

# CHINA INSURANCE UPDATE AND RISK BASED CAPITAL DEVELOPMENT IN INDIA

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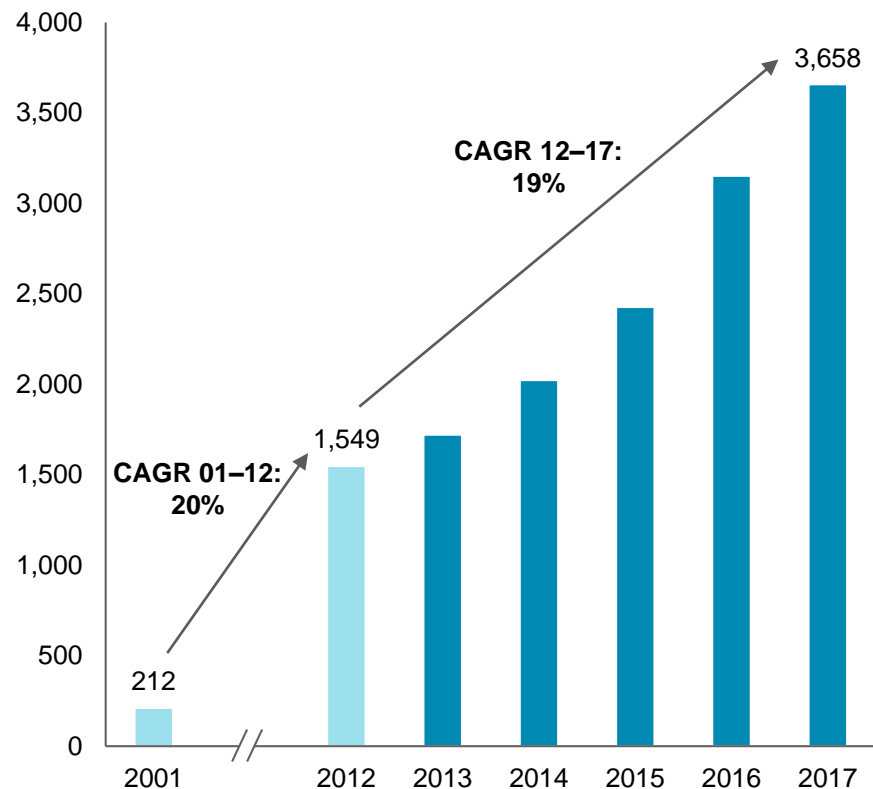
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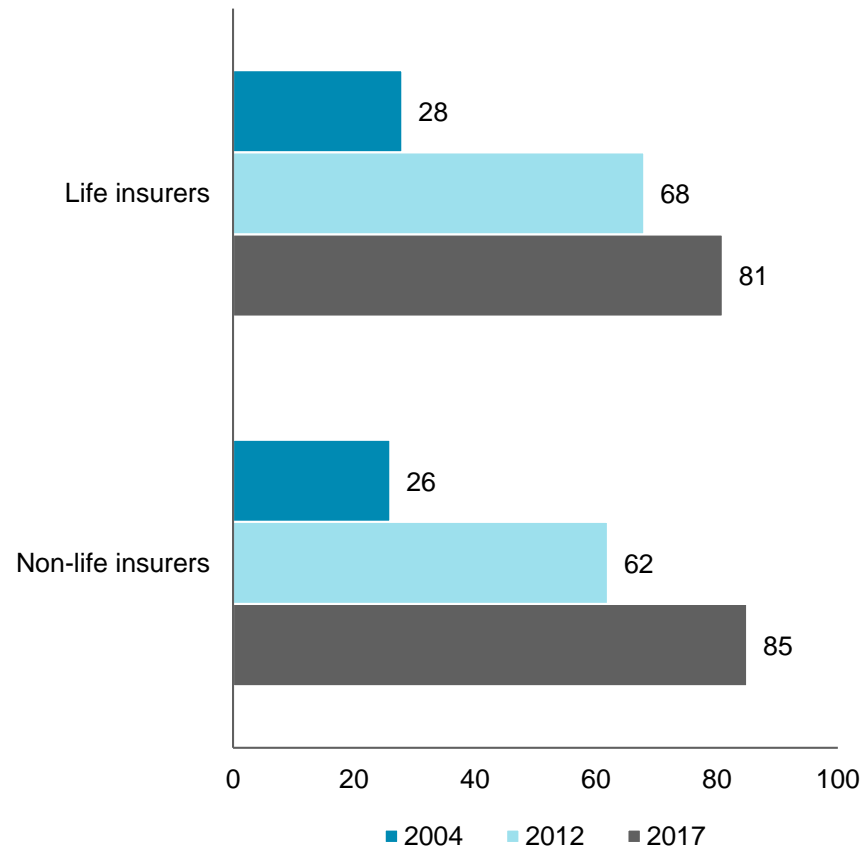
# 1 | A quick update about China

