

Bulletin:

Pandemic Coverage Elevates Capital Risk For Taiwan Fire & Marine

February 23, 2021

Taiwan Ratings Corp. said today that **Taiwan Fire & Marine Insurance Co. Ltd.'s** (TFMI) hot-selling pandemic coverage raises tail risks for capitalization. The Taiwan-based property and casualty insurer has taken new Taiwan dollar (NT\$) 1.6 billion in premiums from its pandemic insurance policy. This could account for 15%-20% of its total premiums in 2021. However, we believe the risk to TFMI's capitalization is manageable with a limited impact on the insurer's overall credit profile in 2021, given our assessment of its excellent capital adequacy. TFMI is considering reinsurance arrangements to lessen the capital risk from its pandemic exposure and the insurer ended the sale of pandemic coverage in late January 2021 in line with the company's operating capacity.

The insurance policy in question pays out when the Taiwan government requests the policy holder to home quarantine. Taiwan so far has maintained excellent control over the pandemic with fewer than 1,000 cases and only nine deaths, while the ratio of home quarantine cases to the total population remains below 0.1%. Moreover, we believe TFMI's actuarial assumptions support the profitability of its pandemic coverage, given the actual home quarantine numbers in Taiwan remain far below the insurer's actuarial assumptions.

This report does not constitute a rating action.

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