國立政治大學亞太研究英語碩士學位學程
**International Master's Program in Asia-Pacific Studies**
**College of Social Sciences**
**National Chengchi University**

碩士論文

# Master's Thesis

# 中國財產保險市場的研究

# The Study of Property Insurance in China

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國立政治大學

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# 摘要

本文從中國現有經濟發展，以及其他國家市場比較下，來分析財產保險商品和市場的發展，解析政府政策和監督管理力道，評估保險參與者之間的競爭，藉此來了解中國目前的財產保險市場。

中國加入 WTO 已近十年，經濟的快速發展，使財產保險市場規模不斷擴大。中國財產保險市場仍具有相當發展潛力，因此深入研究這一課題有助於進入市場的評估。

本文將分析中國現有財產保險市場及其投資環境的利弊，同時預測未來發展。投資者或參與者可以藉由本文瞭解整個財產保險市場情況。特別是 2010 年兩岸經濟關係透過海峽兩岸經濟合作架構協議有新的突破，臺灣保險公司或投資者可藉此檢視和決定其於中國大陸財產保險市場的經營策略和步驟。

關鍵詞：財產保險、中國大陸

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# Abstract

This paper seeks to understand the current Chinese property insurance market by surveying the economic development in China, comparing with other countries' markets, identifying the property insurance development toward the products and markets, clarifying the governmental policy and supervision from the legal requirements, and assessing the competition between insurance participants.

It is nearly ten years since China entered WTO, and the rapid economic developments have brought about the correspondent scale of property insurance market. It is believed that there's still huge potentiality in China's property insurance market and therefore studying the topic deeply can help have access to the market.

This thesis would analyze the advantages and disadvantages of the existing property insurance market and investing environment in China and meanwhile predict the future development. It can be a useful reference and able to let the investors or participants understand the whole circumstances before making any decisions. In particular, a new breakthrough, the Economic Cooperation Framework Agreement (ECFA), has been made in economic relations across the Taiwan Strait in 2010, and it is a good time for Taiwanese insurance companies or investors to overlook the Chinese property insurance market and afterward decide the step and strategy.

Key words：Property Insurance, China

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# Chapter 1 Introduction

Before the Chinese government began its reform and open policy; it was not necessary to operate the Chinese insurance market just because almost everything was under the coverage of the Chinese government at that time. However, in 1980, the People's Insurance Company of China (PICC) resumed business in the domestic market and the property insurance was the major business. In 1995, the Insurance of Law took effect on October 1st and it was also the first specialized law for insurance. In 2001, China officially joined the WTO. Based on the Chinese government's promises, China would open the market for life insurance, property insurance, reinsurance, and insurance brokerage progressively and would withdraw almost all restrictions on the permission and business range in the subsequent three to five years. Moreover, in 2003, PICC Property & Casualty became the first Mainland Chinese Insurance Company to be listed on the Hong Kong Stock Exchange Market and in the same year China Life Insurance Co., Ltd. got its stocks listed on the New York Stock Exchange Market. After that, Chinese insurance kept developing in high speed and in 2009 the premium income in Chinese insurance market was over 1113 billion RMB.

The insurance market can be divided into life insurance and non-life insurance; this paper will only focus on non-life insurance, especially the insurance products related to property. In Chapter 2 of this paper, the overview of China's insurance market will be provided. Chapter 3 looks into the international property insurance market and also the market in Taiwan will be analyzed. Chapter 4 describes and analyzes the current property insurance market in China. Next, Chapter 5 examines the property insurance policy, official supervision and legal requirements in China. Moreover, the competitiveness and potentiality in China's property insurance market will be assessed in Chapter 6. Finally, Chapter 7 will make the conclusions and suggestions.

## *1.1 Motivation*

It is nearly ten years since China entered WTO, and the rapid economic developments have brought about the correspondent scale of property insurance market. It is believed that there's still huge potentiality in China's property insurance market and therefore studying the topic deeply can help have access to the market.



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There are some reasons why this paper only talks mainly about the property insurance market instead of life insurance market. First of all, in China, life insurance companies provide life, accident, healthy and annuity insurance. On the contrary, property insurance companies can provide auto, cargo, marine, aviation, property, liability, trade credit, satellite, energy, agriculture insurance and so on. In particular, after the modification of Insurance Law in 2003, property insurance companies could provide short-term health insurance and accident insurance. In other words, many kinds of property insurance products can be chosen and the market is changeful and with diversity.

Next, the property insurance property is usually related with the development of national infrastructure and types and characteristics of industries. The insurers have to put more attention on underwriting, claims and risk management. It can be more consistent with the insurance purpose of protecting the financial well-being of an individual, company or other entity in the case of unexpected loss and compensation for the practical insurant with losses.

Moreover, compared with the requirements of joint ventures for life insurance companies, foreign property insurance companies could set up branches directly and operate without limit to area and scope. Foreign investors can control the whole company and run the business on their own way without the intervention of the other joint-venture partners. Under consideration of business management, the property insurance market can draw more attention from foreign investors.

Finally, the insurers can focus on the internal professional management, enhance the insurance knowledge of the sales persons and improve the service. This is because the insured or insurant can be the enterprises, which may need more professional service and risk managing recommendations from the insurers. It is more likely for the property insurance companies to avoid the credit issues of the individual agents and the low-price or cutthroat competition.

## *1.2 Purpose*

This paper seeks to understand the current Chinese property insurance market by surveying the economic development in China, comparing with other countries' markets, identifying the property insurance companies' managing strategies toward the products and markets, clarifying the governmental policy and supervision from the



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legal requirements, and assessing the competition between insurance participants. In other words, this thesis would analyze the advantages and disadvantages of the existing property insurance market and investing environment in China and meanwhile predict the future development. It can be a useful reference and able to let the investors or participants understand the whole circumstances before making any decisions. In particular, a new breakthrough, the Economic Cooperation Framework Agreement (ECFA), has been made in economic relations across the Taiwan Strait in 2010, and it is a good time for Taiwanese insurance companies or investors to overlook the Chinese property insurance market and afterward decide the step and strategy.

## *1.3 Research Framework*

This study's objective is to examine China's current property insurance market and the potentiality for the coming investors. Therefore the related data should be offered, compared and assessed in different aspects, such as the existing insurance participants, the kinds of insurance products, the capital management, the policy, regulations and requirements of the government, and meanwhile it is important to see or learn some experience from the international property insurance market. Moreover, the evaluation of the competitiveness and the potentiality can help the coming participants or investors to know more about the market.

The aim of this thesis is to consider several research questions and will follow these following points to evaluate the current situation and provide suggestions. First, is it unavoidably for investors, especially foreign investors, to take part in the Chinese insurance market continuously? For this part, we need to know what happens in the existing insurance market, especially the property insurance market. However, it is necessary to have a first look at the current international property insurance market; this paper will take some examples from the USA, UK, Japan and Taiwan to see the relations between economic development and property insurance market. It can help us to predict the market potentiality in China.

After the understanding of Chinese and international property insurance market, we need to know what the policy and strategies of Chinese government to manage the property insurance market are. Furthermore, this paper will assess the competitiveness between insurance participants to see if it is a niche market for investors. Meanwhile,



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the insurance products, the management of investing capital, income and benefit will be discussed as well. Also, it is very important for investors to know the exercise of insurance law and consider the intervention from Chinese government while entering the market. At last, some recommendations will be presented.

This paper targets to prove that after China entered the WTO, even there have been already many property insurance participants joining the market, for investors, it is believed Chinese market can still be operated and with good performance in the future.

## *1.4 Research Method*

The research for this paper will rely on the collection of second-hand sources and will be conducted through the review of second-hand academic journals, books, newspapers and official statistics, which primarily come from public information conducted by China Insurance Regulatory Commission. The different official or research data will be compared to the information from the international insurance market and reinsurance companies with the purpose of checking the reliability and validity.

Besides, this paper gives an overview of China's property insurance market along with the analysis of China's economic growth. It will provide an insight into the market size and growth in insurance premiums. Insurance premiums are discussed in terms of non-life segments and the density and penetration levels. Therefore, the information regarding the premium income, gross domestic product (GDP), population and other data related with insurance density and penetration in different areas will be compared and used to understand the potentiality of the property insurance in China.

Moreover, the aforementioned information will be compared to the similar scaled countries so that we can predict if China's property insurance market will follow the similar model or route. Some countries' property insurance markets will be assessed in order to understand the international insurance environment. The paper also draws attention to the regulatory environment in which insurance companies operate and highlights the key characteristics of sound risk management. By combing official data integration and analysis capabilities with the relevant findings, the future growth of the Chinese property insurance industry can be predicted.



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# Chapter 2

# The Overview of China's Insurance Market

China, with a population of more than 1.3 billion is potentially going to be the largest insurance market in the world. The Chinese insurance has been underdeveloped throughout recent history. Since its economic reform, China has begun to increasingly reduce direct social security protection and insurance has become essential to numerous citizens who find themselves without the government's social security coverage. Over the past decade, the Chinese insurance industry has undergone an evolution as it opened up in stages to foreign competition and develops a diversified financial segment.

In the end of 2010, China has endorsed the 12$^{th}$ five-year economic and social development plan that covers the years 2011 to 2015. China has made strong inroads in terms of industrialization, and additionally the increase in GDP per capita has given China's internal demand market much more potential and fourth. With Chinese improved income, they can increase their consumption without having to worry about the consequences, such as property insurance, health insurance, retirement, and other such topics.

In the chapter, we will briefly state the historical background and describe the development and impact after China's entry into the WTO. In addition, in order to understand the difference between life insurance market and property insurance market, there will be comparisons from different aspects, such as insurance market scale, insurance participants, and unbalanced development. Finally, the legal framework will be discussed with the purpose of understanding the policy, official supervision.

## *2.1 Historical Background*

The opening of China to the West in the early years of the 20th century provided a variety of new business opportunities and in 1919, the young C.V. Starr, an American, who founded an insurance agent's office in Shanghai. In the beginning, Starr's company, American Asiatic Underwriters (AAU), served as a local representative for foreign insurers and AAU initially dealt in fire and marine



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insurance policies. In the early 1920s, Starr established a new company, Asia Life Insurance Company, which became the first to market life insurance products to the Chinese.[1]

After that, China boasted more than hundred insurance companies until 1949 and following the revolution, the Mao government set up the People's Insurance Company of China (PICC), which took over all insurance interests on the mainland.[2] However, the Chinese government, in its effort to build up its regime, decided that insurance was unnecessary in a state where the government was intended to provide for all social welfare for its citizens. In 1959, as a result, all domestic insurance business was ended. Following the reform, PICC was converted into a department of the government's central bank.

In the 1980s, economic reforms launched under Deng Xiaoping paved the way to a rebuild the China's insurance market. In 1979, the People's Insurance Company of China was separated from the central bank and reestablished as an independently but state-controlled company. In that year, PICC started to provide general insurance policies, such as property insurance products. In 1982, PICC began offering life insurance policies, and at that time the targeting insurants were the small but increasing numbers of middle-class and government officials. PICC with authorization maintained its monopoly on the Chinese insurance market into the late 1980s.

In 1984, the State Council formally separated the state-run People's Insurance Company of China Group (PICC) from the People's Bank of China (PBOC) and offered standard insurance products such as life, property and reinsurance services. In 1988, however, the company's monopoly was abolished. Licenses were granted to the company's competitors, including Ping An and China Pacific. American Insurance Group, which, in 1992, became the first foreign company to be granted a license to operate a self-standing business in China; the arrival of AIG introduced a new tied-agency system into the market, encouraging the development of branch networks. Nevertheless, PICC continued the apparent insurance champion on the mainland, with

[1] The company was built quickly into a leading insurance provider not only across the Chinese mainland, but also throughout the Asian region. Starr's company eventually evolved into American Insurance Group.

[2] At first the PICC monopoly continued to run its different insurance services and by 1952, PICC represented a national network of 1,300 branches and 3,000 agency outlets. However, since the reform of socialism started in 1953, the China's insurance business decreased gradually.



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a strong national support.

The Chinese government began a wider opening of the country's insurance market in the early 1990s. By the end of the decade, the government had granted licenses to a total of 16 companies. In 1998, the Chinese government shifted supervision of the country's rising insurance market to a new body, the China Insurance Regulatory Commission (CIRC). Under new rules, insurance companies were forbidden from operating in both the non-life and life insurance markets. As a result, PICC Group was broken up into its four primary components: PICC, China Re, China Insurance, and China Life. All four companies remained controlled by the Chinese state.

## *2.2 China's entry into the WTO*

In 2001, China officially joined the World Trade Organization (WTO).[3] Based on the Chinese government's promises, China would open the insurance market step by step and would withdraw almost all limitations on the access and business scope in the subsequent three to five years. The Chinese insurance market gradually became one part of the world insurance and its influence was growing progressively.

Conversely, before entering WTO, China's insurance market is characterized by its small size, a restricted range of insurance products, fairly high costs, short of Chinese consumer education about the function of insurance, and a lack of a sound legal environment, especially in the region of enforcement. Another constraint to the development of the insurance industry is that China's immature financial markets hamper investment instruments for insurance premiums. A second element is China's memories of its pre-1949 experience of foreign control and command of China's insurance industry (Allison, 2001).

After China achieved an agreement with the WTO in 2001, the commitments in the part of market access are significant. The most influential change, nevertheless, is expected to take place in the service segment, which has fundamentally been closed to foreign competition. China has promised to release essential service markets to

[3] For China, WTO membership will mark the end of the selective "open door" policy it has pursued for 20 years. The liberalizations will lead to an important reallocation of resources across sectors, which will entail high economic and social costs, but which China expects will benefit growth in the medium term. Indeed, WTO membership appears as a means of re-launching reforms that are necessary for the modernization of the Chinese economy. See http://www.cepii.fr/anglaisgraph/publications/lettre/summary/2000/let189ang.htm



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foreign service-providers. From nearly no access in the 1990s, foreign interests will be able to launch wholly owned subsidiaries and drive without important limitations.

For the establishment of models following China's entry to the WTO, foreign non-life insurers may set up their branches or joint ventures in China, and a joint venture with foreign equity could be 51 per cent. Within two years of China's accession, wholly foreign-owned subsidiaries of life insurers will be permitted with no limitation on business models. Foreign life insurers can set up joint ventures in China but foreign equity should be no more than 50 per cent. Within five years of accession, wholly foreign-owned subsidiaries for life insurers could be set up.[4]

However, according to the article of PRC Administration of Foreign-invested Insurance Companies Regulations Implementing Rules, "Where a foreign insurance company and a Chinese company or enterprise establish a joint venture insurance company within the territory of China to engage in personal insurance business (Joint Venture Life Insurance Company), the proportion of foreign investment shall not exceed 50% of the total share capital of the company.[5] Consequently, until 2010, there is no wholly foreign-owned life insurance company set up.

The geographic constraint for these foreign companies will be eliminated within three years of China becoming a member of WTO. Business limitation will be abolished and business licenses will be issued to foreign insurers with no quantitative restrictions upon China's entry to the WTO. Besides, qualifications for setting up a foreign insurance company are as follows: the investor shall be a foreign insurance company whose nation has more than 30 years' experience as a WTO member. It shall have a representative office for two consecutive years in China. And it shall have total assets of more than US$5 billion at the end of the year prior to application.

