

Media Release:

# Nan Shan Life Insurance Upgraded To 'twAA+' From 'twAA' On Improved Capital And Earnings; Outlook Stable

November 27, 2024

## Overview

- Taiwan-domiciled **Nan Shan Life Insurance Co. Ltd.'s** capital and earnings have strengthened under its prudent strategies for business growth and investment. We have therefore revised our capital and earnings assessment for the company to strong from satisfactory.
- We anticipate Nan Shan Life will maintain its strong competitive position through the insurer's resilient distribution network and proactive product strategy. A resumption of the sale of investment-linked products in 2024 has returned the insurer to a full product line up in the domestic market.
- We therefore raised our long-term financial strength and issuer credit ratings on Nan Shan Life to 'twAA+' from 'twAA'. At the same time, we raised our issue rating on the insurer's unsecured subordinated corporate bond to 'twAA' from 'twAA-'.
- The stable rating outlook reflects our view that Nan Shan Life will maintain strong capital and earnings and a satisfactory financial risk profile over the next two years. We believe it will achieve this through moderate premium growth focusing on long-tenor, protection type products, and a prudent investment strategy.

## Rating Action

Taiwan Ratings Corp. today raised its long-term financial strength and issuer credit ratings on Nan Shan Life to 'twAA+' from 'twAA'. The outlook on the ratings is stable. At the same time, we raised our issue rating on the insurer's unsecured subordinated corporate bond to 'twAA' from 'twAA-'.

## Rationale

**The upgrade reflects our assessment that Nan Shan Life will maintain its improved capital and earnings over the next two years, supported by its prudent business growth and investment strategy.** We believe the insurer now has sufficient capital adequacy under our substantial stress scenario (99.8% confidence level) compared with our previous view of capital adequacy under a moderate stress scenario (99.5% confidence level). Moderate premium growth focusing on long-tenor, protection type products has underpinned this improvement. In addition, we acknowledge the support of favorable equity market conditions and the insurer's full earnings retention in helping Nan Shan Life to accumulate total adjusted capital over the past two years.

### PRIMARY CREDIT ANALYST

**Eunice Fan**  
Taipei  
+886-2-2175-6818  
eunice.fan  
@spglobal.com  
eunice.fan  
@taiwanratings.com.tw

### SECONDARY CONTACT

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

**Equity exposure has declined under the insurer's more prudent investment strategy since 2022.** We assess Nan Shan Life's equity exposure at about 11% of its total invested assets as of mid-2024, down from 14% at the end of 2021. The proportion of equities held in the investment portfolio has also remained flat over the past few quarters. We do not expect Nan Shan Life to materially change its investment mix or pursue a material rise in equity exposure over the next two years.

The insurer's more prudent business growth and investment appetite are in line with its strategy to reserve more capital in preparation for its migration to the new International Financial Reporting Standard 17 and Insurance Capital Standard in 2026. These measures can also help maintain its capital and earnings at the same level over the next two years, in our view. The insurer's higher foreign exchange risk exposure by local peer standards somewhat offsets its overall satisfactory financial risk profile, in our view.

**Nan Shan Life retains a strong business position in Taiwan's life insurance sector.** This is underpinned by the insurer's solid franchise, resilient distribution network, and proactive product strategy. The resumption of the sale of investment-linked products since 2024 has also helped Nan Shan Life to restore its full product range, which now makes it comparable to other major players in the Taiwan life sector.

## Outlook

The stable rating outlook reflects our view that Nan Shan Life will maintain its capital and earnings and accordingly, a satisfactory financial risk profile over the next two years. Moderate premium growth with a focus on long-tenor, protection type products will underpin its stable capital and earnings.

We believe Nan Shan Life will keep its investment risk exposure relatively unchanged through close monitoring and proactive risk control amid volatile market conditions. We anticipate no structural change in the investment mix over the next two years.

In addition, we anticipate the insurer's operations will remain independent of its two main shareholders--Taiwan-based Ruentex and Pou Chen Corp. groups--under Taiwan's regulatory framework for the financial service sector.

### Downward scenario

We may lower the ratings on Nan Shan Life if:

- The insurer pursues aggressive business growth or an aggressive investment risk appetite over the next two years causes its capital and earnings to weaken from our current strong assessment;
- Nan Shan Life records larger unexpected investment losses than we expect and has materially lower value of in-force than we originally forecast, because value of in-force accounts for a large part of the Nan Shan group's total adjusted capital; or
- We consider Nan Shan Life's overall competitive strength has weakened compared to similar-rated domestic peers.

### Upward scenario

We may raise the ratings on Nan Shan Life if:

- The insurer's investment risk profile improves, possibly through improved foreign exchange risk exposure and investment leverage that become comparable to those of regional peers

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via a prudent risk appetite and risk controls, while at the same time maintaining strong capital and earnings; or

- We raise our assessment of its capital and earnings to very strong. Such improvement could be via a substantial capital injection or materially higher value of in-force than we previously expected, through the sale of more value creation products. However, we view the likelihood of this to be a remote over the rating horizon, considering the high market competition.

### Ratings Score Snapshot

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

IICRA--Insurance Industry And Country Risk Assessment.

### 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: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Guarantee Criteria - October 21, 2016

#### Related Research

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

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## Ratings List

### Upgraded

	To	From
<b>Nan Shan Life Insurance Co. Ltd.</b>		
Issuer Credit Rating	twAA+/Stable	twAA/Stable
Unsecured Subordinated Corporate Bond	twAA	twAA-

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