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中國人壽保險市場研究  
A Study of Life Insurance Market in China

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中華民國 98 年 7 月

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## Abstract

Started in 1978, but after Deng's Southern Speech in 1992, Mainland China officially entered an evolution and opening year, which last 20 years till now. Nowadays China is a moderately prosperous society. The change of the concept "private" replaces "state-owned" is a huge driven power for the society.

Following the market economy step, insurance industry joins and become a stable power to the society. In the two decades, life insurance industry is one of the fastest developing industries in China. Understanding how important the stable power for the society, the Chinese government enacts many regulations and pushes insurance industry to actively join the whole financial system.

Under globalization environment and WTO structure, Chinese government accelerates the open steps by perfect legal system and attracts foreign investment. Nowadays China's insurance market reaches a certain scale. Bancassurance brings continuous growth of China's life insurance market and keep playing important role for insurer's premium income.

This study suggests that the Chinese government should pay more attention on monopoly situation, risk management, and the changes of interest rate to avoid negative spread problem in the future. Foreign insurers nowadays only accounted for minor market share which is not good for the development for the financial system if the situation exists continuously. The probabilities of risk transmission across industries will increase day by day; therefore, the government should create a sound financial environment and also keep their eyes on risk control.

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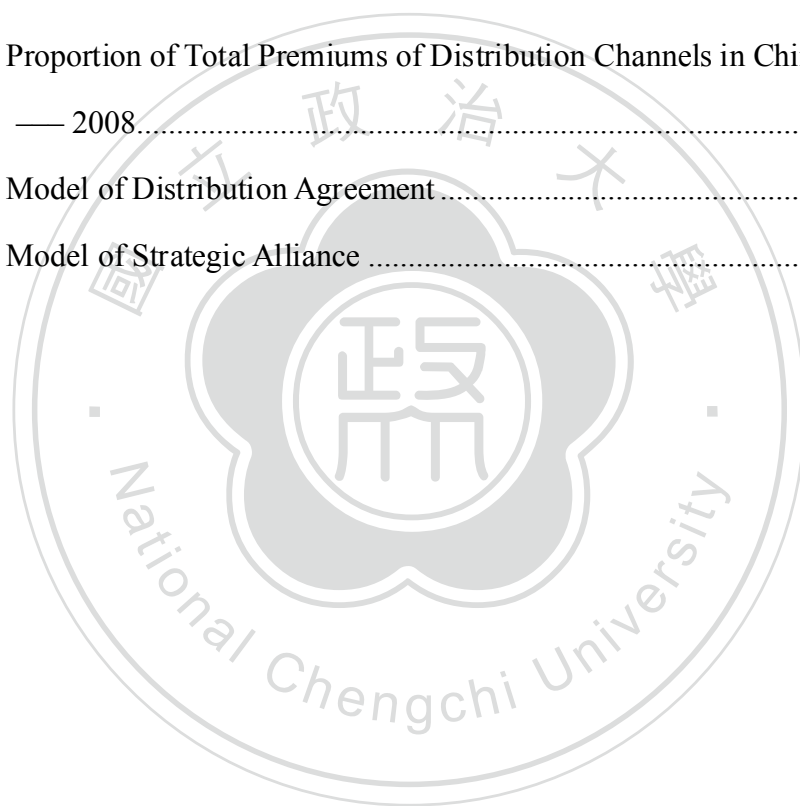
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# C HAPTER 1

## Introduction

### 1.1 Research Background

Started in 1978, the beginning of reform, China's insurance businesses have increased quickly, service field has been expanded, market system has been perfected day by day, laws and regulations have been completed step by step, supervision level has been improved constantly, risks have been prevented efficiently and the whole strength has been reinforced obviously, each aspect played an active role because of confirming open policy.

Life insurance industry is one of the fastest developing industries in China. In 2008, there were 56 life insurance companies including 26 foreign companies. Since 2002, the average annual growth rate of China's life premium revenues was 27.91%, and reached 744.74 billion RMB in 2008, and which was 3.2 times of that in 2002.<sup>1</sup> At the same time, premium income of foreign insurance companies was 36.10 billion RMB; foreign insurance held 4.92% of market shares. In 2008 China's premium income ranked the 6<sup>th</sup> of the world and occupied 3.85% of global total premium income, increased by 1.45% than that in 2007 (Swiss Re, 2009).

Over the past two decades, following more and more strengthened internationalized situation, the intense competition of insurance industry was much stronger than before. Mainland China, as one of a greatest potential markets, has attracted amazing huge foreign capital and giant companies to set up branches. And in the predicable future, we believe that there will be more and more companies' most

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<sup>1</sup> See China Insurance Regulatory Commission, Statistics of China's insurance industry, <http://www.circ.gov.cn/web/site0/tab61/>.

important strategy is to start a business in China.

Just like many foreign enterprises, they have to conquer acclimatization problem, especially when they face a totally different culture. Foreign companies have to adjust to China's local society and respect different thinking if they want to survive and develop. Insurance industry is highly supervised by government, if a company can not adjust to the local culture and follow local laws, not only the proportion of market share will decrease, but also withdraw from a market at last. There are too many examples in Taiwan such as ING Life (安泰人壽), AVIVA Life (英傑華人壽), and PCA Life (保誠人壽). For the other side, follow the opening footsteps, it means that China insurance companies have to adjust to international regulation and implement international operation skills to connect the world. Nowadays China's insurance industry has entered a high intense competition period, they need to make the whole financial system sound in a sudden.

The potential of the Chinese insurance market is enormous because its current per capita insurance spending is only a fraction of that in other developed economies. The Chinese authorities are aware that the development of insurance capability is one of essentials to China's economic restructure, and these foreign insurers will play very important role in this transforming process. Because the Chinese government knew that the process is very difficult and complicated, they progressed cautiously. They started to improve related laws, functions of official supervisor, and to liberalize the policy environment for foreign insurers.

China's economic open policy started in 1978, and began to undergo great changes in 1992 after President Deng Shao-ping delivered a speech to confirm and encourage economic development. The Chinese insurance market has been developing rapidly since 1993, and has continued this trend to present day (Neftci and Yuan, 2007). From the beginning of the open policy confirmed, China's insurance

market was under a long-term oligopoly; price, products, business scope, and entry restrictions were under strict supervision. Following the reform footsteps, China entered the WTO in 2001. More and more Sino-foreign joint ventures and foreign insurance companies entered the market. As of April 30<sup>th</sup>, 2009, there are 29 Chinese insurance companies and 27 foreign insurance companies in the market.<sup>2</sup>

Competition among insurers has reached new levels. Although there are more and more distribution channels appeared, just like the more and more important role in Taiwan, I believe Bancassurance will also play much more important role than the present for the continuous development of China's life insurance market and occupy an even higher proportion of the total premiums in the future. Moreover, the continuous development of Bancassurance channel will be the key driver for the growth of China's life insurance market.

The insurance density of China in 2007 was USD 105.4, life insurance density was USD 71.7, and the insurance penetration was 3.3%, life insurance penetration was 202%, accounting for around half of the average value in Asia. From the experiences of America, when the GDP per capita reaches USD 2,000, the growth rate of life insurance consumption will enter into a significant increasing trend.

Profound economic reform in China has been moving the country toward a market-oriented economy from planned economy. Key features of this economic transition include the arrangement of property right: a reduction in the share of state-owned industry, and the establishment of a market system. A good social insurance system is necessary to facilitate the economic transition toward a market system.

At the end of 2004, following the complete open policy of the China's

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<sup>2</sup> See China Insurance Regulatory Commission (中國保險監督管理委員會), Statistics of Premium Income of Life Insurance Companies from January to April 2009, <http://www.circ.gov.cn/web/site0/tab61/i101803.htm>.

government to the foreign life insurance companies, which accelerated their overall logistic arrangements in advanced cities and extend to inland cities (second-tier cities). Because of the development strategy, foreign life insurance companies' market share increased at 4.92 in 2008. In many coastal cities such as Shanghai and Shenzhen, the market share even achieved 20% and 14% respectively.

The foreign insurers have abundant product development experiences and advanced management capabilities, so they would rather sell indemnificatory policies to those top clients. And furthermore, some important insurance indexes such as surrender rate and premium conversion rate keep a good level. But due to the large administration expenses, for example, the ratio of management expenditure of China's life insurance industry is only 14%, which is 10% lower than foreign insurance companies. Therefore, the late comers' management achievements are not easy to surpass the pioneers in the short run.

Moreover, the assumed interest rate is restricted to less than 2.5%, the inherent disadvantages of small insurance enterprises on expense rate and the lacking of investment tools make it difficult for small size insurance enterprises (including foreign funded life insurance enterprises) to shake the dominant position of the leading Sino-funded insurance companies.

Longevity is an ordeal to every advanced country, which is also a significant issue for Chinese government. How to face the situation of aging population and raise good policy will be front burner. Insurance can be a very stable power to the society which can give an overall support for that government does not have enough resources to do. Aging population nowadays is a global phenomenon. Reviewing the development of the western countries, it shows that when GDP per capital surpass USD10,000, a country may enter an aging society. Comparing with China's development, China did not complete a wealth accumulation process yet, but begin to

face aging problem. “Getting old before getting rich” is a famous description to China’s society. Therefore, no matter Sino-capital or foreign-capital insurers, they have to work out sufficient and appropriate insurance policies to fit for the society’s need. Now is a turning point and no doubt also a great opportunity for insurers too.

## **1.2 Methodology and Research Purposes**

This study adopt mainly following methods: historical document analysis and content analysis. Historical documents about life insurance in China were collected in order to find the relative factors of China’s life insurance development. From the whole history, we can have a complete understanding with China’s development of financial system and provide appropriate suggestions. Content analysis is a kind of social science research methods. Earl Babbie (1975) defines it as “the study of recorded human communications, such as books, websites, paintings and laws.” In the thesis, a lot of information from those recorded human communications such as books and websites will be quoted.

In the past 20 years, life insurance industry developed speedily, especially in emerging economies. Although there are many studies about life insurance, most of the studies focused on those well-developed markets in advanced countries, but we can not find too much data of life insurance about developing countries. Therefore, one of the purposes of this thesis is to collect data and make the data in order for China herself. As one of the most powerful arising economy, we believe that the word is important.

Life insurance gradually becomes an important part of the financial system, no matter in emerging economies or advanced countries. Insurance offers a lot of financial services for consumers, become the main source of investments in the capital market. What makes the different consumption of insurance are still not that

unclear. According to the research before, we can generalize which factors are significant and which are not. Income and life insurance consumption are found to be strongly correlated. Education is also a significant factor, but price is found to be insignificant, which largely overthrows our primary judgment. Levels of social security are not that significantly related. Different level of economic development cause different consideration for life insurance consumption.

This study is to examine and find out answers of the following questions:

1. What are key factors affecting life insurance consumption in mainland China?
2. We also attempt to gain an understanding of the different characteristics of the life insurance market in each territory of China.
3. What the role Bancassurance play? How fast will it develop, and will it be the most important distribution channel in China?
4. What kinds of insurance products are popular in each phase of China's development?
5. How Taiwan experiences of insurance industry affect China?
6. What does the Chinese government should pay attention to on risk management?

Generally, compare with developing countries, advance countries will arrange more consumption on insurance. As one of the greatest developing counties, we can expect China's enormous potential of insurance market.

# C HAPTER 2

## The Retrospect of China's Life Insurance Development

China's insurance market began in 1805, enjoyed tremendous development in 1993, and has continued its upward trend to present day. Within this 200-year history, China experienced significant and unstable social transformation. From the Qing Dynasty to the China's acceptance to the WTO, every step forward has been amazing.

When the socialist regime was founded in 1949, the Chinese government reorganized the market and cut foreign insurers' business, so foreign insurers generally withdrew from China after 1952. In the socialist era, numerous political manipulations caused an unstable society, and the insurance industry was at a standstill. The chaos continued until the government's direction changed to economic development. To help stimulate the recovery of the insurance market from the Cultural Revolution, the Chinese Government adjusted, or legislated many new laws. The insurance business recommenced around 1980 and has continued its developing trend present times.

This chapter is organized by time, historic trends, future prospects, and to find insufficient or deficient parts (i.e. regulations, investment tools, talent, etc.) for the development of the life insurance market. In addition to the vertical organization, horizontal analysis is also an important part of this chapter; therefore, the transition of government policies, the change of market scale, the development of insurance products are also to be discussed. In this chapter, we will detail the developing trends and the potential of China's life insurance market.

## 2.1 The Transition of China's Insurance System

China's economic open policy started in 1978, and began to undergo great changes in 1992 after President Deng Shao-ping delivered a speech to confirm and encourage economic development. The Chinese insurance market has been developing rapidly since 1993, and has continued this trend to present day (Neftci, and Yuan, 2007). China's insurance market was under a long-term oligopoly; price, products, business scope, and entry restrictions were under strict supervision. Following the reforms footsteps, China entered the WTO in 2001. More and more Sino-foreign joint ventures and foreign insurance companies entered the market. As of April 30<sup>th</sup>, 2009, there are 29 Chinese insurance companies and 27 foreign insurance companies in the market;<sup>1</sup> this is a reduction of 27 companies since 2005's year end (47 Chinese insurance companies and 46 foreign insurance companies).

The Chinese government restricted foreign insurance companies and began to merge Chinese private insurance companies from 1949 to 1970; therefore, the insurance market was forced to stop its business development. Furthermore, there was only one national insurance company in the market, the People's Insurance Company of China (PICC). Starting in 1978, the Chinese government began its reform and began to carry out an open policy. This was the beginning for the insurance industries recovery. Following the enactment and issue of the Insurance Law in 1995,<sup>2</sup> the Chinese government issued step by step structured related regulations (Qiou, 2005) such as 2005 *Regulations on Administration of Foreign-founded Insurance Companies of the People's Republic of China* 《中華人民共和國外資保險公司管理條例》, *Regulations on Administration of Foreign-founded Insurance Representative*

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<sup>1</sup> See China Insurance Regulatory Commission (中國保險監督管理委員會), <http://www.circ.gov.cn/web/site0/tab61/i101803.htm>.

<sup>2</sup> See China Insurance Regulatory Commission (中國保險監督管理委員會), <http://www.circ.gov.cn/web/site0/tab68/i94860.htm>. China's Insurance Law was enacted on 30 June 1995, and the latest revise was on 28 February 2009.



*Organizations* 《外資保險機構駐華代表機構管理辦法》, *Regulations on Administration of Insurance Companies* 《保險公司管理規定》, *Provisional Management Measures for Information Disclosure of the New-Type Products* 《人身保險新型產品資訊披露管理暫行辦法》, *Regulations on Administration of Insurance Companies' Solvency Margin and Supervision Index* 《保險公司償付能力額度及監管指標管理規定》.

The prosperous business activity, property insurance and later life insurance has been developing at high speed. The four developing periods will be described below.

## 2.2 Pre-1949

Similar to world insurance development, marine insurance appeared earlier than other types of insurance because of prosperous shipping businesses. The first two companies to introduce insurance concepts to Chinese people were British companies. Canton Insurance Society, which was the first meaningful insurance company, was founded by British businessmen at Guangzhou port in 1805. By the end of 1838, there were 15 foreign companies operating in Guangzhou, the original insurance hub because it was the only port for trading before the Opium War (Liou, 2008).

After the Opium War (1840-1842), the foreign merchandisers swarmed China to set up insurance companies; nevertheless, life insurance still did not appear until 30 to 40 years later than marine insurance.<sup>3</sup> Yong Fu (英國永福) and Da Dong Fang (英國大東方) assurance companies were set up in Shanghai in 1846 to offer life insurance business in Southern cities. Following the demand for shipping and marine insurance, a domestic insurance company named Ren Ji He was formed in 1887. In 1991 a second domestic insurance company named Hua An He Quan began operations, which was the first domestic Chinese life insurance company. All the

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<sup>3</sup> See Insurance Institute of China (2005), *200 Years of China's Insurance Industry*.

pioneer insurance companies choose Shanghai as a base of operation because of economic, historic, and geographic reasons. Shanghai was the insurance center at that time. The first insurance association called Shanghai Insurance Association, and the first academic organization, China Insurance Society, were founded in Shanghai in 1928 and in 1935.

From 1846 to 1949, domestic insurance companies did not play an important role because the market had been divided around by 60 foreign insurance companies 75% market share (Neftci and Yuan, 2007). The first Chinese insurer under Sino-capital ownership was a property insurer, founded in Shanghai, named De-Sheng Co. (華資商行德盛號). Before the middle period of the 20<sup>th</sup> century, foreign insurers monopolized China's insurance market. From 1865 to 1911 before the forming of Republic of China, the number of insurance companies increased to 45 in China, 37 in Shanghai, 8 in Guangzhou and Tianjin. According to the statistics of *China Insurance Yearbook 1937*, there were 40 insurance companies in China, in which 37 were private and 3 were national. During the War of Resistance against Japan (1937-1945), China's insurance market swelled in Shanghai and Chongqing. At the end of 1945, there were 59 insurance companies.

Some important accomplishments in this period were: the first *China Insurance Yearbook* 《中國保險年鑒》 was issued, the first insurance research institute -China's Insurance Association- was established, moreover, the government enacted *Postal Life Insurance Law* 《簡易人壽保險法》, *Postal Life Insurance Articles* 《簡易人壽保險章程》, and *Insurance Industry Law* 《保險業法》.

### **2.3 The Insurance Market of Socialist Period —— 1949~1978**

The People's Republic of China was founded in 1949, in the meanwhile on October 20<sup>th</sup>, the State Council approved a suggestion from People's Bank of China to

set up a national insurance company named People's Insurance Company of China (中國人民保險公司, PICC), the first state-owned insurance company (Xu, 2005).

Because of the exceptional historic atmosphere, the principle market was narrow and depressed. The People's Insurance Company of China, that is to say, monopolized the insurance market and there was only one sales mode, direct marketing by staff. In this period, due to restricted market development, there were less product types and simple policy designs. Initially, there was travel accident and injury compulsory insurance, group insurance, life insurance, occupational group life insurance (職工團體人身保險), and accident insurance in the market. These were later followed by comprehensive welfare insurance (綜合福利保險) and the development of health insurance (Wu, 1997).