WTO accession offers lots of business opportunities for domestic and foreign counterparts, and the critical task for competitors is exploring and expanding the market with huge potentiality. Experts believe that China, with a giant population and the projected reform of its social welfare system, will develop into the largest potential insurance market in the world. As of October 2009, the CIRC said there were 52 foreign insurers coming from 15 countries, with 277 operational institutions in China. Compared to other developed countries, the quantities of insurance

[4] The news was published from Chinese official website. See http://www.china.org.cn/english/2001/Nov/22559.htm

[5] The rules were promulgated by the China Insurance Regulatory Commission on May 13 2004 and effective as of June 15 2004.



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companies, the Chinese insurance industry is only in its infancy, but there are tremendous growth opportunities, the likes of which simply do not exist in more mature economies (Benzinga, 2010).

After joining WTO, the need for insurance in China is expanding not owing to the increasing competition but also owing to the rapid economic growth and increased income. Reform systems have presented a large foundation for the development of commercial insurance. For foreign investors, it is important to understand what the advantages and disadvantages of foreign insurance companies' participation are and how to cope with deregulation and liberalization. However, until now the Chinese insurance environment and playing field have changed a lot, but for some existing or future foreign insurers and foreign strategic partners with capital concerns, this change still may not be understandable enough for them to be familiar with the market wholly.

## *2.3 The Comparison between Life and Property Insurance Market*

In response to quick developments in the insurance market, the National People's Congress (NPC) proclaimed the PRC Insurance Law in 1995, which set forth the framework for reorganizing and rationalizing the PRC insurance industry. One of the most significant clauses of the 1995 PRC Insurance Law was to categorize insurance into property and casualty insurance (including property, casualty, liability and credit insurance) and life insurance (including life, accident and health insurance).

For the reason that many firms were making up losses in their life insurance business by borrowing from their property insurance business, the CIRC announced that insurance companies could no longer manage both (Allison, 2001). A single entity was only permitted to provide one of the two services but the 2002 amendment of Insurance Law accepted one group to have both life insurance and property and casualty insurance subsidiaries.[6]

### *2.3.1 The Insurance Market Scale*

At first, life insurance did not grow as quickly as property insurance. However,

[6] See the survey from China Knowledge for China Insurance Industry, available at http://www.chinaknowledge.com/



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in 1997, this was the first time since life insurance total premium went over property insurance premiums. The total premium income reached to RMB60 billion and the number of individual agents is 2.5 billion. The reason for the rapid development was that companies adjusted the life insurance business structure. Sales of products with a short-term, a single premium, and a large savings portion shrank, while long-term products with annualized premiums were promoted. This affected the earned premium but increased future revenues. Until now, life insurance still accounted for around two-thirds of the total market.

In 2009, all the insurance companies produced around USD163 billion premiums totally and met the number that the 11th five-year national development planned for. The premium volume of life insurance is USD109 billion and the non-life premium volume is nearly USD54billion, which is quite lower than the life insurance. In general, the non-life insurance premium is less than life insurance premium due to life insurance with saving and investing functions. With insurance density, the premium's per capita is USD121 in total insurance business. The insurance density of life insurance is USD81 and USD40 in non-life insurance business. The penetration (in terms of GDP) is at mere 3.4% in total insurance business; 2.3% in life insurance and 1.1% in non-life insurance business.[7] China stands far behind than the global average of insurance density over USD595 and industry penetration over 7%.

Table 2-1: The Insurance Premium, Density and Penetration of China—2009

| | Premium Volume (USD billion) | Insurance Density (USD) | Insurance Penetration (%) |
|---|---|---|---|
| Life Insurance | 109.175 | 81.1 | 2.3 |
| Non-life Insurance | 53.872 | 40.0 | 1.1 |
| Total Business | 163.047 | 121.2 | 3.4 |

Source: Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/

[7] In the existing literatures on the international insurance comparison, commonly used methods are premium income method, insurance density method and insurance penetration method. "The premium income method" measures the overall scale of insurance market in each country. "The insurance density method" (premium/population) measures the per capita premium by taking population into consideration. "The insurance penetration method" (premium/GDP, or insurance density/GDP per capita) could be considered to an adjustment with economic factors added to the insurance density method. (Zheng, Liu, and Deng, 2008)



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### *2.3.2 The Insurance Participants*

In 2010, the total asset of insurance business in China is up to RMB 4,523 billion and increasing 22% compared to the same period in 2009. The total asset of foreign companies reaches RMB221.9 billion. As for the volumes of insurance companies, there are113 insurance companies, including 52 property insurance companies and 69 life insurance companies. Also, there are 9 reinsurance companies and 8 insurance group or holding companies. All of the insurance group or holding companies are China Enterprises.

Table 2-2: The Volume of Insurance Firms in China—2010 Unit: Firm

| | Property Insurance Firms | Life Insurance Firms | Reinsurance Firms | Total |
|---|---|---|---|---|
| Chinese Companies | 34 | 33 | 3 | 70 |
| Foreign Companies | 18 | 28 | 6 | 52 |
| Total | 52 | 61 | 9 | 122 |

Note: The volume is counted until June 2010.

Source: Taiwan Insurance Institute, China's Insurance Market Research, https://fsr.tii.org.tw/iiroc/fcontent/research/research02.asp

Next, concentration within China's insurance market is high. In life insurance market, the China Life Insurance Company has around 32.65% of the market, and the top three life insurance companies occupy more than 57.2% of the market. Life insurance companies have begun to increasingly adjust their business structures to progress the proportion of limited-payment premiums available.[8] China's property insurance market concentration is very high as well, with PICC occupying 39% of the market. The top three insurance companies take up over 66% of the entire property market. Foreign joint-venture life insurance companies have a smaller share, accounting for 5.15% of the life insurance market, and the top three foreign life insurance companies are Generali China Life Insurance Company Limited, American International Group, Inc. (AIG) and Huatai Life Insurance Company Ltd. The property insurance market share of foreign property insurance companies is only 1.02%; the top three foreign property insurance companies are Chartis Insurance

[8] See "China Insurance Market and Technology Overview 2008," *Celent Report*, May 28, 2008, available at http://reports.celent.com/



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Company China Limited (AIU),[9] Mitsui Sumitomo Insurance (China) Company, Ltd., and Tokio Marine & Nichido Fire Insurance Co. (China) Ltd.

Table 2-3: The Market Share of Life Insurance Companies in China—2010

| Life Insurance Companies | Market Share (%) |
|---|---|
| China Life Insurance Company | 32.65 |
| Ping An Life Insurance Company of China, Ltd | 15.31 |
| Xinhua Life Insurance Company Limited | 9.24 |
| Other Chinese Life Insurance Companies | 37.65 |
| Foreign Life Insurance Companies | 5.15 |

Note: The data is counted until June 2010.

Source: Taiwan Insurance Institute, China's Insurance Market Research, https://fsr.tii.org.tw/iiroc/fcontent/research/research02.asp

Table 2-4: The Market Share of Property Insurance Companies in China—June 2010

| Property Insurance Companies | Market Share (%) |
|---|---|
| PICC Property and Casualty Company Limited | 39 |
| Ping An Property & Casualty Insurance Company Of China Ltd. | 14.36 |
| China Pacific Property Insurance | 12.96 |
| Other Chinese Property Insurance Companies | 32.66 |
| Foreign Property Insurance Companies | 1.02 |

Note: The data is counted until June 2010.

Source: Taiwan Insurance Institute, China's Insurance Market Research, https://fsr.tii.org.tw/iiroc/fcontent/research/research02.asp

Currently, foreign life insurers gain better than their non-life counterparts. AIA, the life insurance arm of AIG in China, is a superior benchmark of foreign life insurers' influence in the industry. AIA's relative achievement in China is on account of its long presence in the country. It started life insurance operations in Shanghai in 1992 and had gone in other cities previous to that. As such, the pace of AIA's growth

[9] Chartis Insurance Company China Limited is a China registered wholly owned property & casualty subsidiary of Chartis. The year of 2007 heralded an important milestone for the Company in China. In July of 2007, the CIRC approved the conversion of its branches in China into a wholly owned subsidiary. Chartis China is currently the largest foreign property-casualty insurer in China. See http://www.chartisinsurance.com.cn/en/aboutus/about_aiu.html



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in China is a much more valid benchmark to measure the development of foreign insurers (Zhao and Liu, 2007).

On the other hand, the performance of foreign non-life insurance businesses was rather disappointing. In 2009, Chartis Insurance Company China Limited (AIU), the non-life insurance arm of AIG, was ranked first among all foreign non-life insurers with a premium of RMB0.8 billion. However, it only takes up among all non-life insurers in China with a market share of 0.27%. Foreign firms have faced a tough market in the past few years. According to the PricewaterhouseCoopers report, foreign insurers in China, the market share for overseas life insurance companies was around 5 %, while property and casualty firms only had 1 percent (Zhang, 2010).

As the percentage showed in the following table, foreign life insurers accounted for 5.23% of China's life insurance market in 2009 as compared to only 2.64% in 2004, whereas foreign non-life insurers merely accounted for 1.06% of China's non-life market share in 2009 and a figure that keeps unchanged as compared to 2004.

Table 2-5: The Comparison of Insurance Market Share between Chinese Insurance Companies and Foreign Insurance Companies—2004-2010

| Year | Chinese Property Insurance (%) | Foreign Property Insurance (%) | Chinese Life Insurance (%) | Foreign Life Insurance (%) |
|---|---|---|---|---|
| 2004 | 98.79 | 1.21 | 97.36 | 2.64 |
| 2005 | 98.69 | 1.31 | 91.10 | 8.09 |
| 2006 | 98.79 | 1.21 | 94.09 | 5.91 |
| 2007 | 98.84 | 1.16 | 92.00 | 8.00 |
| 2008 | 98.82 | 1.18 | 95.08 | 4.92 |
| 2009 | 98.94 | 1.06 | 94.77 | 5.23 |
| 2010 | 98.98 | 1.02 | 94.85 | 5.15 |

Note: The data is counted until June 2010.

Source: Taiwan Insurance Institute, China's Insurance Market Research, https://fsr.tii.org.tw/iiroc/fcontent/research/research02.asp



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### *2.3.3 The Unbalanced Development*

According to Yukon Huang's interview in 2010,[10] he states that China's quick economic development has started off mainly from the deliberate geographic concentration of financial motivations, resources, investment, and people in the coastal areas to understand economies of scale and specialization. Realizing this spatial element of China's economic policy is important to knowing the grounds behind the country's unbalanced development model.

The spatial development of China's insurance market follows the economic growth model and also has the unbalanced issues. No matter in life or property insurance business, most of the premium income comes from the big cities or coastal provinces.

Table 2-6: The Top Ten Areas of Insurance Premium Income in China—2009

Unit: RMB billion

| Areas | Total Premium Volume | Amount Share in total (%) | Property Insurance Premium | Amount Share in total (%) | Life Insurance Premium | Amount Share in total (%) |
|---|---|---|---|---|---|---|
| Guangdong | 95.95 | 8.62 | 23.91 | 8.31 | 65.19 | 8.74 |
| Jiangsu | 90.77 | 8.15 | 22.83 | 7.94 | 61.94 | 8.31 |
| Beijing | 69.75 | 6.26 | 16.44 | 5.72 | 46.60 | 6.25 |
| Shangdong | 67.75 | 6.08 | 17.36 | 6.04 | 45.05 | 6.04 |
| Shanghai | 66.50 | 5.97 | 15.18 | 5.28 | 45.83 | 6.15 |
| Hebei | 60.18 | 5.40 | 12,86 | 4.47 | 43.92 | 5.89 |
| Sichuan | 57.92 | 5.20 | 14.87 | 5.17 | 38.61 | 5.18 |
| Henan | 56.53 | 5.08 | 9.77 | 3.40 | 43.44 | 5.83 |
| Zheijing | 53.80 | 4.83 | 19.63 | 6.83 | 3.02 | 4.05 |
| Hubei | 37.24 | 3.34 | 6.89 | 3.40 | 27.86 | 3.74 |
| Total | 1113.7 | - | 287.5 | - | 745.73 | - |

Note: The accident insurance premiums and health insurance premiums are not included.

Source: China Insurance Regulatory Commission, the Statistics of Premium in Different Areas of China, http://www.circ.gov.cn/web/site0/tab61/

10 Yukon Huang is a senior associate in the Carnegie Asia Program, where his research focuses on China's economic development and its impact on Asia and the global economy.



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Generally speaking, Chinese property insurance developed better in the eastern regions than in the western regions. This was consistent with the Chinese economic and social situations, in which eastern coastal regions were much more developed than western inland regions. In 2009, Guangdong ranked first with RMB95.95 billion worth of premiums, accounting for 8.3% of China's property insurance market. In the half-year of 2010, the top five provinces that created the most total property insurance premiums among China's 31 provinces, municipalities, and autonomous regions were all placed in the eastern costal region. Guangdong, Jiangsu, Zhejiang, Shandong, Beijing are the five leading property insurance markets.

The consequence of this deliberate government policy was the appearance of an economic geography that originally favored the coastal cities with a stress on trade and production. Nevertheless, over time, competition within China has conducted a rebalancing of growth. Besides, with the infrastructure of western provinces and increasing income of individuals, it is believed that the insurance industries will grow in inland provinces. However, it indeed needs to take a few years to reach the purpose of balanced development in insurance industries. At the moment, China's heavy dependence on investment and a great trade surplus is not sustainable, and the rebalancing process will be not easy. Unbalanced growth will not facilitate long-term insurance economic growth, and it is argued that it is possible to see China's insurance growth rate slow in the future.

## *2.4 The Legal Framework*

The rapid growth of the insurance industry required the establishment of a legal framework. In 1995 the National People's Congress promulgated a formal insurance law. Another major step was the establishment of the CIRC in November of 1998. The CIRC was set up to regulate the insurance market, promote its development, formulate and enforce related laws and regulations.

Originally, the People's Bank of China (PBOC) was responsible for insurance, but this sector was transferred to the CIRC to deepen financial reforms, minimize financial risks, and shore up the fledgling financial services industry. CIRC took over insurance regulation responsibilities from the People's Bank of China (PBOC). After being a member of the WTO, the Chinese government has significantly improved the

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transparency and effectiveness of commercial policy-making, including laws and decrees, the status of the legal system and the administrative environment.

In the 1980s the legal system was practically unrecognizable to a guest from a developed western economy, and it would probably be unusual for the average Chinese citizen to press charges or file suit when abuses occurred. Nowadays, the construction for civil and commercial law has developed in leaps and bounds, a more and more independent judiciary is promoting faith in the legal procedure, and consequently courts at all levels are clogged with new cases. However, there are some issues. One the one hand, China has experienced a long way from a traditional communist economy, where the state had full control of all assets and authority over nearly every commercial transaction; after the economic reform, undoubtedly the mainland has turned into much more market-oriented. On the other hand, the government still owns and runs a considerable amount of the system, and specifically the "commanding heights" of heavy industry, capital-intensive services and the financial system (Anderson, 2006).

Besides, as for the official supervision, as some insurance firms operated illegally, provided very high agent commissions and returned and very low premiums to ensure a bigger market share, it led to the firms' inability to make repayments. Consequently, the CIRC set about regulating supervision and claims settlement processes, and controlled the approval of new firms. Blocked the sale of insurance policies with high interest kickbacks, encouraged policies with fewer interest rate risks, and required greater honesty. Moreover, the CIRC attempted to stop unfair competition by standardizing all policy terms and premiums (Allison, 2001).

