Manulife

News Release

RAM Ratings assigns AA3 rating to Manulife Holdings Berhad

Kuala Lumpur – RAM Ratings has assigned corporate credit ratings of AA3/Stable/P1 to Manulife Holdings Berhad (MHB or the Group), the holding company of Manulife Insurance Berhad (MIB) and Manulife Asset Management Services Berhad (MAMSB). The Group is 59.45% owned by Canadian-based Manulife Financial Corporation (MFC), one of the largest life insurance companies in the world.

MHB's ratings are anchored by the credit profile of its core subsidiary MIB, a life insurer that contributed to 92% of the Group's revenue and all of its profit in 1H FY Dec 2017. Notwithstanding its small stature in Malaysia (3% share of the industry's annual premium equivalent or APE), MIB is well-managed and has healthy capitalisation to support organic growth. Its credit profile also benefits from the operational support and financial flexibility derived through MFC, who has the ability to provide financial support if required. MHB's ratings reflect its position as the non-operating holding company of a regulated insurance entity and consider its debt free and healthy balance sheet. This lends credence to its ability to support the organic growth of its subsidiaries.

MIB recorded strong new business growth from 2013 as it pursued expansion via bancassurance (with Alliance Bank Malaysia Berhad). Between 2013 and 2016 its APE increased at an average annual rate of 21%, outpacing the industry average, albeit from small base. MIB's new business revenue continues to stem mainly from investment-linked policy sales, which constituted 63% of its new business premium income last year. While its agency channel's sales have been relatively muted in the past, renewed focus on recruitment and productivity had led to the segment's new business premium income growing 30% in 2016, from a 2% contraction the year before. MIB's earnings quality has also improved with a larger 38% of new business premium income emanating from regular premiums in 2016 (2015: 32%) and the improved persistency of its in-force business.

Going forward, MIB will stay focused on its existing target market which comprises mass and emerging affluent customers who live in urban areas. It has plans to augment its market share, but keen competition and a small agency footprint may be limiting factors to growth. As at end-June 2017, MIB's par fund surplus continues to remain positive, although subdued market conditions in recent years have affected investment returns. While low risk private debt securities account for the largest (40%) portion of its life fund's investments, its equity exposure at 30% is relatively higher than our rated peer group. Subdued equity market conditions have weighed on investment returns, causing investment yields to fall below 4% in the past 3 years. A prolonged period of low investment returns may put pressure on life insurers' reserving needs.

MIB's efficiency indicators are favourable but the Group's earnings have been weighed down by MAMSB, its loss-making its asset management arm. With stronger investment management fee generation, however, MAMSB is expected to be earnings accretive in 2018.

MHB's ratings could improve if the Group's life insurance business achieves a sustained improvement in scale without compromising earnings quality, profitability or capitalisation. Conversely, the ratings could be pressured by MFC's reduced propensity to support its Malaysian operations, or by deterioration in MIB's key metrics. Unexpected funding needs which result in higher-than-expected leverage at MHB will also prompt a reassessment of the ratings.

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