Media Release:

For Taiwan Life Insurers, Reduced Hedging Could Amplify Forex Risk, Says Report

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Taiwan's life insurers have a tough choice to make. The widening differential between the interest rate of the U.S. dollar and the new Taiwan dollar could push up insurers' hedging costs. But how insurers intend to manage their foreign exchange (forex) risk and strive to meet shareholder demand for profits could have a negative credit impact.

That's the subject of a report, titled, "**For Taiwan Life Insurers, Reduced Hedging Could Amplify Forex Risk**," that Taiwan Ratings Corp. published earlier today.

Taiwan's life insurers hold a large proportion of foreign currency-denominated assets relative to their regional peers. As the differential between the interest rate of the U.S. dollar and the new Taiwan dollar widens in 2022, the cost of hedging those assets is likely to rise.

Forex risks remain manageable for most life insurers, but some could come under pressure as the interest rate gap widens rapidly. However, insurers' ambition for good accounting profits remains strong.

Taiwan Ratings believes that it may take negative rating actions on Taiwan life insurers that overly emphasize profits at the expense of aggressively widening their foreign exchange risk-taking.

The commentary forms part of an English-language webinar given by Taiwan Ratings analysts, titled, "**Taiwan Insurance Sector Update: Reduced Hedging May Amplify Taiwan Life Insurers' Forex Risks**" at 11 am, Wednesday May 4, 2022. Enrollment in the webinar is available via the following **link** [https://event.on24.com/wcc/r/3764884/9C54EFB4B45C86FD18B1112C071BB1A0?partnerref=MR]. A replay of the event will be available via the same link from the morning of Thursday, May 5, 2022.

The full reports are available to Taiwan Ratings subscribers at https://rrs.taiwanratings.com.tw/portal/member. Members of the media can obtain copies by contacting Simon Chen at (886) 2-2175-6871 or via email at simon.chen@taiwanratings.com.tw.

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