

# Thai Life Insurance Public Company Limited

## Full Rating Report

### Ratings

Insurer Financial Strength	A-
National Insurer Financial Strength	AAA(tha)

### Sovereign Risk

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

### Rating Outlook

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

	30 Sep 18
Gross premiums written (THBbn)	62.1
Total assets (THBbn)	412.1
Pretax return on assets (%)	2 <sup>a</sup>
Return on equity (%)	11 <sup>a</sup>
Liquid-asset ratio (%)	103 <sup>b</sup>

<sup>a</sup> Annualised

<sup>b</sup> As at end-1H18

Source: Fitch Ratings, Fitch Solutions, TLI

### Key Rating Drivers

**Upgraded Under New Criteria:** Fitch Ratings upgraded Thai Life Insurance Public Company Limited's (TLI) Insurer Financial Strength (IFS) Rating to 'A-' from 'BBB+' on 1 April 2019 following the publication of the agency's revised global master insurance criteria. The new criteria remove the top-down sovereign constraint and Fitch assesses TLI's country risk in each credit factor under a bottom-up analysis.

**Favourable Business Profile:** Fitch thinks TLI's substantive business franchise is indicated by its third-largest market share in Thailand by total premiums written at end-2018 and its second-largest tied-agency force. TLI's insurance portfolio is geographically diversified with sound breadth of product offerings that are on a par with other leading domestic insurers. However, its profile is partially offset by limited diversification into international markets and concentration in the agency channel as its main distribution source.

**Stable Capital Buffer:** The agency expects TLI to retain strong capitalisation to meet the stricter requirement of Thailand's second-phase risk-based capital (RBC) framework to be adopted in 2019, and to cushion against risks. TLI's sound profitability, narrowing mismatch between assets and liabilities, and moderate asset risk underpin its 374% RBC ratio at end-3Q18 and the 'Strong' score in Fitch's Prism Factor-Based Model (FBM) at end-1H18.

**Slower Growth, Profit-Led Aspirations:** TLI's earnings are sound and stable, in Fitch's view, as reflected in its annualised pretax return on assets of 2.2% at end-3Q18, which is above Fitch's guideline for 'A' rated insurers.

TLI expects to strengthen its earning profile through the addition of profitable protection insurance and investment-linked products. The insurer reported slower premium growth in 2017 due mainly to weaker underwriting of endowment plans along with softening demand on a muted domestic economy and the rising indebtedness of local households.

**Moderate Investment-Risk Profile:** Fitch does not expect a significant increase in the insurer's risky assets in the near term due to its prudent investment strategy and the higher risk charges on risky assets imposed under the new capital regime. TLI counterbalanced lower bond investment returns by raising its stock holdings to 11% of its total invested assets by end-1H18 (2013: 4%), in line with the industry. TLI's exposure to Thai sovereign debt was high at approximately 310% of its capital at end-3Q18.

### Rating Sensitivities

**Deterioration in Financials:** Persistent weakening of TLI's capitalisation or profitability could result in a rating downgrade. For example, a prolonged drop in the RBC ratio to below 280% with a deterioration in capital under Fitch's Prism FBM measure to below 'Strong' or a persistent decline of pretax return on assets to below 1% could lead to negative rating action.

**Improved Credit Profile:** Key upgrade sensitivities include an improvement of TLI's business profile and maintenance of its capital buffer. These include a significant improvement in TLI's operating scale and business diversification as the insurer participates in more business lines, geographies and distribution sources while maintaining its capital adequacy well into the 'Strong' level on a sustained basis as measured by Fitch's Prism FBM score.

### Related Research

[Thailand Life Insurance Market Dashboard 2019 \(March 2019\)](#)

