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Chinese Insurance Market: Opportunities and Alternatives

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Over 40 foreign insurers have entered the Chinese market operating 70+ insurance companies. There are actually more foreign insurance companies than domestic companies in China. However, domestic companies still dominate the Chinese insurance market. The largest domestic insurance company has half of the life business. Foreign insurers possess 6 percent of the Chinese insurance market and 18 percent of the insurance market in the cities Shanghai and Guangzhou.

Entering the Chinese insurance market:

Most foreign insurance companies enter a partnership with a domestic company to access the market. A few foreign insurance companies brought all their managers from the home office to run their Chinese operation to ensure maintenance of the corporate standards and culture. A different way to enter the market is to provide group coverage to the employees of a formerly state-run enterprise. There are many such enterprises with large assets and hundreds of thousands of employees. A foreign insurance company can quickly make a presence in the market. To enter, the foreign insurance companies are required to have been in the insurance business for the last 30 years and have at least US\$5 billion in net assets.

They can own up to 50 percent of the equity of a domestic company.

What do Foreign Insurance Companies Offer?

Amid the rapid economic growth and demographic changes, the Chinese government hopes that foreign insurance companies can bring in needed capital and expertise as the country goes from a planned economy to a market economy. Foreign insurance companies can provide standard professional practices and expertise on corporate management, risk protection and mitigation, and information quality and effectiveness. They can also help in the development of underwriting/claim control, legal system, selling channels, and agent development programs. Finally, some surveys show that consumers trust well known and established foreign insurance companies more than their domestic counterparts.

Characteristics of the Chinese Market

The insurance market is influenced by a unique combination of characteristics: An aging population with a high rate of saving, strong centralized government regulations, regional differences in economic development, rapid economic growth, huge growth potential, a low insurance penetration rate, under reporting of personal and business incomes, market dominance by large domestic insurers, and most importantly a population of over one billion.

A Cutting Edge Regulatory Environment

The Chinese insurance regulators are taking a proactive approach. The government believes the market-based insurance system can play an important role in alleviating many of the problems the country is facing. The China Insurance Regulatory Committee (CIRC) has established a robust supervisory and regulatory system during its short existence. CIRC has put in the effort to keep its system in tune with the latest developments in insurance regulations in other countries. Some might say the system is more sophisti-

cated than most of the products on the market it tries to monitor. It does encourage orderly competition and provide an inviting environment for insurance products.

Main Products on the Market

The common types of coverage available in China are life, annuity, health, motor, commercial property and group health that wraps around the state system. Currently, agents are the main sales force in the individual market.

Public awareness of insurance products is low

Many Chinese consumers consider the insurance premiums as an extra expense, instead of a necessary expenditure. As in any developing market, the public needs to be convinced of the value of insurance coverage. The insurance industry should take the main responsibility for this task and educate the public about its products and processes.

Lack of health service providers

There are no HMOs or PPOs in China. There are some basic health maintenance plans provided by hospitals. Generally, there are no physician private practices. Since there are few regulations on prescription drugs, patients often purchase medicine over the counter and treat themselves without a physician's involvement.

Uneven health protection

The government practices Chinese-style Socialism. In the urban/coastal areas, the success in the last 20 years has resulted in some improvement of public health services. Yet in the rural/inland region, there are still remnants of the commune structure and public health service is minimal. Some commune members (excess manpower) go to the cities to work. They are not registered residents and therefore have no access to public health coverage in the cities they work in. The unprotected population often chooses not to seek medical treatments in medical emergencies. The publicly funded portion of health care has actually shrunk in the last 10 years, while the economy has vastly improved. This is the source of many complaints; economic growth is carried on the back of the rural population.

Mortality gain:

Life insurers in China can count on a more pronounced mortality improvement as a result of improved health care and nutrition due to economic development and a possible reduction in the smoker population.

Opportunities

Restrictions removed for foreign insurers to conduct business

Private insurance companies came into existence only 20 years ago. After the Chinese government entered the WTO in 2002, foreign insurance companies can now sell without any geographic restriction and with just a few product restrictions. Nevertheless, foreign insurance companies are still restricted from selling directly written reinsurance contracts, motor insurance and pension products.

Growth and fierce competition

The Chinese national GDP growth rate is high but the growth rate of insurance premiums (25 percent annually, 2001-2005) is almost twice that. A brisk economic environment, expanding affluence, and higher risk awareness all point to a rapidly increasing demand for insurance products. Yet the competition for premium dollars in the major urban cities, the main marketplace for insurance, is fierce.

