

Media Release:

Cathay Century Insurance Co. Ltd. 'twAA+' Ratings Affirmed On Revised Capital Model Criteria; Outlook Remains Stable

April 2, 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 a positive impact on our assessment of **Cathay Century Insurance Co. Ltd.'s** capital adequacy. Therefore, we have revised upward our assessment of the insurer's stand-alone credit profile (SACP) to 'a+' from 'a' on a global rating scale.
- We affirmed our 'twAA+' long-term issuer credit and financial strength ratings on Cathay Century. The ratings on the insurer are capped by the consolidated group credit profile of the parent **Cathay Financial Holding Co. Ltd.** (Cathay FHC) group, given Cathay Century's core group status.
- The stable rating outlook reflects our view that Cathay Century will maintain its very strong business position, with a strong financial profile relative to its risk profile over the next one to two years. The outlook also reflects the insurer's core group status.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term issuer credit and financial strength ratings on Cathay Century. The outlook on the ratings remains stable.

Impact Of Revised Capital Model Criteria

- The improvement in Cathay Century's capital adequacy under the revised capital model primarily reflects a reduction in risk charges on premium and loss reserves for motor insurance. Such charges have consistently contributed over 50% of Cathay Century's direct premiums written.
- 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 offsets these benefits.

PRIMARY CREDIT ANALYST

Effie Tsai

Taipei

+886-2-2175-6824

effie.tsai

@taiwanratings.com.tw

effie.tsai

@spglobal.com

SECONDARY CONTACT

Patty Wang

Taipei

+886-2-2175-6823

patty.wang

@taiwanratings.com.tw

patty.wang

@spglobal.com

Credit Highlights

Overview

Key strengths	Key risks
Well-established competitive position in Taiwan's property & casualty (P/C, non-life) insurance market.	Small capital base compared with that of international peers.
Stable and good business flows from group-related channels.	Above-average investment leverage compared with domestic peers'.

Outlook

Cathay Century is a core member of Taiwan-based Cathay FHC group. As such, the ratings and outlook on the insurer will move in tandem with the direction of the group credit profile, which in turn mirrors the SACP of the group's flagship unit, **Cathay Life Insurance Co. Ltd.** (twAA+/Stable/--).

Downside scenario

We could lower the ratings on Cathay Century if we lower our assessment of Cathay FHC's group credit profile due to weakening in Cathay Life's credit profile. This could happen if:

- Cathay Life's capital deficiency weakens significantly due to: (1) unexpected financial market volatility with sizable and unrecoverable losses on the insurer's investment portfolio; (2) overly aggressive business growth; or (3) significantly slower growth of value in-force than in our current forecast; or
- The effectiveness of Cathay Life's hedging mechanism materially weakens, or its hedging policies become more aggressive, resulting in higher foreign exchange risks that could negatively affect the insurer's capitalization.

Upside scenario

We could raise the ratings on Cathay Century if we raise our assessment of the group credit profile over the next two years. Such action would require a persistent increase in capital to raise our assessment of Cathay Life's capital and earnings to strong from satisfactory at present. This would also have to be accompanied by Cathay Life's superior earnings resilience compared with its peers and stable credit profiles for the other core group entities.

Rationale

The ratings on Cathay Century reflect the company's very strong competitive position supported mostly by its close association with the Cathay FHC group. The insurer has a good local market position and franchise. Cathay Century benefits from the strong brand value of its parent group in Taiwan's insurance market. This association also brings the benefit of solid distribution channels over which the group has a high level of control.

Our revised criteria have a positive impact on our assessment of Cathay Century's capital and earnings. We now view that Cathay Century has strong capital and earnings. This reflects the strengthening of the insurer's capital adequacy owing to a reduction in risk charges on premium and loss reserves for motor insurance and more favorable diversification effect per revised criteria. Therefore, we have revised upward our assessment of the insurer's SACP by one notch to 'a+' from 'a' on a global rating scale.

Media Release: Cathay Century Insurance Co. Ltd. 'twAA+' Ratings Affirmed On Revised Capital Model Criteria; Outlook Remains Stable

We anticipate Cathay Century will maintain strong capital and earnings over the next one to two years, supported by its prudent capital policies, satisfactory underwriting performance, and good profits. Our base case forecast assumes Cathay Century will report average premium growth by domestic comparison and prudently reinvest in equities over the coming few years. Nonetheless, the insurer's capital buffer is rather thin and could narrow further due to unexpected large losses or a material increase in its asset and liability risks.

Cathay Century'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, Cathay Century has purchased reinsurance to cover most of its 1-in-250-year possible maximum catastrophic losses.

The ratings on Cathay Century remain capped by the overall group credit profile. This is despite some of Cathay Century's stand-alone characteristics being superior to those of the parent Cathay FHC group. The insurer remains a core entity of the wider Cathay FHC group and Cathay Century's ultimate credit strength is therefore equal to the group credit profile. We believe Cathay FHC has the willingness and capability to support Cathay Century in times of need, given that P/C insurance remains an important business line for the group to diversify product offerings and better serve its clients. This view is supported by timely capital injections from the parent group to cover losses on pandemic insurance claims.

Ratings Score Snapshot

Cathay Century Insurance Co. Ltd.

	To	From
Financial strength rating	twAA+	twAA+
Business risk	Very strong	Very strong
Competitive position	Very strong	Very strong
IICRA	Intermediate	Intermediate
Financial risk	Strong	Satisfactory
Capital and earnings	Strong	Satisfactory
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.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- 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
- 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

Cathay Century Insurance Co. Ltd.

Issuer Credit Rating	twAA+/Stable
Financial Strength 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.

Media Release: Cathay Century Insurance Co. Ltd. 'twAA+' Ratings Affirmed On Revised Capital Model Criteria; Outlook Remains Stable

Copyright © 2024 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rrs.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.