Is China's insurance industry ready for WTO?

Qixiang Sun

Peking University
Beijing, 100871
(8610) 6275-7384
qusun@cj.net.cn

National Bureau of Economic Research
1050 Massachusetts Avenue
Cambridge, MA 02138-5398
(617)868-3900
qusun@nber.org

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Major topics:

What does joining WTO mean for the Chinese insurance industry?

A general assessment of the development over the past 20 years

The major challenges that face China's insurance industry

Policy suggestions

What does joining WTO mean to the Chinese insurance industry

- Requires a more objective, transparent insurance licensing process.
  - Gradually phase out geographic restrictions on foreign companies to provide a national treatment.
  - Foreign company ownership of JVs will be limited to 50% for Life and 51% for Non-life and permit 100% of wholly owned subsidiaries of non-life companies within some time periods.
  - Restrictions on product lines will be gradually removed and foreign companies will be allowed to engage in health insurance and pension business.
  - Reinsurance will be open to foreign companies immediately with few restrictions.
  - Foreign brokerage firms will be allowed to do business gradually.

In sum, joining WTO means:

- Domestic companies must play the game based on the rules of WTO
- Competition will be fiercer.

The impact, however, is not as big as most people think, the reasons for this are as follows:

- The experience of other countries
  In Asia, 22 countries and regions joined WTO since 1995. We have seen none of those countries insurance industry crash because of joining WTO.
- Differences between insurance products and manufacture goods.
  Insurance product is a product, whose quality has a lot of things to do with continued service, domestic culture and customs, legal system etc. Also the competitive advantage of insurance is not easily observed from price, which is the characteristic of manufacture goods like TV sets, automobiles, etc.
- Foreign companies have a lot of concern about the Chinese insurance market, such as lack of insurance expertise, backward capital market, unsound legal system etc. So even if they think the market has a great potential, most of them have taken or will take very prudent and conservative strategies.

The general assessment on the development over the past 20 years

Quit pro quo of the Chinese Insurance Industry

Table 1:

Item	Year 1980	Year 1999
Premium volume	0.46 billion	139.3 billion RMB
Companies	1	28 in total, among them 13 domestic (4 SOEs, 9 Stocks), 15 foreign and JVs 27 primary insurers and 1 reinsurer 12 life, 12 non-life, 3 comprehensive ones
Asset	NA	254.5 billion RMB
Liability	NA	236.7 billion RMB
Employee	NA	171,864 (person)
Distribution system	No producers	3 brokerage firms 9 specialized agencies 58000 multi-products firms
Legal framework	No law	*1995: Insurance Law* *1996: Interim Provisions for Insurance Management* *1997 Managerial Provisions for Insurance Agents 1998 Managerial provisions for Insurance Brokers* *1999 Interim Provisions for Qualifications of Senior Insurance Managerial Personnel*

Table 2: Premium volume (1980-1999)

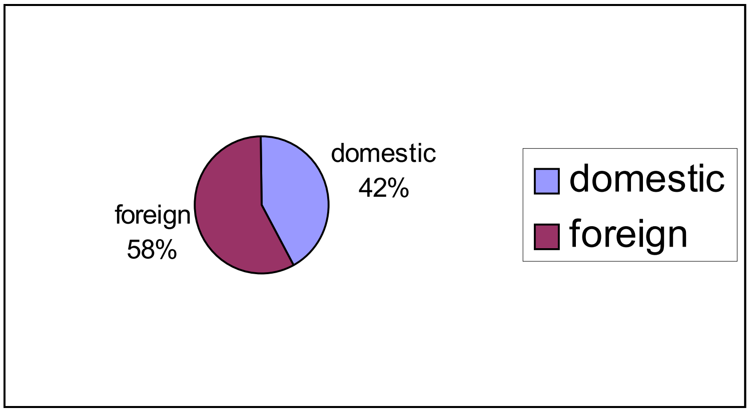
Year	Life premium (billion RMB)	Nonlife premium (billion RMB)	Total premium (billion RMB)
1980	NA	NA	0.46
1997	60.02	48.07	108.09
1999	87.21	52.11	139.32
1980-1999average	NA	NA	35%
1992-1999averge	37%	10%	22%

