

# Thai Life Insurance Public Company Limited

## Full Rating Report

### Ratings

Insurer Financial Strength	BBB+
National Insurer Financial Strength	AAA(thai)

### Sovereign Risk

Long-Term Foreign-Currency IDR	BBB+
Long-Term Local-Currency IDR	BBB+

### Outlooks

Insurer Financial Strength	Stable
National Insurer Financial Strength	Stable

### Financial Data

#### Thai Life Insurance Public Company Limited

	30 Sep 16
Gross premium written (THBm)	58,329
Total assets (THBm)	332,734
Pre-tax return on assets (%)	2.8
Return on adjusted equity (%)	16.4
Adjusted equity to total assets (%)	14.6
Liquid assets/policyholders' liabilities (%)	97.7

### Disclosure

Thai Life Insurance Public Company Limited owns 10% of Fitch Ratings (Thailand) Limited. No shareholder, other than Fitch Ratings Limited of the UK, is involved in the day-to-day operations of, or credit rating reviews undertaken by, Fitch Ratings (Thailand) Limited.

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### Key Rating Drivers

**Extensive Market Franchise:** Thai Life Insurance Public Company Limited (TLI) maintains its position as the third-largest life insurer in Thailand in terms of total premium written, with a 14.1% market share at end-3Q16. The company's distribution channels are steadily expanding. It has Thailand's second-largest agency force; it is also been strengthening non-agency channels through several bancassurance agreements and new partnership contracts it acquired from Thai Cardif Life Assurance Company Limited in late 2015.

TLI is majority-owned by the Chaiyawan family, which has been responsible for the firm's management and strategy since 1970. Fitch Ratings believes Meiji Yasuda Life Insurance Company(MYL,IFS:A/Negative), by holding a 15% stake in TLI, could provide TLI with technical and operational supports, and enhance access to MYL's Japanese customers in Thailand.

**Solid Capitalisation Maintained:** TLI's risk-based capital (RBC) ratio of 376% at end-2015 and 313% at end-3Q16 remained well above the regulatory minimum of 140%. TLI's Prism FBM grade was lowered a level to 'Very Strong', from the highest 'Extremely Strong',<sup>1</sup> based on the company's end-3Q16 financial results, due to higher insurance liabilities resulting from a low-yield environment and more investment in equities and corporate bonds.

Fitch believes the company will still remain well-capitalised, and has strong capital buffer amidst the challenging market environment and tightening regulatory capital requirement from scheduled newly introduced RBC Phase II in Thailand.

**Liquid Investment Portfolio:** TLI's invested-asset allocation is liquid; fixed-income securities and deposits still accounted for 82% of its total portfolio at end-3Q16. Exposure to equities increased from previous year but was limited to about 10% in the corresponding period. Fitch believes TLI will maintain its prudent investment strategy and balance its investment returns and risks under the current low-interest-rate environment.

**Sound Financial Performance:** TLI's financial performance remains sound, supported by its prudent pricing policy, market-comparable growth in premium revenues, widening distribution capabilities through recent acquired channels, and consistent investment returns. TLI's three-year (2013-2015) average pre-tax ROA, at 2.4%, compares well against that of its regional peers. Its gross premiums written rose moderately at about 10% (annualised) at end-3Q16, higher than industry's growth forecasted by Thai Life Assurance Association of 7% in 2016.

### Rating Sensitivities

**Softening Capital Buffer, Profitability:** Key triggers for a downgrade include a drop in TLI's RBC ratio to below 250% for an extended period, and deterioration in profitability, as reflected by a pre-tax ROA that stays below 1%. In addition, a weakened score using the Prism FBM measure of capital could be a catalyst for negative rating action.

**Thailand's Sovereign Rating:** We are likely to lower TLI's IFS rating if Thailand's Long-Term Local-Currency IDR of 'BBB+' with a Stable Outlook were downgraded.

