

Media Release:

Farglory Life 'twA+' Ratings Affirmed; Outlook Negative On Still-Limited Capital Buffer

March 25, 2021

Overview

- Farglory Life's capital buffer remains thin under the insurer's high risk asset growth.
- We are affirming our 'twA+' issuer credit rating and financial strength rating on Farglory Life.
- The outlook on the long-term ratings remains negative.

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 long-term ratings remains negative.

Rationale

We expect Farglory Life's capital buffer to remain thin over the next two years to combat potential market volatility and protracted low interest rates. The insurer's capital adequacy is likely to remain satisfactory over the coming one to two years, similar to the level at the end of 2019. However, notably, we estimate the insurer's capitalization has weakened as of the end of 2020 due to very high market risk growth, mainly driven by Farglory Life's expanded equity investment portfolio. The company reported better profits than we expected in 2020 and its capital base expanded through the revaluation recovery of its equity exposure. Nonetheless, the growth of its capital in 2020 is lower growth in risk assets during the year. We believe an unexpected market decline or further high investment risk asset growth by Farglory Life could weaken the insurer's capital and earnings over the next one to two years.

Heightened foreign exchange risk exposure contributes to potential volatility in its capital and earnings. 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 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 potentially weaken Farglory Life's capital and earnings over the next few quarters.

PRIMARY CREDIT ANALYST

Yuhan Lan
Taipei
+886-2-2175-6810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

SECONDARY CONTACT

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

Outlook

The negative outlook reflects our view that Farglory Life has only a thin capital buffer to absorb potential market volatility, given the rise in market risks over the past one year. The insurer's overall credit profile could weaken if its capital buffer shrinks further. This is despite our base case view that Farglory Life will stabilize its capitalization over the coming 12-24 months, supported by lower risk asset growth, good profitability contributed by a reasonable recurring yield, and satisfactory investment return.

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 our view that the insurer is likely to proactively manage its foreign exchange risk exposure and increase its hedge ratio as appropriate.

Downward scenario

We may lower the ratings if Farglory Life's capital and earnings weakens. This could result from capital adequacy deterioration as a result of unexpected market volatility. Capital and earnings deterioration could also result from a material increase in risk assets or reduced risk control over the insurer's foreign exchange risks.

Upward scenario

We may revise the outlook back to stable if Farglory Life can comfortably sustain its overall financial risk profile as represented by our assessment of the insurer's good capital strength relative to its risk profile over the next one to two years. This could occur through either material capital injections, profitable growth, or lower risky asset growth. At the same time, the insurer would need to adequately control its risk exposures.

Ratings Score Snapshot

Business Risk Profile	Fair
IICRA	Moderately high
Competitive position	Satisfactory
Financial Risk Profile	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Financial Strength Rating	twA+

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)

Ratings List

Ratings Affirmed; Outlook

Farglory Life Insurance Co. Ltd.

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.

Copyright © by Taiwan Ratings Corp. All rights reserved.

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 (free of charge), and 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.