

Insurance Pension Focus

Asian Insurers, Increasingly Influential Property Investors

~Mainland Chinese Insurers Follow Taiwanese and Koreans~

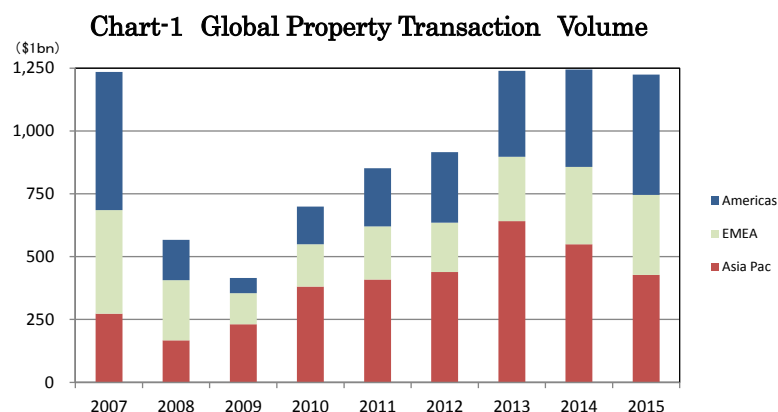
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1 | Introduction

Asian insurers have noticeably increased property investments in recent years. Following active Taiwanese and Korean insurers, mainland Chinese insurers have started property investments since the deregulation in 2010. However, financial markets have become volatile since the latter half of 2015. It is interesting to check how active Asian insurers have invested into properties under these risk sensitive market conditions.

2 | Peak-out of Property Transaction Volume

Property investment markets had increasingly become active for several years, however, the global property transaction volume finally peaked out in 2015 (Chart-1). The reason was a significant decline in the Asia Pacific region for the second consecutive year due to Chinese economic uncertainty.

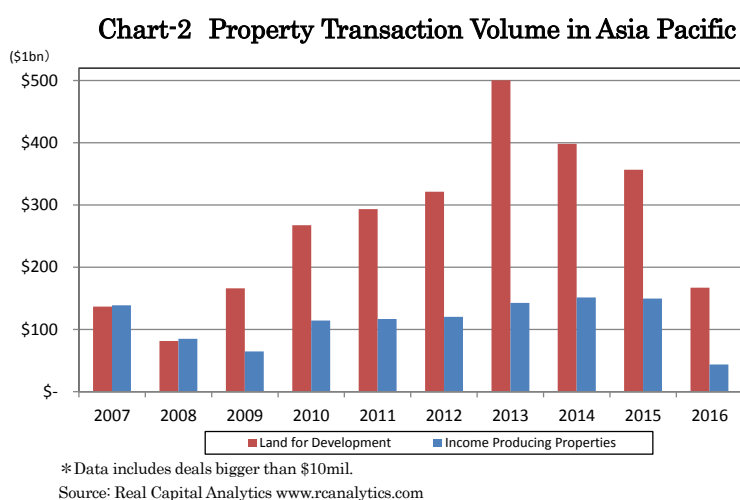


* Data includes deals bigger than \$10mil.

Source: Real Capital Analytics www.rcanalytics.com

However, the property transaction volume in the Asia Pacific region has been mostly explained by land for development (Chart-2), which does not necessarily represent the trend of investor activities. In particular, land for residential development in mainland China has been a predominant factor, which had ballooned in expectation of the demand growth from rapidly increasing middle income households, however, it peaked out in 2013 suppressed by governmental control and the economic slowdown.

Checking the trend of investor activities, the transaction volume of income-producing properties also already peaked out in 2014 and declined significantly in the first half of 2016. It looks like investors have become risk-sensitive and are no longer as aggressive about property investment as before due to Chinese economic uncertainty and declining local currencies.



