

Research Update

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

September 9, 2019

Overview

- We believe Shinkong Insurance has a strong competitive position in the domestic non-life insurance market, supported by medium-to-high level of controlled distribution channels and stable operating performance.
- We also assess Shinkong Insurance to have very strong capital and earnings, and we expect the insurer to maintain its adequate investment risk profile to support these strengths.
- We are affirming our 'twAA+' long-term financial strength and issuer credit ratings on Shinkong Insurance.
- The outlook is stable to reflect the insurer's strategy to maintain very strong capital and earnings, and prudent investments, and have medium to high control over its distribution channels over the next one to two years.

Rating Action

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

Outlook

The stable outlook reflects our view that Shinkong Insurance will maintain its very strong capital and earnings as well as prudent hedging policy and investment strategy. We expect the insurer to focus on good quality investments that uphold its very strong financial risk profile over the coming two years. Shinkong Insurance is also likely to maintain its operating performance at about the domestic industry average with steady business flow from controlled distribution channels over the same period.

Downward scenario

We may lower the ratings if the Shinkong Insurance's risk exposure increases materially, which includes loosening control over its foreign exchange risk exposure and investment concentration risk. We may also lower the ratings if there the insurer's high-risk assets increase significantly and negatively affect our assessment of its capitalization.

Upward scenario

We consider an upgrade as remote over the next two years because it would require Shinkong Insurance to increase its total adjusted capital base by at least threefold to more than US\$1 billion. This would demonstrate materially stronger capital resilience and bring the capital base nearer to our threshold for a higher rating, assuming all other factors remain unchanged.

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Rationale

The ratings on Shinkong Insurance reflect our view of the insurer's strong competitive position supported by its good control over its distribution channels, as well as its satisfactory operating performance. The ratings also reflect Shinkong Insurance's very strong capital and earnings and adequate investment risk profiles. These provide a good buffer against business downturns and capital market volatility. The insurer's smaller scale and less geographic business diversification than its regional peers somewhat offsets these strengths.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure I	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
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
- 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

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Ratings List

Ratings Affirmed

Shinkong 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 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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