

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
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Thai Life Insurance Public Company Limited

	30 Jun 17	31 Dec 16
Gross premium written (THBbn)	38.6	80.5
Total assets (THBbn) ^a	359.4	346.5
Pre-tax return on assets (%)	3	2
Return on adjusted equity (%)	16	13
Adjusted equity/total assets (%)	15	14
Liquid assets/policyholder's liabilities (%)	97 ^b	98

^a Excluding reinsurers' share of insurance contract liabilities

^b As at 31 Mar 17
Source: Fitch

Disclosure

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

Related Research

[Thailand Life Insurance Market Dashboard 2017 \(May 2017\)](#)

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Key Rating Drivers

Rating Capped by Sovereign: Thai Life Insurance Public Company Limited's (TLI) Insurer Financial Strength (IFS) Rating is constrained by Thailand's Long-Term Local-Currency Issuer Default Rating (IDR) of 'BBB+' and rated one notch below the insurer's unconstrained IFS rating of 'A-'. Fitch Ratings will not rate TLI above the sovereign due to the insurer's high level of government debt holdings and limited business diversification outside Thailand.

Strong Capital Position: Fitch expects robust capital management to support TLI's capitalisation. The insurer has kept its capital well above the regulatory minimum, providing a solid buffer against imminent higher risk charges from the approaching local second-phase risk-based capital (RBC) framework. This is despite lower interest rates and increased equity investments resulting in its RBC ratio dropping to 314% by end-1H17, from 376% at end-2015.

Fitch lowered TLI's Prism factor-based model (FBM) score to 'Strong' from 'Very Strong' due to higher risk charges arising from additional investments in stocks and corporate bonds, based on TLI's end-1Q17 financial results. This score remains in line with its rating category.

Locally Solid Business Franchise: Fitch believes large and competency-improving agents as well as increased bancassurance and non-agency channels will strengthen TLI's business profile. TLI kept its third-rank position among Thailand's life insurers, with a 13% market share by total premiums at end-1H17. TLI benefits from having Meiji Yasuda Life Insurance Company (A/Stable) as a shareholder, for technical and operational support.

Reasonable Investment Risk: Fitch expects TLI's management to consistently monitor the insurer's equity investment strategy as well as risks and returns. TLI's investments have been stable, with fixed-income securities – mainly Thai government and state-owned enterprise bonds – accounted for 79% of total investments at end-1Q17. Equity exposure increased to 11% of the total portfolio, from 7% in 2015, to offset pressure from the low-yield environment.

Stable Profitability: TLI has stable profitability; its three-year average (2014-2016) return on equity was 13.1% and its pre-tax return on assets was 2.3%, comparable with Fitch's ratio guideline for 'A' rated insurers. TLI plans to improve its profitability through higher protection and unit-linked product sales. Fitch expects increased product diversification and higher non-agency channel sales to improve long-term profitability.

Slightly Narrowed Duration Gap: Fitch believes the low-yield environment and the insurer's long-term products have prevented it from significantly shortening its duration gap. However, TLI still reasonably follows asset/liability management discipline, narrowing the gap to slightly below five years at end-1H17 by making additional long-term bond investments.

Rating Sensitivities

Weakening Capitalisation and Profitability: Prolonged weakening in capitalisation and profitability, as evidenced by the RBC ratio dropping below 250% and a pre-tax return on assets of below 1%, could trigger a rating downgrade. Deterioration in capital under Fitch's Prism FBM measure could also be a catalyst for negative rating action.

Thailand's Sovereign Rating: A downgrade of TLI's ratings is likely if Thailand's Long-Term Local-Currency IDR is downgraded.

Limited Rating Upside: No rating upside is possible in the near term, as TLI's IFS Rating is at the same level as Thailand's Long-Term Local-Currency IDR and corresponds to 'AAA(thai)'; the highest rating on the country's National Rating scale.

Business Profile

Locally Solid Business Franchise

- Top-three ranked life insurance company
- Focus on distribution channel development
- Expanding customer base

Top-Three Ranked Life Insurance Company

TLI has consistently retained its third-ranked market share position by total premiums and new business premiums among Thailand’s life insurers. The company has steadily narrowed its market share gap with the other two industry leaders, AIA Company Limited, Thailand Branch (National IFS: AAA(thai)/Stable) and Muang Thai Life Assurance Public Company Limited (MTL, IFS: BBB+/Stable). However, Fitch does not expect TLI improve its market share rank solely through organic growth in the short term.

