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## Asia Insurance Co. Ltd.

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# Asia Insurance Co. Ltd.

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a	+	Modifiers	0	=	a	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	A/Stable/--
Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Very Strong										

\*Stand-alone credit profile.  
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

## Rationale

The 'A' insurer financial strength and issuer credit ratings on Asia Insurance Co. Ltd. reflect its solid stand-alone business and financial characteristics. We consider the insurer to be a material and integral subsidiary of Hong Kong-listed investment holding company Asia Financial Holdings Ltd.

Asia Insurance's competitive advantage derives from strong local market knowledge and underwriting experience, which contributes to above-market earnings performance and supports very strong capital metrics. These strengths are offset to a degree by the mid-size scale of operations and exposure to inward reinsurance treaties, which carry higher risk and volatility in our view.

### Business Risk Profile: Strong

- Hong Kong's profitable yet highly serviced and competitive property and casualty insurance industry is a low risk environment for insurers.
- Asia Insurance holds a strong competitive position in the direct market where it leverages strong market knowledge and long-term relationships.
- The company's exposure to inward reinsurance business raises the potential for volatility in underwriting performance.

### Financial Risk Profile: Very Strong

- Asia Insurance exhibits very strong capital and earnings with good profit generation, offset to a degree by the moderate size of its capital.
- The company's exposure to investment and other risks is moderate.
- Its access to broader sources of capital and liquidity is sound, and ERM is a neutral rating factor.

**Outlook: Stable**

The stable outlook on Asia Insurance Co. Ltd. reflects our view that the insurer will maintain its strong competitive position, very strong capital and earnings, and intermediate risk position over the next two years.

**Downside scenario**

We may lower the rating if Asia Insurance's competitive position weakens to an adequate level. This could materialize if we no longer expect the insurer's operating performance to remain consistently stronger than the industry average in Hong Kong over the next two years.

**Upside scenario**

While less likely over the next two years, we may upgrade Asia Insurance if the insurer's strong business risk profile solidifies further. This could happen if the quality and earnings of Asia Insurance's inward reinsurance business significantly improves.

**Base-Case Scenario****Macroeconomic Assumptions**

- Hong Kong's real GDP forecast to grow 3.2% in 2017, 2.6% in 2018, and 2.4% in 2019.

**Company-Specific Assumptions**

- Asia Insurance's gross premiums will increase modestly by 1%-2% per year over 2017-2019 as the insurer exercises cautious underwriting and continues to exit some underperforming inward reinsurance treaties.
- The insurer's combined ratio will increase to about 87% in 2017 from the net exposure to Typhoon Hato and then normalize to around 85%.

**Key Metrics**

<b>(Mil. HK\$)</b>	<b>2018F</b>	<b>2017F</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Gross premiums written	1,277	1,265	1,292	1,176	1,281
Combined ratio (%)	85	87	81.4	87.6	93.0
Return on revenue (%)	25	23	27	21.4	20.0
Return on equity* (%)	7.1	6.4	8.4	6.6	10.7
S&P capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

\*Minority interest included in equity (denominator). F--Forecast.

## Business Risk Profile: Strong

### Insurance industry and country risk: Low

We consider Asia Insurance faces low industry and country risk because it primarily operates in Hong Kong and writes Hong Kong risks. Asia Insurance generates most of its property and casualty premium from insurance coverage in Hong Kong, and to a lesser extent Macau. About one third of gross premiums written (2016) is from inward reinsurance business largely from Asia and Europe, and to a lesser extent the Americas.

Our view of Hong Kong's low country risk is driven by the territory's resilient and highly flexible economy, robust financial system, and strong payment culture and rule of law. In our intermediate industry risk assessment, we see the market's moderate growth prospects and exposure to typhoons as neutral factors, and strong profitability as a positive factor. We consider the market's low barriers for entry and large number of participants as a negative factor for insurers operating in the market.

### Competitive position: Strong

We expect that Asia Insurance will maintain its strong competitive position as a midsize participant in the fragmented Hong Kong property and casualty insurance market. The insurer is ranked 10th in the market by gross premiums (2016) with 2.7% market share. It focuses on the more stable and profitable small and midsize enterprises sector rather than on large corporates. This ranking has varied in recent years depending on the insurance cycle and the insurer's attitude to writing particular classes of risk. Asia Insurance has the advantage of good market knowledge and its long relationships with intermediaries assists risk selection.

