

Media Release:

MSIG Mingtai Insurance Ratings Affirmed On Revised Capital Model Criteria; Outlook Remains Stable

March 6, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The implementation of the revised criteria has minimum impact on the credit profile of **MSIG Mingtai Insurance Co. Ltd.**
- We believe the Taiwan-based property and casualty (P/C) insurer can maintain its very strong financial strength over the next two years.
- We affirmed our 'twAAA' local currency long-term issuer credit rating and financial strength rating on MSIG Mingtai Insurance.
- The stable rating outlook on MSIG Mingtai Insurance reflects the outlook on the core subsidiaries of the parent MS&AD Insurance Group, given MSIG Mingtai Insurance's highly strategic importance to the group.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAAA' long-term issuer credit rating and financial strength rating on MSIG Mingtai Insurance. The outlook on the long-term rating remains stable.

Impact Of Revised Capital Model Criteria

- Our revised criteria has no material impact on our assessment of MSIG Mingtai Insurance's overall creditworthiness. Our analysis indicates the insurer will maintain very strong 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. However, the recalibration of our capital charges to higher confidence levels, especially for net catastrophe risk exposure, offsets these improvements.

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Credit Highlights

Overview

Key strengths	Key risks
Very strong capital and earnings.	Small capital base compared with that of international peers.
Satisfactory brand and reputation, benefiting from a good local market position and association with the parent group.	High business concentration in Taiwan's P/C market with limited geographic diversification, albeit in line with the group's business strategy and similar to other local peers.

Outlook

The stable rating outlook on MSIG Mingtai reflects the outlook on the core subsidiaries of MS&AD Insurance Group, given the insurer's highly strategic importance to the group. The outlook and ratings of the subsidiary will move in tandem with those on the group's core subsidiaries.

We also anticipate MSIG Mingtai will maintain excellent capitalization and satisfactory underwriting performance over the next two years, while gradually expanding its share of Taiwan's P/C market.

Downside scenario

We may lower the ratings on MSIG Mingtai if:

- We see a high likelihood that, contrary to our current expectations, the group's capital position deteriorates significantly and for a prolonged period, or if S&P Global Ratings lowers its sovereign credit ratings on Japan; and
- We lower our assessment of MSIG Mingtai Insurance's stand-alone credit profile (SACP) due to weakened capital and earnings over the next two years. This could happen if MSIG Mingtai incurs significant underwriting or investment losses without appropriate capital replenishment.

Rationale

The ratings on MSIG Mingtai Insurance reflect the company's very strong capital and earnings, satisfactory brand and reputation as well as brand association with MS&AD Insurance Group. The insurer has a good local market position and franchise. The ratings also benefit from strong group support, given our view of MSIG Mingtai Insurance as a highly strategic entity to the parent group.

The concentration of MSIG Mingtai Insurance's business in Taiwan's non-life sector tempers these strengths. Moreover, the insurer's capital base is small, compared with that of international peers. These are common factors faced by non-life insurers in Taiwan.

Our revised criteria has no material impact on our assessment of MSIG Mingtai Insurance's capital and earnings. We anticipate the insurer will continue to have very strong capital and earnings over the next two years. MSIG Mingtai Insurance is likely to report satisfactory operating performance over the period underpinned by its prudent business and investment strategies. The impact of rising reinsurance costs is also likely to be manageable for MSIG Mingtai Insurance. This is given reinsurance support from the parent group and higher product pricing to maintain adequate

margins. However, we expect the insurer's net investment yields to increase over the next one to two years, any future disposal gains on investments is unlikely, in our view.

We believe MSIG Mingtai Insurance will maintain excellent capitalization on a risk-adjusted basis, supported by its prudent capital policies. We anticipate the insurer will maintain a solid capital buffer at an excellent level in 2023, with satisfactory underwriting performance and good profits. This is despite the repatriation of extra dividends from retained earnings to the parent group in 2023 and the likelihood that MSIG Mingtai Insurance will pay out most of its earnings in the coming years. This is in line with the group's strategy to pursue capital efficiency.

We forecast MSIG Mingtai Insurance's premiums will increase moderately in line with the domestic market, and the insurer will prudently reinvest in equities over the coming few years. MSIG Mingtai Insurance's capital buffer is solid, but it could narrow as the insurer increases its asset and liability risks. Capitalization will albeit remain unchanged.

MSIG Mingtai Insurance's total adjusted capital of less than US\$1 billion is small by international standards and somewhat offsets the insurer's capital strength. We believe insurers with a small capital base are more susceptible to external volatilities or large events. However, MSIG Mingtai Insurance has purchased sufficient reinsurance to cover most of its 1-in-250-year possible maximum catastrophic losses.

We regard MSIG Mingtai Insurance's liquidity as exceptional. The insurer's available liquidity sources--mainly deposits and high credit quality fixed-income securities--sufficiently meet its liquidity needs if stressed. Cash repatriation to the parent group in 2023 should have minimal impact on the company's liquidity because the insurer continues to invest in good quality assets. MSIG Mingtai Insurance has no confidence-sensitive liabilities, and we believe it can manage unexpectedly large claims.

The ratings on MSIG Mingtai Insurance reflect its SACP, which is one notch below our assessment of the group credit profile on a global scale. We generally rate a highly strategic subsidiary one notch below the group credit profile, unless the SACP equals the group credit profile. MSIG Mingtai Insurance is highly strategic to the parent's business in Asia and the group's strategy to expand its overseas business. The insurer's stable operating performance and dividend stream also contribute to its strategic importance, in our view.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Group Rating Methodology - July 01, 2019
- 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
- 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 Score Snapshot

MSIG Mingtai Insurance Co. Ltd.

Financial strength rating	twAAA
Anchor	a
Business risk	Strong
Competitive position	Strong
IICRA	Intermediate
Financial risk	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable Ratings Analysis	0

IICRA--Insurance Industry And Country Risk Assessment.

Ratings List

Ratings Affirmed

MSIG Mingtai Insurance Co. Ltd.

Issuer Credit Rating	twAAA/Stable
Financial Strength Rating	twAAA/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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