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DHIPAYA INSURANCE PUBLIC COMPANY LIMITED

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FINANCIAL INSTITUTIONS

Financial Strength Rating:	AAA
Outlook:	Stable

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RATIONALE

TRIS Rating assigns a financial strength rating (FSR) of "AAA" with a "stable" outlook to 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 assess Thailand's insurance sector as a low-risk sector, reflecting the tight regulations and close supervision.

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 3-5-year restructuring plan. The plan seeks to reorganise the group's businesses into core insurance business, insurance supporting business, and other businesses.

As of September 2022, 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 will prevent TIP from supporting TIPH and other group entities financially if such support were to unduly impair TIP's capital strength.

Diversified leader in 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 10.9% in 2021, ranked second in the Thai non-life insurance industry.

The company is the top underwriter in non-motor insurance with the highest market share in direct written premium of 19.8% in 2021. The company further commands the largest market share in accident and health (A&H), other miscellaneous, and fire insurance in the same period. The company has also secured a niche market position in the motor insurance segment with a 4% share since 2021.

In our view, TIP has demonstrated resilience to adverse business and external conditions, thanks to its diversified exposure, prudent underwriting practices, and effective uses of reinsurance. TIP's diversified sources of earnings include strong underwriting profits, meaningful earnings contributions from fee and commission income from reinsurance, and relatively stable investment yields. TIP underwrites both commercial- and personal-line businesses. The key contributors to underwriting profits comprised personal accident (42%), miscellaneous (22%), fire (21%), and motor insurance (13%) in 2016-2021.

Favourable distribution network

We assess TIP's insurance distribution network as favourable. 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 future investments in financial innovation and digital platforms are aligned to further strengthen TIP's distribution.

Sound profitability

TIP's profitability has been strong relative to its peers, with a return on average equity (ROAE) of 20%-25% in 2016-2021. Although we estimate its ROAE will drop to about 15% in 2022 due to the large claims from Coronavirus Disease 2019 (COVID-19) policies, we expect this to be temporary. We estimate ROAE to return to a normalised level of 20% in 2023-2024. The high ROAE in the past has been driven by the company's healthy underwriting performance with a combined ratio averaging around 80% in 2016-2020, sizeable reinsurance commissions due to a high ceding ratio, and investment yields of 5%-6% per year.

Like other non-life insurers, TIP paid out large COVID-19 claims, causing the overall loss ratio to rise to 70% in 2021 and 87% during the first nine months of 2022. However, TIP's COVID-19 insurance policies only pay for claims related to IPD (In-patient Department) medical expenses for severe cases, of which a major portion is covered by quota-share reinsurance. The majority of the COVID-19 claims continued only until July 2022, as the company stopped underwriting COVID-19 insurance covering medical expenses in July 2021.

Strong capital buffer

TIP will likely maintain a strong capital ratio (CAR) over the next few years. Compared with peers, its total capital available (TCA), amounting to THB7.2 billion as of September 2022, is considered medium-sized based on TRIS Rating's criteria. The company's CAR stood at a strong 220% for the same period, after payment of an interim dividend of THB300 million in September 2022. Over the medium term, we estimate TIP's CAR will remain above 240%, assuming the company maintains a 50% dividend payout ratio. We also expect the growth in gross written premium (GWP) to normalise to 5%-6% per annum from 2023 onward, following the surge to 16% per annum in 2020-2021 and flat growth in 2022. Our assumptions also incorporate an overall loss ratio normalising in the 50%-55% range in 2023-2024, after approaching 80% in 2022 from the large COVID-19 claims.

Limited capital volatility risk

We expect increasing 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 behavioural profiles of target markets allows TIP to sell insurance policies with less price pressure. The company also has established working relationships and expertise sharing with reinsurers that support joint product development.

Compared with peers, TIP uses reinsurance more extensively to operate within maximum retention limits, allowing it to increase underwriting capacity and lower the volatility of its underwriting performance. To effectively monitor reinsurance counterparty risks, the company regularly conducts internal monitoring of credit ratings, CAR, and exposure concentration limits of each reinsurer. Usage of reinsurance typically includes proportional treaties for the capacity sharing of identical risks. The company also engages in multiple non-proportional treaties and facultative reinsurance to further mitigate risk from exposure to catastrophic and idiosyncratic risks. The company's major net underwriting exposure, including personal accident (PA), motor and property insurance, is also generally diversified by nature.

