

# RatingsDirect®

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## Asia Insurance Co. Ltd.

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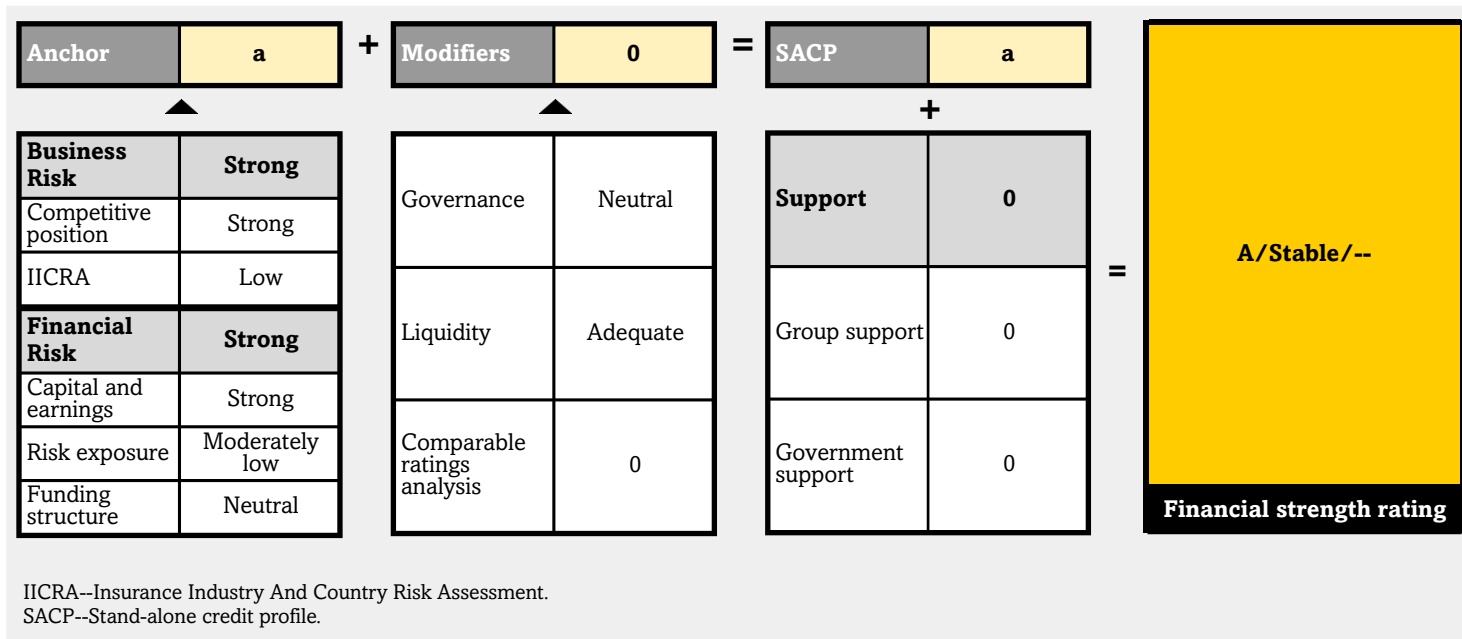
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# Asia Insurance Co. Ltd.



## Credit Highlights

Overview	
Key strengths	Key risks
Established record of robust local underwriting performance, with active risk selection and exposure management.	Potentially higher volatility in earnings from increasing exposure to inward reinsurance business.
Strong capital position relative to its risk profile, supported by solid earnings contribution.	Sensitive to capital market swings due to large holdings of equity investments.

**Asia Insurance Co. Ltd.'s strong competitive position and active risk selection supports its record of robust underwriting performance.** 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, assists quality new business acquisitions and good customer retention. Still, the insurer continues to actively manage its exposures through targeted risk selection and use of reinsurance. This supports its management of risk retention and mitigates volatility in underwriting, particularly catastrophe-related exposures and inward reinsurance business from overseas markets.

**Asia Insurance's growing inward reinsurance business could make earnings more volatile.** Asia Insurance's underwriting profits will likely narrow over the next two years, mainly driven by a growing inward reinsurance portfolio of global risks. The inward business accounts for over half of the insurer's portfolio and its increasing risk exposure to weaker-performing global business could increase earnings volatility.