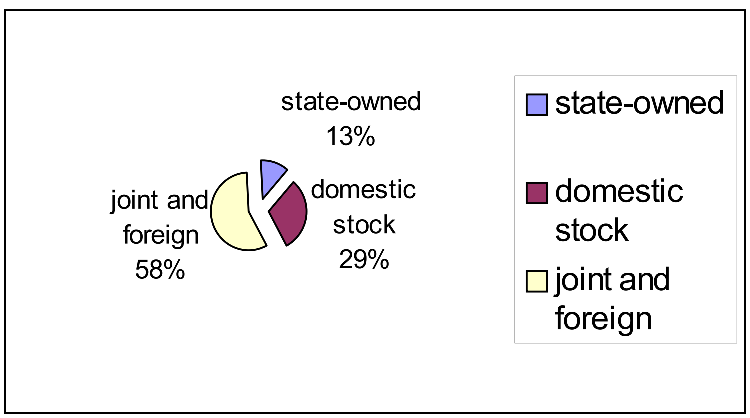
Source: calculated based upon the data provided by "*China' statistic yearbook" and 1999 "China's insurance yearbook"*.

The composition of premium income of life insurance companies in China (1998) **Table 3:**

Companies	Market share %	Group life %	Personal life %	Life policy %	Accident policy %	Health policy %
PICC	70.3	54.6	45.4	87.3	8.7	2.4
Ping An	17.2	23.7	66.3	88.9	3.7	7.4
Pacific	9.0	55.7	44.3	94.5	4.3	1.2
New China	1.5	81.3	19.7	96.5	0.2	3.3
Tai Kang	0.6	60.4	39.6	91.9	0.7	7.4
AIA	1.2	0	100	90.4	6.7	2.9
Xinjiang Co.	0.08	78.1	21.9	68.8	29.7	1.5
Menu life	0.05	0	100	91.0	9.0	0
Tian An	0.005	41.7	58.3	0	77.2	22.8
Total	100	100	100	100	100	100

Calculated based on the data provided by 1999 "*China insurance yearbook*".


domestic
42%
foreign
58%
domestic
foreign


state-owned
13%
domestic
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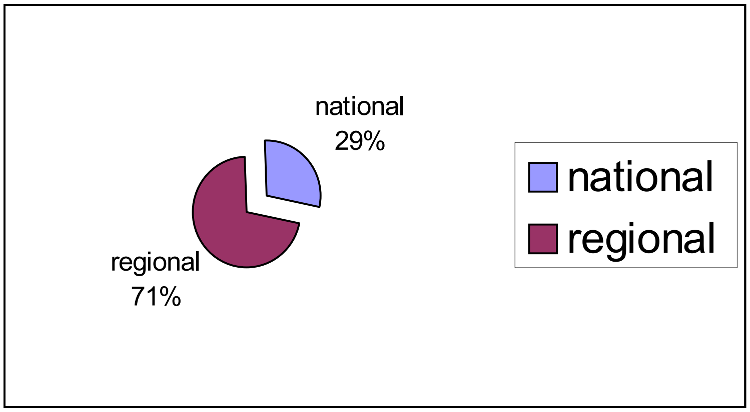

- **The experiment of opening up to the outside world**

Foreign insurance companies started to set up offices in China at the beginning of 1980s. In 1992, the Chinese government decided to experiment by opening up the insurance market in Shanghai. In September of the same year, ratified by the then insurance supervising body--- People's Bank of China, American International Group Co. set up its Branch in Shanghai. Up till now 13 insurance companies from 8 countries, namely the U.S., Canada, Japan, Switzerland, Germany, Britain, France and Australia, have established 20 branches in China. They hold 4.4 billion assets and 1.8 billion premiums. In addition, 113 insurance organizations from 17 countries and regions have set up over 200 representative offices in 14 cities of China.

At present, the foreign life insurance companies can provide life insurance to foreigners who live in China and individuals within the areas, currently Shanghai and Guang Zhou, reinsurance of the above business. Group insurance, which refers to mandatory insurance in China, however, is not allowed. The foreign property insurance companies provide commercial property insurance and relevant liability insurance, with the exclusion of mandatory insurance, to foreign funded enterprises In China, and reinsurance of the above business.

As shown by facts, the experimentation of opening up the Chinese insurance market has had positive effects on promoting the domestic insurance industry. That is to say: (1) The participation of foreign capital has further broken the highly monopolized Chinese insurance market pattern, such that the market structure can be optimized and transaction efficiency can be improved, (2) The introduction of foreign capital has brought new insurance concepts, quickening the pace of China's insurance industry to join in line with the international insurance industry, and uplifting the professional level and competitiveness of China's insurance industry. (3) The entry of foreign companies has put competitive pressure on China's insurance companies, which have to keep improving their service and managerial level and consequently bring material benefit to the consumers.

