

Taiwan
Full Rating Report

Union Insurance Company (Taiwan)

Ratings

Insurer Financial Strength Rating	BB+
National Insurer Financial Strength Rating	A-(twn)

Sovereign Risk

Foreign-Currency Long-Term IDR	A+
Local-Currency Long-Term IDR	AA

Outlooks

Insurer Financial Strength Rating	Stable
National Insurer Financial Strength Rating	Stable

Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Negative

Financial Data

Union Insurance Company (Taiwan)

	30 Sep 09	31 Dec 08
Total assets (TWDm)	14,181	11,526
Operation and liability reserves (TWDm)	8,668	6,915
Shareholders' funds (TWDm)	1,560	1,206
Gross premiums (TWDm)	6,055	7,550
Adjusted net income ^a (TWDm)	68	-13
Annualised ROA (%)	0.7	-0.1
Annualised ROE (%)	6.6	-1.1
Combined ratio (%)	97.4	101.4

^a Excluding changes in claims equalisation reserves

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Related Research

Applicable Criteria

- [Insurance Rating Methodology \(December 2009\)](#)
- [Non-Life Insurance Rating Methodology \(March 2010\)](#)

Rating Rationale

- On 29 March 2010, Fitch Ratings upgraded the Insurer Financial Strength (IFS) Rating of Union Insurance Company Taiwan (Union) to 'BB+' from 'BB' and its National IFS Rating to 'A-(twn)' from 'BBB+(twn)'. At the same time, the agency revised the Outlooks to Stable from Positive.
- The rating upgrade reflects Union's consistent improvement in underwriting performance and strengthened capitalisation, following two capital injections totalling TWD1.4bn (TWD500m in August 2009 and TWD900m in March 2010). Meanwhile, the company's conservative and liquid investment portfolio place it in a good position to meet liquidity demands.
- The IFS ratings are, however, constrained by the softening premium prices amid the competitive environment and modest investment yields due to sustained low interest rates, which have affected performance across Taiwan's insurance sector. Fitch considers that these factors will continue to challenge the company's earnings improvement.
- Union has consistently improved its underwriting performance by tightening underwriting policies and loss and expense controls. As a result, its combined ratio decreased to 97.4% in Q1-Q309 (from 101.4% in 2008 and 117.6% in 2007) and Fitch notes the decrease in combined ratios would be more pronounced if excluding the impact of several unusually large loss events. Nonetheless, the improved ratio remains higher than local peers'. The still low underwriting margin, coupled with modest investment return (annual yields: below 3% in Q1-Q309), led to a net profit of only TWD68m in Q1-Q309 (4.4% of equity, excluding the changes in claims equalisation reserves).
- Union has maintained a relatively conservative and liquid investment portfolio post its recapitalisation. Cash and cash equivalents totalled 56% of total investments at end-September 2009 while the remaining fixed-income investments were mainly low-risk government bonds. Stock and real estate investments were contained at reasonably low levels.
- Union is adequately capitalised; its statutory risk-based capital (RBC) ratio is above 300% at end-March 2010, well above the regulatory minimum of 200%. Fitch considers that the improved capitalisation provides an adequate buffer to mitigate impacts of potential large loss events.

Key Rating Drivers

- Fitch considers that continued progress in insurance underwriting performance would lead to a higher rating level. However, an adverse development in Union's capitalisation and liquidity position would exert downward pressure on its ratings.

Recent Events

Union aims to maintain its capital ratio at well above the regulatory minimum. It successfully raised TWD0.9bn of new capital via public offerings in March 2010 after receiving a total of TWD2.5bn of new capital from its largest shareholder, the Want Want Group between August 2007 and August 2009.

Key Rating Issues

Improved But Still Modest Underwriting Margin

Union's combined ratio decreased to 97.4% in Q1-Q309 (from 101.4% in 2008 and 117.6% in 2007), thanks to sustained efforts in loss control and cost reduction. Nonetheless, the improved ratio remains higher than local peers'. Given the still low underwriting margin and modest investment return (annual yields: below 3% in Q1-Q309), Union reported a net profit of only TWD68m in Q1-Q309 (excluding the changes in claims equalisation reserves).

