Presentation to Pacific Rim
Actuarial Club of Toronto

Update on Life Insurance Market in China

August Chow, FCIA, FSA, CERA
Current SOA Board Member
Former General Manager of Hannover Re Shanghai Branch

February 24, 2015
The opinion and viewpoint expressed in this Power Point belongs to August Chow. It does not represent Hannover Re or the SOA.
Agenda

Part 1  Landscape of China Life Insurance Market
- Market Players and Premium
- Channel and Product

Part 2  Proposed China Solvency II (C-ROSS)

Part 3  Other Development and Regulatory Changes
- New National 10 Opinions (新国十条)
- Free Trade Zone
- Other regulatory changes

Part 4  Future Challenges and Opportunities
Agenda

Part 1  Landscape of China Life Insurance Market
  • Market Players and Premium
  • Channel and Product

Part 2  Proposed China Solvency II (C—ROSS))

Part 3  Other development and Regulatory Changes
  • New National 10 Opinions
  • Free Trade Zone
  • Other Regulatory Changes

Part 4  Future Challenges and Opportunities
Sample WeChat Group Established by IAC

- 反洗钱课题组 (AML)
- 公司治理交流群 (Governance)
- 上海再保公司 (Reinsurer/SH)
- 中保协外资专委会 (JV insurers)
Number of Life Insurance companies in China at end of 2014

- 60 life insurers, of which 33 domestic and 27 JV;
- In addition, 6 pension companies and 4 health companies;
- Total 70 direct companies;
- 7 reinsurance companies.
Landscape of China Life Insurance Market


- From 2005 to 2010, premium of China life insurance industry grew at 24% p.a.
- From 2011 to 2014, premium grew at 9.9% p.a.

Note: the figures for 2004-2010 were on statutory basis and before unbundling, while CIRC began to release the figures under New PRC GAAP starting from 2011.

Source: www.circ.gov.cn
Beijing, Shanghai, Guangzhou and Shenzhen are first-tier cities in which 76% headquarters of life insurance companies are located.

<table>
<thead>
<tr>
<th>Headquarter Location</th>
<th>No. of Companies</th>
<th>Prem in 2014 (CNY Billion)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>28 (40%)</td>
<td>738</td>
<td>58%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>20 (29%)</td>
<td>237</td>
<td>19%</td>
</tr>
<tr>
<td>Guangzhou/Shenzhen</td>
<td>5 (7%)</td>
<td>219</td>
<td>17%</td>
</tr>
<tr>
<td>Other regions</td>
<td>17 (24%)</td>
<td>75</td>
<td>6%</td>
</tr>
<tr>
<td>China Total</td>
<td>70 (100%)</td>
<td>1,269</td>
<td>100%</td>
</tr>
</tbody>
</table>
Since 2012, CIRC approves 12 life companies. More than half of them are located in Second Tier Cities. It may be the major direction of insurance company layout in the near future.

### Newly-approved Life Insurance Companies

<table>
<thead>
<tr>
<th>Newly-approved company</th>
<th>Headquarter Location</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Preparatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hong Kang Life</td>
<td>Beijing</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Dong Wu Life</td>
<td>Suzhou</td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>3. Ji Xiang Life</td>
<td>Changsha</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Hua Hui Life</td>
<td>Shenyang</td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>5. Li An Life</td>
<td>Nanjing</td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>6. Prudential US Life (JV)</td>
<td>Shanghai</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Foresea Life</td>
<td>Shenzhen</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Pearl River Life</td>
<td>Guangzhou</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Sino Korea Life (JV)</td>
<td>Hangzhou</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Ergo Life (JV)</td>
<td>Shandong</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Guolian Life</td>
<td>Wuxi</td>
<td>•</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>12. Shanghai Life</td>
<td>Shanghai (FTZ)</td>
<td>•</td>
<td></td>
<td>(Feb 17, 2015 approved)</td>
</tr>
</tbody>
</table>

