

Media Release:

KGI Life Insurance Co. Ltd. 'twAA' Ratings Affirmed On Revised Capital Model Criteria; Outlook Remains Stable

March 13, 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 **KGI Life Insurance Co. Ltd.** and we believe KGI Life can maintain strong financial strength over the next two years.
- We affirmed the 'twAA' long-term issuer credit rating and financial strength rating on KGI Life, as well as the 'twAA-' issue credit rating on the insurer's Series 112-1 unsecured subordinated corporate bond.
- The stable rating outlook reflects our view that KGI Life can sustain a strong financial profile and core group status within the **China Development Financial Holding Co. Ltd.** (CDFHC) group over the next two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term issuer credit rating and financial strength rating on KGI Life. The outlook on the ratings remains stable.

Impact Of Revised Capital Model Criteria

- Our revised criteria has no material impact on our assessment of KGI Life's overall creditworthiness. Our analysis indicates the insurer will maintain strong 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 of in-force.

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Credit Highlights

Overview

Key strengths	Key risks
Above-average operating performance and satisfactory track record compared with local peers.	Higher investment concentration risk on the financial sector and foreign exchange (forex) risk exposure by global standards.
Exceptional liquidity from the good asset quality of fixed-income securities portfolio and liquid asset holdings.	Capital adequacy is sensitive to external volatilities--a common feature among Taiwan-based life insurers.

Outlook

The stable rating outlook reflects our view that KGI Life will remain the dominant contributor to the overall CDFHC group credit profile over the next two years, given the insurer's role as a core subsidiary. We view the insurer's stand-alone credit profile (SACP) as the key factor supporting the group credit profile.

The outlook also reflects our view that KGI Life is likely to maintain its share of the local life insurance market in terms of total premiums and assets. We also believe the insurer will continue to report a slightly better operating performance than the domestic average. This should help KGI Life sustain strong capital and earnings as its risk profile expands over the next two years. Moreover, we believe the insurer's capitalization can withstand modest volatility in equity markets, which we factor in our base case, as well as fluctuations in forex rates. In addition, we do not foresee the insurer's forex risk or high-risk asset exposure rising to a level that would expose it to additional risks over the next two years.

Downward scenario

We may lower the ratings on KGI Life if:

- We downwardly revise our assessment of the insurer's SACP possibly due to massive deterioration in its capitalization amid lower capital accumulation or overly aggressive investment allocation. This may be coupled with an increase in the insurer's forex exposure or high-risk assets, which could result in higher volatility in capital and earnings than we previously forecast.

Upward scenario

We may raise our ratings on KGI Life if the insurer sustainably strengthens its market position to become one of the top market players in terms of total premiums and assets. At the same time, the insurer would need to maintain its financial profile. This would also have to be accompanied by substantial enhancement in the group credit profile with key metrics comparable to other leading insurance-holding groups in Taiwan.

Rationale

The ratings continue to reflect KGI Life's strong competitive position in Taiwan's life insurance sector where it has a satisfactory track record of above-average profitability. The ratings also reflect the insurer's above-average capital and earnings strength and lower equity weighting in its investment portfolio than the domestic industry average. Counterbalancing these strengths are KGI Life's higher investment concentration risk in the financial sector and forex exposure by global

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standards as well as the vulnerability of capital adequacy to external volatilities, which is an industry trait in Taiwan.

Our revised criteria has no material impact on our assessment of KGI Life's capital and earnings. In our view, the insurer's capitalization will remain strong until at least 2025. This is underpinned by the insurer's reasonable earnings retention and satisfactory value of-in force growth which should help sustain its capital and earnings over the same period.

KGI Life is a core group subsidiary. We believe the insurer's credit profile acts as the main driver supporting the overall group credit profile, given KGI Life's dominant contribution to the group's financial strength. As of the end of 2023, KGI Life accounts for around 53% of the group's profit and 66% of total assets. We anticipate the integration of KGI Life and CDFHC's integration will continue to strengthen in terms of franchise linkage, resource sharing and cross selling.

Related Criteria & Research

Related Criteria

- 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
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017

Related Research

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

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

Ratings Score Snapshot

KGI Life Insurance Co. Ltd.

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Financial Strength Rating	twAA

IICRA--Insurance Industry And Country Risk Assessment.

Ratings List

Ratings Affirmed

KGI Life Insurance Co. Ltd.

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

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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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