中国保险资产管理业协会
Insurance Asset Management Association of China

J.P.Morgan
ASSET MANAGEMENT

Diverging pathways, common destination

Uncovering investment opportunities with global perspective 2023

A joint study by the Insurance Asset Management Association of China and J.P. Morgan Asset Management

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Remarks: CIOs mentioned in this report were those surveyed during May to September 2023.

Foreword

The year 2023 constitutes the 20th anniversary of reform and advancement for China's insurance asset management industry. In tandem with the remarkable rise of China's insurance industry, the insurance asset management industry has pressed forward intrepidly over the past 20 years, making vital contributions to the prudent stewardship of insurance funds and the thriving growth of the core insurance business. It has also beneficially supported national strategies, served the real economy, and brought stability to capital markets. However, with the complex and shifting international landscape and China's economy transitioning from old to new growth engines, Chinese insurance funds urgently need to explore innovative directions and approaches to transform.

To enhance exchange and cooperation between Chinese and foreign asset management institutions and elevate the industry's internationalization amid expanding two-way opening-up, Insurance Asset Management Association of China (IAMAC) has again partnered with J.P. Morgan Asset Management (JPMAM), the chair organization of IAMAC International Expert Advisory Committee (IEAC). For the second consecutive year, we have jointly published the "China Insurance CIO Survey". Based on the insights from insurance Chief Investment Officers (CIOs) globally, this report explores emerging insurance asset management trends, opportunities and approaches against a backdrop of slowing global growth, shifting regulatory environments, and evolving market risks.

Similar to the inaugural edition, this year's survey report maintains a global perspective and examines key topics of shared interest among CIOs globally, including the macro and market environments, asset allocation and outlook, investment opportunities and ESG. This year's report has added survey results from Asia-Pacific insurance CIOs, and through comparing two years of data, provides additional analysis on trends and changes. The report features extensive data, in-depth research, and more detailed content than the inaugural edition, serving as a valuable reference for China's insurance industry to capitalize on two-way opening-up opportunities. The report also offers useful perspectives for international institutions seeking to understand China's insurance industry. On behalf of IAMAC, I would like to sincerely thank the CIOs from China, Europe, the U.S., and APAC who participated in the survey, the highly professional and efficient JPMAM team, and all the experts who contributed to this project.

As the adage goes, "Gems from one shore can polish jade from another." With China's focus on continuing a high-standard opening up, IAMAC will continue to leverage the resources of IEAC member institutions, foster avenues of communication, and promote cooperation between Chinese and overseas asset managers. This will contribute strength to expedite domestic and international "dual circulation" and catalyzing a new landscape of mutually beneficial cooperation!

Mr. Cao Deyun
Executive Vice President and Secretary-General of IAMAC

1 January 2024

Foreword

I hope our China Insurance CIO Survey 2023 delivers insights and a global perspective to our readers. Through this detailed report, readers will get an in-depth look into the perspectives of various insurance investors, including local, regional and global views, favorite asset classes, and innovation and development driving their respective investment functions.

It has been a great honor to partner with IAMAC on this project again. We would also like to express our gratitude to IAMAC for inviting foreign managers to actively participate in the IEAC as they continue to support the rapid development of China's insurance industry.

As we reflect on 2023, the year ended on a somewhat optimistic note that seemed unlikely just 12 months prior. Europe and the U.S. have so far avoided recession, and inflation has eased in both regions. Not only has the Federal Reserve achieved lower inflation without tipping the economy into a recession, policymakers have also indicated that their next rate move could likely be lower. Global markets reacted positively. While there are still lingering concerns in the U.S. around the real estate sector – especially commercial property – and the health of regional bank balance sheets, market sentiment has improved significantly.

China is at a different stage of the economic cycle. Characterized by stress in certain pockets of the economy coupled with relatively low interest rates, the challenges faced by Chinese insurers differ significantly from other regions. The supply side of China's capital markets warrants closer scrutiny as rates edge lower. Investors may be keen to observe if China's high-quality corporate issuers will seize the opportunity to issue longer-dated debt as a way to lock in lower borrowing costs for a portion of their financing needs while spreading out their maturity profiles. Life insurers are natural buyers of long-dated credit and this asset class appears in significant amounts on insurer balance sheets around the world.

With around US$4 trillion in assets, coupled with a long runway for growth, China's insurance industry has become one of the leading in the world. The policy landscape on the liability side is quickly evolving. Pressure from competition and shifting regulatory and accounting frameworks present a complex operating environment for CIOs in China. They need to be thoughtful and rigorous in formulating and implementing their strategies. Simply put, capital needs to be put to work such that claims and guarantees are honored without putting undue financial stress on the insurer.

Chinese CIOs need to weigh up the risks and opportunities of a challenging operating environment, as they manage their liabilities and determine suitable ways to invest their assets. Managing assets for policyholders prudently and judiciously is a heavy responsibility to bear. We are consistently impressed by China CIOs' professionalism and dedication in carrying out their duties in the current challenging environment.

We sincerely wish all stakeholders a prosperous 2024, both personally and in the markets.

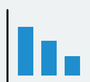
James Peagam
Head of Global Insurance Solutions
J.P. Morgan Asset Management
Chairman, International Expert Advisory Committee, IAMAC

1 January 2024

Key Findings

01 Bracing for Economic Slowdown

Economic growth slowdown replaces inflation risk as the predominant macroeconomic risk globally.

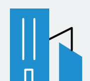


79%

of China CIOs see domestic slowdown as a top macro risk.

Over 70%

of U.S. and European CIOs cite domestic or global economic slowdown as their primary macro risk over the next 6-18 months.



73%

of U.S. CIOs see real estate as a major market risk.

02 Dislocation Investment Theme Emerges

Extraordinary market swings have created mispriced opportunities in both public and private markets. Around half of U.S. and European CIOs aim to capture market dislocations over the next 6-18 months.

03 Private Credit Shines Bright

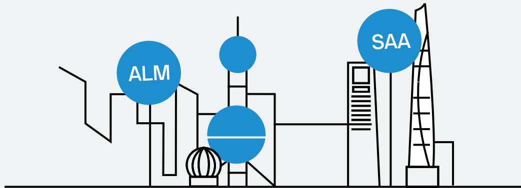
Increasingly favor private credit and loans

U.S., Europe, and APAC ex-China CIOs increasingly favor private credit and loans, with 45%, 71%, and 46% planning allocation increases respectively. The private credit market presents attractive opportunities for insurers in a higher rate environment with capital efficiency, but underwriting standards will be tested in a higher-for-longer scenario.

04 Alternatives Remain Attractive

In the near-term, infrastructure, transportation, and private credit & equity secondaries appear relatively more attractive in alternative asset classes. In the medium-term, opportunistic private credit sectors (e.g. distressed debt, special situations) should benefit given the backdrop of an expected global slowdown.

05 SAA and ALM are Top Priorities in China



Over **70%**

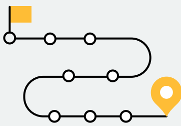
of China CIOs prioritize Strategic Asset Allocation (SAA) and Asset Liability Management (ALM) as their top investment management focus. Amid market volatility and regulatory changes, insurers with a robust, multi-dimensional SAA and ALM framework will gain substantial competitive advantages.

06 China's Insurance Product Transforms

Life protection products | **Private pension** | **Critical illness**

Top product priorities for Chinese insurers are life protection, private pension and critical illness products. This is driven by China's demographic trend, evolving customer needs, and China's new tax-deferred private pension scheme.

07 CIOs surveyed see long-term opportunities in China



While currently cautious on China, global insurance CIOs surveyed hold a more constructive long-term view and see long-term investment opportunities in China's capital market, growth sectors, and strategic partnerships. The primary considerations center around regulatory environment and policy evolvement, geopolitical implications, and capital control mechanisms on money flowing in and out of the country.

08 ESG Commitment Solidifies

China insurers' ESG policy adoption surges

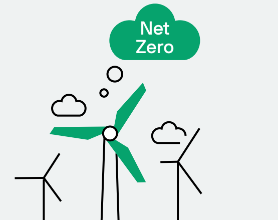
From **38%**

To **58%**

showing rising sustainability awareness and commitment. Sustainable themed investing is the preferred ESG approach for China insurers while Europe has moved to more advanced stages such as ESG integration and corporate engagement.

100%

of Europe CIOs see decarbonization and net zero goals as a top ESG investing priority.



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Chapter 1

Macroeconomic and Market Risks

2023 has panned out to be a year of regional divergence in terms of growth, policy, and inflation.

If one were to assess the economic situation in U.S. based on the headlines which unfolded over the first six months of the year, they may conceive a rather sobering global economic backdrop: the Federal Reserve raised interest rates at its steepest pace in three decades, the four major U.S. banks fell and anxiety spiked around the debt ceiling deadline along with by overhanging geopolitical concerns.

Yet, moving to the second half of the year, and the economic narrative has shifted from a hard-landing to a much coveted soft-landing scenario. Substantial shocks to economic growth have dissipated as regulators swiftly handled the banking sector stress, and the spending of excess savings as well as a robust job market has propped up the U.S. economy. The Fed is done with raising rates and seems to be more willing to be flexible with monetary policy in 2024. This change in attitude should help to enhance the chance of the U.S. economy achieving a soft landing.

In Europe, declining energy prices and improving supply chains alongside a tight labor market means the inflation picture is akin to the U.S., with headline inflation declining and core inflation still elevated. The European Central Bank is still locked in on fighting inflation and is less willing to consider the downside risk to growth. This could raise the risk of a harsher economic downturn in 2024.

China has been marching to its own beat. While consumption led a bulk of the initial rebound, consumer spending alone hasn't been enough to sustain the recovery. Benefits from high household savings have been offset by the negative wealth effect that resulted from disappointing stock market performance and a declining real estate market. Going forward, corporate investment and the real estate market will need to do more of the heavy lifting. Monetary policy is already accommodative, but it needs stronger business confidence to lift investment spending.

Overall, the pace of recovery in China is going to be modest, and concrete policy support is needed in order to stimulate greater contribution from corporate investment and the housing market. For the rest of Asia, bright spots may emerge as monetary policy in the region turns supportive given that the U.S. dollar headwind has moved further into the back mirror and as the manufacturing down cycle experiences troughs.

Q1. Which of the following do you consider to be the most serious macro risks to your firm's investment strategy over the next 12-24 months?

China		2023	2022
Domestic economic growth slowdown	▼	79%	83%
Real estate sector downturn	–	58%	n.a.
Geo-political risk	▲	47%	45%
Low interest rate environment	▲	42%	41%
Global economic slowdown / recession	▲	37%	17%
Pandemic (COVID or others)	▼	0%	45%

U.S.		2023	2022
Domestic economic growth slowdown	▲	73%	44%
Real estate sector downturn	–	64%	n.a.
Geo-political risk	▼	27%	44%
Global economic slowdown / recession	▼	27%	56%
Global monetary policy tightening	▼	27%	44%
Inflation risk	▼	9%	89%

EMEA		2023	2022
Global economic slowdown / recession	▲	100%	67%
Geo-political risk	▼	43%	67%
Financial instability	–	43%	n.a.
Global monetary policy tightening	▲	43%	33%
Inflation risk	▼	29%	83%

APAC (ex-China)	2023
Global economic slowdown / recession	69%
Geo-political risk	54%
Real estate sector downturn	38%
Domestic economic growth slowdown	31%
Inflation risk	31%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

These 2023 survey results underscore the increasingly complex and interconnected global macroeconomic environment for insurance CIOs. CIOs from China, the U.S., and Europe share the concern of an economic growth slowdown, both domestically and globally, as the most significant macro risks to their firms' investment strategies in the next 12-24 months.

In China, the fear of a domestic economic growth slowdown remains the primary concern (79%). The concern surrounding a downturn in the real estate sector (58%) has gained significant prominence in 2023, replacing the pandemic-related risks as the second most critical concern. The country is weathering a deepening property debt crisis amid economic slowdown.

Comparatively, in the U.S., the concern over inflation has been replaced by worries about slowdown in domestic economic growth (73%) and downturn in the real estate sector (64%). With the Federal Reserve continuing its actions to curb inflation, the focus seems to have shifted to the potential impact on the economy and the real estate sector.

For Europe, the 2023 results also show a stark shift from inflation worries to concerns about global economic slowdown (100%), with all respondents citing this as a major risk. Other key concerns shared by European CIOs include financial instability (43%) and tightening of global monetary policy (43%).

Geo-political risk remains a top-three concern for all regions, especially for APAC ex-China (54%), China (47%), and Europe (43%).

Q2. Which of the following do you consider to be the most serious market risks to your firm's investment strategy over the next 12-24 months?

China		2023	2022
Equity risk	▲	95%	79%
Interest rate risk	▼	58%	69%
Credit risk	▼	47%	59%
Real estate price risk	▲	26%	10%

U.S.		2023	2022
Real estate price risk	▲	73%	22%
Credit risk	▼	64%	67%
Interest rate risk	▼	36%	44%
Equity risk	▼	9%	78%

EMEA		2023	2022
Interest rate risk	▲	71%	50%
Credit risk	▼	71%	83%
Real estate price risk	▲	29%	0%
Equity risk	▼	14%	17%

APAC (ex-China)	2023
Interest rate risk	62%
Credit risk	54%
Real estate price risk	46%
Equity risk	31%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

In China, the concern for equity risk has significantly increased from 79% in 2022 to a nearly unanimous 95% in 2023. This spike likely reflects growing concerns over recent volatility and ongoing regulatory actions in China's equity markets. Interest rate risk (58%) and credit risk (47%) are also prominent, despite a decrease observed from 2022 levels.

