

Media Release:

Fubon Insurance Co. Ltd. 'twAA+' Ratings Affirmed On Core Group Status; Outlook Stable

June 15, 2022

Overview

- The ratings on Taiwan-domiciled property and casualty insurer **Fubon Insurance Co. Ltd.** reflect the insurer's core status to the wider Fubon FHC group. The ratings are equivalent to the group credit profile to reflect Fubon Insurance's obligation to provide resources to weaker group members under the group's highly integrated structure.
- Nonetheless, surging claims from COVID-19 related insurance products increase the risks against the insurer maintaining its very strong capital buffer.
- We affirmed the 'twAA+' long-term local currency financial strength and issuer credit ratings on Fubon Insurance.
- The outlook on the ratings is stable and follows the trend of the group's consolidated credit profile.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term financial strength and issuer credit ratings on Fubon Insurance. The outlook on the ratings is stable.

Rationale

Fubon Insurance remains a core entity of the wider Fubon FHC group. The rating affirmation reflects our view that a recent surge in claims from pandemic-related insurance policies is unlikely to weaken the integrated link between Fubon Insurance and the parent **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group. We consider the potential claim amount is absorbable relative to the overall group credit profile. We continue to view Fubon Insurance as a core member of Fubon FHC group and the ratings and outlook reflect our view of the overall group credit profile.

We acknowledge the growing risks for Fubon Insurance to preserve its very strong capital buffer over the next one to two years. The magnitude of potential pandemic claims is likely to deplete the insurer's capital generation in 2022, leaving a slimmer capital buffer for Fubon Insurance's ongoing business and investment activities. In our view, the company has an above-average growth appetite and more aggressive investment activities than most local property and casualty insurance peers. We consider the parent is likely to provide capital support according to any proposed capital scheme by Fubon Insurance; however, we have not received concrete information in this regard. The insurer's regulatory capital ratio remains

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above 300% as of May 2022, with sufficient buffer above the minimum regulatory capital requirement.

The liquidity impact from surging pandemic claims is likely to be manageable. We assess Fubon Insurance as having sufficient operating cash flow to cover potential claims from its pandemic-related insurance products. The insurer is not under pressure to liquidate its investments to fulfill the liquidity demand from rising claims.

The ratings on Fubon Insurance continue to reflect the insurer's obligation to support weaker members of Fubon FHC group, which weighs on the insurer's credit profile. Fubon Insurance has a very strong market position with a leading market share and a strong franchise in the local property and casualty market, as well as good operating performance. However, the insurer has above-average exposure to high-risk assets including property and equities compared with its peers'.

Outlook

The stable rating outlook reflects our view that Fubon Insurance will remain an integral part of the wider Fubon FHC group and could be called on by the group to provide resources to weaker group members under the integrated group structure. As a core group entity, the ratings on Fubon Insurance will move in tandem with the group's consolidated credit profile.

The outlook also reflects our view that the group's flagship entity, **Fubon Life Insurance Co. Ltd.**, will be able to manage the negative impact on the insurer's capital and earnings from market volatility and low interest rates.

Downward scenario

We may lower the ratings on Fubon Insurance if the group credit profile weakens. Such weakening may occur if:

- Fubon Life's risk exposure heightens and 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 life insurer's capital and earnings weaken to fair from satisfactory currently. This is likely if Fubon Life expands its investment assets or increases its exposure to market volatility beyond our base case assumption. This could also occur if the growth in Fubon Life's value of in-force is materially lower than we currently 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 result from the life insurer expanding through mergers and acquisitions beyond our current expectation or the insurer's operating performance drops below the domestic industry average.

Upward scenario

We could raise the ratings on Fubon Insurance if Fubon Life improves its capital strength sustainably over the coming two years. At the same time, other aspects of the insurer's credit profile, including competitive position and risk exposure, remain unchanged.

Related Criteria & Research

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings Score Snapshot

Fubon Insurance Co. Ltd.

Business Risk Profile	Very strong
Competitive position	Very strong
IICRA	Intermediate
Financial Risk Profile	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Financial Strength Rating	twAA+

IICRA--Insurance Industry And Country Risk Assessment.

Ratings List

Ratings Affirmed

Fubon 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 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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