

## Insurance - China

## Increasing whole life insurance: to sell or not to sell?

Industry Overview

## Product strategy resulted in growth divergence in 1H23

Chinese insurers and regional insurers with Mainland China operation, including AIA and Pru, will report their 1H results by end Aug. In the upcoming results, VNB (Value of New Business) growth is expected to be the focus of the market after the sector-wide decline in the past 3 consecutive years. We expect the growth of domestic insurers will be much faster than that of regional insurers' China operation. Besides the base effect (domestic insurers generally had very low bases in 1H22) and the distribution channel differences (domestic insurers generally rely more on bancassurance), product strategies also resulted in the divergence of growth and the key product in 1H23 was increasing whole life insurance.

## What is increasing whole life insurance?

Increasing whole life insurance offers increasing death benefit over the life of the policy. The growth rate of the death benefit is guaranteed, previously at 3.5% and now at 3.0%. Cash value of increasing whole life insurance also increases every year at the pace between 3.2-3.4% after the initial lock-up period which could last for 5-10yrs. Policyholders could choose to withdraw cash or get loans from insurers based on the cash value they have. In the current low interest rate environment, when most of financial products do not offer guaranteed return, increasing whole life insurance becomes attractive to average investors, even after the cut.

## Concerns on increasing whole life insurance

The key risk of increasing whole life insurance is the guaranteed rate, especially before the recent cut when the rate was at 3.5%. The concern is that the prolonged low interest rate environment in China will lead to lower investment return of insurers and the return cannot cover the guaranteed rates, resulting in losses. Some Asian markets, including Japan, Korea and Taiwan, suffered from such losses before when they provided 6-8% guaranteed rates products and some insurers in these markets are still paying the price now. Chinese insurers also had similar lessons in late 1990s and early 2000s. The benchmark 10yr government bond yields have been below 3.0% since Jul 2021. The weak capital market return and property exposure are also the key concerns.

## To sell or not to sell?

We do not think there is a simple answer to the question. In the near-term, those insurers which choose not to sell increasing whole life insurance may suffer from slow growth and declining market share, but if investors appreciate their risk management and focus more on higher margin products which still see growth headwinds, the short-term pain is acceptable. On the other hand, those insurers which choose to sell aggressively may face higher chance of losses in the future. However, most of increasing whole life insurance policies are expected to last 15-30yrs, multiple interest rate cycles should be expected, and losses may not be the inevitable consequence.

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