

Media Release:

# Nan Shan Life And Nan Shan General Insurance Downgraded To 'twAA' On Prolonged IT Improvements; Outlook Stable

January 21, 2020

## Overview

- Taiwan-based Nan Shan Life has yet to complete the required quality enhancements to its information technology (IT) system to address the issues that triggered regulatory penalties and business orders in 2019.
- We believe the progress increases the risks to Nan Shan Life's creditworthiness as uncertainty grows over its business momentum, earnings performance, and franchise relative to those of similarly rated local peers.
- We are therefore lowering our long-term issuer credit rating and financial strength rating on Nan Shan Life and its subsidiary, Nan Shan General, to 'twAA' from 'twAA+'. At the same time, we removed the ratings from CreditWatch with negative implications.
- The stable rating outlook reflects our view that Nan Shan Life will maintain its financial risk profile and very strong competitive position in Taiwan's life insurance sector over the coming two years.

## Rating Action

Taiwan Ratings Corp. today lowered its the long-term issuer credit rating and financial strength rating on **Nan Shan Life Insurance Co. Ltd.** and **Nan Shan General Insurance Co. Ltd.** to 'twAA' from 'twAA+'. At the same time, we removed the ratings from CreditWatch with negative implications. We originally placed the ratings on CreditWatch on Sept. 26, 2019 (see Related Research).

## Rationale

Nan Shan Life has not yet completed necessary enhancements to its IT system. The recent disclosure of IT system issues triggered regulatory orders in September 2019, including the suspension of the company's investment-linked products before the quality of its new IT system is reassured. The progress to resume the sales of investment-linked products together with the implementation of enhancements to the overall IT system has taken longer than we originally expected.

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Slow progress in making the enhancements raises uncertainty over Nan Shan Life's ability to sustain its business momentum, earning performance, and business franchise relative to those of similarly rated local peers. The heightened uncertainty over Nan Shan Life's ability to maintain its franchise now leads us to select the lower anchor for Nan Shan Life, given our assessment of the insurer's strong business risk profile and satisfactory financial risk profile.

Nonetheless, we continue to assess Nan Shan Life has a proactive product strategy and resilient distribution channels. These should help the insurer to weather the increased business risks from the temporary ban on sales of its investment linked products as well as slowing growth momentum on the back of regulatory driven product reforms. Therefore, our ratings on Nan Shan Life continue to reflect our assessment of the insurer's strong business position as one of the top three players by total premiums in Taiwan's life insurance sector. The insurer's resilient 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 to its regional peers', and its higher exposure to foreign exchange risk than the domestic peer average.

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.

### Outlook

The stable outlook reflects our expectation that Nan Shan Life's capital adequacy will remain sound over the coming two years, given the insurer's moderate premium growth. That is despite a likely shift in Nan Shan Life's investment allocation toward equity-like investments. We also believe the insurer will maintain close monitoring of its investment risk exposure to prevent further deterioration from the current moderate risk level.

In addition, the stable outlook reflects our view that Nan Shan Life's operations will remain independent from its two main shareholders, Taiwan-based Ruentex and Pou Chen Corp. groups, under Taiwan's regulatory framework for financial service sectors.

#### Upward scenario

We may raise the ratings if Nan Shan Life demonstrates sustainable restoration of its franchise and business value generation to a level compatible with its close domestic peers over the next two years. This would have to be accompanied by a stable financial risk profile over the same period.

#### Downward scenario

We may lower the ratings if we lower our assessment of Nan Shan Life's capital and earnings to satisfactory or fair because the insurer: (1) undertakes overly aggressive business growth or asset allocation; or (2) suffers a deterioration in asset-liability mismatch.

## Rating Score Snapshot

Financial strength rating	twAA
Business risk	Strong
IICRA	Moderately High Risk
Competitive position	Very Strong
Financial risk	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional

## Related Criteria & Research

### Related Criteria

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

### Related Research

- Media Release: Nan Shan Life And Nan Shan General 'twAA+' Ratings Remain On CreditWatch Negative - Oct 30, 2019
- Media Release: Nan Shan Life And Nan Shan General Ratings Placed On CreditWatch Negative Following Regulatory Business Orders - Sept. 26, 2019

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## Ratings List

### Downgraded

	To	From
<b>Nan Shan Life Insurance Co. Ltd.</b>		
Issuer Credit Rating	twAA/Stable	twAA+/WatchNeg
Financial Strength Credit Rating	twAA/Stable	twAA+/WatchNeg
<b>Nan Shan General Insurance Co. Ltd.</b>		
Issuer Credit Rating	twAA/Stable	twAA+/WatchNeg
Financial Strength Credit Rating	twAA/Stable	twAA+/WatchNeg

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