### Newly-approved Life Reinsurance Company

<table>
<thead>
<tr>
<th>Newly-approved company</th>
<th>Headquarter Location</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Preparatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. RGA</td>
<td>Shanghai</td>
<td>•</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# The market share of Life Insurer in China (by premium)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Premium in 2014 (CNY Billion)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Life</td>
<td>Listed Co. 343</td>
<td>27.0%</td>
</tr>
<tr>
<td>Ping An Life</td>
<td>Listed Co. 174</td>
<td>13.7%</td>
</tr>
<tr>
<td>New China Life (NCI)</td>
<td>Listed Co. 110</td>
<td>8.7%</td>
</tr>
<tr>
<td>China Pacific Life (CPIC)</td>
<td>Listed Co. 99</td>
<td>7.8%</td>
</tr>
<tr>
<td>PICC Life</td>
<td>79</td>
<td>6.2%</td>
</tr>
<tr>
<td>Taikang Life</td>
<td>68</td>
<td>5.4%</td>
</tr>
<tr>
<td>Taiping Life</td>
<td>65</td>
<td>5.1%</td>
</tr>
<tr>
<td><strong>Top 7 domestic companies in total</strong></td>
<td><strong>938</strong></td>
<td><strong>73.9%</strong></td>
</tr>
<tr>
<td>Other domestic companies</td>
<td>258</td>
<td>20.3%</td>
</tr>
<tr>
<td><strong>Domestic Company in total</strong></td>
<td><strong>1,196</strong></td>
<td><strong>94.2%</strong></td>
</tr>
<tr>
<td>JV total</td>
<td>73</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>China total</strong></td>
<td><strong>1,269</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The market share of Life Insurer in China (by premium)
### Major Joint Venture

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Foreign Shareholder</th>
<th>Premium in 2014 (CNY Billion)</th>
<th>Market Share of JV companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICBC-AXA</td>
<td>France</td>
<td>15.4</td>
<td>21.0%</td>
</tr>
<tr>
<td>AIA</td>
<td>USA</td>
<td>10.6</td>
<td>14.4%</td>
</tr>
<tr>
<td>Sino US United Metlife</td>
<td>USA</td>
<td>6.8</td>
<td>9.3%</td>
</tr>
<tr>
<td>Generali-China</td>
<td>Italy</td>
<td>5.6</td>
<td>7.6%</td>
</tr>
<tr>
<td>CIGNA &amp; CMC</td>
<td>USA</td>
<td>5.3</td>
<td>7.2%</td>
</tr>
<tr>
<td>Citic-Prudential Life</td>
<td>England</td>
<td>5.1</td>
<td>7.0%</td>
</tr>
<tr>
<td>Aviva-Cofco Life</td>
<td>England</td>
<td>3.8</td>
<td>5.2%</td>
</tr>
<tr>
<td>Manu-Sinochem Life</td>
<td>Canada</td>
<td>3.3</td>
<td>4.5%</td>
</tr>
<tr>
<td><strong>Top 8 JV companies in total</strong></td>
<td></td>
<td><strong>55.9</strong></td>
<td><strong>76.2%</strong></td>
</tr>
<tr>
<td><strong>Other JV companies</strong></td>
<td></td>
<td><strong>17.5</strong></td>
<td><strong>23.8%</strong></td>
</tr>
<tr>
<td><strong>JV total</strong></td>
<td></td>
<td><strong>73.4</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

![Chart showing the market share of joint venture companies in China life insurance market]

- **ICBC-AXA**: 21.0%
- **AIA**: 14.4%
- **Sino US United Metlife**: 9.3%
- **Generali-China**: 7.6%
- **CIGNA & CMC**: 7.2%
- **Citic-Prudential Life**: 7.0%
- **Aviva-Cofco Life**: 5.2%
- **Manu-Sinochem Life**: 4.5%

Other JV companies: 23.8%

**Top 8 JV companies in total**: 76.2%
Cooperation between banks and insurance companies

1. **Bancassurance channel**

2. **Bank investing in insurance company**
   - Bank of Communication (BoComm) => BoComm Life (formerly CMG & China Life)
   - China Construction Bank (CCB) => CCB Life (formerly Pacific ING)
   - Agricultural Bank of China (ABC) => Jiahe Life
   - Industrial and Commercial Bank (ICBC) => AXA-Min Metals
   - Ping An of China => Shenzhen Development Bank
   - Bank of Beijing (BoB) => BoB ING Life
   - CITIC Bank => CITIC-Prudential Life
   - China Merchant Bank => CIGNA & CMC Life
   - Everbright Bank => Sunlife Everbright Life

3. **Insurance company investing in bank**
   - Ping An of China => Shenzhen Development Bank
   - China Life => China Guangfa Bank
# Landscape of China Life Insurance Market

