Media Release:

Tokio Marine Newa Insurance Rating Raised To 'twAA+' On Revised Capital Model Criteria, Improved Earnings; Outlook Stable

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*(**Editor's Note:** This research update, originally published on Jan. 29, 2024, has been republished to correct the Upside scenario. A corrected version follows.)*

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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").
- The implementation of the revised criteria has a positive impact on our assessment of **Tokio Marine Newa Insurance Co. Ltd.'s** capital adequacy. Improvement in the insurer's reserves in the second half of 2023 has also enhanced its capital accumulation.
- We therefore raised our long-term financial strength and issuer credit ratings on Tokio Marine Newa to 'twAA+' from 'twAA'. At the same time, we removed the ratings from under criteria observation (UCO).
- The stable rating outlook reflects our view that Tokio Marine Newa will remain a strategically important member of Japan-based Tokio Marine group and our forecast that the Taiwan-based insurer will maintain its financial strength over the next two years.

Rating Action

Taiwan Ratings Corp. today raised its long-term financial strength and issuer credit ratings on Tokio Marine Newa to 'twAA+' from 'twAA'. The rating outlook is stable. At the same time, we removed the ratings from UCO where we placed them on Nov. 16, 2023.

Impact Of Revised Capital Model Criteria

- The improvement in Tokio Marine Newa's capital adequacy under the revised capital model primarily reflects a reduction in risk charges on premium and loss reserves for motor insurance, where the insurer has above-average business exposure.
- We've also captured the benefits of risk diversification more explicitly in our analysis, which supports 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
Ongoing business and financial support from Tokio Marine group.	Higher business concentration relative to domestic peers in the fiercely competitive motor line business.
Satisfactory operating efficiency and sound brand name.	Small capital size, which makes Tokio Marine Newa more vulnerable to market volatility and catastrophe risk.
Satisfactory underwriting performance.	Smaller operating scale and less geographic diversification, compared with regional peers.

Outlook

The stable rating outlook reflects our view that Tokio Marine Newa will maintain its financial strength through enhanced risk management, a prudent investment strategy, and steady earnings retention. In our view, the insurer has good control over its distribution channels, satisfactory operating efficiency, and prudent underwriting performance to support a stable earnings performance over the next one to two years. In addition, we believe that Tokio Marine Newa will remain a strategically important entity to the parent group over the same period.

Downside scenario

We may lower the ratings on Tokio Marine Newa if our assessment of the company's stand-alone credit profile deteriorates over the next two years. This could be due to overly aggressive investment allocation or weaker operating performance that weakens its capitalization.

Upside scenario

We may raise the ratings on Tokio Marine Newa if the company's capitalization sustainably improves to a much stronger level.

Rationale

The upgrade reflects our view that Tokio Marine Newa's capital adequacy has significantly strengthened and will remain strong until at least 2025. The revised capital model had a positive impact on our capital and earnings assessment. We expect capital adequacy will remain strong with capital redundancy under a 99.8% stress scenario until 2025. The insurer's capital adequacy for 2023-2024 shows capital redundancy under a 99.95% stress scenario. However, we do not expect this to persist because the insurer will resume its ordinary business and investment plans after undergoing significant capital restructuring in 2023. Tokio Marine Newa received a capital injection of new Taiwan dollar (NT$) 8 billion in March 2023 and NT$ 12 billion in June 2023, which helped to restore its shareholders' equity to about NT$5.75 billion in September 2023 from about negative NT$17.24 billion at the end of 2022.

Improved earnings in 2023 and steady underwriting performance should support an enhanced capital base over the next two years. The insurer reported estimated net income of NT$3.2 billion for fiscal 2023 (ended December 31st), which exceeded its historical average earnings of around NT$0.9 billion (excluding 2022). The improved earnings reflects a reversal in the insurer's premium deficiency reserves in the second half of 2023 to manage the negative effects of underpriced pandemic insurance policies sold in 2022. In addition, the insurer's combined ratio excluding its pandemic insurance related business was 92% in 2023. A ratio below 100% reflects underwriting profit.

We continue to assess Tokio Marine Newa 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 Tokio Marine Newa's significant profit contribution in the region to the group. We assess the ratings on a strategically important subsidiary to be generally three notches higher than our assessment of its stand-alone credit profile and subject to a cap of one notch below the group credit profile on S&P Global Ratings' global rating scale.

Environment, social, and governance credit factors are neutral to our rating analysis of Tokio Marine Newa. The insurer has made meaningful enhancement in its risk management and governance over the past few quarters, following a surge in claims on its COVID-related insurance policies in 2022. The completion of a round of capital injections between September 2022 and June 2023, as well as the implementation of more prudent capital management, helped to restore the insurer's regulatory capital ratio with sufficient buffer above the regulatory requirement at the end of 2023.

Ratings Score Snapshot

Tokio Marine Newa Insurance Co. Ltd.

	To	From
Financial strength rating	**twAA+**	**twAA**
Business risk profile	Strong	Strong
IICRA	Intermediate risk	Intermediate risk
Competitive position	Strong	Strong
Financial risk profile	Satisfactory	Marginal
Capital and earnings	Satisfactory	Marginal
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0

IICRA--Insurance Industry And Country Risk Assessment. *The anchor reflects the relative strength of Tokio Marine Newa's business franchise and distribution channels compared to similar sized peers.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - November 15, 2023
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Upgraded; Outlook

	To	From
Tokio Marine Newa Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Stable	twAA(uco)/Stable
Financial Strength Rating	twAA+/Stable	twAA(uco)/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.