Market Share of Thailand’s Top-Six Life Insurers

New business premium market share	Total premium market share					
	2015	2016	Jun 17			
(%)	2015	2016	Jun 17	2015	2016	Jun 17
MTL	22.1	20.9	23.1	16.3	17.1	19.5
AIA Thailand	15.3	15.1	14.7	22.2	21.3	19.4
TLI	10.3	14.3	12.6	12.7	14.2	13.0
Krungthai-AXA Life Insurance	10.7	9.2	10.5	10.2	9.8	10.7
SCB Life Insurance	10.2	7.6	5.5	9.9	9.3	9.1
Bangkok Life Assurance	7.9	6.9	5.3	8.3	7.6	7.1

Source: Thai Life Assurance Association

Focus on Distribution Channel Development

Tied agency and bancassurance are TLI’s two largest premium contributors. The insurer is implementing various initiatives to reinforce the channels’ business efficiency, including product, platform and manpower components.

TLI’s agency force has undertaken professional training to increase the number of full-time agent with advanced financial advisory skills. Fitch believes this should improve new business volume, particularly from products requiring personal interaction and after-sale service, such as protection and health products. TLI’s tied-agent network of more than 70,000 registered agents – Thailand’s second largest – contributed about 77% of total premiums at end-2016.

Fitch also expects close cooperation between TLI and several banks to bolster the company’s visibility as a major bancassurance provider. This channel could open up a lucrative pool of high- to middle-income earners for cross-selling and up-selling campaigns. TLI received 19% of total premiums through bancassurance at end-2016, up from 17% at end-2015.

Expanding Customer Base

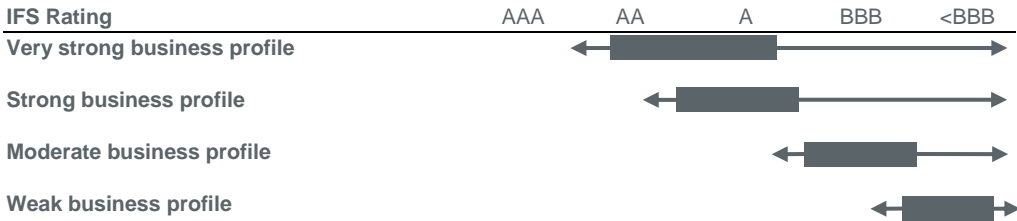
Fitch believes TLI’s more diverse revenue base, generated by non-agency channels, benefits its overall business franchise. The company has received repeated and new businesses from Japanese corporates recommended by its strategic shareholder, Meiji Yasuda Life. The acquisition of Thai Cardif Life Assurance Co., Ltd. strengthened TLI’s customer portfolios of credit life and protection products distributed through direct marketing channels. A new online sales channel should also improve the company’s capacity to acquire new customers.

Related Criteria

[Insurance Rating Criteria \(November 2017\)](#)

[Life and Non-Life Insurance \(Asia-Pacific Ex-Japan\) Sector Credit Factors \(November 2016\)](#)

Ratings Range Based on Business Profile



Source: Fitch

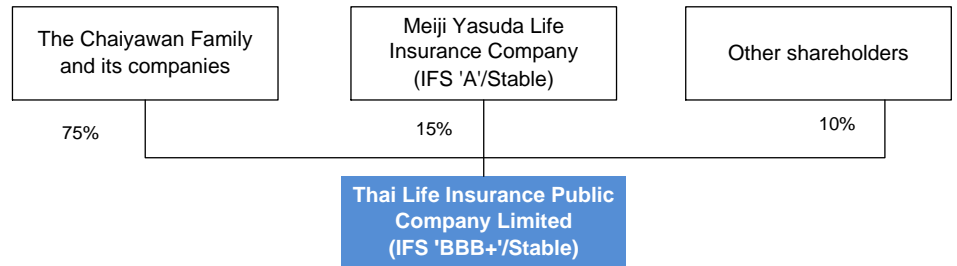
Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating. TLI's 12-member board consists of three independent directors. Sub-committees include executive, nomination and remuneration, audit, risk management and investment committees.

Ownership Neutral to Rating

The Chaiyawan family owns the majority of TLI's shares, with family members holding key positions on the board of directors and management team, including the chairman and president. Meiji Yasuda Life, with a 15% shareholding in TLI since 2013, has provided expertise on risk management and product development. TLI also benefits from Meiji Yasuda Life's connections in Thailand through new sales to Thailand-based Japanese corporations.

