

Media Release:

Ratings On Fubon Financial Holding Co. Ltd. And Fubon Life Insurance Co. Ltd. Affirmed; Outlook Stable

October 25, 2021

Overview

- Fubon Life's credit profile remains solid supported by its stable market position, strong profits, sustainable capitalization, and controlled risk exposures.
- We now assess the insurer's liquidity as exceptional given its increase in liquid assets and slower growth of insurance liabilities.
- The ratings on Fubon Life continue to drive the Fubon FHC group credit profile.
- We are affirming our ratings on Fubon FHC and its subsidiary Fubon Life.
- The outlook on the ratings is stable.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Taiwan-based Fubon Financial Holding Co. Ltd. (Fubon FHC). At the same time, we affirmed the 'twAA+' long term issuer credit rating and financial strength rating on Fubon Life Insurance Co. Ltd., which is Fubon FHC's life insurance subsidiary. The outlook on the long-term ratings is stable.

Rationale

The ratings on Fubon Life continue to reflect the insurer's better earnings resilience and good domestic market position compared with other life insurers domestically. However, we assess Fubon Life's capitalization to be only fair, which although in line with the local peer average, is slightly weaker than that of its international peers. This is despite our assessment of Fubon Life's capital and earnings as satisfactory after considering the insurer's track record on asset and liability risk control, as well as the managed market risk volatility of its domestic equity investments. Conversely, Fubon Life Insurance's investment leverage and foreign exchange risk exposure are comparatively higher than that of its regional peers, which makes the insurer susceptible to global capital market volatility.

We revised our liquidity assessment on Fubon Life to exceptional from adequate and believe the insurer will sustain its enhanced liquidity over the next one to two years. Fubon Life's liquidity ratio was already at the higher end of the adequate level in 2019. Liquidity improved

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

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

in 2020 because the increase in the insurer's liquid assets such as investment-grade bonds and equities was higher than the growth in policy liabilities. Liquidity is likely to remain exceptional given our forecast of stagnant growth of insurance liability in 2021 and 2022 while invested assets may grow in mid-single digits.

Our assessment of Fubon FHC's group credit profile largely reflects the stand-alone credit profile of its key and flagship subsidiary, Fubon Life. The insurer has accounted for about half of the group's net worth and profits on average over the past five years. The ratings on Fubon FHC also reflect the group's strong market position and diversified businesses in Taiwan's life and non-life insurance, bank, and securities sectors. The group has demonstrated better earnings resilience due to its greater diversification compared to other financial holding companies domestically. Counterbalancing these strengths is Fubon Life's modest capitalization level, which is a common feature among Taiwan-based life insurers.

The long-term issuer rating on Fubon FHC is one notch lower than the ratings on the group's core entities on a global rating scale, to reflect the holding company's structural subordination to the group's core entities. This compares favorably with generally a two to three notch gap between an insurance group holding company and its core units. The single notch difference reflects Fubon FHC's direct control over multiple material operating units such that non-insurance operations have contributed on average about 45% of the group's overall profits historically. We consider these operating entities as sufficiently diverse and independent, such that suspension of cash flows from any of them would not substantially weaken the holding company's financial position. We also acknowledge the limited regulatory restrictions on cash flows between group members and between operating units and holding companies in Taiwan.

Outlook

The stable outlook on Fubon FHC reflects our view that the group's flagship entity, Fubon Life, will continue to dominate and drive the overall group credit profile over the next two years. We also believe the group's core banking unit, Taipei Fubon Bank, will continue to contribute more than 25% of the group's operating income over the next two years.

The stable outlook on Fubon Life reflects our view that the insurer will be able to manage the impact of market volatility and current low interest rates on its capital and earnings over the coming two years. We also anticipate Fubon Life will fulfill additional capital requirements without materially weakening its capital and earnings. These requirements could include capital outlays to absorb volatility in the insurer's investment valuation, support overseas subsidiaries, or pursue organic asset growth. We believe Fubon Life can manage its foreign exchange risk exposure by proactively adjusting its hedging strategy, without tempering its capital adequacy.

Downside scenario

We could lower the long-term rating on Fubon FHC and Fubon Life if:

- Fubon Life's risk exposure heightens, which potentially leads to capital and earnings volatility. This could be due to the insurer's: (1) enlarged foreign exchange risk exposure, net of effective hedging; or (2) materially and consistently higher investment concentration in the financial sector than the local peer average, or
- The insurer's capital and earnings weaken to fair from satisfactory. This is likely if Fubon Life's expands its investment assets or increases exposure to market volatility more than our base-case assumption. This could also occur if the growth in Fubon Life's value of in-

force is materially lower than we had forecast, because value of in-force accounts for a large part of the group's total adjusted capital. Lastly, weakening of the capital and earnings assessment could occur if the insurer expands through mergers and acquisitions beyond our current expectation or if Fubon Life's operating performance drops below the domestic industry average.

Upside scenario

We could raise the long-term rating on Fubon FHC and Fubon Life if the insurer improves its capital strength sustainably over the coming two years. At the same time, the insurer's other credit risk aspects including competitive position and risk exposure would need to remain unchanged.

Related Criteria & Research

Related Criteria

- 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: Group Rating Methodology - July 01, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings Score Snapshot

Fubon 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	Exceptional
Financial Strength Rating	twAA+

IICRA--Insurance Industry And Country Risk Assessment. SACP--Stand-alone credit profile.

Ratings List

Ratings Affirmed

Fubon Financial Holding Co. Ltd.

Issuer Credit Rating	twAA/Stable/twA-1+
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Fubon Life Insurance Co. Ltd.

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