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Research Update:

China Reinsurance (Group) Corp. And Core Subsidiaries Assigned 'A+' Rating; Outlook Stable

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Overview

- We consider China Re Corp. to be a government-related entity and believe there is a "high" likelihood that the government will provide extraordinary support to the company. We assess the group credit profile of the China Re group at 'a'.
- We view China Re P&C and China Re Life as "core" subsidiaries of the group and believe that the potential government support would flow down to the subsidiaries.
- We are assigning our 'A+' long-term insurer financial strength and issuer credit ratings and 'cnAAA' long-term Greater China regional scale rating to China Re Corp., China Re P&C, and China Re Life.
- The stable outlook reflects our view that the China Re group is likely to maintain its solid competitive position, very strong government linkages, and upper adequate financial risk profile over the next two years despite potential catastrophe risks.

Rating Action

On Dec. 22, 2014, Standard & Poor's Ratings Services assigned its 'A+' long-term insurer financial strength and issuer credit ratings to to China Reinsurance (Group) Corp. (China Re Corp.) and its core subsidiaries China Property & Casualty Reinsurance Co. Ltd. (China Re P&C) and China Life Reinsurance Co. Ltd. (China Re Life). The outlook is stable. At the same time, we assigned our 'cnAAA' long-term Greater China regional scale rating to the three entities.

Rationale

The ratings on China Re Corp. and its core subsidiaries reflect their 'a' group credit profile (GCP) and our assessment that there is a "high" likelihood that the insurers will receive extraordinary support from the Chinese government.

We assess the China Re group's business risk profile as very strong and its financial risk profile as upper adequate. We derive our GCP for the insurance group from a combination of these factors.

We view China Re P&C and China Re Life as "core" subsidiaries of the group and believe that the potential government support would flow down to the subsidiaries. We therefore equalize the ratings on China Re P&C and China Re

Life with that on China Re Corp. Meanwhile, we believe that there is no structural subordination of China Re Corp. to the group because China Re Corp. is an operating holding company, with premium income accounting for about 47% of its total revenue in the first half of 2014. The holding company's activities are integral to the group. It has immaterial financial leverage. Therefore, the ratings on China Re Corp. reflect the group's credit profile without any notching.

We view China Re Corp. as a government-related entity. The Chinese central government owns 100% of the company via the Ministry of Finance and its arm Central Huijin Investment Co. Ltd. Our view of the "high" likelihood of extraordinary support from the Chinese government directly to the company is based on the following assessments:

- "Very strong" link with the government owing to the government's full ownership.
- "Important" role to the government. China Re Corp. plays a key role as the only domestic reinsurance company in the country with systemwide importance for the insurance industry in China. The government is encouraging growth of the insurance sector over the next decade, which should enhance China Re Corp.'s importance. The company also has a policy role in supporting the government's initiatives in terms of catastrophe risks management and agriculture insurance development through transfer of reinsurance risk.

The China Re group's Insurance Industry and Country Risks Assessment is "intermediate." The group writes primarily China insurance risks through its proportional treaties, with more than 50% premiums from the motor line. We assess country risk of China as "moderate," based on our views of China's economic risk, political risk, financial system risk, payment culture, and rule of law. In our view, the insurance sector benefits from China's robust economic growth potential. We view China's non-life insurance sector as "low" risk based on our evaluation of five industry-related factors, including profitability, product risks, entry barriers, and regulatory framework. We assess the industry risk for China's life insurance sector as "intermediate," reflecting good growth prospects, high barriers to entry, and product risk due to a substantial asset-liability mismatch.

We view China Re P&C and China Re Life as core entities of the group. They contributed 36% and 28% of the group's pretax income, respectively, (or 42% and 27% of total gross premium, respectively) in 2013. At the same time, the two entities are the largest reinsurance providers in China, with market shares of about 33% and 50% of total reinsurance premiums in the industry respectively in 2013. The Chinese reinsurance market is also supported by international reinsurers. Following the phase out of compulsory cession to the China Re group in 2005, the group and its subsidiaries have maintained a strong connection with primary insurers, given the group's government-related background and history of being a national reinsurer. The company predominantly writes the domestic business, with about 3% of its revenue coming from overseas business.

The China Re group's very strong competitive position reflects its reputation as the largest reinsurer in China, its strong connection with the primary insurers, as well as its good operational diversity covering life reinsurance, non-life reinsurance, and direct property and casualty (P&C) insurance. However, the group does not outperform international peers, although its underwriting and overall performance is stable. The China Re group's market position is somewhat constrained by its lesser geographical diversity, technical support, and market knowhow outside China than key global reinsurers or reinsurance groups. China Re P&C writes about 60% of its book in the motor business. The rest includes commercial property (15%), agriculture (8%), liabilities and engineering reinsurance etc.

