

# Thai Life Insurance Public Company Limited

## Key Rating Drivers

**Outlook Revision:** The revision of the Outlook to Stable on Thai Life Insurance Public Company Limited (TLI) reflects Fitch Ratings' expectation that TLI's operating results and capitalisation strength are more favourable than the pro forma results implied by our pandemic stress test analysis in 2020 – the basis for the previous Negative Outlook. We have revised our forecast of the economic impact of Covid-19, and assume equity markets have returned to a period of more normalised volatility.

**'Favourable' Business Profile:** We view TLI's business franchise as robust, with the second-largest market share in Thailand by total premiums written at end-2020, despite a moderate operating scale relative to regional insurers. Its products remain comprehensive, with robust distribution channels in agency and bancassurance capacity. We rank the business profile as 'Favourable' in relation to all other Thai life insurers. Therefore, Fitch scores TLI's business profile at 'a-' under our credit-factor scoring guideline.

**Sound Capitalisation:** Fitch expects TLI's risk-based capital (RBC) ratio to remain stable over the medium term, with an adequate buffer against volatility in interest rates and earnings. TLI estimates its RBC ratio at end-2020 was not significantly different from the 372% at end-3Q20, well above Thailand's regulatory requirement of 120%. The score was 'Very Strong' in the Fitch Prism Model at end-3Q20.

**Robust Profitability:** TLI's earnings are strong despite a challenging operating environment. Its three-year (2017-2019) average pre-tax return on assets (ROA) of 2% and annualised pre-tax ROA of 3% at end-3Q20 were in line with Fitch's expectation for 'A' rated insurers. Earnings have benefited from the revision in product offering and repricing strategy, offsetting low investment yields and slower new business growth.

**Liquid Investment Portfolio:** We believe TLI's investment asset allocation is liquid. Fixed-income securities and deposits accounted for 84% of the total portfolio at end-3Q20. Exposure to equities declined to 9% – below the 11% average in 2017-2019 – due to high volatility in the equity market in 2020. Fitch believes TLI's investment allocation is reasonably cautious, with less 'risky asset' classes and an increase in investment-grade corporate bonds in the portfolio to maintain overall yield.

**Sound Duration Gap:** Asset-liability management has turned robust after a gradual improvement over the last few years. Fitch expects no material change in the profile, given management's strategy on reducing interest rate-sensitive products and ongoing investment in long-term government bonds. Liquidity should remain sound to meet claims and cash outflows.

## Rating Sensitivities

**Deterioration in Financials:** Persistent weakening in capitalisation or profitability could result in negative rating action, such as a prolonged drop in the RBC ratio to below 280% with the Fitch Prism Model score falling below 'Strong', or a persistent decline in pre-tax ROA to below 1%.

**Stronger Credit Profile:** A clear improvement in TLI's business profile and maintenance of its capitalisation would lead to an upgrade, including a larger operating scale with broader diversification in business lines, geographies and distribution sources, while being able to sustain capital adequacy well into the 'Strong' level as measured by the Fitch Prism Model score.

## Ratings

### Thai Life Insurance Public Company Limited

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

## Outlooks

Insurer Financial Strength	Stable
National Insurer Financial Strength	Stable

## Financial Data

### Thai Life Insurance Public Company Limited

(THBbn)	3Q20	2019
Gross premiums written	63	92
Total assets	474	458
Return on assets (pretax) (%)	3 <sup>a</sup>	2
Return on equity (%)	13 <sup>a</sup>	10
Liquid-asset ratio (%)	100	102

Note: <sup>a</sup> Annualised  
Source: Fitch Ratings; TLI

## Applicable Criteria

[Insurance Rating Criteria \(August 2020\)](#)

## Related Research

[Thai Life Insurance Dashboard 2020 \(June 2020\)](#)

## Analysts

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### Key Credit Factors – Scoring Summary

