

Media Release:

Chung Kuo Insurance Co. Ltd. Ratings Remain On CreditWatch Negative

September 5, 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. However, the degree of weakening remains highly sensitive to the pandemic's evolution in Taiwan, as well as the insurer's potential capital plans.
- We therefore kept our ratings on Chung Kuo Insurance on CreditWatch, where we placed them with negative implications on June 8, 2022.
- We aim to resolve the CreditWatch status upon receipt of more concrete information regarding the insurer's capital plans.

Rating Action

Taiwan Ratings Corp. today kept its 'twAA' long-term financial strength rating and issuer credit rating on Chung Kuo Insurance on CreditWatch with negative implications, where we placed them on June 8, 2022.

Rationale

The CreditWatch extension reflects continued uncertainties over Chung Kuo Insurance's capitalization, which could weaken materially from our previous assessment over the next few months. This is due to substantial claim payments on the insurer's pandemic insurance policies and the potential for future claims before the policies mature. The negative impact of these claims on Chung Kuo Insurance's financial profile remains sensitive to the pandemic's continued evolution in Taiwan, as well as the insurer's plans to shore up its capital.

Chung Kuo Insurance reported a net loss of new Taiwan dollar (NT\$) 3.0 billion in the first half of 2022, due to extensive claims on its COVID-19 insurance policies sold in the first half of the year. Full-year losses could widen further, given still sizeable outstanding pandemic policies. Taiwan appears to be entering another wave of COVID-19 infections, which could see claims rise again. As of Sept. 1, 2022, the cumulative infection rate in Taiwan had reached 22% of the total population with a noticeable rise in weekly case numbers.

Financial support from the parent group could prevent deterioration in the insurer's overall credit profile. We believe that the parent **Mega Financial Holding Co. Ltd.** group will provide the necessary financial support to Chung Kuo Insurance as a strategically important subsidiary to prevent significant deterioration in the insurer's overall credit profile.

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CreditWatch

We aim to resolve the CreditWatch placement after we receive more information within the next three months regarding the insurer's potential losses from pandemic insurance, as well as its capital 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 sufficient liquidity for its operations over the next one to two years.

Rating Score Snapshot

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

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

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

CreditWatch Action

Chung Kuo Insurance Co. Ltd.

Issuer Credit Rating	twAA/WatchNeg/--
Financial Strength Rating	twAA/WatchNeg/--

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