# Update #1: Total insurance premium income in China has continued to grow at the historical level

**Total written premium in China's insurance market**  
RMB BN



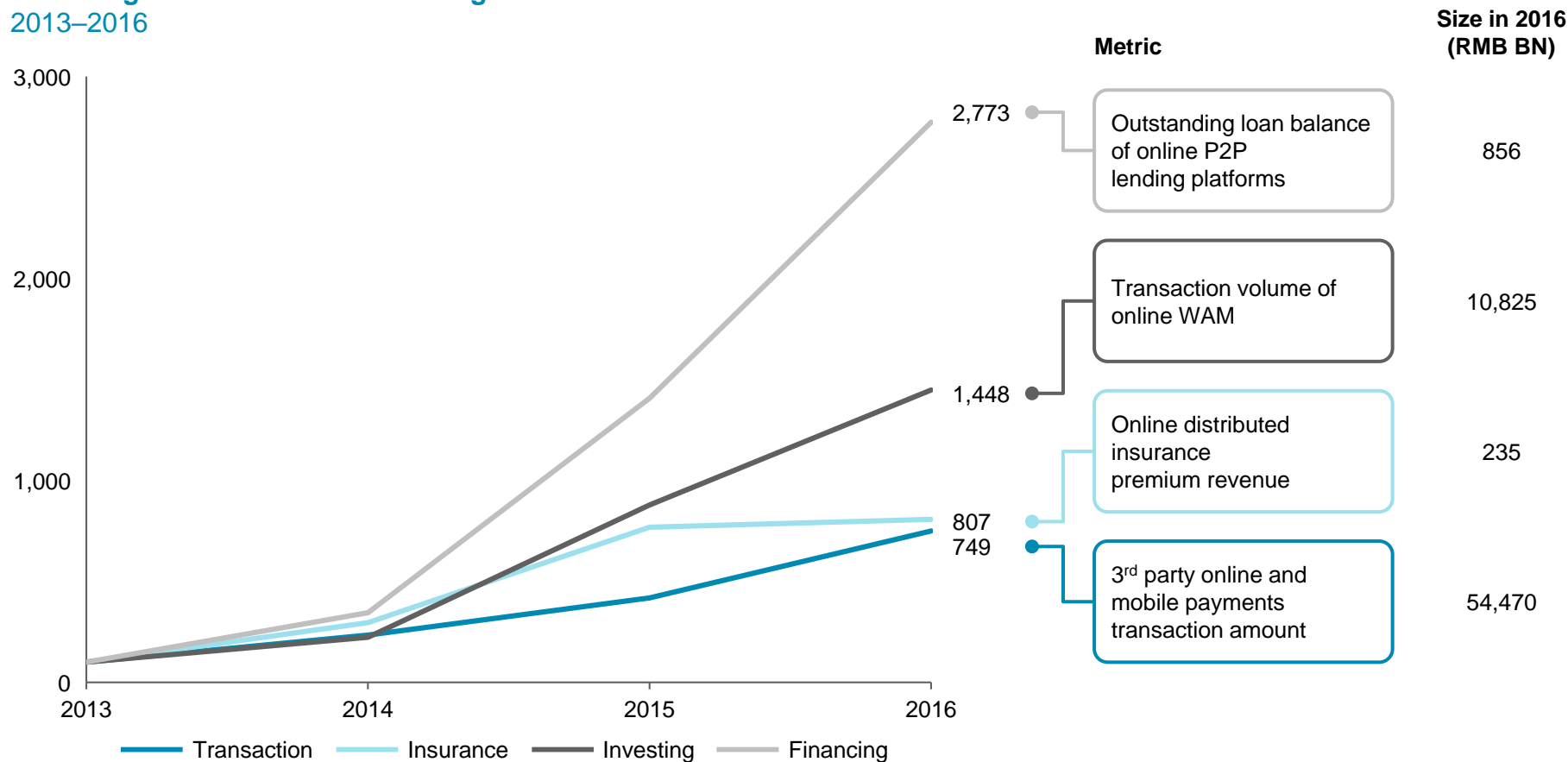
**Number of insurance companies in China**



