

DHIPAYA GROUP HOLDINGS PUBLIC COMPANY LIMITED

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FINANCIAL INSTITUTIONS

Company Rating: AA
Outlook: Stable

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RATIONALE

TRIS Rating assigns an issuer credit rating (ICR) of “AA” with a “stable” outlook to Dhipaya Group Holdings Public Company Limited (TIPH). The rating reflects TIPH's status as an insurance holding company of Dhipaya Insurance Public Company Limited (TIP) and other investment under TIPH (TIPH Group). The rating on TIPH is two notches below the group credit profile (GCP) of TIPH Group, assigned at “aaa”.

The GCP reflects the credit profile of TIPH Group, whose core operating entity is Dhipaya Insurance PLC (TIP). The GCP therefore largely reflects TIP’s excellent business risk profile and very strong financial risk profile, and the highly regulated insurance industry. We also take into consideration the strong governance and liquidity position of TIPH as well as TIP.

KEY RATING CONSIDERATIONS

An insurance group holding company

We assign the ICR on TIPH based on the credit profile of TIPH Group, which largely reflects the credit profile of TIP, the core operating entity of the group. As a non-operating holding company (NOHC), TIPH relies on dividend payments from TIP to service its debt obligations.

We expect TIPH to maintain its status as the NOHC of the insurance group in the foreseeable future. According to its 3–5-year restructuring plan, TIPH will reorganise the group's businesses into three main groups: core insurance businesses, insurance support businesses, and other businesses. The company expects to retain the proportion of investment capital in core businesses (insurance business and insurance supporting business) for no less than 75% of its total assets. Potential investments under other businesses may include financial innovation, health technology (HealthTech), and digital platform businesses.

Diversified leader in non-life insurance

We expect TIPH’s core operating subsidiary, TIP, to maintain its competitive position as one of the leading non-life insurers in Thailand. This is supported by its strong market shares, well-established brand, and diversified businesses. TIP’s overall market share in direct written premium was 10.9% in 2021, ranked 2nd in the Thai non-life insurance industry. The company is the top underwriter in non-motor insurance with the highest market share in the direct written premium of 19.8% in 2021. The company further commands the largest market share in accident and health (A&H), other miscellaneous and fire insurance in the same period. The company has also secured a niche market position in the motor insurance segment with a 4% share in 2021.

In our view, TIP has demonstrated resilience to adverse business and external conditions, thanks to its diversified exposure, prudent underwriting practices, and effective uses of reinsurance. TIP’s diversified sources of earnings include strong underwriting profits, meaningful earning contribution from fees and commission income from reinsurance, and relatively stable investment yields. TIP underwrites both commercial- and personal-line businesses. Key contributors to underwriting profits comprised personal accidents (42%), miscellaneous (22%), fire (21%), and motor insurance (13%) in 2016-2021.

Favourable distribution network

In our view, TIP has a favourable insurance distribution network. Strategic distribution arrangements with TIPH's major shareholders including PTT PLC (PTT), Government Savings Bank, and Krungthai Bank, which are government-related entities allow TIP to offer products through their extensive branch networks and to a wide base of government employees with less price pressure. These entities also provide business referrals for commercial-line and personal-line segments. Product distribution via non-bank insurance brokers and digital platforms also provides additional competitive edge for TIP. TIPH's future investments in financial innovation and digital platforms are aligned to further strengthen TIP's distribution.

Sound profitability

TIP's profitability has been strong relative to its peers, with a return on average equity (ROAE) of 20%-25% in 2016-2021. Although we estimate its ROAE to drop to about 10% in 2022 due to the large claims from COVID-19 policies, we expect this to be temporary. We estimate ROAE to rise back to a normalised level of 20% in 2023-2024. The high ROAE in the past has been driven by its healthy underwriting performance with a combined ratio averaging 80% in 2016-2020, sizeable reinsurance commissions due to a high ceding ratio, and investment yields of 5%-6% per year. Like other non-life insurers, TIP paid out large COVID-19 claims between 2021 and the first half of 2022 (H1/2022), causing an overall loss ratio to rise to 70% and 90%, respectively. However, TIP's COVID-19 insurance policies only pay for claims related to IPD (In-Patient Department) medical expenses for severe cases, of which a major portion is covered by quota-share reinsurance. The majority of COVID-19 claims should continue until July 2022, as the company has stopped underwriting COVID-19 insurance covering medical expenses since July 2021.

