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Asia Insurance Co. Ltd.

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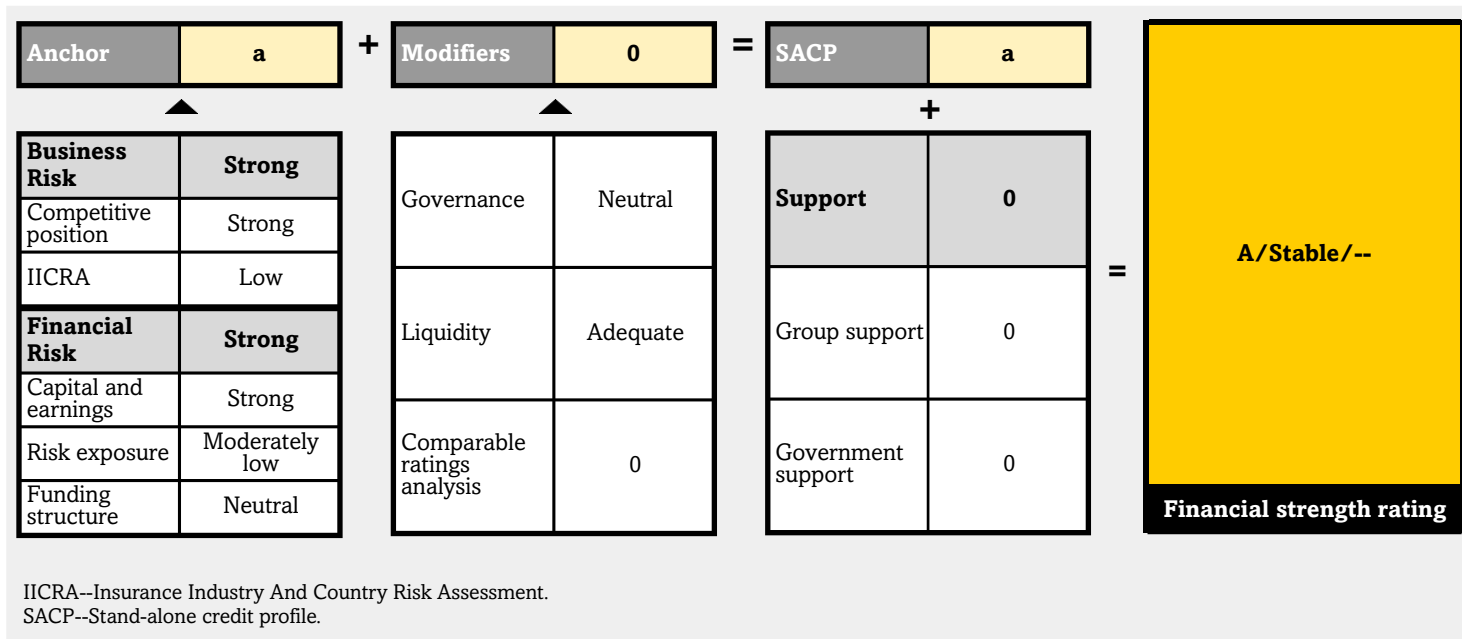
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Asia Insurance Co. Ltd.



Credit Highlights

Overview

Key strengths	Key risks
Established track record of outperformance in underwriting, compared with local peers, with active risk selection and exposure management.	Sensitive to capital market swings due to relatively high allocation to equity investments.
Strong capital position relative to its risk profile, supported by robust earnings contribution.	Increasing exposure to inward reinsurance business could add earnings volatility.

Asia Insurance Co. Ltd. has a strong competitive position, thanks to a track record of better underwriting results than peers. The Hong Kong-based insurer has a long operating history and close relationships with intermediaries. This, together with strong local market know-how and a well-recognized brand, facilitates quality new business acquisitions and good customer retention. Still, the insurer continues to actively manage its exposures through targeted risk selection and usage of reinsurance. This supports its risk retention and mitigates underwriting volatility, particularly catastrophe-related exposures and inward reinsurance business from overseas markets. We expect Asia Insurance will maintain its sound underwriting performance, which consistently outperforms the industry average, over the next two years.