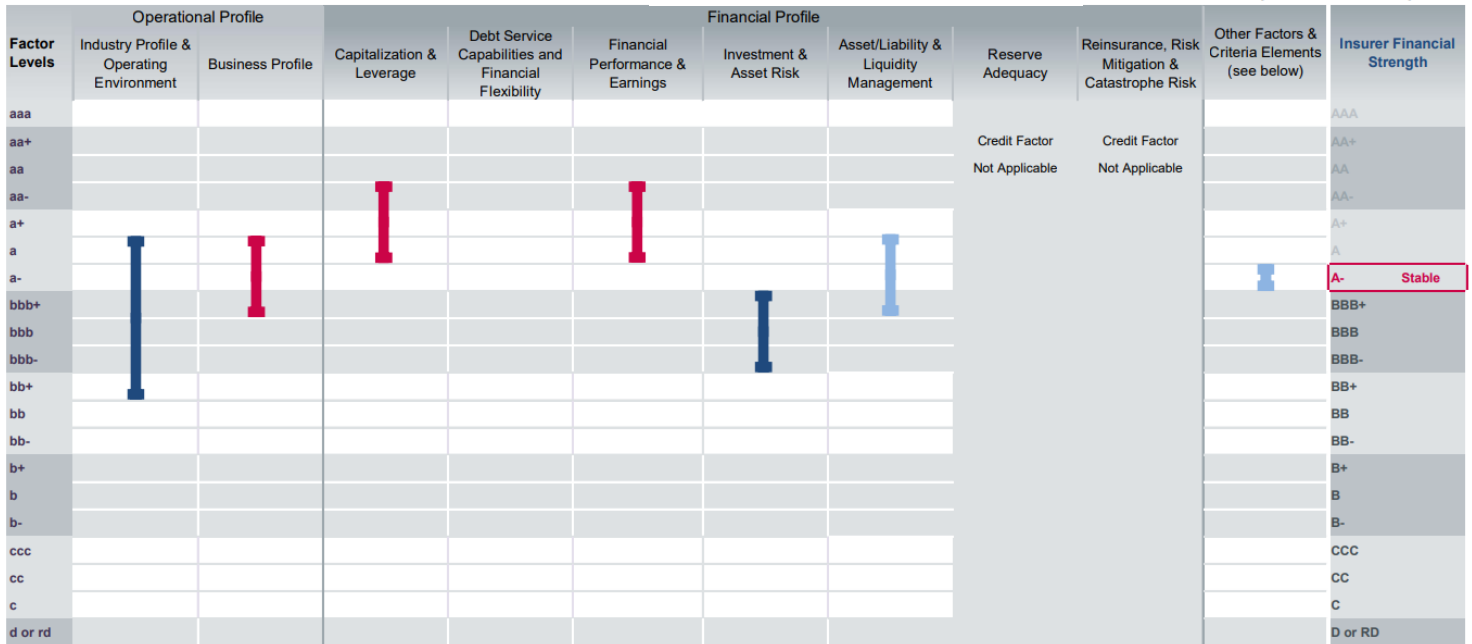
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## Thai Life Insurance Public Company Limited

## Insurance Ratings Navigator APAC (Other Exc JP) Life



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				A-
Non-Insurance Attributes	Positive	Neutral	Negative	+0
Corporate Governance & Management	Effective	Some Weakness	Ineffective	+0
Ownership	Positive	Neutral	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	No	A-	+0
<b>Insurer Financial Strength (IFS)</b>				Final: <b>A-</b>
IFS Recovery Assumption	Good			-1
<b>Issuer Default Rating (IDR)</b>				Final: <b>n.a.</b>

Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	
Bar Colors = Relative Importance	
<span style="color: red;">■</span>	Higher Influence
<span style="color: blue;">■</span>	Moderate Influence
<span style="color: lightblue;">■</span>	Lower Influence
Bar Arrows = Rating Factor Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable

**Business Profile**

**Competitive Position**

Fitch ranks TLI's business profile as favourable compared with that of all other Thai life insurers due to its competitive advantage in terms of a large market share and strong agency force, moderate business risk profile and well-diversified insurance portfolio relative to local peers. Fitch scores TLI's business profile at 'a-' under its credit-factor scoring guidelines in light of the ranking.

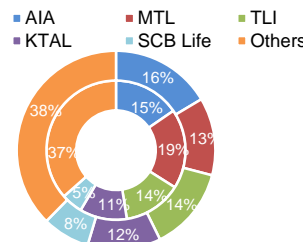
**Substantial Franchise**

Fitch believes TLI's substantive business franchise is underpinned by the country's second-largest agency force with a long operational track record as one of the oldest life insurers in Thailand. TLI ranked third by total premiums written at end-2018.

