ANALYSIS OF THE LIFE INSURANCE MARKET IN CHINA

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Abstract

The premium income for personal insurance has grown rapidly since the Chinese personal insurance business resumed in 1982. The growth rapidity had some unintended consequences, and there are still many problems, so it is important to identify and analyze the characteristics and existing problems in China's personal insurance market so as to improve it. This article is divided into three parts. First is an overview of the characteristics of the Chinese personal insurance market. This includes the number and types of insurers and intermediaries, products, distribution channels, and fund investment options.

Then follows an analysis of the problems facing this market in China, which include a mismatch between supply and demand, imbalance between sales of different products, lack of cooperation between distribution channels, market domination by three insurers, and imbalance between different regions. Based on this analysis of problems, the final part contains many recommendations for improving the personal insurance market in China.

บทคัดย่อ

รายได้ของเบี้ยประกันภัยสำหรับการประกันภัยส่วนบุคคลในประเทศจีนได้เติบโตอย่างมาก ตั้งแต่การประกันภัยส่วนบุคคลได้ฟื้นตัวในประเทศจีน ในปี พ.ศ. 2525 แต่การเติบโตอย่างรวดเร็วนี้ก็ทำให้เกิดปัญหาตามมา ซึ่งสำคัญมากที่จะต้องระบุและวิเคราะห์ให้ได้ถึงปัญหานั้น ๆ เพื่อการปรับปรุงต่อไป บทความนี้ได้แบ่งเป็น 3 ส่วน ส่วนแรกคือการกล่าวถึงตลาดการประกันภัยส่วนบุคคลในประเทศจีน ในส่วนนี้มีการกล่างถึงจำนวนและประเภทของบริษัทประกันภัย รวมถึงตัวกลางการประกันภัย ผลิตภัณฑ์ ช่องทางการจำหน่ายและช่องทางการลงทุน

ส่วนต่อไปเป็นการวิเคราะห์ปัญหาในตลาดการประกันภัยส่วนบุคคลในประเทศจีน ที่รวมถึงการไม่สมดุลของอุปสงค์และอุปทานของผลิตภัณฑ์ต่าง ๆ การขาดความร่วมมือกันในช่องทางการจัดจำหน่าย

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การมีอำนาจทางการตลาดของ 3 บริษัทประกันภัยและการไม่สมดุลในแต่ละภูมิภาค ส่วนสุดท้ายกล่าวถึงการเสนอแนะเพื่อปรับปรุงตลาดการประกันภัยส่วนบุคคลในประเทศจีน

Introduction

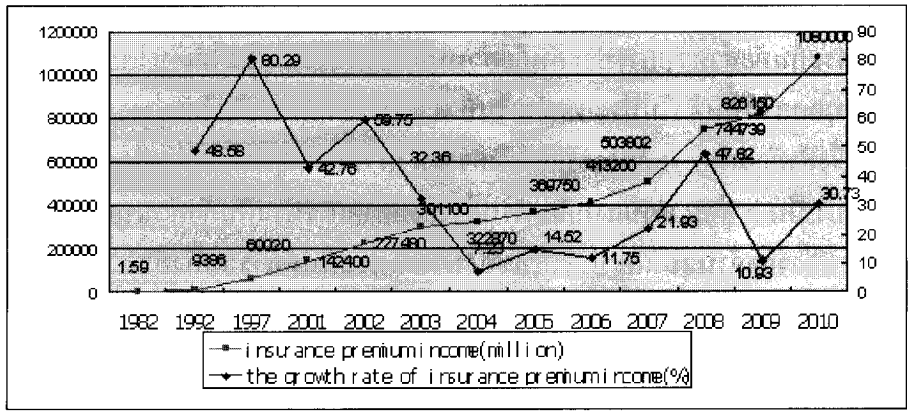
The premium income from personal insurance increased from 1.59 million Yuan in 1982, when personal insurance business in China was resumed, to 10.8 trillion Yuan in 2010. The average annual growth rate was 61.38%. It is important to analyze the characteristics and the existing problems of the life insurance market so as to enhance it. Therefore, this article explores the rapid development, market structure, innovative products, insurance players, and other topics. It also explores the problems this rapid growth and development have brought, highlighting the many contradictions in the personal insurance business. Finally, many suggestions are offered, which could lead to solving the problems and contradictions, thus improving this vital sector of insurance in China.

Characteristics of life insurance in China

The basic characteristics of life insurance in China are the rapid growth and development over a long period which subsequently produced active innovation but a low-level equilibrium state.

Personal insurance premium income in 1982 was 1.59 million Yuan, the year when personal insurance business resumed. This figure increased to 10.8 trillion Yuan in 2010. The average annual growth was therefore 61.38 % (see Chart 1 below).

