

## CCXAP assigns first-time long-term credit rating of A<sub>g</sub>+ to Aviva-COFCO Life Insurance Co., Ltd., with stable outlook.

Hong Kong, 25 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of A<sub>g</sub>+ to Aviva-COFCO Life Insurance Co., Ltd. (“Aviva-COFCO” or the “Company”), with stable outlook.

The A<sub>g</sub>+ long-term credit rating of AVIVA-COFCO reflects the Company’s (1) good business presence in China’s insurance market; (2) diversified distribution channels and product mix, supporting its premium growth; (3) stable and prudent investment strategy; and (4) solid capital adequacy underpinned by its strong capital generation capability. However, the rating is constrained by the Company’s (1) moderate market position with limited operation scale; (2) exposure to equity and alternative investments, which may increase the pressure on its asset quality; and (3) investment return challenged by the volatility of capital market in China.

The rating also reflects our expectation that the Company is likely to receive support from its two ultimate shareholders, namely COFCO Group Co., Ltd. (“COFCO Group”) and Aviva Plc (“Aviva”), in times of need. Aviva-COFCO has an important strategic position for its shareholders. Over the past years, the Company has a good track record of receiving support, such as capital replenishment, product development, and management know-how.

### Corporate Profile

Founded in 2002, Aviva-COFCO is one of the life insurers in China and is headquartered in Beijing. Aviva-COFCO offers traditional life insurance, health and accident insurance, annuity products, participating life insurance and universal life insurance products to individuals and corporates and had operations in 17 provinces or municipalities across China as of the end of 2023. Aviva-COFCO Life is a 50:50 joint venture between Aviva Plc (“Aviva”) and COFCO Capital Investment Co., Ltd, a subsidiary of COFCO Group Co., Ltd. (“COFCO Group”).

COFCO Group is one of the major suppliers of agricultural and food products in China by revenue and is wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council of China. Aviva is the largest insurance service supplier in the UK and is one of the leading global insurers with over 300 years of operation experience.

### Rating Rationale

#### Credit Strengths

**Good business presence in China’s insurance market.** Aviva-COFCO is a life insurer that specializes in the Chinese market, and it has a business presence in 17 provinces or municipalities across China as of the end of 2023. China is the world’s second-largest life insurance market that offers insurers with sufficient growth potential.

**Diversified distribution channels supporting premium growth.** Aviva-COFCO has extensive distribution channels, which help the Company sustain steady premium growth and



better seize market opportunities. Its major distribution channels include agents, insurance brokers, bancassurance, and telemarketing and internet channels. Aviva-COFCO had more than 7,700 agents in its sales force as of 31 December 2023, and had been productive during the past years. The Company also has maintained a stable relationship with top-tier insurance brokers who have high-quality client bases, enabling it to perform outstanding growth in product sales.

**Solid capital adequacy underpinned by its strong capital generation capability.** Aviva-COFCO has maintained relatively strong solvency ratios, despite the decreasing market trend. Its core and comprehensive solvency ratios were 153.5% and 254.1%, respectively, as of 31 December 2022, which are far higher than the domestic regulatory requirement. Aviva-COFCO has good organic capital generation capability with a relatively high-margin product mix and has a good track record in obtaining capital.

**Track record of shareholders' support from Aviva and COFCO Group.** Aviva-COFCO has high strategic importance to its shareholders, namely COFCO Group and Aviva. It is positioned as the sole insurance company of COFCO Group and the sole investment of Aviva in China's insurance market. Both shareholders have provided strong support over the past years, in terms of capital replenishment, business development, product innovation, resource collaboration, and risk management. We expect that the willingness of COFCO Group and Aviva to provide support is high and their shareholdings will not be changed over a long period. The strong credit profile of COFCO Group and Aviva is also promising that they will have enough financial resources to help Aviva-COFCO in times of need.

### Credit Challenges

**Moderate market position with limited operation scale.** The Company reported an original premium income of RMB16.2 billion in 2023, representing an absolute market share of around 0.5% in China. China's life insurance market is highly dominated by the top 5 life insurers having combined market shares over 50% in terms of original premiums, which creates barriers to entry for new insurers. Aviva-COFCO's sales are still challenged by tightening regulations and increasing market competition, and thus its franchise is expected to remain constrained.

**Exposure to equity and alternative investments increases asset quality pressure.** Aviva-COFCO's high-risk assets to shareholders' equity ratio was 218.8% as of year-end 2022 with increasing equity investments. It aims to seek additional investment yields during the stock market downturn in China. However, the increasing exposure to equity investments will bring pressure on its asset quality as the volatility in China's capital market remains high.

**Investment returns are challenged by the volatility of capital market in China.** We expect the Company's profitability will be challenged by the volatility of the capital market in China. Although Aviva-COFCO's investment performance is relatively good compared to most of its Chinese peers, the investment return in its investment had a decreasing trend and lower asset value over the past few years.



## Rating Outlook

The stable outlook on Aviva-COFCO's rating reflects our expectation that the Company will maintain a stable operating and financial profile over the next 12 to 18 months. We also expect the Company to continue to receive support from its shareholders.

### What could upgrade the rating?

The rating could be upgraded if the Company (1) has demonstrated a stronger market position and franchise; (2) further lowers its product risk and increases the diversification of reliable distribution channels; and (3) materially lowers the allocation on risky assets, without sacrificing its profitability.

### What could downgrade the rating?

The rating could be downgraded if the Company (1) has a material deterioration in profitability, such as a drop in Return on Capital; (2) shows significant decrease in capital adequacy; or (3) has a lowering expectation of support from Aviva or COFCO Group.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [Insurers \(December 2023\)](#).

## Regulatory Disclosures

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