Structure Diagram



Source: Fitch, Transaction documents

Sovereign and Country Constraints

Fitch rates Thailand's Local-Currency sovereign obligations at 'BBB+' with a Stable Outlook and a Country Ceiling of '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

Well-Capitalised Industry, Challenging Environment

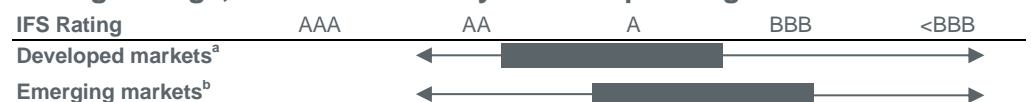
Asia-Pacific consists of developed and emerging markets. The majority of Fitch-rated Asia-Pacific insurers in developed markets have IFS Ratings in the 'A' category, while most insurers in emerging markets have IFS Ratings in the 'A' to 'BBB' categories. Fitch rates Thai life insurers in the 'BBB' category or higher, as we see the country's operating environment for life insurers as challenging due to low new-business growth and a transition towards stiffer supervisory regulations on capitalisation.

The Thai Life Assurance Association (TLAA) forecasts 6% premium growth for the life insurance sector in full-year 2017, below the five-year average (2012-2016) growth of 11.7%. This bearishness is due to shrinking new business premiums from sluggish consumer demand and a shifting focus towards lower-premium protection products by many local insurers. The industry's persistency rates for life-policy renewals have been stable, with a five-year average (2012-2016) of 85%.

Thailand's life sector is well-capitalised, with an average RBC ratio of 378% during 2014-2016, well above the local 140% minimum regulatory level. Balance-sheet risk for Thai life insurers appears manageable, with low leverage and conservative investment portfolios, despite the persistently low interest-rate environment.

Fitch believes the local regulatory landscape is improving. The second-phase RBC framework is scheduled for implementation soon. Fitch expects tighter capital requirements, since more prudent risk charges should strengthen local insurers' capital buffers to help weather a volatile operating environment and strong competition. In addition, more relaxed regulation that allows foreigners to have shareholding of more than 49% of total voting shares might create new partnerships and increase consolidation between local and experienced foreign insurance companies.

Ratings Range, Based on Industry Profile/Operating Environment



^a Consist of Australia, New Zealand, Hong Kong, Korea, Taiwan and Singapore
^b Consist of the rest of the Asia-Pacific ex-Japan regions, except the above mentioned markets
 Source: Fitch

Peer Analysis

Well-Capitalised Life Insurer

Fitch expects TLI to maintain its position as one of the country's leading life insurers. TLI can reasonably retain a solid capital position to support its business against a stiffer regulatory environment, despite having generated smaller revenue and profit than its local Fitch-rated peer. However, TLI's capitalisation and profitability remains comparable with that of its direct Fitch-rated peers.

Peer Comparison Table

	IFS Rating	Country	Year	Return on adjusted equity (%)	Pre-tax return on asset (%)	Shareholder's equity/assets (%)	Gross premiums (USDbn)	Total assets (USDbn)	Shareholders' equity (USDbn)
TLI	BBB+/	Thailand	2016	13	2	14	2	10	1
	AAA(tha)		2015	13	2	14	2	9	1
MTL	BBB+/	Thailand	2016	21	3	12	3	10	1
	AAA(tha)		2015	22	3	12	2	8	1
FWD Life Insurance Company (Bermuda) Limited	A	Hong Kong	2015	6	0	7	1	7	1
FTLife Insurance Company Limited	A-	Hong Kong	2016	6	2	31	1	6	1
Heungkuk Life Insurance Co., Ltd.	BBB+	South Korea	2016	4	0	5	4	21	1

Source: Company's information, Fitch's calculations

Capitalisation and Leverage

	2012	2013	2014	2015	2016	Fitch's expectation
Shareholder's equity/assets ^a (%)	12	14	15	14	14	Retain solid capital position in line with business profile and commensurate with approaching second-phase RBC regime in Thailand.
Operating leverage (x)	8	6	6	6	6	
Asset leverage (x)	8	6	6	6	6	
Regulatory RBC (%)	361	442	474	376	315	
Financial leverage (%)	-	-	-	-	-	