**New Business Premium Market Share**

Top-Five Life Insurers

Inner: 2017  
Outer: 2018

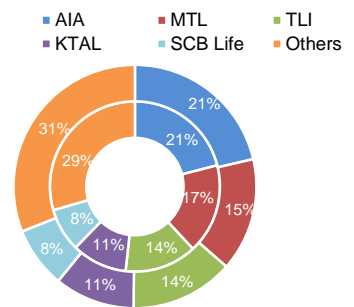


Note: AIA: AIA (Thailand) Co.,Ltd.; MTL: Muang Thai Life Assurance PLC.; TLI: Thai Life Insurance PLC.; KTAL: Krungthai AXA Life Insurance PLC.; SCB Life: SCB Life Assurance PLC.  
Source: Fitch Ratings, Thai Life Assurance Association

**Total Premium Market Share**

Top-Five Life Insurers

Inner: 2017  
Outer: 2018



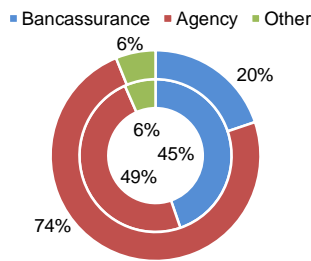
Source: Fitch Ratings, Thai Life Assurance Association

**Distribution Channels**

By total premiums as of 2018

Outer ring: TLI

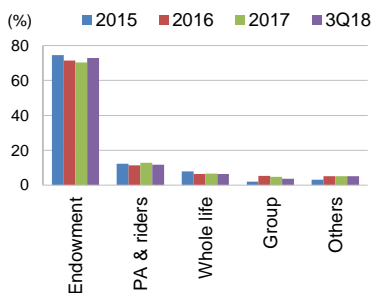
Inner ring: Industry



Source: Fitch Ratings, Thai Life Assurance Association

**TLI's Product Mix**

By annual premium equivalent



Note: PA: Personal accident; others: term, unit-linked.  
Source: Fitch Ratings, TLI

TLI's agents generated premiums that made up about 73% of the insurer's total premiums and accounted for 21% share of Thailand's premiums acquired via the agency channel by end-3Q18. Several strategies related to personnel developments (such as coaching and training programmes and staff engagement campaigns) have been executed to ensure that TLI's agency channel will remain strong and competitive compared with AIA Thailand Company Limited, the largest local insurer by agency force's premiums written.

Fitch also thinks the long-term relationship with Japan-based Meiji Yasuda Life Insurance Company (A+/Stable) has benefitted TLI's operational profile, particularly in light of acquisitions and retention of Japanese corporate clients based in Thailand.

**Moderate Business Risk**

TLI's steady profitability reflects its reasonable risk appetite, comparable with other leading local insurers. Fitch believes the insurer's efforts to distribute products across various segments and platforms will support its business risk profile and portfolio diversification. TLI's current business strategy is largely in line with its peers as they are focusing on life-stage thematic products such as whole life, term life, health protection, investment-linked and retirement plans, which are replacing savings policies with high guaranteed returns.

**Diversified Portfolio to Support Expansion**

TLI's market of domestic policyholders is similar to other Thai life insurance companies although its local portfolios are diversified. In terms of distribution sources, TLI has been trying to cut its reliance on the agency channel by fortifying its bank partnerships to capture more bancassurance sales, improving its direct marketing and telesales teams and developing a digital channel. TLI expects a more balanced distribution channel mix in the longer term.

**Related Criteria**

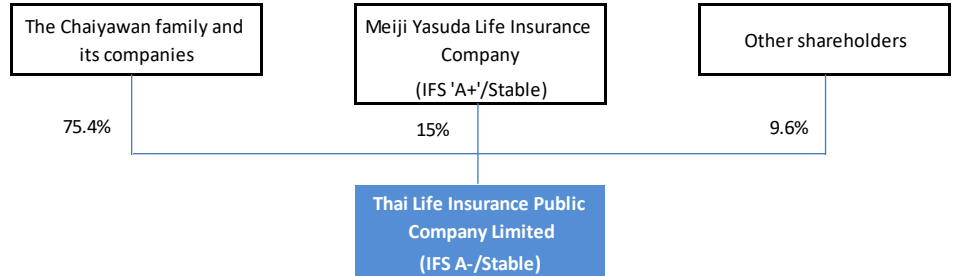
[Insurance Rating Criteria \(January 2019\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

### Ownership Neutral to the Ratings

TLI's ownership is stable. The Chaiyawan family owns the majority of shares while Meiji Yasuda has held 15% since 2013. Chaiyawan family members have served in several high-ranking board and executive positions, including the chairman and president. Meiji Yasuda has been consistently involved in management activities through board participation, and has shared its operational and technical expertise.

