DHIPAYA INSURANCE PUBLIC COMPANY LIMITED

No. 195/2024
30 October 2024

FINANCIAL INSTITUTIONS

Financial Strength Rating: AAA
Outlook: Stable

Last Review Date: 31/10/23

Company Financial Strength Rating History:

Date	Rating	Outlook/Alert
06/01/23	AAA	Stable

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RATIONALE

TRIS Rating affirms the financial strength rating (FSR) of "AAA" with a "stable" outlook on Dhipaya Insurance PLC (TIP). The rating reflects TIP's status as an insulated entity under the insurance group led by Dhipaya Group Holdings PLC (TIPH, rated "AA/Stable"). TIP is TIPH Group's core non-life insurance business and a subsidiary of TIPH.

The stand-alone credit profile (SACP) of TIP is assessed at "aaa". As a core operating entity of TIPH Group, TIP's SACP represents the group credit profile (GCP). The SACP reflects TIP's excellent business risk profile, strong financial risk profile, as well as strong governance and liquidity position.

KEY RATING CONSIDERATIONS

An insulated and core operating entity under TIPH Group

We expect TIP to remain a core operating entity of TIPH Group in the foreseeable future. The company will continue to operate as the core insurance business under TIPH's three- to five-year business plan, comprising three business units: Insurance Business (TIP IB), Insurance Support (TIP ISB), and Other Businesses (TIPX).

As of June 2024, TIP was 99.05% owned by TIPH. The total assets of TIP represented over 98% of TIPH's consolidated assets in the same period. The two companies share almost identical board structures and members.

We consider TIP as an insulated entity under TIPH Group, based on regulatory restrictions that prevent TIP from supporting TIPH and other group entities financially if such support were to unduly impair TIP's capital strength.

Diversified leader in Thai non-life insurance

We expect TIP to maintain its competitive position as one of the leading non-life insurers in Thailand. This reflects TIP's strong market shares, well-established brand, and diversified businesses. TIP's overall market share in direct written premium was 10.8% during the first half of 2024 (1H2024), ranked 2nd in the Thai non-life insurance industry. The company has the largest market share of 19% in non-motor insurance and 4.4% in motor insurance, ranked 7th, over the same period.

In our view, diversified exposure, prudent underwriting, and effective uses of reinsurance have contributed to TIP's resilience to adverse operating conditions. Key sources of earnings include strong underwriting profits, meaningful earnings contributions from fees and commission income from reinsurance, and relatively stable investment yields. TIP underwrites a meaningful proportion of commercial- and personal-line businesses. The share of underwriting profits before operating expenses comprised fire (18%), motor (20%), personal accident (42%), marine & transport (2%) and miscellaneous (18%) in 2018-2023.

Favourable distribution network

We assess TIP's insurance distribution network as favorable, thanks to strategic distribution arrangements with TIPH's major shareholders including PTT PLC (PTT), Government Savings Bank (GSB), and Krungthai Bank PLC (KTB). These government-related entities provide access to extensive branch networks and a wide base of government employees with less price pressure. Besides, these entities provide business referrals for the commercial-line and personal-line segments. Other important distribution channels are non-bank insurance brokers and digital platforms. TIPH's other subsidiaries operating digital insurance, brokerage, and lending businesses could further strengthen TIP's distribution network.

Expect consistent profitability

TIP should be able to deliver consistent profitability over the next few years. We expect a return on average equity (ROAE) in the range of 18%-20%. We expect 0%-3% gross premium written (GWP) growth in 2024 to reflect ongoing weak industry demand and the company's cautious growth before picking up to 5%-7% in 2025-2026. Sizable reinsurance commissions at around a third of total income and investment yields of 5%-6% per year represent other important revenue sources. We expect the combined ratio to stay elevated in the 85%-88% range, and the loss ratio of 65%-68%, from 2024-2026 due to rising cost pressure from claim and operating expenses.