Strong capital buffer

TIP will likely maintain a strong capital ratio (CAR) over the next few years. Compared to peers, its total capital available (TCA), amounting to THB7.4 billion as of June 2022, is considered medium-sized. The company's CAR stood at a healthy 243% as of June 2022, after dividend payments of THB900 million in May 2022. Going forward, TIP's CAR will likely remain above 240%, assuming the company will maintain a 50% dividend payout ratio. We also expect growth in gross written premium (GWP) to normalise to 5%-6% per annum from 2023 onward, following the surge to 16% per annum in 2020-2021 and flat growth in 2022. Our assumptions also incorporate an overall loss ratio normalising at a 50%-55% range in 2023-2024, after approaching 70% in 2022 from large COVID-19 claims.

Limited capital volatility risk

We expect lowering volatility in TIP's capital metrics over the next few years, thanks to well-managed underwriting exposure, effective use of reinsurance, and investment strategies that focus on stable income. TIP's strong underwriting performance reflects its ability to offer products with risk-based premiums validated by an in-house team of qualified actuaries. Product segmentation based on behavioural profiles of target markets allows TIP to sell insurance policies with less price pressure. There are also established working relationships and expertise sharing with reinsurers that support joint product development.

Compared to peers, TIP uses reinsurance more extensively to operate within maximum retention limits, increase the underwriting capacity and lower the volatility of its underwriting performance. To effectively monitor reinsurance counterparty risks, the company regularly conducts internal monitoring of credit ratings, CAR, and exposure concentration limits of each reinsurer. Usage of reinsurance typically includes proportional treaties for the capacity sharing of identical risks. The company also engages in multiple non-proportional treaties and facultative reinsurance to further mitigate risk from exposure to catastrophic and idiosyncratic risks. The company's major net underwriting exposure, including personal accidents (PA), motor and property insurance, is also generally diversified by nature.

In terms of investment, we also expect limited capital volatility from TIP's investment portfolio thanks to income-focused investment strategies. TIP segments its investments by purpose, including working capital, asset-liability management for insurance claims, yield enhancement, and surplus management. The first two segments, comprising cash, money-market instruments, government securities, and corporate debentures, should continue to make up around half of the company's investment portfolio over the next two to three years. The investment process adheres to exposure limits for each asset class, minimum credit ratings for corporate debentures, and value-at-risk (VAR) for equity price volatility risk.

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 vulnerability. 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 standard OIC's capital adequacy requirements. Multiple-scenario stress tests are performed regularly to ensure a CAR is above its risk appetite of 180%. The stress tests simulate the impacts of large claims from major natural catastrophes and uncontrollable pandemic events as well as 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 184% as of June 2022. Besides cash, money-market instruments, and deposits, TIP invests entirely 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, an insurance fund helps mitigate systemic risks arising from major claims and insolvent insurers.

BASE-CASE ASSUMPTIONS 2022-2024

- Direct premium growth: Flat in 2022; 5%-6% in 2023-2024
- Loss ratio: 68%-70% in 2022; 50%-55% in 2023-2024.
- Expense ratio: 28%-29%
- Investment yields: Around 6%

RATING OUTLOOK

The “stable” outlook reflects our expectation that TIPH will remain a NOHC of TIPH Group, which means that TIPH will continue to rely on its core insurance subsidiary, TIP, for dividend payments. We also expect the group's core non-life insurance business will remain solid, underpinned by excellent business risk profile, healthy underwriting performance, strong capital, prudent risk management, and adequate liquidity on a sustained basis.

RATING SENSITIVITIES

A downward rating revision on TIPH could be triggered by a downward revision on the GCP of TIPH Group. This could happen 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 the risk management and governance could also pressure the rating. We could also downgrade the rating from a wider notch-down from the GCP if there are significantly heightened asset-liability risk, liquidity risk, or high double leverage at the TIPH level.

An upward rating revision could be due to a narrower notch-down from the GCP if there is evidence that TIPH's ability to service its own obligations has been enhanced. This could happen if the company has controls over multiple material operating units that are diverse and independent; if the company is able to generate enough cash flows from its own operations or investments or from its control of unregulated operating subsidiaries; and/or if the company maintains significant unencumbered cash or high-quality fixed income investments on a sustained basis.

COMPANY OVERVIEW

TIPH was incorporated on 31 July 2020 as a public company limited to operate as a holding company on its core business of insurance. The company's subsidiary TIP operates the core businesses, which engage in the non-life insurance business. TIPH's main revenue is dividends received from the holding of shares in TIP and the subsidiaries and/or associate companies to be invested in by the company in the future. In addition, the major shareholders of the company are PTT, Government Savings Bank (GSB), and Krungthai Bank PLC (KTB).

TIP was founded in 1951 as a state-owned enterprise (SOE) by His Excellency 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 further raised its capital by 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 shares via 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, to invest in insurance-support businesses.

