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New Trend of Life Insurance Products in China

by Samuel Zhou

Life insurance business is growing rapidly in mainland China. The business volume of life insurance has increased dramatically in recent years, and the annual growth rate is about 40% from 1980. Every year, several new companies have entered into the market. However, the life insurance products were limited to the traditional non-par. Until 1999, there was not any kind of participating, universal, or variable life insurance products in the mainland China. This situation is changing.

According to the strict regulations, the application of funds of an insurance company is limited to bank deposits, government and financial bonds, and other investment vehicles stipulated by the State Council. The narrow investment channel resulted in a tight relation between life insurance companies' investment earned rates and bank deposit rates. In June 1999, People's Bank of China adjusted the one-year term deposit interest rate from 3.78% to 2.25%. China Insurance Regulation Committee (CIRC), which regulates the insurance market, reacted accordingly. The pricing rate of long-term life products was adjusted from 5% to 2.5%, and the new rate should be applied to all policies issued newly. This was a big challenge for life insurance companies since the saving-oriented products had always been of the biggest volume among all life business, and the temptation to purchase these products suddenly fell sharply. Few people wanted to buy saving-oriented non-par products at a guaranteed interest rate 2.5% for whole life or even long term life. Life companies' business was shrinking.

Insurance companies cannot but face up to the austere environment. Some companies have enhanced the traditional non-par products. Such provisions include reduced paid-up, policy loan, conversion option, guaranteed insurability option, and so on. But they did not work well. Some companies changed their leading products from saving-oriented to protection-oriented products. It was a matter of course, but it could not prevent the premium income decreasing due to the lower premium rate of protection products.

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Most companies choose product innovation to cope with business shrinkage. Maybe this is a way out. Several companies began to design participating or non-traditional products. In October 1999, Ping An Insurance Company of China launched the first unit-linked product in mainland China. This product sold successfully. In Shanghai, more than 70,000 people bought it, and the premiums reached 300 million RMB within half year. New China Life fol-lowed up. Other companies, such as China Life, Zhong Hong Life, Tai Kang Life and AIA, designed traditional participating products that were in favor with the market. Pacific Insurance Company designed the first universal life product recently.

CIRC encourages product innovations. Wu Xiaoping, the vice-chairman of CIRC, said that the life insurance business was now faced with a critical period.

Non-traditional products will hopefully fill up business volume after the interest rate adjustment. These products also reduce the interest rate risk. The interest rate risk of existing traditional products may cause tremendous losses for the Chinese life insurance industry.

Now the life business in China is evolving and transforming. Industry factors and the economic environment both affect and outline this development. Innovation may develop in two main directions: one is with the policyholder sharing experience surplus (the most is investment surplus), another is flexibility and transparency. Currently, few investment vehicles available limit the experience surplus; flexibility requires higher level of management and system supporting, and transparency needs market understanding, so it cannot go any further unless something changes. At the same time, regulation must keep pace with industry development. Resources, especially professional resources, are another big issue. In short, opportunities always go with challenges.

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