

China Insurance

Insurance funds: Life/P&C diverged in allocation; financial yields marginally recovered in 2Q

The National Financial Regulatory Administration (NFRA) disclosed 2Q24 insurance funds allocation and respective investment yields for the industry and for life and P&C companies. The financial rate of return marginally recovered from troughs in 1Q24 with the comprehensive yields remaining attractive at above 5%, given the prolonged low interest rate cycle. We see robust growth of total insurance funds by +11.0% YoY in 2Q24 to RMB30.9tn, on par with total premium growth of +10.5% to RMB3.55tn. Life and P&C names diverged in asset allocation amid macro uncertainties where life peers enhanced bond position to 48.22% (+1.4pct from 1Q24) and P&C insurers strengthened exposure to bank deposits by 1.1pct to 18.86%. Equity investments remained stable with the proportion of core equities (incl. stocks and securities funds) +0.23pct/+0.19pct for Life and P&C peers to 12.5%/15.3% in 2Q24. After sequential declines of financial yields for at least four consecutive quarters ([Fig.1](#)), the 2Q bounce-back signalled better investment fund structure, amidst equity market recovery and low interest rates, in our view.

■ **Life financial yield +71bps in 2Q w/ enhanced bond position.** Life insurance funds sustained double-digit growth in scale and amounted to RMB27.7tn, +11.8% YoY in 2Q24, making up 89.8% of total insurance funds (+2bps from 1Q24). Bond investment increased 23.1% YoY to RMB13.4tn, equivalent to 48.22% of total fund under management (1Q24: 46.82%). We see the rising bond exposure as a result of 1) sustained strong demands among life peers seeking long-dated assets amid the cycle of “asset shortage”, and 2) increased supply of ultra-long-term special government bonds since 2Q24. According to the MoF ([link](#)), we reckon that the aggregate release of ultra-long-term special government bonds amounted to RMB250bn in 2Q24, and expect more than RMB450bn of 10 renewed batches to be issued in 3Q24 (CMBI est). Unlike P&C, life peers' exposure to bank deposits dropped 0.9pct to 8.55% in 2Q24, given the aftermath of suspension on banks' manual interest payments. Life financial rate of return rebounded to 2.83%, +71bps from 1Q24 after declines for six consecutive quarters since 4Q22 ([Fig.3](#)), approaching the level of 3Q23 (2.93%). We view this print a positive harbinger for listed life peers' investment income in 1H24, boosting net profit growth on top of insurance service results. Life comprehensive yield stayed attractive at 7.09%, outpacing industry avg. of 6.91% and P&C counterparts of 5.03%. Looking ahead to 2H24, we expect the trading yield curve to remain within a narrow range of fluctuations and the long-term interest rate to normalize into 2.5%-3.0% under the guidance of PBOC.

■ **P&C mix strengthened in bank deposits and contracted in bonds.** P&C insurance funds was RMB2.1tn, contributing 6.8% of the industry total, +5.2% YoY, higher than that of P&C insurance premiums (+3.4% YoY) in 2Q24. On structure front, P&C peers increased exposure to bank deposits to RMB398bn, making up 18.9% of FUM in 2Q24, +1.1pct from 1Q24. Bond investment growth declined to +10.7% YoY in 2Q24 (1Q24: +14.8% YoY), implying a mix decline of -0.8pct to 37.4%. We regard the change more of a prudent asset allocation strategy for P&C insurers to avoid interest rate risks amid macro headwinds, which contributed to a lower-than-industry avg. comprehensive yield of 5.03% (vs: industry: 6.91%) in 2Q24. P&C financial yield was 3.2%, +0.4pct in 2Q24, driven by a higher mix of core equities at above 15% vs 12%-13% for life peers.

■ **High-dividend stocks remain appealing.** Asset performance remains a key concern to sector re-rating. Noteworthy, in 2Q24, both life and P&C increased stock investments by +4.2%/+6.7% YoY to RMB1,942 bn/RMB 137bn (1Q24: -1.7%/-0.1% YoY), suggesting a more positive equity outlook in 2H24 against a low base descending since 2Q23 ([Fig.18](#)). We expect the high-dividend strategy to remain prevalent among insurers, esp. for stocks measured under FVOCI, and the ratio of high-dividend FVOCI stocks to progressively increase.