Chart 1: Growth conditions, personal insurance premium income in China from 1982 to 2010



Source: China Statistical Yearbook (1982-2010)

Since 1982, the growth rate of China domestic personal insurance premium income has been far faster than the growth rate of GDP over the same period (see Table 1). The main reasons for this are: the starting point in 1982 was low, after a period of closure; the rapid economic growth produced a growing demand for personal insurance; and the insurance suppliers increased (Wang, 2009a).

Table 1: Premium income for personal insurance in China, 1982 to 2010

Year	GDP (billion Yuan)	growth rate (%)	life insurance premium income(billion Yuan)	Growth rate (%)
1982	529.47	9.1	0.00159	–
1983	593.45	10.9	0.01044	552.53
1984	717.10	15.2	0.0725	594.44
1985	896.44	13.5	0.441	508.28
1986	1020.22	8.8	1.133	156.92
1987	1196.25	11.6	2.341	106.62
1988	1492.83	11.3	3.425	46.31
1989	1690.92	4.1	3.999	16.76
1990	1854.79	3.8	4.908	22.73
1991	2161.78	9.2	6.317	28.71
1992	2663.81	14.2	9.386	48.58
1993	3463.44	13.5	8.595	-8.43
1994	4675.94	12.6	14.313	66.53
1995	5847.81	10.5	16.09	12.42
1996	6788.46	9.6	33.29	106.9
1997	7446.26	8.8	60.024	80.29
1998	7834.52	7.8	75.83	26.34
1999	8191.09	7.1	87.21	15.01
2000	8944.22	8	99.75	14.38
2001	9731.48	7.5	142.4	42.76
2002	10239.79	8	227.48	59.78
2003	11652.85	9	301.1	32.36
2004	13651.5	9.5	322.87	7.23
2005	18232.1	9.9	369.75	14.52
2006	20940.7	10.7	413.2	11.75
2007	24661.9	11.4	503.802	21.93
2008	30067.0	9	744.739	47.82
2009	33535.3	8.7	826.15	10.93
2010	37003.6	10.3	1,080.0	30.73

Sources: China Statistical Yearbook (1982-2010); Lei and Wei (2009); Yearbook of China Insurance (1996-2009); and CIRC website.

The proportion of personal insurance in the insurance industry has gradually increased. Property insurance premium income was 460 million Yuan in 1980, and increased to 3.894 trillion Yuan in 2010 (an average annual growth rate of 24.86%). When life insurance business in China resumed in 1982, its premium income for that year was 1.59 million Yuan, which increased to 10.8 trillion Yuan in 2010 (average annual growth of 61.38%). Thus, the growth rate of life insurance premium income is much larger than that of property insurance. Since 2000, the development of new life insurance products has further widened that gap.

The proportion of the domestic personal insurance premium income to the total premium

income in 1982 was 0.15%. It increased to 73.50% in 2010 (Table2).

Table 2: Contrasts in the premium income structure

Year	Property insurance premium income (billion Yuan)	Life insurance premium income (billion Yuan)	Proportion of property insurance premiums (%)	Proportion of life insurance premium income (%)
1982	1.0284	0.00159	99.85	0.15
1985	2.869	0.441	86.68	13.32
1990	10.676	4.908	68.51	31.49
1995	39.07	20.42	65.67	34.33
1996	45.249	33.29	57.61	42.39
1997	48.073	60.024	44.47	55.53
2000	59.84	99.75	37.5	62.5
2001	68.54	142.4	32.49	67.51
2002	77.981	227.48	25.53	74.47
2003	86.94	301.1	22.4	77.6
2004	108.99	322.87	25.24	74.76
2005	122.99	369.75	24.96	75.04
2006	150.94	413.2	26.76	73.24
2007	199.77	503.802	28.39	71.61
2008	233.67	744.739	23.88	76.12
2009	287.58	826.15	25.82	74.18
2010	389.4	1,080.0	26.50	73.50

Source: Wang (2009a); Lee and Wei (2009); Yearbook of China Insurance (1996-2009); CIRC website

The structure of the market players began to change, with market concentration lowered, and a monopolistic competition pattern beginning to form.

The number of market players has increased. In the recovery period of the domestic personal insurance business from 1982 to 1988, there was only one life insurance company, the People's Insurance Company of China. In 1988, the establishment of Ping An Insurance Company of China broke the market pattern of being monopolized exclusively by People's Insurance Company of China. Subsequently, the Pacific Insurance Company was founded in 1991.

Rule 91 of the insurance law implemented in 1995 prescribes that: "an insurer shall not concurrently engage in property insurance and personal insurance business". With the implementation of this insurance law, the insurance companies have been operating separately since 1996. The China Insurance Group was divided into a life insurance limited company, a property insurance limited company and a reinsurance limited company. The China Insurance Group was dissolved in March, 1999, and the primary life insurance limited company was renamed Peoples Life Insurance Company of China. In 1996, Manulife-Sinochem Insurance Company became the first Sino-foreign joint venture life insurance company. After China's WTO accession in 2001, China further opened its insurance market, and many foreign-funded life insurance com-

panies have entered the Chinese insurance market. Indigenous small and medium-sized insurance companies are rapidly growing. By the end of 2010, the number of life insurance companies had grown to 61 (Table 3).

