

Media Release:

# Chung Kuo Insurance 'twAA' Ratings Affirmed; Outlook Stable

September 26, 2023

## Overview

- Taiwan-based **Chung Kuo Insurance Co. Ltd.** is likely to retain robust capitalization over the next one to two years, supported by its prudent capital policy and strong commitment from **Mega Financial Holding Co. Ltd.** (Mega FHC) group, in our view.
- We have revised down our assessment of Chung Kuo Insurance's liquidity to adequate from exceptional to reflect its reduced liquid assets and an increase in claim reserves amid premium growth. The impact on the credit profile is neutral.
- We have affirmed our 'twAA' long-term financial strength rating and issuer credit rating on Chung Kuo Insurance.
- The stable outlook reflects our view that Chung Kuo Insurance will maintain its very strong financial risk profile over the next one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure.

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## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term financial strength rating and issuer credit rating on Chung Kuo Insurance. The outlook on the ratings is stable.

## Rationale

Chung Kuo Insurance is likely to maintain a very strong financial risk profile with excellent capitalization and adequate investment risk over the next one to two years. We base our view on the insurer's prudent financial management, potential capital support from the parent Mega FHC group, and prudent growth strategy. We forecast Chung Kuo Insurance will maintain excellent capitalization in 2023-2024, albeit with a smaller buffer against volatility. That's despite the insurer incurred significant losses on its pandemic policies in 2022 and set aside a sizeable credit provision in the first half of 2023 for the reinsurance receivables on its pandemic policies.

In our base case, we do not expect Chung Kuo Insurance to make further significant credit provision for the reinsurance receivables. We also anticipate the insurer's underwriting performance will return to the pre-pandemic level in 2024. We base our forecast on the stable performance of the insurer's non-pandemic business lines over the past few quarters. All pandemic policies matured in the first half of 2023 and the insurer has paid out most of these claims; therefore, we anticipate no further impact to its loss ratio from 2024.

We have revised our assessment of Chung Kuo Insurance's liquidity to adequate from exceptional. This is the result of a drop in the insurer's liquid assets following the disposal of some listed equities in 2022 to fund pandemic claim payouts. We forecast Chung Kuo Insurance will maintain adequate liquidity level over the next two years. It will take time for the insurer to rebuild its investment asset portfolio and restore its previous liquidity profile. The timeframe for this largely depends on the process for settling reinsurance receivables.

## Outlook

The stable rating outlook reflects our view that Chung Kuo Insurance will maintain its very strong financial risk profile over the next one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure. We believe the company will gradually restore its underwriting performance to the pre-pandemic level over the next two to three years. We also expect the parent group to remain supportive of the insurer's capital adequacy should Chung Kuo Insurance encounter major losses.

### Downside scenario

We could lower the ratings if the insurer's capital and earnings deteriorate substantially from the current very strong level. This could result from higher losses from underwriting or reinsurance recoveries than we current forecast. We could also lower the ratings if the parent's group credit profile weakens, which currently caps the issuer credit rating on the insurer.

### 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 assess a higher 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

Chung Kuo Insurance Co. Ltd.	To	From
<b>Business risk profile</b>	<b>Satisfactory</b>	<b>Satisfactory</b>
Competitive position	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
<b>Financial risk profile</b>	<b>Very strong</b>	<b>Very strong</b>
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Adequate	Exceptional
Comparable ratings analysis	0	0
SACP	a-	a-
Group or government support	0	0
<b>Financial strength rating</b>	<b>twAA</b>	<b>twAA</b>

SACP--Stand-alone credit profile. IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria & Research

### Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- Criteria | Insurance | General: Insurers Rating Methodology, Jul 01 2019
- General Criteria: Principles Of Credit Ratings, Feb 16 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, Jun 07 2010

### Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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## Ratings List

### Ratings Affirmed

#### Chung Kuo Insurance Co. Ltd

Issuer Credit Rating	twAA/Stable
Financial Strength Rating	twAA/Stable

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