

Media Release:

Outlook On Nan Shan Life And Nan Shan General Revised To Negative On Rising Market Volatility; 'twAA' Ratings Affirmed

April 29, 2020

Overview

- The widening economic recession has exacerbated financial market volatility and increased downside risk for Taiwan-based Nan Shan Life's financial risk profile.
- We are therefore revising the rating outlook on Nan Shan Life and its highly strategic subsidiary, Nan Shan General, to negative from stable.
- We are also affirming the issuer credit rating and financial strength rating on the insurers at 'twAA'.
- The negative outlook reflects the heightened risk that global market volatility could weaken Nan Shan Life's financial strength over the next one to two years.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on **Nan Shan Life Insurance Co. Ltd.** and **Nan Shan General Insurance Co. Ltd.** to negative from stable. At the same time, we affirmed our 'twAA' issuer credit rating and financial strength rating on the companies.

Rationale

In our view, growing capital market volatility amid the widening spread of the COVID-19 pandemic will increase the challenges for Nan Shan Life to maintain its risk-adjusted capitalization at a satisfactory level. We expect several factors to weigh on the insurer's capitalization over the coming one to two years. These include potential marked-to-market losses on the insurer's investments, unmatched capital growth, and increasing reinvestment risks under the current lower-for-longer interest rate environment.

Nan Shan Life's moderately high investment risk exposure could expose the insurer to heightened balance sheet volatilities as financial market uncertainties grow. This is in spite of the company's efforts to de-risk its equity position, deliver good earnings performance, and complete a scheduled capital injection in 2019.

We anticipate the current lower-for-longer interest rate environment will constrain Nan Shan Life's ability to accumulate capital over the next one to two years. Under our base case

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assumptions, we expect Nan Shan Life's growth of value of in-force to remain low compared to its historical record, due to the insurer's muted business growth and lower investment performance. Our ratings on Nan Shan General reflect the insurer's highly strategic status to Nan Shan Life. The ratings on the general insurer therefore move in tandem with those on its parent.

Outlook

The negative outlook reflects the rising risk that heightened financial market volatility could weaken Nan Shan Life's financial strength over the next one to two years. In particular, we see rising uncertainty on the insurer's ability to restore its capital buffer amid unfavorable investment asset value volatility and lower capital accumulation over the same period.

We continue to expect that under Taiwan's regulatory framework for financial service sectors, Nan Shan Life will remain operationally independent from its main shareholders, Taiwan-based Ruentex and Pou Chen Corp. groups.

Downward scenario

We may lower the ratings if we lower our assessment of Nan Shan Life's overall risk-adjusted capitalization because the insurer: (1) undertakes overly aggressive investment asset allocation; or (2) suffers unexpected and unrecoverable investment losses. We could also lower the ratings if Nan Shan Life's overall franchise weakens.

Upward scenario

We may revise the outlook on Nan Shan Life and Nan Shan General back to stable if there is persistent restoration in Nan Shan Life's capital buffer to sustain our assessment of the insurer's satisfactory financial risk profile. This would also have to be accompanied by Nan Shan Life's prudent management of investment allocation, resilient business distribution, and ability to maintain at least industry average operating performance.

Rating Score Snapshot

For Nan Shan Life Insurance Co. Ltd.

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

Related Criteria

- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions - 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

(Unless otherwise stated, the above articles can be found at www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Nan Shan Life Insurance Co. Ltd.		
Nan Shan General Insurance Co. Ltd.		
Issuer Credit Rating	twAA/Negative/--	twAA/Stable/--
Financial Strength Rating	twAA/Negative/--	twAA/Stable/--

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