## Channel and Product - Individual Agent

<table>
<thead>
<tr>
<th>Channel Feature</th>
<th>Major Product Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share: 51% in terms of 2013 premium (42% in 2010)</td>
<td>Critical Illness Products</td>
</tr>
<tr>
<td>Rich in product line</td>
<td>Participating Whole Life</td>
</tr>
<tr>
<td>Agents could sell complicated products</td>
<td>Personal Accidental Product</td>
</tr>
<tr>
<td>Risk of misleading by agents</td>
<td>Unit Linked Product or Universal Life</td>
</tr>
<tr>
<td></td>
<td>Medical Products</td>
</tr>
<tr>
<td></td>
<td>Variable annuities Products</td>
</tr>
</tbody>
</table>
## Channel and Product - Bancassurance

### Channel Feature
- Market share: 37% in terms of 2013 premium (49% in 2010)
- Usually investment or saving focus products
- Higher premium size per policy
- Bancassurance was the biggest channel in life market in 2010 but had since dropped to 2nd place

### Major Product Type
- 3-pay 5-year Par Endowment
- 5-pay 10-year Par Endowment
- Single Premium Par Endowment
- Juvenile Education Plan
- Deferred Annuity Certain
## Channel and Product - Telemarketing Channel

### Channel Feature
- Market share: 9% in terms of 2013 premium
- Outbound calls via call centre
- Simple product or package
- Simplified underwriting

### Major Product Type
- Critical Illness Products
- Personal Accidental Product
- Endowment with Return of Premium
- Hospital Income Product
Channel and Product - Internet Channel

Channel Feature

- The “hottest” channel:
  - Change in consumption habit;
  - Development of e-finance;
  - Low cost;
  - Small misleading risk.
- Various channels:
  - Insurer’s website;
  - Third-party website;
  - WeChat
- Simple product or package
- Simplified questionnaire + telephone / full underwriting

Major Product Type

- Investment products with high CV:
  - 1-year investment with 5%-7% return;
  - 3-year universal life;
  - CIRC worry about the asset liability mismatch risk
- Short term accident
- Critical illness, cancer insurance
Channel and Product - Group Channel

Channel Feature
- Market with cut-throat competition
- Most premium paid by the employer
- Flexible demand

Major Product Type
- Defined-contribution Annuity
- Short term accident and health
Pension

• With aging Chinese population, government attach high importance to the development of pension products
• In 2011 CIRC launched pilot program of variable annuity product, but it’s not successful because of poor stock market performance and absence of tax incentives
• In June 2014 CIRC released the guideline for reverse-mortgage annuity insurance, but till now no insurance company has developed product
• Government will possibly announce tax-deferred policy for annuity insurance in 2015
Pension-Retirement community annuity product package

• In recent years, a few insurance companies were interested in the retirement community annuity product package

• Structure:
  - With support from government, insurance company acquires the land to build the retirement community;
  - Insurance company sells annuity policy to consumers;
  - The insured of annuity policy is entitled to live in the retirement community when the insured retires;
  - Annuity benefit of the annuity insurance policy shall be used to pay the rent and service cost in the retirement community.
Agenda

Part 1  Landscape of China Life Insurance Market
  • Market Players and Premium
  • Channel and Product

Part 2  Proposed China Solvency II (C-ROSS)

Part 3  Other Development and Regulatory Changes
  • New National 10 Opinions
  • Free Trade Zone
  • Other Regulatory Changes

Part 4  Future Challenges and Opportunities
Existing Solvency I

- Solvency ratio = Actual Solvency Capital / Minimum Solvency Capital
- Actual Solvency Capital = Admitted Asset – Admitted Liability
- CIRC divide insurance companies to 3 classes according to their solvency ratios:
  - <100%: insolvent companies
  - 100%~150%: solvent companies type I
  - >=150%: solvent companies type II
- CIRC may take supervisory actions to the insolvent companies, such as:
  - require the shareholders to inject capital
  - restrict paying dividend to the shareholders
  - restrict establishing new branches
  - restrict the amount of new business written
  - take over the companies
Existing Solvency I

- Current formula (European style solvency I)
  - Introduced in 2003 and worked well in the early stage of market development in China
  - 4% of life reserves or 16% / 18% of non-life premium

- Problems with existing Solvency I calculation
  - Simple but does not cover all risk
  - Not risk oriented and not sensitive to risk management
  - Inconsistent assets and liabilities calculation
    - Asset on IFRS basis but reserve on PRC statutory conservative basis
    - leads to conservative solvency ratio
    - sensitive to market fluctuation
CIRC in April 2011 launched a research program to study the future solvency regime such as European Solvency II and US risk-based capital (RBC).

