

Media Release:

# Tokio Marine Nawa Insurance 'twAA' Ratings Kept On CreditWatch Negative

January 18, 2023

## Overview

- Taiwan-based **Tokio Marine Nawa Insurance Co. Ltd.'s** (TM Nawa) continues facing pressure on its financial risk profile.
- In our view, the nonlife insurer may not be able to sustain its current capital adequacy at a fair level based on the capital injection plans publicly announced thus far.
- Our 'twAA' long-term Taiwan national scale issuer credit rating and financial strength rating on TM Nawa remain on CreditWatch with negative implications, where we placed them on Sept. 5, 2022.
- We expect to resolve the CreditWatch when we have better visibility on the timeline for TM Nawa to implement its capital plan as well as to evaluate the plan's sufficiency to cover the losses on the insurer's outstanding pandemic policies.

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## Rating Action

On Jan. 18, 2023, Taiwan Ratings Corp. kept its 'twAA' long-term issuer credit rating and financial strength rating on Tokio Marine Nawa Insurance Co. Ltd. on CreditWatch with negative implications.

## Rationale

*The CreditWatch status reflects our view that TM Nawa may have trouble maintaining its capital adequacy at a fair level.* In light of rising COVID-19 insurance claims, the insurer's already weakened capitalization may face further pressure without sufficient and timely capital injection in place as the pandemic continues to evolve in Taiwan.

*TM Nawa's capitalization remains highly sensitive to the pandemic's duration and severity before outstanding policies mature.* This is despite the company having received capital injections totaling New Taiwan dollars (NT\$) 19.99 billion in the fourth quarter of 2022 and announced further capital raising plan of NT\$8 billion to be completed in late March 2023. The insurer's outstanding COVID insurance exposure is likely to expire in mid-February 2023, which reduces the risk of a significant hike in claims. We also believe TM Nawa's two major shareholder groups will make a timely capital injection over the next few months to return its capital back in compliance with local regulatory requirements and provide some buffer.

*Surging pandemic claims could affect TM Nawa's liquidity.* The company is unlikely 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 maintain sufficient liquidity to meet 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.

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.

## 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 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 sustain adequate liquidity over the next one to two years.

## Rating Score Snapshot

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

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

## 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

- Tokio Marine Nawa Insurance Downgraded To 'twAA' On Capital Deterioration; Ratings Kept On CreditWatch Negative, September 5, 2022
- Taiwan Ratings' Ratings Definitions – November. 11, 2021

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## Ratings List

### CreditWatch Action

#### Tokio Marine Nawa Insurance Co. Ltd.

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

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