IFIGS

Success Stories

Featured Insolvency

- ***Company*** **Kuo Hua Life Insurance Company (Kuo Hua Life)**
- ***Insurance*** **Life Insurance**
- ***Country*** **Taiwan**
- ***IGS*** **Taiwan Insurance Guaranty Fund (TIGF)**

About Kuo Hua Life

Kuo Hua Life was a Taiwanese life insurance company established in 1963. During its peak, it was one of the largest life insurance companies in Taiwan, with its number of policyholders once reaching 1.8 million. However, following the sharp decline in the stock market in 2000, the company suffered substantial losses and reported a negative net worth. Although the company raised additional capital of TWD (all figures hereafter are in Taiwan Dollars) 3 billion in 2003, it continued to incur losses due to the prolonged low-interest rate environment, resulting in an expanding negative net worth position. Instead of reducing risk exposure, the company further increased its investments in equities. During the 2008 global financial crisis, the severe decline in the stock market caused significant impairment losses on its financial assets and further deterioration of its net worth.

Combined with its long-term failure to meet statutory solvency standards, repeated delays in capital injection plans, and severe corporate governance failures, the Financial Supervisory Commission (FSC) appointed TIGF as the receiver in August 4, 2009. In November 2012, TransGlobe Life assumed the assets and liabilities of Kuo Hua Life through a public bidding process. For this arrangement, TIGF funded a subsidy of 88.368 billion to TransGlobe Life.

Kuo Hua Life was the first resolved life insurance company in Taiwan in accordance with the law, and its resolution cost remains the highest to date.

Kuo Hua Life's Performance in 2008:

- Premium Income: 38.3 billion (ranked 14th among 30 life insers), an increase of 1.5% compared to the previous year (the life insurance industry average growth rate was 2.3%).
- With total assets of 231.5 billion, ranking 10th among 30 life insurers.
- Net Income After Tax: A loss of 34 billion, with a Return on Assets (ROA) of -14.2% (the life insurance industry average ROA was -1.4%).
- Net Worth: -59 billion, a decrease of 50 billion. The net worth ratio was -25.6%, deteriorating by 21.9 percentage points from -3.7% in the previous year. (The life insurance industry average net worth ratio was 2.6%, down 3 percentage points from the previous year) .

Causes of the Kuo Hua Life Failure

- Negative spread: The yield on invested assets was insufficient to cover the liabilities arising from high guaranteed-interest policies, resulting in a persistent negative spread and a continued deterioration in the company's financial position.
- High-Risk Investment Strategy: Despite insufficient capital, the shareholders refused to carry out effective capital injections. Instead, the company adopted a strategy of investing in high-risk assets, with an equity allocation ratio far higher than the industry average. This caused its net worth to fluctuate drastically alongside stock market movements, leaving it heavily hit by the global financial crisis.
- Poor Asset Quality: Improper loans to related parties resulted in bad debts as high as 11.8 billion.
- Financial Misrepresentation: Inflating asset valuations and understating discounts on invested bonds.
- Weak corporate governance: Certain assets were allegedly misappropriated by major shareholders. Shareholders avoided their responsibility to inject capital, and frequent turnover of directors and supervisors resulted in severe governance dysfunction. Before receivership, the company was reportedly left with only one director and no supervisors.

Affected Kuo Hua Life Policyholders

At the time of receivership, Kuo Hua Life had approximately 1.4 million policyholders. All policies were ultimately assumed by TransGlobe Life, and policyholder rights and interests were fully protected.

TIGF Assistance in the Kuo Hua Life Insolvency

TIGF played a leading role in both the receivership process and the protection of policyholders' interests throughout the resolution of Kuo Hua Life. Upon appointment by FSC, TIGF acted as receiver and carried out the receivership process. TIGF also provided financial subsidy amounting to 88.368 billion to facilitate the assumption transaction by TransGlobe Life, ensuring that policyholders' rights and interests were not adversely affected.

About TIGF

TIGF was established in 2009 in accordance with Taiwan's Insurance Act. Its mandate is to protect the fundamental rights of policyholders and maintain financial stability. Since its establishment, TIGF has carried out the resolution of four troubled insurance companies. Insurers in Taiwan are legally required to contribute levies to TIGF. Currently, there are 40 members, consisting of 20 life insurers and 20 non-life insurers.