

Media Release:

South China Insurance Co. Ltd. 'twAA' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

November 28, 2023

Overview

- On Nov. 15, 2023, S&P Global Ratings published its revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- We have reviewed our ratings on South China Insurance under the revised criteria with no impact on the ratings.
- We affirmed the ratings on South China Insurance. The outlook on the ratings remains stable.

Rating Action

On, Nov. 28, 2023, Taiwan Ratings Corp. affirmed its 'twAA' long-term issuer credit rating and financial strength rating on **South China Insurance Co. Ltd.** The outlook on the ratings remains stable.

Impact Of Revised Capital Model Criteria

- We see no impact of the revised criteria on our assessment of South China Insurance's capital adequacy. The analysis indicates that the company's capital and earning would remain very strong over the next one to two years.
- We've captured the benefits of risk diversification more explicitly in our analysis, which supports the insurer's capital adequacy. The recalibration of our capital charges to higher confidence levels and capital requirement that varies from one-in-200 to one-in-500 years at different stress scenarios on catastrophe risks somewhat offsets these benefits.

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Credit Highlights

Overview

Key strengths	Key risks
Very strong capital and earnings relative to its risk profile.	Smaller scale and less geographically diverse than regional peers.
Good control over distribution channels including group-related channels.	Small capital size, which makes the insurer more vulnerable to market volatility and catastrophe risk than its regional peers.

Outlook

The stable rating outlook on South China Insurance reflects the credit trend of the **Hua Nan Financial Holding Co. Ltd.** group credit profile, which in turn mirrors the stand-alone credit profile of the group's flagship unit, **Hua Nan Commercial Bank Ltd.** We anticipate South China Insurance's strategic importance to the group will not change over the next two years and as such the ratings on the insurer will move in tandem with the group credit profile.

Downward scenario

We may lower the ratings on South China Insurance if the group's banking arm fails to sustain its strong capitalization which would in turn weaken the group credit profile. A consistent drop in the bank's risk-adjusted capital ratio to below 10% would indicate such a decline and could result from more aggressive growth or higher risk taking by the bank at home or overseas than we previously forecast.

Upward scenario

We see only a remote possibility of an upgrade for South China Insurance over the next two years, given the ratings are capped by the group credit profile and our view that the group's business position is unlikely to improve significantly under its capital policy and business growth plan.

Rationale

The ratings on South China Insurance reflect our view on the insurer's very strong capital and earnings which provide a good buffer against business downturns and capital market volatility. We also view South China Insurance has a satisfactory competitive position supported by its good operating performance. The insurer's relatively smaller scale and less geographic business diversification compared with those of regional peers somewhat offsets these strengths.

In our view, some of South China Insurance's stand-alone credit characteristics are superior to those of the parent Hua Nan group. However, as a strategically important group member, the ratings on South China Insurance are capped by the overall group credit profile.

Ratings Score Snapshot

South China Insurance Co. Ltd.

Financial strength rating	twAA
Business risk	Satisfactory
IICRA	Intermediate
Competitive position	Satisfactory

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Financial risk	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	-1
Group support	-1
Government support	0
ICRA--Insurance Industry And Country Risk Assessment.	

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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: Insurer Risk-Based Capital Adequacy—Methodology and Assumptions - November 15, 2023

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

South China Insurance Co. Ltd.

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

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.

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