**Asia Insurance will likely maintain its strong capital and earnings over the next two years.** The insurer's sound underwriting margins support this. That said, its earnings are exposed to volatility through its growing inward reinsurance operations and large holdings of high-risk investments such as equities. Business growth will also consume

more required capital. Asia Insurance's moderate amount of capital, equivalent to about US\$560 million, tempers its capital adequacy, in our view, given insurers with less than US\$1 billion capital are more vulnerable to large shocks.

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

The insurer follows investment guidance from its parent group, Asia Financial Holdings Ltd., particularly equity investments. Asia Insurance has large holdings of high-risk assets and faces greater sensitivity to capital market volatility compared with its domestic peers.

### Outlook: Stable

The stable outlook reflects our expectation that Asia Insurance will maintain its strong competitive position with profitable underwriting and will sustain its capital strength over the next 12-24 months. This is even as the insurer manages its sensitivity to credit and market risk.

#### Downside scenario

We may lower the ratings if Asia Insurance's competitive position weakens. This could happen if its profitability deteriorates significantly, possibly due to volatility in earnings related to an expanding inward reinsurance portfolio or volatile investment returns.

We may also lower the ratings if Asia Insurance's capitalization deteriorates significantly, possibly because of a substantial increase in 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 sustained basis.

## Key Assumptions

- Hong Kong's economy to grow 2.7% in 2025 and 2.5% in 2026, following our estimate of 3.3% growth for 2024.
- Hong Kong's average annual inflation rate to be 1.9% for 2024-2026, and 2.0% in 2027, as measured by the consumer price index.

### Asia Insurance Co. Ltd.--Key metrics

(Mil. HK\$)	2022a	2023a	2024f*	2025f*	2026f*
Insurance revenue	2,070.9	2,460.5	2,700-3,000	2,900-3,300	3,200-3,800
Gross premiums written	2,092.5	2,836.0	N/A	N/A	N/A
Net income (attributable to all shareholders)	195.8	242.2	160-250	160-250	160-250
Return on equity (%)	5.3	5.7	3.5-5.8	3.5-5.8	3.5-5.8
Net investment yield (%)	3.0	1.5	1.3-2.0	1.3-2.0	1.3-2.0

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

<b>(Mil. HK\$)</b>	<b>2022a</b>	<b>2023a</b>	<b>2024f*</b>	<b>2025f*</b>	<b>2026f*</b>
Net combined ratio (%)	91.4	83.9	86-94	86-94	86-94
Return on revenue (%)	18.7	9.2	4.0-9.0	4.0-9.0	4.0-9.0
S&P Global Ratings capital adequacy*	AA	99.99%	99.99%	99.99%	99.95%

\*S&P Global Ratings capital adequacy from 2023 is based on updated criteria. a--Actual. f--Forecast. N/A-- Not available.. Data in 2023 and onward is based on Hong Kong Financial Reporting Standards (HKFRS) 17, and data prior to 2023 is based on HKFRS 4.

## Business Risk Profile: Strong

Asia Insurance's established record of robust underwriting performance, particularly from its direct insurance book, will underpin its 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 a well-recognized brand name. The long-established insurer ranked 5th by gross premiums with a 4.2% market share in 2023.

Asia Insurance's underwriting profits will likely narrow over the next two years, mainly driven by a growing inward reinsurance portfolio of global risks. While local business continues to contribute core earnings, it is becoming increasingly competitive, with ongoing pressure on premium rates. The insurer's increasing risk exposure to weaker-performing inward reinsurance to counter challenging growth locally could increase earnings volatility. The insurer reported a solid net combined ratio of 83.9% in 2023, based on Hong Kong Financial Reporting Standard 17, assisted by solid local performance. A combined ratio below 100% indicates underwriting profit.

We expect inward reinsurance business to be the key driver of revenue growth over the next two years and to account for over half of the insurer's underwriting portfolio. Asia Insurance reported inward premiums expanded 86% in 2023 and 33% in the first six months of 2024. Business growth in individual health and property lines is the main driver of the increase. Asia Insurance is finding some firmer pricing opportunities offshore, especially in property lines. This inward book represented 55% of the insurer's underwriting portfolio as of June 30, 2024.

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 will continue to use reinsurance and retrocession to mitigate risk retention and underwriting volatility, particularly for catastrophe-related exposures and inward reinsurance business from overseas markets.

We continue to view the insurer as having low industry and country risk because premiums from Hong Kong and Macau represent most of its underwriting portfolio (66% in 2023). The remaining allocation provides some business and geographic diversity across China, Oceania, Japan, Southeast Asia, Europe, and other regions.

