Romance of the Three Kingdoms

Insight into China’s Insurance Market

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Romance of the Three Kingdoms is a historical novel – one of China’s most beloved and defining literature works – written by Luo Guanzhong in the 14th century.

For the main theme of the story, there were three main regional powers competing the final dominance of the country. The story dramatizes the power struggle and tug of war between these three kingdoms.
As a profession, actuaries’ roles and responsibility can be defined in different ways, depending on certain specific perspective, position or focus. In a big picture, one way that the role and responsibility of an actuary can be defined is to use the ‘Three Kingdoms’ framework and perspective:
Three Kingdoms/Tug of War: Pricing Insurance Products

A new insurance company is being set up, and at the beginning, it has just one insurance product. The company management is seeking consulting help from three possible consultants: an actuary, an economist, and a politician.

- **Actuary**
  - Risk/cost driven: insurance performance metrics

- **Economist**
  - Market and customer driven: supply & demand

- **Politician**
  - Public & political interest driven: policy and regulation

• The role is to take into account the considerations and interest of all different parties and come up with good and balanced decisions.
Insurance is one of China’s fastest growing industries today. As more domestic and international competitors enter the market, 3 tiers of companies begin to form by capital, market size, company structure, products, and so on. As a result of this rapid expansion, there is an increasing division between these tiers. We believe that it is time now to call for fair and sound regulations in order to standardize the market rules and level the playing field.

**3 TIERS BY CAPITAL**
- Government or State owned Capital
- Foreign Invested Capital
- Domestic Private Capital

**3 TIERS BY SIZE**
- Large P&C Insurers (> 25 bil. RMB)
- Mid-sized P&C Insurers (3-25 bil. RMB)
- Small P&C Insurers (< 3 bil. RMB)

**Main Challenge:** Lack of market standards and sound regulations to fairly regulate all insurance companies across the industry.
Three Kingdoms/Tug of War: Market Evolution

China’s joining the WTO in 2001 was a milestone event in the evolution of its insurance market. The event led to a sharp upturn in growth, competition, and complexity of China’s insurance industry.

- The experience of the first two decades was dominated by the first set of central government back players.
- During this period of time, the competition was low.
- International capital started to flow into the market through share buying or joint ventures.
- The market began to grow rapidly.
- China joined the WTO in 2001, promising to fully open up the insurance market in 5 years.

Future trends:

- Future trend #1: Large players continue to lose market share.
- Future trend #2: Combined foreign and domestic private ownership and capital.
- Future trend #3: Adoption of new and advanced technology.
Three Kingdoms/Tug of War: Future Trends in the Marketplace

Predictions

I
Local government backed insurers are competing with Central government backed companies. The large players will continue to lose their market shares.


II
Foreign investors will increase their work relationship with China’s private investors through joint venture or combined capital.

- AXA TIANPING P&C Insurance Co.Ltd (January 2014; AXA: 50%)

III
Adoption of new technologies is providing effective tools for small and medium size insurers to compete against the large players.

- ZHONGAN Online Insurance (November 2013)
  - Alibaba.com 19.9%
  - QQ.com 15%
  - PingAn Ins 15%

Latest Events

PICC Market Share:
2010  2011  2012  2013
38%,  36%,  35%,  34%
Three Kingdoms/Tug of War: Future Regulation Trends

The China insurance market is very large and complex now, therefore, various reforms are urgently needed to modernize the industry. Consider the following types of reforms:

**Banking and Currency Reform:**
- China Central Bank allowed a double trading range on currency
- Expected to drop interest rate control
- A series of banking reforms and pilots in progress

**Solvency Regulation Reform:**
- C-ROSS: China Risk Oriented Solvency System (in development)
- More requirements on capital adequacy testing, 3 pillar framework

**Market Driven Reform of Interest Rates and Currency Rates**

**Evaluation Driven Reform of Solvency Regulations**

**Competition and Risk Driven Reform of Pricing**

**Pricing Reform:**
- Allow a wider range of credits and debits
- Independent rating and products financially strong companies
- National accident reporting platform
- Interest and pilots in UBI

For actuaries, the China insurance industry does need your inputs, contributions, and participations.