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Life Insurance: Stable Credit Outlook for 2022 Underpinned by Strong Capitalization, Low Debts and Good Earnings

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ANALYST

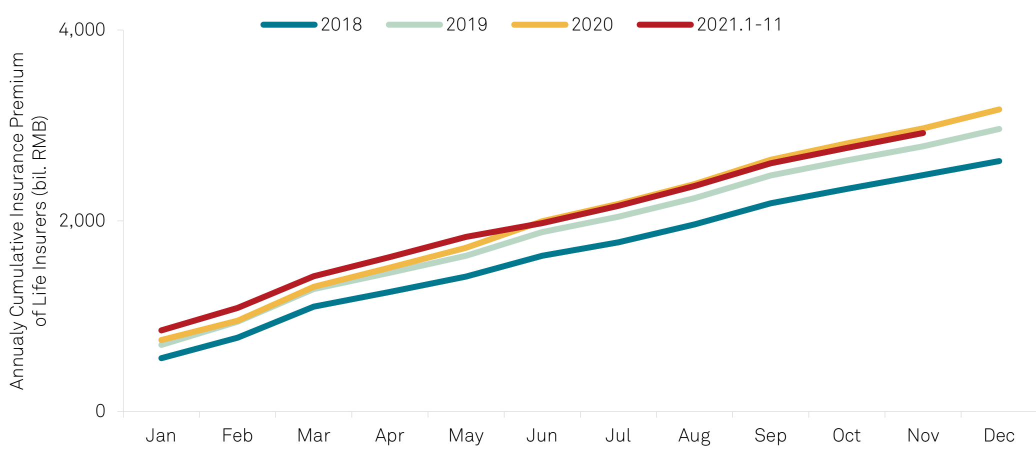
Xiaochen Luan, CFA, FRM
Beijing
collins.luan@spgchinaratings.cn

Ying Li, CFA, FRM
Beijing
ying.li@spgchinaratings.cn

We are maintaining our stable outlook on the life insurance sector for 2022. Nonetheless, insurers continue to face challenges related to their investment exposure to heightened volatility in the capital market.

Large life insurers will continue to enjoy stable business momentum and market share going forward, but small players will face more difficulties when sector growth stagnates. In the first eleven months of 2021, premium growth in the life insurance sector dropped by 1.6% YoY. Given the limited ability of small players to grow through investment-type products thanks to tightened regulations since 2017, larger companies are in a good position to defend their market share with their strong distribution channels for protection products.

Chart 1
Premium growth stagnated in 2021
Annual Cumulative Insurance Premium of Life Insurance Sector in China



Source: CBIRC, collected and adjusted by S&P Global (China) Ratings.

We expect the life insurance sector to maintain strong capitalization. As of June-end 2021, the life insurance sector's core solvency ratio was 225.5%, much higher than the minimum regulatory requirement of 50%.

The implementation of the regulatory solvency framework under Solvency Regulatory Rules II ("Rule II") should improve the capital management of insurers. In December 2021, CBIRC issued Rule II for insurance companies. Its trial implementation will start in the first quarter of 2022. We believe that Rule II's adjustments on risk factors, emphasis on underlying asset quality of investment portfolios and more detailed assessment of risk management capabilities are all positive for better capital management in the industry.

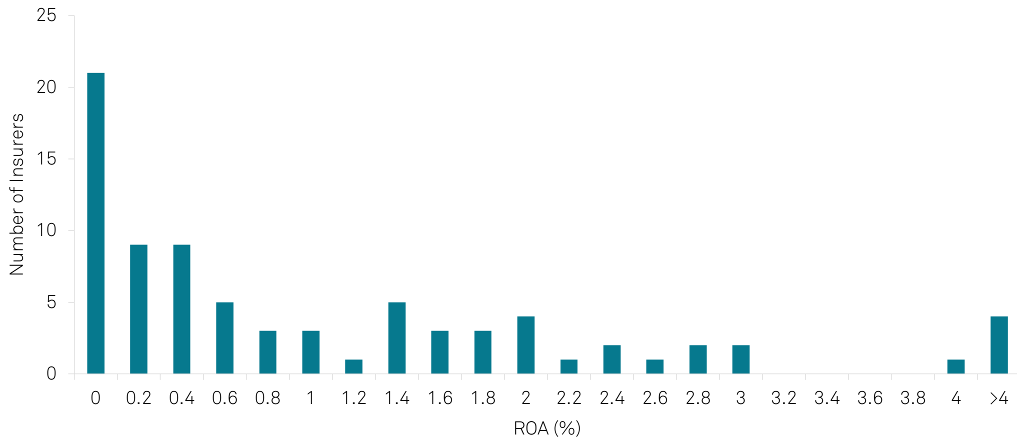
The profitability of life insurers will remain robust in 2022. The annualized weighted average of ROE of 20 major life insurers in the first half of 2021 was 16.3%, down by 4.3 percentage points compared with the same period 2020. Nevertheless, the absolute earnings level was still very good.

Business size has a big impact on the profitability of life insurers. While larger players continue to enjoy very good profitability, a significant number of smaller insurers are suffering losses. Their earnings vulnerability is partially offset by their very low debt level.

Chart 2

Life insurers' profitability varies significantly

Distribution of ROA of Life Insurers in 2020



Source: Public information of companies, collected and adjusted by S&P Global (China) Ratings.

The government take-over of several high-risk life insurers in previous years and the regulator's efforts to improve corporate governance have effectively contained the bond default risk of the life insurance industry. As of the end of 2020, the [B_{spc}] category life insurers in our desktop analysis had total assets of about 2 trillion RMB, but their financial obligations were only about 55 billion RMB. As of the end of September 2021, their outstanding bonds had shrunk to 12 billion RMB. This sector's overall default risk is small.

In our view, elevated stock market volatility and higher default risk in the bond market may weigh on profitability going forward. The asset allocation of insurers has remained stable in recent years. Due to the bullish stock market in 2020, insurers had good investment returns. The insurance sector's average investment return was 5.4% in 2020, up by 47 bps YoY. In the first half of 2021, insurers' realized gains grew by 8.3% compared to the same period 2020. But increasing incidents of bond defaults in the domestic market and elevated stock market volatility continue to make insurers' profitability vulnerable to investment return swings.