**Near-term Upgrade Unlikely:** An upgrade is unlikely in the near term as TLI's International IFS rating is at the same level as Thailand's Long-Term Local-Currency IDR. TLI's National IFS rating is already at the highest-possible level.

<sup>1</sup> Prism FBM is Fitch's enhanced risk-based capital model and the primary proprietary tool we use to assess the capital strength of insurers in EMEA and the Asia Pacific

## Business Profile

### Expanding Market Franchise

- Third-largest domestic life insurer
- Strong agency forces
- Expanding distribution channels
- Eyeing on international business

### Third-Largest Domestic Life Insurer

TLI is Thailand's third-largest life insurer by total premiums and new business premiums, with a market share of 14.1% and 14.3%, respectively. The company continues to close the gap on Thailand's largest life insurer by premium AIA Company Limited, Thailand Branch (National IFS AAA(tha)/Stable). In December 2015, TLI acquired Thai Cardif Life Assurance Co., Ltd. (TCLife), a local life insurer, the 15<sup>th</sup> largest, with a 0.6% market share at end-2015; this allowed TLI to access new non-agency channels, previously owned by TCLife.

### Market Share of the Top-Six Life Insurers in Thailand

New business premium market share	Total premium market share					
	2014	2015	Sep 16	2014	2015	Sep 16
(%)						
AIA	15.3	15.3	14.8	22.8	22.2	20.5
MTL <sup>a</sup>	20.7	22.1	21.7	14.9	16.3	17.6
TLI	8.7	10.3	14.3	12.5	12.7	14.1
SCBLife <sup>a</sup>	10.7	10.2	8.5	9.6	9.9	10.3
KTAL <sup>a</sup>	11.4	10.7	9.5	9.7	10.2	10.0
BLA <sup>a</sup>	11.2	7.9	5.9	10.3	8.3	7.3

<sup>a</sup> MTL = Muang Thai Life Assurance; SCBLife = SCB Life Assurance; BLA = Bangkok Life Assurance; KTAL = Krungthai AXA Life Insurance  
Source: Thai Life Assurance Association

The company continues to expand the range of insurance products it offers, such as protection and health-care riders, which has become more well-known in Thailand as awareness increases. The 'Thai Life Insurance' brand recognition has been widely gained through media coverage and affinity programmes, strengthening the company's presence in Thailand.

### Strong Agency Force

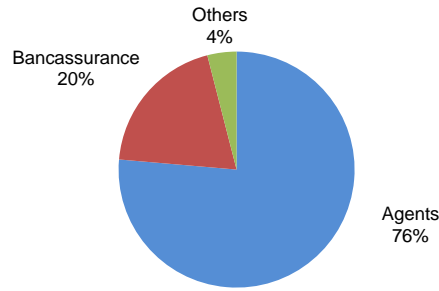
TLI's agency distribution channels – the second-largest in Thailand – contributed 76% of the company's total premiums at end-3Q16. TLI says members of its agency force, which the company styles as 'life-long partners' for policyholders, will be key drivers in the company's premiums growth in the foreseeable future. Agency remains Thailand's largest distribution channel, according to Thai Life Assurance Association, which accounted for 48.5% of the industry's total premiums of THB 414bn at end-3Q16.

### Related Criteria

[Insurance Rating Methodology \(September 2016\)](#)

**TLI Distribution Breakdown**

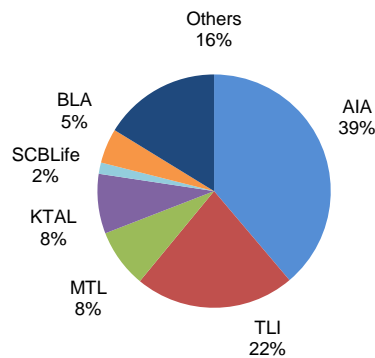
(By total premiums) End-3Q16



Source: Thai Life Assurance Association

**Agency Channel Market Share**

(By total premiums) End-3Q16



Source: Thai Life Assurance Association

Fitch expects a large and long-established pool of agents could bolster TLI’s capability to acquire new life insurance policies due to the nature of life insurance product that a policyholder needs in-person interactions and after-sale services. Hence, we believe the company’s business, to some extent, is likely to be spared from impact of rival modern distribution channels such as Internet sales, mobile application or telemarketing.

