

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

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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

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

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)

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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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