Next, in 2008, the CIRC has issued a large number of new regulations coping with topics such as minimum capital for insurance companies, investment regulations, reserving standards and the founding of a policyholders' protection fund. Further relaxations of investment regulations allow life insurers to go with the maturities of their assets and liabilities more effectively and improve returns. In the non-life market, the introduction of compulsory motor third party liability will stimulate demand.[11]

Furthermore, one of the most significant regulatory updates in 2009 was the announcement of the new law insurance law after being amended and approved by

[11] See " Major Changes, Rapid Growth," *China Insurance Market Review*, November 09, 2008, available at http://www.asiaing.com/



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the Standing Committee of the National People's Congress. The new insurance law comes into force on October first, 2009. The law authorizes the CIRC to limit the capital operations of insurers that have fragile solvency ratios, control the wages of their executives, and force them to auction non-performance assets or put up insurance assets for sale.

Since the reform and open policy commenced, China insurance businesses have increased rapidly, service field has been extended, market system has been improved progressively, laws and regulations have been completed gradually, supervision level has been enhanced constantly, risks have been prevented effectively and the complete strength has been reinforced noticeably, which performed an energetic role in improving reform, shielding economy, stabilizing society and benefiting people. Insurance industry is one of the greatest developing industries in national economy.[12]

All in all, the CIRC has presented the intention to execute structural development to the market following quick growth in the insurance industry so far in 2010. The domestic insurance segment desires more discipline and risk prevention, essentially in asset management risks, risks control from loose internal running control, and solvency risk. The CIRC also takes strict actions into consideration, such as taking control of, or restructuring, insurers that cannot get their operations better and cannot complete solvency requirements over a long period of time.

## *2.5 Summary*

China's insurance market was stopped from 1950s to 1978, and luckily with the economic reforms and open policy, the insurance industries have the opportunity of rebirth. The need for insurance in China is getting higher attributable to rapid economic growth and increased income. Reform systems have provided a wide base for the development of commercial insurance.

What's more, the entries of WTO promote the development of insurance business speedily. It is a key essence for China's insurance industries to change its structure and improve the competition. With the impact and cooperation from foreign insurance companies, local insurance companies can learn the professional insurance skills and improve their service.

[12] See "Report on China Insurance Industry, 2010-2015," *China Investment Consulting*, available at http://www.ocn.com.cn



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As for the market share, although the property insurance was earlier than life insurance, the premium volume of life insurance business has extremely over the premiums of property insurance business. Also, most of the insurance market is still controlled by the Chinese enterprises, particularly the top life or property insurance companies are still owned by the state. The unbalanced growth in insurance industries is like the economic developing model and mainly on the coastal regions.

Finally, the legal structure and official supervision have been established and the government tries to remove the limitations slowly but surely. However, it has some boundaries for the foreign coming investors and cannot fulfill the aim of free market and competition.

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# Chapter 3

# International Property Insurance Market

In 2009, the global economy experienced its deepest recession since the 1930s as world gross domestic product (GDP) dropped and the industrialized countries were severely affected across the board. However, GDP growth slowed in the emerging market countries. As a whole, these countries dealt with the global financial crisis better than the industrialized countries, even though with weak regional disparities. Emerging Asia performed well due to substantial GDP growth in China and Indian, the region's two leading economies. Owing to the recession, commodity inflation fell considerably in 2009. Inflation is predictable to stay low until the rising supply in manufacturing and the labor market is decreased. The individuals or the governments reduce spending to narrow their budget deficits, and it led to the low and slow growth of the insurance market.[13]

Before discussing China's property insurance market, at first it is very critical to look into the international property insurance market. Property insurance relies on the reinsurance to disperse risks and is related to the global very much. Therefore, in the first part of the chapter, the global property insurance market will be described, especially the premium volume, the insurance density and penetration. Next, the statistics from some developed countries, like the USA, UK, Japan and Taiwan, will be evaluated so as to predict the future development in China. Moreover, the study regarding the losses and profitability of the world property insurance will facilitate to see the outlook of the global property insurance. In the second part of this chapter, due to the similar developing model and historical background, Taiwan's property insurance market will be introduced and particularly after the Economic Cooperation Framework Agreement (ECFA), it is important to understand Taiwan property insurance enterprises how to handle the huge market in China.

## *3.1 The World Property Insurance Market*

A series of events, together with the global economic crisis and an above-average number of catastrophic and non-catastrophic losses in 2008, has speeded up a shift

[13] See the report "World Insurance in 2009", Swiss Reinsurance Company Ltd, available at http://www.swissre.com/sigma/



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away from the soft property insurance market of the past two years. The global insurance market is experiencing the hard time. Property and casualty markets are tightening or pulling down, while not necessary hardening considerably. Competition in the global property insurance marketplace keeps strong. Insurers are aggressively seeking both present and new business opportunities and are actively competing to achieve premium revenue. As a general rule, rate decreases at renewal were still being acquired in the global casualty market, although the percentage of the reduction was not as large as earlier in the financial crisis year. Insurers are starting to push back on reduction and many are seeking to remain rates flat (Marsh, 2009).

### *3.1.1 The Overview of the World Property Insurance Market*

Non-life insurers' solvency turned down sharply in 2008 because of declining financial asset prices and therefore caused the capital shortage in the insurance industry. Although these days that prices stops falling, insurers will find it difficult to raise prices in the existing economic environment, especially in the industrialized countries.[14] Underwriting outcome in the US will carry on being affected by losses coming up from financial crisis. In most other markets, insurers are expected to progress profitability by concentrating on underwriting discipline and reducing expenses.

The economic slump will limit demand for non-life insurance mainly in the commercial lines of business. Demand for personal lines of insurance is probable to be less affected, in view of the fact that insurance spending is less discretionary and unrestricted, in particular in the industrialized markets. Nevertheless, the economic circumstances will also impact this sector and insurance demand will recovers after 2010.[15]

On an inflation-adjusted basis, global insurance premium contracted by 1% to USD4066 billion in 2009. This is an improvement over 2008, when global premiums shrank 3.6%. Life insurance accounted for 57.3% of total premiums in 2009 compared to 42.7% for non-life insurance. Life premium fells 2 % to USD2332 billion in 2009, while non-life premiums remained flat at USD1735 billion. In most countries,

[14] The industrialized countries include North America, Western Europe (excluding Turkey), Japan, Hong Kong, Singapore, South Korea, Taiwan, Oceania, and Israel.
[15] See the report "World Insurance in 2009", Swiss Reinsurance Company Ltd, available at http://www.swissre.com/sigma/



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insurance grew more rapidly than GDP, which illustrates the strength of the industry. As credit and stock markets recovered in 2009, the industry was able to re-establish its capital base. Investment consequences and overall productivity also improved. After the financial crisis, it is expected that overall premium growth in the industry will turn optimistic and profitability will keep on getting better.[16]

Table 3-1: Premium Volume by Region and Organization—2009

| | Premium Volume (USD million) | | Change inflation-adjusted (%) | | Share of world market (%) | Insurance penetration (%) | Insurance density (USD) |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2009 | 2009 |
| America | 1,349,495 | 1,450,407 | -6.1 | -2.5 | 33.19 | 6.91 | 1,470.2 |
| Europe | 1,610,620 | 1,703,713 | 1.8 | -9.9 | 39.61 | 7.58 | 1,861.5 |
| Asia | 989,451 | 934,577 | 2.8 | 6.4 | 24.33 | 6.08 | 243.1 |
| **World** | **4,066,095** | **4,220,070** | **-1.1** | **-3.6** | **100.00** | **6.98** | **595.1** |
| Industrialized countries | 3,532,716 | 3,706,806 | -1.8 | -5.3 | 86.88 | 8.61 | 3,404.9 |
| Emerging markets | 533,379 | 513,265 | 3.5 | 11.0 | 13.12 | 2.89 | 91.5 |

Note: Insurance penetration (premium as a percentage of GDP) and density (premium per capital) include cross-border business.

Source: Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/

During the financial tsunami, the insurance industry continued to afford cover and pay claim. There was no deficiency of capacity and premium rates did not go up. Nothing like the banking area, insurers did not obtain government support in the forms of capital or guarantees, with the exception of in a few cases. Since the middle of 2009, the economies of the emerging market countries and many industrialized countries enhanced the prospect for premium volumes.[17]

In general, non-life insurance was not significantly impacted in the period of financial crisis. Notwithstanding losses on the investment part, insurers had more than

16 The Study is based on the direct premium volume of insurance companies, regardless of whether they are privately or state owned. Premiums paid to state social insurers are not included. Also, the study examines non-life and life premium volume in 159 countries. See the report "World Insurance in 2009", Swiss Reinsurance Company Ltd, available at http://www.swissre.com/sigma/

17 The emerging countries include Latin America, Central and Eastern Europe, South and East Asia, the Middle East (excluding Israel) and Central Asia, Turkey, Africa.



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sufficient capacity to meet demand. Non-Life premiums stayed stable in 2009, declining just 0.1%. While non-life premiums cut down in the US and Europe, they climbed in the other regions. Compared to the sharp decrease in GDP, this is a remarkable consequence.

Global non-life premiums fell a little by 0.1% to USD1733bn in 2009. The result was mainly driven by falling premiums in the US and Western Europe. However, there were also some positive developments. Non-life insurance in the newly industrialized Asian economies also continued to grow up.

Premium income in the industrialized countries, which produced 87% of the world's total volume, continued to bear the after effects of the financial crisis, falling 1.8% to USD3533 billion in 2009. However, the non-life insurance premiums of 2009 in the emerging market raised by only 2.9%, while premium volume raised to USD248 billion. In more than two thirds of the emerging countries, insurance premium grew more rapidly than GDP; as a result, penetration increased. Insurance related to international trade as well as motor was in charge of the slow developments. However, non-life premiums should increase now while the economic recovery is processing in most markets.

Table 3-2: Premium Volume by Region and Organization in Non-life Business—2009

| | Premium Volume (USD million) | | Change inflation-adjusted (%) | | Share of world market (%) | Insurance penetration (%) | Insurance density (USD) |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2009 | 2009 |
| America | 769,869 | 783,545 | -1.0 | -2.1 | 44.38 | 3.94 | 838.8 |
| Europe | 657,105 | 707,615 | -1.2 | 0.3 | 37.88 | 3.05 | 750.6 |
| Asia | 257,184 | 238,428 | 5.6 | 2.3 | 14.83 | 1.57 | 62.8 |
| **World** | **1,734,529** | **1,780,776** | **-0.1** | **-0.5** | **100.00** | **2.98** | **253.9** |
| Industrialized countries | 1,485,759 | 1,538,691 | -0.6 | -1.6 | 85.66 | 3.60 | 1,424.9 |
| Emerging markets | 248,770 | 242,085 | 2.9 | 7.5 | 14.34 | 1.35 | 42.7 |

Source: Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/

From Table 3-2, non-life premiums in emerging Asia grew by 14% to USD257 billion in 2009. The region's positive performance was held up by strong development



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in China. Throughout the region, aggressive government financial support has facilitated to generate a channel of infrastructure construction developments, which in turn has benefited the non-life insurance area. However, external trade has been weak, which has decreased demand for marine insurance. Natural catastrophe losses were not anticipated to be a key issue, even though a series of typhoons hit China and Southeast Asia in mid-2009. These events were not likely to drastically lower insurers' underwriting incomes, which were further improved by enhancing investment results

All in all, from the 2007 – 2009 global economic downturn prompting some of the major insurers to reconsider their continual attendance in the country. Since the 2007 global financial crises happened, international insurers have been weighing up business operations and moving activities worldwide to exploit developing and emerging growth markets. (Thomas, 2010)

Recently, most markets that were in recession in 2009 are on track for a strong economic recovery, which will prop up non-life insurance business. The most important challenges are continuous price pressure and growing inflation in several regional markets. At the same time, regulators are planning tighter solvency standards, which could impact capital sufficiency, especially for those small domestic insurers.

### *3.1.2 The Market Scales in the USA, UK, Japan and Taiwan*

In this part, some examples will be taken from the USA, UK, Japan and Taiwan to offer the reference for China's property insurance market. The American property insurance market takes up the most share of world market and the UK market has the historical background in property insurance. Also, China's GDP might be over Japan's GDP in 2010, together with the cross-strait relation, so it is suitable to look into the market developments from the four countries.

In 2009, the ranking of American GDP is top one in the world, and also the ranking of non-life insurance premium volume is the number one. American non-life insurance market occupies around 37% share of world market and non-life insurance business is over 56% share of total business. Generally speaking, the non-life insurance market is a quite mature market and has no huge disparities compared to life insurance market. However, in the UK, Japan, and Taiwan, the non-life insurance market share is pretty low in the world insurance market and cannot compete with the



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share of life insurance market.

Besides, China's GDP is on the top 3 of the world and expected to be over Japan soon; however, the ranking by non-life premium volume is only 9 and we can find the experience from most of the other countries, the ranking of non-life insurance premiums is similar to that in GDP; that means China's property insurance still needs promoting actively and has huge developing potentiality.

Table 3-3: Macroeconomic Indicators and Non-life Premium Volume by Region-2009

| Country | Population (million) | USD billion (GDP) | Ranking by GDP | Non-life Premiums (USD million) | Ranking by Non-life premiums | Share of Total Business (%) | Share of World Market (%) |
|---|---|---|---|---|---|---|---|
| USA | 307.2 | 14,258 | 1 | 647,401 | 1 | 56.8 | 37.32 |
| UK | 61.7 | 2,186 | 6 | 91,560 | 4 | 29.6 | 5.28 |
| Japan | 127.2 | 5,099 | 2 | 106,856 | 3 | 21.1 | 6.16 |
| Taiwan | 23.1 | 379 | 26 | 11,443 | 19 | 18.0 | 0.66 |
| **China** | **1345.8** | **4,736** | **3** | **53,872** | **9** | **33.0** | **3.11** |
| World | 6832.8 | 58,216 | - | 1,734,529 | - | 42.7 | 100.00 |

Source: Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/

Table 3-4: Insurance Penetration and Insurance Density by Region—2009

| | Insurance Penetration (Premium as % of GDP) | | | Insurance Density (Premium Per Capita in USD) | | |
|---|---|---|---|---|---|---|
| | Ranking | Total Business | Non-life Business | Ranking | Total Business | Non-life Business |
| USA | 16 | 8.0 | 4.5 | 10 | 3,710.0 | 2,107.3 |
| UK | 3 | 12.9 | 3.0 | 5 | 4,578.8 | 1,051.2 |
| Japan | 9 | 9.9 | 2.1 | 9 | 3,979.0 | 840.4 |
| Taiwan | 1 | 16.8 | 3.0 | 18 | 2,752.1 | 494.8 |
| **China** | **44** | **3.4** | **1.1** | **64** | **121.2** | **40.0** |
| World | - | 7.0 | 3.0 | - | 595.1 | 253.9 |

Source: Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/

From the aforementioned table 3-4, compared to the four countries, the insurance



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penetration and density of China's non-life insurance is far away from the four countries and below the world average. In most of the four countries, the insurance penetration is above the world average and particularly the GDP ranking of Taiwan is 26 but the insurance penetration is number one. Insurance penetration can reflect the position of insurance industries in national economic development; with the rapid economic growth in China, it is likely to have a higher insurance penetration in the coming future.

Moreover, regarding the insurance density, the non-life insurance premium per capita is USD40. The world average is USD253.9 and the other four countries all exceed the world average considerably. It shows the coverage ratio of insurance is not enough, the insurance education still has to be promoted and the risk management needs improving significantly.

