Media Release:

Hotai Insurance Co. Ltd. Assigned 'twAA' Ratings; Outlook Stable

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Overview

- Taiwan-based Hotai Insurance Co. Ltd. has strong capital and earnings in our view, along with a satisfactory market position and operating performance in Taiwan's property and casualty (P/C or non-life) insurance market.
- We view Hotai Insurance as a strategically important but insulated member of Taiwan-based Hotai Motor Group, considering the regulatory ring-fence in place around the insurer.
- We are assigning our 'twAA' long-term issuer credit rating and financial strength rating to Hotai Insurance.
- The stable outlook reflects our expectation that Hotai Insurance will remain financially independent from the parent group, given tight regulatory oversight in Taiwan, and our view that the insurer will maintain its strong capital and earnings over the next one to two years.

Rating Action

Taiwan Ratings Corp. today assigned its 'twAA' long-term issuer credit rating and financial strength rating on Hotai Insurance Co. Ltd. The outlook is stable.

Rationale

The rating on Hotai Insurance reflect the insurer's strong capital and earnings, along with a satisfactory market position and operating performance in Taiwan's P/C insurance market.

We assess Taiwan's P/C insurance market, in which Hotai Insurance primarily operates, as having an intermediate level of industry and country risk. However, we believe the insurer's adequate reinsurance protection partly offsets the catastrophe risk associated with the domestic market.

Hotai Insurance is likely to maintain its satisfactory competitive position. The insurer is midsize and focuses primarily on retail business, such as motor, personal accident, and health insurance. It has had an average operating performance over the past one to two years. After a change of ownership in 2017 and joining the Hotai Motor Group, Hotai Insurance has delivered very high premium growth, mostly driven by the auto insurance business referred by the group's auto dealers. The group has the largest car distribution network in Taiwan and controls a significant part of new car insurance business domestically.

We expect Hotai Insurance to expand its market share over the coming few years by pursuing above-average growth. As of the end of September 2020, the insurer was the eight-largest in Taiwan's P/C market, with a 5.2% market share.

Hotai Insurance's operating performance is likely to be in line with the domestic industry average over the next two years. The operating performance has been below the industry average in recent months, mainly in terms of the expense ratio. This is largely due to Hotai Insurance's limited scale and its business expansion. We expect the expense ratio to gradually improve along as business expands. Meanwhile, we believe Hotai Insurance will sustain its satisfactory loss ratio, underpinned by its good quality personal line business and adequate underwriting on its commercial line business.

We expect Hotai Insurance to maintain its capital strength with full earnings retention, a stable investment mix, and well-covered catastrophe risks over the next two years. However, the insurer's capital size of about US$200 million is small when compared with regional peers'. This could increase Hotai Insurance's vulnerability to market volatility and potential catastrophe risk, tempering the capital strength.

In our view, Hotai Insurance's investment risk profile is on par with the domestic peer average and is a neutral factor to our assessment of the insurer's capital and earnings. Hotai Insurance has maintained a prudent investment portfolio and high liquid assets, including bank deposits. Although the insurer sought to improve its investment yield by increasing investments in domestic equities in 2020, the ratio of investments in equities and real estate to total adjusted capital has remained at about the domestic average for the sector. Hotai Insurance's foreign exchange risk is reasonable given the limited size of its overseas exposures.

We view Hotai Insurance as a strategically important subsidiary of Hotai Motor Group. The insurer complements the group's business of selling imported and domestically manufactured vehicles. It also offers comprehensive services to the group's customers.

At the same time, we believe Hotai Insurance's credit profile is insulated from the parent group's due to the stringent insurance regulatory oversight and ring-fence in place. The insurance regulator in Taiwan has a proven record of restricting insurers from supporting parent groups to an extent that would unduly impair the entity's own creditworthiness. The ratings on Hotai Insurance are therefore two notches above the group's consolidated credit profile on a global rating scale.

Outlook

The stable outlook reflects our expectation that Hotai Insurance will remain insulated from its parent, Hotai Motor group under the current regulatory oversight.

On a stand-alone basis, we expect Hotai Insurance's capital and earnings to remain strong, supported by the insurer's earnings retention and adequately managed risk profile. We also believe Hotai Insurance's operating performance will be stable, underpinned by adequate underwriting controls as the insurer pursues above-average growth in the domestic P/C market.

Downward scenario

We could lower the rating if Hotai Insurance's capital and earnings deteriorate mainly due to weakening capital. Such weakening could result from overly aggressive growth in high-risk investments or business, or unexpected financial market volatility that result in sizable losses on the insurer's investment portfolio.

We could also lower the ratings if the group credit profile materially weakens.

Upward scenario

We view an upgrade as unlikely over the next 24 months because it would require a substantial increase in Hotai Insurance's capital strength accompanied by improvement in the group's credit strength.

Rating Score Snapshot

Issuer Credit Rating	twAA/Stable/--
Business risk	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate
Financial risk	Strong
Capital and earnings	Strong
Risk exposure:	Moderately low
Funding structure:	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
IICRA--Insurance industry country risk analysis.	

Related Criteria & Research

Related Criteria

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group Rating Methodology – July 01, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

New Ratings

Hotai Insurance	
Financial Strength Rating	twAA/Stable/--
Issuer Credit 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.