

Media Release:

Tokio Marine Nawa Insurance Co. Ltd. Ratings Placed On CreditWatch Negative On Likely Weakening Capitalization

June 8, 2022

Overview

- Taiwan-based Tokio Marine Nawa Insurance Co. Ltd. (TM Nawa) faces substantial claim losses on its COVID-19 pandemic insurance policies which we expect to weaken the insurer's capitalization.
- We acknowledge the considerable uncertainty surrounding the full extent of potential claim numbers as the pandemic evolves, as well as the scope and timing of the insurer's proposed capital restoration plan.
- We have therefore placed our 'twAAA' long-term financial strength rating and issuer credit rating on Tokio Marine Nawa on CreditWatch with negative implications.

Rating Action

Taiwan Ratings Corp. today placed its 'twAAA' long-term financial strength rating and issuer credit rating on TM Nawa on CreditWatch with negative implications.

Rationale

The placement on CreditWatch negative reflects our view of high uncertainty surrounding TM Nawa's ability to sustain its overall creditworthiness over the next few quarters. Based on our current estimate, the expected losses would lead to a material drop in TM Nawa's total adjusted capital. However, this estimate is highly sensitive to the duration and severity of the current pandemic outbreak before outstanding policies reach maturity. We also acknowledge that potential regulatory changes regarding the severity of the omicron variant as a transmissible disease could reduce potential payout amounts.

Surging pandemic claims could negatively affect TM Nawa's liquidity. TM Nawa will be unable to maintain an adequate liquidity buffer without an effective and timely financial management plan, in our view. However, we believe the insurer will take action to maintain sufficient liquidity to serve its outstanding insurance liabilities.

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CreditWatch

We aim to resolve the CreditWatch placement after we have better clarification on TM Nawa's proposed capital restoration plan, its risk-mitigating mechanism, as well as the loss development of its pandemic insurance policies over the next two to three months.

Downside scenario

We may lower the ratings on TM Nawa by one or more notches if the company's stand-alone credit profile weakens due to deteriorating capital strength. Such deterioration could result from losses from policy claims, or an insufficient capital plan to sustain the insurer's capital adequacy at an excellent level.

Although less likely, we could also lower the ratings by multiple notches if TM Nawa cannot maintain its liquidity ratio above 100%, which would indicate that the insurer may not be able to service all its financial and policyholder obligations in a timely manner over the next 12 months.

Upside scenario

We could affirm the ratings if we conclude that TM Nawa can uphold its capital strength and maintain adequate liquidity over the next one to two years.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis of TM Nawa. That's despite physical risk can be a moderately negative consideration in environmental factors for non-life insurers with concentrations in areas prone to natural catastrophes. We believe TM Nawa's exposure to environmental risks remains neutral considering the insurer's sufficient reinsurance coverage for catastrophe risks.

Rating Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor	a
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable rating analysis	0
Stand-alone credit profile	a
Support	
Group support	0
Government support	0
Financial Strength Rating	twAAA/WatchNeg/--

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

CreditWatch Action

	To	From
Tokio Marine Nawa Insurance Co. Ltd.		
Issuer credit rating	twAAA/WatchNeg/--	twAAA/Stable/--
Financial strength rating	twAAA/WatchNeg/--	twAAA/Stable/--

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