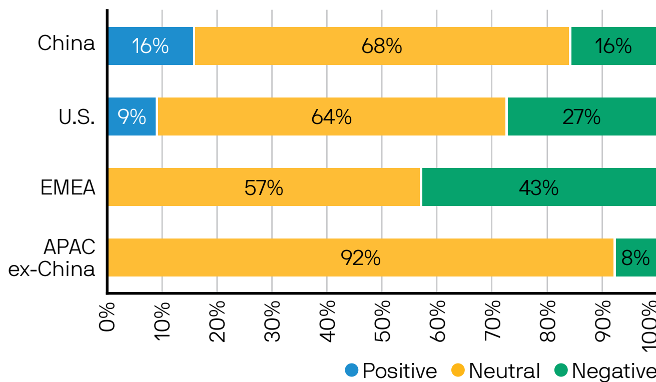
For the U.S., the 2023 survey saw a shift in the top market risk from equity risk in 2022 (78%) to real estate price risk in 2023 (73%). This change may reflect increasing concerns about the commercial real estate sector in the U.S. Credit risk remains a significant concern at 64%, while interest rate risk has decreased slightly to 36%.

In Europe, interest rate risk and credit risk are at the same level (71%) as the most serious market risks. Compared with the results from 2022, credit risk has decreased from 83%, while interest rate risk has increased from 50% to 71%.

For the APAC ex-China region, interest rate risk is seen as the primary market risk (62%), followed by credit risk (54%) and real estate price risk (46%).

Investment Outlook and Risk Appetite

Q3. Focusing on the current investment environment, how would you describe your current outlook?

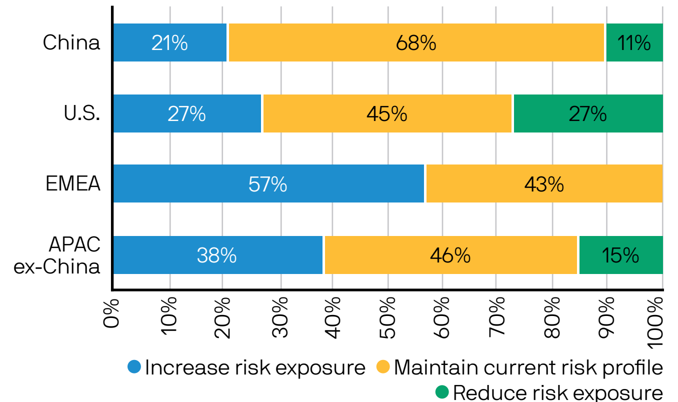


Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

In China, there is a notably more positive outlook in 2023 compared to 2022, with the percentage of positive responses increasing from 3% to 16%. The proportion of negative responses has substantially dropped from 28% to 16%, while the neutral outlook remains stable. This suggests a modest shift towards optimism among Chinese CIOs in the current investment environment.

The U.S. presents a contrasting picture, with a significant decline in the positive outlook from 30% in 2022 to just 9% in 2023, while the negative outlook has also risen from 20% to 27%. This shift towards a more cautious or negative view could be a response to concerns about a downturn in economic growth and the real estate market. Although less pessimistic than in 2022, European CIOs maintain the most cautious outlook of all regions, with 0% positive responses and the highest negative responses (43%) in 2023.

Q4. Over the next 12-24 months, how do you expect your appetite for investment risk to change?



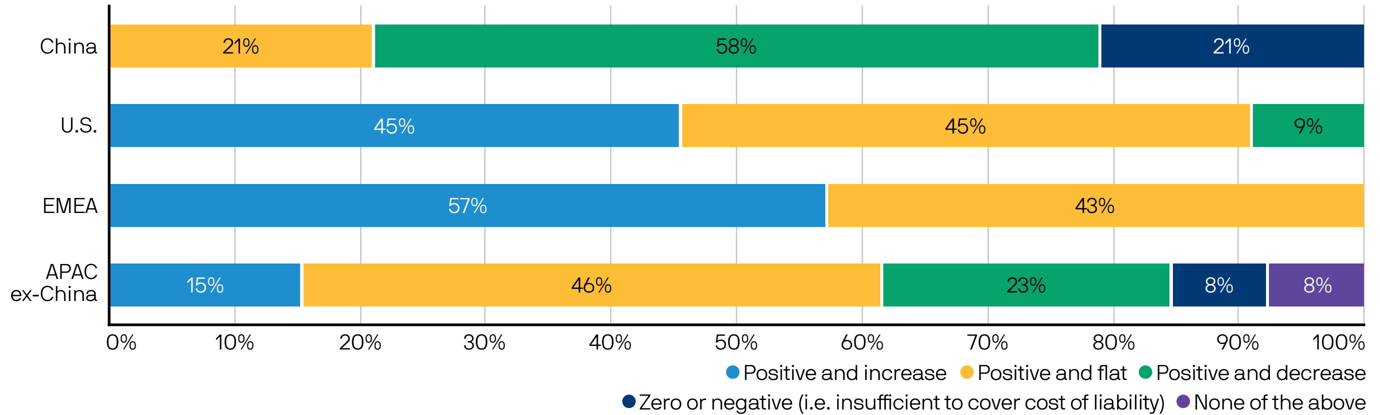
Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Despite the cautious outlook on the investment environment, European CIOs display the most pronounced shift towards increased risk exposure, from 33% in 2022 to 57% in 2023. This could suggest a strategic move to seek higher returns among European CIOs, a view which is supported by the results from Q6.

In China, the proportion of CIOs expecting to increase risk exposure has remained stable at 21% between 2022 and 2023. There is a slight shift away from reducing risk exposure (from 17% to 11%) and towards maintaining the current risk profile (from 62% to 68%). The APAC ex-China data for 2023 shows that 38% of CIOs plan to increase risk exposure, 46% intend to maintain their current risk profile, and 15% aim to reduce risk exposure.

U.S. CIOs show a significant shift towards increased risk exposure, from 11% in 2022 to 27% in 2023, while those intending to reduce risk exposure has decreased from 33% to 27%.

Q5. Over the next 12-24 months, how do you expect your net investment spread (=investment return - cost of liability) to change?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Declining interest rates in China have led to narrowing investment spreads and increased reinvestment risk for domestic insurers, placing a greater onus on insurers' asset-liability management. China's 10-year government bond yield continues its downward trends and has fallen to 2.69% as of October 14th (-14 bps YTD). As a result of China's low-rate environment and shortage of quality assets to invest, no CIOs in China expect an increase in their net investment spread, while a significant majority (58%) expect it to decrease further. Another 21% anticipate the spread to be zero or negative, suggesting the investment challenge to cover the full cost of liabilities.

On the liability side, China's regulator in 2023 reduced the ceiling of assumed rate of return for traditional life insurance products at 3.0% (from 3.5%), in a move to reduce the liability cost pressures for the industry. Compared with bank deposits and wealth management products, the returns offered by insurance savings products remains relatively attractive.

In comparison, optimism is more apparent in both the U.S. and Europe regarding the potential for increased net investment spread, given the rate hikes in the past year. Around half in each region projects an increase, with another 45% in the U.S. and 43% in Europe expecting it to remain flat. The anticipation of a decrease is rare, with only 9% in the U.S., and none in Europe. Notably, no respondents in either region anticipate a zero or negative net investment spread.

U.S. insurers, pressured by years of low interest rates and guaranteed rate products, faced challenges in attracting new business. 2021 was marked by extremely low yields on new investments, mostly between 2% to 3%. In 2022, insurers benefited from higher rates and achieved new money yields between 4% and 5% by following the same investment strategy. These increased rates aid in meeting legacy liability guarantees and drawing new business. However, they also raised concerns of policyholders surrendering their low-rate annuities for higher-yielding products. Fortunately, early surrender penalties and consumer inertia appear to have prevented significant annuity surrenders.

Chapter 3

Asset Allocation

Q6. Thinking about the changes to your portfolio, what is driving your changes over the next 12-24 months?

China	
Targeting higher yields/returns	58%
Reducing accounting volatility	42%
Reducing asset liability duration mismatch	37%
Improving capital efficiency	37%

U.S.	
Improving capital efficiency	64%
Capturing mispriced opportunities in the market	45%
Diversification	45%

EMEA	
Targeting higher yields/returns	86%
Capturing mispriced opportunities in the market	57%
ESG objectives / considerations	57%

APAC (ex-China)	
Capturing mispriced opportunities in the market	38%
Improving capital efficiency	38%
Improving liquidity	38%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

While different factors are shaping insurance portfolio strategies across regions, the 2023 results reveals a notable new trend: the pursuit of mispriced opportunities in the market has become a key priority across multiple regions. Extraordinary market swings have created investment opportunities in both public and private markets for insurers with strong capital to potentially benefit from market dislocations.

In China, CIOs continue to prioritize targeting higher returns in 2023 (58%), showing consistency with 2022. While reducing accounting volatility has gained attention (from 28% to 42%), the focus on reducing the asset-liability duration mismatch has decreased (from 52% to 37%). The shortage of quality assets prompting passive allocation changes remains a consistent concern (37%). The notable key shift in 2023 is the increasing emphasis on improving capital efficiency under C-ROSS II (from 28% to 37%).

In the U.S., the primary driver in 2023 is improving capital efficiency (64%). The focus on capturing mispriced opportunities has emerged as a significant driver, tying with diversification at 45%. Targeting higher returns (36%) and reducing the asset-liability duration mismatch (36%) are also important considerations for U.S. insurers.

In Europe, the 2023 data shows a strong focus on targeting higher returns (86%). Capturing mispriced opportunities (57%) signals a significant shift in portfolio strategy this year, matching the importance of ESG (57%).

For the APAC ex-China region, improving capital efficiency, capturing mispriced opportunities in the market, and improving liquidity have tied as the top three drivers in 2023 (38% each).

U.S. Insurance Asset Allocation Evolution (2018 – 2022)

	U.S. Life Insurance				U.S. Non-Life Insurance			
	2018YE	2021YE	2022YE	2022YE vs. 2021YE	2018YE	2021YE	2022YE	2022YE vs. 2021YE
Cash & Short-Term Investments	**2.7%**	**3.1%**	**3.0%**	**-0.2%**	**3.8%**	**4.8%**	**5.1%**	**0.3%**
Local Government Bonds	**4.6%**	**3.7%**	**3.3%**	**-0.3%**	**8.7%**	**8.1%**	**9.1%**	**0.9%**
Treasury	3.5%	3.1%	2.8%	-0.3%	7.8%	7.5%	8.4%	0.9%
U.S. Agency	1.1%	0.5%	0.5%	0.0%	0.9%	0.6%	0.7%	0.0%
Non-U.S. Government Bonds	**1.4%**	**1.5%**	**1.3%**	**-0.2%**	**1.4%**	**1.3%**	**1.3%**	**0.0%**
Municipals	**4.4%**	**4.1%**	**4.1%**	**-0.1%**	**21.0%**	**16.0%**	**15.2%**	**-0.9%**
Corporate Bonds	**37.6%**	**36.0%**	**34.8%**	**-1.2%**	**26.4%**	**26.5%**	**27.4%**	**0.9%**
Investment Grade Corp	34.7%	33.1%	32.1%	-1.0%	23.8%	23.3%	24.7%	1.4%
High Yield Corp	2.9%	2.8%	2.6%	-0.2%	2.6%	3.2%	2.7%	-0.5%
Private Corp	**12.7%**	**14.5%**	**15.6%**	**1.1%**	**1.7%**	**2.2%**	**2.4%**	**0.2%**
Securitized	**16.5%**	**15.2%**	**15.3%**	**0.1%**	**16.8%**	**16.4%**	**17.1%**	**0.7%**
Asset-Backed Security (ABS)	3.6%	3.5%	3.5%	0.0%	3.5%	3.0%	3.2%	0.2%
Residential Mortgage-Backed Security	6.4%	4.4%	4.0%	-0.4%	7.2%	6.2%	6.9%	0.6%
Commercial Mortgage-Backed Security	4.2%	4.0%	3.8%	-0.2%	4.4%	4.5%	4.1%	-0.4%
Collateralized Loan Obligation	2.4%	3.3%	4.0%	0.7%	1.7%	2.6%	2.9%	0.3%
Mortgage Loan	**13.5%**	**13.7%**	**14.4%**	**0.7%**	**1.5%**	**1.6%**	**1.8%**	**0.1%**
Public Equity	**1.2%**	**1.4%**	**1.2%**	**-0.2%**	**11.6%**	**14.9%**	**12.3%**	**-2.6%**
Alternatives	**5.4%**	**6.7%**	**7.1%**	**0.3%**	**7.2%**	**8.1%**	**8.3%**	**0.2%**
BA: Alternatives[1]	4.4%	5.7%	6.1%	0.4%	5.9%	6.9%	7.1%	0.3%
BA: Other	0.5%	0.5%	0.5%	0.0%	0.4%	0.4%	0.4%	0.0%
Real Estate	0.5%	0.5%	0.5%	0.0%	1.0%	0.8%	0.8%	0.0%

Source: J.P. Morgan, S&P/SNL Financial and Bloomberg. The U.S. asset allocation analysis is based on top 80% of total industry general account assets as of year-end 2018, 2021 and 2022. 1% = USD 47 billion for life and 1% = USD 17 billion for P&C. [1] Schedule BA Alternatives include private equity, real estate equity/debt, infrastructure equity, hedge funds, other equity and real estate investments, as well as credit like assets.

U.S. insurance company portfolios change quite slowly. There are multiple reasons for this. Insurers are constrained by regulatory limits, capital requirements, liabilities, taxes, and liquidity needs, so this naturally limits how they can invest. Insurers generally have process driven and highly deliberative decision-making structures that slow asset allocation changes. Lastly, since various factors force insurers to invest in low turnover strategies, for most insurers only 15% to 30% of their portfolios is newly invested each year. However, in 2022 we saw meaningful changes in alternative and private fixed income.

Alternatives

We define alternatives as investments that U.S. insurers hold on their Schedule BA with the exception of some specific non-alternative investments like surplus notes, housing tax credits, and investments in affiliates. The most common Schedule BA alternatives are private equity as well as other equity investments in infrastructure, transportation assets, and real estate. Smaller alternatives allocations include mortgage loan funds and other private credit funds.

In 2022 we saw alternatives holdings increase in value on a statutory basis. The increase in value is explained by new money being invested in alternatives, primarily from previously committed capital being called and

invested. Since alternatives are largely carried at fair value on the statutory balance sheet, this increase in investment was partially offset by a decline in the fair value of alternative holdings. However, for most insurers and the industry as a whole, the new investments in alternatives offset the decline in fair value of existing alternatives. Overall, alternatives increased from 5.5% of statutory assets to 5.7%, which in dollar terms was $373 billion.