The Chinese government started to trim and organize the insurance market after the foundation of the People's Republic of China. Three years later (1952) all the foreign insurance companies gave up on the Chinese insurance market and left China. Even the domestic private insurance companies were forced to close their doors. This left PICC, as a monopoly, to run all kinds of insurance business including property insurance and life insurance. With local insurance business wiped out in 1959, PICC's accumulated reserve was RMB 0.4 billion, but only left RMB 50 million for dealing with foreign insurance businesses, and the remaining 350 million was handed over to the Treasury. The PICC maintained its title for overseas, nevertheless, it had become an insurance division under the foreign business administration bureau of the People's Bank of China (Zhu, 2005). The Chinese government dominated all the business activities, local insurance companies were completely nationalized.

In this period of time, some important events happened:

1. The first insurance institute named Xin-Hua Insurance Company conducted by the Communist Party and the government was founded in Harbin in 1949.

2. In Shanghai, 15 private insurance companies merged and the national insurance company participated in setting up a joint venture named Tai Ping Insurance Company (太平保險公司) in 1951.

3. Agricultural insurance was halted in 1953.

4. Local insurance business ceased in 1958 but resumed in Guangzhou (廣州), Tianjin (天津) in 1963.

#### **2.4 The Insurance Market after Reform —— 1979~1991**

The economic reform started late 1970, so did the relevant business activities. In April 1979, The State Council made a significant decision, which was to approve to re-establish insurance institutions and meanwhile generally resume local insurance business (He, 2008). At the beginning of this revival, enterprises' property insurance, cargo insurance, and family property insurance were first to reappear in the market, but until 1982 did life insurance resume.<sup>4</sup>

In this revival period, People's Insurance Company of China (PICC) was still the giant insurance company taking almost all the insurance business including agricultural insurance, marine insurance, export credit insurance, and reinsurance. PICC also re-established itself in the life insurance field in 1982.

In addition to the PICC resuming its life insurance business; the Chinese government permitted new players to enter the insurance market but the places they chose were not only Shanghai. She Kou Industrial Zone of the Shenzhen Special Economic Zone (深圳經濟特區內的蛇口工業區) was also included. In 1987, the People's Bank of China approved that the Bank of Communications and its branches would set up an Insurance Department, furthermore, agreeing to form China Pacific

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<sup>4</sup> Life insurance resumed in 1982 includes simple life insurance, group accident insurance, and annuity.

Insurance Company. Ping An Insurance Company was approved in May 1988, and later renamed as China Ping An Insurance Company in 1992 (Neftci and Yuan, 2007). In 1991, People's Bank of China set up many local insurance companies in Guangzhou (廣州), Taiyuan (太原), Tianjing (天津), Fuzhou (福州), Harbin (哈爾濱), Nanjing (南京), and Kunming (昆明). But until 1982, only one insurance company set up in Xingjian, the monopolistic position of PICC had been smashed. There was a breakthrough in March 1988, Ping-An insurance company set up in Shenzhen Special Economic Zone (深圳經濟特區), which was the first stocked-limited (股份制) insurance company in Chinese history (He, 2008).

Along with the step of open policy, foreign insurance companies returned to the market,<sup>5</sup> but the three pillars in the insurance market were still domestic insurance companies: PICC, China Pacific, and China Ping An. During this period, the Chinese government completed and enacted "*The Insurance Law of the People's Republic of China*" in 1995, and the content included basic requirements to the insurance industry; insurance regulation, and government policies were also elaborated in this basic law. China Insurance Regulatory Commission (CIRC) was set up in 1998 to supervise the insurance industry, which was an announcement that the insurance industry would be an independent sector and would play a more and more important role in the financial system.

Some other significant events occurred during this period. In 1979, the State Council decided and approved the recovery of domestic insurance business. The People's Insurance Company of China (中國人民保險公司) began to run local insurance businesses. In 1985, Nankai University (南開大學), Wuhan University (武漢大學), Liaoning University (遼寧大學), Southwestern University of Finance and

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<sup>5</sup> The Chinese government issued the first life insurance license to AIA, one life insurance company of AIG.

Economics (西南財金大學) were approved by Ministry of Education of PRC to set up insurance courses.<sup>6</sup>

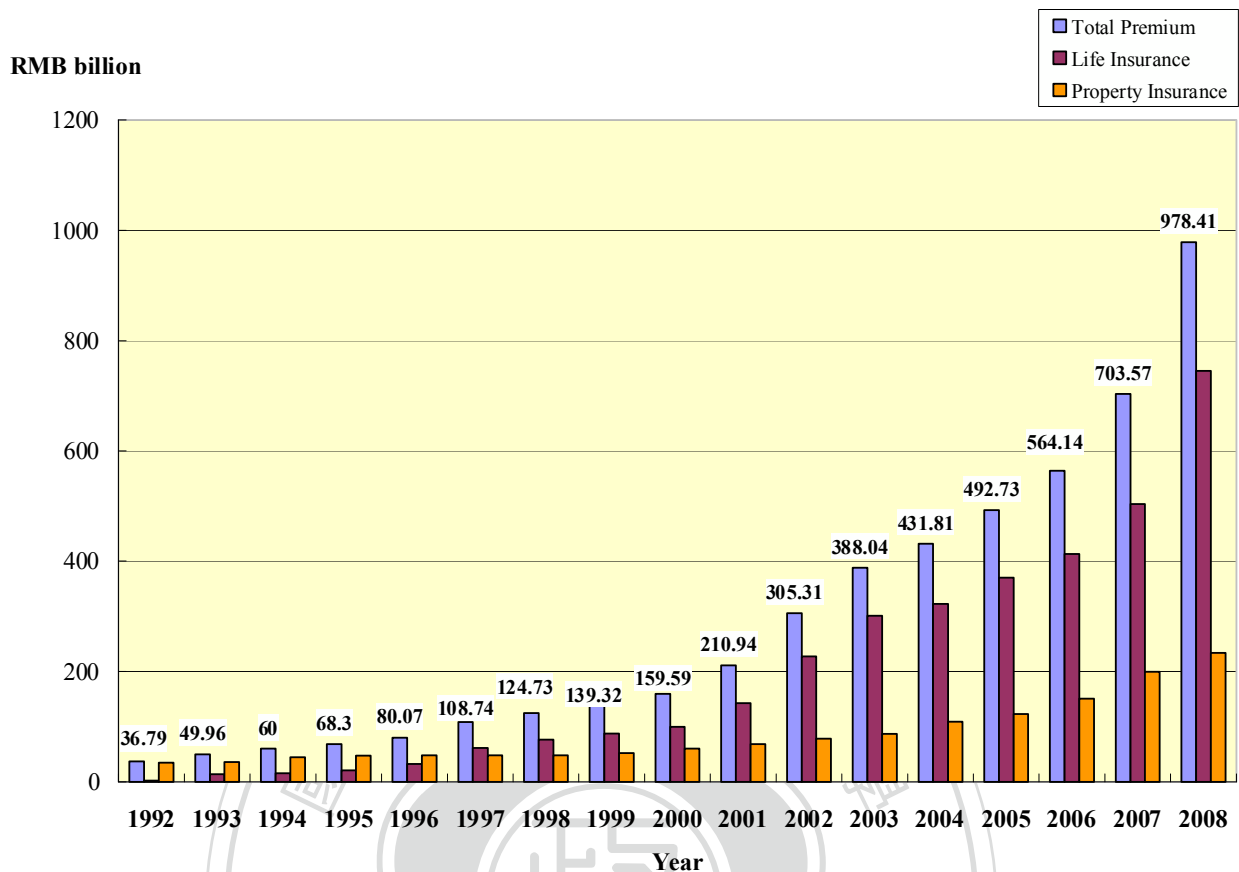
## 2.5 All-Round Development of China's Life Insurance —— 1992 ~ 2008

During this period, life insurance experienced a great leap regardless of premium increase, products multiplicity, business operation, investment strategies, and numbers of insurance companies. Many important achievements happened during this period such as the development of diversified products and distribution channels, implementation of insurance law, a worked out Chinese first experience life table, the set up of China Insurance Regulatory Commission (CIRC), and the WTO acceptance. China's successful accession to the WTO paved the way for further connections to the world operating system.

According to Figure 2-1, the opening of China's insurance market can be traced back to 1992. Starting in 1992, agency channels appeared, in 1999 new product types were introduced, and in 2001 Bancassurance developed. Before 1992 property insurance was the main business in China's insurance market. Group direct sales and part-time agents were the only two sales channels. Agency channel became the main sales channel for the development of life insurance market after 1996, and the total premium of life insurance exceeded property insurance in 1997 (Wu, 1997). In 2008 the total premium of life insurance came to RMB 744.74 billion, which accounted for 76.12% of the insurance market. The total premium came to RMB 978.41 billion in 2008, a year-by-year increase of 39.06%, of which, RMB 744.74 billion from life insurance, a growth of 47.82%, RMB 233.67 billion from property insurance, an increase of 16.97%. As of late 2008, the total assets of insurance companies were RMB 33418.44 billion, an increase of RMB 29,003.92 billion from 2007.

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<sup>6</sup> See The Insurance Institute of China (2005), *200 Years of China's Insurance Industry*.



Source: China Insurance Regulatory Commission, <http://www.circ.gov.cn/web/site0/tab454/>.

**Figure 2-1: Premium Histogram of China's Insurance Market — 1992 ~ 2008**

Through agent's introduction and promotion of insurance concepts to people of cities and villages, the whole society's insurance-awareness was rapidly enhanced.

### 1. Products in the market

Before 1999, insurance companies' main products were traditional-style products, so the mortality, expense rate, and interest risk were undertaken by insurance companies, meanwhile the value of the insurance policy was guaranteed by insurers. The interest risk is significant inasmuch as interest assumption follows Central Bank's basic interest, which was over 9% before 1997, but the one-year term rate decreased 7 consecutive times starting from 10.98% in May 1996 to 2.25% June 1999, meanwhile five-year term rates took a nosedive from 13.68% to 2.88% (Neftci,

and Yuan, 2007). Due to the assumed interest rate of traditional products also fixed at a high level, and the assets of the insurance industry was basically invested in government bonds or deposited in banks, which eventually brought a huge negative spread (利差損). To prevent new negative spread from happening, in June 1999 the China Insurance Regulatory Commission asked that the assumed interest rate not rise over 2.5% which effectively decreased the negative spread. Thus the implicit risk of traditional products was exposed: firstly, the negative spread was significant to those original policies with high assumed interest rate. Secondly, it is hard to develop business once the assumed interest rate decreased because premiums will be increasing. High lapse rate is another issue for the traditional policies with low assumed interest rates. Thus, traditional products did not easily survive in the market and risk management became quite an urgent and significant issue for insurers.

Under the market pressure, insurance companies developed a series of new-type insurance policies which are participating policy (分紅保單),<sup>7</sup> investment-linked policy (投資型保單),<sup>8</sup> and universal life insurance (萬能壽險).<sup>9</sup> A lot of new policies showed up in the market during this period as a result of the Chinese government's positive support. China Ping An Insurance Company launched an investment-linked product on 25 October 1999 in Shanghai which marked the beginning of these new-type products. Thus other insurance companies enhanced their research for new products and launched them to match market need and competition.

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<sup>7</sup> Participating policy was launched by AIA Shanghai, China Life Insurance, and Zhong Hong Life Insurance companies in March 2000. Policy value will be including non-guaranteed dividend from insurers' investment performance, which was the feature of this product.

<sup>8</sup> Investment-linked product was launched by Ping An Insurance Company in October 1999. Policyholder's premium will be saved in separate account after deducting required fee. All the investment profits the assets of separate account belong to policyholders but meanwhile investment risks were also taken by policyholders.

<sup>9</sup> Universal life insurance policy, also called unbundled life insurance policy, was launched by Pacific Insurance Company in August 2000. The features of this kind of product are: (1) premium is flexible; (2) amount of insurance can be changed; and (3) insurer discloses cost and fee to policyholders.



Until 2004, almost all types of insurance products existed in the market because of two main factors. The economy developed rapidly which increased people's demand for different types of insurance products and product innovation was stimulated due to open policy and day by day competitions.

## 2. Distribution channels

Not only products developed, but sales channels diversified. Before 1999, the scale of Bancassurance was very small and the insurance companies did not develop specific products for banks either. Not until China Ping An launched a product named Qian Xi Hong (千禧紅) in 2000 (Chen et al., 2007), did Bancassurance begin to develop, and subsequently expand in 2001. The premium of Bancassurance exceeded group insurance in the third quarter of 2002, and the proportion of revenue from Bancassurance increased yearly.

After 10-years of being open, starting from 1992, there were 29 foreign insurance companies, including 16 Sino-foreign joint venture and 13 foreign insurance companies from 12 countries and areas in China as of the end of 2001. The speed of premium increase was amazing. RMB 295K in 1992 skyrocketed to RMB 3.28 billion in 2001. A stable global economic environment in 2001 provided an open atmosphere to the development of the insurance market. China's GDP increase also speed up its domestic insurance market.

## 3. Insurance Law of PRC

On 19 October 1991, the People's Bank of China founded a group that was responsible for drafting law insurance. This new group included 10 members (the members for drafting the *Insurance Law of PRC* are Qin, Dao-Fu (秦道夫), Xia, Li-Ping (夏利平), Wang, En-Shao (王恩韶), Li, Jia-Hua (李嘉華), Liou, Fu-Shou (劉福壽), Fu, An-Ping (傅安平), Xing Wei (邢偉), Wang Jian (王建), Feng Zhi-Jun (封智君), and Luo Peng (駱鵬)). On 30 June 1995, *Insurance Law of PRC* was approved

in the 14<sup>th</sup> Session of the Standing Committee of the 8<sup>th</sup> National People's Congress of China (全國人大常委會) and was promulgated on 1 October 1995. Because of the implementation of the *Insurance Law of PRC*, People's Bank of China enacted a series of regulations, especially after the China Insurance Regulatory Commission (CIRC) was founded in November 1998.

#### 4. Chinese First Experience Life Table

In 1992, People's Insurance Company of China (PICC) was entrusted by the Insurance Division of the People's Bank of China to work out Chinese first experience life table. The Actuarial Division of PICC took the responsibility and set up a specialized group. In July 1995, Chinese first experience life table was presented to the public and then all the calculations of premiums and reserves would follow the table from 1 April 1997. Henceforth it became the basis of actuarial development. Further, there was a scientific basis for rate-making and reserve estimation.

#### 5. China Insurance Regulatory Commission

The China Insurance Regulatory Commission was established in 1998, a proclamation that insurance would not be a tiny part of China's financial system but a significant role and stable power for the market. There are 15 departments of the CIRC which are Administrative Office (辦公廳), Accounting Department (財務會計部), Life Insurance Supervisory Department (人身保險監管部), Broker Supervisory Department (保險中介監管部), Property Insurance Supervisory Department (財產保險監管部), International Department (國際部), Education Department (人事教育部), Supervisory Bureau (監察局), Development Reform Department (發展改革部), Statistics Department (統計信息部), Regulation Department (法規部), Insurance Capital Management Department (保險資金運用管理部), Policy Research Office (政策研究室), Audit Bureau (稽查局), and Party Committee Propaganda Department (黨

委宣傳部).<sup>10</sup>

The progress of insurance supervision can be divided into four phases as follows. The first phase was from 1979 to 1985, the recovery, insurance supervision and insurance operation had no clarified separation. Phase II, the implementation of *Provisional Management Acts of the Insurance Industry* 《保險企業管理暫行條例》 was started in March 1985. This clarified the responsibility of People's Bank of PRC and meanwhile separated insurance supervision and insurance operation. June 1995, the beginning of phase III, was an important breakthrough inasmuch as *Insurance Law of PRC* was enacted, insurance enterprises were now supervised in accordance with law. November 1999 China Insurance Regulatory Commission was founded, which inaugurated a new phase for insurance supervision. Nowadays supervision of solvency became the core issue for insurance supervision.

#### 6. Domestic and foreign insurers

From 1980 to 1992 was the preparatory time frame for opening the insurance market. Some foreign insurers set up representative offices in advance expecting the market to open. AIA was the first foreign insurer established in October 1992 in Shanghai after the opening. Successfully entering into the WTO was another breakthrough for the development of China's insurance market. Foreign capital was continually being invested in China's insurance companies. Manulife-Sinoche Insurance Company was the first Sino-Foreign life insurer founded on 26 November 1996 in Shanghai. Many foreign insurers use different strategies to enter the market. One such strategy is cooperating with non-insurance enterprises to set up an insurance company with access to the Chinese insurance market.<sup>11</sup> In 2005, foreign insurance

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<sup>10</sup> See China Insurance Regulatory Commission (中國保險監督管理委員會), <http://www.circ.gov.cn/web/site0/tab59/>.

<sup>11</sup> See CNA, "Taiwan Insurers Want In On China Market," *China Post*, 18 February 2008, <http://www.chinapost.com.tw/print/143345.htm>. Cathay Life partnered with China Eastern Airlines to establish a life insurance company in Shanghai. Shin Kong Life Insurance joined with Hainan

enterprises generally expanded their businesses to interior China. Total premium in the end of 2001 was only RMB 3.33 billion, but rapidly increased to RMB 36.1 billion in 2008. The market share went from 1.44% of 2002 to 4.56% of Q1 2009.<sup>12</sup>

Entering the WTO opened a door to access China's insurance market for foreign insurance companies meanwhile domestic insurers are also able to connect with the international insurance market. China Insurance Regulatory Commission promulgated *Management Regulations for Insurers to Establish Offshore Insurers* 《保險公司設立境外保險類機構管理辦法》, *Management Regulations for Non-Insurers to Investment Offshore Insurers* 《非保險機構投資境外保險類企業管理辦法》 in March 2006 to encourage domestic insurers to expand their business overseas; Therefore, domestic insurance companies began to seek overseas development. As of the end of 2006, domestic insurance and non-insurance enterprises had set up 41 insurance operating institutes and 9 agencies, which are mainly distributed over Hong Kong (25 operating institutes), Britain (9 institutes), and the USA (6 institutes).

The People's Property Insurance Company was successfully listed in Hong Kong Exchanges & Clearing Limited and was making OTC trading on 6 November 2003. It became the first national finance institute which completed transformation to stock-limited. In the same year on December 17<sup>th</sup> and 18<sup>th</sup>, China Life Insurance Company was listed in New York Stock Exchange and Hong Kong Exchanges & Clearing Limited. Ping An Life Insurance Company was listed in Hong Kong Exchanges & Clearing Limited on 24 June 2004. Thus China's domestic insurance companies were formally connecting with the international market (Liou, 2008).

## 7. The commitments for WTO accession

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Airlines to set up a life insurance company in Beijing. Taiwan Life Insurance joined with Xiamen D&D Inc. to set up a life insurance venture. These big local insurers all choose different industry to cooperate with.