Source: Axco Global Statistics, Oliver Wyman analysis

## Update #2 (1/2): The Fintech industry in China has experienced explosive growth since 2013

Indexed growth of China fintech segments<sup>1</sup>  
2013–2016

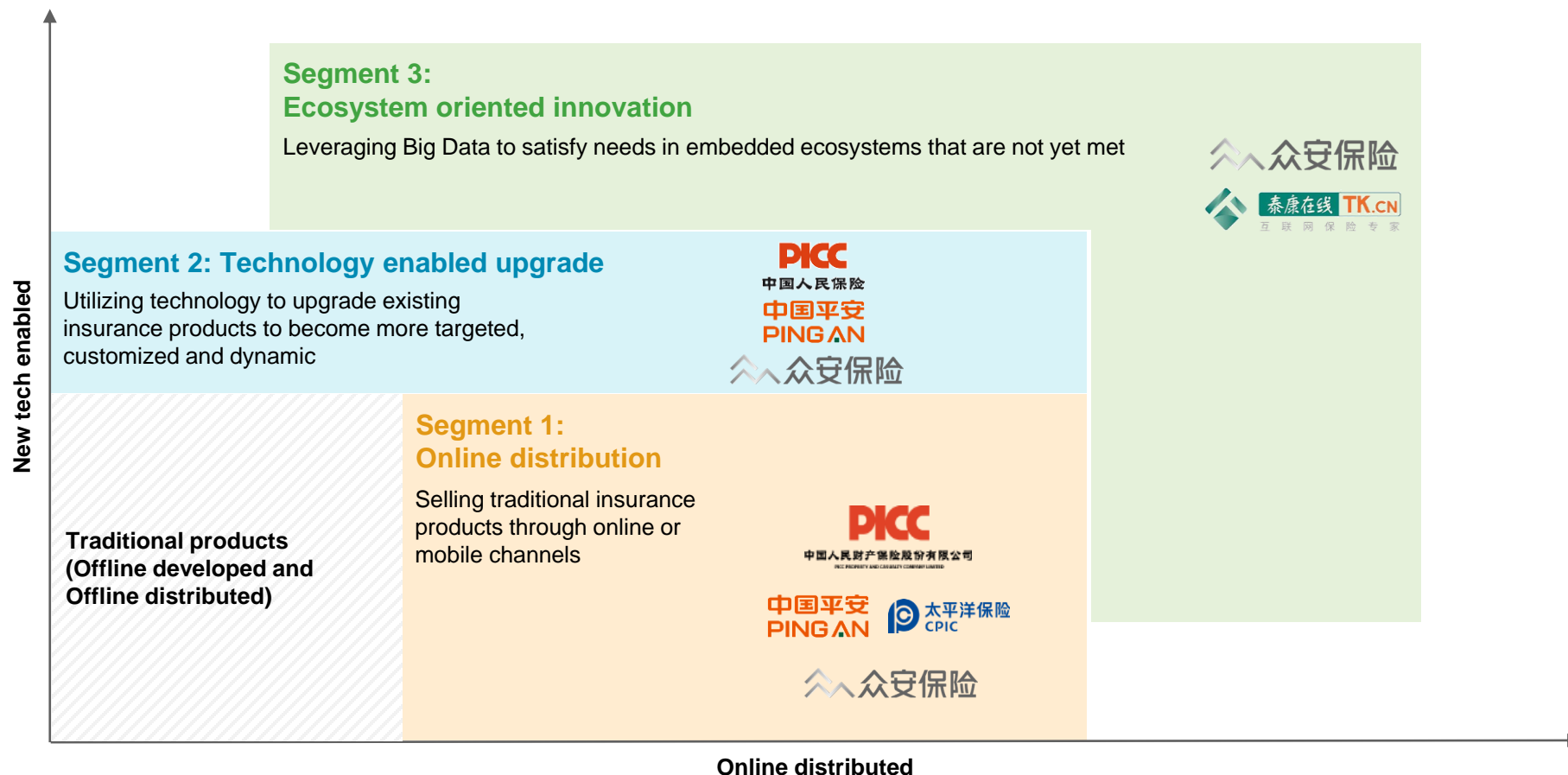


1. One representative metric for each area adopted and indexed at 100 in 2013  
Source: Oliver Wyman research

# Update #2 (2/2): China is creating an insurtech market with a variety of different opportunities by marrying insurance and technology

