

Media Release:

# Chung Kuo Insurance Co. Ltd. Ratings Placed On CreditWatch Negative On Potentially Weakening Capitalization

June 8, 2022

## Overview

- Taiwan-based **Chung Kuo Insurance Co. Ltd.'s** capitalization is likely to weaken due to substantial claim losses on its COVID-19 pandemic insurance policies sold during 2021-2022.
- The potential level of weakened capitalization, however, remains highly sensitive to the evolution of the pandemic outbreak in Taiwan, as well as the insurer's potential capital and asset disposal plans.
- We have therefore placed our 'twAA' long-term financial strength rating and issuer credit rating on Chung Kuo Insurance on CreditWatch with negative implications.

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## Rating Action

Taiwan Ratings Corp. today placed its 'twAA' long-term financial strength rating and issuer credit rating on Chung Kuo Insurance on CreditWatch with negative implications.

## Rationale

***The CreditWatch placement reflects our view that Chung Kuo Insurance's capitalization could weaken materially due to substantial claim payments on pandemic insurance policies.***

Domestic infections of the omicron variant have surged since mid-April 2022 and are likely to remain high for the next month or more. Based on our scenario analysis, we estimate Chung Kuo Insurance's total losses on pandemic claim payments could reach several billion new Taiwan dollars based on the insurer's outstanding policies plus those still under the underwriting process. Such a high level of losses would lead to a material drop in the insurer's total adjusted capital without sufficient capital replenishment. However, this estimate is highly sensitive to the evolution of the pandemic outbreak as well as Chung Kuo Insurance's proposed capital and asset adjustment plan. As of the start of June 2022, the infection rate had reached 10% of the total population in Taiwan with still-high daily case numbers.

***Chung Kuo Insurance's capital erosion will weaken its stand-alone credit profile.***

Nonetheless, potential support from its parent group could partly offset the negative impact on Chung Kuo Insurance's overall credit profile. This is based on Chung Kuo Insurance's strategically important role under Taiwan-domiciled **Mega Financial Holding Co. Ltd.** group.

## CreditWatch

We aim to resolve the CreditWatch placement after we have better clarity over the next two to three months regarding the duration and severity of the current pandemic outbreak and the potential losses that Chung Kuo Insurance could incur, as well as the insurer's capital and risk asset adjustment plan.

### Downside scenario

We could lower the ratings on Chung Kuo Insurance by one notch if the company's stand-alone credit profile deteriorates due to weakening capital and earnings amid substantial policy claim payments and without a sufficient capital restoration plan in place.

We could also lower the ratings if Chung Kuo Insurance 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 Chung Kuo Insurance will maintain its capital strength and adequate liquidity over the next one to two years

## Rating Score Snapshot

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

## 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

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## Ratings List

### CreditWatch Action

	To	From
<b>Chung Kuo Insurance Co. Ltd.</b>		
Issuer credit rating	twAA/WatchNeg/--	twAA/Stable/--
Financial strength rating	twAA/WatchNeg/--	twAA/Stable/--

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