Structure Diagram



Source: Fitch Ratings, TLI

Capitalisation and Leverage

	2013	2014	2015	2016	2017 Fitch's expectation
Operating leverage (x)	5	5	6	5	5
Asset leverage (x)	5	5	6	5	5
Regulatory RBC ratio (%)	442	474	376	315	321
Total financing commitment ratio (x)	-	-	-	-	-
Shareholders' equity/assets (%)	14	15	14	14	15

Source: Fitch Ratings, Fitch Solutions, TLI

Stable Capital Buffer

- Challenges to capital position
- Solid capitalisation
- 'Strong' Prism score

Challenges to Capital Position

The local insurance industry has been under pressure in the last few years from a low -interest-rate environment. TLI's RBC ratio has declined due to rising equity investments to balance thinner returns from bond investments, and higher insurance liability risk charges from lower market yields. The challenges in the investment landscape have persisted, but a pickup trend in bond yields may allow the company to increase its bond holdings, easing pressure on its capital requirements stemming from risky-asset investments.

The next phase of the RBC regime in Thailand will require every insurer to maintain more prudent capital. TLI expects its capital position to exceed the regulatory requirement, and the company will conduct a review of its business and investment strategy on a regular basis to address the impact from any regulatory development.

TLI has committed to a periodic evaluation of its capital position based on various scenarios to ascertain the adequacy of capital under stressed situations. This practice will also prepare the insurer for the country's strengthening risk-management practices under the Enterprise Risk Management and Own Risk and Solvency Assessment frameworks that start in 2019.

Solid Capitalisation

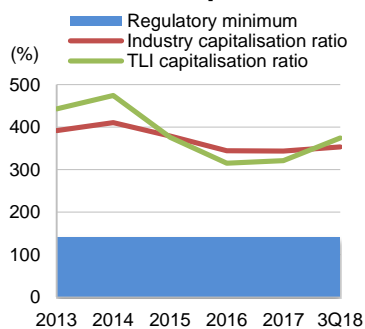
Fitch expects TLI to sustain its strong capitalisation over the medium term with support from stable asset risks, better-matched assets and liabilities, and profit-focused underwriting. The robust 374% RBC ratio at end-3Q18 will be an adequate buffer against downside business risks and enable TLI to meet the stricter requirements of the new capital framework.

TLI's non-risk-based capital is slightly higher than another local Fitch-rated peer, Muang Thai Life Assurance Public Company Limited (A-/AAA(th)/Stable). The company's capital exposure to insurance liability has been stable over the last five years, lower than the 13x-19x range for the operating leverage ratio in Fitch's criteria for an insurer with an 'A' rating. TLI monitors the ratio closely and sets a higher internal minimum capital level than the regulatory requirement.

'Strong' Prism Score

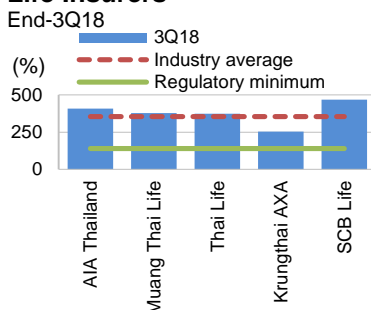
TLI's score of 'Strong' on Fitch's Prism FBM based on 1H18 financials was stable from a year earlier on the back of its moderate asset-risk profile. Fitch believes the score will remain steady due to TLI's capital accumulation from profitable businesses and its prudent investment strategy.

