Media Release:

Central Reinsurance Corp. 'twAA+' Ratings Affirmed On Solid Financial Metrics; Outlook Stable

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Overview

- Central Reinsurance Corp. has strengthened its liquidity over the past few quarters, which provides a solid buffer against operating volatility over the next one to two years. The insurers credit profile remains solid and supported by a solid local franchise, very strong capital and earnings, and satisfactory operating performance compared with regional peers.
- We have therefore revised our assessment of the insurer's liquidity to exceptional from adequate.
- We affirmed the 'twAA+' long-term financial strength and issuer credit ratings on Central Re.
- The outlook on the ratings remains stable to reflect our view that the reinsurer will maintain very strong capital and earnings over the next one to two years. This would be through prudent growth and a moderate risk appetite for catastrophe and investment risks.

Rating Action

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

Rationale

The affirmation reflects Central Re's strong direct relationships with local clients, as well as its solid domestic market position, very strong capital and earnings, and satisfactory operating performance.

Satisfactory underwriting performance to continue throughout 2024, driven by profitable core business with a heavier exposure to retail clients. Central Re's liability exposure to a major earthquake in Taiwan in April 2024 resulted in a slight increase in the combined ratio, albeit manageable in our view. The reinsurer posted underwriting profit for the first half of 2024 as indicated by the combined ratio of around 97.7%, albeit slightly weaker than the 95.9% it reported for 2023. Excluding a dip in underwriting performance from pandemic-related claims in 2022, Central Re's combined ratio has consistently been slightly better than similarly rated reinsurers in Asia Pacific. This is demonstrated by Central Re's satisfactory average combined ratio of 95.1% for the five years ending 2023, excluding 2022.

Central Re to maintain very strong capital and earnings with a solid buffer over the next two years. The reinsurer's capital adequacy is sensitive to its investment allocation. This is due to Central Re's pursuit of enhanced investment yields through an increased equity stock allocation in its investments. The equity stock investment allocation ratio increased to 15% at the end of June 2024 from 13% at the end of 2023. We believe Central Re will not pursue an overly aggressive investment strategy and we anticipate the company will actively adjust its exposure to prevent material weakening in its capital adequacy.

Central Re is the only domestic reinsurer in Taiwan, where it holds a strong competitive position. However, several factors somewhat offset Central Re's rating strengths. These include the reinsurer's small scale and less geographic diversification than other reinsurers in Asia, as well as the volatile nature of the reinsurance business, given its exposure to catastrophe risks.

Liquidity has strengthened under our refined calculation. We assess Central Re's liquidity ratio remains above our threshold for exceptional liquidity as of June 30, 2024. This follows refinements to our calculation of the liquidity ratio which now indicates the reinsurer's insurance liability duration averages around two years-- longer than our previous estimate of one year. This helps to lower the stressed liquidity needed for its insurance liability.

In our view, Central Re is likely to maintain exceptional liquidity over the next one to two years, given our forecast of its well-managed stressed insurance liabilities and invested asset allocation largely in liquid assets. These include equities and high-grade bonds. We have therefore revised our liquidity assessment for Central Re to exceptional from adequate.

Outlook

The stable rating outlook reflects our view that Central Re will maintain very strong capital and earnings through prudent growth and a moderate risk appetite for catastrophe and investment risks over the next one to two years. That's despite the reinsurer's smaller absolute capital size compared with other international reinsurers.

We also anticipate Central Re will maintain a solid domestic market position and remain prudent when exploring the international reinsurance market over the next one to two years.

Downside scenario

We may lower the ratings on Central Re if:

- The company's capitalization weakens due to aggressive balance sheet expansion, significant investment losses, or severe underwriting losses without proactive capital planning; or
- The reinsurer no longer has a competitive advantage in the local market, as demonstrated by a significant loss in market share.

Upside scenario

We may raise the ratings on Central Re if the company can maintain profitable growth with a sustainable track record and increase its business scale to be more comparable with that of similarly rated regional reinsurers.

Ratings Score Snapshot

Central Reinsurance Corp.	To	From
Financial strength rating	**twAA+**	**twAA+**
Anchor	a	a
Business risk	Strong	Strong
Competitive position	Strong	Strong
IICRA	Intermediate risk	Intermediate risk
Financial risk	Strong	Strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Adequate
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment

Related Criteria & Research

Related Criteria

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

Central Reinsurance Corp.	
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.