Strong capital buffer

We expect TIP to maintain a strong capital adequacy ratio (CAR) at a level above 200% over the next few years. We forecast the CAR in the range of 230%-250% in 2024-2026 to reflect consistent profitability, a 50%-55% dividend payout, and no material change to the underwriting exposure. We also assume no gains or losses from the fair value through other comprehensive income (FVOCI) investments.

TIP's CAR stood at 203% as of June 2024, below our forecasted range of 230%-250%. This deviation reflects a certain degree of volatility explained by large unrealised losses from FVOCI investments over the prior 12 months. These investments comprise equities, real-estate investment trusts (REITs), and infrastructure funds (IFFs).

We consider TIP's total capital available (TCA) of THB6.7 billion at the end of June 2024 to be medium-sized, relative to its peers.

Moderate capital volatility risk

We anticipate moderate volatility in TIP's capital metrics over the next few years. Consistent profitability, driven by well-managed underwriting exposure, effective use of reinsurance, and income-focused investment strategies, should help sustain capital strength. However, some volatility may arise from exposure to equities, REITs, and IFFs, which constitute nearly half of the investment portfolio.

TIP's consistent underwriting performance demonstrates its ability to diversify its exposure and offer products with risk-based premiums, backed by an in-house actuary team. Product segmentation based on the behavioral profiles of target markets allows TIP to sell insurance policies with less price competition. Established partnerships and knowledge-sharing with reinsurers also facilitate joint product development. Additionally, TIP proactively manages risk by limiting exposure to underwriting new risks that may not be profitable.

In our view, TIP's reinsurance arrangement has been effective in lowering the volatility of its underwriting performance by limiting net loss exposure and operating within the company's retention limits. This is important given TIP's extensive use of reinsurance, with a ceding ratio above 70% during 1H2024. Regular monitoring focuses on the credit ratings, CAR level, and single-party exposure of reinsurers, conducted on a monthly basis. Exposure to foreign reinsurers accounted for around 85% of total reinsurance assets as of June 2024, all maintaining a minimum credit rating of "A-" on an international scale. The company retains more underwriting exposure in diversified retail exposure, such as personal accident (PA), motor and fire insurance. TIP's insurance strategy combines proportional treaties for capacity sharing of identical risks and non-proportional treaties to mitigate catastrophic and idiosyncratic risks. The company obtains facultative reinsurance prior to underwriting any significant risk. Additionally, there are mechanisms in place to provide liquidity from reinsurers in the event of large claims, such as cash call, partial claims, and offset settlement with ceded premiums.

TIP's strategy to allocate investments across low-risk and higher-yield asset classes can lead to moderate variability in performance. The investment strategy segregates permitted investments with exposure limits by asset classes tailored to specific purposes. Around 60% of the portfolio consists of cash, money-market instruments, government securities, and corporate debentures, primarily for working capital and asset-liability management (ALM) including insurance claims. Investments in corporate debentures follow an internally required minimum credit rating of "A-" based on the Thai national scale. The remaining investments are in more volatile asset classes, such as equities, REITs and IFFs, aimed at yield enhancement and surplus management. To manage equity price volatility, the company employs an internal value-at-risk (VAR) model.

Comprehensive risk management and governance

The risk management and governance at TIP are in line with the Enterprise Risk Management (ERM) and Own Risk and Solvency Assessment (ORSA) frameworks specified by the Office of Insurance Commission (OIC). TIP conducts strategic risk control and monitoring of key risk indicators (KRIs) on a monthly basis. There are specified risk parameters and trigger points, tolerance levels, and pre-defined responses to identified vulnerabilities. Key risk categories include capital, underwriting, credit, liquidity, and market risks. TIP assesses economic capital adequacy to better reflect the company's risk exposure, in addition to the OIC's standard capital adequacy requirements. Multiple-scenario stress tests are performed regularly to ensure a CAR is above an internal risk appetite of 180%. The stress tests simulate the impacts of large claims stemming from major natural catastrophes and adverse economic conditions. The company also conducts enterprise risk monitoring and reviews its internal risk management framework at least annually.