Strengthened Capitalisation Through External Capital Injection

Union has restored its capital strength through capital injections by the Want Want Group totalling TWD2.5bn between 2007 and 9M09 and another capital raising of TWD0.9bn completed in March 2010. The company's statutory RBC ratio stands well above the required minimum of 200%, while Fitch's capital model indicates that Union is adequately capitalised.

Peer Analysis

Union's earnings performance remains relatively weak compared with large leading players in Taiwan, despite the improvement in underwriting quality. Nonetheless, Union, like other Taiwanese non-life insurers, has low underwriting leverage – measured by net written premiums/adjusted shareholders' surplus (including special reserves), although the ratio is somewhat higher than its peers'. Its improved capitalisation also provides an adequate buffer to mitigate the impacts of potential large loss events. See Table 1 for the key indicators of Union and its peers in Taiwan.

Company Profile

Union is the sixth-largest non-life insurance company in Taiwan in terms of direct written premiums (DWP), with a 7% market share in 2009. The company experienced a severe loss of market confidence in its viability, following the collapse of Union's previous shareholder, the Rebar Group, in early 2007. However, the acquisition by its new controlling shareholder, the Want Want Group, in August 2007, and subsequent capital injections, have gradually restored market confidence in Union. Its monthly premium revenue recovered to about 80% of the pre-crisis level for Q409 after the precipitous decline to only 44% of the level in Q107.

- Ranked the sixth-largest non-life insurer, with a 7% market share

Table 1: Key Indicators of Union and its Peers in Taiwan

	Union		Fubon		Cathay Century		Shin Kong	
	9M09 ^a	2008	9M09	2008	9M09	2008	9M09	2008
Assets (TWDm)	14,181	11,526	67,053	59,047	21,005	19,504	20,421	18,311
Gross written premiums (TWDm)	6,055	7,550	17,012	23,130	8,650	11,830	8,201	11,261
Net written premiums (TWD)	3,662	4,416	11,496	15,588	6,139	8,058	5,449	7,179
Market share by direct written premiums (%)	7.1	6.1	21.1	20.5	10.8	10.5	10.1	10.0
Premiums retention ratio (%)	60.5	58.5	67.6	67.4	71.0	68.1	66.4	63.7
Loss ratio (%)	57.9	57.2	48.8	47.1	53.2	47.3	51.2	49.0
Expense ratio (%)	39.5	44.1	34.1	36.8	29.1	29.1	37.5	37.9
Combined ratio (%)	97.4	101.4	82.9	83.8	82.2	76.5	88.6	87.0
Return on assets (%)	-1.8	-3.5	1.1	3.4	3.7	2.5	1.3	2.1
Adjusted return on assets (%) ^b	0.7	-0.1	3.2	5.5	6.0	5.8	4.1	6.4
Reported surplus/assets (%)	16.3	10.5	31.7	29.4	19.0	15.9	23.2	17.5
Adjusted surplus/assets (%) ^c	32.5	29.5	48.7	47.0	43.1	40.0	46.8	41.7
Net written premiums/reported surplus (x)	2.0	3.7	0.7	0.9	2.0	2.6	1.5	2.2
Net written premiums/adjusted surplus (x)	1.0	1.3	0.5	0.6	0.9	1.0	0.8	0.9
Technical reserves/gross written premiums (%)	105.8	90.7	104.1	99.0	86.0	79.8	81.2	77.0
Risk-based capital ratio (%)	>300	200-300	>300	>300	>300	>300	>300	>300

^a Including the TWD0.9bn of new capital raised in March 2010 in related calculations

^b Excluding the change in claims equalisation reserves from net income

^c Including claims equalisation reserves in adjusted surplus

Source: Fitch; the companies

- The Want Want Group is the largest shareholder

Ownership Structure

The Want Want Group became Union's largest shareholder through subscriptions of new share issues for TWD1.5bn in August 2007 and TWD500m in October 2008. It further strengthened Union's capitalisation by injecting TWD500m of new common capital in August 2009. At end-Q110, the Want Want Group held approximately 70% of Union and had six seats (out of eight) on the board of directors; the remaining board members are professionals appointed as independent directors.

The Want Want Group is a leading food-processing conglomerate in mainland China, which originated in Taiwan. The change in the shareholding structure has led to a series of reforms, including a reorganisation of the board to include independent directors, the installation of an independent auditor office and actuarial department, IT infrastructure reengineering, and the establishment of an actuarial databank.