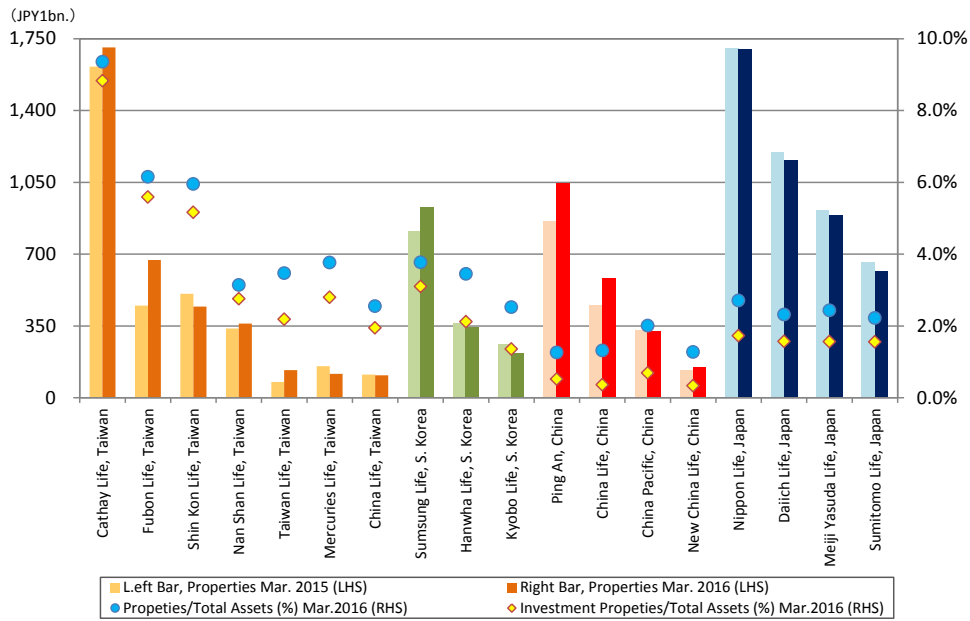
3 | Property Investments by Asian Insurers

Despite the peak-out of regional transaction volume, major insurers of three Asian countries with relatively large insurance markets have continued to increase property investments in 2015 (Chart-3), though Japanese insurers somewhat shrank their property assets.

In Taiwan where insurers are quite aggressive in property investment, the leading insurer, Cathay Life Insurance, increased its property investments in 2015 and has become the largest property investor among Asian insurers, even exceeding Nippon Life Insurance which is much larger in total assets. Other than Cathay Life, multiple Taiwanese insurers, such as Fubon Life Insurance and Taiwan Life Insurance, have noticeably increased property investments.

Outside of Taiwan, mainland Chinese insurers drew even more attention, as both major Ping An Insurance and China Life Insurance have significantly increased property investments. As mainland Chinese insurers have only recently started property investment, their ratios of properties to total assets are relatively low. However, since they have massive amounts of total assets and thus their property assets have already exceeded those of Korean major insurers.

Chart-3 Property Assets Owned by Asian Insurers (% of Total Assets)

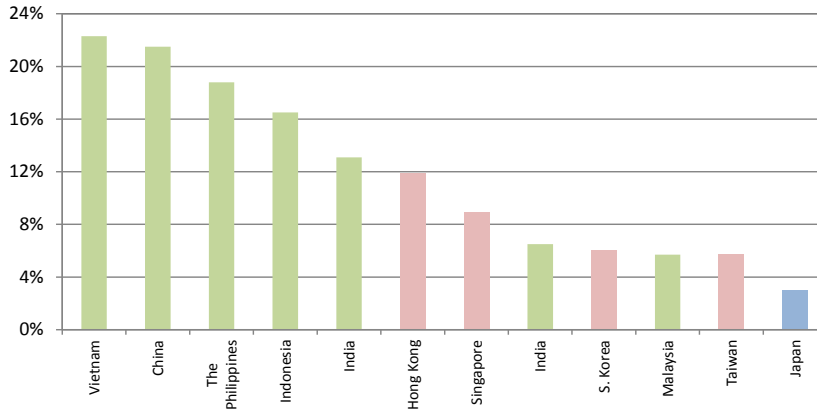


Source: Financial Reports, Annual Reports 2015

4 | Growing Asian Insurance Markets

The increase of property investments by Asian insurers has been backed by their growing insurance markets, as life insurance premiums grew strongly in Asian countries in 2015 (Chart-4).

