



Chapter IV

Insurance Sector

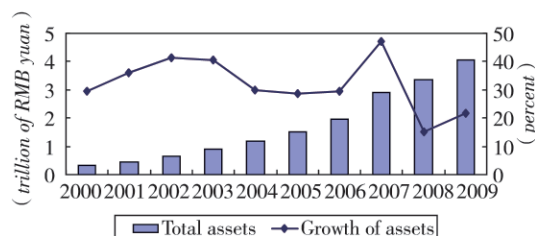
In 2009, the overall strength of the insurance sector was markedly enhanced, with continuous expanding scope of services, effectively adjusted structure, and more scientific and efficient supervision, which contributed to the development of the society and the economy.

Recent Developments

Entities engaged in the insurance business continued to increase. In 2009, 8 new insurance companies were established. By the end of the year, the number of incorporated insurance institutions reached 138, including 8 insurance group companies, 51 property insurance companies, 59 personal insurance companies, 9 reinsurance companies, 10 insurance asset management companies and 1 credit insurance company.

Assets increased further. By the end of 2009, total assets of the insurance sector registered RMB 4.06 trillion yuan, a rise of 21.59 percent y-o-y (Figure 4.1). The balance of invested insurance funds grew by 8.8 percent y-o-y to RMB 3.7 trillion yuan, among which RMB 1.05 trillion yuan or 28.1 percent of the total was of bank deposit, RMB 1.91 trillion yuan or 50.96 percent was of bonds, RMB 419.96 billion yuan or 11.22 percent was of stocks (equity) investment, and RMB 275.878 billion yuan or 7.37 percent was of securities investment funds.

Figure 4.1 Asset Changes in the Insurance Sector

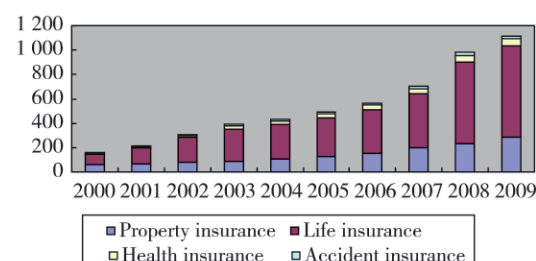


Source: CIRC.

Premium income grew stably. In 2009, premium income nationwide exceeded RMB 1 trillion yuan for the first time and reached RMB 1.1138 trillion yuan, an increase of 13.8 percent y-o-y (Figure 4.2). This included RMB 287.6 billion yuan from property insurance, an increase of 23.1 percent y-o-y; RMB 745.7 billion yuan from life insurance, an increase of 12 percent y-o-y; RMB 57.4 billion yuan from health insurance, a decrease of 1.9 percent y-o-y; and RMB 23 billion yuan from accident insurance, an increase of 12.7 percent y-o-y. Claims and benefit payments by insurers nationwide totaled RMB 336.7 billion yuan, up 13.3 percent y-o-y.

Figure 4.2 Premium Income Growth

(billion of RMB yuan)



Source: CIRC.

The opening-up process was further promoted. By the end of 2009, 52 foreign insurance companies from 15 jurisdictions had established 291 business operations in China and 137 foreign insurance companies from 21 jurisdictions had set up 183 representative offices. In 2009, premium income of foreign insurance companies registered RMB 45.802 billion yuan, accounting for 4.11 percent of the national total. And total assets of foreign insurance companies stood at RMB 205.239 billion yuan, up 34.6 percent y-o-y accounting for 5.1 percent of that of the entire insurance sector. At the same time, the “Going Global” strategy was steadily implemented. By the end of 2009, Chinese-funded insurance companies had set up 41 local business operations and 9 representative offices overseas.

Reform and Achievements

In 2009, the insurance sector saw considerable progress in the expansion of service scope, reform of insurance companies, bancassurance cooperation and the improvement of insurance supervision.

