THANACHART INSURANCE PLC

No. 208/2021
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FINANCIAL INSTITUTIONS

Financial Strength Rating:	AA-
Outlook:	Stable

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RATIONALE

TRIS Rating assigns a financial strength rating (FSR) of "AA-" with a "stable" outlook to Thanachart Insurance PLC (TNI). The rating reflects TNI's status as an insulated entity under Thanachart Capital Group (TCAP Group), 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 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 TCAP Group

In TRIS Rating's opinion, TNI is a strategically important entity of TCAP Group. As of 30 June 2021, TNI was 51% owned by TCAP Group and 49% owned by Scotia Netherlands Holdings B.V. (BNS). The Board of Directors at TNI comprises directors with working experience with TCAP Group and TMB Thanachart Bank PLC (TTB). There are two directors from BNS and three independent directors with expertise in technology and business development, which align with and complement the company's strategic directions.

We view TNI is an insulated entity under TCAP Group. As such, we believe it is unlikely that TNI's FSR would be directly impaired by a credit stress of the group. We attribute this to TNI's solid financial risk profile and the company's limited operational, business, and financial linkages with the rest of the group. Each of TCAP's subsidiaries operates in different businesses with distinct customer segments. TNI does not rely on financing from other members of TCAP Group. There are also strong regulatory restrictions that prevent TNI from supporting the group's entities financially to an extent that would unduly impair TNI's SACP.

A prudentially regulated industry

Our risk assessment of the non-life insurance industry reflects its status as a prudentially regulated industry under the supervision of the Office of Insurance Commission (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.

We expect an overall moderate level of premium growth and profitability for the Thai non-life insurance industry over the next few years. This reflects slow domestic economic growth and strong price competition in certain conventional insurance products, such as motor and property insurance. The industry is dominated by a relatively small number of large players as indicated by the top 20 largest non-life insurers out of a total of 56 commanding a market share in direct premiums of over 80% in 2020. Furthermore, the larger players have generally established stronger relations with key distribution partners.

An established motor insurer

Our assessment of TNI's competitive position reflects its established franchise in motor insurance, with good underwriting performance and overall healthy profitability. TNI is a relatively large non-life insurer as measured by size of direct premiums with a market share of 3.3% in 2020, ranked 9th out of a total of 56 non-life insurers. The company operates a strong franchise in motor insurance with a 5% market share in direct premiums in 2020, ranked 6th in the industry.

TNI operates a retail-focused business strategy. The company expects to expand its non-motor niches, including personal accident and health insurance, alongside motor insurance as its flagship business. TNI's direct premiums from voluntary motor insurance made up 82% of the total during the first half of 2021, followed by 11% of personal accident insurance.

TNI's underwriting performance has been good with a combined ratio consistently below the industry average over the past few years, thanks to well-managed claims and low operating expenses. TNI's loss ratio of 52%-57% over the past few years was also consistently below that of some other major motor insurers. Its return on average equity (ROAE) of 13.5% in 2020 is assessed as healthy relative to the industry. Non-motor insurance has contributed a larger share of TNI's underwriting profits in recent years.

We expect TNI's established distribution relationship with financial institutions, insurance brokers, and auto dealerships will help sustain premium contributions to TNI over the next few years. In 2020, direct premiums from broker channels represented the largest proportion at 56% of the total, followed by bancassurance (38%) and direct (4%). The company has also taken a careful approach to selecting new distribution partners by prioritising strategic alignments over maximising sales volume.

Very strong capital

TNI's capital adequacy ratio stood at a very strong 1,313% as of June 2021. The figure was the highest among Thai non-life insurers. We expect the company to be able to sustain very strong capital over the next few years. During this period, we assume a 70% dividend payout, a moderate premium growth of 5%-10% per year, a combined ratio of around 93%-96%, with a loss ratio normalising around 53%-55%. We expect growth in operating expenses to be driven by continued investment in information technology (IT) and digital platforms.

Well-managed exposure contains capital volatility risk

We assess TNI's capital volatility risk to be limited, thanks to its careful growth strategy, well-managed counterparty exposure to reinsurers with strong credit risks, and conservative investment portfolio. The company continues to focus on segments where it has strong expertise, such as motor insurance. This has resulted in a relatively stable loss ratio over the past few years. A growth in loss reserves, which has been commensurate with a 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 uses of quota-share reinsurance. Selective use of excess-of-loss reinsurance also helps mitigate the risk of major losses from catastrophy risk. All reinsurance counterparties have strong counterparty credit standings, with a minimum credit rating of "A-" in international rating scales. TNI's reinsurance assets as a percentage of equity stood at a modest 7.7% as of mid-2021.

Since the Coronavirus Disease 2019 (COVID-19) fallout, TNI has managed its investments under a conservative strategy to contain volatility in its portfolio. A sizable proportion of the investments is diversified across relatively low-risk assets. As of mid-2021, these included fixed deposits (38% of total investments), government securities (36%), and private debt securities (19%) with a minimum rating of "A-" in national rating scales. The remaining 7% comprised domestic equities, real-estate investment trusts (REIT), infrastructure funds (IFF), and mutual funds with exposure to foreign equities. Single-name exposure in equity and private debt securities was also low.