Table 3: The changing number of life insurance companies in China, 2003 to 2010

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
The number of the china life insurance companies	23	32	29	42	48	54	56	59	61

In 1996, the total market share of the Life Insurance Limited Company of the China Insurance Group, Ping An Insurance Company of China, and China Pacific Insurance Company was 97.14% of the China life insurance market. Then, after the WTO accession in 2001, there was an increase in the number of market players, and the above three companies' market share has been dropping quickly: its proportion was 95.26% in 2001, which dropped to 55.9% in 2010 (Table 4).

Table 4: Market share of Peoples Life, Ping An, and China Pacific

Year	China life Co (%)	Ping An of China Co (%)	China Pacific Insurance Co(%)	total(%)
1996	63.95	21.59	11.6	97.14
2001	57.05	28.13	10.07	95.25
2002	56.59	23.54	10.95	91.08
2003	54.21	19.76	12.63	86.6
2004	46.9	17.16	10.8	74.86
2005	44.07	16.13	9.92	70.12
2006	45.27	16.99	9.32	71.58
2007	39.73	16	10.24	65.97
2008	42.67	13.95	9.01	65.63
2009	38.08	16.51	8.3	62.89
2010	32.18	15.22	8.5	55.9

Note: Figures for China Life Co. include total market share of life insurance, existing business and endowment insurance of that company. Figures for Ping An Life Co. include total market share of life insurance, endowment insurance and health insurance.

When these three companies' market share dropped, the small and medium-sized life insurance companies sprang up. The above comparison reveals that the current life insurance market setup of diversified market players has initially taken shape, yet it still can be said to be an oligarchy market, but is changing into a monopolistic competition insurance market.

The life insurance market has achieved all-round openness to the outside world. Since the 1982 reform, and particularly since the accession to membership of WTO, the number of foreign-funded insurance companies has significantly increased, as has their market share. By the end of 2010, 28 out of the 61 life insurance companies were foreign-funded insurance companies. Their market share increased to 5.63% in 2010, from 0.2% in 2000.

Comparison of the various personal lines

Business structures have been adjusted, and new life insurance products are developing rapidly. At first, the various types of personal insurance business showed a different pattern. The market share of life insurance, health insurance and accident insurance changed, and that of life insurance and health insurance climbed. The life insurance share increased from 85.36% in 2000 to 91.04% in 2010. Health insurance increased from 3.75% in 1998 to 6.37% in 2000, while in 2006, it achieved 9.12%, The main reason was that the first professional health insurance company, PICC Health Insurance Company Limited, was in formal operation that year. Professional management on the one hand enhances management technology and management efficiency of a health insurance company, but on the other hand it has enhanced the national health risk consciousness. The accident insurance proportion has decreased from 7.31% in 1998 to 2.59% in 2010 (Table 5).

Table 5: Development in China of various personal insurances

Year	Life insurance (billion Yuan)	Health insurance (billion Yuan)	Accident insurance (billion Yuan)	Proportion of life insurance (%)	Proportion of health insurance (%)	Proportion of accident insurance (%)
2000	85.100	6.534	8.114	85.36	6.52	8.12
2001	128.800	6.225	7.546	90.39	4.35	5.26
2002	207.400	12.201	7.901	91.16	5.36	3.47
2003	266.950	24.192	9.958	88.66	8.03	3.31
2004	284.600	27.131	11.800	87.98	8.38	3.65
2005	324.700	31.184	14.142	87.75	8.43	3.82
2006	359.264	37.690	16.247	86.95	9.12	3.93
2007	446.375	38.417	19.010	88.60	7.63	3.77
2008	665.837	58.546	20.356	89.41	7.86	2.73
2009	745.744	57.398	23.005	90.27	6.95	2.78
2010	967.951	67.747	27.535	91.04	6.37	2.59

Source: Lee and Wei (2009); and Wu (2010)