## Segments of Insurtech in China

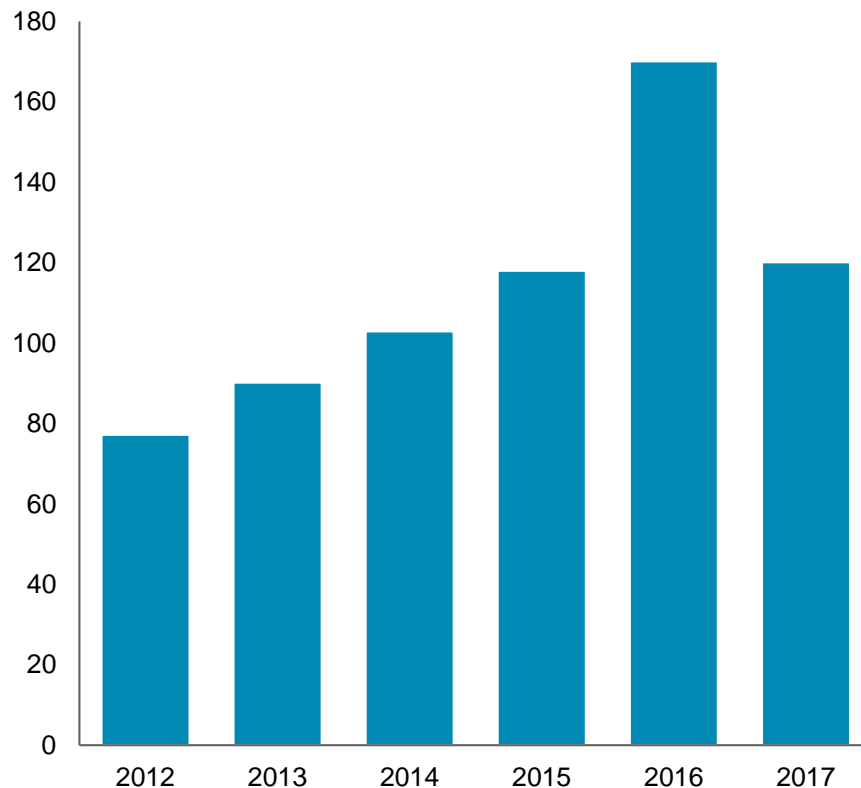
RMB BN



Sources: Oliver Wyman analysis

## Update #3: More Chinese insurers have been increasing their M&A activities to expand insurance business internationally

China outbound direct investment  
US\$ BN



Source: Ministry of Commerce, Bloomberg

Recent overseas transactions by Chinese insurers

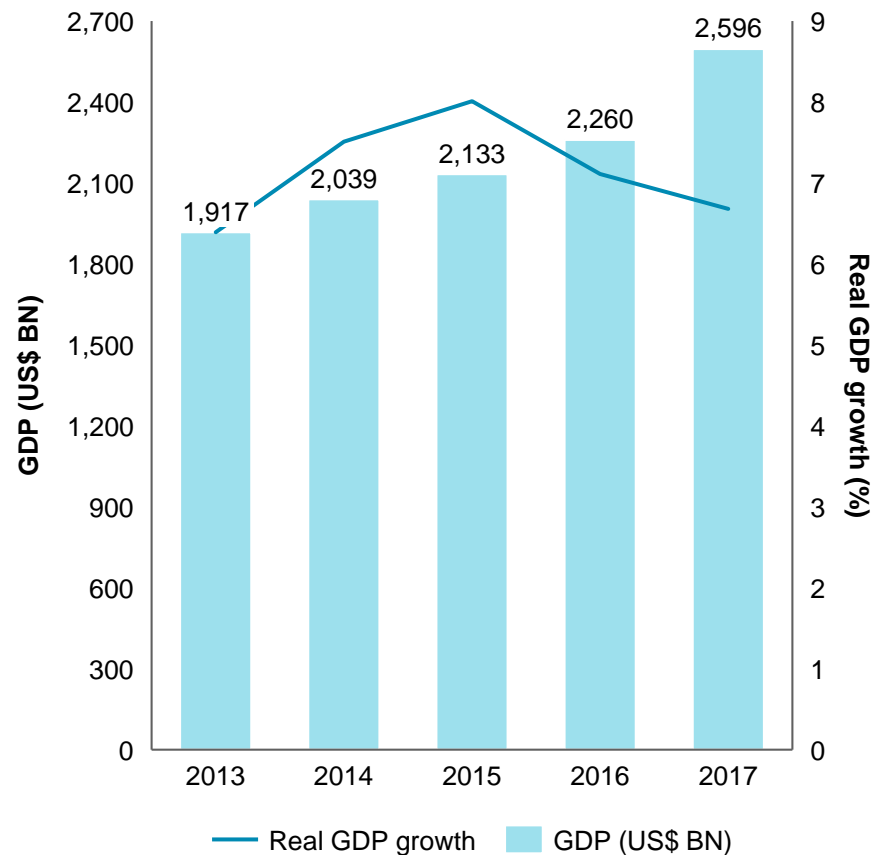
Year	Acquirer	Target	Target Country	Transaction values (US\$ MM)
2014	Fosun	Fidelidade	Portugal	1,420
2015	Anbang	Tong Yang Life	South Korea	1,000
2015	Anbang	Vivat Insurance	Netherlands	170
2015	Fosun	Meadowbrook Insurance	USA	433
2015	CM International	Sirius International Insurance	Bermuda	2,240
2016	Fosun	Ironshore	Bermuda	2,263
2016	China Oceanwide	Genworth Financial	USA	2,700
2016	JD Group	Ageas' HK life business	Hong Kong	1,400
2017	Yunfeng FG	MassMutual Asia	Hong Kong	1,010



