

Research Update

South China Insurance Co. Ltd. Ratings Affirmed At 'twAA'; Outlook Stable

August 22, 2019

Overview

- We view South China Insurance to have a satisfactory competitive position in the domestic non-life insurance market, supported by good control over its distribution channels and stable operating performance.
- We also assess South China Insurance's capital and earnings to be very strong and we expect the insurer to maintain adequate investment risk profiles to support these strengths.
- We are affirming our 'twAA' long-term insurer financial strength and issuer credit ratings on South China Insurance.
- The outlook is stable to reflect the outlook on the Hua Nan FHC group because the outlook will move in tandem with that on the parent group.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term insurer financial strength and issuer credit ratings on Taiwan-domiciled **South China Insurance Co. Ltd.** The outlook is stable.

Outlook

The stable outlook on South China Insurance reflects the outlook on the **Hua Nan Financial Holdings Co. Ltd.** (Hua Nan FHC) group. South China Insurance is a strategically important member of Hua Nan FHC group, in our view. Currently the insurer's stand-alone credit profile (SACP) is the same as the group credit profile, so any change in the group credit profile could affect the ratings on South China Insurance.

We expect the group to maintain a stable consolidated credit profile and not engage in aggressive mergers or acquisitions over the next two years. We also expect the group's association with the government of Taiwan and its systemic importance in the domestic banking industry to remain unchanged over the same period.

Downward scenario

We may lower the rating on South China Insurance if the Hua Nan group's banking arm, **Hua Nan Commercial Bank Ltd.** fails to sustain its capitalization at a strong level, which would weaken the group credit profile. This would be indicated by a drop in the bank's risk-adjusted capital ratio to consistently below 10%, due to higher growth than we currently predict or higher risk taking by the bank, domestically or overseas.

Upward scenario

We view the possibility to raise the rating over the next two years as remote, given the group's business position is unlikely to improve significantly under the its current capital policy and business growth plan.

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Rationale

The ratings on South China Insurance reflect our view on the insurer's satisfactory competitive position supported by its good control over its distribution channels, as well as satisfactory operating performance. The ratings also reflect South China Insurance's very strong capital and earnings and adequate investment risk profiles, which provide a good buffer against potential business downturns and capital market volatility. The insurer's relatively smaller scale and less geographic business diversification compared with those of regional peers somewhat offsets these strengths. In our view, some of South China Insurance's stand-alone credit characteristics are superior to those of the parent group. However, as a strategically important group member of the Hua Nan FHC group, the ratings on South China Insurance are capped by the overall group credit profile

Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk Profile	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure I	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Financial Strength Rating	twAA

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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Ratings List

Ratings Affirmed

South China Insurance Co. Ltd.

Issuer Credit Rating	twAA/Stable
Financial Strength Rating	twAA/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.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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