

Media Release:

Shin Kong Life, Shin Kong FHC, And Key Group Units Downgraded On Life Insurer's Weak Performance; Outlook Negative

March 7, 2024

Overview

- On Nov. 15, 2023, S&P Global Ratings published its revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions"). The implementation of the revised criteria has no material impact on our ratings on Taiwan-domiciled **Shin Kong Life Insurance Co. Ltd.**
- Shin Kong Life's operating performance has weakened over the past year and remains very sensitive to market conditions.
- We lowered our long-term issuer credit rating and financial strength rating on Shin Kong Life to 'twA+' from 'twAA-'.
- We view Shin Kong Life as the flagship unit of the **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC) group and any change in the insurer's credit profile will affect the group credit profile. Therefore, we lowered our long-term issuer credit ratings on Shin Kong FHC and the group's key subsidiaries by one notch as well as the issue rating on the outstanding subordinated debts of Shin Kong Life and Taiwan Shin Kong Bank by one notch.
- The rating outlook is negative to reflect our view of the increasing difficulties for Shin Kong Life to control its earnings volatility, strengthen its funding structure, and maintain its regulatory capital ratio over the next one to two years.

Rating Action

Taiwan Ratings Corp. today lowered its ratings on the following entities of the Shin Kong FHC group. The outlook on the long-term ratings is negative. The rating actions are:

- We lowered the long-term financial strength and issuer credit ratings on Shin Kong Life to 'twA+' from 'twAA-', and the issue credit ratings on the insurer's unsecured subordinated corporate bond to 'twA' from 'twA+';
- We lowered the long-term issuer credit rating on Shin Kong FHC to 'twA' from 'twA+', and affirmed the short-term rating 'twA-1';
- We lowered our issuer credit ratings on **Taiwan Shin Kong Commercial Bank Co. Ltd.** to 'twA+/twA-1' from 'twAA-/twA-1+' and our issue credit rating on the bank's unsecured subordinated debentures to 'twA-' from 'twA'; and
- We lowered the long-term issuer credit rating on **MasterLink Securities Corp.** to 'twA' from 'twA+' and affirmed the short-term rating 'twA-1'.

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Impact Of Revised Capital Model Criteria

- Our revised criteria has no material impact on our assessment of Shin Kong Life's overall creditworthiness. Our analysis indicates the insurer will maintain fair 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.

Credit Highlights

Overview

Key strengths	Key risks
Established domestic franchise.	Above-average earnings volatility, which pressures funding structure and capital adequacy.
Good sales contribution from tied agent force.	Fair capital and earnings relative to risk profile for the coming two years.

Outlook

The negative rating outlook on Shin Kong FHC, Shin Kong Life, Taiwan Shin Kong Commercial Bank, and MasterLink Securities reflects our view that Shin Kong Life's weak earnings capability will continue to weigh on its financial strength and that of the overall group over the next one to two years. This also reflects the risks associated with Shin Kong Life's above-average earnings volatility, sensitive funding structure, and the difficulty for the insurer to maintain its regulatory capital requirement.

We expect Shin Kong FHC group to maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector. We also anticipate the group will take proactive action to ensure the insurer maintains the regulatory capital ratio requirement. Under our base case scenario, we do not expect the strategic fit of MasterLink Securities to Shin Kong FHC group or the group's shareholding in the broker to alter materially over the next 12-24 months.

Downward scenario

We may lower the ratings on Shin Kong FHC, Shin Kong Life, Taiwan Shin Kong Commercial Bank, and MasterLink Securities if we assess that the group credit profile could deteriorate materially 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) Shin Kong Life cannot uphold its funding structure ratio within our rating threshold due to weaker profitability than we forecast or additional commitments to sizable financial obligations; (3) an ongoing dispute between the major shareholders of Shin Kong FHC leads to governance deficiency at Shin Kong Life which could impair the insurer's ability to execute strategy or manage its risks.

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

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 maintains its profitability and funding structure over the next one to two years. This would have to be accompanied by the insurer's stable investment allocation, fair capitalization and strong competitive position compared with its domestic peers, and stable credit profile for other core entities.

Rationale

The downgrade reflects our view that Shin Kong Life's performance gap with the industry average has widened. This results in a lower rating anchor for Shin Kong Life of 'bbb-' from 'bbb' previously. The insurer's profitability also remains weak by domestic comparison and is very sensitive to market conditions. The insurer reported an operating deficit in 2022 and 2023. We estimate its return on average assets deteriorated in 2023, to approximately negative 0.18% from negative 0.14% at the end of 2022.

In our view, Shin Kong Life faces increased difficulty to restore its profitability over the next two years. This is because of the insurer's highly market-sensitive investment performance and the high hedging costs on its overseas investments. At the same time, Shin Kong Life's capitalization remains below the average for the domestic life insurance sector.

Shin Kong Life's financial buffer will remain narrow. We believe the insurer's above-average earnings volatility has eroded its financial buffer, of which EBIDTA is a key reference point. Shin Kong Life is likely to face obstacles to maintain a sufficient earnings buffer to cover its fixed interest expenses up to 2025.

Shin Kong Life's funding structure measurements, including fixed charge coverage and the ratio of financial obligations to EBITDA, did not meet our levels for a neutral assessment of its funding in both 2022 and 2023. Nonetheless, we believe the insurer will achieve its financial obligations by 2025, if it can gradually restore its profitability, given the amount of total debt outstanding is small relative to its total assets.

Capital management remains to be tested over the next two years. Shin Kong Life faced difficulty maintaining its regulatory risk-based capital (RBC) ratio above 200% during 2023. Such difficulty is likely to persist over the next one to two years. The insurer managed to execute some capital enhancement actions that lifted its regulatory RBC ratio to 184.4% as of June 30, 2023; however, the ratio was still below 200% at the end of 2023. The delay of a planned capital injection could test the effectiveness of Shin Kong Life's capital management.

The ratings on Shin Kong Life continue to reflect the insurer's strong competitive position. 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 also supports our view.

The group's consolidated credit profile moves in tandem with that of Shin Kong Life. In our view, Shin Kong Life remains the flagship unit of the Shin Kong FHC group. Therefore, the increased risk of the insurer's weakening financial strength will affect the group credit profile. Similarly, the weakening financial profile affects our ratings on Taiwan Shin Kong Commercial Bank, which we continue to assess as a core group member and MasterLink Securities, as a highly strategic group member.

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The downgrade of MasterLink Securities reflects our view that the weakened group credit profile has led to weaker credit strength for the securities broker.

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - November 15, 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 | Financial Institutions | General: Financial Institutions Rating Methodology - Dec 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

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Ratings Score Snapshot

Shin Kong Life Insurance Co. Ltd.

	To	From
Financial strength rating	twA+	twAA-
Anchor*	bbb-	bbb
Business risk	Satisfactory	Satisfactory
Competitive position	Strong	Strong
IICRA	Moderately high	Moderately high
Financial risk	Fair	Fair
Capital and earnings	Fair	Fair
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate

IICRA--Insurance Industry And Country Risk Assessment. *This reflects the insurer's less favorable operating performance by peer comparison.

Ratings List

Rating Actions

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

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