

Media Release:

Outlook On Cathay Group Units Revised To Stable From Negative On Restored Capital; Ratings Affirmed

March 24, 2021

Overview

- Taiwan-based Cathay Life has restored its capital and reduced downward rating pressure over the past year through proactive asset liability management, effective market risk control, and the support of buoyant equity markets. We view Cathay Life as the flagship company of the Cathay FHC group.
- We are revising the rating outlook on Cathay Life to stable from negative and affirming the issuer credit rating and financial strength rating on the insurer. At the same time, we are taking similar outlook action on our ratings on Cathay Securities, Cathay Century, and Cathay FHC, and affirming the ratings on the companies.
- We are also affirming our ratings on Cathay United Bank with a stable outlook, given our view of the bank's core status to the group. In addition, we affirmed the issue credit ratings on the bank's various debts.
- The stable outlook on the core units reflects our expectation that Cathay Life's improved capital is likely to sustain under the insurer's proactive risk management and the company's reduced capital consumption as it slows asset growth.

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Rating Action

On, March 24, 2021, Taiwan Ratings Corp. revised its rating outlook on **Cathay Life Insurance Co. Ltd.**, **Cathay Financial Holding Co. Ltd.** (Cathay FHC), **Cathay Century Insurance Co. Ltd.**, and **Cathay Securities Corp.** to stable from negative. At the same time, we affirmed our various ratings on the companies (see ratings list). We also affirmed our ratings on **Cathay United Bank Co. Ltd.** (CUB) with a stable outlook and affirmed the issue credit ratings on the bank's debt instruments.

Rationale

The outlook revision on most of the Cathay FHC group entities reflects our view that the group's flagship unit, Cathay Life, could sustain its restored capital and earnings over the next two years. We believe Cathay Life's proactive asset liability management risk and moderating asset growth will provide the insurer with a buffer against market volatility over the same horizon. The group credit profile reflects the stand-alone credit profile of Cathay Life, given the insurer's dominant contribution to the group's proforma assets and net income.

We expect Cathay Life's capital and earnings to remain satisfactory for the next two years despite the unpredictable market. The insurer's proactive asset liability risk management should help underpin its satisfactory financial risk profile. Cathay Life's ability to de-risk its investment portfolio in a timely manner, return good accumulated profits, and consistently reduce liability cost are evidence of an effective asset-liability management mechanism, in our view. This supports our view of relatively stable and satisfactory capital and earnings over the next two years. Cathay Life's proactive capital policy and slowing asset growth amid slowing premium growth also support this view.

Stronger full year profits and a recovery in the value of equity stock exposure have restored Cathay Life's capital adequacy from the trough in early 2020. The buoyant domestic equity market in the second half of 2020 and a subsequent recovery in the insurer's investment portfolio helped restore Cathay Life's capital adequacy and reduce downward pressure on capital and earnings. At the same time, Cathay Life's accumulated after-tax profits reached a historical high of new Taiwan dollar (NT\$) 52.7 billion in 2020, up 38% year on year. We expect the company to retain these profits to underpin its capitalization. Nonetheless, we do not believe this reduced capital pressure represents a fundamental improvement in the insurer's earnings prospects. Cathay Life's earnings remain highly sensitive to capital market fluctuations and a low interest rate environment.

Local life insurers continue to face a challenging market with early signs of recovery. Taiwan-based life insurers face higher earnings sensitivity to global market conditions than their regional peers. This stems from the relatively higher equity exposure and weighting on overseas investments of Taiwan life insurers. We expect earnings recovery will remain rough and uncertain for insurers in the region; however, we believe the impact of the Covid-19 pandemic has so far been manageable for Taiwan life insurers. That's because of insurers' proactive risk management and the minimal decline in domestic economic activity. With the widespread launch of vaccine programs, the global economy shows some signs of recovery, despite lingering high uncertainty.

Our assessment of the Cathay FHC group credit profile continues to reflect the group's solid franchise and sustainable top-ranking market positions in Taiwan's financial services industry. In addition, the group's consolidated profile reflects that of Cathay Life given the insurer represents the majority of the group's total assets and shareholders' equity.