Risk-Based Capital Ratio



Source: Fitch Ratings, Office of Insurance Commission, TLI

RBC Ratio of Top Five Thai Life Insurers



Source: Fitch Ratings, AIA, MTL, TLI, KTAL, SCB Life

**Financial Performance and Earnings**

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Return on equity	13	14	13	13	13	Steady return on equity and pretax return on assets over the medium term, supported by both profitable underwriting and reasonable risk-reward-balanced investment returns.
Return on assets (pretax)	2	3	2	2	3	
Change in gross premium	13	15	12	14	3	
Investment yield	5	5	4	4	4	
Relative asset growth	4	-6	3	1	-4	

Source: Fitch Ratings, Fitch Solutions, TLI

**Slower Growth, Profit-Led Aspiration**

- Slow down in premium growth
- Profit-driven business strategy
- Sound earnings profile

**Slowdown in Premium Growth**

Fitch believes a slowdown in premium growth reflects TLI's greater focus on sales of more profitable protection policies than savings products with larger amounts. In addition, demand for new insurance policies was undermined by high domestic-household debt and a sluggish economy, similar to its local peers. The company's in-forced businesses are intact, evident from its 85% three-year (2015-2017) average persistency rate, which is comparable with that of the industry.

Thailand's new mortality table, implemented in 2018, could result in smaller premiums written, especially for protection products, after the regulatory repricing; however, this is a periodic practice for the industry and the impact would be felt by every participant.

**Profit-Driven Business Strategy**

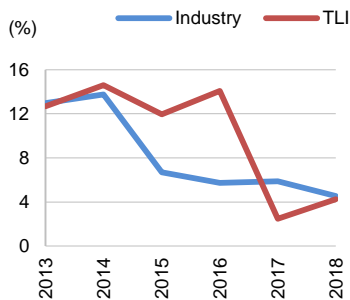
Fitch expects TLI to maintain steady earnings over the medium term with the effective execution of its profit-focused strategy. This would include a sales boost for protection and 'rider' products (such as critical-illness protection and whole-life protection), which generate better margins than pure endowment products, as well as investment-linked products. TLI's profitability can be affected by the 2018 mortality table, but we believe every insurer in the industry will take a short period of time to adjust its pricing strategy.

Management has also stated its commitment to the monthly review of product profitability to ensure all pricings have been staying within the firm's tolerance limit. Strict adherence to these practices will determine the soundness of TLI's earnings profile.

**Sound Earnings Profile**

TLI's financial performances are robust relative to Fitch's expectation for 'A' rated insurers. TLI's annualised pretax return on assets of 2.2% at end-3Q18 is above the 0.65%-0.99% Fitch guideline, and its annualised return on equity of 11.1% is more favourable than the agency's guideline of 7%-10%. The company's financials have been steady, driven by reasonable insurance underwriting gains and sound returns from investment activities.

**Total Premiums Written Growth**



Source: Fitch Ratings, Thai Life Assurance Association

Investment and Asset Risk

	2013	2014	2015	2016	2017	Fitch's expectation
Total investment assets (THBbn)	220	250	289	330	368	Portfolio to be constructed with investment-grade bonds that have stable returns. Asset-risk profiles should be steady and commensurate with the rating.
Cash and cash equivalents/total invested assets (%) <sup>a</sup>	8	10	8	5	2	
Fixed-income securities/total invested assets (%)	79	76	78	77	78	
Stocks/total invested assets (%)	4	6	7	11	12	
Below investment-grade bonds/capital (%) <sup>b</sup>	22	28	52	55	61	
Risky-asset ratio (%)	54	70	99	132	139	
Sovereign investment concentration risk (%) <sup>c</sup>	370	345	342	304	303	

<sup>a</sup> Cash and cash equivalents include highly liquid short-term investment, deposits with original maturities of more than three months  
<sup>b</sup> Risky assets include equities and below-investment-grade bonds on the international rating scale  
<sup>c</sup> Sovereign investments include government and state-owned enterprise securities  
 Source: Fitch Ratings, Fitch Solutions, TLI

Manageable Investment Risk Profile

- Increase in risky assets
- Investment-grade bonds dominate portfolio
- High sovereign investment concentration

Increase in Risky Assets

TLI has raised its stock holdings to seek higher returns to counter pressure from a low -yielding environment over the last several years. TLI has set reasonable investment guidelines, with clear authority mandated to its executives to control investment activities and balance its risks and returns.

Fitch believes the growth in its risky assets may accelerate slightly in the near future, in line with local industry peers, to offset persistently low returns on less-risky securities such as government bonds. The risky-asset ratio rose to 137% by end-1H18, which is higher than the range of Fitch's score for an 'A' rated insurer. Nonetheless, it is unlikely TLI's total investment portfolio will be significantly riskier as it is governed by the company's internal cap on risky investments and heavier risk charges prescribed in the new capital framework.

