# Future directions for foreign insurance companies in China

EY

Building a better working world

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# Foreword: EY's insights on the report findings

China, with its vast population and booming middle class, is attracting growing interest from foreign investors. This dynamic market should represent a powerful opportunity for non-Chinese companies.

However, in practice, foreign insurers struggle to gain traction here. At the end of 2013, foreign-owned life insurers represented just 5.6% of market share. In property and casualty, market share was just 1.3% – a figure that has remained stubbornly flat since 2005.

In this edition of EY's *Future directions for foreign insurers in China* report, we examine the barriers to successful growth for the foreign players. We also look at the trends shaping the market today and tomorrow, as we aim to provide insights to inform growth strategies.

For example, consider the impact of digital marketing. China's 617 million internet users (500 million with mobile access) are driving a fast-developing internet retailing sector. Insurers recognize the potential for technology to be a game-changer, and are actively seeking to invest in their digital capability and services. Yet the market is complex, and digital products that drive growth in home markets have a poor track record of success in China. While digital transformation represents a strong opportunity for foreign insurers seeking to increase market share in China, it is not a one-stop solution.

Likewise, China's ongoing financial reform offers significant new opportunities for foreign players, through price liberalization, product development, RMB internationalization and the creation of free trade zones. To harness this opportunity, foreign insurers need to understand – and stay carefully up to date with – the evolving regulatory opportunities. In fact, just as this report was going to print in August 2014, the State Council announced plans to boost development in the insurance sector: aiming to boost premium income to 5% of gross domestic product (GDP) by 2020, up from 3% in 2013. Average insurance spending, per capita, is forecast to rise to RMB3,500 in 2020, from around RMB1,300 in 2013. The planned expansion represents an important opportunity for both domestic and foreign insurers. However, with more than two-thirds of foreign life insurers failing to make a profit in 2013 (property and casualty performed marginally better), foreign insurers would be well advised to respond with agility and speed to this new opportunity.

Finally, there are distribution channels. Foreign insurers have always struggled with effective channels in China – partly due to regulatory constraints, but also because they fail to fully understand local practices and government needs. Local innovation is key to solving "the distribution problem." Foreign insurers need to invest in designing new products, services and channels specifically for China.

The challenges for foreign insurers are real, but not insurmountable. And the potential rewards for successfully driving growth in this market remain unparalleled.

EY would like to thank the CEOs and senior executives of the 27 foreign insurers operating in China who contributed to this report. We would also like to thank the report's co-author, Dr. Brian Metcalfe.

**Shaun Crawford**
Global Insurance Leader

**Jonathan Zhao**
Asia-Pacific Insurance Leader

**Andy Ng**
China Insurance Leader

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# Findings at a glance

This report examines the future directions foreign insurance companies may take in China.

Interviews with the CEOs and senior executives of foreign life and property and casualty companies occurred at a time when two very significant, game-changing, events were underway.

On the one hand, as China begins to venture down the path to financial reform, insurance companies, both domestic and foreign, will be confronted with a host of new opportunities.

These will be facilitated by the opening up of the financial market through price liberalization, product development, RMB internationalization, the creation of free trade zones and new distribution channels, etc.

The second game-changing event for financial services in general, and insurance in particular, is the acceptance and deployment of e-finance or internet finance.

A significant part of this report has been devoted to digital marketing, although it must be stressed that the insurance industry is just on the cusp of making the changes necessary to benefit from this emerging opportunity.

The report concludes that insurance companies are beginning to take small steps toward first understanding, and then taking advantage of, how the internet can be harnessed to serve the needs of both individual and corporate insurance customers and clients across China.

What is clear is that with 617 million internet users in total at the end of 2013, and 500 million with mobile access, supported by a fast developing internet retailing sector, technology will play an increasingly important part in the future development of insurance in China.

The interest of the foreign insurers in internet finance is readily understood given their disappointing past performance on distribution. However, it is by no means clear whether they will be able to capitalize effectively on this emerging opportunity.

New innovative entrants have moved into the financial marketplace with non-traditional backgrounds. Financial consumer behavior, particularly among younger people, is changing and, as noted, the technological infrastructure is redefining customer interactions.

This will create new openings for the foreign insurers, but much, as always in China, will depend on the actions of the regulator.

The foreign insurers would be remiss to believe that they could import internet finance models from their home markets. China, due to its scope and scale, may only be able to adapt some useful internet finance concepts from 'developed' financial markets.

The ability to leapfrog, innovate and create new product designs, pricing structures, and more effective servicing and delivery mechanisms, however, will require the foreign insurers to produce "Made in China" solutions.

## The foreign insurers' footprint

Foreign life insurers have increased their market share over the last two years from 4.0% in 2011 to 5.6% in 2013, but it is still considerably below the peak of 8.9% in 2005.

The property and casualty companies have failed to gain market share traction. By comparison, they had market share of 1.3% in 2005 and ended 2013 with a figure of 1.3%.

This has begun to change, as the AXA-Tianping merger and the foreign acquisition of Dazhong Insurance mean that market share will double in size. As the property and casualty companies gear up their recent entrance into motor insurance, this may increase further.

Market share for foreign property and casualty insurers will also increase if their ambitions to acquire mid-sized domestic insurers prove successful.

Although China represents a challenging market for the foreign insurers, 41 companies have entered the market and a wide variety of international insurers have also established representative offices. They recognize that China continues to develop its insurance market and that, as global insurers, they need to have an expanding presence in this market.

Recent research from Munich Re forecasts that China will move (based on premium volume) from tenth position in 2006 to fourth position in 2013 and to third position in 2020 behind the United States and Japan.

## A dynamic environment

As noted earlier, financial reform and technology are poised to trigger major readjustment.

Participants mentioned a series of more specific changes in the life market. These include price liberalization, a more customer-centric approach, new investment rules, new investment classes and a redefined bancassurance model.

Changes underway in the property and casualty market include the opening up of third-party liability business for motor insurance, agri-insurance, cargo and marine insurance.

## The competition

Foreign participants reference the leading domestic life insurers such as China Life, Ping An Life, Taikang Life, New China Life and Taiping Life and, on the property and casualty side, PICC, Ping An Property and China Pacific as their major competitors.

They also see fast growing mid-sized companies such as Sunshine Life and China Continent P&C as aggressive competitors in middle markets. They identify foreign peer companies as a threat in specific niche markets.

The participants were asked to comment on 12 different lines of business and rate the level of competition found in each of these markets. Competition was considered intense in seven markets, moderate in four and light in just one. At the same time, the status quo was evident in seven markets while five were experiencing rising competition levels.

## Strong interest in China from the global players

Both the life and property and casualty participants suggested that the already strong support from the head office was, if anything, expected to grow in the future.

If independent predictions that China will become the world's third most important insurance market by 2020 are proven correct, it seems reasonable to assume that large global insurers will look to increase their presence either through organic growth or by acquisition. The latter strategy has been followed by AXA and Starr — and other property and casualty insurers are also interested. Relaxation of the JV rule would test whether a similar appetite exists among life insurers.

## Where are the challenges?

There are slight variations regarding challenges facing the foreign life and property and casualty companies.

The foreign life insurers place regulations at the top of the list, followed by the domestic insurers and bancassurance. The foreign property and casualty insurers place personnel issues at the top, followed by regulations and then domestic insurers.

New domestic entrants coming into the digital space is a concern for foreign insurers. Related to this is weak brand awareness, an essential factor to be overcome if the foreign insurers are to succeed in direct distribution.

Setting aside regulations (which are a given in China), another key challenge, highlighted either directly or indirectly through a range of different issues, is future marketing strategy.

## Digital awareness

Internet finance is at the top of the agenda for foreign insurers as they consider the future direction for their companies in China.

The marketplace on both the supply side and the demand side is changing rapidly. The growth of a younger, "mobile-savvy" generation of insurance consumers has significant potential for the foreign insurers.

New insight into the progress to date was published by the Insurance Association of China (IAC) in early 2014, but it is difficult to assess the current performance of insurers in the digital marketing sphere.

International assessments suggest that Chinese companies are in the vanguard of internet insurance marketing. It is clear that China has a massive internet population, that online retail consumption has experienced phenomenal growth and that consumer behavior has changed dramatically.

Given these developments, the survey's participants indicated that they planned to adopt a digital strategy. However, only a few appear to have progressed any significant distance along this path to date. This report documents the use of online retailers such as Taobao and Tmall and looks at social media traffic at Weibo and WeChat.

The foreign insurers see digital channels as a way to overcome their limited geographic presence, to build brand awareness and to offer value products.

The regulatory response to internet finance and particularly in relation to the foreign insurers will be a key determinent of success.

But digital marketing is more than channels and branding — it is also about data analysis, smart underwriting, product development, innovative pricing and interactions with customers and insurance intermediaries.

## Digital opportunities

Digital marketing may permit foreign insurers to overcome some previously insurmountable hurdles. For example, telematics may bring new opportunities for motor insurance, sensor technologies may facilitate the marketing of health insurance and social media may foster powerful brand development.

## Digital transition

The top three reasons foreign insurers provided for embracing digital marketing were to acquire new customers, build brand awareness and reduce costs.

The causes behind the slow transition to digital channels were identified as legacy IT systems, lack of investment in new technology and regulatory constraints.

Overcoming the first two causes may mean that foreign companies need to reassess their commitment to internet finance in China.

There may be a serious business case for increasing internet investment and using the China market as a crucible for new digital concepts that could then be applied elsewhere by the foreign insurer.

In the same way that M-Pesa in East Africa has gained global recognition as a leader in electronic funds transfer, there may be concepts, technologies and new products from non-traditional insurers emerging from China in the future.

## Key regulatory issues

Four key regulatory issues are discussed in this report. They are price liberalization in the life sector and future deregulation of the property and casualty sector, mergers and acquisitions of property and casualty companies, the Shanghai Free Trade Zone (FTZ) and finally, future regulatory involvement in internet finance.

As time moves on, there will be greater clarity around the Shanghai FTZ, but at the time of the survey, it was not easy for foreign insurers to assess the opportunity.

This report documents some of the areas on which foreign insurers seek clarity. There was a perception that the greatest benefits of the FTZ would be experienced by the foreign banks and not the foreign insurers.

Even in the area of health insurance, which has been cited as an area of FTZ opportunity, participants failed to identify any immediate benefit.

Marine insurance has been heralded as a major beneficiary of the FTZ.

At the time of publication, foreign insurance companies are still seeking clarity on the advantages of the FTZ and how they can benefit.

## Bancassurance under pressure

The participants believe that the current bancassurance model is not sustainable. The reinstatement of the rule that the products of only three insurance companies can be sold at the individual branch level will make it more difficult for the foreign insurers to benefit from the bank channel.

The belief that only commoditized insurance products can be sold by bank personnel, alongside high commissions and unsatisfactory sales practices, adds to the concerns of the CEOs of foreign insurance companies. Furthermore, if the digital channel gains acceptance, the banks may be disintermediated in the future.

## Disappointing performance

Although foreign insurers are building their presence in China and experiencing strong competition from the domestic insurers, their financial performance has been less than stellar.

On the life insurance side, across eight product lines, participants self-assessed only marginal success in two areas, namely traditional insurance and protection insurance.

Property and casualty insurers scored 13 different product lines and attributed a successful performance to seven. These included product liability, travel, personal accident, employers' liability, professional indemnity, group accident and health and directors and officers insurance.

More than two thirds of foreign life companies failed to make a profit in 2013. The property and casualty companies performed marginally better – 11 companies were profitable while 10 generated losses. Several property and casualty companies recorded significant losses.

## Premium growth

Most life companies anticipate premiums to grow by more than 20% in both 2014 and 2017.

Property and casualty companies are less optimistic. Most expect premium growth in the 10% to 15% range in 2014, and half the participants expect premium growth to fall below 20% in 2017.

## Products in demand

On the life side, high levels of demand were predicted for retirement products and critical illness products. The aging population and the growing awareness of health insurance will contribute to demand for these products. Group health insurance and corporate accident insurance were also seen as important wholesale products.

The opening up of the motor insurance market to foreign insurers, given that it represents 70% of property and casualty premium, means that participants ranked it in top place.

This is followed by personal accident and travel insurance. Motor insurance premium is expected to grow by around 15% in both 2014 and 2017 based on the opinions of 10 participants.

At the wholesale level, the top three products were identified as general liability, commercial property and marine insurance.

## Skill shortages are evident

From a list of 14 different job functions, the three that were deemed most difficult to fill were sales force managers, branch managers and digital marketing personnel. Underwriting was in fourth position.

The importance attributed to personnel with digital marketing skills confirms earlier observations on the rollout of internet finance.

## Staff turnover is stable

Staff turnover is predicted to remain the same in 2014 and 2017, with most participants predicting turnover in the 10% to 15% range. However, six companies forecast 20% or above.

Salaries are expected to increase by around 7% to 8% in 2014.

## Summary

As noted at the beginning of this section, there are game-changing forces underway in the Chinese financial markets at large and within the insurance sector. There are many reasons to support increased involvement by foreign insurers.

It is hard to ignore the myriad of forces underpinning positive changes. These include the promised wide-ranging financial reforms, underlying demographics, the scale and scope of the internet and high mobile usage, new technologies, big data, etc. Participants in this survey predict annual premium growth in life companies of around 20%, and approximately 10% to 15% in property and casualty companies. These forecasts point to an optimistic future.

But the China insurance market has been a difficult one to unlock and in which to chart successful marketing strategies. Past technology advantages have failed to deliver the expected results. Many foreign insurers are unprofitable. The regulatory environment remains difficult. The top five domestic companies in both the life and property and casualty markets dominate.

Foreign insurance brands remain relatively unknown, and the excitement around digital marketing, while real, is yet to reach critical mass. Seasoned foreign insurance companies' CEOs are optimistic, but their optimism is measured. There have been many false dawns. However, if what has been discussed materializes, then it could be said that we are poised for a paradigm shift.

Some foreign insurers have already made bold decisions and strong commitments to their future in China. If these companies are followed by others, if Chinese buyer behavior towards insurance continues to evolve and the regulatory environment opens up, then momentum will grow and we will enter a new era for foreign insurers in China.

Finally, just as this report was going to print, a further development added momentum to the reform process.

On 13 August 2014, a statement posted on the State Council's website announced plans to boost developments in the insurance sector. The new measures plan to raise premium income to 5% of GDP by 2020, an increase from around 3% in 2013. Average insurance spending per capita is forecast to rise to RMB3,500 in 2020, from around RMB1,300 in 2013.

Various commentators suggest that this new strategic initiative will elevate the importance of the insurance sector, and provide further opportunities for growth. While the new measures are directed at the industry in general, foreign insurers should also be able to benefit from the planned expansion.

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# Overview of the current situation

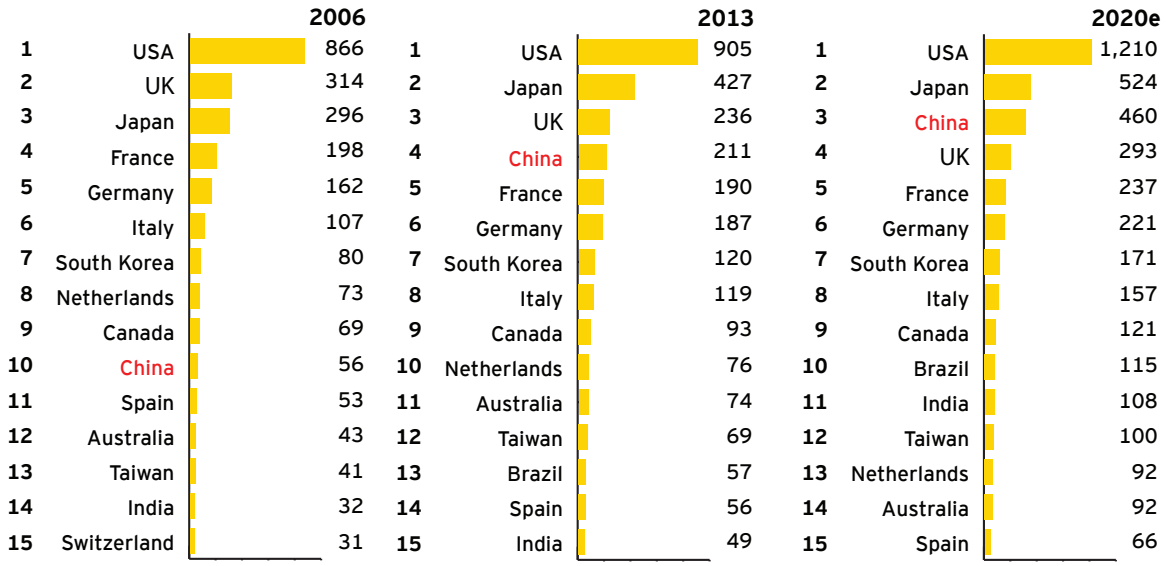
## The importance of the Chinese insurance market

China's insurance industry has experienced strong growth over the last decade. On the life side, low penetration rates, an aging population, financial reform and a growing middle class will continue to drive this growth.

Property and casualty insurance has also experienced steady growth. Over 70% of this market is driven by motor insurance but other areas including property, cargo, liability, accident and health are also growing.

As a result, based on premium volume, China, which was in tenth position in 2006, moved up to fourth position in 2013 and will, according to Munich Re's estimate, reach third place in the global market by 2020.

Figure 1:
Global ranking of primary insurance markets by premium volume, in Euro billions




Source: Munich Re Economic Research

## Concentration in the Chinese insurance market

The insurance market in China remains highly concentrated. On the life side, the top five players, China Life, Ping An Life, New China Life, China Pacific Life and PICC Life, controlled 75% of the total market at the end of 2013. If the top 10 companies are considered, the aggregate market share increases to 86%.

On the property and casualty side, the top five players, PICC P&C, Ping An P&C, CPIC P&C, China Life P&C and China United Property, comprise 74% of the total market. The number increases to 85% if the top 10 companies are included.

## Market share of foreign life companies

For foreign life insurance joint-venture companies, market share has increased modestly in the last two years from 4.0% in 2011 to 5.6% in 2013.

The year-end market share figure for 2013 takes the 28 foreign life insurers back to where they were in 2010, but it is still significantly below their market share peak of 8.9% in 2005. The largest foreign life insurer ICBC-AXA does not rank in the top 10 insurers in China.

## Market share of foreign property and casualty companies

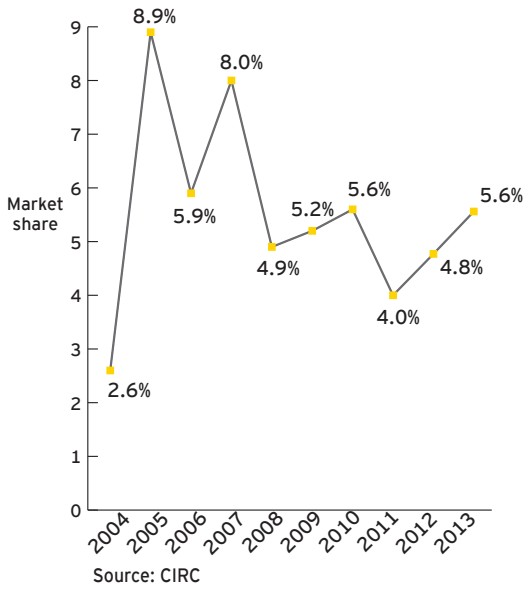
The 21 foreign property and casualty insurers have followed a more predictable path on market share. At the end of 2013, they had just 1.3% of the market, having moved within a narrow range for the last 10 years.

Although foreign property and casualty insurers continue to hold a very small market share, this will change in 2014 as recent developments will almost double their market share. These new developments include foreign property and casualty insurers' entrance into motor insurance as well as recent acquisitions.

If the AXA-Tianping merger were added to the foreign total, the 2013 market share would rise to 2.1%, and with Dazhong Insurance it would move further to 2.3%.

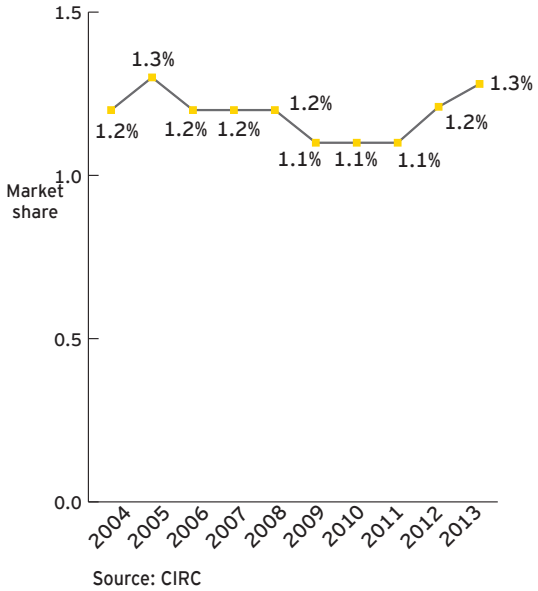
The largest foreign property and casualty insurer Groupama Avic falls outside the top 30 list in the property and casualty market.

**Figure 2**
**Market share of foreign life insurers (2004 to 2013)**




Source: CIRC

**Figure 3:**
**Market share of foreign property and casualty insurers (2004 to 2013)**



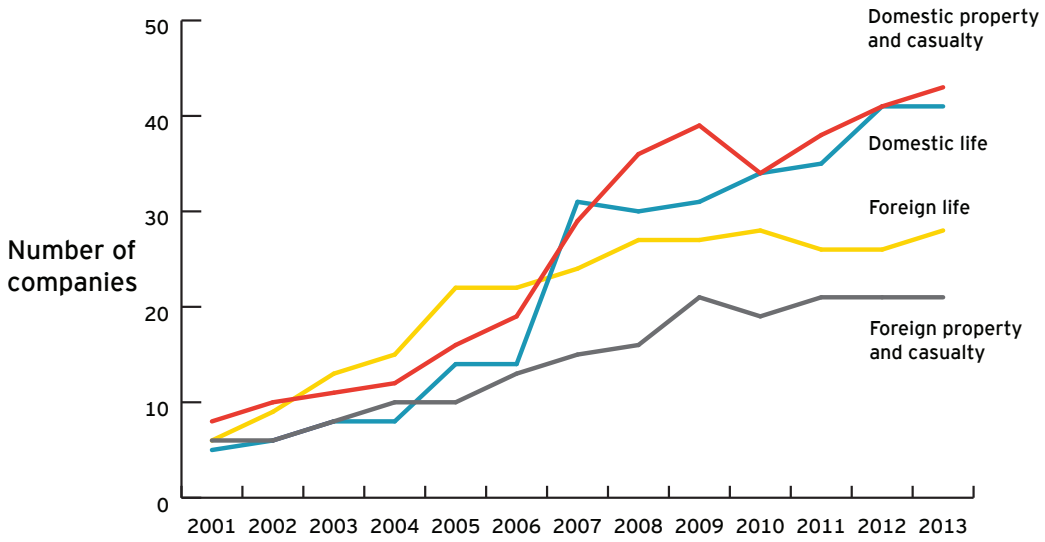

Source: CIRC

## Number of insurance companies

The number of insurance companies has expanded steadily since 2001.

As the chart below indicates, there are now 42 domestic life companies and 43 domestic property and casualty companies competing with the foreign insurers. In 2013, there were 28 foreign life and 21 foreign property and casualty companies.

Figure 4:
Growth in the number of life and property and casualty insurers (2001 to 2013)

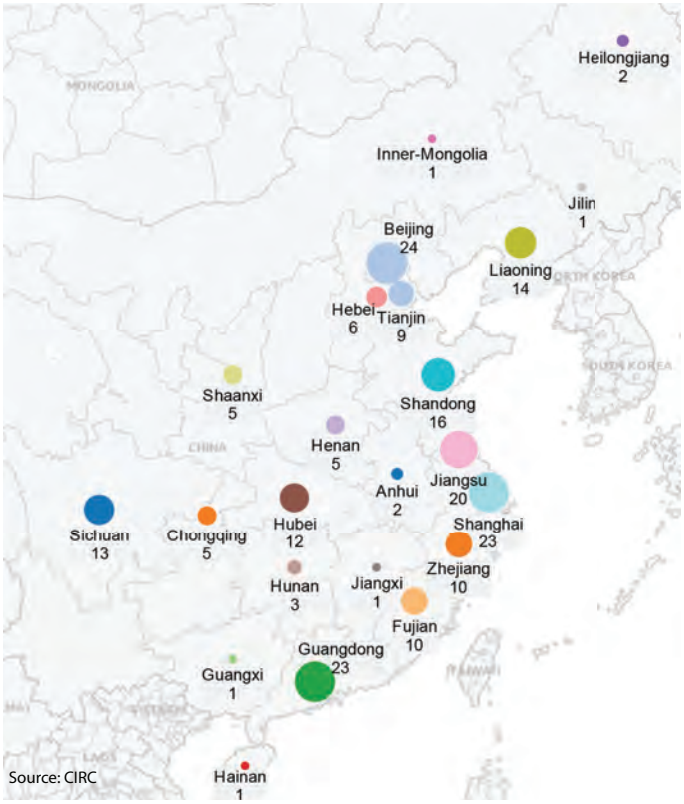



Source: CIRC

## The foreign insurers' geographic presence

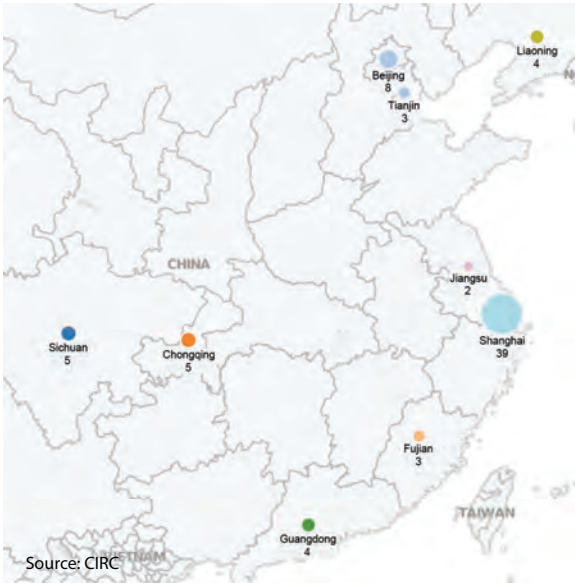
The foreign insurance companies have focused their operations on the east coast. In terms of offices, three major centers for foreign life companies are Beijing, Shanghai and Guangdong. A breakdown of the foreign property and casualty branches shows a less developed distribution pattern with a very strong emphasis on Shanghai.

Figure 5:
Distribution of the offices of the foreign life insurance companies in China



Source: CIRC

Figure 6:
Distribution of the offices of the foreign property and casualty insurance companies in China



Source: CIRC

## Representative offices

According to the CIRC website, foreign insurance companies have 144 representative offices in China. However, the actual number of companies represented is much smaller than this total number since many companies have multiple offices.

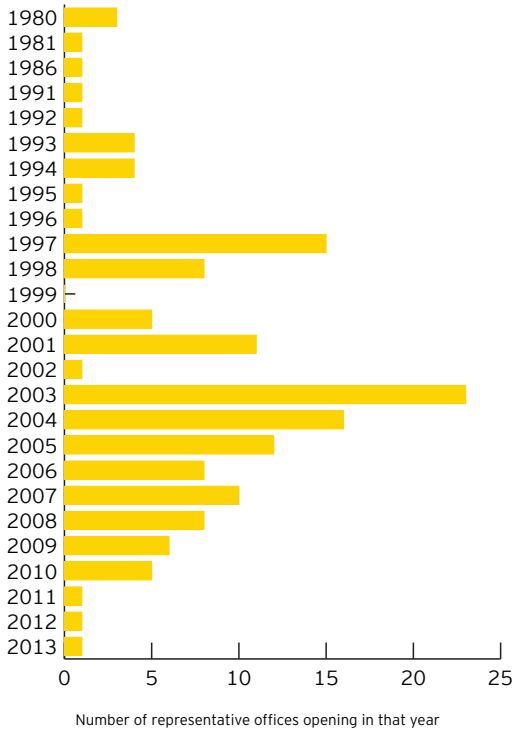
In addition, many of the foreign companies that are already present in China as life joint-ventures or property and casualty subsidiaries still have representative offices on the CIRC list.

The complete list of representative offices downloaded from the CIRC website as at June 2014 is shown in the Appendices. CIRC data records the establishment date for each location.

As figure 7 below indicates, the number of new representative offices peaked in 2003. In that year, 23 new representative offices were set up.

Since then, the rate of expansion has steadily declined. Only one office was opened in 2011, 2012 and 2013 respectively.

Figure 7:
Representative offices for foreign insurance companies in China




Source: CIRC

# Some background statistics on the participants to the survey

## Life companies

**Life insurance agents**
Twelve companies provided data on the number of agents they employed in 2014 and the number they expect to employ in 2017. Overall, a 34% increase is anticipated with the companies employing 92,000 agents in 2017. Three companies currently employ more than 10,000 agents each. Six additional companies will each employ 5,000 or more agents by 2017. As a result, nine companies that participated in this survey will attach major significance to the agency channel in the future.

**Life insurance employees**
Twelve companies employ 14,750 people and expect to expand by 60% to 23,600 people by 2017. The number of non-PRC employees was 82 or just 0.6% of total employees in 2014. It is expected to decline further to 0.3% by 2017.

**Internet customers**
Nine companies provided estimates of the number of internet customers. They expect this number to grow from 125,000 at present to 1.8 million by 2017.

**Individual policyholders**
The number of individual policyholders for 11 companies will expand from 5.5 million at present to 9.3 million by 2017.

## Property and casualty companies

**Branches**
Fifteen property and casualty companies responded that their current 75 branches would expand to 110 by 2017. The number of sub-branches or sales and service centers will increase from 222 in 2014 to 431 by 2017.

**Property and casualty insurance employees**
The total number of employees for 15 property and casualty companies will almost double from 12,843 people in 2014 to 23,625 people by 2017. The percentage of non-PRC employees will decline from 1.2% in 2014 to 0.8% in 2017.

**Internet customers**
Only one company provided an internet customer estimate, which suggests that the property and casualty companies have not yet begun to address their growth targets for the channel.

**Individual policyholders**
Only six companies were able to provide policyholder data. However, substantial increases are expected from 12.5 million in 2014 to 26.1 million in 2017.

# Marketplace dynamics

The major changes evident in the survey displayed some common themes and some significant differences between the life and property and casualty companies.

