

Media Release:

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

April 2, 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").
- We are maintaining our capital and earnings assessment for **Fubon Insurance Co. Ltd.** to reflect the combined assessment of improved capital adequacy under the revised criteria, as well as potential additional capital volatility associated with sizeable reinsurance recoverable.
- We are affirming our 'twAA+' long-term issuer credit and financial strength ratings on Fubon Insurance. This reflects our view that the insurer is a core subsidiary of Taiwan-domiciled **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group.
- The stable rating outlook on Fubon Insurance reflects the rating outlook on other core operating subsidiaries of Fubon FHC group.

Rating Action

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

Impact Of Revised Capital Model Criteria

- The improved assessment of Fubon Insurance's capital adequacy under the revised capital model primarily reflects a reduction in risk charges on premium and loss reserves for motor insurance in Taiwan.
- We have also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- A recalibration of our capital charges to higher confidence levels and capital requirement that vary from one-in-200 years to one-in-500 years in different stress scenarios on catastrophe risks somewhat offset these benefits.

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Credit Highlights

Overview

Key strengths	Key risks
Very strong domestic market position, with a leading market share and strong franchise.	Below-average capital and earnings.
Good operating performance and experienced underwriting controls.	Above peer average, albeit still manageable, exposure to assets with high market risk, including property and equity investments.
Adequate financial resources from the group to maintain stable capitalization.	Less geographic diversification than international peers'.

Outlook

The stable rating outlook reflects our view that Fubon Insurance will remain an integral part of the wider Fubon FHC group. As a core 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 and the key driver for the group credit profile, **Fubon Life Insurance Co. Ltd.** (twAA+/Stable/ --), can manage the negative impact of market volatility on its capital and earnings.

Downside 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 and induces capital and earnings volatility. This could be due to enlarged exposure to foreign exchange (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 insufficient earnings to fund growth could also result in a lower capital and earnings assessment.

Upside scenario

We could raise the ratings on Fubon Insurance 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 next two years, and has 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

We maintain our assessment of Fubon Insurance's fair capital and earnings. This reflects the combined assessment of improved capital adequacy under the revised new capital criteria and potential additional capital volatility associated with the insurer's sizable reinsurance recoverable. Fubon Insurance's capital adequacy benefits from a reduction in risk charges on premium and loss reserves for motor insurance in Taiwan under the new capital model. We now expect the insurer's capital adequacy to reach our assessment of strong by 2025.

Nonetheless, Fubon Insurance's total adjusted capital of less than US\$1 billion is small by international standards. We believe insurers with a small capital base are more susceptible to external volatilities or large events. Moreover, the insurer remains in discussion with its reinsurers over the payment of reinsurance receivables on COVID-19 related insurance policies. The uncertainty around the ultimate payment received from reinsurers offsets the improved capital adequacy under the new criteria, given the likelihood of additional capital volatility over the coming one to two years.

The revised capital model criteria have no material impact on our other credit analysis of Fubon Insurance, including risk exposure, funding structure, and liquidity. We continue to assess the insurer has above-average exposure to high-risk assets including property and equities compared with its peers. However, Fubon Insurance's liquidity remains adequate despite the slow recovery of pandemic reinsurance receivables. We base this on our view of the insurer's healthy premium income and proactive liquidity management. Fubon Insurance has also raised bank loans and maintains adequate bank facilities as part of its liquidity management.

Fubon Insurance continues to hold a very strong market position with a leading market share and strong franchise in Taiwan's property and casualty market, as well as good operating performance. The insurer's underwriting performance, exclusive of COVID-related insurance policies, remains robust with a combined ratio of 92.1% for 2022 and 89.4% for 2023.

Ratings Score Snapshot

Fubon Insurance Co. Ltd.

Financial strength rating	twAA+
Anchor*	a-
Business risk	Very strong
Competitive position	Very strong
IICRA	Intermediate
Financial risk	Fair
Capital and earnings	Fair

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Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable Ratings Analysis	0

*This reflects the insurer's clear competitive strength over local peers. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria & Research

Related Criteria

- 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

Related Research

- Fubon Life Insurance And Fubon Financial Holding Ratings Affirmed On Revised Capital Model Criteria; Outlook Stable, Feb. 6, 2024
- Taiwan Ratings' Ratings Definitions - Nov. 11, 2021

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

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 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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