OUTPERFORM
(Maintain)

China Insurance Sector

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Expected 1H24 earnings results:

Companies	Ticker	1H24 Earnings	1H23 Earnings
Ping An	2318 HK	22/8/2024	23/8/2023
China Life	2628 HK	30/8/2024	23/8/2023
CPIC	2601 HK	27/8/2024	27/8/2023
NCI	1336 HK	29/8/2024	29/8/2023
CTIH	966 HK	26/8/2024	24/8/2023
PICC Group	1339 HK	29/8/2024	29/8/2023
PICC P&C	2328 HK	29/8/2024	29/8/2023
Zhong An	6060 HK	27/8/2024	28/8/2023
AIA	1299 HK	22/8/2024	24/8/2023
Prudential	2378 HK	28/8/2024	30/8/2023

Source: SHSE, Bloomberg, CMBIGM

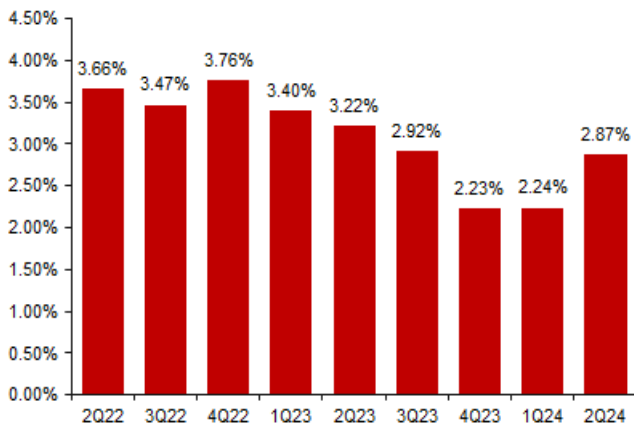
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2. China Insurance - 5M24 Monthly: life growth stayed resilient; P&C auto premiums sequentially rebounded, Jun 19, 2024 ([link](#))
3. 中国保险行业 - 路演反馈: 政策催化下的弹性拉涨可否持续? June 5, 2024 ([link](#))
4. China Insurance - 4M24 life diverged in face of high base; P&C top players dragged by non-auto, May 20, 2024 ([link](#))
5. China Insurance - 1Q24 listed life insurers' growth dwindled; P&C rebounded in 3M24 driven by non-auto, Apr 22, 2024 ([link](#))
6. China Insurance - 1M24 life premiums fell short of expectations, Feb 26, 2024 ([link](#))
7. China Insurance - Life premiums up by double digits for the first time in 3 years; P&C growth dragged by non-auto, Feb 5, 2024 ([link](#))

As funds could only be classified into FVTPL under the IFRS 9, we expect the proportion of securities funds to marginally decline, for the sake of constrained volatility in fair value change to adversely impact the P/L. Maintain sector OUTPERFORM, and our top pick CPIC (2601 HK, BUY) with TP at HK\$24.8, implying FY24E 0.84x P/BV and 0.40x P/EV.

