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# China's insurance industry: Achievements, problems and prospect

## 1 Achievements of the Chinese insurance industry and its role in the national economy

The Chinese insurance industry has undergone rapid growth over the past 30-plus years since the reform and opening-up process began in 1978. This growth can be illustrated by the following statistical facts.

Premium income in China increased from CNY290 million (US\$47.2 million) in 1982 to RMB1.72 trillion (US\$280 billion) in 2013, the compound growth rate for this period was 29%, easily exceeding the world annual premium growth rate, which was 4% during the same period.

The premium income accounted for less than 1% of global premium income in 1982, but grew to account for around 6% in 2013, ranking it as the fourth largest market globally based on this measure.

The insurance density was only US\$0.30 in 1982, but increased to \$201 by 2013 while the insurance penetration rose from about 0.12% to 3% in the same period. As one can observe, the gap between China and the world has been shrinking notably.

### 178 insurers and 177 representative offices

This growth has been fuelled by both domestic and foreign insurance companies. In 1980, there was only one insurance company in China: the People's Insurance Company of China.

As of July 2014, the number of companies increased to 178, including 10 holding companies, 65 property and casualty insurance companies (among them 21 foreign companies), 77 life insurance companies (36 foreign), 8 reinsurance companies (5 foreign) and 18 insurance asset management companies (1 foreign).

Besides these companies now operating in China, another 177 representative offices of foreign companies have been set up and are awaiting approval from the Chinese regulatory authorities to do business in China.

### Insurance supports the economy's growth

The rapid and stable development of the Chinese insurance industry has supported the general growth of the Chinese economy.

In recent years, Engineering Insurance has provided hundreds of trillions of RMB of insurance coverage including nationally key strategic projects in the fields of aviation, aerospace and energy, which together accounted for more than CNY1 billion in insurance claims.

Export Credit Insurance has facilitated enterprises to offset commercial and political risks during the expansion

of international economic and trade activities.

Liability Insurance has also grown remarkably. As of 2013, the premium income of liability insurance had reached CNY21.66 billion, provided CNY48.6 trillion of insurance coverage for risks in the food and healthcare industries as well as in environment protection. In these areas, CNY8.92 billion in insurance claims have been paid, playing an essential role in mitigating social conflicts.

Rapid growth of Agricultural Insurance has also taken place since its first pilot application in 2007, hitting CNY30.66 billion in premium income in 2013.

As an important part of the multi-level of social security system, Commercial Insurance has taken a positive role through the cooperation with the government agencies and communities in the social security field. The pilot implementation of Catastrophe Insurance respectively in Shenzhen, Guangdong Province and Chuxiong, Yunnan Province served as a milestone, which reflects the Chinese government's efforts in establishing catastrophe insurance programme.

## 2 Major problems in China's insurance industry and their causes

While the Chinese insurance industry has made great progress over the past 30-plus years, and played an important role in China's economic and social developments, it still faces many challenges and is still underdeveloped in many respects.

### Death security gap

This is most clearly visible when we look at its limited coverage rate. According to the report "Death Security Gap: Asian-pacific Region 2011" prepared by Swiss Re, the death security gap in China has expanded from US\$3.7 trillion in 2000 to \$18.7 trillion in 2010, a compound growth rate of about 18%. This means that out of every \$100 of demand for death protection, only \$12 are fulfilled with savings and insurance, leaving a gap of \$88.

Statistics from Allianz, China Life, and the Taiwan Insurance Institute show that the average number of life insurance policies in mainland China is 0.1-0.3 per capita, compared to 3.5 in the US, two in Germany, eight in Japan, 7-8 in Hong Kong and two in Taiwan.

### Insignificant catastrophe insurance coverage

Another parameter illustrating the low level of protection is catastrophe insurance claims. A catastrophic flood hit China in 1998, causing enormous losses of more than CNY200 billion, but insurance claims were just about 1% of this loss.

Ten years later, the earthquake that occurred in Wenchuan city, Sichuan Province, triggered direct economic losses reaching up to CNY845.1 billion, but again claim settlements were only 0.2% of loss, compared to insurance coverage of about 30-40% internationally, and over 60% in the North America region.

