

# TRENDS IN THE CHINESE INSURANCE MARKET STRUCTURE<sup>1</sup>

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## Introduction

During the 22 years from 1980, when China resumed its insurance business, to 2001, the premium income of the Chinese insurance industry increased at an average annual rate of about 35%, which is much higher than that of GDP at 9.7%. During these still early stages of the Chinese insurance market, choosing a sound insurance market structure will directly affect the development of the insurance industry, the stability of the insurance market, and even the social economy. Based on an analysis of the current situation of the Chinese insurance market, this paper proposes an appropriate Chinese insurance market structure.

## The Current Situation of the Chinese Insurance Market

After witnessing a sustained and rapid increase in premium income, the Chinese insurance market has now entered a phase of steady growth. Premium income increased from 460 million RMB in 1980 to 210.94 billion RMB in 2001, at an average annual rate of about 35%, and is much higher than the annual growth rate of GDP at 9.7% during the same period. The main reason is that the Chinese domestic insurance industry did not resume business until 1980, and thus it had a low starting point. But now, the total insurance premium income is beginning to grow steadily, although the growth of property insurance premium income is now slowing while life insurance premium income is increasing fast. Thus, whilst the total premium income has maintained a fast and sustained growth, there are different growth rates for these two divisions of the insurance business. All this is shown in Table 1.

When China resumed its domestic life insurance business in 1982, the premium income of that year was only 1.6 million RMB. Since then, the large population in China has served as a sound base for the rapid development of Chinese life insurance. In addition, the People's Bank of China reduced the deposit interest rate eight times during the period from May 1997 to Feb. 2002. These interest rate cuts, coupled with the fact that the Chinese capital market is undeveloped, led to a significant



Table 1 Chinese Insurance Premium Income from 1980 to 2001

(100million RMB)

Year	GDP	Growth Rate <sup>3</sup> (%)	Total Premium Income <sup>4</sup>	Growth Rate <sup>5</sup> (%)	Property Insurance Premium Income	Growth Rate (%)	Life Insurance Premium Income	Growth Rate (%)
1980	4517.8	7.8	4.6	-	4.6	-	-	-
1981	4862.4	5.2	7.8	69.5	7.8	69.5	-	-
1982	5294.7	9.1	10.3	32.1	10.284	31.8	0.016 <sup>6</sup>	-
1983	5934.5	10.9	13.2	28.1	13.096	27.3	0.1044	552.5
1984	7171.0	15.2	20.0	51.5	19.275	47.2	0.725	594.4
1985	8964.4	13.5	33.1	65.5	28.69 <sup>7</sup>	49.94	4.41	508.3
1986	10202.2	8.8	45.8	38.4	34.464	20.15	11.336	157.1
1987	11962.5	11.6	71.04	55.1	46.047	33.61	24.993	120.5
1988	14928.3	11.3	110.39 <sup>8</sup>	55.4	72.89	58.29	37.50	50.0
1989	16909.2	4.1	97.63	-11.56	78.05 <sup>9</sup>	7.10	19.58	-47.8
1990	18547.9	3.8	135.17	38.5	106.76	36.78	28.41	45.1
1991	21617.8	9.2	178.24	31.9	136.83	28.17	41.41	45.76
1992	26638.1	14.2	211.69	18.8	147.40	7.72	64.29	55.25
1993	34634.4	13.5	395.47	86.8	251.40	70.56	144.07	124.09
1994	46759.4	12.6	500.35	26.5	336.90	34.01	163.45	13.45
1995	58478.1	10.5	594.9	18.9	390.70	15.97	204.20	24.93
1996	67884.6	9.6	777.13	30.6	452.49	15.82	324.62	58.97
1997	74772.4	8.8	1087.95 <sup>10</sup>	40.0	480.73	6.24	600.24	84.91
1998	79553.1	7.8	1247.6	14.7	499.60	3.92	747.70	24.57
1999	82054	7.1	1393.2 <sup>11</sup>	10.2 <sup>12</sup>	521.1	2.9 <sup>13</sup>	872.1	15 <sup>14</sup>
2000	89404	8.0	1595.9	14.5	598.4	14.8	997.5	14.4 <sup>15</sup>
2001	96500	7.4	2109.4	32.2	685.4	14.6	1424.0	42.8

increase in the premium income of life insurance as many Chinese people now regard buying insurance as an important way of investment.