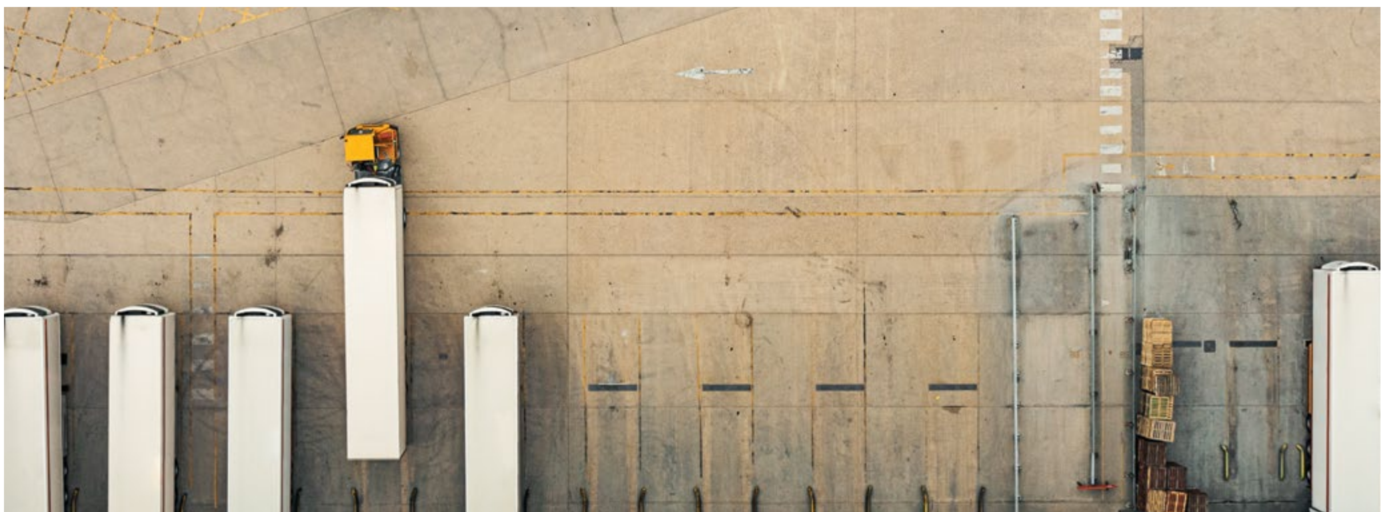
Private Fixed Income

We distinguish between private fixed income held on Schedule BA, which we consider an alternative asset and private credit held as individual bonds, loans, or notes on Schedule D[2].

Though private fixed income in various forms has been a significant holding of U.S. insurers (especially life insurers) for many years, the asset class continues to grow and change. In the past ten years the private fixed income holdings of U.S. insurers have evolved from mostly commercial mortgage loans and very high quality holdings of private placement corporate and infrastructure debts which offered very little yield premium to similarly rated public corporate bonds. Now private fixed income still includes exposure to high-quality private placements, but also includes rated notes where the underlying is middle market lending and other loans that were historically the domain of banks, private asset backed securities with less standardized collateral than is seen in public market securitizations, and other more creative strategies such as notes backed by equity interest in LPs.

U.S. life insurers hold much more private credit than other insurers. Although the asset class saw rapid growth in the past five years, the growth from YE2021 to YE2022 was modest. One factor in the growth of private credit is the ability to use novel structures to create fixed income instruments that have very high yields relative to their ratings. Almost all private credit in the U.S. insurance industry is carried as investment grade fixed income and has very high yields relative to ratings. In addition to the private credit assets shown on U.S. insurance balance sheets, Bermuda reinsurers of U.S. insurance liabilities have very large allocations to private credit.

U.S. life insurance companies have been investing significant parts of their balance sheet in commercial mortgage loans for decades. This continues to be a popular asset class and for insurers willing to lend in the current environment, yields are attractive. The past five years have seen meaningful growth in residential whole loans, which are a growing asset class among U.S. insurers. These are often held in structures that are not transparent, so mortgage loan data undercounts residential loans.



[2] Schedule D is part of the annual statutory financial statements files by U.S. insurers with the National Association of Insurance Commissioners (NAIC). It primarily includes bonds and stocks but can also include other types of investments.

EMEA Insurance Asset Allocation Evolution (2018 – 2022)

	EMEA Life Insurance				EMEA Non-Life Insurance			
	2018YE	2021YE	2022YE	2022YE vs. 2021YE	2018YE	2021YE	2022YE	2022YE vs. 2021YE
Cash & Money Market	**5.9%**	**5.9%**	**6.8%**	**0.9%**	**6.0%**	**6.1%**	**7.1%**	**1.0%**
Local Government Bonds	**30.8%**	**29.4%**	**26.3%**	**-3.1%**	**20.3%**	**18.4%**	**17.1%**	**-1.3%**
EUR Treasury	24.2%	23.3%	20.7%	-2.6%	18.4%	17.0%	15.6%	-1.4%
EUR Treasury BBB	6.6%	6.1%	5.6%	-0.4%	1.8%	1.4%	1.5%	0.1%
Global Government	**0.8%**	**1.0%**	**1.2%**	**0.2%**	**0.8%**	**1.1%**	**1.3%**	**0.1%**
Covered Bonds	**7.7%**	**5.5%**	**5.1%**	**-0.3%**	**12.7%**	**9.0%**	**8.6%**	**-0.4%**
Corporate Bonds	**20.4%**	**20.0%**	**19.9%**	**-0.1%**	**21.5%**	**22.0%**	**21.9%**	**-0.1%**
EUR Corporate	16.9%	16.1%	15.9%	-0.2%	18.6%	18.1%	17.7%	-0.4%
Global Corporate	3.5%	3.9%	4.0%	0.1%	2.9%	3.9%	4.2%	0.3%
EMD	**1.3%**	**1.2%**	**1.1%**	**-0.1%**	**2.1%**	**1.9%**	**1.9%**	**0.0%**
FI Funds	**9.4%**	**10.4%**	**10.3%**	**-0.1%**	**12.5%**	**13.5%**	**13.6%**	**0.1%**
Securitized	**1.9%**	**1.9%**	**2.1%**	**0.2%**	**1.2%**	**1.2%**	**1.2%**	**0.0%**
Collateralized Securities	0.4%	0.4%	0.5%	0.1%	0.5%	0.5%	0.5%	0.0%
Structured Notes	1.4%	1.5%	1.6%	0.1%	0.8%	0.7%	0.7%	0.0%
Mortgages & Loans	**5.1%**	**5.4%**	**5.8%**	**0.4%**	**3.5%**	**4.1%**	**4.8%**	**0.7%**
Multi-Asset Funds	**1.2%**	**1.6%**	**1.8%**	**0.2%**	**1.8%**	**2.6%**	**2.9%**	**0.3%**
Public Equity	**7.6%**	**8.6%**	**8.1%**	**-0.5%**	**5.2%**	**6.6%**	**4.8%**	**-1.8%**
Alternatives	**5.6%**	**6.9%**	**8.9%**	**2.0%**	**7.3%**	**8.7%**	**10.3%**	**1.6%**
Private Equity	0.7%	1.1%	1.7%	0.6%	0.7%	1.1%	1.1%	0.0%
Infrastructure	0.4%	0.7%	1.1%	0.4%	0.3%	0.6%	0.8%	0.2%
Real Estate	4.1%	4.6%	5.6%	1.0%	5.9%	6.6%	7.9%	1.3%
Other Alternatives	0.5%	0.5%	0.6%	0.1%	0.4%	0.5%	0.6%	0.1%
Other	**2.4%**	**2.4%**	**2.5%**	**0.2%**	**5.1%**	**4.6%**	**4.5%**	**-0.2%**

Source: EIOPA insurance statistics as of May 2023. The EMEA asset allocation analysis is based on total industry general account assets as of year-end 2018, 2021, and 2022. 1% = USD 52 billion for life and 1% = USD 8 billion for P&C.

In Europe, a number of factors are driving changes to insurance portfolios, such as proposed Solvency II directives, ESG initiatives, and the implementation of IFRS 9 and 17 since the beginning of 2023. The peak in interest rates that is expected this year is a key driver of insurers' asset allocation decisions, with those who benefited from short duration positions in 2022 likely to be looking to rebalance to matching duration positions.

Fixed income

The year has clearly been dominated by fixed income whose yields are attractive again for insurance investors. Over the course of 2022, most insurers lengthened the duration of their portfolio by buying long-dated government bonds as well as enhancing the credit quality of their corporate portfolios. Many insurers have rebalanced their portfolio proactively, realizing some losses and deploying into higher yielding bonds. It is possible to achieve an increase in book yield that is compensating the loss realized.

One key constraint that is impacting asset allocation decisions across Europe is liquidity, as a result of both low growth in new business premium and lapse on traditional polices, particularly in Italy, France and Luxembourg.

In the UK, the liquidity issues raised by the 2022 Gilts crisis has seen UK life companies focused on global diversification of public fixed income. Notably, U.S. taxable municipal bonds are long duration, high-quality assets that offer a pickup in yield vs. comparable European fixed income assets while also providing diversification from a risk point of view.

Insurers are also seeing opportunities in the high yield space but are waiting for an attractive entry point, with spreads considered too narrow at this stage given the likelihood of recession.

Equity

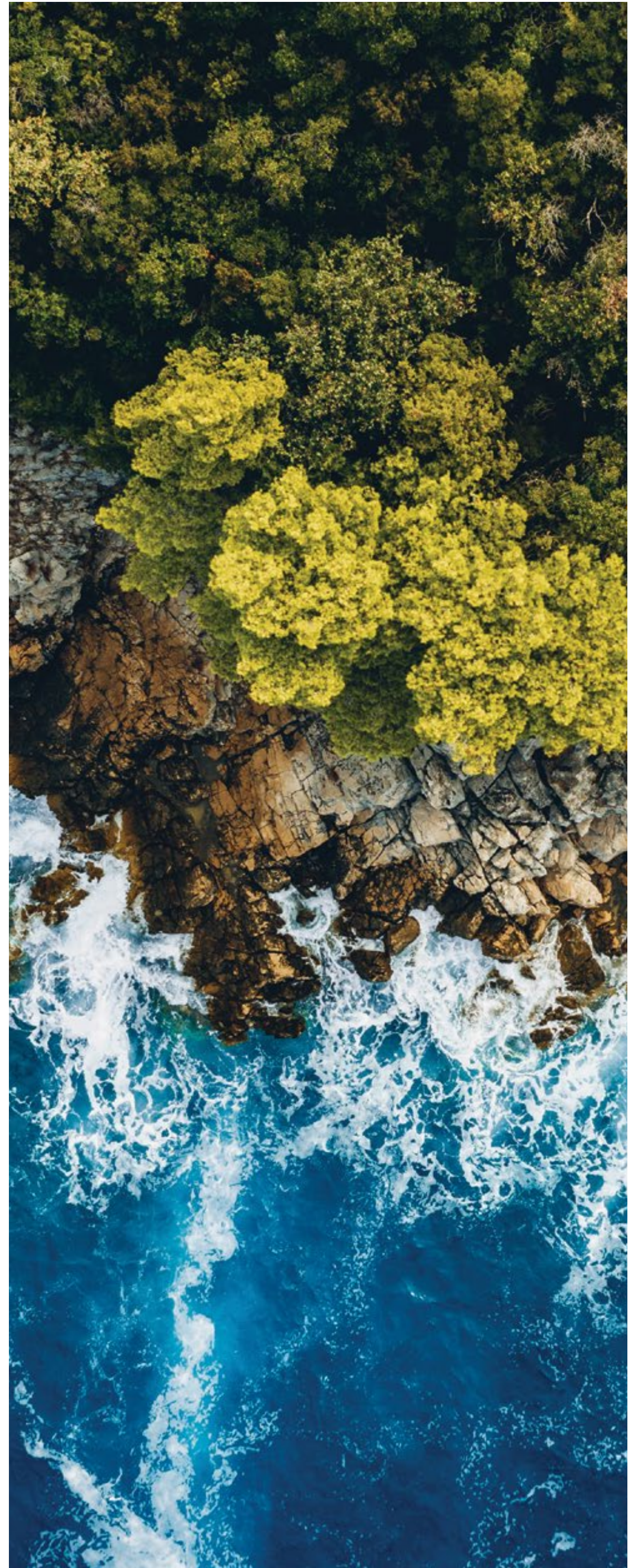
The activity in the equity space has become dampened. Overall, equity exposure has been reduced over 2022 as some insurers locked in gains to offset losses on their fixed income portfolios. Furthermore, equity hedges were often put in place towards the end of 2021 and were maintained throughout the year.

Real estate

The case for core real estate investment is double edged—on the one hand it should provide some inflation protection but the rapid rise in rates also give rise to concerns. Many insurers have been reducing their real estate exposure and selling funds as well as direct exposure, however, the liquidity in the space is relatively tight.

