

Media Release:

Taiwan-Based China Life Insurance Outlook Revised To Negative On Market Volatility, Low Interest Rate; Ratings Affirmed

May 8, 2020

Overview

- The COVID-19 pandemic has increased the volatility of global financial markets at a time when China Life could face pressure to improve its capital and earnings amid rising investment risk.
- We are revising the outlook on our long-term ratings on China Life to negative from stable.
- We are affirming the 'twAA' long-term issuer credit rating and insurer financial strength rating on China Life.

Rating Action

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

Rationale

The downward outlook revision reflects the likelihood that China Life could see increasing pressure on its capital and earnings, given heightened market uncertainty and prevailing low interest rates. We continue to see increasing downside risk for the insurer in light of the negative global impact from the COVID-19 outbreak, recent oil shocks, and sluggish macroeconomic prospects. We assess the credit profiles of Taiwan-based life insurers as more vulnerable to this challenging operating environment than their global peers, given local insurers' relatively higher equity exposure, higher weighting on overseas investments, and thinner capital buffers.

We anticipate the likelihood of a worsening economic climate globally will weigh on China Life's capital buffer and its ability to maintain satisfactory capital and earnings. China Life's capital buffer is slightly better than the industry average and the insurer's weighting on equity investments is lower than that of its peers. However, China Life has a high weighting on overseas investments, which is similar to its peers', which could still exposed the insurer to risk from global market volatility. We expect the growth of China Life's value-of-inforce and in

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turn its capital accumulation to slow down in the coming year. This reflects the impact of interest rate cuts on its investment return assumptions, while its assets are likely to continue to grow by a high single digit to low double digit. In addition, as with our forecast for the overall life sector, we expect China Life's earnings growth to slow to reflect a lower-for-longer interest rate environment and continued market uncertainty.

Under our base case assumptions for China Life, we expect the insurer to sustain its credit strength and remain insulated from its parent, China Development Financial Holding Co. Ltd. (CDFHC) group over the next one to two years. China Life is a listed company and the parent is not the absolute majority shareholder. We believe the remaining shareholders of China Life as well as the local insurance regulator have sufficient 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.

Outlook

The negative outlook reflects the likelihood that China Life could see reduced growth for its capital and earnings if global financial markets continue to weaken. We also expect China Life to remain largely operationally and financially independent from the CDFHC group over the next one to two years and we believe the ratings on the insurer will remain insulated from movement in the group credit profile.

At the same time, we do not expect China Life's foreign exchange risk exposure and high risk asset exposure to increase materially to levels that would expose the insurer to additional risks over the next two years. China Life's operating performance should help underpin its satisfactory business risk profile over the period, as evidenced by consistently better return on average assets and investment returns than its domestic peers'.

Downward scenario

We may lower the ratings on China Life if the insurer's capitalization weakens due to overly aggressive investment strategies, higher market volatility or lower VIF growth than we expected. We may also lower the ratings if we believe the insurer's integration with the CDFHC group strengthens and results in its credit profile becoming linked to that of the group. In such a case, the ratings on China Life could be capped by the relatively weaker CDFHC group credit profile. This is likely to materialize when CDFHC acquires significantly more shares in China Life.

Upward scenario

We could revise the outlook back to stable if China Life strengthens its capital buffer sustainably to more than cover the investment risks it could face over the coming one to two years. This could be done through significant capital injections, profitable growth, and lower risky asset growth while maintaining stable risk exposure; or if the insurer significantly and sustainably strengthens its market position to be a top market player by total premiums and assets. This would also have to be accompanied by the stable performance of risk factors across its business and financial.

Ratings Score Snapshot

China Life Insurance Co. Ltd.

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

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Revision

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