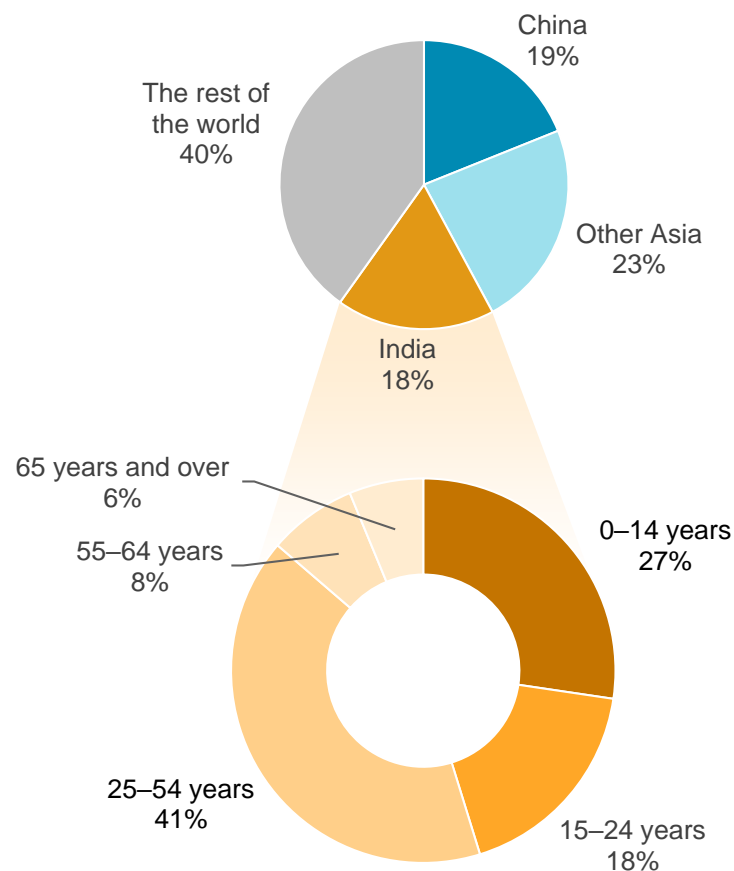
## 2 | Risk based capital development in India