Chart-4 Life Insurance Premium Growth in 2015



Source: Tomiichi Hiraga, "アジア生命保険市場の動向・変化と今後の展望" NLI Research Institute Letter, Jul. 19, 2016

Life insurance premiums grew by more than 10% in emerging Asian countries such as China, India and some ASEAN countries. In these countries, life insurance penetration judged by life insurance premium per person or life insurance premium ratio to GDP is still low enough for the life insurance markets to continue to grow strongly.

Moreover, even in the four newly industrialized economies (NIEs) of Hong Kong, Singapore, South Korea and Taiwan, where life insurance penetration is as high as that in advanced

western countries, life insurance premiums grew strongly in 2015. In the aging four NIEs, demand for pension or medical care insurance products has been increasing, and saving or investment products have also become popular backed by increasing household incomes.

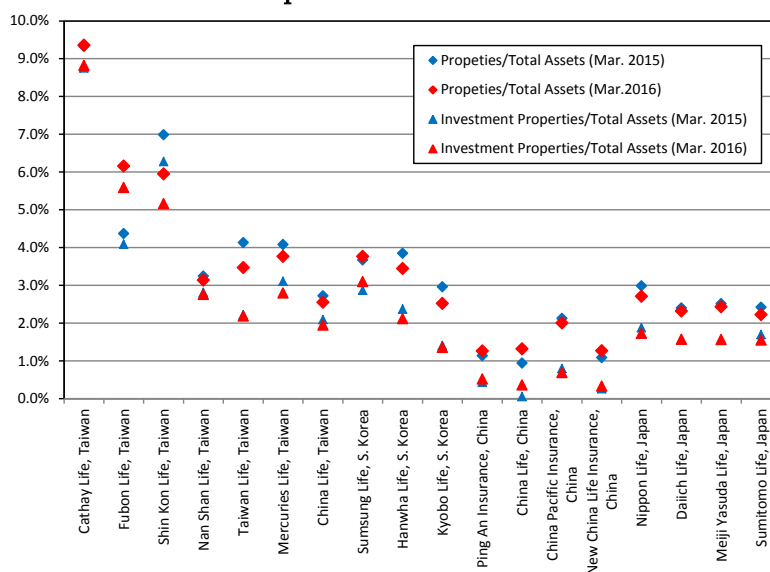
5 | Acceleration to Invest into Properties

The growing insurance markets have been a predominant factor for the increase of property investments by Asian insurers. Quite a few insurers somewhat reduced their ratios of properties to total assets in 2015 (Chart-5) affected by the peak-out of regional property transaction volume. Thus, they were not particularly aggressive about property investment though they increased property assets.

However, mainland Chinese insurers who have low ratios of properties to total assets continued to lift the ratios even after the peak-out of regional property transaction volume. In addition, some Taiwanese and Korean insurers, such as Fubon Life Insurance, also accelerated property investments which lifted the property ratio significantly.

Some Asian insurers have become aggressive about property investments even in the U.S. and Europe. Property investment has been increasingly important for insurers who demand stable income-producing assets under the current low interest rate conditions.

Chart-5 Ratio of Properties to Total Assets of Asian Insurers



Source: Financial Reports, Annual Reports 2015

6 | Final Note

Asian insurers have been increasing property investments backed by their growing insurance markets and the acceleration to invest into properties by mainland Chinese and others.

The regional property transaction volume can shrink further affected by global risks including the Chinese economic hard landing. However, it is likely that Asian insurers will continue to grow

and increase property investments, and thus, will become more influential in property investment markets. It is possible that Asian insurers will become considerable property investors in Japan where they have never made sizable property investments.

* This report includes data from various sources and NLI Research Institute does not guarantee the accuracy and reliability. In addition, this report is intended only for providing information, and the opinions and forecasts are not intended to make or break any contracts.