



U.S. Insurance Industry’s Exposure to Land Development Companies in the People’s Republic of China is Minimal

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China Evergrande (Evergrande), a large property developer focusing on the People’s Republic of China’s (PRC’s) residential market, is on the brink of default. It missed an \$83.5 million interest payment due on some of its dollar-denominated bonds on Sept. 23, but it has an additional 30 days to meet the obligation without triggering a default. With the COVID-19 pandemic negatively affecting property sales in China, Evergrande is experiencing a cash shortage amid a heavy debt burden of approximately \$88 billion in dollar equivalent outstanding debt at the end of June 2021.

Given its broad reach as one of the largest developers in China, many investors are concerned Evergrande’s challenges could spill over to other PRC real-estate developers and negatively affect investor confidence globally. Chinese authorities have not clearly indicated whether they would provide any financial support in the event of a default.

U.S. Insurers’ Exposure as of Year-End 2020

U.S. insurers’ total exposure to China real estate was a minimal \$77.3 million in total bonds and stocks at year-end 2020. About 67%, or \$52.1 million, was in bonds, with the remaining \$25.2 million in stocks. (See Table 1 and Table 2, respectively.) The largest bond exposure, representing about half of the industry’s Chinese real estate-related bond exposure, was with Longfor Group Holdings Ltd., whose corporate bond ratings were investment grade, or BBB/Baa2/BBB by S&P Global (S&P), Moody’s Investors Service (Moody’s), and Fitch Ratings (Fitch), respectively. S&P and Moody’s currently have a stable outlook, while Fitch has a positive outlook on the aforementioned ratings.

Table 1: China Real Estate Bond Exposure, Year-End 2020

Bond Description	BACV	Pct of Total
LONGFOR GROUP HOLDINGS LTD	\$ 27,357,093	52%
YUZHOU GROUP HOLDINGS CO LTD	\$ 8,184,112	16%
COUNTRY GARDEN HOLDINGS CO LTD	\$ 6,480,893	12%
SUNAC CHINA HOLDINGS LTD	\$ 2,795,762	5%
KAISA GROUP HOLDINGS LTD	\$ 2,690,794	5%
CHINA EVERGRANDE GROUP	\$ 2,566,501	5%
TIMES CHINA HOLDING LTD	\$ 1,042,842	2%
KWG PROPERTY HOLDINGS LTD	\$ 956,542	2%
CIFI HOLDINGS GROUP CO LTD	\$ 93,734	0%
Total	\$ 52,168,273	100%



About 80% of the China real estate bond exposure was with large insurers, or those with more than \$10 billion assets under management, and life companies accounted for 71% of the total bond exposure.

The largest stock exposure was Nam Tai Property Inc., representing 77% of the industry's total Chinese real estate-related stock exposure, at \$19.5 million. Stock exposure was predominantly with property/casualty (P/C) companies, and half was with small companies, or those with less than \$500 million assets under management.

Table 2: China Real Estate Stock Exposure, Year-End 2020

Stock Description	BACV	Pct of Total
NAM TAI PROPERTY INC	\$ 19,451,250	77%
SHUI ON LAND	\$ 2,430,185	10%
LONGFOR GROUP HOLDINGS LTD	\$ 2,343,094	9%
COUNTRY GARDEN HOLDINGS CO LTD	\$ 664,716	3%
SUNAC CHINA HOLDINGS LTD	\$ 315,790	1%
Total	\$ 25,205,035	100%

Due in part to the small overall exposure, Chinese real estate bonds and stocks do not raise concern regarding credit risk among U.S. insurer portfolios. Notwithstanding, on an individual portfolio basis, exposure should be monitored as a percentage of total capital and surplus.