Adequate liquidity

We expect TIP to maintain adequate liquidity, supported by a large portfolio of highly liquid investments relative to its claim reserves. The OIC-compliant liquidity ratio of TIP stood at 213% as of June 2024. Besides cash, money-market instruments, and deposits, TIP invests in tradable securities, including government bonds, corporate debts, equities, mutual funds, real-estate investment trusts, and infrastructure funds. We also expect TIPH's shareholders, which are major financial institutions, to provide additional liquidity to TIP in the form of credit lines, when needed.

Highly regulated industry

Our risk assessment of the non-life insurance industry reflects its status as a highly regulated industry under the supervision of the OIC. The regulatory framework governs all major aspects of insurance operations, including capital adequacy, premium pricing, product terms and conditions, governance and risk management framework, valuation of insurance contracts, and eligible scope of investments. The capital adequacy is regulated through a risk-based capital adequacy framework (RBC-2 standards), with clearly specified risk weights assigned to each risk exposure. The early warning system (EWS) outlines a structured approach to monitor the health of insurance companies and intervention steps for vulnerable players. Additionally, a general insurance fund helps mitigate systemic risks arising from large claims that could otherwise lead to insurer insolvency.

BASE-CASE ASSUMPTIONS FOR 2024-2026

- GWP growth: 0%-3% in 2024 and 5%-7% in 2025-2026
- Loss ratio: 65%-68%
- Combined ratio: 85%-88%
- Investment yields: Around 5%-6% per annum

RATING OUTLOOK

The "stable" outlook reflects our expectation that TIP's insurance business will remain solid, underpinned by an excellent business risk profile, healthy underwriting performance, strong capital, prudent risk management, and adequate liquidity on a sustained basis.

RATING SENSITIVITIES

We could revise the FSR downward if there is material deterioration in TIP's capital or liquidity position, possibly resulting from potential or sustained large losses. Any evidence of a material deficiency in risk management and governance could also pressure the rating.

COMPANY OVERVIEW

TIP was founded in 1951 as a state-owned enterprise (SOE) by Field Marshal Chom Phon Sarit Thanarat. In 1995, the company changed its status from an SOE to a public company, with PTT, GSB, and KTB becoming the major shareholders. TIP was also listed on the Stock Exchange of Thailand (SET), raising its capital to THB240 million from THB80 million. In 2018, TIP raised its capital by a further THB300 million to THB600 million. TIPH was set up in July 2020 as part of the group restructuring plan. Between June and August 2021, TIPH launched a share offering with a tender offer for TIP's shares via a 1:1 share swap. In September 2021, TIPH replaced TIP as a listed company on the SET. In October 2021, TIPH set up a new subsidiary, TIP ISB Co., Ltd., to invest in insurance-support businesses. TIP continues to operate the non-life insurance business as TIPH's core business and engage in investment activities as prescribed by the Non-life Insurance Act under the supervision of the OIC.

