

Research Update:

China Reinsurance (Group) And Subsidiaries Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

July 25, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The implementation of the revised criteria has no material impact on our assessment of the financial strength of China Reinsurance (Group) Corp. (China Re Group).
- We therefore affirmed our 'A' long-term insurer financial strength and issuer credit ratings on China Re Group and its core subsidiaries.
- The stable outlook on China Re Group and its rated subsidiaries over the next two years reflects our view of the high likelihood of extraordinary support from the Chinese government and the reinsurance group's leading domestic position with an expanding international footprint.

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Rating Action

On July 26, 2024, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on China Re Group and its core subsidiaries. The outlook on all the ratings is stable.

Impact Of Revised Capital Model Criteria

- We continue to assess China Re Group's capital and earnings as satisfactory. The reinsurance group's capital buffer has improved under the revised capital model criteria.
- Such improvement results from our more explicit recognition of diversification benefits and increase in total adjusted capital (TAC) owing to the removal of haircuts to value-in-force.
- Mitigating this impact are increased risk differentiation in interest-rate risk, non-life premium and reserve risk capital requirements, and recalibration of risk charges at higher confidence

levels.

Credit Highlights

Overview

Key strengths	Key risks
High likelihood of extraordinary support from the Chinese government, when required.	Greater sensitivity to adverse capital market conditions than international peers', due to relatively large holdings of high-risk assets.
Largest reinsurer in China, with expanding international presence.	Potential earnings volatility from exposure to natural catastrophe risks.
Diversified product offerings across property and casualty (P/C) reinsurance, life reinsurance, and primary insurance.	

Outlook

The stable outlook on China Re Group and its rated subsidiaries over the next two years reflects our view of the high likelihood of extraordinary support from the Chinese government and the reinsurance group's leading domestic position with an expanding international footprint.

Downside scenario

We could lower the ratings on China Re Group over the next two years, if:

- The reinsurance group's capital and earnings deteriorate substantially on a persistent basis. This could stem from the group's technical results significantly underperforming or its sensitivity toward capital-market volatility heightening; or
- China Re Group's liquidity position weakens substantially due to a significant increase in allocation to less liquid investments.

We could also downgrade China Re Group if we lower the sovereign credit ratings on China, or if we believe the likelihood of China Re Group receiving extraordinary government support has declined.

Upside scenario

We view an upgrade as unlikely over the next two years. That said, we may raise the ratings on China Re Group if the reinsurance group's capital and earnings improve significantly over the projected period.

Rationale

The rating affirmation reflects our expectation that China Re Group's capital and earnings will remain at a satisfactory level over the next two years. The reinsurance group's improved capital buffer under our revised capital model could help it weather headwinds from capital market challenges and extreme weather events.

Meanwhile, China Re Group's ongoing expansion and large holding of high-risk assets could consume capital. We estimate the reinsurance group will hold capital in excess of our 99.50% confidence level in our risk-based capital model over 2024-2026.

Volatile underwriting results and China Re Group's previous expanded life reinsurance portfolio prompt continuous dependence on investment return. Ongoing capital market volatility and still-low interest rates in China will constrain the reinsurance group's investment return, denting capital and earnings. Asset valuation losses and impairments, including China Re Group's 6.5% equity holding of China Great Wall Asset Management Co. Ltd., have led to earnings volatility in recent years.

China Re Group's effort in portfolio overhaul and review of terms and condition will likely continue and gradually ease underwriting pressure. However, increased frequency and severity of extreme weather could increase underwriting volatility. We estimate China Re Group's combined ratio will stand at 99%-101% on an IFRS 4 basis (all further figures are on an IFRS 4 basis) over the next two years (compared with a five-year historical average of 102.1%).

While the usual hurricane/typhoon season isn't over yet for the year, the reinsurance markets have been hit by several large losses in the first half of 2024, such as the Baltimore bridge collapse in the U.S. and earthquakes in Taiwan and Japan. We believe the associated impacts on China Re Group is limited. The reinsurance group's domestic and overseas P/C reinsurance businesses reported a combined ratio of 99.5% and 85.7%, respectively, for 2023 (compared with 99.8% and 94.0% in 2022). Underwriting losses for the group's domestic primary P/C insurance business also narrowed with its reported combined ratio improving to 100.8% in 2023 (from 103.1% in 2022).

Further to its ongoing portfolio overhaul initiative, moderating growth in the domestic primary insurance market amid an economic slowdown could extend to China Re group's domestic portfolio. Its domestic P/C reinsurance segment saw a 7% year-on-year decline in premium for the first quarter of 2024, mainly due to retrocession from China Agriculture Reinsurance Corp. This could contribute to topline volatility in 2024. However, we anticipate state-owned China Re Group to continue to play an important role in contributing to agricultural and catastrophe risk assessment and reinsurance coverage in China.

Meanwhile, we believe the reinsurance group will continue its international expansion through its overseas operation, Chaucer Group. We also expect the business momentum for the reinsurer's life reinsurance book to stabilize over the next two years, after the deliberate contraction on savings-type policies in preparation for Hong Kong regulatory updates.

Ratings Score Snapshot

Financial strength rating	A/Stable/--
Anchor*	a-
Business risk	Very strong
IICRA	Intermediate
Competitive position	Very strong
Financial risk	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately high
Funding structure	Neutral

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	1
Group support	0
Government support	1

*The anchor reflects our expectation that China Re Group will facilitate increasing business diversity amid its international expansion with adequate capital buffer, comparable with its 'a-' rated peers. IICRA-Insurance Industry And Country Risk Assessment. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: China Re Group Could Absorb Potential Write-Off Of Its Investment In Great Wall AMC, Jan. 23, 2024
- Bulletin: China Re Group's Earnings Recovery Should Provide Financial Buffer Against Headwinds, Aug. 30, 2023
- China Reinsurance (Group) Corp., June 30, 2023

Ratings List

Ratings Affirmed

China Reinsurance (Group) Corp.

Issuer Credit Rating	A/Stable/--
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Ratings Affirmed		
China Reinsurance (Group) Corp.		
China Reinsurance (Hong Kong) Co. Ltd.		
China Property & Casualty Reinsurance Co. Ltd.		
China Life Reinsurance Co. Ltd.		
Chaucer Insurance Co., DAC		
Financial Strength Rating		
Local Currency	A/Stable/--	
Chaucer Insurance Co., DAC		
China Reinsurance (Hong Kong) Co. Ltd.		
China Property & Casualty Reinsurance Co. Ltd.		
China Life Reinsurance Co. Ltd.		
Issuer Credit Rating		
Local Currency	A/Stable/--	

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