

Media Release:

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

April 3, 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 **Union Insurance Co. Ltd.**
- In our view, Union Insurance's asset allocation benefits its liquidity and supports a higher liquidity assessment exceptional from adequate previously. This has no impact on the overall credit profile.
- We affirmed our 'twAA' long-term issuer credit and financial strength ratings on Union Insurance.
- The stable rating outlook reflects our expectation that the property and casualty (P/C or non-life) insurer can maintain its very strong financial strength over the next two years.

Rating Action

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

Impact Of Revised Capital Model Criteria

- 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, somewhat offsets these improvements.
- Our revised criteria have no material impact on our assessment of Union Insurance's overall creditworthiness. Our analysis indicates the insurer will maintain very strong capital and earnings over the next one to two years.

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Credit Highlights

Overview

Key strengths	Key risks
Very strong capital and earnings relative to risk profile.	Smaller scale and less geographically diverse than regional peers.
Satisfactory quality and limited foreign exchange (forex) risks of its investment portfolio.	Small capital base, which is generally more susceptible to a single event.

Outlook

The stable rating outlook on Union Insurance reflects our view that the insurer will keep very strong capital and earnings over the next one to two years. The insurer is likely to maintain an underwriting performance in line with its domestic peers over the same period. This view is supported by the satisfactory underwriting performance of Union Insurance's personal line insurance business and the development of its commercial line insurance business with adequate underwriting skills and reinsurance arrangements.

We forecast Union Insurance will keep a moderate low investment risk appetite with controlled exposure to equities over the next one to two years.

Downside scenario

We could lower the ratings on Union Insurance if we lower our assessment of the insurer's financial risk profile, possibly due to an aggressive increase in its investment risk appetite, or large, unexpected losses that erode its capital adequacy.

Upside scenario

We may raise the ratings if the insurer significantly enhances its competitive position with a solid franchise and strong position in the domestic market, while maintaining a satisfactory operating performance. However, we view this scenario as remote over the next one to two years.

Rationale

The ratings on Union Insurance reflect our view of its **very strong capital and earnings, sufficient liquidity and cash flow, and diversified asset allocation of investment portfolios over the next one to two years**. The ratings also reflect Union Insurance's stable market position, steady operating performance, and medium control over its distribution channels. Counterbalancing these strengths are the insurer's relatively small scale and small capital base in the domestic market.

In our view, Union Insurance's liquidity has improved. We now believe the insurer's available liquidity sources--mainly deposits and high credit quality fixed-income securities--sufficiently meet its liquidity needs under our stress scenarios. We have therefore revised upward our assessment of Union Insurance's liquidity to exceptional from adequate to reflect its updated asset allocation, which has no impact on the overall credit profile.

Ratings Score Snapshot

Union Insurance Co. Ltd.

	To	From
Financial strength rating	twAA	twAA
Business risk	Satisfactory	Satisfactory
Competitive position	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Financial risk	Very strong	Very strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	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: 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 – Nov. 11, 2021

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Ratings List

Ratings Affirmed

Union 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.

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