

Media Release:

China Life Insurance Co. Ltd. Ratings Affirmed At 'twAA'; Outlook Stable

July 27, 2022

Overview

- We assess China Life's capital and earnings has strengthened to strong from satisfactory previously, and we expect this assessment to remain unchanged over the next two years.
- Nonetheless, we believe China Life's strong capital level can only provide a capital buffer against a moderate level of market volatility and against the insurer's slightly higher risk appetite for foreign exchange than the domestic industry average. Moreover, we believe China Life's market share should largely hold stable in the domestic life market over the next one to two years .
- We have affirmed the 'twAA' long-term issuer credit rating and financial strength rating on China Life.
- The stable outlook reflects our view that the insurer can maintain its current credit risk profile over the next two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term issuer credit rating and financial strength rating on **China Life Insurance Co. Ltd.** The outlook on the ratings is stable.

Rationale

China Life is likely to maintain strong capital and earnings over the next two years. Strong earnings retention, satisfactory value-of-in force growth, and moderated risky-asset growth helped improve the insurer's capital and earnings during 2021. We believe China Life will continue to see slightly above-average operating performance over the next two years. As with its peers, China Life's profitability is likely to decline in 2022 from the record high in 2021 and trend down toward the insurer's historical average. We believe the pace of China Life's capital accumulation through earnings retained and value-of-in force will largely match the growth in its risk-based assets over the next two years. Our capital and earnings assessment also factors in moderate stress for the valuation of the insurer's equity investments, given continuing market volatility in 2022.

We believe China Life's capital buffer will remain vulnerable to increasing market volatility and foreign exchange risks. The insurer's investment book saw widened valuation losses in the first half of 2022 under the rising market interest rate environment and volatile stock markets. This was due to a difference in valuation methods for the insurers assets and liabilities under

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current accounting rules. The valuation loss increase was experienced industry-wide in Taiwan. However, the valuation loss increase from the insurer's fixed-income portfolio as a result of market interest rate rises is generally neutralized in our capital model. Our assessment of China Life's capitalization incorporates a moderate amount of stress for a potential decline in the forecasted unrealized market value of the insurer's stock investments. However, we believe China Life's capital buffer remains vulnerable to further losses beyond those incorporated in our assessment. Moreover, the insurer's capitalization remains sensitive to its foreign exchange risk exposure, which was slightly above the domestic industry average over the past year.

We believe China Life will remain a stable performer with a steady share of the domestic market. The insurer stably accounted for 8% of the sector's total premiums and 7% of its assets over the past years. China Life continues to grow organically with good profits and efficiency, and the insurer is likely to maintain its market share in our view.

The ratings continue to reflect China Life's strong competitive position in Taiwan's life insurance sector with a record of above-average profitability. The ratings also reflect the insurer's above-average capital and earnings strength and lower equity weighting in its investment portfolio than the domestic industry average. Counterbalancing these strengths are the insurer's higher investment concentration risk on the financial sector and foreign exchange exposure by global standards as well as the vulnerability of its capital adequacy to external volatilities, which is an industry trait in Taiwan.

Outlook

The stable rating outlook reflects our view that the insurer's role as a core subsidiary of the **China Development Financial Holding Corp.** group will sustain its dominant contribution to the overall group credit profile over the next two years. We view China Life's stand-alone credit profile as the driving factor behind the groups credit profile.

The outlook also reflects our view that China Life is likely to maintain its current share of the local life insurance market by premiums and assets. We believe the insurer will continue to report a slightly better operating performance than the industry average. This should support the insurer to maintain its strong capital and earnings as its risk profile expands over the next two years. We also believe the insurer's capitalization can withstand modest volatility in equity markets, which we factor in our base case, as well as fluctuations in foreign exchange rates. We do not forecast the insurer's high-risk asset exposure rising to a level that would expose it to additional risks over the next two years.

Downward scenario

We may lower the ratings on China Life if:

- The insurer's stand-alone credit profile weakens due to massive deterioration in its capitalization amid lower capital accumulation or overly aggressive investment allocation. This may be coupled with an increase in the insurer's foreign exchange exposure or high-risk assets, which could result in higher volatility in its capital and earnings than we previously forecast.

Upward scenario

We may raise the ratings on China Life if:

- The insurer 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 the stable performance of risk factors across its business and financial risk profiles.

Related Criteria & Research

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- 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 National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings Score Snapshot

China Life Insurance Co. Ltd.

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

IICRA--Insurance Industry And Country Risk Assessment.

Ratings List

Ratings Affirmed

China Life Insurance Co. Ltd.

Issuer Credit Rating	twAA/Stable/--
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Financial Strength Ratings	twAA/Stable/--
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