<sup>12</sup> See China Insurance Regulatory Commission (中國保險監督管理委員會), <http://www.circ.gov.cn/web/site0/tab3060/>.

Experiencing back and forth negotiation, China finally became one of the formal members of WTO on 11 December 2001. Along with entering in the WTO, the Chinese government promised to abandon limitations on the admittance and business scope within 5 years, which prompted the Chinese government's acceleration to enact and issue many insurance regulations<sup>13</sup> in order to catch up the requirements of the WTO. According to the commitment to the WTO, Chinese government not only enacted *Regulations on Administration of Foreign-funded Insurance Companies of the People's Republic of China* 《中華人民共和國外資保險公司管理條例》 and implemented it on Feb 1<sup>st</sup>, 2002, but also revised *Insurers Management Regulations* 《保險公司管理規定》 to delete those articles not conforming with the WTO regulations. The terms for entering the WTO were listed as follows:

(1) Regions for running insurance business:

Open Shanghai (上海), Guangzhou (廣州), Dalian (大連), Shenzhen (深圳), Foshan (佛山) right after entering; Open Beijing (北京), Shenyang (瀋陽), Tianjin (天津), Wuhan (武漢), Chongqing (重慶), Chengdu (成都), Ningbo (寧波), Suzhou (蘇州), Xiamen (廈門), Fuzhou (福州) for running insurance business 2 years after entering the WTO; Cancel regional restriction within 3 years after entering the WTO.

(2) Business scope:

When entering the WTO, joint venture was allowed to provide personal life insurance to Chinese or foreign citizens; foreign insurance companies'

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<sup>13</sup> In 2001, China's State Council issued "*Regulations on Administration of Foreign-Funded Insurance Companies of the People's Republic of China*" 《中華人民共和國外資保險公司管理條例》, "*Foreign Insurers Branch Management Regulations*" 《外資保險機構駐華代表機構管理辦法》, "*Insurers Management Regulations*" 《保險公司管理規定》, "*Information Disclosure Provisional Management Measures for New-Type products of Life Insurance*" 《人身保險新型產品資訊披露管理暫行辦法》. In 2003, China Insurance Regulatory Commission issued *Regulations on Administration of Insurance Companies' Solvency Margin and Supervision Index* 《保險公司償付能力額度及監管指標管理規定》.

branches, joint ventures, or subsidiaries were allowed to provide reinsurance business of life insurance and non-life insurance. Within two years after entering the WTO, foreign non-life insurance companies' branches, joint ventures, and subsidiaries were allowed to provide non-life insurance service to foreign and Chinese customers. Within three years after entering the WTO, joint venture was allowed to provide health insurance, group insurance, pensions, and endowment/annuity to Chinese and foreign citizens.

(3) Company structure:

Foreign life insurance companies were allowed to set up joint venture which the proportion of foreign capital could not exceed 50% but could choose partners without restriction when entering the WTO. Foreign non-life insurance companies were allowed to set up branches or joint ventures which the proportion could be up to 51%. Foreign insurance companies' branches or subsidiaries were allowed to provide reinsurance service of life and non-life insurance. Foreign brokers were allowed to set up joint ventures which the proportion of foreign capital can be up to 50%. Within two years after entering the WTO, foreign non-life insurance companies were allowed to set up subsidiaries. Within three years of entering the WTO, brokers under the joint venture model could be up to 51% foreign capital. Within five years after entering the WTO, foreign brokers were allowed to set up a foreign subsidiary.

From the date of entering the WTO, foreign life insurance companies were approved to provide health, group, endowment, and annuity insurance to Chinese citizens; regional restrictions were cancelled; the proportion of foreign share in joint venture of broker could be up to 51% (Sun and Yu, 2007).

In June 2006, the State Council announced “*State Council’s Opinions to Reform and Development of Insurance Industry*” 《國務院關於保險業改革發展的若干意見》, thus China’s insurance market inaugurated a long opening period. The numbers say it all. There were only 8 Sino-foreign insurance companies in 2001, but this increased to 134 operating institutes of foreign insurers from 15 countries and regions by the end of 2007 (He, 2008).

## **2.6 The Arrangement of Property Right**

In October 2003, the 3<sup>rd</sup> Plenary Session of the 16<sup>th</sup> CPC Central Committee (第十六屆中央委員會第三次全體委員會) approved a guideline name “The Decisions for Perfect Planned Economy under Socialism from the Central Government” 《中共中央關於完善社會主義市場經濟體制若干問題的決定》 for state-owned enterprises it was a revolutionary breakthrough that the central government recognized as the basis on which structure modern enterprise system. The guideline showed the central government’s determination to set up a system for modern property rights, and perfect corporate management structure. If the government did not advance regulations of property rights, the long standing problems that follow would continue to exist (Peng, 2006).

- (1) No one can really care about business operation because the last ownership is not a concrete person or a crowd.
- (2) Internal control, which means the leadership to the control of operation management.
- (3) Unreasonable distribution measures and leadership expenses.
- (4) Management structure problems, which mean everything would be politicized such as resources distribution, operating goals, and leadership nomination.

(5) Unreasonable operating behaviors and low efficiency.<sup>14</sup> Starting from the 3<sup>rd</sup> Plenary Session of the 11<sup>th</sup> CPC Central Committee (第十一屆中央委員會第三次全體委員會), the reform of state-owned enterprises was the focal problem, and the key point was property rights system. The Chinese government quickly worked to reform the property rights system, especially for the access to the WTO. This would ensure state-owned enterprises and the foreign insurers competed under fair situation, if the state-owned insurers could not have ultimate reform of property right, it would be hard to survive from the severe market.

The property right of insurance industry experienced a three-stage change in detail:

1. Before 1979, monopolistic nationalized property right

Nationalized insurers had been set up main to protect national property and retrench national expenditure. A report from the Finance and Economic Committee of the Government Administration Council conveyed to the Central Government a clear reason as to why China should have a nationwide insurer on 21 September 1949: “We think that insurance industry can be significant help to protect national property, to protect industrial safety, to improve commodities interflow, to stabilize people’s livelihood, to arrange a society’s capital.... In consideration of the above situation Financial Team of Shanghai Finance and Economics Meeting agrees that centralize management of insurance industry is important...to set up a nationwide insurance company to take the responsibilities, named People’s Insurance Company of China.”<sup>15</sup>

Thus under the planned economy, reimburse country finance the loss due to

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<sup>14</sup> The representation of unreasonable operating behavior is price competition. For perusing market share or operating scale, the state-owned enterprises can take vicious competition.

<sup>15</sup> See The Insurance Institute of China (1998), *History of China Insurance*. Beijing: China Financial Publishing House.



accident risk through insurance to maintain budgeted revenue and expenditure in balance. As a result, the assignments to People's Insurance Company were "protect state-owned property, ensure industrial safety, improve commodities interflow, and increase people's benefits" (Liou, 2008).

The People's Insurance Company of China provided insurance for state-owned enterprises, cooperatives which the level were above counties, and compulsory insurance for property of national apparatuses, and also for passengers who traveled by ship, railroad, and flight. In cities, the company provided fire insurance, transportation insurance, group insurance, personal insurance, car insurance, travel accident insurance, air transportation insurance, and ship insurance. In villages, the company provided agricultural insurance, which was mainly live animal insurance, cotton insurance, and fishery insurance, but agricultural insurance had been terminated by the end of 1953 (Xu, 2005).

Private insurance companies mainly provided insurance to cities' non-national enterprises. Following the integration of properties of domestic industries, the ratio of national enterprises was quickly rising. Private insurers had lost the basis of existence, while national property expanded further, and the insurance industry became state monopoly property. The disorder from 1966 to 1976, China's domestic insurance, was totally terminated.

## 2. After 1979, public-ownership property right

It was the period that transformed from planned economy to market economy. From 1979 to 1990, it was still a monopolistic phase due to People's Insurance Company of China (PICC, 中國人民保險公司) was chartered by government policy to operate insurance business without competition.<sup>16</sup> PICC as a monopolist

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<sup>16</sup> In PICC's constitution, it regulated PICC as a state-owned enterprise.

represented in three aspects:

- (1) PICC was the only provider for insurance products;
- (2) There were no substitutes of insurance products in the market; and
- (3) A huge access barrier to the insurance market because of government's policy. During the recovery of the domestic insurance industry, the Chinese government still adopted a monopolistic state-owned property right in regards to insurers' property rights (Zhu, 2005), but according to the open policy, state-owned property rights generally became public property rights.<sup>17</sup>

Even if the Chinese government had strict control of the insurance industry, some departments or local governments still set up insurance companies or insurance sectors without People's Bank of China's permission, which directly reduced People's Bank of China's premium income and also effected development of insurance business.<sup>18</sup> Until the State Council published "*A Notice to Enhance the Management of Insurance Industry*" 《關於加強保險事業管理的通知》, People's Bank of China based on the notice put a stop some departments' insurance business and also rectified their illegal operations. Due to the State Council incorporated operating tax income in local finance increased local governments' earnings from the insurance industry, a lot of local finance departments' insurance apparatus were terminated.

Before 1992, a stock-limited economy was not accepted by the public; state-owned enterprises still walked on the path of planned economy. But after 1992,

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<sup>17</sup> State-owned assets were in fact controlled by local governments and central departments, not by National Peoples' Congress and its Standing Committee. Local and central departments set up insurance companies which not only brought tax revenue, but also earn capital gains. It was the important factor that the monopoly of property right transformed to public property right, and which also brought competitiveness.

<sup>18</sup> Set up insurance companies or insurance sectors were a tactic for some departments or local governments. The aim is to increase income. They did not have enough experiences and skills to run the business which blocked the development of insurance industry because they revised insurance clauses and rates randomly, or did not prepare reserve, etc.

the concept of stock-limited and non-single-state capital was born. Compared to the 100% state-capital insurance company, stock-limited insurance companies represented higher efficiency though the ultimate property right of stock-limited insurance companies was possessed by the government. The reasons are (1) determined the property right ownership; (2) initially established company management structure; and (3) personal income linked with operating achievements. Therefore, the reform of the system proved North and Thomas' theory that "an efficient economic organization is the key factor to economic growth" (North and Thomas, 1973).

Table 2-1 shows the changes of total premiums in four phases in China. Phase I was from 1980 to 1989, which known as monopolistic phase. Phase II was from 1990 to 1997. After 1997, an oligopoly phase. Life insurance premium was over property insurance premium starting from 1997. Phase III was from 1998 to 2001, which is still an oligopoly phase. CIRC was founded in 1998. Phase IV was from 2002 after entering in the WTO on 11 December 2001.

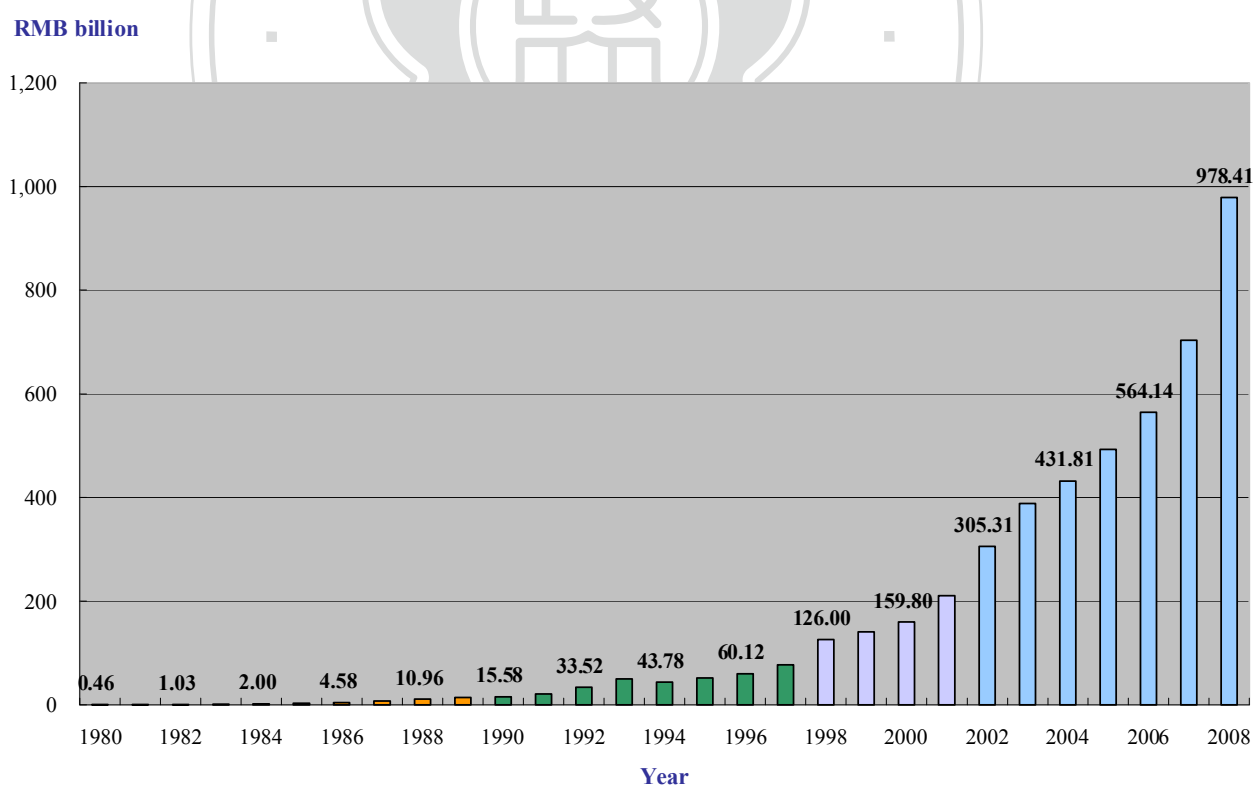
After the direction of open policy was confirmed, the Chinese government had recognized the significance of life insurance, and took many measures to improve the development of the insurance industry. In this period, a lot of laws and economic measures had kept pace with the government's open policy to support the stable development of life insurance industry. Guaranteeing the implementation of a property rights system and to clarify legal rights and obligations were necessary for the life insurance industry inasmuch as customers should be confident to insure enterprises' long-term solvency (Walker, 2006). That is why the revolution for property right is significant for industry development. The above figure shows the trend from the change of property right. In the oligopoly phase during 1990 to 2000, the premium has no obvious increase (Figure 2-2).

**Table 2-1: China's Total Premiums in Four Phases**

Unit: RMB billion

Phase I	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Total Premiums	0.46	0.78	1.03	1.32	2.00	3.31	4.58	7.11	10.96	14.26
Phase II	1990	1991	1992	1993	1994	1995	1996	1997		
Total Premiums	15.58	20.97	33.52	49.96	43.78	51.88	60.12	77.27		
Phase III	1998	1999	2000	2001						
Total Premiums	126.00	140.60	159.80	210.90						
Phase IV	2002	2003	2004	2005	2006	2007	2008			
Total Premiums	305.31	388.04	431.81	492.73	564.14	703.57	978.41			

Source: China Insurance Regulatory Commission (中國保險監督管理委員會), <http://www.circ.gov.cn/web/site0/>.

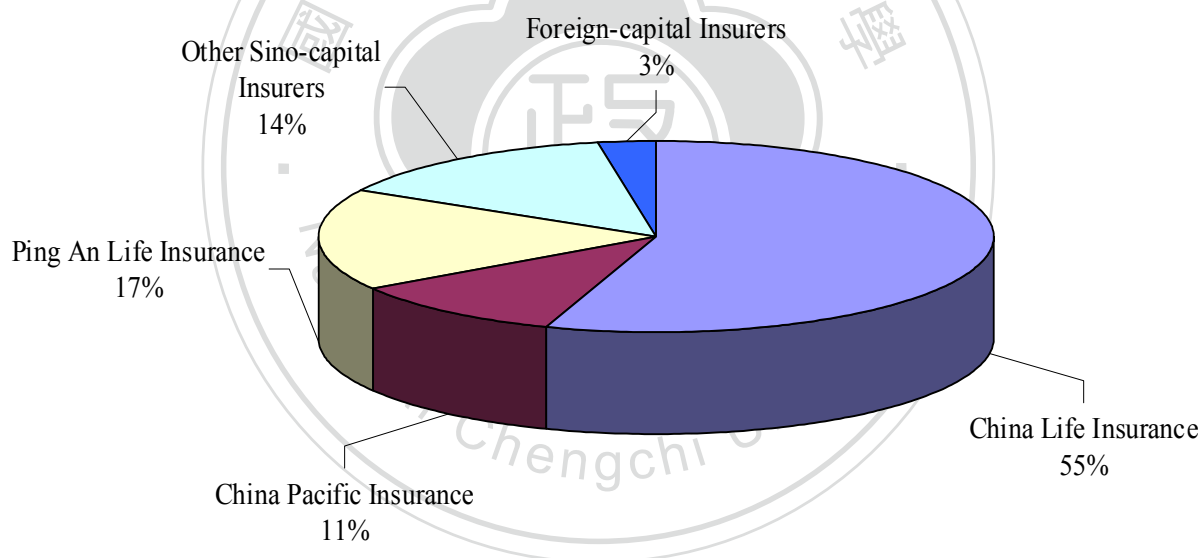


Source: China Insurance Regulatory Commission (中國保險監督管理委員會), <http://www.circ.gov.cn/web/site0/>.

**Figure 2-2: China's Total Premiums in Four Phases**

The total premium of 2008 grew 4.6 times that of 2001. Starting from 2001, the premium increased remarkably when the Chinese government successfully accessed the WTO, meanwhile the monopolistic property rights of the insurance industry no longer existed. Below were the figures that show the change of the market share. It is easy to see that the foreign insurers' market share had an obvious increase.

According to Figure 2-3 and Figure 2-4, in the four years, the foreign insurers' market share increased from 3% to 5%, meanwhile China Life Insurance Company's market share decreased from 55% to 40%, China Pacific Insurance Company decreased from 11% to 9%, and Ping An Life Insurance Company decreased from 17% to 14%. China Life Insurance Company's market share dove significantly.