Key Events

Union has strengthened its capitalisation via several capital injections after the clean-up of Rebar Group-related problem exposures in 2006. These include TWD2.5bn of new capital injected by the Want Want Group (as mentioned in the *Ownership Structure* section, above) and TWD0.9bn raised via public offerings in March 2010.

Products

Union's products are mainly short-tailed, with little exposure to liability coverage. Motor remains the largest line of business, accounting for 52% of DWP in 2009. (The overall industry had 49% of DWP from the automobile sector in the period.) Other insurance revenues appear reasonably diversified, mainly comprising casualty, fire, marine, and engineering, and Union has deliberately reduced sales of marine insurance, given its high loss ratios.

Although Taiwan is susceptible to natural disasters such as earthquakes, typhoons and floods, Union's catastrophe exposure is minimal. Typhoon and flood cover accounts for only 0.7% of 2009 DWP and fewer than 1% of motor policies offer earthquake, typhoon or flood coverage. The extensive use of reinsurance also enhances the company's risk profile. Premium retention is around 60%, which is in line with the market norm. See Table 2 for DWP breakdown.

The industry's DWP decreased by 6.3% in 2009 and by 4.3% in 2008, affected by the ongoing economic downturn and intensified market competition due to the premium rate liberation in commercial fire and motor insurance in April 2009. Nonetheless, Union's DWP grew by 6.8% in 2009 and by 13.6% in 2008, thanks to the steady recovery of institutional sales after the Rebar crisis. To improve profit margins rather than focusing on premium growth, Union expects a modest premium growth in 2010 and will continue to reduce exposures with poor loss experience.

- Products are mainly short-tailed
- Motor insurance still dominates

- Policy sales steadily recovered

Table 2: Direct Written Premium Breakdown^a

(TWDm)	2009	Total (%)	Change yoy (%)	Market share (%)
Fire	738	10.4	7.5	4.4
Engineering	513	7.2	57.2	10.7
Marine cargo	208	2.9	-37.0	4.1
Marine hull	171	2.4	-8.5	9.0
Aviation	53	0.8	-6.6	4.6
Motor	3,661	51.7	-0.3	7.4
Casualty	1,041	14.7	24.9	9.9
Others	692	9.8	29.1	6.0
Total	7,078	100	6.8	7.0

^a Excluding inward reinsurance premiums
Source: Union

- Union generates business mainly via intermediaries; overseas revenue remains fairly limited

- Modest investment return and low underwriting margin constrain profitability

- Prudent growth strategy and improved loss controls will help maintain steady underwriting performance

- Consistently maintained a conservative and liquid investment portfolio

Distribution Channels and Target Markets

Union's premium revenue is almost wholly sourced locally; overseas premium income (primarily from Vietnam and China) remains fairly limited.

The company generates business mainly via intermediaries, with 54% of 2009 DWP sold through automobile companies and insurance brokers, while direct sales comprised about 26% of DWP in the period. Like most other independent non-life insurers, Union conducts few sales through bancassurance channels (4% of DWP in 2009) as its independence from large bank holding groups has so far limited its bancassurance sales.

Financial Analysis

Profitability

Union reported a net profit of only TWD68m for 9M09 (excluding the changes in claims equalisation reserves). The weak earnings performance was due to the modest investment return (annual yields: below 3% in 9M09) amid the prolonged low-interest-rate environment and improved but still low underwriting margins. Its combined ratio decreased to 97.4% in 9M09 (from 101.4% in 2008 and 117.6% in 2007), thanks to its consistent efforts in loss control and cost reduction. Fitch notes the decrease in combined ratios would be more pronounced if the impact of several unusually large loss events in fire insurance were excluded.

Union has reduced its cost base by terminating the contracts of less productive direct sales agents and dropping third-party agents with poor loss records as part of its post-Rebar crisis re-engineering. It has also improved its pricing accuracy and product mix by increasing shares of profitable lines, benefiting from the more timely and granular analysis of loss development. To further enhance sales productivity, Union aims to increase the number of products sold to each account and premiums per policy in 2010. In addition, it will strengthen on-site inspections in the underwriting of commercial insurance and reduce the net retention to TWD10m from TWD40m per event in 2010 in the reinsurance of fire lines to prevent large losses (as seen in 2009). Fitch thinks that Union's prudent growth strategy and improved loss controls will help it to maintain a steady underwriting performance. Nonetheless, the softening premium prices amid the competitive environment will continue to pose a challenge to its earnings improvement.