**Expanding Distribution Channels**

TLI has also been expanding its other distribution channels. The company has bancassurance agreements in place with Bank of Ayudhya Public Company Limited (BAY, A-/Negative), CIMB Thai Bank Public Company Limited (CIMBT, AA(thai)/Stable), Industrial and Commercial Bank of China (Thai) Public Company Limited (ICBCT, AAA(thai)/Stable), TISCO Bank Public Company Limited, Government Housing Bank (GHB, AAA(thai)/Stable) and its associate company, the Thai Credit Retail Bank Public Company Limited. Bancassurance products include endowment, health riders and Mortgage Reducing Term Assurance (MRTA).

Management said numerous bancassurance partnerships could reduce concentration risk to any certain counterparty. In addition, TLI is working on a new platform to register its clients’ insurance and other invested accounts. This application would enable its agents to monitor the overall investment exposure of any policyholder, in turn, helping them to better provide meaningful advice and to support the company’s new unit-linked products.

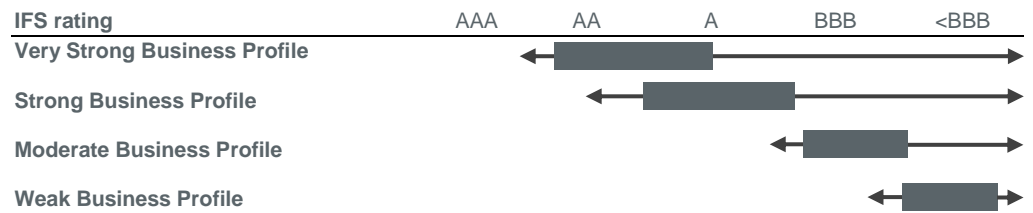
Fitch believes TLI’s broader distribution capabilities into non-agency channels would support its long-term growth and business profile. The recent acquisition of TCLife also allowed TLI to enjoy TCLife’s existing partnership with several major motor leasing and consumer finance companies in Thailand. However, TLI’s total premiums market share had only improved marginally due to TCLife’s small size.

**Eyeing on International Business**

TLI says it expects to expand its international presence amongst member countries of the Association of South-east Asian Nations (ASEAN), particularly in Cambodia-Laos-Myanmar-Vietnam Region (CLMV region). Fitch believes successful expansion will strengthen the company’s profile by improving its business diversification and enlarging its operating scale.

TLI has a representative office in Yangon, Myanmar. TLI says it believes the Yangon office – even though it has not contributed to the company’s revenue due to Myanmar’s regulatory restrictions – will play a key role in supporting the company’s sales in the country, improving brand’s recognition amongst regulators and broadening the market.

**Ratings Range Based on Business Profile**



Source: Fitch

**Ownership is Neutral to the Rating**

The Chaiyawan family, which has been responsible for TLI’s management and strategy since the company’s 1970 reorganisation, owns 75.2% of TLI; MYL owns 15%. Family members hold key positions on the board, including the chairman and president. The management team consists of experienced executives, each with more than 10 years of industry experience.

TLI benefits from MYL’s support in risk management, product and sale. Leveraging on MYL’s Japanese background has allowed TLI to gain better access to Japanese corporations based in Thailand. Fitch views Industry insights and know-how of doing business TLI receives from this strategic partner should strengthen the company’s overall operational and technical capabilities. MYL’s senior executives are currently represented on TLI’s board and management meetings.

**Corporate Governance and Management**

Corporate governance and management are adequate and neutral to the rating. TLI’s 12-member board consists of three independent directors. Sub-committee includes Executive, Nomination and Remuneration, Audit, Risk management and Investment. Independent directors are members of the Audit and Nomination and Remuneration committee.

