

Media Release:

Shin Kong FHC, Shin Kong Life Outlooks Revised To Stable From Negative On Sustained Financial Buffer; Ratings Affirmed

May 30, 2022

Overview

- Taiwan-based Shin Kong Life has maintained its financial buffer through proactive capital management and good business value generation, as well as reduced forex risk exposure.
- We view Shin Kong Life as the flagship unit of Shin Kong FHC group, and any changes in the insurer's credit profile will affect the overall group credit profile.
- We have revised our outlook on Shin Kong Life and Shin Kong FHC to stable from negative.
- At the same time, we affirmed our ratings on Shin Kong Life and Shin Kong FHC as well as our issue credit rating on the insurer's outstanding debentures.

Rating Action

Taiwan Ratings Corp. today revised its outlook on Taiwan-based **Shin Kong Life Insurance Co. Ltd.** and **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC) to stable from negative. At the same time, we affirmed our various ratings on the two entities as follows:

- The 'twAA-' long term issuer credit rating and financial strength rating on Shin Kong Life,
- The 'twA+' issue credit rating on the insurer's outstanding rated debt, and
- The 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Shin Kong FHC.

Rationale

Shin Kong Life has maintained its financial buffer through good business value generation and proactive capital management. Shin Kong Life's capital adequacy improved slightly in 2021 following a capital injection and strong growth of value of in-force. The insurer's stronger capital growth has outweighed the capital requirement from its balance sheet, and we expect this improved capital adequacy to sustain during 2022-2023. Shin Kong Life's value of in-force grew by 21% in 2021 due to improved investment returns and a steadily enhanced contract service margin. These factors could help offset most of the capital risks that could come from the insurer's below-average earnings generation.

Foreign exchange (forex) risk exposure has improved and is more manageable relative to the insurer's overall financial risk profile. Shin Kong Life has reduced its forex risk exposure over the past few months to a level that is more comparable to the domestic average for life insurers. The insurer achieved this by increasing the hedged ratio of its currency mismatch exposure. We consider Shin Kong Life has adequate forex risk control in place to maintain a relatively stable

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hedged position. We also view the additional capital earnings risk from its forex risk to be manageable over the next one to two years.

Earnings are likely to remain below average and sensitive to capital market volatility, similar with other life insurers. Shin Kong Life's after-tax return on average assets was 0.4% in 2021, which was a slight improvement from 0.2% in 2020 amid better investment returns. However, we forecast Shin Kong Life's earnings result for 2022 to be lower than for 2021, which is similar to the downward trend for other peers. This largely reflects the likelihood of lower capital gains. We view the insurer's financial buffer is likely to be temporarily reduced in 2022. However, the insurer's steady albeit below-average earnings are likely to sustain its financial buffer over the next one to two years.

Shin Kong Life has maintained a solid business profile. We believe Shin Kong Life will maintain a strong competitive position through its well-established brand and satisfactory domestic market share for its major products. The good sales contribution from Shin Kong Life's agent force supports our assessment. We continue to view Shin Kong Life as the flagship company of the Shin Kong FHC group.

We affirmed the ratings on Shin Kong FHC to reflect the stabilized financial profile of Shin Kong Life as well as the improved stand-alone credit profile of the group's banking arm, **Taiwan Shin Kong Commercial Bank Co. Ltd.** We view the insurer and bank as core entities under the financial holding company. The long-term rating on Shin Kong FHC is one notch lower than our rating on the two core entities, to reflect the holding company's structural subordination to these entities.

Outlook

The stable rating outlook reflects our view of Shin Kong Life as a core subsidiary of the Shin Kong FHC group, and our belief that the group will maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector over the next one to two years.

The outlook also reflects our belief that Shin Kong Life will maintain its stable credit profile over the same period, underpinned by the insurer's large scale and high controlled distribution channels in Taiwan, as well as the group's proactive capital management.

Downward scenario

We may lower the ratings on Shin Kong Life and Shin Kong FHC if the group credit profile deteriorates significantly from our base case assumptions, which could happen if:

- Risk management significantly weakens at the group level and at Shin Kong Life beyond our previous assumption, particularly on forex risk exposure or investment-risk concentration.
- Shin Kong Life's capital adequacy deteriorates to our assessment of weak due to unexpected market volatility, poor earnings, or slower value of in-force growth, or
- The group's competitive position and management capability weaken sharply because of damage to its franchise or deterioration in the market share of Shin Kong Life's key product lines.

Upward scenario

We believe an upgrade to be remote over the next one to two years and would involve Shin Kong Life improving its capital adequacy to a satisfactory level through a substantial increase in capital.

Rating Score Snapshot

Shin Kong Life Insurance Co. Ltd.

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

IICRA – Insurance industry country risk analysis.

Related Criteria & Research

Related Criteria

- TRC Financial Services Issue Credit Rating Criteria - July 31, 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: Group Rating Methodology - July 01, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

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
Shin Kong Life Insurance Co. Ltd.		
Issuer Credit Rating	twAA-/Stable/--	twAA-/Negative/--
Financial Strength Rating	twAA-/Stable/--	twAA-/Negative/--
Issue Credit Rating	twA+	twA+
Shin Kong Financial Holding Co. Ltd.		
Issuer Credit Rating	twA+/Stable/twA-1	twA+/Negative/twA-1

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