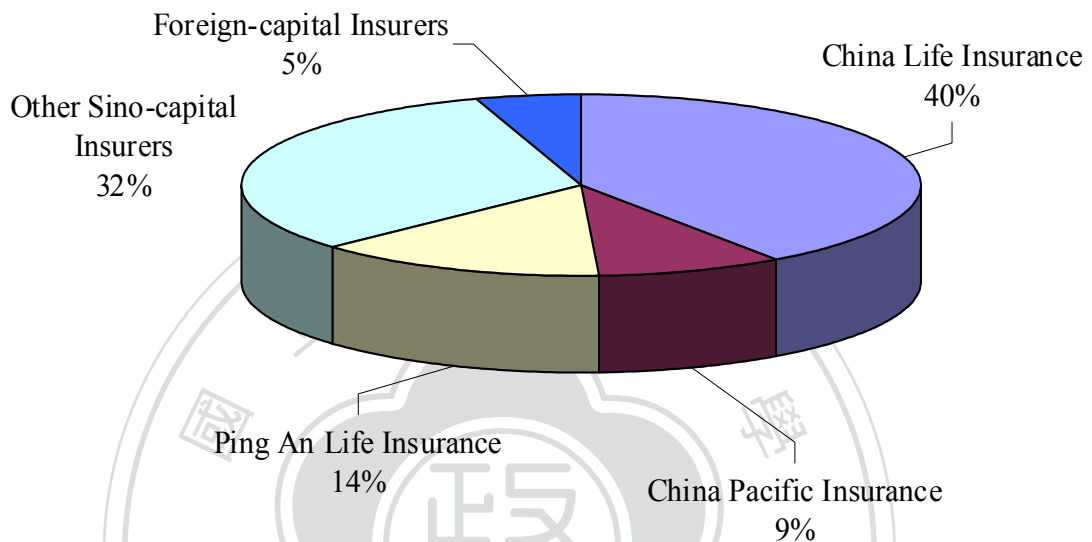
Source: Same as Figure 2-2.

**Figure 2-3: China's Insurance Market Share — 2004**

### 3. Private-ownership property right

China implemented its open policy starting in 1978; a lot of large-scale insurance companies set up more than 10 representative organizations, but could not operate insurance business. After Deng Shao-Ping famous speech in 1992, steps accelerated noticeable, and it was the first time that the foreign capital was allowed to

invest in the insurance market, henceforth, this type of private property right began to exist in China's insurance industry. Shanghai was the first experimental city in the beginning. The Chinese government implemented strict region-restraint policy for foreign insurers' access.



Source: Same as Figure 2-2.

**Figure 2-4: China's Insurance Market Share — 2008**

Based on the document No.221 named "Provisional Regulations on Administration of Foreign-founded Insurance Companies in Shanghai of the People's Republic of China"《上海外資保險機構暫行管理辦法》, People's Bank of China was the authority to foreign insurers. In October 1992, PBC approved American International Assurance to set up a branch in Shanghai, which became the first foreign insurer entering into China's insurance market (Wang, 2006), and thus the private property rights appeared. Instead of the impact of sales income for the domestic insurers, operating principles, products, and skills that foreign insurers introduced to the market were no doubt to bring deeper effect. The impact represented on these advanced skills such as actuary, risk management, claim and underwriting,

reinsurance, etc. would no doubt be long lasting and immeasurable.

Under the pressure of competition, in 1999, the State Council approved People's Insurance Company of China (PICC) to divided into four independent companies which were People's Insurance Company of China to run property insurance business, People's Life Insurance Company of China to run life insurance business, China Reinsurance Company to run reinsurance business, and China Insurance Company Limited to run overseas business. These state-owned independent insurance companies then implemented a series of reform on business process, personnel arrangement, and distribution regulations, but did not reach expected results because the core problem had not been touched, which was the 100% state-owned insurance company only changed management measures but not reformed property rights arrangement.

Taiwan Life Insurance Company's President Zhu, Bing-Yu is very positive about China's insurance market. He estimates that China's penetration rate will reach 4% in 2010,<sup>19</sup> but it is still a long way to catch up with Taiwan's.

## 2.7 Summary

After the open policy confirmed by Deng Shao-Ping in 1992, China has taken some impressive strides to completely overhaul their insurance market industry. Before 2001 China forced herself to accelerate reform speed in order to enter the WTO and thus China's local insurance industry competes against foreign insurance industry on the same scales. Foreign insurers will keep seeking inroads into China, and push all their resources such as skills, capital, sales channels, talent, and service to earn their share of the Chinese market.

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<sup>19</sup> See 〈台資保險公司 君龍人壽今大陸開業〉, *United Evening News*, 17 December 2008, <http://udn.com/NEWS/STOCK/STO1/4647992.shtml>.

During the past nearing three decades, 1980 to 2008, China's total premiums grew 2,127 times. The Insurance market began its limited competition starting from Ping-An Insurance Company and Pacific Insurance Company of China established in 1988 and 1991. The State Council published "*Provisional Management Acts of Insurance Industry*" in 1985, and followed it with "*Insurance Law of the People's Republic of China*" implemented in 1995. Soon after the China Insurance Regulatory Commission was set up in 1998, which proclaimed that supervision of China's insurance market had entered into a professional period. Starting September 1992, after American International Assurance became the first foreign insurance enterprise established in Shanghai, foreign insurers surged into the market.

Access into the WTO is no doubt a force to drive China's insurance market to move forward; the Chinese government started a series of system reforms, in which the factor that made the reform successful was property rights arrangement. North found that an efficient organization came from adaptable arrangements of systems and property right establishment to bring about a kind of motivation for people's economic activities. The best arrangement for property right is to enhance one's personal income as far as possible to make the amount close to social income, thus, economy has sufficient incentive to keep growing. In contrast, if property right arrangement can not make personal income close to social income, one will lose his motivation of skill reform, capital accumulation, and innovation, and those are important and advantageous for economic growth. North's theory did not just explain the western world rise, but also interpreted China's high-speed development.

Nowadays China's insurance market reaches a certain scale: insurance business types tend to be diversified; the number of insurers is increasing; broker and reinsurance market are beginning to form. We can expect that the high growth rate will continue, and the potential of China's insurance market is indeed promising.



# **C** HAPTER 3

## **The Market Environment and Status of China's Life Insurance Industry**

In the western countries, the insurance market is part of the financial market. No matter its total assets or economical importance, the function of the insurance industry is always only just a part of the banking industry. If the Chinese government plans to have an international financial market, the insurance market would be directly affected and show positive steps forward as well (Wei et al., 1999). Opening the insurance market has improved the development of financial market. Statistics indicated that in 1993 the United States' money market was USD 780.5 billion, in which the life insurance industry was USD 143.7 billion, equaling 18.4% of the total money market supply; which proves how important insurance industry is in the financial system.

This chapter not only demonstrates the current situation of China's insurance market, but also explores the motivation of life insurance product needs, and the factors that affect life insurance needs.

### **3.1 The Function of China's Insurance Market**

After 1982, the resurrection of the insurance industry, China's life insurance industry experienced amazing development. According to statistics, in the ten years from 1990 to 2000, the premium of the life insurance industry grew at an average of 31.15% each year. The market still maintained a steady and rapid growth in 2008. According to the table below, the total premium reached RMB 978.41 billion, in which life insurance premium was RMB 744.74 billion, 76.12% of total premiums, up

47.82% from the same period of the last year. Since the life insurance premium exceeded the property insurance premium in 1997, the life insurance industry has dominated more than half of market shares. From Table 3-1, we can easily see the trend of People's need and also the market change in China.

**Table 3-1: Total Premium of China —— 1992~2008**

Year	Total Premium (RMB Billion)	Life Insurance		Property Insurance	
		Premium (RMB Billion)	% of Total Premium	Premium (RMB Billion)	% of Total Premium
1992	36.79	2.10	5.71	34.69	94.29
1993	49.96	14.00	28.02	35.96	71.98
1994	60.00	15.20	25.33	44.80	74.67
1995	68.30	20.80	30.45	47.50	69.55
1996	80.07	32.50	40.59	47.57	59.41
1997	108.74	61.10	56.19	47.64	43.81
1998	124.73	76.80	61.57	47.93	38.43
1999	139.32	87.21	62.60	52.11	37.40
2000	159.59	99.75	62.50	59.84	37.50
2001	210.94	142.40	67.51	68.54	32.49
2002	305.31	227.48	74.51	77.83	25.49
2003	388.04	301.10	77.60	86.94	22.40
2004	431.81	322.82	74.76	108.99	25.24
2005	492.73	369.75	75.04	122.98	24.96
2006	564.14	413.20	73.24	150.94	26.76
2007	703.57	503.80	71.61	199.77	28.39
2008	978.41	744.74	76.12	233.67	23.88

Source: China Insurance Regulatory Commission, <http://www.circ.gov.cn/web/site0/>.

The earliest concepts of insurance were to share risks and compensate losses; therefore, insurance has these two original and basic functions, but following social improvement and enhancement of products, there are increasingly more and more

functions of insurance. Nowadays insurance does not just mean products and services, but a kind of system arrangement which is advantageous to economic development and social stability. It participates in many aspects of social life: reducing economic disputes among social members, participating in social risk management, perfecting social protection system, and maintaining social stability. Modern insurance has at least three functions in finance, risk management, and social governance (Liou, 2008).

Firstly, the original function of insurance was risk management, which is a concept of diversification. People face a lot of unavoidable risks, and no one knows when and where; therefore insurance is an effective mechanism for risk shift. Insurers collect premiums to build an insurance fund. When policy holders suffer from loss no matter property or life, the insurance fund can be used to compensate the individual. This form of compensation stabilizes societies, improves economic development, and protects people's lives.

Secondly, insurance has financial attributions. The Financial function means accumulation, circulation and the allocation process of bankrolls. These attributes are all functions of insurance. The insurers attract, collect, and accumulate society's idle money to mobilize social capital from savings to investments. This is done through the sale of product. It becomes a channel to diversify centralized bank savings and minimize financial risks. For long-term operation, insurers have to enhance investment return from insurance capital, for the reason, insurers become key investors of capital market.

Thirdly, insurance has another derivative function, social governance. Insurance realized social reallocation through economic compensation to provide strong economic protection for people's daily lives. It can decrease unstable factors of social development. Not only does it passively support the protection system, but insurance

also participates in risk governance in a positive manner. For example, some insurers provide a basic physical examination every two years if customers buy cancer products (防癌險).<sup>1</sup> That is a positive action for risk management. From the table below we can find that the premium of pension, accident, and health insurance increase generally and make steady progress.

**Table 3-2: Premium Income of Each Product Type in China — 2001~2008**

Unit: RMB million

Year	Total Premium	Life Insurance		Accident Insurance		Health Insurance		Endowment (Enterprises Pension)
		Premium	% of Total Premium	Premium	% of Total Premium	Premium	% of Total Premium	
2001	142,396.31	128,757.62	90.42	7,483.58	5.26	6,155.12	4.32	-
2002	227,484.77	207,368.47	91.16	7,871.38	3.46	12,244.91	5.38	-
2003	301,099.12	266,948.54	88.66	9,958.17	3.31	24,192.41	8.03	-
2004	322,824.91	285,130.23	88.32	11,706.97	3.63	25,987.71	8.05	-
2005	369,747.51	324,427.93	87.74	14,089.38	3.81	31,230.19	8.45	-
2006	413,201.08	359,263.76	86.95	16,247.05	3.93	37,690.27	9.12	-
2007	503,802.35	446,375.21	88.6	19,010.53	3.77	38,416.61	7.63	8,554.61
2008	744,738.69	665,837.18	89.41	20,355.61	2.73	58,545.90	7.86	20,548.23

Source: China Insurance Regulatory Commission, <http://www.circ.gov.cn/web/site0/tab454/module443/page3.htm>.

Insurance can strengthen or aid the government in areas of social concern when there are not enough resources all ready allocated to do so. Understanding the social function of insurance, the Chinese government formulated and implemented *Methods on Endowment Insurance Business Management for Insurance Companies*. This involved strengthening cooperation among relevant ministries to research pension insurance tax preferential policy. Then choose a method to promote personal

<sup>1</sup> See Shin-Kong Life Insurance Company, [http://www.skl.com.tw/general/product\\_com\\_DV.asp](http://www.skl.com.tw/general/product_com_DV.asp).

tax-deferred endowment insurance. The Chinese government also encourages insurers to undertake corporate pension business.<sup>2</sup> So far we know the role that insurance plays in a society.

### **3.2 Customers and Their Life Insurance Demand**

Customer purchase behavior is one of important parts of marketing research, which is why the key link within the whole process is consumer behavior (Luo, 2000). Consumer behavior is a reflection to his/her purchasing demand and purchasing motive. Different demands and motives will result in different purchasing behaviors.

A consumer's purchasing process is very complex and susceptible to many factors. Due to beneficiaries receiving compensation only when the insured has some form of injury, consumers will use diligent consideration when he/she purchases life insurance. For this reason, analyzing consumer's purchase behavior is necessary.

The International community has a lot of deep progress in research regarding consumer's life insurance purchase behaviors. Laurence (1995) pointed out the influence of public welfare system in regards to insurance purchase and also analyzed the influence of risk factors to consumer's life insurance purchasing behavior. They also analyzed and the turnover volume of health insurance. The motives of people buy insurance products are research topic of many scholars, also the influence of personal income, education level, gender, and occupation to consumer's transaction rate are factors which affect people's purchasing behaviors. The research of insurance demand is theory based on an economic analysis framework of expecting advantageous maximization under uncertain conditions. Many scholars do the research for insurance demand, especially for life insurance demand, base on the structure of expected utility theory (Neumann and Morgenstern, 1965). Lewis has expanded this kind of research

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<sup>2</sup> See China Insurance Regulatory Commission (2008), *Almanac of China's Insurance Industry 2008*.

viewpoint - from a beneficiary's viewpoint to look into life insurance demand. He raised a point that buying a policy is not only because of insured's demand, but also to satisfy his/her beneficiary's (wife, husband, parents, and kids) protection demand. In his research, he indicated that insurance demand will be affected by risk withstanding the insured's family members. Some factors will affect people's policy purchase inclination: firstly, expected lifetime, policy price, foster care maintenance rate (贍養率),<sup>3</sup> income, social protection, assumed inflation rate, and educational level.

According to Zhang et al. (2008), customer cognition of life insurance has the biggest affect on his/her decision to buy an insurance policy. Gender, age, and level of education will not affect one's purchase decision, but it is obviously susceptible to economic situation (including personal income, family income, and personal social position). Therefore, building up consumer cognition of life insurance, enhances the consumer's ability to deal with risks and further properly manage risks through insurance.

Foreign countries have carried on a lot of theories and empirical studies to life insurance demand and won rich achievements (Neumann and Morgenstern, 1965), but in China, the research for life insurance demands is in the infancy stages. Although overseas research results may become references, each country exists on different political, cultural, and consumption habits. Overseas results can't be 100% accurately applied to China. Following the high-speed development of the insurance market, we need to begin a thorough analysis of life insurance demand based on China's proximities. Only when we have an overall understanding for China's demand, insurance companies can output products which the society needs.

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<sup>3</sup> The ratio can reflect working age population's burden situation to the supported. The formula is: support rate = (the numbers under 14 years old plus the numbers above 65 years old) / populations between 15 years old to 65 years old.

### 3.3 Globalization and the Development of Life Insurance Industry

Before China successful entering the WTO on December 11th 2001, there were 49 insurance companies including 20 Sino-capital and 29 foreign capital insurers. At the end of 2001, the total premiums of China's insurance market was RMB 210.94 billion, in which foreign capital accounted for 1.57%. Total assets were RMB 459.13 billion, in which foreign capital accounted for 1.95% (Hong, 2007).

According to China's Insurance Yearbook 2008, there were 47 foreign insurance organizations (外資保險機構) from 15 countries and regions that had set up 121 business institutes (營業機構); 135 foreign insurance organizations set up 200 representative divisions (代表處) by the end of 2006. Comparing before and after access to the WTO, foreign insurers' total premiums grew about 9 times.<sup>4</sup> Foreign insurers' market share was increasing at a stable rate. Foreign insurers' market share was 2.64% in 2004, 8.9% in 2005, 5.91% in 2006, 8% in 2007, 4.92% in 2008, and 4.56% in 2009 Q1;<sup>5</sup> in coastal areas like Beijing, Shanghai, Shenzhen, and Guangdong, the foreign insurer's market share even reach about 20%.<sup>6</sup>

When China made commitments to open the market in order to enter the WTO, the market had many problems that needed to be conquered. Firstly, the monopoly degree was immense; only Shanghai and Guangzhou were opened to foreign insurers. Secondly, the development of brokers and the reinsurance market were in need of a serious overhaul. Thirdly, many insurers did not have solvent enough. Fourthly,

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<sup>4</sup> Foreign insurers' total premium is 3.33 billions RMB at the end of 2001, but 34.12 billions RMB in 2006, which almost increased 9 times. Foreign insurers' market share is 2001 is 1.58%, but is 5.91% in 2006.

<sup>5</sup> See China Insurance Regulatory Commission, <http://www.circ.gov.cn/web/site0/tab61/>.

<sup>6</sup> Beijing, Shanghai, Shenzhen, and Guangdong because opened earlier than other cities, a lot of foreign insurers gathered, and their market share reached 19.43%, 17.37%, 10.14%, and 8.46%, which were much better than the nationwide average. The statistics is from CIRC's director of International Department, Mong, Zhao-Yi (孟昭億), who accepted an interview of China Business Times on 7 December 2006. See China.com.cn, [http://www.china.com.cn/finance/txt/2006-12/07/content\\_7471243.htm](http://www.china.com.cn/finance/txt/2006-12/07/content_7471243.htm).

market operation concept was not established yet: product unity and the service quality were not good. In 1996, People's Bank of China consecutively decreased the interest rates which caused the insurance industry to bear a significant interest gap. Other problems such as lack for professionals, unsound regulations, and level of supervision need to be enhanced or revised.

While trying to fulfill the commitments to enter the WTO, the Chinese government also paid attention to the improvements that foreign insurers brought to its insurance market. As Mong, Zhao-Yi (孟昭億), Director of International Department of CIRC said, "the government will guide the foreign insurers' to develop endowment, health insurance, and liability insurance."<sup>7</sup> Not only attracting high quality foreign capital to invest in the insurance market, but also, enabling Sino-funded capital to go out into the international community.

Nowadays, Sino-capital has already set up 43 insurers and 9 insurance representative offices in Hong Kong, Macao, Europe, and North America. Setting up insurance representatives in foreign lands has helped increase the global awareness of the Chinese insurance market. Through participating and promoting the Asia Forum of Insurance Regulators (亞洲保險監督官論壇) and International Organization of Pension Supervisors (IOPS, 國際養老金監督官協會) China's connections with institutes like World Bank and Asian Development Bank become closer and stronger. According to the WTO's regulations, China's insurance industry is undergoing a 5 year process to actively absorb international insurance supervision advanced experiences to accelerate to link with international standard. The China Insurance Regulatory Commission builds up and completes insurance supervision systems through solvency supervision, market behavior supervision, and company

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<sup>7</sup> See China-Insurance Corporation (中國保險網), <http://www.china-insurance.com/news-center/newslst.asp?id=93140>.



management structure supervision, which further enhances the efficiency and transparency of insurance supervision. Opening the insurance market imported international advanced skills and experiences to help management levels increase, and strengthen innovation ability.