Investments and Liquidity

Union has maintained a relatively conservative and liquid investment portfolio post its recapitalisation. Cash and cash equivalents totalled 56% of total investments at end-September 2009, placing it in a good position to meet liquidity demands. The remaining fixed-income investments were mainly low-risk government bonds, while stock and real estate investments were contained at reasonably low levels. See Table 3 for Union's investment portfolio mix.

Table 3: Investment Mix

Total invested assets (%)	End Sep 09	2008	2007
Bank deposits	41.9	37.6	55.5
Bonds under resale agreement	14.4	14.8	0.0
Government bonds	14.4	17.5	19.0
Stocks	2.7	0.7	1.8
Mutual funds ^a	10.8	11.9	3.8
Real estate	11.7	13.9	15.8
Foreign investment	1.6	0.4	0.5
Others	2.5	3.2	3.5
Total invested assets	100.0	100.0	100.0
Total invested assets (TWDm)	6,766	5,853	5,416

^a Mainly bond funds
Source: Union

- Reinsurance protection has effectively reduced earnings volatility

- Reinsurers are international names with ratings in the investment-grade range

- Large loss events in 2009 resulted in the increase in outstanding claim reserves

- Union maintains an adequate capital buffer against adverse reserve development

- RBC ratio well above the regulatory minimum

Reinsurance Protection and Credit Quality

The extensive use of reinsurance has effectively enhanced Union's risk profile, leading to more predictable cash flows and less earnings volatility. In 9M09 in particular, the cost of reinsurance after claims recoveries decreased to -15% of gross written premiums (GWP) from 6.4% in 2008 as Union recovered a significant portion of losses incurred from large loss events. Before claims recoveries, the cost of reinsurance appears to be relatively stable, at around 35% of GWP between 2006 and 9M09. See Table 4 for the analysis of the effectiveness of Union's reinsurance programme.

The outward reinsurance programme makes use of quota share, surplus, excess of loss and facultative covers. Reinsurers include a wide range of international names, all of which are rated in the investment-grade categories. In addition, as Taiwan is prone to natural disasters, Union has reinsurance protection for up to the probable maximum loss in one-in-250-year earthquake and typhoon scenarios (based on the RMS and EQECAT models run by Willis Re), with a net retention of TWD100m per event. Fitch considers that the level and structure of the company's catastrophe cover is adequate.

Table 4: Reinsurance Analysis

	Q1-Q309	2008	2007	2006
Reinsurance premiums paid	-2,393	-3,133	-2,603	-5,631
Commissions received	506	619	418	1,204
Claims recovered	2,799	2,028	1,665	2,652
Balance	911	-486	-521	-1,775
Reinsurance premiums paid/GWP (%)	39.5	41.5	35.7	50.6
Commissions received/GWP (%)	8.4	8.2	5.7	10.8
Net cost before recoveries/GWP (%)	31.2	33.3	30.0	39.7
Claims recovered/gross claims (%)	58.7	44.7	30.8	44.0
Net cost after recoveries/GWP (%)	-15.0	6.4	7.1	15.9

Source: Union

Reserve Adequacy and Development

The presentation of the technical reserve was revised on an industry-wide basis in 2007, in line with regulatory requirements: the outstanding claim reserves and unearned premium reserves, since 2007, have been presented gross, without netting off prepaid reinsurance premiums and indemnity refundable from reinsurance.

On a gross reserve basis, Union's technical reserves, expressed as a percentage of GWP, increased to 109% at end-Q309 (from 91% at end-2008) with unearned premium reserves and outstanding claim reserves representing 60% and 49% of GWP, respectively. The unearned premium reserves/GWP ratio has been fairly steady at around 60% since 2007, while the increased case reserves for large loss events resulted in the higher ratio of outstanding claim reserves/GWP at end-Q309 (only 31% at end-2008). Although Union's outstanding claim reserves appear low by international standards, this is attributable to Union's generally short-tailed book of business and the emphasis on the speed of claim payments. In addition, Fitch views Union's sound capital position as providing a comfortable buffer against adverse reserve development. (See the *Capitalisation* section, below, for details).

