriting expenses	441	769	650	396	340
Operating expenses	493	912	849	785	737
Finance costs	3	6	7	0	0
Expected credit loss	(17)	25	147	0	0
Income taxes	100	195	190	356	251
Profit for the year	392	768	745	1,449	1,042
Cash and cash equivalent	1,021	529	163	1,091	570
Premium receivables - net	596	755	664	672	622
Reinsurance assets - net	808	465	589	954	707
Reinsurance receivables	2	4	1	9	15
Investment assets	11,781	11,517	12,437	11,294	11,615
Other assets	1,818	1,636	1,500	1,185	968
Total assets	16,026	14,906	15,354	15,205	14,496
Insurance contract liabilities	6,861	6,152	6,268	6,077	5,729
Loss reserves and outstanding claims	2,051	1,847	1,816	1,782	1,590
Unearned premium reserves	4,810	4,305	4,452	4,295	4,139
Premiums received in advance	1,564	1,524	1,555	1,852	1,726
Due to reinsurers	676	426	604	759	542
Debt issued and borrowings	0	0	0	0	0
Other liabilities	1,221	1,307	1,197	1,195	740
Total liabilities	10,322	9,409	9,624	9,883	8,737
Total shareholders' equity	5,704	5,497	5,730	5,322	5,759

Unit: %

		------------Year Ended 31 December ------------			
	Jan-Jun 2022[1]	2021	2020	2019	2018
Loss ratio	50.4	52.3	51.8	57.2	56.3
Expense ratio	44.5	39.7	40.8	37.3	34.7
Combined ratio	95.0	92.0	92.6	94.6	91.0
Ceding ratio	15.0	7.7	10.7	16.8	12.1
Investment income ratio[2]	1.4	2.1	3.4	14.6	5.3
Investment yields[3]	0.9	1.4	2.1	8.9	3.3
Return on average assets[4]	5.1	5.1	4.9	9.8	7.5
Return on average equities[4]	14.0	13.7	13.5	26.2	18.4
Return on revenue	11.7	11.8	11.9	21.5	17.0
Capital adequacy ratio	976.4	1,291.6	1,458.0	1,045.1	808.9
Liquidity ratio	622.9	651.0	690.5	693.0	763.6

[1] *Based on unaudited financial statements*
[2] *(Gain (loss) on financial instruments + Fair value gain (loss) on financial instruments)/Net earned premium*
[3] *(Gain (loss) on financial instruments + Fair value gain (loss) on financial instruments)/Average investment in securities; Annualised*
[4] *Annualised*

RELATED CRITERIA

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

Thanachart Insurance PLC (TNI)

Financial Strength Rating:	AA-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000