### Public's dissatisfaction with insurers

Given such low insurance penetration, it is troubling to note that the general public holds quite a negative impression towards the insurance industry. Surveys done by several concerned institutes over the past decades have shown that the insurance industry has often stood at the bottom in terms of satisfaction among the generable public. The large protection gap, low insurance penetration, and low public satisfaction are critical issues that the insurance industry must take seriously.

### Product defects, misleading sales tactics and poor claims service

The high levels of public's dissatisfaction result mainly from three factors: product defects, misleading sales tactics and poor service in claim settlements.

By product defects, I refer to the fact that the insurance industry in China has long deviated from its core function, which is the protection of life, health and property. Instead it has engaged in competition with other financial institutions such as banks or securities firms in providing investment-related financial services which are not real insurance products.

Taking life insurance products for instance, in 2012, the products chiefly concerned with saving and investment took up as much as 88.17% of sales, while ordinary life insurance accounted for only 10.89%.

Secondly, misleading sales tactics have been a long-lasting problem, which has seriously damaged the reputation of insurance. For example, some agents overstate the merits of the product, purposely ignoring the duties that the insured need to meet or policy exclusions in the event of an insured loss. Some others have tried to sell more products by misrepresenting the provisions.

Finally, insurance companies have paid great attention to the distribution channels, but not to claims settlement. Difficulties in dealing with claims after the insured loss occurred have aroused strong criticism from the general public.

### Laws and regulations give emphasis to erroneous focus

Many factors have contributed to the existence of these problems. Apart from the conduct of the insurance industry itself, which has to take the major responsibility, legislators, government agencies, supervisory departments and capital markets have all contributed to the problems we see today.

For instance, at the beginning of China's insurance industry, laws and regulation specified that a determining factor in the establishment of new branches was premium volume rather than profitability or adequate capital.

This policy of more premiums, more branches, obviously sent a strong signal to companies to pursue premium maximisation, while devoting less concern to customer care in claims settlement etc.

Regulators have used premium volume and market share to gauge a company's performance and importance. Many shareholders in insurance companies have held unrealisti-

cally high expectations regarding quick payoffs, which have further fuelled demands for focus on short-term market share expansion over long-term profitability.

In general the financial services industry has done a poor job of filling the demand for investment instruments. This has left room for insurance companies to lure the customers to buy financial products which have little to do with insurance but are sold as such.

Taking into account all of the above pressures and reactions on the part of the industry, it is safe to say that China's insurance industry has been too focused on market share and premium volume expansion instead of pursuing growth based on the core functions of insurance.

## 3 Future development of Chinese insurance industry

After 30-plus years of development, the foundation for growth and driving force of the industry has significantly changed.

Recently the Chinese government released a blueprint for promoting the development of a modern insurance industry, and it contains broad guidelines as well as detailed instructions in the following areas.

These are namely, constructing a social safety net, participating in social governance, increasing the activeness in catastrophe protection, innovation in agricultural insurance products, facilitating economic growth and efficiency, developing the insurance industry, improving insurance regulation, providing better support system, as well as updating supporting public policy offered by government to help the insurance industry.

This blueprint undoubtedly serves as a milestone in the development of insurance industry in China.

### Industry needs to establish and maintain its own reputation

From my point of view, the industry must undertake three actions in order to achieve the goals set by the State Council. First, the industry needs to switch from a "premium-targeted" strategy to a "protection-targeted" strategy. Secondly, it is necessary for the industry to be "profit-oriented" instead of "growth-oriented". Lastly, the focus of the industry should evolve from "sales channel development" to "claims management".

It is crucial for the industry to establish and maintain its own reputation, and to provide demand-tailored, cost-effective and reliable product and service. The ultimate role the insurance industry should play in a modern economy can only be fulfilled by emphasising its risk transferring function, enabling insureds to truly appreciate the value of the policy, thereby leading the industry as a whole to be well recognised and accepted by the general public.▲

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Dr Sun is a renowned academic and a prominent author of more than 20 books including the best-selling textbook "Principle of Insurance" and scores of research articles. She participates actively in the insurance industry in China and internationally, serving on boards and other advisory and leadership positions.