

Media Release:

# Cathay Century Insurance Co. Ltd. 'twAA+' Ratings Affirmed On Core Group Status; Outlook Stable

June 15, 2022

## Overview

- Taiwan-domiciled property and casualty insurer, **Cathay Century Insurance Co. Ltd.**, remains a core entity to the wider Cathay FHC group with ratings equivalent to the group credit profile. We believe the group will provide business and financial support to Cathay Century in all foreseeable situations.
- Nonetheless, rising pandemic insurance claims increase the risks for Cathay Century to preserve its capital and earnings on a stand-alone basis.
- We affirmed our 'twAA+' long-term financial strength and issuer credit ratings on Cathay Century.
- The outlook on the ratings is stable and follows the trend of the group's consolidated credit profile.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term financial strength and issuer credit ratings on Cathay Century. The outlook on the ratings is stable.

## Rationale

**Cathay Century remains a core entity of the wider Cathay FHC group.** The rating affirmation reflects our view that a recent surging in claims from pandemic-related insurance policies is unlikely to weaken the integrated link between Cathay Century and the parent **Cathay Financial Holding Co. Ltd.** (Cathay FHC) group. We believe Cathay FHC has the willingness and capability to support Cathay Century Insurance in times of need. This is shown by a recent announcement of a new Taiwan dollar (NT\$) 10 billion capital injection by the parent holding company. In our view, a recent surge in pandemic insurance claims incurred by Cathay Century is unlikely to temper the overall group credit profile, given the insurer's small weighting (less than 2% by assets and by capital) to the overall group. As a result, we expect the potential impact of the claim payments will be absorbable by Cathay FHC group's normal annual profits.

**The intensity and duration of the current domestic COVID-19 outbreak raises risks for the insurer's capital buffer.** We believe Cathay Century's capital and earnings could still come under pressure amid uncertainties over the evolving pandemic outbreak in Taiwan. Domestic infections of the omicron variant have surged since mid-April 2022 and are likely to remain high for the next

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month or more. We forecast Cathay Century will maintain its capital and earnings at the current satisfactory level over the coming two years, assuming the upcoming NT\$10 billion capital injection from the parent group will be timely and is sufficient to offset most potential losses from pandemic insurance sold. However, the estimate is highly sensitive to how the pandemic evolves and how the claims progress for the remainder of this year. We also anticipate the insurer will maintain sufficient liquidity to satisfy the rising claims over the coming few months.

## Outlook

Cathay Century is a core member of Cathay FHC group. As such, the ratings on the insurer will move in tandem with the group credit profile. The stable rating outlook on Cathay Century reflects the trend of the group credit profile, which in turn mirrors that of the stand-alone credit profile of the group's flagship unit, **Cathay Life Insurance Co. Ltd.**

### Downward scenario

We could lower the ratings on Cathay Century if Cathay FHC's group credit profile weakens.

Potential factors that would trigger such deterioration include:

- Cathay Life's capital deficiency weakens due to: (1) unexpected financial market volatility with sizable and unrecoverable losses on the insurer's investment portfolio; (2) overly aggressive business growth, either organically or via merger and acquisitions; or (3) significantly slower growth of value in-force than in our current forecast; or
- The effectiveness of Cathay Life's hedging mechanism materially weakens or its hedging policies become more aggressive, resulting in higher foreign exchange risks that could negatively affect the insurer's capitalization.

### Upward scenario

We could raise the ratings on Cathay Century if the group credit profile improves. Such action would require a sustainable improvement in capital to raise our assessment of Cathay Life's capital and earnings to strong from satisfactory at present. This would also have to be accompanied by the insurer's superior earnings resilience compared with its peers' and stable credit profiles for the other core group entities.

## 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 Score Snapshot

### Cathay Century Insurance Co. Ltd.

<b>Business Risk Profile</b>	<b>Very strong</b>
Competitive position	Very strong
IICRA	Intermediate
<b>Financial Risk Profile</b>	<b>Satisfactory</b>
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Adequate
<b>Financial Strength Rating</b>	<b>twAA+</b>

IICRA--Insurance Industry And Country Risk Assessment.

## Ratings List

### Ratings Affirmed

#### Cathay Century Insurance Co. Ltd.

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

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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