In March 2012 CIRC released the project plan for the new solvency system.

In May 2013 CIRC announced the framework of the new solvency system, China Risk Oriented Solvency System (C-ROSS);

In 2014, CIRC carried out QIS on C-ROSS starting with P&C insurers, then Life insurers and finally reinsurers

CIRC released 17 C-ROSS consultation papers to industry by end of 2014

In 2015, insurance companies are required to carry out existing Solvency I and proposed Solvency II calculation

In 2016, Solvency II becomes effective
C-ROSS: Goals and Principles

• Goals
  ➢ Systematically measure risks
  ➢ Promote effective risk and capital management
  ➢ Mechanism to enhance enterprise risk management
  ➢ Provide useful experience to other emerging market

• Principles
  ➢ Risk oriented
  ➢ Reflect characteristics of Chinese market
  ➢ Internationally comparable
CIRC Planning (Released on Mar 2012).

Step One
Study work 2-3 years since 2012: Solvency II in Europe, RBC in US etc.

Step Two
Draft released during 2014.

Step Three
Quantitative testing basing on the draft released and making necessary adjustment.

2012.4
CIRC new solvency scheme working group set up.

2013.5
C-ROSS framework released.

2014.3-4
15 P&C companies for sample test in Mar, 1st round industry test for primary companies in Apr. Reinsurance companies not involved.

2014.7
2nd round industry test and 2nd draft policy released for P&C primary in July. Reinsurance companies submit comments, test not required.

2014.7
1st drafted policies released regarding Pillar 2- non quantified reporting.
CIRC Planning (Released on Mar 2012).

Step Three
Quantitative testing basing on the draft released and making necessary adjustment.

2014.7-8
1st draft policy released for L&H primary companies in July, 1st round industry test in Aug.
Reinsurance companies submit comments, test no required.

2014.9-10
2nd round industry test and 2nd draft policy released for L&H.
1st round industry test requirement for Reinsurance companies.

2014.10-11
2nd drafted policies released regarding Pillar 2- non quantified reporting.
1st Drafted policies released regarding Pillar 3-disclosure.

2014.11
3rd round industry test and 3rd draft policy released for L&H primary.
2nd round industry test requirement for Reinsurance company.
Proposed China Solvency II (C-ROSS)

**Timeline (3)**

**CIRC Planning (Released on Mar 2012).**

**Step Four**

C-ROSS regulations and time table formally released.

- **2014.12-2015-1**
  - Formal release the C-ROSS SII regulations for P&C and L&H both. Official time table of parallel period for capital injection.

- **2015.1.13**
  - C-ROSS regulations were officially passed. The expected parallel period is 12 months to end of Dec 2015.

- **2015.2.17**
  - The CIRC formally released C-ROSS regulations

- **2016.1.1**
  - Insurance companies pass the parallel period for capital injection, management control risk preparation. C-ROSS is fully on track.
Proposed China Solvency II (C-ROSS)

Type of Risks (1)

Supervisable Risks

Unsupervisable Risks

Systematic Risk

Inherent Risks

Control Risk

Unquantifiable Risk

Quantifiable Risk

Insurance Risk

Credit Risk

Market Risk

Strategy Risk

Liquidity Risk

Operation Risk

Reputation Risk

Pillar I

Pillar II

Pillar III
Type of Quantifiable Risks (2)

- Insurance Risk
  - Life Insurance – Mortality, Morbidity, Longevity, Expense, Surrender
  - Non-Life Insurance – Premium, Reserve, Catastrophe
  - Reinsurance – Life Reinsurance, Non-life Reinsurance

- Market Risk
  - Interest Rate, Equity, Property, Currency, Overseas Assets

- Credit Risk
  - Credit Spread, Default
Proposed China Solvency II (C-ROSS)

Road Map for Calculation of Minimum Capital And Ranking of Insurance Company

Is Risk Quantifiable?

