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Life Insurance – Global

2022 Outlook

Research Publication

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Summary

Recovering economies provide support to our stable outlook. Insurers' ongoing shift to fee-based business models and good capitalization will mitigate persistent spread compression.

1

Global growth steadies while recoveries in policy sales vary

Overall credit conditions will stabilize with steadying economic growth. Resuming social interactions support both insurance sales and demand, but renewed lockdowns, driven by new coronavirus variants, remain a key risk.

2

Spreads still pressured despite stabilizing rates

Rising long-term rates will alleviate the persistent erosion in insurers' portfolio yields. However, rising inflation risks and supply bottlenecks could hurt insurers' earnings and capital by triggering sudden interest-rate spikes and sharp asset-price corrections.

3

Shift to fee-based, capital-light models continues

Global insurers will continue to lower their spread dependence, accelerated by the global shift in new business mix and the disposal of spread-challenged blocks in the US and Europe. Technologies support simple protection sales but may erode traditional insurance earnings in the long run.

4

Solid capital buffers market and regulatory risks

Insurers will remain well capitalized, reflecting their prudent capital management and stable profitability. US and European insurers have maintained sound asset quality despite negative rating migration in their bond portfolios. Asian insurers are reducing equity and rates exposure amid tightening capital regimes.

5

Investment allocation to illiquid assets grows

Yield enhancement and better cash flow matching are driving US, European and Korean insurers to raise investments in illiquid assets. Still, most will maintain a strong liquidity profile. Meanwhile, Chinese insurers are reducing short-dated non-standard assets on rising credit risks.

6

Responses to sustainability demands quicken

Social issues and regulatory changes will gradually reshape insurance demands and sales practices, particularly in Asia and Europe. Insurers are taking proactive steps to reduce carbon emissions exposure under rising pressure from regulators and investors.

Global Life: outlook stable

Insurers' ongoing efforts to reduce spread dependence will support capital and profitability. Credit impacts from digitalization and regulatory changes are mixed.

Negative

What could change outlook to negative

» A resurgence of the pandemic that triggers new rounds of economic lockdowns and financial market corrections that weaken insurers' solvency and sales.

» A sharp decline in interest rates that renews negative spread risks and weakens profitability.

» A shift back to spread-based business models in a continued low interest-rate environment, which raises the sensitivities of insurers' profitability and capital levels to interest rates.

» Increased political scrutiny or regulatory changes that constrain sales and margins.

Stable

Drivers of a stable outlook

» Recovering economies will support higher insurance sales and asset quality.

» Insurers' ongoing efforts to optimize business mix will lower spread dependence.

» Still stressed investment margins despite rebounding bond yields.

» Insurers maintain good capital buffers and liquidity profiles. Tightening capital regimes, in most cases, will reduce asset and interest rate risks.

» Liquidity remains sound despite rising allocation to illiquid assets for yield enhancement and duration management.

Positive

What could change outlook to positive

» A gradual increase in interest rates which improves life insurers' investment returns.

» A significant reduction in risky assets without impacting profitability and capital levels.

» Improvements in economic solvency ratios through strengthening capital generation and lowering exposure to interest-rate risk.

» Successful digitalization that improves insurers' client reach and engagement and brings in additional sales and profit, while keeping cybersecurity risks in check.

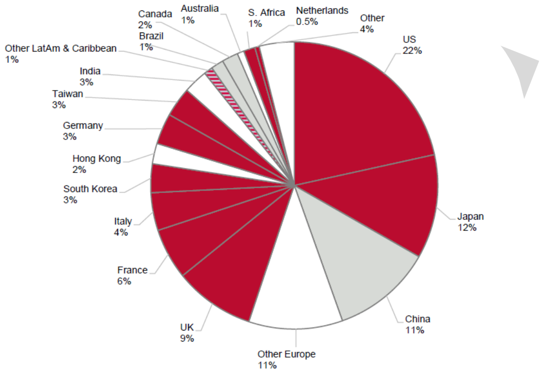
The stable sector outlook reflects **our view of credit fundamentals** in the Global Life insurance sector **over the next 12 to 18 months.** Sector outlooks are distinct from rating outlooks, which, in addition to sector dynamics, also reflect issuer's specific characteristics and actions. A sector outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of rating outlooks.

Most insurance markets' outlooks return to stable

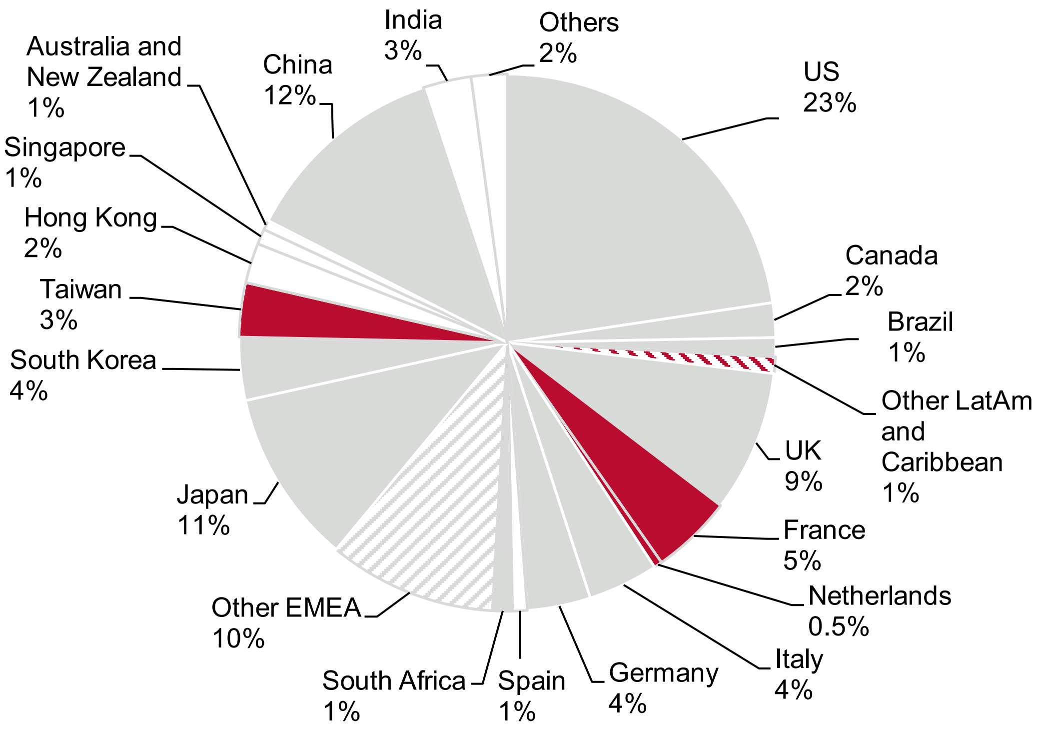
Significant exposure to interest-rate and asset risks drive negative outlook in a few markets

Outlooks for key major insurance markets

Outlook as of end-2020



Outlook as of 9 Dec 2021



Outlook Key:

NEGATIVE	STABLE
POSITIVE	NO OUTLOOK

Sources: Swiss Re Sigma Reports and Moody's Investors Service

The credit landscape in 2022

Reshaped economies
The global economic recovery will solidify as pandemic effects lessen and businesses and consumers adapt, but prospects will diverge across regions and sectors

Debt sustainability
Debt levels have climbed to unprecedented highs, which will create repayment risks where growth and earnings prospects weaken or liquidity wanes

Policy shifts
Policymakers will scale back fiscal and monetary support to varying degrees; domestic politics, geopolitical risks and regulatory actions will set credit context

New technologies
Technological advances, from blockchain to electric vehicles, will offer competitive advantages to some entities and present threats to others; cybersecurity risks will continue to grow

Path to net zero
Policies to meet net-zero carbon emission commitments will heighten credit risk and raise the cost of capital for carbon-intensive sectors; disclosure around climate issues will be in focus

Inequality & social risk
COVID-19 has exacerbated disparities in employment, incomes and healthcare access, which have the potential to weaken social cohesion and diminish economic progress

Transition toward fee-based models and digitalization will continue

Reshaped economies

- Despite a slower pace of global growth in 2022 (4.4% compared with 5.8% estimated in 2021), normalizing social and economic activities will support continued recoveries in business activities, including insurance policy sales. Higher protection awareness will also boost insurance demand.
- While more central banks will assume less accommodative monetary policies, investment margins remained compressed. Insurers will continue their transition from a spread-based model to a fee-based, capital-light model.
- Some regional developments, including the private equity-assisted merger and acquisition boom in the US and Europe, and new business mix shifts among US, European, Japanese and Korean insurers, will support this transition. However, agency issues and regulatory changes are stalling a resumption of such transformation among Chinese insurers.

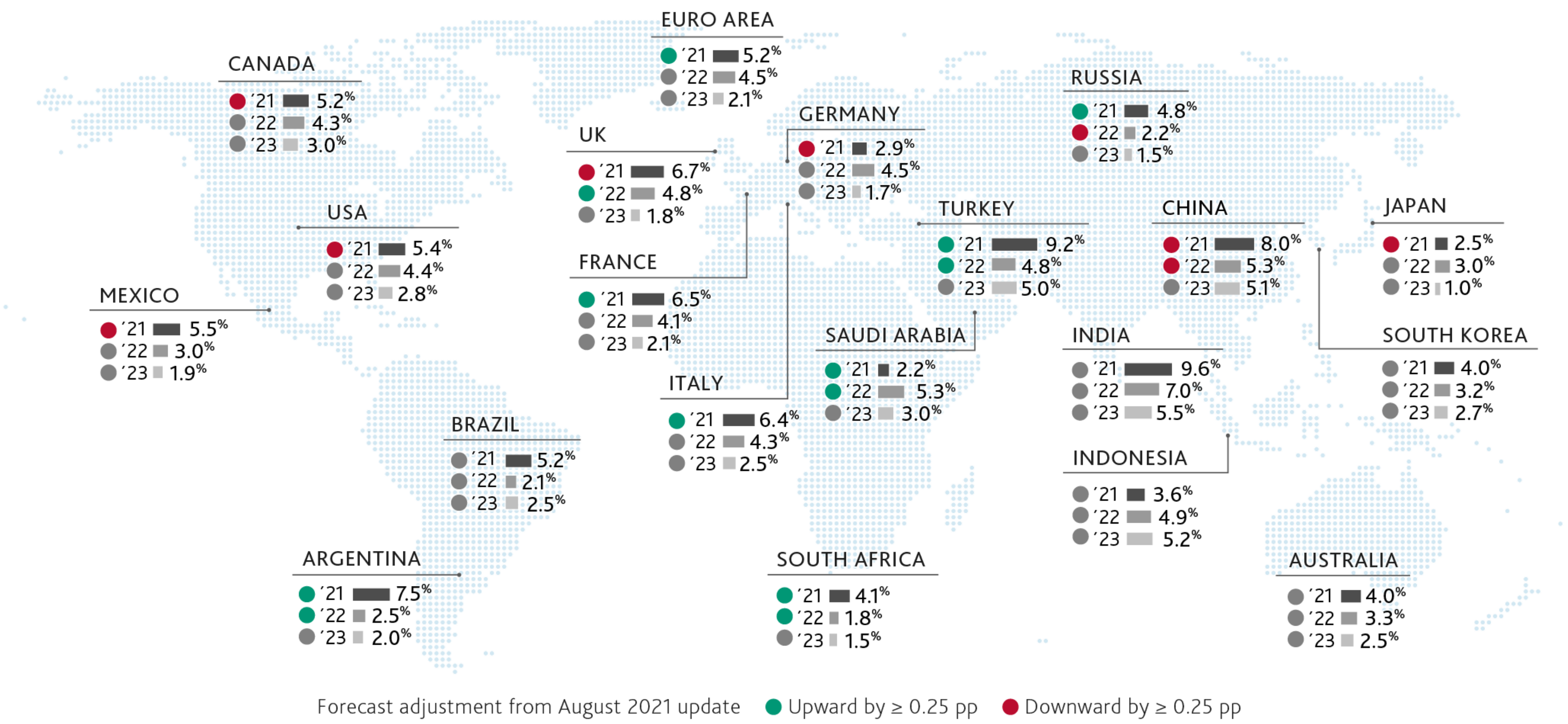
New technologies

- Technology adoption will continue post-pandemic. Online policy sales will continue to increase, driving higher investment outlays devoted to the digitalization of the sales process.
- We expect tech-driven disruption in the insurance sector to be relatively gradual, allowing insurers more time to adjust to innovations. Such adjustments are crucial in sustaining insurers' control over their customer relationships, the erosion of which could jeopardize their margins.
- Successful digital strategy will support insurers' transition to a fee-based, capital light model by lowering distribution costs and unlocking new clients and product segments such as embedded protection products.

