

Research Update

Shin Kong Financial Holding Co. Ltd. Ratings Affirmed At 'twA+/twA-1'; Outlook Stable

August 15, 2019

Overview

- The Shin Kong FHC group credit profile continues to reflect our view of the group's good franchise in Taiwan's life insurance sector, satisfactory liquidity management, and average funding base.
- At the same time, we assess the group's capital and earnings to be slightly below-average, while its investment risk exposure is similar to the domestic industry average.
- We are affirming our 'twA+/twA-1' issuer credit ratings on Shin Kong FHC. The ratings on the holding company reflect one notch of subordination to the group's core entities.
- The outlook is stable to reflect our projection that the Shin Kong FHC group will maintain its good market presence in the local market and stable capital and earnings over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Taiwan-domiciled **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC). The outlook is stable.

Outlook

The stable outlook reflects our view that the insurance-centric Shin Kong FHC group will maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector. The outlook also reflects our belief that the group's flagship company, **Shin Kong Life Insurance Co. Ltd.**, will maintain its well-established franchise, underpinned by the insurer's large scale and good controlled distribution channels in Taiwan.

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

Downward scenario

We may lower the long-term rating on Shin Kong FHC if the 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 capitalization deteriorates due to poor earnings, slower growth of value of in-force, or unexpected market volatility.

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Upward scenario

We may raise the rating on Shin Kong FHC if the group demonstrates much stronger competitive and market positions relative to 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 rating 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

Our assessment of Shin Kong FHC's group credit profile reflects our view of the group's good franchise in Taiwan's life insurance sector, satisfactory liquidity management, and average funding base. That's despite Shin Kong FHC group is a mid-size financial conglomerate group with smaller-than-average banking subsidiary and mid-size securities subsidiary in Taiwan.

Counterbalancing these strengths is Shin Kong FHC group's marginal capitalization, which we assess at more than 30% but no more than 60% below the 'BBB' confidence level per our capital model. This also mirrors our assessment for Shin Kong Life, given the insurer's dominant role in the group credit profile. We consider this assessment to be slightly below that of peer insurance groups in Taiwan. The assessment of marginal capitalization is despite our view of the group's capital and earnings as fair after considering Shin Kong Life's track record on controlling asset and liability risks, as well as managing volatility of its domestic equity investments relative to market movements. Similar to most Taiwan-based insurance groups, the group also has high exposure to global capital market volatility, given the group's higher investments in equities than regional peers. The ratings on the holding company also reflect its subordination to the group's core entities.

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 Financial Holding Co. Ltd.

Issuer Credit Ratings	twA+/Stable/twA-1
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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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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