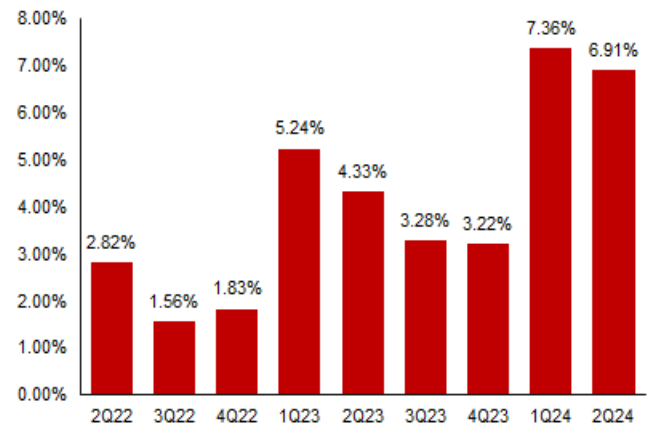
Focus Charts

Figure 1: Industry financial rate of return, 2Q22-2Q24



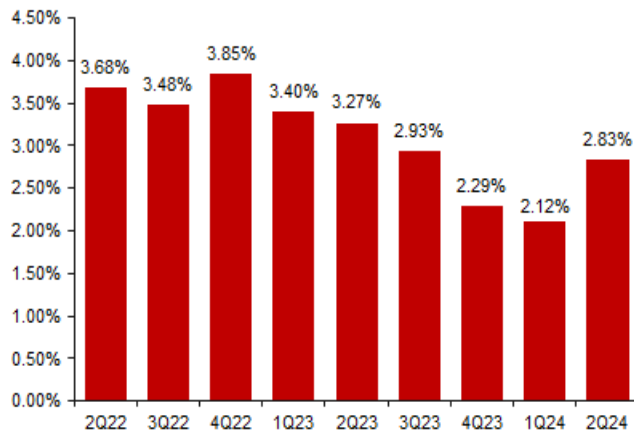
Source: NFRA, CMBIGM | Note: data disclosed since 2Q22.

Figure 2: Industry comprehensive yield, 2Q22-2Q24



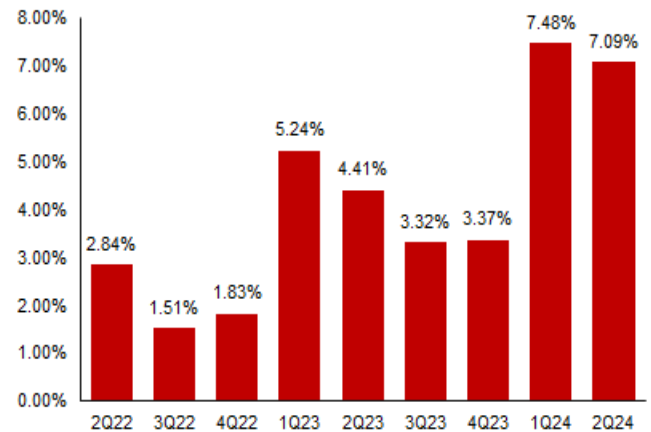
Source: NFRA, CMBIGM | Note: data disclosed since 2Q22.

Figure 3: Life insurers' financial rate of return (%)



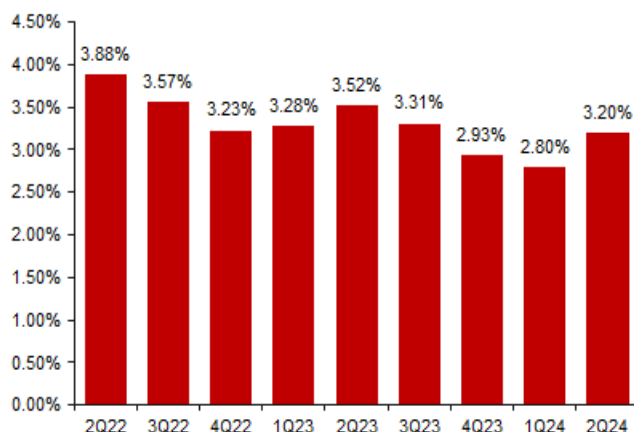
Source: NFRA, CMBIGM | Note: data disclosed since 2Q22.

Figure 4: Life insurers' comprehensive yield (%)



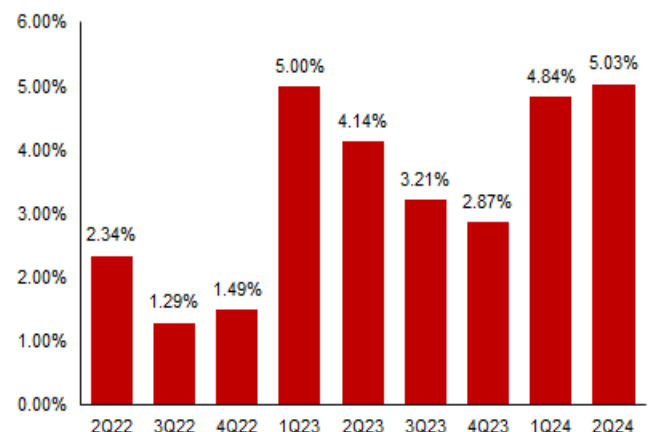
Source: NFRA, CMBIGM | Note: data disclosed since 2Q22.