## Common themes

Three common themes were identified by both life and property and casualty insurers:

- Digital marketing
- Financial reforms: these are not just confined to reform in the insurance sector as changes in the banking and asset management sectors will also impact on insurance
- The Shanghai FTZ

## Life company changes

The life companies identified the following changes:

- The liberalization of policy rates
- A more customer-centric approach, in part resulting from changing customer needs
- Relaxation of investment rules, which permit new investment classes
- Tax changes on estate planning
- Future evolution of the bancassurance model: one participant predicted a decline in bancassurance premium growth

## Property and casualty company changes

The property and casualty companies highlighted the following changes:

- The development and growth of agri-insurance
- Deregulation of rates
- Opening up of the third-party liability business in the motor insurance market: one large foreign insurer stated that the Government had a clear desire to open up the market and that a more level playing field should emerge. Interestingly, a foreign insurer commented that domestic companies were moving out of motor insurance and into other types of property and casualty insurance. Motor insurance currently accounts for 70% of the property and casualty market

## Other general observations

Foreign property and casualty insurers noted the challenge of entering the motor insurance market without having a geographic footprint to service customers. This conundrum is discussed later in the report, in the context of evolving patterns of consumer behavior and the use of digital marketing.

The increased likelihood of mergers and acquisitions in the property and casualty sector was anticipated. Participants cited for example the recent CPIC and Allianz joint-venture, CPIC-Allianz Health Insurance.

In August 2013, the *Wall Street Journal* reported that both Zurich and Liberty Mutual were interested in Sinosafe, China's tenth largest general insurance company.

A relatively new property and casualty company mentioned the revised capital requirements for new entrants.

As of May 2013, new entrants must allocate varying amounts of capital depending on the number and type of businesses they plan to enter.

For example, "basic" businesses include motor, commercial property, homeowners, liability, marine, cargo, short-term healthcare and accident insurance. "Expanded" businesses are agricultural, specialized risk, credit, surety and investment-type insurance. If the new entrant applies for one type of basic business, they must have RMB200 million of capital. Applying for each additional type of basic business requires an additional RMB200 million of capital.

# Forces driving change

Participants were asked to rank the top five factors (from a list of 21) driving change in the insurance market.

The results are shown separately in the charts overleaf for both life and property and casualty companies.

## Life companies

On the life side, digital marketing ranks in top position ahead of regulatory changes and the aging population. These three drivers rank ahead of the next group which include capital market evolution, urbanization and technology.

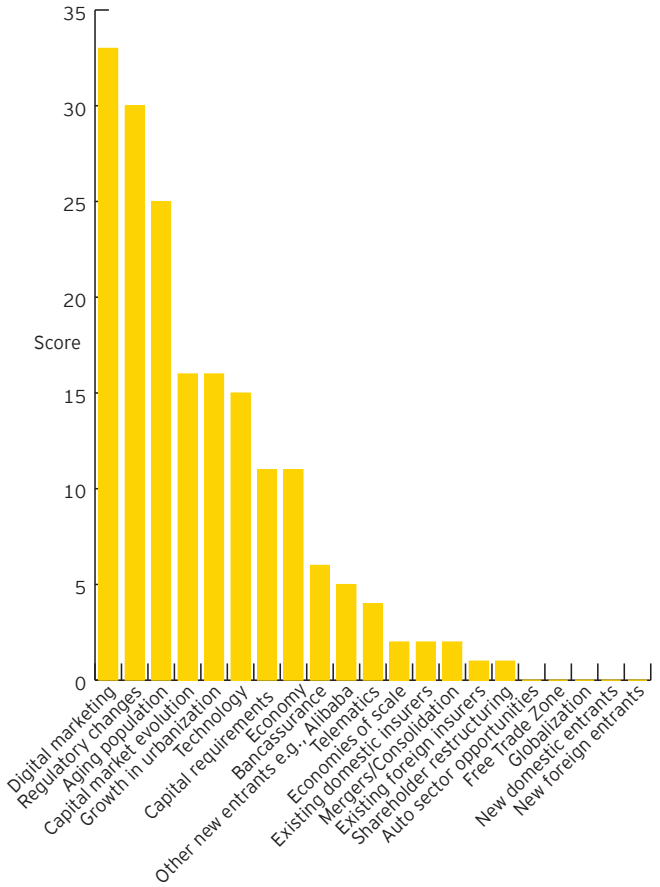
In a separate section of this report, digital marketing is discussed in more detail. It is acknowledged that the push to digital marketing gained momentum in mid 2013, and is viewed by most participants as an important priority.

Regulatory forces are also considered to be very important. Some participants suggested that the transition to digital marketing is running ahead of the regulatory framework.

China's aging population is an important driver for the life companies across a range of products including investment, health and retirement.

China is forecast to become the world's most aged society in 2030. Furthermore, by 2050, the population aged 65 and over will rise to 330 million, or a quarter of the total population.

**Figure 8:**
**Change factors for life companies**




Based on the survey responses of 12 life companies

## Property and casualty companies

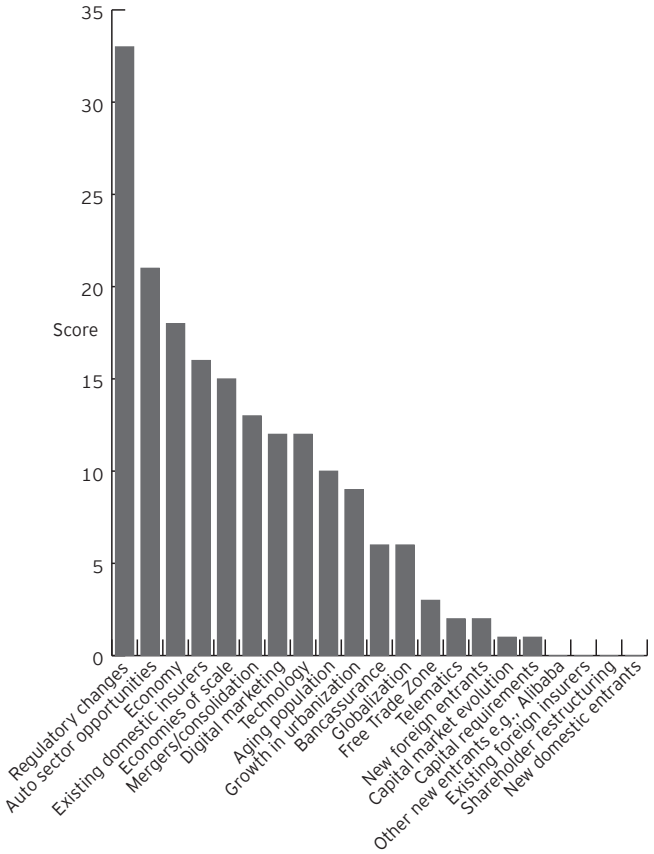
Regulatory changes are considered the most important driver of change by the property and casualty companies. Although some foreign companies have already entered the motor third-party liability (MTPL) market, others are still waiting for approval.

CIRC's future policies on a range of different product areas will also define the scope of foreign companies' activities.

In second place are auto sector opportunities, which confirms the significance of this sector for the foreign companies.

In third place is the domestic economy. Interestingly, existing domestic insurers and mergers and consolidation are also viewed as important agents of change.

**Figure 9:**
**Change factors for property and casualty companies**




Based on the survey responses of 12 property and casualty companies

## Domestic insurers represent the greatest threat

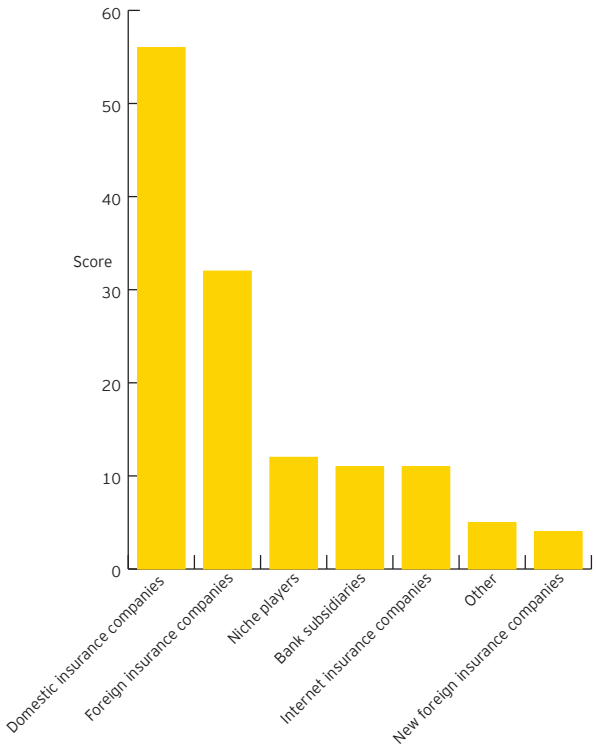
The greatest competition for foreign insurers over the next five years will come from their domestic counterparts.

They perceive major challenges from companies such as China Life, Ping An Life, Taikang Life, New China Life and Taiping Life. On the property and casualty side, they cited PICC P&C, Ping An P&C, CPIC P&C, and a range of mid-sized companies.

One property and casualty participant mentioned the threat from second-tier companies such as Sunshine P&C, Huatai and China Continent P&C.

The second key source of competition was identified as the immediate peer group of foreign companies. Depending on the specific niche markets that the foreign insurer has targeted, other foreign companies are expected to be major competitors.

**Figure 10:**
**Sources of competitive threats to foreign insurers in the next five years**




Based on the survey responses of 23 companies

For example, in the auto insurance market, if a foreign insurer was to target affluent car owners, then it can be expected that they will face formidable competition from both domestic and foreign companies in Tier 1 cities.

Several foreign life companies that currently use bank channels feel threatened by the changing bancassurance market.

The "other" category in figure 10 includes: new local insurers and internet companies moving into the insurance space.

## Uncertainties in the marketplace

Although participants are optimistic about future growth opportunities, their views are tempered by a range of uncertainties in the marketplace.

The property and casualty participants are unsettled by the apparent disconnection between the domestic market and the international market. While the international market is driving up rates, China remains overly competitive with a proliferation of suppliers and significant downward pressure on pricing. A variety of companies voiced concerns on profitability.

A North American property and casualty participant said that domestic companies were increasing their presence in niche markets. This development is often preceded by domestic companies hiring skilled talent from foreign companies with a presence in these more attractive market segments.

The bold moves by some foreign players to acquire and take control of domestic insurers has captured the attention of other foriegn insurers hoping to expand more aggressively. However, this new potential pathway to growth is viewed with uncertainty by some foreign players.

Several participants expressed concerns over the stability of some medium-sized domestic insurers.

Finally, some property and casualty participants indicated that they had not been spending enough on technology, particularly at the consumer level. They contrasted this with companies such as Ping An. Participants cited Ping An's investment in telemarketing and customer service. They believe that this has improved Ping An's overall competitiveness, and that they have been left behind by this company's growing market share.

The life participants raised uncertainties around:

- The evolution of the capital markets
- Stability of the domestic economy
- The regulator's future stance on deposit replacement products
- The new solvency system and future capital requirements
- The future of bancassurance
- Agency recruitment and future distribution channels

# Participants' assessment of competition in a variety of different insurance markets

Participants commented on the level of competition in a number of different areas of insurance and indicated whether they believe the competition was increasing, declining or remaining the same.

## Traditional insurance

For traditional insurance, the majority of participants believe the marketplace is intensely competitive and competition is increasing. Only two participants believe there is a moderate level of competition.

Figure 11:
Traditional insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ****** | **** | |
| Moderate | * | * | |
| Light | | | |

Based on the survey responses of 12 companies

## Investment-linked insurance

For investment-linked products, two thirds of participants contend that competition is moderate and half feel that the level remains the same.

One could expect this area to become more competitive as the savings market continues to deregulate and the product offerings become increasingly sophisticated.

This trend will make financial consumers better informed, more aware of their options and more discerning.

Figure 12:
Investment-linked insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | **** | | |
| Moderate | ** | ****** | |
| Light | | | |

Based on the survey responses of 12 companies

## Protection insurance

Although the Government continues to widen the adoption and use of insurance for protection, the participants believe that the level of market interest results in moderate levels of competition.

Just over one-third of respondents believe competition for protection services remains stable while the remainder believe it is increasing.

Figure 13:
Protection insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ** | | |
| Moderate | **** | ***** | |
| Light | * | | |

Based on the survey responses of 12 companies

## Health insurance

In health insurance, competition is increasing. However, of the 16 participants who responded to this question, only six believe competition is intense. The majority, or 10 participants, argue that competition levels are moderate at present.

As this market continues to open up and broaden, competition is expected to increase further.

**Figure 14:**
**Health insurance – marketplace competition**

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ****** | | |
| Moderate | ***** | ***** | |
| Light | | | |

Based on the survey responses of 16 companies

## Personal accident insurance

Competition in the personal accident insurance market is fairly evenly split between intense and moderate.

The majority of participants believe that the level of competition remains the same.

**Figure 15:**
**Personal accident insurance – marketplace competition**

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ****** | ***** | |
| Moderate | ** | ****** | |
| Light | | | |

Based on the survey responses of 19 companies

## Group life insurance

Group life insurance is a highly competitive market and only two companies rate it as moderate. Five companies believe that the already intense level of competition is increasing.

**Figure 16:**
**Group life insurance – marketplace competition**

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ***** | ****** | |
| Moderate | | ** | |
| Light | | | |

Based on the survey responses of 13 companies

## Group accident and health insurance

Group accident and health displays similar characteristics to group life. Again, it is perceived to be intensely competitive. Eleven companies think the competition remains the same, while seven believe it is continuing to intensify.

Figure 17:
Group accident and health insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ***** | ****** *** | |
| Moderate | ** | ** | |
| Light | | | |

Based on the survey responses of 18 companies

## Auto insurance

Auto insurance, in which the foreign insurers are becoming more engaged, is viewed as intensely competitive. Only one participant expressed a contrary opinion and maintained the competition was moderate.

Going forward, with the addition of foreign insurers, it is anticipated that competition will increase further.

Figure 18:
Auto insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ****** | *** | |
| Moderate | | * | |
| Light | | | |

Based on the survey responses of 10 companies

## Commercial property insurance

Commercial property insurance is also recorded as an intensely competitive market. In this assessment, one property and casualty insurer expressed the view that competition for commercial property insurance was moderate and indeed declining.

Figure 19:
Commercial property insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | **** | ****** * | |
| Moderate | | | * |
| Light | | | |

Based on the survey responses of 12 companies

## Homeowners insurance

Homeowners insurance, which has failed to gain the attention of the Chinese householders, similarly has not sparked the involvement of the foreign insurers. Only six participants responded to this question and five categorized competition as light with no identifiable increase in competitive activity.

Figure 20:
Homeowner insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | | | |
| Moderate | | * | |
| Light | | ***** | |

Based on the survey responses of 6 companies

## Cargo and transportation insurance

Responses to cargo and transportation insurance remain entirely within the intense competition category, with seven companies suggesting that competition continues to grow.

Figure 21:
Cargo and transportation insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | ****** * | ****** | |
| Moderate | | | |
| Light | | | |

Based on the survey responses of 13 companies

## Liability insurance

Finally, liability insurance, as stated elsewhere in the report, is seen as an attractive niche for several foreign insurers. Therefore it was perceived as an area of moderate competition, although this appears to be changing.

Figure 22:
Liability insurance – marketplace competition

| | Increasing | Same | Declining |
|---|---|---|---|
| Intense | *** | | |
| Moderate | ** | *** | |
| Light | | | |

Based on the survey responses of 8 companies

# Challenges faced by foreign insurers

Participants were asked to score a number of challenges on a scale of 1 to 5, where 5 represents maximum difficulty. Results were then displayed on a central axis representing a neutral score of 3. Challenges shown to the right of the axis scored above 3, while those on the left scored below 3.

## Life companies

The life insurers find the insurance industry regulations to be the most difficult part of doing business in China. This is closely followed by the strength of the domestic insurers and bancassurance.

There is also a recognition that as the domestic insurers increase their presence and capability, the limited brand awareness of the foreign insurers is an important concern. The threat of new domestic entrants in the digital space will continue to elevate this concern.

Foreign insurers recorded a neutral score which implies that the participants view their competition as the big domestic insurers, and have little concern over the competition posed by their foreign counterparts.

## Property and casualty companies

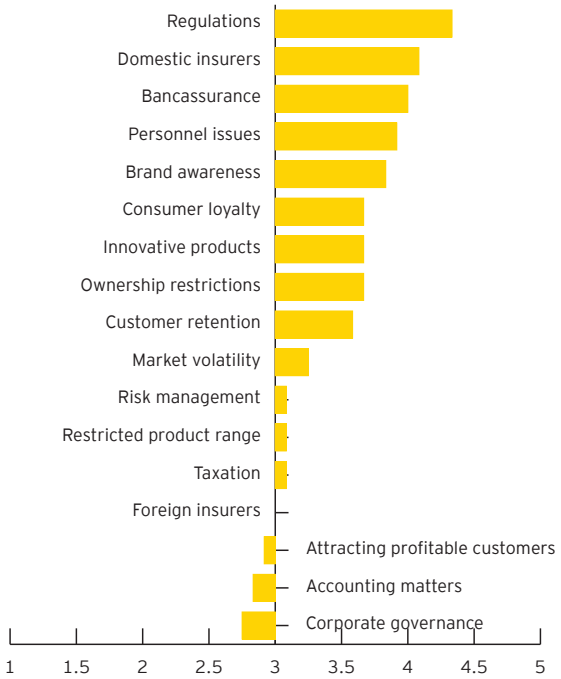
For the property and casualty insurers, the order of the most difficult aspects of doing business in China shifts slightly. In top place for the property and casualty insurers is personnel, followed by regulations, domestic insurers and brand awareness.

Customer retention and consumer loyalty are also important concerns for these insurers.

Bancassurance, in contrast to the life insurers, is not a concern for the property and casualty insurers.

As expected, as wholly-owned subsidiaries, the property and casualty insurers expressed little concern over shareholder issues, in contrast to the joint-venture life companies who placed it in eighth position.

**Figure 23:**
**What makes doing business in China difficult for life companies?**




Based on the survey responses of 12 life companies

**Figure 24:**
**What makes doing business in China difficult for property and casualty insurers companies?**

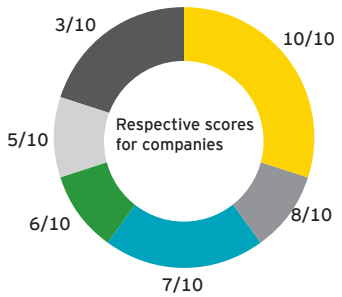

Based on the survey responses of 12 property and casualty companies

## Support coming from the domestic partner in a joint-venture life company

A mixed response was apparent when the life companies were asked to comment on the level of support from their domestic partners.

Of the 10 life companies that responded to this survey question, only four participants recorded support levels of 8 or higher on a scale of 1 to 10 where 10 represents maximum support, while two companies suggested domestic support at 3 out of 10.

Figure 25:
Support from domestic partner in joint-venture




Based on the survey responses of 10 life companies

## Anticipated reshuffling in joint-ventures

Commenting on the foreign life insurance sector, there was unanimous agreement that at present there are significant shareholder restructuring discussions underway.

As a result, it can be confidently predicted that a number of joint-venture arrangements will change in the next 12 months.

Figure 26:
Several joint-venture shareholdings will change


Based on the survey responses of 9 life companies

## Future sustainability of bancassurance

As the chart confirms, the majority of life insurers believe that the current bancassurance model is not sustainable.

This emphatic statement, however, masks a range of views held by the life insurance participants. The participants expressed major concerns with the banks' focus on low margin products, and questioned their sales practices. In the participant's opinion, the withdrawal of insurance personnel from bank branches has reinforced the emphasis on unsophisticated products and put the value and image of insurance products at risk.

It has also undermined the role of insurance in the minds of consumers as a protection product or as a long-term investment product.

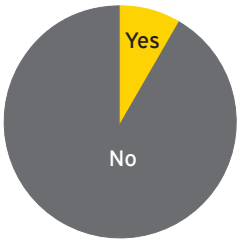
Despite this, foreign insurers remain interested in the banks as a distribution channel. One participant indicated they were piloting high-end products in medical and travel insurance with the banks.

Another expressed interest in how things might evolve with financial reform, interest rate liberalization and the future migration paths of bank deposits.

However, many participants recorded more negative assessments such as weak compliance, misleading sales practices, high commissions and very decentralized decision making.

They suggested that banks were only able to satisfactorily service "walk-ins" and are only adequately skilled to offer simplified insurance products to the lower levels of the banks' customer bases.

Figure 27:
Is bancassurance sustainable?




Based on the survey responses of 12 life companies

## The banks are not perceived to be a threat to foreign insurers

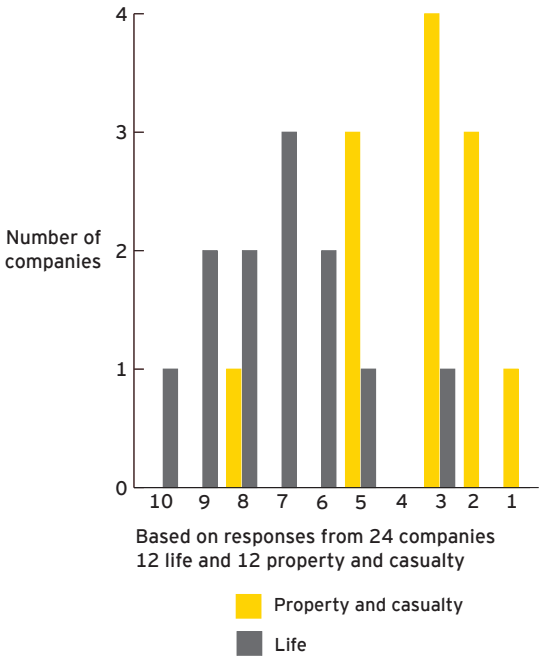
So how great a threat do the banks represent to the insurance market?

On a 1 to 10 scale where 10 is the maximum level of threat, only one life participant recorded a 10.

In general, life companies indicated that banks pose a moderate threat, while the property and casualty participants seem to be unconcerned.

On the contrary, several participants believe that the increase in digital distribution by insurers will pose an elevated threat to the banks.

Figure 28:
Magnitude of bancassurance threat



## Bancassurance marketing regulations

On 1 April 2014, the CIRC and CBRC introduced stricter regulations on marketing insurance through the bank channel. These new regulations were as follows :

1. A reinstatement of the former "three insurers rule" whereby bank branches were limited to offering insurance products from only three different insurance providers. The policy had been relaxed for several years, but its reintroduction will impact the foreign insurance companies. For example, given that most domestic banks have their own insurance subsidiaries, the insurance subsidiary of the bank will account for one of the three providers. It is then likely that the second provider will be filled by one of the large domestic insurers.

At best, the third position would be taken by a foreign provider, but this could equally go to another larger domestic company or an innovative mid-sized domestic company.

2. The cooling-off period for insurance policies sold with a term of one year or beyond will be extended from 10 to 15 days.

3. To reduce the level of mis-selling, banks will undertake a risk analysis of their customers and only sell products that satisfy this risk assessment. As a result, higher risk, low income and older customers should only be sold products with guaranteed cash values.

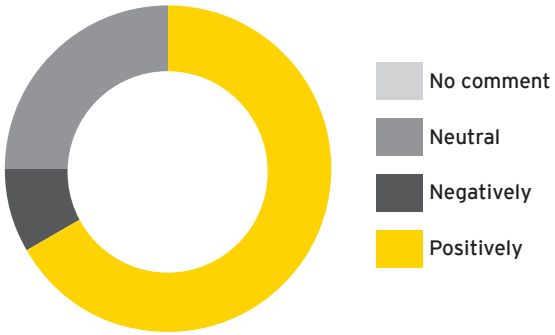
4. To reduce the overall risk of bancassurance, banks will be required to generate at least 20% of premiums from "lower risk" policies.

From a foreign insurance company's perspective, these new rules will further limit their ability to sell through the bank channel. However, if they can contribute something innovative and creative for the banks through, for example, product development, technology or platform synergy, then they may be able to create meaningful "strategic partnerships". In doing so, they will be able to access a channel to customers that would otherwise be out of reach.

## Head office adds support to their China operations

The life participants suggested that they have received elevated support from their head offices over the last year. The global insurance companies continue to be attracted by the strong growth in the Chinese insurance market. Relative to other developing markets, some of which have faltered in the last year, China still garners strong interest.

Figure 29:
Has support from head office changed in the last 12 months?




Based on the survey responses of 12 life companies

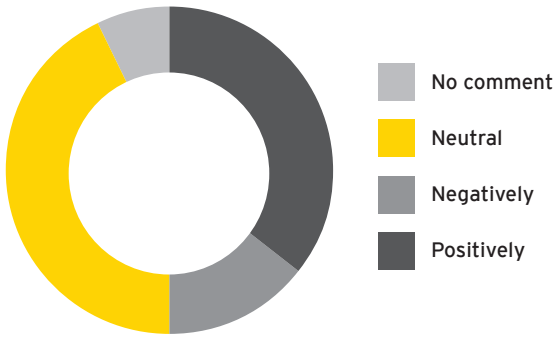
Commenting on the AXA-Tianping deal, AXA's chairman and chief executive, Henri de Castries, said, "This acquisition provides AXA with unique direct distribution capabilities in the fast-growing P&C insurance market in China."

"It further strengthens the profile of AXA's global P&C franchise and is another stepping stone towards our ambition to accelerate further in high-growth markets."

*Source: AXA Company statement, April 2013*

A third of the property and casualty insurers recorded a positive trend, while almost half opted to record neutral or a continuation of the status quo. Those suggesting a positive trend noted that growing head office support was accompanied by higher expectations.

Figure 30:
Has support from head office changed in the last 12 months?




Based on the survey responses of 14 property and casualty companies

The Starr group, led by Maurice "Hank" Greenberg, the former chief executive of AIG, has taken control of Dazhong Insurance in a deal described by the company as the first foreign takeover of a state-backed Chinese general insurer.

"We'll make whatever changes we need to make," he said of the company he has taken private. "It's not a state-owned enterprise so we will be able to have more flexibility...."

"It'll be a big company," Mr. Greenberg said. "I've always liked building and that is what I am doing."

*Source: Dealbreaker, 19 March 2014*

## Head office support is expected to increase

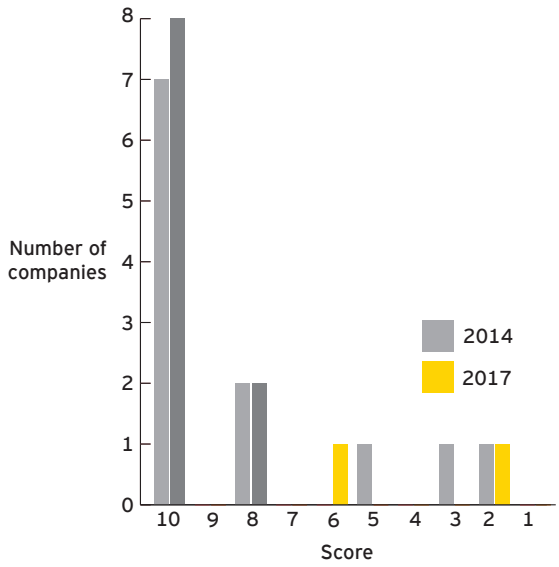
In a related question, participants were asked to quantify head office support in 2014 and project forward three years to 2017.

### Life companies

On the life side, seven participants indicated they were receiving the maximum level of support from head office in 2014 and eight indicated the maximum level of support for 2017. Two more companies recorded 8 out of 10 for both 2014 and 2017.

At the other end of the scale, a couple of life participants, who clearly have joint-venture issues, recorded very low support levels for both 2014 and 2017.

Figure 31:
Head office support for life operations in 2014 and 2017




Based on the survey responses from 12 companies for 2014 and for 2017

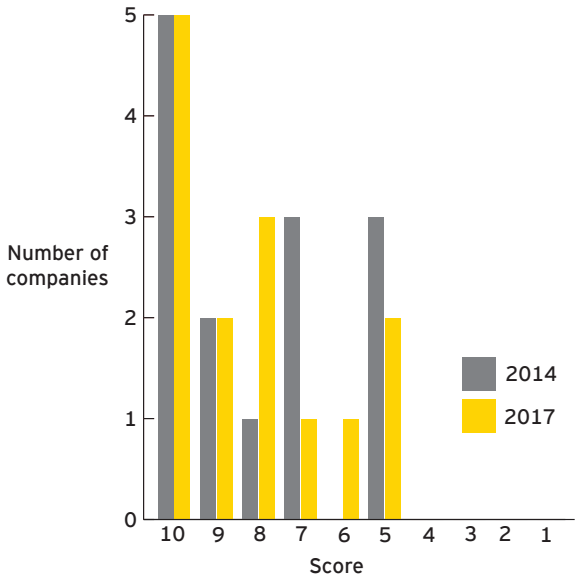
## Property and casualty companies

The property and casualty companies also anticipated strong head office support. Eight companies recorded scores of 8 or above for 2014, rising to 10 companies for 2017.

None of the participants indicated scores below 5 for 2014 or 2017. The trend also seemed to be moving upwards.

However, the property and casualty companies noted that they were competing with other high growth markets such as Turkey, Brazil, Mexico and Malaysia.

Figure 32:
Head office support for property and casualty operations in 2014 and 2017




Based on the survey responses from 14 companies for 2014 and for 2017

# The geographic footprint of foreign insurers

Foreign insurers have primarily set up their initial operations in Shanghai, Beijing, Guangzhou and Shenzhen.

There are of course exceptions to this, and below are some examples of head office locations. On the life side, the head office of Great Eastern Life is in Chongqing, Heng An Standard Life in Tianjin, and King Dragon Life in Fujian; while on the property and casualty side, Groupama Avic is in Chengdu, Liberty Insurance in Chongqing, Aioi Nissay Dowa Insurance (China) in Tianjin and Sompo Japan Nipponkoa Insurance (China) in Dalian.

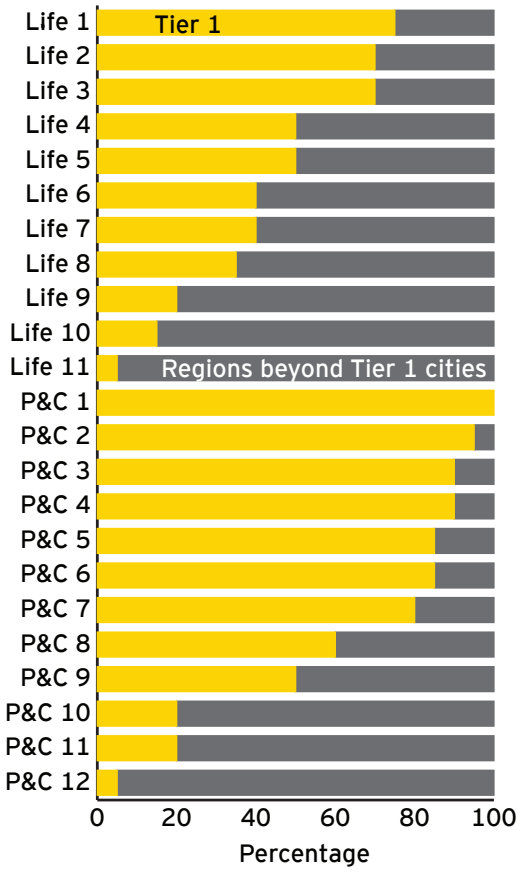
Figure 33 shows that Tier 1 cities are relatively more important to the property and casualty companies. Only four companies have more than 50% of their business outside the Tier 1 cities.

