2020 China Insurance Outlook
Trends and imperatives shaping the life and non-life markets
After experiencing a year-on-year growth rate of 3.9% for gross written premium in 2018, the only year with less than double-digit growth in the past five years, China’s insurance market bounced back in 2019. During the first seven months of 2019, the overall gross written premium grew 13.9%, with the life market growing 15.9% and non-life growing 8%.

Compound annual growth rate, gross written premium, China, 2013–2018

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<tr>
<th></th>
<th>In CNY</th>
<th>In USD</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>17.2%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Life</td>
<td>17.1%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Non-life</td>
<td>17.3%</td>
<td>15.6%</td>
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Source: Swiss Re Sigma

The life insurance market is shifting from business volume and asset-driven growth to value-driven growth. Falling interest rates make it more difficult for insurers to maintain attractive benefit levels.

In the non-life markets, a winner-takes-all situation is becoming increasingly apparent, especially in the motor insurance segment where the largest firms have an increasingly strong advantage in the market. Small and mid-sized insurers will have to explore new technologies and competencies to find suitable niche markets.

Insurance companies will have to move toward digitalization to improve efficiencies, provide better customer experiences and deal with the disruptive challenges from technology giants that are increasingly involved in the insurance market.
Key trends

**Life**

**Shift from scale growth to quality growth**
In 2018, year-on-year growth of life insurers’ gross written premium dropped to nearly zero for the first time in the last seven years. Gross written premium totaled US$393 billion, up 0.8% from 2017. On the other hand, overall profitability was strong, with about 60% of life insurers reporting profitable results.

**Continuing market opening**
The chairman of the China Banking and Insurance Regulatory Commission (CBIRC) pointed out that the financial supervisory authorities will continue to promote the opening of the insurance sectors. CBIRC has rolled out new measures this year, including:

- Advancing the transition period of removing foreign ownership caps in foreign-invested life insurance companies to 2020
- Canceling the requirement that total equity interest in an insurance asset management company held by domestic insurance companies be at least 75% and allowing foreign investors’ stake to exceed 25%
- Easing the entry conditions for foreign insurance companies by removing the requirement that they must have operated for at least 30 years before entering the Chinese market
- Allowing foreign insurance group companies to invest, and set up insurance institutions, in China

A number of applications have been approved. For example, Allianz set up Allianz (China) Insurance Holdings Co. Ltd. and ACE increased its equity in Huatai Insurance Group Co. Ltd. As authorities launch further opening measures to ensure a fair and consistent market environment, acquisition looks to be an efficient way to enter or expand in the Chinese market.

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60%

Chinese life insurers reporting profits

*Source: EY analysis*

With the development of the market and continuous regulatory improvements, China’s life insurance industry has actively adjusted its business structure. For instance, short-term products are being phased out in favor of more long-term products. That shift has enabled a gradual transformation from high-speed scale growth to high-quality growth.
**Falling interest rates**
The yields of China’s treasury bonds have come to the lowest quartile of the last five years.

**Regulatory and looming accounting changes consuming considerable attention and resources**
The CBIRC recently issued the Interim Supervisory Rules on Insurance Asset and Liability Management. Its goals were to:

- Improve the supervisory system of insurance asset and liability management
- Strengthen classified supervision
- Establish constraint-based asset and liability management

In addition, the CBIRC will revise the solvency requirement in the near future. As a consequence, compliance costs have risen, both in terms of expenses and management attention.

Chinese insurers continue to prepare for IFRS 17, the largest accounting change in more than two decades. IFRS 17 is a big step toward standardization, harmonization and transparency in financial reporting. Considerable effort will be required to implement these comprehensive changes.

**Persistent low interest rates**
Persistent low interest rates are viewed as a major threat for life insurance companies, given their rate-sensitive products and investments. In the low-interest-rate environment, life insurers’ investment yields might be insufficient to meet contractually guaranteed obligations to policyholders. Reacting to the lower interest rates in August 2019, regulators limited long-term annuity products with a fixed interest rate of 3.5% to prevent potential interest risk. China should also look at other markets that have experienced low interest rates for lessons learned and best practices.

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**Chinese bond yields**

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<tr>
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<th>2013</th>
<th>2018</th>
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<tbody>
<tr>
<td>One-year</td>
<td>3.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Five-year</td>
<td>4.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>10-year</td>
<td>4.6%</td>
<td>3.3%</td>
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Source: S&P Global Market Intelligence
Non-life

Key trends

**Larger non-life insurers continue to dominate a steadily growing market**

China’s non-life insurance market premium totaled US$176 billion in 2018, reflecting 12.2% growth over 2017. The top 10 non-life insurers represent approximately 85% of China’s market share.

**Motor premium growth slowed and profit margins shrank, resulting from further price liberalization**

Non-life insurers face huge challenges in the motor insurance market as further price liberalization has reduced average policy premium, while new automobile sales are experiencing negative growth for the first time. Both of these developments challenge insurers.

To combat unfair competition and market practices, in June 2018, the insurance regulator stipulated guidelines to further regulate non-life insurers for complying with filed rating plans and maintaining commission ratios within normal ranges.

Motor price liberalization further challenged non-life insurers’ capabilities to compete in a market shifting toward customer-centricity and away from traditional commission-driven approaches. In this new environment, quality service and products are key differentiators.

**85%**

Market share of top 10 non-life insurers in China

*Source: CBIRC*

The top three non-life insurers – People’s Insurance (PICC), Ping An and China Pacific – captured 104% of the non-life market’s underwriting profit in 2018. Outside of these companies, China’s non-life industry has realized underwriting losses. This is primarily due to the market being highly concentrated in the motor business, which has resulted in extremely fierce competition.

Medium and smaller non-life insurers can differentiate themselves by further exploring their competitive advantages, such as shareholder synergy and specialized expertise, and by concentrating in limited distribution channels in selected niche markets, as opposed to aiming for comprehensive offerings.
Diversification beyond motor insurance market brings new risks and challenges for risk selection

Non-life insurers have also been actively developing new offerings outside of the motor segment in light of the intense competition. For many non-life insurers, non-motor premium growth has far exceeded motor growth in recent years.

As China further opens up and develops its financial markets, diversified insurance demands have emerged, from macroeconomic changes to social risk management perspectives. Current trends suggest that credit and surety, engineering, liability and agriculture insurance have the most potential for rapid growth.

However, underwriting profit margins for these emerging segments of business remain unfavorable for the time being. For example, several non-life insurers recklessly entered the credit and surety segment for the peer-to-peer online loan business and realized huge underwriting losses due to the extreme risks.

Non-life insurers have learned their lessons and are working to enhance internal control and underwriting discipline to guard their bottom lines when it comes to risk selection, and not chase premium growth in segments that are too risky.

Key trends: Non-life

Imperatives for insurers

1. **Develop digitalization strategies** to increase operational efficiency, optimize customer experiences and realize the value embedded in existing data assets.

2. **Focus on regulatory changes** (e.g., IFRS 17, revisions to solvency requirement, asset liability management requirement) and align implementation plans with business transformation initiatives to create business value and enhance risk management beyond regulatory compliance.

3. **Establish an insurance ecosystem** and develop new distribution and servicing strategies for a particular customer segment, based on the general trend toward digital and away from traditional channels.
For insights into regional trends and imperatives, please review the 2020 Asia-Pacific Insurance Outlook.

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