Outlook

Cathay Life Insurance Co. Ltd., Cathay Financial Holding Co. Ltd., Cathay Century Insurance Co. Ltd., and Cathay Securities Corp.

The stable outlook reflects our expectation that Cathay Life could sustain its restored capital under the insurer's proactive asset liability management and a likely reduction in capital consumption along with slower growth in invested assets.

The outlook on the various Cathay FHC group members mirrors the trend of the stand-alone credit profile for Cathay Life. We expect the life insurer to remain the group's flagship entity and we believe Cathay Life will dominate the group credit profile over the next few years. We also expect the group to maintain prudent capital management including a supportive dividend policy for Cathay Life.

Downward scenario

We could lower the long-term ratings on Cathay FHC, Cathay Life, Cathay Century, and Cathay Securities if the group credit profile weakens due to weakening in Cathay Life's credit profile.

This could happen if:

- Cathay Life's capital deficiency weakens significantly due to: (1) unexpected financial market volatility with sizable and unrecoverable losses on the insurer's investment portfolio, (2) overly aggressive business growth, or (3) significantly slower growth of value in-force than in our current forecast; or
- Effectiveness of Cathay Life's hedging mechanism materially weakens or its hedging policies become more aggressive, resulting in higher foreign exchange risks that could negatively affect the insurer's capitalization.

Upward scenario

We view the likelihood of an upgrade as remote over the next two years. Such action would require a significant increase in capital to raise our assessment of Cathay Life's capital and earnings to strong from satisfactory at present. This would also have to be accompanied by the insurer's superior earnings resilience compared with its peers' and stable credit profiles for the other core group entities.

Cathay United Bank Co. Ltd.

The stable outlook reflects the likelihood that CUB's strong capitalization, satisfactory risk controls, and implicit group support will continue to sustain the bank's credit profile over the coming two years. We expect CUB to remain a core member of the Cathay FHC group, given the bank's material representation and contribution to the group's overall credit strength. As a core group member, the ratings on CUB will move in tandem with the overall group credit profile under most circumstances. We would expect our credit rating on CUB to remain unchanged if the group credit profile only deteriorates by one notch. That's because the bank rating would benefit from a degree of implicit government support, given the bank's moderate systemic importance in Taiwan's banking sector.

Downward scenario

We would lower the long-term issuer credit rating on CUB due to a combination of a weakened stand-alone credit profile for the bank as well as a weakened group credit profile, mainly because of deterioration in Cathay Life's credit profile. The potential factors that could trigger such deterioration would include significant weakening in Cathay Life's capital adequacy or hedging mechanism, or the weakening of CUB's capital and earnings.

Upward scenario

We view the likelihood of an upgrade as remote over the next two years.

Ratings Score Snapshot

For Cathay Life Insurance Co. Ltd.

Business Risk Profile:	Strong
Competitive position:	Very strong
IICRA:	Moderately high
Financial Risk Profile:	Satisfactory
Capital and earnings:	Satisfactory
Risk exposure:	Moderately low
Funding structure:	Neutral

Modifiers

Governance:	Neutral
Liquidity:	Adequate
Financial Strength Rating:	twAA+

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment 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
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- 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: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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; Outlook Action

	To	From
Cathay Life Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Stable/--	twAA+/Negative/--
Financial Strength Rating	twAA+/Stable/--	twAA+/Negative/--
Cathay Financial Holding Co. Ltd.		
Issuer Credit Rating	twAA/Stable/twA-1+	twAA/Negative/twA-1+
Cathay Century Insurance Co. Ltd.		
Issuer Credit Rating	twAA+/Stable/--	twAA+/Negative/--
Financial Strength Rating	twAA+/Stable/--	twAA+/Negative/--
Cathay Securities Corp.		
Issuer Credit Rating	twAA-/Stable/twA-1+	twAA-/Negative/twA-1+
Cathay United Bank Co. Ltd.		
Issuer Credit Rating	twAA+/Stable/twA-1+	
Unsecured Subordinated Debenture Issue Credit Rating	twAA	
Unsecured Subordinated Debenture Issue Credit Rating	twAA-	
Unsecured Subordinated Debenture Issue Credit Rating	twA	

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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