Media Release:

Central Reinsurance Corp. 'twAA+' Ratings Affirmed On Sustained Capitalization; Outlook Stable

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Overview

- We believe **Central Reinsurance Corp.** (Central Re) can maintain its very strong capitalization over the next two years. This follows the Taiwan-domiciled reinsurer's capital-raising plan announced earlier this month.
- Central Re is likely to be able to withstand the impacts of increasing claims of its reinsurance of COVID-related policies, and a reduction in shareholders' equity as a result of lower valuation on investments.
- We are affirming our 'twAA+' long-term financial strength and issuer credit ratings on Central Re.
- The stable rating outlook reflects our view that Central Re will maintain its very strong capital and earnings over the coming one to two years.

Rating Action

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

Rationale

We believe Central Re can maintain its credit profile over the coming two years through proactive capital planning and prudent control over investment risk exposure. We also anticipate the reinsurer will maintain sufficient liquidity to satisfy rising claims over the coming few months.

We anticipate Central Re will maintain its capital and earnings at the current very strong level over the coming two years. This is based on our expectation that the upcoming capital-raising plan (the total monetary value of the issuance is new Taiwan dollar (NT$) 2.1 billion) will be completed on time. In our base case assumptions for 2022, we also capture the lower valuation on investments booked through shareholders' equity as of June 2022. The reinsurer disposed a good amount of equity investments with capital gains in the first half of 2022 to offset part of the losses incurred from COVID-related policies. We forecast claims related to the pandemic will occur mainly in 2022 and they would have minimal residual impact in early 2023. Central Re is likely to return to underwriting profits in 2023 driven by its profitable core reinsurance business.

Central Re's capitalization was hit by the COVID-related policies it reinsured. These resulted in a surge of claims since mid-April 2022 from the local pandemic outbreak. That said, most of these policies expired by the end of May 2022. The company reported net operating losses for the first half of 2022 due to related claims and additional reserve provision made for these policies. At the same time, Central Re's reported common equity declined to NT$13.8 billion at the end of June 2022 from NT$16.6 billion at the end of 2021 primarily due to the negative valuation of investments.

Outlook

The stable rating outlook reflects our view that Central Re will maintain its very strong capital and earnings through timely capital planning, prudent growth and a moderate risk appetite for catastrophe and investment risks over the coming one to two years. That's despite the reinsurer's smaller absolute capital size compared with other international reinsurers.

We also anticipate that Central Re will maintain its solid domestic market position and remain prudent in exploring the international reinsurance market over the same period.

Downside scenario

We may lower the ratings on Central Re if:

- The company's capitalization weakens, possibly due to aggressive balance sheet expansion, significant investment losses, or severe underwriting losses beyond our expectation without proactive capital planning; or
- The reinsurer no longer has a competitive advantage in the local market, as demonstrated by a significant loss of market share.

Upside scenario

We may raise the ratings if Central Re can maintain profitable growth and increase its business scale to levels more comparable with that of similar rated regional reinsurers.

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 – November 11, 2021

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

Ratings Score Snapshot

Central Reinsurance Corp.

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor	a
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
SACP	a
Support	0
Group support	0
Government support	0
Financial Strength Rating	twAA+

IICRA--Insurance Industry And Country Risk Assessment. SACP--Stand-alone credit profile.

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

Ratings List

Ratings Affirmed

Central Reinsurance Corp.	
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 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.