**Sovereign and Country Related Constraints**

Fitch rates Thailand's local-currency sovereign obligations at 'BBB+', with a Stable Outlook, and the Country Ceiling is 'A-'. The local-currency sovereign rating expresses the maximum limit for local-currency ratings of most, but not all, issuers in a given country. At current levels, the ratings of selected Thai insurance organisations and other corporate issuers could be constrained by sovereign or macroeconomic risks.

**Industry Profile and Operating Environment**

**Industry Considered Moderate Growth**

Asia Pacific (APAC) generally consists of developed and emerging markets. The majority of Fitch-rated APAC insurers in developed markets have IFS ratings in the 'A' category, while most insurers in emerging markets have IFS Ratings in the category of 'A' to 'BBB'.

Thai life insurers rated by Fitch have IFS Ratings in the 'BBB' category or higher. Major industry risks are economic conditions and regulations, although the impact from both has been limited and temporary. The industry has attained growth of 12.7% compound annual growth rate (CAGR) in life premiums in 2010-2015, attributed to an underpenetrated market, a change in demographics towards an ageing society, an expanding middle-income segment, tax-reduction benefits and a low-interest-rate environment.

More stringent regulations to control sales processes and promotions for insurance products are to be implemented to increase transparency and preventive measures against product forced selling in some channels, according to the Office of Insurance Commission. Thai life insurers are currently emphasising agent development on product knowledge and services that align with real customer needs.

The balance sheets of Thai life insurers are healthy, with almost zero leverage and low-risk investments. Low investment yields and pricing competition have had a moderate impact on earnings. Thailand's Office of Insurance Commission and Thai Life Assurance Association are currently working to standardise unit-linked insurance policies. This cooperation will ease the approval process and facilitate the launch of more unit-linked products.

Fitch believes the imminent regulatory changes will strengthen insurers' capitalisation, especially of the smaller ones. The regulatory RBC framework, first implemented in 2011, is set for an update to RBC Phase II, which is more aligned with global standards and more principle-based. Some of the key changes include higher charges on risky assets, inclusion of risk charges on operational and surrender risk, and a higher confidence level used to calibrate risk factors.

**APAC Ratings Range, Based on Industry Profile/Operating Environment**



<sup>a</sup> Consists of Australia, New Zealand, Hong Kong, Korea, Taiwan and Singapore

<sup>b</sup> Consists of the rest of the APAC ex-Japan regions, except the above mentioned markets

Source: Fitch

## Peer Analysis

## Financial Performance Well-comparable with Peers

TLI's financial fundamentals compare favourably with that of its peers. The company's ROAE, pre-tax ROA and capitalisation are well comparable against its peers. However, it is relatively small compared with that of its Fitch-rated peers in terms of asset size and capitalisation.

## Peer Comparison Table

(Currency)	IFS rating	Year	Return on adjusted equity (%)	Pre-tax return on assets (%)	Shareholders' equity to assets (%)	Gross premium (USDbn)	Total assets (USDbn)	Shareholders' equity (USDbn)	Regulatory RBC (%)
Thai Life Insurance	BBB+	2015	12.7	2.3	13.9	1.9	8.5	1.2	376
		3Q16	16.4	2.8	14.6	1.6 <sup>c</sup>	9.2 <sup>c</sup>	1.4 <sup>c</sup>	313
Muang Thai Life Assurance	BBB+	2015	21.6	3.3	12.0	2.4	8.2	1.0	449
		2Q16	23.1	3.5	12.3	1.4 <sup>c</sup>	9.2 <sup>c</sup>	1.1 <sup>c</sup>	443
Kyobo Life Insurance	A+	2015	8.8	0.5	8.2	6.6	78.5	6.4	267 <sup>a</sup>
China Life Insurance	A+	2015	11.4	2.1	13.3	56.1	376.9	50.3	329 <sup>b</sup>