In the first half year of 2001, the growth rate of life insurance premium income was 36.78%, higher than that of total premium income at 27.69% and that of property insurance at 14.76%. Since 2000, the fast growth rate of life insurance has been mainly caused by the boom of insurance with an investment content, such as investment-linked insurance, universal life insurance and participating insurance.

The predominant business has shifted from property insurance to life insurance, as shown in the following Table 2.



**Table 2 Structure of Chinese Premium Income from 1980 to 2001**

(100million RMB)

Year	Property Insurance Premium Income	Life Insurance Premium Income	The Proportion of Property Insurance Premium Income in the Total Premium Income
1980	4.6	0	100.00
1981	7.8	0	100.00
1982	10.284	0.016	99.84
1983	13.096	0.01044	99.21
1984	19.275	0.725	96.38
1985	28.69	4.41	86.68
1986	34.464	11.336	75.25
1987	46.047	24.993	64.82
1988	72.89	37.50	66.44
1989	78.05	19.58	79.94
1990	106.76	28.41	78.98
1991	136.83	41.41	76.77
1992	147.40	64.29	69.63
1993	251.40	144.07	63.57
1994	336.90	163.45	67.33
1995	390.70	204.20	65.67
1996	452.49	324.62	58.27
1997	480.73 <sup>14</sup>	600.24	44.67
1998	499.60	747.70	40.05
1999	521.1	872.1	37.4
2000	598.4	997.5	37.5
2001	685.4	1424.0	32.5

GDP at 9.7% during the same period. The main reason is that the Chinese domestic insurance industry did not resume business until 1980, and thus it had a low starting point. The property and life revenue streams have their own internal proportions of various lines of business, as shown in the following Table 3.

In the first half year of 2001, the growth rate of life insurance premium income was 36.78%, higher than that of total premium income at 27.0% and that of property insurance at 14.70%. Since 2000, the fast growth rate of life insurance has been mainly caused by the boom of insurance with an investment content, such as investment-linked insurance, universal life insurance and participating insurance. When China resumed its domestic life insurance business in 1982, the premium income of that year was only 1.6 million RMB. Since then, the large population in China has served as a sound base for the rapid development of Chinese life insurance. In addition, the People's Bank of China reduced the deposit interest rate eight times during the period from May 1997 to Feb. 2002. These interest rate cuts, coupled with the fact that the Chinese capital market is undeveloped, led to a significant



**Table 3 Insurance Lines Composition of Chinese Insurance Companies in 2000<sup>16</sup>**

Insurance Lines	Weight %(overall)	Weight %(P, L)
<b>I Property Insurance Companies</b>	36.77 <sup>17</sup>	100.00
1. Business Property Insurance	7.67	21.60
2. Household Property Insurance	0.77	2.10
3. Motor Vehicle and Third Party Only Insurance	23.50	63.92
4. Aircraft and its Liability Insurance	0.29	0.80
5. Hull Insurance	0.71	1.94
6. Cargo Transportation Insurance	2.34	6.37
7. Contractors All Risk Insurance	0.29	0.79
8. Machinery Breakdown Insurance	0.09	0.26
9. Other Property Insurance	1.09	2.97
<b>II Life Insurance Companies</b>	<b>63.23</b>	<b>100.00</b>
1. Life Insurance	54.75	86.59
2. Health Insurance	1.87	2.96
3. Accident Insurance	6.61	10.45
<b>III Total</b>	100.00	-