Expansion of Service Scope

First, the coverage of the insurance for agriculture, rural areas and farmers was further expanded. The development of agricultural insurance was steadily facilitated with efforts to find an agricultural insurance operational mechanism and development pattern suitable for national condition. Crop farming insurance

gradually expanded to major grain-producing regions and counties while pilot program of rural micro-insurance had already covered 10 provinces including Shandong and Shaanxi. In 2009, premium income from agricultural insurance totaled RMB 13.39 billion yuan, up 21 percent y-o-y and provided RMB 381.2 trillion yuan worth of risk protection, an increase of 59 percent y-o-y. And a total number of 133 million households participated in agricultural insurance, up 48 percent compared with last year.

Second, to conscientiously implement the package plan released by the CCP Central Committee and the State Council to cope with the international financial crisis and promote steady and rapid economic development, the insurance sector put infrastructure projects such as transportation, communication, energy and resources on top of the investment list and actively promote the pilot programs of automobile loan insurance, micro-credit security insurance and science and technology insurance.

Third, while taking an active part in the development of pension insurance system and social healthcare insurance system, the insurance sector also facilitated the development of liability insurance in fields such as healthcare, transportation, education and environment, pilot programs of environment pollution liability insurance were carried out in 8 provinces (municipalities) and medical liability insurance was launched in 56 cities under 16 provinces (autonomous regions and municipalities).

Fourth, the sector gave great support to export enterprises in a way that accorded with international practice. The development of export credit insurance was remarkably promoted, with the total underwritten amount of short-

term export credit insurance standing at USD 90 billion and the total underwritten amount of export financing arrangement for complete sets of equipment registered USD 42.1 billion.

Box 11 Micro-insurance

Micro-insurance refers to a special insurance service which features low premium and low coverage, and targets at low-income groups to cover some specific risks such as disease, death and disability. It is an important financial arrangement to protect the property of low-income people against specific perils such as disease, nature disaster and accident, therefore save those people from falling into poverty.

Currently, most financial supervisors worldwide have set financial inclusion as a policy objective, with the aim to make every consumer accessible to suitable and affordable financial service. With low-income groups as its service target, micro-insurance is regarded as one of the most efficient ways to realize the aim. According to a survey carried out by International Micro-insurance Center in 2007, 77 countries out of 100 were carrying out micro-insurance business. Besides, WB, ILO, IAIS, GTZ and the International Micro-insurance Center are also actively promoting micro-insurance.

In 2008, China formally launched the pilot program of small-sum personal insurance in rural areas. By the end of 2008, the program

had covered 2.39 million farmers, collected premium of RMB 42.12 million yuan and provided about RMB 28 billion yuan worth of risk protection. By April 2009, the pilot program had expanded to 10 provinces (autonomous regions and municipalities) including Shandong, Shaanxi, Yunnan, Guizhou, Ningxia, Inner Mongolia, Chongqing, Hainan, Anhui and Hebei. The newly-added number of people insured exceeded 8.71 million in 2009, the premium surpassed RMB 230 million yuan, and the risk protection provided was worth around RMB 140 billion yuan.

According to the result of real practice, the small-sum personal insurance in rural areas has made extensive progress, recognized by the State Council and local governments, and appreciated by IAIS. The small-sum personal insurance has also aroused farmers' awareness of insurance, realized the goal of making insurance affordable and available to low-income groups by solving the problem of obscure insurance terms, complicated procedures and high premium, and contributed to the business development of pilot insurance companies in rural areas and township areas.

New Progress in Restructuring of Insurance Companies

In 2009, the People's Insurance Company (Group) of China Ltd. was formally established. In December 2009, China Pacific Insurance (Group) Co., Ltd. raised HKD 24.116 billion through offering 861 million H shares in Hong Kong SAR. And by the end of 2009, all the state-owned insurance companies, except for SINOSURE, have accomplished the shareholding reform and 6 Chinese-funded insurance companies have been listed

in domestic or overseas markets, which contributed to the improvement of their corporate governance and the enhancement of their capital strength. By now, most work of the risk disposal of Xinhua Life Insurance Company has been completed, and China Insurance Security Fund Company has transferred all of its 38.815 percent shares of Xinhua Life Insurance Company to Central Huijin Investment Ltd.. The reform of SINOSURE and China Reinsurance (Group) Corporation is also progressing smoothly.

