

Media Release

Nan Shan Life And Nan Shan General Ratings Placed On CreditWatch Negative Following Regulatory Business Orders

September 26, 2019

Overview

- Nan Shan Life recently received regulatory business orders to suspend investment-linked product sales until the quality of its new information technology (IT) system is reassured.
- We believe the insurer therefore faces greater challenges in its ability to execute strategy to maintain its strong brand and reputation and above-industry-average capital adequacy.
- We are placing our 'twAA+' long-term issuer credit rating and financial strength ratings on Nan Shan Life and its subsidiary Nan Shan General on CreditWatch with negative implications.
- We aim to resolve the CreditWatch after we have greater clarity on the potential impact of the IT issues on Nan Shan Life's creditworthiness, particularly its business franchise and management culture, and on the company's progress in resolving the IT system issues.

Rating Action

Taiwan Ratings Corp. today placed its 'twAA+' long-term issuer credit rating and financial strength ratings on **Nan Shan Life Insurance Co. Ltd.** and **Nan Shan General Insurance Co. Ltd.** on CreditWatch with negative implications.

Rationale

The CreditWatch placement reflects our view of rising risks to Nan Shan Life's creditworthiness following recent regulatory orders to suspend the company's investment-linked product sales before the quality of its new IT system is reassured. The recent disclosure of the IT system issues as well as sales restriction on investment-linked products could weaken Nan Shan Life's franchise relative to that of similar-rated local peers'.

Our ratings on Nan Shan Life reflect our assessment of the insurer's strong business position as one of the top three players by total premiums in Taiwan's life sector. The insurer's high level of control over distribution network, good customer retention, and strong capital and earnings also support its creditworthiness. Counterbalancing these strengths are Nan Shan Life's high investments in high-risk assets compared with those of its regional peers, and its higher exposure to foreign exchange risk than the domestic peer average.

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The combination of Nan Shan Life's strong business risk profile and satisfactory financial risk profile leads to a dual choice in anchor. We select the higher to mainly reflect the insurer's position in the top-3 in Taiwan's life insurance market, with a significant scale advantage over the market average. This is despite risk to Nan Shan Life's relative franchise following the recent disclosure of the IT system issues.

Our ratings on Nan Shan General reflect its highly strategic status to Nan Shan Life. The ratings on the general insurer therefore move in tandem with those on its parent.

CreditWatch

We aim to resolve the CreditWatch in the next three months after analyzing the potential impact of the IT system problems on Nan Shan Life's creditworthiness, particularly its relative business franchise and management culture, and the company's progress in resolving IT system issues.

We would affirm the ratings if we conclude that Nan Shan Life could effectively resolve the IT system issues before the end of this year and we don't foresee further damage to the company's franchise, business, or financial strength.

We would lower the ratings by one notch if: (1) we see a rising possibility that the IT system issues will not be resolved by the year end, raising concerns from various stakeholders over the quality of the new IT system; or (2) the company's financial and investment strategies turn more aggressive than our base-case assumptions.

Related Criteria & Research

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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Ratings List

CreditWatch Action

	To	From
Nan Shan Life Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Watch Neg	twAA+/Stable
Financial Strength Rating	twAA+/Watch Neg	twAA+/Stable
Nan Shan General Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Watch Neg	twAA+/Stable
Financial Strength Rating	twAA+/Watch Neg	twAA+/Stable

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