There is also change in the structure of life insurance products, from mainly relying on traditional products to mainly relying on new products. In China, traditional life insurance products usually have a fixed guaranteed rate, with no additional varying rates for further income. After 1999, dividends insurance, universal insurance and investment-linked insurance and other life insurance types are called new life insurance products. According to the characteristics of life insurance products in different periods, the development of these products can be divided into two stages. The first stage took traditional life insurance products as the main products from 1982 to 1999, and in this stage, the main specific policies were term life insurance, endowment insurance, whole-life insurance and pension insurance. The second stage, beginning in 1999, took the new life insurance products as the main products. An important reason which contributed to the change is that the saving deposit rate significantly decreased. The low saving deposit rate and the high reservation interest rate of traditional life insurance made the insurance companies face immense interest rate risks, while at the same time, the low saving deposit rate

led to a increasing demand in finance and investment, To adapt to the new situation, after 1999 many life insurance companies launched a series of new life insurance products, which included unit-linked insurance, dividends life insurance and universal life insurance. These products are based on the traditional insurance function, and highlight the investment function. They not only effectively prevent risks to a life insurance company, to a certain extent, but also satisfy the diversified insurance needs of people, and, at last, speed up the development of life insurance business. Up to 2008, the premium income of new life insurance products accounted for 85.23% of the total life insurance premium income. The share of Dividends life insurance, Universal life insurance and Unit-linked insurance were 57.06%, 21.79% and 6.38% respectively. Dividends Life insurance enjoys the largest market share, whose premium income accounted for 57.06% of total life insurance premium income in China in 2008. Universal life insurance has become the fastest developing new life insurance product; its market share was 1.55% in 2002, rising to 21.79% in 2008. The proportion of Dividends Life insurance increased from 51.1% to 57.06%, and that of Unit-linked insurance increased from 3.16% to 6.38%?

Developments in Intermediaries and Insurers

A multi-level complete Life insurance market system has initially formed. First, the life insurance intermediary market has gradually grown, not only the original insurance and reinsurance market. By 31st December 2010, there were altogether 2,550 professional insurance intermediary institutions in China. Of this total, the number of Insurance Agent Companies was 1,853, that of Insurance Broker Companies was 392, and that of Insurance Assessment Companies was 305. At the same time, the number of concurrent-business agency institutions was 189,900. 2.879 million of the 3.2978 million insurance salesmen were life insurance salesmen, accounting for 87.3% of the total insurance salesmen in China.

Also, professional life insurance companies begin to appear. In December 2004, China Ping An Endowment Insurance Co. Ltd. became the first professional endowment insurance company in China. In April 2005, PICC Health Insurance Co., Ltd. became the first Chinese professional health insurance company. By the end of 2009, there were five professional endowment insurance companies and four professional health insurance companies. The foundation of professional life insurance companies effectively promotes insurance market segmentation, and enhances the service level and market competition level. Meanwhile, in 2003, Minsheng Life Insurance Co., Ltd. was established, marking the entry of private capital into the China life insurance market. Therefore, the life insurance market system developed diversity of organizational form, diversification of economic composition, and gradual diversity of operational mode.

Furthermore, the marketing channel is now more pluralistic, as personal agent, bank and mail agent tend to form the central pillar. Before 1992, the life insurance marketing channel was simple: mainly direct selling. With the development of other marketing channels, the proportion of premium income from direct sales by insurance companies themselves dropped gradually. In 2002, the proportion was 60.97%; by 2008, this proportion had fallen to 7.97%. In 1992,

the personal marketing system was brought into the China insurance market, due to its advantages that can make up for insurance company staff shortages. As a targeted and supportive distribution mechanism, personal marketing quickly became the main marketing method in China. In 2008, premium income from personal marketing accounted for 42.02% of total life insurance premium income. In 1996, the insurance company began to explore selling insurance products through bank outlets. In 2000, began the Chinese bank and mail agent business, because of their large sales network. In 2002, the bank and mail agent business accounted for 17.09% of total premium income. In 2008, that proportion reached 48.92%. Since 2003, China professional insurance intermediary institutions have developed quickly, the number rising sharply. There were only 590 insurance professional intermediary institutions in 2003. This reached 2,570 in 2009, their premium income accounting for 1.31% of total life insurance premium income. Although that was a small proportion, marketing by professional insurance intermediary institutions has become the current fastest-growing marketing method.

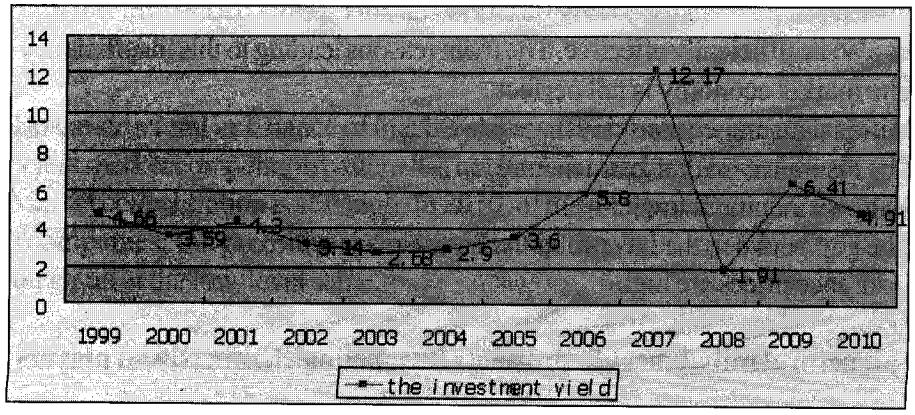
With the development of digital information and consumers' consequent change in shopping habits, the insurance companies decided to set up their own commercial websites, actively exploring low-cost sales methods, through using the network, telephone and other means, to sell life insurance products, providing a convenient insurance service which is high quality and reasonably priced. For insurance consumers, the computer network and telephone system comprise the new widely used sales model in the China life insurance market.