In contrast, around half of the life respondents said they had more than 50% of their business in Tier 1 cities. Three life respondents have a very large portion of their business beyond Tier 1 cities.

These allocations are very important as the foreign insurers expand geographically and meet strong competition from regional domestic insurers.

The opening up of the MTPL (motor third-party liability) market will present special challenges to the foreign insurers entering the motor insurance market with their very limited on-the-ground presence.

Figure 33: Breakdown of the geographical distribution of the company's total business in China between Tier 1 cities and regions beyond Tier1 cities




Based on the survey responses of 23 companies

## What is a Tier 1 city in China?

Tier 1 cities are large, densely populated metropolises, with higher income levels and more developed consumer behavior.

Foreign financial institutions have typically set up their operations in these cities. They include Beijing, Shanghai, Guangzhou and Shenzhen, and often also include Tianjin and Chongqing.

Tier 2 cities include provincial capitals, sub-provincial cities, Special Economic Zones (SEZs), and other more developed cities. Definitions vary for Tier 2, 3 and 4 cities, however, and around 600 cities can be placed into these categories.

## Regional insurers are considered to represent a threat

As the foreign insurers expand, they will seek to open more branches outside the Tier 1 cities.

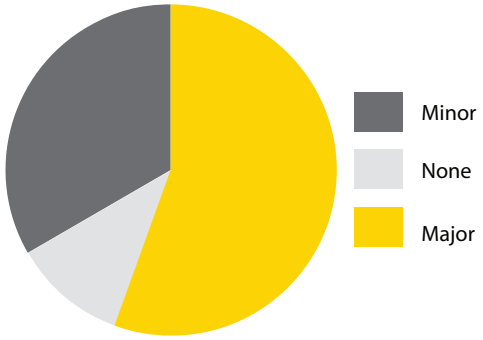
As a result, they will seek to set up in Tier 2 cities and perhaps also venture into Tier 3 and Tier 4 cities.

They believe the fast growing regional insurers represent aggressive competition. They will make winning business in these cities challenging.

On the life side, it is interesting to note that ERGO, the German insurer, has opened its business in Jinan, the capital of Shandong Province. Its partner is an agency of the provincial government.

In choosing Shandong with a population of 97 million, ERGO has clearly selected a "Beyond Tier 1" strategy.

**Figure 34: Impact of regional insurance companies on the foreign insurers' business**



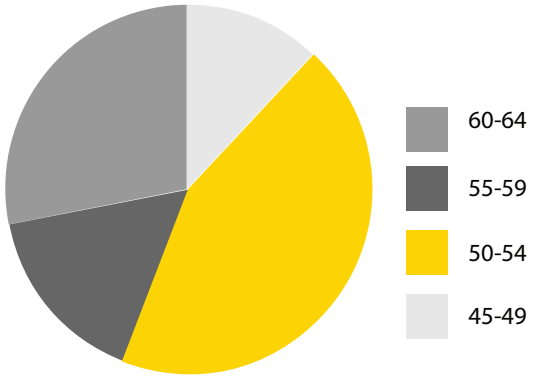

Based on the survey responses of 18 companies

## Few new companies expected to enter the market

Given that there are around 50 foreign insurers in China currently, the participants suggest that there will be few new entrants.

Most newcomers are likely to originate in Asia, with more Taiwanese entrants expected.

**Figure 35: Expected number of foreign insurers in the market by 2017**




Based on the survey responses of 23 companies

# 4

# Regulatory dynamics

## Regulatory issues

This section highlights four important regulatory developments that are being closely followed by foreign insurers. They are:

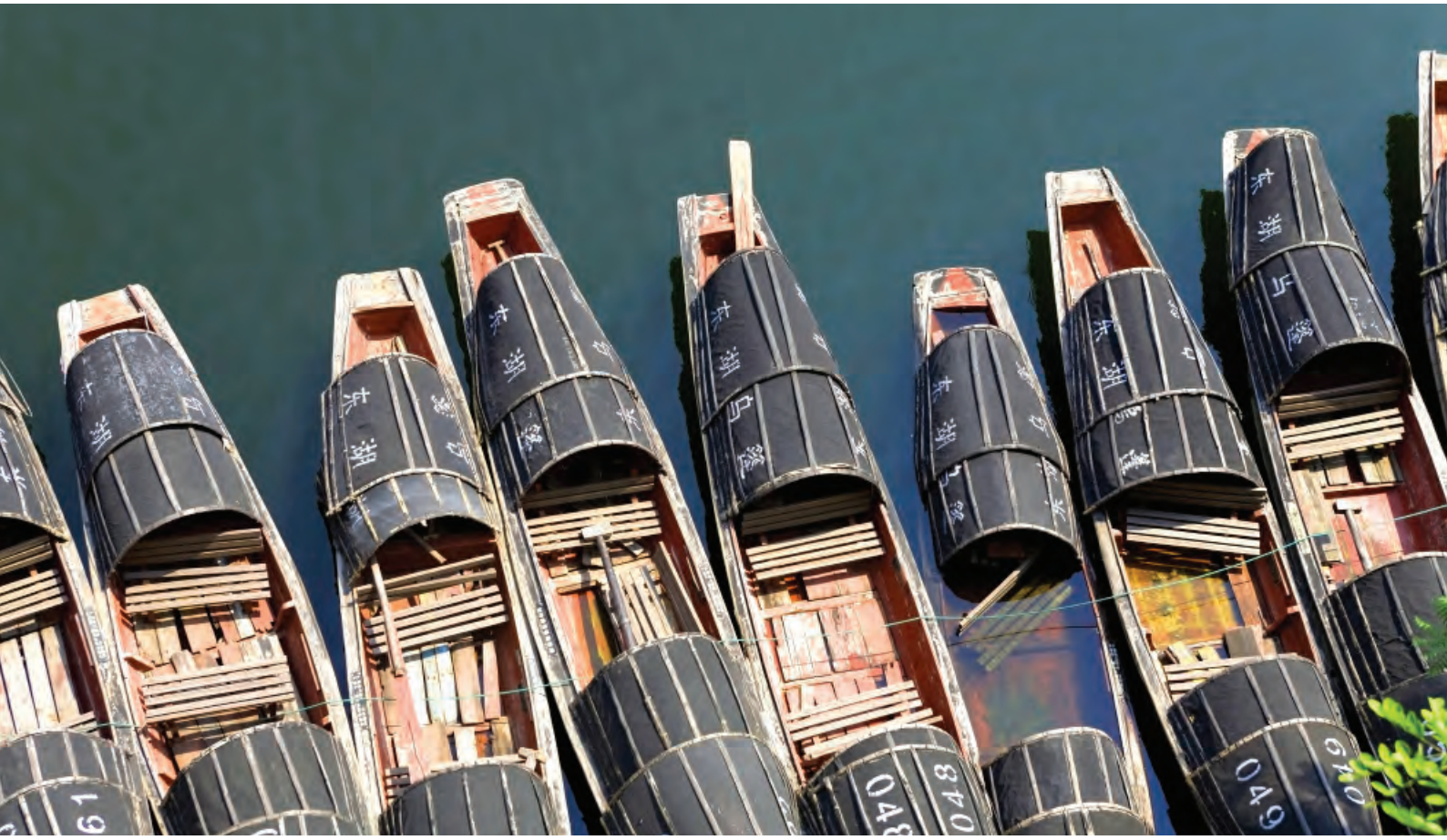
- Price liberalization and its impact on life insurance
- Mergers and acquisitions in the property and casualy sector
- The Shanghai Free Trade Zone
- Regulation of the internet channel

## Price liberalization – the foreign insurers' viewpoint

In the first move towards increased price liberalization in the insurance sector in August 2013, the CIRC raised the maximum guaranteed yield on traditional insurance products from 2.5% to 3.5%.*

Commenting on this move, participants noted that it would make their products more competitive in relation to other wealth management products. The benchmark one-year bank rate is 3%.

Another life company suggested there had already been an impact on profits but no real evidence to suggest that it was driving increased business.



*Source: CIRC Circular on Implementation of Reform for General Life Insurance Pricing Policy

A larger foreign life insurer observed that some foreign companies had launched more aggressive products, but in their opinion the large domestic insurers had not, so far, followed this strategy.

Step 2 of the CIRC's reform envisages price discrimination across different provinces.

Most participants expressed difficulty understanding this change. They believed that price differentiation would be based on different products and not on different locations. They believed that insurance companies lacked data to make these judgements.

Step 3 of the CIRC reform is full price liberalization.

The foreign insurers believe this will only occur in the long term and suggested it could be 8 to 10 years away.

They noted that it depended on maturity in the market and that some companies might be too aggressive and therefore destabilize the market.

However, a few participants adopted a more optimistic viewpoint and thought the price liberalization horizon was just one or two years ahead.

# Shanghai Free Trade Zone (FTZ)

The survey participants emphasized that there were still many unknowns surrounding the Shanghai Free Trade Zone and the insurance sector.

As a result, they were asked to articulate questions they believe would add clarity and definition to the uncertainties surrounding the implementation of FTZ policy.

## Key FTZ questions asked by the foreign insurers

Examples of some of the key questions are shown below:

- What are the geographic boundaries of the FTZ? Can you sell products just within the FTZ, in Jiangsu Province or nationwide?
- Is the FTZ created primarily to facilitate Chinese domestic insurers' expansion of business outside China? Will it be used as a two-way platform to allow foreign insurers to expand their product offering within China?
- Must a company establish a new branch in the FTZ to benefit from the new regulations? Might the FTZ be extended to include Lujiazui? (Lujiazui is an area in Pudong where many foreign financial institutions are located. Although close to the FTZ, it does not form part of the designated zone.)
- What will be the tax benefits of setting up business inside the FTZ?
- If the Shanghai FTZ follows a "cut and paste" strategy to other locations in China, will a Shanghai FTZ presence expedite admission to other locations' free trade zones?

As it presently stands, insurers must describe what they would like to do and then await the regulator's response. They would like to see a more specific negative list which outlines what they are not permitted to do.

## Further observations by participants on the FTZ

The companies also offered some further observations. They suggested that other than in the area of health insurance, it is unclear where there might be benefits associated with setting up inside the FTZ. They contended that the benefits to foreign banks seemed more real.

There was some confusion on the status of marine insurance inside the FTZ, and how that is different from the previously outlined opportunities surrounding Shanghai as a marine insurance center. This has been partly clarified as a result of the recent mandate given to the industry association, the Shanghai Institute of Marine Insurance (SIMI), which is discussed in further detail below.

Under the code "J38 insurance" in the Special Administrative Measures for the FTZ, the Shanghai Government's "Negative List" makes 11 references to the word "insurance". This includes reference to property insurance, reinsurance, insurance brokers and agents, insurance intermediary institutions, and insurance asset management companies.

In specific regulations governing life companies, it notes that foreign participation must remain within 50%.

Foreign insurance companies that have already announced plans or been granted permission to set up in the FTZ include Dazhong Insurance and MetLife.

## CIRC Eight key points on the FTZ in relation to insurance

1. Establishment of foreign-invested specialized health insurance institutions in the FTZ
2. Establishment of FTZ branches by insurance companies, development of cross-border RMB-denominated reinsurance business in the FTZ, and research on catastrophe insurance system by the CIRC Shanghai Bureau
3. Outbound investment pilot by FTZ insurance institutions, and research for expanding the scope of permitted outbound investments and relaxing the relevant outbound investment restrictions for FTZ insurance institutions
4. Subject to the relevant laws and regulations, carrying out business in the FTZ by world-known specialized insurance intermediaries, as well as social organizations or individuals engaged in reinsurance business to provide support for the development of insurance industry
5. Development of shipping insurance business in Shanghai, including development of shipping insurance institutions and shipping insurance brokers; and development of the Association of Shanghai Shipping Insurance
6. Innovation in insurance products by insurance companies, and continuous expansion of the service scope of liability insurance business
7. Improvement of the insurance market system in Shanghai, and promoting the establishment of functional insurance institutions such as shipping insurance pricing center, reinsurance center, insurance fund management center, etc.
8. Establishment of a mechanism linking the FTZ financial reform and innovation with the building up of the Shanghai International Financial Center, and continuously strengthening and enhancement of the cooperation between the CIRC and Shanghai Municipal Government

Source: ICBC presentation, Swiss Chamber of Commerce

### Marine insurance and the FTZ

In June 2014, CIRC announced that it would use the Shanghai FTZ as a center for marine insurance innovation.

To facilitate this process, CIRC has granted the SIMI the right to approve new marine insurance products.

Marine insurance companies make application to the SIMI which in turn files the new products with CIRC.

Media reports also indicate that marine insurers do not need administrative approval to set up new sub-branches in the FTZ.

The SIMI can approve new branches for marine insurance and marine reinsurance companies in the FTZ.

In addition, insurers are not required to seek CIRC approval before appointing management personnel to the FTZ.

The SIMI has 25 marine insurance company members. In 2012, Shanghai accounted for 44% of marine insurance premium of approximately $1 billion. (Source: Asia Insurance Review, 22 May 2014).

## Regulatory challenge of internet insurance

Only one company, Zhong An Online, has been set up as an internet company. The regulator is faced with a number of critical issues in terms of controling online sales. It must consider the types of products to be sold, their level of risk, sales practices and the unlimited geographic scope of the internet insurance company.

Foreign insurers have often felt at a disadvantage because of their limited geographic footprint and the strict CIRC approval of new branches. The internet channel may provide new opportunities in this context.

Internet insurance also provides the insurance company with the ability to get closer to their customers and effectively control and own the customer relationship. This represents a major change relative to the agency channel, where agents represent the primary point of contact and closely guard customer information.

The internet also permits companies to generate wider attention through higher yielding products. This will have an impact across the financial sector, stimulating competition but also increasing risk. It may also cause the regulator to introduce tighter controls.

The PBOC is expected to announce rules governing the internet finance sector soon. In order to mitigate risk, special consideration will have to be given to reserve requirements, disclosure and supervision.

The widespread reach of the internet will also require careful consumer protection.

A recent concern has been the use of online insurance as a means of money laundering. Property insurance, group insurance and long-term life insurance have all been cited as a means of money laundering.

## Future regulation

Most participants do not foresee tighter regulations on foreign insurance companies.

However, a minority of participants suggested that regulatory changes might occur in the following areas over the next few years:

- Consumer protection
- Senior executives accountability
- Capital requirements
- New branch regulations
- Pricing
- Brokerages

### US-China Business Council Recommendations related to insurance in the Shanghai FTZ March 2014

In response to setting up the FTZ, the US China Business Council made a series of recommendations which they believe will accelerate the development of the FTZ from the perspective of foreign insurance companies.

- Eliminate the 50% cap on foreign ownership in life insurance companies and permit foreign insurers a choice of investment vehicles, whether as a Wholly Foreign Owned Enterprise (WFOE), a Joint Venture (JV), a branch, or a subsidiary (section J68-1). This would allow China to best meet its goal of improving healthcare access for Chinese citizens.
- Provide foreign insurance brokers the same business scope as domestic firms, including claims handling, risk management services, consulting, application processes and placement services, and reinsurance brokerage. China should also consider allowing foreign insurance brokers to provide client services for small businesses, group life and health businesses, and affiliated programs. These would benefit the overall competitiveness of the insurance industry in China and would ultimately strengthen both domestic and foreign insurers.
- Allow foreign-invested insurers to use the July 2012 Rules and Guidelines for the Management of Remuneration of Insurance Companies as voluntary reference guidelines instead of mandatory operating requirements. This is necessary because the remuneration structure of foreign insurers is different from that of domestic insurers.
- Remove futures market services from the negative list, allowing foreign majority-controlled JVs and WFOEs to participate in the sector (section J67-2).
- Remove non-financial institution payment services from the negative list to provide full market access to these companies. The global reach and the expertise brought by foreign non-financial institution payment companies will further support cross-border trade and services (section J69-3).

Source: US China Business Council, March 2014

## China eases M&A rules for insurers

China's decision to partially relax rules on mergers and acquisitions in the insurance industry could see global insurance firms expand their footprint in the $288 billion market.

Beijing would allow insurers, including Chinese-based units of foreign insurance firms, to buy stakes in more than one peer that competes in the same market segment, according to a statement on the China Insurance Regulatory Commission's (CIRC) website.

The old rules prohibit insurers from buying stakes in more than one peer that competes in the same products. The move marks another step in the gradual liberalization of the country's vast insurance industry in recent years, which had seen restrictions that made it difficult for foreign insurers to achieve scale and exploit advantages in underwriting techniques.

"The new rules allow foreign insurers to acquire domestic Chinese insurers with a nationwide license, a highly attractive way of achieving target distribution scale," said Maurice Williams, Managing Director for the Asia-Pacific, Middle East, Turkey and Africa at broker Willis Re.

"There is no doubt this transforms the investment potential for foreign insurers in China," Williams said. The change would also allow stronger domestic and foreign insurers to invest in weaker peers. "Some insurance players are not in such great shape, and this allows them to be taken under a warm and cuddly arm and nursed back to health by another insurer," said Keith Pogson, senior partner in financial services Asia Pacific at Ernst & Young.

**Foreign fillip**

The changes are expected to help boost the small presence of foreign insurers, which have long struggled to expand in China. Indeed, regulatory constraints have seen overseas insurance firms' market share decline to 4.3% in 2012 from 8.9% in 2005, CIRC data showed.

Europe's Axa and Allianz, and Canada's Manulife Financial Corp are among the global insurers operating in the world's second-biggest economy via domestic joint ventures. Axa has said it is already in good shape in China after investing in joint ventures with ICBC and auto insurer Tian Ping. "I don't expect us to do much else other than grow the operations we now control, and grow fast" Axa Chief Executive Henri de Castries told analysts in February 2014.

Foreign firms are currently prohibited from owning more than 49% of a domestic insurer.

China's $288 billion insurance industry is dominated by domestic companies, such as China Life Insurance Co, Ping An Insurance Group Co of China Ltd. The sheer size of these top Chinese insurers has made it hard for new entrants, both domestic and foreign, which found the strict rules on mergers and acquisitions made expanding their geographic reach difficult.

"This is a positive move for the opening up of China," said Linda Sun-Mattison, senior analyst at Bernstein Research. "Previously insurers couldn't buy into another insurer without sacrificing what they already have in the country." Bernstein research said in a recent report that the rapid growth in China's insurance industry and investment into risky local infrastructure and housing projects have weakened the position of smaller insurers in particular.

In October 2012, CIRC broadened the range of markets into which insurers can invest, increasing their ability to generate financial returns. But smaller firms lacking scale have struggled to thrive, losing market share and haemorrhaging cash flow. The new rules could allow them to be taken over in an orderly manner, granting foreign and local players equal opportunity to consolidate their grip in a particular market.

"The new rules are aimed at promoting an optimal structure for the insurance industry and enhancing competitiveness … ," a CIRC spokesman said in a separate statement on the website.

Source: Reuters, 8 April 2014

# 5

# Digital marketing

## Digital marketing

Internet finance has become a major topic for discussion in the insurance sector over the course of the last year. The financial marketplace has witnessed a series of far-reaching financial innovations.

**New financial innovations**
These include, for example, the launch by Alibaba, China's largest ecommerce company, of Yu E Bao. Yu E Bao permits customers of Alipay (Alibaba's online payment service) to invest unutilized Alipay account balances in Zhonglebao Money Market Fund. The fund, which is managed by Tianhong Asset Management, has grown to become China's largest fund.

This has spurred other internet companies such as Baidu (similar to Google) to team up with Harvest Fund Management, and WeChat (a social media tool) owned by Tencent to ally with several leading fund managers. These new investment vehicles appeal to a younger demographic who possess "internet savvy" and are attracted by the ease of use and the significantly higher returns. For example, the new funds were offering rates of return of up to 10% when traditional bank savings rates were only 3%.

A second major innovation in the internet finance environment is Zhong An Online, China's first online insurance company owned jointly by Alibaba, Ping An and Tencent. Its first product Zhonglebao was launched in December 2013 and targeted merchants on Taobao.

Both these examples emphasize the rapidly changing internet finance environment.

## Zhong An Online – China's first online insurance company

In February 2013, Zhong An Online, China's first online insurance company was launched jointly by Alibaba, Tencent and Ping An. These three companies' shareholdings in the new company are 19.9%, 15% and 15%, respectively. Additional shareholders also include Ctrip (an online travel agent), Rising Technology (an IT company) and several investment companies.

Figure 36:
The Zhong An Online Insurance Company website, 9 June 2014

"Ecommerce in the West is the dessert. In China, it's become the main course."

*— Jack Ma, Founder of Alibaba, the largest ecommerce company in the world*

Zhong An Online's first product, Zhonglebao, launched in December 2013, was directed at merchants on Taobao. The new insurance service was priced at 1.8% (for half a year) and 3% (for one year) for the deposits Taobao retailers are required to place with Taobao to cover consumer reimbursements if consumers are dissatisfied. Zhonglebao therefore allows Taobao retailers to free up capital and apply it to daily operations.

Zhong An Online plans to offer a comprehensive range of products including commercial property, cargo and liability insurance. But it will also address issues concerning ecommerce, mobile payments and internet finance.
(Source: Xinhua, 7 November 2013).

## Changes in insurance

As digital technology and innovation takes hold in the financial sector, the foreign insurers are searching for ways in which they can benefit from these developments.

There are two very important dimensions from the foreign insurers' perspective.

**Distribution**
The first concerns distribution. Foreign insurers, both life and property and casualty, have struggled to develop effective distribution channels, in part because of regulatory constraints, but also because of their failure to fully understand local practices and customer needs. Furthermore, existing distribution channels are being challenged. For example, it is becoming increasingly difficult to recruit life agents as more attractive employment opportunities exist elsewhere.

The bancassurance channel is difficult for insurance companies because of high commissions, the regulatory framework and the need to direct simpler, more commodity-like products through this channel.

Digital channels offer both life and property and casualty companies the opportunity to market directly to end-consumers. This has particular appeal to foreign insurers that have recently been permitted to enter the third-party liability motor insurance market. These insurers possess very limited distribution networks and they hope to capitalize on the new digital channels opening up.

**Product design and technology**
The second important issue from a foreign insurer's perspective, is the new opportunity emerging from the connection between product design and technology.

### Alibaba's Alipay buys China fund manager to boost financial services

The online payment affiliate of dominant Chinese ecommerce company Alibaba Group is taking control of Tianhong Asset Management Co to accelerate its push into online financial services.

Tianhong shareholder Inner Mongolia Junzheng Energy & Chemical Industry Co said the investment of 1.18 billion yuan ($192.8 million) gives Zhejiang Alibaba E-Commerce Co, the parent company of online payment company Alipay, 51% of Tianhong.

Alipay and Tianhong launched a new fund and payment platform — called Yu E Bao, or "leftover treasure" in Chinese — in June to help Alipay customers convert spare cash into a money market fund holding.

In its first 18 days, the fund attracted more than 2.5 million customers and raised 6.6 billion yuan ($1.08 billion), according to Tianhong, and is expected to be one of the most successful mutual funds in China this year.

Alibaba, which is expected to file for an IPO in New York next year that could value it at more than 100 billion, has been leading the drive by local internet companies into highly regulated financial services.

"Tianhong and Alibaba are mutually complementary," Ding Xuemei, a spokeswoman for Tianhong, said in a telephone interview.

"Alibaba is very experienced in the internet and we are very experienced in investment management. We partner up for a better prospect in internet finance." Tianhong's management will not change, Ding said.

Alibaba bought its Tianhong stake through a fundraising exercise that saw Tianhong's registered capital more than double to 514.3 million yuan from 180 million yuan. "In order to give investors in Yu E Bao more security, improve innovation and provide more products and services, we have chosen to cooperate with Tianhong Asset Management," Alipay said on its official Sina Weibo microblog.

Alipay is China's biggest third-party payment platform, providing payment solutions to 460,000 merchants and with 800 million registered accounts.

Customers can invest as little as 1 yuan ($0.16) in the Yu E Bao service and can withdraw their money and return it to their Alipay accounts at any time ($1=6.12 Chinese Yuan).

Source: Reuters, 9 October 2013

This includes development in areas such as data analytics, underwriting, social media communication, and telematics.

The foreign insurers, as relatively small and recent players in the market, should be able to harness some of these recent technological advances.

In the past, it was anticipated that foreign insurers would be able to leverage a technological edge in the China market. This has occurred in selective situations, but it would be wrong to conclude that such an "edge" continues to exist.

The sheer scale and pace of change in the market, and the receptivity of younger Chinese consumers to purchasing financial services online may mean that China is "ahead of the curve" on internet finance innovation.

If the foreign insurers innovate and develop new products, and open up new channels addressing the needs of Chinese insurance consumers, then they may be able to ride this new wave. As always, the question will be, can the foreign insurers enhance customer benefits by bringing new value propositions to the market through the online channel.

**Growth of digital marketing**
Against this background, this section provides some insight into the growth of digital marketing in the insurance sector.

It discusses the emerging market, and in part draws on the research published recently by the Insurance Association of China (IAC) that looked at internet marketing of insurance.

It also records the responses from the participants to a number of questions in the survey that asked them about their current and future activities. These responses are supplemented by data and illustrations from the social media site, Weibo and social media tool, WeChat, and the online stores of Taobao and Tmall, where both domestic and foreign companies are selling insurance.

It reviews the benefits digital marketing may bring to foreign insurance companies in China, and explores the reasons that prevent a timely transition to digital channels.

## China at the forefront of online insurance marketing

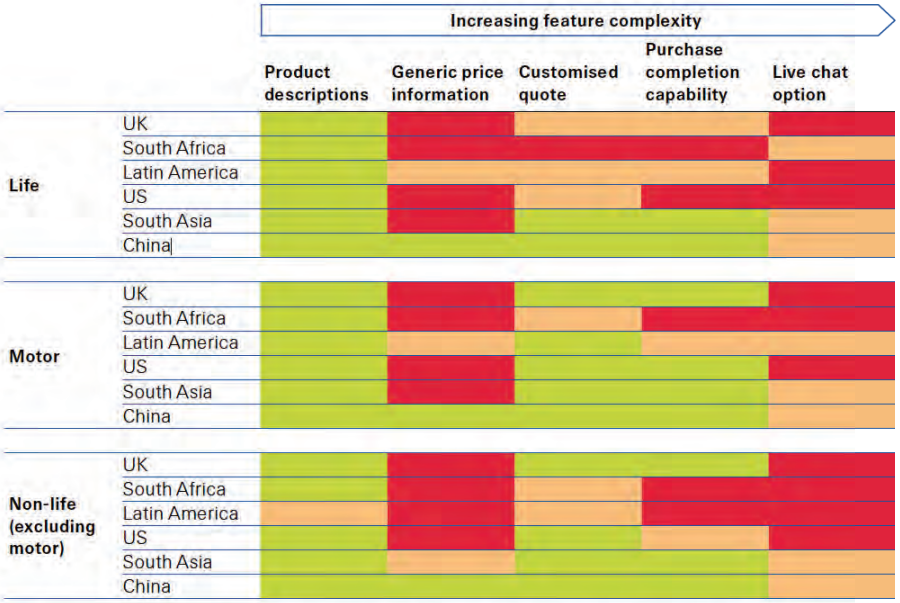
Swiss Re research conducted in December 2013 found that China compares very favorably to any other global market in terms of adoption of online insurance sales. For China, more than 50% of the companies surveyed had online product lines that incorporated features on product descriptions, generic price information, customized quotes and purchase completion capability for life, motor and non-life (excluding motor) online products. In the final live chat feature, less than 50% of Chinese companies offered this option, but still compared favorably to their UK or US counterparts.

**Online platforms for life insurers**
In 2014, the Insurance Association of China (IAC) stated that 47 life insurers have online platforms. Online sales accounts for RMB2.7 billion or 0.53% of total premiums in the first quarter of 2014.

A breakdown of total online sales of RMB2.7 billion shows that, sales from third-party sites were higher at RMB1.5 billion, compared to sales from insurance companies' proprietary websites at RMB1.2 billion.

In total, 16.5 million policies were sold on third-party sites, compared to 565,000 policies on company proprietary websites.

Figure 37: Online insurance marketing




- More than half of the companies and product lines surveyed have the particular feature on their website
- Less than half but more than 10% of companies/product lines have the particular feature on their website
- Fewer than 10% of the companies/product lines have the specific functionality on their website

Note: Companies surveyed in each country/region include the top 10 firms (top 5 in South Asia and China) by direct premiums written, so the sample is not necessarily representative of all insurers in any region. In particular, it fails to capture the new tech-enabled players who remain small.

Source: Swiss Re Economic Research & Consulting, based on information published on insurers' websites in December 2013

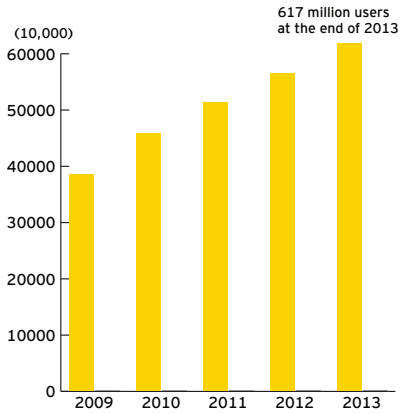
## General background on the internet in China

To provide the context to the later discussion on digital marketing in insurance, it is useful to examine the growth of the internet in China.

**Growth of the internet**

At the end of 2013, China had 617 million internet users with a penetration rate of 45.8%. The number of mobile internet users grew by 80 million in 2013 and totalled 500 million at the end of the year. (Source: CNNIC, China Internet Network Information Center, January 2014).

Figure 38:
Growth of the internet in China

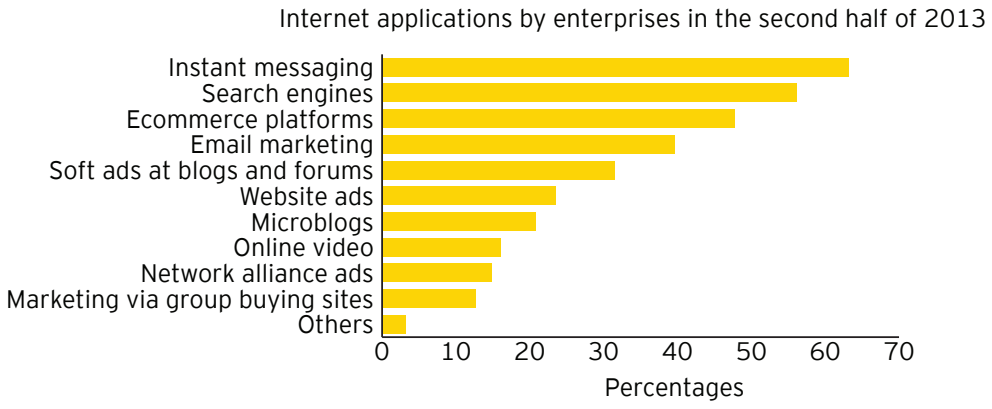



Source: CNNIC, Chinese Internet Network Information Center January 2014

**Enterprise usage of digital marketing**

CNNIC has provided some insight into how businesses in general are using digital marketing. While there will be differences for digital marketing of insurance, the chart below provides insight into the most extensive applications by businesses. For example, just under 50% of businesses have ecommerce platforms, 40% use email marketing, 30% use display ads on blogs and forums, 23% use website ads etc.

