

Insurance - China

3Q23 FYP and VNB growth will both drop YoY, but still high expectation in 1Q24

Industry Overview

After the peak, 3Q23 to be a low season

Industry channel checks and media reports suggest that new business premiums dropped sharply YoY in Aug across the sector. The information we have gathered so far includes:

- One of the mid-size listed insurers suggested that the new business premium in Aug dropped ~50% YoY during its briefing by end Aug. The media also reported yesterday that bancassurance new regular premiums dropped 60% YoY in Aug.
- During our conference call, one of the large insurance brokers suggested that regulated bancassurance fees were implemented in Aug already and insurers promised that they would keep the fees stable.
- News suggested that some major insurers shut down their bancassurance channels temporarily since mid Sep to follow the implementation of the new rules on fees.
- Industry checks suggested that in the first half of Sep, agency channel new premiums dropped >30% YoY.

We expect the trend to continue in Oct and Nov after the surge of premium in 2Q23 as some demands for savings products were satisfied already before the guarantee rate cuts and 3Q/4Q are usually weaker quarters for sales.

But still high expectation of jumpstart sales in 1Q24

However, we are not pessimistic about the growth in jumpstart sales and 1Q24. The demand for savings products is not like the demand for critical illness. There could always be outflows from other sectors, including bank deposits and property, to insurance products which have more attractive yields. Even with the guarantee rates at 3.0%, the products are still better than bank deposits at <2.5% after several rounds of cuts and other bank wealth management products which do not guarantee principal and yields. While a recovery in protection product sales still seems far off to us, savings product sales in jumpstart sales will likely give insurers boosts.

Fight against negative interest spread

Negative interest spread is the grey rhino in the low interest rate environment. Together with rising credit risks in different asset classes, insurers see increasing challenges from keeping their investment returns stable and interest spread positive. Both the cut of guarantee rates and the regulation of fees are measures the regulators use to lower the cost of insurers to avoid negative interest spread. To maintain the balance between current sales/liquidity and future gains is difficult. In our view, dynamic risk and sales management is better than a sales stoppage.

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VNB = Value of New Business

FYP = First Year Premium

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