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Life Insurance in China

by Synthia Kwan

This article provides an update on China's life insurance industry, with emphasis on international companies and issues.

Life Insurance in China

The potential of life insurance in China is huge.[1] China has adopted an open policy to foreign participation; international life insurance companies have been operating in China since 1992. From a state/regulatory perspective, life insurance is regarded as an important ingredient in promoting economic and regional development as well as growth and stability in the society.

Mr. Wu Dingfu, Chairman of the China Insurance Regulatory Commission (CIRC), has recently summarized the focus of direction in China's policy on insurance as follows:

1. Accelerate the pace of internalization, raise the opening of the industry to a new level.
2. Improve the industry's structure by: (a) promoting international participation in the major areas of insurance development, viz. pension, health, agriculture and liability insurance, (b) supporting domestic/foreign companies in business development in China's Central and Western regions, (c) encouraging domestic companies to form strategic partnerships with international companies.
3. Strengthen insurance regulation, raising the standard to international levels.
4. Ensure risk management as a safeguard to financial and insurance security in China.

New Mortality Table

A new life table was introduced in China in November, 2005 and an international symposium was held in early December in Beijing. This is the second experience life table in China; the first table was introduced in 1995, and was based on data from China Life from 1990 to 1993. Preparation work for the new life table started in August, 2003. Going forward, CIRC intends to update the life table every 10 years.

Compared to the old table, the new life table shows an increase in life expectancy, 4.8 years for retirement annuitants and 3.1 years for others. The new life table is based on experience data from six companies (China Life, Ping An, China Pacific, New China, TaiKang and AIA) that account for 98 percent of life insurance in force in China, thus representing a major improvement compared to the old table.

A technical implication of the new life table is a decrease in premium for protection products, and increase in premium for annuity and old-age insurance products. In practice, the change in premium is expected to be small as most insurance products now on the market that have a significant savings/investment component.

With the introduction of the new life table, CIRC has adopted a more open policy to insurance product pricing. Insurance companies can now determine their mortality basis in pricing and have more discretion in reflecting mortality differentials amongst different social groups (such as urban versus rural) and/or across geographical regions (such as east/coastal versus west). For reserving and solvency calculations, the new life table will

[1] According to a McKinsey report in October, China's share in the world life insurance market is 1.6 percent. In comparison, China accounts for 25 percent of the total population in the world.

become the regulatory standard to be used by all insurance companies.

Product Development

Universal life products were popular in China last year. This is partly attributed to the stock market's poor performance; as people look for better returns in other financial products. Participating products offered by some companies have also been selling well; in particular, the single premium endowment participating product makes up a considerable proportion in bancassurance sales.

Several companies have launched comprehensive products by packaging coverages such as term, critical illness, medical and personal accident into one product. With heightened concern about Asian flu, some companies have offered specific Asian flu policies, while other companies have offered such coverage as an enhancement under their existing products.

Embedded Value

EV has arrived in China. Insurers are required to file reports on 2005 embedded value to CIRC by July, 2006. Starting in 2007, annual filing on embedded value is required by April 30 of the following year. Supported by an actuarial task force and after a consultative process, CIRC published an "EV Compilation Guideline for Life Insurance" in September. After defining the three components of embedded value, viz. free surplus, required capital and insurance business value, the Guideline discusses: projection assumptions, risk discount rate, earnings rate, new and renewal business, expenses, taxation and legal considerations, expenses and inflation, mortality, lapse, morbidity rates, reinsurance and debts, financial options and guarantees, future premiums for flexible premium products, participating business, and asset valuation.

The EV reporting requirement by CIRC indicates that China's insurance market is moving toward a measurement of a sound, profitable and sustainable basis rather than a pure premium basis.

Standardization of Policy Provisions

Insurance companies and regulators have given much attention to the policy contract—focusing first on simplification and popularization of the language in specific provisions, then on standardization of the policy provisions in the entire contract.

Early in 2005, insurance companies took steps to simplify language used in insurance policies, making the contract provisions easier for applicants to understand. In November, CIRC issued guidelines on standardization of insurance policies. Insurance companies are required to comply with requirements relating to the content (illustrations are based on assumptions on investment returns for participating policies, etc.) as well as format (minimum font size, spacing of paragraphs) of the policy contract. Feedback from industry participants and the academic community about the guideline has generally been positive.

China has undertaken a review of its insurance law. CIRC is said to have prepared draft recommendations on revisions. The legislative process to revise the insurance law is expected to be completed by 2007.

Pension Insurance

With an aging demographic structure and substantial financial burdens on government social security, China has encouraged commercial participation in retirement arrangements for its working population. In May 2004, framework regulations were promulgated, giving rise to a new retirement industry, Enterprise Annuity (EA). Basically EA is a defined contribution plan offered on a voluntary basis by employers who have fulfilled their obligations under Tier 1 or Basic Old-Age Insurance, to their employees. There are some tax incentives for employers to offer EA plans to employees, but the rules are not very clear yet.

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Insurance companies can participate in EA business; formal approval is required by applying to the Ministry of Labor and Social Securities for an EA provider license. CIRC has also promoted specific subsidiaries for pension insurance business and has approved three pension insurance companies so far. Of the four EA provider roles, insurance companies/pension insurance companies are eligible to apply for three—account administrator, trustee and investment management. For the remaining role of EA custodian, only banks are eligible to apply. In the first batch of EA licenses handed out in August 2005, two pension insurance companies were licensed as both trustee and investment manager, while four insurance companies were licensed as account administrator.