### *3.1.3 The Losses and Profitability of the World Property Insurance Market*

Loss from natural disasters and man-made events in 2008 were more than the long-term average. Property insurers had losses of USD53 billion from natural catastrophes. Insured losses from man-made disasters amounted to USD7.7 billion. The US was the most affected area with two main hurricanes, land led to insured losses of USD20 billion and USD4 billion respectively. In the USA, in company with the deepening of the global economic crisis 2008 was marked by a number of catastrophes, from a series of singular disasters to the extensive damage caused by hurricanes (Marsh, 2009).

In 2008, tornadoes and thunderstorms produced extra losses of USD2.4 billion. Losses in Europe increased after storms and in China, snowstorms and freezing rain in early 2008 resulted in insured losses of USD1.3 billion. Insured losses from natural catastrophes in 2009 were below average at a roughly USD22 billion. Losses were highest in North American, where insurers paid out over USD 12.7billion in claims. The two worst events of 2009 occurred in Europe when winter storm Klaus hit France and Spain in January, resulting in losses of over USD1.2 billion. The third costliest event took place in Australia, where the Victoria bush fires set off damages in excess of USD1billion.[18]

[18] Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/



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After some years of solid profitability, underwriting results came to a negative side in 2009. The profitability in European markets is not good mainly due to a rapid deterioration of motor insurance business. In Japan, declining motor liability premiums caused negative underwriting consequences, while in the US and Australian markets, underwriting results went better after the high natural catastrophe losses in 2008. Nevertheless, underwriting profitability in fact turned down if average natural catastrophe losses adopted. Profitability in 2009 was further held back by poor investment results produced by diminishing investment yields and significant reduction in the value of invested assets.

In addition, lower prices in non-life harm profitability in 2009. The overall profitability increased by reason of the improvement of credit and equity markets. Shareholders' capital also made a strong recovery. In many countries, capital had nearly returned to its pre-crisis levels. Non-life premium increase in the industrialized countries is steadily predictable to rise. The continued pressure on rates will impede profitability and hamper premium growth. As interest rates are still to stay low in 2010, investment returns are negatively affected. The general profitability and return on equity (ROE) is below average.[19]

### *3.1.4 The Outlook of the World Property Insurance Market*

After the financial crisis, an improvement in prices and an increase in interest rates rely on the stability and pace of the universal economic recovery. Take the fragile nature of the economic recovery into consideration; premium growth in the industrialized countries will be slow to recommence. In the emerging markets, on the other hand, economic growth will move premium development back to the normal levels, although not in all areas.

Despite the fact that the financial catastrophe affects pricing, it has been less severe than might have been estimated. After a while, efficient risk and capital management practices have facilitated the industry to absorb the shocks of 2008. Looking forward to the future, there are numerous unknowns that could negatively have an effect on rates, for example, another above-average catastrophe year or another financial shock. On the other hand, a resolution of the credit crisis could

19 ROE is expressed as a percentage and calculated as: Return on Equity = Net Income/Shareholder's Equity. See http://www.investopedia.com/terms/r/returnonequity.asp



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refurbish asset values and develop the financial conditions of insurers and reinsurance companies. In 2010 and 2011, the economies of the US, China and many emerging market countries are projected to grow up considerably.

## *3.2 The Property Insurance Market in Taiwan*

The insurance industry of Taiwan is the one of the major insurance markets in the Asia pacific region. The industry has been rising mainly in virtue of liberalization policies of the government, increased consciousness, tendency of wealth accumulation plus the mounting economy and improved per capita income. Apart from this, the insurance industry has also benefited from the rolling demand for insurance products.

Taiwan is essentially known for the number one of insurance penetration in the world and having one of the highest insurance densities in the Asia Pacific region-second only to Japan. In terms of penetration rate, the industry has high penetration rate and there is great difference; life has very high penetration rate and non-life has very low penetration. The critical ground behind this disparity is due to the receptiveness of life insurance products, together with the decreasing investment by domestic consumers in automobiles, and natural disaster exposures have limited the growth of the non-life insurance business. In the coming years, although the life area will keep on ruling the insurance market, the non-life part is likely to set up through the growth in casualty, liability, engineering and natural disaster insurance.[20]

Table 3-5: Insurance Penetration and Insurance Density in Taiwan and China—2009

| | Insurance Penetration (Premium as % of GDP) | | | | Insurance Density (Premium Per Capita in USD) | | | |
|---|---|---|---|---|---|---|---|---|
| | Ranking | Total Business | Life Business | Non-life Business | Ranking | Total Business | Life Business | Non-life Business |
| **Taiwan** | **1** | **16.8** | **13.8** | **3.0** | **18** | **2,752.1** | **2,253.3** | **494.8** |
| China | 44 | 3.4 | 2.3 | 1.1 | 64 | 121.2 | 81.1 | 40.0 |
| World | - | 7.0 | 4.0 | 3.0 | - | 595.1 | 341.2 | 253.9 |

Source: Swiss Re, World Insurance in 2009, Sigma No 2/2010, http://www.swissre.com/sigma/

[20] See "Taiwan Insurance Intelligence-Market Research Report, 2010," *Aarkstore Enterprise* , available at http://www.prlog.org/



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### *3.2.1 The Current Situation in Taiwan's Property Insurance Market*

According to statistics released by Taiwan Insurance Institute in the middle of 2010, there were 50 insurance companies in Taiwan of which 31 were life insurance companies and 19 were non-life insurance companies. Out of the 31 life insurance companies, 23 were local companies while 8 were branches of foreign companies. The 19 non-life insurance companies included 14 local companies and 5 foreign ones. The reinsurance companies are 3, one is local company and two are foreign firms.

Table 3-6: The Volume of Insurance Firms in Taiwan—2010 Unit: Firm

| | Property Insurance Firms | Life Insurance Firms | Reinsurance Firms | Total |
|---|---|---|---|---|
| Local Companies | 14 | 23 | 1 | 38 |
| Foreign Companies | 5 | 8 | 2 | 15 |
| Total | 19 | 31 | 3 | 53 |

Source: Insurance Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C., http://www.ib.gov.tw/

In 2009, the total insurance premium receivable is around NTD101.9 billion and decreases about NTD5.9 billion compared to the premium in 2008. Due to the financial recession, the property insurance firms all have the negative effect, particularly the sales of cargo insurance because of the shortage of import and export. Also, the liberalization of rate lead to the decline of insurance rate and therefore the premium incomes turn down. The top 5 property insurance firms have 58.4% of the total market share and result in the concentration of market.

Compared to the decrease in 2009, owing to the financial recovery and slow influence from rate deregulation, the insurance premium receivable incomes have some growth up and it is the first time for the property business to turn into profitable. However, in the first half year of 2010, the amount of claims is NTD28.5 billion, increasing NTD5.4 billion and the growth rate is 23.7% mainly because several serious fire events and happened.

Moreover, the premium incomes have started to decline steadily since reaching the peak in 2005. The competition was keener and keener after the liberalization of rate at the third stage in 2009. After the non-life insurance market is completely liberalized, the Financial Supervisory Commission (FSC) will carry on urging



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insurance companies to evaluating the appropriateness of their premiums on a regular base and alter the premiums when needed, and to reinforce management of their solvency.[21]

The Taiwan Insurance Institute has already built up a dedicated actuarial unit that will set up criteria for an actuarial databank. The FSC has worked out related regulatory measures for a premium adjustment instrument, and non-life insurance companies that achieve the criteria for the establishment of the statistical databank will, in principle, be permitted to decide the contents and prices of their products on their own launching on Jan. 1, 2009.

Those who have worked in the Chinese insurance industry clearly know that a lot of talent and know-how has been learned from Taiwan, for instance, China's Ping An Insurance, a Shenzhen-based company that is the industry's benchmark for service and customer-value creation. Analysts and industry experts have attributed Ping An's success to its ability to learn and operate best practices from the Taiwan market, as well as from other foreign insurance companies. At the beginning, all of Ping An's marketing team and sales talent came from Taiwan, for example; they supported build the company's underwriting and claims systems (Radwan, 2010).

The stimulus for borrowing Taiwanese insurance talent and rules goes beyond common language to the fact that customer buying behavior and culture are similar in both markets. Also, the similar insurance products are accepted more easily under the same Chinese culture. Taiwanese experience can be copied and carried out in China. On the other hand, we need to notice that compared to the insurance market in neighboring China, which has been predicted to have a considerable growth in foreign investment in the insurance segment, yet the Taiwanese counterpart business is not viewed as an attractive financial scheme (Thomas, 2010).

### *3.2.2 The Development after ECFA*

With the improvement of cross-strait ties, recently, the CIRC has approved Fubon Insurance Life Insurance to set up a general insurance company, which is Fubon Property & Casualty Insurance in Xiamen with the registered capital of RMB

[21] See " New Systems for 2010 Will Benefit the Public," *Taiwan New Economy Newsletter*, 108, http://www.cepd.gov.tw/



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400 million. This is the second property insurer, which is invested from Taiwan set up in China. In 2008, Cathy Century Insurance was allowed to build in China. On June 29, 2010, the signing of Economic Cooperation Framework Agreement (ECFA) is a meaningful and historic event that advances the prosperity of the peoples of both sides of the Taiwan Strait and facilitates the development of regional and global trade.[22]

The FSC notes that in accordance with the financial "Early Harvest" list of the implemented ECFA between Taiwan and China, the insurance subsidiaries of Taiwanese financial holding companies, as well as insurance firms that do not belong to financial holding companies, are permitted to go into the Chinese market through mergers or strategic alliances. Insurance companies that participate in such mergers or strategic alliances and still have to obey the rules regarding China's "532" entrance for access into the market there and that requires they must have capitalization of at least US$5 billion, must have been established for at least 30 years, and must have operated an office in China for at least two years, and in that case, they may set up subsidiaries in China.

Further, in view of the fact that the Chinese subsidiaries of Taiwanese insurance companies may not be able to control their fixed costs, the FSC has withdrew limitations on investment in Chinese real estate by Taiwanese insurance firms for the exploit of their Chinese branches or of enterprises in which they hold at least 50% of the shares. They are also now permitted to build up wholly owned companies for the intention of purchasing such real estate.

The FSC states that insurance companies investing in Chinese real estate are required to propose an application for each purchase, and that in the initial period of purchase, the amount of space utilized by the branch or enterprise with equity participation may not be below half of the total area of the real estate purchased. Further investment in real estate to fit the needs of business expansion must meet the annual goals of the branch or enterprise with equity participation for expansion in area of use. The total amount invested by a Taiwanese insurance firm in real estate in China and other foreign countries may not go over 10% of the company's owners' equity. Additionally, the total investment by an insurance company in Chinese real estate and securities may not surpass 10% of the amount agreed by the FSC for that

[22] See Press Release, Ministry of Foreign Affairs Republic of China, available at http://www.mofa.gov.tw/



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company's total overseas investment.[23]

After the restrictions removed gradually by the government, it is argued that the sales and managing talents will move to China and affect the property insurance market in Taiwan. The issues of human resources and arrangement of insurance resources should be taken into consideration, but the problems cannot be solved if Taiwan's insurance enterprises just rely on the protection from the government or have the anxieties about the competition while Chinese investors come into Taiwan. On the other hand, Taiwanese property insurance companies will be marginalized without entering the China's insurance market. After all, the risk management of property insurance needs the support from co-insurance and reinsurance industries and the support by foreign industries is necessary.

Besides, the current Taiwan's market scale is not as big as China's market and the potentiality of expanding the inland property insurance business is limited due to the market factor. The rapid improving sector is to develop a new market and China exactly provides a good opportunity from Taiwanese property insurance companies. With the advantages of the same language and culture, Taiwanese enterprises have easier access into China's property insurance market; however, it is not enough for them to win a priority place if only depend on the benefits of the language and culture. As a result, it is suggested that Taiwan's property insurance companies need to consider the risk management and operational strategies carefully and additionally the only way to compete with other foreign or China non-life insurance is to improve their own competitiveness, such as the education of staff, the design of new insurance products, the control of claims, and capability of solvency.

## *3.3 Summary*

In sum, the property insurance business was affected under the financial tsunami, but with the economic recovery, the international property insurance industries are expected to grow up step by step and will have an improvement in prices and interest rates; especially the dramatic growth in the property insurance business of the emerging countries.

Next, we can predict the future development in China's property insurance

[23] See"Taiwan insurance industry given access to Chinese market," *Taiwan New Economy Newsletter,* 117, available at http://www.cepd.gov.tw/



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industries by comparing the market shares and insurance coverage ratio with the situation in the USA, UK, Japan and Taiwan. Although at the moment the development is far away from the world average; particularly the ranking of China's GDP is top 3 property insurance and China still has the issues of disparities on regional development. However, it is believed the property insurance business will have huge potentiality.

At last, the property insurance market is steadily developing in Taiwan. With the rate deregulating, the property insurance business has to improve the effective risk and capital management practices. And some shocks will occur after the official signature of ECFA, a new breakthrough in economic relations across the Taiwan Strait. The FSC grant the permission for insurance firms that do not belong to financial holding groups to go into the Chinese market by means of strategic alliances. Following the opening of the investment of Taiwanese insurance funds in Chinese securities, the FSC also has permitted the island's insurance companies to invest in Chinese real estate for their own use. This permission will furnish more operational flexibility to Taiwanese insurance companies in China. Meanwhile, this is a good chance for Taiwan's property insurance companies to make their business more competitive.

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# Chapter 4 The Development of Property Insurance Market in China

The global financial crisis has affected people's disposable income, which is expected to have an effect on the demand for insurance. In 2009, falling disposable income, new accounting policies and industry adjustment are a few challenges that China's insurance business is supposed to face.[24] However, in the early 2010, we find the property insurance premium volume of 2009 was growing up around 19% while the property insurance markets declined sharply in the other countries. Without any doubts, it is expected that the development in China's property insurance market will continue to rise up dramatically.

In this chapter, the current China's property insurance market will be discussed and the property insurance products will be evaluated as well. In particular, the main insurance products will be clarified, such as the motor, property, liability and microinsurance products. However, in China, export credit insurance and agricultural insurance are policy-oriented function of insurance products and the policy-oriented insurance is strongly supported by the government. Also, disaster insurance is with the characteristic of national policy. As a result, this chapter is only focused on commercial property insurance products. After that, the insurance marketing channels and reinsurance markets will be stated respectively. At last, it is critical to mention the dilemmas of foreign property insurance companies in China in order to view the competitiveness and potential development of the whole property insurance industries.

## 4.1 China's Property Insurance Market

China's insurance market is still at a phase of relative immaturity in spite of rapid economic growth in recent years. Historically, the role of the State and affordability were significant constraints on demand for insurance. Social and economic reforms are possible to encourage demand for property insurance. Liability,

24 See "The China Insurance Market," *Towers Watson Newsletter*, December 2008, available at http://www.watsonwyatt.com/asia-pacific/pubs/China_insurancemarket/



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credit, property, pensions, and health insurance should also be promoted and increased.

Although China's economy is going up at one of the fastest speed in the world, it has difficulties in comparison to the growth of its property insurance industry. With the long-lasting achievement of economic reforms that was in progress since the late 1970s, there has been a swelling demand for insurance policies. This is partly owing to the increasing income and higher quality of life demands, and partly owing to the development of a more market-oriented social security structure. China removed geographical and most business boundaries on foreign insurers in 2004 to comply with WTO promises made upon its access into the global trading group. Fifty-two overseas insurers have built local operations, the CIRC said in December 2010, almost tripling from 18 before the nation became a member of the WTO on Dec. 11, 2001.