Asia Insurance operates under prudent underwriting principles, and consistently ranks highly by share of industry underwriting profits. These principles led to a considered recent reduction in lines that face overcapacity or performance issues, and have moderated top line growth. The insurer's direct premiums accounted for about 68% of its total portfolio in 2016 and were sourced mainly through brokers and agents. Asia Insurance's inward reinsurance business represents about 32% of gross premiums and exposes the insurer to potential earnings volatility, in our view, given the exposure to natural disasters throughout the world. This exposure has dropped slightly in 2017 as Asia Insurance has exited from certain underperforming treaties such as medical and UK motor.

Asia Insurance's operating performance is good, in our view. The insurer's conservative underwriting and focus on underwriting profit improved its combined ratio to 81.4% in 2016, better than the 88.7% average for the top 10 insurers. Net exposure to Typhoon Hato in mid-2017 is modest but likely to adversely impact the 2017 loss ratio. Additionally, some recent increase in operational resources should increase the expense ratio.

**Table 1**

Asia Insurance Co. Ltd. Competitive Position					
	--Year-ended Dec. 31--				
(Mil. HK\$)	2016	2015	2014	2013	2012
Gross premiums written	1,291.7	1,175.9	1,281.1	1,449.1	1,322.3
Change in gross premiums written (%)	9.8	(8.2)	(11.6)	9.6	22.3
Net premiums written	830.3	831.2	911.1	1,046.4	915.1

**Table 1**

<b>Asia Insurance Co. Ltd. Competitive Position (cont.)</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. HK\$)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Change in net premiums written (%)	(0.1)	(8.8)	(12.9)	14.4	19.4
Net premiums earned	853.9	887.4	931.6	944.2	843.0
Total assets under management	5,000.7	4,730.9	4,767.5	4,306.5	4,212.0
Growth in assets under management (%)	5.7	(0.8)	10.7	2.2	23.2
P/C: reinsurance utilization - premiums written (%)	35.4	29.1	28.7	27.7	30.6
<b>Business Segment (%age of GPW)</b>					
Life	3.0	2.3	1.7	1.9	1.2
Property and casualty	97.0	97.7	98.3	98.1	98.8

HK\$--Hong Kong dollar.

## Financial Risk Profile: Very Strong

### Capital and earnings: Very strong

We expect Asia Insurance to maintain very strong capital and earnings over the next two years given the insurer's good profitability, stable dividend flows, and supportive parentage, but offset to a degree by its moderate size of capital.

Asia Insurance's risk-adjusted capital will remain at the extremely strong level under our capital model forecasts. However, we consider the insurer to be more vulnerable to single-event losses than assumed in the capital model, given its moderate capital size in absolute terms, which modifies our view of its financial risk profile.

**Table 2**

<b>Asia Insurance Co. Ltd. Capitalization Statistics</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. HK\$)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Common shareholders' equity	2,972.2	2,762.5	2,979.3	2,732.5	2,914.1
Change in common shareholders' equity (%)	7.6	(7.3)	9.0	(6.2)	17.4
Total reported capital	2,972.2	2,762.5	2,979.3	2,732.5	2,914.1
Change in total capital (reported) (%)	7.6	(7.3)	9.0	(6.2)	17.4

HK\$--Hong Kong dollar.

**Table 3**

<b>Asia Insurance Co. Ltd. Earnings Statistics</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. HK\$)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total revenue	976.0	1,007.2	1,084.4	1,089.0	972.1
EBIT adjusted	269.9	215.4	216.4	198.2	166.7
EBITDA adjusted	275.0	219.9	220.8	202.1	171.0
Net income (attributable to all shareholders)	239.9	190.1	305.2	219.7	277.5

**Table 3**

<b>Asia Insurance Co. Ltd. Earnings Statistics (cont.)</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. HK\$)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Return on revenue (%)	27.7	21.4	20.0	18.2	17.2
Return on shareholders' equity (reported) (%)	8.4	6.6	10.7	7.8	10.3
P/C: net expense ratio (%)	38.5	33.6	33.3	32.5	32.8
P/C: net loss ratio (%)	42.7	53.5	59.2	61.7	62.1
P/C: net combined ratio (%)	81.3	87.1	92.5	94.3	94.8
Life: Net expense ratio (%)	21.3	21.2	25.7	16.4	18.2

HK\$--Hong Kong dollar. P/C--Property and casualty.