A need for experienced managers

There are shortages of experienced actuaries and professional insurance managers, which have contributed to under-performing domestic insurance companies. The local staff are motivated and quick learners, but they need guidance from experienced managers.

A need for capital to grow

There is an urgent need for capital to grow. The two top domestic insurance companies have successfully listed on foreign stock markets and have access to international capital.

Pension/Retirement Plans

The aging Chinese population, exacerbated by the one-child policy, will face many retirement related problems. A young couple would



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continued on page 20

have two sets of parents to support. There is an urgent need to provide retirement income products. As the government moves away from a planned economy mode, it also removes state support for pension.

Travel coverage

There are 100 million transient workers in China, with heavy traveling during the major holidays. Insurers can experiment with designs of affordable simple coverage for the hazards involved in traveling.

Agriculture insurance

Currently, 80 percent of the Chinese population's employment is in agriculture. The government is especially interested in developing agricultural insurance products.

Internet based products

China's young professionals are Internet savvy and aware of western advertisements on Web sites. They have easy access to Web-based selling channels and are adaptable to Web-based policy administration and communication. Completely Internet-based insurance products may be viable for this segment of the market.

Mortgage insurance

Chinese parents are expected to provide financial support for their son to achieve home ownership. Due to the high price of housing, despite a high saving rate, the parents and the son often have to jointly sign for a mortgage with a small down payment. This seems to be an ideal market for mortgage insurance. Yet, the sales results have been poor. The consumers consider the mortgage insurance premium an unnecessary expense.

Reality Check

A need for a long-term plan

Early foreign entrants to the Chinese insurance market have invested heavily in personnel and contacts for the last 20 years. It is too late to get in the game for those foreign insurance companies that are entering China simply because most of their competitors are doing it and are planning to copy the competitors' business models. Several foreign

insurance companies have been in and out of the Chinese market several times and invariably did poorly. To be successful, the foreign insurance companies must have a long-term horizon and stay with a steady game plan.

Competition in urban markets

In urban areas, where foreign insurance companies have most of their business, young professional couples are delaying having children, just like their western counterparts. Their insurance needs are delayed. The growth potential in this segment is limited if foreign insurance companies do not explore new products or services. If a foreign insurance company decides to stay in this segment, it should pursue profit instead of premium volume.

Stay ahead of competition

The local companies have home court advantage. They have a majority of the market. In the group market particularly, contact with the employers is important. It takes a long time to develop these relationships. The foreign insurance companies need to be innovative and stay ahead of the competition. Successful products are copied quickly. Resting on one's laurels will lead to reduced production in no time.

Evolving legal system

The legal system is not well established in China. There have been few lawsuits involving insurance matters, but fraud is prevalent in the usage of health coverage. The insurance companies and health care practitioners must avoid falling into the abyss of defensive medicine. There have been a few reported cases of foreign insurance companies caught breaching the law, in areas such as under reporting of income or contracting with agents illegally.

Unprofitable health products

Sales for health insurance coverage are rising as fast as for life coverage. But most insurers are not operating profitably on these policies. Insurers have no mechanism for data collection and viable utilization/claim controls. The Chinese Medical Association is in the process of building a database of disease classification codes.

Alternatives

Market based products are not the cure-all

Prior to the opening of the market economy, the government did provide basic protection for all. The barefoot doctors carried medical care to the remote corners of the country. How far should the pendulum swing to the “everything for profit” mode? Is the privately funded insurance model a good fit for a populous country like China? There are vigorous debates on Chinese Web sites on the merits of the different approaches. Market based insurance products cannot solve all the insurance needs for the populace.

Provide the right products

Both the foreign and domestic insurance companies need to develop a new paradigm to succeed. The successful companies are the ones that react to the new market, accommodate demanding customers, take advantage of new IT technology, and take command of risk management skills. The products need to meet the specific needs of the consumers with realistic assumptions based as much as possible on the domestic experience.

Think radically

To reduce the cost of insurance products, foreign insurance companies can try various cost saving approaches such as more intrusive underwriting, levelized commissions, and “product purchased instead of sold (salary based product).”

These approaches have all been tried in the foreign insurers' home market and were unsuccessful due to legal/ cultural limitations or conflict with entrenched interests. But these approaches may work in the Chinese market.

Conclusion

The Chinese market is a great opportunity for foreign insurance companies to become active in a rapidly growing and modernizing economy with a huge population base. Through careful planning and wise collaboration with domestic insurance companies, there is great potential for economic gain. Nevertheless, due to China's unique economic and demographic qualities, alternative approaches to insurance products may be required to achieve success.

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