

Media Release:

Outlook On Mercuries Life Insurance Revised To Negative On Heightened Market Volatility; 'twA+' Ratings Affirmed

May 7, 2020

Overview

- The COVID-19 pandemic has increased the volatility of global financial markets, and if this continues to rise and exceeds our base case for Mercuries Life could pressure the insurer's capital buffer.
- We are therefore revising the outlook on our long-term ratings on Mercuries Life to negative from stable.
- We are also affirming the 'twA+' long-term issuer credit rating and financial strength rating on the entity.

Rating Action

Taiwan Ratings Corp. today revised the outlook on its long-term issuer credit rating and financial strength rating on **Mercuries Life Insurance Co. Ltd.** to negative from stable. At the same time, we affirmed the ratings at 'twA+'.

Rationale

The downward outlook revision reflects the likelihood that Mercuries Life could see increasing pressure on its capital and earnings, given heightened market uncertainty and prevailing low interest rates globally. We continue to see increasing downside risk for the insurer considering the negative global impact from the COVID-19 outbreak, recent oil shocks, and sluggish macroeconomic prospects. We assess the credit profiles of Taiwan life insurers as more vulnerable to this challenging operating environment than their global peers, given local insurers' relatively higher equity exposure, higher weighting on overseas investments, and thinner capital buffers.

We expect Mercuries Life's capital and earnings remain at slightly below the domestic industry average over the coming one to two years, and may see pressured capital buffer under heightening market volatility. In line with other local peers, the insurer's capitalization has recently fluctuated due to significant volatility in global financial markets versus the insurer's better capital level at the end of 2019. This is despite Mercuries Life's efforts to actively adjust its equity exposure, which was visible at the end of 2019. We expect the

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consecutive U.S. policy rate cuts in 2019-2020 to lower Mercuries Life's recurring yields and growth of value-of-inforce, which in turn could reduce its capital accumulation as interest rate cuts cast a shadow over investment return prospects.

Outlook

The negative outlook reflects the likelihood that Mercuries Life could see downside pressure for its capital and earnings if global financial markets continue to weaken. Under our base case, we continue to expect Mercuries Life's capital adequacy to remain fair over the coming one to two years, considering the insurer's prudent growth appetite and stable actuarial performance. We also expect the company to adequately control the foreign exchange risk exposure of its overseas investments. The insurer's market share and business momentum are also likely to remain stable over the next one to two years.

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 volatility and is unlikely to recover over the next one or two years ;
- The insurer grows its high-risk asset investments and foreign exchange risk exposure; or
- The insurer's competitive position weakens as evidenced by a deterioration in market share, weakening of agent sales force, or prolonged poor operating performance.

Upward scenario

We may revise the outlook back to stable if the company strengthens its capital buffer sustainably to more than cover the investment risks it could face over the coming one to two years. This could be done through material capital injections, profitable growth, and lower risky asset growth, relative to its risk profile.

Ratings Score Snapshot

Mercuries Life Insurance Co. Ltd.

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+

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- 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: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Revision

	To	From
Mercuries Life insurance Co. Ltd.		
Issuer Credit Rating	twA+/Negative	twA+/Stable
Financial Strength Rating	twA+/Negative	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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