Global economy will gain steadier footing in 2022-23

Risks to the recovery from supply bottlenecks and higher-than-expected inflation

Real GDP growth forecasts (%) for G-20 economies in 2021-23

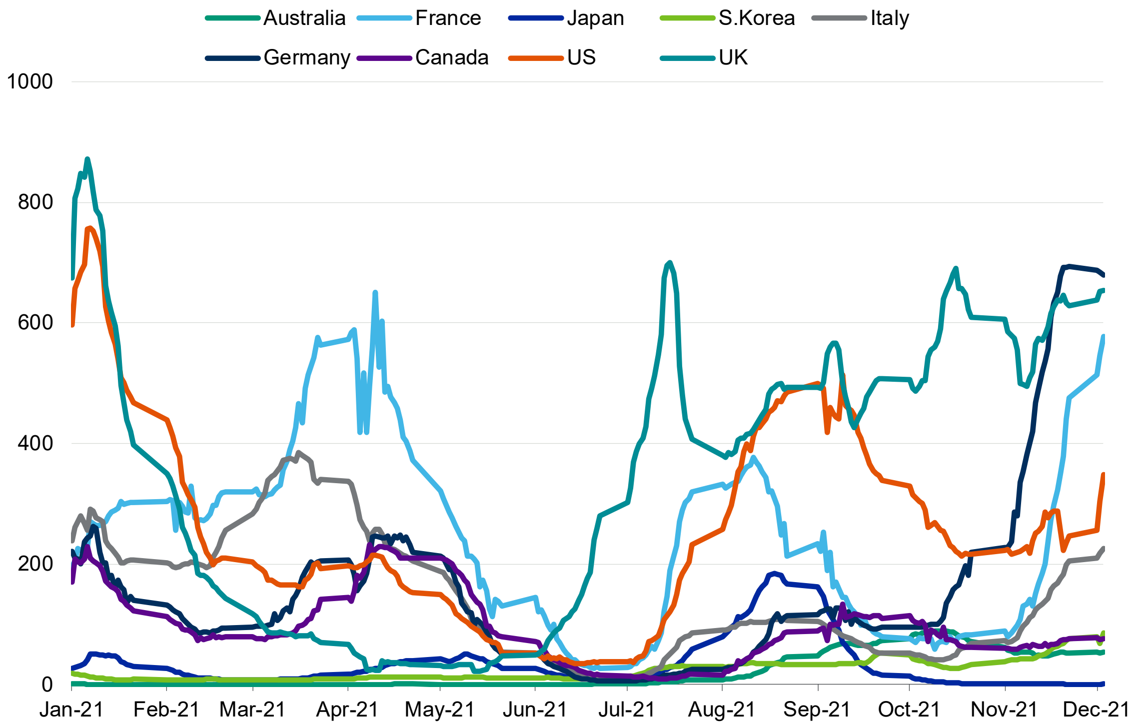


Source: Moody's Investors Service

But economies vary in their ability to withstand another wave of infections

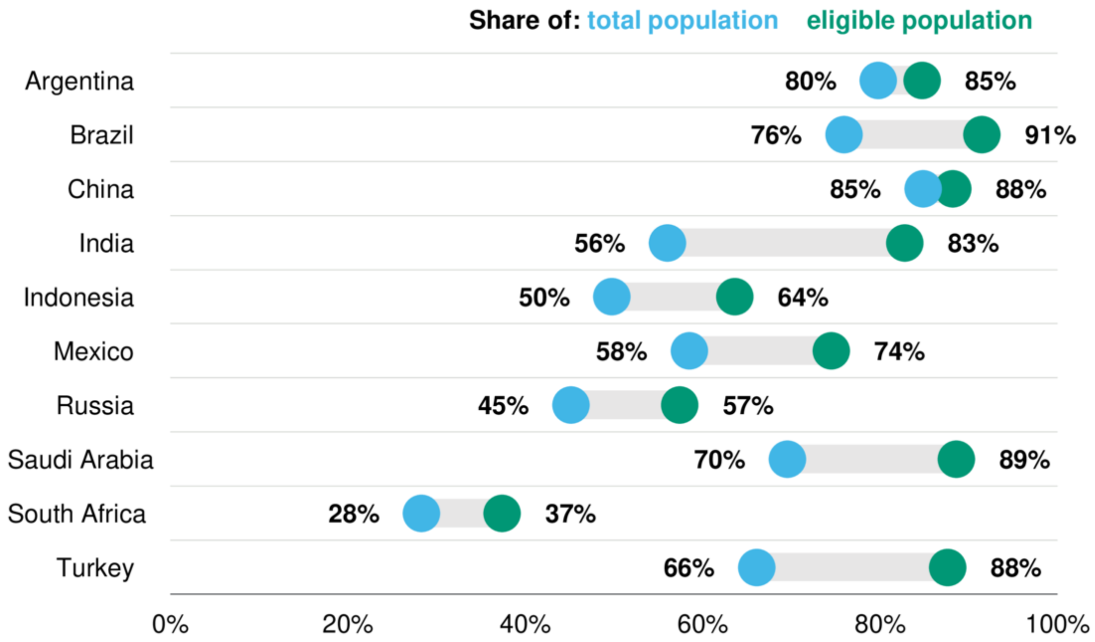
Economic recovery supports strong household spending and insurance demand, but emergence of new coronavirus variants will pose hurdle to recovery

G-20 advanced economies: new coronavirus cases (per million)



Data as of 3 December 2021
Sources: Haver Analytics and Moody's Investors Service

G-20 emerging economies: share of population vaccinated with at least one dose



Data as of 26 November 2021
Sources: Haver Analytics and Moody's Investors Service

US: Low rates and M&A expedite insurers' transformation

US life insurers will continue to offload their spread-challenged back books

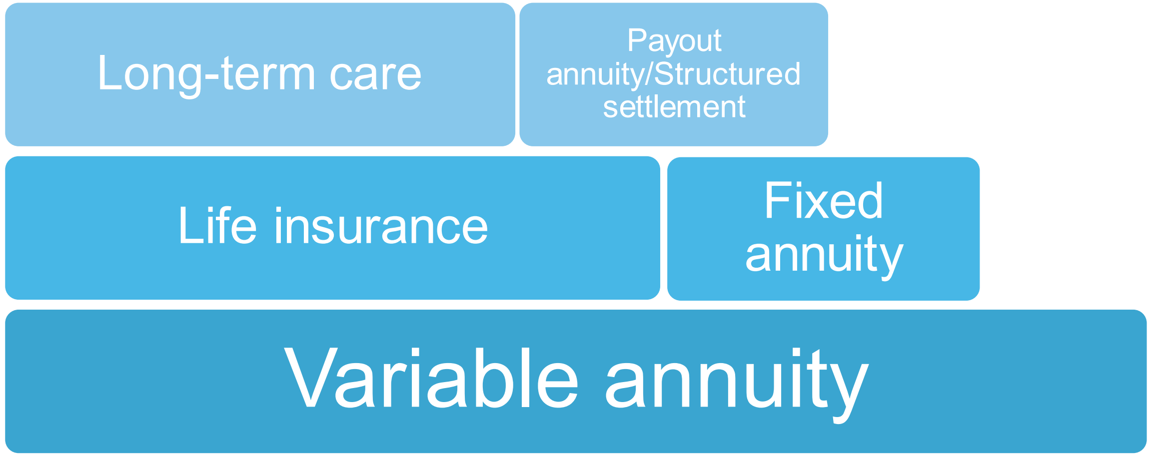
» Mergers and acquisitions (M&A) led by private equity firms have transformed US life insurers from providers of interest-sensitive, guaranteed protection and annuity products to fee-based asset managers and employee benefit and specialty health providers.

» Although deal specific, these transactions are typically positive for the sellers because they can often shed their problem business at better prices than with a more traditional buyer. These transactions thus accelerate their business transformation.

» We expect this trend to continue in 2022, supported by abundant capital in the private equity industry and continuing low interest rates. Future transactions will focus on the more complex liabilities on insurers' balance sheets such as guaranteed universal life insurance.

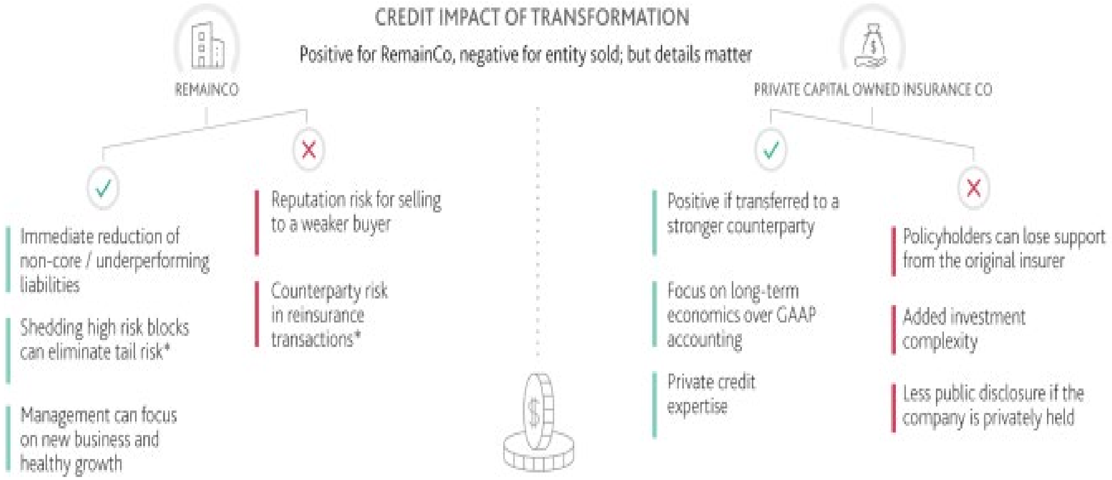
» See Life & Health Insurance – US: 2022 outlook stable, as US economic recovery solidifies for more details

Life insurers' large volume of current legacy reserves will feed private equity-led M&A in 2022



Sources: Moody's Investors Service, companies' filings and press release

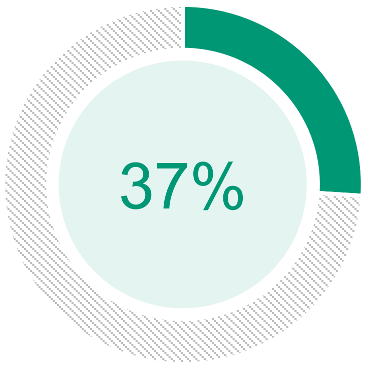
Such M&A are generally credit positive to the seller but could expose policyholders to additional risks



Europe: Insurers quicken new sales shift to capital-light policies

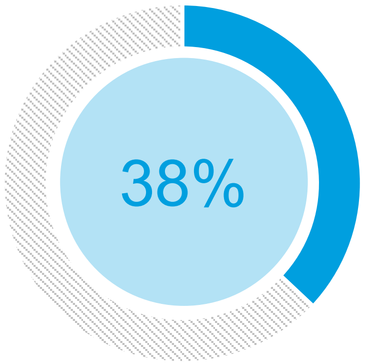
Transformation of in-force books will take much longer because of insurers' long-dated obligations

Unit-linked share of Italian life premiums, 6M21



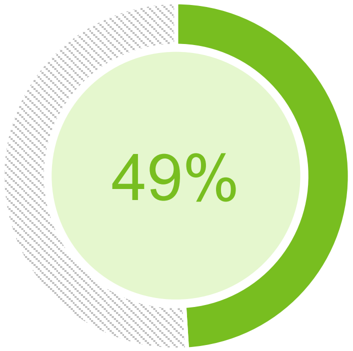
Increased from 26% in 2019

Unit-linked share of French life premiums, 9M21



Increased from 28% in 2019

Unit-linked and capital efficient share of German life premiums (based on annualized premium equivalent) for 2020



Unit-linked share rose to 10% from 8% of total APE in 2019

» European insurers have substantially increased the proportion of unit-linked or capital-light policies (products with no or reduced interest rate sensitivity) in new business mix.