Comprehensive risk management and governance

We do not see any deficiency in the risk management and governance framework that poses additional risks to TNI. The risk management and governance at TNI are in line with the Enterprise Risk Management (ERM) and Own Risk and Solvency Assessment (ORSA) frameworks specified by the 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. Key risk categories include capital, underwriting, credit, liquidity, and market risks. There are clearly defined trigger points, tolerance levels, and responses to each identified vulnerability. Additionally, the internal stress tests apply consistent assumptions across scenarios with differing degrees of severity. In our view, these assumptions are generally more conservative than those under the OIC-imposed stress tests for regulatory compliance.

Abundant liquidity

TNI has a strong liquidity position. The company's OIC-compliant liquidity ratio stood at a high 710% as of June 2021, 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.

BASE-CASE ASSUMPTIONS (2021-2023)

- Direct premium growth: 5%-10%
- Loss ratio: 52%-57%
- Expense ratio: 40%-42%
- Investment yields: 2.6%-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. At the current rating, we expect the company to maintain its very strong capital on a sustained basis. We also expect TNI to maintain its prudent risk management and adequate liquidity.

RATING SENSITIVITIES

We could revise the FSR downward if there is a material deterioration in TNI's capital or liquidity position that leads to a downgrade of the SACP. This could happen, for instance, after a sustained 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 rating on TCAP, a downgrade of the 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. An upgrade on the FSR could happen only if both the SACP on TNI and the rating on TCAP are 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 2020 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 majority of the customers, around 98% of the total, 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		---------------Year Ended 31 December ------------			
	Jan-Jun 2021[1]	2020	2019	2018	2017
Gross premium written	3,994	8,682	8,368	7,987	7,506
Net premium written	3,699	7,750	6,965	7,018	7,047
Net earned premium	3,902	7,271	6,963	6,951	6,866
Fee and commission income on reinsurance	89	283	398	281	133
Investment income	87	250	1,016	370	361
Other income	0	20	13	15	23
Gross claim and loss adjustment expenses	2,279	4,540	4,810	4,309	3,854
Net claim and loss adjustment expenses	2,055	3,769	3,986	3,911	3,798
Commission and brokerage expenses	669	1,467	1,418	1,337	1,271
Other underwriting expenses	382	650	396	340	310
Operating expenses	448	849	785	737	702
Finance costs	3	6	0	0	0
Expected credit loss	27	147	0	0	0
Profit for the year	392	745	1,449	1,042	1,051
Cash and cash equivalent	432	163	1,091	570	685
Premium receivables - net	422	664	672	622	439
Reinsurance assets - net	429	590	963	722	415
Investment assets	11,860	12,437	11,294	11,615	11,021
Other assets	1,512	1,501	1,185	968	893
Total assets	14,656	15,354	15,205	14,496	13,454
Insurance contract liabilities	5,872	6,267	6,077	5,729	5,475
Loss reserves and outstanding claims	1,716	1,816	1,782	1,590	1,684
Unearned premium reserves	4,156	4,452	4,295	4,139	3,791
Premiums received in advance	1,569	1,555	1,852	1,726	1,444
Due to reinsurers	481	604	759	542	232
Debt issued and borrowings	0	0	0	0	0
Other liabilities	1,172	1,197	1,195	739	735
Total liabilities	9,094	9,624	9,883	8,737	7,885
Total shareholders' equity	5,562	5,730	5,322	5,759	5,568

[1] *Based on unaudited financial statements*

Unit: %

	Jan-Jun 2021[1]	2020	2019	2018	2017
		-------------Year Ended 31 December -------------			
Loss ratio	52.7	51.8	57.2	56.3	55.3
Expense ratio	38.4	40.8	37.3	34.7	33.3
Combined ratio	91.1	92.6	94.6	91.0	88.6
Ceding ratio	7.4	10.7	16.8	12.1	6.1
Investment income ratio[2]	2.2	3.4	14.6	5.3	5.3
Investment yields[3]	1.4	2.1	8.9	3.3	3.4
Return on average assets[3]	5.2	4.9	9.8	7.5	8.2
Return on average equities[3]	13.9	13.5	26.2	18.4	20.0
Return on revenue	12.1	11.9	21.5	17.0	17.6
Capital adequacy ratio	1,313.0	1,458.0	1,045.1	808.9	819.9
Liquidity ratio	710.0	690.5	693.0	763.6	692.9

[1] *Based on unaudited financial statements*
[2] (*Gain (loss) on financial instruments + Fair value gain (loss) on financial instruments)/net earned premium*
[3] *Annualised*

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Insurance Rating Methodology, 17 September 2019

Thanachart Insurance PLC (TNI)

Financial Strength Rating:	AA-
Rating Outlook:	Stable

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