Media Release:

Central Reinsurance Corp. 'twAA+' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

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PRIMARY CREDIT ANALYST

Serene Hsieh, CPA, FRM
Taipei
+886-2-2175-6820
serene.hsieh@spglobal.com
serene.hsieh@taiwanratings.com.tw

SECONDARY CONTACT

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

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 **Central Reinsurance Corp.** (Central Re) under the revised criteria, with no impact on the ratings.
- We affirmed the 'twAA+' long-term financial strength and issuer credit ratings on Central Re.
- The outlook on the ratings remains stable to reflect our view that the reinsurer will maintain its very strong capital and earnings over the next one to two years. This would be through prudent growth and a moderate risk appetite for catastrophe and investment risks.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term insurer financial strength and issuer credit ratings on Central Re. 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 Central Re's capital adequacy. The analysis indicates that the company's capital and earnings will 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. A recalibration of our capital charges to higher confidence levels and capital requirement that vary from one-in-200 years to one-in-500 years in different stress scenarios on catastrophe risks somewhat offset these benefits.

Credit Highlights

Overview

Key strengths	Key risks
Strong direct relationships with local clients and solid domestic market position.	Small scale and less geographic diversification than other reinsurers in Asia.
Excellent capital adequacy, albeit partly offset by the insurer's small capital base.	Volatile nature of the reinsurance business, given its exposure to catastrophe risks.
Satisfactory operating performance compared with regional peers.	Higher foreign exchange risk exposure than regional peers.

Outlook

The stable rating outlook reflects our view that Central Re will maintain very strong capital and earnings through prudent growth and a moderate risk appetite for catastrophe and investment risks over the next one to two years. That's despite the company's smaller absolute capital size compared with other international reinsurers. We also anticipate that Central Re will maintain its solid domestic market position and remain prudent in exploring the international reinsurance market over the same period.

Downside scenario

We may lower the ratings on Central Re if:

- The company's capitalization weakens due to aggressive balance sheet expansion, significant investment losses, or severe underwriting losses without proactive capital planning; or
- The reinsurer no longer has a competitive advantage in the local market, as demonstrated by a significant loss of market share.

Upside scenario

We may raise the ratings on Central Re if the company can maintain profitable growth with a sustainable track record and increase its business scale to be more comparable with that of similarly rated regional reinsurers.

Rationale

The ratings on Central Re reflect the company's strong direct relationships with local clients, as well as its solid domestic market position, very strong capital and earnings, and diversified and prudent investment profile. In addition, the ratings reflect the company's good risk controls with satisfactory operating performance after excluding the one-off claim effect from COVID-related policies in 2022. The company's combined ratio was around 98% for the first nine months of 2023, which remains satisfactory by comparison with its international peers.

Central Re is the only domestic reinsurer in Taiwan, where it holds a strong competitive position; however, several factors somewhat offset these rating strengths. These include Central Re's small scale and less geographic diversification than other reinsurers in Asia, as well as the volatile nature of the reinsurance business, given its exposure to catastrophe risks.

Ratings Score Snapshot

Central Reinsurance Corp.

Financial strength rating	**twAA+**
Business risk	Strong
IICRA	Intermediate risk
Competitive position	Strong
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately High
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - Jun 08, 2023
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - Nov 15, 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

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

Central Reinsurance Corp.	
Issuer Credit Rating	twAA+/Stable
Financial Strength Rating	twAA+/Stable