Asia Insurance will likely maintain its strong capital position, relative to its risk profile, over the next two years. This is supported by the insurer's sound underwriting profits. That said, the insurer's earnings are exposed to volatility through its growing inward reinsurance operations and significant holdings of high-risk investments. Business growth will also consume more required capital. Asia Insurance's moderate capital size of less than US\$1 billion tempers its capital adequacy, in our view, given insurers of that size are more vulnerable to large shocks.

Asia Insurance is more susceptible to investment market swings than its domestic property and casualty (P/C) peers.

The insurer follows investment guidance from its parent group, Asia Financial Holdings Ltd., particularly equity investment. Amid the ongoing development of the regulatory capital framework, Asia Insurance may further consider its exposure to high-risk assets and other investment mandates. It aims to maintain a healthy regulatory solvency level.

Asia Insurance's increased inward reinsurance business could add earnings volatility. The inward business accounts for 35%-40% of Asia Insurance's total business portfolio. We believe the increasing inward portfolio and exposure to natural disasters throughout the world exposes the insurer to potential earnings volatility.

Outlook: Stable

The stable outlook on Asia Insurance reflects our view that the insurer will maintain its strong competitive position with sound underwriting performance in Hong Kong's P/C insurance market over the next two years. We also expect Asia Insurance to maintain its strong capital position while managing its sensitivity to credit and market risk.

Downside scenario

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

We may also lower the rating if Asia Insurance's capitalization deteriorates significantly over the projected period, possibly in the case of a substantial increase in its investment risk appetite or unexpected, large underwriting losses.

Upside scenario

While unlikely over the next two years, we may upgrade Asia Insurance if the insurer's competitive position and capitalization improve substantially on a persistent basis.

Key Assumptions

- Hong Kong's economy to grow 2.6% in 2024 and 2.7% in 2025, after the 4.0% growth that we estimate for 2023.
- Hong Kong's average inflation to be 2.0% in 2023, 2.2% in 2024 and 2025, and 2.1% in 2026, as measured by the consumer price index.

Asia Insurance Co. Ltd.--Key metrics

(Mil. HK\$)	2019a	2020a	2021a	2021a (Restated)	2022a	2023f*	2024f*	2025f*
Gross written premiums	1,706.7	1,753.2	1,922.2	1,922.2	2,092.5	2,200-2,500	2,200-2,500	2,200-2,500

Asia Insurance Co. Ltd.--Key metrics (cont.)

(Mil. HK\$)	2019a	2020a	2021a	2021a (Restated)	2022a	2023f*	2024f*	2025f*
Net income (attributable to all shareholders)	192.6	196.6	236.9	249.1	195.8	220-250	220-250	220-250
Return on equity (%)	5.6	5.6	6.6	6.9	5.3	5.5-6.5	5.5-6.5	5.5-6.5
Net investment yield (%)	2.3	1.8	1.5	1.7	3.0	3.0-3.5	3.0-3.5	3.0-3.5
Net combined ratio (%)	90.6	90.9	91.1	91.1	91.4	92-94	92-94	92-94
Return on revenue (%)	18.7	16.8	15.4	16.3	18.7	14.5-16.5	14.5-16.5	14.5-16.5
S&P Global Ratings capital adequacy	Very strong	Very strong	Strong	Strong	Strong	Strong	Strong	Strong

*Forecast data represent S&P Global Ratings' base-case assumptions. Capital adequacy based on capital and earnings assessment. A--Actual. f--Forecast.

Business Risk Profile: Strong

Asia Insurance's established track record of achieving better underwriting performance than the industry average underpins Asia Insurance's robust competitive position. While operating as a mid-tier participant in Hong Kong's fragmented P/C insurance market, the insurer acquires and retains quality business through strong local market know-how and close relationships with intermediaries. Distribution is traditionally through brokers, agents, and some bank channels, but is expanding to life partners and enhanced digital offerings. The long-established insurer ranked 7th by gross written premiums with 3.0% market share in 2022.