Figure 39:
How Chinese enterprises use the internet




Source: CNNIC, January 2014

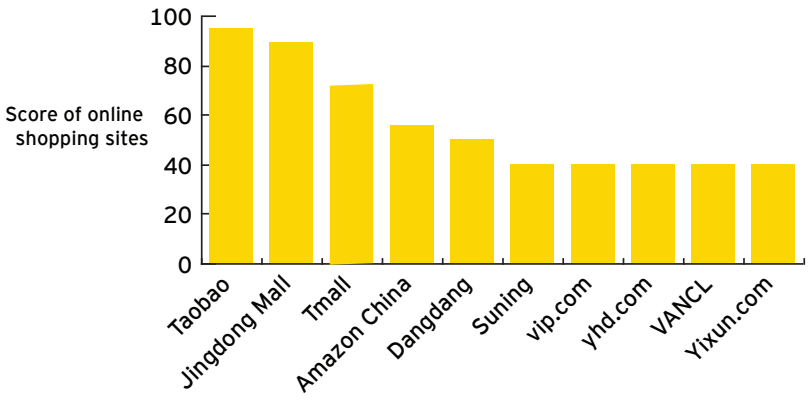
**Online shopping**

The most popular online shopping sites are Taobao, Jingdong Mall or JD.com (formerly 360 Buy) and Tmall. Both Taobao and Tmall are operated by Alibaba.

Taobao is reported to have eight million vendors, while Tmall hosts storefronts for branded companies such as Apple and GAP. (Source: *Wall Street Journal,* 6 May 2014).

Taobao makes money by selling online marketing services to merchants using the site. Tmall charges online vendors fees for attracting users to their sites and then commissions on subsequent transactions.

Figure 40:
Most popular online shopping sites in China




Source: IAC

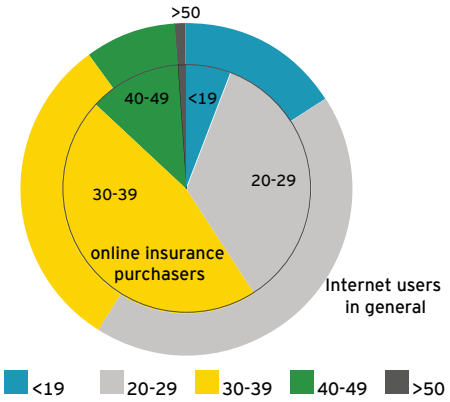
**Profile of online insurance purchasers**

Valuable insights into the profile of online insurance purchasers versus internet users in general have been presented by IAC.

Online insurance purchasers appear to be male dominant. For example, 71% are male compared to 63% for the broader internet population.

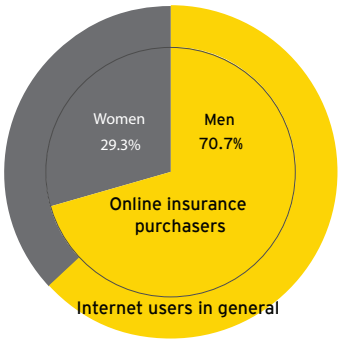
Their age characteristics also show differences. For example, the 30–39 age group represents 46% of all online insurance purchasers versus 31% of the wider internet population. In contrast, the 20–29 age group accounts for 35% of all online insurance purchasers versus 43% of the wider internet population.

Figure 41:
Age profile of Chinese online insurance purchasers versus internet users in general




Second quarter 2013
Source: IAC

Figure 42:
Gender profile of Chinese online insurance purchasers versus internet users in general



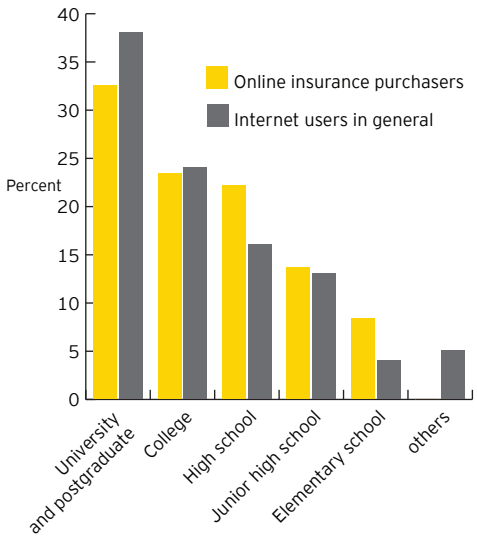

Second quarter 2013
Source: IAC

**User profile – education**
There appears to be a correlation between higher internet usage and higher levels of education.

It is also true that higher levels of education are associated with higher usage of the internet in relation to insurance.

32% of online insurance purchasers have a university education.

Figure 43:
Level of education of online insurance purchasers versus internet users in general

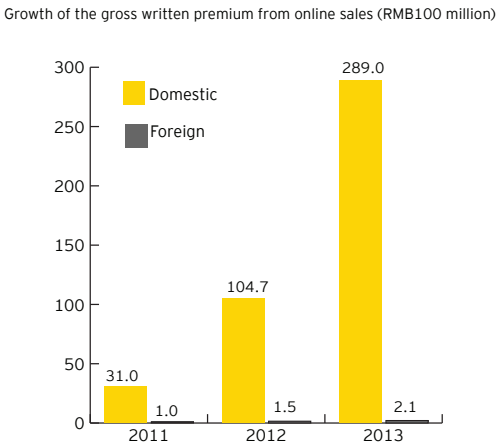



Source: IAC

**A comparison of online sales made by domestic and foreign insurance companies**
The level of gross written premiums (GWP) of foreign insurers remains miniscule. While domestic companies have expanded their online GWP from RMB3,100 million in 2011 to RMB28,900 million in 2013, foreign companies had just RMB210 million of online GWP in 2013, or 0.7% of the market (Source: IAC).

In terms of client base, the domestic companies have grown their internet client base from 6.9 million in 2011 to 52.2 million by 2013. The foreign companies, according to the IAC, had 2.2 million internet clients at the end of 2013.

Figure 44:
Rapid increase in online purchasing of insurance

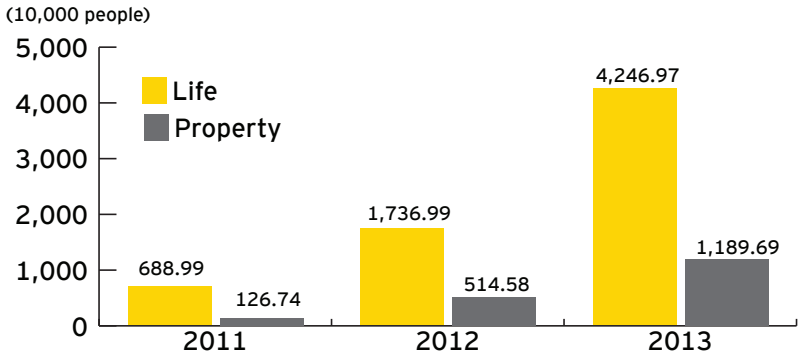



Source: IAC

**Contrast between online clients of life and property and casualty companies**

Life companies are much more successful in terms of attracting online customers. According to the IAC, life companies had 42.5 million online clients in 2013 relative to 6.9 million in 2011, whereas property and casualty insurers had 11.9 million in 2013 compared to 1.3 million in 2011.

Figure 45:
Number of online insurance clients (10,000 people)

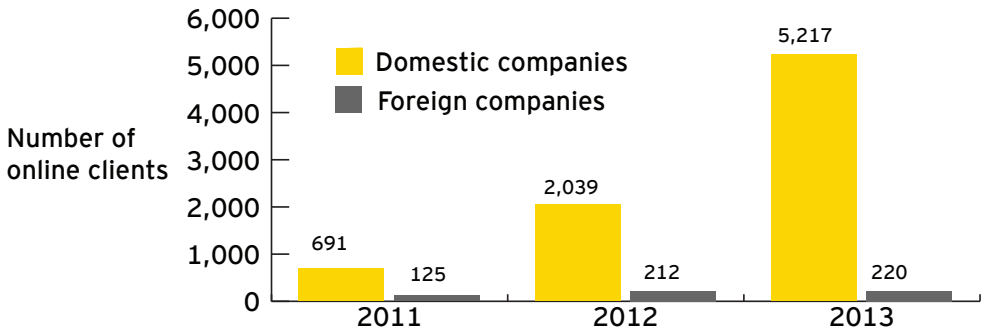



Source: IAC

**Contrast between online clients of domestic and foreign insurance companies**

Domestic companies are much more dominant in terms of online customers. According to the IAC, domestic companies had 52.2 million online clients in 2013, relative to 6.9 million in 2011, whereas foreign companies had 2.2 million in 2013 compared to 1.3 million in 2011.

Figure 46:
Number of online clients of domestic and foreign insurance companies (10,000 people)



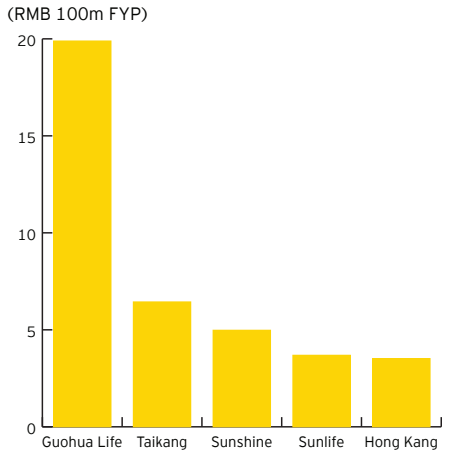

Source: IAC

# The top online insurance companies by gross written premiums in 2013

## Life companies

The top five most active online life insurance companies in 2013 in terms of gross written premiums (GWP) are shown in the following chart. Guohua Life is most active followed by Taikang Life, Sunshine Life, Sun Life Everbright and Hongkang Life.

**Figure 47:**
**Top five online life companies in 2013 based on GWP (in RMB100 million)**

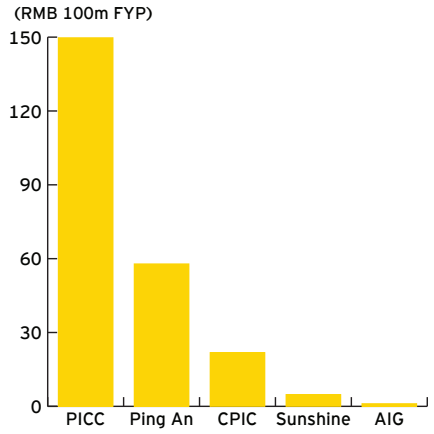



Source: IAC

## Property and casualty companies

The top five online property and casualty insurers in 2013 are headed by PICC P&C. Only one foreign insurer, AIG, is shown in fifth place.

**Figure 48:**
**Top five online property and casualty companies in 2013 based on GWP (in RMB100 million)**




Source: IAC

# The most visited internet insurance companies

The top 10 most visited online life insurance companies in the period 2011-2013 are shown in the following chart. On the life side, Taikang Life, China Life, China Pacific Life, PICC Life and Ping An Life have the highest number of unique visitors. While on the property and casualty side, it is PICC P&C, Ping An P&C, China Pacific Property Insurance, Sunshine P&C and Samsung P&C (China). Two foreign companies are in the life insurance top 10, while three foreign companies, Samsung, AIG and Liberty, are in the property and casualty top 10.

**Figure 49:**
**Top 10 life companies (2011-2013)**

| Rank | Life insurance | Average annual number of unique visitors* | Rank | Life insurance | Average annual website traffic with repeat visits** |
|---|---|---|---|---|---|
| 1 | Taikang Life | 45,130,000 | 1 | Taikang Life | 548,980,000 |
| 2 | China Life | 36,720,000 | 2 | China Life | 41,920,000 |
| 3 | China Pacific Life | 8,150,000 | 3 | China Pacific Life | 30,520,000 |
| 4 | PICC Life | 3,060,000 | 4 | Sunshine Life | 11,520,000 |
| 5 | Ping An Life | 3,020,000 | 5 | Union Life | 6,700,000 |
| 6 | Union Life | 1,750,000 | 6 | CIGNA & CMB Life | 6,180,000 |
| 7 | Sunshine Life | 1,440,000 | 7 | PICC Life | 5,980,000 |
| 8 | Taiping Life | 760,000 | 8 | Ping An Life | 3,660,000 |
| 9 | AIA | 150,000 | 9 | AIA | 2,560,000 |
| 10 | Samsung Air China Life | 90,000 | 10 | Taiping Life | 880,000 |

Source: IAC

**Figure 50:**
**Top 10 property and casualty companies (2011–13)**

| Rank | Property and casualty insurance | Average annual number of unique visitors* | Rank | Property and casualty insurance | Average annual website traffic with repeat visits** |
|---|---|---|---|---|---|
| 1 | PICC P&C | 57,480,000 | 1 | Ping An P&C | 157,860,000 |
| 2 | Ping An P&C | 20,050,000 | 2 | PICC P&C | 66,610,000 |
| 3 | China Pacific Property Insurance | 8,150,000 | 3 | China Pacific Property Insurance | 30,520,000 |
| 4 | Sunshine P&C | 2,980,000 | 4 | China Continent P&C | 8,960,000 |
| 5 | Samsung P&C (China) | 1,160,000 | 5 | Sunshine P&C | 7,770,000 |
| 6 | China Continent P&C | 860,000 | 6 | Samsung P&C (China) | 5,220,000 |
| 7 | AIG China | 270,000 | 7 | AIG China | 730,000 |
| 8 | Taiping General Insurance | 100,000 | 8 | Taiping General Insurance | 120,000 |
| 9 | Liberty Insurance | 30,000 | 9 | Liberty Insurance | 60,000 |
| 10 | Yingda Taihe Property Insurance | 3,000 | 10 | Yingda Taihe Property Insurance | 30,000 |

Source: IAC

* These visits are based on unique IP addresses, i.e., one individual visitor who arrives at a website and proceeds to browse, based on an enabled cookie.

** These are visitors with a unique IP address who make multiple revisits.

## Reasons why foreign companies use digital marketing

Participants provided a variety of reasons for supporting their present and future usage of digital marketing.

The most important reason was the opportunity to acquire new customers cost-effectively, followed by building brand awareness.

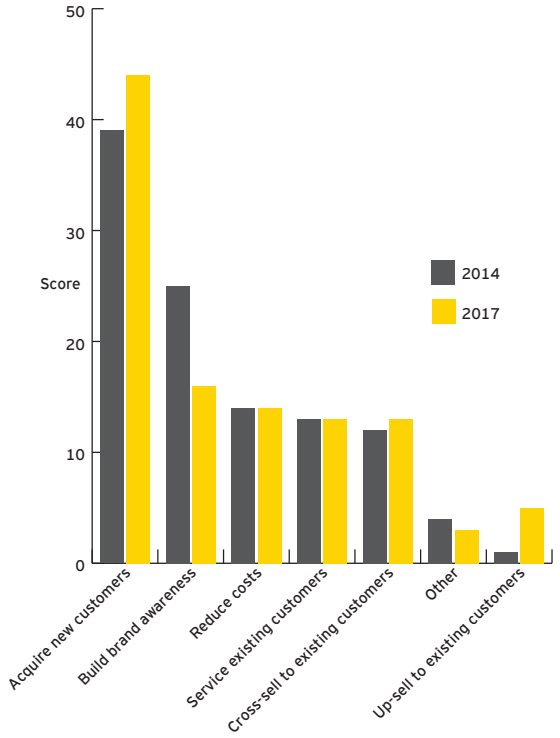
A limited distribution presence and a general lack of awareness in the marketplace, have been two major hurdles for the foreign insurers in their attempts to gain market traction. As a result, they see the digital channel and its acceptance and usage by Chinese consumers as a new opportunity.

Figure 51 suggests that the ability to reach and acquire new customers is the major reason for developing a digital strategy.

But participants also see opportunities to reduce costs, service existing customers and even leverage customer data to cross-sell.

Up-selling remained in last position with a modest increase in score by 2017. The other scores were generated by two additional suggestions, notably customer engagement and the ability to place a wider range of products in front of the consumers.

**Figure 51:**
**Can you rank the top three reasons for using digital marketing in 2014 and 2017?**




Based on the survey responses of 18 companies

## Reasons behind the slow adoption of digital marketing by foreign companies

As the foreign insurers transform their marketing efforts to take advantage of digital channels, participants were asked to explain the barriers hindering the transition.

The most important barriers were:

- Legacy IT systems
- A lack of investment in new technology
- Regulatory constraints

In addition, a series of other factors that may slow the transition were identified. They included staff culture, a lack of technological skills, marketplace acceptance, unattractive products and head office approval.

It may be somewhat unfair to elevate the regulatory constraints to third position, as the regulator has always encouraged digital developments. Regulatory uncertainty might be a more appropriate concern. The digital environment for insurance companies has remained fairly liberal, given the fast pace of developments.

When the top five reasons are further analyzed to identify the most important factors for life versus property and casualty companies, it reveals that the property and casualty companies place greater emphasis on regulatory constraints and access to local technological skills.

The life companies attributed a higher rank to both customer acceptance and unattractive products than the property and casualty companies.

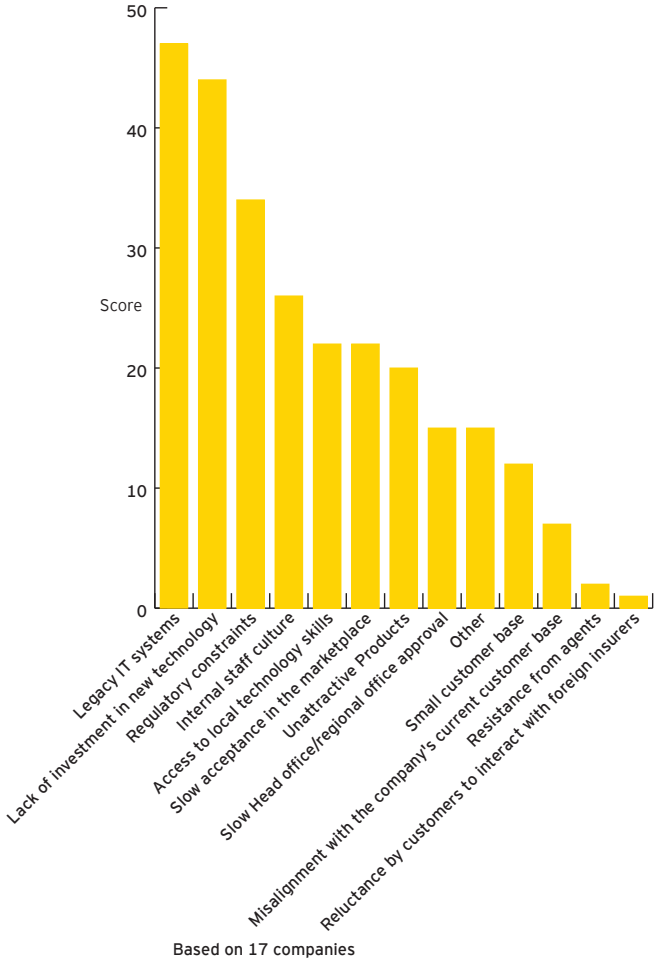
**Figure 52: Differences between life and property and casualty companies**

| Rank | Life | Property and casualty |
|---|---|---|
| 1 | Legacy IT systems | Regulatory constraints |
| 2 | Lack of investment in new technology | Legacy IT systems |
| 3 | Slow acceptance in the marketplace | Lack of investment in new technology |
| 4 | Internal staff culture | Access to local technological skills |
| 5 | Unattractive products | Internal staff culture |

Chen Dongsheng, Chairman of Taikang Life, forecasts that the internet may have a greater impact on insurance in China than on banking.

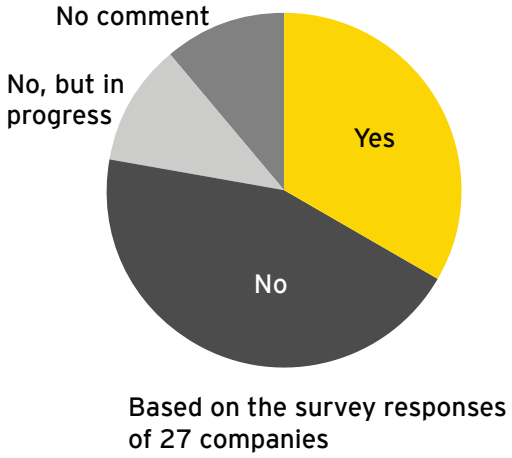
Source: "Internet finance to spur growth of China's insurance sector," *Want China Times*, 26 March 2014

Figure 53:
What is holding back your transition to digital channels?




Based on 17 companies

Figure 54:
Foreign insurers with a storefront on Tmall




Based on the survey responses of 27 companies

## Foreign insurers' recognition on progress towards a digital strategy

The foreign insurance participants cited the following peers in relation to movement toward a digital strategy: on the property and casualty side, AIG, Allianz, Liberty and Samsung; and for life insurance, CIGNA & CMB Life, MetLife and AIA.

However, many stressed that the foreign companies' efforts were nascent and well behind the leading domestic players. Nine participants indicated that they currently have a storefront on Taobao or Tmall.

Only a few implied that their stores were successful. One said that foreign travel insurance coverage was selling well, but a number of participants revealed that their stores were generating low levels of business.

One participant acknowledged it was being used as a "shop window" while another felt it was still a very new area for insurance.

A couple of participants indicated that they were waiting for the CIRC to grant a direct license.

Tmall was launched in 2008, as a spin-off from Taobao to address the consumer need for branded products and a premium shopping experience. The Taobao marketplace was founded in 2003.

Figure 55: Types of insurance available on Taobao including motor, travel, children, health, property and casualty, and accident

## Insurance companies with the most effective digital strategies

In response to this question, the unchallenged domestic leader is Ping An. In second place is Taikang Life, followed by China Pacific Insurance Group (CPIC). All the participants made reference to Ping An.

Participants also cited Ping An's high level of customer service and telemarketing expertise.

Figure 56: The Ping An website


The graphic below displays all the insurance brands shown on the Taobao website.

Eight of the brands shown are foreign, namely AXA, Huatai, MetLife, AIA, Allianz, CIGNA & CMB, AEGON-CNOOC and Pramerica Fosun.

Figure 57: Taobao's brand wall

## Digital spend by foreign insurers

### Life companies

On the life side, eight companies provided estimates ranging from just RMB0.1 million to RMB40 million.

Three companies said they will spend RMB20 million in 2014. One of these companies estimated that 70% of their development costs in China could be "recycled" to sister companies in other parts of the world.

One European insurance CEO commented that he had advised his technical staff not to defer to head office colleagues for advice on how to develop a digital strategy for the China operation. Instead, he emphasized that the Chinese marketplace was ahead of Europe and that they needed to focus on a "Made in China" solution.

### Property and casualty companies

Six property and casualty companies provided estimates of their spend on digital transformation in 2014. These estimates ranged from RMB0.5 million to RMB50 million.

Two companies were at the top end of this range, and three in the RMB1-to-6 million range.

Two property and casualty companies said they had no budget for digital development.

## Use of social media by foreign insurers

Just over two-thirds of participants are currently using social media sites such as Weibo and social media tools such as WeChat. A number of participants who are currently not using social media, plan to do so before the end of 2014. A few claim to be selling insurance products through Weibo and WeChat.

Social media is being used in a variety of ways by the participants.

These include:

- Brand building
- Interaction with property and casualty customers to process claims, upload photos and video
- Customer service
- Employee communications and engagement, including the promotion of corporate culture
- Product information
- Promotional campaigns
- Training agents
- Agents use social media to communicate with clients and to report on client interactions
- Growing customer loyalty

At present, none of the participants considered lead generation as a function of social media marketing usage, although those who plan to spend heavily in 2014 clearly hope this will soon be the case.

In addition, none of the participants suggested that they were sufficiently mature to use social media as a tool for customer segmentation, as a means of cost reduction, or to cross-sell or up-sell.

## Foreign insurers' use of social media

A review of social media usage by both the foreign and domestic insurers is facilitated by a comparison of both the number of followers and the number of posts on Sina Weibo.

Manulife Sinochem Life, with 1.6 million followers, tops the foreign life insurers ranking for followers. This number is five times larger than Ping An. It is followed by AEGON-CNOOC and Cathay Life. Interestingly, the highest number of posts was recorded by Taikang Life followed by PICC Life.

On the foreign property and casualty insurers' side, AIG China has 1.2 million followers but only 366 posts. It is closely followed by Samsung P&C at 1.1 million followers and Allianz China at 977,682 followers.

On the domestic side, PICC P&C has 182,977 followers while Sunshine P&C has 112,898.

Figure 58:
**Foreign life insurers using Sina Weibo**

| | Followers | Weibo posts |
|---|---|---|
| Manulife Sinochem Life | 1,629,032 | 2,736 |
| AEGON CNOOC Life | 1,423,901 | 1,469 |
| Cathay Life | 353,323 | 2,030 |
| Generali Life | 183,394 | 2,950 |
| AIA | 101,933 | 986 |
| Huatai Life | 68,215 | 2,294 |
| Pramerica Fosun Life | 52,976 | 1,536 |
| Heng An Standard Life | 38,636 | 1,019 |
| Samsung Air China Life | 13,118 | 2,008 |
| Founder Meiji Yasuda life | 2,341 | 518 |
| King Dragon Life | 481 | 1,239 |
| Great Eastern Life (Shanxi only) | 373 | 818 |
| BoComm Life | 88 | 4 |
| CIGNA & CMB Life | 64 | 26 |
| ERGO China life | 42 | 2 |

Figure 60:
**Domestic property and casualty insurers using Sina Weibo**

| | Followers | Weibo posts |
|---|---|---|
| PICC P&C | 182,977 | 4,032 |
| Sunshine P&C | 112,898 | 3,184 |

Source: Sina Weibo, 13 June 2014

Figure 59:
**Domestic life insurers using Sina Weibo**

| | Followers | Weibo posts |
|---|---|---|
| Ping An Life | 311,327 | 3,855 |
| PICC Life | 178,125 | 4,457 |
| Taikang Life | 419,965 | 7,498 |
| Guohua Life | 27,512 | 1,313 |
| Sunshine Life | 537 | 122 |
| Hongkang Life | 675 | 437 |

Figure 61:
**Foreign property and casualty insurers using Sina Weibo**

| | Followers | Weibo posts |
|---|---|---|
| AIG China | 1,203,514 | 366 |
| Samsung P&C (China) | 1,144,689 | 2,365 |
| Allianz China General Insurance | 977,682 | 3,835 |
| Liberty Insurance | 326,004 | 4,135 |
| Tokio Marine & Nichido Fire Insurance (China) | 4,479 | 179 |
| AXA Tianping P&C | 2,310 | 3,156 |
| RSA China | 470 | 52 |
| Hyundai Insurance (China) | 130 | 93 |

Figure 62:
AIG China marketing travel insurance on Taobao


Source: AIG website, June 2014

Travel insurance can be purchased from AIG China from RMB325 to 2,250 per year, depending on the plan selected.

Figure 63:
Many of the foreign insurers are on WeChat as these following mobile phone screens demonstrate


Source: Mobile phone screens showing the WeChat applications of individual companies, June 2014

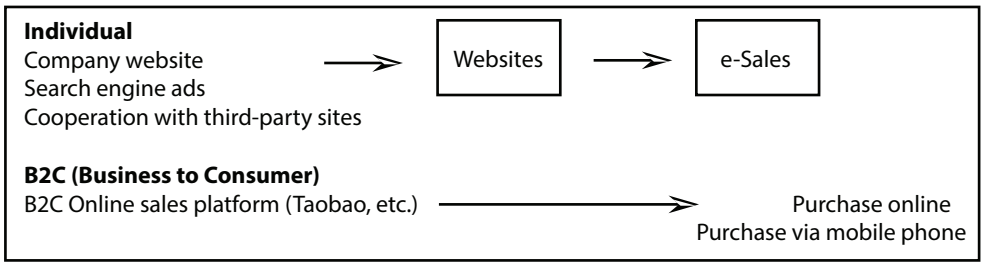
## Case Study: Online marketing at CIGNA & CMB Life

In a recent IAC publication, CIGNA & CMB Life described its digital marketing activities. It asserted that it was the first insurance company in China not using agents. Instead, it deployed telephone marketing as its core sales channel. With the development of internet commerce, the company has begun to use online sales channels. As a result, it now sells through its own website and on Tmall.

CIGNA & CMB Life operates two online sales models: one selling directly online, and a second deploying an internet and telephone combination.

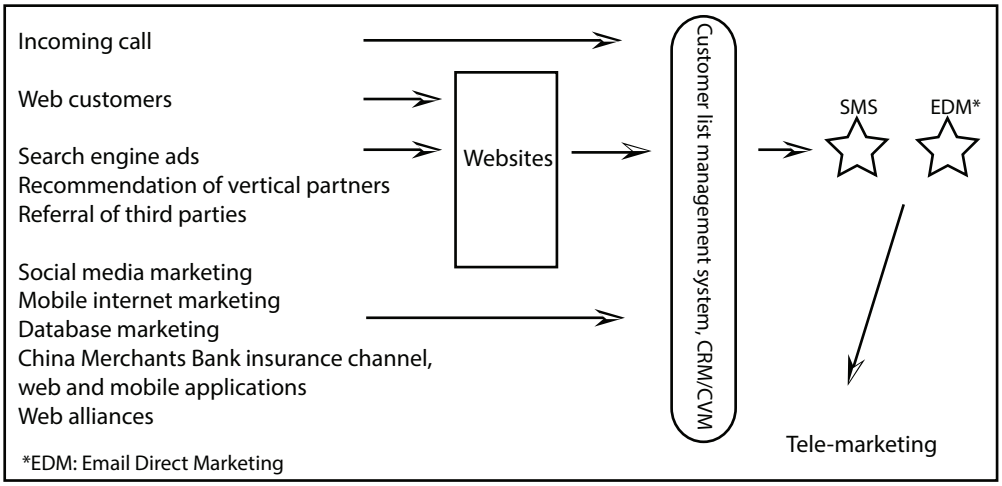
In Model 1, the company uses its own website, partner websites and third-party websites to sell insurance directly. The products offered include investment-linked insurance, participating whole-life insurance, term-life and short-term travel accident insurance.

**Model 1 : Online sales model (travel insurance, investment-linked insurance etc.)**




In Model 2, the company combines the internet with telephone marketing. Online promotions drive traffic to the company website and to third-party sites. Interested customers can phone the company or leave contact information on the website.