- Yes
  - Quantifiable Risk
    - Method 1: Pro-cyclical Risk
    - Method 2: Systematically Important Institution Risk (SII)
      - Scenario based method
      - Industry factor
        - Based method, adjusted for business characteristics

- No
  - Non-quantifiable Risk
    - Qualitative Assessment on Non-quantifiable Risk

Pillar 1
- Minimum Quantitative Risk Capital
- Pillar 2
- Minimum Control Risk Capital

Integrated Risk Rating (IRR)
Companies are ranked into 4 categories: A, B, C and D

SARMRA
Solvency Aligned Risk Management Requirement and Assessment
Proposed China Solvency II (C-ROSS)

Pillar 3

- Self-discipline mechanism with information disclosure to market
  - Rating agencies, analysts, investors, media

Technical aspect on C-ROSS

- Category of Capital
  - Tier 1 and 2; Core and Supplementary Capital

- Solvency Indicator
  - Core solvency adequacy ratio = core capital / minimum capital
  - Aggregate solvency adequacy ratio = (core and supplementary capital) / minimum capital
  - Integrated risk rating: a comprehensive overall evaluation of all risks, both quantitative and non-quantitative. Insurers are classified into A, B, C, D

- DST, QIS, VaR over 1-year time horizon
- Risk diversification with correlation coefficient allowed
QIS test results of life insurers

Average Solvency Ratios

<table>
<thead>
<tr>
<th>Solvency I</th>
<th>C-ROSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>215%</td>
<td>219%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>in CNY billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Capital</td>
<td></td>
</tr>
<tr>
<td>Minimum Capital</td>
<td></td>
</tr>
<tr>
<td>Capital Surplus</td>
<td></td>
</tr>
</tbody>
</table>

- Solvency I: 215%
- C-ROSS: 219%
What are market implications under C-ROSS?

- Discourage sale of capital intensive product (e.g. high cash value)
- Market becoming more rational
- Companies need to develop expertise quickly on ERM, risk and economic capital modeling
- Demand on risk management and technical / modeling expertise
- More collaboration among Actuaries, Risk Management, Finance, Investment
- Reposition of reinsurance needs
- Potential more IPO
- Potential market consolidation among smaller and weaker insurers
- M&A
Reference: C-ROSS regulatory rules (released on February 17, 2015)

- **Pillar 1**: Available capital (1)
  - Minimum overall capital (2)
  - Liability valuation for life business (3)
  - Minimum capital for non-life insurance risk (4)
  - Minimum capital for life insurance risk (5)
  - Minimum capital for reinsurance companies (6)
  - Minimum capital for market risk (7)
  - Minimum capital for credit risk (8)
  - Stress testing (9)
  - Insurance Group (17)

- **Pillar 2**: Integrated Risk Rating (Supervision by classification) (10)
  - Solvency aligned risk management requirements and assessment (SARMRA) (11)
  - Liquidity risk (12)

- **Pillar 3**: Public disclosure on Solvency Information (13)
  - Communication on Solvency Information (14)
  - Credit rating on insurance companies (15)
  - Solvency Reporting (16)
Agenda

Part 1 Landscape of China Life Insurance Market
  • Market Players and Premium
  • Channel and Product

Part 2 China Solvency II (C-ROSS)

Part 3 Other Development and Regulatory Changes
  • New National 10 Opinions
  • Free Trade Zone
  • Other Regulatory Changes

Part 4 Future Challenges and Opportunities
New National 10 Opinions (新国十条)

• On August 10, 2014 the State Council released a document on “Accelerating the Development of Modern Insurance Service Industry” in China
• 1st time the insurance industry received such high-level attention and guidance from the State Council
• By 2020, it targets the insurance penetration ratio (premium / GDP) increased to 5% and the insurance density (premium / population) increased to CNY 3,500 in 2020
• Insurance premium (Life and Non-Life) to increase from CNY 2 trillion in 2014 to CNY 5 trillion in 2020
• The State Council also wants the insurance industry to play an increasing and bigger role in helping the society
• The opinions expressed in the document goes hand-in-hand with the C-ROSS
New National 10 Opinions (新国十条)

- Basic principles: market-oriented, industry reform, opening market
- Government to support insurance development with
  - inter-departmental communication and cooperation among regulators
  - government purchase of insurance services
  - tax incentive policies
  - guarantee of land for elderly care & health service industry
  - fiscal subsidy for agriculture insurance
  - promote public awareness on insurance
New National 10 Opinions (新国十条)

- To further develop commercial insurance
  - Life Insurance
    - Pension
    - Health insurance
  - Non-Life insurance
    - Liability insurance
    - Catastrophe insurance
    - Agricultural insurance

- To further improve
  - Insurance fund efficiency
  - Market-oriented
  - “going out” - international
  - Infrastructure and Innovation of insurance companies
Free Trade Zone