» Insurers try to speed up transformation through sales of legacy portfolios with high guaranteed rates or incentivizing policyholders to cash out existing policies.

» Nonetheless, overall life insurance sales will remain stagnant. Current strong unit-linked sales reflect the equity markets' good performance and may not be sustainable.

» M&A are also active in Europe to accelerate insurers' reorientation towards preferred market segments and geographies.

» See Insurance – Europe: 2022 Outlook stable for Life, negative for P&C for more details

Data for Italy and France based on total life premiums; data for Germany based on life annualized premium equivalent (APE)
Sources: ANIA (Associazione Nazionale fra le Imprese Assicuratrici), Bafin (Bundesanstalt für Finanzdienstleistungen), FFA (Fédération Française de l'Assurance), and Moody's Investors Service

China: Transformation punctuated by lingering pandemic adjustments

Agency weakness, product rule changes and weakened insurance demand will constrain sales and margins in 2022

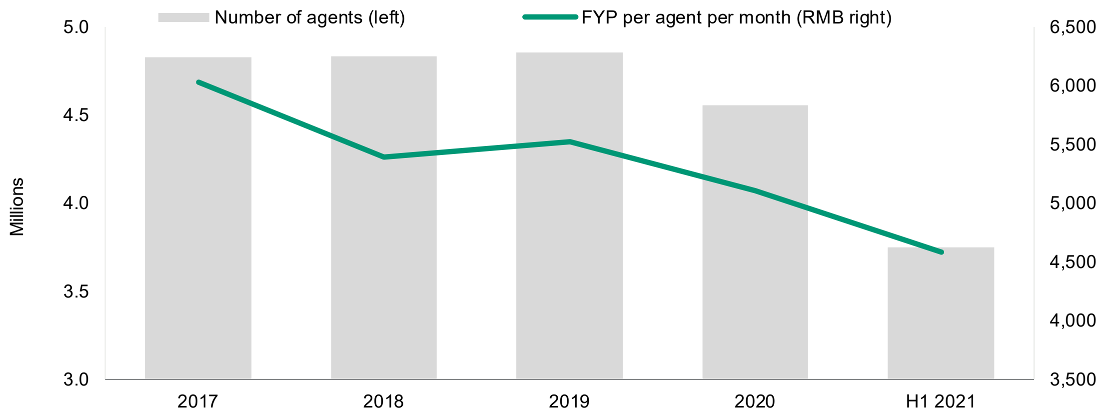
» More cautious consumer spending and the rapid expansion of government-subsidized medical insurance with lower pricing weaken insurance demand. This leads to a shift back to traditional savings products with weaker margins and higher spread reliance.

» Tighter product rules will further slow new business sales in the next 12-18 months. However, regulations will encourage differentiation in insurers' health product offerings, supporting sustainable growth and morbidity gains in the long run.

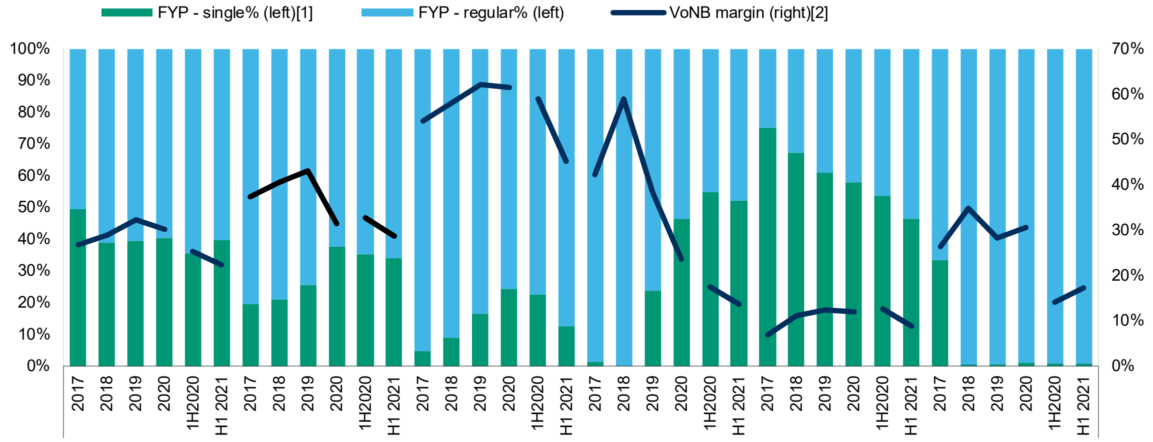
» Agency force consolidation will continue as commission income declines. By reducing underperforming agents, this process will improve the productivity and persistency of insurers' remaining agency force.

Falling agency commission income leads to reduction in agency force

Estimated agency number and first-year premium (FYP) per agent among listed insurers in China



The shift back to savings products will depress insurers' margin



Left Chart : [1] Agency number for China Life in 2017-18 refers to exclusive individual agent where that for 2019-20 refers to individual agents (including general sales team and upsales team).[2] Agency number for CPIC Life refers to monthly average agent number.[3] FYP per agent per month is calculated by first-year premium over number of agents.

Right Chart: [1] FYP -single category includes first-year single premium as well as short-term accident and health premium where applicable.[2] We calculate VoNB margin here as VoNB over total first year premiums.[3] For Ping An Life, the figures are for Ping An Group's life and health insurance segment, including Ping An Life, Ping An Annuity and Ping An Health. The premiums for Ping An Life here refer to written premiums which are before the significant insurance risk testing and separating of hybrid contracts.[4] For CPIC Life, the premium figures represent those from the agency channel only.[5] For PICC Life, the total premium and the split refer to the original premium income.[6] For Taiping Life, the total premium and the split above refer to the direct premium income and exclude group business because of absence of its payment term information.

Sources: Companies' annual reports and Moody's Investors Service

Japan and Korea: Healthy insurance margins offset spread compression

Strong mortality gains support stable profitability despite investment spread compression

Japanese insurers: Resilient mortality margins despite pandemic disruption

» Customer preference for captive sales channels and rising demand for medical protection products support stable underwriting profit

» Regulations promoting conservative reserving practices and widespread use of the standard mortality rate table support life insurers' strong pricing power.

» Further pandemic disruption on sales will be less significant compared with first half 2020.

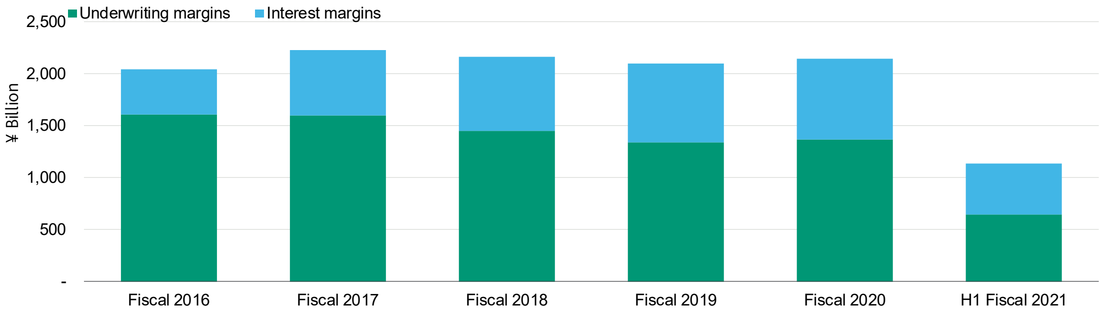
Korean insurers: Product mix shift and tighter underwriting support stable insurance margin

» Coming IFRS 17 and new capital regimes will continue to drive ongoing product shifts to high-margin protection products.

» Regulatory cap on commissions payout to third-party agents and higher cost efficiency will support stable expense margins.

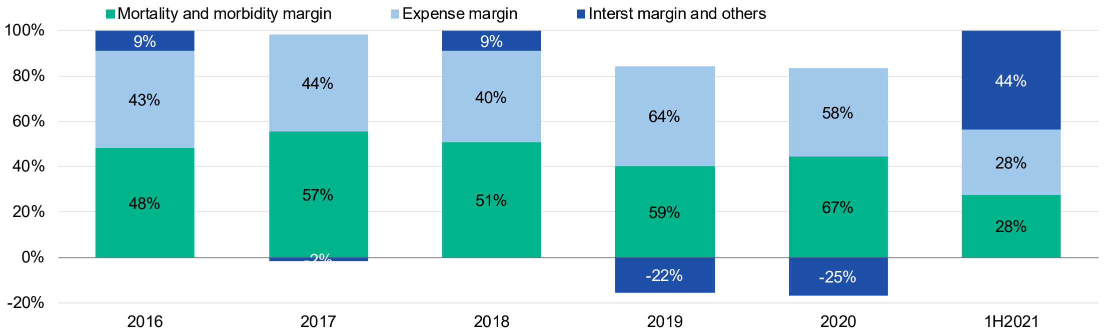
» Medical claims could rise again on relaxation of social distancing measures, but insurers' tight underwriting will limit the rebound.

Japanese insurers' profit supported by stable mortality margins



Sources: The Dai-ichi Life Insurance Company, Limited (Dai-ichi), Fukoku Mutual Life Insurance Company (Fukoku), Fukokushinrai Life Insurance Company, Limited (Fukokushinrai) and Meiji Yasuda Life Insurance Company (Meiji Yasuda), Nippon Life Insurance Company (Nippon), Sumitomo Life group (Sumitomo) and Taiju Life Insurance Company Limited (Taiju)

Korean life insurers enjoy stable underwriting and expense margins



^Based on Moody's estimates on seven selected life insurers: Samsung Life, Hanwha Life, Kyobo Life, Mirae Asset Life, Tong Yang Life, Heungkuk Life, and KDB Life; For Heungkuk Life, 9M2021 data was used.
^^ First half 2021 interest margin was boosted by Samsung Life's extraordinary dividend income
Sources: Company data and Moody's Investors Service

Digitalization race continues post-pandemic

Innovation critical for insurers as technology threatens traditional earnings

Life insurers are facing a transformative choice between becoming ecosystem owners, product aggregators or product manufacturers

» Life insurers, particularly in Asia, are keen on building healthcare platforms to support their client engagement and margins, but these platforms require a strong franchise, client base and tech know-how to succeed.

» Partnering with leading platforms will reduce insurers' upfront investments. However, these models may come with higher profit erosion risks if direct access to customer diminishes.

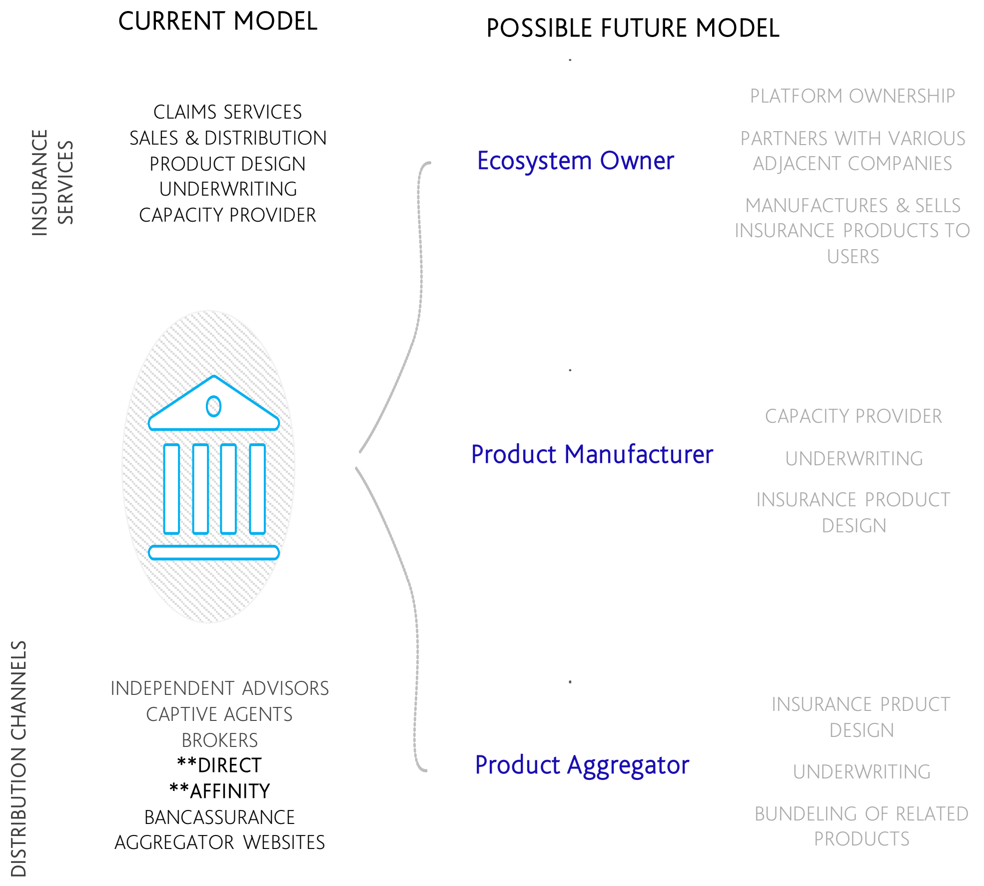
Internet of Things (IoT) and artificial intelligence (AI) will allow insurers to create personalized protection products in the future

» Insurers have started offering simple protection cover, including coronavirus cover, through online channels or mobile apps.