**Model 2 : Online customer acquisition (the multi-channel model)**




Source: Internet Insurance Industry Development Report, IAC 2014, pages 80-83

CIGNA & CMB Life's online product sales strategy entails the following eight steps:

1. Develop products based on the needs and characteristics of customers
2. Keep the content simple; products need to be flexible to meet customers' needs
3. Make produce pricing must be flexible to encourage customers to purchase insurance online
4. Ensure simple automated underwriting
5. Match product portfolios to the life cycle stages of customers
6. Develop products that are customer-focused
7. Provide seasonally relevant products and holiday product packages, and come up with different themes in promotion campaigns
8. Focus on customer relationship management

Online insurance sales at CIGNA & CMB Life first began in May 2010. Sales have increased from 5,685 policies in 2011 to 7,068 policies in 2012. First-year premiums increased from RMB12,699,680 in 2011 to RMB23,585,418 in 2012.

In the future, CIGNA & CMB Life plans to further develop its multi-channel marketing system and automated underwriting. It plans to introduce online chat, mobile applications, online price calculation and customer needs analysis. It also plans to provide multiple electronic payment options to enhance customer experience.

The online strategy is shown in the Figure 64.

**Figure 64: Building a sustainable online sales model (CIGNA & CMB Life)**

| Customer acquisition | Transformation | Service | System |
|---|---|---|---|
| Search engines | Simplified process | Online service | Content management |
| Web alliances | Brand positioning | Service design | Web analytics |
| Websites | Sales design | Service process | Performance management |
| Social media | | | Data mining |
| Email direct marketing<br>Viral marketing<br>Mobile marketing | Online price quote<br>Online insurance purchase | | Precision marketing |
| Third-party platforms | Online chat | | |
| | Documents download | | |
| | Email confirmation | | |

# 6

# Performance and growth

## Performance of the foreign life companies in 2013

Life company participants were asked to assess their level of performance in eight key market segments during 2013. They were asked to score their performance on a scale ranging from 1 to 5 where 5 could be considered very satisfactory, 3 neutral and 1 very unsatisfactory.

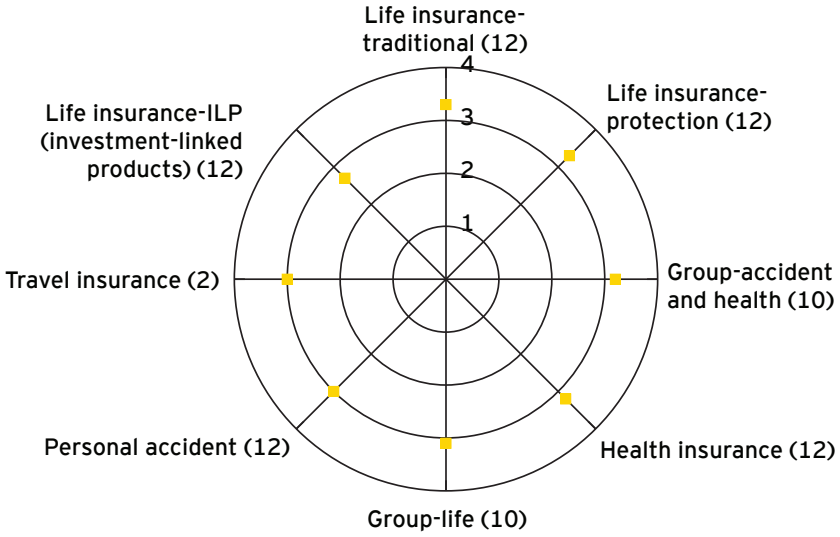
Scores above 3 therefore indicate a satisfactory to very satisfactory performance, while 3 might be considered "average".

The segments were then ranked with the best score at the top of the circle, with the performance score dropping gradually as you move clockwise around the circle.

Figure 65 suggests that traditional and protection products performed best among the eight market segments, but their average scores are just marginally above 3.

The result from this chart implies that the foreign life companies only experienced modest levels of success in all of their market segments.

Figure 65:
Life companies' assessment of their success in different market segments in 2013




Numbers in parentheses refer to number of participants scoring this segment

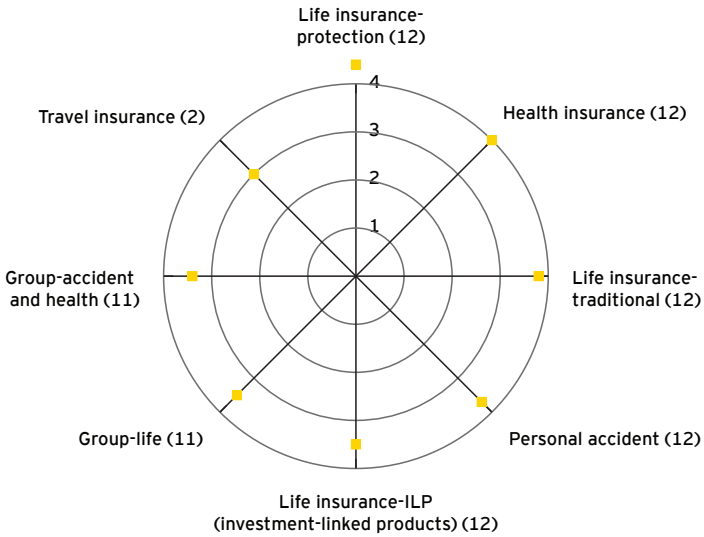
Based on the survey of 12 life companies

# Importance of different market segments for foreign life companies in 2017

Participants were asked to score the same eight market segments in terms of their importance by 2017. Their response suggests that the foreign life insurers will attach significant future importance to protection and health insurance segments, as both were allocated scores of around 4 out of 5.

Less importance was assigned to group life, group accident and health, and travel insurance. The last category was only scored by two companies with an average of 3 out of 5.

Figure 66:
Life companies' scores of future importance for different market segments in 2017



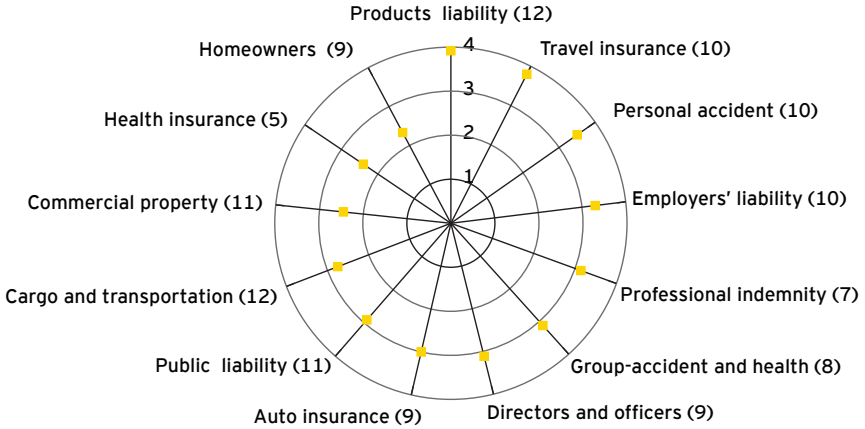

Number in parentheses refer to the number of participants scoring this segment

Based on the survey responses of 12 life companies

# Performance of the foreign property and casualty companies in 2013

Participants scored their performance in 13 different property and casualty segments. Scores on performance in 2013 ranged from 4 for product liability and travel insurance to less than 3 for cargo and transportation, commercial property, health and homeowners insurance.

Figure 67:
Property and casualty companies' assessment of their success in different market segments in 2013



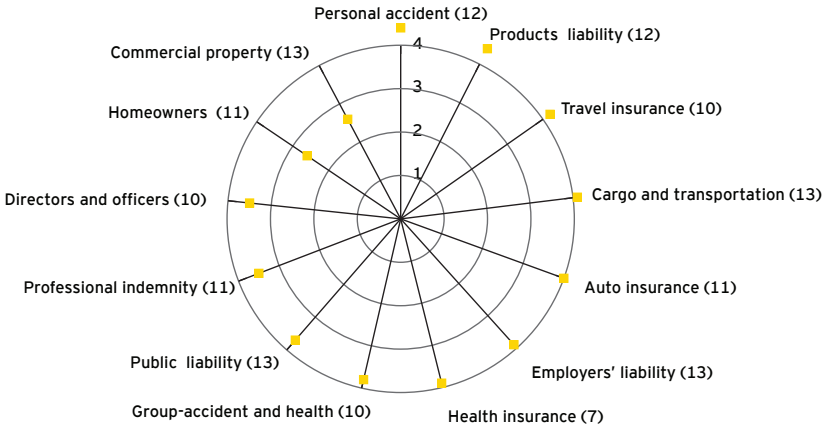

Numbers in parentheses refer to number of participants scoring this segment

Based on the survey of 13 property and casualty companies

# Importance of different market segments for foreign property and casualty companies in 2017

Going forward to 2017, seven segments generated importance scores of 4 or above. They were personal accident, product liability, travel, cargo and transportation, auto, employers' liability and health insurance. Two segments scored below 3: they were homeowners and commercial property insurance.

Figure 68:
Property and casualty companies' scores of future importance for different market segments




Numbers in parentheses refer to number of participants scoring this segment

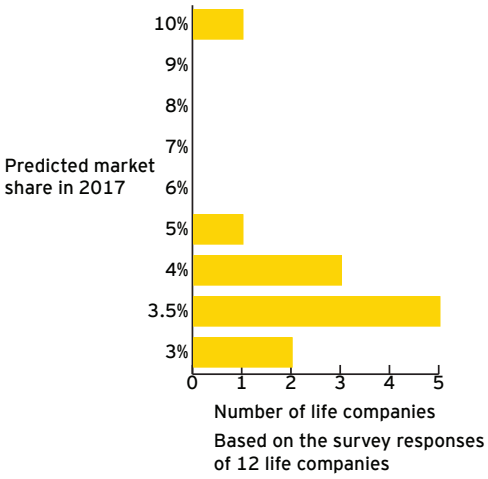
Based on the survey of 13 property and casualty companies

# Market share of the foreign companies in 2017

## Life companies

Most companies expect market share for the life companies to remain around 3.5% to 4.0%. Only two companies predict it might drop to 2%, while one company boldly predicts it could reach 10%.

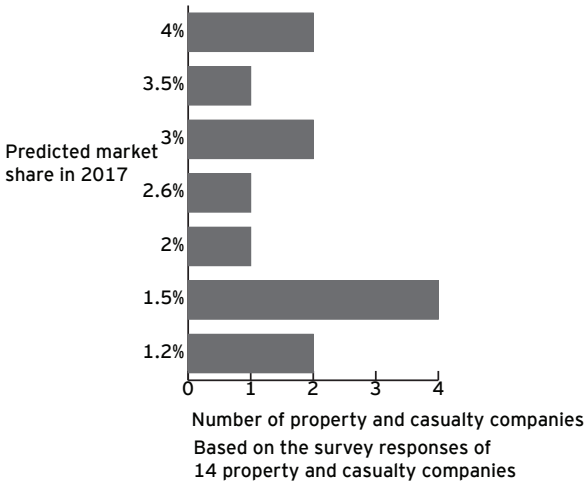
Figure 69:
Predicted market share of life companies in 2017




## Property and casualty companies

While four companies think market share will remain around 1.5%, seven believe it could climb higher by 2017. The AXA-Tianping merger automatically doubles market share as noted earlier in this report.

Figure 70:
Predicted market share of property and casualty companies in 2017



# Premium income – foreign life companies

The absolute size of the foreign life companies, and their growth over the last year, is shown in the table below.

The largest life company at 2013 year-end was ICBC-AXA Life with AIA and MetLife in second and third position. Based on premium income, ICBC-AXA Life doubled in size, while AIA increased by 8.3% and MetLife by 21.6%.

The list shows wide variations with five companies experiencing negative growth.

**Figure 71:**
**Foreign life insurers' changes in premium income from 2012 to 2013 (RMB)**

| Premium Income | 2013 | 2012 | Percentage change (%) |
|---|---|---|---|
| ICBC-AXA Life | 10,287,194,741 | 4,752,826,781 | 116.40 |
| AIA | 9,411,120,575 | 8,691,152,275 | 8.30 |
| MetLife | 5,670,060,078 | 4,661,619,081 | 21.60 |
| Generali China Life | 4,788,938,000 | 4,175,819,000 | 14.70 |
| CIGNA & CMB Life | 4,240,273,049 | 2,421,537,139 | 75.10 |
| CITIC-Prudential Life | 4,133,291,593 | 3,623,603,841 | 14.10 |
| Aviva-COFCO Life | 3,530,604,696 | 3,601,045,642 | -2.00 |
| Manulife-Sinochem Life | 2,987,443,912 | 2,731,956,278 | 9.40 |
| Huatai Life | 2,891,867,051 | 2,856,863,355 | 1.20 |
| ING-BOB Life | 2,121,595,231 | 1,755,733,590 | 20.80 |
| Allianz China Life | 1,793,868,142 | 1,377,847,638 | 30.20 |
| AEGON-CNOOC Life | 1,448,664,376 | 1,377,482,578 | 5.20 |
| BoComm Life | 1,344,033,220 | 721,030,720 | 86.40 |
| Heng An Standard Life | 1,179,897,379 | 1,468,578,766 | -19.70 |
| HSBC Life | 759,377,514 | 528,767,791 | 43.60 |
| Founder Meiji Yasuda Life | 617,390,226 | 500,563,175 | 23.30 |
| Cathay Life | 476,007,560 | 444,182,432 | 7.20 |
| Shin Kong-HNA Life | 347,909,208 | 312,902,946 | 11.20 |
| Samsung Air China Life | 336,484,888 | 275,273,014 | 22.20 |
| Ping An Health | 308,483,645 | 210,745,748 | 46.40 |
| Nissary-Greatwall Life | 271,175,200 | 331,499,000 | -18.20 |
| Great Eastern Life | 259,663,452 | 296,272,396 | -12.40 |
| King Dragon Life | 222,140,124 | 148,745,182 | 49.30 |
| Old Mutual-Guodian Life | 142,538,734 | 96,611,057 | 47.50 |
| SinoKorea Life | 89,300,827 | N/A | N/A |
| Pramerica Fosun Life | 16,483,576 | 1,402,288 | 1,075.50 |
| Sino French Life | 10,561,000 | 34,262,000 | -69.20 |
| ERGO China Life | 2,142,063 | N/A | N/A |

Source: 2013 Financial statements of individual companies

# Profit before tax – foreign life companies

More than two thirds of the foreign life companies failed to make a profit in 2013. The most profitable company was AIA, followed by MetLife and CITIC-Prudential Life.

CIGNA & CMC Life, Manulife-Sinochem life, Aviva-Cofco Life and Generali China Life followed closely behind.

**Figure 72:**
**Foreign life insurers Profit (loss) before tax in 2012 and 2013 (RMB)**

| Profit (loss) before tax | 2013 | 2012 |
|---|---|---|
| AIA | 1,061,204,010 | 252,948,411 |
| MetLife | 405,819,395 | 198,836,826 |
| CITIC-Prudential Life | 261,230,195 | 351,855,663 |
| CIGNA & CMB Life | 254,072,744 | 184,775,519 |
| Manulife-Sinochem Life | 230,177,806 | 169,117,153 |
| Aviva-COFCO Life | 204,471,729 | 80,603,539 |
| Generali China Life | 204,060,000 | 165,226,000 |
| ICBC-AXA Life | 20,307,753 | (107,913,658) |
| ING-BOB Life | 18,585,830 | 12,104,827 |
| Sino French Life | (6,984,415) | (17,730,372) |
| HSBC Life | (23,642,965) | (111,625,395) |
| Cathay Life | (33,018,469) | (121,702,115) |
| BoComm Life | (43,467,506) | (63,860,830) |
| King Dragon Life | (44,380,118) | (49,843,406) |
| SinoKorea Life | (56,407,825) | (20,797,343) |
| Great Eastern Life | (60,170,158) | (26,255,872) |
| Founder Meiji Yasuda Life | (65,485,626) | (107,385,368) |
| Samsung Air China Life | (67,425,226) | (85,783,335) |
| ERGO China Life | (71,287,602) | N/A |
| Huatai Life | (72,266,722) | (215,447,599) |
| Ping An Health | (79,036,815) | (67,396,507) |
| Shin Kong-HNA Life | (85,627,382) | (90,060,614) |
| Pramerica Fosun Life | (89,080,594) | (67,643,222) |
| Nissary-Greatwall Life | (89,854,600) | (80,718,300) |
| AEGON-CNOOC Life | (92,523,280) | 2,087,661 |
| Allianz China Life | (112,871,370) | (128,574,797) |
| Old Mutual-Guodian Life | (118,275,595) | (97,933,905) |
| Heng An Standard Life | (129,969,541) | (155,989,692) |

Source: 2013 Financial statements of individual companies

# Premium income – foreign property and casualty companies

As a result of the AXA and Tianping merger, the new joint venture will be more than three times the size of Groupama in second place. AIG China was in third place. Groupama Avic's figures show that premium income doubled in size over 2013.

Only three companies showed reductions in premium income in 2013.

Figure 73:
Foreign property and casualty insurers changes in premium income from 2012 to 2013 (RMB)

| Premium Income (RMB) | 2013 | 2012 | Percentage change (%) |
|---|---|---|---|
| AXA and Tianping P&C | 5,005,606,774 | 4,646,195,326 | 7.7 |
| Groupama Avic Insurance | 1,505,416,982 | 737,350,801 | 104.2 |
| AIG China | 1,297,901,473 | 1,237,730,404 | 4.9 |
| Mitsui Sumitomo Insurance (China) | 1,141,636,000 | 1,008,253,000 | 13.2 |
| Liberty Insurance | 847,012,040 | 715,566,050 | 18.4 |
| Allianz China General Insurance | 751,863,084 | 648,731,245 | 15.9 |
| Samsung P&C (China) | 672,705,942 | 555,265,326 | 21.2 |
| Sompo Japan Nipponkoa Insurance (China) | 647,525,162 | 576,388,903 | 12.3 |
| Tokio Marine & Nichido Fire Insurance (China) | 603,222,596 | 583,659,271 | 3.4 |
| Cathay Insurance | 524,915,060 | 267,798,075 | 96.0 |
| Zurich General Insurance (China) | 495,816,892 | 418,376,197 | 18.5 |
| Fubon Insurance | 384,733,299 | 180,518,591 | 113.1 |
| Lloyd's Insurance (China) | 296,544,426 | 232,890,224 | 27.3 |
| Hyundai Insurance (China) | 272,668,744 | 243,409,541 | 12.0 |
| Generali China Insurance | 232,896,862 | 255,792,071 | (9.0) |
| RSA China | 218,586,717 | 194,249,297 | 12.5 |
| Chubb Insurance (China) | 163,257,425 | 203,164,486 | (19.6) |
| LIG Insurance (China) | 110,846,565 | 98,711,228 | 12.3 |
| Aioi Nissay Dowa Insurance (China) | 100,994,660 | 76,502,463 | 32.0 |
| Nipponkoa Insurance (China) | 71,963,566 | 53,718,977 | 34.0 |
| XL Insurance (China) | 42,501,895 | 43,599,532 | (2.5) |

Source: 2013 Financial statements of individual companies

# Profit before tax – foreign property and casualty companies

The foreign insurers are split almost evenly, with 11 making a profit, while 10 generated losses. The top three companies were Tokio Marine, Groupama Avic and Samsung P&C.

**Figure 74:**
**Foreign property and casualty insurers: Profit (loss) before tax in 2012 and 2013 (RMB)**

| Profit (loss) before tax (RMB) | 2013 | 2012 |
|---|---|---|
| Tokio Marine & Nichido Fire Insurance (China) | 90,444,118 | 54,947,516 |
| Groupama Avic Insurance | 44,913,067 | 280,134 |
| Samsung P&C (China) | 27,565,917 | 62,583,434 |
| Mitsui Sumitomo Insurance (China) | 23,313,000 | (27,393,000) |
| Generali China Insurance | 12,459,980 | 12,877,906 |
| AXA Tianping P&C | 8,158,457 | 175,090,020 |
| XL Insurance (China) | 7,651,775 | (8,078,480) |
| RSA China | 4,994,391 | 12,115,122 |
| Lloyd's Insurance (China) | 4,175,727 | 11,751,979 |
| LIG Insurance (China) | 1,759,167 | 13,403,729 |
| AIG China | 1,367,537 | 55,882,686 |
| Hyundai Insurance (China) | (2,184,490) | (2,110,495) |
| Chubb Insurance (China) | (13,093,797) | 5,568,290 |
| Nipponkoa Insurance (China) | (13,189,391) | (3,725,903) |
| Zurich General Insurance (China) | (25,202,848) | (34,508,307) |
| Allianz China General Insurance | (27,729,768) | (210,439,363) |
| Aioi Nissay Dowa Insurance (China) | (60,710,536) | (12,223,184) |
| Fubon Insurance | (121,658,190) | (80,640,012) |
| Sompo Japan Nipponkoa Insurance (China) | (137,819,478) | (50,907,027) |
| Cathay Insurance | (185,692,788) | (138,224,696) |
| Liberty Insurance | (244,501,729) | (154,645,453) |

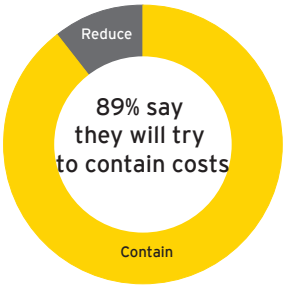
Source: 2013 Financial statements of individual companies

## Keeping on top of costs

Given that the foreign insurers generally remain in a growth mode and look forward to increased sales, most plan to contain their costs rather than reduce costs.

Nonetheless, having acknowledged this, two life companies hope to be able to cut their overall cost base.

Figure 75:
Will you try to contain or reduce your costs in 2014?




Based on the survey responses of 19 companies

## Revenue growth for individual participants

The foreign insurers recorded their estimates on projected premium growth for 2014 and 2017 respectively in the following charts.

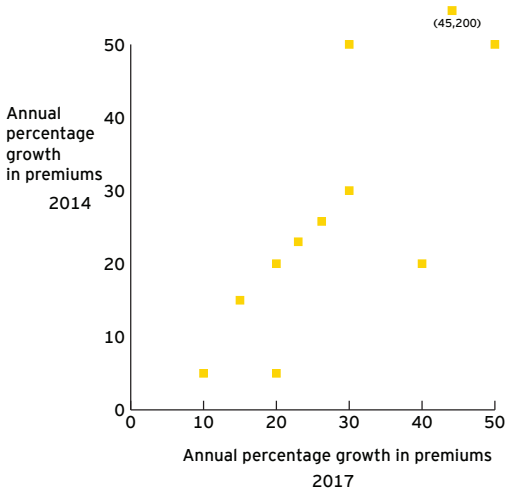
### Life insurance companies

Most companies anticipate premium growth of above 20% in both 2014 and 2017. Two companies expect growth of just 5% in 2014, but by 2017 the lowest growth rate for just one company was predicted to be 10%.

Five companies fall in the 20% to 30% range in both 2014 and 2017, but two companies record 50% for 2014.

One company which indicated a 45% growth rate in 2014 expected to accelerate premium growth to an annual rate of 200% by 2017.

Figure 76:
Projected premium growth in 2014 and 2017 for life companies




Based on the survey responses of 11 life companies
One company predicted growth of 45% in 2014 and 200% in 2017 it is shown as (45,200) on the chart

## Property and casualty insurance companies

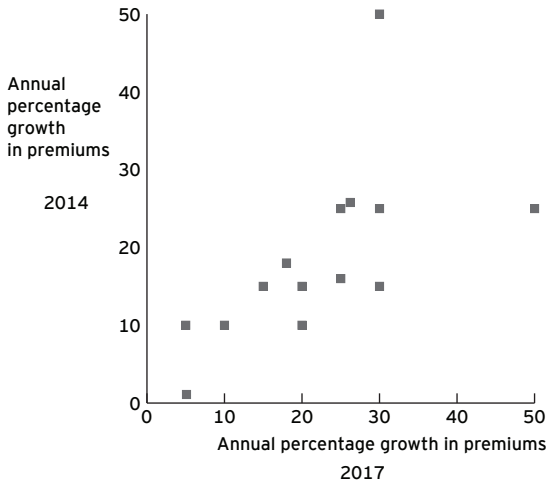
The property and casualty companies anticipate more modest premium increases. Only one company projects a growth rate of 50% in 2014, nine predict below 20% and four expect 25%.

By 2017, again the highest growth rate is projected at 50% for just one company.

The remainder are all at 30% or below. This includes seven companies below 20%.

These rates, which include forecasts by property and casualty companies that have entered or plan to enter the motor insurance market, suggest that insurers remain somewhat cautious with respect to growth potential over the next three years.

Figure 77:
Projected premium growth in 2014 and 2017 for property and casualty companies

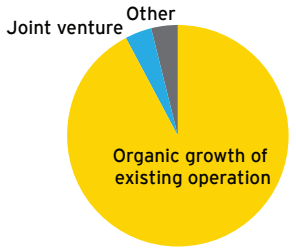



Based on the survey responses of 14 property and casualty companies

# Foreign companies will grow organically

Although a number of property and casualty insurers mentioned their interest in making acquisitions of mid-sized domestic insurers, the primary method of expansion for all insurance companies will be organic growth.

Figure 78:
Primary method of growth for foreign insurance companies in China

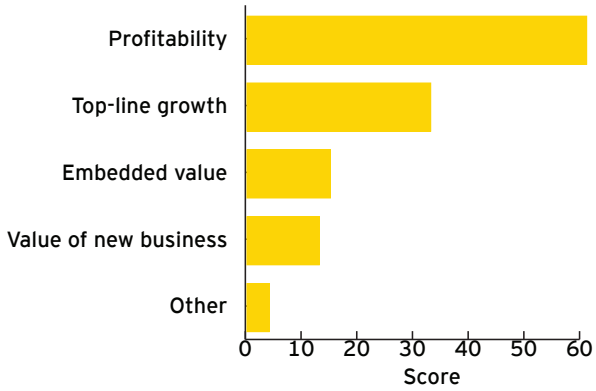



Based on the survey responses of 26 companies

# Head office judges performance on profits

The performance of the foreign companies has already been outlined in this section of the report. It shows the disappointing results for many of the companies in 2013. Across a range of criteria, participants acknowledged that head office judges success in China on profit performance, ahead of top-line growth.

Figure 79:
Criteria head office uses to judge success in China




Based on the survey responses of 26 companies

# 7

# Product and segment developments

## Life insurance products in demand

### Individual products

Participants were asked to identify products that would grow in importance over the next three years, from a predetermined list of life and property and casualty products at both the individual and wholesale level.

Future demand for life products directed at individual clients was predicted to be strongest for retirement products and critical illness insurance.

Although the market for critical illness has existed in China for a period of time, new risks and new products are emerging. For example, changing socio-economic circumstances, lifestyle and environmental changes, alongside major advances in medical technology and diagnosis, have spurred the development and the demand for a new breed of critical illness products.

Foreign insurers, with their international experience, should be well placed to take advantage of future demand in this product category.

Other products mentioned by participants included protection and annuity products, long-term savings and universal life products.

It is expected that reforms in the domestic capital market will dramatically change the nature of the savings market, and the insurance sector may well be able to benefit from these changes.

Figure 80:
Future demand for individual life products


Product bubbles represent relative levels of predicted future interest

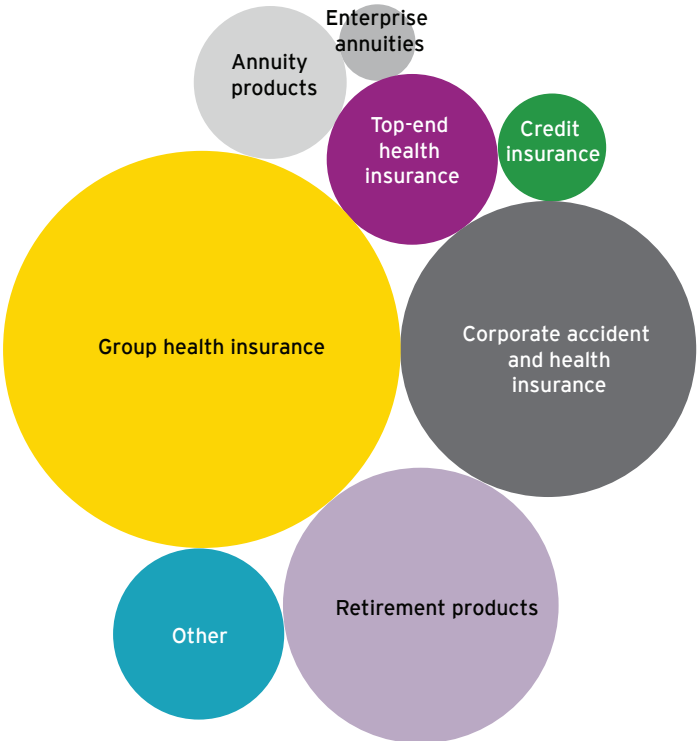
Based on the survey responses of 12 life companies

## Wholesale products

On the wholesale side, participants identified group health insurance, corporate accident and health insurance and retirement products as the categories expected to see the greatest increases in demand.

As the diagram indicates, the focus and opportunity in this sector revolves around health insurance.

Figure 81:
Future demand for wholesale life products




Product bubbles represent relative levels of predicted future interest

Based on the survey responses of 12 life companies

## Statement on healthcare reform in China

China's healthcare reform has generated demand for more and better healthcare, with opportunities for private and overseas investment. With sales of $71 billion, China is the world's third largest pharmaceutical market, and, with an annual growth rate between 15 and 20% (twice that of the United States), is poised to become the second largest by 2015.

Health spending in China is projected to almost triple, hitting $900 billion by 2020. In 2011, the top 10 multinational pharmaceutical companies saw an average growth in sales of over 27% in China. In addition, the rapid population aging in China has also led to the growth of a new market: institution-based senior care.

Currently, less than 2% of the senior population uses institution-based care, but more than 10% are willing to receive care in institutions. The number of elderly people who are able to afford senior housing will reach 22 million by 2020.

The statement concluded that China's healthcare reform will provide opportunities for biopharmaceutical firms, hospital groups and insurance companies.

Source: Council on Foreign Relations, 3 April 2014

# Property and casualty products

## Individual products

Motor insurance is a top priority for the property and casualty companies. It records a much higher score than personal accident, travel or health insurance.

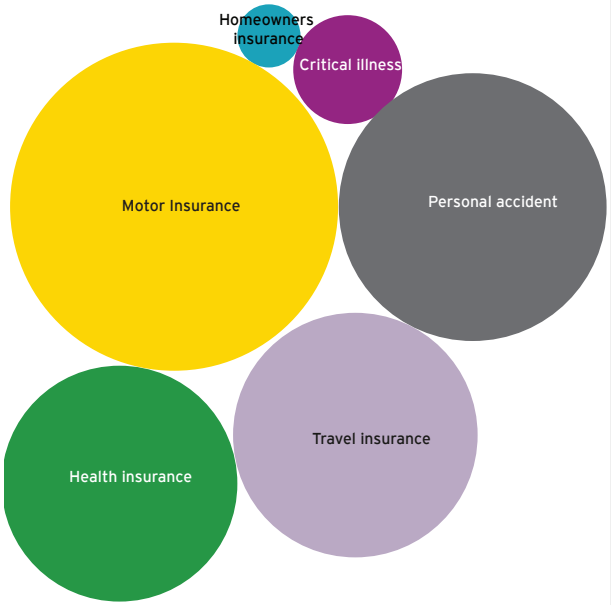
In May 2014, motor sales increased by 13.9% from a year earlier, with monthly sales of 1.59 million units.