Director of International Department of CIRC, Mong (2006) said on Foreign Insurance in China Forum, “Local companies should be internationalized, but foreign companies should be localized. Foreign insurers should research local market, and combine its characteristics to carry out localized operation.”<sup>8</sup> During the first five years that China entered in the WTO, foreign insurers brought advanced operating models and concepts, pushed competitions of domestic insurance market, and increased the international standing of China’s insurance market. But he also mentioned that there are some problems that exist. First, an imbalanced development of insurance market; secondly, it’s more difficult to control financial risks, and finally, foreign insurers are difficult to localize. Foreign insurers’ operating models and sales models do not always adapt to China’s circumstances; therefore, they are not easy to develop and win a greater market share.

Participating deeper into the international society illuminates some problems that the Chinese government needs to monitor. Nowadays, China’s finance industry can still enforce the principles for operating and managing by different industries, but it seems that this status is truly becoming more international and not just Chinese controlled. Banks, insurance, and securities’ companies integration of capital and business aspects will be generally become more integrated. The probabilities of risk transmission across industries will also increase. The insurance industry will inevitably face more risk factors coming from the international markets. The

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<sup>8</sup> See *China Securities Journal*, 31 October 2006, [http://www.cs.com.cn/bxtd/02/200610/t20061031\\_1011402.htm](http://www.cs.com.cn/bxtd/02/200610/t20061031_1011402.htm).

difficulties of identification, early warning, prevention, and reconciliation are great.

Meanwhile, China's comprehensive financial operation is getting continuously growing. The insurance industry is going to become one of the members to join into the operation to compete against, cooperate with banks and securities. Besides, following the market reform of interest rates, and the forming of the mechanism of exchange rate, the uncertain factors of foreign investment and published price of insurance products were more visible. It is no doubt a massive challenge for insurance industry to manage risks.

The strategies for opening the insurance market and decreasing risks are (Liou, 2008):

1. Perfect the market system, and stably increase main market bodies through encouraging qualified insurers to restructure or merge to become internationally competitive insurance holding companies. Encourage large-scale enterprises or private enterprises to invest in setting up share-holding insurance companies. The Chinese government can also lead qualified insurance companies to increase capital and enhance development strength through public raising and listing.

2. Encourage the development of every kind of professional insurance company on endowment, health, agriculture, and liability insurance, and stably develop insurance asset management companies.

3. Cultivate the reinsurance market and perfect reinsurance a market system.

4. Develop the broker market; reform and perfect agent systems.

5. Build up market access and withdrawal mechanisms.

### **3.4 China's Economic Growth and the Development of Life Insurance Industry**

The Insurance industry improved economic development in three aspects: firstly, economic compensation functions; secondly, finance function; thirdly, implicit

society risk management function. In order for the Insurance industry to improve economic growth, it must realize these functions (Ren and Xu, 2008). Since the opening of the insurance market, the foreign market has invested capital worth over 60 billion RMB into China. This capital has been used in setting up foreign-capital insurance institutes and participating in Sino-capital insurance companies Insurance provides a powerful support to China's economic and social development through finance, risk management, and economic compensation.

Harold (1996) pointed out the that the insurance industry to economic growth: (1) enhanced financial stability; (2) becomes part of social protection function instead of the government; (3) promotes trading and business development; (4) increases deposit circulation; (5) creates efficient risk management; (6) reduces loss and instability; and (7) enhances asset portfolio efficiency.

During two decades from 1998 to 2008, the average income of cities and towns residents grew almost 3 times to RMB 15,781; meanwhile the average income of countryside residents grows 2.2 times to RMB 4,761. Economic enhancement accelerates the development of insurance industry.

According to Abraham Maslow's need-hierarchy theory,<sup>9</sup> following the increase of income, people begin to fulfill their basic physiological needs, they will also seek higher class needs in order satisfy their need for safety , love/belonging, esteem, and self-actualization. The need for safety means people will consider life, endowment, health insurance, and other insurance protection needs. When people's income increase, they will also utilize idle money to buy investment-linked products or deposit insurance products.

The increase of residents' income and development of social economy will cause the residents to face more risks than before and the demand for different kinds

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<sup>9</sup> See Wikipedia, [http://en.wikipedia.org/wiki/Maslow%27s\\_hierarchy\\_of\\_needs](http://en.wikipedia.org/wiki/Maslow%27s_hierarchy_of_needs).

of insurance products will also increase. Therefore, insurance products should be innovated continuously to meet social development and people's demands, and the channels to sell insurance products should follow people's purchasing habits.

**Table 3-3: China's Residents Income — 1998~2008**

Unit: RMB

Year	Average Income of Cities and Towns Residents	Average Income of Countryside Residents
1998	5,425	2,162
1999	5,854	2,210
2000	6,280	2,253
2001	6,860	2,366
2002	7,703	2,476
2003	8,472	2,622
2004	9,422	2,936
2005	10,493	3,255
2006	11,759	3,587
2007	13,786	4,140
2008	15,781	4,761

Source: The Central People's Government of the People's Republic of China, [http://www.gov.cn/jrzq/2008-02/28/content\\_904663.htm](http://www.gov.cn/jrzq/2008-02/28/content_904663.htm), and [http://www.gov.cn/test/2005-07/27/content\\_17541.htm](http://www.gov.cn/test/2005-07/27/content_17541.htm).

The Chinese government is going to loosen investment limitations to increase insurance companies' operating flexibility. The CIRC decided to open medium and small-scale insurers to directly invest into the stock market; meanwhile approving the insurers ability to expand its bond market investment scale to buy infrastructure related bond, local government bond, and unsecured bond issued by non-financial institutes. This is definitely positive news to the economy which will make the market

more vital and active.

### **3.5 The Regional Differences of China's Life Insurance Industry**

China has 1.3 billion people separate into 33 provinces and areas. Differences exist among these regions, not only geographic differences, but also wealth differences, ethnic differences, career differences, and life style differences. The large differences even exist among cities and villages of same regions which causes the imbalanced situations of insurance market development (Guo, 2008). The reasons that bring about the regional differences of insurance market are complex; firstly, disparity of economic development level, secondly, disparity of economic open degree, thirdly, disparity of social security level, and fourthly, disparity of people's risk consciousness. But it is generally thought that the regional differences are caused by imbalanced economic development.

According to Table 3-4 is to represent the relationship between regional development and premiums income. In 2008, the top five provinces and cities that produced the highest total premiums among China's 23 provinces, 4 municipalities, and 4 autonomous regions were all located in the eastern coastal areas.<sup>10</sup> Compared to 2004, the ranking of the top ten premiums were in order Guangdong Province (RMB 67.64 billion), Jiangsu Province (RMB 59.43 billion), Shanghai City (RMB 46.83 billion), Beijing City (RMB 45.18 billion), Henan Province (RMB 44.11 billion), Sichuan Province (RMB 38.45 billion), Hebei Province (RMB 37.75 billion), Zhejiang (RMB 32.62 billion), Hubei (RMB 26.22 billion), and Liaoning (RMB 26.08 billion). Shandong Province and Zhejiang Province were eventually replaced by Beijing City and Henan Province.

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<sup>10</sup> See The Central People's Government of the People's Republic of China, [http://www.gov.cn/test/2005-06/15/content\\_18253.htm](http://www.gov.cn/test/2005-06/15/content_18253.htm). Hong Kong and Macao were not included.

**Table 3-4: China's Regional Premium Income of Life Insurance Industry**  
**—2008**

Unit: RMB million

Region	Total Premium	Life Insurance	Accident Insurance	Health Insurance
Country (全國合計)	744,738.69	665,837.18	20,355.61	58,545.90
Beijing (北京)	45,180.68	39,057.63	958.46	5,164.60
Tianjin (天津)	13,380.17	11,870.40	251.98	1,257.79
Hebei (河北)	37,745.04	35,105.24	704.45	1,935.35
Liaoning (遼寧)	26,076.59	23,334.42	454.43	2,287.74
Dalian (大連)	8,013.77	6,989.90	210.49	813.38
Shanghai (上海)	46,826.69	38,205.92	1,208.44	7,412.32
Jiangsu (江蘇)	59,429.18	52,819.00	1,831.10	4,779.08
Zhejiang (浙江)	32,618.22	28,805.57	1,225.87	2,586.77
Ningbo (寧波)	4,676.36	4,106.56	248.77	321.03
Fujian (福建)	18,213.64	15,980.88	570.58	1,662.18
Xiamen (廈門)	3,126.92	2,628.85	120.78	377.29
Shandong (山東)	43,530.89	38,953.50	1,206.41	3,370.97
Qingdao (青島)	7,441.15	6,322.95	174.61	943.59
Guangdong (廣東)	67,638.90	60,176.35	2,052.54	5,410.01
Shenzhen (深圳)	15,597.65	13,289.66	714.55	1,593.44
Hainan (海南)	1,957.31	1,752.63	86.09	118.59
Shanxi (山西)	20,079.34	18,711.66	400.99	966.69
Jilin (吉林)	12,669.30	11,866.44	196.03	606.83
Heilongjiang (黑龍江)	20,324.63	19,086.60	349.11	888.92
Anhui (安徽)	23,257.83	21,846.82	366.56	1,044.45
Jiangxi (江西)	13,790.35	12,722.28	369.05	699.01
Henan (河南)	44,107.02	41,101.40	769.97	2,235.64
Hubei (湖北)	26,216.10	24,070.78	596.70	1,548.62
Hunan (湖南)	25,086.56	22,905.83	691.25	1,489.47
Chongqing (重慶)	16,279.71	14,895.04	526.63	858.04

**Table 3-4: China's Regional Premium Income of Life Insurance Industry  
—2008 (Continued)**

Unit: RMB million

Region	Total Premium	Life Insurance	Accident Insurance	Health Insurance
Sichuan (四川)	38,451.27	34,495.59	1,180.89	2,774.80
Guizhou (貴州)	5,137.39	4,543.42	282.65	311.33
Yunnan (雲南)	11,018.74	9,169.28	618.73	1,230.72
Tibet (西藏)	38.70	9.478	15.99	13.23
Shaanxi (陝西)	17,150.75	15,923.63	382.23	844.89
Gansu (甘肅)	7,483.53	6,882.07	172.72	428.74
Qinghai (青海)	782.91	667.41	42.66	72.84
Ningxia (寧夏)	2,231.54	1,810.90	84.61	336.03
Xinjiang (新疆)	10,826.19	9,471.55	347.74	1,006.90
Inner Mongolia (內蒙古)	8,775.14	7,914.75	346.16	514.23
Guangxi (廣西)	9,344.07	8,250.36	458.69	635.03
HQ (總公司)	234.45	92.43	136.69	5.3382

Sources: China Insurance Regulatory Commission (中國保險監督管理委員會),  
<http://www.circ.gov.cn/web/site0/tab3061/i92056.htm>.

The top five regions produced RMB 263.19 billion in premiums, which equaled 35.34% of total premiums in 2008; the percentage decreased in comparison to the 38.79% of 2004. Meanwhile the premiums of the 12 western inland provinces including Inner Mongolia, Xinjiang, Shanxi, Shaanxi, Gansu, Qinghai, Tibet, Sichuan, Guizhou, Guangxi, Hubei, and Hunan totaled RMB 169.37 billion, which accounted for 22.74% of the total, which increased from 15.57% in 2004. Although the western inland provinces are thought to be conceptionally unaware of insurance, the speed of premium increase is impressive.

The imbalances of regional development will restrict continuous development of the insurance industry. Following the speedy growth of economy, some factors that

affect regional development of insurance industry are environment factor, market supply factor, and market demand factor. Environment factor includes economic development level, resident income level, marketing levels, inflation rate, social factor, population factor, and conception factor. Market supply factor includes resources for running insurance business; insurance capability, operation skill and management level, and premium rate. Market demand includes risk factor, and economic system factor (Chen and Qi, 2008). The strategies to solve problems of regional imbalances are: (1) implement regional variation management; (2) implement regional variation supervision; (3) implement regional variation policies; and (4) cultivate human resources and enhance people's risk consciousness.

### **3.6 The Status of China's Life Insurance Industry**

The first quarter of 2009, Sino-capital life insurers' total premiums reached RMB 241.03 billion, and foreign-capital life insurers' total premium was RMB 11.51 billion; Sino-capital life insurers' still dominate China's insurance market. Compared to the same period of 2008, Sino-capital life insurers' premium income was RMB 218.73 billion, grew 9.25, and foreign-capital insurers' premium income was 12.01 billion RMB, negative growth rate of 4.16%.

2008 was a year best described as tumultuous in regards to financial markets, but China's insurance industry still experienced strong growth. The total premium income was RMB 978.41 billion, an increase of 39.06%, in which the premium income of life insurance was RMB 665.84 billion, an increase of 49.17%; the premium income of health insurance was RMB 58.55 billion, an increase of 52.4%; and the premium income of personal accident insurance was RMB 20.36 billion, an increase of 7.08% (Postdoctoral Scientific Research Work Station of China Insurance Regulatory Commission, 2009).



After the resumption of the insurance business in 1980, the insurance industry has developed continuously. In 1997, the total premium of life insurance started to surpass the total premium of property insurance. From then on, the development of China's life insurance industry has been vital and has progressed forward far better than the property insurance industry.

The status of China's insurance market is as follows:

1. The scale of premium income is quickly expanding and continuously increasing. From 1980 to 2008, the total premium increased from RMB 0.46 billion to RMB 978.41 billion. The average growth rate is much higher than each year of GDP.

2. The structure of product types changed remarkable. The proportion of property insurance of the total premiums decreased to 23.88 % in 2008 from 94.29% in 1992. The product types became diversified during these years; universal life insurance, investment-linked insurance, participating insurance were acceptable and popular in the market.

3. Insurance depth and insurance density obviously enhanced, but at low levels. Although the insurance ratio increased from 0.1% of 1980 to 2.85% of 2007, and insurance density increased from RMB 127.7 of 1980 to RMB 533 in 2007,<sup>11</sup> compared to the insurance density of world average at USD 358.1 and insurance penetration of 7.5%, China's room for growth is still extensive.

4. Number of insurers increase is obvious, but the insurance market is still a monopoly market. At the end of 2008, Sino-capital insurers still dominated 95.08% market share, in which three Sino-capital insurers China Life Insurance Company (40.28%), China Pacific Insurance Company (9.01%), and Ping An Life Insurance Company (13.79%) took 63.08% of life insurance market, and other Sino-capital insurers took 32% of it; foreign-capital insurers only took 4.92% of life insurance

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<sup>11</sup> See China Insurance Regulatory Commission, *Almanac of China's Insurance*, 2008.

market.<sup>12</sup> The situation explains that China's insurance market is still a monopoly market though a sound market system was basically formed.

**Table 3-5: Numbers of Insurance Institutes in China — 2008**

Item	Numbers		
	total	Sino-capital	Foreign-capital
Insurance company	120	72	48
Insurance group and holding company	8	8	0
Property insurance company	47	31	16
Life insurance company	56	30	26
Reinsurance company	9	3	6
Asset management company	10	10	0
Professional intermediary		2445	
Insurance agent		1822	
Insurance broker		350	
Insurance surveyor		273	

Source: China Insurance Regulatory Commission, *China Insurance Market Development Report 2009*.

5. Insurance agents (保險經紀人), brokers (保險代理人), and surveyors (保險公估人) play a more important role in the insurance market. There were no professional insurance intermediaries in the early phases; until the end of 1999. The CIRC approved the establishment of 13 insurance agencies (Qiou, 2002). The growth of insurance intermediaries is remarkable; the numbers of insurance agencies reached 350, insurance brokers reached 1,822, and insurance surveyors reached 273 by the end of 2008 (Table 3-5).

<sup>12</sup> See China Insurance Regulatory Commission, *2008 Life Insurance Company's Premium Income Report*, <http://www.circ.gov.cn/web/site0/tab3060/i92060.htm>.

6. Insurance regulations and supervision systems are generally established. After the Chinese government enacted *Insurance Law of PRC* in 1995, and set up the China Insurance Regulatory Commission in 1998, the other related laws were legislated progressively.

7. The open market and reform footsteps are accelerating. Almost 8 years after China entered the WTO, the Chinese government sped up the integration of the insurance industry and other financial service industries; They began building up insurance systems which connect with international practice; and built up a market environment which corresponds with international practice (Wang, 2006).

### 3.7 Summary

China's life insurance premium against GDP is 1.7%, compared to 4.1% in India, 8.3% in Japan, 13.1% in the United Kingdom, and 4% in the United States.<sup>13</sup> The situation means that China still has a very low level of insurance penetration and the potential of its insurance market is immense.

China is now facing more social and economic challenges, but the government only needs to look at the recent past to realize how to move forward. In the beginning of the reform era, the central government authorized local governments to do something to attract Foreign Direct Investment (FDI), and they did a tremendous job. Now the central government knows that they have to do more to continue this development.

Although, China labels the reform with Chinese characteristics, China is still progressing towards capitalism. Privatization has worsened the income gap between the coastal area (the rich) and inland area (the poor). Contrary to what President Hu pointed out, the objective of the 11<sup>th</sup> five-year plan is to build up a harmonious society.

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<sup>13</sup> See PricewaterhouseCoopers, *Foreign Insurance Companies in China*, September 2008.

The Chinese government recognized it needs a sound support system to back up this strategy, and the insurance industry can play that role.

Nowadays the global economic environment is complex and unstable. The business structure of China's insurance industry was gradually optimized, but still has many areas available for improvement. It is predicable that the Chinese government will enhance its supervision of the insurance industry and meanwhile continuously create an environment that is advantageous to the development of insurance industry.



# C HAPTER 4

## The Distribution Channel and Its Management Strategies

Within the two decades, the development of Bancassurance channel of China's life insurance market was rapidly. A report from PricewaterhouseCoopers mentioned that foreign insurers believe the bancassurance channel will enjoy further market expansion, and Telemarketing will receive increased attention.<sup>1</sup> According to the report, the participation of Bancassurance channel to bring continuous growth of China's life insurance market is predicable; therefore, pay much attention to the development of Bancassurance channel is necessary and significant to China's life insurance market.

In this chapter, we will only focus on Bancassurance channel, including the operation model of Bancassurance, historical development of Bancassurance, and the comparison of Taiwan and China's Bancassurance operation status. This chapter will also explore if the successful experiences on Bancassurance in the western countries will also happen in China, and how large the potential it is.

