

Media Release:

# First Life Insurance Co. Ltd. Assigned 'twAA-' Ratings, Outlook Stable

July 7, 2020

## Overview

- We view First Life as a highly strategic member of the First FHC group. First Life fits into the group's strategy to provide diversified financial services and is the group's sole life insurance vehicle.
- On a stand-alone basis, the insurer's credit profile is constrained by its scale disadvantage and marginal capitalization while still during its expansionary phase as a relatively new insurer in the market.
- We are therefore assigning our 'twAA-' long-term insurer financial strength and issuer credit ratings to First Life.
- The stable outlook on the ratings reflects the outlook on the parent group and our expectation that First Life will remain a highly strategic group member over the next two years.

## Rating Action

Taiwan Ratings Corp. today assigned its 'twAA-' long-term insurer financial strength and issuer credit ratings to **First Life Insurance Co. Ltd.** The outlook on the long-term ratings is stable.

## Rationale

The ratings on First Life reflect strong support from its parent, First Financial Holding Co. Ltd. (First FHC) group, given our view of the insurer's highly-strategic group status. The ratings also reflect the insurer's high linkage to the group's wider customer resources and the insurer's prudent investment strategy, which will likely support a stable business flow and manageable investment risk. Counterbalancing factors include First Life's relatively small scale in the domestic life insurance market, below-average operating performance constrained by its scale disadvantage, and marginal capital and earnings relative to its risk profile.

We believe that First Life fits into the group's strategic direction as a financial services provider and is the group's sole life insurance vehicle. The insurer has achieved satisfactory cross-selling records with the group's banking arm, First Commercial Bank (FCB), and we expect the integration with group members to further strengthen with more diversified

### PRIMARY CREDIT ANALYST

**Eunice Fan**

Taipei

+866-2-8722-5818

eunice.fan

@spglobal.com

eunice.fan

@taiwanratings.com.tw

### SECONDARY CONTACT

**Yuhan Lan**

Taipei

+866-2-8722-5810

yuhan.lan

@spglobal.com

yuhan.lan

@taiwanratings.com.tw

product offerings going forward. This is despite First Life's scale and profit contribution to the group is small, accounting for less than 2% of the group's consolidated assets and capital as of 2019. In our view, the group has a strong commitment to support the insurer's business growth and capital needs, and has identified life insurance business as the group's second profit generating engine over the mid to long term, in addition to its solid banking operations in Taiwan.

First Life's business risk profile is slightly below the industry average, in our opinion. First Life operates primarily in Taiwan's life insurance market, where we assess the industry and country risk as 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 insurers earnings and have resulted in an industry wide problem of negative spread wherein average policy costs outweigh average investment returns.

We view First Life's competitive position as slightly below the industry average mainly constrained by its small scale and below-average operating performance with high expenses under its expansionary phase. On the other hand, the insurer's close linkage to the wider resource of the First FHC group can help to support a stable business flow, which somewhat offsets the insurer's scale limitations on a forward-looking prospective. We believe First Life benefits from a high level of control over its distribution channels mainly through referrals from group affiliates which we view as a stable business sources with a satisfactory persistency ratio.

First Life is a small life insurer in Taiwan, commanding about 0.6% in terms of total premiums and 1.9% of first-year premiums (FYPs) in Taiwan's life sector as of March 2020. First Life's operating performance is below the local industry average and constrained by scale disadvantages and expenses associated with new business expansion. The insurer reported losses before 2018 due to high expenses, given its lack of operating scale, but turned profitable in 2019 supported by its expanded sale from interest sensitive annuity products as well as good investment income amid favorable capital market conditions. We expect the insurer to report marginal profits for the next two years along with a satisfactory investment spread. Unlike other Taiwan life insurers, First Life is not exposed to the legacy burden of negative spread, given it was a late comer to the market in 2008.

We assess First Life's financial risk profile as marginal as constrained by the below-average capital & earnings. Nonetheless, the insurer has adequate risk controls and a prudent investment strategy, which help support a manageable investment risk profile. We expect First Life's capital adequacy to remain at a similar level with subdued business growth in 2020 along with regulatory direction changes, and return to above-average growth in 2021 and 2022. This also factors in our view of the group's supportive measures on potential capital injections and profit retention over the same period.

First Life has an average investment risk profile, with adequate risk controls and lower-than-average high-risk assets and foreign exchange risk exposure. The majority of the company's investments are composed of fixed-income securities with satisfactory credit quality, albeit the insurer's exposure to the financial sector is slightly higher than the local average. First Life's equity exposure was about 10% of invested assets in 2019. The level could increase slightly following its investment strategy but should be manageable under the insurer's prudent investment appetite, in our view.

We believe First Life has an adequate funding structure and no outstanding debt.

In addition, we assess First Life's governance to be a neutral factor to the ratings. We believe the insurer has appropriate strategic planning and comprehensive financial and operational standards in place. The insurer's risk management culture is prudent and mainly follows that of the group. Moreover, First Life benefits from its connection with the First FHC group in terms of credit risk and market risk management. First Life's risk controls in most areas are adequate, given the insurer's small scale with simple business exposure.

## Outlook

The stable outlook on First Life reflects our expectation that the insurer will remain a highly strategically important member of First FHC group. We also expect First Life to maintain strong control over its distribution network and continue to leverage group resources to expand its business scale and product diversification. In addition, we expect First Life's investment portfolio to remain prudent with diversified fixed-income investments and satisfactory credit quality. Moreover, we forecast the insurer's capitalization could remain marginal in 2020-2021 and constrained by fair operating results.

### Downward scenario

We may lower the ratings on First Life if the group credit profile deteriorates substantially or if First Life's group status weakens due to significant operating losses or if the company becomes no longer relevant to the group's long-term business strategy, although we view this as remote over the next two years.

### Upward scenario

We may raise the ratings if we reclassify First Life as a core entity to the wider group. This would require the company to become a much stronger contributor to the group via expanded scale or improving operating results.

## Rating Score Snapshot

<b>Business Risk Profile</b>	<b>Fair</b>
Competitive position	Satisfactory
IICRA	Moderately high
<b>Financial Risk Profile</b>	<b>Marginal</b>
Capital and earnings	Marginal
Risk exposure	Moderately Low
Funding structure	Neutral
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
<b>Financial Strength Rating</b>	<b>twAA-</b>

## Related Criteria

- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### New Ratings

---

**First Life Insurance Co. Ltd.**

---

Issuer Credit Rating	twAA-/Stable
----------------------	--------------

Financial Strength Rating	twAA-/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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

Copyright © by Taiwan Ratings Corp. All rights reserved.

Copyright © 2020 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, [www.taiwanratings.com](http://www.taiwanratings.com) (free of charge), and [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw) (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.