Asia Insurance generates most of its premiums from direct insurance coverage in Hong Kong and Macau, representing 60% of the gross written premium (GWP) in 2022. The remaining 40% from inward reinsurance business provides some business diversity, but does increase exposure to other catastrophe-prone regions. Overall, we view the insurer as having low industry and country risk.

The insurer's ongoing portfolio revamp through active risk selection and repricing will support its sound underwriting results, in our view. Meanwhile, we expect Asia Insurance to use reinsurance support to mitigate risk retention and underwriting volatility, particularly for catastrophe-related exposures and inward reinsurance business from overseas markets.

We estimate combined ratios will increase to 92%-94% over the next two years, incorporating resumption of social mobility, inflation, as well as higher costs for reinsurance/retrocession and compliance. Meanwhile, the insurer's growing inward reinsurance portfolio could add earnings volatility to its underwriting performance. We expect the insurer will closely monitor the risk accumulation and strengthen its risk selection. The insurer's quality business has delivered a healthy five-year average combined ratio of below 90% (as per regulatory disclosure), lower than the industry average of 95% over the same period. A combined ratio below 100% indicates underwriting profits.

Resuming economic activity in Hong Kong and initiatives to further geographic diversification (including tapping opportunities in the Greater Bay Area and overseas) will facilitate Asia Insurance's premium growth over the next two years, in our view. Evolving synergies between Asia Insurance and part-owned Avo Insurance will likely prompt new

business opportunities for personal insurance products and those related to small and mid-sized enterprises (SMEs). Asia Insurance reported 9% premium growth in 2022 through rate and policy growth. That said, we believe the insurer will expand its inward portfolio cautiously over the coming two years and prioritize underwriting margins over topline growth. The focus on underwriting profitability has prompted its exit from some loss-making accounts.

Financial Risk Profile: Strong

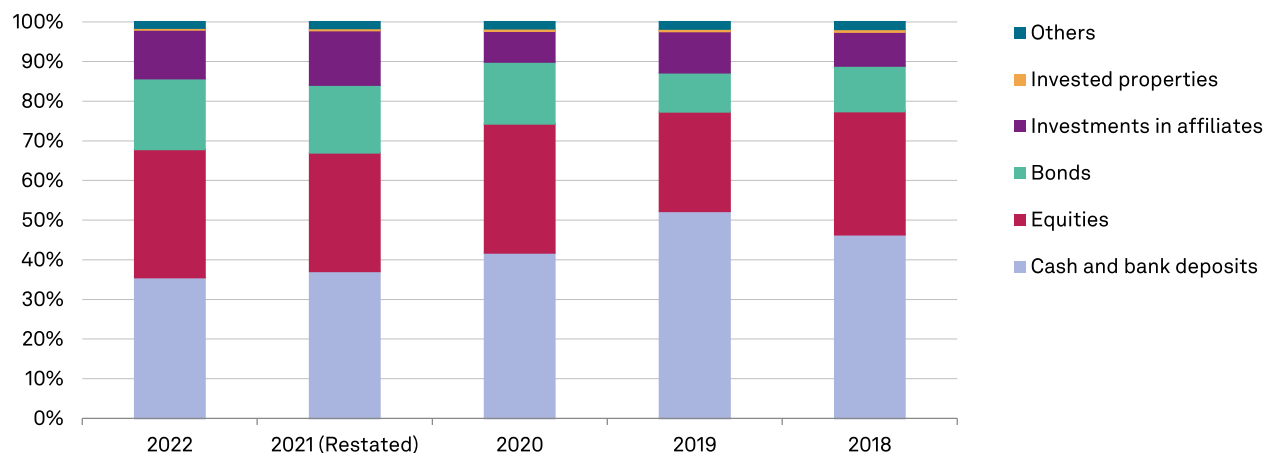
Asia Insurance will maintain its strong capital position, backed by sound insurance margin, over the next two years. Asia Insurance's moderate capital size, at under US\$1.0 billion, tempers its very strong capital adequacy, in our view. We therefore continue to moderate our assessment of capital and earnings to strong.

We believe Asia Insurance faces greater sensitivities toward investment market performance than its peers. The insurer's significant holdings of high-risk investments (predominantly equity assets), accounted for 22.3% of its total assets, and 51.6% of its shareholder equity. Meanwhile, we expect it will continue to follow investment guidance from its parent, Asia Financial Holdings Ltd.

