

Media Release:

Outlook On Fubon Financial Holding And Most Subsidiaries Revised To Negative On Rising Investment Risk; Ratings Affirmed

April 29, 2020

Overview

- The COVID-19 pandemic has increased the volatility of global financial markets.
- We anticipate Fubon Life Insurance will face increasing difficulty to preserve its capital and earnings at a level commensurate with the current ratings.
- The Fubon FHC group credit profile is sensitive to the investment risks facing its flagship life insurance unit, as well as Fubon Life's capitalization, which inhibits the subsidiary's stand-alone credit profile.
- We are revising the outlook on our long-term ratings on Fubon FHC and its core and highly strategic subsidiaries to negative from stable. At the same time, we are affirming the long and short-term issuer credit ratings on the entities as well as the issue credit ratings on the subsidiaries' various debentures.
- We are also affirming the issuer credit ratings on Taipei Fubon Commercial Bank with a stable outlook, given our view of implicit government support for the bank.

Rating Action

Taiwan Ratings Corp. today revised its outlook on the long-term ratings on **Fubon Life Insurance Co. Ltd., Fubon Insurance Co. Ltd., Fubon Securities Co. Ltd., Fubon Bank (China) Co. Ltd.,** and **Fubon Financial Holding Co. Ltd.** (Fubon FHC) to negative from stable. At the same time, we affirmed the various issuer credit ratings and issue credit ratings on the subsidiaries (see ratings list).

We also affirmed our issuer credit ratings on **Taipei Fubon Commercial Bank Co. Ltd.** and the issue credit ratings on the bank's debentures. The outlook on the long-term rating is stable.

Rationale

The downward outlook revision on Fubon FHC and its core and highly strategic subsidiaries reflects our view that the group's largest subsidiary and flagship unit, Fubon Life, could see increasing pressure on its capital and earnings, given heightened market uncertainty and prevailing low interest rates. The group credit profile reflects the stand-alone credit profile of

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Fubon Life because of the insurer's dominant contribution to the group's proforma assets and net income.

We continue to see substantial downside risk for the group considering the negative global impact from the COVID-19 outbreak, recent oil shocks, and sluggish macroeconomic prospects. We assess the credit profiles of Taiwan life insurers as more vulnerable to this challenging operating environment than their global peers, given the relatively higher equity exposure, higher weighting on overseas investments, and thinner capital buffers.

We anticipate the likelihood of a worsening economic climate globally will weigh on Fubon Life's capital buffer and its ability to maintain satisfactory capital and earnings. Fubon Life has high investment exposure to equities as a proportion of its total adjusted capital compared with global peers'. More than 60% of Fubon Life's investments are overseas. This exposes the insurer to global capital market volatility, which has increased significantly following the novel coronavirus outbreak. Meanwhile, the already prolonged low interest rate environment increases potential reinvestment risks for the insurer. This is despite Fubon Life's efforts to lower its cost of liabilities by reducing its declared rates on products and in view of reducing hedging costs.

We expect Fubon Life to maintain its capital and earnings at around the domestic industry average over the coming two years. In line with other local peers, the insurer's capitalization has recently fluctuated due to significant volatility in global financial markets versus the better capital level seen by the end of 2019. We expect the growth of Fubon Life's value-of-inforce and in turn its capital accumulation to slow down in 2019-2020. This reflects the impact of interest rate cuts on its investment return assumptions, while its assets are likely to continue to grow by a high single digit.

Our assessment continues to factor in slowing growth in the insurer's premiums of between slightly negative and low single digit growth in 2020-2021. This reflects the insurer's efforts to migrate its product range to longer-tenor and higher-protection products. In addition, as with our forecast for the overall life sector, we expect Fubon Life's earnings will trend downward to reflect a lower-for-longer interest rate environment and continued market uncertainty. However, we expect Fubon Life to maintain its earnings at above the domestic industry average, based on the company's good investment performance track record.

Our assessment of the Fubon FHC group credit profile continues to reflect the group's solid market position and business profile in Taiwan's financial services sectors. In addition, the group credit profile reflects the stand-alone credit profile of Fubon Life, given the insurer's dominant role contributing 50%-55% of the group's proforma assets and net income over the past five years. As such, the group credit profile is sensitive not only to the investment risks facing the life subsidiary, but also to Fubon Life's capitalization, which inhibits the subsidiary's stand-alone credit profile.