### 4.1 The Development History of Bancassurance Channel

In the past three decades after the implementation of open policy, China's life insurance market was affected by foreign insurance companies, especially entered into the WTO of December 11<sup>th</sup>, 2001.

China's life insurance industries can further develop innovative products to adapt to its social status, and find the way out to solve present problems based on the

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<sup>1</sup> See PricewaterhouseCoopers, *Foreign Insurance Companies in China*, September 2008.

Bancassurance experiences of Europe, North America, and Taiwan; therefore, to understand the history and status of advanced countries' Bancassurance channel is important.

#### **4.1.1 The Origin of Bancassurance**

In the Europe, because of the recognition to Universal Bank (綜合銀行), the development of Bancassurance works well. And in Japan and the United States, the governments approved enactments sequentially in 1998 and 1999 to allow insurance products sold in banks.

In brief, Bancassurance means that customers buy insurance products through financial institutes such as banks, credit car companies, etc. Huizinga (1993), Executive Director of ING Group, raised a practical definition: Bancassurance is a channel. The word “Bancassurance” is a combination of Bunque (Bank) in French and Assurance (insurance); in Germany, they use Allfinanz (全方位金融) to represent the concept of Bancassurance.

The development of Bancassurance stemmed from France in 1970, and generally the sales model expanded to the Europe. The main idea of Bancassurance comes out from the following three considerations:

- Banks' business footholds deeply distributed over towns and villages;
- The employees in banks have professional background on wealth management;  
and
- Bankers want to deal with the problem of profit reduce.

#### **4.1.2 Product Types in Bancassurance Channel**

Because of easily understandable insurance products and simple insure process for customers, this kind of sales model quickly accepted in the Europe. Nowadays in France, the total premium comes from Bancassurance channel reaches 65%, and



actuarial knowledge to develop other non-life insurance products such as equity-linked (變額保險商品) and investment-linked products (投資型保險商品), not just took eyes on a single product as before.<sup>4</sup>

#### **4.2 The Historic Development of Taiwan's Bancassurance Channel and the Implication to China**

Taiwan's developing insurance market is worth comparing to that of China, especially considering geographic location and past history. From Taiwan's development in each field such as supervisory system, regulations, actuary, claim and underwriting, products, human resources, risk management, we expect to understand China's insufficiencies.

Taiwan is the tenth largest life insurance market and its penetration rate ranked 1<sup>st</sup> in the world in 2007.<sup>5</sup> Based on the statistics, its insurance market continues to show the growth of premium, even though the growth line has tended to be flat. In recent years, Taiwan has become a mature insurance market.

Table 4-1 shows the ten-year changes of Taiwan's insurance density, insurance penetration, and ratio of life insurance and annuity. According to the figures, in ten years, Taiwan's insurance density increased 3.3 times to NTD 83,294; insurance penetration reached 15.52% which was 2.68 times that of 1999. The ratio of having insurance coverage in 2008 reaches 203.27% which means each person owns more than two insurance policies, and ratio of prevalence reaches 333.38% which means each person has more than 3 times protection comparing to one's income. The figures show that Taiwanese people have a high insurance concept. Compared to China's status, the potential of China's insurance market is evidently.

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<sup>4</sup> Equity-linked products and investment-linked products were launched by insurance industries in the Britain in 1960.

<sup>5</sup> See Life Insurance Association of the Republic of China, *The Life Insurance Industry in Taiwan 2008*.



**Table 4-1: Taiwan's Insurance Density, Insurance Penetration, and Ratio of Life Insurance and Annuity**

Year	Insurance Density <sup>1</sup> (NTD)	Insurance Penetration <sup>2</sup> (%)	Life Insurance and Annuity	
	Life Insurance	Life Insurance	Ratio of Having Insurance Coverage <sup>3</sup> (%)	Ratio of Prevalence <sup>4</sup> (%)
1999	25,261	5.79	108.68	231.01
2000	28,115	6.24	121.41	243.38
2001	32,531	7.39	135.4	263.24
2002	39,487	8.64	143.7	262.12
2003	50,106	10.77	158.87	281.46
2004	57,671	11.82	166.3	289.41
2005	64,021	12.73	176.13	306.37
2006	68,353	13.12	184.01	317.8
2007	81,675	14.84	196.03	318.71
2008	83,294	15.52	203.27	333.38

- Notes: 1. Insurance Density: average insurance expenditure per capita.  
 2. Insurance Penetration: the ratio of insurance premium to GDP.  
 3. Ratio of having insurance coverage of life insurance and annuity: the ratio of life insurance and annuity policies in force to population.  
 4. Ratio of prevalence of life insurance and annuity: the ratio of life insurance and annuity policies in force to national income.

Source: Taiwan Insurance Institute (財團法人保險事業發展中心), Insurance Density, Insurance Penetration, and Ratio of Life Insurance and Annuity, [http://www.tii.org.tw/images\\_P2/3.xls](http://www.tii.org.tw/images_P2/3.xls).

Taiwan's life insurance market consisted of 30 insurers at the end of June 2009, in which there were 21 insurers operating agency channels, 27 insurers operating Bancassurance channel, 16 insurers operating Telemarketing/Direct Marketing channel, 17 insurers operating Bancassurance channel and Telemarketing/Direct Marketing channel, and 12 insurers simultaneously operating three kinds of distribution channels. The insurance industry had reached an 18.6% proportion in the

finance industry in 2005; the percentage in Japan is 8.7% in 2005 (Hong, 2006). The percentage exposes that Taiwan's insurance industry plays an important role of the whole finance industry.

The operation environment for Taiwan's insurance industry is very rigid and challenging starting in 2000. Banks did not easy to gain from traditional business on deposit and grant loans due to the Central Bank decreased required reserve ratio more than 10 times during 2000 to 2005; deposit interest was continuously declining, so bank could only gain restricted spread from traditional business. In addition, credit card and money card were like disasters to bank's operation; selling insurance products seems a good idea to gain stable, almost-zero risk income from insurance companies.

#### **4.2.1 The Sales of Taiwan Bancassurance Channel**

Taiwan's Bancassurance started in 1996, rose up in 2000, and has developed vigorously in the last two years; in comparison with China, the two cross straits' Bancassurance developments were starting almost simultaneously (Tsung, 2007).

From the table below, it shows that the proportion of traditional agents from life insurers and Bancassurance from Bankers almost become 1:1 ratio, which means the public are used to buying insurance products from bank. The traditional agents sales channel had a negative growth (-9.38%) while Bancassurance had a sharp growth (58.18%) in 2008. Therefore, more and more life insurers began building cooperative relationships with banks to develop products only for the Bancassurance channel. Broker and Agents (保險經紀人&保險代理人) still maintained a tiny proportion of distribution channels, which was decreased to 2.98% from 3.76%. The figures of 1Q 2009 show that Bancassurance channel will continue its keeping growth this year and in the future.

**Table 4-2: Taiwan's First Year Premium (FYP) Income by Distribution Channels**

Unit: NTD million

Distribution	Life Insurers	% of Total FYP	Bankers	% of Total FYP	Broker & Agent	% of Total FYP	Other	% of Total FYP	Total FYP
2005	316,333	58.48	203,081	37.54	21,509	3.98	33	0.01	540,957
2006	315,484	60.14	187,343	35.71	21,605	4.12	133	0.03	524,565
2007	464,903	61.83	258,684	34.41	28,279	3.76	0	0	751,865
2008	420,613	49.18	409,182	47.84	25,506	2.98	0	0	855,301
2007 vs. 2008 Growth Rate (%)	-9.53		58.18		-9.81		-	-	13.76

Source: Life Insurance Association (2008), *The Life Insurance Industry in Taiwan 2008*.**4.2.2 Life Insurance Products of Taiwan Bancassurance Channel**

From the figures below we can find that the public are used to buying interest sensitive products in the Bancassurance channel while the main sales channel for traditional life insurance products and accident & health products is still life insurers.

**Table 4-3: Taiwan's First Year Premium Income by Products—2008**

Unit: NTD million

Distribution	Life Insurers	%	Bankers	%	Broker & Agent	%	Total
Individual Life	140,189	43.5	168,055	52.15	14,020	4.35	322,264
Individual Annuity	25,889	13.44	165,000	85.68	1,697	0.88	192,586
Investment-Linked	218,236	72.95	74,495	24.9	6,441	2.15	299,172
Individual Accident & Health	27,818	90.67	1,277	4.16	1,585	5.17	30,680
Group Insurance	8,481	80.01	355	3.35	1,763	16.64	10,599

Source: Same as Table 4-2.

The images of banks are professional and trusted; insurance products can be one

of wealth management tools; interest sensitive products or investment-linked products are adaptable to be promoted in banks. Since bank has its own professional image, they promote many kinds of wealth management products such as Structure Notes, fund investment products. From Table 4-3, we can see that the acceptance rate of those wealth management products is high. People would like to rely on banks' profession to increase wealth and also well distribute their assets.

### 4.2.3 Taiwan's Bancassurance Business in China

Taiwan's insurance companies entering into China's market do not need to sign the Memorandum of Understanding as presupposition. There are now three life insurance companies and one property insurance company established in China. Currently, there are also 14 insurance companies setting up 17 offices in China.<sup>6</sup>

From the Ttable 4-4, we can find that there were two periods (year 2004 and 2005) that the numbers of offices set up in PRC by local insurers had a sudden increase. Taiwan's human resources began to migrate into the market and had a positive effect on China's insurance development.

Cathay Life Insurance and Shin Kong Life Insurance use the same strategy which dispatched middle level or high level leadership to manage new subsidiaries. Shin Kong Life Insurance dispatched 38 people including 20 middle and high level leadership.<sup>7</sup>

In recent years, local insurers sought out non-insurance partners to make inroads into China. For examples, Cathay Life cooperated with China Eastern Airlines to set up a subsidiary in Shanghai in January 2005, still named Cathay Life Insurance;<sup>8</sup>

<sup>6</sup> See *Economic Daily*, A9, 5 May 2009.

<sup>7</sup> See Finance.qq (騰訊網), 〈海航落子壽險業新光海航人壽北京開賣保單〉, 11 June 2009, <http://finance.qq.com/a/20090611/002045.htm>.

<sup>8</sup> Cathay Insurance and China Eastern Airlines signed joined venture contract in November 2003, and the subsidiary formally operated in January 2005. See <https://www.cathaylife.com.tw/bc/B2CProjectWeb/area02/cl-history.jsp>.

Shin Kong Life Insurance joined with Hainan Airlines to establish a life insurance company based in Beijing, named Shin Kong & HNA Life Insurance, and will be starting business in July 2009;<sup>9</sup> Taiwan Life Insurance cooperated with Xiamen D&D Inc. to set up a life insurance joint venture in southern China, named King Dragon Life Insurance (君龍人壽), and opened for business on 17 December 2008.<sup>10</sup>

**Table 4-4: Number of Insurance Companies and Branches in Taiwan**

Year	Life Insurance Industry					
	Local Insurance				Foreign Insurance	
	Head-quarter	Branch	Offshore Branch	Office in PRC	Branch in Taiwan	Liaison Office in Taiwan
2000	16	123	6	-	16	3
2001	18	124	5	2	12	2
2002	20	132	6	2	10	1
2003	21	137	6	2	8	1
2004	21	135	6	5	8	2
2005	21	135	6	8	9	2
2006	22	136	6	8	8	2
2007	22	136	11	7	9	4
2008	23	139	12	7	9	4
2009	23	129	11	7	9	3

Note: 1. The numbers of insurance institutions are based on the business licenses issued.

2. Local insurance's offshore branch includes subsidiary, branch, representative office and liaison office.

3. The data of 2009 is only from January to September.

Source: Financial Supervisory Commission (FSC), Division Three, Insurance Bureau, [http://www.tii.org.tw/images\\_P2/4\\_ver1.xls](http://www.tii.org.tw/images_P2/4_ver1.xls).

From the Table 4-5, the proportion of new-contract premium is more than 50% of Shanghai Cathay Life Insurance, which began its businesses in China only 4 year.

<sup>9</sup> See 〈海南航空有意入股新光金, 吳家錄指陸資來台應設 20% 股權上限〉, *Apple Daily*, 28 April 2009, [http://tw.nextmedia.com/applenews/article/art\\_id/31582929/IssueID/20090428](http://tw.nextmedia.com/applenews/article/art_id/31582929/IssueID/20090428).

<sup>10</sup> See “Taiwan Insurers Want In On China Market”, *China Post*, 18 February 2008, <http://www.chinapost.com.tw/print/143345.htm>.

King Dragon Life Insurance began its businesses last year-end, but has already signed contracts with China Construction Bank, Bank of Communications, and other important banks in Xiamen. King Dragon Life Insurance Company's new-contract premium has reached 30% to 40% of its total premium; it is a rapidly increase because King Dragon was just set up half-an-year.

**Table 4-5: Three Giant Insurers' Distribution Arrangements in China**

Parent company	Subsidiary	Joint Venture in Mainland China	Bancassurance channel	Proportion of new-contract premium
Cathay Life Insurance	Shanghai Cathay Life Insurance	China Eastern Airlines	Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Bank of Communications, Bank of Jiangsu, etc.	More than 50%
Shin Kong Life Insurance	Shin Kong & HNA Life Insurance	Hainan Airlines	Beijing Branch of Shanghai Pudong Development Bank	Initial stage
Taiwan Life Insurance	King Dragon Life Insurance	Xiamen D&D Inc.	China Construction Bank, Bank of Communications, and other important banks in Xiamen	30% to 40%

Sources: *Commercial Times*, A12, July 16<sup>th</sup>, 2009.

According to the most updated information from *Commercial Times*, Taiwan's giant insurance companies all represent how much they pay attention to Bancassurance channel by build up close relationship with banks.

Taiwan's insurance industry has experiences in training and personal sales, which can further bring operating knowledge in these aspects of risk management, legal & compliance, products innovation, people cultivation, distribution channel development, actuary development, and investment portfolio management into China's insurance industry. Therefore, we can expect that the two will be more and

more frequently working with one another, and Taiwan's effect to China must be deep and continue. Following further open steps, Taiwan's insurance companies will be more participating in China's life insurance market by Bancassurance channel.

### **4.3 The Development History of China's Bancassurance Channel**

The real switching on (starting) of Bancassurance business was in 2000. The proportion of total life insurance premiums from Bancassurance channel sharply increased from 3.15% in 2001 to 20.57% in 2002. In 2004, Bancassurance channel produced RMB 79.48 billion in premiums, which was 24.85% of total life insurance premiums. In recent years, the Bancassurance penetration rate was stable maintaining at 25%. Compare to the proportion at 60% of some countries in the Europe or North America, the Bancassurance proportion of China has a large growth space (Tan, 2008). China's Bancassurance development history could be roughly divided into four phases: initial stage from 1981 to 1992, exploring period from 1993 to 1999, development period from 2000 to 2003, and transformation period from 2004 to the present, which will be discussed in the following sections (Chen et al., 2007).

#### **4.3.1 Initial Stage —— 1981~1992**

In this period, the government did not play a push role by policies; instead was the fundamental institutes to cooperate automatically. In early 1980s, when the People's Insurance of China resumed its domestic insurance business, it had handled insurance businesses, but it was only a preparation for the recovery of insurance institutes. Following the establishment of insurance institutes, the tasks were handed over to insurance companies.

Some initial cooperative models appeared in this period which listed as below:

1. Bank of Communications began its insurance businesses in 1987 based on its

operation advantages. The State Council approved to restructure a stock-limited bank named Bank of Communications in July 1986, and set up its administrative office in Beijing, but later moved to Shanghai. According to the documents of the People's Bank of China, the business scope of Bank of Communications included RMB-related businesses, foreign currency businesses, securities businesses, real estate services, trust consultation businesses, and insurance businesses. In 1987 Shanghai branch took the lead to set up an insurance business sector to develop insurance businesses. Henceforth, other branches also set up insurance business sectors. According to a new requirement of management by different industries, in April 1991, the insurance business sector of Bank of Communications was asked to separate out, and later China Pacific Insurance Company established in Shanghai.

2. The branches of Industrial and Commercial Bank of China did some innovations on Bancassurance businesses. Its Hunan branch opened a new business called "enterprise loan guarantee insurance business". Insurance companies entrusted banks to run its businesses, and they played the role of supervision.

#### **4.3.2 Exploring Period — 1993~1999**

In this period, the Central Government confirmed that "each enterprise can only operate its industry", and "non-insurance companies could only be insurance companies' agents to sell insurance products" became the main model of Bancassurance (Wang, 2006).

The Central Government recognized that the timing for allowing an enterprise running different industrial businesses during the process they trimmed financial market. Therefore, the Central Government raised the concept of "each enterprise can only operate its industry" on July 5<sup>th</sup>, 1993. In the same year on December 25<sup>th</sup>, the State Council implemented "*The Determinations Regarding Financial Systems*



*Reform*” 《關於融體制改革的決定》, and in 1995 implemented “*Law of the People’s Republic of China on Commercial Banks*” 《商業銀行法》, “*Insurance Law of the PRC*” 《保險法》 to carry out the concept. In the end of 1997, the State Council further emphasized the principle of “each enterprise can only operate its industry” by enacting a series of financial regulations regarding the principle. Accordingly, bank industry, security industry, and insurance industry respectively had its supervisor – China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), and China Insurance Regulatory Commission (CIRC).

On August 8<sup>th</sup>, 1993, China Ping An Insurance Company and China Agricultural Bank signed agent contract in Shenzhen. During 1997, China Life Insurance Company and Industrial and Commercial Bank of China signed agent contract. China Pacific Insurance Company, Bank of Communications, Bank of China, and China Agricultural Bank signed agent contract. In this period, the four professional banks’ main recognition was to “strive for more deposit”, thus insurance companies could not find a breakthrough of Bancassurance business.

#### **4.3.3 Development Period —— 2000~2003**

The turning point for rapidly development of Bancassurance businesses was product innovation. In August 2000, China Ping An Life Insurance Company took lead to launch A, B, C in total three types of “Qian Xi Hong” (千禧紅) products only for Bancassurance channel, which was a beginning of rapidly development of China’s Bancassurance businesses. During the period from 2001 to 2004, almost all life insurers launched participating policy with single pay and 3 to 5 years term in Bancassurance channel. After 2004, some insurers began to adjust product feature of Bancassurance, but before 2004, most of the insurance products sold through Bancassurance channel were designed to be very similar, and the sales results proved

that the similar products were acceptable by customers (Saunders, 2004).

