

Media Release:

# Outlook On Nan Shan Life And Nan Shan General Revised To Stable On Increased Capital Cushion; Ratings Affirmed

March 24, 2021

## Overview

- Nan Shan Life Insurance Co. Ltd.'s good investment performance in the second half of 2020 amid a buoyant equity market has increased its capital cushion. This, coupled with the Taiwan-based life insurer's sustained risk control and capital policy, has reduced pressure on its financial risk profile, in our view.
- We are revising the rating outlook on Nan Shan Life and its highly strategic subsidiary, Nan Shan General Insurance Co. Ltd., to stable from negative.
- We are also affirming the issuer credit rating and financial strength rating on the insurers at 'twAA'.
- The stable outlook reflects our view that Nan Shan Life should be able to withstand potential market volatility over the next 12-24 months. The insurer's added capital cushion and likely lower capital requirement amid moderating investment growth should support its credit profile.

## Rating Action

On March 24, 2021, Taiwan Ratings revised its rating outlook on Taiwan-based **Nan Shan Life Insurance Co. Ltd.** and **Nan Shan General Insurance Co. Ltd.** to stable from negative. At the same time, we affirmed our long-term issuer credit rating and financial strength rating on the companies at 'twAA'.

## Rationale

The outlook revision reflects our view that Nan Shan Life's moderating asset growth and increased capital buffer should help it maintain its creditworthiness over the next two years despite market uncertainties.

*Nan Shan Life's capital buffer should help the insurer absorb potential balance sheet volatility in the next two years.* Equity market buoyancy in the second half of 2020 has increased the insurer's capital buffer. As with most life insurers, Nan Shan Life's business growth is likely to be slower over the next two years on the back of regulator-driven reforms to control the

### PRIMARY CREDIT ANALYST

**Serene Hsieh, FRM, CPA**  
Taipei  
+886-2-2175-6820  
serene.hsieh  
@spglobal.com  
serene.hsieh  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Patty Wang**  
Taipei  
+886-2-2175-6823  
patty.wang  
@spglobal.com  
patty.wang  
@taiwanratings.com.tw

## Media Release: Outlook On Nan Shan Life And Nan Shan General Revised To Stable On Increased Capital Cushion; Ratings Affirmed

expansion of savings products. We believe Nan Shan Life will require less capital than its historical average to support this growth.

We do not see any fundamental improvement in earnings prospects for Nan Shan Life or the wider life insurance sector in Taiwan. This reflects continuous earning constraints from high sensitivity to capital market fluctuations and low interest rates.

Nan Shan Life's investment risk exposure remains moderately high, mainly reflecting above-average foreign exchange risk. This could expose the insurer to potential balance-sheet volatility over the next one to two years.

***The currently tough operating conditions for Taiwan's life insurers are showing signs of recovery.*** These insurers remain more sensitive to global market conditions compared to regional peers do owing to their elevated equity exposure and higher weightage on overseas investments. We view the path to recovery for many economies as rough and uncertain.

However, the impact and costs related to COVID-19 have so far been manageable due to a well-managed spread of the pandemic and minimum decline in economic activity locally. With the launch of COVID-19 vaccines, the global market has also shown some signs of recovery.

***Ratings strengths remain for Nan Shan Life, Nan Shan General.*** Our ratings on Nan Shan Life continue to reflect the insurer's strong business position as one of the top three players by total assets in Taiwan's life insurance sector. Nan Shan Life's well-established scale has helped it to attract good talent to its agent force. The insurer also has tight relationships with alliance banks, underpinning the resilience of its distribution network. These strengths are tempered by Nan Shan Life's above-average exposure to foreign exchange risk compared with local peers' and modest capital adequacy, which is common among Taiwan-based life insurers.

Our ratings on Nan Shan General reflect the insurer's highly strategic status to Nan Shan Life. The ratings on the general insurer therefore move in tandem with those of its parent.

## Outlook

The stable outlook on Nan Shan Life reflects our view that the insurer's increased capital buffer is likely to help it weather potential market volatilities in the next two years. We believe Nan Shan Life's operations will remain independent of its two main shareholders--Taiwan-based Ruentex and Pou Chen Corp. groups--under Taiwan's regulatory framework for financial service sectors. The outlook on Nan Shan General reflects that on Nan Shan Life.

### Downward scenario

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

### Upward scenario

We may raise the ratings on Nan Shan Life and Nan Shan General if the life insurer's financial strength substantially strengthens via capital improvement or if it reduces risk exposure to an industry average level. This would also have to be accompanied by Nan Shan Life's prudent

## Media Release: Outlook On Nan Shan Life And Nan Shan General Revised To Stable On Increased Capital Cushion; Ratings Affirmed

risk management, resilient business distribution, and ability to maintain operating performance in line with at least the industry average.

### Ratings Score Snapshot

#### For Nan Shan Life Insurance Co. Ltd.

Financial strength rating	twAA
Business risk	Strong
IICRA	Moderately high risk
Competitive position	Very strong
Financial risk	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
IICRA--Insurance Industry And Country Risk Assessment.	

### Related Criteria & Research

#### Related Criteria

- 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
- 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](http://www.taiwanratings.com))

### Ratings List

#### Ratings Affirmed; Outlook Action

	To	From
<b>Nan Shan Life Insurance Co. Ltd.</b>		
Issuer Credit Rating	twAA/Stable/--	twAA/Negative/--
Insurer Financial Strength Rating	twAA/Stable/--	twAA/Negative/--
<b>Nan Shan General Insurance Co. Ltd.</b>		
Issuer Credit Rating	twAA/Stable/--	twAA/Negative/--
Insurer Financial Strength Rating	twAA/Stable/--	twAA/Negative/--

## Media Release: Outlook On Nan Shan Life And Nan Shan General Revised To Stable On Increased Capital Cushion; Ratings Affirmed

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).

Copyright © by Taiwan Ratings Corp. All rights reserved.

## Media Release: Outlook On Nan Shan Life And Nan Shan General Revised To Stable On Increased Capital Cushion; Ratings Affirmed

Copyright © 2021 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, [www.taiwanratings.com](http://www.taiwanratings.com) (free of charge), and [rs.taiwanratings.com.tw](http://rs.taiwanratings.com.tw) (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.