» This cover, despite low margins, complement traditional channels because they can tap new client segments and unlock new products.

» Regulatory developments and data privacy controls are key to such developments, which vary by markets.

Three possible distribution models in the future



Source: Moody's Investors Service

Capital remains ample to add buffer to asset risks and regulatory changes

Policy shifts

- » Higher interest rates will slow the persistent erosion in insurers' portfolio yields. US and European insurers have maintained prudent capital buffers and healthy liquidity.
- » Tightening capital regimes in China, Japan and Korea will further increase capital requirements on insurers' equities and interest-rate exposures.
- » These developments will mitigate potential risk from financial and policy shocks, including stronger-than-expected monetary tightening.
- » IFRS 17 and LDTI (Long-Duration Targeted Accounting Improvements) in the US, planned for 2023, are likely to increase the volatility of accounting metrics over the transition period. Nevertheless, its impact on insurers' economic capital levels will be limited.

Debt sustainability

- » Tightening corporate liquidity in 2022 will raise insurers' investment risk in both their bond and equity portfolios.
- » Nevertheless, global insurers' asset allocation has been conservative despite negative rating migration within US and European insurers' fixed-income portfolios.
- » US, European and Korean insurers will continue to steer investment allocation into illiquid assets for yield enhancement and duration matching; Japanese and Taiwanese insurers will continue to raise overseas credit exposure.
- » Chinese insurers have limited direct exposure to distressed property developers. Higher risk aversion and a tighter capital regime will drive further reduction of non-standard asset exposure.

Rates stabilize but investment margin remains compressed

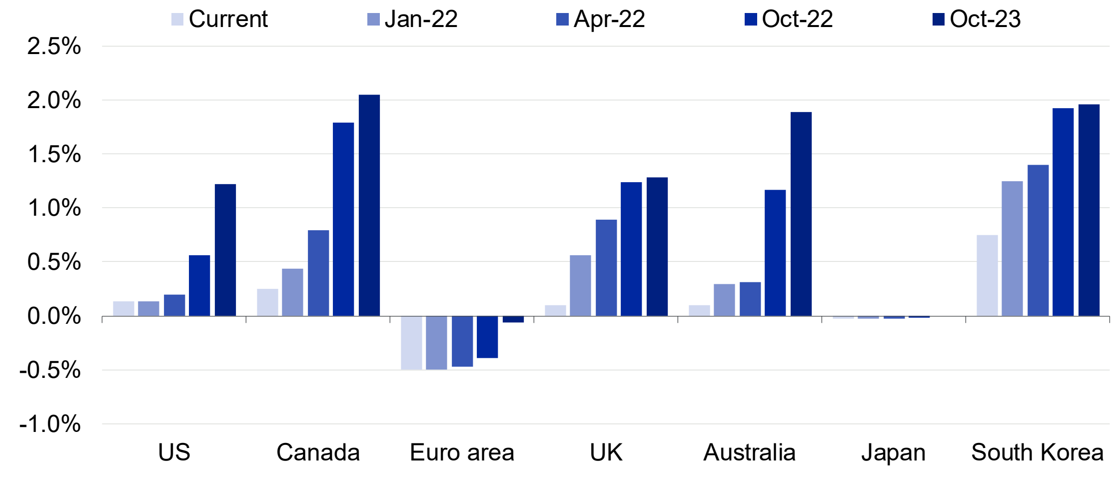
A sudden inflationary spike could trigger sharp asset price corrections, a credit negative

» Monetary and financial conditions will tighten in 2022-23 as central banks look to remove pandemic -era liquidity and monetary support. Stabilization of interest rates will slow but not halt the compression on insurers' investment margins as reinvestment yields are still below average portfolio yields.

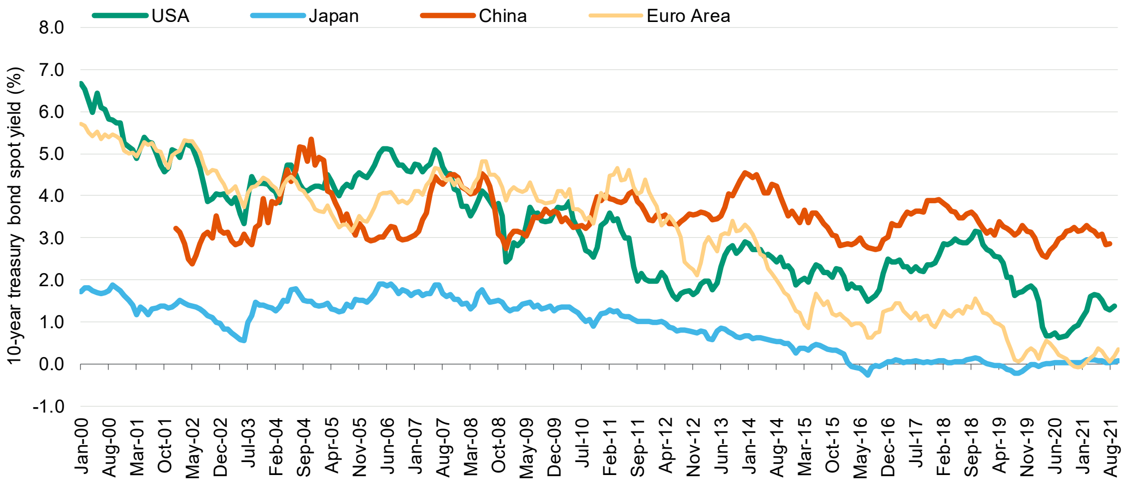
» Most insurers have been adapting to the low-rate environment by reducing guaranteed rates on liabilities. However, the marginal benefit of this strategy is falling in markets such as Germany and the Netherlands, where insurers' investment returns are falling close to their minimum guaranteed rates.

» Financial markets have priced in expectations of normalizing monetary policies. However, current supply jitters could lead to stronger-than-expected inflationary spikes, a key risk in this outlook.

Market implied policy rates are rising in advanced economies



… however, portfolio yields remain under pressure as spot rates stay at historical low levels across major markets

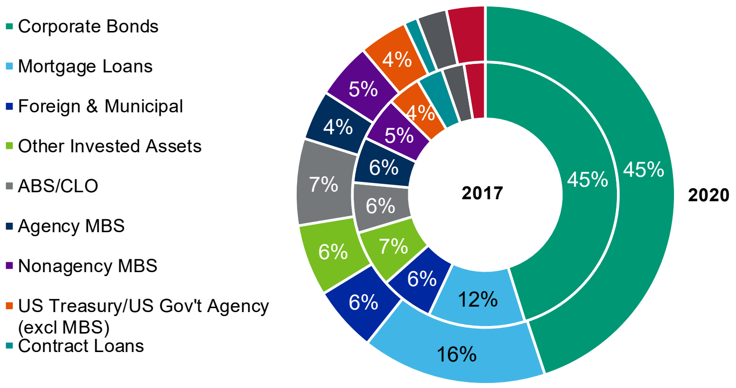


Sources: Bloomberg, Moody's Investors Service and Moody's Analytics

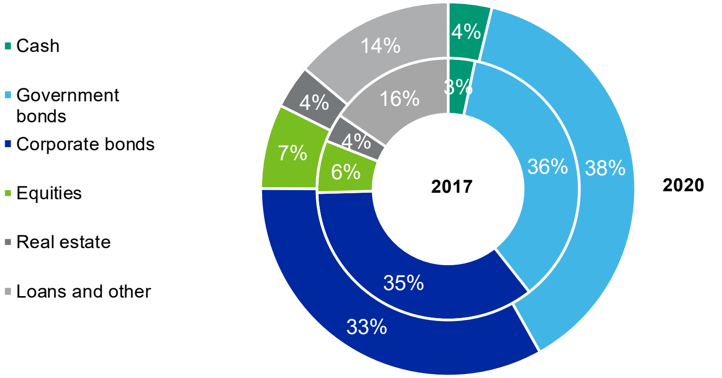
Insurers have maintained conservative asset allocation

Insurers have adapted to low rates without taking excessive asset risks

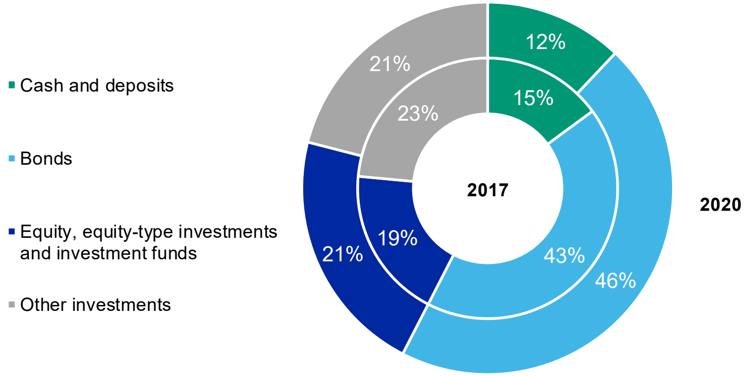
US insurers' asset quality remained solid, while bond portfolios slightly deteriorated with small uptick of Baa and below investment-grade bonds and illiquid securities



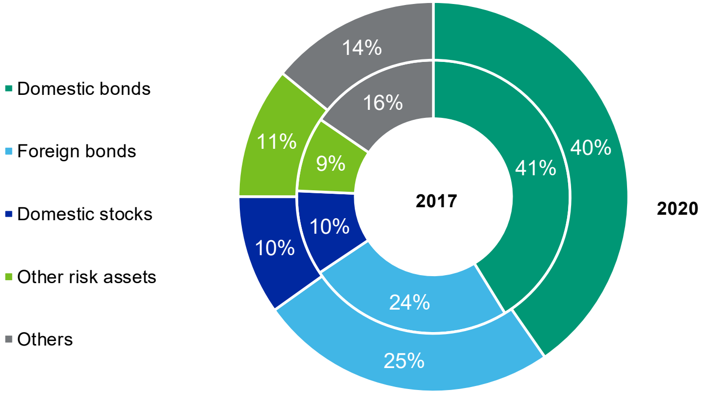
EMEA insurers are shifting gradually to government bonds from corporate bonds



Chinese insurers are adding to their holdings of long-dated government bonds and equities while reducing exposure to non-standard assets



Japanese insurers will invest more in super-long-dated Japan Government Bonds (JGBs) and overseas government bonds while curbing equity exposure