Private assets

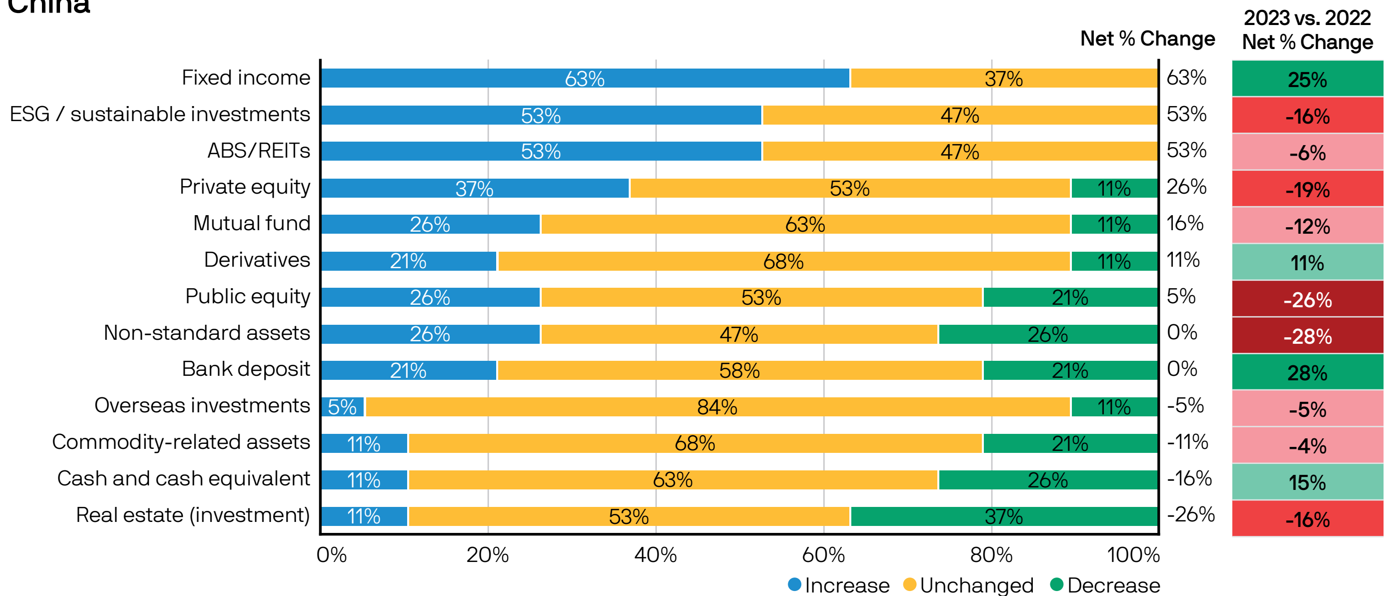
In the private asset space, the denominator effect has prevented further investments as many insurers have reached their maximum capacity across alternative assets. In some cases, insurers are even looking to exit their private market strategies. Given the liquidity pressures, most insurers are not willing to increase their alternatives exposure but are only honoring their existing commitments.



Chapter 4

Investment Opportunities

Q7. In the next 12-24 months, how do you anticipate changing your allocations to each of the following asset classes?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

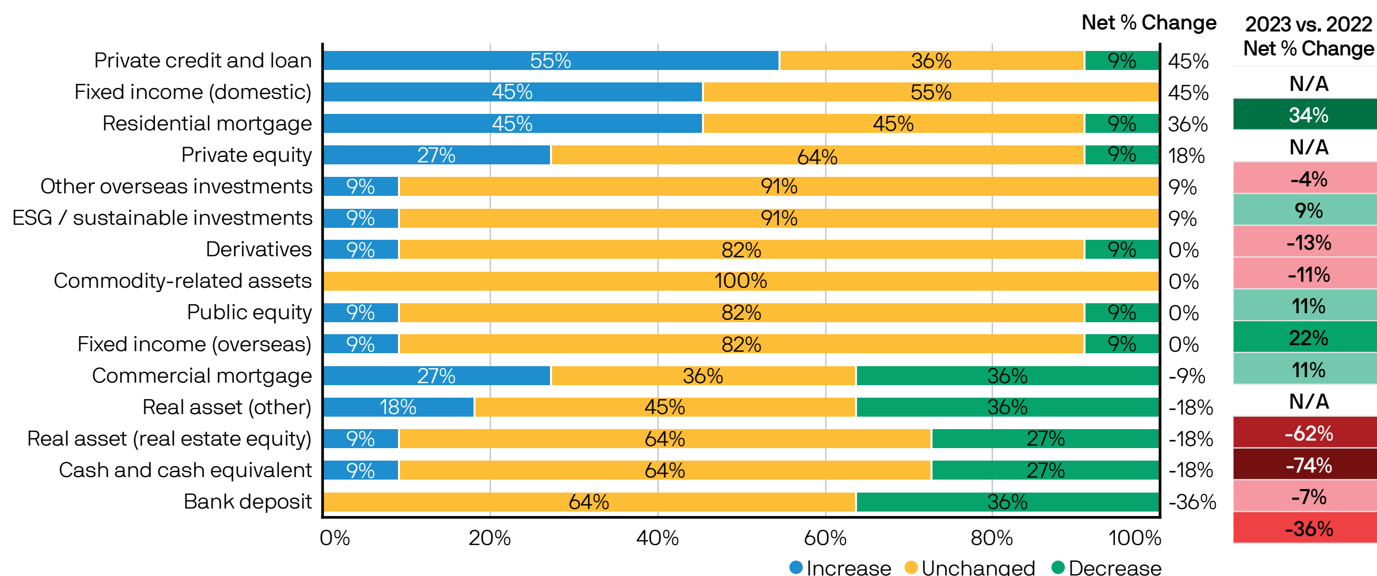
Several key trends in asset allocation among Chinese insurers for the next 12-24 months are noteworthy. Fixed income stands out with a net change of 63%, the highest among all asset classes, and a positive change of 25% from 2022. This suggests that Chinese insurers are gravitating towards fixed-income investments amid market uncertainties and faced by continued shortage of quality of assets to invest. ESG/ Sustainable investments and ABS/REITs both show a net change of 53%, demonstrating the industry's sustained focus on ESG and yield-enhancing opportunities beyond bonds.

Private equity remains attractive with a net change of 26%, albeit with a steep decline from 2022 (-19%). On the other hand, public equity shows a net change of just 5%, with a significant drop from 2022 (-26%). This suggests a cooling interest in both public and private equity investments, possibly due to market volatility, regulatory, or geopolitical concerns. Accounting volatility and capital efficiency are additional considerations for insurers to be more cautious to these asset classes.

There appears to be a shift away from real estate and commodity-related assets, with net changes of -26% and -11% respectively. The negative trend in real estate, in particular, has deepened from 2022 (-16%), indicating increasing caution towards this asset class. Non-standard assets and bank deposits reported a net change of 0%, indicating a neutral stance.

Q7. In the next 12-24 months, how do you anticipate changing your allocations to each of the following asset classes?

U.S.



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Given the marked increase in interest rates since the beginning of 2022, private credit/loans and fixed income appear to be the most favorable asset classes among U.S. insurers, both showing a net change of 45% for 2023. The change in allocation to fixed income (domestic) increased by 34% from 2022.

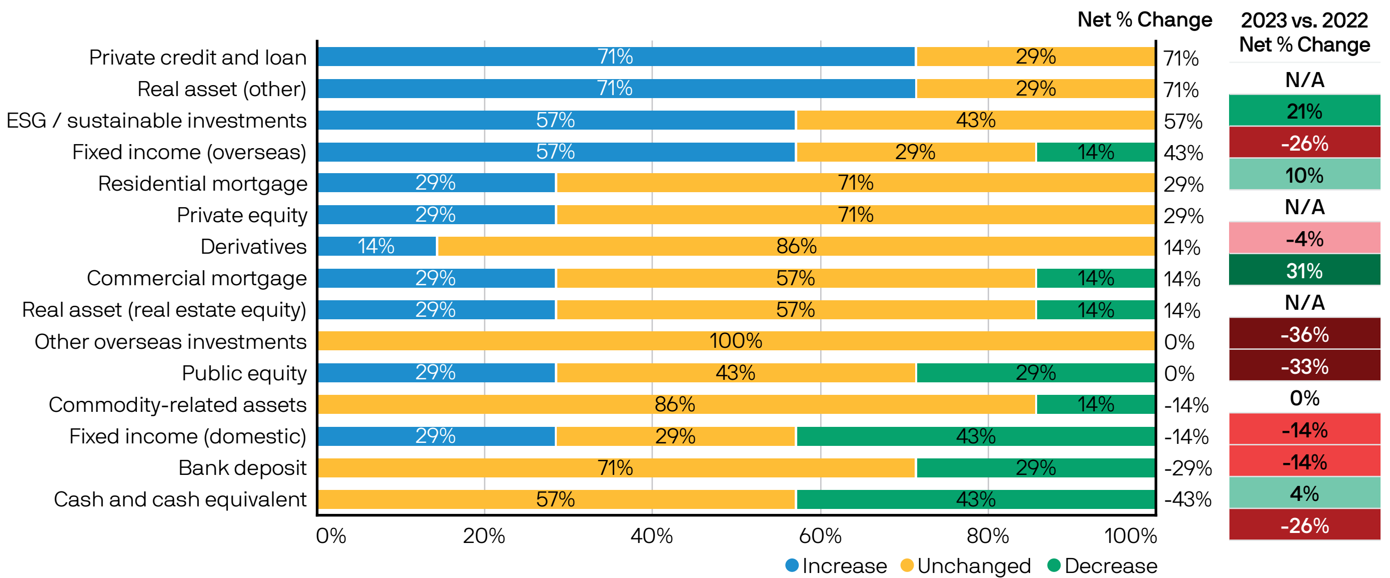
Another asset class of interest is residential mortgages, which saw a net change of 36%. This asset class appears to suggest a trend among U.S. insurers to diversify their portfolios away from commerical mortgages.

On the opposite end of the spectrum, real assets (other) and real assets (real estate equity) both saw a negative net change of -18%, with significant declines from 2022.

Public equities and overseas fixed income showed a net change of 0% for 2023, despite a positive change from the previous year.

Q7. In the next 12-24 months, how do you anticipate changing your allocations to each of the following asset classes?

EMEA



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

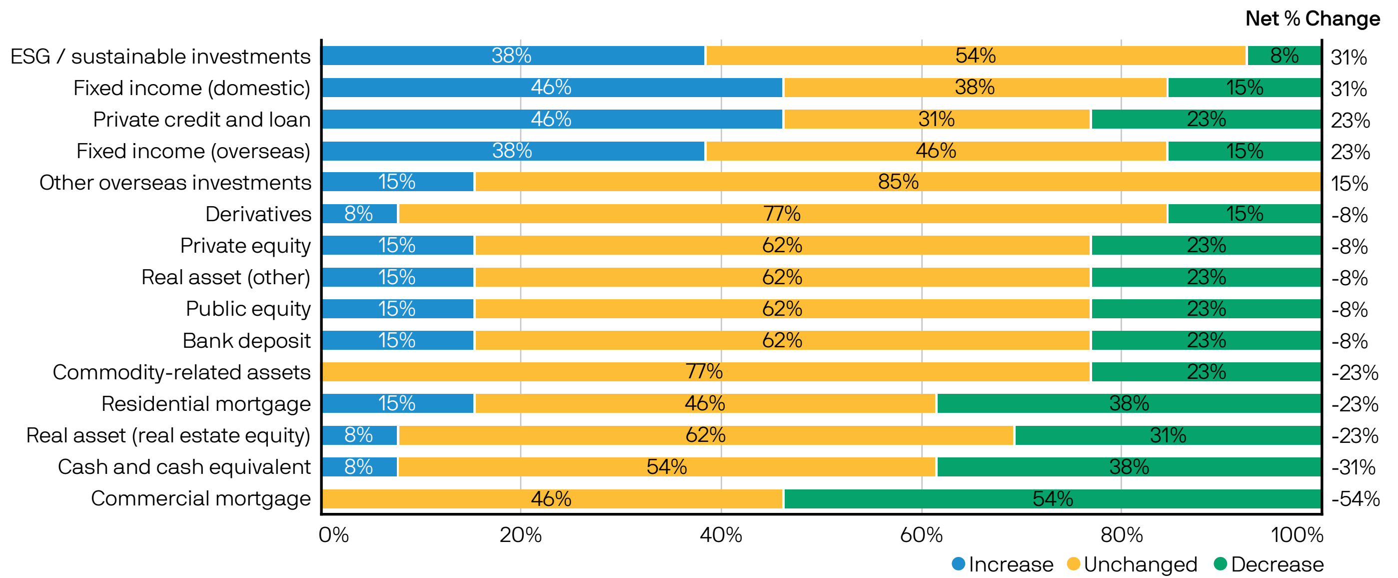
In Europe, the standout asset classes are private credit/loans, and real assets (other), each with a net change of 71%. The interest in private credit/loans aligns with the trend observed in the U.S., suggests insurers are looking for attractive yields and diversification in a captial-efficient way under the Solvency II. The strong positive shift towards real assets (other) is a significant contrast to the U.S. trend.

ESG/sustainable investments show a net change of 57%, confirming a continued strong interest among European insurers. Fixed income (overseas) and residential mortgage both show positive net changes, at 43% and 29% respectively. The increase in overseas fixed income allocations points to a search for yields in non-local markets. On the other end, there is a negative sentiment towards domestic fixed income, with net changes of -14%.

Derivates show a net change of 14% with notable rise from 2022 (31%). The rise in derivates could be indicative of insurers seeking to actively manage market risks amid rate hikes and market volatilities.