In terms of investment, we also expect limited capital volatility from TIP's investment portfolio thanks to income-focused investment strategies. TIP segments its investments by purposes, including working capital, asset-liability management for insurance claims, yield enhancement, and surplus management. The first two segments, comprising cash, money-market instruments, government securities, and corporate debentures, should continue to make up around half of the company's investment portfolio over the next two to three years. The investment process adheres to exposure limits for each asset class, minimum credit ratings 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 monthly strategic risk control and monitoring of key risk indicators (KRIs). 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 its risk exposure, in addition to OIC's standard capital adequacy requirements.

Multiple-scenario stress tests are also performed regularly to ensure a CAR is above its risk appetite of 180%. The stress tests simulate the impacts of large claims from major natural catastrophes as well as uncontrollable pandemic events and 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 liquidity ratio of TIP stood at 165.6% as of September 2022. Besides cash, money-market instruments, and deposits, TIP invests entirely 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.

Prudently 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. 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 (2022-2024)

- Direct premium growth: flat in 2022; 5%-6% in 2023-2024.
- Loss ratio: 77%-80% in 2022; 50%-55% in 2023-2024.
- Expense ratio: 13%-15% in 2022; 21%-23% in 2023 and 2024.
- Investment yield: around 4%-5%.

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 the first half of 2022 (H1/2022) totalled THB132.7 billion, a 2.1% 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, 57% were motor, 36% miscellaneous, 4% 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% following 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 led to Thai insurers reporting aggregate net losses of THB45 billion in H1/2022 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-Sep 2022[1]	2021	2020	2019	2018
Gross premium written	21,790	29,410	25,399	21,846	20,522
Net premium written	6,466	8,184	7,671	6,531	4,546
Net earned premium	6,375	7,809	7,573	5,620	4,533
Fee and commission income on reinsurance	3,971	4,839	4,362	3,827	3,879
Investment income	554	864	755	1,007	870
Other income	220	102	51	92	102
Gross claim and loss adjustment expenses	12,974	16,240	13,414	8,688	8,982
Net claim and loss adjustment expenses	5,519	5,460	4,218	2,904	2,101
Commission and brokerage expenses	2,052	2,298	2,237	2,226	2,327
Other underwriting expenses	1,174	1,623	1,529	1,298	1,202
Operating expenses	1,391	1,974	2,203	1,879	1,897
Finance costs	0	0	0	0	0
Expected credit loss	(2)	1	0	0	0
Profit for the year	806	1,843	2,065	1,863	1,531
Cash and cash equivalent	1,983	2,474	3,773	1,828	2,361
Premium receivables - net	6,454	4,474	3,611	4,063	3,023
Reinsurance assets - net	18,163	18,305	15,521	12,597	14,299
Reinsurance receivables	4,563	4,466	3,174	2,978	2,847
Investment assets	14,874	15,071	13,026	13,992	15,343
Other assets	6,064	4,864	5,368	5,442	7,088
Total assets	52,101	49,653	44,472	40,900	44,961
Insurance contract liabilities	24,473	24,253	21,445	17,701	18,943
Loss reserves and outstanding claims	10,089	8,716	7,962	5,520	7,807
Unearned premium reserves	14,384	15,537	13,482	12,182	11,136
Premiums received in advance	6,603	5,403	5,926	7,240	9,714
Due to reinsurers	9,555	7,127	5,750	5,237	5,402
Debt issued and borrowings	0	0	0	0	0
Other liabilities	2,889	3,180	2,908	2,364	3,229
Total liabilities	43,520	39,963	36,029	32,543	37,288
Total shareholders' equity	8,581	9,690	8,443	8,358	7,673

Unit: %

		---------------Year Ended 31 December -------------			
	Jan-Sep 2022[1]	2021	2020	2019	2018
Loss ratio	86.6	69.9	55.7	51.7	46.3
Expense ratio[2]	10.1	13.5	21.2	28.0	34.1
Combined ratio	96.7	83.4	76.9	79.7	80.5
Ceding ratio	70.3	72.2	69.8	70.1	77.8
Investment income ratio[3]	8.7	11.1	10.0	17.9	19.2
Investment yields[4]	4.1	5.1	4.7	6.1	4.9
Return on average assets[5]	2.0	3.9	4.8	4.3	3.2
Return on average equities[5]	11.1	20.3	24.6	23.2	20.1
Return on revenue[6]	7.3	13.5	16.2	17.7	16.3
Capital adequacy ratio	219.9	246.3	260.0	320.1	308.1
Liquidity ratio[7]	165.6	199.6	209.0	283.8	224.7

[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 PLC (TIP)

Financial Strength Rating:	AAA
Rating Outlook:	Stable

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