Figure 5: P&C insurers' financial rate of return (%)

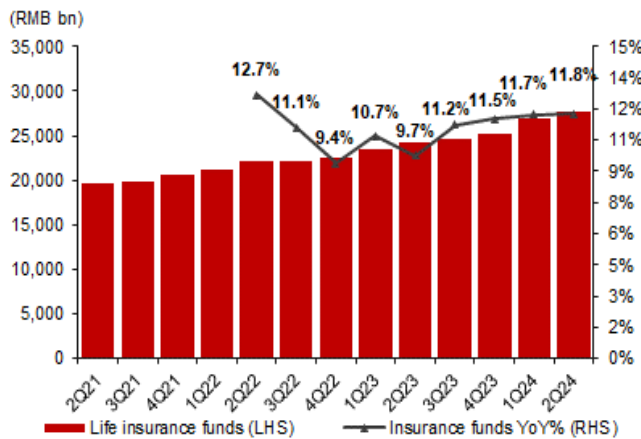


Source: NFRA, CMBIGM | Note: data disclosed since 2Q22.

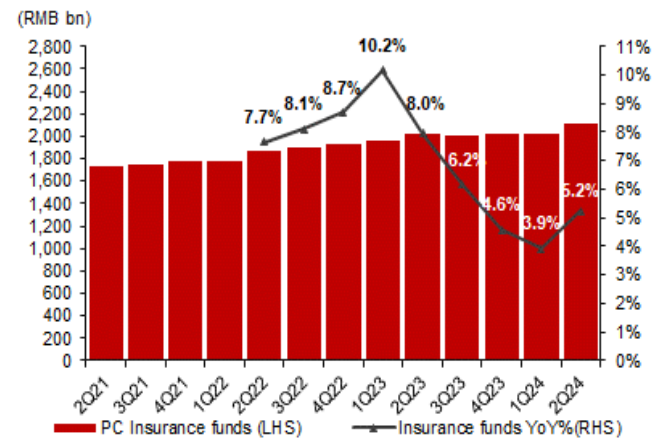
Figure 6: P&C insurers' comprehensive yield (%)



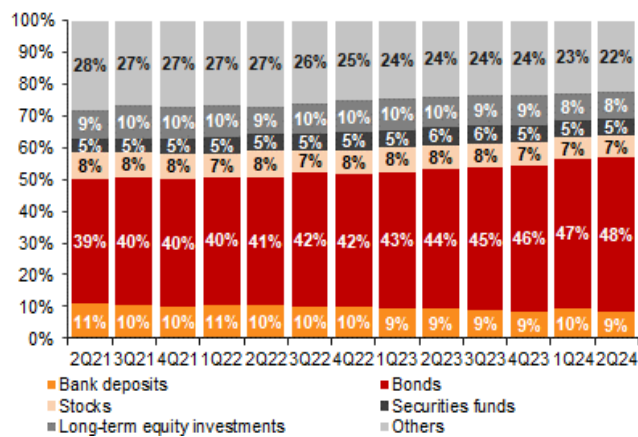
Source: NFRA, CMBIGM | Note: data disclosed since 2Q22.

Figure 7: Life insurance funds scale & YoY%

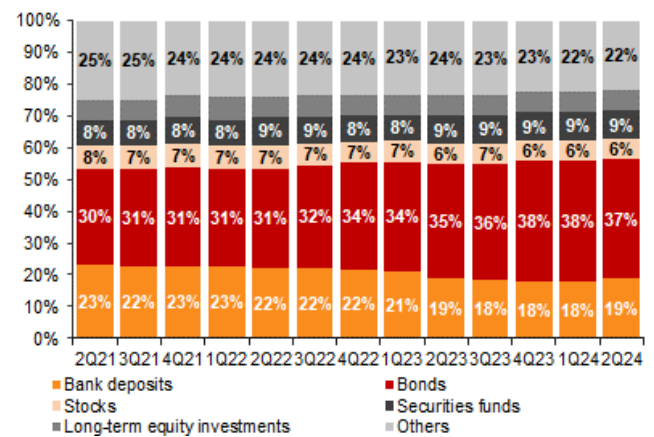
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 8: P&C insurance funds scale & YoY%