China has permitted foreign property and casualty firms to insure large-scale risks nationwide upon succession of WTO. Chinese insurance carried on developing in 2008-2009 and the total premium in Chinese property insurance market was RMB367 billion. The property insurance penetration was 1.1% in 2009 and the insurance density was USD40, increasing by around 18.7% from 2008. However, the insurance market in China still keeps largely untouched. With the low insurance penetration and density, China stands far behind than the global average of insurance industry scale.

In the first half-year of 2010, all the property insurance companies produced around RMB201.7 billion premiums from property insurance. The growth rate reached 33.5%. Table 2-4 gives out the market share of all property insurance companies in 2010, we can see that of total premiums, the three biggest companies held 66.3%, including PICC Property's share of 39% with RMB 81.4billion in premiums, Ping An Property's share of 14.3% with RMB29.9 billion in premiums, and Pacific Property's share of 12.9% with RMB27billion in premiums. As the foreign property insurance companies, Chartis Insurance Company China Limited remained the top foreign non-life insurer, with premium income of RMB0.7 billion in the first eight months in 2010. This is an increase of 22% compared with the same period last year.

Besides, the claim payment in the first half-year of 2010, the total claim payment is RMB147.3billion and RMB75.93 billion in the property insurance business, grow



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6.3% compared with the same period in 2009. The underwriting profit[25] is RMB3.96 billion and completed by 24 property insurance companies. The motor insurance starts to turn loss into profit and the underwriting profit is RMB2.27 billion.

Table 4-1: Market Shares of All Property Insurance Companies in China—2010

| | Premiums (RMB billion) | Market Share (%) |
|---|---|---|
| **PICC Property** | **140.2** | **38.40** |
| Ping An | 55.5 | 15.21 |
| Pacific Property | 46.6 | 12.77 |
| China United Property | 17.9 | 4.91 |
| Other Chinese firms | 101.11 | 27.70 |
| **Foreign firms** | **3.8** | **1.04** |
| **Total** | **365.1** | **100.00** |

Source: China Insurance Regulatory Commission, the Statistics of Property Insurance Premiums http://www.circ.gov.cn/

Where non-life insurance businesses are concerned, PICC Property & Casualty Insurance is the biggest player, which accounted for 42.5% of market share in 2007, 39.92% of market share in 2009, and took up 38.4% of market share in 2010 (table4-1). Although the market share is decreasing step by step, the whole property insurance market is still controlled by the state. China Pacific Property Insurance and Ping An Property & Casualty Insurance ranked second or third in turn with a smaller market share respectively compared to PICC.

PICC Property, Ping An, and Pacific were the companies with the longest histories and the biggest national branch networks. Most other companies were new and only ran business in limited areas. The top three companies have been decreasing steadily for 10 years and this trend would continue as new companies developed. However, most scholars recognize that the Chinese insurance market still desires time to turn into a more mature market with a balanced structure.

Domestic non-life insurers' gross premium income grew by 32% and stood at RMB268.9 billion from January to August in 2010. The growth was driven by people rising demand and constant insurance product innovation. During the 2006-2010

[25] Underwriting profit consists of the earned premium remaining after losses have been paid and administrative expenses have been deducted. It does not include any investment income earned on held premiums.



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period, as Chinese people spend more money on cars, houses, education and travel, the establishment of enterprises, and national construction, the insurance demand remains growing continually, according to a document released by CIRC. With a 1.3 billion population and an aging society, insurance will be viewed as a greater role on the improvement of social services.

China gives their promises to create a healthy environment for the development of the insurance industry before 2010, with improved legal system and people's enhanced awareness towards insurance. The government encourages insurance companies to explore markets, introduce more product varieties, improve the service, and set up the risk-control and solvency system. China plans to build a modern insurance industry with large insurance companies to face the international competitiveness.

## *4.2 China's Property Insurance Products*

Property insurance products are on the rapid increase. The market is chiefly concentrated into two sectors, such as motor and commercial property insurance. Motor insurance accounts for more than 70% of premium written in non-life insurance part. But there are many other rising non-life insurance products like product liability, credit, family property& casualty, marine insurance and so on, which will establish a long-term capability of the property insurance market. For that reason, there is a strong need to concentrate on these emerging insurance sectors.[26]

The property insurance products can be divided into several areas, for example, property, liability, cargo, motor, construction, trade credit, agriculture and disaster insurance (Giao and Wang, 2009). In cargo insurance, it includes different means of transportation insurance and the market will grow potentially with the coming foreign investors and economic growth and infrastructure improvement in China's various regions. On 1 January 2011, the ICC's Incoterms 2010[27] come into force; it will bring some conflict to the insurance business, and the timing for transfer the risk will affect

[26] See "Motor Insurance to Drive Chinese Insurance Market," *Rncos Industry Analysis*, available at http://www.rncos.com/

[27] The International Chamber of Commerce launched the new Incoterms 2010 rules on 16 September 2010. The new rules will take effect on 1 January 2011, replacing the current version published in 2000.The rules have been generally updated to make them more user friendly and they have been adapted to the modern language of international trade. In addition, there are changes to deal with cargo security, insurance, handling charges and the increased use of electronic communication. See http://www.icc-cpi.int/



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the insurance rate and premium incomes. Meanwhile, the marine cargo insurer needs to face the competition from the foreign marine cargo insurance firms located in overseas countries. As for the other main insurance products, like motor and property insurance products will be discussed in the subsequent sections, as well as the potential liability insurance and the emerging microinsurance products.

Table 4-2: The Premium Income and Market Share of China's Main Property Insurance Products—2004-2006

Unit: RMB billion

| | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|
| | Premium Income | Market Share (%) | Premium Income | Market Share (%) | Premium Income | Market Share (%) |
| Motor | 74.61 | 68.46 | 85.47 | 69.49 | 110.79 | 70.10 |
| Enterprise Property | 13.39 | 12.29 | 14.87 | 12.09 | 15.81 | 10.0 |
| Family Property | 1.53 | 1.40 | 1.60 | 1.3 | 1.13 | 0.71 |
| Cargo | 4.63 | 4.25 | 5.11 | 4.15 | 5.57 | 3.52 |
| Liability | 3.32 | 3.05 | 4.53 | 3.68 | 5.63 | 3.56 |
| Agriculture | 0.4 | 0.38 | 0.73 | 0.59 | 0.85 | 0.54 |

Source: Jiang, S. Z. (2008), *The Developing Report in Chinese Insurance Industry*

### *4.2.1 Motor Insurance Products*

China has become the top one of manufacturing cars and the biggest market of selling new cars. Expansion of car ownership and the increasing productivity of the car industry have been key factors. With 70 million cars in China for a population of 1.3bn, there is considerable potential for growth. Newly granted entrance to the domestic market for foreign car manufacturers and the availability of car finance should supply additional movement.

Over the past years, motor insurance in China has skyrocketed on account of the nationwide achievement of compulsory motor third party liability insurance in 2006. For non-life insurance companies, the underwriting circumstances remain difficult and in particular the compulsory third party motor insurance consequences are now expected to be poor after the initial favorable results when the business initiated in



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2006.[28]

In 2009, China passed the U.S. to turn into the world's biggest market for automobile sales. The potential is huge, with the average number of vehicles per capita well be lower that of developed nations. Chinese customers at present lean to view the product as a necessary evil, and leave insurers to manage pricing wars, high attrition, high fraud expenses, and low profits. The Chinese motor insurance market is overwhelmed with fraudulent claims. Working together with other insurers will be a good way to crack down the fraud and what's more the reason fraud can collapse is because the society improves and insurance awareness increase (Radwan, 2010).

China advanced almost 50 million vehicles in the six years since 2004, as said by the China Association of Automobile Manufacturers, and overtook the U.S. as the major auto market in 2009. On the other hand, the government is concerned about foreign companies dominating China's insurance market; China cannot permit foreign firms to tender mandatory liability insurance. Foreign insurers, which can presently only propose some optional car insurance products, are losing out to local firms, as drivers have a tendency to choose the same firm for both non-compulsory and mandatory coverage.

Chinese auto insurers are relying on growing the top line by adding new customers. The next step of revenue growth will come from growing revenue per customer by going up from selling mandatory coverage to toting up optional coverage. It is suggested that China's insurance regulator is taking into account opening the market for compulsory automobile insurance to foreign firms. Lessening the rules would let overseas insurers enhance their business in the world's biggest car market, and enlarge their market share. Also, it can raise the competitiveness of the property insurance firms themselves. Anyway, in the struggle for new clients, overseas insurers definitely aren't as competent as local companies, which have great official support, stronger ties with car dealers and more outlets in inland cities. If plenty of foreign companies come into the market, there will be heavy pressure on policy acquisition costs at local insurers in consequence of higher expenses on commissions and agents (Papuc, 2010).

[28] The China Insurance Market newsletter from Towers Watson, Asia-Pacific, December 2008, http://www.watsonwyatt.com/asia-pacific/pubs/China_insurancemarket/



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China's motor insurance market is currently under the tariff rate system. The mandatory bases arranged for the insurers do not diverge by driver's age, territory or car model. The industry has been executing rate adjustment according to accident records, and the Shenzhen pilot is taking a large step further by allowing insurers to modify coverage offerings, and take account of more rating aspects to differentiate prices for vehicles with dissimilar levels of risks.

Shenzhen City has been chosen by the CIRC to be the test ground for motor insurance detariffication. The insurers are permitted to employ their own motor policy terms, base rates and rating factors as long as accepted by the Shenzhen Bureau of the CIRC. The CIRC is yet to confirm the detailed ratemaking guidelines. This reform connects with the commercial motor insurance policies sold in Shenzhen, but not the compulsory third-party liability motor insurance.

Finally, the CIRC have implemented a new regulation stipulating that insurance policy documents may not be issued until the insurers receive the premium. The regulation of "Cash before Cover' basis" is already in effect for motor business in several provinces step by step and is now being extended to other non-motor lines with a few exceptions in Guangdong Province. It is a good way to ensure the ability of solvency and improve the risk management of property insurers.

### *4.2.2 Property Insurance Products*

Property insurance products can be classified enterprise property insurance and family property insurance. It can protect businesses or individuals against the financial consequences they may suffer following damage from an insured event, such as fire, flood, theft and so on to their physical assets, which mean buildings, houses, the contents, stocks and other tangible assets.

Chinese Property Insurance generally relies on bank loans and other indirect forms of debt financing. In family property insurance business, the purchase rate is quite low compared to the high purchase rate in western countries. With Chinese family income rising and the declaration of China's Property Law in 2007, it is likely to increase a lot but unfortunately the development is not as good as the predicted volume, in 2009, the family property insurance premium is only RMB1.5 billion and 1% of non-life insurance market share. The main reasons are the shortage of



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promotion, marketing channels, and also it is not the main developing products in most of the property insurance companies.

As for the enterprise property insurance products, the corporate purchases of property insurance can reduce the probability and therefore the expected costs of financial distress. And by so doing, the corporate use of insurance can reduce borrowing costs and/ or increase debt capacity, decrease the overall cost of capital, and increase firm value. Unfortunately, at the moment, the development of the business property products cannot catch up with the economic growth under the price cutting competition and unreasonable low rate (Zou and Adams, 2009).

### *4.2.3 Liability Insurance Products*

In 2006, the premium volume of liability insurance business is only around RMB5.6 billion and sharply exceeds RMB10 billion in 2010; it has double growth in China. But the business still far from that in foreign countries and still has the huge space to rise up compared to the need of rising economy, especially the development of non-motor liability business in property insurance industry is accounting for about 3.5% and below the world average 16%.

Although China's property insurance market is still in early development, China's liability business has been evolving with some trends. In China, there are three traditional liability insurance products; they are employer's liability, public liability and product liability. As more foreign branches, subsidiaries and reinsurance firms have entered China over the last few years, importing experience and expertise from mature markets, a variety of new products including professional indemnity, medical malpractice, director's & officer's (D&O) liability, and pollution liability, has been increasingly brought in into China (Ford, 2009).

Passenger carrier liability is measured by 90% of the local companies as an area for growth. Several companies believe by being involved in those compulsory schemes forced by the government, for instance, the fire public liability, it would be easier to produce a large volume. Foreign companies' pattern looks very unlike as they mostly give attention to product liability. According to the research, liability loss ratios come out to be the order of 38-47%, and expense ratios lean to be counted approximately 30%. The average market combined ratio is 83%, 72% and 76%, for employer's liability, public liability, product liability and passenger carrier liability



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business is usually viewed as very profitable and attractive.[29]

Next, in product liability insurance, pricing competition is not so strong as the others likely due to the fact that some local companies do not participate in export product liability. The product liability insurance has the nature of long-tail duties and requires the more professional underwriting skill, so foreign companies have experienced more rate decrease as compared to local companies.

However, actually he largest claims in the market are mostly product liability claims. The average outcome by types of companies shows big distinctions. Foreign companies in average have 40% of the product liability business including overseas jurisdiction, whereas for local firms it is much less. This is fairly a rational consequence since it links with the access to global companies, access to overseas claims experience and knowledge to the overseas legislation and regulations, which benefits the foreign firms. In addition, the foreign companies' product liability policies are written on occurrence basis, whereas for local companies it is merely roughly 25-27%. This may be clarified by the fact that the basis for most local wordings in the domestic PICC wording, which is on claims made basis, whereas some foreign companies may possibly exercise an international version.[30]

Moreover, Article 92 of the Insurance Law provides that liability insurance is a major category of property insurance, which provides legislative basis for the introduction of D&O insurance into China. Both the Guiding Principles for listed Companies of Establishing Independent Director System in Listed Companies and the Code of Corporate Governance for Listed Companies set forth that listed companies may buy liability insurance for their independent directors and other directors. Consequently, the legitimacy of liability insurance for the directors of listed companies is propped up on a policy level (Pan, 2006).

In spite of the important development in the range of liability insurance products available, lots of these products don't be put on the market well. Actually only a few liability insurance products have become large-scale business. These products contain school public liability, production safety liability for high-risk industries, and medical malpractice. The quick expansion of these lines is chiefly based on strong support from the government, like local compulsory regulations, local government paying the

[29] China liability Survey 2008, August 2008, from Cologne Reinsurance Company plc. Shainghai Branch.

[30] In general the market is careful with the use of "occurrence" based wordings, in order to deal with long tail claims more effectively and to reduce the incurred but not reported (IBNR) problem.



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insurance premiums, economic incentives encouraging enterprises to procure insurance; and administrative measures to require the insurant to pay money for insurance. The government plays a crucial role in the promotion and development of liability insurance (Giao and Wang, 2009).

There are two key barriers to liability insurance development in China, and one is the little insurance demand from society, given the low consciousness of insurance and non-litigious essence of Chinese society. The other is the restraint of insurers' distribution channels that causes overly high gaining costs as promoting liability insurance products to lots of individual customers. It is not easy for insurers' own sales forces to sell liability insurance products for the reason that selling these products call for higher technical skills and take more time to explain. Accordingly, sales people lean not to offer resources to sell liability insurance products since it is easier and quicker to sell uncomplicated motor insurance for potentially more premiums (Ford, 2009).

Nevertheless, if there is physically powerful government support, usually a local scheme will be organized by the government to make sure wide participation of insurants. Therefore, the stronger the government's backing, the better the enlargement of a liability insurance product. Under the strong encouraging actions from the government, this is the most cost-effective method to build up liability insurance business. Moreover, to extend new incomes from liability insurance business, an insurance firm has to constantly generate innovative products to make different itself from its competitors.

