

Media Release:

Hotai Insurance Co. Ltd. Assigned 'twAA' Ratings; Outlook Stable

March 17, 2025

Overview

- We assess Hotai Insurance Co. Ltd. has a satisfactory competitive position in Taiwan's property and casualty (P/C) market and strong capital and earnings to withstand substantial financial stress.
- We view Hotai Insurance is a strategically important but insulated member of Taiwan-based Hotai Motor Group, considering the regulatory ring-fence and separate funding and financial resources between the group and the insurer.
- We are assigning our 'twAA' long term insurer financial strength and issuer credit ratings to Hotai Insurance.
- The rating outlook is stable to reflect our view that Hotai Insurance will maintain its capital strength over the next one to two years and remain insulated from the parent group under Taiwan's regulatory framework.

Rating Action

Taiwan Ratings Corp. today assigned its 'twAA' long-term issuer credit rating and financial strength rating on Hotai Insurance. The outlook on the ratings is stable.

Rationale

Hotai Insurance operates primarily in Taiwan's property & casualty (P/C or non-life) insurance market, which we assess has an intermediate level of industry and country risk. This reflects our view of the sector's good underwriting profits for major core business lines where the insurer has a good operating record. It also reflects Hotai Insurance's good market growth prospects, driven by stable economic growth and the insurer's proactive price adjustments. Taiwan is a catastrophe-prone area; however, we believe the insurers' adequate reinsurance protection partly offsets the associated risks.

We assess Hotai Insurance to be a strategically important subsidiary of Hotai Motor group. We believe that the insurer complements the group's business of selling imported and domestically manufactured vehicles by providing motor insurance. The insurer's strategically important status reflects its role supplementing the group's core car sales business despite only making 7% contribution to the group's overall profits as of the end of September 2024.

PRIMARY CREDIT ANALYST

Yuhan Lan
Taipei
+886-2-2175-6810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

SECONDARY CONTACT

Serene Hsieh, CPA, FRM
Taipei
+886-2-2175-6820
serene.hsieh
@spglobal.com
serene.hsieh
@taiwanratings.com.tw

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Hotai Insurance has material business linkage with the group, given that over 50% of the insurer's premiums come from group referrals mostly comprising auto insurance due to the group's business nature. There is a strong economic basis for the group to preserve the insurance subsidiary's credit strength, given the unique role and synergy it provides to the group. Previous examples of financial support from the group include a series capital injections made by Hotai Motor in 2022-2023, when Hotai Insurance recorded significant losses from pandemic-related claims.

At the same time, we believe Hotai Insurance's credit profile is insulated from the parent group's credit profile due to stringent regulatory oversight and ring-fence measures in place in Taiwan. The local regulator has a proven record of restricting insurers from supporting parent groups to an extent that would unduly impair the insurer's own creditworthiness. Financially, Hotai Insurance operates with significant independence from the parent group aside from the referrals of auto insurance. Investment decisions, funding arrangements and risk management are done solely by Hotai Insurance. The insurer does not commingle funds, assets, or cash flows with the group. The ratings on Hotai Insurance are therefore two notches above the group's consolidated credit profile on a global rating scale.

In our view, Hotai Insurance can maintain a satisfactory competitive position over the next one to two years. The insurer is midsize P/C company with a higher focus on retail business, particularly motor insurance. It ranks seventh in Taiwan's P/C segment, with a market share of 5.3% in terms of direct premiums written as of the end of September 2024. Hotai Insurance has benefited from a steady flow of good quality auto insurance premiums from Hotai Motor group's auto dealers. The group has the largest car distribution network in Taiwan and controls a significant part of new car insurance business domestically.

The insurer reported relatively volatile operating performance in 2022-2023 due to the amid significant losses from the pandemic-related insurance claims, which is similar to domestic peers. Hotai Insurance has since returned to profitability with the combined ratio at 78% at the end of September 2024, which is far better than the domestic average of 91.7% at the same time. This improved performance was, partly helped by the release of pandemic insurance claims reserves. The combined ratio is a measure of profitability with a ratio below 100% representing underwriting profit. Going forward, we expect Hotai Insurance's operating performance to stabilize and to be in line with the domestic industry average, underpinned by prudent underwriting practices and continual business referral by the group.

We believe Hotai Insurance will maintain capitalization with redundancy at a 99.95% confidence level over the next few years, capable of withstanding substantial stress. In our view, the insurer's overall financial risk profile is about the domestic average as of the end of 2024. The group's capital injections helped Hotai Insurance to fully write off its cumulative losses by the end of 2023. In addition, two years' full earnings retention in 2023-2024 allowed the company to restore its capital strength to close to pre-pandemic levels by the end of 2024.

We anticipate Hotai Insurance will pursue slightly above-average business growth compared to other P/C insurers in Taiwan over the next two years. Our other key assumptions for the insurer include reasonable earnings retention and increasing, albeit still manageable, equity investments in its overall investment mix over the next two to three years.

Nevertheless, the company's capital size at around US\$190 million is small relative to that of regional peers. This could increase Hotai Insurance's vulnerability to market volatility and catastrophe risk, thereby tempering its capital strength. We assess the insurer has prudent liquidity management with adequate liquid asset portfolio and satisfactory operating cash flows. The company has no covenants or collateral posting risks due to its zero-debt position.

Outlook

The stable rating outlook reflects our expectation that Hotai Insurance will remain insulated from its parent, Hotai Motor group, under Taiwan's regulatory oversight.

On a stand-alone basis, we expect Hotai Insurance's capital and earnings to remain strong, supported by the insurer's stable operating performance and underpinned by adequate underwriting controls and reasonable earnings retention.

Downward scenario

We could lower the ratings on Hotai Insurance if any of the following materialize:

- The insurer's capital and earnings persistently deteriorate. This could result from overly aggressive growth in high-risk investments or business, or unexpected financial market volatility that results in sizable losses on the insurer's investment portfolio;
- Consistent weakening of the insurer's competitiveness, as indicated by deterioration in its market position or underwriting results; or
- Hotai Motor group's credit profile materially weakens.

Upward scenario

We view an upgrade as unlikely over the next 24 months. This is because it would require a substantial increase in Hotai Insurance's capital strength accompanied by improvement in Hotai Motor's credit strength.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - November 15, 2023
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings Score Snapshot

Hotai Insurance Co. Ltd.	
Financial strength rating	twAA
Business Risk Profile	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate

IICRA--Insurance Industry And Country Risk Assessment. SACP--Stand-alone credit profile.

Ratings List

New Ratings

Hotai Insurance Co. Ltd.	
Financial Strength Rating	twAA/Stable
Issuer Credit Rating	twAA/Stable

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