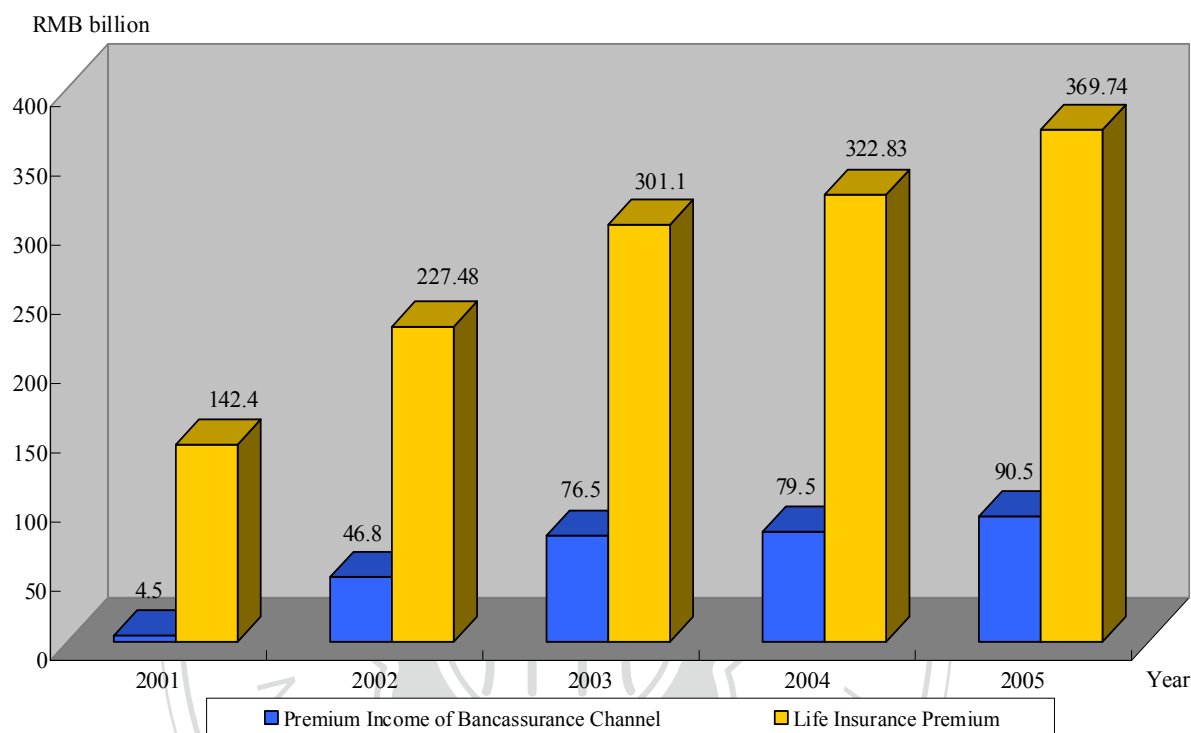
After the fourth quarter in 2001, the business development of Bancassurance sharply increased; the premium scale reached RMB 38.8 billion, which equaled 17% of total premiums of life insurance. Moreover, started from the third quarter of 2002, the scale of Bancassurance business was over group direct sale. In 2003, the premium income of Bancassurance reached RMB 76.5 billion, which equaled 26% of the total premiums of life insurance. The speed of proportion increase of the total premiums of life insurance was the first in all the distribution channels. Thus, traditional agency channel, Bancassurance channel, and direct marketing channel became three pillars of life insurance distribution channels.

#### **4.3.4 Transformation Period —— from 2004 to the present**

In 2005, the increase speed was obviously slowed down. The premium income of Bancassurance channel only increased RMB 3 billion, and the increase rate that compared to the prior year was only up 4%, but in August 2005, the businesses of Bancassurance started to recover. In the end of 2005, the premium income had reached RMB 90.5 billion, which represented 24% of the total life insurance premium. From the figure below, it was obvious that during 2003 to 2004, the premium increase of Bancassurance channel was gentle (Figure 4-2).

China's total premium of Bancassurance increased from only RMB 5 billion in 2000 to RMB 169.8 billion in 2007 and RMB 359 billion in 2008 (Postdoctoral Scientific Research Work Station of China Insurance Regulatory Commission, 2009). The figure below showed how fast the Bancassurance business grew in 2008. The proportion of total premiums reached 48.92% on Bancassurance, even surpassed the proportion of the total premiums of traditional agency channel. Similar with Taiwan's situation, Bancassurance channel, and traditional agency channel almost occupied the

sources of premium income. In Taiwan, the proportion of premium income on Bancassurance channel was 47.84%, and on traditional agency channel was 49.18% (Figure 4-3).



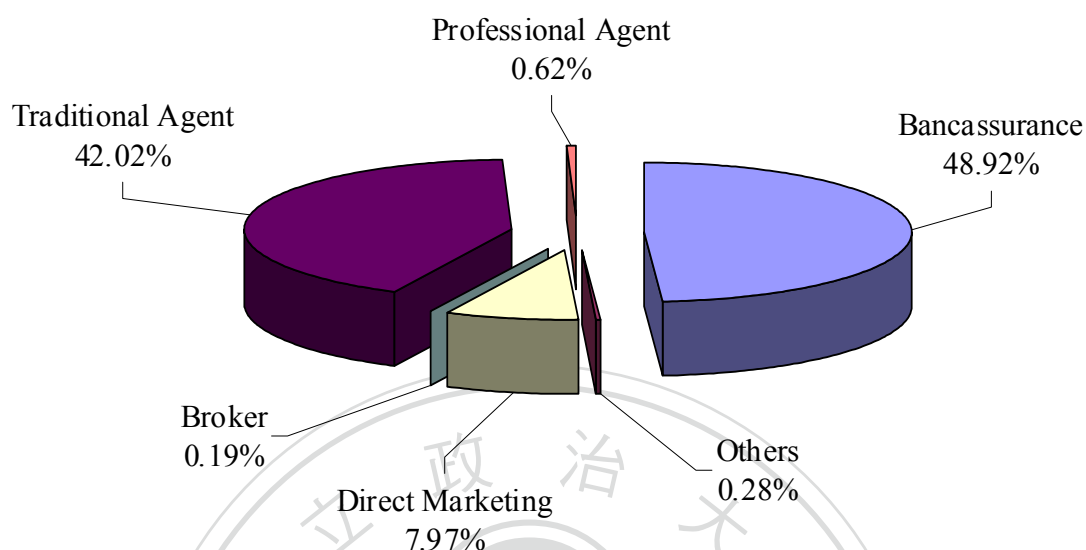
Source: China Insurance Regulatory Commission (2009), *China Insurance Market Development Report 2009*.

**Figure 4-2: Premium Income of Life Insurance and Bancassurance in China**  
 —— 2001~2005

In 2008, the three pillar of distribution channel were confirmed. Bancassurance businesses of emerging insurance companies has become main sales channel, the proportion rate reaches 60% and above; in the three largest insurance companies, China Life, Ping An, Pacific Life, the proportion rate is in average at 24% (Mo, 2007). We can see a great potential of Bancassurance channel in the future.

From the Table 4-6, it is easy to find that all the largest six life insurers launched participating policy and annuity in Bancassurance channel. Therefore, it meant that

participating policy and annuity product were easy to be understood and accepted by customers.<sup>11</sup>



Source: Same as Figure 4-2.

**Figure 4-3: Proportion of Total Premiums of Distribution Channels in China**  
— 2008

During this period, some significant developments were detailed below:

1. After 2004, the product type began to be diversified. Although participating policy was still the mainstream on Bancassurance channel, the proportion had reduced from 90% to 84%. Universal life products developed rapidly. In 2005, the proportion of Ping An Life Insurance Company on Bancassurance channel reached 80%, and in American International Assurance (AIA), the proportion even reached 97%.

2. Insurers began to pay attention to “term” products. Some insurance companies reduced five-year term with single pay products, and vigorously developed 10-year term with single pay businesses. For example, the proportion of New China

<sup>11</sup> The aim of participating policy is to provide stable medium to long-term returns through the combination of guaranteed benefits and non-guaranteed bonuses. Extract from “*Your Guide to Participating Policies*,” Life Insurance Association of Singapore, 2008, p. 4, <http://www.aviva-singapore.com.sg/pdf/YGTPP-ENG-FA.pdf>. Life annuity is a contract between the insurer and insured. The insurer will provide payments for insured’s lifetime. The payments can be paid by monthly, quarterly, semi-annual, or annual.

Life's 10-year term businesses had up from 33% of 2003 to 71% in 2005. And Taikang Life's non-five-year term businesses had reached from 54% of 2004 to 75% of 2005.

**Table 4-6: The Products Overview in Bancassurance Market of the Largest Six Life Insurers**

Product Type of Bancassurance Channel		China Life	China Ping An	China Pacific	New China Life	Taikang Life	Taiping Life
Wealth Management 理財型	Participating 分紅	鴻泰、鴻豐	千禧紅 D	紅利發	紅雙喜	千里馬B	盈豐
		鴻鑫、鴻星	千禧紅 E	紅利來	望子成龍	世紀之星	盈盛
		鴻寶		紅葵花			
	Universal Life 萬能壽險		穩贏一生			放心理財	贏利多
	Investment-linked 投資型					放心理財	
Fixed Income 固定收益				保利來		贏滿多 穩得康	
Protection 保障型	Annuity 年金保險	鴻禧年金	千禧養老	鴻福來 紅福壽	養老無憂	安享晚年 滿堂紅	常青年金 福滿堂年金
						千里馬防癌	安益長期健康 安心住院收入 安寧重疾 安順住院
	Health Insurance 健康險	康裕重疾					
	Accident Insurance 意外險		千禧意外	卡式保單		康壽保意外	安全保
	Others	鴻信					金彩人生 家得樂

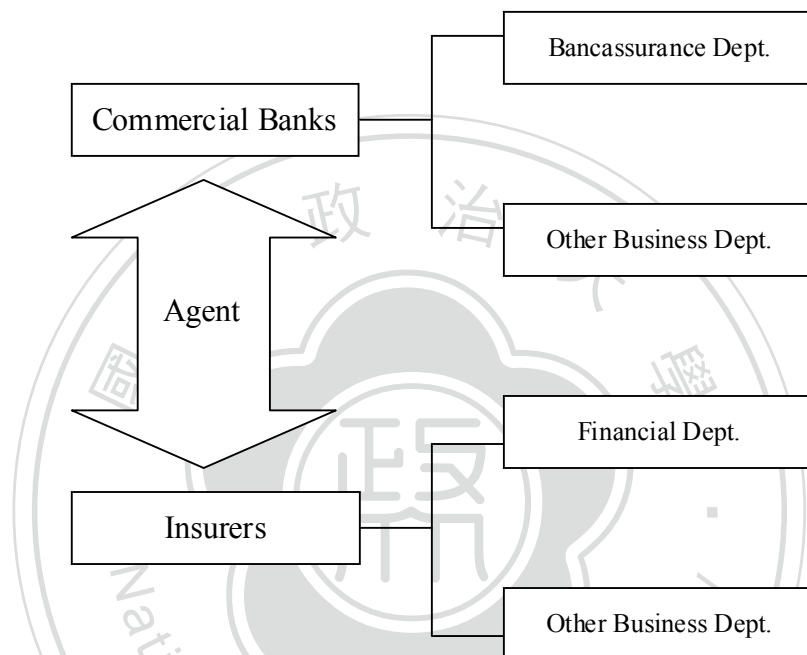
Source: Chen et al. (2007).

3. Some new type protection products appeared. Different from the slogan “participating”, protection products adopted “fixed income” and “increase disease protection” to attract customers.

4. Banks began to participate in product development. In 2006, Industrial and Commercial Bank of China set up “Product Examination Committee” (產品審查委員會). The bank cooperated with some key partners to launch new type universal life, endowment, dread disease insurance, non-life-insurance investment-linked products. They also tried to design specific products to adapt to a specific group of people; for example, the bank promoted cancer product to the customers whose age lay in between 18 to 45.

#### 4.4 The Operation Model of China's Bancassurance Channel

The characteristics of Bancassurance include simple process of insure, rapid process of underwriter, and competitive price. Moreover, combine with many kinds of financial products to provide one stop shopping and best-price-combination to customers. From Table 4-4, we can see how the model of distribution agreement undergoes between commercial banks and insurers.



Source: Hu (2006).

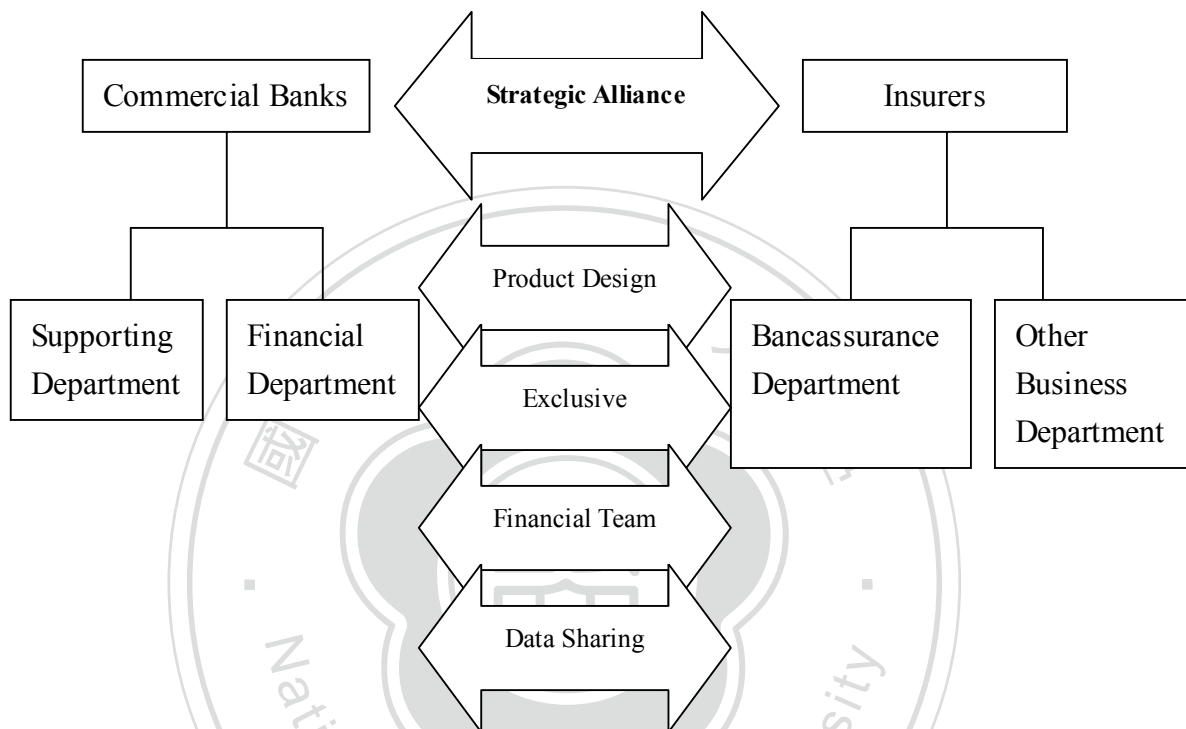
**Figure 4-4: Model of Distribution Agreement**

According to Figure 4-5, the Bancassurance model can take the following four various forms that allow banks and insurers to cooperate and achieve synergies (Swiss Re, 2006):

- **Distribution agreement:** The integration between banks and insurers are low. Banks are as agents to gain commission from selling insurance products. The two sides invest the lowest capital to reach the cooperation.
- **Strategic alliance:** The two sides cooperate on product development and share customer information in some cases. It needs to invest capital to do the

integration of IT system and training cost for sales force.

- Joint venture: the two sides provide capital and together manage the businesses; therefore, they will have same customers and share data.
- Full integration to be a financial services group: It is a total integration model, which can satisfy customers' one stop shopping needs.



Source: Same as Figure 4-5.

**Figure 4-5: Model of Strategic Alliance**

In the present, distribution agreement is the main cooperation model in China, but in Taiwan, most of banks and insurers take first and second forms to achieve synergies. Distribution agreement is a kind of open cooperation model, which means one-to-many relationships, that is a bank cooperating with many insurers (Tsung, 2007).

The convergence of banks and insurers is to create a win-win operating strategy, but in Taiwan, there are a lot of discussions about this subject, and some insurance industries expressed different viewpoints to the convergence.

Henri de Castries, the Chief Executive of the largest life insurance company in France, considered that due to bank and insurance was two very different industries, he doubted the convergence of the two could pass through the time test. He thought it was an enough relationship of strategic alliance between bank and insurer.<sup>12</sup> Guo-duan Zhou (周國端), the Chairman of Hontai Life Insurance Company, considered that the reason for the rising of Bancassurance was because banks preferred not to digest deposit and transferred the capital to insurance companies (Le, 2003).

In Taiwan, insurance industries thought that bank is a strong distribution channel with low sales cost, stable customers, and considerable sales volume. The channel is advantageous to insurers to build up themselves brand, and customers' trust (Zhang, 2003). That is way many insurers develop Bancassurance channel.

#### **4.4.1 Sales Channel on Bancassurance**

Due to Bank is an open platform to provide diversified insurance products, and banks positively develop wealth management businesses, insurance product line is more and more complete, and customers buy insurance products in banks are more and more usual. Base on bank's professional image, financial products packed with insurance model become popular in the market, such as investment-linked products.

The sales channels of Bancassurance include OTC, telemarketing, credit card, web bank, and insurance consultant, which will be discussed as below:

##### **1. Over the Counter (OTC)**

Bank employs and financial consultants are main force to sale standard savings products because the employs in banks are professional in wealth management field

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<sup>12</sup> See "Bancassurance – Back to Basics?" *Economist*, 12 Dec. 2002, [http://www.economist.com/finance/PrinterFriendly.cfm? Story\\_ID=1496613](http://www.economist.com/finance/PrinterFriendly.cfm? Story_ID=1496613).



but not insurance field. It is the most direct way to reach customers. The characteristics of this model are “standard products”, “simple training”, “low cost”, and “bank conduct”.

## 2. Telemarketing

Insurers call out to customers whose contact information provided by banks to sell simple insurance products such as accident insurance, health insurance, and savings insurance. For increasing the successful rate, the products sold via this channel should be simple and easy to understand because customers usually do not have enough patience to understand complex products.

## 3. Credit card possessors

There are two ways to promote insurance products to credit card possessors. One is to freely provide short-term accident insurance to those who buy air ticket or pay travelling expenditures. Another is to send direct mail to credit card possessors.