In property insurance, motor vehicle insurance accounts for the major proportion. In 1987, the premium income of motor vehicle insurance surpassed that of business property insurance for the first time, to become the biggest line of property insurance. Since then, the proportion of motor insurance has increased gradually. In 1997, it accounted for 55.33% of the total property premium income. The figure was 56% for 1998 and 1999. According to the statistics of 1997, business property insurance had a proportion of 21.62% and cargo insurance 8.78%, ranked the second and the third respectively in terms of premium income. In 1998, the ranking of proportions of Chinese property insurance lines was: motor vehicle insurance accounted for 55.56%, business property insurance 22.27% and cargo insurance 7.63%.

In 2000, the structure of property insurance lines further changed: the proportion of motor vehicle insurance increased to 63.93%. The proportion of motor vehicle insurance was 61% in 2001. And in areas of the country where the economy and transportation are relatively developed, this proportion is much higher. For example, this ratio reached about 70% in Beijing.

There is a remarkable improvement in both insurance depth and insurance density, although these two indicators are still at a low level. This means that there is great potential in the Chinese insurance market. The figures are shown in Table 4.



**Table 4 Insurance Depth and Insurance Density from 1980 to 2001 in China**

Year	Insurance Depth (%)	Insurance Density (yuan per capita)	Property Insurance Density (yuan per capita)	Property Insurance Depth (%)	Life Insurance Density (yuan per capita)	Life Insurance Depth (%)
1980	0.10	0.48	0.48	0.10		
1981	0.16	0.78	0.78	0.16		
1982	0.20	1.01	1.01	0.19	0.00	0.01
1983	0.22	1.29	1.27	0.22	0.02	0.00
1984	0.28	1.92	1.85	0.27	0.07	0.01
1985	0.37	3.13	2.71	0.32	0.42	0.05
1986	0.45	4.26	3.21	0.34	1.05	0.11
1987	0.59	6.50	4.41	0.38	2.29	0.21
1988	0.74	9.94	6.56	0.49	3.38	0.25
1989	0.58	8.66	6.93	0.46	1.74	0.12
1990	0.73	11.82	9.34	0.58	2.48	0.15
1991	0.83	15.39	11.81	0.63	3.58	0.19
1992	0.79	18.07	12.58	0.55	5.49	0.24
1993	1.14	33.37	21.21	0.72	12.16	0.42
1994	1.07	41.75	28.11	0.72	13.64	0.35
1995	1.02	49.12	32.26	0.67	16.86	0.35
1996	1.14	63.50	36.97	0.67	26.53	0.48
1997	1.44	88.00	39.31	0.64	48.69	0.80
1998	1.57	100.89	40.40	0.63	60.89	0.94
1999	1.7	110.65	41.39	0.64	69.26	1.06
2000	1.8	127.7	47.89	0.675	79.81	1.125 <sup>318</sup>
2001	2.2	162.9 <sup>19</sup>	52.91	0.710	109.93	1.476

The number of insurance companies has increased remarkably, but the insurance market in China is still oligopolistic.

From the resumption of domestic property insurance business in 1980, up to the year, there was only one insurance company in China: People's Insurance Company of China (PICC). Then, Xin Jiang Corps Property Insurance Company, Ping An Insurance Company of China and China Pacific Insurance Company Limited were founded in 1986, 1988 and 1991 respectively. In 1996, another three insurance companies were set up one after another, namely New China Life Insurance Company Ltd., Tai Kang Life Insurance Company Ltd., and Hua Tai Property Insurance Company of China Ltd. In the same year, with the promulgation of the *Insurance Law* and the separation of property and life insurance businesses, PICC was restructured and divided into three subsidiary bodies: People's Insurance Company of China, China Life Insurance Company and China Reinsurance Company. At the same time, China Insurance Company Ltd. took over the former oversea business of PICC.