^a Excluding reinsurers' share of insurance contract liabilities

Source: Company, Fitch's Calculations

Strong Capital Position

- Robust capital buffer
- Strong result on Prism
- Benefit from stronger risk culture

Robust Capital Buffer

Fitch expects TLI's capital buffers to remain strong and in line with the local life-sector average RBC ratio of 338% at end-1H17, even though the company's ratio fell to 314% at end-1H17, from 376% at end-2015, due to rising risk charges from a persistently benign interest rates and increased equity investments. TLI targets a full-year 2017 RBC ratio of 334%, which should improve from a regulatory revaluation of assets and narrower duration gap. TLI's capital ratio still exceeds Fitch's ratio guideline for 'A' rated insurers of 175%.

Thailand's insurance industry is in the development stage of the second-phase of RBC framework. The alignment of local measurements with the international framework will require higher capital buffer for any Thai insurers. TLI indicates that its capital ratio should be placed above that of the local regulator's requirement.

Strong Result on Prism FBM

TLI has a 'Strong' score on Fitch's Prism FBM based on its end-1Q17 financial results. This is lower than its previous 'Very Strong' score due to higher asset-risk charges arising from additional stock and corporate bond investments.

The company considers its weighting of investment assets as optimal for the near term. As such, Fitch believes TLI's Prism FBM score should reflect the capital position's robustness for TLI's insurance operation and investment portfolio. The agency does not expect TLI to rapidly increase its risky investments, which would pressure its RBC.

Benefit from Stronger Risk Culture

Fitch expects TLI's strong risk management culture, underpinned by ongoing risk-control framework improvements, to ultimately benefit its capital management. The insurer performs regular internal analysis under various stressed scenarios to ensure its capital adequacy for buffering possible negative events and to conform to regulatory requirements.

Debt Service Capability and Financial Flexibility

	2012	2013	2014	2015	2016	Fitch's expectation
Fixed-charge coverage ratio (x)	174,108	167,857	193,539	291,199	6,568,180	Sufficient funding from business operations and investment returns. No debt issuance in the near term.
Interest expenses (THBm)	0.03	0.03	0.03	0.02	0.00	

Source: Company, Fitch's calculations

Low Leverage

Fitch believes TLI has reasonable debt-service capability and financial flexibility due to its low debt. The company is capable of entering into repurchase transactions or using revolving credit facilities if needed. Management does not plan to issue any long-term debt, since TLI's profit generation is sufficient to support its operation and capital position.

Financial Performance and Earnings

	2012	2013	2014	2015	2016	Fitch's expectation
Return on adjusted equity (%)	18	13	14	13	13	Stable and reasonable profitability from insurance operations and investment returns.
Pre-tax return on assets (%)	3	2	3	2	2	
Change in gross premium yoy (%)	22	13	15	12	14	
Investment yield (%)	5	5	5	4	4	

Source: Company, Fitch's calculations

Stable Profitability

- Moderate premium growth
- Ongoing effort to improve profitability
- Reasonable investment returns

Moderate Premium Growth

TLI's three-year average (2014-2016) premium growth of 14% and average persistency rate of 88% are moderately higher than the industry's average of 9% and 84%, respectively. The insurer indicates that it has stable premiums compared with the industry, which are attributable to its major agency distribution channel. TLI expects 5% total premium growth in 2017, slightly below TLAA's forecast industry average of 6%.

Fitch does not believe TLI is immune from modest system-wide life-sector premium growth stemming from sluggish local demand for long-term products. However, in the long run, its more diverse product range and distribution channels should help it acquire new business in addition to that generated by its established agency and bancassurance channels. TLI's non-agency channels, including direct and telemarketing and consumer finance, have been strengthened by the acquisition of Thai Cardif Life in late 2015.

Ongoing Effort to Improve Profitability

Management aims to improve health protection and unit-linked product sales and profitability by upselling and cross-selling to existing customers. The insurer has a robust pricing policy with clear monitoring and reporting guidelines to ensure the products on the shelf are generating positive spreads.

TLI has generated stable profitability, supported by its sound operations and investment returns. The insurer's three-year average (2014-2016) return on equity of 13.1% and pre-tax return on assets of 2.3% compare favourably with Fitch's performance ratio guideline for 'A' category insurers.