## 4. Web bank

Industrial and Commercial Bank of China started providing web insure. Customers can buy accidental policy and medical insurance via website. Product price is usually competitive to attract customers to insure on the website.

## 5. Insurance consultant

Interview with customers according to customer’s contact information provide by banks or through bank employ’s introduce to sell more complex protection insurance products and investment-linked products, and provide comprehensive wealth management service.

### **4.4.2 Win-Win Strategy for Banks and Insurers**

Although Pang, Shen-Chang (潘桑昌), ING’s former President of Great China Region, considered that the contribution of profit from Bancassurance channel is

limited to insurance company, in present years, the prosperous development trend of Bancassurance has no change (Zeng, 2003). The cooperation should be built on a win-win basis; otherwise the convergence will not be longer. In this section, bank and insurer's advantages and weakness will be discussed.

#### 1. Advantages of banks

- Image resource: Generally speaking, customers trust in banks usually more than insurance companies. Banks can utilize this advantage to help customers to do asset management with insurance products. Moreover, suggest insurance companies to develop specific products for different groups.
- Customer resource: Banks hold most abundant customers' data, which can help insurance companies to sell insurance products. Through cross-over analysis, either to find adaptable products to sell to specific group or send direct mail to attract people to buy insurance products.
- Foothold resource: There were over 180,000 commercial banks distributed in China; each bank could roughly service 7,000 people. Due to the quantity advantage, customers can easily choose insurance products when they go to banks.

#### 2. Advantages of insurance companies

- Professional resource: Insurance is one of significant parts of the whole financial market, and also an indispensable tool for asset management. Insurers have to observe the public needs and design products to meet their need. Before an insurance product launched, it should experience a series of back and forth discussion on product features, and actuary; IT department also has to support and do the test. There are no sufficient human resources and knowledge in banks and that is insurer's advantage.
- Product innovation: Due to complex actuary and market analysis, insurers have

its own professional actuaries and marketing team to observe market trend and collect market information. Banks are also hard to invest in a lot of resources to build up a team.

The convergence benefits to each other:

#### 1. Benefits for banks

- Reduce employee management expenses
- Increase income source: Commercial banks' deposit profit is getting lower continuously. Banks have to find out other stable income sources to increase profits. The proportion of non-interest income had reached 35% in Hong Kong in 2003. Therefore, banks cooperate with insurers to increase its stable income.
- Increase customers' loyalty: Through providing more and more service items including completed product line to enhance customers' loyalty, and also emphasize banks' professional image. More service, lower lapse rate.
- Reduce operation cost: Through selling diversified financial products, banks can full utilize its manpower, fix assets, facilities decrease average cost.

#### 2. Benefits for insurance companies

- Reduce employee management expenses: Insurers can reduce rely on traditional intermediaries with the aid of a lot of footholds of banks. No need to build up traditional agent network, insurance products can penetrate into the market too.
- Stable operation: The operation of insurance company builds up on the law of large numbers. Expand its operation scale and scope is advantageous to disperse risks, and make the operation more stable. Insurance company can acquire new capital to increase its solvency through cooperating with banks.
- Dig out customers: Insurance company can build up reliance relationship through the cooperation with banks. Meanwhile, it can also design insurance products according to customers' needs in different life phase.

## 4.5 The Issues and Prospect of China's Bancassurance Channel

The role of banks has changed. In the past, banks passively sold insurers' products, but nowadays they structured life insurance subsidiaries; in the past, they were just a seller, but nowadays they were also producer, participating in product design.

### 4.5.1 Issues of China's Bancassurance Development

After almost three decades development of Bancassurance, there are some problems appeared and scholars also raised a lot of methods to solve the problems (Chen et al., 2007).

1. Operation problems of Bancassurance are listed below (Tuo and Chu, 2006):

- No regulations for the payment measures of commission
- Employee's quality
- Low profit for insurers
- Vicious competition on commission:

Insurers' profit space become smaller and smaller. Due to the product design for Bancassurance was low protection-oriented, the profit source came from interest gain and loading surplus. The assumed interest rate had been set at the beginning of product design; therefore, it was impossible to adjust it randomly. When the commission becomes higher, the profit space will be compressed. Although the commission rates had written down in the contract, part of insurers not only pays commissions but also additional incentives for business promotion activities. Business bribery might happen during the vicious competition on Bancassurance channel.

- High homogeneity of products, low protection

The proportion of premium income of savings products in Bancassurance

channel reached 99% in the top 5 domestic insurance companies in 2005. The proportion was obviously too high, and consequently it would make insurers' requirement of yield rate, but it needed a sound investment environment and enough investment tools; otherwise, it would be a significant payment risk for insurers when the term at maturity.

There were not enough protection products which adaptable to be sold in Bancassurance channel. According to statistics, 98% products were participating policies, and only 2% products were universal life, annuity, and accident products. Insurers and banks should cooperate to develop health insurance, annuity, and life insurance products to meet customer's demand.

- Insurers disregarded other channel's potential:

Due to the life insurers thought it would cost too much to develop new distribution channel, most of them only focused on the resources of branches and counters. Consequently, they disregarded the potential of internet market and telemarketing. There were no insurance products which were adaptable to be sold on non-Bancassurance channel. The life insurers ignored that different products should be promoted by different channels.

## 2. Regulation environment:

- Most of laws in Europe countries clarified and stipulate the detailed of mix-industries-operation (混業經營), but in China, the Central Government stipulated that an industry can only operate its own industry. But the fact is in 2000, the supervision allowed and encouraged commercial banks, securities companies, and insurance companies to cooperate under the original structure of single-industry-operation.
- In the aspect of tax policy, many countries have reduce tax or tax-free preferential when residents buy insurance products, but in China, there is no tax

preference policy for insurance yet.

#### 4.5.2 Prospect of China's Bancassurance Development

Although have to provide higher than banks' savings return, lower mortality savings and interest gains, because of relatively inexpensive cost, policy maintain cost, and customer service cost, insurers can rely on expenses loading (附加費用) to earn profit at present year. Moreover, large quantity sales can bring in considerable cash flow and customer resources. Some China's domestic insurers won market share and operation capital by expanding Bancassurance businesses (Deng, 2006).

A number of emerging insurance companies knew that Bancassurance could build up sales number quickly, so they entered in this battle. Some insurers were interested in acquiring ownership in domestic banks to further develop their Bancassurance businesses. For example, Pin An Life insurance company, the pioneer and leader of Bancassurance in China, bid for a 60% stake in Shenzhen Commercial Bank.<sup>13</sup> Fortis Bank, one of the leaders in Bancassurance in the Benelux countries and Spain, was interested in acquiring ownership in domestic insurers as well. It acquired 25% of Taiping Life Insurance Company in 2001. In addition to the above cross companies' investments, China Construction Bank and the Bank of China had submitted applications for a license to operate their own life insurance companies (Daniel, 2006).

The key point of the success of Bancassurance is not only on the choice of operation model, but also internal integration within the operation model, such as organization structure, information convection, training courses for sales people, incentives system, etc.

Sales channel and product diversified on Bancassurance channel will be the

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<sup>13</sup> See Benfield Limited, *China Insurance Market Review*, September 2006.

development trend. Bancassurance market participants have to do innovation unceasingly to satisfy customers' financial service demand. Nowadays the foreign insurers had brought in many new ideas for diversified marketing, which will generally affect China's insurance market.

Nowadays, it is not easy to collect the detailed data of Bancassurance channel's cost and profit if compared to other distribution channels in China, but the successful experiences in France and Italy, Bancassurance channel is more advantageous than tradition agent and broker channel.

Bancassurance is not only providing a new profit source for the gradually saturated banking market, but also opening a new opportunity for competitive insurance industries (Tan, 2008). I believe an even higher proportion of premium will be sold through Bancassurance channel in the future.

#### **4.6 Summary**

The development of Bancassurance channel is the major topic of this chapter. The operation model of Bancassurance, the historical development of Bancassurance, and the comparison of Taiwan and China's Bancassurance operation status are discussed amply.

After reviewing the history and whole process including initial stage, exploring period, development period, and transformation period, we know that the business model is not a brand new model; in Western countries, especially France, and in Taiwan, the business model successfully create a win-win situation.

Although there are still many problems not solve yet such as employee's quality, low profit for insurers, vicious competition, high homogeneity of products but low protection, Bancassurance will be providing a profit source and opening a new opportunity for competitive insurance industries. Following the development

footsteps of Taiwan and many advanced countries, we are sure that Bancassurance will also be the most important channel of insurance industry in China.





# C HAPTER 5

## Conclusion and Suggestion

Within this 200-year history from 1805 to 2005, China enjoyed tremendous development started in 1993, and has continued its upward trend to present day. China's every step forward has been amazing, no matter implemented open policy or acceptance to the WTO.

China's insurance industry had undergone a period of chaos from 1952 to 1978. To help stimulate the recovery of the insurance market, the Chinese Government adjusted, or legislated many new laws. The insurance business recommenced around 1980, but the great changes began in 1992 after President Deng Shao-ping delivered a speech to confirm and encourage economic development.

Since 1980, China's insurance industry has a significant change and growth. In this chapter, conclusions and suggestion about the change and growth of China's insurance industry will be presented.

### 5.1 Conclusions

According to need-hierarchy theory (Maslow, 1943), following the increase of income, people begin to fulfill their basic physiological needs, they will also seek higher class needs in order satisfy their need for safety, love/belonging, esteem, and self-actualization. The Chinese government devoted to build up a fairly prosperous society, and that will also bring the needs for safety after the basic needs have been satisfied, when will be the timing for life insurance development. And China has entered a new era, which the government should focus on safety and stable needs. Conclusions of the study are summarized as below:

## **1. Economic reforms cause fierce competition in the life insurance industry**

China's insurance market was under a long-term oligopoly, but following more and more open economic environment, and the acceleration of reforms footsteps, China attracted numerous giant companies to enter the market under Sino-foreign joint venture model, branches model, or subsidiaries model. As of April 30<sup>th</sup>, 2009, there are 29 Chinese insurance companies and 27 foreign insurance companies in the market. Nowadays China has become the first-class battle.

Life insurance businesses in fact started in 1982 after the People's Insurance Company of China (PICC) re-established itself in the life insurance field. Therefore, the historic development of China's life insurance market was just on initial stage if compared to western countries. Although the foreign insurers thronged to China immediately and did bring some changes, but the three pillars in the insurance market were still domestic insurance companies: China Pacific, China Ping An, and PICC; accounted for 63.08% market share.

## **2. Insurance Law creates a basic, stable environment for investors**

The moment that open policy confirmed was also the beginning for the insurance industries recovery. Following the enactment and issue of the Insurance Law in 1995, the Chinese government issued step by step structured related regulations. From the government's role to strengthen regulations aspects, and create a basic, stable environment for investors.

Many important achievements happened during 1992 to 2008, for examples, agency channels appeared in 1992, Chinese first experience life table worked out in 1995, insurance law was implemented in 1995, life insurance exceeded property insurance in 1997, China Insurance Regulatory Commission (CIRC) was set up in 1998, new product types were introduced in 1999, Bancassurance developed in 2001, and China entered the WTO in 2001.

### **3. Entering into the WTO attracts foreign capital into China**

Successfully entering into the WTO was another breakthrough for the development of China's insurance market. Foreign capital was continually being invested in China's insurance companies. In 2005, foreign insurance enterprises generally expanded their businesses to interior China to open up second war zone. Total premium in the end of 2001 was only RMB 3.33 billion, but rapidly increased to RMB 36.1 billion in 2008. The market share went from 1.44% of 2002 to 4.56% of Q1 2009.

Entered into the WTO was not only attract foreign capital to flow into China, but also helped China's enterprises to walk out. As of the end of 2006, domestic insurance and non-insurance enterprises had set up 41 insurance operating institutes and 9 agencies, which are mainly distributed over Hong Kong (25 operating institutes), Britain (9 institutes), and the USA (6 institutes). The People's Property Insurance Company was successfully listed in Hong Kong Exchanges & Clearing Limited and was making OTC trading on 6 November 2003. In the same year on December 17<sup>th</sup> and 18<sup>th</sup>, China Life Insurance Company was listed in New York Stock Exchange and Hong Kong Exchanges & Clearing Limited. Ping An Life Insurance Company was listed in Hong Kong Exchanges & Clearing Limited on 24 June 2004. Thus China's domestic insurance companies were formally connecting with the international market.

### **4. Reform of property right causes great success of life insurance market**

One of the most important reasons that why China can have a great success was the reform of property right. North found that an efficient organization came from adaptable arrangements of systems and property right establishment to bring about a kind of motivation for people's economic activities. The appearance of a guideline name "The Decisions for Perfect Planned Economy under Socialism from the Central

Government” 《中共中央關於完善社會主義市場經濟體制若干問題的決定》 for state-owned enterprises in October 2003 was a revolutionary breakthrough for China’s development. North’s theory did not just explain the western world rise, but also interpreted China’s high-speed development.

### **5. China’s life insurance market is still full of potential**

In 2008 the total premium of life insurance came to RMB 744.74 billion, which accounted for 76.12% of the insurance market. Insurance depth and insurance density obviously enhanced, but at low levels. Although the insurance ratio increased from 0.1% of 1980 to 2.85% of 2007, and insurance density increased from RMB 127.7 of 1980 to RMB 533 of 2007, compared to the insurance density of world average and insurance penetration, China’s room for growth is still extensive. I can see that China’s life insurance market did not affect by financial tsunami, still maintained rapidly growth.

A report from PricewaterhouseCoopers mentioned that foreign insurers believe the Bancassurance channel will enjoy further market expansion, and Telemarketing will receive increased attention. According to the report, the participation of Bancassurance channel to bring continuous growth of China’s life insurance market is predicable. China’s total premium of Bancassurance increased from only RMB 5 billion in 2000 to RMB 169.8 billion in 2007 and RMB 359 billion in 2008. The proportion of total premiums reached 48.92% on Bancassurance, even surpassed the proportion of the total premiums of traditional agency channel.

Competition among insurers has reached new levels, but I believe an even higher proportion of premium will be sold through Bancassurance channel in the future. The continuous development of Bancassurance channel will be the key driver for the growth of China’s life insurance market, and Taiwan’s development experiences of Bancassurance including products design, channel promotion, sales

training, will be the best references to China.

## 5.2 Suggestions

China no doubt obtained a primary achievement on economic development, but we still raise some suggestions for future operation needs. There are four suggestions as follows:

### 1. Chinese government can start to keep eyes on negative spread problem and prepare appropriate policies

The interest risk is significant inasmuch as interest assumption follows Central Bank's basic interest, which was over 9% before 1997, but the one-year term rate decreased 7 consecutive times starting from 10.98% in May 1996 to 2.25% June 1999, meanwhile five-year term rates took a nosedive from 13.68% to 2.88%.

Due to the assumed interest rate of traditional products also fixed at a high level, and the assets of the insurance industry was basically invested in government bonds or deposited in banks, which eventually brought a huge negative spread. To prevent new negative spread from happening, in June 1999 the China Insurance Regulatory Commission asked that the assumed interest rate not rise over 2.5% which effectively decreased the negative spread. Thus the implicit risk of traditional products was exposed: firstly, the negative spread was significant to those original policies with high assumed interest rate.

To prevent new negative spread from happening, in June 1999 the China Insurance Regulatory Commission asked that the assumed interest rate not rise over 2.5% which effectively decreased the negative spread. The negative spread came from deficiency of risk and vicious competition.

The CIRC and the China Securities Regulatory Commission (CSRC) announced regulations on October 25<sup>th</sup>, 2004, to allow insurers' directly investing in

the stock market. Moreover, the Chinese government is going to loosen investment limitations to increase insurance companies' operating flexibility.

The CIRC decided to open medium and small-scale insurers to directly invest into the stock market; meanwhile approving the insurers ability to expand its bond market investment scale to buy infrastructure related bond, local government bond, and unsecured bond issued by non-financial institutes. This is definitely positive news to the economy which will make the market more vital and active.

## **2. Chinese government should break monopoly situation and create a sound financial environment for foreign insurers**

Number of insurers increase is obvious, but the insurance market is still a monopoly market. At the end of 2008, Sino-capital insurers still dominated 95.08% market share, in which three Sino-capital insurers China Life Insurance Company (40.28%), China Pacific Insurance Company (9.01%), and Ping An Life Insurance Company (13.79%) took 63.08% of life insurance market, and other Sino-capital insurers took 32% of it; foreign-capital insurers only took 4.92% of life insurance market. The situation explains that China's insurance market is still a monopoly market though a sound market system was basically formed.

Why do foreign insurers not occupy more market share? Director of International Department of CIRC, Mong, Zhao-Yi (孟昭億) gave an answer on Foreign Insurance in China Forum, "Local companies should be internationalized, but foreign companies should be localized. Foreign insurers should research local market, and combine its characteristics to carry out localized operation."

## **3. Chinese government should require insurers to pay more attention on risk management**

Banks, insurance, and securities' companies integration of capital and business aspects will be generally become more integrated. The probabilities of risk

transmission across industries will also increase. The insurance industry will inevitably face more risk factors coming from the international markets.

The government can do something to help insurers control risks:

- (1) Perfect the market system through continuously enact regulation, and stably increase main market bodies through encouraging qualified insurers to restructure or merge to become internationally competitive insurance holding companies. Encourage large-scale enterprises or private enterprises to invest in setting up share-holding insurance companies. The Chinese government can also lead qualified insurance companies to increase capital and enhance development strength through public raising and listing.
- (2) Encourage the development of every kind of professional insurance company on endowment, health, agriculture, and liability insurance, and stably develop insurance asset management companies.
- (3) Cultivate the reinsurance market and perfect reinsurance a market system.
- (4) Develop the broker market; reform and perfect agent systems.
- (5) Build up market access and withdrawal mechanisms.

#### **4. China's insurers should develop different kinds of insurance products on Bancassurance channel**

According to the most updated information from Commercial Times, Taiwan's giant insurance companies all represent how much they pay attention to China's Bancassurance channel by build up close relationship with banks. But there are some problems need to be solved.

The room of Insurers' profit become smaller and smaller. Due to the product design for Bancassurance was low protection-oriented, the profit source came from interest gain and loading surplus. When the commission becomes higher, the profit space will be compressed.

The proportion of premium income of savings products in Bancassurance channel reached 99% in the top 5 domestic insurance companies in 2005. The proportion was obviously too high, and consequently it would make insurers' requirement of yield rate, but it needed a sound investment environment and enough investment tools; otherwise, it would be a significant payment risk for insurers when the term at maturity.





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