<sup>a</sup> At end-1H16

<sup>b</sup> At end-1H16

<sup>c</sup> FX Rate THB-USD 36.09

Source: Company's financial statement, Fitch's calculation

**Capitalisation and Leverage**

	2011	2012	2013	2014	2015 Fitch's expectation	
Shareholder's equity to assets (%)	10.5	11.6	14.3	14.6	13.9	TLI's capitalisation remains well above the regulatory requirement.
Operating leverage (x)	8.3	7.5	5.8	5.7	6.0	
Regulatory RBC (%)	N/A	361	442	474	376	
Asset leverage (x)	8.3	7.5	5.8	5.7	6.0	

Source: Company and Fitch's calculation

**Sound Capital Buffer**

- Prism indicates 'Very Strong' capital adequacy
- Sound capitalisation
- No external debt

**Prism Indicates 'Very Strong' Capital Adequacy**

TLI is scored on the Prism factor-based capital model (Prism FBM) a level lower – to 'Very Strong' from 'Extremely Strong' – based on its end-3Q16 financial results, due to a larger portion of investment in equities and corporate bonds and higher insurance liabilities amid the low-interest-rate environment. Fitch expects the company to maintain solid capitalisation to support its future business expansion amidst more competitive operating environment and stricter regulations in a near term.

The Prism FBM score represents the company's capital adequacy, is Fitch-defined total available capital (TAC) to meet target capital (TC) at given stress levels. TLI's investment risks and life insurance reserve risks are the biggest drivers of TC, from a TC perspective.

Fitch's TAC measure is used to calculate the Prism score. However, Fitch believes Fitch Core Capital (FCC) is also useful as this indicates the coverage of TC by 'very high quality' capital. Fitch's TAC considers value of in force (VIF) and subordinated debt in addition to FCC. If companies have a significant VIF or subordinated debt, the ratio of FCC/TAC will be lower, indicating a weaker quality of capital.

**Sound Capitalisation**

TLI's RBC ratio had dropped to 376% by end-2015, mainly because of a lower bond yield curve which caused rising insurance liabilities, and the regulator's revision of the criteria for determining asset charges for fixed-income securities.

By end-3Q16, the company's RBC ratio had dropped further to 313% due to a rising credit risk charge from its rising corporate bond investments, and a higher market-risk charge in response to its investments in equities and overall higher equities' market values during the year. In any case, its ratio remains much higher than the regulatory minimum of 140%.

Fitch believes well-managed capitalisation at TLI should facilitate expansion in a tightening regulatory environment.

**No External Debt**

TLI has no external debt, and management has said issuing debt is unlikely in the near term. Fitch sees the company's capitalisation as adequate to support its business expansion, owing to its capability to receive support from its shareholders.

**Financial Performance and Earnings**

(%)	2011	2012	2013	2014	2015 Fitch's expectation
Return on adjusted equity	17.0	18.3	13.3	13.8	12.7
Pre-tax return on assets	2.5	2.6	2.2	2.5	2.3
Change in gross premium (yoy)	9.0	22.0	12.7	14.6	11.7
Net Investment yield	4.7	4.6	4.5	4.5	4.1

Source: Company and Fitch's calculation

**Stable Profitability Maintained**

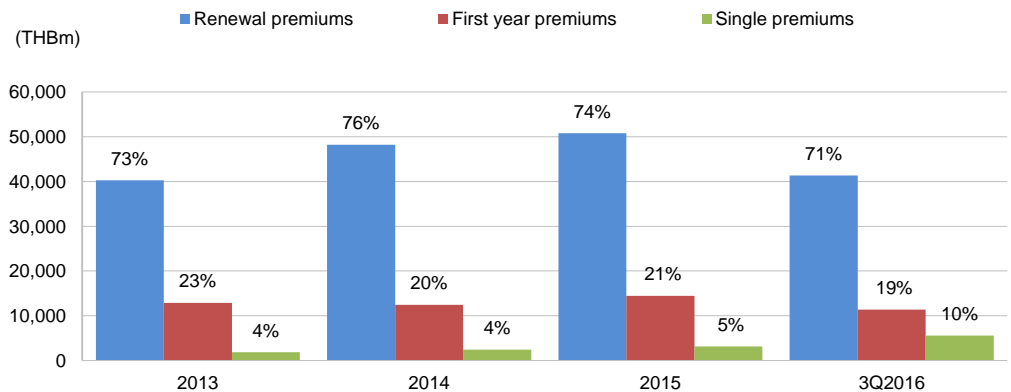
- Consistent growth with market
- Acceptable investment returns
- Traditional products support growth

