

## Media Release

# China Life Insurance Co. Ltd. Outlook Revised To Stable On Expected Insulation From CDFHC Group; 'twAA' Ratings Affirmed

July 30, 2019

## Overview

- China Life is likely to remain a separately listed company with limited operational and financial links to the wider CDFHC group over the next one to two years.
- We are therefore revising the rating outlook to stable from negative.
- At the same time, we affirmed our 'twAA' financial strength and issuer credit ratings on China Life.

## Rating Action

Taiwan Ratings Corp. today revised the outlook on its long-term issuer credit rating and financial strength rating on **China Life Insurance Co. Ltd.** to stable from negative. At the same time, we affirmed 'twAA' ratings on the life insurer.

## Rationale

The outlook revision reflects our view that China Life will remain insulated from the **China Development Financial Holding Corp.** (CDFHC) group without further integration or increased shareholding by the group over the short term. The group's shareholding in China Life has remained relatively unchanged over the past year and stood at 34.82% as of the end of June 2019 after China Life's New Taiwan dollar (NT\$) 9.27 billion of capital injection via public offering. The shareholding was 34.96% prior to the public offering. We originally expected CDFHC to acquire additional shares in China Life and transform the insurer into an integrated member under the group umbrella by 2020. However, we now do not expect CDFHC to acquire further shares in China Life nor do we expect China Life to materially integrate with the group over the short term.

We now expect China Life to sustain its credit strength and remain insulated from the CDFHC group over the next one to two years. China Life is a listed company and CDFHC is not the absolute majority shareholder. We believe the remaining shareholders of China Life as well as the local insurance regulator have incentive to prevent China Life from financial resource sharing with other members of the CDFHC group to an extent that would impair the subsidiary's stand-alone creditworthiness. At the same time, we expect China Life's financial performance and funding to remain highly independent from the group. By our assessment, the group channel contributes a limited proportion of China Life's total premiums and we now believe there is a reduced likelihood that the franchise linkage and potential resource sharing with the wider CDFHC group could increase materially over the next one to two years.

### PRIMARY CREDIT ANALYST

**Yuhan Lan**  
Taipei  
+886-2-8722-5810  
yuhan.lan  
@taiwanratings.com.tw  
yuhan.lan  
@spglobal.com

### SECONDARY CONTACT

**Patty Wang**  
Taipei  
+886-2-8722-5823  
patty.wang  
@taiwanratings.com.tw  
patty.wang  
@spglobal.com

The rating affirmation reflects our expectation that China Life's capital and earnings will remain satisfactory over the next two years, which we believe is capable of withstanding modest volatility. We also believe the insurer's foreign exchange risk exposure and high risk asset exposure will not increase materially to levels that would expose the insurer to additional risks over the same period. At the same time, we expect China Life to maintain its satisfactory business risk profile underpinned by its operating performance, as evidenced by consistently better return on average assets and investment returns than those of its domestic peers.

## Outlook

The Stable outlook reflects the likelihood that China Life will remain largely operationally and financially independent from the CDFHC group over the next one to two years without further integration into the group. The outlook also reflects our expectation that CDFHC will not increase its shareholding in China Life significantly over the period. Therefore, we view that the ratings on China Life will remain insulated from movement in the CDFHC group credit profile over the next one to two years.

### Downward scenario

We may lower the ratings on China Life if the insurer's stand-alone credit profile weakens due to weaker capitalization. We may also lower the ratings if we believe the insurer's integration with the CDFHC group strengthens resulting in its credit profile becoming linked to that of the group. In such a case, the ratings on China Life will be capped by the relatively weaker CDFHC group credit profile. This is likely to materialize when CDFHC acquires further significantly more shares in China Life.

### Upward scenario

We may raise the ratings on China Life if the insurer enhances its capitalization materially through significant capital injections, profitable growth, and lower risky asset growth while maintaining stable risk exposures; or if the insurer significantly and sustainably strengthens its market position to be a top market player by total premiums in several major product segments. This would also have to be accompanied by the stable performance of risk factors across its business and financial risk profiles. However, we consider the likelihood of the upside scenario to be somewhat limited over the next one to two years.

## Ratings Score Snapshot

| <b>Business Risk Profile</b>     | <b>Satisfactory</b> |
|----------------------------------|---------------------|
| Competitive position             | Strong              |
| IICRA                            | Moderately high     |
| <b>Financial Risk Profile</b>    | <b>Satisfactory</b> |
| Capital and earnings             | Satisfactory        |
| Risk exposure                    | Moderately low      |
| Funding structure l              | Neutral             |
| <b>Modifiers</b>                 |                     |
| Governance                       | Neutral             |
| Liquidity l                      | Exceptional         |
| Comparable ratings analysis      | 0                   |
| <b>Financial Strength Rating</b> | <b>twAA</b>         |

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

(Unless otherwise stated, these articles are published on [www.standardandpoors.com](http://www.standardandpoors.com), access to which requires a registered account)

## Ratings List

### Outlook Revision; Ratings Affirmed

|                                      | To          | From          |
|--------------------------------------|-------------|---------------|
| <b>China Life Insurance Co. Ltd.</b> |             |               |
| Issuer Credit Rating                 | twAA/Stable | twAA/Negative |
| Financial Strength Rating            | twAA/Stable | twAA/Negative |

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 [www.rrs.taiwanratings.com.tw](http://www.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 © 2019 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.