

Media Release:

Mercuries Life Insurance Co. Ltd. Ratings Affirmed At 'twA+'; Outlook Stable

January 8, 2020

Overview

- We believe Mercuries Life has partly restored its capitalization after a dip in 2018 and is likely to further restore and maintain its capitalization at a fair level over the coming one to two years.
- We are affirming our 'twA+' insurer financial strength and issuer credit ratings on Mercuries Life.
- The outlook is stable to reflect our expectation that Mercuries Life will maintain its capitalization and mid-size scale in the local market over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term insurer financial strength and issuer credit ratings on **Mercuries Life Insurance Co. Ltd.** The outlook on the ratings is stable.

Rationale

We expect Mercuries Life to sustain its capitalization at a fair level over the coming one to two years. The insurer's capital level dropped to marginal by our estimation at the end of 2018, due to widened valuation losses on investments amid heightening market volatility towards the end of the year. The insurer's capital also weakened due to negative value of in-force growth due to assumption changes; we generally include 50% of value of in-force as qualified capital. Nonetheless, we estimate the insurer's capital adequacy had returned to a fair level by the end of 2019 and will remain so over the coming one to two years.

Our base case takes into consideration the insurer's improved profits and rebound of investment valuation in the first nine months of 2019. In addition, we assume single digit percentage growth for value of in-force and a close to industry average return on average assets for the insurer supported by its likely good recurring yields over the coming two years.

The ratings on Mercuries Life continue to reflect the company's strong control over its distribution channels, mid-size position in Taiwan's life insurance market, and lower investment allocation to higher risk assets. The ratings also reflect Mercuries Life's fair

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capitalization level and a higher investment concentration in the financial sector than the domestic average.

Outlook

The stable outlook reflects our view that Mercuries Life's capital adequacy will remain fair over the coming one to two years, considering the insurer's prudent growth appetite, and stable operating performance and actuarial performance. We also expect the company to adequately control the foreign exchange risk exposure of its overseas investments. Mercuries Life's market share and business momentum are also likely to remain stable.

Downward scenario

We could lower the ratings on Mercuries Life if either of the following occur:

- The insurer's capitalization deteriorates due to unexpected investment market volatilities and is unlikely to recover over one to two years;
- The insurer enlarges its high-risk asset investments and foreign risk exposure; or
- The insurer's competitive position weakens as evidenced by deterioration in market share, weakening of agent sales force productivity, or prolonged poor operating performance.

Upward scenario

We may raise the ratings on Mercuries Life if the company enhances its capitalization significantly through material capital injections, profitable growth, and lower risky asset growth, which could drive up our assessment on its capital and earnings.

Rating Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high
Financial Risk Profile	Fair
Capital and earnings	Fair
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Financial Strength Rating	twA+

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- 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

Mercuries Life Insurance Co. Ltd.

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