

Media Release:

# Fubon Insurance Faces Weakening Capitalization; 'twAA+' Ratings Affirmed On Core Group Status; Outlook Stable

October 27, 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 the insurer's obligation to resource support to weaker group members under the group's highly integrated structure.
- Fubon Insurance's capitalization has deteriorated amid substantial claim losses on its COVID-19 pandemic insurance policies and uncertainty over the scope and timing of the insurer's capital plans.
- We have affirmed our 'twAA+' long-term financial strength and issuer credit ratings on Fubon Insurance.
- The outlook on the ratings remains stable and follows the trend of the group's consolidated credit profile.

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## 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 the substantial number of 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 believe 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; therefore, the ratings and outlook reflect our view of the overall group credit profile.

*Rising claim losses have weakened Fubon Insurance's capitalization to strong from very strong and we see a low likelihood that the insurer can restore this over the next one to two years.*

Fubon Insurance registered cumulative net operating losses of new Taiwan dollar (NT\$) 16.9 billion for the first nine months in 2022, amid increasing claim losses on its pandemic-related insurance policies. At the same time, the insurer reported a negative valuation on investments booked through its shareholders' equity that was similar to the amount it reported in June 2022.

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In late August 2022, the parent Fubon FHC group injected capital of NT\$15 billion into the insurer; however, we believe this was not enough to restore Fubon Insurance's depleted capital level. We believe the parent is likely to provide further capital support to Fubon Insurance in times of need. That said, we have not incorporated any capital injection in our forecast for the insurer's capitalization due to the lack of a concrete timeline and amount of any proposed capital plan.

*The impact of surging pandemic claims on liquidity is likely to be manageable.* We assess Fubon Insurance has sufficient cash flow to cover potential claims from its pandemic-related insurance products. We also expect the insurer will execute proactive liquidity management to fulfill the liquidity needs arising from such 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.**, can manage the negative impact on its capital and earnings from market volatility.

### Downward scenario

We may lower the ratings on Fubon Insurance if we lower our assessment of the group credit profile. 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, a weaker capital and earnings assessment could result from the life insurer expanding through mergers and acquisitions beyond our current expectation or if 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, would need to remain unchanged.

## Rating Score Snapshot

### Fubon Insurance Co. Ltd.

	To	From
<b>Financial Strength Rating</b>	<b>twAA+</b>	<b>twAA+</b>
<b>Anchor</b>	<b>a+</b>	<b>aa-</b>
<b>Business risk</b>	<b>Very strong</b>	<b>Very strong</b>
IICRA	Intermediate	Intermediate
Competitive position	Very strong	Very strong
<b>Financial risk</b>	<b>Strong</b>	<b>Very strong</b>
Capital and earnings	Strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Stand-alone credit profile	a+	aa-
<b>Support</b>		
<b>Group support</b>	-2	-3
<b>Government support</b>	0	0

IICRA--Insurance Industry And Country Risk Assessment.

**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

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## Ratings List

### Ratings Affirmed

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#### Fubon Insurance Co. Ltd.

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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](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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