Chart 1

Asia Insurance will likely maintain high allocation to equity investments

Invested asset mix



Cash and bank deposits: cash and bank balances; pledged deposits. Equities: available-for-sale securities; securities measured at fair value through profit or loss. Bonds: held-to-maturity securities. Investments in affiliates: interests in joint ventures; interests in associates (excluding goodwill and loans to associates, see Note 12). Others: loans to associates; mortgage loan receivables. Source: Asia Insurance.

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In our view, Hong Kong's upcoming risk-based regulatory capital regime will prompt Asia Insurance to closely manage its investment portfolio, as it aims to maintain a healthy regulatory solvency level. The insurer has been maintaining its solvency ratio sufficiently above the minimum regulatory requirement.

Asia Insurance is exposed to catastrophe risk through its property damage business lines. We expect the insurer to proactively review its reinsurance arrangements to mitigate catastrophe-related risk exposures and financial volatility.

Other Key Credit Considerations

Governance

Asia Insurance's risk culture and governance will likely strengthen over the next two years as the regulatory framework in Hong Kong advances. The insurer has a formal strategic planning process and clear indicators to guide business development. The senior management team's good depth and breadth of insurance expertise in the local market underpin Asia Insurance's ability to execute strategies.

Liquidity

Asia Insurance has adequate liquidity to support its operations. This reflects the insurer's large holdings of liquid assets, such as cash, bank deposits, and short-term bonds. These liquid investments accounted for over 38% of its total invested assets in 2022.

Group support

We consider Asia Insurance as a core subsidiary of Asia Financial Holdings. Asia Insurance, the primary operating entity of the group, represents about 55% of Asia Financial Holdings' total assets, 42% of the equity and 85% of the net profit as of June 30, 2023. Asia Financial Holdings' other businesses are largely financial investments in areas such as life insurance, healthcare and wellness, and retirement services. In our view, the group credit profile of Asia Financial Holdings mirrors the stand-alone credit profile of Asia Insurance. The parent group has limited debt leverage.

Environmental, social, and governance

ESG factors have an overall neutral influence on our credit rating analysis of Asia Insurance.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Asia Insurance Co. Ltd.--Credit metrics history

Ratio/Metric (Mil. HK\$)	2022	2021 (Restated)	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Very strong	Very strong	Very strong

Asia Insurance Co. Ltd.--Credit metrics history (cont.)

Ratio/Metric (Mil. HK\$)	2022	2021 (Restated)	2021	2020	2019	2018
Total invested assets	6,189.5	6,028.0	5,982.5	5,805.2	5,670.4	5,462.1
Total shareholder equity	3,758.1	3,624.2	3,580.7	3,610.9	3,439.0	3,459.4
Gross premiums written	2,092.5	1,922.2	1,922.2	1,753.2	1,706.7	1,487.8
Net premiums written	1,377.3	1,228.8	1,228.8	1,118.2	1,070.7	964.7
Net premiums earned	1,285.4	1,141.6	1,141.6	1,042.1	981.4	889.2
Reinsurance utilization (%)	34.2	36.1	36.1	36.2	37.3	35.2
EBIT	211.8	256.8	244.1	202.6	218.4	297.2
Net income (attributable to all shareholders)	195.8	249.1	236.9	196.6	192.6	261.4
Return on revenue (%)	18.7	16.3	15.4	16.8	18.7	30.9
Return on shareholders' equity (reported) (%)	5.3	6.9	6.6	5.6	5.6	7.6
P/C: net combined ratio (%)	91.4	91.1	91.1	90.9	90.6	89.3
P/C: net expense ratio (%)	44.1	40.8	40.8	42.4	41.6	42.5
Net investment yield (%)	3.0	1.7	1.5	1.8	2.3	2.5
Net investment yield including investment gains/(losses) (%)	2.0	2.6	2.4	2.0	2.5	1.4

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 19, 2023)*

Operating Company Covered By This Report

Asia Insurance Co. Ltd.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Hong Kong

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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