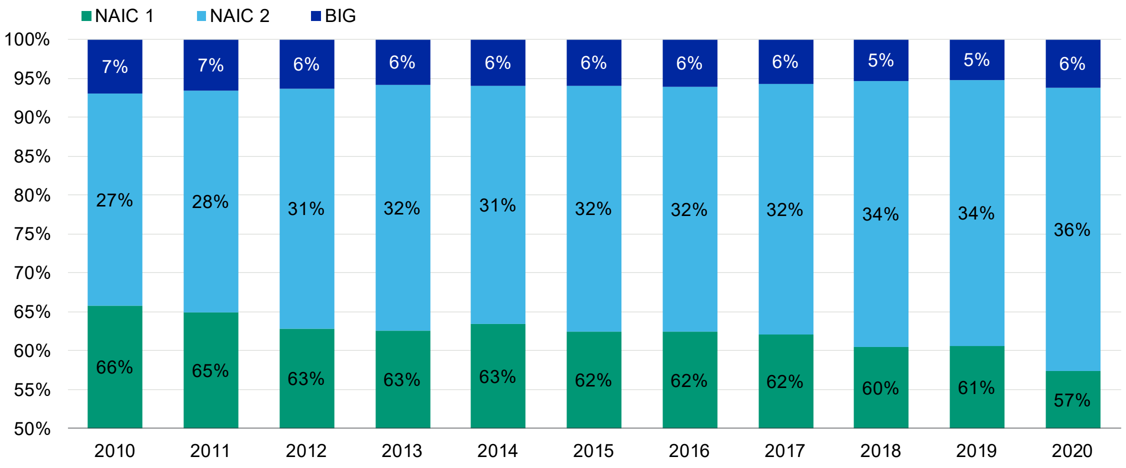
Sources: [US]: SNL Financial LC. Contains copyrighted and trade secret materials distributed under license from SNL. For recipient's internal use only; [EMEA] Data disclosed by Zurich, AXA, Allianz, Generali, Aegon and Munich Re; [China] Data disclosed by China Life, Ping An Life, CPIC Life, New China Life, PICC Life and Taiping Life; [Japan] Data disclosed by Dai-ichi Life Group, Fukoku Life Group, Meiji Yasuda Life, Taiju Life, Nippon Life, Nissay Wealth, Sumitomo Life and Aflac Life

Slight negative rating migration within insurers' bond portfolio

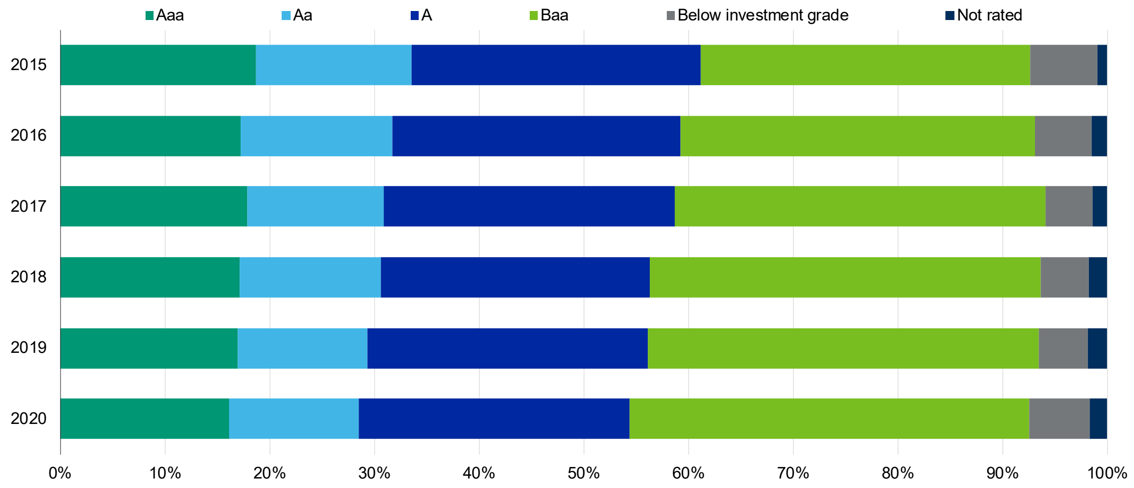
Economic recovery will improve overall credit quality despite tightening corporate liquidity

- US and European insurers have gradually moved down the credit curve in their fixed-income portfolios to enhance their investment yields. Tightening liquidity will also challenge companies with weak earnings and high leverage.
- Nonetheless, we expect defaults to remain below the historical average as the gradual economic recovery continues.
- Rated Chinese insurers' direct exposure, through bond and equity holdings, to the heavily indebted property sector is limited, but they are exposed to potential spillovers to the broader economy.
- Japanese, Korean and Taiwanese insurers have increased exposures to overseas credits, but mostly in long-dated government and investment-grade bonds with limited credit risks.

US: Slight credit deterioration in the fixed-income portfolio
Investment value as a percentage of total bonds



Europe: Credit rating of fixed-income portfolio is gradually trending lower
Estimated breakdown of European insurers' fixed income portfolio by rating category



Left chart: SNL Financial LC. Contains copyrighted and trade secret materials distributed under license from SNL. For recipient's internal use only
Right chart: These exhibits show estimates based on data disclosed by Aegon, Allianz, AXA, Generali, Munich Reinsurance Company and Zurich Insurance.
Sources: Company reports and Moody's Investors Service

Low rates are pushing up allocation to illiquid assets

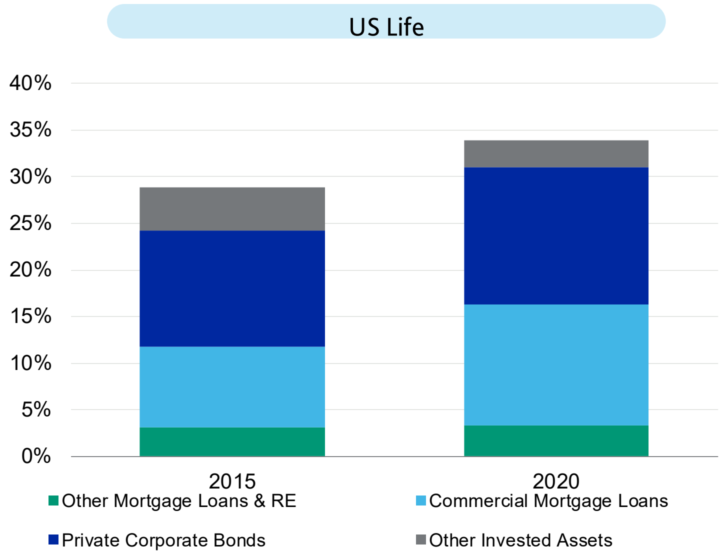
Higher risks are balanced by improved duration matching and life insurers' strong liquidity

» Insurers globally have increased their less liquid or illiquid asset investments such as private debt and mortgage loans for higher returns and the ability of these investments to match the cash flow of their long-dated liabilities.

» This trend also reflects system-specific developments such as the growing bulk annuities business in the UK and the rising acquisition of life companies by private equity firms in the US. Chinese insurers, however, are shifting their exposure from short-dated non-standard assets to government bonds to narrow duration mismatch and reduce credit risk.

» Insurers generally have strong capital and liquidity buffers to mitigate the additional credit and liquidity risks from higher allocation to illiquid assets. Nevertheless, the sourcing of high-quality illiquid assets will become increasingly difficult as yields fall in response to high demand.

Extent of illiquid assets varies by region (in part, a reflection of illiquid liabilities), but are increasing
Illiquid assets as proportion of insurers' total investments by region



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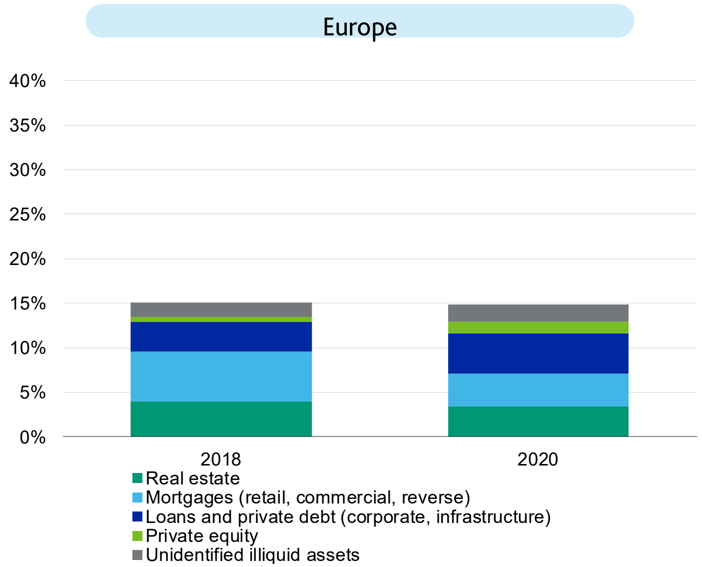
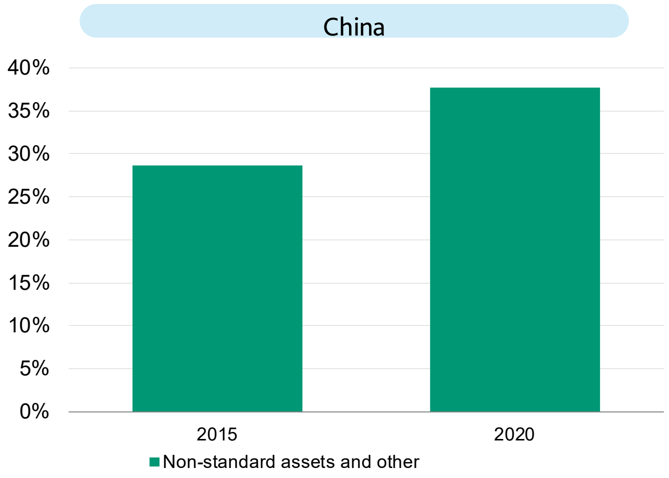


Source: Moody's investment surveys and company reports as at the end of 2020



Note: [1] Non-standard assets include project debt schemes, long-term equity investment (listed or unlisted equities, not required to MTM), asset management products, trust plans, investment properties and others. [2] Long-term equity investments (LTE) account for roughly 1/3 of "non-standard assets", which are less illiquid than the rest, such as project debt schemes.

Source: Moody's Investors Service and company data

Solid capitalization will mitigate market risks from policy shifts

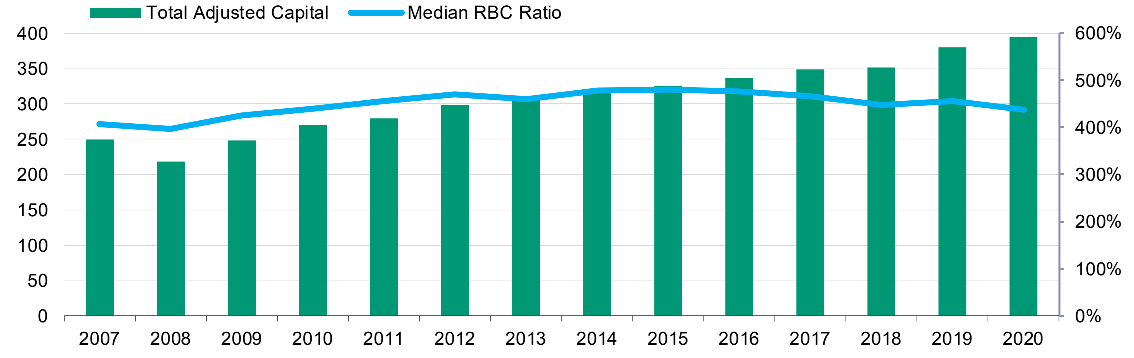
Capital management and higher interest rates will keep insurers' capital solid

US insurers kept capital strong and liquidity healthy

» US insurers' risk-based capital (RBC) ratios were strong at the beginning of 2021 and expected to remain strong entering 2022, but share repurchase and refinements to investment and capital requirements act as headwinds.

» Holding company liquidity remains strong entering 2022, but shareholder pressures to further reduce cushion generated at the start of the pandemic, when life insurers raised liquidity by issuing significant levels of debt.

US insurers' RBC ratios remained strong despite decrease in 2020



Sources: Moody's Investors Service; SNL Financial LLC. Contains copyrighted and trade secret materials distributed under license from SNL. For recipient's internal use only.

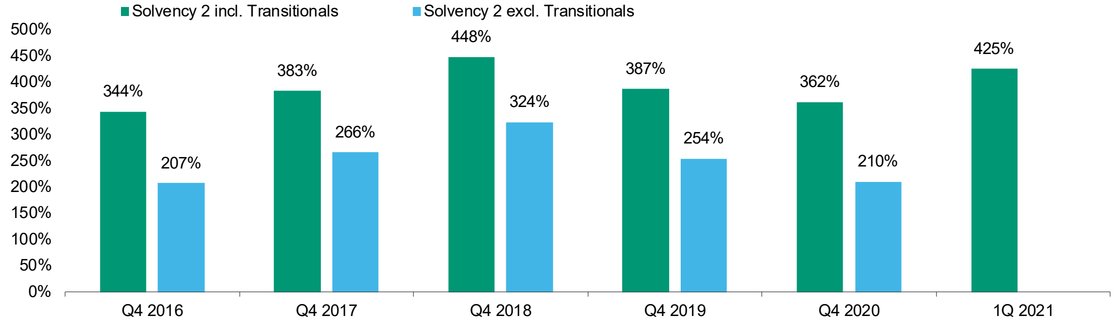
European insurers' solvency supported by higher interest rates

» European insurers' solvency ratios are stabilizing at a higher level entering 2022 as a result of higher interest rates, after falling amid the pandemic.