- **The gap between China and the world.**

1998 The Ranking of Total Premium Volume
Table 4 (88 countries surveyed)

Country	Ranking	Premiums (USD m)	Share of world market (%)	Real growth 1997/1998 (%)
US	1	736 470	34.17	5.3
Japan	2	453 093	21.02	-3.8
UK	3	181 045	8.40	7.2
China	17	14 281	0.66	6.6
India	22	8 303	0.39	14.4

Source: Swiss Re, *sigma* No. 3/2000:

1998 Per Capita Life Premiums
Table 5: (88 countries surveyed)

Country	Ranking	Life
Switzerland	1	3 374.9
Japan	2	2 856.6
UK	3	2 114.4
China	78	6.6
India	82	6.2

Source: Swiss Re, *sigma* No. 3/2000.

1998 Insurance penetration

Table 6: (88 countries surveyed)

Country	**Ranking**	**Total business**	**Non-life**	**Life**
South Africa	**1**	**20.63**	**3.49**	**17.14**
South Korea	**2**	**13.87**	**3.55**	**10.32**
Switzerland	**3**	**12.61**	**3.47**	**9.14**
India	**43**	**2.61**	**0.71**	**1.90**
China	**66**	**1.49**	**0.63**	**0.86**

Source: Swiss Re, *sigma* No. 7/1999.

Table7**: Market share of dominant firm in some countries and regions** (in terms of premium)

Countries or region	**%**
China	**70**
America	**5**
Germany	**12**
Japan	**20**
Hong Kong	**20**
France	**22**
Switzerland	**29**

Source: LOMA and Beijing Rep Office of concerned companies.

The challenges that facing industry

- **The impact of Agrarian history and traditional culture**
  Chinese have long been holding those notions like “life or death, rich or poor being a fate”, “raising children in order to protect the aging”, which mainly derives from China’s long-standing tradition of agriculture society and family-based culture. Those notions are obviously against the essence of insurance, which is taking the active way to transfer the risk, and sharing the loss within the whole society.

- **The impact of traditional central planning system**

The long tradition of central planning system also places difficulties on consumers accepting insurance. The economic reform has taken place in China for more than 20 years, many people, however, still consider that they will be taken care of by government whenever they have financial difficulties. When people hold this opinion, it is hard for them to think of buying commercial insurance, which costs their own money.

- **Lack of expertise**
  Lack of experts like actuaries, underwriters, investment analyst, loss adjustors, insurance legal experts etc, pose another challenge to the Chinese insurance industry.

- **Solvency concern**
  The insurance companies have a low internal managerial level, low profit and insufficient insurance solvency. Especially after the central bank lowered the interest rate for the seven times since 1996, companies' solvencies were greatly threatened due to the serious problem of interest-driven loss of life insurance. At the end of 1998, the highest assumed interest rate of life insurance was 9%, lowest 4.5%, weighted average 7.8%, much higher than one-year deposit interest rate, which was only 3.78%.

The competition from domestic financial institutes

The other financial institutes like commercial banks and securities also place a big pressure on insurance industry as well. Chinese have a long been tradition of savings. Since the reform, the living standard of Chinese is getting better, savings have increased dramatically even in the period of interest rate drops. So far, the commercial banks have 6000 Billion RMB in consumer savings; the most common form of personal wealth. Security market is another strong competitor of insurance company in terms of absorbing money from consumer's pocket. It has attracted, within only about 10 years period, more than 40 million investors, who hold stakes worth of more than 1200 billion RMB market values.

Policy suggestions

The bottom line is, we need to reform and strengthen Chinese insurance industry, but the reason we need to do that is not because we need to join WTO, it is because Chinese insurance industry needs to survive in this swiftly changeable society. In other words, even if we won't join WTO, we need to take reformative methods, strengthening the industry.

- Enterprises Reform.
  - Focus on intensive development pattern, rather than extensive pattern
  - Look to develop specialties in market segments.
- Pay greater attention to cultivating and retaining the expertise
  - Strengthen insurance regulation.
  - Establish a market environment that matches international common practice.
  - Arouse the insurance awareness of consumer