Factor Levels	Operational Profile			Financial Profile			Reserve Adequacy	Reinsurance, Risk Mitigation & Catastrophe Risk	Other Factors & Criteria Elements (see below)	Insurer Financial Strength
	Industry Profile & Operating Environment	Business Profile	Capitalization & Leverage	Debt Service Capabilities and Financial Flexibility	Financial Performance & Earnings	Investment & Asset Risk				
aaa										AAA
aa+							Credit Factor	Credit Factor		AA+
aa							Not Applicable	Not Applicable		AA
aa-										AA-
a+										A+
a	↑	↑	↑		↑					A
a-	↓	↓	↓		↓				↓	A- Stable
bbb+		↓								BBB+
bbb	↓									BBB
bbb-	↓									BBB-
bb+	↓						↓			BB+
bb							↓			BB
bb-										BB-
b+										B+
b										B
b-										B-
ccc+										CCC+
ccc										CCC
ccc-										CCC-
cc										CC
c										C
d or rd										D or RD

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 / Group Support	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	
■ Higher Influence	
■ Moderate Influence	
■ Lower Influence	
Bar Arrows = Rating Factor Outlook	
↑ Positive	↓ Negative
⇅ Evolving	□ Stable

### Peer Comparison

Please see Appendix A

### Industry Profile and Operating Environment (IPOE)

Industry Profile and Operating Environment: Thai Insurance (June 2020)

## Business Profile

The company's 15% share of total premiums written of 15% at end-2020 (2019: 15%) and overall franchise strength is underpinned by a robust tied-agency force. TLI encourages its agents to raise their skill levels and improve service capability by achieving industry-accepted certifications such as Certified Financial Planner or Chartered Financial Practitioner.

The company has had close ties with Japan's Meiji Yasuda Life Insurance Company (IFS A+/Stable) since 2013. We believe this cooperation can enhance TLI's competitiveness in terms of attracting and retaining Japanese corporate customers based in Thailand.

### Well-Diversified Distribution Sources

Fitch believes TLI's business diversification remains favourable and on a par with its high-profile domestic peers. The company pursues a multi-distribution channel strategy to balance out its reliance on the agency channel. For instance, it raised its non-agency revenue from the acquisition of Thai Cardif Life Assurance Public Company Limited in 2015.

The insurer has also been strengthening its relationships with local commercial banks, resulting in its bancassurance sales expansion. Premiums via the bancassurance channel rose to 23% of the total by end-2020 from 19% in 2016. Its tied-agency force remains strong and is a major distribution source, with around 71% in 2020 and well above the industry average of 52%

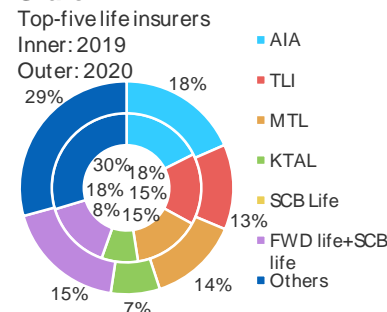
TLI's international expansion in Myanmar, via a 35% stake in a JV with Citizen Business Insurance Public Company Limited, is growing but remains relatively small compared with the current business. TLI expects to gain long-run benefits from Myanmar's growth potential relative to a more mature Thai market. Moreover, the company also plans to diversify its business further into Cambodia and Laos.

### Full Suite of Product Offerings

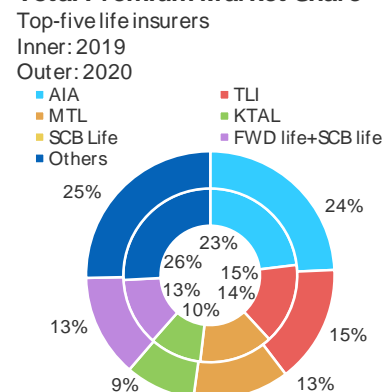
We consider TLI's risk appetite to be on a par with that of its local peers. It has a comprehensive product suite, covering whole life, term life, health protection, investment-linked, and retirement products. It has also joined its domestic peers to offer products designed for the high-net-worth segment, online-based policies, and incrementally value-added health insurance riders as well as products to capture the aging segment.

TLI monitors its insurance policies to ensure their sound profitability in response to a persistent low-interest-rate environment. Its commitment to take immediate action to reprice or discontinue any unprofitable product is in line with industry practice, which is neutral to its risk profile.

