

Economic Insights

Digital transformation in China: on the crest of a wave

Key takeaways

- China's digital economy contributed 35% of GDP in 2018: the share will grow to more than 50% by 2030.
- The growth of e-commerce in China is driving consumption. Government policy supports this development.
- With the continued growth of the digital economy, risk protection solutions for cyber exposures will be a main growth area for insurers in China.
- So too will development of innovative solutions to cover previously uninsurable risks.

About Economic Insights

Analysis of key economic developments and their implications for the global re/insurance industry.

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In a nutshell

Digitisation has become the main engine of China's economy, e-commerce in particular. Digital transformation is giving rise to new risk pools such as cyber. With enhanced data and analytics capabilities, innovative solutions for previously uninsurable risks will be another major growth opportunity for insurers in China.

China's digital economy has rapidly become a main driver of the country's economy, and we expect exponential sector growth to continue over the next decade. In 2018, the gross value of the digital economy increased by 21% from the previous year to CNY 31.3 trillion, accounting for 35% of China's gross domestic product (GDP), compared with 59% in the US. The share of GDP is forecast to increase to more than 50% by 2030 (see Figure 1-1).¹ From the insurance perspective, digital transformation is giving rise to new and emerging risks (eg, cyber exposures) and also facilitating development of innovative solutions for previously uninsurable risks such as intangible asset earnings and cash flows losses. As digital transformation continues to reshape and power overall economic growth in China, we expect these new risks pools will become a main source of growth for the insurance sector in the country.

In terms of economic impact, digital transformation is generating huge employment opportunities in China, creating an additional 191 million jobs in 2018 (up 11.5% from 2017). By 2030, it is projected the sector will add nearly 400 million new jobs to the overall economy.² The e-commerce sector (online retail sales and electronic transactions) in China has developed rapidly, and is now the largest in the world, accounting for more than 40% of global e-commerce transaction value in 2018 (see Figure 1-2). This has come about with the rapid increase in the number of internet users in China, up 11% on a compound annual growth rate (CAGR) basis in the 10 years to 2018, to 829 million users. Online retail sales of tangible goods exceeded CNY 7 trillion in 2018 (+25.4% from 2017), contributing 45.2% of consumption growth.³

We expect the e-commerce sector to continue to underpin consumption and economic growth in China. A positive development is the inauguration of China's first comprehensive E-Commerce Law in 2019. The law aims to better safeguard consumer interests and protect intellectual property rights. It also stipulates that China shall promote development of e-commerce internationally, prompting government agencies to announce various stimulative measures. In 2018 the total value of goods imported and exported through cross-border e-commerce platforms was CNY 135 billion (USD 20.3

¹ CAICT, see <http://tradeinservices.mofcom.gov.cn/article/yanjiu/hangyeyzk/201906/85232.html>

² *Year 2035: 400 million job opportunities in the Digital Age*, BCG, 2017.

³ *E-commerce in China*, Ministry of Commerce, 2018

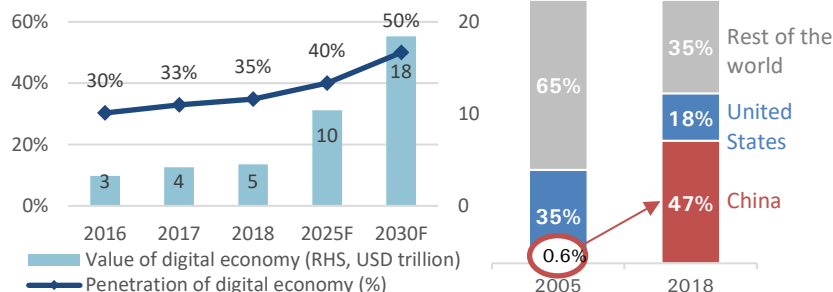
billion). At a growth rate close to 50%,⁴ this would translate to almost CNY 300 billion worth of goods (USD 42.6 billion) in 2020. According to KPMG, cross-border online shoppers will make up 25% of total customers in China by 2020, up from just 1.6% in 2014.⁵

Figure 1-1 (LHS)

Projection for the value of digital economy in China (USD tr) and its penetration rate (%)

Figure 1-2 (RHS)

Global retail e-commerce: share of transaction value, %



Source: (LHS) National Bureau of Statistics of China, U.S. Commerce Department, Internet Retailer; (RHS) Swiss Re Institute estimates based on point projection by CAICT

The impact of the expansion of e-commerce will be felt across industrial sectors. Further, supported by central government national strategies,⁶ by 2030 up to 45% of industrial revenue is forecast to stem from digitally-enabled business models.⁷ The adoption of 5G networks in particular will add momentum: the direct economic value generated by 5G commercial applications (IoT, sensors, wearables etc generating huge volumes of new data points) is forecast to increase by CNY 10.6 trillion between 2020 and 2025, with another CNY 24.8 trillion in indirect benefits.⁸

Digital transformation creates new economic value opportunities, but also increased cyber threats. With a growing catalogue of cyber incidents, demand for associated insurance solutions is growing. Another area of growth is risk protection solutions for intangible assets such as intellectual property, networks data and information. As real-time data becomes more available and as analytics capabilities advance, insurers will be better able to develop more personalised solutions for previously uninsurable risks such as earnings losses and cash flow volatility. Data and advanced analytics will also facilitate more accurate underwriting and risk pricing. Digital transformation also poses challenges for insurers, including the encroachment of BigTech companies such as Alibaba. Insurers will also need to adhere with stringent data privacy laws. The insurance opportunities and challenges presented by digital transformation in China will be covered in a separate Economic Insights soon.

⁴ *E-commerce in China*, Ministry of Commerce, 2018.

⁵ "Special topic: cross-border e-commerce" in *China Economic Monitor, Q1 2019*, KPMGm 2019.

⁶ For example China's 13th Five-year plan, Internet Plus strategy, Made in China 2025, etc

⁷ *China's Fast Climb up the Value Chain*, McKinsey Quarterly, 2018.

⁸ *The white paper of digital economy in China*, CAICT, 2019.

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