By 23 Nov. 2001, there were altogether 40 insurance companies in China, including 4 state-owned companies, 10 limited companies, 26 joint ventures and branch offices of foreign-funded companies, and there were also over 198 representative offices of the insurers from about 20 countries and regions. In classifying Chinese insurance companies according to their business areas, there were 8 national insurance companies, 5 regional ones, and 15 foreign-funded companies and joint ventures. In Oct. 2000, Min Sheng Life Insurance Company, Dong Fang Life Insurance Company, Sheng Ming Life Insurance Company and Heng An Life Insurance Company were approved to establish joint-ventures with foreign insurance companies.

By 31 Dec. 2001, there were altogether 52 insurance companies in China, including 5 state-owned companies, 15 limited companies, 13 solely foreign-funded ones and 19 joint ventures. Correspondingly, the monopolization by PICC before 1985 was brought to an end, and the market share of People's Insurance Company of China dropped to 40.33% and China Life Insurance Company to 29.14% in 2000. For the same year, the market share of Ping An Insurance Company of China was 17.07%, China Pacific Insurance Company Ltd. was 7.55%<sup>20</sup>, and that of other insurance companies operating in China was 3.81%. This indicates that a multi-participants insurance market has come into being. However, the state-owned companies still retain a dominant position<sup>21</sup>.

The number of insurance intermediaries has also shown fast growth, with agents serving as the main distribution method. By 31 Dec. 2001, there were 17 insurance brokerage companies, 127 agency companies and 26 surveyor companies approved by the Chinese Insurance Regulatory Committee (CRIC). Thus, these three intermediaries, on behalf of applicants and insurers, and as an independent third-party respectively, came into being. As far as the long-term trend is concerned, the insurance brokers will continue to expand, but insurance agents will keep their dominant role in the life insurance market, and brokers will gain a dominant role in the property insurance market. Meanwhile, insurance surveyors have promising prospects, and a three-dimensional insurance intermediary structure will be established.

Since the resumption of insurance business in 1979, direct-selling by insurers played the major role at the early stage. Insurance business revenue was limited because of the high cost and poor information channels. As domestic insurance business had been discontinued for 21 years since 1959, people had neither knowledge nor trust in insurance. Although understandable, this direct-sale dominance constrained the insurance industry development<sup>22</sup>. In the early stages, insurance companies employed part-time agents by respective departments. In 1996, an agency system composed of professional agents, non-professional agents and individual agents was put into practice. By May 2000, the number of certificated insurance agents has grown to over 1,000,000, and the premium income earned by agents made up 70% of the total premium income (of which life insurance accounted for 80%).



## Regulation

Insurance supervision and regulation have developed gradually. Since the resumption of domestic insurance business in 1979, China has been strengthening insurance legislation. “*The Ordinances of Property Insurance Contracts of the People’s Republic of China*” and “*The Temporary Provisions on Insurance Enterprises*” were promulgated in 1983 and 1985 respectively by the State Council. In 1992, the People’s Bank of China (PBOC) issued “*Provisional Regulations on Insurance Agencies*” and “*Provisional Regulations on Foreign-funded Insurance Bodies in Shanghai*”. On 30 June 1995, the National People’s Congress promulgated “*the Insurance Law of China*”. On 2 Feb. 1996, the PBOC issued “*Provisional Regulations on Insurance Agents*”, and on 25 June in the same year issued “*Provisional Rules on the Regulation of Insurance*”. On 30 Nov. 1997, the PBOC issued the revised “*Regulations on Insurance Agents*” (trial implementation), and on 24 Feb. 1998 “*Regulations on Insurance Brokers*” (trial implementation). In 1999, CIRC issued “*Regulations on Insurance Companies*” and in 2000 promulgated “*Regulations on Insurance Surveyors*”. CIRC revised “*Regulations on Insurance Brokerage Companies*” and “*Regulations on Insurance Agents*” in 2001. With the promulgation of relevant laws and regulations, an insurance legislation system based on Insurance Law is taking shape<sup>23</sup>.

