

# China—Regional

Market Update Fall 2009



## Contact



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China remains one of the key “lands of opportunity” for both brokers and insurers internationally; however, all parties have had to slightly temper their original strategies with some on-the-ground experience.

That reassessment is evidenced by a recent survey from PricewaterhouseCoopers that reveals foreign insurers have become somewhat less optimistic in the past 12 months about expanding in the Chinese market.

Predictions that foreign insurers’ share of the market would rise to 10 percent in three year’s time are down slightly to 8 percent. Foreign insurers had a market share in China of 8.9 percent in 2005, but this has fallen to 4.7 percent for the first half of 2009.

Foreign property-casualty insurers have seen their market share slightly decrease to 1 percent in the second quarter of 2009, from a fairly constant 1.2 percent for the previous five years. However, the property casualty sector now expects its market share to rise to 2 percent by 2012.

A decline in foreign insurer market share would have implications for insurance buyers, particularly foreign corporate risk managers, as the level of sophistication and claims-paying principles adopted by the local insurance market has not yet reached the levels desired by the Chinese Insurance Regulatory Commission (CIRC).

This was confirmed in new regulations released by CIRC earlier this year, which impose significant new obligations on insurers and allow closer monitoring:

- ❖ Insurers must request all data pertaining to a loss in one aggregated list within 30 days of receipt of the claim;
- ❖ Time for submission of claims has been extended to two years for non-life and five years for life claims from the date of awareness of loss;
- ❖ Insurers with threat of insolvency may be called on to add capital, restrict scope of business, modify profits or the way money flows are distributed;
- ❖ CIRC will more closely monitor transactions between insurers' affiliated companies but will also allow more liberal use of capital investments (securities, property);
- ❖ Major shareholders in new insurers must declare their assets and financial strength.

Meanwhile, rates in Chinese primary cover have been “stabilizing at a low level,” with “high competition on the reinsurance side,” according to a recent report from Hanover Re.

The Chinese authorities are also stepping up their crackdown on insurance-related crime. In July the CIRC began a six-month nationwide campaign to reduce crime linked to insurance, including both the setting up of bogus companies and the submission of fraudulent claims. Fraud has become a growing concern in China. Last April a report warned competition and a lack of financing were causing extended terms of payment for companies operating in China and an increased risk of fraud.

### Good Times for Brokers

The positive news from a broker point of view is that intermediaries' share of the Chinese insurance market grew in the first half of 2009. And revenue enjoyed by the sector was up substantially as well.

The first half saw a reduction in the amount of premium income sourced through banks and post offices for the first time. By contrast there was an 18.5 percent increase in premiums written through intermediaries, to Yuan 523.1bn.

Meanwhile banks and post offices accounted for Yuan 201.6bn, a 3 percent decline compared with last year. Intermediaries saw revenue of Yuan 45.8bn, an increase of 29% year-on-year. According to the CIRC which compiled the figures, there were 2,493 professional insurance intermediaries in China at the end of June and 137,000 part-time agencies with a sales force of 2.7 million people.

The vast majority of these intermediaries remain agents of insurance companies. However, the increasing trend of insurance buyers utilizing an agent/broker rather than dealing directly with an insurance company is a positive development.

### Relationships Still Count

In the past and still today, China is not unique in that building and maintaining relationships is critical to a successful business; however, the practice of business built on long-term relationships, or “guanxi,” is much stronger in China than almost any other country in the world.

Early international brokers and insurers in China sought to tap into this business through agency relationships with individuals with personal or political relationships with large clients. This model has proven unsustainable and unprofitable, as well as being in stark contrast to CIRC's often stated desire and intention to increase the level of professionalism and sophistication in insurance buying strategies.

Increased competition in all industries—not just insurance—as well as the advent of more modern or western educated managers assuming a greater role in China commerce, has increased the need for brokers to increase the scope and level of services available to customers.

The promotion and delivery of international service standards and products, particularly risk management services—a fledgling concept in China—will assist brokers to break down traditional relationships and build their own opportunities.

### **Snapshot—Insurance on the Ground**

The growth of China's middle class and High Net Worth individuals is promoting the purchase of insurance at the consumer level and the rise of interesting new products. For example, as interest in the Far East in wine grows, High Net Worth underwriters are increasingly being presented with the opportunity to cover highly valuable collections of wine.

A change in the tax laws at the beginning of the year, where tax on wine was abolished, has seen the number of wine collectors increase. This, in turn, has led to an increased focus on collectors in the Far East insuring their valuable wine cellars. Specialist consumer products such as Fine Arts, Individual Life and Medical, Superannuation, and School Fees insurance should follow this trend.

### **Opening Up**

The High Net Worth example is indicative of a wider trend in the region, which is that in recent years China has opened up the insurance market. For example, Lockton was awarded only the second Wholly Owned Foreign Enterprise license in October 2008, and various pieces of recent legislation have broadened the scope of operations for international insurers, including current legislation which may dramatically increase reinsurance opportunities for foreign insurers and reinsurers.

While it may take some time for the full benefits of these changes to filter through, opportunities are and will continue to open up in the near future, given China's track record of dramatically leap-frogging advances. Revenue opportunities arising from continued Foreign Direct Investment, aggressive and hopefully resurgent IPO activity in early 2010, strengthening middle-class consumerism and, in particular, substantial overseas investment from large Chinese companies means China remains the Golden Child of the global insurance industry.