

Media Release:

# Mercuries Life Insurance Downgraded To 'twA-' On Weakened Profitability, Prolonged Capital Pressure; Outlook Negative

January 18, 2023

## Overview

- Mercuries Life's profitability has weakened amid prolonged capital pressure. This constrains the insurer's ability to defend its strong competitive position against local peers.
- We have lowered our long-term financial strength and issuer credit ratings on Mercuries Life to 'twA-' from 'twA'.
- The rating outlook is negative to reflect the difficulty for the company to restore its capitalization, stabilize its earnings and funding ratios, and maintain its strong competitive position.

## Rating Action

Taiwan Ratings Corp. today lowered its long-term financial strength and issuer credit ratings on **Mercuries Life Insurance Co. Ltd.** to 'twA-' from 'twA'. The outlook on the ratings is negative.

## Rationale

**The downgrade action reflects our view that Mercuries Life's profitability could remain weak by domestic comparison over the coming two years as the insurer writes-off investment losses. It also reflects the constraints on the insurer's business growth, given its marginal capital adequacy.** We estimate Mercuries Life's return on assets was negative 0.45% in 2022, which underperforms the domestic industry average and our earlier expectation for the insurer. Mercuries Life will likely report an overall net loss for 2022, partly due to its disposal of its position in the Yuanta Daily Taiwan 50 Bear - 1X Exchange Traded Fund.

In our view, Mercuries Life's volatile capital market performance and higher hedging costs for its overseas investments make it difficult for the insurer to restore its profitability over the next two years. At the same time, the company's capitalization remains marginal and on a weakening trend due to the net loss during the year, as well as an increase in unrealized valuation losses under Fair Value through Other Comprehensive Income (FVOCI) for its equity investments. While Mercuries Life is very proactive seeking capital injections, its capitalization remains substantially below the average for the domestic life insurance sector. Our base case scenario the insurer's capitalization does not include an upcoming private placement capital plan due to the high uncertainty surrounding the plan.

### PRIMARY CREDIT ANALYST

**Kaifu Hu**  
Taipei  
+886-2-2175-6814  
kaifu.hu  
@spglobal.com  
kaifu.hu  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Patty Wang**  
Taipei  
+886-2-2175-6823  
patty.wang  
@spglobal.com  
patty.wang  
@taiwanratings.com.tw

## Media Release: Mercuries Life Insurance Downgraded To 'twA-' On Weakened Profitability, Prolonged Capital Pressure; Outlook Negative

We see Mercuries Life also under pressure to maintain its funding structure with a sufficient coverage ratio on its debt obligations and interest expenses, given the insurer's weakened profitability. We see limited room for Mercuries Life to expand its business except through the sale of investment linked products due to the company's capital constraints. We therefore believe the insurer faces difficulty to defend its strong competitive position against domestic life insurers with similar competitive position assessments such as Shin Kong Life Insurance, China Life Insurance, and Taiwan Life Insurance.

**The ratings on Mercuries Life continue to reflect the insurer's strong competitive position. The insurer's high level of control over its distribution channels and sound liquidity supported by satisfactory asset quality of fixed income portfolio underpin this view.** Nonetheless, Mercuries Life's below-average capital adequacy compared with local peers and the insurer's below-average operating performance under weaker investment returns constrain its credit profile.

## Outlook

The negative rating outlook reflects our view of a one third probability that Mercuries Life cannot effectively restore its profitability over the next one to two years due to its volatile investment performance. The outlook also reflects the difficulty for Mercuries Life to maintain its capitalization without an even more proactive capital plan, while simultaneously maintaining effective risk management and satisfactory insurance technical performance.

### Downward scenario

We could lower the ratings on Mercuries Life if any of the following occur:

- The insurer cannot uphold its funding structure ratios within our rating thresholds if its profitability weakens beyond our current forecast;
- The company's competitive position weakens, as indicated by deterioration in its market shares, damage to its franchise, weakening of its agent sales force, or further deterioration of insurance technical results;
- Mercuries Life cannot strengthen its management and governance amid continuing investment losses or designate appropriate candidates for senior management; or
- Its capitalization continues to deteriorate and is unlikely to recover over the next one or two years, or if the insurer makes no proactive capital plans in the near future.

### Upward scenario

We may revise the outlook to stable if all of the following occur:

- Mercuries Life can sustain its capitalization and funding structure ratios through improved and consistent profitability;
- The insurer presents a sustainable and strengthening business position and stable market shares along with a satisfactory franchise and brand name; and
- The company can control its investment position without enlarged losses or the pursuit of high-risk exposures.

## Rating Score Snapshot

### Mercuries Life Insurance Co. Ltd.

	To	From
<b>Business Risk Profile</b>	<b>Satisfactory</b>	<b>Satisfactory</b>
Competitive position	Strong	Strong
IICRA	Moderately high risk	Moderately high risk
<b>Financial Risk Profile</b>	<b>Marginal</b>	<b>Marginal</b>
Capital and earnings	Marginal	Marginal
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
<b>Financial Strength Rating</b>	<b>twA-/Negative/--</b>	<b>twA/Negative/--</b>
<b>ESG credit indicators</b>	<b>E-2, S-2, G-3</b>	<b>E-2, S-2, G-3</b>

IICRA--Insurance Industry And Country Risk Assessment.

## 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](http://www.taiwanratings.com))

## Ratings List

### Downgraded; Outlook

Mercuries Life Insurance Co. Ltd.	To	From
Issuer Credit Rating	twA-/Negative/--	twA/Negative/--
Financial Strength Rating	twA-/Negative/--	twA/Negative/--

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).

Copyright © by Taiwan Ratings Corp. All rights reserved.

## Media Release: Mercuries Life Insurance Downgraded To 'twA-' On Weakened Profitability, Prolonged Capital Pressure; Outlook Negative

Copyright © 2023 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, [www.taiwanratings.com](http://www.taiwanratings.com) (free of charge), and [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw) (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.