### New Business Premium Market Share



### Total Premium Market Share



Source: Fitch Ratings, Thai Life Assurance Association

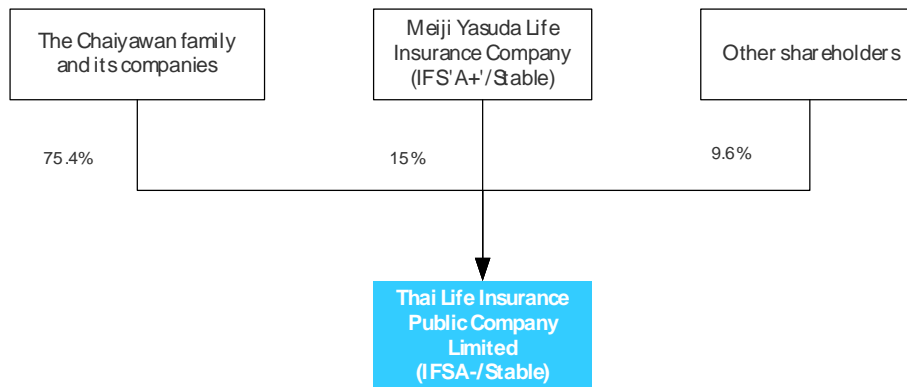
#### Note:

- AIA - AIA (Thailand) Co.,Ltd.
- TLI - Thai Life Insurance Public Company Limited (A-/Stable)
- KTAL - Krungthai AXA Life Insurance PLC
- SCB Life - SCB Life Assurance PLC
- FWD Life - FWD Life Insurance PLC

## Ownership

Fitch believes the ownership does not affect the insurer’s financial strength. TLI’s shareholding is privately held by the Chaiyawan family and related companies. Meiji Yasuda Life became TLI’s strategic partner in 2013, and has continued to support the company’s technical expertise and business operations. Chaiyawan family members serve as senior directors and executives on the board, along with a representative from Meiji Yasuda Life.

### Structure Diagram



Source: Fitch Ratings, Fitch Solutions, TLI

## Capitalisation and Leverage

### Strong Capitalisation

TLI's capitalisation has been consistently stable over the last few years, with its RBC adequacy ratio over 300%, which is well above the regulatory requirement and in line with that of other large life insurer peers in the country. TLI's strong capital position is recently enhanced by a narrower asset-liability mismatch, stable profit and investment returns.

The insurance liabilities to capital remain lower than that of its rated peers. TLI's favourable buffer is demonstrated by a steady operating leverage ratio of about 5x, below the 13x-19x range for 'A' rated insurers according to Fitch's guideline.

### 'Very Strong' Fitch Prism Model Score

The Fitch Prism Model score of 'Very Strong' based on TLI's financials at end-3Q20 is supported by the insurer's healthy core operations with steady investment returns and reasonable dividend payouts. Capitalisation may be more sensitive to increasing profit pressure and low bond yields; however, we think TLI's Fitch Prism Model score should remain 'Very Strong' over the medium term, assuming no significant changes to its investment and reserve profile.

### Fitch Expectations

- TLI's non-risk-based capitalisation to be stable and its RBC ratio maintained at a level well above the regulatory requirement

## Debt Service Capabilities and Financial Flexibility

### Strong Financial Flexibility

TLI has been operating with no debt in its balance sheet from its robust business operations. Fitch expects no significant change in its financial flexibility over the medium term; and the company should have adequate funding access through both capital markets and financial institutions if additional debt is needed to support its working capital.

### Fitch Expectations

- TLI's operations to be supported by internal cash flows

### Financial Highlights

	3Q20	2019
Operating leverage (x)	5	5
Asset leverage (x)	5	5
Regulatory RBC (%)	372	395
Total financing commitment ratio (x)	-	-
Shareholders' equity/assets (%)	15	15

Source: Fitch Ratings; TLI

### Financial Highlights

	3Q20 <sup>a</sup>	2019
Fixed-charge coverage ratio (x)	n.a.	n.a.

Note: <sup>a</sup> Annualised

Source: Fitch Ratings; TLI

## Financial Performance and Earnings

### Slower Growth in Top Line

TLI's 2018-2020 average premium growth of 0.7% was faster than the industry average of -0.1%. This was driven by TLI's main product of savings-type insurance plans distributed through its tied-agency force. Its stronger bancassurance franchise through more extensive coordination with commercial bank partners raised the revenue contribution from its bancassurance channel. Nevertheless, TLI estimates gross premiums written to be dropped in 2020, pressured by the slow-down and the demise of its single-premium endowment products.

