Media Release:

Outlook On Farglory Life Insurance Revised To Stable On Sustained Financial Strength; 'twA+' Ratings Affirmed

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PRIMARY CREDIT ANALYST

Patty Wang
Taipei
+886-2-2175-6823
patty.wang
@spglobal.com
patty.wang
@taiwanratings.com.tw

SECONDARY CONTACT

Yuhan Lan
Taipei
+886-2-2175-6810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

Overview

- Farglory Life Insurance has maintained stable financial strength over the past few quarters supported by lower risk asset growth and adequate performance.
- We continue to expect the insurer's investment risks to moderate its capital and earnings over the next one to two years.
- We have revised the rating outlook to stable from negative to reflect our expectation that Farglory Life will maintain a satisfactory financial risk profile similar to the industry average over the next one to two years.
- At the same time, we affirmed the 'twA+' issuer credit rating and financial strength rating on Farglory Life.

Rating Action

Taiwan Ratings Corp. today revised its outlook on the 'twA+' issuer credit rating and financial strength rating on **Farglory Life Insurance Co. Ltd.** to stable from negative. At the same time, we affirmed the ratings.

Rationale

The upward outlook revision reflects our expectation that Farglory Life will maintain a satisfactory financial risk profile close to the industry average over the next one to two years. We maintain our view that the insurer's strong capital and earnings with thin capital buffer is likely to be moderated by the moderately high risk exposure during market volatility.

We anticipate Farglory Life will maintain marginally strong capital and earnings over the next two years. The life insurer has reported good profits over the past two years relative to the domestic average. This was supported by foreign exchange (forex) gains and the disposal of real estate assets. Over the same period, the impact on capital from valuation movements in equity investments was also moderate compared with its domestic peers. This is because of Farglory Life's relatively smaller investment weighting in equities and focus on low beta, high-yield stocks. We believe the insurer will maintain its capital level over the next two years supported by industry average profitability, lower invested asset growth, and controlled exposure to equity investments. Moderate growth in the company's value of in-force could also support the accumulation of qualified capital over the period. This is despite Farglory Life has only a thin buffer to maintain its capital within our assessment of strong capital.

High exposure to forex risks and susceptibility to market volatility continue to moderate capital and earnings. Farglory Life's exposure to forex risks has trended upward over the past year and remains higher than the domestic average relative to its assets. High hedging costs since late 2022 amid the widened gap between U.S. and Taiwan interest rates have led Farglory Life to reduce its use of hedging and hence lowered its hedging ratio. We do not expect the insurer's forex risk to reduce over the next few quarters while hedging cost remains high. We also believe that Farglory Life's marginally strong capital and earnings will remain susceptible to forex movements and market volatility.

The insurer's investment leverage has become more manageable relative to its overall financial risk profile. Farglory Life has kept its investment leverage at about the domestic average by lowering its real estate investments over the past few years. We see only a mild potential for equity or property investments to rise aggressively over the next two years. The insurer's investment mix is also unlikely to deviate much from its current focus and heavy weighting on fixed-income investments.

We see Farglory Life maintaining stable business momentum with a particular focus on health insurance products. The insurer is a small player in Taiwan's life insurance market but has developed a footing in the long-term health products sector where it sits among the top ten insurers by total premiums. We see Farglory Life maintaining this footing, which underpins favorable actuarial profits compared with its industry peers.

We revised our liquidity assessment on Farglory Life to exceptional from adequate and believe the insurer will sustain its enhanced liquidity over the next one to two years. Farglory Life has maintained an improved liquidity ratio over the past two years under its consistent investment strategy to focus on liquid assets such as investment-grade bonds and equities. The growth of the company's liquid assets has outpaced the growth in policy liabilities. Liquidity is likely to remain exceptional for the insurer, given its continue focus on in high-grade fixed income investments over the coming two years.

Outlook

The stable rating outlook reflects our view that Farglory Life will maintain satisfactory financial risk profile in line with the industry average over the next one to two years. We believe that the insurer's strong capitalization remains susceptible to market volatility and we expect its above-average exposure to forex risks will moderate its capital and earnings during market volatility. That's because of the insurer's thin capital buffer within our definition of strong capital.

Farglory Life is likely to report profitability akin to the domestic average over the next one to two years and maintain its investment allocations with controlled growth in risky investments. We also anticipate the insurer to maintain better above-average actuarial profits from its focus in medical and health insurance.

Downward scenario

We may lower the ratings if Farglory Life's capital and earnings persistently weaken beyond our base case. This could result from deteriorating capital adequacy due to greater increase in risk assets or apparent slowdown of capital accumulation than we forecast.

Upward scenario

We may upgrade Farglory Life if the company can materially improve its risk exposures while sustaining its good capital strength relative to its risk profile with an improving capital buffer over the next one to two years.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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 Score Snapshot

Farglory Life Insurance Co. Ltd.

Business Risk Profile	Fair
Competitive position	Satisfactory
IICRA	Moderately high
Financial Risk Profile	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Support	0
Group support	0
Financial Strength Rating	twA+

IICRA--Insurance Industry And Country Risk Assessment. SACP--Stand-alone credit profile.

Ratings List

Ratings Affirmed; Outlook Revision

	To	From
Farglory Life Insurance Co. Ltd.		
Financial strength Ratings	twA+/Stable	twA+/Negative
Issuer Credit Ratings	twA+/Stable	twA+/Negative