

Media Release:

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

April 10, 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 **Farglory Life Insurance Co. Ltd.**
- We believe Farglory Life Insurance will maintain satisfactory financial strength over the next two years.
- We affirmed the 'twA+' long-term issuer credit and financial strength ratings on Farglory Life.
- The rating outlook is stable to reflect our expectation that Farglory Life will maintain a stable credit profile, satisfactory financial risk profile, and report growth and earnings in line with the domestic industry average over the next two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term issuer credit and financial strength ratings on Farglory Life. The outlook on the ratings is stable.

Impact Of Revised Capital Model Criteria

- Our revised criteria have no material impact on our assessment of Farglory 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 peer-average capital adequacy by domestic standards, which supports the financial risk profile.	Small scale and market share with higher expense ratio than domestic peers.
Adequate actuarial profits for products underwritten compared with local peers, given Farglory Life's higher weighting of higher-margin products and lesser negative spread burden.	Higher foreign-exchange (forex) risk exposure than domestic peers.

Outlook

The stable rating outlook reflects our view that Farglory Life will maintain a satisfactory financial risk profile in line with the domestic average over the next one to two years. While we view the company's capital adequacy is above the domestic peer average, we believe the insurer's strong capital and earnings remain susceptible to market volatility. In addition, we believe that Farglory Life's above-average exposure to forex risks will moderate its capital and earnings strength during periods of market volatility, given the insurer's thin capital buffer under our definition of strong capitalization.

Farglory Life is likely to report profitability akin to the domestic average over the next one to two years and maintain its investment allocations with controlled growth in risky investments. We also anticipate the insurer will maintain above-average actuarial profits through its focus on medical and health insurance products.

Downward scenario

We may lower the ratings if Farglory Life's capital and earnings persistently weaken beyond our base case. This could result from deteriorating capital adequacy due to a greater increase in risk assets or a greater slowdown of capital accumulation than we previously forecast.

Upward scenario

We may upgrade Farglory Life if the insurer can materially improve its risk exposures while sustaining good capital strength relative to the company's risk profile over the next one to two years, while at the same time improving its capital buffer.

Rationale

The ratings on Farglory Life continue to reflect the insurer's satisfactory competitive position and financial risk profile, which are similar to the industry average. Farglory Life maintains a small domestic market share of just over 2% by total premiums and total assets, which is unlikely to change over the next one to two years. However, the insurer has a slight focus on long-term health products, where it ranks among the top ten insurers by total premiums. This sector has good margins along with good loss experience, which translates into a somewhat higher mortality and loading surplus compared with the domestic life insurance average.

Our revised criteria have no material impact on our assessment of Farglory Life's capital and earnings assessment. Capitalization remains a strength for Farglory Life, but the capital buffer is thin and vulnerable to unexpected market conditions. We assess Farglory Life is well capitalized by

domestic standards, in part due to the recognition of the insurer's unrealized gains on property holdings under the favorable property price trend in Taiwan over the past decade. Farglory Life's profits over the past two years are comparable or even better than the industry average and supported by the insurer's real estate disposals. However, Farglory Life's capital buffer remains somewhat thin due to higher growth in riskier assets before 2022, including equity investments and from a slower growth of value of in-force in 2022.

Our base case factors in Farglory Life's major financial metrics in 2023. We anticipate Farglory Life will maintain marginally strong capital and earnings over the next two years. We base this on our assumption of the insurer's average profitability, stable investment asset allocation with controlled exposure to equity investments, and low growth in invested assets. Moderate growth in the company's value of in-force could also support the accumulation of qualified capital over the next two years.

We continue to see Farglory Life's investment risks somewhat moderating the financial risk profile. The insurer's exposure to forex risks trended upward in 2022 and likely also in 2023 and remains higher than the domestic average relative to Farglory Life's assets. High hedging costs since late 2022 amid the widened interest spread between the U.S. and Taiwan have led Farglory Life to reduce its use of hedging, thereby bringing down the hedging ratio. We do not expect forex risk to reduce over the next few quarters while the insurer's hedging cost remains high. We also believe Farglory Life's marginally strong capital and earnings remain susceptible to forex movements and market volatility.

The credit profile reflects Farglory Life's stand-alone credit profile and independence from its ultimate parent, Taiwan-based conglomerate Farglory group, which has key operations in land development and construction. We believe Taiwan's stringent regulations on related-party transactions serve as a good firewall between the life insurance company and the parent group. Since 2012, Farglory Life has enforced an arm's-length policy between the parent and its affiliates, and the business relationship between the two has been on a downward trend. Farglory Life has its own management team and there is no integration with the Farglory group. We believe this situation will remain unchanged over the next two years.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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

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

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Ratings Score Snapshot

Farglory Life Insurance Co. Ltd.

Financial strength rating	twA+
Business risk	Fair
Competitive position	Satisfactory
IICRA	Moderately high
Financial risk	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional

IICRA--Insurance Industry And Country Risk Assessment.

Ratings List

Ratings Affirmed

Farglory Life Insurance Co. Ltd.

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