At the same time, the Chinese Insurance Regulatory Committee (CIRC) was set up in 18 Nov. 1998. It has replaced the People’s Bank of China as the supervisor of Chinese commercial insurance companies. In April 2000, CIRC set up its branches in 31 provinces and municipalities such as Shanghai, Guangzhou and Beijing, and it has trained many capable insurance regulatory officials to improve regulation of the insurance market.

### Opening Up to the Outside World

Since the implementation of reform and an opening-up policy, the insurance industry is one of the fastest growing industries in China. In order to absorb the advanced technology and experience of foreign insurance companies and promote the development of the domestic insurance industry, the insurance authority ratified Shanghai as a testing region for the setting up of foreign insurance companies. In 1992, AIA set up a branch in Shanghai and became the first foreign-funded insurance company in China. By 23 Nov. 2001 in China there were 26 insurance companies with foreign investment, and 196 representative offices from about 20 countries and regions. According to the statistics, at the end of 1999, the total capital of foreign insurance companies in China reached 4.4 billion RMB, which accounted for 1.7% of the total capital of insurance companies in China, and the premium income of foreign-invested insurance companies was 1.82 billion RMB, which accounted for 1.3% of total



premium income<sup>24</sup>. On the other hand, the Chinese government encourages domestic insurance companies to set up businesses overseas.

### The Loss Ratio Remains Stable

The Chinese insurance loss ratio remains around 56%, but the ratios for property insurance and life insurance are different. Since life insurance is mainly long-term business and China resumed its life insurance business only a short time ago, this paper focuses on loss ratios of property insurance. For 2000, the ratio was 57.25%<sup>25</sup>, with variations between the different constituent lines, as shown in the following table. As motor insurance dominates property insurance, the loss ratio of property insurance is close to that of motor vehicle insurance. In order to lower the loss ratio of property insurance, the key is to lower that of motor vehicle insurance. The loss ratio of property insurance companies is decreasing. The Life Insurance loss ratio has been only 32.28% in average, that for Chinese insurance companies in 1998 being 42.33%.

**Table 5 Loss Ratio of Property Insurance Companies in 2000<sup>26</sup>**

Lines	Loss Ratio %
1. Business Property Insurance	17.04
2. Household Property Insurance	31.89
3. Motor Vehicle and Third Party Only Insurance	55.23
4. Aircraft and its Liability Insurance	18.16
5. Hull Insurance	78.46
6. Cargo Transportation Insurance	39.55
7. Contractors All Risk Insurance	57.15
8. Machinery Breakdown Insurance	57.00
9. Other Property Insurance	50.67
<b>Total</b>	<b>51.56</b>

### Inadequate Effective Supply

The Chinese insurance market has developed dramatically, turning from a monopolistic market before 1985 to an oligopolistic market after 1986. There is still much that needs improving, including an inadequate effective supply, an inadequate demand, and solvency/regulation issues.

The fact that the market is dominated by a small number of suppliers, and varieties of insurance products are limited and unmarketed, mainly manifests as an inadequacy of effective supply. At present, there are only 40 insurance companies in China. At the end of 2000, the market share of PICC and China Life Insurance Company was



above 70%. In the property insurance market, the market share of PICC was 77.83%, the second and the third ones were China Pacific Insurance Company Ltd. and Ping An Insurance Company of China respectively. The total market share of these three insurance companies was 97.67%, the other insurance companies thus accounting for only 2.33%.

In the life insurance market, the market share of China Life Insurance Company was 64.9%, the second and the third largest being Ping An Insurance Company of China and China Pacific Insurance Company Ltd. The total market share of these three insurance companies was 95.52%. Because of monopoly and lack of competition, the number of insurance lines is small and the quality of service is poor. Therefore, the effective insurance supply is inadequate. On one hand, the supply of some insurance products falls short of demand; on the other hand, the supply of some products exceeds demand. The following table shows the premium income and market share of Chinese insurance companies in 2000.

