

Media Release:

# Ratings On Prudential Life Insurance Company of Taiwan Inc. Lowered To 'twA' From 'twAAA'; Off CreditWatch; Outlook Developing

May 13, 2020

## Overview

- The parent of Prudential Taiwan has not yet completed a potential disposal plan for the Taiwan life subsidiary.
- We believe that progress made in divesting the subsidiary increases the risks to Prudential Taiwan's creditworthiness because of heightening uncertainty over continuing group support for the subsidiary.
- We are reclassifying Prudential Taiwan as a nonstrategic group member to the parent group. Therefore, we are lowering our long-term issuer credit rating and financial strength rating on Prudential Taiwan to 'twA' from 'twAAA' and removing the ratings from CreditWatch where they were placed with negative implications on February 24, 2020.
- The rating outlook is developing to reflect our view that the ratings on Prudential Taiwan will be related to the credit profile of the potential new shareholder.

## Rating Action

Taiwan Ratings Corp. today lowered its long-term issuer credit rating and financial strength rating on **Prudential Life Insurance Company of Taiwan Inc.** (Prudential Taiwan) to 'twA' from 'twAAA'. At the same time, we removed the ratings from CreditWatch with negative implications where they were placed on February 24, 2020 (see Related Research). The outlook on the ratings is developing.

## Rationale

The downgrade action reflects our current view of Prudential Taiwan's group status as nonstrategic compared with highly strategic previously, given the increasing uncertainty over continued implicit support from the parent Prudential Financial Inc. group as the group seeks to divest of the Taiwan subsidiary. The creditworthiness of Prudential Taiwan now reflects the company's stand-alone credit profile.

We expect Prudential Taiwan to maintain its current competitiveness in the domestic market despite its relatively small presence. We believe Prudential Taiwan can utilize its proactive product strategies in protection type policies; solid customer retention; and resilient

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distribution channels in tied agents to mitigate its scale disadvantage. We also expect the company can sustain its capitalization at a fair level in the coming few years assuming no significant change on its business and financial policy. In addition, we expect the company to maintain its comparatively conservative investment allocations with manageable foreign exchange risk exposure.

### Outlook

The developing outlook reflects continuing uncertainty over Prudential Taiwan's ownership, which ultimately could affect the company's overall credit profile. We will continue to monitor the progress of potential shareholder changes and the impact on Prudential Taiwan's investment policy, capital policy, and business strategies. Similar to other life insurers in Taiwan, Prudential Taiwan's operating performance is likely to remain sensitive to the overall investment environment and marginal over the next two years due to the insurer's relatively small market position. However, we expect the company to maintain its capitalization at a fair level for its current business scale and developments.

#### Downward scenario

We may lower the ratings on Prudential Taiwan if the company's capitalization deteriorates due to aggressive risk asset growth or unexpected investment losses. We may also lower the ratings if Prudential Taiwan substantially increases its investment risk appetite including high-risk assets or unhedged foreign exchange exposures.

#### Upward scenario

We may raise the ratings if the company can improve its capital adequacy, either through capital injection or through accumulation of profits over the long term.

### Related Criteria & Research

#### Related Criteria

- 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
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

#### Related Research

- Media Release: Ratings On Prudential Life Insurance Co. of Taiwan Placed On CreditWatch Negative On Parent's Potential Strategic Change – February 24, 2020

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### Downgraded; Outlook / CreditWatch Action

	To	From
<b>Prudential Life Insurance Company of Taiwan Inc.</b>		
Issuer Credit Rating	twA/Developing/--	twAAA/Watch Neg/--
Financial Strength Rating	twA/Developing/--	twAAA/Watch Neg/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.taiwanratings.com](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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