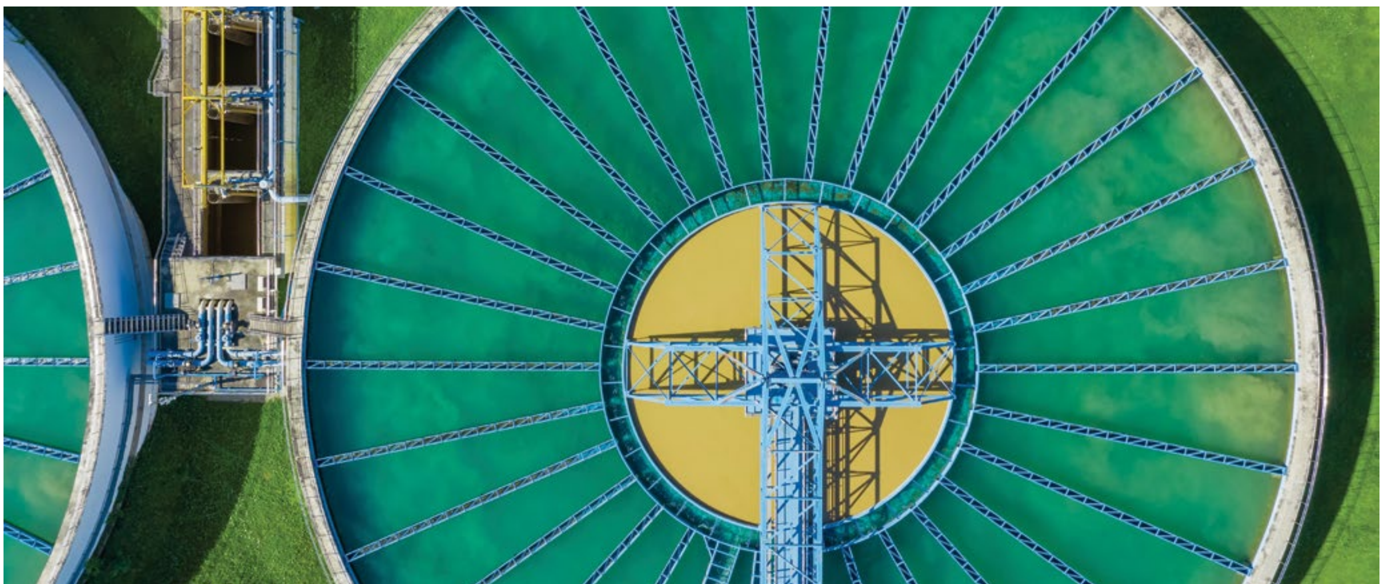
Q7. In the next 12-24 months, how do you anticipate changing your allocations to each of the following asset classes?

APAC ex-China



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

In the next 12-24 months, APAC ex-China insurers plan to increase allocations to ESG/sustainable investments, private credit/loan, fixed income (both domestic and overseas), and other overseas investments. The increasing concern over real estate risk has resulted in divestment from real estate equity and debt.



JPMAM Insights

Alternatives Outlook

As financing through public markets has become more restrictive due to cautious lenders, demand for private credit has increased, leading to wider credit spreads above already high base rates. In the near term, both asset-backed and high-quality corporate lending are believed to benefit. The secondaries market appears attractive due to the "denominator effect" causing a significant supply-demand imbalance for secondaries. Opportunities exist for investors to acquire secondaries at a discount to NAV with the potential for enhanced returns over a shorter investment horizon. As the credit cycle plays out, there may be value in more opportunistic plays, such as distressed debt and special situations, which will benefit from recession driven dislocations.

Real estate debt, specifically senior and mezzanine loans backed by quality core properties, is attractive due to increased interest rates and stable spreads over the past year. Tighter standards faced by traditional commercial lenders (e.g. regional banks) could provide real estate lenders with lower loan-to-values and higher rates, helping to improve risk-adjusted returns. In general, the real estate lending market is adapting to the evolving landscape, with assets presenting historically high returns with an expected greater equity cushion.

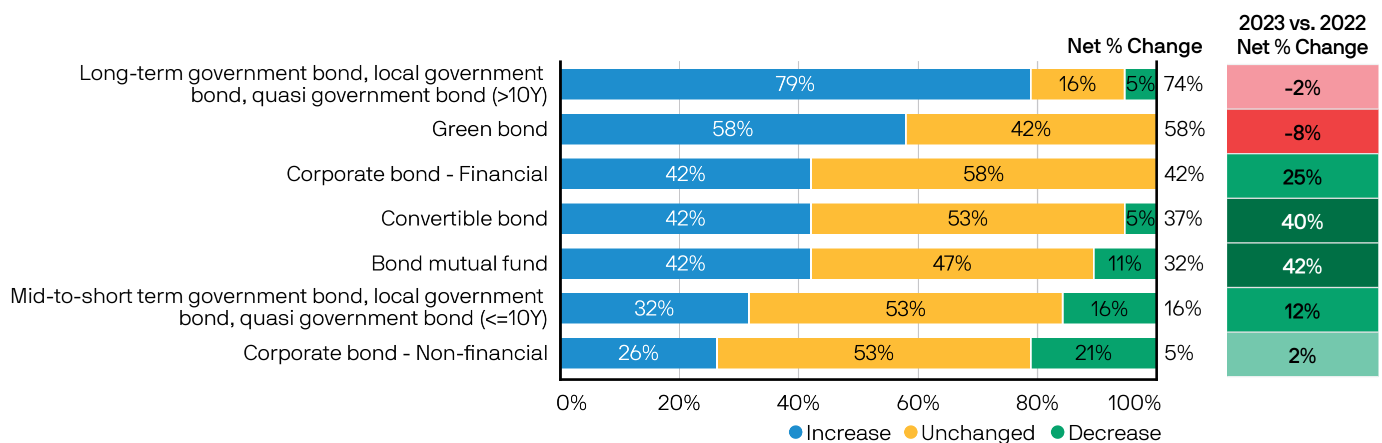
Core real assets (e.g. core infrastructure, core transportation, core timberland) present defensive characteristics and cash-flow growth opportunities over the near term. They can provide inflation and interest rate sensitivity through both implicit and explicit pass-through mechanisms, a favorable trait in a more volatile market environment. Real assets also provide potential exposure to major secular trends, such as the renewable transition and the transformation of global supply chains, which may lift returns over a longer horizon.

Real estate presents some near-term opportunities, though rising interest rates may continue to impact underwriting values and acquisition financing availability. A broad repricing in real estate has elevated risk premiums, which help providing attractive entry points. Residential and industrial properties are outperforming office and retail sectors. Consequently, risk premiums have increased across the board, providing an appealing entry point for core/core+ assets, as well as opportunistic and value-add investments seeking to capitalize on the dislocation. Sector dispersion is becoming increasingly evident: residential properties are outperforming office spaces, while industrial properties are surpassing retail. Despite ongoing concerns for the U.S. office sector, newer and higher-quality office spaces have outperformed, indicating a reflection of the "flight to quality". Notably, the impact on office spaces is less pronounced in Europe and the Asia-Pacific region, where higher occupancy rates are prevalent. In summary, while it is essential to consider the adverse effects of higher rates and capital availability, strong fundamentals, attractive valuation levels, and subdued supply should all help act as near-term return tailwinds.

Overall, in the near term, real estate debt, infrastructure, and transport appear relatively more attractive. Real estate continues to face capital market driven headwinds, but generally provides better entry points and presents dislocation opportunities. In the medium-term, as the economic cycle develops, higher octane private credit sectors (e.g. distressed debt, special situations) are believed to benefit given the backdrop of an expected global slowdown. Long-term, alternative assets across the spectrum remain relatively attractive, with robust fundamentals and relatively cheaper valuations.

China: Fixed Income

Q8. Thinking more about your fixed-income portfolio in the next 12-24 months, how do you anticipate changing your allocations to each of the following?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

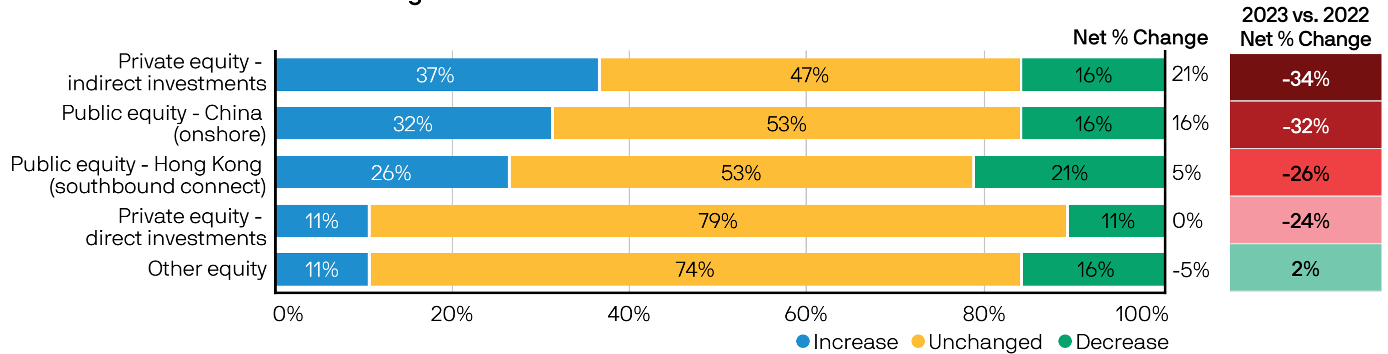
Chinese insurers are showing continued interest in various fixed income strategies. The most substantial net change is observed in long-term government bonds, with a net change of 74%. Green bonds also see strong interest with a net change of 58%. This trend aligns with the broader adoption of ESG/ sustainable investment practices in China.

Corporate bonds (financial) show a net change of 42%, with a considerable increase from 2022. Convertible bonds and bond mutual funds also stand out with a net change of 37% and 32% respectively, and both show near 40% rise from the previous year.

Mid-to-short term government bonds and corporate bonds (non-financial) show relatively modest net changes of 16% and 5% respectively.

China: Domestic Public and Private Equity

Q9. Thinking more about your equity portfolio in the next 12-24 months, how do you anticipate changing your allocations to each of the following?



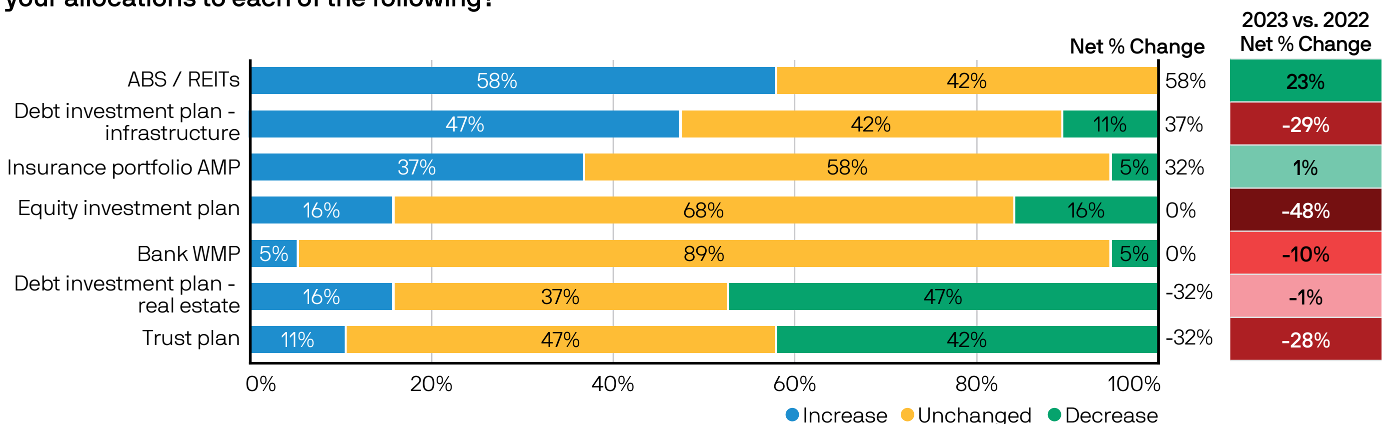
Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Given the volatility and disappointing return in China equity (both onshore and Hong Kong) in 2022 and 2023 YTD, our 2023 survey indicates a cautious approach to both private and public equities. Private equity - indirect investments top the list with a net change of 21%, but this is accompanied by a substantial decrease from the previous year (-34%).

Public equities, both in China (onshore) and Hong Kong (southbound connect), show net changes of 16% and 5% respectively. These positive numbers suggest a modest allocation to these asset classes, although the sentiment has significantly dropped from the previous year (-32% and -26% respectively).

China: Domestic Alternative Assets

Q10. Thinking more about your alternative asset portfolio in the next 12-24 months, how do you anticipate changing your allocations to each of the following?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Overall, the 2023 data suggests a strong focus on ABS/REITs and infrastructure-related debt investment plans for the next 12-24 months among Chinese insurers. There is a steady interest in insurance portfolio AMPs, a cooling sentiment towards equity investment plans, and a decrease in interest in trust plans and real estate debt investment plans.

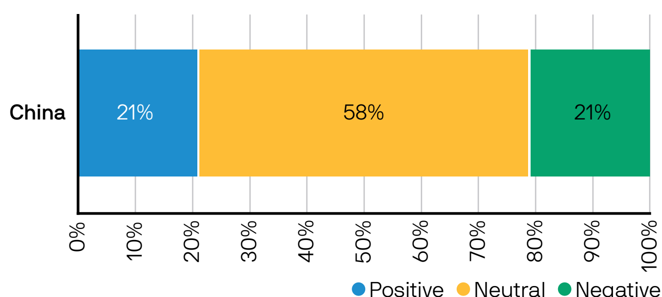
ABS/REITs show a net change of 58%, indicating a strong interest in these asset classes, with a significant increase from the previous year. Debt

investment plans related to infrastructure have a net change of 37%, despite a decrease from the previous year. Insurance portfolio AMP ranks the third with a net change of 32%, indicating a relatively consistent interest in this asset class.

Equity investment plans experienced a significant drop from the previous year. Trust plans and debt investment plans—real estate both show a negative net change of -32%. The negative sentiment for trust plans has deepened from the previous year with the consequences of China's real estate troubles beginning to emerge in trust plan products.

China: Overseas Investments

Q11 . How would you describe your outlook for overseas investment in the next three years?



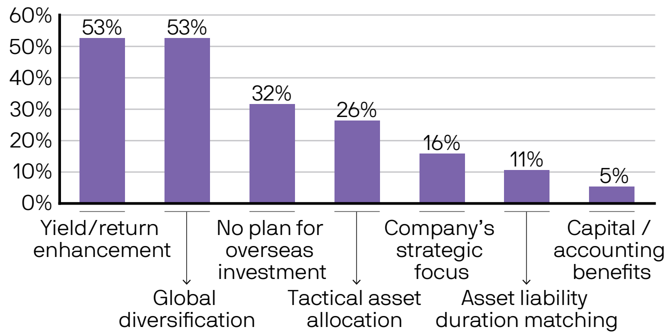
Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

The 2023 data suggests a slight increase in positive and neutral sentiment towards overseas investments among Chinese insurance investors, accompanied by a decrease in negative sentiment compared with 2022 results. Despite this, the majority of investors remain neutral, indicating a cautious approach to overseas investments.

