

Media Release:

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

January 22, 2021

Overview

- We expect Mercuries Life to maintain steady new premium sales through its direct agent force and better scale than small-size life insurers, despite the insurer's thin capital buffer to withstand capital market volatility over the next one or two years.
- We are affirming our 'twA+' insurer financial strength and issuer credit ratings on Mercuries Life.
- The outlook remains negative to reflect potential weakening of the insurer's capital and earnings amid continuing market volatility and challenges the insurer face to maintain business growth under fierce competition over the coming 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 negative.

Rationale

We expect Mercuries Life to sustain its capitalization at a fair level over the next one to two years. The insurer's capital adequacy weakened somewhat to our assessment of marginal in September 2020 amid widening valuation losses on its equity investments and poor earnings. However, we expect its capital adequacy to return to the fair level it registered at the end of 2019, given a cash injection of new Taiwan dollar (NT\$) 981.5 million in December 2020 along with the disposal of the equity investments and favorable equity market movement in the fourth quarter of 2020. We expect Mercuries Life's continuous focus on high-margin protection products, stable albeit weaker earnings, and slower asset growth will support the insurer's capital adequacy within our assessment of borderline fair over the coming one to two years.

The ratings on Mercuries Life continue to reflect the insurer's strong control over its tied agent force, which enables it to focus on selling more protection-type and investment-linked products. The ratings also reflect the insurer's sound liquidity. Counterbalancing this strength are Mercuries Life's fair capital adequacy which is below the domestic industry average and the insurer's relatively higher investment concentration in the financial sector.

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Outlook

The negative outlook reflects the likelihood that Mercuries Life could see downside pressure on its capital and earnings if global financial markets remain volatile over the coming one to two years. The outlook also reflects challenges the insurer faces to maintain its scale and total premium growth amid fierce competition.

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 actuarial performance similar to the domestic industry average. 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 any 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's competitive position weakens as evidenced by a deterioration in its market share, weakening of its agent sales force, or prolonged poor operating performance; or
- The insurer increases its high-risk asset investments and foreign exchange risk exposure.

Upward scenario

We may revise the outlook back to stable if Mercuries Life 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 achieved through material capital injections, profitable growth, and lower risky asset growth all relative to its risk profile. At the same time, the insurer would need to maintain its competitiveness and business scale.

Related Criteria & Research

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
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- 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

Mercuries Life Insurance Co. Ltd.

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

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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