Article from:

International Section News

April 2005 – Issue No. 35

China Update: What Happened in the Chinese Insurance Market in 2004?

by Guo Dan

The year of 2004 was an unusual year, especially for the Chinese insurance market. This was filled with milestones, which have been integral to the development of the Chinese insurance industry.

Opening of the Market

China's insurance industry fully opened to the outside world at the end of 2004, three years after China entered the World Trade Organization. According to the agreement, China has removed all restrictions on foreign insurance companies, including business location, scope of business and market access. As a result, local insurance companies thoroughly lose the protection of the Chinese government and face strong foreign competition. Statistical data shows that the premium income of foreign insurance companies in China during the first half of 2004 were up over 50 percent compared to the same period last year. And their share of the Chinese insurance market will continue to increase.

Business Specialization

China Insurance Regulatory Commission (CIRC) approved licenses for the first agricultural insurance company, first health insurance company and first annuity insurance company in 2004. The insurance industry has become more specialized. Insurers have begun to branch out into all major areas of the industry, including those that are newly open to foreign insurers — pension and health insurance — and deal with the competition positively.

Chinese insurance companies are trying to tap into international capital markets. PICC Property and Casualty Co, Ltd. and China Life Insurance Co., the nation's largest property and life insurance firm, launched global IPOs in 2003. Ping An Insurance (Group) Co. of China, the nation's second-largest life insurer, also launched its IPO in Hong Kong with great success. TaiKang Life Insurance Company Limited pioneered the issuance of subordinated bonds by the industry in China. New China Life also announced a successful subordinated bonds issue recently. Undoubtedly, the local insurance industry's expansion into domestic and global capital markets will promote the development of China's market system, strengthen local insurers and improve local insurers' management, product innovation and service.

Investment Expansion

Insurance firms in China had long been frustrated by the restricted investment scope set by regulators. They could only invest in bank deposits, treasury bonds, selected corporate bonds or trade stocks through securities investment funds. This threatened their repayment capacity, especially for those high guarantee policies. Now, the situation has changed. Several regulations were issued in 2004. Insurance companies are allowed to invest in subordinated bonds issued by banks and convertible bonds. With the permission of CIRC and China Securities Regulator Commission (CSRC), insurance companies can invest directly in the stock market. Restrictions still remain for insurance capital in foreign exchange to be invested overseas. Just as a CIRC spokesman said, these are major steps in broadening the limited investment scope of the domestic insurance industry. The loosening policies will help insurance companies broaden their investment scope, improve investment returns and diversify investments.

Changing Regulation

Simplifying policy filing

CIRC issued new policy filing regulations in June 2004. Products not violating actuarial requirements need not be approved by CIRC beforehand, but companies are required to send files to CIRC after the product is sold. This draft regulation speeds up the product filing process. CIRC plans to remove restrictions on product pricing so that insurance companies can design more competitive products. The draft regulation being discussed now and may take effect in the near future.

New requirements for actuarial reports

In order to control risk better, the CIRC enhanced its regulation on solvency. The CIRC's annual report of reserves will be replaced by annual actuarial report in 2006. In addition to reserve reporting, the actuarial report should include respective business report of par, universal life and unit-linked products. The report also requires that the appointed actuary reports on the adequacy of reserves and assets. Furthermore, regulation on the insurance protection fund was issued recently. This regulation requires that a specified percentage of premium income should be devoted to the protection fund that will be used to compensate policyholders if the insurance company were to announce bankruptcy. ☐

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