» Nevertheless, their solvency ratios remained sensitive to interest rate and credit spread movements.

» European Commission's latest proposal to make insurers' Solvency II capital ratios more reflective of the risks they face could lower some life insurers' capital ratios over time.

Germany insurers' Solvency II ratios recovered 2021, tracking interest rates



^Notes: Solvency II figures for Q4-2015 – Q4 2020 based on figures published by Bundesanstalt für Finanzdienstleistungen, for Q1 2021 based on European Insurance and Occupational Pensions Authority

Sources: Bundesanstalt für Finanzdienstleistungen, European Insurance and Occupational Pensions Authority and Moody's Investors Service

Asian insurers are reducing risk exposures to prepare for tightening regimes

Chinese insurers' risk-based capital ratios will stay strong

» Chinese insurers' risk-based capitalization will continue to benefit from robust retained earnings and modest premium growth.

» C-ROSS Phase II will impose higher capital requirements and tighten capital recognition of future profits. This will reduce insurers' headline capital ratios but encourage more disciplined capital management and improve their loss-absorbing capacity.

Internal capital generation supports Japanese insurer's solvency

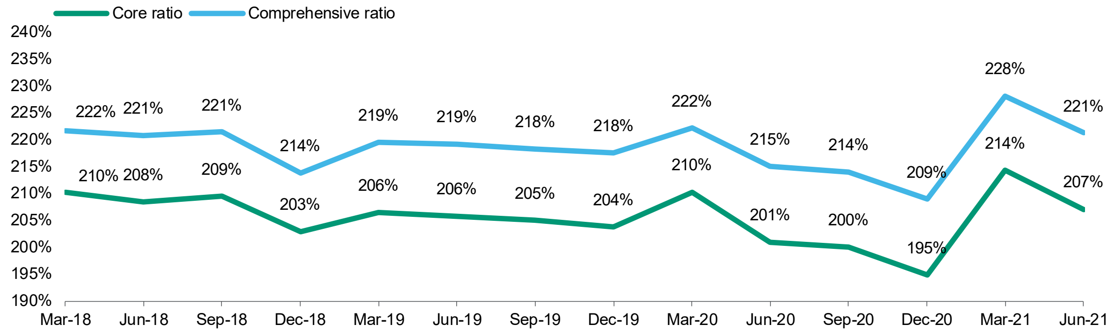
» In anticipation of coming economic value-based capital regulations, Japanese insurers are shifting exposure from equities to overseas credit and super-long-term JGBs. Their capital metrics have improved on strong underwriting profits and buoyant financial markets.

Korean insurers readying themselves for proposed tightening in capital regime

» Korean insurers are narrowing duration gaps under K-ICS implementation. These new rules will also improve their risk management and disclosure, and drive debt issuance.

Chinese insurers' C-ROSS ratios remained strong throughout the pandemic

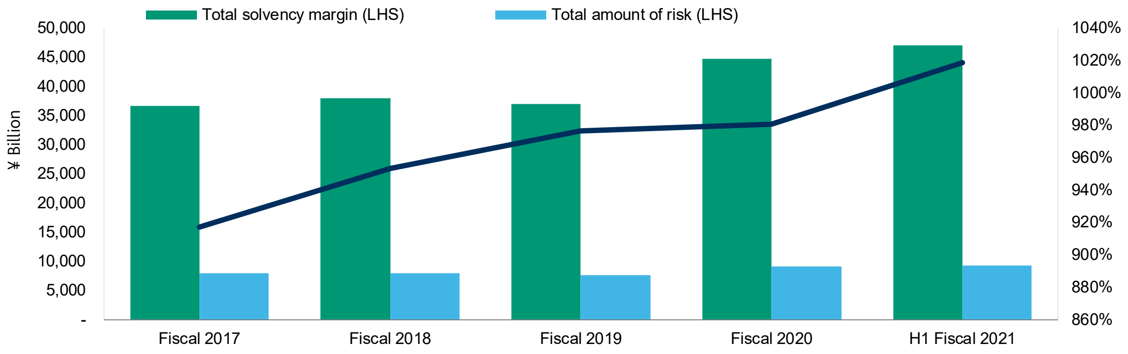
Weighted average core and comprehensive solvency ratios for life insurers



Sources: Insurance Association of China and Moody's Investors Service

Japanese insurers' solvency ratios well above regulatory minimum

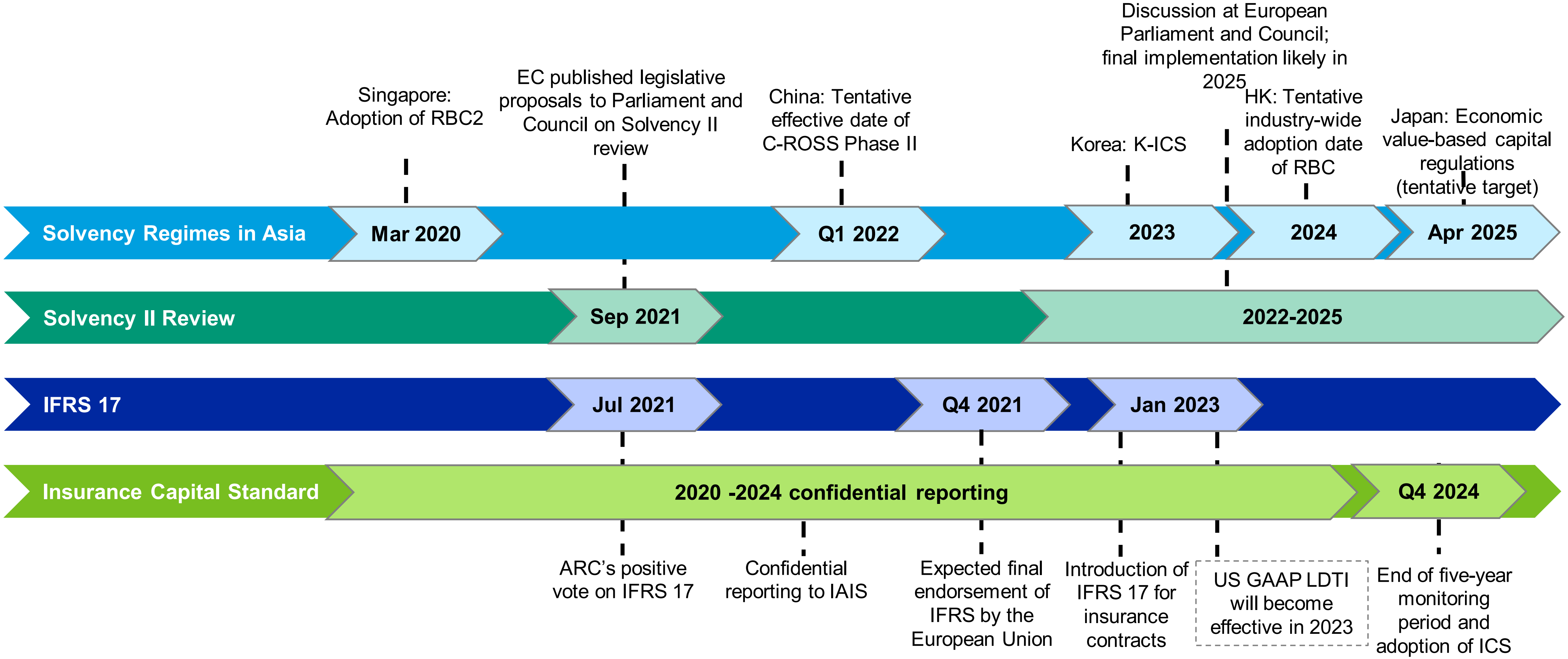
Capitalization to remain strong with stable mortality and morbidity margins



Sources: Dai-ichi Life Group, Fukoku Life Group, Meiji Yasuda Life, Taiju Life, Nippon Life, Nissay Wealth, Sumitomo Life and Aflac Life and Moody's Investors Service

Major regulatory changes are coming

Solvency regulations continue to evolve globally while IFRS 17 accounting standard takes effect in 2023



ARC = Accounting Regulatory Committee; C-ROSS = China Risk Oriented Solvency System; EC= European Commission, ICS = Insurance Capital Standards; IFRS 17 = International Financial Reporting Standards 17; K-ICS = Korea Insurance Capital Standards; LDTI = Long-Duration Targeted Accounting Improvements, RBC = Risk-based capital regimes; IAIS = International Association of Insurance Supervisors

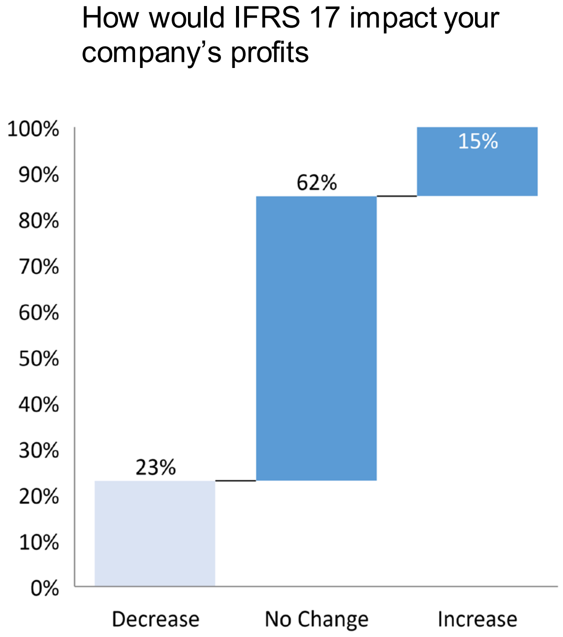
Source: Moody's Investors Service

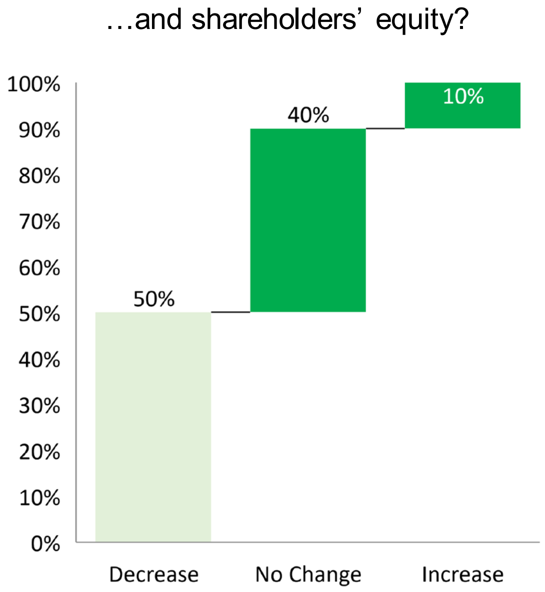
IFRS 17 and US LDTI will change investors' perception of the insurance industry

Limited impact on regulatory capital but more volatile profit and shareholders' equity during transition

- » IFRS 17 and LTDI in the US, planned for 2023, will likely increase the volatility of accounting earnings and equity of life insurers over the transition period.
- » Some European insurers' chief financial officers estimate a decline in net profit and shareholders' equity after IFRS 17 implementation.
- » Nevertheless, there is limited impact on regulatory solvency ratios, cash flow generation and dividend capacity.
- » The accounting rule changes have fueled insurers' product mix shift in Asia towards less spread-dependent and lengthening asset allocation to reduce the potential volatilities on accounting earnings.
- » The new accounting standard is unlikely to alter our credit assessment in most cases, unless it reveals previously unknown risks or significantly-worse-than-expected impacts for insurers, which hamper abilities to raise funding.