For example, as for the environmental pollution liability insurance must be relied on strong government to promote a large extent. China has to improve relevant laws and regulations and make the environmental liability legalized. As for insurance companies, take the insurance loss and risk assessment into consideration, the attitude toward the emerging businesses is fainter; on the one hand, they feel like capturing the market, but on the other hand, they are worried the product is too risky. By reason of the defense of public interest, it is necessary for Chinese government to build up the regulations to compel those enterprises having pollution accidents to obtain the insurance product and control and adjust the market.[31]

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[31] Yue, P(2008) "China establishes liability insurance system for environmental pollution," Chinese Environmental Protection Administration (SEPA). See http://www.environmental-expert.com/resulteachpressrelease.aspx?cid=27278&codi=28860



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Generally speaking, as domestic insurance firms endeavor into new lines of business, they require strong technical support from well-known international reinsurance partners, such as policy wording, rate setting, underwriting, risk management and claims managing. Even China's insurance supervisory body would push insurers to look for assistance from sound and reputable global reinsurance firms specially when developing complicated insurance products. This is an area where reinsurance companies and insurers can offer mutual value-added profits to each other as reinsurance companies achieve access to local business and insurers obtain both capital and technical backing from their reinsurance partners (Ford, 2009).

Finally, in 2010, China gets a new Tort Law and this law has been in the works for nearly a decade and its arrival represents the completion of China's civil code. The Tort Law is the mechanism by which individuals or legal entities can protect the rights enshrined elsewhere in the code. This is a big footstep towards China establishing a civil society. Under the legal protection, the legal liability will be formally taken into consideration in the practical court's decisions and that means the need of purchasing liability insurance policies will increase in order to manage the legal risk and compensate the loss. Most of the companies are looking forward to a growing liability. Meanwhile, it also points out that most insurers consider liability business to be a strong opportunity for growth, and possibly a profit producer as well.

### *4.2.4 Microinsurance Products*

Microinsurance presents a viable option for low-income households to manage their risks. At the same time, it is increasingly being seen as a vast unexploited growth sector for the insurance area. The Asia-Pacific region with the most low-income population is the largest microinsurance market; India has grown rapidly and China may be the next potential market. For the tremendously poor sector of the society where commercial microinsurance may be viable, government support through public private partnership schemes can give a hand to improve the practicality of microinsurance products.

Microinsurance typically refers to insurance products designated for low-income individuals and differ from traditional insurance in many ways, for



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example, the size of premiums, coverage limits, product features, distribution, policy administration and target customers.[32] With the insurance markets in industrialized countries fast becoming saturated, insurance firms must identify new markets which can lead future business growth and emerging microinsurance market can propose lots of opportunities for the insurance segment.

Asset micoinsurance, which contains property coverage for households and personal or business assets, is expected to develop as the income and wealth of current low-income households increases. China has showed strong interest in microinsurance programs and the CIRC in 2008 initiated a pilot scheme to encourage development of microinsurance products related to life insurance in rural regions. It is believed the new property microinsurance products are being designed and launched for the benefit of low-income individuals in rural areas of China (Suen, 2009).

At last, it is predicted the key microinsurance trends that may develop in China due to the huge population with low income and the insurance density and penetration is still below the world average. Different product choices should be offered for policyholders and new players will enter the market, resulting in evolution and innovation in business models and product offering. Also, growing income and reduction in poverty will lead to higher demand for conventional insurance and risk management and hence will bring other business opportunities to property insurers.

## *4.3 Property Insurance Marketing Channels*

Business written by insurance intermediaries, which include individual agents, agency companies, brokers, and sidelines, for instance, banks, and postal offices, reached RMB 587.5 billion for the six months ended 30 June 2010, up 12% compared with the corresponding period in 2009. This represented 73% of gross written premium collected nationwide. The insurance agency companies and brokers have RMB31.6 billion and take up 3.95% of total premiums and the sidelines accounts for RMB325.3 billion and gets 40.67% market share of total premium incomes. Compared to the insurance brokers in the UK, the premium volume from brokers can be 60% of the total property insurance market; the market is still weak in China. The premium volume from individual agents is RMB230.6 billion and 28.83% share in

32 Swiss Re (2010), " Microinsurance-risk protection for 4 billion people, "*Sigma*, 6, available at http://www.swissre.com/sigma/.



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total premiums. Nearly RMB183.3billion is from life insurance business and only RMB47.3 billion comes from property insurance business. Among the total property insurance premiums, the share from individual agents is 23.45 compare to 30.64% in life insurance sector.

As for agency companies and brokers,[33] in 2002, there were only around 100 insurance intermediaries but in the middle of 2010, there were 2538 professional insurance intermediaries totally and 7 foreign ones, plus 1856 insurance agencies, 381 insurance brokers. Along with the stable development of businesses, profitability of professional intermediaries was improved continuously.

As for the sidelines, there are 155637 institutions and banks have the 55.7% market share. Also, until June 2010, the amount of total individual agents is around 3 million and property insurance part is 0.4 million people far behind the 2.6 million people in life insurance business.

Neither agency companies nor broker channels player an important role in the Chinese market, producing about 3-4% of total premiums together. The main reason might be that insurance intermediary companies were still young and needed more time to become professional at marketing, not just relying on a relationship with clients. Another characteristic was that property insurance utilized this channel than life. This might be because insurance companies employed a large number of individual agents themselves (Lin and Xu, 2007).

Foreign insurance brokers have long been competing for a niche in the lucrative Chinese market. Aon, a major US broker, teamed up with China National Cereals, Oil and Foodstuffs Import and Export Corporation in 2004 to explore the huge market. Also, the world's biggest insurance brokerage, Marsh (Beijing) Insurance Brokers Co. Ltd (Marsh), has become the first licensed foreign broker in China. The approval to practice was given after China fulfilled its commitment to the World Trade Organization to fully open its insurance market to foreign investment. The Wholly-Owned Foreign Enterprise (WOFE) insurance brokerage license will permit

[33] The difference between insurance agency firms and brokers is listed below. An insurance agency firm is the representative of insurer and has no duty to conduct a thorough examination of a client's business or to make sure the coverage is appropriate. Rather, it is not their obligation to ensure whether the client has purchased needed coverage. On the other hand, brokers can offer a whole host of insurance products for the insured to consider and hence typically means the broker will have more education or experience than an agency firm. Also, that is brokers' duty to analyze a business and secure correct and adequate coverage for the business. This is a higher responsibility than the pure administrative responsibility of the agency firms.



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Marsh to carry out business independently without teaming up with local partners. In 2008, Marsh was ranked number one of all international brokers and number four of all brokers in China.

Moreover, in 2010, reinsurance broker Guy Carpent**er** & Co. L.L.C. has been awarded a wholly owned foreign enterprise broking license by the CIRC and become the first global reinsurance broker to operate in China under this license. With the brokers' support in assisting this rapid growing, developing market will increase its sophisticated risk management solutions for a complex range of risks.

According to the new rules from the CIRC, for the reason of regulating the market, the registered capital of insurance intermediaries is asked to reach the requirements of minimum registered capital since October 2012 and under the sharply increasing requirements, it is predicted that some intermediaries will be kicked out from the market.

Anyway, when the capital market paid more attention to insurance intermediaries profitability and development prospect day by day, meanwhile intermediaries were also in front of some challenges, such as the situation that distribution of intermediaries was unbalanced still existed and so on. It is suggested that a continuous drive for innovation by distributors to look for the well-educated talents and optimal solutions to meet the needs of the population, reduce transaction costs and expand the reach (Xu, 2006).

## *4.4 Reinsurance Market*

In mid-2009, Bejing Municipal Government entered into an agreement with global reinsurance firms for catastrophe protection for Bejing's government-funded agricultural insurance program. By transferring risk to the reinsurance sector, it can help direct insurance firms to manage the risk of large losses.

China reinsurance is the second largest market in Asia Pacific region, mainly dominated by China Reinsurance (Group) and market share is up to 80% more. Also, its registered capital of RMB36.15 billion is listed as the number one among Asian countries and top 5 in the world. There are now six foreign reinsurers in China in addition to the Beijing-based local giant, China Reinsurance (Group) Corp., which has two subsidiaries, China Property and Casualty Reinsurance Co. Ltd. and China Life Reinsurance Co. Ltd. Among those foreign reinsurers, half are located in Beijing,



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including Swiss Re, Munich Re and Scor Re. The rest are based in Shanghai, including General Re, Hannover Re and Lloyd's Reinsurance Company (China).

China Reinsurance (Group) Company (China Re Group) is a wholly state-owned, dedicated reinsurance group company built up on the basis of the original China Reinsurance Company upon the approval of the State Council and CIRC. With the economic growth, in 2010, the need of reinsurance is likely up to RMB100billion.

In 2010, with Lloyd's lately getting regulatory approval to write direct insurance in China, the positions of both the Shanghai market and of reinsurers in China are becoming more significant to the insurance market on the whole. Insurance market observers look forward to Shanghai becoming a leading market for diversified products among foreign reinsurance companies after Beijing.

Generally speaking, the property business relies on the volume of reinsurance very much. Besides, reinsurance firms can introduce the concepts of reinsurance and highlights the crucial purpose reinsurance has in enabling progress and contributing to the stability of the economy and society. As well as recognizing the benefits reinsurance produces for clients, in addition it explains the role of reinsurance plays as a stabilizing feature in the economy and society, enabling increase by absorbing losses and offering long-term capital through its investment activities.[34]

A really global industry from the outset, reinsurance has performed a key role for more than a century in helping companies, and eventually society, to better prepare for and handle risks. Reinsurers diversify their risks globally and share a wealth of risk expertise with their clients, thus making insurance affordable for more people. The growing shock of disasters is rising up the costs of relief and reconstruction. Private segment insurers have developed innovative risk transfer products to lessen the financial crash of such events. The CIRC also encouraged increasing the number of domestic reinsurers to break the existing reinsurance market disparity.

Although China no longer has a monopoly in the reinsurance market but actually the market is still controlled by the state. Reinsurance companies need to spread the business in the international market and it is important to let China Re enjoy much less government protection in the future, and consequently the government should improve the conditions in the equal playing field for foreign reinsurers. Moreover, it is critical for China Re to expand outside of China, as it is the rules for the game of

[34] Swiss Re (2011), "The essential guide to reinsurance: Solutions to 21st century challenges," available at http://www.swissre.com/



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reinsurance to diversify the risk in the international market, especially the company expects to elbow into the world's top ten within ten years and plans to develop into a modern insurance company based on international standards.

In 2010, CIRC issues a new Administrative Provisions on Reinsurance Business and aims to reinforce the supervision of the reinsurance business and promote the sustainable and healthy development of the industry as a whole. Requirement on giving priority to domestic reinsurance companies removed. The relevant clause on offering priority to domestic reinsurance companies was removed from the revised Insurance Law 0f 2009. To be consistent with the revised Insurance Law, the CIRC also removed relevant clauses. The old Administrative Provisions on Reinsurance Business of 2005 provided that a primary insurer, when ceding risks to reinsurers, must give priority to domestic reinsurers. After the issuance of new provisions, primary insurers are no longer necessary to give priority to domestic reinsurance companies; instead, primary insurers may choose the reinsurance companies meet the requirements to set out by CIRC.

## *4.5 Foreign Insurance Companies in China*

In 2003, and important achievement happened in the restructuring if state-owned national insurance companies, which was regarded as the key step to increasing Chinese national insurance companies' competitive ability. According to Chinese law and regulations, insurance companies in China can be fully state owned, limited, or stocked limited. Most domestic insurance companies were stocked-limited companies and most Sino-foreign joint ventures were limited companies, because they usually had only two promoters.

The domestic Chinese insurance companies dominated the market and foreign insurance companies realized RMB45.80 billion premium revenues in 2009 and shared only 4.11% of the total. Among property insurance companies, foreign companies received RMB3.17billion RMB in premiums and shared 1.06% of the property insurance market while domestic Chinese companies owned 296.11billion RMB and 98.94%.[35]

As the Chinese economy continues to grow and expand, the country is being

[35] See China Insurance Regulatory Commission, the Statistics of Premium in Different Areas of China, available at http://www.circ.gov.cn/web/site0/tab61/.



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treated as a major international market, and this is drawing many corporations from all over the world to Beijing and Shanghai in an effort to construct their profiles in the mainland market. Many of these companies have no history background in China and have encountered numerous difficulties from the cultural confusion and shock. The obstacles that foreign corporations face in the Chinese market are viewable in the nation's insurance business that is, for the most part, dominated by Chinese insurance companies.[36]

By the China's requirements, companies will be able to obtain a license if they have more than 30 years of experience in a WTO member country; a representative office established in China for two consecutive years; and global assets of more than $5 billion. China has, at current count, more than hundred insurance companies working in and around the country; however foreign corporations and investment only account for 7% of the total Chinese insurance market.

One of the main reasons that foreign insurance companies are eager to enter the Chinese market is because the increase in expatriates in the country. In recent years more and more overseas nationals have been relocating to China with the aim of capitalizing on the gigantic expansion in the economy and profit from the unique lifestyle and opportunities that the mainland provides. With the growth in expatriates, additionally produces the need for western style insurance and protection, and therefore the interest from international and foreign-based insurance organizations towards the Chinese market boom as well. These foreign corporations are so interested in establishing themselves on the mainland but they are still having so much trouble. Part of the problem may be owing to certain cultural and public issues towards which foreign visitors have to adjust.

Besides, it is this ability to bridge the cultural gaps that still, to some extent, exist between the Western and Asian economies that help to make a successful international insurance company, and sadly many top class international insurance companies do not realize this. There are, however, some exciting new changes in the Chinese insurance industry as the economy continues to further open and more and more international investment flows into the nation. The number of foreign corporations accessing the insurance market in China is growing, and will continue to grow, as the nations industrial and technological might continue to grow and gain ground on

[36] Pacific Prime (2010), "China Insurance News," available at http://www.pacificprime.com/



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western competitors.

A survey from reinsurance companies discloses that foreign companies have the lowest percentage of responses presenting they would strictly stick on the guideline. Surprisingly, since foreign companies would be expected to apply more strict guidelines as required by their head offices, China was theoretical to be the new Eldorado for foreign insurers back in 2001 when Beijing agreed to open up the market as a condition of World Trade Organization accession. Almost ten years later foreign insurers have hardly completed any inroads at all. As said by a survey of 31 foreign insurers operating in China, PwC found that the companies estimated their combined market share in 2013 to be largely unmoved from where is today, for property insurers around 1%. While the number doesn't look bad, the firms are possible to play against stronger competition, which is coming years with the current entry of local banks into the market.[37]

Only few foreign property insurers created a profit in 2008, according to the 2009 Yearbook of China's Insurance listed by the regulator and yet some foreign insurers are retreating. Foreign insurers are struggling because of unequal treatment, stricter regulations and solvency rules following the financial crisis of 2008. Several foreign insurers experience trapped, as they are unable to grow up at a pace that would speed up profitability, the PwC report said. Meanwhile, they fear that if they go away the market, the regulator would seem to be harshly on any application to reenter at a later time.

While foreign life insurers are currently able to propose the same services that local rivals can, a constraint on overseas non- life insurers is the fact they still can't write legally required business, as well as the compulsory third-party liability auto coverage. Foreign companies have to set up long-term relations with Chinese local governments and potential consumers. In addition, they will need to build up business strategies that make their companies operate for a long-term way (Allison, 2001).

