

## Media Release

# Taiwan Life Insurance Co. Ltd. Assigned 'twAA' Ratings; Outlook Stable

November 11, 2019

## Overview

- We assess Taiwan Life to be a core member of the CTBC FHC group and that the insurer's creditworthiness reflects that of the group's stand-alone credit profile.
- Taiwan Life's strong control over its distribution channels and good operating efficiency are slightly better than the domestic average. However, the insurer's capital strength is slightly weaker than the average for similarly sized domestics under our risk-adjusted capital model.
- We are assigning our 'twAA' insurer financial strength and issuer credit ratings to Taiwan Life.
- The outlook is stable to reflect our view that Taiwan Life will maintain its importance to CTBC FHC group over the next one to two years.

## Rating Action

Taiwan Ratings Corp. today assigned its 'twAA' insurer financial strength and issuer credit ratings to Taiwan Life Insurance Co. Ltd.

## Rationale

The ratings on Taiwan Life reflect the insurer's strong control over its distribution channel and good operating efficiency, which are both slightly better than the domestic average. Counterbalancing these strengths is the insurer's capital strength, which we assess as slightly weaker than the average of similar sized peers in Taiwan based on our risk-adjusted capital model. The rating also reflects Taiwan Life's role as a core member of **CTBC Financial Holding Co. Ltd.** (CTBC FHC) group and our view that the insurer's creditworthiness reflects that of the group's stand-alone credit profile.

Taiwan Life operates primarily in Taiwan's life insurance market, which we assess as having a moderate level of industry and country risk. Structural weaknesses in asset and liability mismatch expose life insurance companies to balance sheet volatility. Meanwhile, persistently low interest rates strain insurers' earnings and have resulted in an industry wide problem of negative spread wherein average policy costs outweigh average investment returns. Taiwan Life has an overseas operation in China as well as a non-life insurance operation in Taiwan. However, the contribution from these entities to the insurer's consolidated profile remain small.

In our view, Taiwan Life has a strong competitive position underpinned by its high level of controlled distribution channels. The insurer controls over half of the distributed policies through its tied agents and the bancassurance channel of the CTBC FHC group's banking subsidiary, **CTBC Bank Co. Ltd.** This control helps support the insurer's operating efficiency through a continual lower expense ratio compared with the domestic average. The insurer's competitive position also reflects its mid-size market position in Taiwan.

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We view Taiwan Life's financial risk profile as fair, which reflects our assessment of the insurer's capital adequacy relative to its risk exposure, supported by its reasonable operating performance with prudent capital policies including a recent capital injection. We also expect the life insurer to maintain its capitalization by controlling risk asset growth and maintaining full earning retention over the next two years. We expect Taiwan Life to report a stable recurring yield and moderate growth in the technical performance of its in-force business over the next two years, which should help the insurer's capital to keep up with growth in its risk assets. Taiwan Life's recent promotion of its long-term regular-pay premium products underpins this view.

Meanwhile, we view the company's overall risk control to be sufficient to mitigate volatility from the insurer's higher foreign exchange risk exposure in proportion to its total assets and high investment concentration on financial services sectors compared with domestic peers'. However, we believe Taiwan Life's risk levels are marginally higher and that the company is more sensitive to investment market volatilities than the average domestic peer. Nonetheless, we believe Taiwan Life is committed to effectively monitoring and controlling its foreign exchange exposures and we believe the insurer will increase its hedging ratios from the low level in mid-2019.

We assess Taiwan Life to have an adequate financial structure, given the insurer has limited financial leverage or debt. Taiwan Life has appropriate strategic planning and comprehensive financial and operational standards in place, in our view. We also consider the insurer's risk culture to be a strength that underpins its overall governance framework. Furthermore, Taiwan Life has clear financial and operating goals and the management team focuses on value of new business accumulation. The company's strategy has been to consistently leverage the group's banking channel as well as its acquired agents to enlarge its business scale.

In addition, we believe the insurer has good management know-how considering the talent accumulated during several mergers and acquisitions. We also believe the board of directors maintains sufficient independence from management to provide effective oversight. The board retains control as the final decision-making authority with respect to key enterprise risks, compensation, or conflicts of interest.

We believe Taiwan Life has a satisfactory risk management culture with established risk structure, defined risk appetite, periodic risk reporting, and clear risk communication. Risk controls for key risk factors are good with appropriate risk identification, the use of multiple metrics to assess risks, clear risk standards and risk limits, and adequate risk limit enforcement. We regard Taiwan Life's liquidity as favorable with a satisfactory amount of liquid assets maintained on its book and increasing sales of more long-term policies to lower liquidity risks. We assess limited refinancing needs, given the insurer's limited debt. The company has no confidence-sensitive liabilities or collateral-posting risk. In addition, the insurer's debt issuance has no covenants or rating triggers embedded.

In our view, Taiwan Life's operations are highly consistent with the group's franchise and the insurer supports the realization of group strategies, which we believe brings the insurer a high level of implicit support from the parent group under all circumstances. Taiwan Life represents a significant part of the bank-centric CTBC FHC group in terms of net worth and total assets, as well as profit contribution.

We regard Taiwan Life's capitalization to be very sensitive to market volatility and we believe the parent group is committed and has the capacity to maintain Taiwan Life's capital at the current level. We believe CTBC FHC's capital injections of New Taiwan dollar (NT\$) 7 billion to Taiwan Life in 2015 and a further NT\$10 billion in 2019 demonstrate its strong, long term commitment to the insurer. The group requires the insurer to retain all earnings to support its internal business growth. Although Taiwan Life does not share the group's "CTBC" naming convention, the insurer's brand and logo are strongly linked to CTBC FHC group.

## Outlook

The stable outlook reflects our expectation that Taiwan Life will remain a core member of CTBC FHC group. The ratings on the insurer will therefore move in tandem with the direction of the group credit profile. We also expect Taiwan Life to maintain its current market position with stable earnings performance over the next two years.

### Downward scenario

We may lower the ratings on Taiwan Life if we lower our assessment of the group credit profile or if we believe the group's subsidiaries pursue high organic or acquisition-led growth without adequate capital planning or a risk management mechanism to manage such growth. Such factors could result in a weaker risk position or capitalization for CTBC Bank or the group over the coming two years. We may also lower the ratings on Taiwan Life if we believe the insurer's linkage with the group weakens and that Taiwan Life is no longer a core member of the group.

### Upward scenario

Conversely, we could raise the ratings on Taiwan Life if we assess the consolidated group profile has improved, such as if the group maintains strong capitalization via a prudent business strategy and good earnings retention over the coming two years. However, we believe the likelihood is remote over the period.

## Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high
Financial Risk Profile	Fair
Capital and earnings	Fair
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Financial Strength Rating	twAA

## Related Criteria

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

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## Ratings List

### New Ratings; Outlook

#### Taiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAA/Stable/--
Financial Strength Rating	twAA/Stable/--

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