**Consistent Growth with Market**

TLI states a vigilant pricing policy is in place to ensure the company's products can generate reasonable profit, and that it will implement repricing strategies promptly, if necessary. TLI's growth in gross premiums has been sustainable. Its three-year (2013-2015) average premium growth of 13.0% had been slightly faster than the industry's average of 11.1%. In addition, the company has maintained consistent growth in its pre-tax ROA, with three-year (2013-2015) growth averaging 2.4%, comparable with that of its regional peers.

TLI's gross premiums written had risen by 11.7% in 2015 and about 10.4% (annualised) by end-3Q16, higher than the industry growth of 6.7% and 7.0%, respectively, according to the Thai Life Assurance Association. Regular premiums in 2015-2016 continued to represent more than 90% of its total premiums, indicating sustainable growth in revenue.

**TLI's Premium Breakdown by Type**



Source: Thai Life Assurance Association

**Acceptable Investment Returns**

Low interest rate environment resulted in slightly lower investment yields TLI received in 2015 of 4.1% compared with about 4.5% in 2014. The company maintained investment income by adjusting allocation of invested assets to equities, investment-grade corporate bonds and real-estate investment trust units; however, the major investments have still been in government and state-owned enterprise securities.



### Traditional Products Support Growth

The company has a diversified product mix. Endowment represented the biggest contribution to TLI's annual premiums, equivalent at 74.5% in 2015, due to Thai policyholders' appetite on saving-type insurance products. The company aims to increase sales of protection and rider products to achieve higher profit margins and improve its Asset-Liability position.

#### TLI's Product Mix by Annual Premium Equivalent

(%)	2013	2014	2015
Basic Plan – Whole Life	8.3	11.1	7.9
Basic Plan – Endowment	70.7	66.3	74.5
Basic Plan – Others	4.0	4.0	3.3
Personal Accident & Riders	15.5	15.9	12.3
Group YRT	1.4	2.7	2.0
Annualised premium	100.0	100.0	100.0
Annualised premium (THBm)	13,524.6	13,024.2	15,059.7

Source: TLI

TLI's management says the company emphasises on appropriate product pricing, and has product profitability monitoring process in place; only positive-spread insurance products will be introduced. In addition, controlling of expenses also one of TLI's priorities to be achieved to bolster its bottom line. Fitch believes this discipline should lead to healthier profitability and build a stronger capital buffer.

**Investment and Asset Risk**

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Total investment assets (THBm)	171,331	191,577	220,030	249,912	288,979	To remain prudent with limited allocation
% of cash and cash equivalent to total invested assets	8.2	8.8	8.0	9.9	7.7	to risky assets.
% of fixed income securities to total invested assets	78.3	77.4	78.5	75.6	78.0	
% of stocks to total invested assets	3.1	4.2	4.4	5.9	6.3	
Below investment-grade bonds to adjusted equity	60	41	22	28	52	
Risky assets to adjusted equity	91	78	54	69	98	

Source: Company and Fitch's calculation

**Liquid Investment Assets**

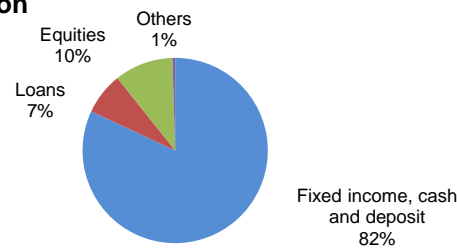
- Fixed-income assets dominates investment portfolio
- Limited allocation to equities
- Near-term M&A transaction unlikely

**Fixed-income Assets Dominates Investment Portfolio**

TLI has maintained a prudent investment policy. Most of its investments were allocated to fixed-income securities and deposits, which totalled about 85.7% at end-2015 and 82.0% of total invested assets at end-3Q16. Government and state-owned enterprise fixed-income securities still represented the largest portion of total fixed-income assets.