The percentage of investors with a positive outlook has slightly increased from 17% in 2022 to 21% in 2023. The percentage of investors with a negative outlook has decreased from 28% in 2022 to 21% in 2023. Together this seems to indicate a small but noticeable uptick in optimism about overseas investments among Chinese insurance investors. While there may be perceived opportunities in overseas investments, there are likely also concerns related to market uncertainties, regulatory restrictions, FX hedging, or geopolitical risks.

Q12. Thinking broadly, what are the most important factors driving your allocation to overseas assets over the next 12-24 months?

China

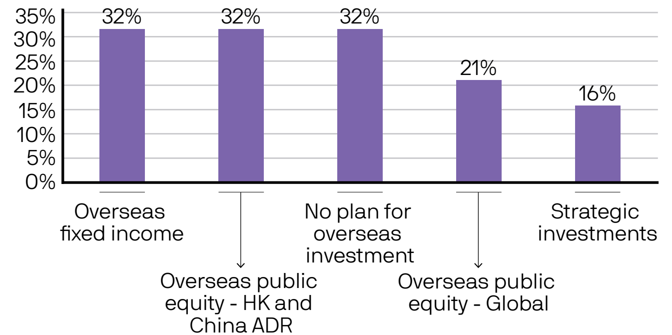


Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Considering the factors involved in overseas assets, global diversification (53%) and yield/return enhancement (53%) remain the top factors influencing overseas asset allocation. Tactical asset allocation remains a relatively consistent factor and ranks third at 25%. Notably, 32% of Chinese respondents in 2023 indicated they have no plan for overseas investment.

Q13 . What overseas asset classes do you plan to increase allocation in the next two years?

China



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

When considering overseas investments, 32% of Chinese respondents indicated plans to increase allocation of overseas fixed income and another 32% showed preference for public equity (HK and China ADR). Compared with the previous year, the interest of Chinese insurers in overseas fixed income has seen a notable surge. Overseas pubic equity (HK and China) maintains its attractiveness for its diversification and return enhancement potential.

Compared with insurers in the U.S. or Europe, Chinese insurers show a strong preference for public market multi-asset strategies when investing overseas. This approach provides benefits from global diversification and potential alpha from active asset allocation. Ease in obtaining regulatory approval and transparent reporting are additional considerations for choosing multi-asset strategies.

JPMAM Insights

China's REITs development

China's infrastructure REIT pilot, which saw the first batch of products debut in 2021, has experienced rapid growth with strong regulatory support. By the end of June 2023, a total of 28 REITs were listed on Shanghai and Shenzhen exchanges with a total market capitalization of RMB 87.2 billion[3]. The insurance industry has been actively investing in China's REIT market since June 2021.

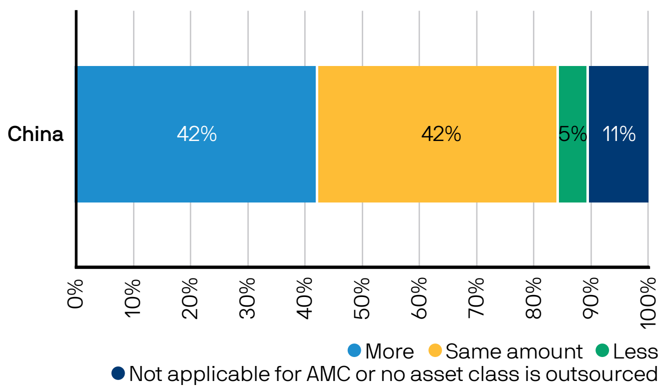
Whereas in overseas markets REITs are mainly structured from commercial property, China's REITs are geared towards income-producing infrastructure assets such as transportation, industrial parks, energy, municipal administration, warehousing, and logistics facilities.

In October, Chinese regulators granted the approval of five insurer-backed asset managers to enter the real estate investment trust and asset-backed securitization businesses. The aim of the new regulation is to help propel the development of China's REIT and asset-backed securities markets while also providing more ways for insurance companies to manage risk, diversify their investment portfolio, and raise capital.

[3] Source: EastMoney; data as of 30 June 2023.

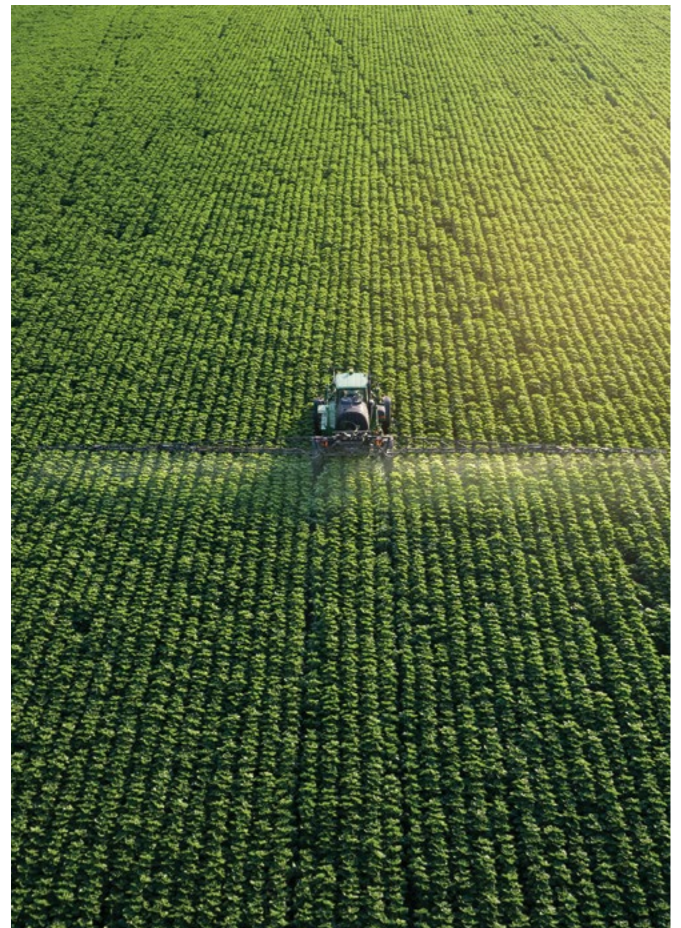
China: Outsourcing

Q14 . In the next 12-24 months, do you anticipate outsourcing more, the same amount or less of your investment portfolio in the next 12 months?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

The 2023 data reveal that 43% of Chinese insurers plan to outsource more (both to affiliated and unaffiliated managers) in the next 12 months and only 5% plan to outsource less. 11% of the respondents do not currently outsource, including AMCs.



Q15. Which of the following asset classes are you considering outsourcing to an unaffiliated, third-party asset manager in the next 12 months?

China	
Public equity	74%
Fixed income (credit bonds)	26%
Insurance portfolio AMP	26%
Mutual fund	26%
Private equity	26%

U.S.	
Private credit and loan	36%
Fixed income (domestic)	27%
Private equity	27%
Commercial mortgage	18%
ESG / sustainable investments	18%
Fixed income (overseas)	18%
Real asset (real estate equity)	18%

EMEA	
Private credit and loan	57%
Real asset (other)	57%
ESG / sustainable investments	29%
Fixed income (domestic)	29%
Private equity	29%
Public equity	29%

APAC (ex-China)	
Private credit and loan	54%
Real asset (other)	46%
Real asset (real estate equity)	46%
Fixed income (overseas)	38%
Residential mortgage	31%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

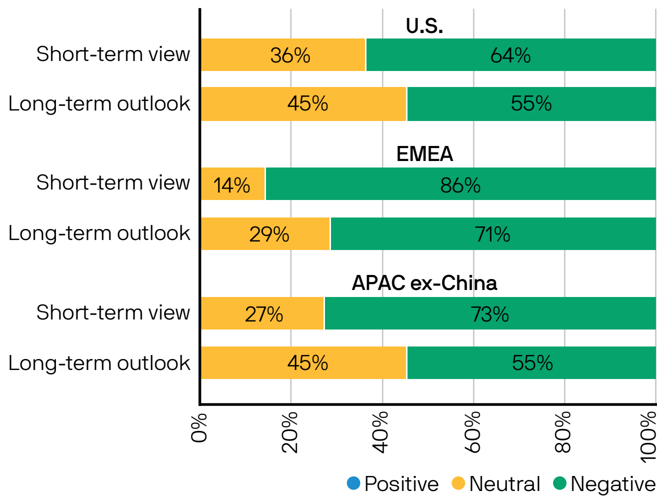
When outsourcing to unaffiliated, third-party asset manager, 74% of Chinese insurers chose public equity as their top choice, followed by private equity (26%), fixed income (credit bonds) (26%), mutual fund (26%), and insurance portfolio asset management products (26%).

In the U.S., the top three outsourced asset classes are private credit/loan (36%), private equity (27%), and domestic fixed income (27%). In comparison, the most outsourced asset classes in Europe are private credit/loan (57%), real assets (other) (57%), private and public equity (29%), domestic fixed income (29%), and ESG investments (29%). APAC ex-China insurers are increasingly opting to outsource asset classes beyond domestic fixed income, especially in private credit/loan, real assets, and overseas fixed income.

Chapter 5

Investing in China

Q16. What is your current sentiment and long-term view towards investing in China?

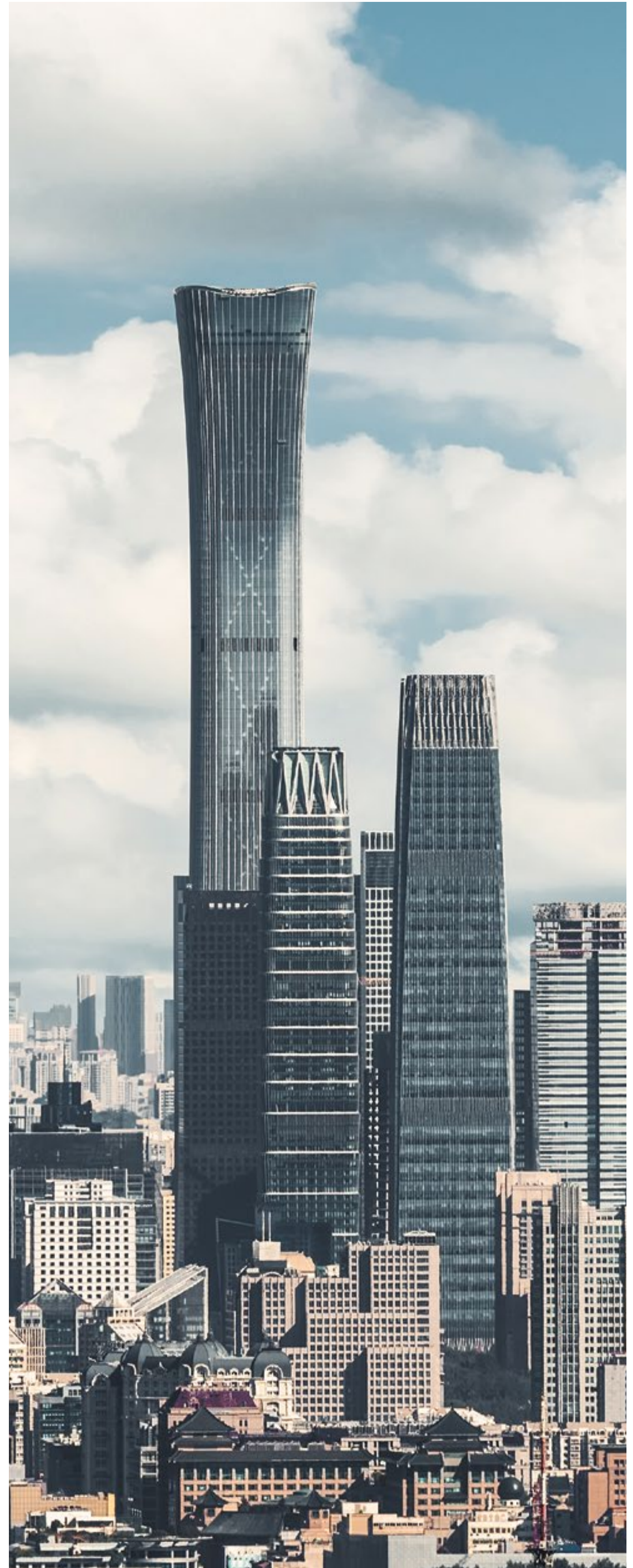


Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Investing in China is a new section in this year's survey for global CIOs. Results show that insurers from the U.S., Europe, and APAC ex-China region currently maintain a cautious to negative sentiment towards investing in China. However, the long-term view is evidently more constructive across the regions.

In terms of current view, U.S. insurers show a stronger neutral sentiment at 36%, with a majority (64%) expressing negative sentiment. European insurers are predominantly negative (86%), with a small proportion of 14% choosing to stay neutral. APAC ex-China region insurers also largely express negative sentiment (73%), while 27% maintain a neutral stance.

The long-term view on investing in China is evidently more constructive relative to the near term. European insurers continue to be the most cautious, with 71% of respondents holding a negative outlook. On the other hand, APAC ex-China and U.S. insurers are on par, with about half of respondents having a neutral outlook.



Q17. What are your top concerns about investing in China?

U.S.	
Capital controls on money flowing in and out of the country	91%
Regulatory environment and policy uncertainty	91%
Geopolitical risk	64%
Insufficient progress in reform and opening up that could benefit foreign investors	45%
Company information transparency and disclosure quality/reliability	36%

EMEA	
Geopolitical risk	71%
Regulatory environment and policy uncertainty	71%
Capital controls on money flowing in and out of the country	57%
Credit risk by Chinese issuers in certain sectors	57%
Company information transparency and disclosure quality/reliability	43%

APAC (ex-China)	
Geopolitical risk	73%
Regulatory environment and policy uncertainty	64%
Capital controls on money flowing in and out of the country	45%
China economic growth slowdown	45%
Credit risk by Chinese issuers in certain sectors	36%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

The results reveal a variety of concerns among insurance CIOs in the U.S., Europe, and APAC ex-China regions regarding investing in China. The primary concerns across all regions center around regulatory environment and policy uncertainty, geopolitical risk, and capital controls on money flowing in and out of the country.

