China 2020: The World's Largest Insurance Market and the Strategy of Foreign Insurers

Zhan Hao, Sharif Hendry

The Chinese insurance market continues to grow unabated. While structural changes have seen a drop-off in infrastructure investment and its corresponding high levels of GDP growth, the services sector, and finance in particular, is growing strongly. This shift towards a knowledge based, digital economy is fuelling growth not only in IT, pharmaceuticals and banking, but also insurance[1].This growth is in line with the government's plan to target a doubling of the rate of insurance penetration (insurance premiums as a percentage of GDP) from its previous level of around 2.4% to 5% by 2020[2]. By this point it is expected that insurance premium income will have reached 4.5 trillion RMB, with total industry assets of 25 trillion RMB. If this aim comes to fruition, it would mean the Chinese insurance market usurping the US to become the world's largest insurance market[3].

This may not be an overreaching goal, for a number of reasons. For one, the penetration rate in other, more fully developed insurance markets worldwide is closer to 7.5%[4]. Inits neighboring Hong Kong market it is as high as 13.4%[5] . Given the domestic insurance market is fuelled in part by China's growing private financial wealth (at a rate of $4 trillion per year), and appears destined to benefit from the rise of "insurtech"[6], this appears to be a realistic aim.

This bodes well for overseas insurers looking to participate in the domestic market. In its continuing program of reforms for the insurance industry, the State Council has stated that its

[1] https://www.munichre.com/topics-online/en/2017/01/insurance-market-china?ref=social

[2] Several Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry

[3] See also: http://www.internationallawoffice.com/Newsletters/Insurance/China/AnJie-Law-Firm/Presidential-summit-postulates-rise-of-insurance-investment-ceiling

[4] https://www.ft.com/content/a6035759-6882-397e-8dd9-e9d280c0434f

[5] In 2015: https://www.reuters.com/article/us-axa-asia-insurance/two-dozen-bidders-in-fray-to-buy-axas-wealth-management-unit-in-hk-sources-idUSKCN1BO0ZD

[6] http://www.chinalawvision.com/2017/10/articles/insurance-law-of-the-peoples-r/the-ascent-of-insurtech-in-china/

plans include“...raising its level of liberalization and promoting the insurance market to further open to both domestic and foreign players..”, and to “achieve the better integration of "attracting foreign investment" [7]. While the market is still for the most part dominated by local insurance companies, such as Ping An, PICC and China Life, there are still a number ofoverseas insurance companiesvying for greater market share. Generali, Prudential, and MetLifeare examples of overseas companies currently operating joint ventures in the mainland with Chinese companies. Prudential, for instance through its tie up with CITIC, has increased its Chinese insurance income by 185% for the first half of 2017 on a year-on-year basis, to £53 million[8].While still forming a relatively small proportion of its overall income, pent up demand for insurance provision and continuing structural reform provide a healthy backdrop for overseas insurers looking to capitalize on growth in this region of the world.

Foreign backed collaborations should however, be prepared to align their business objectives with the policy driven goals of the government. This would be a wise and practical strategy for foreign insurers in the PRC market. Moves are afoot to revive party representative committees serving within the internal corporate structure of sino-foreign joint ventures with state-owned Chinese companies. By collecting information, monitoring behavior and reviewing significant company decisions, these committees, along with the investment committee, labor committee, audit committee and development committee, may have a hand in ensuring that the insurer’s social responsibilities are reflected in the company’s direction[9].

Likewise, the Chinese insurance regulatorCIRC has recently tightened the net on sales of short-term, high yielding investment products that, in the opinion of CIRC “deviate from the fundamental origin of insurance”[10].This heralds a return to the fundamental business of insurance as a means of protection from financial loss. The protection of the interests of the applicant, insured and beneficiary is a basic doctrine of PRC Insurance Law. CIRC itself has abided by CPC Central Committee and the State Council tenetsin pronouncing that the industry’s focus should lie with the "security nature of insurance", releasing a series of policies intended to promote further development in this direction.

Foreign participants would therefore do well to remain cognizant that, while the Chinese insurance market may offer unprecedented opportunities for profit and growth, their business

[7]Certain Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry; GuoFa [2014] No.29, 08/10/2014

[8]https://www.ft.com/content/a6035759-6882-397e-8dd9-e9d280c0434f

[9]https://www.ft.com/content/ed62fdfa-b798-11e7-8c12-5661783e5589

[10]https://www.ft.com/content/f7ff4ffe-3186-11e7-9555-23ef563ecf9a

strategies should align with China's economic and social development needs. How best to grasp this opportunity and adopt the right strategy towards business development in this huge and dynamic market, and how to discern the nature and phase of development of the Chinese insurance industry, should be fundamentally essential considerations for foreign participants, especially those entering the market for the first time.