Asia Insurance maintains solid relationships with brokers and agents, and it is expanding its distribution network to life partners, bank channels, and enhanced digital offerings. Meanwhile, evolving cooperation between Asia Insurance and part-owned Avo Insurance Co. Ltd. will likely prompt new business opportunities for personal insurance products and those related to small and midsize enterprises (SMEs).

## Financial Risk Profile: Strong

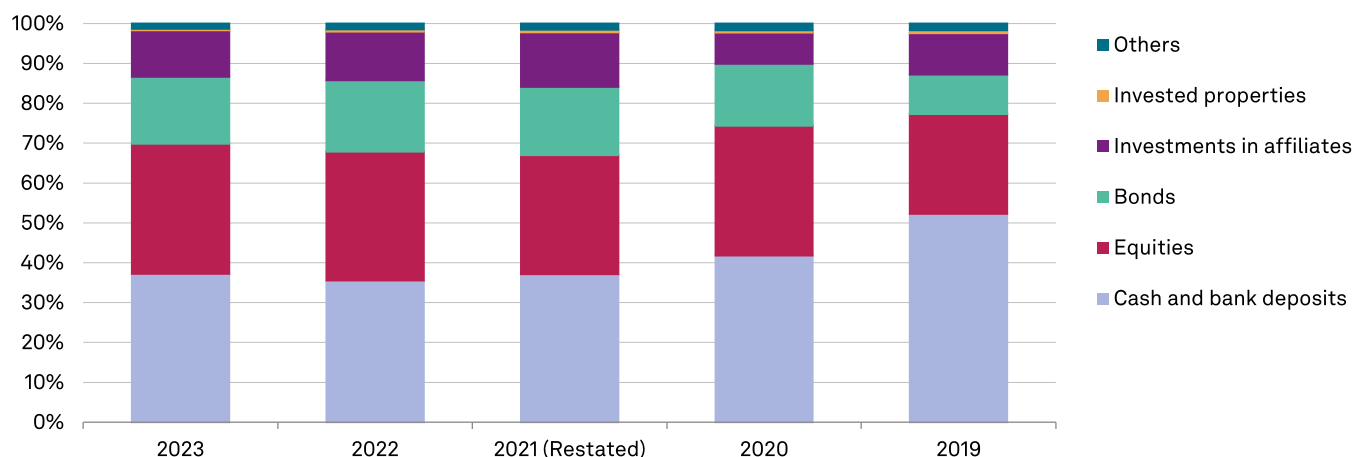
Asia Insurance will likely maintain its strong capital and earnings by the end of our projection period, notwithstanding an improved capital buffer under our revised capital model. Our view reflects likely robust growth in premiums over the next two years and heightened investment risk due to holdings of high-risk assets such as equities. Our assessment also incorporates the insurer's moderate amount of capital (equivalent to about US\$560 million), which may constrain its ability to withstand large losses, particularly amid increasing exposure to overseas business.

We believe Asia Insurance faces greater sensitivity in investment market performance than its peers. The insurer's large holdings of high-risk investments (predominantly equity assets), comprised about 34% of its invested assets and 26% of its total assets as of the end of 2023 year-end. Meanwhile, we expect it will continue to follow investment guidance from Asia Financial Holdings.

### Chart 1

#### Asia Insurance will likely maintain a high allocation of equity investments

Invested asset mix



Source: Asia Insurance.

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We believe Asia Insurance will maintain adequate solvency positions over the next two years, despite strong business growth and plan to pay dividends to its parent. The insurer paid dividends of HK\$110 million in 2023, representing 45% of its earnings. Its regulatory solvency ratio was 202% as of Dec. 31, 2023, under Hong Kong's risk-based capital regime.

Asia Insurance has exposure 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 along with regulatory framework updates in Hong Kong. The insurer has a formal strategic planning process and clear indicators to guide business development. Senior management'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 about 35% of its total invested assets in 2023.

### Group support

We consider Asia Insurance as a core operating subsidiary and the key contributor to the financial strength of Hong Kong-listed investment holding company Asia Financial Holdings. Asia Insurance represented 57% of Asia Financial Holdings' total assets as of the end of 2023, and it contributed 70% of the group's net profit in 2023. The parent group has limited debt leverage and has investments in other businesses such as life insurance, health care and wellness, and retirement services. In our view, Asia Financial Holdings' credit standing is neutral for the stand-alone credit profile and ratings we assign to Asia Insurance.

## 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
- 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

### 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-/bbb	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 30, 2024)\*

#### 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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