Capitalisation

Union aims to maintain its statutory RBC ratio at well above the 200% regulatory minimum and it exceeded 300% after the capital-raising of TWD0.9bn in March 2010. Fitch's capital analysis also indicates that Union is adequately capitalised.

Financial Leverage and Balance Sheet Quality

Union has funded itself purely by common equity and has no outstanding issuance of debt or hybrid securities. Following the large write-downs on fraudulent related-party exposures in 2006, the company has maintained good balance-sheet quality, with notably improved transparency.

Union Insurance Company (Taiwan) - Balance Sheet

(TWDm)	2005	2006	2007	2008	End-Sep 09
Assets					
Investments					
Real estate	1,319	1,135	857	813	793
Shares	1,043	789	170	113	274
Bonds	79	101	678	612	541
Loans	413	139	0	0	0
Cash & bank deposits	1,530	1,658	2,999	3,084	3,893
Other invested assets	0	27	226	708	743
Total investments (non-linked)	4,383	3,848	4,929	5,331	6,244
Insurance receivables	1,418	1,312	1,022	1,014	937
Reinsurance receivables	937	592	3,332	3,334	4,999
Other receivables	747	634	594	597	611
Tangible assets	715	794	599	632	652
Goodwill	208	0	0	0	0
Other intangible assets	38	1	12	0	0
Accruals	47	43	31	27	33
Other assets	1,185	1,184	593	592	704
Total assets	9,679	8,409	11,112	11,526	14,181
Liabilities					
Technical reserves					
Unearned premium reserve	2,468	2,848	4,349	4,497	4,689
Outstanding claims reserve	1,519	1,713	2,568	2,347	3,851
Other technical provisions	0	0	0	71	128
Total nonlife technical reserves	3,987	4,561	6,918	6,915	8,668
Insurance payables	265	287	227	275	270
Reinsurance payables	493	832	461	476	716
Other creditors	198	162	319	266	370
Accruals	164	191	92	110	18
Other liabilities	284	278	129	81	142
Total liabilities	5,391	6,312	8,145	8,123	10,183
Equity					
Ordinary share capital	6,068	5,871	2,000	2,605	2,200
Share premium	92	92	92	0	300
Revaluation reserve	-1,070	-100	-51	-101	-74
Profit and loss account	-2,562	-5,350	-979	-1,298	-866
Total shareholders' funds	2,528	512	1,063	1,206	1,560
Claims equalisation reserve	1,759	1,493	1,812	2,197	2,438
Total equity	4,287	2,006	2,875	3,403	3,998
Own shares (treasury stock)	0	-92	-92	0	0
Adjusted equity	4,287	2,098	2,967	3,403	3,998

Source: Fitch

Union Insurance Company (Taiwan) - Profit and Loss

(TWDm)	2005	2006	2007	2008	Q1-Q309
Nonlife technical account					
Gross written premiums	10,455	11,138	7,296	7,550	6,055
Premiums ceded	-5,779	-5,631	-2,603	-3,133	-2,393
Net written premiums	4,676	5,507	4,693	4,416	3,662
Change in unearned premium reserves	-204	-381	292	69	-115
Net premiums earned	4,472	5,126	4,985	4,486	3,547
Gross claims paid	-5,649	-6,031	-5,407	-4,540	-4,765
Reinsurance recoveries	2,700	2,652	1,665	2,028	2,799
Net claims paid	-2,949	-3,379	-3,742	-2,511	-1,967
Change in claims case reserves	6	-320	279	-55	-87
Net claims incurred	-2,943	-3,698	-3,464	-2,566	-2,054
Acquisition costs	-23	-351	-986	-552	-307
Administrative expenses	-2,010	-2,780	-1,329	-1,406	-1,131
Total underwriting expenses	-2,032	-3,131	-2,316	-1,958	-1,438
Nonlife underwriting result	-503	-1,703	-794	-39	56
Non-technical account					
Investment income (total gross)	250	251	232	122	130
Interest paid	0	0	0	0	0
Operating result	-253	-1,452	-563	83	186
Other income/(expenses)	99	-1,521	-92	-97	-45
Pre-tax income	-154	-2,973	-655	-13	141
Tax	8	-81	-26	0	-73
Net income	-146	-3,054	-681	-13	68
Change in claims equalisation reserve	131	266	-319	-386	-241
Reported net income	-14	-2,787	-999	-399	-173

Source: Fitch

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