Media Release:

Outlook On China Life Insurance Co. Ltd. Revised To Stable From Negative On Enhanced Capital Buffer; 'twAA' Ratings Affirmed

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Overview

- We believe China Life's capitalization has improved as of the end of 2020 and now provides a comfortable buffer against potential market volatility and investment or foreign exchange risks.
- We continue to view China Life as a core subsidiary of the CDFHC group and we believe the the insurer's credit profile acts as the main driver supporting the overall group credit profile, given China Life's dominant contribution to the group's financial strength.
- We have revised the outlook on our ratings on China Life to stable from negative.
- At the same time, we affirmed the 'twAA' issuer credit rating and financial strength rating on the insurer.

Rating Action

On May 26, 2021, Taiwan Ratings Corp. revised the outlook on its long-term 'twAA' issuer credit rating and financial strength rating on **China Life Insurance Co. Ltd.** to stable from negative. At the same time, we affirmed the ratings.

Rationale

The outlook revision reflects our view that the insurer has enhanced its capitalization to provide sufficient buffer against ongoing market uncertainty and investment risk exposure.

China Life is likely to maintain stable capital and earnings over the coming two years despite potential market volatility and a persistent low interest rate environment. We continue to assess China Life's capital adequacy as fair, and we believe the insurer has restored its capital buffer to the pre-pandemic the level as of the end of 2019. China Life achieved this improvement through strong capital gains and a reduction in liability costs. These factors offset downward pressure on the insurer's recurring investment yields from lower market rates and the call back of better-yield international bonds in 2020. Good profits and higher valuation of the insurer's equity investments helped boost shareholders' equity which also offset double-digit growth in China Life's asset risks in 2020.

We believe China Life's capital accumulation will slow down in 2021 and 2022, amid moderating profits and growth of value of in-force under the current low interest rate environment. However, we also believe the insurer's asset growth may slow down, which will help to ease pressure on its capitalization. We forecast China Life will continue to report slightly better earnings than the domestic industry average over the coming two years.

China Life can manage its risk exposures without resulting in volatile capital and earnings over the coming two years. Alike other life insurers, China Life's exposure to foreign exchange risk increased in 2020 following the lowering of its hedge ratio as prices for non-delivery forwards remained high. However, we believe the insurer's exposure is absorbable by its capital buffer. That's despite China Life's ratio of foreign exchange risk exposure to total assets is higher than the domestic industry average. China Life allocates less weighting to higher-risk assets such as equities and real estate compared with its local peers. The insurer also continues to demonstrate relatively good asset liability matching. We believe China Life will sustain its risk mechanism to control investment risk exposure without inducing volatility to its capital and earnings.

We continue to view the market as challenging for Taiwan life insurers, but conditions have improved somewhat amid signs of an economic recovery. Taiwan life insurers have higher equity exposure and higher weighting on overseas investments than their regional peers'. This makes domestic life insurers more sensitive to global market conditions. Nonetheless, with the global launch of vaccine programs, the macro economy is slowly showing signs of recovery, despite still-high uncertainty over the duration of the pandemic and a potentially rough path to recovery for many economies. The impact and costs related to the pandemic have so far been manageable for most Taiwan life insurers, including China Life.

Outlook

The stable outlook on China Life reflects our view that as a core subsidiary of the **China Development Financial Holding Corp.** (CDFHC) group, the insurer will continue to dominate the overall group credit profile over the next two years. China Life's stand-alone credit profile is the driving factor behind the groups credit profile, in our view.

The outlook also reflects our forecast that China Life will maintain satisfactory capital and earnings over the next two years. We believe the insurer's capital can withstand modest volatility in equity markets as well as fluctuation in foreign exchange rates. We also believe China Life's high-risk asset exposure will not rise to a level that would expose the insurer to additional risks over the next two years. At the same time, the insurer's operating performance should help to underpin its satisfactory business risk profile over the same period, as evidenced by a 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 stand-alone credit profile weakens due to deterioration in capitalization as a result of lower capital accumulation or overly aggressive investment allocation. We may also lower the ratings if we believe an increase in foreign exchange exposure or high-risk assets could result in higher volatility in China Life's capital and earnings than we previously forecast.

Upward scenario

Although we consider the likelihood of an upgrade to be relatively limited over the next one to two years, we may raise the ratings on China Life if the insurer:

- significantly enhances its capitalization through material capital injections, profitable growth, or lower risky asset growth while maintaining stable risk exposures; or
- significantly and sustainably strengthens its market position to become a top market player in terms of total premiums and assets. This would also have to be accompanied by stable performance of risk factors across its business and financial risk profiles.

Rating Score Snapshot

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 & Research

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group 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 National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
China Life Insurance Co. Ltd.		
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 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.