

## Research Update

# Fubon Insurance Co. Ltd. Ratings Affirmed At 'twAA+'; Outlook Stable

August 2, 2019

## Overview

- As a core entity of the Fubon FHC, Fubon Insurance is obliged to support weaker group members under the highly integrated group structure, which hinders the insurer's credit profile.
- Fubon Insurance is the leading property and casualty insurance player in the domestic market, and has a strong franchise, above-average operating performance, and good underwriting risk controls. We also view Fubon Insurance's capital and earnings to be very strong and we expect the insurer to maintain adequate investment management.
- We are affirming our 'twAA+' long-term insurer financial strength and issuer credit ratings on Fubon Insurance.
- The outlook is stable to reflect our projection that the Fubon FHC group will maintain its strong business position in the local market and better earnings resilience compared to local peers over the next one to two years.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term insurer financial strength and issuer credit ratings on Taiwan-domiciled **Fubon Insurance Co. Ltd.** The outlook is stable.

## Rationale

The ratings on Fubon Insurance reflect our view that the insurer's obligation to support weaker group members continues to hinder its stand-alone credit profile. Fubon Insurance has a very strong market position with a leading market share and strong franchise in the local property and casualty market, as well as good operating performance, experienced underwriting controls, and very strong capital and earnings relative to its risk profile. However, Fubon Insurance has above-average exposure to high-risk assets including property and equities compared with that of its peers.

## Outlook

The stable outlook reflects our expectation that Fubon Insurance will remain an integral part of the wider **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group, and if needed may provide resources to weaker group members under the integrated group structure. As a core group entity, the ratings on Fubon Insurance will move in tandem with the group's consolidated credit profile.

We expect the consolidated group credit profile to remain unchanged over the next two years with a very strong competitive position and stable capitalization. We also expect Fubon FHC group to maintain

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better earning resilience compared with that of its close peers in the same market. On a stand-alone basis, we expect Fubon Insurance's capital and earnings to remain very strong, supported by the insurer's steadily growing capital and well-managed risk profile. We also believe Fubon Insurance will maintain its satisfactory operating performance consistent with our base case scenario, as well as its lead position in the domestic market.

### Downward scenario

We could lower the ratings on Fubon Insurance if either of the following occur:

- The group's risk exposure deteriorates to moderately high from moderately low at present. The risk position is particularly sensitive to Fubon Life's large invested asset pool, which forms a significant part of the group's total assets. We could also lower the ratings if Fubon Life's foreign exchange risk exposure, net of effective hedging, or investment concentration in the financial sector materially and consistently exceeds the local peer average; or
- The group's capital and earnings weakens to fair from satisfactory currently. This is likely if the group overly expands its investment assets as well as grows through mergers and acquisitions that exceed our current expectation or if the group's operating performance drops below the domestic industry average. This could also occur if the growth in Fubon Life's value of in-force (VIF) is materially lower than we had forecasted, because VIF accounts for a large part of the group's total adjusted capital.

### Upward scenario

We view an upgrade as unlikely over the next two years. Such a scenario would require a substantial increase in the group's capital strength, which is unlikely to occur in the next one to two years.

## Rating Score Snapshot

<b>Business Risk Profile</b>	<b>Very Strong</b>
Competitive position	Very strong
IICRA	Intermediate
<b>Financial Risk Profile</b>	<b>Very Strong</b>
Capital and earnings	Very Strong
Risk exposure	Moderately low
Funding structure	Neutral
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	<b>twAA+</b>

## Related Criteria

- TRC Financial Services Sector Issue Credit Rating Criteria, [www.taiwanratings.com](http://www.taiwanratings.com) - September 23, 2014
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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# Ratings List

## Ratings Affirmed

### Fubon Insurance Co. Ltd.

Issuer Credit Rating	twAA+/Stable
Financial Strength 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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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