Media Release:

Cathay Century Insurance Co. Ltd. 'twAA+' Ratings Affirmed On Capitalization Strengthens; Outlook Stable

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Overview

- **Cathay Century Insurance Co. Ltd.'s** financial risk profile has strengthened over the past few quarters under the one-off favorable impact of transition to the IFRS 17 framework and steady internal capital generation.
- We have therefore revised upward our assessment of Cathay Century's stand-alone credit profile (SACP) to 'aa-' from 'a+' on S&P Global Ratings' global rating scale.
- We affirmed our 'twAA+' long-term issuer credit and financial strength ratings on Cathay Century. The ratings on the insurer are capped by the consolidated group credit profile of the parent Cathay Financial Holding Co. Ltd. (Cathay FHC) group, given Cathay Century's core group status.
- The stable rating outlook reflects the group's stable credit profile, especially at its flagship life insurance arm, Cathay Life Insurance Co. Ltd. It also reflects our view that Cathay Century will maintain its very strong business position, with very a strong financial profile relative to risk profile over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term issuer credit and financial strength ratings on Cathay Century. The outlook on the ratings is stable.

Rationale

The higher SACP assessment reflects the insurer's now very strong financial risk profile. The upward revision in our assessment of both Cathay Century's SACP and financial risk profile reflects our expectation that the insurer's capital adequacy will maintain substantial redundancy at the 99.99% confidence level over next one to two years under S&P Global Ratings' risk-based insurance capital model. This compares with redundancy at a 99.95% confidence level previously.

The one-off positive impact of transitioning to IFRS 17 largely supports the enhanced capital adequacy. The adoption of the International Financial Reporting Standard 17 framework by property and casualty insurers in Taiwan has resulted in a more favorable best estimate approach for loss reserves. This compares with conservative regulatory provisioning previously. Under the new regulatory guidance, Cathay Century has allocated new Taiwan dollar (NT$) 2 billion of this favorable impact to its catastrophe risk reserves. We have incorporated the post-tax impact of this move into our assessment of the insurer's total adjusted capital, given the risk-absorbing nature of these reserves.

Under our base-case for Cathay Century, we believe the insurer is likely to sustain its profitability over the next two years, driven by satisfactory underwriting performance, average premium growth by domestic comparison, and a steady investment return. We also believe the insurer can manage potential catastrophe losses, given its sufficient reinsurance coverage.

Nonetheless, Cathay Century's smaller absolute capital size by international standards somewhat offsets the insurer's capital strength. We believe insurers with a small capital base are more susceptible to external volatilities or large events.

The ratings continue to reflect Cathay Century's very strong competitive position, supported mostly by its close association with Cathay FHC group. The insurer has a good local market position and franchise, in our view. Cathay Century also benefits from the strong brand value of its parent group in Taiwan's insurance market. This association also brings the benefit of solid distribution channels over which the group has a high level of control.

The ratings remain capped by the overall group credit profile. This is despite some of Cathay Century's stand-alone characteristics are superior to those of the parent group. The insurer remains a core entity of the wider Cathay FHC group and we equate Cathay Century's ultimate credit strength with the level of the group credit profile. We believe Cathay FHC has the willingness and capability to support Cathay Century in times of need, given that property and casualty insurance remains an important business line for the group to diversify its product offerings and better serve its clients. Timely capital injections from the parent group to Cathay Century to cover its losses on pandemic insurance claims in 2022 support this view.

Liquidity has improved to exceptional from adequate. As of March 31, 2026, the insurer's liquidity ratio rose to 257%, which exceeds our threshold for an assessment of exceptional liquidity as well as the insurer's historical three-year range of 180%–200%. This upward revision is primarily attributable to a reduction in liquid liabilities following the transition to the best estimate approach for loss reserves under the IFRS 17 framework. However, the liquidity assessment has no impact on Cathay Century’s overall credit profile.

Outlook

Cathay Century is a core member of Cathay FHC group. As such, the ratings and outlook on the insurer will move in tandem with the direction of the group credit profile, which in turn mirrors the SACP of the group's flagship unit, Cathay Life.

Downward scenario

We could lower the ratings on Cathay Century if we lower our assessment of the Cathay FHC group credit profile due to weakening in Cathay Life's credit profile. This could happen if:

- Cathay Life's capital deficiency weakens significantly due to (1) unexpected financial market volatility with sizable and unrecoverable losses on the insurer's investment portfolio, (2) increased volatility or deterioration in the accumulated contractual service margin than we had forecast, or (3) overly aggressive business growth; or
- The effectiveness of Cathay Life's hedging mechanism materially weakens, or its hedging policies become more aggressive, which results in higher foreign exchange risks that could negatively affect the insurer's capitalization.

Upward scenario

We could raise the ratings on Cathay Century if we raise our assessment of the group credit profile over the next two years. Such action would require a sustainable improvement in Cathay Life's capital such that we revise upward our assessment of its capital and earnings to strong from satisfactory. This would also have to be accompanied by the insurer's superior earnings resilience compared with its peers and stable credit profiles for the other core group entities.

Rating Component Scores

	To	From
Business Risk Profile	**Very Strong**	**Very Strong**
Competitive position	Very Strong	Very Strong
IICRA	Intermediate risk	Intermediate risk
Financial Risk Profile	**Very Strong**	**Strong**
Capital and earnings	Very Strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Anchor	aa-	a+
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Adequate
Comparable rating analysis	0	0
Support	-3	-2
Group support	-3	-2
Government support	0	0
Credit Rating		
Financial strength rating	twAA+/Stable/--	twAA+/Stable/--
Issuer credit rating	twAA+/Stable/--	twAA+/Stable/--

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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

Ratings List

Ratings Affirmed

Cathay Life Insurance Co. Ltd.	
Issuer Credit 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.