Fund Investment Liberalization

Fund investment channels have been progressively liberalized, and the investment yield is rising steadily. Life insurance funds normally have long-term characteristic, so the investment yield is one of the main factors affecting the profitability, competitiveness, underwriting ability and solvency of life insurance companies. In recent years, the insurance assets present the features of structural diversification, profit source diversification, investment tools innovation, and market internationalization. Insurance assets not only cover all kinds of fixed-income products and stock, funds, equities and other kinds of equity products, but also include active exploration in infrastructure investment, foreign investment and derivatives trading.

When fund investment channels are progressively liberalized, the investment yields of insurance funds steadily increase. The investment yield in 1999 was 4.66%. In 2006, the investment yield was 5.8% for an investment income of 95.53 billion Yuan. In 2007, the investment yield was 12.17% for an investment income of 279.173 billion Yuan. The main reason for the huge increase was the capital market boom, Since 2008, because of the international financial crisis, stock prices declined steeply in the China stock market, with a yield rate of only 1.91%. In 2009, macroeconomic policy in China gradually stabilized and the capital market began to rebound sharply, with the consequence that the investment yield rose to 6.41 %, with a drop to 4.91% in 2010 (Chart 2).

Chart 2: Investment yields in the China insurance industry, 1999 to 2010



Source: Yearbook of China's Insurance (1999-2009)

Contradictions of supply and demand

We now turn from the details of the immense development of personal insurance in China since 1982, to the contradictions and problems that have arisen. There are contradictions of insufficient supply and demand, of structural imbalance, of lagging self-regulation, of comprehensive management and supervision methods, of capital market instability and product innovation, of imbalanced regional development, and of social insurance not matching commercial personal insurance.

First, the contradiction of insufficient effective supply and insufficient effective demand. An effective supply is still insufficient. In recent years, life insurance business in China has developed very fast, but its scale is still small compared with the international level. The insurance penetration and insurance density of life insurance are obviously low. The function of the life insurance business has not been fully realized, and the life insurance business does not match the social and economic development (Table 6).

Table 6: Insurance penetration and density in the world life insurance market in 2009

	penetration of Life insurance (%)	density of Life insurance (U.S. dollars)
Globe	4	341.2
industrialized countries	5	1980
Emerging Market Countries	1.4	49
China	2.3	81.1

Source: Swiss Re (2010)

The main reasons leading to an insufficiently effective supply include:

Market players are fewer, while the market concentration is high;
Product innovation and product structures are unreasonable;
The marketing system is incomplete;
Capital strength is not enough;

Perfect market exit mechanisms have not been formed.

Demand is also insufficiently effective. The main reasons leading to this insufficiency include:

The market economy is not perfect;
National insurance consciousness is weak;
The insurance market is not mature;
National income is low;
The gap between the haves and the have-nots is wide;
Insurance prices are high.

Structural imbalances in products, marketing channels, and players

There is also structural imbalance. It includes three aspects: product, marketing channels, and market players. The structural imbalance of products has two aspects. At the life insurance business level, the proportions of health insurance and accident insurance are low. In 2010, the proportions of the two were respectively 6.37% and 2.59 %,which do not match the national growing medical expenditure. At the life Insurance company level, the features are that short-term insurance business is bigger than long-term business, the proportion of single premium policies is large, and there is the lack of a safeguard function in the process of business development (Chen, 2010).

At present, there are two big defects in the structure of life insurance products. On the one hand, life insurance products are unable to meet national security needs; in particular, they cannot provide security for the aged, and cannot provide medical treatment security for low-income people; On the other hand, life insurance products are vulnerable to external environment influence; the macroeconomic environment and capital markets can easily cause great variation in premium income. This will influence life insurance companies' operating stability, and especially will impose huge pressure on solvency. All these factors are not conducive to the healthy development of the business.

Furthermore, there is structural imbalance in the marketing channels: the cooperation between bank and mail, is not close. This imbalance can be seen in three aspects. The first is the function of insurance professional intermediary institutions. In 2010, of the total life insurance premium income, that from insurance professional insurance intermediary institutions accounted for 1.31%, while the proportion from British insurance brokers was 20%, revealing a great gap between the two. The second aspect is the unclear legal position of labor relations and low incomes, which lead directly to some personal problems in personal agents, such as their low quality and their high mobility (changing companies), as well as the difficulty of controlling them. A stable, professional, efficient, sincere, personal marketing system has not yet been established.