Box 12 The Reform and Development of SINOSURE

The export and credit insurance system of China was first established in the mid-1980s. During 1988 to 1993, the export and credit insurance business was solely undertaken by PICC, and later, during 1994 to 2001 EXIM became the second to carry out this business. In 2001, the state-owned SINOSURE was set up to undertake policy-oriented export and credit insurance business. The company adopted a commercial-based operation mode, independent accounting and non-loss operation. At the beginning of its establishment, the company mainly took over the short-term and medium-and long-term export and credit insurance business from PICC and EXIM. With its development, the business scope of SINOSURE was gradually expanded. In line with the "going global" strategy of the nation and in order to serve and encourage the

overseas investment of the domestic enterprises, the company set up an Investment Insurance Department in 2004, therefore separating the investment insurance business from the medium-and long-term export and credit insurance business. In 2005, domestic trade and credit insurance was launched in SINOSURE. And recently, the information and consulting business also has developed very fast. Today, businesses of SINOSURE include short-term export & credit insurance, medium- and long-term export & credit insurance, guarantee, information and consulting.

In 2009, the sum insured or guaranteed by SINOSURE amounted to USD 116.6 billion, a y-o-y growth of 85.5 percent, among which, short-term export insurance accounted for USD 90.27 billion, a y-o-y

growth of 122.6 percent, and the average premium rate was 0.46 percent, down 27.1 percent y-o-y. By the end of the year, the sum of export and credit insurance insured by SINOSURE had amounted to 18.6 percent of China's total general export, an increase of 12.1 percent y-o-y. Total premiums reached USD 990 million, up 97.5 percent y-o-y. Recoveries totaled USD 78.765 million, down 31.2 percent y-o-y, and the claims payment amounted to USD 520 million, up 36.9 percent y-o-y.

Right now, the economic development and opening-up of our country are facing with new challenges. Although our economy maintains a generally sustained and rapid development momentum, external demand picks up slowly, an indicator of great uncertainty. Against

the backdrop of new internal and external economic environment, China needs to take more effective measures to stabilize external demand, therefore, policy-oriented financial institutions, which serve import/export and oversea investment and cooperation, should play a bigger role. Since the outbreak of the financial crisis, major economies slipped into recession one after another, leading to a sharp shrinking consumption demand worldwide. And many governments have launched policy measures to facilitate the development of export and credit insurance and support and encourage policy-oriented insurance companies to play a bigger role. Research on the reform and development of SINOSURE has become a top priority against such background.

New Developments in Bancassurance Cooperation

In November 2009, *Pilot Administrative Measures for Commercial Banks to Make Equity Investment in Insurance Companies* was formally issued. BOCOM became shareholders of China Life-CMG Life Assurance Company, Bank of Beijing started its purchase of shares of ING Capital Life Insurance Company, and BOC was allowed to buy shares of Heng An Standard Life Insurance Company through its holding company BOC Insurance Company. The deepening of cooperation between the banking and insurance sector is conducive to the improvement of financial service, the comprehensive strength of the insur-

ance sector and its international competitiveness.

Further Improvement of Supervisory System

On October 1, 2009, the amended *PRC Insurance Law* came into force. It strengthened the protection of legitimate rights and interests of the insured, expanded business scope of insurance companies and investment channels of insurance fund, and enhanced the methods and measures of insurance regulation. On the basis of the law, relevant authorities further improved the supervisory system, including: First, making an overall straightening-out of insurance regulations and rules, stipulating or amending another 9 regulations and rules such as *Regulations on Administration of Insurance*

Companies and Administrative Measures on the Information Disclosure of New-type Personal Insurance Products. Second, improving the risk warning and monitoring mechanism, establishing a following-up and reporting system on key areas, companies and businesses, and conducting dynamic risk monitoring and carrying out stress tests. Third, enhancing and basically combining the classified supervision and the solvency supervision, and urging companies with inadequate solvency levels to improve their solvency levels. Fourth, requiring insurance companies to establish an inquiry system for insurance underwriting and claim information, facilitating policy-upon-payment for motor insurance and zero cash payment for personal insurance, which not only enhances management and risk control but also boosts profits.