Set up
- Lead by China State Council in September 2013
- Government new platform for "reform - open policy"
- @30.06.2014 registered more than 19,000 companies, incl. 142 of Fortune 500
- All 4 supervision departments have named their supporting points, 2 already with detail operational rules
- Build up Reinsurance Market, especial International Reinsurance Centre
- Develop key lines: Liability and Marine
- Expand investment abroad
- RMB cross-border movement
- Ease supervision on new product, branch license and senior management appointment.
- Already open: 11 sub-branches (7 P&C, 4 Life), 3 legal entities (1 life, 1 Investment, 1 credit ins.), 1 rep-office (AIA)
Free Trade Zone

**Shanghai was already defined as “Doppel Centre” for Marine and Reinsurance**

“Government 10 Points” asks to build up Regional Reinsurance Centre. It will be on SH FTZ platform

**Attractiveness**
- In Shanghai registered Reinsurer open sub-branch in FTZ - no approval necessary.
- Benefit of preferential cross-border RMB policy
- Benefit of preferential policy for products (Cat, Liab., Marine etc.)
- Political Bonus: First Move to support government policy

**Uncertainty**
- How to combine offshore and domestic business?
- CIRC is negotiating for preferential tax policy, result still unclear.
- more detailed operational rules are still in pipeline
**Investment**

- In recent years, insurance companies are allowed to invest in more investment vehicles, such as:
  - Real estates
  - Stock index futures / financial derivatives
  - Asset-backed securities (ABS)
  - Trust plan
  - Preferred stock
  - PE (private equity) and venture capital

- Insurance Asset Management Company (AMC) are allowed to expand its entrust fund to non-insurance entities

- With the liberalization of the investment vehicles, regulator pays more attention to the insurance company’s risk management
Policies to Liberalize Front End and Control Back End

• Liberalize Front end
  • Move from rule-based to principal-based
  • Curtail proactive regulation
  • Reduce regulatory approval and licensing
  • Change insurance product from approval-based to registration-based
  • Remove restriction on maximum 2.5% pricing interest rate
  • Expand areas of investment

• Control Back End
  • C-ROSS
  • ERM
  • Internal Audit
  • Internal Control
**Agenda**

**Part 1** Landscape of China Life Insurance Market
- Market Players and Premium
- Channel and Product

**Part 2** China Solvency II (C-ROSS)

**Part 3** Other Development and Regulatory Changes
- New National 10 Opinions
- Free Trade Zone
- Other Regulatory Changes

**Part 4** Future Challenges and Opportunities
Challenges and opportunities

• China ranks #2 in the world's economy, with the growth ratio of GDP over last two decades around 9.5%, and drop to 7% or lower in the future
• China life insurance market ranks fourth in the world while ranks second in the Asia as at the end of year 2013 in term of annual premium volume
• Seven largest companies dominate 75% of life market share; foreign insurers have only 5% market share
• Saving products are most popular with high premium and low embedded value
• China aims to achieve insurance penetration (premium / GDP) 5% and insurance density (premium / population) CNY 3,500 in 2020; insurance premium is expected to increase from CNY 2 trillion in 2014 to CNY 5 trillion in 2020
Challenges and opportunities

**Product development**
- Product homogeneity and short product cycle
- As China grows its economy, there are many untapped products especially in medical / health, pension, annuity and wealth management products

**Distribution channel**
- Difficulty in recruiting new agents
- Banks entering into insurance market
- CBRC imposes rule that bank can sell insurance products for 3 insurers and Life insurers cannot place agents in banks to sell life insurance
- Other direct marketing channels (telemarketing, internet, TV) are promising

**Life insurance market in China is still full of opportunities**
- Relatively weak awareness of insurance among Chinese people
- Limited types of insurance coverage
- Fast aging society
- High savings ratio
- Accelerate emergence of middle class and urbanization
Challenges and opportunities

- **Foreign life insurers** are losing the market share, partly due to CIRC regulatory restriction and partly due to the lack of localization of operation and lack of flexibility by home office. As China insurance market further develops, regulatory restriction could be lifted which would provide more level playing field for domestic and foreign insurers.

- **The CIRC**
  - focusing on consumer protection, strengthening compliance and sales practice in order to improve insurance industry image
  - liberalizing the front end regulation (such as product pricing and investment) and controlling the back end regulation (such as C-ROSS, risk management, internal control, internal audit)
  - One still need to take **long term view** on investment in China
Q & A