Media Release:

Fubon Financial Holding And Fubon Life Insurance Ratings Affirmed On Sustained Capital Buffer; Outlook Stable

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Overview

- **Fubon Life Insurance Co. Ltd.** can maintain its satisfactory financial strength over the coming two years, in our view, with support from above-average profitability and adequate capital accumulation.
- We believe the Taiwan-based life insurer can manage its somewhat elevated investment risk, which is not likely to result in extreme volatility for its capital and earnings over the next one to two years.
- The credit profile of Fubon Life continues to drive the **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group credit profile, given that the insurer is the key and flagship company of the group.
- We affirmed the 'twAA+' long-term issuer credit rating and financial strength rating on Fubon Life. At the same time, we affirmed the 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Fubon Financial Holding.
- The outlook on the long-term ratings is stable, reflecting our expectation that Fubon Life will continue to drive the group credit profile and maintain a stable stand-alone credit profile (SACP).

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long- term issuer credit rating and financial strength rating on Taiwan-domiciled Fubon Life, as well as the 'twAA' long-term issue rating on the insurer's subordinated corporate bond. At the same time, we affirmed the 'twAA ' long-term and 'twA-1+' short-term issuer credit ratings on Fubon FHC. The outlook on the long-term ratings is stable.

Rationale

We assess Fubon Life's overall financial risk profile at satisfactory, similar to the average for the local life sector. The insurer had satisfactory capitalization as of end-2022, as measured by S&P Global Ratings' Insurer Risk-Based Capital Model, versus our earlier forecast of fair. The improvement followed reduced exposure to equity investments and earnings retained from good profitability, with a return on assets of 1.3%.

Capitalization stayed satisfactory as of end-June 2023, reflecting a boost in shareholders' equity as valuations for equity investments recovered. While Fubon Life has a good record of asset and liability risk control, this does not add to the strength of the insurer's overall capital and earnings, at a satisfactory level.

Our base case assumes Fubon Life will maintain satisfactory capital and earnings over the next two years. The insurer's assets could increase by single digits. The insurer will also likely rebuild its equity investment position with similar weightings to those in 2020. We also consider its planned capital injections into, and potential capital needs from, its overseas subsidiaries. In our view, Fubon Life will continue to record profitability above the domestic industry average and retain stable earnings to support growth.

Fubon Life's good earnings and capital buffer will help the insurer counter elevated investment risks. We therefore do not expect extreme volatility in the insurer's capital and earnings. The insurer has higher investment leverage and foreign exchange risk than regional peers, which makes it susceptible to volatility in global capital markets.

Fubon Life temporarily widened its foreign exchange risk exposure this year, given high hedging costs, persistent U.S. dollar strength, and its high level of foreign exchange volatility reserves to offset potential losses from foreign exchange movements.

Fubon Life continues to proactively monitor its exposure to foreign exchange risk and conduct stress tests as needed. The insurer's current enlarged foreign exchange exposure will not erode our assessment of its capitalization, under normal foreign exchange volatility between the new Taiwan dollar and U.S. dollar.

The ratings on Fubon Life continue to reflect its better earnings resilience and better market position than other domestic life insurers. The insurer still accounted for about 14% of Taiwan's life insurance industry by total premiums, ranking among the top three players.

Our assessment of the Fubon FHC group credit profile largely reflects our assessment of the SACP of its key and flagship subsidiary, Fubon Life. The insurer accounted for about 45% of the group's net worth and over half of its profits on average in the past five years.

The ratings on Fubon FHC reflect the group's strong market position and diversified business profile in Taiwan's life and non-life insurance, bank, and securities sectors. The ratings also reflect the group's better earnings resilience due to diversification than other financial holding companies domestically. Counterbalancing these strengths is Fubon Life's satisfactory financial risk profile, although this is similar to the average for Taiwan-based life insurers.

The long-term issuer rating on Fubon FHC is one notch lower than the ratings on the group's core entities. This reflects the holding company's structural subordination to the group's core entities. The one-notch difference compares favorably with the general two to three notch gap between an insurance group holding company and its core units.

The single-notch difference reflects Fubon FHC's direct control over multiple material operating units such that non-insurance operations contributed 45% to the group's profits on average historically. We consider these operating entities as sufficiently diverse and independent, such that a suspension of cash flow from any of them would not substantially weaken the holding company's financial position. We also take into account the limited regulatory restrictions on cash flow between group members and between operating units and holding companies in Taiwan.

Outlook

The stable rating outlook on Fubon Life and Fubon FHC reflects our view that Fubon Life will continue to drive the group credit profile, while other major subsidiaries maintain stable credit profiles. Fubon Life is likely to manage the negative impact of market volatility on its capital and earnings over the coming two years.

We also anticipate Fubon Life will fulfill additional capital requirements without materially weakening its capital and earnings. These could include capital outlays to absorb volatility in the insurer's investment valuations, support overseas subsidiaries, and pursue further organic growth. Lastly, we believe the insurer can manage its foreign exchange risk by proactively adjusting its hedging, without tempering its capital adequacy.

Downward scenario

We could lower the long-term ratings on Fubon FHC and Fubon Life if the group credit profile deteriorates. This may happen if:

- Fubon Life's risk exposure heightens, which could lead to capital and earnings volatility. This could be due to enlarged exposure to foreign exchange risk, net of effective hedging, or materially and consistently higher investment concentration in the financial sector than the local peer average;
- We revise downward our assessment of Fubon Life's capital and earnings to fair from satisfactory. This is likely if the insurer expands its investment assets or increases its exposure to market volatility beyond our base case. It could also occur if the growth in Fubon Life has materially lower value of in-force than we currently forecast, because value of in-force accounts for a large part of the group's total adjusted capital. We could also revise downward our capital and earnings assessment if Fubon Life expands through mergers and acquisitions beyond our current expectation or its operating performance drops below the domestic industry average; or
- We revise downward our assessment of the consolidated capital and earnings of the group's banking unit, Taipei Fubon Commercial Bank Co. Ltd. to adequate from strong, to reflect aggressive risk accumulation, especially in higher-risk markets such as China or through equity investments. The capital and earnings of the bank may also deteriorate if it has insufficient earnings to fund growth.

Upward scenario

We could raise the long-term ratings on Fubon FHC and Fubon Life if we raise our assessment of the group credit profile. This could occur if Fubon Life sustainably improves its capital and earnings to qualify for our assessment of strong over the coming two years, coupled with a stable competitive position and stable risk exposure. At the same time, Taipei Fubon Commercial Bank's consolidated credit risk profile would need to remain unchanged.

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 7, 2017
- General Criteria: Group Rating Methodology - July 1, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology - July 1, 2019

- 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 – Nov. 11, 2021

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

Ratings Score Snapshot

Fubon Life Insurance Co. Ltd.

Business Risk Profile	Strong
Competitive position	Very Strong
IICRA	Moderately high
Financial Risk Profile	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable Ratings Analysis	0
Support	0
Group support	0
Financial Strength Rating	twAA+

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

Ratings List

Ratings Affirmed

Fubon Financial Holding Co. Ltd.	
Issuer Credit Rating	twAA/Stable/twA-1+
Fubon Life Insurance Co. Ltd.	
Issuer Credit Rating	twAA+/Stable
Financial Strength Rating	twAA+/Stable
Series 112-1 (A) Unsecured Subordinated Corporate Bond	twAA