

Media Release:

South China Insurance Co. Ltd. Ratings Affirmed At 'twAA' On Solid Financial Metrics; Outlook Stable

November 12, 2024

Overview

- Taiwan-domiciled **South China Insurance Co. Ltd.** has strengthened its liquidity through the normalization of its claim reserve after pandemic claim payments. We forecast its liquidity will remain unchanged over the next two years.
- We therefore revised our assessment of the insurer's liquidity to exceptional from adequate. The impact on the insurer's credit profile is neutral.
- At the same time, we affirmed our 'twAA' long-term insurer financial strength and issuer credit ratings on South China Insurance.
- The rating outlook remains stable to reflect the strength of the parent group credit profile and our view that the insurer's strategic importance to the group will not change over the next two years.

Rating Action

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

Rationale

The ratings on South China Insurance reflect our view on the insurer's very strong capital and earnings which provide a good buffer against business downturns and capital market volatility. We also view South China Insurance has a satisfactory competitive position supported by its good operating performance. The insurer's relatively smaller scale and less geographic business diversification than regional peers somewhat offset these strengths.

Liquidity has strengthened following the normalization of claim reserves. We assess South China Insurance's liquidity ratio to be above our threshold for exceptional liquidity as of Dec. 31, 2023, and June 30, 2024. This reflects the normalization of the insurer's claim reserves after recovery from recent pandemic losses. We believe South China Insurance will 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 South China Insurance to exceptional from adequate. The impact on the credit profile is neutral.

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The ratings continue to reflect the insurers strategic importance to its parent group. We continue to believe South China Insurance will remain a strategically important member of the **Hua Nan Financial Holding Co. Ltd.** (Hua Nan FHC) group over the next two years. We view some of South China Insurance's stand-alone credit characteristics are superior to those of the parent group. Therefore, the ratings on South China Insurance remain capped by the overall group credit profile.

Outlook

The stable rating outlook on South China Insurance reflects the credit trend of the Hua Nan FHC group credit profile, which in turn mirrors the stand-alone credit profile of the group's flagship unit, **Hua Nan Commercial Bank Ltd.** We anticipate South China Insurance's strategic importance to the group will not change over the next two years and as such the ratings on the insurer will move in tandem with the group credit profile.

Downward scenario

We may lower the ratings on South China Insurance if the group's banking arm fails to sustain its strong capitalization which would in turn weaken the group credit profile. A consistent drop in the bank's risk-adjusted capital ratio to below 10% would indicate such a decline and could result from more aggressive growth or higher risk taking by the bank at home or overseas than we previously forecast.

Upward scenario

We see only a remote possibility of an upgrade for South China Insurance over the next two years, given the ratings are capped by the group credit profile and our view that the group's business position is unlikely to improve significantly under its capital policy and business growth plan.

Ratings Score Snapshot

South China Insurance Co. Ltd.	To	From
Financial strength rating	twAA	twAA
Business risk	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
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
Support	-1	-1
Group support	-1	-1
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

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

South China Insurance Co. Ltd.

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

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