

## Research Update

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

August 2, 2019

## Overview

- Fubon Life continues to dominate the consolidated credit profile of the Fubon FHC group, contributing a large part of the group's capital and asset base and acting as one of the group's core subsidiaries.
- Fubon Life has ranked as the second or third largest life insurer by total premiums in Taiwan over the past few years and has good control of its distribution channels, as well as above-average earning stability and good underwriting risk controls. We also view the insurer's capitalization and investment risk exposure to be close to the industry average.
- We are affirming our 'twAA+' insurer financial strength and issuer credit ratings on Fubon Life.
- The outlook is stable to reflect our expectation that Fubon Life will maintain its strong business position in the local market and better earnings resilience compared with 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 Life Insurance Co. Ltd.** The outlook is stable.

## Rationale

The ratings on Fubon Life continue to reflect the insurer's better earnings resilience, good domestic market position, established business franchise from its large operating scale, high level of controlled distribution channels, and good underwriting risk control compared with other life insurers domestically. However, we assess Fubon Life's capitalization to be at a fair level, at no more than 30% below the 'BBB' confidence level per our capital model, which is slightly weaker than that of its international peers albeit in line with local peer average. This is despite our assessment of Fubon Life's capital and earnings as satisfactory after considering the insurer's track record on asset and liability risk control, as well as volatility of its domestic equity investments to market movement. The insurer's investment leverage is also comparatively higher than that of its regional peers, which makes the insurer susceptible to global capital market volatility.

### PRIMARY CREDIT ANALYST

**Patty Wang**  
Taipei  
+886-2-8722-5823  
patty.wang  
@taiwanratings.com.tw  
patty.wang  
@spglobal.com

### SECONDARY CONTACT

**Serene Hsieh, CPA, FRM**  
Taipei  
+886-2-8722-5820  
serene.hsieh  
@taiwanratings.com.tw  
serene.hsieh  
@spglobal.com

# Outlook

The stable outlook on Fubon Life reflects our view that the insurer will remain a core member of the **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group and continue to dominate the overall group credit profile. As such, the ratings on Fubon Life will move in tandem with the group's consolidated credit profile.

We expect the insurer to maintain a strong business risk profile underpinned by its strong control over distribution channels as well as second or third ranking market share by total premiums. We also expect Fubon Life to maintain its good earnings resilience and manage additional capital requirements to support its overseas subsidiaries and ongoing organic asset growth without weakening its capitalization materially. In addition, we believe the insurer will not increase its foreign exchange risk exposure materially, given Fubon Life's effective risk management mechanism.

## Downward scenario

We could lower the ratings on Fubon Life 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 capital strength, which is unlikely to occur in the next one to two years.

# Rating Score Snapshot

<b>Business Risk Profile</b>	<b>Strong</b>
Competitive position	Very strong
IICRA	Moderately high
<b>Financial Risk Profile</b>	<b>Satisfactory</b>
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
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

(Unless otherwise stated, these articles are published on [www.standardandpoors.com](http://www.standardandpoors.com), access to which requires a registered account.)

## Ratings List

### Ratings Affirmed

#### Fubon Life 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).

Copyright © by Taiwan Ratings Corp. All rights reserved.

Copyright © 2019 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, [www.taiwanratings.com](http://www.taiwanratings.com) (free of charge), and [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw) (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.