Soundness Assessment

In 2009, the insurance sector generally maintained a healthy development, reflected in more professional management of insurance fund, optimized product structure, more balanced development among different areas, further adjusted distribution channels, reduced market concentration, and adequate level of solvency. However, there still exist some problems such as increased risks in asset management, yet to be improved capital replenishment mechanism of some small and medium-sized insurance companies and flawed major sales channels.

The Management of Insurance Fund Became Gradually More Professional and Increased Risks in Asset Management Called for Attention

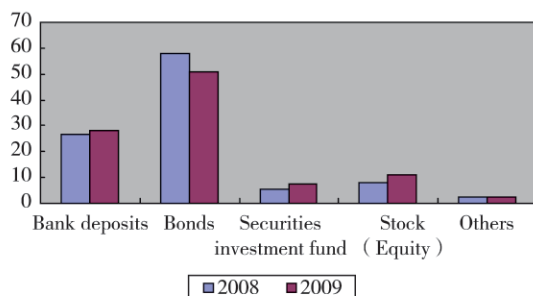
In recent years, with the establishment of insurance asset management companies and specialized asset management departments, the specialization and standardization in utilizing insurance fund are steadily improved and the investment structure is undergoing constant optimization. At the end of 2009, fixed income investment (bank deposit and bonds) accounted for 79.07 percent of the balance of invested insurance fund, down 5.28 percentage points y-o-y and equity investment (shares, equity investment and securities investment funds) accounted for 18.6 percent, up 5.27 percentage points y-o-y (Figure 4.3). Against the backdrop of the rebound of capital market, annual investment return of the insurance sector soared to RMB 214.17 billion yuan, among which, return from equity investment basically equaled that from fixed income investment. The average ROI registered 6.41 percent, increased by 4.5 percentage points y-o-y (Figure 4.4), and the ROI of 22 insurance companies even surpassed 8 percent.

However, with the growing total amount of insurance fund and the gradual liberalization of investment channels, risks facing insurance asset management are also increasing. Currently, since market interest rates and yields of bond are low and the financial market is fluctuating, plus there might be a great amount of new annual premium and re-investment funds, the insurance

asset management is facing new challenges.

Figure 4.3 Investment Structure of Insurance Fund

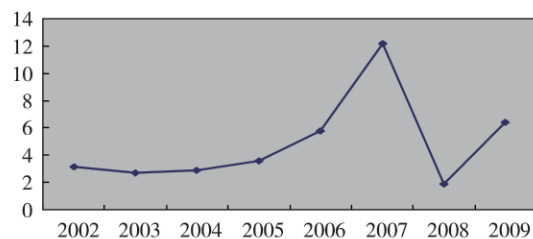
(percent)



Source: CIRC.

Figure 4.4 ROI of Insurance Fund

(percent)



Source: CIRC.

Generally Adequate Solvency Level for the Insurance Sector but the Capital Replenishment Mechanism of Some Small and Medium-sized Companies Needs Improvement

In 2009, gross profit of insurance companies rose by a large margin to RMB 53.06 billion yuan, an increase of RMB 71.2 billion yuan y-o-y, which stroke a strong basis for impro-

ving their solvency level. Life insurers realized a profit of RMB 43.46 billion yuan and the property insurance industry reached a profit of RMB 3.51 billion yuan, turning previous loss to a gain. At the same time, to prevent the risk of inadequate solvency level (solvency adequacy ratio lower than 100 percent), insurance companies replenished their capital through issuing subordinated debts or getting investment from original shareholders. In 2009, 45 insurance companies raised RMB 22.5 billion yuan and 10 companies issued subordinated debts of RMB 18 billion yuan. At year-end, the solvency level of the entire sector was generally adequate, with companies solvency adequacy ratio above the supervisory standard accounted for 90 percent of the total and the number of companies below the standard dropped to only 8.

Since the insurance sector is still in the stage of rapid development, it highly relies on capital. The profitability of some newly established small and medium-sized insurance companies is comparatively weak, especially in the recent complicated economic and financial environment; therefore, they need to further optimize their capital replenishment mechanism.

