Media Release:

TransGlobe Life Insurance Inc. Assigned 'twA' Ratings; Outlook Stable

October 9, 2024

PRIMARY CREDIT ANALYST

Effie Tsai
Taipei
+886-2-2175-6824
effie.tsai
@spglobal.com
effie.tsai
@taiwanratings.com.tw

SECONDARY CONTACT

Serene Hsieh, CPA, FRM
Taipei
+886-2-2175-6820
serene.hsieh
@spglobal.com
serene.hsieh
@taiwanratings.com.tw

Overview

- TransGlobe Life Insurance Inc. is a mid-size life insurer in the Taiwan life insurance market.
- We assess the insurer's capital and earnings as marginal and a rating weakness. This mainly reflects the legacy burden from a portfolio it acquired from Kuo Hua Life in 2013 which carries relatively higher liability cost.
- We are assigning our 'twA' long-term insurer financial strength and issuer credit ratings to TransGlobe Life.
- The stable rating outlook reflects our expectation that TransGlobe Life will consistently execute its strategy to generate stable new business and maintain capitalization. The outlook also reflects our view that the insurer will maintain prudent control over its exposure to high-risk assets and foreign currency risk.

Rating Action

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

Credit Highlights

Overview

Key strengths	Key risks
Satisfactory competition position with stable market share .	Below-average capital adequacy compared with local peers.
Sound liquidity supported by the satisfactory asset quality and stable cash flow from new business.	Relatively weaker operating performance than the domestic peer average.

Rationale

The ratings reflect TransGlobe Life's satisfactory market presence with stable market share. TransGlobe Life operates primarily in Taiwan's life insurance market, where we assess industry and country risk to be moderately high. Structural weaknesses in asset and liability mismatch expose most life insurance companies in Taiwan to balance sheet volatilities. Meanwhile, persistently low interest rates strain earnings and have resulted in an industry wide problem of negative spread, wherein average policy costs outweigh average investment returns.

We believe TransGlobe Life will continue to generate stable new business to maintain its satisfactory market share. This is underpinned by our view of the insurer's comprehensive product offerings and well-established service capability to its external distribution partners. As of June 30, 2024, TransGlobe Life holds a market share of 4.4% in terms of total premium and 4.1% in terms of total asset. The insurer also ranks eighth in the local market as of the same date.

Operating performance is slightly weaker than the domestic peer average. TransGlobe Life's return on average assets was 0.36% between 2019 and 2023, compared with an average of 0.55% for the Taiwan life sector. Part of the reason for this is TransGlobe Life's relatively higher net expense ratio than its larger players due to the insurer's scale disadvantage. TransGlobe Life's health insurance loss ratio has also risen, amid rising medical expense inflation which weighs on its mortality surplus. Nonetheless, the insurer has good track record maintaining a satisfactory interest surplus which may help to offset this weakness, in our view.

The ratings are constrained by marginal capital and earnings. We assess TransGlobe Life's financial risk profile as marginal due to the insurer's below-average capital and earnings by local comparison. We base our assessment on S&P Global Ratings' capital model forecast without taking into account any forbearance allowances granted by the local regulator. As of Dec. 31, 2023, we assess TransGlobe Life has over 30% capital deficiency under our moderate stress scenario (99.5% confidence level). This weakness arises from the higher cost of the insurer's liabilities inherited from the sizable legacy portfolio it acquired from Kuo Hua Life in 2013 and manages under a segregated account.

We believe TransGlobe Life has consistently generated new business with an adequate profit margin under its investment strategy. This has gradually diluted the effect of negative interest spread from the segregated account. The ratio of the segregated account to total reserves has declined to 40% as of June 2024 down from 60% nine years ago.

We expect TransGlobe Life to maintain an average investment risk profile by local standards over the next one to two years, with adequate risk controls and average holdings of high-risk assets and foreign exchange risk exposure.

Liquidity is exceptional with prudent management. This is supported by the insurer's highly liquid asset portfolio, satisfactory operating cash flows, and adequate liquidity management. TransGlobe Life has no covenants or collateral posting risks due to its zero-debt position.

TransGlobe Life operates as an insulated entity from its holding parent. In our view, TransGlobe Life conducts its life insurance business under its own name and brand despite the company is 100% owned by Taiwan-based CWY De Hui Holding Co. Ltd. The management team of TransGlobe Life consists of seasoned professionals from within the insurance industry and pursues independent strategic and development planning. We believe the insurer will continue to operate independently from its shareholders due to the local insurance regulator's stringent restriction on intra-group activities in Taiwan.

Outlook

The stable rating outlook reflects our view that TransGlobe Life will maintain its business position and profitability through stable new business with adequate margins. The outlook also reflects our forecast for the insurer to increase value of in-force in line with the domestic average and maintain prudent asset liability management to support capitalization over the next one to two years.

In addition, the ratings reflect the satisfactory asset quality of TransGlobe Life's fixed-income investments as well as our assessment of the insurer's exceptional liquidity.

Downside scenario

We may lower the ratings on TransGlobe Life if:

- The insurer's capitalization deteriorates significantly due to aggressive business expansion or material losses amid market volatility;
- The insurer's risk exposure increases significantly due to loosening risk controls or a heightened risk appetite for foreign currency or high-risk assets; or
- The insurer's business position weakens as demonstrated by a shrinking market share or unfavorable operating performance.

Upside scenario

We may raise the ratings on TransGlobe Life if the insurer's capital and earnings strengthen to a fair level from marginal currently. This could be the result of favorable profitability with prudent business growth and prudent investment appetite, or higher value of in-force than we forecast, possibly through the sale of more value-added products.

Ratings Score Snapshot

TransGlobe Life Insurance Inc.

Financial strength rating	**twA/Stable/--**
Business risk	Satisfactory
IICRA	Moderately high risk
Competitive position	Strong
Financial risk	Marginal
Capital and earnings	Marginal
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance And Country Risk Assessment

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - November 15, 2023
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group 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: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

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

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

Ratings List

Ratings Affirmed

TransGlobe Life Insurance Inc.	
Financial Strength Rating	twA/Stable/--
Issuer Credit Rating	twA/Stable/--