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CMB International Global Markets | Equity Research | Sector Update

Insurance

Offshore insurance tax sell-off likely overdone

OUTPERFORM (Maintain)

On Aug 5th, *Caixin* reported that Chinese mainland tax authorities have started levying personal income tax on investment returns from offshore insurance policies (*link*), with early enforcement cases in Beijing and Hangzhou applying a 20% tax rate to dividend payouts and interest from prepaid premiums. Following the news, HK-listed regional insurers, i.e. AIA (1299 HK, BUY) and Prudential (2378 HK, BUY) saw their shares fall over 8% and 5% during morning trading, as the market turned cautious on the outlook for offshore new business sales and VONB growth. We view this sell-off overdone for three reasons: 1) mainland visitors' (MCV) offshore insurance demand is unlikely to be wiped out by the tax; 2) the levies targeting dividend income and interest from prepaid premiums, according to *Caixin*, mainly affect participating or long-term savings products while pure protection-type policies remain untouched; and 3) some offshore UW demand may migrate to onshore markets where participating policy returns are still tax-exempt, limiting the Group-level impact from new business and VONB. That said, near-term downside risks to MCV new business sales may persist, as clients take time to reassess the risk-reward profile of offshore investments.

- **The CRS framework is making offshore investment taxation unavoidable.** The recent news reflects that through CRS (Common Reporting Standard), mainland tax authorities have gained clearer visibility to financial account information of mainland residents held by overseas institutions including insurance policy data, although the level of detail may vary by jurisdiction. Following last year's levies on overseas securities gains, Chinese regulators extended the scope of personal income tax to offshore trusts in July (*link*) and now turn their attention to overseas insurance policies, signalling a clear trend of tightening scrutiny over individual cross-border income. A 20% tax rate is suggested to apply across all these investment categories, and broader enforcement may appear as the CRS framework deepens. For now, taxation of HK insurance investment return remains case-specific with formal regulatory guidelines still pending.

- **Near-term sales headwinds, but long-term outlook intact.** In FY25, AIA's MCV VONB reached US$1.15bn, up 35% YoY, accounting for 21% of Group VONB; new MCVs accounted for 10% of total MCV customer base but contributed ~80% of total MCV VONB, underscoring their importance to new business growth. In the near term, we see downside risks to new policy sales from mainland visitors in HK, as customers may need more time to reassess the risk-and-reward of their offshore investments, likely slowing new customer acquisition and reducing average ticket size. Over the long run, we believe the MCV demand for overseas insurance policies still has ample headroom for growth, supported by 1) the continued after-tax yield advantage of HK insurance policy over domestic counterparts, i.e. a five-year-paid participating product with an expected IRR of 5.5% will still have a post-tax IRR of ~4.1%, vs. the 3.5% cap on mainland participating policies; 2) the structural demand for asset diversification, which is unlikely to be eliminated by the tax levy, while pure protection-types, i.e. term life, medical and short-term accident insurance with no cash value remain unaffected; and 3) some offshore UW demands may shift to onshore market where investment returns for participating are still tax-exempt.

- **Sell-off on offshore insurance tax likely overdone.** We view the stock price declines of AIA and Prudential triggered by the levy on offshore insurance gains as overdone. We await more details on product mix breakdowns for both insurers' HK and mainland China markets during their 1H26 earnings releases to better quantify the potential impact of China's tax enforcement. AIA is scheduled to report 1H earnings on Aug 20 (Thu) pre-market, and Prudential

China Insurance Sector

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Recent reports:

1. China Insurance - 1Q26 insurance funds: Core equities sustained mid-teens share; Life core solvency rebounded, May 22, 2026 (link)
2. China Insurance - 1-3M26: Life growth resilient and P&C marginally recovered in March, Apr 28, 2026 (link)
3. China Insurance - 1-2M26: Life sustained double-digit rise; P&C auto premiums dipped for two consecutive months, Apr 2, 2026 (link)
4. China Insurance - Sunshine Insurance FY25: Strong NBV momentum; One-off tax gain lifted net profit, Mar 18 2026 (link)
5. China Insurance - Dec Life and P&C premiums marginally improved, Feb 4, 2026 (link)
6. China Insurance - Easing solvency risk factors to steer insurance funds into long-term stockholdings, Dec 8, 2025 (link)
7. 中国保险 - 股票投资风险因子拟再优化，险资长钱加速入市可期, May 8, 2025 (link)
8. China Insurance: Raised cap for insurer's equity asset allocation could unleash max. RMB 1.7tn to stock market, Apr 9,2025 (link)
9. China Insurance - 4Q24 insurance funds: industry financial rate of return extended rally in a five-quarter streak, Feb 25, 2025 (link)
10. China Insurance - 11/12M Monthly: Life sales diverged during the jumpstart; P&C softened by non-auto slowdown, 21 Jan, 2025 (link)
11. China Insurance - 10M24 Monthly: Life premium retreated as expected, P&C grew with auto sales momentum, Nov 19, 2024 (link)
12. China Insurance - 9M24 Monthly: Life growth normalized with highlights; P&C expected to see better UW profit, Oct 21, 2024 (link)
13. China Insurance - 8M24 Monthly: Life jumped on top of low base; P&C top players rebounded in growth, Sep 23, 2024 (link)
14. China Insurance - 7M24 Monthly: Life momentum kept strong; P&C edged up by auto & non-auto rebounds, Aug 20, 2024 (link)

on Aug 27 (Thu) pre-market. We maintain our BUY ratings on both regional leaders, with price target based on appraisal value at HK$112 (unchanged) for AIA, implying 1.7x FY26E P/EV, and HK$137.8 (unchanged) for Prudential, implying 1.6x FY26E P/EV.

- **Key risks:** 1) faster-than-expected tax enforcement on offshore insurance gains by Chinese tax authorities; 2) heightened regulatory scrutiny across operating markets; 3) weaker-than-expected new business sales; and 4) margin deterioration weighed by negative economic shocks and/or rising medical inflation, etc.

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