### **Risk position: Intermediate**

We view Asia Insurance's risk position as intermediate, with moderate exposure to equity market investments, some issuer and sector concentrations, and limited exposure to foreign exchange risk. Despite capacity from solid capital metrics, we expect the insurer to maintain its moderate exposure to equity investments and other risk assets.

**Table 4**

<b>Asia Insurance Co. Ltd. Risk Position</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. HK\$)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total invested assets	5,000.7	4,730.9	4,767.5	4,306.5	4,212.0
Net investment income	97.0	105.7	104.4	102.1	97.1
Net investment yield (%)	2.0	2.2	2.3	2.4	2.5
Net investment yield including realized capital gains/(losses) (%)	2.2	2.0	2.4	2.4	3.6
<b>Portfolio composition (% of General account invested assets)</b>					
Cash and short-term investments	44.6	40.1	37.1	33.3	31.5
Bonds	12.6	12.3	16.8	23.8	23.0
Equity investments	32.0	37.9	33.4	33.8	37.1
Real estate	2.9	2.6	6.0	2.5	2.5
Mortgages	0.3	0.4	0.5	0.4	0.4
Investments in affiliates	7.6	6.7	6.3	6.3	5.4

HK\$--Hong Kong dollar.

### **Financial flexibility**

Our assessment of Asia Insurance's financial flexibility reflects the company's fair access to external capital and liquidity. We believe the company can obtain capital and funding, if necessary, from its listed parent, which holds a diverse mix of investments. Asia Insurance has no outstanding debt, and we don't expect the company to significantly increase its financial leverage in the coming two years.

## Other Assessments

### **Anchor: 'a'**

We believe Asia Insurance's inward reinsurance business could lead to higher volatility in its earnings and constrain its credit profile. We recognize that the insurer maintains a good record of underwriting performance in its domestic business, and maintains sound outward reinsurance protection. However, we believe the underlying risk of Asia Insurance's reinsurance business from overseas is higher; the company's market knowledge in this regard is not as strong as in the domestic business it underwrites. We assign an anchor of 'a', which is the lower of the two possible anchors that could result from a strong business risk profile and very strong financial risk profile.

### **Enterprise risk management: Adequate**

We consider Asia Insurance's enterprise risk management (ERM) and management and governance practices as neutral factors for the rating and adequate relative to its simple risk profile. However, we view the company's catastrophe risk control as less sophisticated, with limited access to costly risk assessment modelling tools. The company exercises sound risk control processes, with regular underwriting meetings and close interaction between the management and operational teams. The insurer conducts quarterly management meetings to monitor and review its risk exposures, and has recently boosted its risk reporting and risk register practices. The insurer's risk awareness and oversight has improved under the new external CEO and chief risk officer appointments and ahead of upcoming regulatory requirements.

### **Management and governance: Satisfactory**

Asia Insurance has a formal strategic planning process, and clear indicators are set up to guide business development. Senior management is involved in strategic planning. The group has set up risk limits across its business units, although the measurement and monitoring are not as sophisticated as those of some other larger peers in Asia-Pacific. Management has good experience in the market, and depth in risk, actuarial, and business management has improved with recent external appointments.

### **Liquidity: Strong**

Asia Insurance's significant holdings in liquid instruments (such as cash, term deposits, and listed securities) support its liquidity. The insurer also has ample net cash flows from operating activities to meet immediate payment requirements.

## Support

### **Group support**

We consider Asia Insurance as a core subsidiary of Hong Kong-listed investment holding company Asia Financial Holdings Ltd. (not rated). Asia Insurance is an integral and material subsidiary representing about 42% of Asia Financial Holdings' total equity and 58% of its total assets.

## Related Criteria

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Group Rating Methodology, Nov. 19, 2013

## Related Research

- Asia-Pacific Credit Conditions September 2017: Trends Are Improving Slightly But Risks Are Escalating, Sept. 26, 2017

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### Ratings Detail (As Of November 3, 2017)

#### Operating Company Covered By This Report

##### Asia Insurance Co. Ltd.

Financial Strength Rating

*Local Currency*

A/Stable/--

Counterparty Credit Rating

*Local Currency*

A/Stable/--

**Domicile**

Hong Kong

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