

Media Release:

Fubon Life Insurance And Fubon Financial Holding Ratings Affirmed On Revised Capital Model Criteria; Outlook Stable

February 6, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The implementation of the revised criteria has minimum impact on the credit profile of **Fubon Life Insurance Co. Ltd.** and **Fubon Financial Holding Co. Ltd.** (Fubon FHC), the holding company of the Fubon group.
- We believe Fubon Life Insurance will maintain satisfactory financial strength over the next two years. We also expect the insurer's credit profile to continue to drive the overall credit profile of the parent group, given Fubon Life's flagship role.
- 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 its parent, Fubon FHC.
- The rating outlook is stable to reflect our expectation that Fubon Life will continue to drive the group credit profile and maintain a stable stand-alone credit profile over the next two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term issuer credit rating and financial strength rating on Fubon Life, as well as the 'twAA' long-term issue credit 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.

Impact Of Revised Capital Model Criteria

- Our revised criteria has no material impact on our assessment of Fubon Life's overall creditworthiness. Our analysis indicates the insurer will maintain satisfactory capital and earnings over the next one to two years.
- We've captured the benefits of risk diversification more explicitly in our analysis, which supports the insurer's capital adequacy. We have revised our calculation of total adjusted capital to reduce complexity and align with changes to our measure of an insurer's risk-based capital requirements, including removing haircuts to value-in-force.

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- We now view the insurer's liquidity as adequate rather than exceptional. This is due to the addition of morbidity risks under stressed liabilities in our definition for liquidity. Under the revised criteria, we now include the morbidity risk of insurance products such as critical illness, long-term care, and disability as part of liability risks.

Credit Highlights

Overview

Key strengths

One of the leading players by domestic market share for its major product lines.

Established business franchise, given its large scale and high level of controlled distribution channels.

Above-average operating performance.

Key risks

Satisfactory capital adequacy, albeit slightly worse than similarly rated global peers.

High investment leverage and foreign exchange (forex) risk exposure compared to regional peers, which is susceptible to global capital market volatility.

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 will maintain stable credit profiles over the next one to two years. We believe Fubon Life is likely to manage the negative impact of market volatility on its capital and earnings over the same period.

In addition, we 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 forex 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 we lower our assessment of the group credit profile. 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 forex 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 Fubon Life's business growth 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 lower our capital and earnings assessment if Fubon Life expands through mergers and acquisitions beyond our current expectation or if 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 bank's capital and earnings could also deteriorate if it has insufficient earnings to fund growth.

Upward scenario

We could raise the ratings if we revise upward 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 risk exposure. At the same time, Taipei Fubon Commercial Bank's consolidated credit risk profile would need to remain unchanged.

Rationale

The ratings on Fubon Life continue to reflect its better earnings resilience and better market position than other domestic life insurers. The insurer continues to rank among the top three players in the local market by market share. We also believe Fubon Life's overall financial risk profile and capital and earnings are likely to remain satisfactory and similar to the average for the local life sector.

Our revised criteria has no material impact on our assessment of Fubon Life's capital and earnings assessment. We believe the improvements in the insurer's capital adequacy at the end of 2022 and June 2023 were temporary. The better results followed the company's reduced weighting exposure to equity investments, a rebound in the valuation of its equity investments in 2023, and earnings retained from good profitability with a return on assets of 1.3% in 2022 and 1.0% for the six months ended June 2023.

Our base case factors in Fubon Life's forex losses in the fourth quarter of 2023. We believe the insurer's assets could increase by a single digit over the next two years. Fubon Life is also likely to rebuild its equity investment position over the same period, with similar weightings to those in 2020. We also consider the insurer's capital injections into, and potential capital needs from, its overseas subsidiaries. We forecast Fubon Life will continue to record above-average profitability by domestic standards, as evidenced by our estimate of the insurer's 0.7% return on assets in 2023. We also expect Fubon Life to retain stable earnings to support growth over the next one to two years.

Fubon Life's good earnings and capital buffer should help the insurer to counter elevated investment risks over the next 24 months. We therefore do not expect extreme volatility in the insurer's capital and earnings over the period. Fubon Life has higher investment leverage and forex risk than regional peers', which makes it susceptible to volatility in global capital markets.

In 2023, the insurer temporarily widened its forex risk exposure due to high hedging costs, persistent U.S. dollar strength, and Fubon Life's high level of forex volatility reserves to offset potential losses from forex movements. The insurer has increased its hedging ratio in the fourth quarter of 2023 following appreciation of the new Taiwan dollar (NT\$) against the greenback.

Fubon Life continues to monitor its exposure to forex risk and conduct stress tests, as needed. The insurer's current enlarged forex exposure does not erode our assessment of its capitalization, under normal forex volatility between the NT\$ and the US\$.

We assess Fubon Life's liquidity as adequate on an ongoing basis and in moderately stressful market and economic conditions. The insurer's liquidity ratio, as defined by our criteria, dropped slightly under the application of the new capital model criteria. The new criteria now capture liability risks for disability, long-term care, and critical illness related policies, which increase the company's stressed liabilities under our liquidity calculation. However, we believe this change has no impact on Fubon Life's overall credit profile. We continue to view the insurer's diversified and high-grade investments and good allocation to liquid assets as providing support for its liquidity.

Our assessment of the Fubon FHC group credit profile largely reflects our assessment of the stand-alone credit profile of Fubon Life. As the group's flagship entity, Fubon Life has on average accounted for about 45% of the group's net worth and over half of its profits over 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 higher earnings resilience due to better diversification than other financial holding companies domestically. Counterbalancing these strengths is Fubon Life's satisfactory financial risk profile, though this is similar to the average for Taiwan-based life insurers.

The long-term issuer rating on Fubon FHC is one notch below our ratings on the group's core entities on a global rating scale. This reflects the holding company's structural subordination to these 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 have historically contributed 45% of the group's profits on average.

We consider the group's core 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 consider the limited regulatory restrictions on cash flow between group members and operating units and holding companies in Taiwan.

Related Criteria & Research

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov 15 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, Mar 02 2022
- 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: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- General Criteria: Principles Of Credit Ratings, Feb 16 2011

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.

	To	From
Financial strength rating	twAA+	twAA+
Anchor	a-	a-
Business risk	Strong	Strong
Competitive position	Very strong	Very strong
IICRA	Moderately high	Moderately high
Financial risk	Satisfactory	Satisfactory
Capital and earnings	Satisfactory	Satisfactory
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Ratings List

Ratings Affirmed

Fubon Life Insurance Co. Ltd.

Issuer Credit Rating	twAA+/Stable
Financial Strength Rating	twAA+/Stable
Series 112-1 (A) Unsecured Subordinated Corporate Bond	twAA

Fubon Financial Holding Co. Ltd.

Issuer Credit Rating	twAA/Stable/twA-1+
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