

## Research Update

# Cathay Financial Holding Co. Ltd. Ratings Affirmed At 'twAA/twA-1+'; Outlook Stable

September 23, 2019

## Overview

- The Cathay FHC group credit profile continues to reflect the credit profile of its flagship company, Cathay Life.
- In our view, the group has a leading market position as well as a solid franchise in Taiwan's financial services industry, with capitalization, profitability, and investment risk exposure at about the domestic peer average.
- We are affirming our 'twAA' long-term and 'twA-1+' short term issuer credit ratings on Cathay FHC. The ratings on the holding company reflect one notch of subordination to the group's core entities.
- The stable outlook reflects our view that Cathay Life will maintain its leading domestic market position with stable capitalization over the next one to two years.

## Rating Action

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

## Rationale

The ratings on Cathay FHC reflect our view that the consolidated group credit profile, which mainly reflects that of its flagship subsidiary, **Cathay Life Insurance Co. Ltd.** The insurer contributes about 70% of the group's total consolidated assets and 60% of shareholders' equity as of the end of June 2019. Cathay Life has a leading market position by total premiums written, a well-established franchise from its large operating scale, very strong control over distribution channels, and good underwriting risk control by domestic standards. However, the insurer's investment leverage and foreign exchange risk exposure are higher than those of its regional peers, and indicate Cathay Life's susceptibility to global capital market volatility. The ratings on the holding company also reflect its subordination to the group's core entities.

## Outlook

The stable outlook reflects our view that Cathay Life will remain the flagship entity and a core member of the Cathay FHC group and therefore dominate the overall group credit profile over the next few years. We expect Cathay Life to maintain modest capital adequacy over the same period, given the insurer's growth strategy at home and overseas. Nonetheless, we expect the group to continue its prudent capital management including a supportive dividend policy for Cathay Life.

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We also expect Cathay Life to maintain its investment asset allocation strategy, an operating performance consistent with our base-case assumptions of return on average assets at 0.5%-0.6%, and an excellent competitive position in Taiwan's life insurance sector. Moreover, we believe the insurer will maintain its sound risk control mechanism to mitigate volatilities in its financial risk profile associated with fluctuations in the capital market and foreign exchange rates.

### Downward scenario

We could lower the credit ratings on Cathay FHC if we lower Cathay Life's stand-alone credit profile, which could occur if:

- Cathay Life's capital deficiency weakens significantly due to: (1) unexpected financial market volatility with sizable and unrecoverable losses on the insurer's investment portfolio; (2) overly aggressive business growth, either organically or via mergers and acquisitions; or (3) significantly weaker growth of value in-force than our forecast; or
- The effectiveness of Cathay Life's hedging mechanism materially weakens or its hedging policies become more aggressive, resulting in higher foreign exchange risks that could negatively affect the insurer's capitalization.

### Upward scenario

We view the likelihood of an upgrade to be remote over the next two years. Such an action would require a significant increase in capital to raise our assessment of Cathay Life's capital and earnings to strong. This would also have to be accompanied by a superior earnings resilience compared with its domestic peers and stable credit profiles for the other core entities of the Cathay FHC group.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- 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: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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

## Ratings List

### Ratings Affirmed

#### Cathay Financial Holding Co. Ltd.

Issuer Credit Ratings	twAA/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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