Investment-Grade Bonds Dominate Portfolio

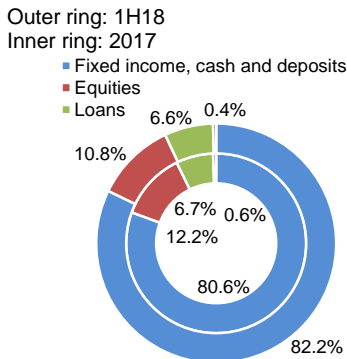
TLI's credit risk is manageable, which is evident from the investment grade of most of its bonds on an international or national scale. About half of its fixed-income securities are from government and state-owned enterprises. The insurer intends to maintain large holdings of government bonds, given its investment risk stance, balanced by selective purchases of quality corporate bonds to improve overall investment returns.

Management said the company's exchange-rate risk tied to its bond investments is fully hedged as per regulations, while that of the offshore equity portfolio has been closely monitored and hedged at a high ratio according to the insurer's policy.

High Sovereign Investment Concentration

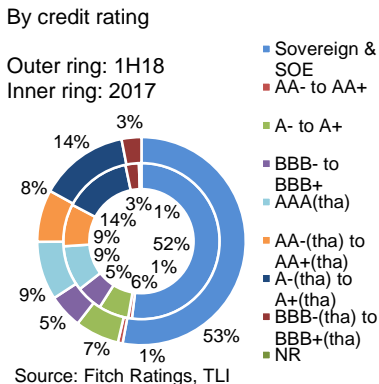
Significant holdings in sovereign-related debt securities provide the insurer with long-tenor investment assets to match its insurance liabilities with sound credit risk profiles. Thailand's Long-Term Local-Currency Issuer Default Rating of 'BBB+' has limited downside risk, which is evident from its Stable Outlook. Therefore, the quality of the company's government and state-owned enterprise securities should remain intact.

Invested Asset Allocation



Source: Fitch Ratings, TLI

Fixed-Income Securities



Source: Fitch Ratings, TLI

**Asset/Liability and Liquidity Management**

	2013	2014	2015	2016	2017	Fitch's expectation
Liquid-asset ratio <sup>a</sup> (%)	108	108	104	105	104	Narrowing duration gap, with strong liquid assets.
Duration gap (years)	6	6	5	5	4	
Cash and equivalents to policyholder liabilities (%)	10	12	10	6	3	

<sup>a</sup> Liquid assets include cash, bank deposits, investment-grade bonds and stocks  
 Source: Fitch Ratings, Fitch Solutions, TLI

**Better Asset-Liability Match**

- Narrower duration gap
- Sound liquidity profile

**Narrower Duration Gap**

Fitch expects TLI to be vigilant in balancing its asset and liability mismatch with incremental returns from short-term investments. The insurer's duration gap has been improving over the last five years, narrowing to less than three years by end-3Q18, which lowers exposure to interest-rate volatility.

More availability of long-term government bonds in the market may allow the insurer to lengthen its asset duration. At the same time, some term-life products and matured endowment policies might also shorten the overall liabilities duration when they are blended into the insurer's existing savings product-dominated liability profile.

**Sound Liquidity Profile**

Fitch believes TLI will have sufficient liquid assets to meet its unexpected claim outflows and insurance obligations. The liquid-asset ratio of more than 100% was much higher than a guideline of 53%-67% for 'A' rated insurers, according to Fitch's criteria.



## Reinsurance, Risk Management and Catastrophe Risk

### Highly Rated Reinsurance Panel

TL's reinsurance panels are financially strong with ratings in the 'A' to 'AA' range. The insurer's use of reinsurance tools is in line with its risk appetite and comparable with domestic rated peers.

## Appendix A: Industry Profile and Operating Environment

This section discusses **Thailand's** life and non-life insurance sector.