**Invested Assets Allocation**

End-3Q16

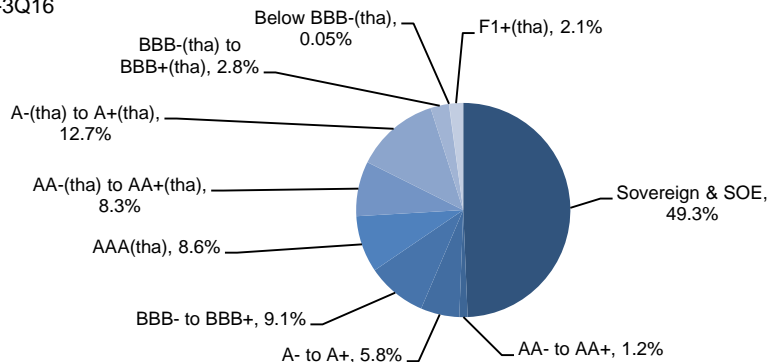


Source: TLI

TLI has continued its policy of limiting fixed-income securities investments on either the national or international rating scale. In addition, the company's investment committee will pay close attention and grant an approval for any transaction with a higher risk profile. To contain a foreign-currency risk, all foreign-denominated investment has to be fully hedged.

**Breakdown of Fixed Income Securities & Deposits by Credit Rating**

End-3Q16



Source: TLI

**Limited Allocation to Equities**

The company's investment in equity is volatile and subject to a high capital-risk charge under the RBC framework. TLI's investment in equities comprised about 10.2% of the company's total portfolio at end-3Q16, up from 6.3% at end-2015, owing to the company's investment-income enhancement. Management believes the company's current level of equity holdings will be maintained and only blue-chip stocks could be chosen to ensure the company's conservative stance.

Fitch believes TLI will maintain its prudent investment strategy and balance its investment returns and risks under the current low-interest-rate environment.

**Near-term M&A Transactions Unlikely**

The management says TLI has no further near-term merger and acquisition transaction in the foreseeable future. To date, the company has stayed focused on fully utilising resources and opportunities resulting from its acquisition of Thai Cardif Life.

**Asset/Liability and Liquidity Management**

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Liquid assets to policyholders' liabilities	89.5	93.7	99.6	99.7	96.1	Liquidity assets are commensurate to support its obligation with policyholders. ALM remains stable.
Cash and cash equivalent to policyholders' liabilities	8.8	9.6	9.1	11.4	8.8	

Source: Company and Fitch's calculation

**Reasonable Asset-Liability Mismatch Management**

- Duration mismatch remains unchanged
- Sufficient liquid assets

**Duration Mismatch Remains Unchanged**

TLI's asset duration remained at about seven years at end-2Q16, almost unchanged since end-2014. Throughout 2014–2016, a downward shift in the Thai government bond yield curve had resulted in the company placing more investments in relatively shorter-duration corporate bonds. However, management has said it expects to gradually increase asset duration to narrow its duration mismatch through additional government and state-owned enterprise fixed-income securities when yields start to pick up.

Limited availability of long-duration assets to match long-duration liabilities of the life insurance products remains common among Thai insurers. Therefore, the company's focus on short-term insurance products can help reduce its liabilities duration. TLI's three-year (2014-2016) average asset-liability mismatch has been maintained around five years.