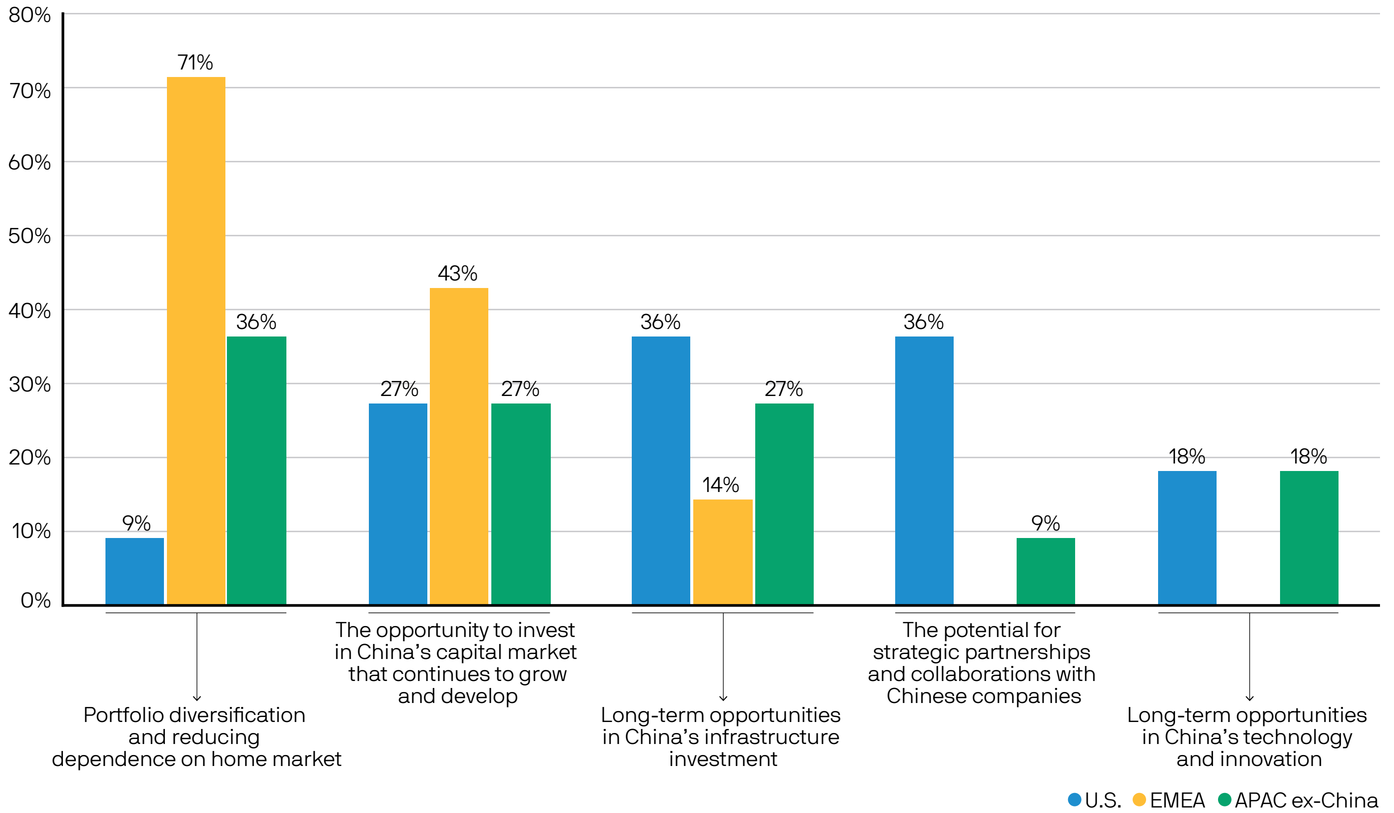
The highest level of concern across all regions relates to regulatory environment and policy uncertainty, with 91% of U.S., 71% of European, and 64% of APAC ex-China CIOs. 91% of U.S. CIOs are concerned about capital controls in China, which is shared by 57% of European, and 45% of APAC ex-China CIOs.

Another top three concern across all regions is geopolitical risk, expressed by 64% of U.S., 71% of European, and 73% of APAC ex-China CIOs.

45% of U.S. CIOs also expressed concern about insufficient progress in reform and opening up that could benefit foreign investors. Meanwhile, credit risk by Chinese issuers in certain sectors is more concerning to European (57%) and APAC ex-China (36%) CIOs than to those in the U.S.

Company information transparency and disclosure quality/reliability is a significant concern for European (43%) and U.S. (36%) CIOs.

Q18. What are the biggest long-term opportunities for your firm to invest in China?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

The 2023 data from global CIOs highlight several long-term opportunities for investing in China. The opportunity to invest in China's growing and developing capital market is seen as a significant opportunity by all regions, although more prominently by European insurers (43%). Portfolio diversification and reducing dependence on home markets is another major theme, particularly among European insurers (71%) and to a lesser extent, APAC ex-China insurers (36%).

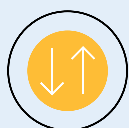
Long-term opportunities in China's infrastructure investment and technology sectors are also recognized. U.S. insurers, in particular, see potential in these areas (36% and 18%, respectively). Another 36% of U.S. insurers are enthusiastic about the potential for strategic partnerships with Chinese companies.

APAC ex-China insurers show a balanced perspective, recognizing opportunities in China's capital markets, portfolio diversification, and infrastructure investment.

Navigating the Challenges and Opportunities: Recommendations for Attracting and Retaining Foreign Insurance Investors

Recognizing the importance of foreign investments to the overall economic stability of China, the Chinese government is taking steps towards improving the environment for foreign investors as exemplified by a substantial 24-point policy guideline laid out in August 2023, as well as the recent allowance of foreign companies to remit funds out of China within a pilot free trade zone.

Based on the feedback from global CIOs and insights from the survey, several strategies could be considered adopting to attract and retain foreign insurance investment in China:

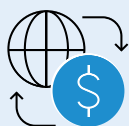


1. Ease Capital Flow Restrictions

Many investors are concerned about the capital controls on money flowing in and out of the country. While it's important for China to maintain adequate safeguards for financial stability and FX policy, a more relaxed and transparent approach to capital movement could encourage increased foreign investment.

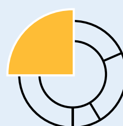
2. Strengthen Corporate Transparency and Disclosure

Investors are keen on reliable and comprehensive company information. By improving standards for corporate transparency and disclosure and enforcing these rules, China could bolster investor trust and confidence.



3. Promote Foreign Participation in Growth Sectors

To help foreign firms capture the long-term opportunities identified, China could promote greater foreign participation in areas like infrastructure investment, the technology sector, and the growing and developing capital market. This could involve regulatory reforms to ease market access, or initiatives to encourage further collaboration between foreign and Chinese companies.



4. Facilitate Portfolio Diversification

Given foreign investors' interest in portfolio diversification, China could further open up its financial sector to foreign investments, offering a broader range of investment opportunities and risk management tools including derivatives.

5. Support Sustainable Development

The commitment to sustainable development is increasingly important to global investors including insurance companies. Therefore, China could emphasize its commitment to ESG principles, and develop more opportunities for foreign investment in sustainable industries, such as green technology and energy transition.

Under China's consistent high-quality opening-up policy, addressing foreign investors' concerns can promote investment opportunities and create a more attractive and friendly environment for foreign investment. This will aid China in developing an even more market-oriented, law-governed, and internationalized business environment.

Chapter 6

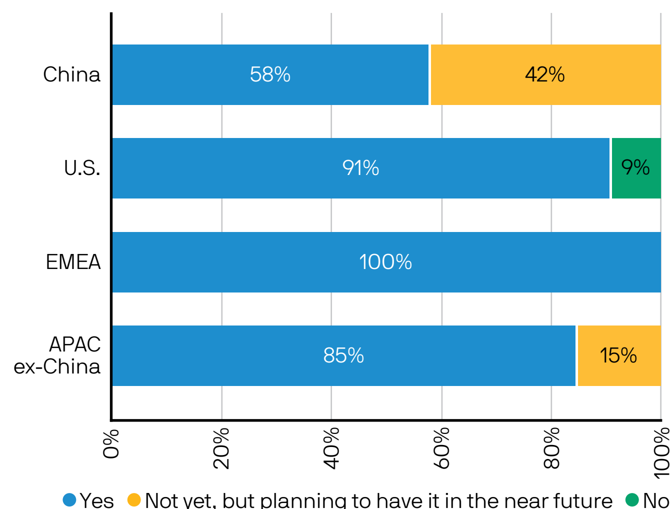
ESG / Sustainable Investing

Key ESG themes continues to predominately center around the transition to a low carbon economy and climate change more generally. The last 12 months has seen many extreme weather events and natural disasters across the world including, but not limited to wildfires, flooding, and tropical storms. Given the increase in these events would in turn place more burden on the insurance sector, it is natural that environmental issues remain the top priority for insurance companies. This year, with the Task Force for Nature Related Financial Disclosures (TNFD)'s final recommendation being announced, the environmental topics' focus broadened to natural capital, which is further discussed below.

Meanwhile, 2022 saw the increase of some insurance companies exiting the Net-Zero Insurance initiative. The Net-Zero Insurance initiative first launched as a part of the Glasgow Financial Alliance for Net Zero at COP26 in Glasgow in 2021 and grew in membership in 2022. The reasons for these exits vary. Some have moved away due to the initiative's rules being too prescriptive, while some have decided to disassociate themselves from the initiative in light of the political tension from the U.S. Republican lawmakers towards ESG. The important point to note is that whilst these insurers may have exited the initiative, it does not necessarily mean that their overall commitment to net zero or decarbonization has changed. In fact, most of these insurers published statements that they will continue their sustainability journey using their own methodology. This is further discussed below looking at how many companies have implemented internal ESG policies.

In Europe, as part of the Solvency II review, the European Commission is looking closely at ESG and climate change. It has already been made clear that climate change stress tests will be part of the ORSA reporting requirements. In addition, punitive capital charges are likely to be applied to fossil energy exposures in the portfolios—therefore speeding up the energy transition and net zero commitments in the insurance portfolios.

Q19. Does your firm have an ESG policy aligned?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

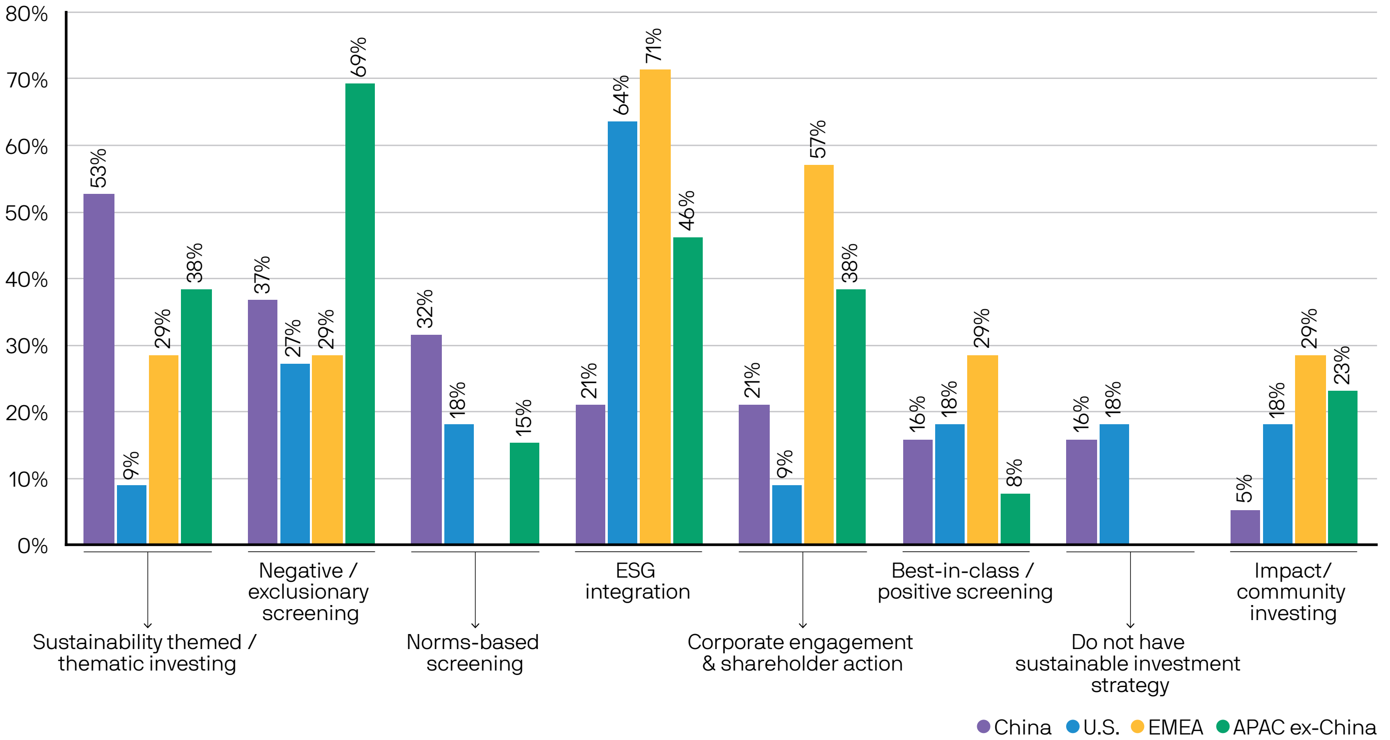
Europe remains at the forefront in terms of robust ESG capabilities and approaches, largely due to regulatory focus and scrutiny on sustainability. Yet, China's progress since 2022 is noteworthy.

In 2022, 14% of Chinese insurers lacked an ESG policy, and merely 38% had a company-wide policy. This year, however, the proportion with an ESG policy has surged to 58%, marking the steepest growth in any region over the past year.

Not only have more companies adopted an ESG policy, but those without are seriously contemplating instituting one. This underscores the amplified understanding and adoption of ESG among Chinese insurance industry.