### Regulatory Oversight

Fitch considers Thailand's regulatory environment to be less developed. Insurers are governed by the Insurance Act and regulated by the Office of Insurance Commission (OIC), the country's insurance regulatory body. The regulator has adhered to a RBC regime since 2011 with plans for an enhanced framework to bring the local RBC in line with international standards. OIC plans to adopt the Enterprise Risk Management and Own Risk and Solvency Assessment frameworks, which require insurers to establish internal risk governance and capital position self-assessments. In the event of insolvency, legislation allows OIC to take certain actions to obtain resolution.

### Technical Sophistication of Insurance Market; Diversity and Breadth

The domestic market has moderate technical sophistication and product diversity. The life market is dominated by endowment and term products. The non-life segment concentrates on motor, personal accident and industrial lines. Thailand's penetration rate is moderate with growth potential particularly in investment-linked, healthcare, personal and property products. The country's regulator has been consistently working with the industry to promote the expertise of local insurers.

### Competitive Profile

Competition is often intense and not rational. The non-life industry is under pricing pressure particularly in the motor segment as it is composed of up to 60 players while the 10-largest non-life insurers have control of 60% of total market share. The life insurance segment is also dominated by large companies; the 10-biggest life insurers (out of 22) account for above 85% of total market premiums with steady market dominance by top players. Competition in the life industry mainly arises from bancassurance and short-term savings products; however, the risks are mitigated by the regulator's close oversight.

### Financial Market Developments

Fitch considers Thailand's debt and equity market to be relatively deep and liquid. Government bonds comprise a large part of the country's debt issuance and bonds with tenor of up to 10 years are actively traded in the secondary market. The equity market is active and sizeable regionally in terms of trading activities and retail investor base. The Thai banking sector remains healthy as evident from its sound performance and capitalisation. Regulatory supervision is in line with international standards, including the adoption of the Basel III framework and IFRS9.

### Country Risk

Fitch rates the local-currency sovereign obligations of Thailand at 'BBB+' with a Stable Outlook. The mid-point of the sector's six-notch Industry Profile and Operating Environment (IPOE) score, based on the IPOE range suggested by the performance of the sub-factors, is in line with the local-currency sovereign rating of Thailand.

Peer Comparison

Insurers	Country	IFS Rating	Return on assets (pretax) equity (%) <sup>a</sup>	Return on assets (pretax) (%) <sup>a</sup>	Gross premiums (USDbn)	Total assets (USDbn)	Shareholders' equity (USDbn)	Local solvency ratio (%)
TLI	Thailand	A-/AAA(tha)	13	2	3	12	2	321
Muang Thai Life Assurance	Thailand	A-/AAA(tha)	20	3	3	13	2	398
Heungkuk Life Insurance	South Korea	BBB+	4	0.3	4	26	2	225
FTLife Insurance	Hong Kong	A-	7	2	1	7	2	515
FWD Life	Hong Kong	A	10	1	2	9	1	269

Based on financial statements for 2017

<sup>a</sup> Average of 2015-2017

Source: Fitch Ratings, Fitch Solutions, TLI, Muang Thai Life Assurance Public Company Limited, Heungkuk Life Insurance Co., Ltd., FTLife Insurance Company Limited, FWD Life Insurance Company (Bermuda) Limited

Appendix B: Peer Analysis

Profitable Operations, Moderate Asset Size

Fitch expects TLI to sustain its business performance over the medium term, driven by conservative underwriting activities and solid business franchises. The risk-based capital buffer has been comparable with similar local life insurers and has stayed well over the 140% regulatory minimum, offering a sound buffer against unanticipated claims and lapses. TLI's key financials remain in line with that of local and regional peers, balanced by the moderate size of its assets.

## Appendix C: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

### Group IFS Rating Approach

Not applicable.

### Notching

For notching purposes, the regulatory environment of Thailand is assessed by Fitch as 'Effective', and classified as following a ring-fencing approach.

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### 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.

#### Operating Company Debt

Not applicable.

#### Holding Company IDR

Not applicable.

#### Holding Company Debt

Not applicable.

#### Hybrids

Not applicable.

Source: Fitch Ratings

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### Short-Term Ratings

Not applicable.

### Hybrids – Equity/Debt Treatment

None.

### Corporate Governance and Management

Corporate governance and management are effective and neutral to the rating. TLI's board consists of three independent directors among 12 members. TLI has sub-committees, including executive, nomination and remuneration, audit, risk management and investment committees. The company has an effective risk-management framework, in line with that of the regulator's requirement.

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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