# India has a growing economy with significant demographic tailwind

## India GDP and growth



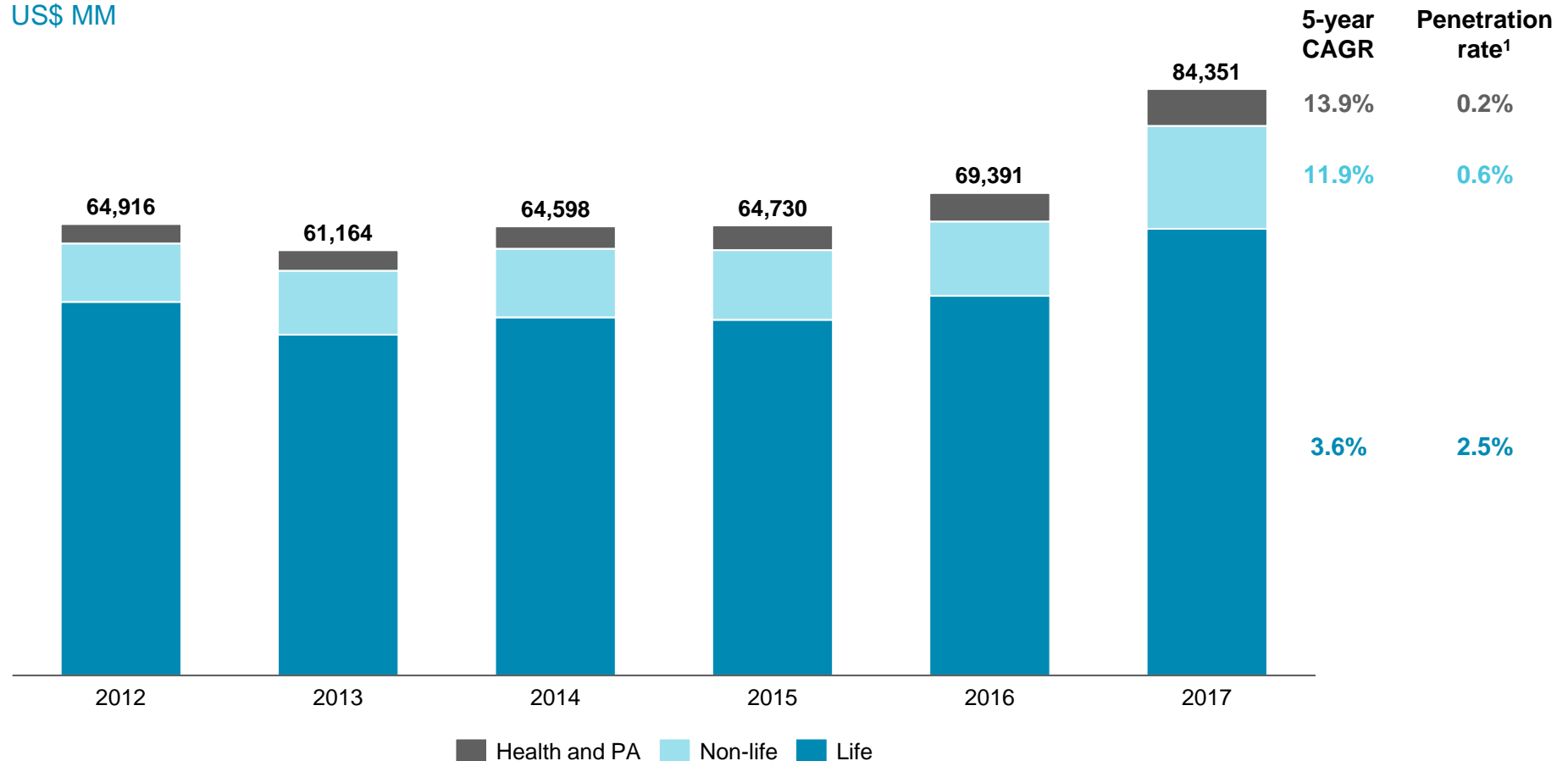
## India population and age structure



Source: Axco Global Statistics

# The insurance sector has continued to grow in scale but