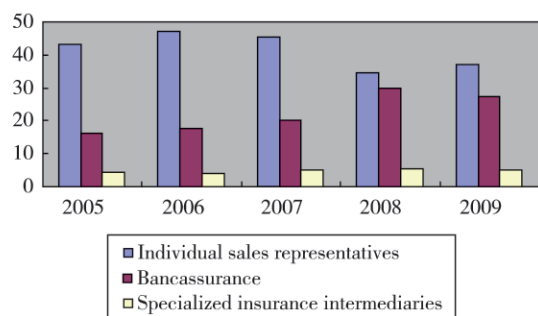
The Structure of Distribution System Underwent Adjustment while the Major Sales Channels Should Be Improved

Insurance sales representatives and bancassurance were dominant insurance distribution channels in China, while other channels such as specialized insurance intermediaries, direct

marketing and the internet accounted for only a small proportion (Figure 4.5). In 2009, insurance sales representatives remained the number one sales channel, with realized premiums of RMB 412.69 billion yuan, accounting for 37.06 percent of the total premiums, and up 2.5 percentage points y-o-y. Bancassurance has been developing very fast in recent years, and proportion in total premium income is enlarging gradually. In 2009, thanks to structure adjustment of the distribution system, the problem that bancassurance accounted for a much too high proportion was somewhat eased. At the year-end, bancassurance accounted for 27.29 percent of total premiums, down 2.48 percentage points y-o-y.

Figure 4.5 Proportion in Premium Income from Several Distribution Channels

(percent)



Source: CIRC.

While bancassurance and sales representatives contributed tremendously to the development of the insurance sector, they also brought about many problems. First, banks are in the dominant position in the bancassurance cooperation, and high commission fees charged by banks add to the cost of insurance companies.

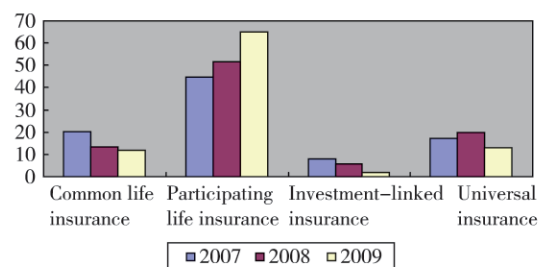
Second, the bancassurance cooperation is at low-level with weak constraint, if bancassurance business suddenly slumps, the performance of insurance companies might be substantially impaired. Third, because of limited expertise and self-interest, banks might only be able to sale some simple and standardized insurance products or tend to sale short-term and single premium products, which would lead to high concentration in short-term and single premium products. Fourth, misguidance still exists in sales, and the quality of sales representatives is yet to be improved.

Product Structure Was Optimized, Developments in Various Regions Became More Balanced, and Market Concentration Declined Steadily

In terms of product structure, the structure of life insurance companies' products were optimized due to structure adjustment of the entire insurance industry, reflected in declining shares of universal insurance and investment-linked insurance (Figure 4.6). Among new

Figure 4.6 Compositions of Major Life Insurance Products

(percent)



Source: CIRC.

life insurance policies premiums, 25.2 percent were installment premiums, up 5.4 percentage points y-o-y, and the proportion of 10-year or longer term insurance premiums picked up by 1.7 percentage points. As for property insurance industry, protection insurance business witnessed a remarkable growth and almost all property insurance companies stopped the sales of investment-type non-life insurance products. At the end of 2009, outstanding amount of investment-type non-life insurance products was RMB 50.64 billion yuan, down RMB 42.65 billion yuan from the beginning of the year. Non-motor insurance including credit in-

surance, engineering insurance and agricultural insurance grew by 91.3 percent, 31.6 percent and 21 percent y-o-y respectively.

In terms of growth among different regions, the growth of premium income in western region was faster than that in eastern region, making the proportion of premium in western region in national total premiums increase continuously (Table 4.1). Influenced by structure adjustment and the fact that the premium income of last year formed a large basis, the growth of premium income of all the regions slowed down a bit from last year.

