

Media Release:

Mercuries Life Ratings Affirmed At 'twA-' Following Revised Capital Model Criteria; Outlook Remains Negative

January 25, 2024

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 reviewed our ratings on under the revised criteria, with no impact on the ratings.
- The insurer's less favorable investment performance along with lower value of in-force (VIF) growth than we expected, continue to weigh on its capital adequacy. We expect the insurer's capital adequacy will remain marginal and is unlikely to recover to our assessment of fair capital adequacy over the next two years without capital strengthening plans.
- We affirmed our 'twA-' long-term financial strength and issuer credit ratings on Mercuries Life.
- The rating outlook remains negative to reflect our view of the difficulty for Mercuries life to restore its capitalization, stabilize its earnings and funding ratios, control its risk exposure, and maintain its strong competitive position.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA-' long-term financial strength and issuer credit ratings on Mercuries Life. The outlook on the ratings remains negative.

Impact Of Revised Capital Model Criteria

- Our revised criteria has no impact on our assessment of Mercuries Life's capital adequacy. Our analysis indicates the insurer will maintain marginal capital and earnings 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. We have revised our calculation of total adjusted capital to reduce complexity and align with changes to our measure of an insurer's risk-based capital requirements, including removing haircuts to value-in-force.

PRIMARY CREDIT ANALYST

Effie Tsai
Taipei
+886-2-2175-6824
effie.tsai
@spglobal.com
effie.tsai
@taiwanratings.com.tw

SECONDARY CONTACT

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

Credit Highlights

Overview

Key strengths	Key risks
High level of control over its distribution channels to market insurance policies.	Below-average capital adequacy compared with local peers.
Sound liquidity supported by the satisfactory asset quality of its fixed-income portfolio.	Below-average operating performance and stressed funding structure amid a weaker investment return, which is more vulnerable to continuing market volatility.

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 uncertainty for the insurer to restore its capitalization and funding ratios without an even more proactive capital plan, while simultaneously maintaining adequate control over its risk exposures with effective risk management and maintain its competitive position.

Downside scenario

We could lower the ratings on Mercuries Life if:

- 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;
- Capitalization continues to deteriorate and is unlikely to recover over the next one or two years;
- Exposure to riskier assets or foreign exchange risk is significantly higher than the domestic industry average;
- The insurer cannot uphold its funding structure ratios within our rating thresholds perhaps because its profitability weakens beyond our current forecast; or
- Mercuries Life cannot strengthen its management and governance amid pressure on its investment performance or if the insurer cannot hold on to appropriate senior management.

Upside scenario

We could revise the outlook to stable if:

- 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.

Rationale

The rating affirmation reflects our view that Mercuries Life is likely to maintain its satisfactory business profile and marginal capitalization over the next one to two years. We believe the insurer's high level of control over its distribution channels will continue to support its sales momentum along with support from its sound liquidity underpinned by the satisfactory asset quality of fixed income portfolio. Mercuries Life ranked seventh in the local market by both total premiums and first year premiums in 2023.

We are maintaining a negative rating outlook on the insurer. This reflects our view of the difficulty for the insurer to restore its investment performance and execute its capital plans, while at the same time control its competitive position and risk exposures through effective risk management.

Mercuries Life's capitalization is likely to remain marginal over the next one to two years. The insurer has completed two capital injections totaling new Taiwan dollar (NT\$) 5 billion in 2023. However, the company's declining value of in-force (VIF) and net loss continue to weigh on its capitalization.

In 2022, Mercuries Life reported NT\$95 billion of VIF, down 16.5% from 2021 and below the insurer's historical growth rate. This mainly stemmed from deviations in economic assumptions amid rising interest rates and a spike in foreign exchange hedging cost in 2022. We conservatively assume negative-to-flat VIF growth over the next one to two years, given the macroeconomy remains volatile.

Net losses realized after Mercuries Life disposed of part of its investment in Yuanta Daily Taiwan 50 Bear-1X Electronic Trading Fund in 2022 and 2023 have further weakened the insurer's investment performance over the period. However, the insurer's reported net loss of NT\$2.1 billion for the first nine months of 2023 was narrower than losses in the same period of 2022. Mercuries Life will fully write off its investment in the electronic trading fund by the end of 2024. Therefore, we expect the insurer's investment performance will gradually improve in 2025 when it is likely to generate positive net income and restore its funding structure.

From a regulatory perspective, Mercuries Life's regulatory risk-based capital level was 140% as of June 30, 2023, which is slightly lower than the 156% recorded at the end of 2022. In addition to two capital injections in 2023, the insurer continues to make additional capital enhancement actions. These include seeking strategic investors that can inject new capital and through the sale of its commercial properties. Our base-case forecast for Mercuries Life does not include additional new capital from these plans due to the high uncertainty surrounding their execution.

Ratings Score Snapshot

Mercuries Life Insurance Co. Ltd.

Financial strength rating	twA-/Negative/--
Business risk	Satisfactory
IICRA	Moderately high risk
Competitive position	Strong
Financial risk	Marginal
Capital and earnings	Marginal
Risk exposure	Moderately low

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Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0
ICRA--Insurance And Country Risk Assessment	

Related Criteria

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

Related Research

- Taiwan Ratings' Ratings Definitions, Nov. 11, 2021

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

Ratings List

Ratings Affirmed

Mercuries Life Insurance Co. Ltd.

Financial Strength Rating	twA-/Negative/--
Issuer Credit Rating	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 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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