The third aspect is that cooperation between bank and insurance company is only at a basic level. The bank sells insurance products as an agent, and this causes intense competition among the insurance companies and a high cost to the insurance companies, because most of

the insurance business from the bank and mail agent channel is short-term single premium business with low embedded value. This has imposed great cost and capital pressure on life insurance companies.

There is also the structural imbalance of market players. This problem is mainly due to the fact that an efficient market competition pattern has not been formed, and has relatively few market subjects; Market concentration is still high. In 2010, of the total premium income of the 61 life insurance companies, the premium income of the top three accounted for 55.9%. Market competition is still at the low-level stage.

A self-regulation lag, and consolidated competition

Another contradiction is that the development of self-regulatory organization lags behind the development of the insurance industry. The operational mechanism of insurance industry community groups is not clear. The mechanisms for the division and coordination of labor are not clearly distinct between the national and local insurance industry community groups, and therefore do not form an effective division of labor which is complementary, or a standardized service network system. Advanced and basic theory research, and the construction of a data information platform are not actively pursued. The integration of the industry's education resources is insufficient, producing duplication of labor and a training vacuum phenomenon.

There is also a contradiction between comprehensive management and supervision methods. From the international perspective, after the 1990's, many insurance companies in the world began massive mergers, these consolidated insurance companies getting bigger and bigger. Meanwhile, global financial services begin to fuse, with the banking, securities and insurance industries infiltrating each other. Comprehensive operation has become the current trend. Since the insurance market began opening-up, foreign-funded insurance and finance institutions entered the China market, one after another. The domestic insurance institutions are facing increasing competitive pressure. Compared to foreign insurance institutions, the China insurance institutions have no advantages in capital, product innovation level, marketing level, service level, reserves of talent, etc. At the same time, the foreign-funded insurance and finance institutions with comprehensive management may also apply for bank, securities and insurance business licenses so as to provide a comprehensive range of financial services, thus forming a comprehensive competitive advantage.

Capital market volatility, and product innovation

There is a contradiction between capital market instability and product innovation. Product innovation has an important significance for the development of the insurance industry. Because market competition is becoming fiercer, it is not realistic to rely merely on underwriting profit to promote innovation development. The only way is to advance the insurance investment yield. At present in China, the situation is investment channels and the investment proportion are not reasonable. This leads to the problem that the insurance investment yield is low and is vulnerable to the capital market. The basic reasons are that the insurance investment

channels are too narrow and the investment proportion is strictly limited. With insurance investment yield being low and the volatility of the investment yield being high, this will restrict product innovation in life insurance.

Imbalance between regions, and between social and commercial insurance

There is a contradiction that regional development is not evenly spread. This imbalance in China's economic development causes an imbalance in life insurance. Beijing, Shanghai, Shenzhen, and Guangdong are representatives of the economically developed areas. Their market supply entities are more than other areas; life insurance is in greater demand there, and life insurance premium income is greater.

Yet, in the central and western regions, because the economy is backward, the demand for life insurance is small and people pay insufficient attention to insurance. Life insurance premium income has only a small share of the national premium income. The personal insurance premium income from the 16 provinces in the eastern region was 615.148 billion Yuan, accounting for 57.86% of the national personal insurance premium income. Personal insurance premium income from the 8 provinces in the central region was 262.325 billion Yuan, accounting for 24.76% of the national personal insurance premium income. Personal insurance premium income from the 12 provinces in the Western region was 143.149 billion Yuan, accounting for17.18% of the national personal insurance premium income.

There is also the contradiction that social insurance does not match commercial personal insurance. This contradiction is mainly due to the situation that social insurance coverage is too narrow and the scope of insurance is too wide, which leads to the result that commercial insurance cannot play a complementary role to social insurance. Currently, the people who enjoy social insurance are mainly the urban labor population. A large number of the rural population and part of the urban population have no social insurance. Therefore, the problem that social insurance coverage is too narrow and the scope of insurance is too wide results in social insurance replacing commercial personal insurance to some extent. As the people without social insurance have low incomes, it is difficult for them to buy commercial personal insurance.

Suggestions for improving the life insurance market

Improve the structure of the market

The core to improving the China life insurance market is to consolidate the market economic system. Considering the domestic and international economic environment and the changes in the life insurance industry itself, the specific suggestions are to improve the player structure and market structure in this market, which includes:

* improving the corporate governance structure so as to resolve the problem of ambiguous owners;
* sophisticated insurance organization structure,
* accelerate the development of insurance cooperation,

* develop mutual insurance or captive insurers in a risk idiosyncratic industry,
* establish and improve the legal system of mutual insurance and captive insurance,
* form an organization system that makes the joint-stock company the predominant organizational form,
* make mutual insurance companies, wholly state-owned insurance companies, insurance cooperatives and captive companies as supplementary organizations.

