

Media Release:

Mercuries Life Insurance Co. Ltd. Outlook Revised To Stable From Negative On Stabilizing Performance; 'twA-' Ratings Affirmed

January 14, 2025

Overview

- **Mercuries Life Insurance Co. Ltd.'s** investment performance has stabilized following the gradual recovery from the negative impact of its ETF investment write-off over the past two years.
- Favorable conditions in the local equity market along with lower hedging costs in 2024 helped return the insurer to profitability following two years of losses. We expect the company to remain profitable over the next two years.
- We have therefore revised our rating outlook on Mercuries Life to stable from negative to reflect the insurer's stabilized profitability.
- At the same time, we affirmed our 'twA-' long-term financial strength and issuer credit ratings on Mercuries Life.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA-' long-term financial strength and issuer credit ratings on Mercuries Life. The outlook on the ratings is stable.

Rationale

The outlook revision reflects our assessment that Mercuries Life's profitability has stabilized through improved investment performance. The outlook revision also reflects Mercuries Life's efforts to strengthen its capitalization through continuous capital injections and steady growth of its value of in-force (VIF). At the same time, Mercuries Life has maintained its position in the local life insurance sector where it ranks seventh in terms of total premiums and first-year premiums as of June 30, 2024.

We expect the insurer will gradually improve its profitability and restore its funding structure following earlier investment losses. The insurer registered net profit of new Taiwan dollar (NT\$) 2.7 billion for the first nine months of 2024. This compares to a net loss of NT\$9.5 billion in 2023 after the company fully recognized investment losses related to the ETF along with the support of favorable conditions of the local equity market and lower hedging costs in the first half of 2024. Nonetheless, the insurer's profitability, as measured by the return on average assets, is likely to

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remain below the domestic average because its performance remains sensitive to foreign currency risk and other market volatilities.

Capital and earning remains marginal despite improving capital adequacy and a widening capital buffer. We believe the insurer's capitalization will remain sensitive to the trend of the insurer's VIF, which is influenced by changes in its economic assumptions. In 2023, Mercuries Life reported NT\$96.7 billion of VIF, an increase of 1.7% from 2022, and much better than during the declining trend in 2021-2022. In our opinion, this above-average volatility indicates the uncertainties facing Mercuries Life to maintain its VIF growth, which is one important component of the company's total adjusted capital.

Mercuries Life has continued its planned capital enhancements which have helped improve its regulatory risk-based capital level to 151% as of June 30, 2024, compared with 111% as of Dec. 31, 2023. We believe the insurer will continue to strengthen its capitalization to meet the local regulator's requirements under the regulator's risk-based capital framework and to meet the upcoming Insurance Capital Standard (ICS) implementation in 2026.

The ratings continue to reflect the insurer's high level of control over its distribution channels to support its sales momentum over the next one to two years. Mercuries Life has also maintained sound liquidity underpinned by the satisfactory asset quality of its fixed income investment portfolio.

Outlook

The stable rating outlook reflects our view that Mercuries Life will maintain profitability under the stable sales performance of higher-margin insurance products and improved investment performance over the next two years. The outlook also reflects our view that the insurer could maintain an improved capital buffer through adequate retained earnings and positive VIF growth over the same period.

Downside scenario

We could lower the ratings on Mercuries Life if:

- The insurer cannot uphold its funding structure ratios within our rating threshold if its profitability weakens beyond our previous forecast;
- The company's exposure to risky assets or foreign exchange risk is significantly higher than the domestic life average; or
- The insurer's competitive position weakens, as indicated by deterioration in its market shares, weakening of its agent sales force, or deterioration of insurance technical results.

Upside scenario

We may raise the ratings on Mercuries Life if the company enhances its capitalization significantly through stable profit growth from its insurance portfolio or capital injections which could lead us to raise our capital and earnings assessment. This would also have to be accompanied by a stable market share, adequate funding structure, and prudent investment controls without the pursuit of high-risk exposures.

Ratings Score Snapshot

Mercuries Life Insurance Co. Ltd.	To	From
Financial strength rating	twA-/Stable/--	twA-/Negative/--
Business risk	Satisfactory	Satisfactory
IICRA	Moderately high	Moderately high
Competitive position	Strong	Strong
Financial risk	Marginal	Marginal
Capital and earnings	Marginal	Marginal
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance And Country Risk Assessment

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, Nov. 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Mercuries Life Insurance Co. Ltd.		
Financial Strength Rating	twA-/Stable/--	twA-/Negative/--
Issuer Credit Rating	twA-/Stable/--	twA-/Negative/--

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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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