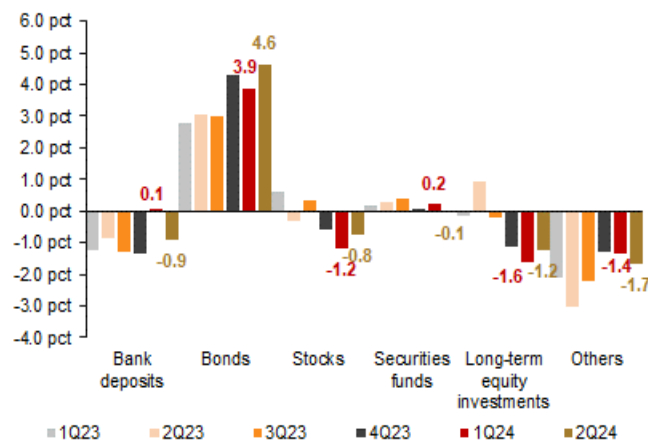
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 9: Life insurance funds asset allocation (%)

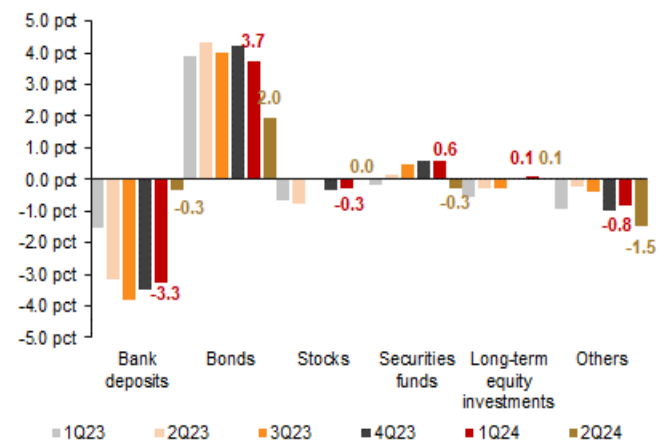
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 10: P&C insurance funds asset allocation (%)

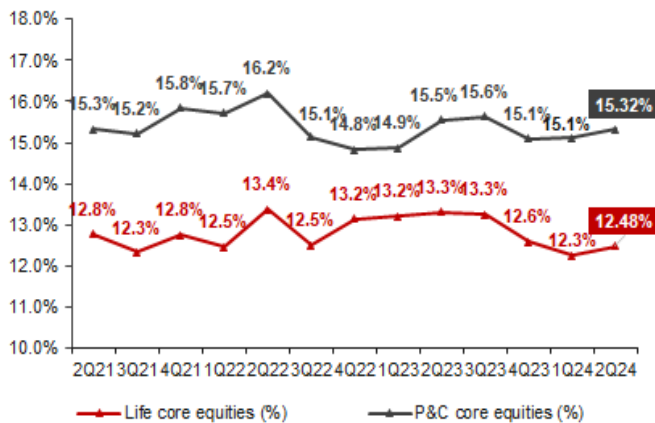
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 11: Life insurance funds allocation mix chg.

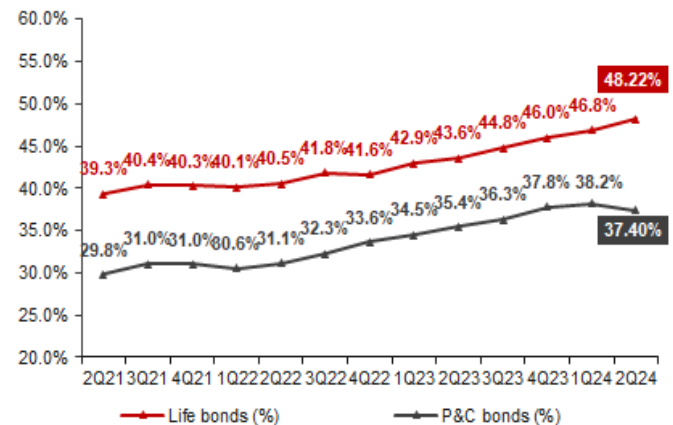
Source: NFRA, CMBIGM

Figure 12: P&C insurance funds allocation mix chg.