50% and 23% of European Insurance chief financial officers expect their companies' shareholders' equity and profit to drop after IFRS 17 implementation





Sources: Moody's Investors Service and 2021 European Insurance CFO survey

Addressing sustainability demands early becomes a credit imperative

Path to net zero

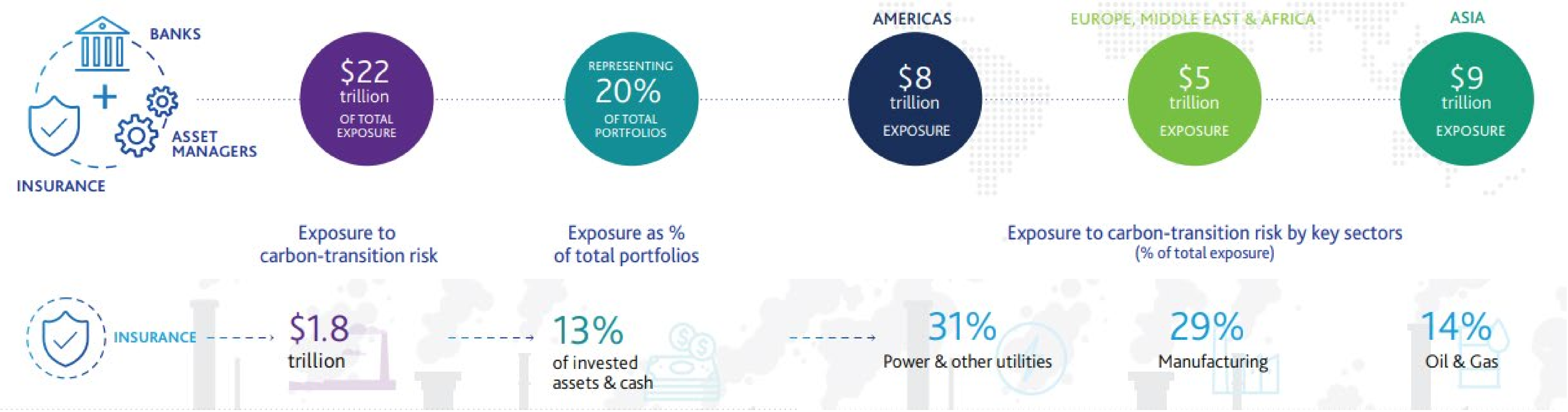
- Insurers are under increasing pressure from regulators and investors to support net zero carbon emission initiatives.
- According to an impact study by International Association of Insurance Supervisors (IAIS), a scenario of orderly transition toward internationally agreed targets will only lead to a 7-8 percentage point solvency ratio drop among the 32 IAIS members compared with a 50 percentage point decline in a “too little, too late” scenario.
- Leading insurers have announced plans to reduce underwriting and investment exposures to coal-intensive industries as part of their decarbonization drive.

Inequality & social risk

- Demographic changes have increased demand for retirement products in France and long-term care products in Japan and Korea. UK has seen strong growth in bulk purchase annuities as corporates offload pension risk.
- Nevertheless, governments have increasingly turned to insurers for affordable health and retirement solutions, which will limit pricing in certain markets.
- Regulatory scrutiny on proper sales practices will intensify, impacting insurers’ sales models and returns.
- As insurers embrace big data and advanced analytics, their capabilities to safeguard cyber risks will become increasingly important.

Data on G-20 financial institutions reveal high carbon transition risk

Insurers hold around $1.8 trillion of total exposures to carbon transition risks*, with highest exposure to power and other utilities sectors



* Moody's estimates are based on the on-balance-sheet loans of banks (short- and long-term), invested assets of insurers and equity holdings of asset managers. The estimates correspond broadly to the very high and high credit risk sectors under Moody's environmental heat map. However, because of data limitations, the estimates also include certain sub-sectors that are not subject to significant carbon transition risk and/or executing strategies to reduce carbon intensity. For instance, manufacturing, which Moody's classifies as moderate credit risk because of environmental factors, is fully included in the estimates as current financial disclosures capture higher and less carbon-intensive activities in this category.

Sources: Bank data, National regulators and Moody's Investors Service (for more details please see our Infographic)

Insurers are rising to the challenge of supporting carbon transmission

Insurers are taking initiatives to avoid the potentially hefty financial costs under a “too little, too late” scenario

» IAIS estimated that more than 35% of global insurers’ assets [1] could be considered as “climate-relevant” and exposed to climate risk.

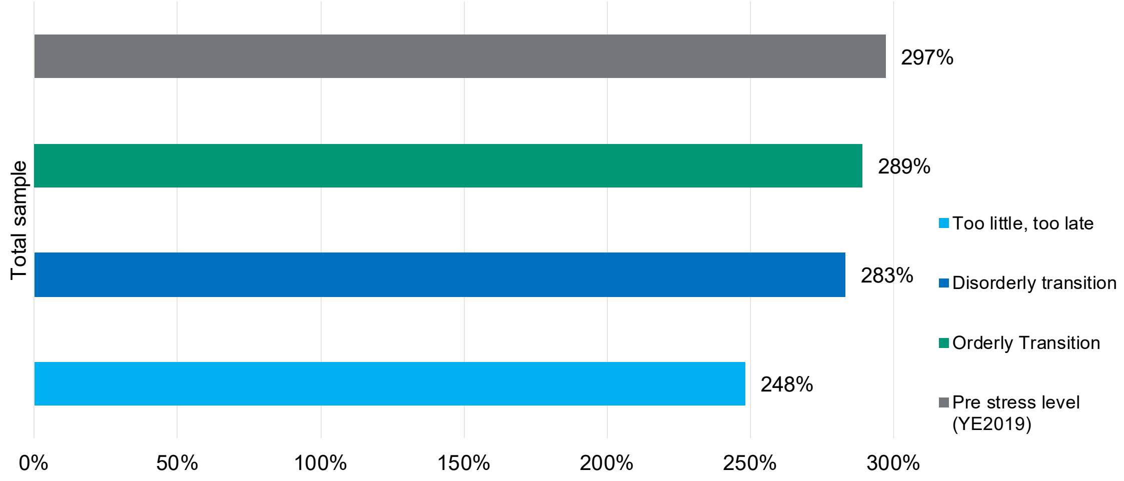
» These insurers may suffer a 50 percentage point drop in solvency ratios from the pre-stress level (as of end of 2019) under a “too little, too late” scenario.

» However, the impact on solvency will only be around 7- 8 percentage points under an “orderly transition” scenario.

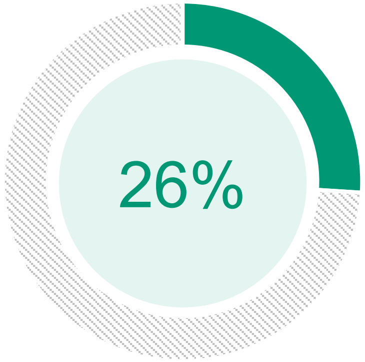
» 20 globally significant insurers have adopted coal divestment policies and many APAC insurers have also announced plans to curtail their underwriting and investment exposure to coal or coal-related industries, as part of their broader decarbonization roadmap.

» These initiatives are credit positive because they will reduce insurers’ potential climate change liabilities and the stranding of their investments.

Global insurers may suffer a 50 percentage point drop in solvency under a “too little, too late” scenario



A quarter of Asia’s rated insurers have explicit plans to divest coal investments



9 out of **35** rated life insurers in APAC have established an explicit negative screening policy on underwriting insurance and investment in coal-fired power plants

Note: IAIS = International Association of Insurance Supervisors
1. This includes 32 IAIS members provided data, which presented 75% of global insurance market in terms of gross written premiums
Sources: IAIS Global Insurance Market Report - first quantitative study on the impact of climate change on insurers’ investments, Moody’s Investors Service and Company disclosure

Social risks are gradually reshaping the whole value chain of insurers

Government policy

Addressable market

- Expansion of public social security coverage or government-subsidized insurance plans may limit addressable market and margins of private insurers

Demographics

Product demands

- Increasing demands for retirement and long-term care products in aging economies such as Japan and Korea
- Growing demand for bulk purchase annuities in UK life insurance markets

Societal trends

Channel strategy

- Growing importance of independent financial advisors in Asia
- Agency recruitment challenges in China
- Risk of disintermediation amid growth of new online channels

Customer relations

Treating customers fairly

- Increased transparency on complex products with higher disclosure requirement
- New guidelines by US regulators to protect policyholders from discriminatory use of AI

Sales conduct

Reputational & mis-selling risk

- Regulators are pushing for proper sales remuneration practices to promote professionalism and align incentives of financial advisors with policyholders' interest

2022 outlook by country (1)

Stable

UNITED STATES

- Continuing economic recovery supports stable outlook, while supply chain issues and new coronavirus variants remain key risks
- Moderate inflation is positive for insurers, lifting investment yields and profitability on spread-based products
- Capital adequacy remained overall strong, although industry average RBC ratio declined as share repurchase resumed in 2021
- Life insurers will face a number of new regulatory, accounting and government changes in 2022 with mixed credit implications
- Please refer to US Life Insurance Outlook

Stable

CHINA

- Risk-based capitalization to remain strong, supported by insurers' accumulated earnings and active capital replenishments
- Shifts within risky assets will keep investment risk stable
- Premium growth will remain weak in the next 12-18 months because of softened insurance demand, shrinking agency force and tighter product and online sales rules
- Shifts to products with higher savings elements will weaken underwriting margin and increasingly expose earnings to capital market volatility

Stable

UNITED KINGDOM

- Credit risk is high as low interest rates push insurers to buy riskier higher-yielding assets, but capitalization remains comfortable.
- Demand for life insurance and saving products is improving thanks to the economic recovery and easing of lockdown measures
- Bulk annuities remain a significant long-term growth opportunity and underpin profitability despite a subdued market in 2021
- Potential regulatory developments and legislative changes could erode margins and flows
- Please refer to UK Life Insurance Outlook

Stable

JAPAN

- Capitalization to remain strong with stable mortality and morbidity margins driven by strong pricing power of captive sales agent
- Ultralow interest rates will continue to strain investment income
- New capital regulation will promote initiatives to improve economic capital, with gradual increase in super-long-term JGBs to reduce duration gap
- Asset composition gradually shifting to less concentrated credit investments from more concentrated equities
- Please refer to Japan Life Insurance Outlook

2022 outlook by country (2)

Negative

NETHERLANDS

» Interest rates will remain low, hampering life insurers' investment margins

» High exposure to long-term liabilities compared with European peers makes the sector's capitalization more vulnerable to low interest rates

» Very limited growth potential, and little scope for shifting business mix toward less interest rate sensitive products. The sector also faces significant competition from banks, asset managers and pension funds

Stable

GERMANY

» Good progress in shifting new business towards capital-efficient and less interest rate-sensitive products

» Technical reserves have strengthened significantly thanks to a decade of Zinszusatzreserve (ZZR) contributions

» Pressure on investment results will continue, partially offset by stable technical results

» Capital adequacy remains highly sensitive to movements in interest rates, but we expect it to stabilize over 2022.