These are suggestions to improve the market structure of life insurance:

* improve market entry and exit mechanisms;
* relax the standardized market access;
* improve the information disclosure system;
* establish an index system of market exits;
* standardize market competition, and improve organizational self-discipline, laws and regulations, to transform the market mode from an oligopoly market to a monopolistic competition market.

Optimize the product structure

To optimize the product structure of life insurance, first, take the market as the guiding force, and steadily continue the structural adjustment. Also, adjust the structure of products, to be guided by the market and meet the national life insurance safeguard demand. Additionally, plan comprehensive structural adjustments to products, channel, investment, and cost policy, on various levels according to company positioning and the developing situation. Make feasible adjustments to the business structure, ensuring that it is a smooth adjustment so as to prevent drastic fluctuations in premium income.

Furthermore, speed up the development of commercial endowment insurance and health insurance. Use professional advantage to expand the enterprise annuity business. Deepen the professional management in endowment insurance and health insurance. Increase product innovation of endowment insurance and health insurance. Actively participate in pension and social healthcare reform. In order to speed up this process, introduce appropriate preferential taxation policy to support it.

Optimize the channel structure

To optimize the channel structure requires that insurance companies utilize and configure sales channel resources, guiding the insurance company to utilize the different sales channels including personal marketing, professional intermediary institutions marketing, bank and mail marketing, according to their own characteristics and the actual market situation. Their core characteristics should include the following to ensure an improved and stable personal marketing system. Display the advantages of a personal marketing system in the marketing of traditional guaranteed life insurance products and long-term saving products. Improve the personal agent system, and improve its status as a marketing channel. Strengthen the development of sincerity and credit of the personal salesman, by establishing a credibility file and punishment mechanism and a dynamic supervision mechanism. Implement total control of the personal salesman through qualification examination, education, training, proper behavior in soliciting business,

with soliciting records, after-sales service, and employment mobility. Clarify the legal position of the personal salesman, simplify difficult regulations and overcome their habit of changing companies. Steadily improve the income of the personal salesman, and safeguard their rights and interests.

Improve the mode of soliciting business and the profit mode of professional insurance intermediary institutions, and enhance competitiveness. This can be done through improving the innovation ability of professional insurance intermediary institutions and consolidating the regulatory infrastructure of these institutions. Persuade insurance companies to incorporate the cooperation concept, from a short-term incentive mechanism to long-term win-win cooperation. Spread this message to professional insurance intermediary institutions to enhance their social cognition.

Deepen the cooperation between banks and insurance companies. Change the simple agreement into a long-term strategic partner relationship, plus an equity partnership. Strengthen the innovation of bank insurance products, especially innovation in blending insurance products and other financial products into a one-stop financial service.

Encourage insurance companies to actively carry out new marketing modes according to their own characteristics, such as telephone marketing and network marketing. The focus should be on improving the relevant laws and regulations of the new marketing mode, ensuring the security of online trading and electronic means of payment, and standard operation procedures.

Improve the investment system

Further relax the investment channel and proportional specifications of investment, and improve the risk management system of insurance funds utilization. This could be done by learning from foreign experience in the use of insurance funds,exploring investment in asset securitization products and unsecured bonds on the basis of controllable risk. Conduct a pilot study of third-party assets management, and research the policy of participating in business property. Provide policy guidance to support companies in investing in infrastructure, foreign investment, equity investment and annuities management business investment, and other innovative business investments, so as to become bigger and stronger in new investment areas.

Improve the control mechanism and infrastructure and equity investment. Guide the insurance institutions to steadily invest in transportation, communications, energy, electricity and other infrastructure projects, and steadily push insurance companies to invest in shares of large-scale state-owned leading enterprises, particularly in companies related to national strategy, such as energy and resources industries. Gradually relax the limited proportion of high-yield investment products on the basis of controllable risk. If the conditions are right, allow for mortgage loan investments, etc...

Improve the risk management system of insurance funds utilization. Specifically, first, improve the regulatory system of the insurance funds utilization. This includes the development of an investment risk control system; improving the credit rating system for investment risk evalua-

tion, releasing implementation details such as stock equity investment, foreign investment and infrastructure investment; accelerating the trusteeship system and improving operational transparency; strengthening supervision of insurance products, in particular, pricing regulation, and preventing and controlling asset management risk.

Improve the internal investment risk control system of the company, by:

- including the establishment of a company's internal credit rating system; enhancing the professional level of investment staff and improving the company's investment skills; implementing the Board decision-making mechanism for major investment decisions; developing the rules and standards of asset allocation, investment in capacity assessment risk assessment and performance evaluation of insurance products; and supporting qualified insurance institutions to engage in new investment business.