There has been a relative increase in the number of foreign brands in 2014, and this may assist foreign insurance companies entering the market who wish to form alliances with their home country manufacturers.

One of the reasons behind the recent growth in sales is the threat of new registration quotas or usage restrictions. Pollution concerns have led to six major cities imposing quotas on new registrations.

Critical illness, while increasing in importance, remains small, and homeowners insurance fails to be identified as an insurance need by the Chinese consumers.

Figure 82:
Future demand for individual property and casualty products




Product bubbles represent relative levels of predicted future interest
Based on the survey responses of 11 property and casualty companies

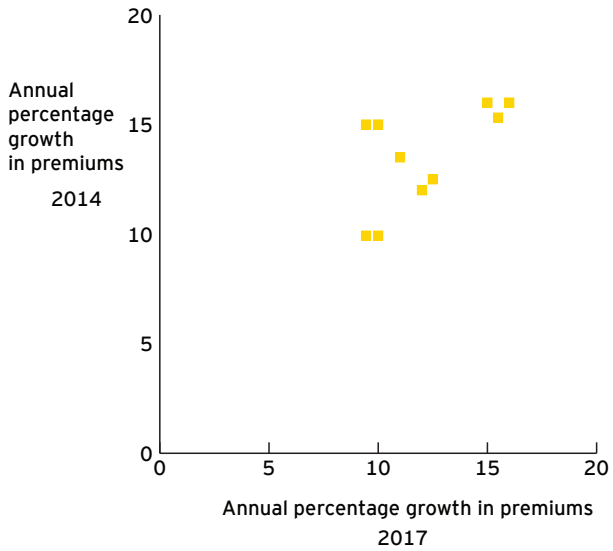
## Expected growth in motor insurance

Ten property and casualty companies provided estimates on the potential growth in motor insurance premium in 2014 and in 2017.

As the chart indicates, most companies expect around 12% growth in both 2014 and 2017.

Three companies projected growth of around 15%.

Figure 83:
Forecasted annual growth for motor insurance in 2014 and 2017




Based on the survey responses of 10 property and casualty companies

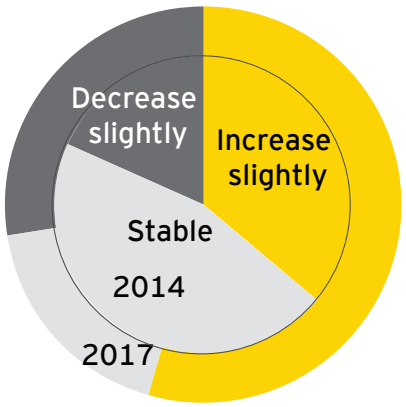
## Pricing motor insurance

The motor insurance market remains highly competitive and participants to the survey recognize that current pricing will make their entry extremely challenging.

Five participants believe that rates will remain stable in 2014, and four participants believe they will increase slightly.

Going forward, six participants project that rates will rise.

Figure 84:
Forecasted changes in motor insurance rates in 2014 and by 2017




Based on the survey responses of 11 property and casualty companies

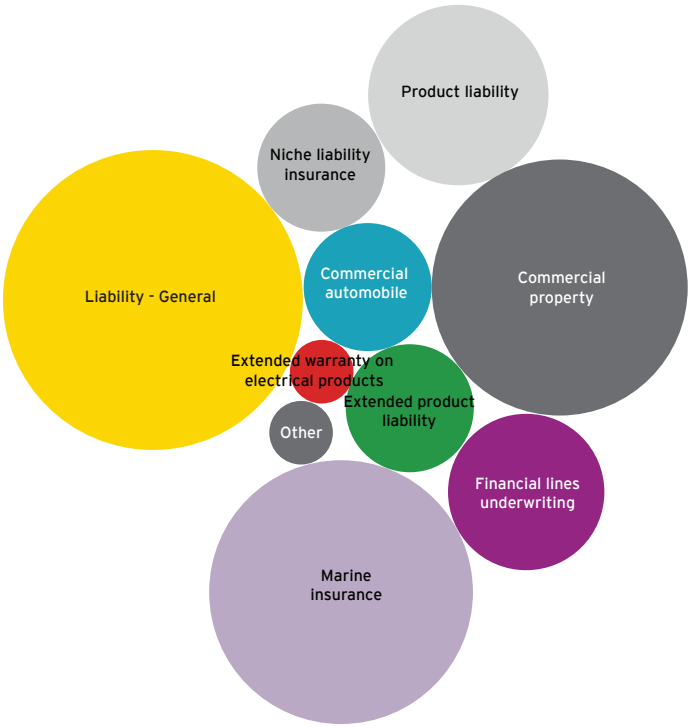
## Wholesale products

At the wholesale level, the three most important products over the next three years are liability insurance, marine insurance and commercial property insurance.

Product liability insurance is also rated as important by a number of participants.

Finally, commercial automobile insurance covering car fleets is important to a small number of companies active in this area.

Figure 85:
Future demand for wholesale property and casualty products




Product bubbles represent relative levels of predicted future interest

Based on the survey responses of 12 property and casualty companies

# Risk management issues

Participants documented some of the most important risk management issues they are currently facing. They included:

- Adhering to changing regulations and unpredictable environment
- Underwriting for major catastrophes
- Miss-selling, sales staff may cheat customers
- Investment returns
- Personnel shortages due to high turnover levels

# The SK Hynix disaster in 2013

Several participants mentioned the fire at SK Hynix's microchip factory in Wuxi. The claim was the largest single global loss in 2013 and was around US$1 billion. SK Hynix is the world's second largest manufacturer of DRAM (dynamic random-access memory) chips for smartphones and tablets.

Media reports suggested that insurance cover for the plant had been placed in the Chinese and South Korean domestic markets.

However, much of the risk is thought to have been ceded facultatively to regional and global carriers.

Source: The Insurance Insider, 5 November 2013

## Foreign insurers have the ability to develop new products

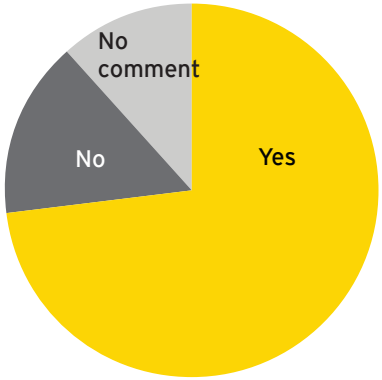
The foreign insurers believe that they have the necessary critical mass to develop new products for China.

Only a small number of participants believe the opposite. These companies cited their small size and limited time in the Chinese market.

One company mentioned the challenge of providing a commoditized product such as auto insurance when there is a lack of adequate sales.

Another property and casualty participant linked the critical mass issue to inadequate data, believing that they had limited data to support their underwriting needs.

Figure 86:
Foreign insurers have critical mass for new products




Based on the survey responses of 26 companies

## Potential for micro-insurance

Opinions were mixed regarding the potential of micro-insurance for foreign insurers in China.

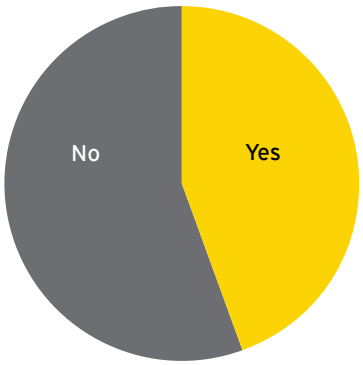
The majority of respondents believe it is too early to service this sector. Various reasons were provided, including small ticket items, weak or non-existent distribution channels, high risk of fraud and regulatory issues such as CIRC restrictions on cross-province transactions.

One property and casualty participant pointed out that to be successful, the cooperation of local government was essential, and the foreign insurers do not have this skill.

Others suggested that the foreign insurers were based in Tier 1 and Tier 2 cities, while micro-insurance business originated in Tier 3 and Tier 4 cities.

On the positive side, respondents believed that digital channels and local government connections provided opportunities. They mentioned insurance product categories such as agricultural and travel as examples where they have already achieved success.

Figure 87:
Opportunities for foreign insurers in micro-insurance




Based on the survey responses of 18 companies

# 8

# Human resource developments

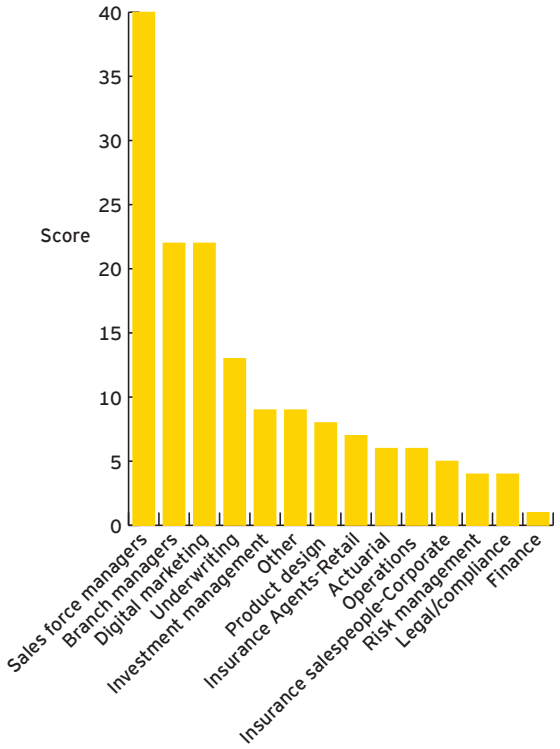
## Levels of demand for different foreign insurance positions

Participants were provided with a list of 14 different job functions and asked to identify the ones in greatest demand.

The top three hiring priorities in 2014 are sales force managers and in second place, branch managers and digital marketers. The "other" category includes human resources, general marketing and individual sales personnel.

Two life and two property and casualty companies placed digital marketers as the top hiring priority in 2014, while 12 companies in total placed them on the top three priority list.

Figure 88:
Insurance positions in greatest demand in 2014




Based on the survey responses of 26 companies

## Salary increases expected

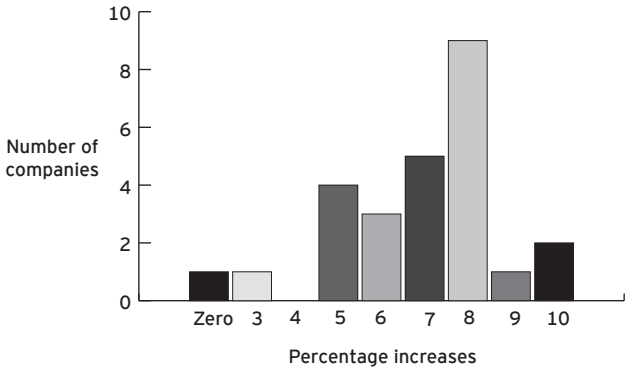
Salaries are expected to continue to rise in 2014, despite economic uncertainty.

Most participants forecast rises in the 7% to 8% region. Only one property and casualty insurer predicted salaries would remain the same in 2014.

Another property and casualty company predicted a 9% increase, and a life company forecast 10%.

The overall average increase was 6.7%.

Figure 89:
Estimates of salary increases in 2014 by participants for their company only




Based on the survey responses of 26 companies

## Bonuses in 2014

The majority of participants expected bonuses to remain the same in 2014, but a number of them expected increases. One participant suggested that improved performance could lead to a 30% increase, while several other companies suggested they had redesigned their remuneration models.

**Figure 90:**
**Expectation on whether bonuses in 2014 will increase or remain the same**


Based on the survey responses of 25 companies

## The right talent mix

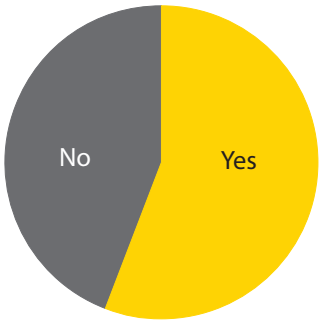
While the majority of participants believe they have the right mix of talent to achieve their five-year plan, 11 participants believed the opposite.

The positive group also highlighted reservations. They mentioned the constant challenge of staff retention, shortages of second-level management and shortages of appropriate staff to service new branches.

Those who did not believe they had the right staff capabilities highlighted digital marketing, direct marketing and data analytics.

One property and casualty CEO voiced concern over technical staff in the 35 to 40 age group who lack experience and role models, but nevertheless remain highly confident in their own abilities.

**Figure 91:**
**Are you confident that over the next five years you have the right people to deliver your strategy?**




Based on the survey responses of 25 companies

## Talent shortage will have an impact

The participants confirmed that over the next three years, talent shortages will have a significant (45%) or very significant impact (32%) on growth targets. Once again, concerns were recorded in relation to high turnover and to second-level management.

The high level of interest in digital channels noted elsewhere in this report raises additional staffing concerns.

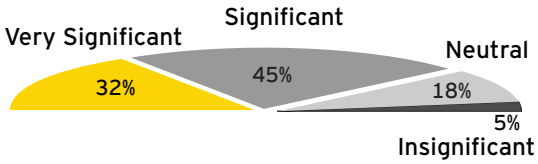
When asked specifically if current talent will be able to deliver the planned transition to a digital platform, 70% of participants said no.

Several participants said this was a new area for insurance, and they would need to hire outside the industry.

Others suggested they would outsource part of this function to specialists. Another group hoped to solve the problem by transferring individuals from other parts of their group.

However, some cautioned that China's rapid adoption of mobile technology meant that adequate skills and understanding of the China insurance market were unlikely to exist elsewhere.

Figure 92:
Impact of talent shortages over next 3 years on growth targets




Based on the survey responses of 22 companies

## Staff turnover levels to remain the same

Many participants suggested that staff turnover levels in 2013 and in 2014 will hover around the 10% to 15% level. Comparing turnover projection for 2014 against last year, 18 companies said their turnover levels would remain about the same, three suggested they would drop and three expect an increase in turnover.

In 2013, six companies indicated turnover levels of above 20% and these same companies expect this level to continue.

At the other end of the scale, as a rule, Japanese companies are characterized by very low levels of turnover. However, call centers and large agency distribution channels are associated with higher levels of turnover.

It is possible that an increased emphasis on digital channels may contribute to a lowering of traditionally high levels of turnover.

## Agent compensation problem

In order to explore the compensation issue, participants provided a rough estimate of the average monthly income of a typical agent in Shanghai after deducting business expenses and social benefits.

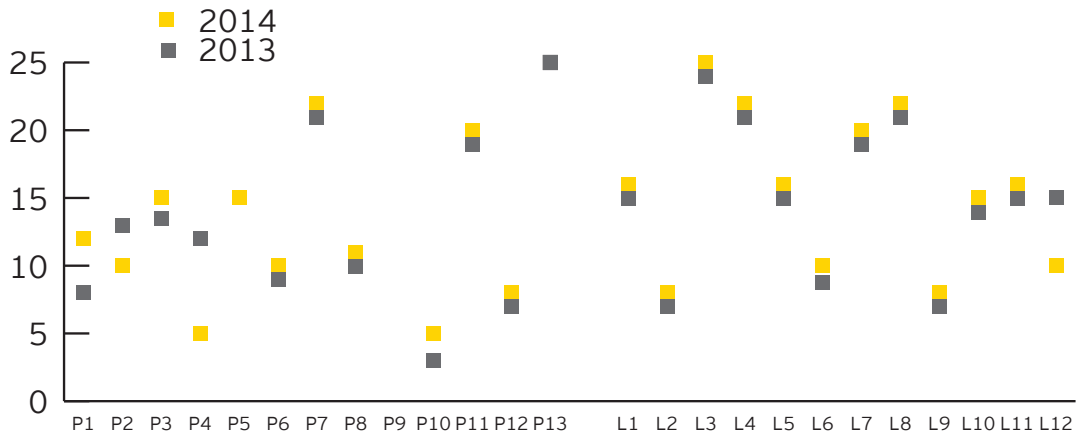
The general consensus was that it was around RMB3,500 per month, although some companies suggested their agents were earning RMB5,000 per month in Shanghai and Beijing.

It was acknowledged that compensation of RMB3,500 per month was not sustainable. Comparisons were made to drivers or domestic helpers who reportedly earned RMB3,000 to 4,000 per month. It was suggested that to be sustainable, agents needed to earn a minimum of RMB6,000 per month.

One insurer indicated that they were trying to encourage a more long-term focus by redesigning agent compensation, offering more professional training, and an improved product margin and product range.

The objective of the plan was to retain "elite" agents with enhanced compensation and differentiate them from the rest of the group.

**Figure 93:**
**Staff turnover levels in 2013 and expected in 2014**




Based on the survey responses of 25 companies, as the chart shows there are 13 property and casualty companies and 12 life companies.

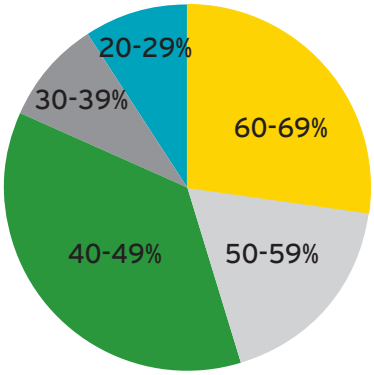
## Agents are an important channel for some life companies

Eleven life companies provided information on their agents. In total, they had 68,870 agents in 2014 and expect this to grow by 34% to 92,000 in 2017. Three participants contribute a large proportion of these totals.

The following chart shows that three companies have 60% to 65% active agents, while one recorded just 23%.

Most companies consider an agent active if they sell one policy each month. One participant required agents to write just one policy every three months, while another required a first year premium (FYP) of RMB4,000 per month.

**Figure 94:**
**Active life agents as a percentage of total employed agents**




Based on the survey responses of 11 life companies

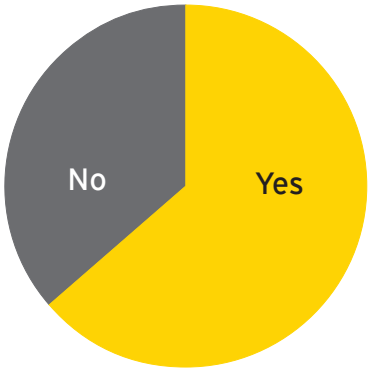
## Recruiting new agents

Participants also believe that it has become more difficult to recruit new agents; 64% said it was more difficult than one year ago.

Participants were asked to elaborate on why it has become more difficult to recruit agents.

The most important reason given was compensation levels, followed by the poor industry image and, to a much lesser extent, an increased requirement by insurers.

**Figure 95:**
**Is it more difficult to recruit life agents than a year ago?**

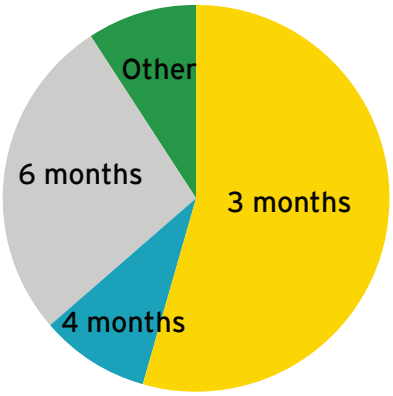



Based on the survey responses of 11 life companies

## Terminating agents

If agents do not fulfil the minimum performance requirement, they are typically terminated within three months, although three participants suggested they extended the deadline to six months.

**Figure 96:**
**Period before termination of agents with poor performance**




Based on the survey responses of 11 life companies

# 9

# Research methodology

In total, 27 foreign insurance companies participated in the preparation of this report. This total is made up of 12 foreign life companies and 15 foreign property and casualty companies.

The interviews were conducted with CEOs or senior executives of the companies between March and May 2014 in Beijing, Shanghai, Shenzhen, Dalian, Chongqing and Tianjin.

The contents of these individual company discussions are confidential, and findings are presented in a group format. Any reference to individual companies or their data is based on information in the public domain. The 27 participating foreign insurance companies are listed below.

| Life insurance companies | Property and casualty companies |
|---|---|
| AEGON-CNOOC Life Insurance | Allianz China General Insurance |
| American International Assurance | AXA and Tianping P&C Insurance |
| Aviva-COFCO Life Insurance | AIG China |
| CIGNA & CMB Life Insurance | Cathay Insurance |
| Generali China Life Insurance | Chubb Insurance |
| Heng An Standard Life Insurance | Dazhong Insurance |
| Huatai Life Insurance | Groupama Avic Insurance |
| ICBC- AXA Life | Liberty Insurance |
| ING-BOB Life Insurance | Lloyd's Insurance |
| Manulife-Sinochem Life Insurance | Mitsui Sumitomo Insurance |
| MetLife Insurance | RSA Insurance |
| Samsung Air China Life Insurance | Sompo Japan Nipponkoa Insurance |
| | Tokio Marine & Nichido Fire Insurance |
| | XL Insurance |
| | Zurich General Insurance |

# 10

# Appendices

## Author of the report

Dr. Brian Metcalfe is an Associate Professor in the Goodman School of Business at Brock University, Ontario, Canada. He has a doctorate in financial services marketing and has researched and produced many reports, such as this one, on behalf of accounting and management consulting firms in 14 different countries including Canada, Australia, China, India, Japan and South Africa.

He has consulted for a wide range of organizations, including Royal Bank of Canada, Scotiabank, Barclays Bank, Sun Life Insurance Company, Equitable Life of Canada and several major consulting firms.

He has also taught an executive management course entitled "Financial Services Marketing" in the Graduate School of Business at the University of Cape Town.

Domestic property & casualty companies GWP RMB millions, Jan–Dec 2013

| Rank | Domestic non-life insurance company | Chinese name | Jan–Dec 2013 in RMB millions |
|---|---|---|---|
| 1 | PICC P&C | 人保财险 | 223,005 |
| 2 | Ping An P&C | 平安产险 | 115,365 |
| 3 | China Pacific Property Insurance | 太保产险 | 81,613 |
| 4 | China Life P&C | 国寿财险 | 31,849 |
| 5 | China United Property | 中华联合财险 | 29,712 |
| 6 | China Continent P&C | 大地保险 | 19,846 |
| 7 | Sunshine P&C | 阳光产险 | 16,598 |
| 8 | Sinosure | 中国信保 | 14,031 |
| 9 | Taiping General Insurance | 太平财险 | 10,800 |
| 10 | Tian An Property Insurance | 天安财险 | 9,951 |
| 11 | Yong An Insurance | 永安保险 | 7,479 |
| 12 | Yingda Taihe Property Insurance | 英大泰和财险 | 6,677 |
| 13 | Sinosafe Insurance | 华安保险 | 6,586 |
| 14 | An Bang Insurance | 安邦产险 | 6,500 |
| 15 | Huatai Insurance | 华泰财险 | 6,448 |
| 16 | Alltrust Insurance | 永诚保险 | 5,496 |
| 17 | BOC Insurance | 中银保险 | 5,099 |
| 18 | Tianping Auto | 天平财险 | 5,006 |
| 19 | Dubon Insurance | 都邦保险 | 3,374 |
| 20 | Zheshang P&C Insurance | 浙商保险 | 3,062 |
| 21 | Cinda P&C Insurance | 信达财险 | 3,043 |
| 22 | Zking P&C Insurance | 紫金财险 | 3,031 |
| 23 | Sunlight Agricultural Mutual Insurance | 阳光农业相互保险 | 2,754 |
| 24 | Anhua Agriculture | 安华农业保险 | 2,723 |
| 25 | Min An P&C Insurance | 民安保险 | 2,603 |
| 26 | Guoyuan Insurance | 国元保险 | 2,307 |
| 27 | Chang An P&C Insurance | 长安责任保险 | 2,241 |
| 28 | An Cheng Insurance | 安诚保险 | 2,020 |
| 29 | Ding He Insurance | 鼎和保险 | 1,943 |
| 30 | Bohai Property Insurance | 渤海保险 | 1,804 |
| 31 | Dazhong Insurance | 大众保险 | 1,475 |
| 32 | Anxin Agriculture Insurance | 安信农险 | 936 |
| 33 | Taishan P&C Insurance | 泰山保险 | 858 |
| 34 | Jintai Insurance | 锦泰保险 | 844 |
| 35 | Urtrust Insurance | 众诚保险 | 623 |
| 36 | China Coal Insurance | 中煤保险 | 477 |
| 37 | Hua Nong P&C Insurance | 华农保险 | 448 |
| 38 | Bei Bu Gulf P&C Insurance | 北部湾保险 | 327 |
| 39 | Changjiang P&C Insurance | 长江财险 | 280 |
| 40 | Champion P&C Insurance | 诚泰保险 | 218 |
| 41 | Xin An Insurance | 鑫安保险 | 196 |
| 42 | Fude Property Insurance | 富德产险 | 157 |
| 43 | Zhong An Online Insurance | 众安保险 | 13 |
| | Domestic Sub-Total | | 639,815 |

Based on CIRC data, with updates from official company websites as at June 2014

Foreign property & casualty companies GWP RMB millions, Jan–Dec 2013

| Rank | Foreign non-life insurance company | Chinese name | Jan–Dec 2013 in RMB millions |
|---|---|---|---|
| 1 | Groupama Avic Insurance | 中航安盟保险 | 1,430 |
| 2 | AIG China | 美亚保险 | 1,149 |
| 3 | Liberty Insurance | 利宝保险 | 847 |
| 4 | Allianz China General Insurance | 安联财险 | 656 |
| 5 | Samsung P&C (China) | 三星财产保险 | 612 |
| 6 | Cathay Insurance | 国泰产险 | 519 |
| 7 | Mitsui Sumitomo Insurance (China) | 三井住友海上（中国） | 469 |
| 8 | Tokio Marine Nichido (China) | 东京海上日动 （中国） | 469 |
| 9 | Zurich General Insurance (China) | 苏黎世财险（中国） | 395 |
| 10 | Fubon Insurance | 富邦财险 | 357 |
| 11 | Sompo Japan Nipponkoa Insurance (China) | 日本财产保险（中国） | 297 |
| 12 | AXA Tianping P&C | 安盛天平 | 257 |
| 13 | Generali China Insurance | 中意财险 | 201 |
| 14 | RSA China | 太阳联合保险（中国） | 170 |
| 15 | Chubb Insurance (China) | 丘博保险（中国） | 131 |
| 16 | Hyundai Insurance (China) | 现代财产保险（中国） | 105 |
| 17 | LIG Insurance (China) | 乐爱金财险（中国） | 98 |
| 18 | Nipponkoa Insurance (China) | 日本兴亚财险（中国） | 54 |
| 19 | Aioi Nissay Dowa Insurance (China) | 爱和谊日生同和 （中国） | 50 |
| 20 | XL Insurance (China) | 信利保险（中国） | 36 |
| 21 | Lloyd's Insurance (China) | 劳合社保险（中国） | 1 |
| | Foreign Sub-Total | | 8,301 |

Based on CIRC data, with updates from official company websites as at June 2014

Domestic life companies GWP RMB millions, Jan–Dec 2013

| Rank | Domestic life insurance company | Chinese name | Jan–Dec 2013 in RMB millions |
|---|---|---|---|
| 1 | China Life | 国寿股份 | 326,720 |
| 2 | Ping An Life | 平安人寿 | 146,091 |
| 3 | New China Life | 新华保险 | 103,640 |
| 4 | China Pacific Life Insurance | 太保寿险 | 95,101 |
| 5 | PICC Life | 人保寿险 | 75,273 |
| 6 | Taikang Life | 泰康人寿 | 61,124 |
| 7 | Taiping Life Insurance | 太平人寿 | 51,853 |
| 8 | China Post Insurance | 中邮保险 | 23,037 |
| 9 | Sino Life | 生命人寿 | 22,243 |
| 10 | Sunshine Life | 阳光人寿 | 15,756 |
| 11 | China Life (before 1999) | 中保集团 | 12,597 |
| 12 | Minsheng Insurance | 民生保险 | 7,675 |
| 13 | PICC Health | 人保健康 | 7,640 |
| 14 | ABC Life | 农银人寿 | 7,231 |
| 15 | CCB Life | 建信人寿 | 7,012 |
| 16 | Ping An Pension | 平安养老 | 6,977 |
| 17 | Union Life | 合众人寿 | 6,918 |
| 18 | Aeon Life | 百年人寿 | 4,681 |
| 19 | Happy Life | 幸福人寿 | 4,115 |
| 20 | Zhongrong Life | 中融人寿 | 3,822 |
| 21 | Huaxia Life Insurance | 华夏人寿保险 | 3,764 |
| 22 | Sun Life Everbright Life | 光大永明人寿 | 3,019 |
| 23 | Sinatay Life | 信泰人寿 | 2,862 |
| 24 | Great Wall Life | 长城人寿 | 2,682 |
| 25 | Guohua Life | 国华人寿 | 2,324 |
| 26 | Tianan Life | 天安人寿 | 2,031 |
| 27 | Li An Life | 利安人寿 | 1,612 |
| 28 | Anbang Life | 安邦人寿 | 1,368 |
| 29 | Taiping Pension | 太平养老 | 1,328 |
| 30 | Yingda Taihe Life | 英大人寿 | 1,123 |
| 31 | Hongkang Life | 弘康人寿 | 958 |
| 32 | Kun Lun Health Insurance | 昆仑健康保险 | 416 |
| 33 | Foresea Life Insurance | 前海人寿 | 393 |
| 34 | Soochow Life Insurance | 东吴人寿 | 290 |
| 35 | Sino-Conflux Insurance | 华汇人寿 | 255 |
| 36 | Jixiang Life | 吉祥人寿 | 143 |
| 37 | Hexie Health Insurance | 和谐健康 | 132 |
| 38 | Dragon Life | 正德人寿 | 117 |
| 39 | Taikang Pension | 泰康养老 | 59 |
| 40 | Pearl River Life Insurance | 珠江人寿 | 24 |
| 41 | China Life Pension | 国寿养老 | 0 |
| 42 | Changjiang Pension | 长江养老 | 0 |
| | Domestic Sub-Total | | 1,014,407 |

