

Research Update

Yuanta Life Insurance Co. Ltd. Ratings Affirmed At 'twA+'; Outlook Stable

August 30, 2019

Overview

- We view Yuanta Life as a highly strategic member of the Yuanta FHC group.
- We also view Yuanta Life's scale disadvantage and below-average operating performance under a strong growth strategy somewhat constrain improvement in its competitive position to nearer the domestic average. Moreover, we assess the insurer's capital and earnings to be marginal despite its manageable investment risk profile.
- We are affirming our 'twA+' long-term insurer financial strength and issuer credit ratings on Yuanta Life.
- The outlook is stable to reflect the outlook on the Yuanta FHC group because the ratings on Yuanta Life will move in tandem with the direction of the parent group profile.

Rating Action

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

Outlook

The stable outlook on Yuanta Life reflects our expectation that the insurer will remain a highly strategically important member of the **Yuanta Financial Holding Co. Ltd.** (Yuanta FHC) group. We also expect Yuanta Life to maintain strong control over its distribution network and gradually expand its protection-type products, which generate a stable mortality surplus. This is despite the insurer's likely negative operating results in the coming two years considering it is still in the business expansionary phase. We also expect Yuanta Life's investment portfolio to remain prudent with diversified fixed-income investments and satisfactory credit quality. In addition, we forecast the insurer's capitalization could remain marginal in 2019-2020, due to strong business growth and operating losses on new business growth.

Downward scenario

We may lower the ratings on Yuanta Life if the parent group credit profile weakens, given the insurer's close linkage with the group. We may also lower the ratings if the parent group embarks on an aggressive growth strategy that is beyond our base-case assumption for 2019-2020, and without adequate business and financial risk controls, or adopts more aggressive capital policies.

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Upward scenario

We may raise the ratings if Yuanta Life becomes a core member of the Yuanta FHC group as a result of enhancement in the insurer's scale. Yuanta Life would also have to achieve a more stable operating performance with consistent profitable contribution to the overall group and more comparable with the group's overall performance. We may also raise the ratings if the group is able to improve its risk adjusted capital ratio sustainably above 15%. Nonetheless, we view an upgrade as unlikely in 2019-2020.

Rationale

The ratings on Yuanta Life reflect strong support from Yuanta Life's parent, Yuanta FHC group, given the insurer's highly-strategic group status. The ratings also reflect Yuanta Life's scale disadvantage, below-average operating performance under its strategy for strong growth, and marginal capital and earnings relative to its risk profile. Counterbalancing factors include the insurer's high linkage to the group's wider business resources and the insurer's prudent investment strategy, which will likely support a stable business flow and manageable investment risk.

Ratings Score Snapshot

Business Risk Profile	Fair
Competitive position	Satisfactory
IICRA	Moderately high
Financial Risk Profile	Marginal
Capital and earnings	Marginal
Risk exposure	Moderately Low
Funding structure l	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Financial Strength Rating	twA+

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group 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: Use Of CreditWatch And Outlooks - September 14, 2009
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018

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Ratings List

Ratings Affirmed

Yuanta Life Insurance Co. Ltd.

Issuer Credit Rating	twA+/Stable
Financial Strength Rating	twA+/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 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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