**Table 6 Premium Income and Market Share of Chinese insurance Companies in 2000<sup>27</sup>**

Companies	Premium income (100 million RMB)	Market Share(%)
China Life Insurance Company	643.57	40.33
People's Insurance Company of China	465	29.14
Ping An Insurance Company of China	272.45	17.07
China Pacific Insurance Company Ltd.	152.48	9.55
Xin Jiang Corps Property Insurance Company	3.83	0.24
New China Life Insurance Company Ltd.	15.06	0.94
Tai Kang life Insurance Company Ltd.	7.2	0.45
Hua Tai Property Insurance Company of China, Ltd.	4.7	0.29
Da Zhong Insurance Company Ltd.	3.4	0.21
Tian An Insurance Company Ltd.	2.65	0.17
Sinosafe General Insurance Company Ltd.	2.69	0.17
Yong An Property Insurance Company Ltd.	0.84	0.05

Turning now to insurance intermediaries, this sector of the insurance market has developed slowly. Firstly, the number of insurance agency companies is small. Currently there are only 127 professional insurance agency companies, which started with a poor foundation and cannot meet the standards necessary. Secondly, there are only 17 insurance brokerage companies, and these cannot meet the demands made by insurance development. All this has restrained the development of the Chinese insurance industry.



## **Inadequate Effective Demand**

There is an inadequacy of effective demand for insurance. This is due to three main reasons: the lack of insurance awareness; low income; and high premium rates

People's awareness of the importance of insurance is quite low and should be enhanced. There are a few reasons behind it. The first one lies in historical traditions. Traditionally, Chinese people believe that one rears children against old age and therefore they choose to bear the risks by themselves. Secondly, because of the long duration of a planned economy, state finance took the risks of enterprises and individuals. The deep-rooted concept of a planned economy results in the fact that some people still want to depend on state finance. So they are not aware of the need for insurance. Thirdly, from 1958 the domestic insurance business was discontinued for 21 years. It is only recently that the domestic insurance business was resumed. People do not know and do not want to take time to understand the meaning of insurance. Fourthly, since the resumption of domestic insurance business is only recent, the operation of some insurance companies and insurance agents does not yet conform to relevant standards and regulations. Coupled with inaccurate mass media reports and the spread of improper public opinion, these factors lead to people's distrust in insurance.

Although China's recent economic growth is amazing, it is still in its early stages of economic development. Thus incomes are still relatively low, which limits buying power for insurance products. Compounding this restraint, insurance products' prices, i.e. the premium rates, are quite expensive.

## **Solvency/Regulation Issues**

Currently, life insurance is faced with serious interest-deficit, while property insurance is not developing as dramatically as before. From May 1996 to Feb. 2002, China reduced the deposit interest rate eight times from 10.98% to 2.25% per year. However, most of the insurance companies' capital is invested on deposit, which resulted in the actual interest income for insurance companies decreasing substantially. Before that, insurers sold policies with high interest-due: for example, interest-due policies paying 8.8% before 1997 were based on a deposit interest rate of 10.98%. Yet since then the deposit interest rate has reduced to 2.25%. Although after 1998, CIRC allowed insurance companies to buy state corporation bonds approved by CIRC, to invest indirectly in the stock market and expand some other investment means, which in some degree increased the investment profit, this still cannot offset the huge interest-deficits. Life insurance companies are facing a high risk of insolvency<sup>28</sup>.



Insurance legislation is not well established. Although insurance legislation such as the *Insurance Law of China*, *Regulations on Insurance Agents*, *Rules on the Regulation of Insurance* were issued one after another, a sound insurance legislative system has not yet been established. Firstly, the lack of detailed rules of implementation for the *Insurance Law of China* has brought many difficulties in implementation. Secondly, there are not enough rules for regulation such as for insurance capital investment, underwriting, and claim-settling. Thirdly, as the *Insurance Law of China* was issued under an environment of little market economy experience, and great changes have since taken place in the insurance industry and economic development (nationwide and globally), the *Insurance Law of China* is somewhat outdated and inadequate for the present situation.

