

Research Update:

# Ratings On Taiwan Fire & Marine Insurance Co. Ltd. Affirmed At 'twAA' On Sufficient Capital Buffer; Outlook Stable

November 29, 2021

## Overview

- **Taiwan Fire & Marine Co. Ltd.'s** loss-making pandemic insurance policies have weighed on its capitalization and profitability in 2021.
- Nonetheless, we believe the insurer has a sufficient capital buffer to absorb the short-term impact of policy losses and has further tightened its risk control mechanism for new product development.
- We have affirmed our 'twAA' long-term insurer financial strength and issuer credit ratings on Taiwan Fire & Marine.
- The rating outlook is stable to reflect our view that the insurer's very strong capital and earnings will help it to maintain its credit profile over the coming two years.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term insurer financial strength and issuer credit ratings on Taiwan Fire & Marine. The outlook on the ratings is stable.

## Rationale

The affirmation reflects the risks facing Taiwan Fire & Marine's from its pandemic insurance policies are manageable. We believe these risks have a limited impact on the insurer's overall credit profile. We estimate Taiwan Fire & Marine will maintain its very strong capital and earnings relative to its risk profile over the next one to two years. The insurer made new Taiwan dollar (NT\$) 1.9 billion from the sale of one-year pandemic insurance policies over a very short period in early 2021. We estimate this will represent about one quarter of the insurer's total premiums in full-year 2021. We also believe that Taiwan Fire & Marine has fully retained the risks from these policies without the need for reinsurance coverage.

Taiwan Fire & Marine has reported a net operating loss of NT\$108.7 million for the first three quarters of 2021. However, under our base case for Taiwan Fire & Marine, we believe the insurer's excellent capitalization is sufficient to absorb the increased liability risks and potential future losses.

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The ratings on Taiwan Fire & Marine continue to reflect our assessment of the insurer's very strong capital and earnings as well as its average underwriting performance. Counterbalancing these strengths are the insurer's small scale in the domestic market and less geographic business diversification compared with other regional peers'.

### Outlook

The stable rating outlook reflects our view that Taiwan Fire & Marine's very strong capital and earnings will help the insurer to maintain its credit profile over the coming two years. The risk of pandemic insurance coverage should be manageable and have a limited effect on the insurer's overall credit profile, in our view. The outlook also reflects our view that Taiwan Fire & Marine will adopt a prudent business growth strategy and maintain average underwriting performance over the same period, given its strategic focus on profitability.

#### Downside scenario

We may lower the ratings if we lower our assessment of Taiwan Fire & Marine's capital and earnings from very strong to strong, mainly due to weakening capitalization over the next two years. Such weakening could result from unexpected financial market volatility with sizable losses from the insurer's investment portfolio, overly aggressive growth, or heightened risk exposure to market volatility. We could also lower the ratings if the negative impact of pandemic insurance policies goes beyond our base-case forecast, resulting in further weakening of the insurer's capital strength.

#### Upside scenario

We may raise the ratings if we raise our assessment of Taiwan Fire & Marine's competitive position to strong, which could result from material improvement in the insurer's domestic market share. At the same time, Taiwan Fire & Marine would have to deliver above industry average underwriting performance and a stable contribution of total premiums from its own distribution channel. Nonetheless, we also view this scenario to be unlikely over the next two years.

## Related Criteria & Research

### Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

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## Ratings List

### Ratings Affirmed

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#### Taiwan Fire & Marine Insurance Co. Ltd.

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Issuer Credit Rating	twAA/Stable
Financial Strength Rating	twAA/Stable

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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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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