Improve diversity and differentiation

This can be done by operating diversified strategies to service the variety of local economies. Form a diversified organization in order to meet insurance demand in different areas and at different levels. Use differentiated marketing channels, as this is important in reducing the cost of soliciting business. Insurance companies should pay attention to using insurance intermediary institutions to solicit business. System innovation would make this possible, or use a cross-selling mode (some companies have already introduced off-site cross-selling). Establish a claims settlement department. If the insurance companies do all these things, they would reduce the cost and control the risk. To realize this rationalization of the differentiated markets, a preferential tax policy, an appropriate market access policy, and a preferential investment policy could play a complementary function.

Improve the development foundation of the life insurance market

Improve the laws and regulations and the regulatory system of life insurance. Specifically this would include:

(1) Establish a supervision mechanism for comprehensive management. Establish a regulatory cooperation mechanism between the China insurance regulatory commission, the central bank, the banking regulatory commission, and the securities Regulatory Commission, would involve holding regular and irregular joint conferences at which the participants may communicate and exchange supervision information, coordinate the formulation of regulatory policy and the implementation of regulatory measures, and solve the regulatory vacuum and regulatory crossover problems which now appear in the regulatory process. Establishing an insurance companies' information disclosure system in the context of comprehensive management, would strengthen information disclosure of the risk from intra-group transactions and construct an evaluation system for transparency of information disclosure in the context of comprehensive management.

(2) Establish an exit mechanism in the insurance market. This involves designing a scientific and systematic exit system, and exit criteria. Establishing a better early warning mechanism on the exit risk of insurance companies and an information

disclosure system, would be very beneficial. Establishing a normative operation process for insurance market exit, designing a robust market exit method, and constructing an improved guarantee mechanism for market exit, are other essential improvement features.

(3) Establish a systematic supervision mechanism for foreign-funded insurance institutions. This would include strictly abiding by the principle of cautious access, and establishing a dynamic access standard. Also needed is an improved exit mechanism for foreign-funded life insurance companies. A trans-territorial supervision mechanism would also be needed.

It is necessary to strengthen a company's internal control system. This would include improving the corporate governance structure. As the core of an insurance company internal control system, the purpose of corporate governance is to maximize the corporate interests within the scope of national laws and industry regulations. A modern enterprise system should follow 'company law' and 'insurance law'. This is necessary to clarify property rights, to introduce a private mechanism to solve the problem of absentee owners, and to lay the foundation for a modern corporate governance system. Next, according to the requirements for an organization and management system within in a company, make a clear division of labor between the decision-making bodies, executive bodies and oversight bodies, to ensure the company's legitimate business and the formation mechanism of self-development (Wang, 2007). Also, establish a risk 'firewall' in the enterprise.

Focus on the infrastructure of the industry. In particular, strengthen the accumulation of basic data to provide the basis for rate-making and solvency regulation. Intensify credit education to create a good environment for the development of life insurance. Train the professionals to enhance the industry's technical standards and service levels. Improve the level of informational and operational efficiency. Strengthen research into major issues of life insurance. Strengthen the development of the insurance industry organizations. Strengthen communication, coordination and cooperation with relevant government departments, to strive for state support in endowment insurance and health insurance and other life insurance business involving the national interest and people's livelihood, as well as the innovation of products and services.

Improve the industry's self-regulation institutions. This would mainly include the following. Restrain misconduct by signing the self-discipline convention, and developing industry standards and industry guidance provisions. Promote the professional ethics of honesty and trust, and establish a sound credit system in the insurance industry, including a credit system for insurance intermediary institutions. Strengthen self-management by insurance practitioners and intermediary institutions, including supervision of the behavior and implementation of self-discipline. Focus on strengthening self-discipline in banking insurance, strengthening coordination and cooperation with the China banking industry Association. Enhance self-insurance marketing, and promote the establishment of an Insurance Marketing Committee. Strengthen the construction of a credit system. Explore and promote the standardization and scientific accuracy of insurance terms and premium rates.

Consummate the opening mode of the life insurance market

This market should be expanded to the mode characterized by quantity. The quantity of foreign-funded insurance companies is large, but the proportion in the life insurance market is small. The reason to adopt this mode is to prevent financial risk in the immature and unbalanced life insurance market in China, and to learn from international experience in improving its stability. At the same time, the "going abroad" strategy should be put into practice, with support for qualified domestic enterprises in setting up overseas insurance businesses. There should also be participation in international competition to expand the impact of the China insurance industry.

Achieve a unified system of social and commercial insurance

There is a need to achieve a unified social insurance for both urban and rural populations, and make personal insurance play a complementary role to social insurance. A consummated social security system should include social insurance, business insurance, social relief, social welfare and other multi-level complements. It should be an all-encompassing security system which includes government, society, institutions and individuals. First, establish a unified social insurance system. Second, promote a mutual fusion between commercial insurance and social insurance.

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