### Sound Earnings

Fitch expects TLI will maintain its record of prudent business strategy. The company has shifted its products towards health protection and less interest-sensitive lines, as well as focusing on high net worth customers and the elderly. It also has a robust pricing policy, with clear monitoring and reporting guidelines to ensure the products on the shelf are generating positive spreads. In addition, affiliated riders could be bundled to improve and sustain profit margins.

TLI has generated stable profitability, supported by its sound operations and investment returns, where its return on equity and pre-tax return on assets has been favourable against Fitch's performance ratio guideline for 'A' category insurers.

### Fitch Expectations

- Earnings growth to moderate due to slower business and subdued investment returns. However, its earnings profile should remain sound.

### Financial Highlights

	3Q20	2019
Return on equity (%) <sup>a</sup>	13	10
Return on assets (pretax) (%) <sup>a</sup>	3	2
Change in gross premiums (%)	-3	7
Investment yield (%) <sup>a</sup>	3	4
Growth in life assets - relative (%)	n.a.	3

Note: <sup>a</sup> Annualised  
Source: Fitch Ratings; TLI

## Investment and Asset Risk

### Stable Asset Allocation

We believe TLI's investment strategy has been stable over the last five years. The main investment assets are national scale or international scale investment-grade bonds. TLI raised its investment in corporate bonds in 2020, while reducing the proportion in shares due to the market volatility. Nevertheless, Fitch believes the investment mix remains prudent, with cautious allocation in the risky-asset class to maintain its overall yield.

### Moderate Risky-Asset Profile

TLI's risky-asset ratio was 188% at end-3Q20, in line with its average in 2017-2019 of 188%, which is consistently well above Fitch's 109% guideline for 'A' rated insurers.

### Concentration in Sovereign Investment

TLI holds long-tenor sovereign-related fixed-income securities to match its long-term insurance liabilities with sound credit risk profile. Our sovereign rating Outlook of Stable for Thailand indicates limited downside risk to the ratings of state and state-owned enterprises fixed-income securities.

### Fitch Expectations

- Continued prudent investment strategy to balance risks and rewards.

## Asset Liability and Liquidity Management

### Improved Duration Gap

TLI's asset and liability management has been strengthened over the last few years, as its duration mismatch has narrowed from around five years in 2016 to around two since 2019. We expect its duration gap to remain relatively narrow with ongoing investment in long- and medium-term government bonds and introducing new business with term-life products, and we think the improvement supports TLI's credit profile relative to its local insurance peers.

### Sound Liquidity Profile

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

### Fitch Expectations

- Stable asset and liability management profile with a sound liquidity position

### Financial Highlights

	3Q20	2019
Total investment assets (THBbn)	461	442
Cash and cash equivalents/total invested assets (%) <sup>a</sup>	2	3
Fixed-income securities/total invested assets (%)	82	79
Stocks/total invested assets (%)	9	12
Risky assets ratio (%) <sup>b</sup>	188	195

<sup>a</sup> Cash and cash equivalents include highly liquid short-term investments, deposits with original maturities of more than three months

<sup>b</sup> Risky assets include equities, below-investment-grade bonds on the international rating scale, and sovereign debt subject to a scaling adjustment

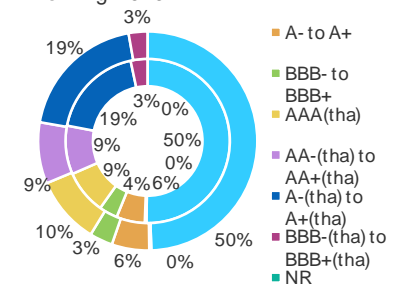
Source: Fitch Ratings; TLI

### Fixed-Income Securities

By credit rating

Outer ring: 3Q20

Inner ring: 2019



Source: Fitch Ratings, TLI

### Financial Highlights

	3Q20	2019
Liquid-asset ratio (%)	100	102
Duration gap (years)	2.5	3.2
Cash and equivalents to policyholder liabilities (%)	2	3

Source: Fitch Ratings; TLI

## Reinsurance, Risk Mitigation and Catastrophe Management

TLL's reinsurance panels have strong financial strength; their ratings are in the 'A-' to 'AA' range. The insurer's use of reinsurance tool is still in line with its risk appetite and comparable with its domestic rated peers. The company's retention limit has not changed significantly over the last several years in light of its relatively stable risk profile.

