

Media Release:

Taishin Life Insurance Co. Ltd. Assigned 'twAA-' Ratings; Outlook Stable

October 14, 2022

Overview

- We view Taishin Life as a core member under Taiwan-based Taishin FHC group. As the group's second largest subsidiary, the insurer fits well in to the bancassurance strategy of the parent group with increasing integration and cross-selling.
- We believe the insurer will report strong business growth and will diversify its investments overseas over the next two years.
- We have assigned our 'twAA-' long-term insurer financial strength and issuer credit ratings on Taishin Life.
- The stable rating outlook reflects the credit trend of Taishin FHC group and our view that the group will provide support for Taishin Life in times of need, given the insurer's core group status.

Rating Action

Taiwan Ratings Corp. today assigned its 'twAA-' insurer financial strength and issuer credit ratings on Taiwan-based Taishin Life Insurance Co. Ltd. The outlook on the ratings is stable.

Rationale

The ratings on Taishin Life reflect the insurer's core status under the **Taishin Financial Holding Co. Ltd.** (Taishin FHC) group. The ratings also reflect the satisfactory asset quality of Taishin Life's fixed-income investments, as well as controlled foreign exchange risks. The company also benefits from exceptional liquidity and a high proportion of controlled distribution channels. While Taishin Life will strive for strong business growth over the coming two years, we foresee the group providing necessary support to underpin the insurer's growth plan as well as to manage its capitalization at a relatively stable level.

We believe that Taishin Life fits closely into Taishin FHC group's strength in wealth management segment. The company contributed about 10% of the group's consolidated assets and 9% of consolidated equity as of June 30, 2022. Taishin Life is the second largest entity by asset size in the group. We believe the life insurer will continue to register strong growth from interest-sensitive life insurance and investment-linked products. Although the profit contribution from Taishin Life is likely to remain limited during its business expansion stage, we see Taishin FHC as strongly committed to maintaining the insurer's financial strength. One indicator of this is the

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group's recent injection of new Taiwan dollar (NT\$) 5 billion of new capital to Taishin Life to support its fast growth trajectory.

Taishin Life's business risk profile is slightly below the domestic industry average. The insurer operates primarily in Taiwan's life insurance market, where we assess industry and country risk as moderately high. Structural weaknesses in asset and liability mismatch expose most life insurance companies in Taiwan to balance sheet volatilities. Meanwhile, persistently low interest rates strain insurers earnings and have resulted in an industry wide problem of negative spread wherein average policy costs outweigh average investment returns.

We view Taishin Life's competitive position as slightly below the industry average on a domestic level, mostly constrained by its small scale and below-average operating performance, given the higher expense ratio under its expansionary phase. The insurer's affiliate bank, **Taishin International Bank Co. Ltd.**, has satisfactory expertise in the bancassurance field and can assist Taishin Life by providing a stable business flow. This should help to offset the insurer's scale limitations going forward. In our view, Taishin Life benefits from a high level of control over its distribution channels mainly through cross-selling by group affiliates and its own tied agents, which we view as stable business sources with a satisfactory persistency ratio.

We assess Taishin Life's financial risk profile as fair and constrained by the insurer's below-average capital and earnings. Nonetheless, Taishin Life's investment portfolio is prudent with effective risk control, which helps to support a manageable investment risk profile. We anticipate Taishin Life's capital adequacy will weaken to a marginal level by 2024, compared with fair capital adequacy in 2021. This assessment takes into consideration the insurer's plan for strong business growth and increasing appetite for high-risk assets such as equities. In our base case scenario, Taishin Life will report over 20% growth of total premiums in 2022 following the introduction of investment-linked products as well as the continuous promotion of interest-sensitive life insurance products. The insurer's business growth will likely reduce to just over 10% from 2023 due to the higher base in 2022, but still clearly higher than its peers due to its expansionary phase. We see the industry's total premiums continuing on a downward trend in 2022, amid falling renewal premiums now that earlier hot-selling savings products have been paid in-full. However, we expect the decline in renewal premiums to ease in 2023.

