

Research Update:

Chung Kuo Insurance Co. Ltd. Ratings Affirmed At 'twAA'; Outlook Stable

September 24, 2020

Overview

- The climb in Chung Kuo Insurance's combined ratio above 100% could dwarf the ability of its net underwriting performance to support the insurer's overall credit strength.
- We are affirming our 'twAA' issuer credit rating and financial strength rating on Chung Kuo Insurance, which we believe remains underpinned by the insurer's very strong capital buffer.
- The stable outlook reflects Chung Kuo Insurance's very strong capital protection against potential losses as well as its manageable risk exposure.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' issuer credit rating and financial strength rating on **Chung Kuo Insurance Co. Ltd.** The outlook on the ratings is stable.

Rationale

The ratings continue to reflect our expectation of Chung Kuo Insurance's very strong capital and earnings over the next one or two years. We believe this signifies the insurer's sufficient buffer for potential losses, good liquidity, and satisfactory investment strategy in its diversified asset allocation. The ratings also reflect Chung Kuo Insurance's role as a strategically important subsidiary of the **Mega Financial Holding Co. Ltd.** (Mega FHC) group and its ability to leverage the group's broad client base and resources to sustain its overall credit profile.

Chung Kuo Insurance's relatively high loss ratio compared with domestic peers since 2019, particularly in its auto insurance business, drags down the insurer's underwriting performance. The insurer's combined ratio surpassed 100% in 2019 and we expect the insurer to record a nearly breakeven underwriting result of around 100% in 2020. A combined ratio below 100% represents underwriting profit. We believe the increase in Chung Kuo Insurance's loss ratio could place additional pressure on the insurer's business risk profile.

Outlook

The stable outlook reflects our expectation that Chung Kuo Insurance is likely to maintain its very strong capital and earnings over the coming one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure. The outlook also reflects the likelihood that Chung Kuo Insurance will sustain its market position in commercial

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lines while exploring deeper into personal line businesses. We also expect the company to be able to improve its underwriting performance through effective business adjustments and reach the domestic average combined ratio in the coming two years.

Downward scenario

We could lower the ratings on Chung Kuo Insurance if the insurer fails to generate underwriting profit or reach the domestic average combined ratio in the coming two years. We could also lower the ratings if the insurer's capital and earnings deteriorate to strong from very strong currently, mainly due to weakening capital under our risk-based insurance capital model. This could result from large unexpected losses by the insurer, particularly from its commercial line businesses. We could also lower the ratings if the parent group's credit profile weakens, which caps the issuer credit rating on the insurer. However, we view the likelihood of the latter two scenarios as somewhat remote over the next one to two years.

Upward scenario

We could raise the ratings on Chung Kuo Insurance if the insurer's stand-alone credit profile (SACP) improves, accompanied by a strengthened group credit profile. We could raise our assessment of Chung Kuo Insurance's SACP if the insurer enhances its competitive position significantly to be one of the leading players in Taiwan with a solid market franchise and strong positions in its business lines. However, we view such possibilities as remote over the next two years.

Related Criteria & Research

Related Criteria

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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Chung Kuo 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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