Reasonable Investment Returns

Fitch sees TLI's investment performance as sound and in line with local peers. Investment returns remain a crucial revenue contributor for TLI. The insurer's high equity investments, which accounted for 11%-12% of its total investments in 2017, aim to enhance investment returns in the persistently low-yield environment. Its private equity funds, which are managed by respected domestic asset managers, have generated strong returns against their reported benchmarks.

Investment and Asset Risk

(THBm)	2012	2013	2014	2015	2016	Fitch's expectation
Total investment assets (THBbn)	191.1	219.6	249.7	288.8	330.1	Maintain a conservative investment strategy, with a majority of invested assets in investment-grade bonds. Allocation to equity securities follows the company's stated strategy of 15% of total investment assets.
Cash and cash equivalents/total invested assets (%)	9	8	10	8	5	
Fixed-income securities/total invested assets (%)	78	79	76	78	77	
Stocks/total invested assets (%)	4	4	6	7	11	
Below investment-grade bonds/adjusted equity (%)	41	22	28	52	55	
Risky assets/adjusted equity (%)	78	54	70	99	132	

Source: Company, Fitch's calculations

Reasonable Investment and Asset Risk

- Investment-grade bonds dominate portfolio
- Increasing equity investments

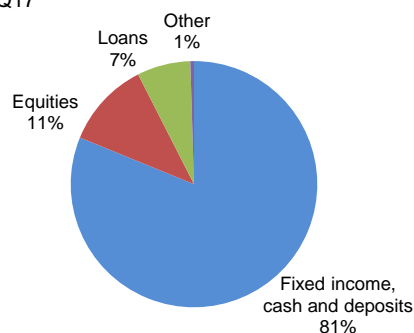
Investment-Grade Bonds Dominate Portfolio

Fixed-income securities accounted for 79% of TLI's total investments of THB335 billion at end-1Q17, with local government and state-owned enterprise bonds made up the largest portion of the bond portfolio, at about 52%, in according with the insurer's conservative investment strategy.

Fitch believes credit risk is manageable, as most of TLI's fixed-income assets are investment-grade issues either on an international or national scale. Foreign exchange risk is minimal due to the insurer's full-hedging practice.

Invested Asset Allocation

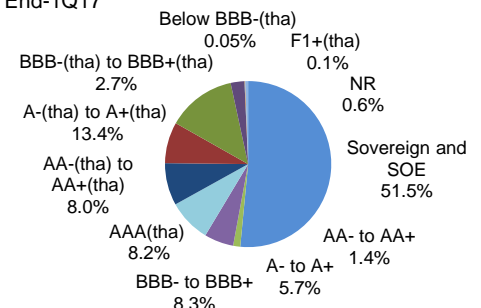
End-1Q17



Source: Thai Life Insurance Public Company Limited

Fixed Income Securities and Deposit Breakdown by Credit Rating

End-1Q17



Source: Thai Life Insurance Public Company Limited

Increasing Equity Investments

Fitch believes robust internal management and TLI's ability to capitalise on inputs from its professional external investment managers will allow the insurer to achieve its investment target while containing investment risks. TLI enhanced its investment returns by boosting its equity allocation to 11% of total investment assets at end-1Q17, from 7% in 2015. The insurer's equity investment limit is 15% of its total portfolio.

TLI believes its investment allocation is optimal for generating returns to meet its insurance obligations. Fitch expects TLI's management to remain committed to closely monitoring its equity investments to ensure they are commensurate with their corresponding risk profile.

Asset/Liability and Liquidity Management

	2012	2013	2014	2015	2016	Fitch's expectation
Liquid assets/policyholders' liabilities (%)	94	100	100	96	98	Narrow asset/liability duration gap and to maintain adequate liquidity.
Cash and cash equivalents/policyholders' liabilities (%)	10	9	11	9	5	

Source: Company, Fitch's calculations

Slightly Narrowed Duration Gap

- Duration gap slightly improved
- Adequate liquidity

Duration Gap Slightly Improved

TLI narrowed its duration gap to about five years at end-1H17, from between five and six years in 2016, following additional investments in government bonds with longer asset duration. However, Fitch does not expect further significantly narrowing of the duration gap in the near term, in light of the persistently low interest rates, TLI's investment strategy and the majority of in-force insurance policies being saving-type policies.

Fitch believes TLI has reasonable asset/liability management, with the upper limit of the duration gap explicitly set at six years. The insurer would invest in more long-term bonds that provide acceptable yields if they became available.