As one of the most liberated industries in the service sector, foreign property insurance companies have been playing a progressively imperative role in China's insurance market but there is still a long way to go for them. The CIRC has indicated that it will now allow single qualified foreign investor to own more than 20% of an insurance entity. However, the limit for foreign investors in domestic companies still

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[37] McMahon, D., (2010), "Low Expectations in China's Sector," *China Real Time Report*, available at http://blogs.wsj.com/.



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remains at 25%.

After years of investments and partnership in China, many foreign shareholders are now reconsidering their policy and some of them have restructured their relationships. A report by PwC has shown that foreign insurers are less optimistic now than they were a year ago about the prospect of expanding their presence in the Chinese market. This is partially because regulatory boundaries imposed on foreign players, but more significantly the domestic rivals have stifled room for foreign growth, especially during the financial crisis. The challenge is even tougher for foreign property insurance companies whose market share stayed at a low percentage.

## *4.6 The Competitiveness and Potentiality in China's Property Insurance Market*

The outlook for property insurance is highly positive although there are still some challenges, which need to be addressed. Some of the key challenges include how to create an insurance-buying culture, to develop sustainable operation models, to leverage innovation distribution channels and executive procedures, to adopt regulations that can assist to smooth the progress of insurance market development, and to encourage active involvement of different stakeholders, including insurers and reinsurance firms.

### *4.6.1 The Arguments about Property Insurance Market*

Regarding the development of China's property insurance market, there are some arguments in the current property insurance market. It is argued that the market will not be likely to grow up increasingly and the operation cost is quite huge. The reason is that the property insurance market scale is still young and below the international industry standard. The gap between the foreign property insurance companies and local ones is wide and unbalanced owing to the foreign companies with competitive advantages in technology, management, service, brand and credit standing but the local ones with most market shares. The awareness about the necessities of purchasing insurance products is not rooted in China. The problem regarding how to change potential demands to real ones will rely on the gradual changing with the quick economic development.



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Besides, the property insurance market has the fundamental challenge about the lack of solvency due to low benefit rate and short of capital input. The insurance industry could not work out capital demand and develop solvency ability based on its own profit accumulating on low profit rate. Also, there are limited means to invest the capital (Zhao, 2004).

Moreover, the management of claims is not regulated well and sometimes the claims paid just because of the private pressure, the personal relationship or unfaithful behaviors from the agents. All in all, there are some negative situations for the current property insurance market because of the limited insurance functions, for instance, small scale, extremely widespread operation, low service quality, weak competition ability and unsatisfactory opening to the outside world.

However, there is still positive thinking concerning the existing property insurance market. The experience of many countries has proved that the maturity of the supporting laws and regulations are preconditions for the development of the property insurance market. For example, the amendments to the Company Law and the Securities Law in 2005 formed a favorable market environment for the development of the D&O insurance business by further defining director's duties and carrying out the civil compensation system.[38] With the stipulations exercised by the government, it is believed the current market has great performance compared to the previous time.

Furthermore, property insurance companies have presented many kinds of products, covering auto, household, enterprise, transportation, credit, and liability insurance, besides short-term health and casual insurance products. In 2004, more that 1,400 products got permitted or filed (Tan, 2007). In recent years, some property insurance companies have begun to plan and design new-pattern property insurance products, following the life insurance companies. These new-pattern products consist of an investment account with value reflecting the investment outcome, and the pure property premium is deducted from this account.

The government and companies have tried their best to build up new commercial property-liability insurance products that could meet the needs of economic development and rising legal awareness of the society. It is good for the market because the monopoly in insurance industry is being broken gradually with more and

[38] The function of Directors and Officers (D&O) liability insurance can protect directors and officers from liability arising from actions connected to their corporate positions.



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more market competition while the foreign insurance companies came into the market. In fact, some foreign insurers that concentrate on some property insurance products have made high profit (Yang, 2005).

### *4.6.2 The Assessment of Competitiveness and Potentiality in Property Insurance Business*

With the entry of foreign coming visitors, the competition in property insurance market is getting stronger and stronger. It is important to study the strength of the existing property insurance market and predict the potentiality. Some factors will be discussed in this section, such as the limitations of regulation, bank marketing channel, individual agents and direct marketing channel, human resources, product innovation, and IT spending.

**1. The Limitations of Regulation**

The requirement about minimum registered capital of building a new property insurance firm no matter for local or foreign investors is too high and is a kind of protection for the companies that already get the license and will block the new coming insurers to enter the market and reduce the market competition. Also, it will reduce the effectiveness of service and increase the cost of regulation. Moreover, the system regarding the property insurers how to withdraw from the market is still unclear and unsound and that means it cannot efficiently eliminate the bad-performed insurers through competition (Xu and Lin, 2008).

The strict regulations concerning the rate and investment also bring the limitations toward the property insurers in China. Under the fixed rate, property insurers cannot develop the underwriting ability and in order to reach the higher market share, they will try to use different ways to reach the purpose of low premiums, such as the higher commission and the return of premiums. Even while the claims happen, the insurers will pay for the policyholders to gain the main customer's future purchase or refuse to pay the compensation for the individual to lessen the loss. All of them will incur the disputes and hamper the competitiveness of property insurance industry; to solve the problems, the improvement of regulations and enhancement of the CIRC's supervision are useful.

**2. Bank Marketing Channel**

Chinese insurance was developing more and more marketing channels. One



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insurance company usually utilized several channels at the same time, with dissimilar business lines focusing on different channels. In such a rapid-growing insurance market, distribution channels and the method of delivering insurance products are key means for insurance companies to gain competitive advantages (Zhang, 2010).

After WTO, Chinese officials have begun to restructure the domestic industry to build strength for the coming competition. Setting up alliances between domestic insurance companies and Chinese banks can provide both insurance and other financial services for their customers, and the trend started with the largest insurance company, China Property Insurance Co, and the largest domestic state-owned bank, Industrial and Commercial Bank of China.

Shu-Yen Liu, an actuarial practice leader for Asia, PwC China, said foreign insurers still face many difficulties and challenges, but the most significant one is that many banks have been granted special approval from the State Council to invest in insurers. "Bancassurance has become a major distribution channel for many insurers in the last several years and these new bank-owned bancassurers will introduce new dynamics in the market," said Liu, in a statement.

At the moment, the main promoting insurance products are life insurance. But some property insurance products related with the needs of individuals or family are expected to rise up. Also, large Chinese insurers may continue to enlarge their client bases by acquiring small local banks. The acquisition of local banks allows large insurers to enter small and relatively remote communities more successfully. Recently, we have seen some insurers deepening their banking ties aggressively, such as in 2009, Ping An (Property) and China Everbright Bank cooperate to promote the credit insurance products for private loans.

Upon completion of the deals between insurers and banks, insurers are expected to form bancassurance ties and widen revenue sources. Under the protection from the government and the advantages of local enterprises' connection and tactical alliances, the integration and cooperation between bank and insurance business will lead to a huge process and it is hard for foreign coming firms to catch up.

**3. Individual Agents and Direct Marketing Channel**

When AIA came to Shanghai in 1992, the individual agency marketing method for individual life products was introduced into China, and shortly after, in the property and casualty insurance market. Not only did the individual agent method grow up very quickly, but also some institutions began providing agents as a sideline



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business, which soon developed into a vital channel. For example, auto insurance began expanding, auto dealers became a more important channel, especially for property insurance, but they were most new car insurance (Lin and Xu, 2007).

However, many agents are just lower-level salespeople. They are not well trained, have to face heavy pressure from premium requirements and care most about their commission. The agent descend rate is very high as well. Improvement and better management are needed in the agent channel and therefore some insurance companies begin trying to cultivate high-quality, better-educated agents in order to enhance the market competitiveness. In property insurance business, compared to the individual agents, due to the requirements of professional insurance knowledge and service, the insurance broker company has more advantages while selling the commercial insurance to the enterprise insured.

Anyway, direct sales marketing once was the only channel utilized by Chinese insurance companies. The direct marketing channels remained an important marketing channel, particularly for property insurance and group life insurance. Property insurance business put particular stress on enterprise customers in China. The usual marketing way was to negotiate with enterprises directly. As a consequence, direct marketing was an essential channel for property insurance business. Keeping good relationships with main customers was the key concern in this channel. Therefore, the sales talents will be required very much.

**4. The Need of Human Resources**

Staff turnover rates turned down in 2009 during the economic recession, but most foreign insurers expect to have a sharp rise in turnover as the economy return. In the meantime, a skill shortage in some functional areas persists. According to PwC's report, foreign insurers still find it difficult to recruit for sales-agent, sales-manager, investment management, telemarketing and head-office marketing roles. Talent poaching[39] is therefore a common method for domestic and foreign insurers to protect and ensure their own revenue targets. As a result, the trend has lifted up HR costs and directly increased the salary system in the insurance industry (Zhang, 2010).

Besides the sales talents, experienced underwriters and claims handlers are critical as well and in the current property insurance market. Experienced underwriters can help the insurers review insurance applications and determine the

[39] It can be defined as an act of enticing important employees to move from one firm to a competitor. It has come out as the biggest HR challenge for enterprises.



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appropriate premium to charge a customer and claims handler can provide immediate support to people affected by disasters and slow down the loss. Due to the lack of talents, China's insurers hire some talents from foreign areas, such as Taiwan, Hong-Kong or western countries, to learn from their professional knowledge and experience. Also, until 2008, there are only 141 insurance actuaries and usually a big insurance company needs 10 actuaries, and hence the need is not satisfied yet. A good actuary can precisely compute premium rates, dividends, risks according to probabilities based on statistical records, together with offering suggestions of risk management.

Moreover, most of China's property insurance companies are still owned by the state and the leaders are arranged by the state, and therefore it is not completely dependent on the managing ability to decide the suitable leaders. The top ranking managing level of property insurers plays an important role in managing or reforming the business and can decide the development of the firm. The way to improve the competition is to reduce the interference from the state and just base on the ability of managing (Ji, 2006).

The shortage of professional property insurance talents is serious and far behind the international level. This issue will directly affect the development of property business. As a result, in order to improve the human resources, property insurers are fostering integrative risk management talents and offer education across various disciplines and based on prevention, preparation, response, recovery and risk transfer.

**5. Product Innovations**

China's property insurers need to expand the business by offering new insurance products. At the moment, the potential need of property insurance products is not satisfied fully, especially in the areas of the family property insurance and liability property insurance products. Besides, the main contents of property insurance products and rates still need the CIRC to approve before selling to the public. As a result, the competitiveness of property insurance products is weak and need to develop the products that can meet the practical need of customers (Xu and Kao, 2009).

Due to the late development, most of the property policies come from foreign countries. Also, insurance actuarial data is necessary for creating a new product and the lack of quality data makes it challenging for risk carriers to design a new product, effectively assess and price the risk. Insurance products need to be affordable and



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profitable. Therefore, bringing the well-developed property insurance products directly into the market is necessary at the beginning.

The product innovation in China can refer to the combination, improvement, or adjustment of different property insurance policies, for instance, designing a special comprehensive insurance product for small and medium enterprises including commercial risk and the owners' personal risks. Also, the risk management service for the insurants can be accompanied with the process of selling the products (Zhang, 2008).

Besides, with the establishment of legal framework, the Chinese liability insurance market can be increasing rapidly; particularly some products are not common in foreign countries but can be accepted and rearranged in China, like environmental liability insurance. Liability insurance business requires specific knowledge and expertise to be prudently underwritten. Potential development in this area is expected and most of the insurance companies point out that they are looking to write such risks in the future.

Another barrier for product innovation is the rate regulation, which lead to the characteristics of property insurance products cannot be distinguished and cannot meet the real nature of property insurance products. Once market premium rates are totally liberalized, competition among insurance companies will become more intense and companies that constantly improve loss control will be able to lower their premiums, bringing benefits to the insured. Relaxing controls on non-life insurance premiums and products in different stages is useful to stop cutthroat price competition, malicious competition from doing destruction to market order (Zhou, 2007).

**6. IT Spending**

Property insurance companies in China have more and more accepted the significance of information technology in improving the competitiveness of enterprises and have subsequently invested a greater amount of resources in IT spending. Most of China's insurance companies are still in the infrastructure-oriented construction phase of development. Investments in hardware, wide area networks, and Internet access, telephone, and other communications infrastructure accounted for more than 50% of firms' total investment in information technology.

At present, China's population is more than 1.3 billion people, with merely about 180 million that would be treates as middle class. The Chinese middle class, however, is growing rapidly and this emerging trend has the potential to drive huge profit



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growth in a broad variety of consumer oriented factors. Currently, there are around 200 million internet users in China. Middle class Chinese citizens, who have cars and other personal property, get used to e-commerce. This represents a strong and rapidly increasing niche market for an online insurance company (Benzinga, 2010).

Looking ahead, it would encourage insurers to develop telesales and Internet sales. Improving business processing systems, data warehouses, business intelligence and customer relationship management will be the focal point of future IT investments. China's domestic insurance companies should strengthen their investment in improving their business processing systems. With the huge population and numerous enterprises, the access of Internet and telesales will benefit the property insurance business. Also, for foreign investment, this is another way to show their advanced management skill and backup services through the design of website and telesales besides the focus more on broadening sales channels o rapidly expand their market share (Celent, 2008)

### *4.6.3 The Prospect of China's Property Insurance Market*

China property insurance industry has entered rapid development period, and operation model of property insurance industry is developing toward diversification. The future prospect of China insurance industry development will be very good. All in all, looking forward to the future development of the Chinese insurance industry, the following aspects can be expected.

**1. The Continuing Rapid Development of Property Insurance**

Sound economic development will push continued insurance development. And more potential insurance markets could grow into real opportunities with increasing insurance demand, especially in the large western regions. The disparity of insurance market is due to the disproportion in Chinese economical system and also related with system and technology. The fact requires us to choose different developing strategies according to individual market's characteristic. With the western development, the government improves lots of infrastructure and construction in those areas, and therefore the construction and related property insurance products will be promoted.

Besides, with the increasing expatriates, the trend will let the number of foreign insurance organizations in China continue to rise, giving expatriates in the country the assurance that they will be able to deal with insurers offering products with which



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they are already familiar. More players are coming into the market and that represents a more balanced market structure will take place, and the market share of the top three will surely decrease. Although it is hard to take place of the position, it will push the market competitiveness.

Moreover, more products and new services are expected to come out in the market. Competition and more players will let many insurance companies take up more of a niche market and supply suitable products and services for that special market, such as the microinsurance products in western or rural areas. Different insurance products will appear with Chinese characteristic

Meanwhile, domestic insurance companies have to make serious efforts at adopting international business and prudential practices so that they can adjust to the international competition.

**2. The Growth and Refine of Different Marketing Channels**

It is believed that market will get refined. Individual agents, banks, and group direct marketing should stay the main positions in the future, but more transformations and refining will occur. Companies should manage individual agents more severely and classify into dissimilar levels for different products and different market fractions, for example, special agents for rural markets. Property insurance companies will carry on trying to create tighter relationships with enterprises or banks in order to reduce commissions and promote bank insurance products. More direct marketing methods will be implemented by more insurance companies as well. Also, professional agency companies or brokers will rise up in order to meet the difference of property insurance products.

