

Media Release:

Fubon Life Insurance And Fubon Financial Holding Ratings Affirmed On Stable Capital Strength; Outlook Stable

October 30, 2024

Overview

- **Fubon Life Insurance Co. Ltd.'s** total adjusted capital has increased strongly in 2023 and the first half of 2024 on the back of an increase in equity market valuations.
- We expect the insurer's overall capital and earnings strength to remain at a satisfactory level over the next two years. This is considering Fubon Life's capital sensitivity to potential market volatility and foreign exchange (forex) movements, and uncertainties over financial changes as the sector adopts new accounting norms in 2026.
- We affirmed our 'twAA+' long-term issuer credit rating and financial strength rating on Fubon Life. At the same time, we affirmed our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on its parent, **Fubon Financial Holding Co. Ltd.** (Fubon FHC). We also affirmed the 'twAA' issue rating on Fubon Life.
- The stable rating outlook on the long-term ratings reflects our expectation that Fubon Life will continue to drive the group credit profile and maintain a stable stand-alone credit profile over the next two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term issuer credit rating and financial strength rating on Fubon Life, as well as the 'twAA' long-term issue credit rating on the insurer's subordinated corporate bond. At the same time, we affirmed the 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Fubon FHC. The outlook on the long-term ratings is stable.

Rationale

Fubon Life's capital and earnings will likely remain satisfactory over the next two years despite sensitivity to capital market volatility. Fubon Life has higher investment leverage and forex risks than regional peers. This is common across Taiwan's life insurance sector.

During 2023 and the first half of 2024, Fubon Life's forex risk rose amid the insurer's efforts to control hedging costs and the persistent strength of the U.S. dollar against the new Taiwan dollar. Fubon Life increased its hedge ratio in the third quarter of 2024 following the appreciation of the new Taiwan dollar against the greenback. We believe Fubon Life will maintain an effective risk management mechanism to prevent material weakening of its capital and earnings, while dynamically managing its forex risk exposure.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

Patty Wang
Taipei
+886-2-2175-6823
patty.wang
@spglobal.com
patty.wang
@taiwanratings.com.tw

Fubon Life is likely to maintain capital redundancy at our substantial stress scenario or 99.8% confidence level in the next two years, from our earlier expectation of 99.5%. Similar to its peers, Fubon Life's growth in total adjusted capital in 2023 and the first half of 2024 was mainly due to large unrealized gains on equity stock holdings. The insurer's equity stock investment allocation ratio was 16.4% as of June 2024, from 15.6% in 2023.

At the same time, Fubon Life's above-average earnings performance, with return on average assets of 1.7% for the first half of 2024 (annualized) and 0.61% in 2023, enhanced its capital buffer. We will monitor how the insurer manages its capital and earnings through potential market fluctuations in the coming two years.

Our assessment of Fubon FHC's group credit profile largely reflects our assessment of the stand-alone credit profile of Fubon Life. As the group's flagship entity, Fubon Life has on average accounted for about 55% of the group's capital and over half of its profits over the past five years.

The ratings on Fubon FHC reflects the group's strong market position and diversified businesses across Taiwan's life and non-life insurance, bank, and securities sectors. The ratings also reflect the group's higher earnings resilience due to its better diversification than other financial holding companies domestically. Counterbalancing these strengths is Fubon Life's satisfactory financial risk profile, which is similar to the average for Taiwan-based life insurers.

The long-term issuer rating on Fubon FHC is one notch below our ratings on the group's core entities on a global rating scale. This reflects the holding company's structural subordination to these entities. The one-notch difference compares favorably with the general two to three notch gap between an insurance group holding company and its core units. The single-notch difference reflects Fubon FHC's direct control over multiple material operating units such that non-insurance operations have historically contributed about 40% of the group's profits on average.

We consider Fubon FHC's core operating entities as sufficiently diverse and independent, such that a suspension of cash flow from any of them would not substantially weaken the holding company's financial position. We also consider the limited regulatory restrictions on cash flow between group members and operating units and holding companies in Taiwan.

Outlook

The stable rating outlook on Fubon Life and Fubon FHC reflects our view that Fubon Life will continue to drive the group credit profile, while other major subsidiaries will maintain stable credit profiles over the next one to two years.

We believe Fubon Life's enhanced capital adequacy will help it to manage the negative impact of market volatility on its capital and earnings. In addition, we anticipate the insurer will meet additional capital requirements related to its growth aspiration without materially weakening its capital and earnings. These requirements could include capital outlays to absorb volatility in the insurer's investment valuations, support overseas subsidiaries, and pursue further organic growth. Further, we believe the insurer can manage its forex risk by proactively adjusting its hedging, without tempering its capital adequacy.

Downside scenario

We could lower the long-term ratings on Fubon FHC and Fubon Life if we lower our assessment of the group credit profile. This may happen if:

- Fubon Life's risk exposure heightens, which could lead to volatility in capital and earnings. This could be due to enlarged exposure to forex risk, net of effective hedging, or materially and

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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. This would reflect aggressive risk accumulation, especially in higher-risk markets such as China or through equity investments. The bank's capital and earnings could also deteriorate if it has insufficient earnings to fund growth.

Upside scenario

We could raise the ratings if we revise upward our assessment of the group credit profile. This could occur if: (1) we anticipate Fubon Life's capital and earnings will sustainably improve to a strong level for a prolonged period after considering potential market volatility and financial changes over the coming two years; and (2) the insurer will have 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.

Ratings Score Snapshot

Fubon Life Insurance Co. Ltd.

Financial strength rating	twAA+
Anchor	a-
Business risk	Strong
Competitive position	Very Strong
IICRA	Moderately high
Financial risk	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment

Related Criteria & Research

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov 15 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, Mar 02 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- Criteria | Insurance | General: Insurers Rating Methodology, Jul 01 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- General Criteria: Principles Of Credit Ratings, Feb 16 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

Fubon Life Insurance Co. Ltd.

Issuer Credit Rating	twAA+/Stable
Financial Strength Rating	twAA+/Stable
Unsecured Subordinated Corporate Bond	twAA

Fubon Financial Holding Co. Ltd.

Issuer Credit Rating	twAA/Stable/twA-1+
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