

Media Release:

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

January 27, 2022

Overview

- We believe Mercuries Life can maintain its fair capitalization, despite the insurer's capital buffer may remain thin over the next one to two years.
- We affirmed our 'twA+' insurer financial strength and issuer credit ratings on Mercuries Life.
- The rating outlook remains negative to reflect potential weakening of the insurer's capital and earnings amid continuing market volatility and challenges Mercuries Life faces to maintain its stable profitability and business position 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

The rating affirmation reflects our view that Mercuries Life is likely to maintain its capitalization at the lower borderline of our assessment of fair capitalization over the next one to two years, amid a slowdown in the insurer's invested asset growth along with control over its high-risk asset investments.

We believe that Mercuries Life's move to make a large reduction in its equity investments in the last quarter of 2021 helped to restore its capitalization to a fair level after slight weakening earlier in the year. Mercuries Life's capital adequacy weakened somewhat to our assessment of marginal in September 2021, amid widening valuation losses on the insurer's equity investments and aggressive high risk asset allocation. At the same time, the insurer's funding structure ratios, measured by its EBITDA, weakened in 2021 due to weak profitability.

We also forecast the insurer's profitability will rebound somewhat with funding structure stabilizing over the coming 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. Counterbalancing this strength are Mercuries Life's fair capital adequacy and below average profitability.

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Outlook

The negative rating outlook reflects the likelihood that Mercuries Life could see downward pressure on its capital and earnings over the coming one to two years if the company cannot effectively control its equity investments allocation, execute its capital injection plan or encounters unexpected market volatility.

The outlook also reflects challenges the insurer faces to maintain its scale and stable earnings capability, 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 that is similar to the domestic industry average. We also expect Mercuries Life to adequately control the foreign exchange risk exposure of its overseas investments. The insurer's market share, business momentum, and operating performance are also likely to recover to its historical norm over the next one to two years.

Downward scenario

We could lower the ratings on Mercuries Life if either of the following occur:

- The insurer's capitalization deteriorates and is unlikely to recover over the next one or two years;
- The insurer's competitive position weakens as indicated by a deterioration in market share, weakening of 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:

- The insurer sustains its capital adequacy at a fair level by successfully accomplishing the planned capital injection and effectively controlling its equity investment growth; and
- The insurer can restore its funding structure and continue to establish and maintain strong business position with steady profitability.

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
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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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