

Media Release:

Outlook On Shin Kong FHC And Key Group Units Revised To Negative On Heightened Market Volatility; Ratings Affirmed

May 29, 2020

Overview

- The widespread economic recession as a result of the COVID-19 pandemic has exacerbated financial market volatility and increased downside risk for Shin Kong Life's financial risk profile.
- We view Taiwan-based Shin Kong Life as the flagship company of the Shin Kong FHC group, and any changes in the insurer's credit profile will affect the overall group credit profile.
- We are therefore revising the outlook on our ratings on Shin Kong Life, Taiwan Shin Kong Commercial Bank, MasterLink Securities, and Shin Kong FHC to negative from stable. The negative outlook reflects the difficulties Shin Kong Life faces to maintain its financial strength over the next one to two years, given the insurer's heightened foreign exchange risks as well as narrower capital buffer.
- At the same time, we are affirming the various ratings on the companies as well as our issue credit ratings on the companies' outstanding rated debts.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on Taiwan-domiciled **Shin Kong Life Insurance Co. Ltd.**, **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC), **Taiwan Shin Kong Commercial Bank Co. Ltd.**, and **MasterLink Securities Corp.** to negative from stable. At the same time, we affirmed our various ratings on the companies and the issue credit ratings on their respective debt issues (see ratings list).

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Rationale

The outlook revision reflects our view of rising challenges for Shin Kong Life to maintain its financial profile over the next few quarters. This is because of rising capital market volatility amid the deepening economic fallout from the COVID-19 pandemic. We see increased downside risks for Shin Kong Life including foreign exchange volatility, potential mark-to-market losses on its investments, and slower capital accumulation under the lower-for-longer interest rate environment.

Shin Kong Life's lower hedged exposure has increased its foreign exchange (forex) risk. The insurer will require time to lower this risk to a sustainable level through an increased hedged position over the coming quarters. However, forex volatility will likely remain high over the same period. The company's ratio of hedging to total foreign currency investments declined in 2019. This creates potential for additional sources of capital volatility that could weigh on the insurer's overall financial risk profile, albeit the company had increased the hedged ratio slightly as of the end of March 2020.

We also believe Shin Kong Life now has a weaker capital buffer than the level in 2019 to maintain its capital and earnings at a fair level, given the insurer's heightened balance sheet volatility and slow capital generation. Under our base case assumptions, we expect Shin Kong Life's primary sources of capital generation such as retained earnings and value of in-force, to register slower growth over the next one to two years.

Nonetheless, we anticipate Shin Kong Life will sustain its strong competitive position through its well-established brand and satisfactory market shares in major products in the domestic market. The good sales contribution from Shin Kong Life's agent force supports this view.

We view Shin Kong Life as the flagship company of the Shin Kong FHC group. Therefore, the increased risks for the insurer to maintain its financial strength will also affect the overall group credit profile and ultimately our ratings on Taiwan Shin Kong Commercial Bank, which we assess as a core group member and Master Link Securities, which we assess as core and highly strategic group member, respectively.

Outlook

Shin Kong Financial Holding Co. Ltd., Shin Kong Life Insurance Co. Ltd., and Taiwan Shin Kong Commercial Bank Co. Ltd.

The negative outlook reflects the potential for the recent surge in global financial market volatility to negatively affect Shin Kong Life's financial strength, given the insurer's increased forex volatility and thin capital buffer.

The outlook also reflects the increasing challenges for Shin Kong Life to maintain a stable credit profile over the coming 12-24 months. Nonetheless, we expect the overall group to maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector. The ratings on Shin Kong Life will move in tandem with the group's consolidated credit profile.

Downward scenario

We may lower the ratings on Shin Kong FHC, Shin Kong Life, and Taiwan Shin Kong Commercial Bank if the group credit profile deteriorates significantly from our base-case assumptions, which could happen because of: (1) significant greater weakening in risk management at the group level and at Shin Kong Life than we previously expected, particularly in terms of forex risk exposure or investment-risk concentration; or (2) Shin Kong Life's risk-adjusted capitalization weakens due to poor earnings, slower value of in-force growth, or unexpected market volatility.

Upward scenario

We may revise the rating outlook on Shin Kong FHC, Shin Kong Life, and Taiwan Shin Kong Commercial Bank back to be stable if Shin Kong Life demonstrates persistent control over its forex risk while maintaining stable capitalization. This would also have to be accompanied by Shin Kong Life's stable investment allocation, strong competitive position compared with its domestic peers', and stable credit profiles for the other core entity.

MasterLink Securities Corp.

The negative outlook reflects our expectation that MasterLink Securities will remain a highly strategic entity of the wider Shin Kong FHC group, and as such the ratings on MasterLink Securities will move in tandem with the Shin Kong FHC group credit profile. MasterLink Securities is likely to increase its integration with the group gradually and smoothly. On a stand-alone basis, we expect MasterLink Securities to maintain its business position and to control the volatility of its investment portfolio to sustain very strong capitalization over the next two years.

Downside scenario

We may lower the long-term rating on MasterLink Securities if either of the following occurs: 1) the overall credit profile of Shin Kong FHC weakens, 2) the importance of MasterLink Securities to the group weakens, or 3) if the company's stand-alone credit profile weakens over the next one to two years. Factors that could trigger such deterioration include weakening capitalization due to higher investment risk retaining.

Upside scenario

We may revise the outlook back to stable if we take similar rating action on the core members of the Shin Kong FHC group.

Rating Score Snapshot

For Shin Kong Life Insurance Co. Ltd.

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high
Financial Risk Profile	Fair
Capital and earnings	Fair
Risk exposure	Moderately low

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Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Financial Strength Rating	twAA-

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: Use Of CreditWatch And Outlooks - September 14, 2009
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Shin Kong Life Insurance Co. Ltd.		
Issuer Credit Rating	twAA-/Negative/--	twAA-/Stable/--
Financial Strength Rating	twAA-/Negative/--	twAA-/Stable/--
Perpetual Accumulative Subordinated Corporate Bond	twA+	
Shin Kong Financial Holding Co. Ltd.		
Issuer Credit Rating	twA+/Negative/twA-1	twA+/Stable/twA-1
Taiwan Shin Kong Commercial Bank Co. Ltd.		
Issuer Credit Rating	twAA-/Negative/twA-1+	twAA-/Stable/twA-1+
Unsecured Subordinated Debenture	twA+	
Unsecured Subordinated Debenture	twA	
Perpetual Noncumulative Unsecured Subordinated Debentures	twA	
MasterLink Securities Corp.		
Issuer Credit Rating	twA+/Negative/twA-1	twA+/Stable/twA-1

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