The ESG awareness rise spans beyond the insurance sector, indicating a broader uptake across China.

Q20. In terms of sustainable investing strategy, which approach are you focusing on at the moment?



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

Insurers continue to display diverse approaches to sustainable investing, with ESG Integration remaining a favored approach. ESG Integration, the process of integrating material ESG factors into investment decisions, is preferred in many regions. 71% of European insurers continues to favor this approach while 64% of U.S. insurers employ it. This approach enables investors to evaluate a company's long-term resilience by considering ESG factors along with traditional financial data.

In APAC and China, the methods differ. China gravitates towards sustainable themed investing, while broader APAC leans towards negative/ exclusionary screening. This screening process eliminates sectors, business activities, or countries that do not meet a portfolio's sustainable criteria from the investable universe.

As data becomes more accessible due to improved disclosures, sustainable investing is likely to shift from simple exclusions to more comprehensive ESG analysis or security selection. China's interest in thematic approaches has risen from 45% to 53%. In fact, this year China has a strongest focus on thematic/SI themed approach amongst all other approaches, compared to last year when norms-based screening was most prevalent. Norms-based screening has notably declined from 59% to 32%. This suggests that Chinese insurers are shifting towards more targeted approaches like green bonds or thematic funds.

Finally, the percentage of Chinese insurers without a sustainable investing strategy has dropped from 21% to 16%, signifying risking interest in dedicated sustainable investment strategies in China.

Q21. What are your key concerns when it comes to sustainable investing?

China	
Sustainable investing strategies are not very much different from vanilla strategies (greenwashing concerns)	58%
Sustainable investing strategies perform poorly	53%
Sustainable investing strategies are expensive	42%

U.S.	
Sustainable investing strategies are not very much different from vanilla strategies (greenwashing concerns)	45%
Sustainable investing strategies have a smaller opportunity set	45%
Sustainable investing strategies perform poorly	27%

EMEA	
Sustainable investing strategies are not very much different from vanilla strategies (greenwashing concerns)	43%
Sustainable investing strategies have a smaller opportunity set	43%
Other	29%

APAC (ex-China)	
Sustainable investing strategies have a smaller opportunity set	62%
Sustainable investing strategies are not very much different from vanilla strategies (greenwashing concerns)	46%
Sustainable investing strategies perform poorly	23%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

Given market volatility, concerns about the downturn in performance of sustainable investing are understandable. Many of these concerns stem from a lack of awareness of the sustainable investing spectrum and the rise in global regulatory regimes focusing on sustainability.

Regulatory scrutiny against overstated sustainable practices has led to greenwashing concerns across sectors. These concerns, often stemming from confusion about what constitutes a sustainable investing strategy, are coupled with fears about sustainable strategies being expensive or underperforming. This could reflect investors' short-term focus due to the market environment and a limited understanding of how sustainable strategies are managed.

Many sustainable strategies, particularly thematic funds, often lack the long track record of traditional strategies, causing uneven comparisons. However, as they mature, more data points will emerge to evaluate their performance. We believe that as corporations increasingly recognize the necessity of transitioning to a low-carbon economy, innovation will flourish, presenting a diverse array of investment opportunities.

Some CIOs suggest that transition finance should also be considered a form of sustainable investing. This concept, long debated in the industry and only recently acknowledged as an important sustainable finance perspective, involves providing financial services to high carbon-emitting industries to fund decarbonization efforts.

The concept stems from the understanding that effective decarbonization requires more than just green finance, which primarily focuses on low-carbon activities. High carbon-intensive industries, often excluded by negative screening approaches, are increasingly being viewed as part of the solution for effective economy-wide decarbonization.

Q22. What are the top priority topics you consider when allocating capital to ESG/Sustainable Investing?

China	
Decarbonization / Net zero (environmental)	74%
Social advancement e.g. digital inclusion, financial inclusion (social)	47%
Corporate behavior integrity e.g. corporate scandals, accounting issues, controversies (governance)	47%
Board oversight effectiveness (governance)	47%
U.S.	
Decarbonization / Net zero (environmental)	64%
Diversity & inclusion e.g. gender diversity (social)	45%
Corporate behavior integrity e.g. corporate scandals, accounting issues, controversies (governance)	36%
EMEA	
Decarbonization / Net zero (environmental)	100%
Social advancement e.g. digital inclusion, financial inclusion (social)	43%
Biodiversity (environmental)	29%
Corporate behavior integrity e.g. corporate scandals, accounting issues, controversies (governance)	29%
Diversity & inclusion e.g. gender diversity (social)	29%
APAC (ex-China)	
Decarbonization / Net zero (environmental)	92%
Corporate behavior integrity e.g. corporate scandals, accounting issues, controversies (governance)	46%
Diversity & inclusion e.g. gender diversity (social)	31%

Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

Decarbonization and net-zero objectives continue to be global priorities. This is particularly evident in Europe, where 100% of respondents viewed it as the top issue. Climate disasters and extreme weather patterns, alongside policy pushes, have thrust environmental considerations into the spotlight.

Given the insurance industry's nature, the physical impacts of climate change likely heighten the need for insurers to allocate capital to mitigate and adapt to these disasters. The harmonization of climate change-related standards under the ISSB's leadership should enhance data consistency and accuracy, supporting investment approaches focused on climate change.

The development of the Task Force for Nature-Related Financial Disclosures (TNFD) is another significant step towards standardization, enhancing data availability. The TNFD, focusing on natural capital and biodiversity, released its final recommendations in September 2023, and global policies are expected to adopt this framework.

With 2030 on the horizon, net-zero remains a key topic as governments and investors strive to honor their commitments. As of August 2022, 39 of the 49 APAC countries made carbon neutrality pledges and began developing frameworks to support their commitments.

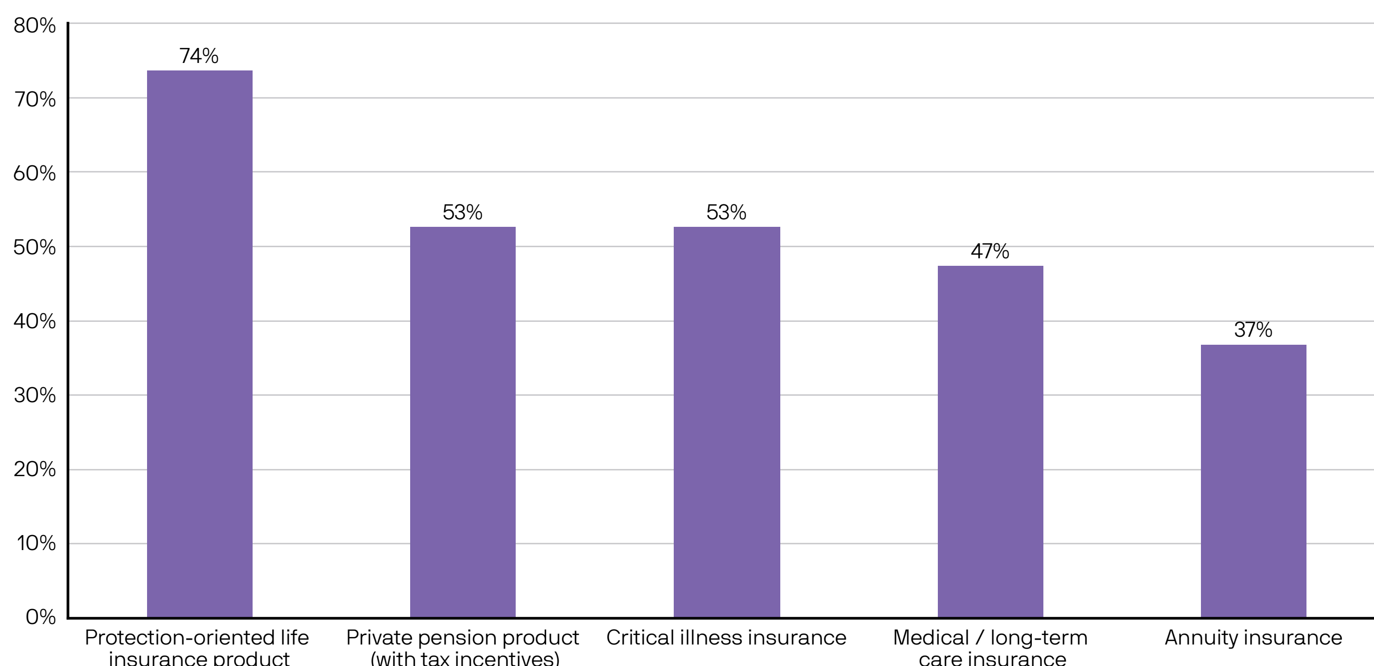
Secondary priorities reflect societal dynamics within markets. Corporate governance is a high priority in the Chinese and APAC ex-China markets. Diversity & inclusion is particularly prioritized in the U.S., while in Europe, social advancement is a high priority alongside decarbonization and net-zero.

Chapter 7

New Product Opportunities and Investment Management Priorities

Q23. Which insurance products does your firm focus on developing and selling over the next 12-24 months?

China



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023. Only top responses are shown.

The top three insurance products that Chinese insurers plan to focus over the next 12-24 months are protection-oriented life insurance (74%), private pension products (with tax incentives) (53%), and critical illness insurance (53%). Insurers offer these long-term life and health products to meet the evolving needs of customers while creating long-term value for shareholders. Under the IFRS 17, long-term protection-oriented products have the benefit of generating high CSM and stable profit streams.

People worldwide are living longer and China has one of the fastest growing ageing populations in the world. This huge demographic shift presents many new challenges and opportunities in areas of public health, socioeconomic development, and financial services including pensions and insurance. The massive middle-class in China is projected to become an increasingly important life insurance customer base in the world, and the entire senior care industry is expected to exceed US$3 trillion by 2031[4].

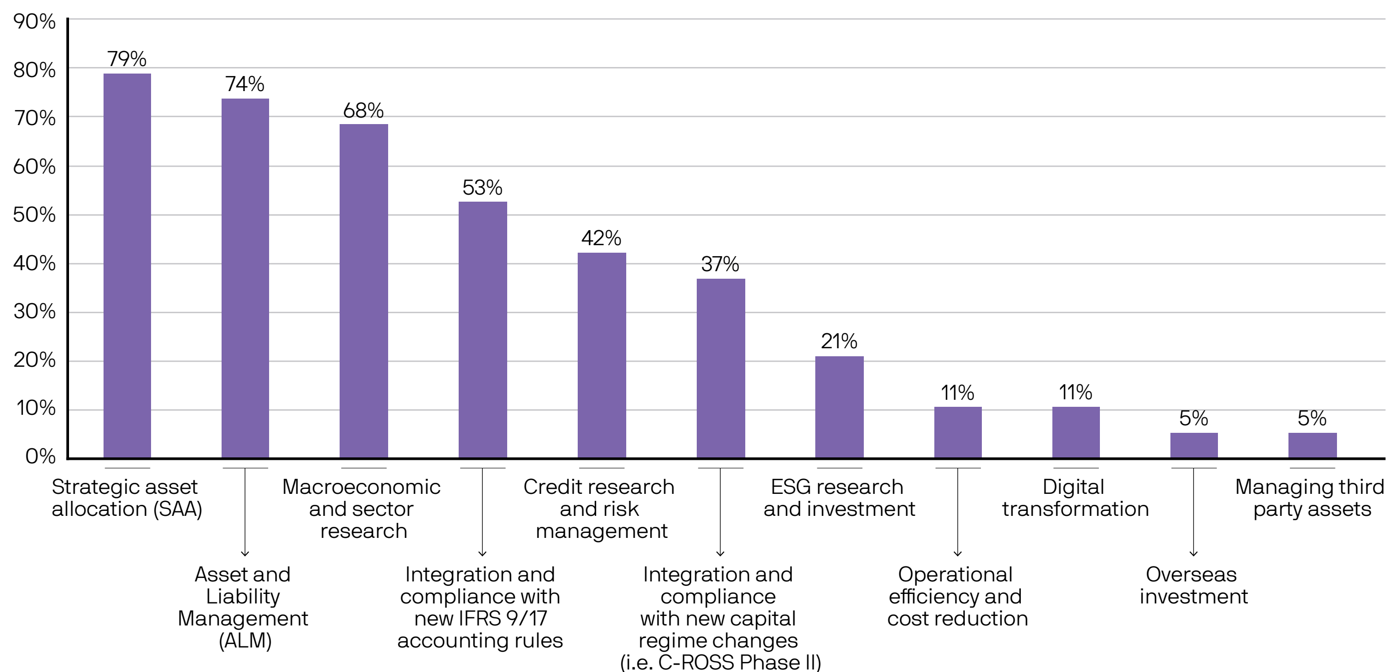
Starting from November 2022, China's State Council announced the first-ever private pension scheme that will allow individuals to make voluntary deposits into a pension account and invest their pensions with tax incentives. Under the scheme, individuals will be able to invest their pensions in a range of financial products, including bank deposits, mutual funds, pension insurance products, and bank wealth management products.

As of October, there have been 69 different types of eligible pension insurance products from 22 insurers that have been approved by regulators to participate in the private pension scheme. Compared with other financial products, pension insurance products have distinct advantages such as guaranteed returns, long-term asset appreciation, and flexible payout options.

[4] Source: Fudan Institute on Aging and CRIC research, data as of October 2023

Q24. What are the priorities of your investment management over the next 12-24 months?

China



Source: IAMAC/JPMAM China Insurance CIO Survey, May-September 2023.

The 2023 survey underscores the critical importance of SAA and ALM for Chinese insurers. A significant 79% of respondents identified SAA as the firm's top investment management priority, while 74% selected ALM. Amid market volatility, new regulatory/accounting standards, and changing investment landscapes, insurers with a robust, multi-dimensional SAA and ALM framework will gain substantial competitive advantages.

The other investment management priorities identified by Chinese insurers are macroeconomic and sector research (68%), IFRS 9/17 (53%), and credit research and risk management (53%).

FOR MORE INFORMATION

If you're interested in discussing this topic in more detail, please contact your J.P. Morgan Client Advisor.

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