Thailand's non-life insurance industry is highly fragmented, with the aggregate direct premium of the top-20 insurers accounting for about 80% of the total. The industry as of 1H2024 comprises 49 companies: 45 non-life insurers, three health insurers, and one reinsurer. Direct premium in 1H2024 totaled THB141.0 billion, a 0.4% year-on-year (y-o-y) growth, compared with 4%-5% growth over the past few years. Of the total direct premium in 1H2024, 56% was motor, 37% miscellaneous, 4% fire, and 3% marine. Thai insurers reporting net profit of THB13.3 billion in 1H2024. They remain financially healthy with an average capital adequacy ratio of 195% as of June 2024, compared with the regulatory minimum requirement of 140%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2024[1]	-----------Year Ended 31 December 2023	2022	2021	---------- 2020
Gross premium written	15,678	34,797	32,575	29,410	25,399
Net premium written	4,334	9,564	8,135	8,184	7,671
Net earned premium	4,462	8,901	8,445	7,809	7,573
Fee and commission income on reinsurance	2,771	5,559	5,701	4,839	4,362
Investment income	431	837	693	864	755
Other income	69	145	310	102	51
Gross claim and loss adjustment expenses	8,290	15,384	16,925	16,240	13,414
Net claim and loss adjustment expenses	3,110	6,276	7,208	5,460	4,218
Commission and brokerage expenses	1,591	3,044	2,803	2,298	2,237
Other underwriting expenses	848	1,759	1,600	1,623	1,529
Operating expenses	1,057	2,095	2,026	1,974	2,203
Finance costs	0	0	0	0	0
Expected credit loss	0	1	(2)	1	0
Profit for the year	883	1,855	1,238	1,843	2,065
Cash and cash equivalent	1,360	2,123	2,907	2,474	3,773
Premium receivables - net	6,753	7,331	6,159	4,474	3,611
Reinsurance assets - net	17,562	20,781	21,093	18,305	15,521
Reinsurance receivables	5,691	3,866	3,694	4,466	3,174
Investment assets	15,498	15,170	15,026	15,071	13,026
Other assets	6,020	6,773	6,051	4,864	5,368
Total assets	52,885	56,044	54,931	49,653	44,472
Insurance contract liabilities	24,354	27,485	27,457	24,253	21,445
Loss reserves and outstanding claims	7,584	9,019	10,120	8,716	7,962
Unearned premium reserves	16,770	18,466	17,336	15,537	13,482
Premiums received in advance	6,867	7,821	6,697	5,403	5,926
Due to reinsurers	9,919	9,149	8,401	7,127	5,750
Debt issued and borrowings	0	0	0	0	0
Other liabilities	3,183	2,772	3,730	3,180	2,908
Total liabilities	44,323	47,227	46,285	39,963	36,029
Total shareholders' equity	8,562	8,817	8,646	9,690	8,443

Unit: %

	Jan-Jun 2024[1]	2023	2022	2021	2020
		------------Year Ended 31 December -----------			
Loss ratio	69.7	70.5	85.4	69.9	55.7
Expense ratio[2]	16.2	15.1	8.6	13.5	21.2
Combined ratio	85.9	85.6	94.0	83.4	76.9
Ceding ratio	72.4	72.5	75.0	72.2	69.8
Investment income ratio[3]	9.7	9.4	8.2	11.1	10.0
Investment yields[4]	4.6	4.8	3.9	5.1	4.7
Return on average assets[5]	3.2	3.3	2.4	3.9	4.8
Return on average equities[5]	20.0	21.2	13.5	20.3	24.6
Return on revenue[6]	11.4	12.0	8.2	13.5	16.2
Capital adequacy ratio	202.8	208.0	206.6	246.3	260.0
Liquidity ratio[7]	220.3	190.0	175.7	199.6	209.0

[1] *Based on unaudited financial statements*

[2] *((Commission and brokerage expenses – Fees and commission income) + Other underwriting expenses + Operating expenses + Service cost + Expected credit losses))/Net earned premium*

[3] *(Income on investments (net) + Gains on investments + Gains on the revaluation of investments)/Net earned premiums*

[4] *(Income on investments (net) + Gains on investments + Gains on the revaluation of investments)/Average invested assets; Investment yields are based on the last 12 months; Invested assets include net investments in securities, plus cash and cash equivalents.*

[5] *Based on the last 12 months*

[6] *Profit for the year/Total revenues*

[7] *(Cash and cash equivalents + Invested assets)/Gross claim reserves*

RELATED CRITERIA

- Insurance Rating Methodology, 9 September 2022
- Group Rating Methodology, 7 September 2022

Dhipaya Insurance Public Company Limited (TIP)

Financial Strength Rating:	AAA
Rating Outlook:	Stable

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