**Sufficient Liquid Assets**

Fitch believes TLI has adequate liquidity due to its large holdings in investment-grade fixed-income securities and deposits. Its liquid assets to policyholders' liabilities ratios were relatively stable about 96.1% and 97.7% at end-2015 and end-3Q16 respectively. A downgrade of Thailand's Local-Currency IDR to 'BBB+' will not affect TLI's liquidity ratio as government securities have still maintained their investment grade.

## Reinsurance, Risk Management and Catastrophe Risk

### High Retention, Solid Reinsurance Counterparties

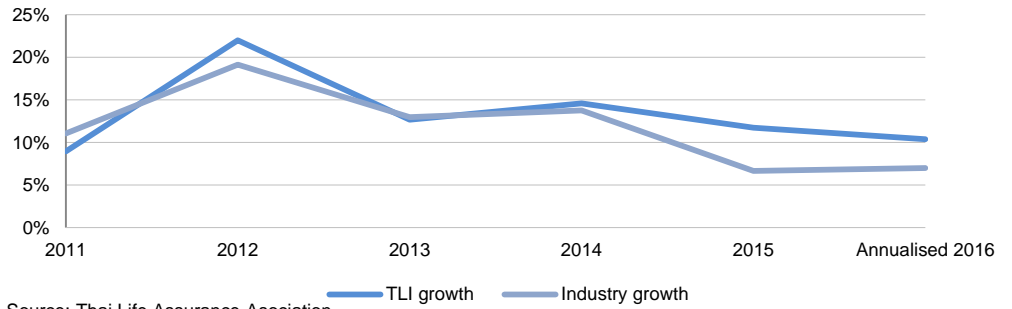
TLI had a high retention ratio of more than 99% at end-3Q16, in line with the limited use of reinsurance by life insurer. The majority of the company's reinsurance panels are highly rated at least 'A-' on the international rating scale.

The company generally reduces its underwriting risk through reinsurance, particularly for the newly introduced products. In addition, any amount of group and ordinary life insurance businesses exceeding the predefined level will be ceded under a form of facultative reinsurance to reinsurer(s). Catastrophe risk-related individual credit life or group life policies, in excess of company's retention limit, are also ceded under non-proportional reinsurance treaties.

Appendix A: Additional Financial Exhibits

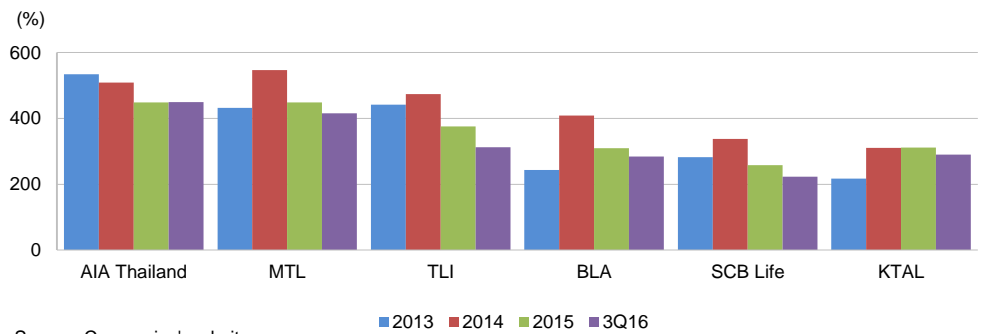
Premium Growth

By total premium written



Source: Thai Life Assurance Association

Regulatory RBC



Source: Companies' websites

## Appendix B: Other Ratings Considerations

### Group IFS Rating Approach

The Group IFS Rating approach is not applicable for the company.

### Notching

For notching purposes, the regulatory environment of Thailand is assessed by Fitch as being Effective, and classified as following a Ring-Fencing approach.

### *Notching Summary*

#### **Holding Company**

Not applicable

#### **IFS Ratings**

A baseline recovery of Good applies to the IFS rating.

#### **Debt**

Not applicable

#### **Hybrids**

Not applicable

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