TIPH's goal is to be the leading insurance business in the region. It strategizes investments in the insurance business and other insurance-related businesses in the country and abroad through the segregation of potential business as a new company, forming strategic alliances, joint ventures, and/or mergers and acquisitions. These can be divided into the following core business lines: domestic non-life insurance, domestic life insurance, international insurance, and insurance-related businesses.

Thailand's non-life insurance industry is highly fragmented, with the aggregate direct premium of top-20 insurers accounting for about 80% of the total. The industry currently comprises 52 companies: 47 non-life insurers, four health insurers, and one reinsurer. Direct premium in 1H/2022 totalled THB132.7 billion, a 2.1% year-on-year (y-o-y) growth, compared with 4%-5% growth over the past few years. Of the total direct premium in H1/2022, 57% are motor, 36% miscellaneous, 4% fire and 3% marine. Of the miscellaneous insurance, most relate to personal accidents and health insurance. An overall loss ratio has generally been relatively stable at about 50% following the surge to 176% in 2011 during the major floods. However, due to the large claims from COVID-19 policies, the loss ratio has surged to 121% in H1/2022. The COVID-19 policies have led Thai insurers to report aggregate net losses of THB45 billion in H1/2022 because of large claims at a few insurers, which have gone bankrupt. Nonetheless, most insurers have not been significantly impacted, due to the low retention of the COVID-19 policies. They remain financially healthy with an average capital adequacy ratio of 177% as of March 2022, compared to the regulatory minimum requirement of 140%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022 ¹	-----Year Ended 31 December -----	
		2021	2020
Gross premium written	14,482	29,410	25,399
Net premium written	4,385	8,184	7,671
Net earned premium	4,269	7,809	7,573
Fee and commission income on reinsurance	2,724	4,839	4,362
Investment income	371	864	755
Other income	122	102	51
Gross claim and loss adjustment expenses	7,711	16,240	13,414
Net claim and loss adjustment expenses	3,794	5,460	4,218
Commission and brokerage expenses	1,432	2,298	2,237
Other underwriting expenses	836	1,623	1,529
Operating expenses	1,031	1,988	2,203
Finance costs	2	0	0
Expected credit loss	(2)	1	0
Profit for the year	320	1,829	2,065
Cash and cash equivalent	2,795	2,475	3,773
Premium receivables - net	6,153	4,474	3,611
Reinsurance assets - net	16,866	18,305	15,521
Reinsurance receivables	5,241	4,466	3,174
Investment assets	14,048	15,071	13,026
Other assets	5,757	4,849	5,368
Total assets	50,860	49,639	44,472
Insurance contract liabilities	23,261	24,253	21,445
Loss reserves and outstanding claims	8,440	8,716	7,962
Unearned premium reserves	14,821	15,537	13,482
Premiums received in advance	6,277	5,403	5,926
Due to reinsurers	8,860	7,127	5,750
Debt issued and borrowings	180	0	0
Other liabilities	3,621	3,181	2,908
Total liabilities	42,200	39,964	36,029
Total shareholders' equity	8,661	9,675	8,443

Unit: %

	Jan-Jun 2022 ¹	-----Year Ended 31 December -----	
		2021	2020
Loss ratio	88.9	69.9	55.7
Expense ratio ²	13.4	13.7	21.2
Combined ratio	102.3	83.6	76.9
Ceding ratio	69.7	72.2	69.8
Investment income ratio ³	8.7	11.1	10.0
Investment yields ⁴	4.2	5.1	4.4
Return on average assets ⁵	1.8	3.9	4.8
Return on average equities ⁵	9.9	20.2	24.6
Return on revenue ⁶	4.3	13.4	16.2
Capital adequacy ratio	243.2	246.3	260.0
Liquidity ratio ⁷	197.8	199.6	209.0

¹ Based on unaudited financial statements

² $((\text{Commission and brokerage expenses} - \text{Fees and commission income}) + \text{Other underwriting expenses} + \text{Operating expenses} + \text{Service cost} + \text{Expected credit losses}) / \text{Net earned premium}$

³ $(\text{Income on investments} + \text{Gains on investments} + \text{Gains on the revaluation of investments}) / \text{Net earned premiums}$

⁴ $(\text{Income on investments} + \text{Gains on investments} + \text{Gains on the revaluation of investments}) / \text{Average invested assets}$; 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 Invested assets/Gross claim reserves

RELATED CRITERIA

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

Dhipaya Group Holdings Public Company Limited (TIPH)

Company Rating:	AA
Rating Outlook:	Stable

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