Given Taishin Life seeks better investment yields, we believe the insurer will gradually shift its investments in Taiwan government bonds to overseas fixed-income securities, equity investments, and real estate. The strong premium growth and increased investment appetite will therefore weigh on Taishin Life's capitalization. We estimate the company's operating results are constrained by higher hedging costs on its foreign currency investments and potential new business strain amid rapid premium growth.

We forecast Taishin Life will report an average investment risk profile over the next one to two years, with adequate risk controls and average high-risk assets and foreign exchange risk exposure. While the company's stock investments only contribute 7%-8% of its total investment portfolio, this ratio could gradually increase by 1-2 percentage points. At the same time, the company's foreign exchange risk exposure is likely to increase slightly following its shift from domestic government bonds to overseas fixed-income securities. Compared with its domestic peers, Taishin Life has less financial institution sector concentration in its investment portfolio. We assess Taishin Life has an adequate funding structure with no outstanding debt.

Taishin Life's governance is a neutral factor to the ratings. We believe the insurer has appropriate strategic planning and comprehensive operational standards in place. Under the supervision of Taishin FHC, the insurer's risk management culture is prudent and benefits from the parent's adequate risk control in market risk and credit risk. Taishin Life has superior insurance risk control, as evidenced by its sustained level of satisfactory mortality and morbidity surplus.

Taishin Life's liquidity is exceptional on an ongoing basis and in moderately stressful market and economic conditions. We base this view on the strength of the insurer's available liquidity sources, supported by its good credit quality investments and adequate holdings of liquid assets. Taishin Life has no covenants or collateral posting risks due to its zero debt position.

Outlook

The stable rating outlook reflects our view that Taishin Life will remain a core entity under the Taishin FHC group. Therefore, our ratings on Taishin Life will move in tandem with the direction of the group credit profile. We forecast Taishin Life will report high growth in first year premiums by leveraging the group's bancassurance model over the coming two years. The group is likely to provide necessary support as Taishin Life expands under the group's bancassurance strategy.

We also believe Taishin Life's investment mix will see a structural change over the next few years with increasing overseas fixed-income securities and a gradual increase in equity stocks. The insurer will achieve this by lowering its inherent position in Taiwan government bonds. The insurer is also likely to adopt a prudent foreign exchange hedging mechanism for new money investments in overseas fixed-income securities. We also forecast the insurer's net foreign exchange exposure will not rise above the domestic average.

Downward scenario

We may lower the ratings on Taishin Life if Taishin International Bank fails to sustain strong capitalization due to aggressive business expansion, or if the bank incurs sizeable credit losses. A risk-adjusted capital ratio below 10% over the next one to two years would indicate such a decline in capitalization. We may also lower the rating on Taishin Life if Taishin International Bank's asset quality deteriorates significantly due to loosening credit risk controls or a heightened risk appetite. However, we believe both scenarios are unlikely over the next one to two years, given the group's prudent risk and capital management.

Upward scenario

We may raise our long-term rating on Taishin Life if Taishin International Bank can strengthen its capitalization with a risk-adjusted capital ratio sustainably above 15%, while maintaining adequate risk management and asset quality for the next one to two years. However, we view such improvement to be highly unlikely considering the group's business growth strategy over the same period.

Environmental, social, and governance

E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis of Taishin Life Insurance Co. Ltd.

Rating Score Snapshot

Taishin Life Insurance Co. Ltd.

Business Risk Profile	Fair
Competitive position	Satisfactory
IICRA	Moderately high
Financial Risk Profile	Fair
Capital and earnings	Fair
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.

ESG Credit Indicators: E-2, S-2, G-2

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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 – November 11, 2021

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

Ratings List

New Ratings; Outlook

Taishin Life Insurance Co. Ltd.

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

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