

Media Release:

Tokio Marine Newa Insurance Downgraded To 'twAA' On Capital Deterioration; Ratings Kept On CreditWatch Negative

September 5, 2022

Overview

- Taiwan-based **Tokio Marine Newa Insurance Co. Ltd.'s** (TM Newa) capitalization has weakened due to substantial claim losses on its COVID-19 pandemic insurance policies.
- We believe the nonlife insurer's capitalization target will be weaker than before the pandemic, given the potential for future claims as the pandemic evolves and uncertainty over the scope and timing of its capital plans.
- We therefore lowered our long-term issuer credit rating and financial strength rating on TM Newa to 'twAA' from 'twAAA'.
- We expect to resolve the CreditWatch when we have better visibility on the timeline for TM Newa to implement its capital plan as well as to evaluate the likelihood of further losses on the insurer's outstanding pandemic policies.

Rating Action

Taiwan Ratings Corp. today lowered its long-term issuer credit rating and financial strength rating on TM Newa to 'twAA' from 'twAAA' and kept the ratings on CreditWatch with negative implications.

Rationale

The downgrade action and CreditWatch placement reflect our view that TM Newa's target capitalization will be lower than before the pandemic began. We estimate that the insurer's pandemic policy losses have weakened its capital and earnings to marginal from very strong before the pandemic. The insurer could face additional capital pressure over the next few months as the pandemic continues to evolve in Taiwan.

TM Newa's capitalization remains highly sensitive to the duration and severity of the pandemic outbreak before outstanding policies mature. We also acknowledge the potential for regulatory changes that would end the classification of the omicron variant as a highly transmissible disease, thereby helping to reduce potential claim amounts.

Surging pandemic claims could affect TM Newa's liquidity. TM Newa will be unable to maintain an adequate liquidity surplus for its operations without an effective and timely financial management plan, in our view. However, we believe the insurer will take action to

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maintain sufficient liquidity to serve its outstanding insurance liabilities during its capital restructuring process.

We continue to assess TM Nawa as a strategically important subsidiary of the Tokio Marine Group. This reflects the insurer's important role in the group's Greater China strategy and TM Nawa's significant profit contribution in the region. We assess the ratings on a strategically important subsidiary to be generally three notches higher than our assessment of its stand-alone credit profile on S&P Global Ratings' global rating scale.

Our view of TM Nawa's business risk profile also reflects the insurer's good brand image, given its franchise association with the stronger Tokio Marine Group. Meanwhile, the well-established car dealer network of another major owner, Taiwan-based Yulon Motor Co. Ltd., also supports TM Nawa's high control over its distribution channels.

Under the insurer's currently weaker capitalization, the rating anchor for TM Nawa is now 'bbb-/bb+' on S&P Global Ratings' global rating scale, and we choose the higher anchor of 'bbb-' to reflect the insurer's likely capital strength, considering its proposed capital plan over the next few months. We base this on our expectation that TM Nawa's two major shareholder groups will make a timely capital injection from the two major shareholder groups over the next few months to bring the insurer's capital back in compliance with local regulatory requirements and provide an additional buffer.

CreditWatch

We aim to resolve the CreditWatch placement after we have better clarity on TM Nawa's near-term capital restructuring plan, including the amount and timeline, 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 our assessment of the company's stand-alone credit profile weakens due to its deteriorating capital strength. Such weakening could result from losses on its pandemic policies or an insufficient capital plan to sustain capital adequacy at a fair level.

Although less likely, we could 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 maintain its financial strength through capital restructuring plans and maintain adequate liquidity over the next one to two years.

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 of TM Nawa. We now see a more meaningful negative impact of the company's risk management and governance on its overall financial strength. The insurer's reported regulatory capital ratio was materially below the regulator's capital requirement as of June 30, 2022, compared with a level well above the regulatory requirement at the end of 2021. We believe the time needed by

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the insurer to effectively complete capital injections and repair its regulatory capital level demonstrates room for improvements in its risk management and governance.

Rating Score Snapshot

	To	From
Business Risk Profile	Strong	Strong
Competitive position	Strong	Strong
IICRA	Intermediate	Intermediate
Financial Risk Profile	Marginal	Very strong
Capital and earnings	Marginal	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Anchor	bbb-	a
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable rating analysis	0	0
Stand-alone credit profile	bbb-	a
Support		
Group support	3	0
Government support	0	0
Financial Strength Rating	twAA/WatchNeg/--	twAAA/WatchNeg/--

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

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Risk management, culture and oversight

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 – November 11, 2021

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

Ratings List

Downgraded; CreditWatch Action

	To	From
Tokio Marine Nawa Insurance Co. Ltd.		
Issuer Credit Rating	twAA/WatchNeg/--	twAAA/WatchNeg/--
Financial Strength Rating	twAA/WatchNeg/--	twAAA/WatchNeg/--

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