

Media Release:

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

October 26, 2023

## Overview

- The ratings on Taiwan-domiciled property and casualty insurer **Fubon Insurance Co. Ltd.** reflect the insurer's core status within the wider **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group.
- We have lowered our assessment of Fubon Insurance's capitalization to satisfactory from strong to reflect its net losses and uncertainty over reinsurance recoverability on previously sold pandemic insurance policies. This is despite two capital injections from the group to the insurer over the past year.
- 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 ratings affirmation reflects our view that substantial losses incurred by Fubon Insurance on pandemic-related policies are unlikely to weaken the link between the insurer and the parent Fubon FHC group. We believe the losses are absorbable relative to the overall group credit profile. We continue to view Fubon Insurance as a core member of the parent group and as such, the ratings and outlook on the insurer reflect our view of the overall group credit profile.

*Large claims losses have significantly weakened the insurer's capitalization, and there is a low likelihood of restoring its capital size to pre-pandemic levels over the next one to two years.* Fubon Insurance registered cumulative net operating losses of new Taiwan dollar (NT\$) 39.9 billion for the fiscal year ending Dec. 31, 2022, and net losses of NT\$2.4 billion for the first nine months of 2023. This reflected the full net claim losses on the insurer's COVID-19-related insurance policies.

The insurer remains in discussion with its reinsurers over the payment of reinsurance receivables related to these policies. A meaningful shortfall in the ultimate payment received from reinsurers would have a negative impact on Fubon Insurance's stand-alone credit profile. The insurer's underwriting performance in other business segments remains good, with a combined ratio, excluding

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the impact of pandemic policies, of 92.2% and 87.6% for fiscal 2022 and for the first half of 2023, respectively.

The parent group made capital injections to Fubon Insurance of NT\$15 billion in August 2022 and NT\$16 billion in April 2023. We believe these are insufficient to restore the insurer's depleted capital level.

We have therefore lowered our assessment of Fubon Insurance's capitalization to satisfactory from strong and lowered our assessment of its capital and earnings to fair from strong. Our capital and earnings assessment also reflects the increased vulnerability to single event losses embedded in Fubon Insurance's reduced capital size and looser capital management tolerance, as indicated by its recent capital volatility.

We believe the parent would provide further capital support to the insurer if needed. That said, our forecast for the insurer's capitalization does not incorporate any capital injection, given the lack of a concrete timeline and amount of any potential capital plan.

### *The slower recovery of reinsurance receivables than the speed of claim payouts should be manageable.*

We believe Fubon Insurance can manage its liquidity and financial leverage at adequate levels despite the slow recovery of reinsurance receivables. We base this on our view of a likely gradual recovery of reinsurance receivables, healthy premium income, and the insurer's proactive liquidity management.

Fubon Insurance has raised bank loans as part of its liquidity management to meet surging pandemic claim payments. The ratio of financial borrowings to shareholders' equity rose to 68.6% at the end of 2022 from 0% at the end of 2021 but declined to 42.1% as of June 30, 2023. We expect the ratio to further moderate to 35% by 2025 through the gradual accumulation of its shareholders' funds through steady earnings.

The ratings on Fubon Insurance continue to reflect the insurer's core membership of Fubon FHC group. The insurer 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 a good operating performance. However, Fubon Insurance 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 reflects our view that the group's flagship entity, **Fubon Life Insurance Co. Ltd.**, can manage the negative impact of market volatility on its capital and earnings.

### Downward scenario

We may lower the ratings on Fubon Insurance if we lower our assessment of the group credit profile.

This could occur 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;

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- 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 ratings on Fubon Insurance 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.

## Rating Score Snapshot

### Fubon Insurance Co. Ltd.

	To	From
<b>Financial Strength Rating</b>	<b>twAA+/Stable</b>	<b>twAA+/Stable</b>
<b>Anchor</b>	<b>a-</b>	<b>a+</b>
<b>Business risk profile</b>	<b>Very strong</b>	<b>Very strong</b>
IICRA	Intermediate	Intermediate
Competitive position	Very strong	Very strong
<b>Financial risk profile</b>	<b>Fair</b>	<b>Strong</b>
Capital and earnings	Fair	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-	a+
<b>Support</b>	0	-2
<b>Group support</b>	0	-2
<b>Government support</b>	0	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria & Research

## Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- Criteria | Insurance | General: Insurers Rating Methodology, Jul 01 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, Jun 07 2010

## Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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## Ratings List

### Ratings Affirmed

#### Fubon Insurance Co. Ltd.

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

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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