» Please refer to German Insurance Outlook

Stable

ITALY

» Solvency II ratios have stabilized at a higher level, but remain sensitive to market movements

» Earnings are good, benefitting from high but volatile investment returns because of previously high yields on Italian sovereign debt

» Guaranteed interest rate commitments are manageable, even in a prolonged low yield environment

» Exposure to domestic sovereign bonds is far above the European average, but spread levels have come down

Negative

FRANCE

» While net flows have recovered in 2021, driven by high inflows in unit-linked products, they are not back to pre-pandemic levels, showing a reduced attractiveness of savings products

» Sales of unit-linked products remain dependent on equity market performance

» Despite low interest rates, life profits will nonetheless remain resilient in the next 12-18 months as insurers still have good capacity to reduce credited rates

» Profitability in health and protection products is negatively impacted by an increase in claims

» Level of political scrutiny will remain high, as evidenced by the government's focus on the level of fees in retirement products and on health insurance pricing

2022 outlook by country (3)

Negative

SWITZERLAND

- Lower interest rates add incremental pressure on earnings and capital, notwithstanding strong capital adequacy and strong asset-liability management
- Individual life: still high reliance on traditional guaranteed business, and weak growth potential overall
- Group life: guaranteed rates and conversion rates in mandatory group life business are high because of low interest rates and rising life expectancy

Stable

NORDICS

- Nordic life insurers have reduced their vulnerability to low yields through a variety of measures, but dependence on investment results remains high
- Strong capital adequacy, with limited sensitivity to short-term negative market movements
- Continuous growth momentum thanks to the sector's central role in the pensions systems of most Nordic countries
- Please refer to Nordic Insurance Outlook

Stable

KOREA

- Stable underwriting profitability supported by on-going product mix shift towards protection and less-interest sensitive products, and higher cost efficiency to prepare for new regulation
- The relaxation of social distancing measures will lead to some, but limited rebound in hospitalization and medical claims, owing to tighter underwriting
- Steeper yield curve and lower hedging costs reduce risk of negative spreads widening
- Capitalization will remain stable as insurers prepare for new regulations focusing on improving assets-liabilities management

Negative

TAIWAN, CHINA

- Earnings are vulnerable to capital market volatility because of a product mix dominated by traditional life and annuities with high survival benefits
- Investment yields could strain profitability because of low rates
- High asset risk because of high exposure to equities and foreign investments that expose insurers to exchange-rate volatility
- Capitalization remains weak, mitigated by slow premium growth/low acquisition costs

Moody's related publications

Sector research

- » Global economy will gain steadier footing although supply troubles, inflation pose risk, 4 Nov 2021
- » 2022 Outlook - Global credit environment will stabilize as COVID-19 uncertainties ebb, 1 Nov 2021
- » Life & Health Insurance - US: 2022 outlook stable, as US economic recovery solidifies, 1 Dec 2021
- » Insurance - Europe: 2022 Outlook stable for life, negative for P&C, 17 Nov 2021
- » Insurance - Global: Innovation critical for insurers as technology threatens their traditional earnings, 16 Nov 2021
- » Insurance – APAC: Initiatives to lower coal investment are credit positive though adjustment risks vary, 16 Nov 2021
- » Life Insurance - US: Illiquid assets rise, increasing returns while raising portfolio risk, 15 Nov 2021
- » Insurance - Nordic countries: 2022 Outlook is stable for P&C and Life, 11 Nov 2021
- » Life Insurance - Germany: Outlook stable for life, negative for P&C, 28 Nov 2021
- » Life Insurance - United Kingdom: Growing illiquid asset exposure is more credit positive than negative, 25 Oct 2021
- » Life Insurance - Cross Region: Outlook revised to stable from negative, 15 Jun 2021
- » Life Insurance - US: Life Insurers US: a little inflation is credit positive; a sizable spike would hurt, 23 Jun 2021
- » Life Insurance - Japan: Outlook changed to stable as resilient profit supports strong capitalization, 7 Jun 2021
- » Life Insurance - Korea: A steeper yield curve and growing focus on capitalization underpin stable outlook, 27 Apr 2021

Methodologies

- » General Principles for Assessing Environmental, Social and Governance Risks Methodology, 19 Oct 2021
- » Life Insurers Methodology, 24 Sep 2021

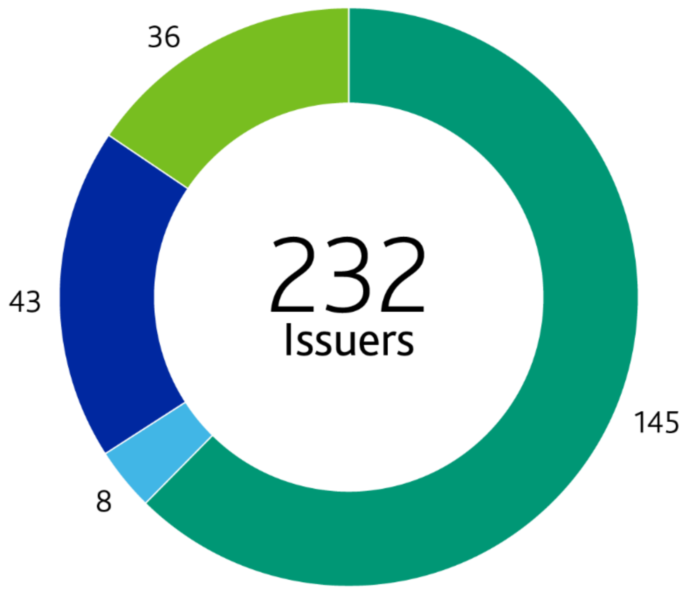
Global Life Insurers – Rating distribution

Majority of life insurers' insurance financial strength rating (IFSR) are at investment grade

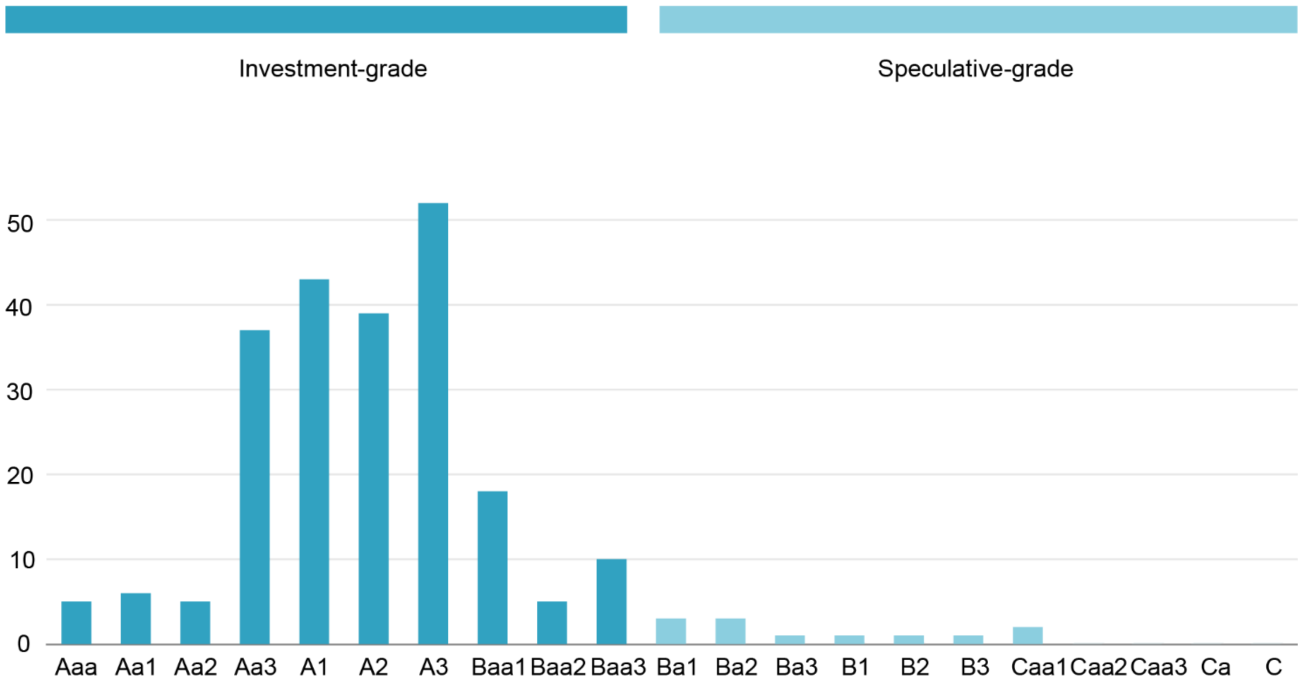
Global Life Insurers rating distribution (IFSR)

North America LATAM EMEA APAC

Rated life insurers



RATING DISTRIBUTION by number of issuers



Source: Moody's Investors Service, data as of 3 December 2021

Notes: The data includes both rated life and composite insurers

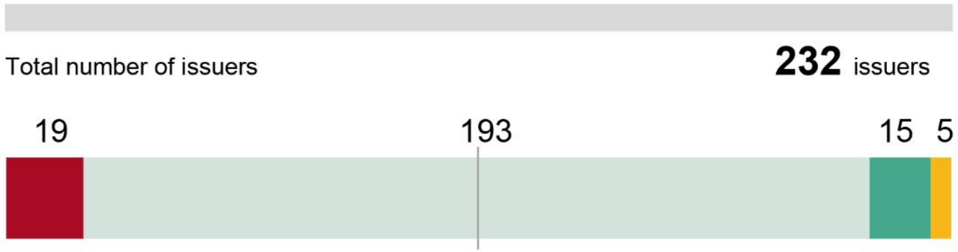
Global Life Insurers – Rating distribution

Most of the global life insurers carry stable outlook

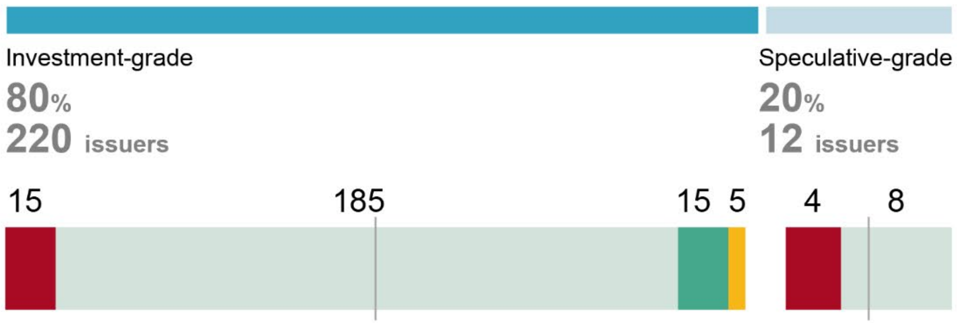
Global Life Insurers rating distribution (IFSR)

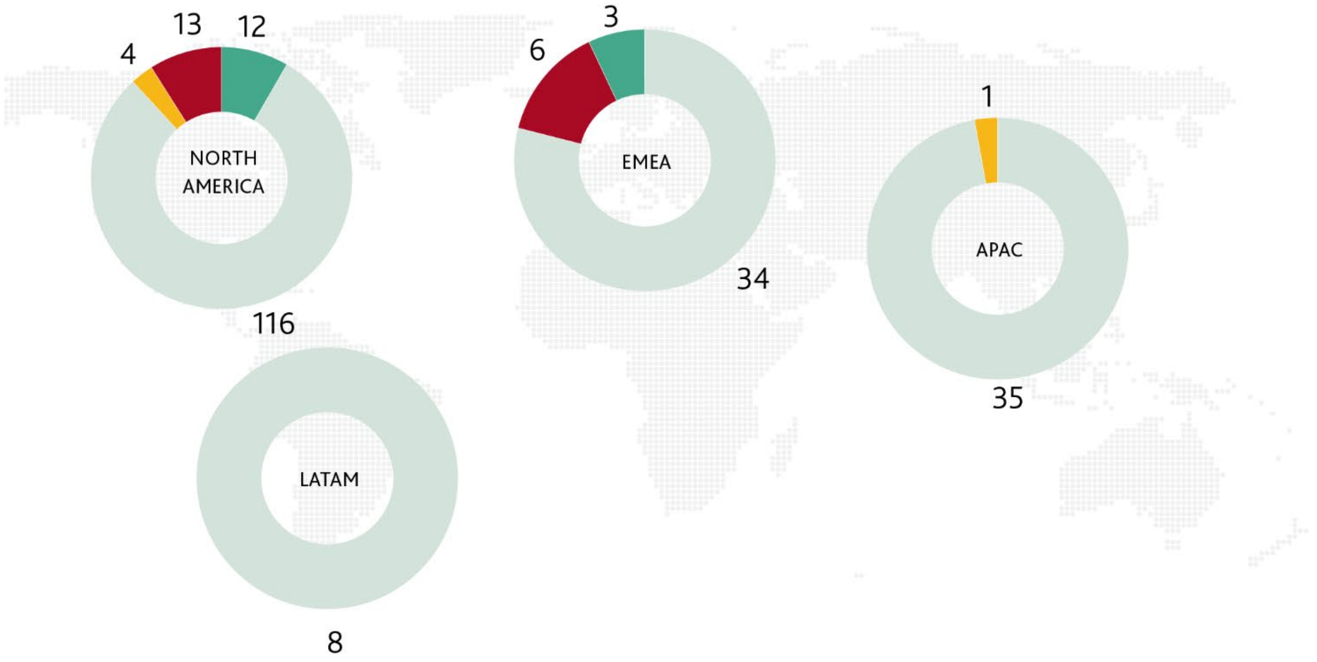
Negative Stable Positive Rating under review No Outlook

OUTLOOK DISTRIBUTION



OUTLOOK DISTRIBUTION BY RATING CATEGORY





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