Insurance legislation should be strengthened. Since founded in November 1999, the Chinese Insurance Regulatory Committee (CIRC) has improved insurance regulations, and has established branches in many municipalities and provinces (except Tibet). But the insurance regulations could not keep up with the fast growing insurance industry.

The quality of insurance companies should be improved. Some insurers have loose self-control; there are too few professional regulatory officials; insurance regulation experience is only a few years old; the regulatory system is imperfect, especially in information disclosure; and too much attention is given to control market operation, while lacking tools to assess solvency management, leading to a weak competitive position in the market.

### **From Oligopolistic to Monopolistic Market Structure**

A monopolistic competition insurance market<sup>29</sup> is the trend of the insurance market structure throughout the world, because in an open economy, the number of newcomers in an insurance market is increasing while some participants are merging to benefit from large-scale operations. A freely competitive market shared by a large number of small insurers is quite rare nowadays. Under the commitment made to the WTO, the oligopolistic structure will vanish, together with the tide of global mergers, and a monopolistic-competition market structure will become established.

Before 1985, the Chinese insurance market was monopolized by one insurer. From the time when Xin Jiang Crops was founded in 1986 to the end of 2001, the number of insurers increased to 52. In 2001, PICC and China Life had a market share of 62.47%, and the four top insurers accounted for 95.5%. Therefore, the Chinese insurance market may be classified as oligopolistic.

The following Table 7 provides data showing the way the various insurers' share of the market in 2000.



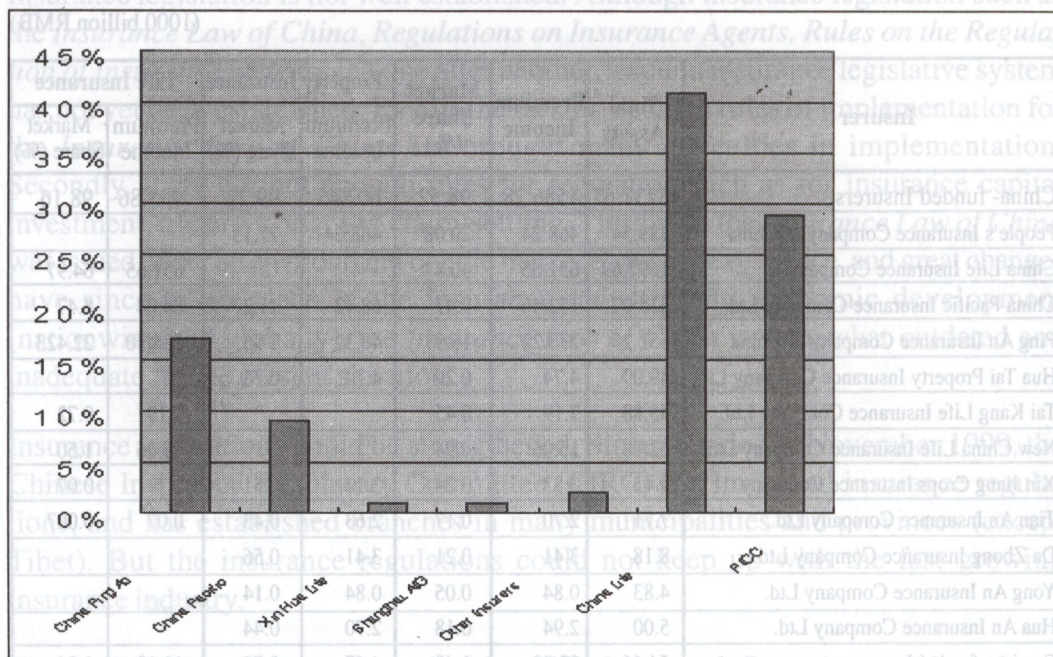
**Table 7 Chinese Insurance Market Structure in 2000<sup>30</sup>**