Employers are required to file their EA plans with the Ministry of Labor and Social Securities. The filing rules and procedures

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have not been announced yet and are expected soon. While technically no EA business has been written, companies have been active in developing clients and alliances with other providers. It is generally expected that EA will play an important role in China's insurance market in the next few years.

Market Share

As of October 2005, a total of 34 life insurance companies were operating in China. Table 1 summarizes the market shares for the top 20 companies. The market is still dominated by the three large domestic companies, with China Life capturing a 51 percent market share. Despite earlier excitement for Chinese companies to invest in the insurance industry, only a few have started operation; the newest is GW (Great-Wall) Life. In many cases, projects to form new domestic companies were closed due to shareholder and/or capital issues.

As of October 2005, the combined market share of foreign companies in China's total life insurance premium is just under 10 percent (about 3 percent if the huge policy purchased by the domestic partner from Generali is excluded; Generali jumped to fourth place in the market share league with this huge policy).

Table 1: Market Share (Top 20 Companies) in Life Insurance in China, October 2005

Rank	Company	Market Share
1	China Life	51.2%
2	Ping An Life	15.9%
3	Pacific Life	10.2%
4	Generalie-CNPC	6.7%
5	New China Life	5.3%
6	Tai Kang	4.5%
7	Tai Ping	1.9%
8	AIA	1.7%
9	Sino Life	0.8%
10	CITIC-Prudential	0.3%
11	AVIVA-COFCO	0.2%
12	Pacific-Aetna	0.2%
13	Manulife-Sinochem	0.2%
14	Min Sheng	0.2%
15	He Zhong Life	0.1%
16	AXA-Minmentals	0.1%
17	Aegon-CNOOC	0.1%
18	Allianz Dazhong	0.1%
19	China Life CMG	0.1%
20	New York-Haier	0.1%
Total market share for the Top 20 companies		99.7%
Total market share for other companies		0.3%
All companies		100.0%
Total premium in RMB million		303,728

It is said that several big domestic banks intend to enter the insurance industry. If so, there could be major implications to sales and market share, especially bancassurance (similar to many other countries, banks in China have profound distribution power; the big domestic banks are particularly strong in retail reach).

Foreign Participation

Currently, 23 foreign companies are participating in China's life insurance industry, as summarized in Table 2 below.

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Table 2: Foreign Life Insurance Companies in China

Company	Established[1]	Preparing/ Submitted[2]	Remark
1. Manulife	8	6	
2. Prudential	8	3	Registered capital increased to RMB 700 million
3. ING	8	3	
4. AIA	8	0	
5. AVIVA	5	3	
6. Generali	4	2	
7. Aegon	4	0	
8. Metlife	3	1	
9. AXA	3	3	
10. CIGNA	3	1	
11. Sun Life	3	1	Nanjing
12. New York Life	3	0	Qingdao
13. Standard Life	2	1	
14. Allianz	2	1	Domestic partner changed from Dazhong, a P&C insurer to CITIC
15. Skandia	2	0	Entered Shanghai in December
16. Cathay Life	1	1	
17. CMG	1	0	Sales of domestic shares being finalized
18. John Hancock	1	0	Manulife selling its stake in the JV
19. Nippon Life	1	0	
20. ACE	1	0	ACE is strategic partner of Huatai Life, domestic company
21. Samsung Life	1	0	
22. Great Eastern	0	1	Headquartered in Chongqing, said to be leveraging its domestic partner, a major real estate company in Chongqing
23. CNP	0	1	Domestic partner is China Post. The JV has been formed for some time without commencing operation

1 'Established' refers to the number of cities in which the company has set up branch offices.

2 'Preparing/Submitted' refers to the number of cities for which the company is preparing (with permission granted by CIRC) for entry or has submitted application for entry.

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Above: One of the Sun Life Everbright Buildings in Tianjin, China.

Outlook for 2006

We'll end this article by including a top eight list for insurance industry development in 2006 from the Chinese press (the last one is more on property & casualty insurance):

1. State-owned enterprises to withdraw from domestic partnership of joint venture insurance companies. (A policy directive has been issued for state-owned enterprises to focus on their primary business and reduce or adjust their capital engagement in non-core businesses. Currently, the domestic partner of many joint venture life companies are state-owned enterprises with primary business in non-insurance industries. The implementation of the said policy directive may result in withdrawal/transfer on the part of the domestic partner. It may be difficult for the foreign partner to form an appropriate replacement partnership to fulfill the regulatory requirement and desired company growth in the short term).
2. Foreign companies to switch investment focus to existing insurance companies.
3 Regular premium products to become popular at the expense of single premium products.
4. Group business to compete on services (in addition to product and price).
5. Insurance companies to repair reputation on integrity (strategic restructuring and quality agency training seem inevitable).
6. Re-vamp of insurance intermediaries (regulators and the industry to create and promote a healthier environment for development).
7. Strengthening of solvency standards (the debate is to recognize it by either moving to an economic capital base or continuing to broaden and strengthen the existing factor-based standards).
8. Focus on liability insurance.

Author's Note: This article was written by Synthia Kwan with input from Genghui Wu and Smith Zou. ☐

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