

Media Release:

Outlook On Shin Kong FHC And Key Group Units Revised To Negative On Shin Kong Life's High Earning Volatility; Ratings Affirmed

May 29, 2023

Overview

- Shin Kong Life Insurance Co. Ltd.'s earnings volatility remains high and its capital buffer has narrowed. The Taiwan-based life insurer's performance gap with the industry average has widened.
- We are revising our assessment of Shin Kong Life's stand-alone credit profile (SACP) from 'bbb+' to 'bbb', the same level as the group credit profile of Shin Kong Financial Holding Co. Ltd. (Shin Kong FHC) group. In our view, the SACP no longer benefits from a one notch favorable comparable rating analysis adjustment. We also see increased prospects of a deterioration in Shin Kong Life's SACP.
- We view Shin Kong Life as the flagship unit of Shin Kong FHC group. Any changes in the insurer's credit profile will affect the group credit profile. We are revising the outlook on our ratings on Shin Kong Life, Taiwan Shin Kong Commercial Bank, MasterLink Securities Corp., and Shin Kong FHC to negative from stable.
- We are affirming our issuer credit rating and insurer financial strength rating on Shin Kong Life, and the issuer credit ratings on Shin Kong FHC, Taiwan Shin Kong Commercial Bank, as well as MasterLink Securities. We are also affirming our issue credit ratings on the companies' outstanding rated debts.
- The negative outlook over the next 12-24 months reflects the risks associated with Shin Kong Life's above-average capital and earnings volatility, governance effectiveness, and sensitive funding structure.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on Taiwan-domiciled **Shin Kong Life Insurance Co. Ltd.**, **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC), **Taiwan Shin Kong Commercial Bank Co. Ltd.**, and **MasterLink Securities Corp.** to negative from stable. At the same time, we affirmed the following ratings on the entities:

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

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Rationale

Shin Kong Life's weak earnings has eroded its credit strength. The insurer reported an operating deficit in the first quarter of 2023, following a pretax operating loss in 2022. The performance is weaker than our expectation and has widened Shin Kong Life's performance gap with the industry average. In our view, Shin Kong Life's larger scale and longer operating history than similar rated peers does not offer sufficient credit strength to offset the impact of the weaker earnings.

Shin Kong Life's financial buffer will remain narrow. We believe the insurer's above-average earnings volatility has eaten into its financial buffer, of which EBIDTA is a key reference point. In our base case, Shin Kong Life will sustain its financial buffer by 2025, assuming steady albeit below-average earnings. However, the buffer will likely remain very thin and vulnerable to further earning volatility or additional financial obligations. Any unexpected earnings shock and slower growth in value of in-force could further narrow the insurer's capital buffer.

Shin Kong Life's funding structure measurements, such as fixed charges coverage or ratio of financial obligations to EBITDA, temporarily breached our levels for a neutral assessment in 2020 and 2022. Nonetheless, we believe the insurer will meet its financial obligations over the next two years, given the minimal debt outstanding relative to total assets.

Shin Kong Life's business strengths remain. We believe the insurer will sustain its strong competitive position **over the next one to two years.** This is thanks to its well-established brand and satisfactory market share in major products in the domestic market. The good sales contribution from Shin Kong Life's agent force supports our view.

Our opinion of Shin Kong Life's overall governance is underpinned by its adequate risk management and established management team. Meanwhile, a dispute over management rights of Shin Kong FHC group, if it prolongs, could put the effectiveness of governance to test.

We view the SACP of Shin Kong Life now equals to the overall group credit profile. In our view, Shin Kong Life remains the flagship of the Shin Kong FHC group. Therefore, the increased risk of the insurer's weakening financial strength will affect the group credit profile. It will also affect our ratings on Taiwan Shin Kong Commercial Bank, which we assess as a core group member, and Master Link Securities, which we assess as a highly strategic group member.

Outlook

The negative outlook on Shin Kong Life, Shin Kong FHC group and the key group units reflects our view that Shin Kong Life's weak and volatile earnings could hurt its financial strength over the next 12-24 months. This is given the thin buffer in Shin Kong Life's funding structure and the insurer's narrow capital buffer.

We expect Shin Kong FHC group to maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector. The ratings on Shin Kong Life will move in tandem with the group's consolidated credit profile, as will the ratings on the key group units.

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Downward scenario

We may lower the ratings on Shin Kong FHC, Shin Kong Life, and Taiwan Shin Kong Commercial Bank, and MasterLink Securities if we assess that the group credit profile could deteriorate significantly from our base-case over the next one to two years.

This could happen if: (1) Shin Kong Life's risk-adjusted capitalization weakens due to poor earnings, slower value of in-force growth, or unexpected market volatility; (2) the ongoing dispute over management rights between major shareholders of Shin Kong FHC leads to Shin Kong Life's governance deficiency, which could impair the company's ability to execute strategy or manage its risks; (3) Shin Kong Life cannot uphold its funding structure ratio within our rating threshold due to weaker profitability than we forecast or commitments to additional financial obligations.

The above factors could lead us to select a lower anchor, a moderately negative score for the governance modifier, or weak assessment of Shin Kong Life's financial risk profile.

Upward scenario

We may revise the rating outlook on Shin Kong FHC, Shin Kong Life, Taiwan Shin Kong Commercial Bank, and MasterLink Securities to stable if Shin Kong Life sustains its capitalization and funding structure through improved and consistent profitability.

This would have to be accompanied by the insurer's stable investment allocation, strong competitive position compared with its domestic peers', and stable credit profile for other core entities.

Rating Score Snapshot

Shin Kong Life Insurance Co. Ltd.

	To	From
Business Risk Profile	Satisfactory	Satisfactory
Competitive position	Strong	Strong
IICRA	Moderately high risk	Moderately high risk
Financial Risk Profile	Fair	Fair
Capital and earnings	Fair	Fair
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable rating analysis	+0	+1
Financial Strength Rating	twAA-/Negative/--	twAA-/Stable/--
ESG credit indicators	E-2, S-2, G-3	E-2, S-2, G-3

IICRA--Insurance Industry And Country Risk Assessment.

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: 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
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

(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-/Negative/--	twAA-/Stable/--
Financial Strength Rating	twAA-/Negative/--	twAA-/Stable/--
Unsecured Subordinated Corporate Bond	twA+	twA+
Shin Kong Financial Holding Co. Ltd.		
Issuer Credit Rating	twA+/Negative/twA-1	twA+/Stable/ twA-1
Taiwan Shin Kong Commercial Bank Co. Ltd.		
Issuer Credit Rating	twAA-/Negative/ twA-1+	twAA-/Stable/ twA-1+
Unsecured Subordinated Debenture	twA	twA
MasterLink Securities Co. Ltd.		
Issuer Credit Rating	twA+/Negative/twA-1	twA+/ Stable /twA-1

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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