Media Release:

Chung Kuo Insurance Removed From Watch Negative; 'twAA' Rating Affirmed With Stable Outlook

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Overview

- Taiwan-based **Chung Kuo Insurance Co. Ltd.'s** capitalization is likely to remain robust for the next two to three years with a planned capital injection and strong commitment from its parent.
- We affirmed our 'twAA' long-term financial strength rating and issuer credit rating on Chung Kuo Insurance and removed them from CreditWatch with negative implications.
- The stable outlook reflects our expectation that Chung Kuo Insurance will maintain its very strong financial risk profile over the coming one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure.

Rating Action

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

Rationale

The rating action follows the announcement that **Mega Financial Holding Co. Ltd.** will participate in Chung Kuo Insurance's capital raising plan for new Taiwan dollars (NT$) 2 billion by the end of 2022. In our view, Chung Kuo Insurance's capitalization is likely to remain excellent for the next two to three years with this capital injection and the strong commitment from its parent group to support its capital needs. These factors will help to absorb substantial claim losses on its COVID-19 pandemic insurance policies sold in the first half of 2022.

The CreditWatch placement in June 2022 mainly reflected our view that Chung Kuo Insurance's capitalization could weaken materially due to substantial claim payments on the insurer's pandemic insurance policies. Chung Kuo Insurance incurred a net loss of NT$3 billion in the first half of 2022 and the losses will widen for the full year, given still-sizable outstanding pandemic policies.

The planned capital injection of NT$2 billion would help to absorb part of the potential losses and thus support its capitalization. This is despite the projected total adjusted capital being lower than that of 2021 but remaining at the same level in our capital assessment. We factor in sizable NT$7 billion-NT$8 billion claim losses from pandemic insurance policies after 50% of reinsurance coverage in 2022; the insurer's net income will gradually restore to the pre-COVID level in the following two to three years. We also believe the parent company will continue to provide necessary capital support to Chung Kuo Insurance to ensure a good buffer in the insurer's regulatory capital ratios.

In our view, the insurer will also adequately manage potential cash outflows in the coming months, given its highly liquid assets, short-term funding initiatives, and the group's capital infusion. The insurer's manageable liquidity and funding profile, together with sustained capitalization, help to keep its financial risk profile solid.

Outlook

The stable rating outlook reflects our expectation that Chung Kuo Insurance will maintain its very strong financial risk profile over the coming one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure. We expect the potential losses from pandemic insurance claims to be absorbable as supported by the group's capital injection measures. The company's underwriting performance will gradually restore to about the pre-COVID level over the next two to three years.

Downside scenario

We could lower the ratings if our assessment of the insurer's capital and earnings deteriorates. This could result from higher losses from pandemic insurance than we currently expect, without a sufficient capital restoration plan. We could also lower the ratings if we lower our assessment of the parent group's credit profile, which caps the issuer credit rating on the insurer. However, we view the likelihood of the latter scenario as somewhat remote over the next one to two years.

Upside scenario

We could raise the ratings if Chung Kuo Insurance's stand-alone credit profile (SACP) improves, accompanied by a strengthened group credit profile. We could raise our assessment of the SACP if the insurer enhances its competitive position significantly to be one of the leading players in Taiwan with a solid market franchise and strong positions in business lines. However, we view this likelihood as remote over the next two years.

Rating Score Snapshot

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

IICRA--Insurance Industry And Country Risk Assessment.

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

	To	From
Chung Kuo Insurance Co. Ltd.		
Issuer credit rating	twAA/Stable/--	twAA/WatchNeg/--
Financial strength rating	twAA/Stable/--	twAA/WatchNeg/--

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.