We expect the combined ratio of the China Re group's P&C business to be about 100%, which is in line with the market performance. Investment returns support the company's profitability. The combined ratio is an indication of an insurer's profitability; a ratio below 100% shows the company is making underwriting profit. The insurance risks in China are relatively short tail (predominantly motor insurance, and other personal lines where claims are settled mostly within a few years of the start of the policy term). However, the potential unexpected or unmodeled catastrophe risks due to continued urbanization and climate changes in China are emerging risks, in our view. Also, the forthcoming changes in regulations for the insurance sector could reduce the motor portfolio and increase non-motor risks because the risk charge for the motor portfolio could decrease while the risk charge for the non-motor portfolio could increase.

We expect growth in the group's life reinsurance operation to remain strong and stable over the next 12-24 months. China Re Life writes predominantly life reinsurance products, with a significant amount of saving products in China. The company also writes a significant amount of business in co-insurance and modified co-insurance treaties. A significant amount of the business came from the Chinese-renminbi-related business in Hong Kong. We estimate the company's mismatching on its life product to be shorter than direct life insurers in the market and manageable for the group.

We consider the China Re group's capital and earnings to be moderately strong. In our base case, we anticipate that the group's premiums will grow about 8% on average between 2014 and 2016, with return of equity at 7%-10%. We do not expect significant volatility in performance over the next one to two years. The key risk charges for our capital analysis include market risks, underwriting, and catastrophe risks.

In our view, the China Re group has a moderate risk position, reflecting the potential volatility in capital and earnings due to catastrophe risks, and concentration risk in investments in financial institutions. However, we consider the insurer's investment strategy as prudent with a high proportion of invested assets in high-quality bonds, cash, and deposits in the domestic perspective. China Re's lower ratio of catastrophe exposure to adjusted capital than international peers, thanks to its significant volume of motor business, helps it to maintain a moderate risk assessment. High P&C catastrophe risks contribute to the high risk position of a number of the China Re group's international peers. We do not expect China Re to be significantly exposed to foreign exchange risk or employee postemployment defined-benefit obligations.

We consider the China Re group's financial flexibility as adequate while the group is not listed. We expect that the group to have a good profile when tapping the capital market due to its strong name and prominent status, and this could enhance its financial flexibility. However, given the group's limited record of tapping the capital market, we expect its financial flexibility to remain adequate as long as the insurer has no outstanding debt obligations.

The China Re group's enterprise risk management (ERM) and management and governance practices are neutral factors for the rating. The ERM is adequate, in our view. The group's risk management framework is comprehensive and has improved significantly in recent years to be aligned with international standards. We expect risk management to improve further over the next two years as the group's risk appetite and economic capital model, which are currently at the trial stage, are fully implemented. We consider China Re's management strategy as prudent.

We regard the China Re group's liquidity as strong. Most of the company's assets are liquid, such as cash, bank deposits, corporate bonds, and listed securities.

Outlook

The stable outlook reflects our view that the China Re group is likely to maintain its competitive position and government linkages over the next two years. At the same time, we expect the company's capital and earning to remain moderately strong and financial risk profile to be upper adequate over the next two years despite potential catastrophe risks.

We may raise the ratings if: (1) the group's capital and earnings strengthen materially to a strong level; and (2) we raise the sovereign credit rating on China (AA-/Stable/A-1+; cnAAA/cnA-1+).

We may lower the ratings if: (1) the group's capitalization and earnings deteriorate to a upper adequate level or lower due to an unexpected drop in underwriting performance or profitability because of losses or volatility in the investment portfolio; (2) the group's exposure to catastrophe risks increases significantly amid its overseas development, leading to more volatility in capital and earnings and a higher risk profile; (3) we lower the sovereign credit rating on China; or (4) China Re's relationship or importance to the central government reduces.

Ratings Score Snapshot

Issuer Credit Rating/Financial Strength Rating	A+/Stable/--
BRP/FRP Anchor	a
Business Risk Profile	Very strong
IICRA	Intermediate risk
Competitive Position	Very strong
Financial Risk Profile	Upper adequate
Capital and Earnings	Moderately strong
Risk Position	Moderate risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and governance	Satisfactory
Comparative Analysis	0
Liquidity	Strong
Support	+1
Group Support	0
Government Support	1

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

New Rating

China Reinsurance (Group) Corp.	
Issuer Credit Rating	A+/Stable/--

China Reinsurance (Group) Corp.
China Property & Casualty Reinsurance Co. Ltd.
China Life Reinsurance Co. Ltd.

Financial Strength Rating	
Local Currency	A+/Stable/--

China Life Reinsurance Co. Ltd.
China Property & Casualty Reinsurance Co. Ltd.

Issuer Credit Rating	
Local Currency	A+/Stable/--

China Reinsurance (Group) Corp.
China Property & Casualty Reinsurance Co. Ltd.
China Life Reinsurance Co. Ltd.

Issuer Credit Rating	
Greater China Regional Scale	cnAAA/--/--

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