Table 4.1 Premium Income across Different Regions in 2009

	Premium income (100 million of RMB yuan)	Y-o-y growth (percent)	Share (percent)
Eastern region ^①	6 517.86	13.36	58.7
Central region	2 583.1	12.93	23.2
Western region	2 011.15	16.13	18.1
Total premium ^②	11 112.11	13.75	100

Notes:

① Eastern region includes 16 provinces or cities: Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Ningbo, Fujian, Xiamen, Shandong, Qingdao, Guangdong, Shenzhen, Hainan, Liaoning, and Dalian; Central region includes 8 provinces: Shanxi, Anhui, Henan, Hubei, Hunan, Jiangxi, Heilongjiang and Jilin; Western region includes 12 provinces, autonomous regions and municipalities: Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Inner Mongolia, Qinghai and Xinjiang.

② Total premium excludes that of the headquarters of insurance groups.

Source: compiled on the basis of data from the CIRC.

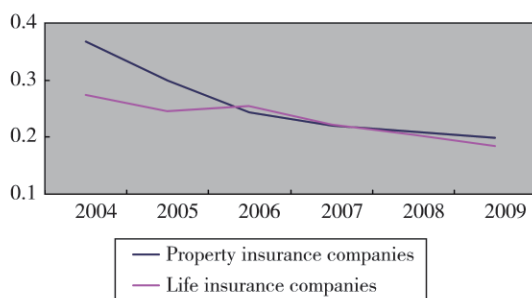
Market concentration declined remarkably. At end-2009, the Herfindahl-Hirschman Index

(HHI)¹ of China's property and life insurance industry stood at 0.198 and 0.184 respective-

1 HHI is the sum of the squares of the market share of each institution in one sector. Higher HHI means higher market concentration.

ly, down by 0.011 and 0.021 (Figure 4.7) respectively. The life insurance market concentration fell most rapidly with market share of the biggest company by premiums registered 36.2 percent, down 4.1 percentage points y-o-y, and that of the top five companies registered 77.2 percent, down 1.4 percentage points y-o-y. As for property companies, the market share of the biggest company was 41.6 percent, down 1.7 percentage points y-o-y and that of the top five companies stood at 74.1 percent, down 1.5 percentage points.

Figure 4.7 HHI of the Insurance Sector



Source: CIRC.

Issues Worth Attention and Reform Measures

The recent recovery of the economic fundamental, the effect of macroeconomic policy and the implementation of policy aimed at improving the livelihood of people have all provided a good environment for healthy and stable development of the insurance sector as

well as precious opportunities. However, the rebound of world economy would be a long-term process, which will have lingering impacts on our country, and the internal problems and conflicts of the insurance sector itself should not be neglected either. Therefore, the insurance sector should improve its core competitiveness and its ability to serve economic and social development while accelerating reform and development.

Facilitate the Transformation of Development Pattern of the Insurance Sector

The extensive development pattern of some insurance companies, which is development with high input, high cost, high consumption and low efficiency, has not changed completely. Some companies rely on setting up branches and expanding network to develop business, and lack the ability to pursue intensive operation and endogenously driven growth. Some lack the ability of innovating their products and service, thus fail to meet the market demand. And the culture of doing business in an honest and faithful way should be further promoted.

To realize sustainable development and better serve the development of the society and economy, the insurance sector should focus on changing the development pattern. First, insurance companies should be urged to improve their management, the ability of self-innovation and input-output efficiency. Second, insurance companies should be encouraged and supported to choose differentiated development paths, to develop long-term savings insurance products and risk protection insurance prod-

ucts, so that market participant structure, business structure, and distribution structure could be optimized and developments among different areas could be more balanced, contributing to coordinated development of the insurance market. Third, the scope of service should be widened. Efforts should be made to promote insurance services relating to agriculture, rural areas and farmers, push forward the pilot program of tax-deferred pension insurance, actively participate in building a multi-layered medical security system, promote the specialized operation of health and pension insurance business, and vigorously develop liability insurance in areas such as tourism, environment protection and safety production.