### Fitch Expectations

- No change in reinsurance panel with robust profile



## Appendix A: Peer Analysis

### Steady Performance, Growth Not Materially Outpacing the Industry

Fitch expects TLI's profitability growth to slow over the medium term, considering the more challenging business landscape and low-interest-rate environment. Growth in premiums written and assets is not likely to markedly outpace that of the industry, reflecting its lower focus on large ticket-sized products. TLI's capitalisation should still be favourable and stay well above the minimum regulatory requirement.

### Peer Comparison

	IFS Rating	Country	Return on equity <sup>b</sup> (%)	Return on assets (pretax) <sup>b</sup> (%)	Gross premiums <sup>b</sup> (USDbn)	Total assets <sup>a,b</sup> (USDbn)	Shareholders' equity <sup>b</sup> (USDbn)	Local solvency ratio (%)
Thai Life Insurance Public Company Limited	A-/AAA(tha)	Thailand	12	2	3	13	2	372 <sup>e</sup>
Muang Thai Life Assurance Public Company Limited	A-/AAA(tha)	Thailand	12	2	3	15	2	309 <sup>e</sup>
Heungkuk Life Insurance Co., Ltd.	BBB+	Korea	6	0.4	3	26	2	187 <sup>d</sup>
FTLife Insurance Company Limited	A-	Hong Kong	8	2	1	8	2	522 <sup>e</sup>
FWD Life Insurance Company (Bermuda) Limited	A	Hong Kong	1	0	2	12	1	342 <sup>e</sup>

<sup>a</sup> Excluding reinsurance assets

<sup>b</sup> three-year average (2017-2019), the rest of the figures are based on 2019

<sup>c</sup> Based on end of September 2020

<sup>d</sup> Based on end of June 2020

Source: Fitch Ratings, Fitch Solutions, companies

## Appendix B: 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 being 'Effective', and classified as following a ring-fencing approach.

### Notching Summary

<b>IFS Ratings</b>
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.
<b>Operating company debt</b>
Not applicable.
<b>Holding company IDR</b>
Not applicable.
<b>Holding company debt</b>
Not applicable.
<b>Hybrids</b>
Not applicable.
IFS – Insurer Financial Strength. IDR – Issuer Default Rating Source: Fitch Ratings

### Short-Term Ratings

Not applicable.

### Hybrid – Equity/Debt Treatment

None.

### Corporate Governance and Management

Corporate governance and management are effective and neutral to the rating. The insurer has set up an effective risk management and corporate governance framework in line with that of the regulator's expectation. TLI's board comprises three independent directors out of 12 members. Several sub-committees are also in place including the executive, risk management, investment, audit, as well as nomination and remuneration committees.

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None

## Appendix C: Environmental, Social and Governance Considerations

### Credit-Relevant ESG Derivation

Thai Life Insurance Public Company Limited has 8 ESG potential rating drivers

- Thai Life Insurance Public Company Limited has exposure to compliance risk, treating customers fairly, pricing transparency, privacy/data security, legal/regulatory fines, exposure to own cyber risk but this has very low impact on the rating.
- Thai Life Insurance Public Company Limited has exposure to social responsibility and its effect on brand strength, increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

	key driver	0	issues	5	Overall ESG Scale
	driver	0	issues	4	
	potential driver	6	issues	3	
	not a rating driver	2	issues	2	
		6	issues	1	

### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management, Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events/natural catastrophes on operations or asset quality, credit concentrations	Financial Performance & Earnings, Investment & Asset Risk	1

#### How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly, pricing transparency, privacy/data security, legal/regulatory fines, exposure to own cyber risk	Industry Profile & Operating Environment, Business Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile, Investment & Asset Risk, Financial Performance & Earnings, Reinsurance, Risk Mitigation & Catastrophe Risk	1

### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management, Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity, key person risk, related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure, appropriateness relative to business model, opacity, intra-group dynamics, ownership	Corporate Governance & Management, Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevant is a score of 3 – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Score, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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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