

Research Update

Shin Kong Life Insurance Co. Ltd. Ratings Affirmed At 'twAA-'; Outlook Stable

August 15, 2019

Overview

- Shin Kong Life continues to drive the consolidated credit profile of the Shin Kong FHC group, contributing a large part of the group's capital and asset base and acting as the flagship entity of the group.
- Shin Kong Life has a well-established brand, and satisfactory market shares in major products domestically. Although we view the insurer's capitalization to be slightly below the industry average, Shin Kong Life's investment risk exposure largely reflects the industry norm.
- The ratings also reflect the potential that Shin Kong Life will be required to support or share resources with other subsidiaries under the Shin Kong FHC group.
- We are affirming our 'twAA-' insurer financial strength and issuer credit ratings on Shin Kong Life. We are also affirming our 'twA+' issue credit rating on Shin Kong Life's subordinated corporate bonds.
- The outlook is stable to reflect our projection that Shin Kong Life will maintain its well-established brand compared with its wider peer group in Taiwan's life insurance industry, while maintaining its capital and earnings at a fair level 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 **Shin Kong Life Insurance Co. Ltd.** The outlook is stable.

Outlook

The stable outlook reflects our view of Shin Kong Life as a core subsidiary of the Shin Kong FHC group and our expectation that the group will maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector. The outlook also reflects our belief that Shin Kong Life will maintain its well-established franchise, underpinned by the insurer's large scale and high controlled distribution channels in Taiwan. The ratings on Shin Kong Life will move in tandem with the group's consolidated credit profile.

In addition, the outlook on Shin Kong Life reflects our view of the group's fair capital and earnings over the coming 12-24 months, based on our projection of the insurer's single-digit percentage premium growth, moderate earnings, and stable recurring yield and return over the period. Moreover, the outlook reflects our view that Shin Kong FHC will maintain the group's risk profile at an adequate level, specifically in regard to Shin Kong Life's unhedged foreign-exchange-risk exposure and investment risk concentration.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

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

Downward scenario

We may lower the ratings on Shin Kong Life if the Shin Kong FHC's group credit profile deteriorates significantly from our base-case assumptions, which could happen because of: (1) significant weakening in risk management at the group level and at Shin Kong Life than we previously expected, particularly on foreign-exchange risk exposure or investment-risk concentration; or (2) Shin Kong Life's risk-adjusted capitalization weakening due to poor earning, slower value of in-force growth, or unexpected market volatility.

Upward scenario

We may raise the ratings on Shin Kong Life if we take a similar rating action on the core members of the Shin Kong FHC group because the group demonstrates much stronger competitive and market positions relative to its local peers. Significant enhancement in the market position and business profile of the group's banking unit, **Taiwan Shin Kong Commercial Bank Co. Ltd.**, would reflect such strengthening. We may also raise the ratings if the group improves its consolidated capital and earnings to at least the satisfactory level through a substantial increase in capital. However, we believe an upgrade to be remote in the coming one to two years.

Rationale

The ratings reflect the potential that Shin Kong Life will be required to support or share resources with other subsidiaries under the **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC) group. The ratings also reflect the insurer's well-established brand, and satisfactory market shares in major products domestically, supported by the good sales contribution from its agent force.

We view Shin Kong Life's capitalization as marginal, reflecting capital deficiency at no more than 60%, but more than 30%, at the 'BBB' confidence level per our capital model. We consider this level to be slightly below that of its major local peers. This is despite our assessment of Shin Kong Life's capital and earnings as fair after considering the insurer's track record of controlling asset and liability risks, as well as managing the volatility of its domestic equity investments relative to market movements. Similar to most Taiwan-based life insurers, Shin Kong Life has high exposure to global capital market volatility, given the insurer's higher investments in equities than that of its regional peers.

Rating Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high
Financial Risk Profile	Fair
Capital and earnings	Fair
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Financial Strength Rating	twAA-

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- TRC Financial Services Sector Issue Credit Rating Criteria, www.taiwanratings.com - September 23, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- 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

Shin Kong Life Insurance Co. Ltd.

Issuer Credit Rating	twAA-/Stable
Financial Strength Rating	twAA-/Stable
Issue Credit Rating	twA+

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