Based on CIRC data, with updates from official company websites as at June 2014

Foreign life companies GWP RMB millions, Jan–Dec 2013

| Rank | Domestic life insurance company | Chinese name | Jan–Dec 2013 in RMB millions |
|---|---|---|---|
| 1 | ICBC-AXA Life | 工银安盛人寿 | 10,287 |
| 2 | AIA | 友邦中国 | 9,408 |
| 3 | MetLife | 大都会人寿 | 5,670 |
| 4 | Generali China Life | 中意人寿 | 4,789 |
| 5 | CIGNA & CMB Life | 招商信诺 | 4,240 |
| 6 | CITIC-Prudential Life | 信诚人寿 | 4,133 |
| 7 | Aviva-COFCO Life | 中英人寿 | 3,531 |
| 8 | Manulife-Sinochem Life | 中宏人寿 | 2,987 |
| 9 | Huatai Life | 华泰人寿 | 2,892 |
| 10 | ING-BOB Life | 中荷人寿 | 2,122 |
| 11 | Allianz China Life | 中德安联人寿 | 1,794 |
| 12 | AEGON-CNOOC Life | 海康人寿 | 1,449 |
| 13 | BoComm Life | 交银康联 | 1,344 |
| 14 | Heng An Standard Life | 恒安标准人寿 | 1,180 |
| 15 | HSBC Life | 汇丰人寿 | 759 |
| 16 | Founder Meiji Yasuda Life | 北大方正人寿 | 617 |
| 17 | Cathay Life | 国泰人寿 | 476 |
| 18 | Shin Kong-HNA Life | 新光海航人寿 | 348 |
| 19 | Samsung Air China Life | 中航三星人寿 | 336 |
| 20 | Ping An Health | 平安健康险 | 308 |
| 21 | Nissay-Greatwall Life | 长生人寿 | 271 |
| 22 | Great Eastern Life | 中新大东方 | 260 |
| 23 | King Dragon Life | 君龙人寿 | 222 |
| 24 | Old Mutual-Guodian Life | 瑞泰人寿 | 143 |
| 25 | SinoKorea Life | 中韩人寿 | 89 |
| 26 | Pramerica Fosun Life | 复兴保德信人寿 | 16 |
| 27 | Sino French Life | 中法人寿 | 11 |
| 28 | Ergo China Life | 德华安顾人寿 | 2 |
| | Foreign Sub-Total | | 59,685 |

Based on CIRC data, with updates from official company websites as at June 2014

Geographic breakdown RMB millions, December 2013

| Location | Total | Property | Life | Casualty | Health |
|---|---|---|---|---|---|
| National Total | 172,222,375.23 | 62,122,577.83 | 94,251,414.16 | 4,613,422.77 | 11,234,960.47 |
| Beijing city | 9,944,445.36 | 2,880,314.72 | 5,708,117.63 | 299,261.29 | 1,056,751.72 |
| Tianjin city | 2,768,019.81 | 1,022,782.71 | 1,485,404.32 | 59,112.65 | 200,720.13 |
| Hebei Province | 8,375,850.30 | 3,097,712.20 | 4,672,419.72 | 166,282.14 | 439,436.24 |
| Liaoning Prov. | 4,466,513.65 | 1,655,047.84 | 2,427,332.89 | 93,429.66 | 290,703.26 |
| Dalian city | 1,760,042.09 | 636,011.98 | 968,374.02 | 38,954.95 | 116,701.15 |
| Shanghai city | 8,214,286.69 | 2,852,463.20 | 4,358,917.71 | 324,371.90 | 678,533.87 |
| Jiangsu Prov. | 14,460,778.02 | 5,186,081.39 | 8,091,738.95 | 418,809.09 | 764,148.59 |
| Zhejiang Prov. | 9,244,182.79 | 4,151,449.33 | 4,351,602.91 | 253,673.86 | 487,456.70 |
| Ningbo city | 1,854,981.44 | 968,425.03 | 781,030.25 | 46,622.16 | 58,904.00 |
| Fujian Prov. | 4,630,608.22 | 1,571,587.03 | 2,571,703.40 | 135,096.65 | 352,221.14 |
| Xiamen city | 1,117,845.33 | 481,262.94 | 532,426.95 | 32,241.75 | 71,913.70 |
| Shandong Prov. | 11,014,356.26 | 3,704,670.76 | 6,284,557.45 | 252,250.95 | 772,877.10 |
| Qingdao city | 1,789,854.28 | 751,294.03 | 882,377.35 | 40,906.17 | 115,276.73 |
| Guangdong Prov. | 14,341,486.36 | 4,873,457.17 | 8,051,088.34 | 402,695.99 | 1,014,244.87 |
| Shenzhen city | 4,687,626.16 | 1,727,972.63 | 2,527,580.01 | 133,451.06 | 298,622.46 |
| Hainan Prov. | 726,055.97 | 316,954.51 | 356,217.55 | 18,791.59 | 34,092.32 |
| Shanxi Prov. | 4,123,840.38 | 1,445,458.69 | 2,397,032.16 | 79,712.97 | 201,636.56 |
| Jilin Prov. | 2,664,427.30 | 910,943.58 | 1,506,752.81 | 44,839.99 | 201,890.92 |
| Helongjiang Prov. | 3,843,234.52 | 1,136,230.62 | 2,404,736.42 | 75,726.29 | 226,541.19 |
| Anhui Prov. | 4,830,124.23 | 2,038,467.72 | 2,425,611.90 | 90,036.41 | 276,008.20 |
| Jiangxi Prov. | 3,179,534.27 | 1,161,965.36 | 1,775,238.21 | 77,035.80 | 165,294.90 |
| Henan Prov. | 9,165,234.88 | 2,388,330.18 | 6,133,971.69 | 148,057.95 | 494,875.06 |
| Hubei Prov. | 5,873,983.01 | 1,693,459.76 | 3,628,095.24 | 157,893.15 | 394,534.86 |
| Hunan Prov. | 5,085,651.96 | 1,760,163.05 | 2,861,286.65 | 137,011.36 | 327,190.89 |
| Chongqing city | 3,592,327.51 | 1,125,204.93 | 2,084,162.20 | 138,158.26 | 244,802.12 |
| Sichuan Prov. | 9,146,768.91 | 3,151,222.07 | 5,209,850.08 | 267,034.47 | 518,662.30 |
| Guizhou Prov. | 1,816,151.91 | 890,349.26 | 749,021.79 | 72,448.79 | 104,332.07 |
| Yunnan Prov. | 3,207,743.25 | 1,517,550.62 | 1,316,541.83 | 123,037.20 | 250,613.60 |
| Tibet | 114,309.15 | 79,598.42 | 9,380.07 | 14,083.61 | 11,247.05 |
| Shaanxi Prov. | 4,174,519.55 | 1,370,730.14 | 2,468,164.48 | 103,952.40 | 231,672.53 |
| Gansu Prov. | 1,801,517.73 | 683,427.80 | 957,826.42 | 49,364.96 | 110,898.55 |
| Qinghai Prov. | 390,154.84 | 195,111.26 | 138,211.11 | 13,327.65 | 43,504.82 |
| Ningxia Prov. | 727,028.52 | 313,954.39 | 321,085.80 | 20,363.95 | 71,624.38 |
| Xinjiang Prov. | 2,734,861.40 | 1,132,306.37 | 1,243,999.82 | 106,555.33 | 251,999.88 |
| Inner Mongolia | 2,746,908.65 | 1,297,293.41 | 1,213,780.64 | 64,583.99 | 171,250.61 |
| Guangxi Prov. | 2,754,732.94 | 1,121,501.24 | 1,354,202.46 | 104,974.36 | 174,054.88 |
| Group and H.O.* | 852,387.62 | 831,821.55 | 1,572.90 | 9,272.05 | 9,721.12 |

*Premium collected by Group or Head Office is not accounted for in any geographic location.

Certain cities' data is shown separately. For example Liaoning province excludes Dalian which is recoded as Dalian city.

Source: CIRC, unaudited data, January 2014

# Foreign insurance company representative offices in China

ACE INA Beijing Representative Office

AEGON Insurance Group Beijing Representative Office

AETNA Life Insurance Company Shanghai Representative Office

Ageas Insurance International N.V. Shanghai Representative Office

AIA Hong Kong Limited Beijing Representative Office

Aioi Life Insurance Co., Ltd. Shanghai Representative Office

Aioi Nissay Dowa Insurance Co., Ltd. Beijing Representative Office

Aioi Nissay Dowa Insurance Co., Ltd. Guangzhou Representative Office

Allianz SE Shanghai Representative Office

American International Group Beijing Office

American International Group, Chengdu Representative Office

Anthem Life Insurance Company Beijing Representative Office

AOL Health Insurance Agency representative office in Xiamen

Asia Insurance Company Limited Shenzhen Representative Office in Hong Kong

Assicurazioni Generali S.P.A.Shanghai Representative Office

AXA Beijing Representative Office

B.E.S.T. Reinsurance Co. Beijing Representative Office

Benfield Limited China General Representative Office

BNP Paribas Cardif Co, Ltd Shanghai Representative Office

BNP Paribas Cardif SA Beijing Representative Office

BOC Group Life Assurance Company Limited Beijing Representative Office

C.V.Starr&Company Beijing Representative Office

Cathay Life Insurance Co., Ltd. Beijing Representative Office

Chevalier Insurance Company Limited Beijing Representative Office

China International Reinsurance Company Limited Beijing Representative Office

China Life Insurance Co. Ltd. (Taiwan) Beijing Representative Office

China Taiping Insurance (HK) Company Limited Beijing Representative Office

Chung Kuo Insurance Company Shanghai Representative Office

CNP Assurances Beijing Representative Office

Coface Credit Insurance Corporation Beijing Representative Office

Continental Insurance Company Beijing Representative Office

Continental Insurance Company Shanghai Office

Cooper Gay & Co Ltd.Shanghai Representative Office

Dah Sing Life Assurance Company Limited Shenzhen Representative Office

DKV Health Insurance Corporation Shenzhen Office

Dongbu Insurance Co., Ltd., Beijing Representative Office

ERGO Insurance Group General Representative Office China

ERGO Insurance Group Jinan Representative Office

European Travel Insurance Company Beijing Representative Office

Factory Mutual Insurance Company,Beijing Representative Office

First American Title Insurance Company Beijing Representative Office

Fortis Insurance International N.V. Beijing Representative Office

Fubon Insurance Co., Ltd. Beijing Representative Office

Fubon Insurance Co., Ltd. Shanghai Representative Office

General Reinsurance AG Beijing Representative Office

Groupama Gan Vie Beijing Representative Office

Guy Carpenter & Company,LLC. Beijing Representative Office

Hang Seng Insurance Company Limited Shenzhen Office

Hannover Reinsurance AG Shanghai Representative Office

HanseMerkur Mutual Health Insurance Company Shanghai Representative Office

Hollard Life Assurance Company Beijing Representative Office

Hong Kong Blue Cross (Asia-Pacific) Insurance Limited Shanghai Representative Office

Horton Insurance Brokers,Ltd.Beijing Representative Office

HSBC Insurance (Asia) Limited Guangzhou Representative Office

HSBC Insurance (Asia) Limited Shanghai Representative Office

HSBC Insurance Brokers Limited Beijing Representative Office

HSBC Life Insurance Company Limited Beijing Representative Office

HSBC Life Insurance Company Limited Guangzhou Representative Office

HSBC Life Insurance Company Limited Shanghai Representative Office

Humana Inc. Beijing Representative Office

Hyundai Marine & Fire Insurance Co., Ltd. Beijing Representative Office

Hyundai Marine & Fire Insurance Co., Ltd. Shanghai Representative Office

Insurance Australia Group Limited Shanghai Representative Office

Interfinancial Inc. Beijing Representative Office

Japan Nagamatsu insurance adjuster Shanghai Representative Office

Jimmy Fallon International Holdings Limited Shanghai Representative Office

Korea Trade Insurance Corporation Beijing Representative Office

Korea Trade Insurance Corporation Shanghai Representative Office

Korean Reinsurance Company Beijing Representative Office

Kyobo Life Insurance Co., Ltd. Beijing Representative Office

Legal & General Group Plc Beijing Representative Office

Legal & General Group Plc Shanghai Representative Office

Life Insurance Company of Royal Bank of Canada, Beijing Representative Office

LIG Insurance Co,Ltd Shanghai Representative Office

Lloyd's Beijing Representative Office

Markel Corporation Beijing Representative Office

MassMutual Asia Limited Shanghai Representative Office

Mei Li International Co., Ltd. Guangzhou Representative Office in Hong Kong

Min Xin Insurance Company Limited Fuzhou Representative Office in Hong Kong

Mitsui Sumitomo Insurance Co., Ltd. Beijing General Representative Office

Mitsui Sumitomo Insurance Co., Ltd. Qingdao Representative Office

Mitsui Sumitomo Insurance Co., Ltd. Chengdu Representative Office

Mitsui Sumitomo Insurance Co., Ltd. Dalian Representative Office

Mitsui Sumitomo Insurance Company representative office in Hangzhou

Mitsui Sumitomo Insurance Company representative office in Suzhou

Mitsui Sumitomo Insurance Company Shenzhen Office

Motors Insurance Corporation,Shanghai Representative Office

MSIG Mingtai Insurance CO.,LTD Shanghai Representative Office

Munich Reinsurance Company Shanghai Office

Netherlands Insurance Company Limited (II) Beijing Representative Office

New York Life Insurance Company Beijing Representative Office

Nippon Life Insurance Company Beijing Representative Office

Nipponkoa Insurance Co., Ltd. Dalian Representative Office

Nipponkoa Insurance Co., Ltd. General Representative Office

Nipponkoa Insurance Co., Ltd. Qingdao Representative Office

Nipponkoa Insurance Co., Ltd. Shenzhen Representative Office

Nipponkoa Insurance Co., Ltd. Suzhou Representative Office

North American Insurance Company Shanghai Office

Old Mutual-Guodian Life Insurance Company Limited Beijing Representative Office

Philippines and China insurance company representative office in Xiamen

QBE Insurance Group Limited Guangzhou Representative Office

Reinsurance Group of America Inc Beijing Representative Office

RSA Insurance Group PLC Beijing Branch

Samsung Fire & Marine Insurance Company, Qingdao Branch

SCOR Global Life SE Beijing Representative Office

SCOR SE Beijing Representative Office

Security Group Beijing Office

Seoul Guarantee Insurance Co.,Ltd. Beijing Representative Office

Shin Kong Life Insurance Co., Ltd Shanghai Representative Office

Shin Kong Life Insurance Company Limited Beijing Representative Office

ShinKong Insurance Co., Ltd Shanghai Representative Office

ShinKong Insurance Co., Ltd Suzhou Representative Office

SIACI Saint Honoré Shanghai Representative Office

Singapore Reinsurance Corporation Ltd. Shanghai Representative Office

Societe Generale Insurance Corporation Beijing Representative Office

Sompo Japan Insurance Inc. Chongqing Representative Office

Sompo Japan Nipponkoa Insurance (China) Co., Ltd. Beijing Branch

Sompo Japan Nipponkoa Insurance (China) Co., Ltd. Guangdong Branch

Sompo Japan Nipponkoa Insurance (China) Co., Ltd. Suzhou Branch

Sony Life Insurance Co., Ltd. Beijing Representative Office

South China Insurance Co., Ltd. Shenzhen Representative Office

Sumitomo Life Insurance Company Beijing Representative Office

Swiss Re International SE Shanghai Representative Office

Swiss Reinsurance Company Limited Shanghai Representative Office

The Canada Life Assurance Company Beijing Representative Office

The Dai-ichi Life Insurance Company, Limited Shanghai Representative Office

The Great Eastern Life Assurance Co. Ltd Beijing Representative Office

The MAPFRE Group Beijing Representative Office

The Prudential Assurance Company Limited Beijing Representative Office

The Prudential Insurance Company of America Beijing Representative Office

The Tokio Marine & Nichido Fire Insurance Company (China) Limited Suzhou Representative Office

The Tokio Marine & Nichido Fire Insurance Company (China) Ltd Guangzhou Representative Office

Tokio Marine & Nichido Fire Insurance Co., Ltd. (Chengdu Representative Office)

Tokio Marine & Nichido Fire Insurance Co., Ltd. (Dalian Representative Office)

Tokio Marine  Nichido Fire Insurance Co.Ltd. General Representative Office in China

Transatlantic Reinsurance company Shanghai Representative Office

UnitedHealth Group Inc. Beijing Representative Office

W.R.Berkley Corporation Beijing Representative Office

WellPoint Inc Beijing Representative Office

World Insurance Services Limited Beijing Representative Office

XL Group Ltd. Beijing Representative Office

Zurich Insurance Company Beijing Representative Office

Zurich Insurance Company Shanghai Representative Office

Source: CIRC and edited using company website information in June 2014. Every effort has been made to include current data on representative offices. Any updates or amendments to the information shown above would be welcomed and included in future publications

# AmCham China white paper on financial services 2014

## Introduction

China's insurance industry grew modestly in 2013. Total insurance premiums rose to US$284 billion (RMB1.72 trillion), an increase of 11.2% from US$256 billion (RMB1.55 trillion) in 2012. Primary property and casualty (P&C) premiums increased 17.2% to US$107 billion (RMB648.1 billion), while life insurance premiums rose 7.86% to US$176 billion (RMB1.07 trillion). Health insurance premiums rose to US$18.6 million (RMB112.35 million), an increase of 30.22% from 2012 due to an expansion of the health insurance system. The gains are attributable in part to improvements in the control of solvency capacity, funds utilization and other risks, market order, and service quality. Despite last year's gains, the China Insurance Regulatory Commission (CIRC) cautions that 2014 may be a very difficult year for the industry. Restrictions on ownership, market entry, expansion, and product offerings by foreign-invested insurance companies and ancillary businesses continue to impede innovation and deprive consumers of choice.

## Ongoing regulatory issues

### Market access

US insurance companies, many of which have decades of experience serving consumers around the world, want to deliver their products to Chinese consumers. But, in order to do so, they need a license to operate in China, after which their foreign-invested insurance company needs to be accorded national treatment and allowed to compete on a level playing field with their domestically-invested counterparts. Unfortunately, foreign-invested insurers continue to face delays in issuance of licenses and new product approvals, as well as artificial ownership caps and other barriers. AmCham China continues to favor removal of these barriers in the Shanghai Free Trade Zone (Shanghai FTZ) and nationwide.

Life insurance

AmCham China continues to be disappointed by the lack of progress on the relaxation of the 50% cap on foreign ownership in life insurance. This cap has been in place since China was admitted to the WTO in 2001 and no longer has any justification as domestically invested insurers have grown large and enjoy an aggregate market share of nearly 95%. The equity cap is the main disincentive for foreign life insurers to invest in serving the China market. It also results in governance shortcomings in foreign-invested life insurers as, all too often, the domestic investors in such companies are unable or unwilling to make the additional investments needed to grow the business. AmCham China continues to recommend lifting the 50% equity cap on foreign ownership on life insurance.

Property insurance

The "Administrative Measures for the Representative Offices of Foreign Insurance Institutions" in China require that a foreign insurance company be in continuous existence for at least 20 years, and the "Administrative Rules on Foreign-Invested Insurance Companies" require that the company be in continuous existence for at least 30 years and maintain a representative office for at least two years before it can establish an insurance company in China. AmCham China believes that the 20- and 30-year seasoning requirements are unreasonably long, constitute an unfair market entry barrier compared to domestically invested companies (which can be established de novo), and take no account of a company's reorganization even if the core business remained intact. Moreover, several of our property insurance members report lengthy and indefinite delays, extending several years, in obtaining licenses to operate an insurance company for unclear reasons even after satisfying all seasoning requirements. AmCham China recommends that seasoning requirements be shortened, corporate reorganizations be taken into full account when determining continuity, and, after seasoning requirements have been satisfied, the issuance of licenses not be subject to additional delays without adequate justification.

Insurance asset management companies

AmCham China applauds the increased issuance of licenses for insurance asset management companies (IAMC) in the last three years. However, CIRC continues to regulate this industry on the basis of the "Interim Provisions on the Regulation of IAMCs" which require that IAMCs have at least two founding shareholders, even though the Company Law, as amended in 2005, effectively requires only one founding shareholder. In other words, all insurance companies are required to partner with a second company to manage their own funds. This has a particularly serious impact on foreign investors in life insurance companies who are forced to become minority shareholders in their own IAMCs, even assuming that another founding shareholder can be enlisted on acceptable terms.

Health insurance

AmCham China welcomes CIRC's September 29, 2013 decision to support the establishment of specialized foreign-invested health insurance institutions in the Shanghai FTZ. Several US-invested specialist health insurers with many years of experience, who wish to help expand China's health insurance market, remain on the sidelines while waiting years for a license to be issued, constituting de facto barriers to market entry. We hope that applications to approve foreign-invested health insurance institutions in the Shanghai FTZ will be evaluated on a non-discriminatory basis, allowing US-invested health insurers to bring their expertise to China. We further hope that the Shanghai FTZ approval procedure will soon be extended nationwide.

Enterprise annuities and individual tax-deferred pension pilot program

Although a number of US and other foreign-invested life and property insurers have received licenses to operate in China, specialist pension insurers inexplicably continue to be denied market entry. Despite the expansion of the scope of investment for enterprise annuity funds effective May 1, 2013, the Ministry of Human Resources and Social Security (MOHRSS) has yet to issue any enterprise annuities licenses to foreign-invested insurers. As a result, many internationally known financial institutions are excluded from the market and Chinese consumers are denied access to the products and expertise of these firms. We urge MOHRSS to eliminate market entry barriers based on the nationality of the shareholder by issuing enterprise annuities to foreign-invested insurers.

To develop China's pension system and encourage people to buy commercial pensions, Shanghai has been preparing an individual tax-deferred pension insurance pilot program since 2009, but the launch has been postponed since the preferential tax policies involve the interests of many government bodies. We hope this pilot program will be launched as soon as possible, and that foreign-invested insurers will be allowed to participate in the program in the same manner as domestically-invested insurers.

## Sales and service channels

Branching

AmCham China welcomes CIRC's March 15, 2013 "Measures on the Administration of Market Access by Branches and Sub-branches of Insurance Companies" which simplified the processing of applications and formally leveled the playing field between foreign-invested and domestically invested insurers with respect to branch as well as sub-branch approvals. AmCham China remains concerned, however, that foreign-invested insurers are still denied approval of concurrent branch applications. AmCham China urges CIRC to accept, review, and approve concurrent branch applications of qualified foreign-invested insurers, many of which were previously effectively barred from submitting multiple concurrent branch applications.

Sales agent certification

Under CIRC's 2013 "Measures for the Supervision and Administration of Insurance Sales Personnel" and follow-on regulations issued by local insurance regulatory bureaus, a two certificate (A and B) qualification system has been established limiting many sales personnel to provincial rather than nationwide markets. AmCham China believes that this system is unnecessarily complex and has a particularly adverse impact on telemarketing.

AmCham China also believes that sales agents should be allowed to register as independent contractors or agency employees rather than as insurance company employees which is unduly costly.

Bancassurance

Since a regulatory change in 2011, sales through the bancassurance channel have declined significantly and are a significant cause of the overall slowdown in premium growth. Since insurance sales personnel were banned from selling insurance products in bank branches, bank sales staff became the main force for selling insurance products through bancassurance. Bank sales staff have limited experience in selling insurance products, however, particularly in medium- and small-sized bank branches which are under great pressure to promote savings and loan products while insurance products are not prioritized. These factors have led to the decline in bancassurance sales. AmCham China urges qualified insurance companies to be allowed to station sales representatives, who will be clearly identified as insurance company personnel, in bank offices to assist with consumer inquiries.

The "Guidelines on the Supervision and Administration of Insurance Business Conducted by Commercial Banks as Agents," jointly promulgated by CIRC and the China Banking Regulatory Commission (CBRC) in March 2011, allowed insurers and banks to decide the number of insurance partners in accordance with their own conditions, not requiring the cap of three insurers per bank branch which discriminated against medium- and small-sized insurance companies. But the limit has yet to be expressly removed and has in fact been reiterated in the January 2014 Notice on Further Regulating the Sales Activity of Commercial Banks as Insurance Agents. We urge the CBRC and CIRC to expressly remove the cap of three insurers per bank branch in the interest of enhancing consumer choice.

Investment in insurance funds

AmCham China applauds the continued loosening of restrictions on investment vehicles that have opened new investment channels and markets, in particular capital and real estate markets, and provided necessary risk-hedging tools for insurance capital. However, AmCham China urges that the size and investment experience of the corporate parents of insurance companies be taken into account when determining qualifications to invest insurance funds in capital and real estate markets, among others.

Pension insurance

AmCham China welcomes Caishui [2013] No. 103 (Circular 103), jointly issued on December 11, 2013 by the Ministry of Finance, MOHRSS, and the State Administration of Taxation. Circular 103 defers individual income tax for enterprise and occupational annuities as of January 1, 2014. AmCham China believes that tax-deferred annuities are an important means for people to provide financial security for themselves and their families after retirement and under other circumstances that affect their ability to work. The United States has a 40-year history of implementing tax-deferred annuities and US insurers have extensive experience operating such programs. Our member companies are ready and willing to apply their expertise and experience in China in accordance with Chinese law and regulations.

## Products

Property insurance

Although property insurance companies are authorized to provide master policies, the prohibition on offering group-wide master policies is very inefficient, forcing insurers to offer separate policies to a group company's subsidiaries wherever in China they may be located. This prohibition has a particularly deleterious impact on foreign-invested insurers like AmCham China members because their branch networks are smaller than domestically invested insurers, in part because regulations in effect prior to 2013 subjected foreign-invested insurers to more onerous branch licensing procedures. In addition, minimum annual premium and minimum investment requirements limit the ability of insurers to offer master policies to smaller clients.

Reinsurance

CIRC released the "Notice on Certain Issues Concerning Reinsurance Transactions Conducted by Foreign-Invested Insurance Companies with their Affiliates" (draft for solicitation of comments) in late December 2012. AmCham China is pleased that this Notice has yet to be finalized and hopes that it will be withdrawn. AmCham China continues to believe that the proposed restrictions, including pre-approval by CIRC, on related party reinsurance transactions unfairly discriminate against foreign-invested insurers as domestically-invested insurers do not face a comparable restriction under the "Regulations on the Administration of Reinsurance Business (2010)." Moreover, AmCham China is not aware of any basis for the restrictions proposed in the Draft Notice under the international best supervision practices promoted by the International Association of Insurance Supervisors (IAIS). To the extent that any restriction is necessary, there is no need for the multiple redundant and unnecessary qualifications on related parties proposed in the Draft Notice. A single credit rating threshold should suffice.

Brokerages

AmCham China was disappointed to see that insurance brokerages continue to be classified as a restricted industry in the 2011 edition of the "Guiding Catalogue on Foreign Investment in Industry," a restriction that has no apparent prudential justification. Foreign-invested insurance brokerages:

1. Are only allowed to broker large-scale commercial risks in the commercial P&C market. Large-scale commercial risks include annual premiums exceeding US$63,000 (RMB400,000) and investment exceeding US$23.6 million (RMB150 million), which constitute only about 20% of the market
2. Are excluded from the automobile insurance market, with the exception of some enterprise motor insurance
3. Are only allowed to broker group life and accident insurance in the personal insurance field, excluding them from the individual insurance market

The result is a drastic limitation on the scope of business of foreign-invested insurance brokerages to the detriment of consumers. The Chinese government has stated that a growth model centering on small- and medium-sized enterprises (SMEs) and private consumption is essential for China to develop a more sustainable economy. However, because foreign intermediaries are barred from servicing SMEs and private consumers, they cannot bring their global experience to support the growth of these sectors. The license restriction also prevents foreign intermediaries from contributing full value to product innovation and the development of professional insurance distribution in China. AmCham China believes that full participation by foreign-invested brokerages, like other insurance institutions, is essential to the development of an international financial center and hopes that the restriction will be removed in the Shanghai FTZ.

## Tax incentives

Pension Insurance

Circular 103 authorizes individual income tax-deferral for enterprise and occupational annuities for the first time. AmCham China supports tax-deferred treatment for retirement accounts and hopes that the ceiling on such contributions will be raised to further alleviate the burden of supporting an aging population currently borne by the government and retirees' families, while increasing savings for investment.

Health insurance

AmCham China welcomes the government's expansion of healthcare by focusing on health insurance following the issuing of the National Healthcare Reform Guidelines. These guidelines recognize the importance of commercial health insurance as a supplement to the government-supported basic health insurance system.

Tax incentives are an important stimulus to the purchase of commercial health insurance, especially indemnity products. US specialist health insurers have rich experience in this field and are eager to be licensed so that they can assist its development.

## Advisory, remuneration, and regulatory and compliance costs

Advisory

A number of local governments in China have established international business advisory councils to provide a resource for seeking advice from international business leaders. AmCham China recommends that CIRC follow suit in order to access the knowledge and experience of international industry leaders to promote the development of the insurance industry in China on a sound and prudential basis.

Remuneration

CIRC issued the "Rules and Guidelines for the Management of Remuneration of Insurance Companies" in July 2012 to tighten regulation of insurance company governance, as well as to improve

incentive and restraint mechanisms. However, rigid remuneration standards present obstacles in the competition for talent. The one size fits all model also unfairly handicaps foreign-invested insurers because the remuneration structure of foreign insurers typically differs from that of domestic insurers. AmCham China recommends that CIRC limit the application of the guidelines with respect to foreign-invested insurers to a "for reference" status only, which we understand has been the practice of the CBRC with respect to foreign-invested banks.

Regulatory and compliance costs

Our members, who have extensive international experience, find that the costs of operating in China are very high compared to most other markets. Administrative and compliance burdens are particularly onerous, including information technology (IT) requirements and rules regarding claims, finance, and compliance personnel for new branches. AmCham China urges CIRC to simplify and take measures to reduce costs wherever possible.

## Recent developments

There were several significant regulatory accomplishments in 2013. Among the most notable were the following:

- Promulgation of the "Measures on the Administration of Market Access by Branches and Sub-branches of Insurance Companies on Branching"
- Issuance of Circular 103 on tax-deferral for enterprise and occupational annuities
- Further liberalization of investments using insurance funds
- The Decision of the Third Plenum on health insurance

We remain disappointed, however, in the remaining barriers to market entry and expansion that US- and other foreign-invested insurers face. Domestic insurers and insurance brokerages, particularly larger companies, continue to enjoy more regulatory favor with respect to ownership structure and access to capital, allowing them to benefit at the expense of foreign-invested insurers and to the disadvantage of consumers.

Consequently, foreign-invested insurers have generally lost market share in China despite a modest uptick last year. As of year-end 2013, the market share of foreign-invested insurers stood at a mere 3.92%, down from 6% in 2004 and up only slightly from 3.49% in 2012. The decline in personal insurance has been particularly sharp, falling from 8.9% in 2005 to 4.8% in 2012 and 5.56% in 2013. Even the largest foreign-invested life insurer's market share is less than 1%. The market share of foreign-invested P&C companies, who were previously excluded from the motor third-party liability insurance market, continues to barely register at 1.28% in 2013. Foreign-invested health and pension insurers continue to be excluded from the market altogether. Meanwhile, foreign-invested insurance brokerages are restricted to large-scale commercial risks and group life and accident insurance, and are essentially excluded from the automobile insurance market.

