

Media Release:

Outlook On Farglory Life Insurance Co. Ltd. Revised To Negative On Heightened Market Volatility; 'twA+' Ratings Affirmed

May 7, 2020

Overview

- In our view, heightened market volatility as a result of the recent Covid-19 pandemic and sluggish economic prospects have led to a thinner capital buffer for Farglory Life to help retain our assessment of strong capital and earnings.
- We are therefore revising the outlook on our ratings on Farglory Life to negative from stable to reflect the challenges facing the insurer to retain strong capital and earnings over the next one to two years.
- At the same time, we affirmed the 'twA+' issuer credit rating and financial strength rating on Farglory Life.

Rating Action

Taiwan Ratings Corp. today revised the outlook on its 'twA+' issuer credit rating and financial strength rating on **Farglory Life Insurance Co. Ltd.** to negative from stable and affirmed the ratings.

Rationale

The negative outlook reflects our view that Farglory Life now has a thinner capital buffer to absorb increased market volatility and operating headwind under the current unpredictable macro environment. We believe recent volatility in market movements and uncertainty over the impact of the COVID-19 outbreak on the local and global economy have weakened Farglory Life's capitalization. The lower and longer interest rate environment further constrains our forecast of the life insurers' operating performance and value-of-inforce accumulation over the coming one to two years. We also believe insurers could see increasing headwinds if the pandemic prolongs.

We continue to forecast Farglory Life's capital and earnings as strong and expect this to remain unchanged over the coming one to two years. However, we believe the insurer's capital buffer to combat additional market volatility has worn very thin. Under our base-case assumption for Farglory Life's capital and earnings, we expect global equity market volatility to remain throughout 2020. We also assume that consecutive interest rate cuts in 2019-2020 will lower Farglory Life's recurring yields and growth in value-of-inforce, and therefore slow its capital accumulation.

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Outlook

The negative outlook reflects our view that Farglory Life has a thinner capital buffer to absorb current market volatility and increasing macro headwind. This is despite our view that the insurer will maintain its capitalization level over the coming 12-24 months in consideration of its prudent risk asset growth, relatively stable operating performance, and reasonable recurring yield.

However, Farglory Life's overall credit profile could weaken if its capital buffer shrinks further. In addition, we expect the insurer to control its foreign exchange risk exposure at an adequate level and similar to that of its domestic peers by reducing growth in foreign currency assets and maintaining a high hedging ratio. Moreover, we expect the insurer to maintain its domestic market position and strength--particularly in health and medical products--over the same period.

Downward scenario

We may lower the ratings if the insurer's capitalization weakens as a result of unexpected market volatility or valuation losses of its investment portfolio. We may also lower the ratings on Farglory Life if the insurer loosens its risk control or increases foreign exchange risk materially above the domestic industry average.

Upward scenario

We may revise the outlook back to stable if Farglory Life can restore its capital buffer, through either material capital injections, profitable growth, or lower risky asset growth relative to its risk profile over the next one to two years. This would also require Farglory Life to maintain its other credit risk aspects including competitive position and risk exposures over the same period.

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 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 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019

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

Ratings List

Ratings Affirmed; Outlook Revision

	To	From
Farglory Life Insurance Co. Ltd		
Issuer Credit Rating	twA+/Negative/--	twA+/Stable/--
Financial Strength Rating	twA+/Negative/--	twA+/Stable/--

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