

Research Update:

# Chaucer DAC Upgraded To 'A' On Enhanced Strategic Role To China Re Group; Outlook Stable

October 15, 2021

## Overview

- CIC DAC, together with Chaucer Group, will play a key role in China Re Group's international strategy. Through Chaucer Group, we believe CIC DAC will benefit from the ultimate parent group's strong long-term commitment of support and improving integration.
- We have revised our view of CIC DAC's strategic importance to China Re Group to core from highly strategic.
- As a result, we have raised our long-term issuer credit rating and insurer financial strength rating on CIC DAC to 'A' from 'A-'. We also affirmed our 'A' long-term insurer financial strength and issuer credit ratings on China Re Group and its other 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 Oct. 15, 2021, S&P Global Ratings raised its long-term insurer financial strength and issuer credit ratings on Chaucer Insurance Co. DAC (CIC DAC) to 'A' from 'A-'. At the same time, we affirmed our 'A' long-term insurer financial strength and issuer credit ratings on China Reinsurance (Group) Corp. (China Re Group) and its other core subsidiaries (see ratings list below). The outlook on all the long-term ratings is stable.

## Rationale

The upgrade of CIC DAC reflects our view of China Re International Co. Ltd.'s (Chaucer Group) strengthened strategic role in China Re Group's international strategy and its continued integration with the ultimate parent. CIC DAC, together with Chaucer Group, will be key contributors to China Re Group's international expansion. In addition to enhancing integration, we believe Chaucer Group will increasingly bring diversification benefits and technical expertise to

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the ultimate parent. We therefore revised CIC DAC's strategic importance to China Re Group to core from highly strategic. Chaucer Group, the London-based specialty re/insurance group, collectively refers to China Re International Holdings Ltd., Chaucer Insurance Co. DAC, and China Re Australia HoldCo Pty Ltd.

Chaucer Group will play a critical role in strengthening China Re Group's international presence, particularly in the Lloyd's market. In 2020, China Re Group enhanced business synergy with Chaucer Group. This is demonstrated by renewing China Re Syndicate 2088's business into Chaucer's syndicate operation, and the launch of the Belt & Road Consortium at Lloyd's. These efforts facilitate China Re Group's growth opportunities at Lloyd's and customer relationship management, in our view. The consortium will leverage Chaucer Group's technical underwriting expertise, particularly in the political violence market, and China Re Group's connection with clients. Chaucer Group relaunched a new brand in April 2021, reflecting stronger association with the ultimate parent group.

We believe Chaucer Group will contribute to China Re Group earnings diversity. While Chaucer's recent underwriting performance has been marred by natural and man-made catastrophe losses, the insurer has generally enjoyed a history of sound underwriting profits. As of June 30, 2021, Chaucer Group accounted for 29.1% of China Re Group's property/casualty reinsurance segment's gross written premium.

Chaucer Group and CIC DAC benefit from China Re Group's strong and long-term commitment of support. This is shown in areas of capital injections, reinsurance arrangements, board representation, and IT support. In December 2020, China Re Group injected US\$50 million to support CIC DAC's new branch development in Bermuda. This is in addition to the intragroup whole account reinsurance arrangement and net-worth maintenance agreements in place for CIC DAC since the acquisition was completed in February 2019. We anticipate the reporting and risk management systems of Chaucer Group and CIC DAC will be increasingly integrated with China Re Group.

The establishment of CIC DAC aims to provide flexibility to Chaucer Group in managing regulatory and operational risks associated with Brexit, and increase platform choice and flexibility for Chaucer Group's customers. The Dublin-based insurer enjoys underwriting, claims, and other administrative services that Chaucer Group provides, despite its short operating history.

At the group level, China Re Group's capital adequacy is commensurate with the current rating level. Nevertheless, its holdings of risky assets will likely remain higher than its international peers, exposing it to counterparty risk and capital market swings. The group's heightened sensitivity toward asset risk will likely narrow its capital buffer over the next two years. Amid rising counterparty risks in China, we expect China Re Group to actively review its investment guidelines and risk control processes. In addition, large losses arising from China and overseas markets in the second half of 2021 and lower reinvestment income will likely temper China Re Group's earnings for the year.

China Re Group's top line will contract in 2021. This reflects the reinsurance group's increasing focus on profitability, particularly insurance margins. While China Re Group's domestic life reinsurance business is the largest driver of the contraction, comprehensive motor pricing reform and the formation of a state-backed agricultural reinsurer, China Agriculture Reinsurance Corp. (CARC), have also contributed to China Re Group's topline decline. That said, we expect reinsurance demand for agriculture business to resume over the next two years. This reflects primary insurance's demand for agriculture reinsurance protection in addition to the cover provided by CARC.

The reinsurance group plays an important role as a key provider of reinsurance coverage,

particularly catastrophe coverage in China. China Re Group will likely maintain its leading market position in China, with a growing international presence over the next two years. We believe the diversified earning streams will continue to support the reinsurance group's stand-alone credit profile. China Re Group benefits from the high likelihood of receiving extraordinary support from the Chinese government.

## **Outlook: China Reinsurance (Group) Corp.**

The stable outlook on China Re Group and its core subsidiaries mirrors that on the China sovereign rating and reflects our view of the Group's high likelihood of receiving extraordinary government support, if needed. We expect China Re Group to maintain its leading market position in China with a growing international presence and satisfactory capitalization over the next two years.

### **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 volatilities heightening; or
- China Re Group's liquidity position weakens substantially due to a significant increase in allocation toward less liquid investments.

### **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 position improves significantly over the period.

## **Outlook: Chaucer Insurance Co. DAC**

The stable outlook on CIC DAC reflects the outlook on China Re Group. The outlook also reflects our expectation that the insurer will maintain its core group status to the parent group over the next two years.

### **Downside scenario**

We could lower the ratings on CIC DAC, if the insurer's importance to China Re Group diminishes. We consider this as unlikely over the next two years. We could also downgrade CIC DAC if we lower the ratings on China Re Group.

### **Upside scenario**

We view an upgrade as unlikely over the next two years. That said, we may raise the ratings on CIC DAC if we upgrade China Re Group.

## Ratings Score Snapshot

### China Reinsurance (Group) Corp.

Business Risk Profile	Very Strong
Competitive position	Very Strong
IICRA	Intermediate risk
Financial Risk Profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a-
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Group or government influence	1
Group support	0
Govt. support	1
Financial Strength Rating	A/Stable/--

\*This reflects our expectation that China Re Group will facilitate increasing business diversity amid its international expansion, comparable with its 'a-' rated peers.

## Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

\*\*\*\*\* \* China Reinsurance (Group) Corp. \*\*\*\*\*

**Ratings Affirmed**

**China Reinsurance (Group) Corp.**

Issuer Credit Rating A/Stable/--

**China Reinsurance (Group) Corp.**

**China Reinsurance (Hong Kong) Co. Ltd.**

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

**China Life Reinsurance Co. Ltd.**

Financial Strength Rating

Local Currency A/Stable/--

**China Life Reinsurance Co. Ltd.**

**China Reinsurance (Hong Kong) Co. Ltd.**

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

Issuer Credit Rating

Local Currency A/Stable/--

**Upgraded**

To	From
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**Chaucer Insurance Co., DAC**

Issuer Credit Rating

Local Currency A/Stable/-- A-/Stable/--

Financial Strength Rating

Local Currency A/Stable/-- A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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