

Research Update

Cathay Century Insurance Co. Ltd. Ratings Affirmed At 'twAA+'; Outlook Stable

September 23, 2019

(Editor's note: In the original version published on Sept. 23, 2019, we misstated the liquidity descriptor. The misstatement has no rating impact. A corrected version follows.)

Overview

- We consider Cathay Century to be a core entity of the Cathay FHC group. Our ratings on the insurer therefore reflect Cathay FHC's group credit profile.
- Cathay Century's stand-alone credit profile has improved and is now slightly better than the group credit profile, mainly reflecting the fewer industry risks that P/C insurers now face compared with the life insurance sector.
- We are therefore affirming our 'twAA+' long-term financial strength and issuer credit ratings on Cathay Century.
- The outlook is stable to reflect our projection that the Cathay FHC group will maintain its leading position in Taiwan's financial service industry, and that the group's major operating subsidiaries are likely to maintain stable capitalization over the next one to two years.

Rating Action

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

Outlook

The stable outlook reflects our expectation that Cathay Century will remain a core entity of **Cathay Financial Holding Co. Ltd.** (Cathay FHC) group, providing a full range of insurance services to the group's customers.

On a stand-alone basis, we expect Cathay Century to maintain its very strong competitive position with stable and good-quality business flows from the Cathay FHC group. We also expect the insurer to maintain its capitalization and an adequate investment risk profile that is comparable to the domestic peer average.

Downward scenario

We could lower the ratings on Cathay Century if Cathay FHC's group credit profile weakens. Potential factors that would trigger such deterioration include:

- The capital deficiency of the group's flagship entity, **Cathay Life Insurance Co. Ltd.**, weakens significantly due to: (1) unexpected financial market volatility with sizable and unrecoverable losses on the insurer's investment portfolio; (2) overly aggressive business growth, either

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organic or via mergers and acquisitions, or (3) significantly lower growth of value in-force than our forecast; or

- The effectiveness of Cathay Life's hedging mechanism materially weakens or its hedging policies become more aggressive, resulting in higher foreign exchange risks that could weaken Cathay Life's capital.

Upward scenario

We view the likelihood of an upgrade to be remote over the next two years. Such action would require a significant increase in capital to raise Cathay Life's capital and earnings assessment to a strong level. This would have to be accompanied by superior earnings resilience compared with that of its peers and also stable credit profiles for the other core entities of the Cathay FHC group.

Rationale

We affirmed the ratings on Cathay Century to reflect our view that the insurer will remain a core entity of Cathay FHC group. The ratings on Cathay Century therefore reflect the Cathay FHC group credit profile, which largely reflects the credit profile of Cathay Life.

Cathay Century's stand-alone profile has strengthened, compared with our previous assessment, supported by the improved cross-selling synergy and franchise of the Cathay FHC group. We expect the insurer's business stability and competitive advantage to strengthen sustainably from this improvement. We also believe that Cathay Century has a very strong competitive position, given its position as the second-largest non-life insurer in Taiwan by premiums written.

In addition, Cathay Century benefits from the good quality of business referrals from the parent group. The insurer's close association with its sister life insurer's large agency force, which is the largest in Taiwan, supports its operating efficiency and result in an expense ratio that has been consistently better than the domestic industry average. We also expect Cathay Century's consistent underwriting discipline and good risk controls to continue to support its profitable underwriting.

On the other hand, we assess Cathay Century has satisfactory capital and earnings, which is below the local industry average. This relative weakness is mainly due to the insurer's capital needs for equity investments in China and Vietnam to support the group's strategy to capture business opportunities overseas. We consider Cathay Century's investment profile as comparable to its domestic peers' and believe the group has sufficient financial resources to support the insurer's ongoing business growth as needed.

Rating Score Snapshot

Business Risk Profile	Very Strong
Competitive position	Very strong
IICRA	Intermediate
Financial Risk Profile	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	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

Cathay Century Insurance Co. Ltd.

Issuer Credit Rating	twAA+/Stable
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Financial Strength Rating	twAA+/Stable
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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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