

Research Update:

# Taiwan Life Insurance Co. Ltd. 'twAA' Ratings Affirmed On Restored Capital Adequacy; Outlook Stable

March 29, 2021

## Overview

- Taiwan Life's capital adequacy has restored to its earlier high with the support of good risk controls, a prudent capital policy, and a buoyant equity market.
- We believe this improvement has helped stabilize Taiwan Life's stand-alone credit profile.
- We are affirming our 'twAA' long-term issuer credit rating and financial strength rating on Taiwan Life.
- The outlook on the long-term ratings remains stable to reflect our view that Taiwan Life's parent, CTBC FHC group, will not change the insurer's key risk characteristics over the next one to two years.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term issuer credit rating and financial strength rating on **Taiwan Life Insurance Co. Ltd.** The outlook on the long-term ratings remains stable.

## Rationale

**Taiwan Life will likely sustain its restored capital and earnings over the next two years despite ongoing market uncertainty and low interest rates.** We expect the insurer's prudent capital policies and reasonable operating performance to sustain its overall financial risk profile over the period.

Taiwan Life's stronger profit than we expected for 2020 and improved valuation of the insurer's equity market exposure provided additional capital, although the risk-adjusted capitalization remains largely unchanged year on year. Nonetheless, this does not imply Taiwan Life has fundamentally improved its earnings prospect despite the now reduced capital pressure, in our view. Taiwan's life insurance sector faces consistent earnings constraints due to high sensitivity to capital market fluctuations as well as low-for-longer interest rates.

We expect Taiwan Life's overall risk controls to mitigate its higher-than-average foreign exchange risk exposure as a proportion of total assets without materially weakening the insurer's capital strength over the next one to two years. We believe Taiwan Life's capital buffer is now capable of absorbing potential foreign exchange losses. We also remain

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confident that the parent, **CTBC Financial Holding Co. Ltd.** (CTBC FHC) group, has the commitment and capacity to maintain Taiwan Life's capital strength during times of financial stress.

**We continue to view Taiwan's life insurance market as challenging for local insurers, although conditions have lightened somewhat amid signs of economic recovery at home and abroad.** Taiwan's life insurers have higher equity exposure and higher weighting on overseas investments than their regional peers'. This makes Taiwan life insurers more sensitive to changes in the global economy.

We expect a rough and uncertain path to recovery for many economies; however, the impact and cost related to the pandemic have so far been manageable for most Taiwan life insurers, including Taiwan Life. That's because the Taiwan government's prompt management of the pandemic has minimized the potential decline in the domestic economy and insurer earnings. With the launch of global vaccine programs, the macro economy shows signs of recovery despite still-high uncertainty over the duration of the pandemic.

**Taiwan Life remains a core member of the parent group.** In our view, Taiwan Life's operations are highly consistent with CTBC FHC group's franchise, and the insurer supports the realization of group strategies. We believe this brings the insurer a high level of implicit support from the parent group under all circumstances.

## Outlook

The stable outlook reflects our expectation that Taiwan Life will remain a core member of CTBC FHC group. The ratings on the insurer will therefore move in tandem with the direction of the group credit profile. We also expect Taiwan Life to maintain its current market position with stable earnings over the next two years.

### Downward scenario

We may lower the ratings on Taiwan Life if we lower our assessment of the group credit profile, which could happen if the group and its subsidiaries pursue high growth without adequate capital planning or a risk management mechanism to manage such growth. These factors could result in a weaker risk position or capitalization for the group's banking unit, CTBC Bank, and resultantly the group over the coming two years.

### Upward scenario

We believe an upgrade of Taiwan Life is remote over the next one to two years. However, we could raise the ratings on the insurer if we assess the group stand-alone credit profile has improved. This could occur if the group maintains solid capitalization via a prudent business strategy and good earnings retention over the coming one to two years.

## 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

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## Ratings List

### Ratings Affirmed

#### Taiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAA/Stable
Financial Strength Rating	twAA/Stable

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).

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