

Research Update:

Farglory Life Insurance Co. Ltd. Ratings Affirmed At 'twA+'; Outlook Negative

August 24, 2020

Overview

- Heightened market volatility and rising foreign exchange risks could lead to a thinner capital buffer for Farglory Life to retain its overall financial strength.
- We are affirming our 'twA+' issuer credit rating and financial strength rating on Farglory Life.
- The rating outlook is negative to reflect the challenges facing the insurer to retain good capital and earnings, which we assess to be above average by local comparison, over the next one to two years.

Rating Action

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

Rationale

In our view, Farglory Life has only a thin capital buffer to absorb increased market turbulence and operating headwinds, amid heightened market volatility. An unexpected market decline or uncertainty over the impact of COVID-19 on the local and global economies could weaken Farglory Life's capitalization over the next one to two years. The prolonged low interest rate environment further constrains our forecast of the life insurers' operating performance over the coming one to two years. In addition, we believe insurers could see increasing headwinds if the pandemic prolongs.

The negative outlook also reflects potentially increasing capital and earnings volatility from the company's heightened foreign exchange risk. We believe recent increases in Farglory Life's foreign exchange risk could place additional pressure on its financial risk profile. The insurer's foreign exchange exposure has materially increased over the past one year after the company lowered its hedge ratio due to the still-high price of hedging tools. We view this rising foreign exchange risk could expose Farglory Life to increased capital risks and potentially weaken its capital buffer amid continuing market volatility over the next few quarters.

The ratings continue to reflect our view of Farglory Life's above-average capital strength compared with that of local life insurers. The insurer's small market position in the domestic

PRIMARY CREDIT ANALYST

Yuhan Lan
Taipei
+886-2-8722-5810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

SECONDARY CONTACT

Patty Wang
Taipei
+886-2-8722-5823
patty.wang
@spglobal.com
patty.wang
@taiwanratings.com.tw

market as well as higher investment weighting in properties and financial institutions than its peers' somewhat offsets these strengths.

Outlook

The negative outlook reflects our view that Farglory Life has only a thin capital buffer to absorb current market volatility and increasing macro headwinds. Farglory Life's overall credit profile could weaken if its capital buffer shrinks further. This is despite our view that the insurer will maintain its current capitalization over the coming 12-24 months, supported by its prudent risk asset growth, relatively stable operating performance, and reasonable recurring yield.

In addition, the negative outlook reflects our view of Farglory Life's heightened foreign exchange risk exposure, which could result in increased volatility for the insurer's capital and earnings. This is despite the insurer is likely to proactively manage its foreign exchange risk exposure and increase its hedge ratio as appropriate. We expect the insurer to maintain its domestic market position and strength--particularly in health and medical products--over the next one to two years.

Downward scenario

We may lower the ratings if Farglory Life's capitalization weakens as a result of unexpected market volatility or valuation losses on its investment portfolio. We may also lower the ratings 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 comfortably sustain its overall financial risk profile. This could be identified by our assessment of the insurer's good capital strength, through either material capital injections, profitable growth, or lower risky asset growth, relative to its risk profile. At the same time, the insurer would need to adequately control its risk exposures over the next one to two years.

Related Criteria & Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Group Rating Methodology - July 01, 2019
- 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: Methodology For National And Regional Scale Credit Ratings - June 25, 2018

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Farglory Life Insurance

Issuer Credit Rating	twA+/Negative
Financial Strength Rating	twA+/Negative

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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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