the level of insurance penetration remains low

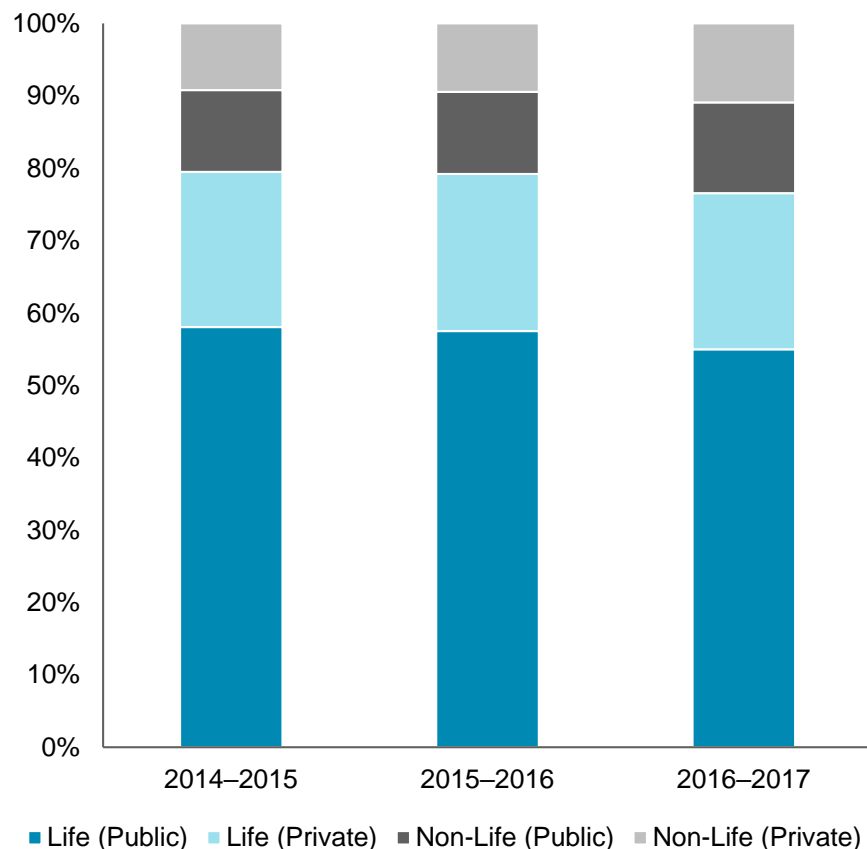
Total written premium in Indian insurance market  
US\$ MM



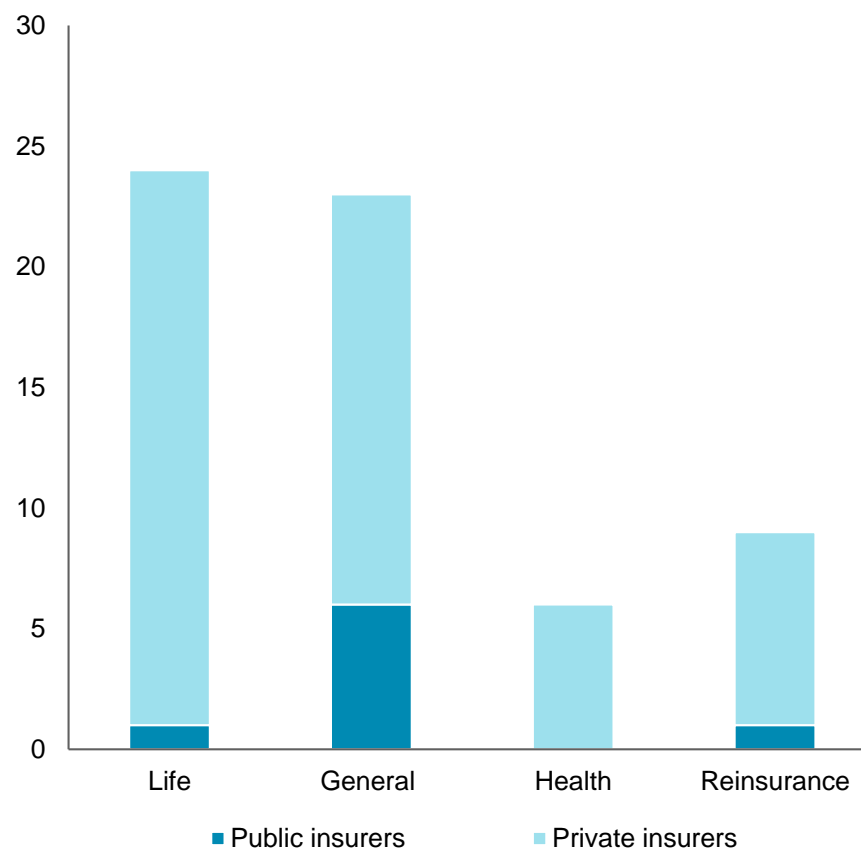
1. Penetration rate defined as GWP/GDP  
Source: Axco Global Statistics