We affirmed the ratings on Taipei Fubon Bank with a stable outlook because we believe the bank benefits from one notch uplift from government support, given its moderate systemic importance in Taiwan's financial system.

Outlook

Fubon Life Insurance Co. Ltd., Fubon Insurance Co. Ltd., Fubon Securities Co. Ltd., Fubon Bank (China) Co. Ltd., and Fubon Financial Holding Co. Ltd.

The negative outlook on Fubon FHC and its core and highly strategic subsidiaries reflects the likelihood that the group's flagship entity, Fubon Life, could see reduced growth for its capital and earnings if global financial markets continue to weaken. The outlook also reflects our view that Fubon Life will continue to dominate the overall group credit profile over the next two years. We believe the group's core banking unit, Taipei Fubon Bank, will continue to contribute more than 25% of the group's operating income over the same period.

Downward scenario

We could lower the long-term rating on Fubon FHC and its core and highly strategic subsidiaries if the group credit profile weakens mainly due to deterioration in Fubon Life's credit profile. Such deterioration could include:

- we lower our assessment of the insurer's capital and earnings to fair from satisfactory because: (1) Fubon Life overly expands its investment assets, suffers negative credit migration on its fixed-income portfolio, or its exposure to market volatility becomes higher than we in assume in our base case, (2) growth in Fubon Life's value of in-force is materially lower than we currently forecast because value of in-force accounts for a large part of the insurer's total adjusted capital, (3) the insurer expands through mergers and acquisitions or capital needs for its subsidiaries increase exceeding our current expectation, or (4) the insurer's operating performance drops below the domestic industry average.
- Fubon Life's risk exposure deteriorates to moderately high from moderately low, such that we believe the insurer's enlarged foreign exchange risk exposure (net of effective hedging) or investment concentration in the financial sector materially and consistently exceeds the local peer average and raises the volatility in its capital and earnings.

Upward scenario

We could revise the outlooks back to stable if Fubon Life strengthens its capital buffer sustainably to more than cover the investment risks it could face over the coming one to two years. At the same time, the insurer's other credit risk aspects including competitive position and risk exposure would need to remain unchanged.

Taipei Fubon Commercial Bank Co. Ltd.

The stable outlook reflects the likelihood that Taipei Fubon Bank's strong capitalization, satisfactory asset quality, and implicit government support will continue to sustain the bank's credit profile over the coming two years. We expect Taipei Fubon Bank to maintain its moderate systemic importance in Taiwan's banking sector with stable market share. We also continue to assess Taipei Fubon Bank as the core member to Fubon FHC group, given the bank's material representation and contribution in the group.

Downside scenario

We would lower the long-term issuer credit rating on Taipei Fubon Bank if the bank's stand-alone credit profile deteriorates, or the group credit profile deteriorates significantly.

Upside scenario

We view the likelihood of an upgrade to be remote over the next two years.

Rating Score Snapshot

For Fubon Life Insurance Co. Ltd.

Business Risk Profile	Strong
Competitive position	Very strong
IICRA	Moderately high
Financial Risk Profile	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Financial Strength Rating	twAA+
IICRA--Insurance Industry And Country Risk Assessment.	

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- 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: Group Rating Methodology - July 01, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- TRC Financial Services Sector Issue Credit Rating Criteria - September 23, 2014
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Revision

	To	From
Fubon Financial Holding Co. Ltd.		
Issuer Credit Rating	twAA/Negative/twA-1+	twAA/Stable/twA-1+
Unsecured Senior Debenture Issue Credit Rating	twAA	twAA
Fubon Life Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Negative	twAA+/Stable
Financial Strength Rating	twAA+/Negative	twAA+/Stable
Fubon Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Negative	twAA+/Stable
Financial Strength Rating	twAA+/Negative	twAA+/Stable
Fubon Securities Co. Ltd.		
Issuer Credit Rating	twAA+/Negative/twA-1+	twAA+/Stable/twA-1+
Fubon Bank (China) Co. Ltd.		
Issuer Credit Rating	twAA/Negative/twA-1+	twAA/Stable/twA-1+

Ratings Affirmed; Outlook

Taipei Fubon Commercial Bank Co. Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Senior Debenture Issue Credit Rating	twAA+
Unsecured Subordinated Debenture Issue Credit Rating	twAA
Unsecured Subordinated Debenture Issue Credit Rating	twAA-

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