Establish an Agricultural Insurance Framework and a Catastrophe Insurance System in Line with China's National Condition

Since the launch of pilot programs of agricultural insurance in 2004, agricultural insurance has made extensive progress in China. However, it still faces some difficulties and problems in practice, such as the lack of effective legal protection, restrained business expansion, weak economic fundamentals of some agricultural provinces and difficulties to get fiscal premium subsidy. Efforts should be made to improve the framework of agricultural insurance. First, agricultural insurance laws and relevant regulations in line with China's national condition should be stipulated as soon as possible to clarify the nature, scope, business pattern of agricultural insurance and the role of governments, so that government's support to the development of agricultural in-

surance could be standardized and institutionalized. Second, the amount of national fiscal subsidy could be decided according to different economic conditions and development status of the agricultural insurance across regions, with higher subsidy for less developed areas and reduced proportion of local fiscal subsidy and payment by farmers. Third, the diversification of entities operating agricultural insurance should be encouraged, and risk control measures should be strengthened to reduce moral hazard.

China is one of the countries most suffered by natural disasters around the world. However, since there is no mature catastrophe insurance system, the catastrophe risk could not be effectively diversified. From the international practices, catastrophe insurance system is an important method for insurance to serve economic growth and social development through providing effective protection against the systemic risks on the insurance sector caused by natural disaster. A multi-layered catastrophe insurance system should be set up as early as possible on the basis of international experience and in line with our national conditions.

Improve the Management of Insurance Fund

Recently, the size of the invested insurance fund is expanding continuously. In 2010, there might be a great amount of new annual premium and re-investment funds, plus funds not invested in the last year, the total amount is estimated to surpass RMB 1.5 trillion yuan, leading to high investment pressure. At the same time, with the increasing of investment channels, the insurance sector is also facing

higher risks in utilizing insurance fund.

In order to prevent the risks in utilizing insurance fund and improve insurance fund's ROI, relevant supervisors should continue to strengthen regulation on insurance fund investment, regulate investment behavior, push forward delicacy management of assets, improve systematic risk management, deepen asset management mechanism reform, and establish a strict and effective risk remote system. Meanwhile, the development of financial market should be vigorously promoted to divide the market into different layers, as to provide more choices and risk management methods for investors like insurance companies. And insurance companies should improve their way of utilizing funds, risk management skills, and abilities to identify, analyze and measure risks, and expedite the cultivation of professionals and talents in relevant fields.

Attentions Should Be Given to the Impact of New Accounting Standards on the Insurance Sector

In August 2008, MOF issued *Explanation No. 2 to Accounting Standards for Enterprises*, requiring that new accounting standards be implemented when insurance companies began to compile 2009's financial report. The new accounting standards made adjustment to reserve standard and the breakdown of premiums, which would have a large impact on insurance companies. First, insurance company's reserves could be calculated through discounting future cash flows, and the discount rate would be estimated according to the expected future

ROI. Since the discount rate has an impact on reserve levels and current profit, it in turn will influence long-term operation strategies. Second, once premiums are broken down, premiums from insurance policies that have low protection function, such as investment-linked insurance, would not be calculated, which might lead to a large adjustment in the business structure of insurance companies. Therefore, the influence of the new accounting standards should be followed closely, so as to make research on and stipulate the best standard to breakdown premiums and calculate reserve, guide the adjustment of product structure, strengthen the protection function of products and reflect the business scale, financial situations, profitability and risk conditions of insurance companies in a more scientific way.

Closely Follow the Changes in the International Practice of Insurance Supervision

Drawing lessons from the international financial crisis, IAIS are studying and improving the insurance supervisory rules and framework, including: with reference to the Basel II, a globally unified and operable insurance supervisory framework is under research; the micro-prudential supervision with pure emphasis on individual institution is being transformed to macro-prudential management with attention on the overall conditions of the insurance sector; global implementation of IAIS supervisory standards is enhanced, self-assessment and peer review are being carried out, and the mechanisms of supervisory college and IAIS MMOU are being improved. The above-

mentioned reform proposals and measures will have an important impact on the international insurance supervisory system. We should closely follow the changes in the international practice of insurance supervision. While tak-

ing an active part in stipulating international insurance supervisory standards, we should also learn lessons and experience from other countries to improve the insurance supervision of China.