# Public sector insurers are small in numbers but continue to command a majority of the market by premium income

## Market share by premiums



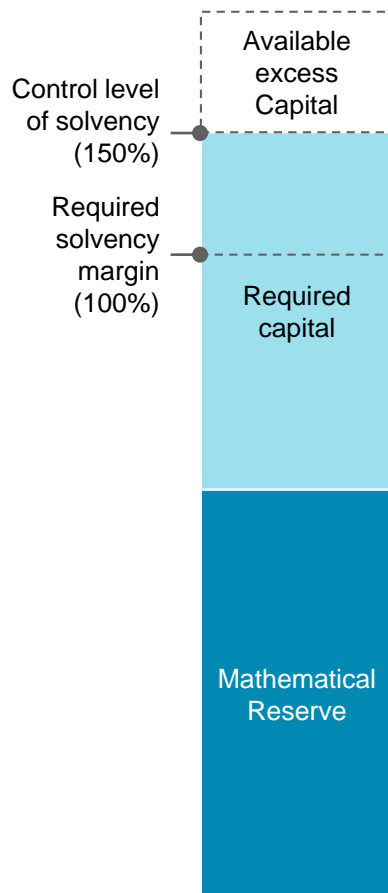
## Number of registered insurers 2016-2017



Source: IRDAI annual report

# The current capital regime is a simple, mainly factor-based set of solvency requirements that are insensitive to risk

## Illustration of the current solvency regime



### Pros

- Simple to calculate, administer, validate and communicate
- Withstood the test of time



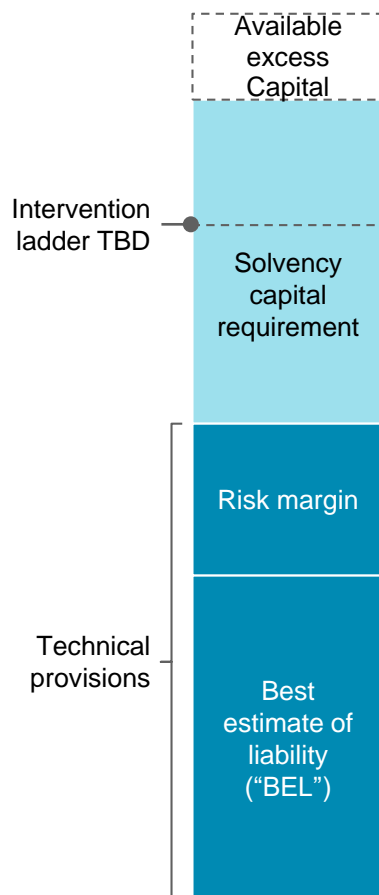
### Cons

- Capital levels not necessarily aligned with actual risks
- Does not consider all risks (e.g. counterparty risk )
- Little incentives for better risk management
- Counterintuitive: companies with higher reserves are required to hold more capital

Source: Report of IRDAI RBC Approach and MCVL of Indian Insurance Business, Oliver Wyman analysis

# The proposed capital regime is a modernization of the solvency framework with a standardized approach covering all risks at a high confidence level

## Illustration of the proposed solvency regime



### Pros

- Modular in design and considering all relevant risks
- More risk sensitive to reflect the true financial positions
- Promotes better risk management practices
- Consistent with international insurance capital standards



### Cons

- Difficult to calculate and administer
- Insufficient industry and company data
- Significant resource constraints for testing and implementation
- Unknown impacts to the overall industry and individual company

Source: Report of IRDAI RBC Approach and MCVL of Indian Insurance Business, Oliver Wyman analysis

# Tentative implementation timeline for the risk based capital regime

	Year 1				Year 2				Year 3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Phase 1 – Investigation phase</b>												
Initial RBC framework development												
Industry consultation and gap assessment												
<b>Phase 2 – Agreement phase</b>												
QIS 1												
QIS 2												
QIS 3												
Additional QIS (optional)												
<b>Phase 3 – Finalization phase</b>												
Methodology & report finalization												
Regulatory planning and implementation												

Source: Report of the Committee on Road Map for Risk Based Solvency Approach in Insurance Sector, Oliver Wyman analysis

# Key design and implementation issues for the risk based capital regime

1



**Balance between conservatism and growth**

2



**Basis of calibration**

3



**Public sector companies vs. private sector companies**

4



**“Pillar 2” requirements and risk based supervision**

5



**Timing and resources consideration**

Source: Report of the Committee on Road Map for Risk Based Solvency Approach in Insurance Sector, IMF technical note, Oliver Wyman analysis



## Concluding remarks

*It's the action, not the fruit of the action, that's important. You have to do the right thing. It may not be in your power, may not be in your time, that there'll be any fruit. But that doesn't mean you stop doing the right thing. You may never know what results come from your action. But if you do nothing, there will be no result.*

— Mahatma Gandhi



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