

# NT\$ Appreciation Puts Spotlight On Taiwan Life Insurers' Forex Risk Management, Says Report

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This report does not constitute a rating action.

Recent appreciation in the New Taiwan Dollar (NT\$) poses a headache for Taiwan life insurers that rely heavily on foreign-currency investments. Insurers now face a balancing act to manage their forex risk without escalating capital and earnings risk.

This is according to a report we published today, titled "**NT\$ Appreciation Puts Spotlight On Taiwan Life Insurers' Forex Risk Management.**"

"Life insurers have invested heavily in foreign-currency assets over the past few years due to a lack of long-dated NT\$-denominated investments to match the long duration of insurers' liabilities," said S&P Global Ratings credit analyst Serene Hsieh. "However, sharp appreciation in the NT\$ against the U.S. dollar in early May could undermine this important profit source. It also highlights the importance of careful forex risk management."

Taiwan life insurers have the highest foreign-currency investment allocation of any life insurance market in Asia-Pacific. The sector's high currency mismatch also heightens its profit sensitivity due to the considerable cost of hedging tools and the risks from insurers' unhedged forex positions.

"Persistently high hedging costs in recent quarters have prompted insurers to trim their hedge ratio, which has in turn pushed up their forex risk exposure," added Ms. Hsieh. "This move was primarily to save hedging costs and maximize the return on their sizeable foreign-currency investments."

The full report is available to subscribers of TRC's Rating Research Service (<https://rrs.taiwanratings.com.tw/>) and for members of the media by contacting Simon Chen at +886-2-2175-6871 or via email at [simon.chen@taiwanratings.com.tw](mailto:simon.chen@taiwanratings.com.tw).

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