

Media Release:

Mercuries Life Insurance Co. Ltd. Downgraded To 'twA' On Weakened Capitalization; Outlook Negative

(Editor's note: This article was originally published on June 10, 2022. We are republishing it to correct a typographical error. This has no impact on the rating outcome.)

June 10, 2022

Overview

- Mercuries Life's depressed equity investment performance, along with lower-than-expected value of in-force (VIF) growth have weakened its capital adequacy to marginal from fair previously, which we believe is unlikely to recover over the next two years in the absence of potential capital strengthening plans.
- We have therefore lowered our long-term financial strength and issuer credit ratings on Mercuries Life to 'twA' from 'twA+'.
- The rating outlook is negative to reflect further potential weakening of the insurer's funding structure and capitalization amid continuing market volatility and obstacles for the insurer to achieve stable profitability and sustain its business position over the next one to two years.

Rating Action

Taiwan Ratings Corp. today lowered its long-term financial strength and issuer credit ratings on **Mercuries Life Insurance Co. Ltd.** to 'twA' from 'twA+'. The outlook on the ratings is negative.

Rationale

The downgrade action reflects our view that Mercuries Life's capitalization has weakened to marginal from fair, with a low likelihood of recovery over the next one to two years in the absence of potential capital strengthening plans. The insurer's capitalization has weakened following a net loss in the first quarter of 2022 along with worse VIF growth in 2021 than it previously predicted. Mercuries Life made sizeable investment losses on its exposure to Yuanta Daily Taiwan 50 Bear-1X Electronic Trading Fund since 2021, with unrealized losses of approximately new Taiwan dollar (NT\$) 7.0 billion as of the end of 2021 and a further NT\$3.3 billion net loss realized at the end of the first quarter of 2022 after disposing of part of this ETF investment. We project the insurer is unlikely to generate positive net income in 2022.

Mercuries Life faces additional obstacles to maintain its overall creditworthiness. The insurer's depressed investment performance along with the recent resignation of two senior board members raise uncertainty over the strength of the insurer's risk management framework, its

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ability to maintain sufficient EBIT and EBITDA to sustain an adequate funding structure, and the insurer's ability to uphold its regulatory capital requirement and business franchise.

Outlook

The negative rating outlook reflects our view of a one third probability that Mercuries Life cannot effectively restore its operating performance under the current volatile equity market. We also believe Mercuries Life will have difficulty to sustain its capitalization without a proactive capital plan, effective risk management, and the ability to generate sufficient VIF growth.

Downward scenario

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

- The insurer cannot uphold its funding structure ratios within our rating thresholds amid volatile earnings;
- Its competitive position weakens as indicated by deterioration in its market shares, damage to its franchise, weakening of its agent sales force, or prolonged poor operating performance;
- It cannot strengthen its management and governance amid continuing investment losses or designate appropriate candidates for senior management; or
- Capitalization deteriorates further and is unlikely to recover over the next one or two years.

Upward scenario

We may revise the outlook to stable if:

- Mercuries Life can sustain its capitalization and funding structure ratios through improved and consistent profitability;
- The insurer presents a sustainable and strengthening business position and stable market shares along with a satisfactory franchise and brand name; and
- It can effectively control the investment position without enlarged losses or the pursuit of high-risk exposures.

Environmental, Social, And Governance

ESG credit indicators: To E-2, S-2, G-3 From E-2, S-2, G-2

Governance factors are now a moderately negative consideration in our credit rating analysis for Mercuries Life. We now see a more meaningful negative impact of the company's risk management and governance on its capitalization and overall credit profile.

Rating Score Snapshot

Mercuries Life Insurance Co. Ltd.

	To	From
Business Risk Profile	Satisfactory	Satisfactory
Competitive position	Strong	Strong
IICRA	Moderately high risk	Moderately high risk
Financial Risk Profile	Marginal	Fair
Capital and earnings	Marginal	Fair
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral

Modifiers

Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Financial Strength Rating	twA/Negative/--	twA+/Negative/--

IICRA--Insurance Industry And Country Risk Assessment.

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

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Downgraded; Outlook

Mercuries Life Insurance Co. Ltd.	To	From
Issuer Credit Rating	twA/Negative/--	twA+/Negative/--
Financial Strength Rating	twA/Negative/--	twA+/Negative/--

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