Online insurance is likely to grow as more and more people get used to this way of insurance buying. Technologically, there are many changes taking place in the insurance industry. Online insurance is on the rise, as IT is becoming gradually important and outsourcing is being viewed as a reasonable choice to handle the challenges of the market in the future.

Recently, new channels have begun to emerge in China. Quite a few Chinese property insurance companies were selling simple products on the Internet and more direct marketing demands will appear in the near future. Mobile phones and related technologies will enable fast-paced growth and penetration of microinsurance products and help the insurers to promote their new property insurance policies. Better

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technology and management information systems are also possible to cause improved data quality as required for efficient pricing and risk evaluation of insurance products.

**3. Improvement of Regulations**

Insufficient progress on business volume, profitability, insurance coverage and products, risk, management, policies and technology are hampering global competitiveness of the domestic firms. The Chinese insurance market is joining the international market and this will intensify competition and improve insurance companies' competence. The CIRC has strengthened solvency regulation and market conduct regulation, coming down on misleading, and promoted insurance innovation. These should lay a more solid foundation for future development. Also, with the improvement of regulations, the transparency will be better and more information will be offered for the public before decide to buy the property insurance products.

Besides, investment management is becoming more professional. The CIRC has improved the investment regulations increasingly and is likely to have more expertise to enhance investment management of property insurance business.

More investment channels had been opened to insurance, so insurance companies will pay more attention to asset-liability matching and the improving investment management. Investment tactic will become more rational, focusing not only on new money range, but also on long-term return and matching liability (Lin and Xu, 2007).

## *4.7 Summary*

All in all, China's economy is going up at one of the fastest speed in the world, but it has troubles in comparison to the growth of its property insurance industry. With the low insurance penetration and density, China stands far behind than the global average of insurance industry scale.

Next, the whole property insurance market is still controlled by the state and motor insurance accounts for most of the premium written in property insurance part. The development of family or enterprise property insurance products is not as good as the predicted volume. The announcement of new Tort Law represented that most insurers consider liability business to be a strong opportunity for growth, and possibly a profit producer as well. Microinsurance may develop in China due to the huge population with low income and the insurance density and penetration is still below the world average.



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Along with the stable development of businesses, profitability of professional intermediaries was improved continuously. With the intermediaries' support in assisting this rapid growing, developing market will increase its sophisticated risk management solutions for a complex range of risks.

Moreover, reinsurance companies need to spread the business in the international market and it is important to let China Re enjoy much less government protection in the future. The limitation on overseas property insurers is the fact they still can't write legally required business, as well as the compulsory third-party liability auto coverage. Foreign companies have to set up long-term relations with Chinese local governments and potential consumers and need to build up business strategies that make their companies operate for a long-term way.

Finally, bancassurance has become a major distribution channel for many insurers in the last several years and these new bank-owned bancassurers will introduce new dynamics in the market. Also, China's property insurers need to expand the business by offering new insurance products and make market premium rates totally be liberalized. The competition among property insurance companies will become more intense, it is important for property insurers to develop telesales and Internet sales. China property insurance industry has entered rapid development period, and operation model of property insurance industry is developing toward diversification. The future prospect of China insurance industry development will be very good.

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# Chapter 5 Insurance Regulations in China

The crisis of 2007-2009 took the global economy to the edge of a repeat of the Great Depression. There is wide concern that careless regulators and insufficient regulations contributed to the crisis. Also, the financial crisis has also spurred the CIRC to rethink insurance supervision. Although their assets have not suffered serious loss in the global crisis, China's insurance investment officers still have some concerns. Many of the steps are taken to strengthen the industry by improving transparency.

The main purpose of insurance regulation is to protect policyholders from financial loss. In other words, insurance regulation is to protect the policyholder by ensuring that the insurers will be able to compensate the loss occurred in the event that the policyholder files a claim. It is about solvency and aims in the sufficient capitals to meet obligations. The need for regulatory control arises because insurance services are merely generate and delivered after being purchased and paid for by policyholders. The insurant are normally short of the skills and information required to monitor the financial soundness of the insurance companies. Also, insurance regulation is able to ensure fair treatment of insurance customers, to promote efficiency and competition, and to level the playing field between the different financial factors and between domestic and foreign-based insurers.[40]

In this chapter, firstly, China's insurance investment will be clarified and subsequently since the insurance law was revised and reissued in 2009, the new regulatory developments will be assessed in order to under the new trend.

## *5.1 The Regulation of Insurance Investment in China*

Nowadays, "China" seems to become nearly synonymous with "growth". Since 2000, China's insurance has grown at an average rate of 27% a year. The scale of its investment is huge. In 2010, insurance investment funds totaled RMB4.6 trillion, making China the second-largest Asian insurance asset holder.

At first, the government limited the investment channels to bank deposits, treasury bonds, financial debt, and other channels allowed by the government. The strict regulation aimed at avoiding asset risk for insurance companies before the

[40] Swiss Re, Regulatory Issues in Insurance, Sigma No 3/2010, http://www.swissre.com/sigma/



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insurance industry had matured enough to manage high risk. But it also dispassionately limited the room for asset-liability matching (ALM) at the same time.

From 2004 to 2005, the CIRC permitted Chinese insurance companies to invest foreign currency in overseas markets, under strict regulation and permitted insurance companies to invest in stocks directly, whereas in the past, insurance companies could enter the stock market only indirectly through mutual funds. Since 2006, insurance companies could invest infrastructure construction and commercial bank.

In 2010, the CIRC released temporary administrative rules on insurance funds' equity investments in unlisted companies and private equity funds. Also, it allows insurance companies to invest a maximum of 10 % of their total assets in real estate projects and 5% in private equity. However, due to risk concerns, it prohibits insurance companies from investing in venture capital funds.[41]

The CIRC has issued modified rules to give insurance companies more investment options. The regulation increases the maximum percentage of investment in overseas capital markets and the regulator also issued new rules regarding insurers' investment in corporate bonds. With these wider investment channels, insurance funds might become a major force in the Chinese private equity investment market bedsides the social security funds.

Anyway, this environment is particularly challenging for insurers that are highly dependent on investment income, such as non-life companies with low or unstable underwriting profits. Bond yields have been low since the late 1990s, resulting in a negative widen issue for insurers that underwrote product guarantees years ago. The low-rate environment has also decreased the attractiveness of insurance products relative to bank and securities products.

Another difficulty Chinese insurers face is that the nation's capital markets offer few assets classes for practicing asset-liability matching (ALM). Matching investment portfolios with long-term liabilities remains complicated, restraining insurers' ability to develop long-term products. Long-term government and corporate bonds are in limited supply and uncommonly traded. To a few risk takers, it may be appealing to invest for short-term benefit, in the hope of setting up a reserve against long-term

[41] The China Insurance Market newsletter from Towers Watson, Asia-Pacific, July to September 2010, http://www.towerswatson.com/.



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duties, particularly because some stock markets have appreciated strongly.[42]

For Chinese insurance companies, how to improve their ALM ability is becoming more and more significant, once the policy barrier to limiting investment is removed. To help insurers, the government has broadened the range of investments they can undertake to include real estate and offshore investments, although these investments require case-by-case regulatory approval. This should improve insurers' ability to practice ALM and risk management. Besides, China's holding or group companies can establish their own asset management companies, and until now there are 9 professional insurance asset management companies and manage 80% of the total asset and over 70% insurers set up individual asset management departments The CIRC is trying to push more professional asset management institutions to improve the investment and satisfy the need of insurers' developing new business.

## *5.2 The Regulatory Development Specific to China*

There are several major regulatory in China, such development of a risk-based solvency regime, the implementation of a new accounting standard, and increasing cross-ownership between banks and insurers. Besides, the CIRC requires insurers o check their underlying operating conditions for any sign of problems in order to avoid systematic risks. Further regulatory changes continued to impact the industry. The CIRC has recently published rules to lessen insurance groups' comprehensive operating risks. The rules have outlined different regulations for insurance group companies, covering entry conditions, corporate governance, and capital management.

The Insurance Law was revised and reissued in 2009. The amendment highlights a shift from the previous single risk-sector, which is relied on business scale, to a multiple risk factor-based supervision regime. Although the details of execution are still pending, the CIRC is pushing insurers to enhance their solvency margins to level their future transition to a stricter regime. Therefore, some insurance firms have started to seek capital relief.

The Chinese Ministry of Finance and CIRC jointly issued a regulation in 2009 specifying new accounting standards for insurance firms. China's insurers may report higher assets and profits owing to the reduction of their risk provisions under the new regulation. While this may decrease demand for reinsurance as solvency relief, the

[42] Swiss Re, Regulatory Issues in Insurance, Sigma No3/2010, http://www.swissre.com/sigma/



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new treatment of premium income will induce insurers to adjust their product portfolio and concentrate more risk protection products..

Chinese banks used to be forbidden from having insurance operations, but the government has now permitted banks to get stakes in insurance companies. Bancassurance has gradually become a major distribution channel of insurance in China. It can line up commercial interests into banks while banks are allowed to operate their own insurance units. On the positive aspect, this will motivate banks to seek insurance risk expertise for their potential acquisition.[43]

Finally, although China weathered the financial crisis without major insurance insolvencies, the CIRC is aware of the need to shore up prudential supervision of insurance companies, especially in regard to solvency standards. The CIRC has issued a draft regulation requiring property insurance conduct “dynamic solvency tests”.[44] Property insurers have been required by the CIRC to report the result of dynamic solvency tests in their solvency report from 2010, and should over both in-force business and new business. Companies are needed to make dynamic solvency tests on a yearly basis and should cover both normal scenarios and adverse scenarios. Normal scenarios are expected by the insurer, in line with the company’s business plan, while adverse scenarios are unexpected scenarios that may produce extraordinary impacts on the company’s solvency capability

## *5.3 Summary*

All in all, the growth of China’s insurance has been impressive but its insurers face regulatory and capital market obstacles when trying to invest. A paucity of long-term bonds confines the supply of some insurance products. The government is liberalizing limitations on insurance investment.

Besides, the revision of Insurance Law results in a RBC regime and tighter capital requirements. And the new accounting standards may lead to adjustments in insurers’ product portfolios. Also, allowing cross-ownership between banks and insurers has caused the increased importance of bancassurance.

43 Swiss Re, Regulatory Issues in Insurance, Sigma No 2/2010, http://www.swissre.com/sigma/

44 Dynamic solvency testing examines the effect of various plausible adverse scenarios on the insurer’s forecasted capital adequacy. It is the actuary’s primary tool for investigation of an insurer’s financial condition. Dynamic solvency testing is defensive: it addresses threats to financial condition rather than the exploitation of opportunity.



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# Chapter 6 Conclusions

Over the past ten years, the development of world insurance industry has showed the constantly strengthened situation of internationalization trend. As a great potential and opening up market, China attracts international insurance capital extremely, and numerous famous international insurance companies have arranged the businesses developed in China as an essential strategy. For China property insurance enterprises, it indicates that if they long to survive and expand in the competition, they have to adjust to the international development trend and execute the international operation.

This chapter will summarize the results from the research and then according to these findings some suggestions will be offered to China property insurers, foreign investors and Chinese government.

## *6.1 Research Conclusions*

Chinese property insurance companies have made steps in the direction of comprehensive and diversified international insurance and the developments prove that Chinese property insurance companies are trying to join the world market system. After doing this research, we can summarize the findings as follows:

**1. The Entry of WTO Promote the Development Business Speedily**

It is a key essence for China's insurance industries to change its structure and improve the competition. With the impact and cooperation from foreign insurance companies, local insurance companies can learn the professional insurance skills and improve their service.

**2. The Property Insurance Market Scale Is under the Global Average**

China's economy is going up at the fastest speed in the world, but it has troubles in comparison to the growth of its property insurance industry. The development of property insurance products is not as good as the predicted volume. With the low insurance penetration and density, China stands far behind than the global average of insurance industry scale.

**3. The Property Insurance Market Develops with Disparity**

Most of the insurance market is still controlled by the Chinese government, particularly the top life or property insurance companies are still owned by the state. The unbalanced growth in insurance industries is like the economic developing model



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and mainly on the coastal regions. The limitation on overseas property insurers has blocked the development and the critical motor insurance market is still controlled by the domestic insurers due to the restrictions of compulsory third-party liability auto coverage.

**4. The Legal Environment Improves Gradually**

The legal structure and official supervision have been established and the government tries to remove the limitations slowly but surely. However, it has some boundaries for the foreign coming investors and cannot fulfill the aim of free market and competition. The financial crisis has also spurred the CIRC to rethink insurance supervision. Many of the steps are taken to strengthen the industry by improving transparency. Besides, the government is liberalizing limitations on insurance investment and regulations are improved.

**5. The Growing Development is Expected and Lead to Intense Competitiveness**

All in all, compared to the past, the growth of China's property insurance business has been impressive. Bancassurance will become more and more critical and these new bank-owned bancassurers will introduce new dynamics in the market. The competition among property insurance companies will become more intense, it is important for property insurers to develop telesales and Internet sales. China property insurance industry has entered rapid development period, and operation model of property insurance industry is developing toward diversification. The future prospect of China insurance industry development will be very good.

## *6.2 Recommendations*

This research has shown both the current property insurance market development and the potentiality in the future. After the aforementioned conclusions, we would like to make some suggestions as follows:

**1. Develop Sound Regulatory Framework**

Regulators, through market enabling policies and reforms, have a critical role in further developing the property insurance market. At the same time, balance required to be maintained since over-regulation leans to enlarge costs and operational obstacles. An efficient legislative system also requires unified principles such as democracy, transparency and fairness for making regulations. The system regarding withdrawing from the market should be set up to eliminate the companies with bad performance.



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Also, it is necessary to review existing laws, regulations and rules, which are inconsistent with the market economy, and making the new ones to meet the needs of real life. All of these efforts make the regulations become more efficient, more useful and more prompt.

**2. Ease Barriers and Develop an Efficient Market**

A level playing field will lead to increased participation and innovation practices finally benefit consumers. It is very important for the government to remove the obstacles and improve an efficient market that encourages innovation and competition. The rate deregulation is also a key point to enhance the underwriting and actuarial ability of the property insurers, and China should take some steps to remove the rate limitations.

**3. Reduce Administrative Approval**

Administrative approval was a key regulatory measure in the developing country. However, the existence of too many administrative approvals has been an obstruction for the economic development because these approvals formed unreasonable trade limitations and heavy burdens to the enterprises and traders. The government should abandon traditional management methods that interfere directly in social and economic activities. With the reduction of administrative approval, it can decrease the administrative cost and increase the competitiveness of property insurance industry.

**4. Increase Insurance Awareness and Ensure Consumer Protection**

By increasing insurance awareness among the population and enterprises, the insurance potential need will be developed. The action can help prevent the moral risk occur and increase the insurance integrity. Property insurance companies can help educate the customers by promoting the products or offering more insurance information to the clients. Also, the governments can improve the insurance education and assist the property insurers to build a market for demand-driven property insurance products.

**5. Promote Product Innovations**

By offering new insurance products, China's property insurance business will be improved. Product innovations can lead the potential need of property insurance products to be satisfied, especially in the areas of the family property insurance and liability property insurance products. Besides, the property insurers can provide the related insurance services with product innovation, such as the solution project while the policyholders meet the events or risks.



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**6. Improve Risk Management**

Property insurers with excellent investment and risk management capabilities will have a critical competitive advantage. This will enable some companies to come out as industry leaders. With the growing ability of risk management, the competitiveness of property insurance industry will be improved and also the interests of the insurant will be protected completely.

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