

Media Release:

Nan Shan Life 'twAA' Ratings Affirmed Despite Weakened Capitalization; Outlook Remains Negative

November 26, 2020

Overview

- Nan Shan Life's capitalization has weakened due to slower capital accumulation.
- We are therefore lowering our assessment of Nan Shan Life's capital and earnings to satisfactory from strong and at the same time lowered the insurer's financial risk profile to fair from satisfactory. However, we believe Nan Shan Life's overall creditworthiness remains comparable to that of its similarly rated peers, given its very strong competitive position and resilient distribution force.
- We are affirming the 'twAA' long-term issuer credit rating and financial strength rating on Nan Shan Life and its subsidiary Nan Shan General.
- The negative outlook reflects the industrywide challenges to maintain stable financial strength over the next one to two years. The difficulties come from the prolonged low interest rate environment and high uncertainty about the evolution of the coronavirus pandemic, which could result in capital market shocks in the coming quarters.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term issuer credit ratings and financial strength ratings on Nan Shan Life Insurance Co. Ltd. and Nan Shan General Insurance Co. Ltd. The outlook on the ratings remains negative.

Rationale

We believe the prolonged low interest rate condition has unfavorably affected Nan Shan Life's ability to accumulate total adjusted capital. As a result, the insurer's capital and earnings have weakened under slower growth of business value generation, dimmer earnings prospects, and lower investment performance during capital market volatility. This is despite Nan Shan Life's business plan requiring less capital than its historical average due to slower business growth on the back of regulatory driven product reform to control the expansion of savings products. We therefore lowered our assessment of the financial risk profile.

In our view, Nan Shan Life's investment risk exposure will remain moderately high over the coming one to two years, mainly reflecting the insurer's above-average foreign exchange risk. This could expose Nan Shan Life to balance sheet volatility over the next one to two years. At the same time, the insurer's weakened capital base increases its vulnerability toward

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unexpected financial market volatilities, especially as the pandemic evolves making it difficult for the industry to maintain stable financial strength. We believe Nan Shan Life's ratio of high-risk assets over total adjusted capital has increased in 2019 and 2020, approaching the average of other similar size peers.

Despite the weaker financial risk profile, we continue to assess Nan Shan Life's competitive position as very strong, with a resilient distribution network and well-established market presence. These factors underpin the insurer's overall creditworthiness, and are comparable with other similarly rated peers, primarily those in Taiwan. Hence, we determine the anchor at 'bbb+'. Our rating on Nan Shan Life continues to reflect our assessment of the insurer's strong business position as one of the top three players by total assets in Taiwan's life insurance sector. The insurer's well-established scale has helped attract good talent to its agent force, which along with tight relationships with alliance banks, underpins the resilience in its distribution network.

Our rating on Nan Shan General Insurance reflects its highly strategic status as a subsidiary of Nan Shan Life. The rating on the general insurer therefore moves in tandem with that on its parent.

Outlook

The negative outlook mainly reflects the industrywide challenges to maintaining stable financial strength over the next one to two years. A prolonged low interest rate environment and high uncertainty about the coronavirus pandemic could result in capital market shocks in the coming quarters. We expect Nan Shan Life to be able to maintain its top three market position and competitive strength in the local distribution channels.

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 our rating if Nan Shan Life makes aggressive investment allocations, its asset liability mismatch deteriorates, or the insurer reports significant unexpected losses. We may also lower the rating if we consider Nan Shan Life's overall franchise to have weakened or its competitive strength to have significantly declined.

Upward scenario

We may revise the outlook on Nan Shan Life back to stable if Nan Shan Life's capital buffer stabilizes sufficiently to sustain our assessment of the insurer's financial risk profile. This would 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

| | To | From |
|----------------------------------|----------------------|----------------------|
| Financial strength rating | twAA | twAA |
| Business Risk Profile | Strong | Strong |
| IICRA | Moderately high risk | Moderately high risk |
| Competitive position | Very strong | Very strong |
| Financial Risk Profile | Fair | Satisfactory |
| Capital and earnings | Satisfactory | Strong |
| Risk exposure | Moderately high | Moderately high |
| Funding structure | Neutral | Neutral |
| Modifiers | | |
| Governance | Neutral | Neutral |
| Liquidity | Exceptional | Exceptional |

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria & Research

Related Criteria

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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020
(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

Nan Shan Life Insurance Co. Ltd.

| | |
|---------------------------|---------------|
| Issuer Credit Rating | twAA/Negative |
| Financial Strength Rating | twAA/Negative |

Nan Shan General Insurance Co. Ltd.

| | |
|---------------------------|---------------|
| Issuer Credit Rating | twAA/Negative |
| Financial Strength Rating | twAA/Negative |

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