## Recommendations

Sales and service channels

- Put into practice the review and approval of branch applications by foreign-invested insurers in the same manner and at the same pace as applications by domestically invested insurers.
- Expressly remove all limits on the number of insurance companies whose products may be sold by commercial bank branches

Licenses

- Increase competition in pension and health insurance by licensing foreign-invested applicants
- Remove restrictions on the scope of business of foreign-invested insurance intermediaries to allow service to SMEs and individual consumers, so that they can fully contribute their capabilities to clients in all segments of the insurance market

Ownership

- Lift the 50% cap on foreign ownership of life insurers.
- Allow insurance asset management companies to be established by a single founding shareholder in accordance with the Company Law

Products

- Allow foreign-invested insurance brokerages to broker commercial risks regardless of scale, automobile insurance, and individual life and accident insurance to the same extent as domestically invested insurance brokerages

Tax incentives

- Expand tax incentives for tax-deferred annuities

Structural

- Establish a separate department in CIRC to regulate health insurance at the same level as the life insurance and property insurance departments
- Create an international advisory council in CIRC to provide high-level advice from international industry leaders
- Adopt remuneration standards that allow flexibility to insurance companies to reward performance while controlling risk

Source: AmCham China White Paper on Financial Services 2014
A copy of the full report is available at www.amchamchina.org

# European Chamber Insurance Working Group 2013–14

## Key recommendations:

### 1. Increase flexibility on ownership for foreign investment in insurance services

**Concern**

The obligation of foreign life insurers to establish operations in China in the legal form of a joint venture (JV) with a maximum foreign shareholding of 50% imposes artificial limits for participation and has caused operational problems in managing such ventures. Furthermore, confining foreign insurers to one single engagement in the same branch of business prevents the spread of service and creates an unfair playing field for foreign companies.

**Assessment**

The 50% maximum equity cap for foreign life insurers was set up in 1998 to protect domestic Chinese life insurers. It was considered at an infant stage during China's admission to WTO. This restriction has not always proved advantageous for either wider spread of international risk management standards or for consistent operational strategies in cases where JV partners failed to agree on longer term business objectives or capital funding. Meanwhile, Chinese domestic life insurers have significantly improved their risk management skills and corporate governance and enhanced their financial strength during the last 15 years. There is no doubt the domestic insurers will be the dominant players of China's life insurance market in the coming years.

The concept of strategic partnerships between foreign and domestic investors may prove effective if the JV partners provide complementary competencies in developing sustainable business models, share common long-term objectives and are capable of consistently providing capital for funding organic growth.

There may be changing individual circumstances for either shareholder during business development of their JV. If this cannot be reflected in adjustments of the shareholding structure it may cause inconsistencies and instabilities in managing the company.

The regulator has already admitted changes in shareholding of foreign-funded JVs towards a higher equity participation for domestic partners, including splitting up domestic investment among several Chinese shareholders. In principle, the same should be applicable to foreign shareholders who wish to and agree with their partners to increase their initial shareholding to an equity majority. Likewise, foreign life insurance investors should be permitted from the inception of their JV to include several domestic partners, while retaining an equity majority.

Several domestic insurers have established multi-line engagements in personal insurance based on financial holding structures. Similarly, Chinese banks have established insurance operations besides their original banking and securities businesses. These positive developments reflect growing market maturity and improve consumer choice. For foreign insurers, however, such comprehensive market engagement is not yet possible as they can only operate in one branch of business. This imposes administrative limitations for foreign insurers that are not justified in the light of widening opportunities for domestic market players.

**Recommendation**

- Discontinue the formal obligation for foreign life insurers to establish their own market presence in the form of an equity JV
- Liberate the level of shareholding within JVs in cases where foreign insurance investors voluntarily decide to enter the market with a JV partnership and permit sovereign changes in the shareholding structure during business development of such JVs beyond 50% foreign participation; likewise, liberalize the option of taking more than one domestic investor into the JV sharing the Chinese investment participation
- Increase the options for foreign insurers to maintain more than one equity engagement in the insurance sector in China, including concurrent operation of a wholly foreign-owned institution and participation in another licensed insurer

### 2. Improve market access

#### 2.1 Further opening up of export credit insurance markets

**Concern**

Prior to 2013, Chinese exporters could only turn to Sinosure, the export credit agency in China, for protection of their account receivables on buyers outside of China. On 1 January 2013, the People's Insurance Company of China (PICC) Property & Casualty Co., received the approval to offer short-term export credit insurance by the Ministry of Finance on a trial and limited basis, which is a significant development. However, it is still disappointing that not more insurers, either local or foreign, have been granted licenses to support the growing needs of companies exporting out of China.

**Assessment**

PICC has been granted the license to offer export credit insurance since the beginning of 2013. However there are two factors that will constitute a challenge for them to support the needs of the companies exporting out of China: one is their lack of experience in overseas risk assessment and the other is Sinosure's monopoly. While Sinosure has expanded its coverage and supported Chinese exporters for over 10 years, there are still only 20,000 companies that are insured with Sinosure, compared to an active business universe of one to two million companies in China. However, the demand for export credit insurance continues to increase, amid global economical uncertainty. Other insurers, i.e., Chinese insurers that have been operating in domestic credit insurance for years, under a partnership with foreign specialized credit insurance

Source: A copy of the full report is available at www.europeanchamber.com.cn

companies, if granted with an export credit insurance license, can help to provide additional support to Chinese exporters, leveraging on the experiences of their foreign partners. China now is one of the two only major economic countries, whereby export credit insurance is not entirely open; the other market is South Korea.

China still relies on exports to sustain its growth and it follows that protection against the risk of non-payment is vital to ensure that Chinese companies are not adversely affected by non-payments caused by such events as the global financial crisis and currently the Eurozone crisis.

Trade credit insurance is a crucial stabilizer for the economy, it protects against volatility. During the global financial crisis, a large number of Chinese exporters faced financial losses stemming from defaulted payment of credit accounts. In order to reduce these risks, trade credit insurance protects local companies against these defaults. Generally speaking, accounts receivables account for around 40% of a company's balance sheet. Traditionally, Chinese companies relied on letters of credit; however, in recent years open account sales for export businesses has become widespread. Export trade credit insurance provides protection against the risk of non-payment at a favorable rate compared to the cost of letters of credit. The additional benefit of export trade insurance is that capacity in the banking sector would otherwise be used for letter of credit is released. In 2012, the Chinese government announced that export sales could be denominated in Renminbi (RMB). This will stimulate more open account export sales in RMB.

By further opening up the export credit insurance market, there will be greater opportunities for Chinese export companies to receive more diversified and tailor-made services throughout China and have easier access to export insurance because local insurers have a wider geographical spread and servicing network than Sinosure. Secondly, the financial burden on the Chinese Government as a result of claims will be dissipated throughout the private sector.

### Recommendation

- Further opening up of export credit insurance markets, by granting additional licenses to other local insurers, especially those who have over three years of experience in offering domestic trade credit insurance in China

## 2.2 Remove market access restrictions for foreign insurance brokers

### Concern

Domestic and foreign insurance brokers should receive equal treatment for market access, as agreed between China and the WTO. However, the licenses granted to foreign insurance brokers in China restrict them to working only with medium- and large-sized companies.

### Assessment

The CIRC license for foreign brokers restricts them from doing business with companies with investment capital of more than CNY150 million (EUR18.5 million) and more than CNY400,000 (approximately EUR49,500) premium spend. Exceptions are made for reinsurance, international shipping, aviation and transportation insurance, where these restrictions do not apply. Thus many small-medium sized enterprises (SME) (as well as all personal lines insurance) would fall outside the scope of the business license; from a marketing point of view, it is difficult for the foreign brokers to target just the larger companies in the SME segment.

As a result, foreign brokers are prevented from using their global experience of developing SME business to contribute to the further development of the Chinese insurance market. It should be noted that foreign brokers will not normally be able to access this widespread market of highly numerous customers alone, using their existing distribution strategy. This is because SME business is both local in nature and dependent on relationships and foreign brokers have only a limited network of local offices, restricting access to clients and the ability to provide necessary local servicing. They would therefore need, as elsewhere in the world, to work in cooperation with smaller, local brokers and/or make use of technology to access clients in this sector.

Although personal lines business is unlikely to form a major market segment for most foreign brokers in China, the same market access principles — and many of the comments regarding SME business above — also apply to personal lines business. For certain specialized areas of coverage or segments (e.g., high net worth individuals), foreign brokers have significant existing expertise that could contribute to the introduction of new products and services into the market.

### Recommendation

- Remove the license restrictions for foreign brokers, so that they can operate on the same basis as local brokers and make a full contribution of their capabilities to clients in all areas of the insurance market

## 2.3 Remove market access restrictions for foreign Loss adjusting companies

### Concern

In June 2012, the China Insurance Regulatory Commission (CIRC) issued a circular that suspends the granting of licences for new insurance intermediaries except for large insurance intermediaries with strong financial capability. This circular prevents new loss adjusting companies (both domestic and foreign-invested) from entering the Chinese insurance market.

### Assessment

In June 2012, the CIRC issued the circular on Further Regulation of Market Entry of Insurance Intermediaries. According to the circular, CIRC suspends the granting of new licenses for insurance intermediaries except for the following insurance intermediaries:

- Insurance intermediary group
- Insurance agency/broker with strong financial capability and where such agency/broker is invested by motor manufacture/sales/repair enterprises, banks, China Postal offices or insurance companies
- Branch offices of an existing insurance agency operating on a nationwide basis

The circular sends a clear signal that CIRC is seeking to reform the Chinese insurance intermediary market by encouraging the development of large, professional insurance intermediaries with strong financial capability, and progressively eliminating unqualified, small insurance intermediaries.

However as a result, the granting of new licenses for insurance loss adjusters (both domestic and foreign-invested) has been suspended, thus preventing them from contributing to the further development of the Chinese insurance market. On the other hand, the Chinese insurance market is becoming more dynamic and complicated. Therefore, small insurance intermediaries may be more capable and/or quickly adapted to the heterogeneous needs of the market.

Given the rising standards in the claims area of the Chinese insurance market, the demand for claims management services provided by loss adjusting companies is expanding rapidly. Insurers are also likely to have greater expectations with regard to service providers, and will demand that the loss adjusting market improves and develops in order to meet these growing requirements.

Foreign loss adjusting companies should be able to provide claims management services to the Chinese market. Such companies can contribute by bringing western levels of service and by introducing best practice procedures, which would in turn enhance compliance with regard to accepted professional standards. Preventing the establishment of new foreign loss adjusting institutions in China will, however, most probably hinder such developments.

### Recommendation

- Remove the licence suspension for loss adjusting companies (both domestic and foreign-invested) so that they can make a contribution of their capabilities to the Chinese insurance market; and
- Allow small insurance intermediaries to exist in the market.

## 2.4 Relax Regional Expansion Requirements in order to Ease the New Higher Capital Requirements

### Concern

CIRC's Regulation on Classified Management of Insurance Business has brought higher entry requirements that will further slow the regional expansion faced by foreign insurance firms in China.

### Assessment

On 2th May 2013, CIRC promulgated the Classified Management of Insurance Business. According to this regulation, a newly established life insurance company running participating insurance requires a minimum registered capital of CNY 1 billion, while to operate all life insurance products, the required minimum registered capital is CNY 1.5 billion.

However, the slow regional expansion of foreign players due to the lower approval of branches in comparison to local players locks the higher registered capital in the business to one province. The result of this is that companies need longer time to break even.

### Recommendation

- Relax the requirements for branch establishment of foreign insurance companies in order to ease the new higher registered capital requirements set for running all lines of life insurance business.

## 3. Treat health insurance as a distinct category of insurance

### Concern

Foreign specialist health insurers have been unable to enter the market. They are encountering difficulties due to both the existing supervision of bundling health insurance with life insurance and the foreign ownership restrictions placed on health insurance.

### Assessment

The Working Group supports China's push to develop a specialist health insurance market that will cater to customers' growing demand for quality healthcare funding, while ensuring that their interests are protected through appropriate regulation. The nature of health insurance differs markedly from that of life insurance, and therefore requires a tailored set of regulations. Health insurance requires special operational expertise and risk management, particularly with respect to the management of medical risk and medical costs. Its single product nature also means its operating scale and asset scale are not comparable with life insurance. In fact, given the short-term nature of traditional medical indemnity products, the risk profile of health insurance more closely resembles property insurance than it does life insurance. In most jurisdictions in Europe, health insurance is actually regulated as a form of general insurance (referred to as property insurance in China). In China, the similarity of health and property insurance more closely resembles property insurance than it does life insurance. In most jurisdictions in Europe, health insurance is actually regulated as a form of general insurance (referred to as property insurance in China). In China, the similarity of health

and property insurance is already somewhat reflected in the regulations, in that property insurers are permitted to sell short-term health insurance products.

In contrast with property insurance, where foreign insurers may apply for a wholly-owned foreign-enterprise (WOFE) license, foreign ownership of health insurers is restricted to 50%. European specialist health insurers are keen to share their expertise with China but are delayed in entering the market by foreign ownership restrictions and finding a partner similarly committed to the sector, while life insurers, property and casualty insurers who have no particular expertise in health insurance are already offering health products.

### Recommendation

- Treat health insurance as a distinct category of insurance. In this way, regulations can be developed to address the specific needs of the health insurance sector. For example, lower minimum capital requirement for health insurance companies and set up a tax incentive mechanism.
- Separate health insurance from the category of life insurance. In this case, a company should be able to hold both life insurance and health insurance licenses, and avoid business conflicts.
- Provide a platform to support the development of the health industry chain. For example, collaborate with the Ministry of Health, and the Ministry of Human Resources and Social Security, to help health insurance companies to work with medical institutions to provide affordable and quality medical services, reducing over treatment.
- Allow foreign specialist health insurers' ownership beyond the current 50% foreign ownership restriction.

## 4. Distribution channels

### 4.1 Enlarge access of bancassurance business

### Concern

A 2010 CIRC regulation effectively restricted each branch of commercial banks to cooperate with no more than three insurance companies (i.e., each branch of the same commercial bank can have different cooperating insurance companies). This restriction has led to banks demanding very high commissions.

### Assessment

Many of the foreign insurers that have established subsidiaries in China have more than a century's industry experience overseas. This means that they have generated a great deal of professional, technological and operational expertise. The Working Group understands that the Chinese government wishes to absorb advanced know-how from overseas and that this has been a factor in its desire to open China's insurance market to foreign players.

However, the restriction on bancassurance presents particular difficulties for foreign-invested insurers: China's large, state-owned banks have the most extensive resources and distribution networks and so competition between insurers to cooperate with those banks is very severe. Many banks will elect to cooperate only with domestic insurers with which they are already familiar. Foreign-invested insurers currently have only a small market share in China and this limitation in their ability to cooperate with banks is a factor in the slow growth of that market share.

Besides this, the restriction limits foreign players' access to resources and distribution channels, which renders them less competitive and prevents them from actively sharing their technology and business skills across the industry in China.

The China insurance industry is currently dealing with the challenge of mis-selling through bancassurance channels and this has led to substantial demands for refunds. Many overseas markets historically experienced similar difficulties but were able to overcome them and build mature and healthy bancassurance systems. Allowing foreign players' to more actively use the bancassurance channel will allow them to share the experience in this respect and to assist with building market discipline.

### Recommendation

- Relax the restriction on bancassurance cooperation to allow banks to cooperate with a greater number of insurers.
- Allow more access for foreign players. Make it possible for foreign players to use their overseas experience to take a positive leading role in setting the direction of the bancassurance market channel.

### 4.2 Abolish the geographic restriction on online insurance sales

### Concern

Current regulations prohibit insurance businesses from carrying out business outside the province where they are registered or have a branch. While there is provision in the regulations for the CIRC to carve out online sales (and telephone sales) from this rule, it has yet to do so. This geographical restriction limits the enormous potential of online insurance sales and options for consumers. It disproportionately affects foreign-invested insurance businesses which have relatively few branches in China while their domestic counterparts tend to have a presence in many provinces.

### Assessment

The huge increase in online sales of all types in China over the past few years indicates the growing popularity of the internet as a sales channel. It will be an increasingly important channel for insurance sales – particularly since the growth of insurance premiums generated by more conventional distribution channels (individual agents and bancassurance) has slowed.

One of the great advantages of online sales is that it involves no physical obstacles: theoretically anyone in the world can log on the internet and make a purchase online without the need to attend the seller's premises. Another advantage is reduced costs: online selling requires fewer business premises and staff.

Restricting online sales of insurance to the province(s) in which an entity has a physical presence restricts the impact of these potentially enormous benefits on the market and consumers.

In particular, it limits competition in the industry and therefore consumer choice. Members of the Insurance Working Group are committed to the Chinese insurance market. They aim to introduce to China increasingly sophisticated insurance products tested in other markets and tailored for China. The de facto restriction on the expansion of foreign-invested insurance companies' presence in China together with the restriction of online sales means that a large proportion of Chinese consumers has no access to such products. Abolishing the geographical restriction on online sales would increase that access and would go some way towards leveling the playing field for foreign-invested insurers compared and their domestic counterparts.

Perhaps the main reason for the current geographical restriction on online sales is a concern that insurance companies may not be able to provide adequate services to consumers in province(s) where the insurer has no physical presence. In this respect, the Working Group proposes two measures for consideration. First, insurance companies could be required to (i) engage local insurance institutions (insurance agents and/or loss adjustors) to provide services and (ii) to oversee those services. Secondly, they could be required to state clearly, on their websites, the provinces in which they are registered and how customers outside those provinces will be serviced. Customers could then make their own informed purchasing decisions.

### Recommendation

- Abolish geographical limitations on online insurance sales
- Allow insurance companies to enter into policy agreements online regardless of the location of the purchasing party

## 4.3 Establish a legal framework for worksite marketing

### Concern

There is currently no legal framework allowing for worksite marketing in China.

### Assessment

Worksite marketing is a method of delivering supplemental benefits to employees without the financial participation of the employer but with the endorsement of the employer. Worksite marketing is a relatively undeveloped channel for the distribution of insurance products in China. By contrast, in many overseas insurance markets, particularly those in European countries, this channel is used extensively. Some special insurance companies operate only one line of business and/or use workplace marketing as their single distribution channel.

The China insurance market is working towards a position where it offers a variety of products to customers through a variety of distribution channels.

Foreign players are willing to contribute to the development of worksite marketing. A clear legal framework for worksite marketing is needed and that framework should be one which allows foreign insurers equal access to this channel.

### Recommendation

- Establish a legal framework for worksite marketing and ensure that that framework allows foreign-invested insurers to use the channel on a level playing field with their local counterparts.

## 5. Allow insurance companies to combine certain life covers with property and casualty covers, and vice versa.

### Concern

The People's Republic of China's legislation currently establishes a very tight separation between life and property and casualty insurance licenses. As a result, insurance companies work in silos and are unable to offer insurance products covering customer needs comprehensively.

### Assessment

In many countries, insurers are able to obtain a composite license for personal lines, combining certain aspects of life insurance (such as death by accident and death by sickness, critical illness and disability) and non-life (such as accident, health and medical expenses, and miscellaneous financial losses such as job loss and living expenses protection).

Where a composite license is not permitted, there is usually at least some flexibility for certain personal lines covers, which can be written by a life as well as by a non-life company.

Alternatively, a life company can write certain non-life covers (and vice versa) provided that such covers are ancillary, i.e., are offered together with life covers and they do not represent the majority of risk undertaken under the contract.

The Working Group believes that allowing multi-line contracts in the area of personal insurance will enrich the offer and ultimately benefit the consumers.

### Recommendation

- Allow composite insurance licenses
- Allow life insurers to underwrite property and casualty risks as long as they are ancillary to life covers
- Allow property and casualty insurers to underwrite life risks as long as they are ancillary to property and casualty risks
- Allow property and casualty insurers to underwrite health and medical-related risks for multi-year contracts

## 6. Remove ownership restriction on fund management companies

### Concern

The current restrictions on foreign ownership limit the opportunity to fully develop the capital market in China and the fund management industry.

### Assessment

Growth of fund management industry

While there has been good progress in the asset management industry in China as a whole, the recent growth of asset under management (AuM) seems to be somewhat disappointing. Some would argue that this is partly caused by the depressed stock market condition, but market condition is only one of the factors that drive the growth in the penetration of funds. The Working Group believes that the lack of growth in AuM and the low penetration of mutual funds ownership are largely caused by a number of factors in areas covering portfolio management, sales and marketing, products, investors education, distribution, etc. All of these factors can be attributed to the general lack of competition and best practices in the industry which foreign firms can contribute to the local market.

The current 49% limit is unhelpful in attracting international financial services firms and it reduces competition, which is detrimental to Chinese investors' interests.

Certain global fund management and financial service companies have chosen not to enter into China due to the 49% ownership limitation or have chosen to take a small and/or passive ownership in the JV due to the lack of management control. The outcome of this is insufficient competition in the industry which is detrimental to Chinese investors and overall investors' protection. The Working Group believes a more open fund management industry will stimulate improved best practices and as a result, help place investors' interests before those of the fund management companies and banks.

Ownership relaxation will help growth of existing JV partners

Once again referring to the current fund management industry, it is noticeable that there are only four companies with foreign ownership in the top 10 (out of a total of approximately 70 fund management companies in China) and the highest foreign ownership among these four companies is 30%. This highlights two issues:

1) Domestic players have already built a strong market position further market opening should only help them grow the market as a whole

2) Forty-nine percent foreign-owned JV asset management companies are not able to compete effectively

To further illustrate this point, in fact, the highest ranking fund management company with a 49% foreign ownership is ranked 14th and in the top 20, there are only three fund management companies with 49% foreign ownership.

As such, the Working Group believes that further opening of the industry for foreign players will create incentive for foreign fund managers to bring in global expertise with the aim of growing their existing business.

Relaxation will allow fund management companies to grow into other business areas such as distribution of funds and help further develop China's pension system.

The China Securities Regulatory Commission (CSRC) recently started to allow fund management companies to enter into funds distribution business (through opening of subsidiaries). The intention is to create an additional distribution channel other than relying on the dominance of banks' distribution of mutual funds. The Working Group welcomes this initiative but at the same time, believes that in order to fully take advantage of this, they will need to reduce reliance on bank distribution. The industry will benefit from participation of foreign firms that have done this before. The Working Group considers that the opening of ownership restriction to foreign firms will help attract foreign fund management companies to invest in China in fund distribution and transfer years of know-how acquired from different markets across the globe.

Furthermore, the Working Group also believes that further relaxation will help the development of member choice Define Contribution scheme (Enterprise Annuity) to enhance retirement protection in China as foreign firms transfer their knowledge and experience to the local market.

### Recommendation

- Eliminate the restrictions that hinder foreign fund manager's access to the domestic fund management industry
- Remove or further relax ownership restrictions on fund management companies from 49% which is currently the maximum a foreign company can own in a JV fund management company

## 7. Reduce constraints on insurance companies foreign exchange

### Concern

The Administrative Regulations on Foreign-funded Insurance Companies of the People's Republic of China states that: "The minimum registered capital of a joint venture insurance company or a solely funded foreign insurance company is CNY 200 million or the equivalent of a fully convertible currency; the minimum registered capital must be paid in full and in the form of currency. The contribution of foreign insurance companies must be made in fully convertible currencies."

### Assessment

Foreign insurance companies in China are committed to develop their operations in the long term. The restrictions set on their registered capital currency bring specific constraints to their operations:

- The amount of capital of insurance companies paid in fully convertible currencies is subject to exchange rate fluctuations which can cause an undesirable impact on their profit and loss account.
- The registered capital can represent a large proportion of the assets (as per the minimum solvency rules), that cannot be invested under the same conditions as that of other local companies, thus making it more difficult for foreign companies to compete on an even basis.
- The requirements regarding the possibility to change convertible currencies into RMB are not clear, making it difficult for foreign companies to use their paid-in capital to finance their operations.

### Recommendation

- Allow the contribution of foreign companies to be paid in RMB
- For capital already paid or that will be paid in convertible currencies, release precise rules regarding the possibility to change those funds into RMB, so that insurance companies have a clear view of the material and application process required by the State Administration of Foreign Exchange (SAFE) and can make plans accordingly
- Increase the flexibility given to foreign insurance companies to use their convertible funds, either to pay directly some expenses in convertible currencies (for example reinsurance fees and salaries), to pay some categories of expenses (for instance linked to the set-up of new branches, related to the set-up of the IT system and fixed assets expenses) or more generally the development of their operations

## 8. Liberate the minimum required portion of performance-related compensation in total compensation

### Concern

In 2012, the Guidelines on Standards for Remuneration Management of Insurance Companies (For Trial Implementation) were released. In the guideline, the target performance-related remuneration of senior management is required to not be less than basic remuneration.

### Assessment

In remuneration management practices, the remuneration structure (portion of performance-related remuneration in total remuneration) shall be aligned with job responsibility, business strategy and talent strategy. Differences in roles and talent strategies will lead to different remuneration structures. To set such a high threshold request (100%) on portion of performance-related remuneration limits the flexibilities of insurance companies in their talent retention and attraction, which results in reducing how insurance companies can differentiate from one another in the market as attractive employers. The remuneration structures of most foreign-invested insurance companies are very different to local insurance companies' guidelines. Therefore it will be much more difficult for foreign-invested insurance companies to move from existing structures towards required structure. There will be substantial impact on their talent attraction and retention.

One of the purposes of the guideline is preventing improper behavior and excessive risk taking from financial institutions. However, if variables are too high this may also have the opposite effect. The remuneration regulations released by regulators in other countries intend to set caps instead of setting thresholds on the variable portion.

### Recommendation

- Liberate the minimum required portion of performance-related compensation in total compensation, so that the insurance companies have enough agility to design the remuneration structures which align with company talent strategy.

## 9. Provide favorable taxation support for commercial retirement protection

### Concern

China, with its aging population, has the ambition to establish a complete and mature retirement system. It actively enlarged the number of social pension fund participants and it is also trying to involve commercial pension and enterprise annuity (EA). However, a lack of efficient and favorable taxation regulations is the biggest obstacle to make commercial pension and EA attractive.

### Assessment

In 2004, the EA management regulation was officially established. However, by the end of 2010, total enterprises with EA coverage only occupied 0.3% of total enterprises in China. Only 1.5% of the population is covered by EA. Since EA brings additional burdens to enterprises, only large state-owned or international enterprises are able to afford it. Without an efficient tax reduction or waive, it is very hard to encourage EA to be undertaken by most enterprises (particularly for small and medium ones).

The same applies to individuals when dealing with commercial pension. Deferred tax pension was piloted in Shanghai since last year but still cannot be practically implemented due to the lack of tax incentives.

### Recommendation

- Provide a favorable and efficient taxation policy for the active and sustainable participation of commercial insurance into the social welfare system

Source: EUROPEAN CHAMBER IN CHINA POSITION PAPER 2013-2014, which can be found at www.europeanchamber.com.cn

**Figure 97:**
**Foreign life insurers profit (loss) after tax 2013**

| Profit (loss) after tax | 2013 |
|---|---|
| AIA | 987,083,073 |
| Sino-US United MetLife | 405,819,395 |
| Generali China Life | 210,129,000 |
| Prudential Life | 203,656,314 |
| CIGNA CMC Life | 191,973,091 |
| MANULIFE-SINOCHEM | 182,638,081 |
| Aviva-COFCO | 173,484,727 |
| ICBC AXA Life | 20,307,753 |
| ING-BOB Life | 18,585,830 |
| | |
| SINO FRENCH Life | (6,984,415) |
| HSBC Life | (23,642,965) |
| Cathay Life | (33,018,469) |
| BOCOMM Life | (43,467,506) |
| KING DRAGON Life | (44,380,118) |
| SINO-KOREA Life | (56,407,825) |
| Great Eastern Life | (60,542,486) |
| Founder Meiji Yasuda | (65,485,626) |
| SAMSUNG AIR CHINA | (67,425,226) |
| ERGO CHINA Life | (71,287,602) |
| HUATAI Life | (72,266,722) |
| PING AN HEALTH | (79,021,228) |
| Shin Kong - | (85,627,382) |
| Pramerica Fosun Life | (89,080,594) |
| Nissary-Changsheng | (89,854,600) |
| AEGON CNOOC | (92,523,280) |
| ALLIANZ Life | (112,871,370) |
| Old Mutual Guodian | (118,275,591) |
| Heng An Standard | (129,969,541) |

Source: 2013 Financial statements of individual companies

**Figure 98:**
**Foreign property and casualty insurers profit (loss) after tax 2013**

| Profit (loss) after tax | 2013 |
|---|---|
| Tokyo Marine | 69,788,032 |
| Groupama | 45,166,552 |
| Samsung P&C | 20,038,959 |
| Mitsui Sumitomo | 17,317,000 |
| Generali China Ins. | 12,459,980 |
| XI Insurance | 6,838,407 |
| AXA Tianping | 6,740,872 |
| * RSA | 4,994,391 |
| AIG General China | 2,321,389 |
| LIG | 2,240,689 |
| Lloyds | 325,727 |
| | |
| Hyundai P&C | (2,184,490) |
| Chubb | (13,093,797) |
| NipponKoa | (13,189,391) |
| Allianz P&C | (23,064,440) |
| Zurich | (25,202,848) |
| AIOI Nissay | (60,710,536) |
| Fubon Property | (121,658,190) |
| Sompo Japan | (163,272,400) |
| Cathay P&C | (185,692,788) |
| Liberty Mutual | (244,501,729) |

Source: 2013 Financial statements of individual companies

* On 3 July 2014 RSA agreed to sell its China business to Swiss Re Corporate Solutions. The acquisition is subject to regulatory approval. (Source: Reuters)

# Notes

# Contacts

**Shaun Crawford**
*Global Insurance Leader*
+44 207 951 2172
scrawford2@uk.ey.com

**Jonathan Zhao**
*Asia-Pacific Insurance Leader*
+852 2846 9023
jonathan.zhao@hk.ey.com

**Andy Ng**
*China Insurance Leader*
+86 10 5815 2870
andy.ng@cn.ey.com

## Beijing

**Rick Huang**
+86 10 5815 4056
rick.huang@cn.ey.com

**Hong Gu**
+86 10 5815 2881
hong-h.gu@cn.ey.com

**Carol Yu**
+86 10 5815 3549
carol.yu@cn.ey.com

**Wei Zhang**
+86 10 5815 2050
wei.zhang@cn.ey.com

**Bonny Fu**
+86 10 5815 3618
bonny.fu@hk.ey.com

**Arthur Bi**
+86 10 5815 3818
arthur.bi@cn.ey.com

## Shanghai

**AJ Lim**
+86 21 2228 2929
aj.lim@cn.ey.com

**Philip Guo**
+86 21 2228 2399
philip.guo@cn.ey.com

**Alden Chen**
+86 21 2228 2788
alden.chen@cn.ey.com

## Shenzhen

**Niko Wu**
+86 755 2502 8090
niko.wu@cn.ey.com

## Hong Kong

**Jeff Malatskey**
+852 2849 9308
jeff.malatskey@hk.ey.com

**Dennis Leung**
+852 2846 9060
dennis.leung@hk.ey.com

**Kieren Cummings**
+852 2846 9069
Kieren.cummings@hk.ey.com

**Tze Ping Chng**
+852 28499200
tze-ping.chng@hk.ey.com

**Ranjit Jaswal**
ranjit.jaswal@hk.ey.com
+852 2846 9888

**Frank Wong**
+852 2629 3594
frank-sy.wong@hk.ey.com

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