

# Overcome difficulties together

Recommendations to curb the impact of  
coronavirus 2019 (COVID-19) on China's  
insurance industry

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Since the beginning of 2020, the sudden outbreak of COVID-19 has disrupted our society and economy. At a time of crisis, when all sectors are working together, the insurance industry has a unique role in the battle to mitigate the damage caused by the fast-spreading pandemic.

As soon as the outbreak became apparent, the insurance industry in China responded swiftly and supportively. A number of insurers opened fast-track channels to provide insurance products and services to ease the impact of the pandemic, such as including COVID-19 into the insurance coverage. Seventy-four insurers introduced a variety of insurance protections for medical staff and disease-control personnel who are fighting on the pandemic frontline – with a total insurance sum of insured reaching approximately RMB9 trillion.



## Short-term impact on the industry

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The COVID-19 has affected many industries across the country to varying degrees and the insurance industry is no exception. The industry growth will be slowed in the short term by a variety of challenges, including traditional routes to market being closed by social distancing policies and the sudden drop in travel and tourism.

### **Life insurance business: offline sales are hit during high season**

Currently, life insurance products are mainly sold through agents, bancassurance and other offline channels, with online sales lagging behind. But, after the outbreak, the provincial governments took measures, such as requiring people to quarantine, banning public gatherings and stopping people from going to workplace. These measures also impacted insurers, with the China Banking and Insurance Regulatory Commission (CBIRC) banning insurance practitioners from visiting clients in person or holding mass gatherings, such as face-to-face meetings, conferences, client-information sessions, training workshops or road shows.

The pandemic hit during the life industry's high season, disrupting offline sales and affecting insurers' first quarter sales

targets – with the cash flows of some life insurers being put under considerable pressure. Insurers will have to stop expanding their agent networks and reconsider their existing sales force in the light of ongoing business development disruptions.

At the same time, the life industry is also likely to come under increased claims pressure. On 3 February 2020, the Life Insurance Supervision Department of the CBIRC issued the “Circular on Delivering Life Insurance Services Related to Prevention and Control of the COVID-19 Outbreak.” This supports all life insurers with risk factors under acceptable levels: it cancels restrictions on waiting periods (observation period), deductible amounts, designated hospitals and other areas specific to COVID-19-infected customers in illness insurance and medical insurance products. The circular also includes COVID-19 in the coverage of accident insurance and illness insurance products. According to Liang Tao, Vice Chairman of the CBIRC, based on preliminary statistics, 35 life insurers have extended their coverage of more than 400 accident insurance and illness insurance schemes to include claims on death, disability and critical illness related to COVID-19, without increasing premiums.

## **Property insurance: vehicle insurance, accident insurance, cargo insurance and other businesses are hit**

The pandemic is likely to affect car sales in the first half of 2020, hitting the large auto insurance industry in the short term and hampering the renewal of existing policies. The Chinese New Year holidays used to be a peak period of travel and tourism. However, the number of travelers and tourists sharply declined across the country following the outbreak, significantly affecting sales of aviation and travel accident insurance. Business shutdowns to control the outbreak will also greatly affect sales of cargo insurance and other insurances related to business operations and production.

On 3 February 2020, the Property Department of the CBIRC issued the “Circular on Delivering Insurance Claims Services and Insurance Product Development of Property Insurance Industry Related to COVID-19 Outbreak” to all property insurers. The circular requires property insurers to: prioritize customers claiming for losses from being infected or affected by COVID-19, extend insurance coverage appropriately and pay all claims promptly. customers claiming for losses from being infected by COVID-19 must be paid once their cases are confirmed – with insurers required to simplify the claims process. For those who claim business losses from the pandemic, prepaid insurance and other measures could be taken to enhance claims efficiency and relieve pressure on businesses.

## **Investment business: return on investment is under pressure**

Against the backdrop of the pandemic, insurers are facing greater risks around investing premiums. Achieving the annual investment goals will be more challenging for three reasons:

1. The pandemic is affecting capital markets, creating short-term fluctuations. The Shanghai Composite Index fell for three consecutive days from 21 January 2020 – falling sharply by 8% on 3 February, the first trading day after the Chinese New Year holidays. If these short-term fluctuations continue or increase, they will pose great challenges to equity investment returns.
2. Many industries, including manufacturing, transportation, tourism, catering and retail, have suffered significant negative impacts ever since the outbreak. As macroeconomic downside risks, liquidity risks and credit risks become greater, the risk on fixed-income investments – the insurance industry’s largest asset allocation – will also increase.
3. The market interest is expected to remain low to cope with the macroeconomic uncertainty. On 17 February, the new medium-term lending facility (MLF) bid rate of the central bank was cut by 10 basis points, reducing the loan prime rate (LPR). The interest rate cuts will make it more difficult to allocate insurance fund assets (premiums). It may be hard for re-investment yield of insurance funds to cover the liability costs of insurers.



