

Media Release:

Chung Kuo 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 our assessment of **Chung Kuo Insurance Co. Ltd.'s** credit profile.
- We affirmed our 'twAA' long-term issuer credit and financial strength ratings on Chung Kuo Insurance.
- The stable rating outlook reflects our view that Chung Kuo Insurance will maintain its very strong financial risk profile over the next one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure.

Rating Action

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

Impact of Revised Capital Model Criteria

- Our revised criteria have no material impact on our assessment of Chung Kuo Insurance's overall credit worthiness. 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 issuer's 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.

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Credit Highlights

Overview

Key strengths	Key risks
Very strong financial risk profile with a satisfactory investment risk profile and group capital support.	Smaller scale and less geographically diverse than regional peers.
Diversified asset allocations with good asset quality and limited foreign exchange exposure.	Small capital base, which is generally more vulnerable to a single extreme event.

Outlook

The stable rating outlook reflects our view that Chung Kuo Insurance will maintain its very strong financial risk profile over the next one to two years, as well as a prudent investment strategy and manageable foreign exchange risk exposure. We believe the insurer will gradually restore its underwriting performance to the pre-pandemic level over the next two to three years. We also expect the parent **Mega Financial Holding Co. Ltd.** (Mega FHC) group to continue to support the insurer's capital adequacy should Chung Kuo Insurance encounter major losses.

Downside scenario

We may lower the ratings if:

- The insurer's capital and earnings deteriorate substantially from the current very strong level. This could result from higher losses from underwriting or reinsurance recoveries than we forecast, without sufficient capital replenishment; or
- We revise downward our assessment of the Mega FHC group credit profile, which currently caps the issuer credit ratings on the insurer.

Upside scenario

We could raise the ratings if we revise upward our assessment of Chung Kuo Insurance's stand-alone credit profile (SACP), accompanied by a strengthened group credit profile. We could assess a higher SACP if the insurer enhances its competitive position significantly to be one of the leading players in Taiwan, with a solid market franchise and strong positions in business lines. However, we view this likelihood as remote over the next two years.

Rationale

The ratings continue to reflect the insurer's very strong capital and earnings with potential group capital support, and an adequate investment risk profile. The insurer's relatively smaller scale and less geographic business diversification compared with regional peers somewhat offset these strengths.

In our base case, we expect Chung Kuo Insurance to be able to manage the potential credit provisions for its reinsurance receivables and sustain its capital strength, with financial support from the parent group. We also anticipate the insurer's underwriting performance will return to the pre-pandemic level from 2024. We base our forecast on the stable performance of the insurer's non-pandemic business lines over the past few quarters. In addition, we anticipate Chung Kuo Insurance will gradually rebuild its investment asset portfolio along with premium income over the next two to three years, following the disposal of some listed equities in 2022 to fund pandemic claim payouts.

Rating Score Snapshot

Chung Kuo Insurance Co. Ltd.

Financial Strength Rating	twAA
Anchor*	a-
Business risk	Satisfactory
IICRA	Intermediate risk
Competitive position	Satisfactory
Financial risk	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparative rating analysis	0
Support	0
Group support	0
Government support	0

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

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

Ratings Affirmed

Chung Kuo Insurance Co. Ltd

Issuer Credit Rating	twAA/Stable
Financial Strength Rating	twAA/Stable

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