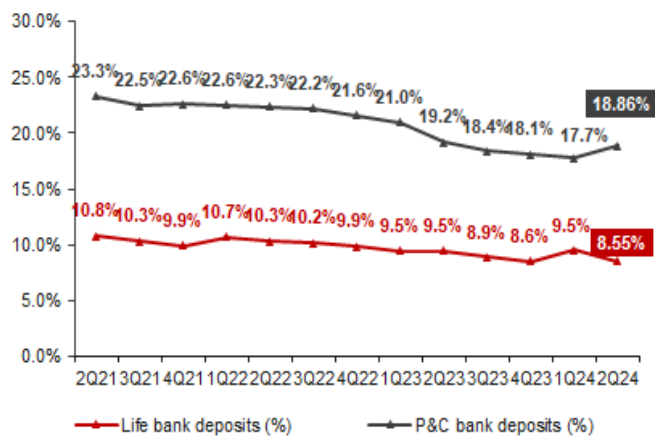
Source: NFRA, CMBIGM

Figure 13: Core equities % for Life / P&C insurers

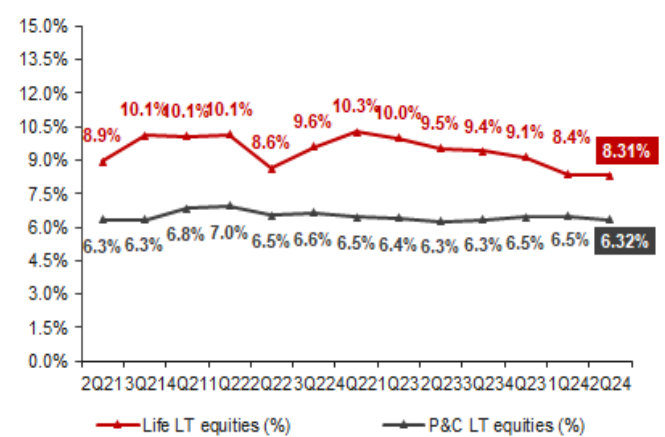
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 14: Bonds % for Life / P&C insurers

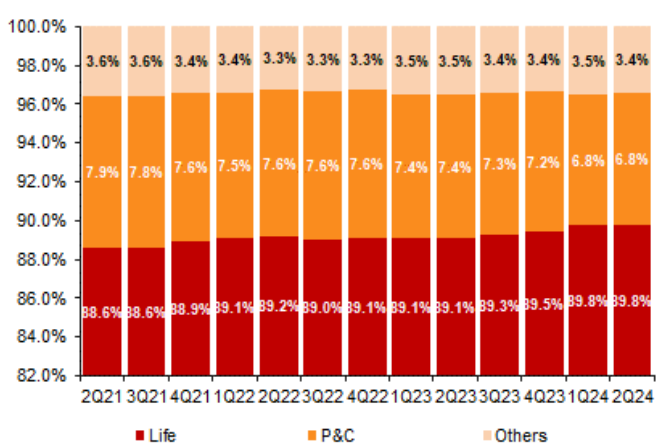
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 15: Bank deposits % for Life / P&C insurers

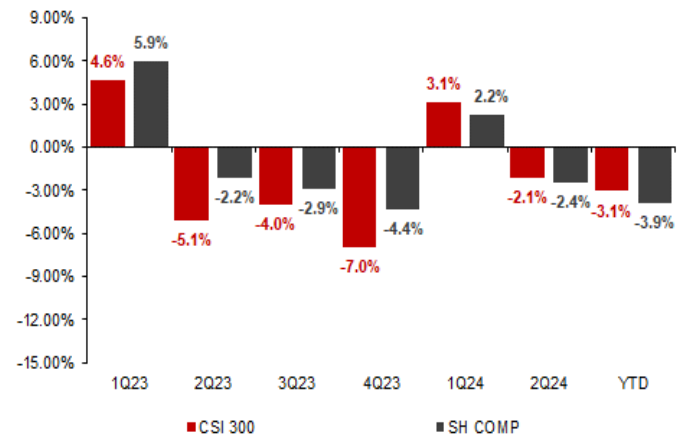
Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 16: LT equity investment % for Life / P&C peers

Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 17: Insurance funds composition (%)

Source: NFRA, CMBIGM | Note: data disclosed since 2Q21.

Figure 18: CSI 300 and SHCOMP Index performance

Source: Wind, CMBIGM | Note: YTD data as of market close on 13/8/2024.

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