## Long-term impact on the industry

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The pandemic will affect the insurance industry in the short term. However, it may also have a positive impact by promoting people's protection awareness in the long term – accelerating industry transformation and creating new demand for insurance in social protection.

### **Long-term benefits from increased consumer awareness of insurance**

This pandemic has started creating concerns about health and uncertainty among people. It has lifted public awareness on the importance of risk protection, especially health risk protection which stimulates demand for insurance. This trend is expected to further boost China's insurance penetration, which will promote long-term demand for protection-type insurances, such as life insurance, health insurance and accident insurance. It will benefit the long-term development of the industry.

### **Accelerating industry transformation of sales and service models**

The pandemic has hit the traditional insurance sales and service models, highlighting the importance of insurers moving to online operations. More insurers

are now expected to build or strengthen their online sales and service capabilities which will transform and digitalize the traditional insurance business models.

### **Increasing the role of insurance in social protection**

The Chinese President Xi Jinping said, "The current fight against the COVID-19 epidemic is a major test of China's system and capacity for governance." As a market-based risk transfer, social mutual assistance and social management mechanism, insurance has played an active role in helping build a safe China in recent years. After this epidemic, as the Government considers long-term reforms and the insurance industry may be presented with new responsibilities for meeting social needs. This could include supporting national risk management capabilities, helping to improve the national public health emergency management system, reducing risks or supporting the transformation and upgrading of China's social governance system.

# Recommendations for the industry

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Despite creating major short-term challenges, this pandemic presents important growth opportunities for the insurance industry. We recommend insurers actively respond to the epidemic and pandemic challenges, and accelerate their pace of digital transformation and development.

## **1** Accelerating technological transformation, and enhancing online sales and service capabilities

Insurers need to further strengthen their application of technology and data, effectively integrate technology and business, and improve the accessibility of online channels. They should also: continue the digitalization of traditional channels; improve sales force capabilities to support online business development, online policy issuing and other online services; and integrate both online and offline services.

## **2** Adjusting business structures with focus on insurance risk protection

This pandemic will make consumers more aware of risk, increasing demand for insurance risk protection. It's a moment for insurers to go back to their roots and consider how to better execute the essence of insurance – to provide risk protection. Insurers will also need to

improve protection-type products, such as life insurance, health insurance and accident insurance, to meet the rapidly growing needs of customers requiring diverse types of risk protection.

## **3** Improving the industry's capability to respond to sudden epidemics and pandemics

COVID-19 is a typical risk event that significantly impacts families and enterprises. To fulfill the industry's risk protection role and prepare for any future sudden epidemics and pandemics, insurers should cover new infectious disease risks in the scope of insurable risks. This will require them to improve data accumulation, deliver scientific pricing and conduct targeted development and promotion of business interruption insurance and other applicable products.

## **4** Promoting insurance knowledge and raising insurance awareness

China's insurance penetration rate in terms of density and depth is still lower than the global average. In 2019, China's insurance density (i.e., premium per capita) was only RMB 3,046 and insurance depth (i.e., percentage of premium in gross domestic product) was 4.3%. This compares with a global average insurance density of US\$682

and a global average insurance depth of 6.1% in 2018. Given that COVID-19 has raised people's concerns about health and risks, the industry should take this chance to further educate the market. It's time to promote mainstream health management and insurance knowledge, and raise national insurance awareness.

## **5** Participating in social governance

The industry should work to embed insurance into China's modern social governance system. Insurers should use technology to drive product and business model innovation to support social risk governance. This will include transforming insurance from its traditional approach of "transferring risks" to "reducing risks." The industry has an important opportunity to reinforce risk prevention before and during the shock events with market-based mechanisms that promote social value.

## **Conclusion**

Although the pandemic is continuing to spread, the number of newly confirmed cases has been declining for many consecutive days in the country. We believe that the difficulties are temporary and the better days are coming. We have faith that the long-term trend of sustainable growth in China's insurance industry will eventually resume and continue ever stronger.

## Author: EY Insurance Service Team

Please feel free to contact us:



**Effie Xin**

Managing Partner,  
EY Greater China Finance  
services Leader

Managing Partner,  
EY Asia-Pacific FinTech  
and Innovation Leader

Ernst & Young (China)  
Advisory Limited

+86 21 2228 3286

effie.xin@cn.ey.com



**Rick Huang**

Managing Partner,  
EY Greater China  
Insurance Leader

Ernst & Young  
Hua Ming LLP

+86 10 5815 4056

rick.huang@cn.ey.com

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