Adequate Liquidity

Fitch believes TLI has adequate liquidity to support its insurance obligations and cash outflows, supported by its large holding of investment-grade bonds, cash and liquid equities. The insurer's liquidity ratio has been consistently high and well above Fitch's liquidity ratio guideline for 'A' rated insurers. Stable renewal premiums, as evidenced by a high average persistency rate of renewal policies, also underpin TLI's sound liquidity position.

Reinsurance, Risk Management and Catastrophe Risk

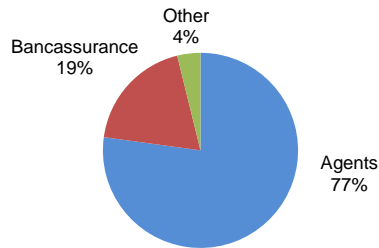
Strong Reinsurance Counterparties

TLI's retention ratio stood at above 99% at end-1Q17, unchanged from the previous year. The insurer periodically monitors its reinsurance counterparties' financial strengths and its reinsurance panels are rated at least 'A-' on the international rating scale.

Appendix A: Additional Financial Exhibits

TLI Distribution Breakdown

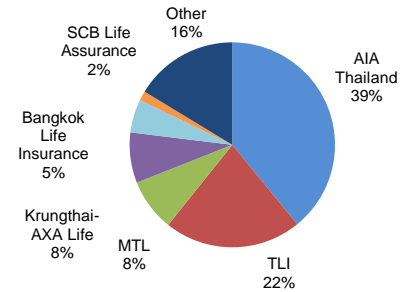
By total premiums at end-2016



Source: Thai Life Assurance Association

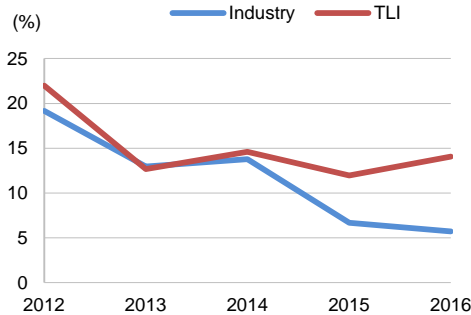
Agency Channel Market Share

By total premiums end-2016



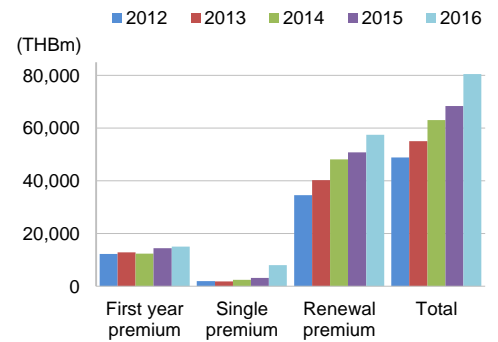
Source: Thai Life Assurance Association

Total Premium Growth



Source: Thai Life Assurance Association

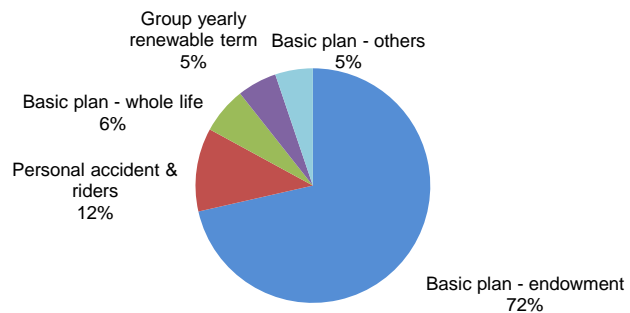
TLI's Gross Premium Written



Source: Thai Life Assurance Association

TLI's Product Mix by Annualised Premium

End-2016



Source: Thai Life Insurance Public Company Limited

Appendix B: Other Rating Considerations

Below is summary of additional rating considerations of a technical nature that are also part of Fitch's rating criteria.

Group IFS Rating Approach

Not applicable.

Notching

For notching purposes, Thailand's regulatory environment is assessed by Fitch as being effective and classified as following a ringfencing approach.

Notching Summary

IFS Ratings

A baseline recovery assumption of 'good' applies to the IFS rating and standard notching was used from the IFS anchor rating to the implied operating company IDR.

Debt

Not applicable

Holding company

Not applicable

Hybrids

Not applicable

Source: Fitch

Short-Term Ratings

Not applicable.

Hybrids – Equity/Debt Treatment

Not applicable.

Criteria Variations

None.

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