(1000 billion RMB)

Insurer	Total Assets	Premium Income	Market Share (%)	Property Insurance		Life Insurance	
				Premium Income	Market Share (%)	Premium Income	Market Share (%)
China- funded Insurers	3237.67	1586.28	98.52	602.42	99.22	983.86	98.16
People's Insurance Company of China	489.54	468.24	29.08	468.24	77.13		
China Life Insurance Company	1597.69	651.65	40.47			651.65	64.97
China Pacific Insurance Company Ltd.	315.07	152.46	9.47	68.42	11.27	84.04	8.47
Ping An Insurance Company of China	652.25	273.22	16.97	48.32	7.96	224.90	22.423
Hua Tai Property Insurance Company Ltd.	49.09	4.74	0.29	4.74	0.78		
Tai Kang Life Insurance Company Ltd.	45.88	7.19	0.45			7.19	0.72
New China Life Insurance Company Ltd.	52.98	15.06	0.94			15.06	1.50
Xin Jiang Crops Insurance Company	9.45	3.83	0.24	3.12	0.51	0.71	0.07
Tian An Insurance Company Ltd.	7.71	2.70	0.17	2.63	0.43	0.07	0.007
Da Zhong Insurance Company Ltd.	8.18	3.41	0.21	3.41	0.56		
Yong An Insurance Company Ltd.	4.83	0.84	0.05	0.84	0.14		
Hua An Insurance Company Ltd.	5.00	2.94	0.18	2.70	0.44		
Foreign- funded Insurers	54.66	23.80	1.48	4.67	0.78	19.13	1.84
Shanghai Branch, AIA	27.07	12.18	1.48			12.18	1.21
Guangzhou Branch, AIA	6.76	4.63	0.77			4.63	0.46
Shenzhen Branch, AIA	1.1	0.24	0.29			0.24	
Shanghai Branch, Tokio Marine and Fire Insurance Co. Ltd.	2.17	0.76	0.01	0.76	0.14		
Shanghai Branch, AIU Insurance Company	2.17	1.31	0.05	1.31	0.21		
Guangzhou Branch, AIU Insurance Company	1.14	0.34	0.08	0.34	0.057		
Shenzhen Branch, AIU Insurance Company	1.07	0.07	0.02	0.07	0.013		
Shanghai Branch, Winterthur Swiss Insurance	1.91	0.59	0.004	0.59	0.098		
Shenzhen Branch, Hongkong							
Ming An Insurance Co., Ltd.	2.12	1.46	0.03	1.46	0.24		
Haikou Branch, Hongkong Ming An Insurance	0.2	0.05	0.09	0.05	0.008		
AXA-Minmetals Assurance Co., Ltd.	1.95	0.30	0.004			0.30	
Allianz-Dazhong Life Insurance Co., LTD	2.16	0.27	0.02			0.27	
Shanghai Branch, Royal & Sunalliance	1.12	0.09	0.02	0.09	0.014		
Manulife-Sinochem Life Insurance Co. LTD	3.72	1.51	0.006			1.51	
<b>Total</b>			<b>100.00</b>		<b>100.00</b>		<b>100.00</b>



**Table 8 Market Share of Insurers in China in 2000**



**Trends in the Chinese Insurance Market Structure**

**An ideal insurance market structure in China**

In a closed economy, an oligopolistic structure may be the ideal choice for Chinese insurance market, because it can promote competition and ensure market stability. But in an open economy, a monopolistic competition structure may be the ideal one, and free competition may be dangerous because it may lead to an un-stable insurance market and even financial crisis.

There are reasons for this trend in the Chinese insurance market structure. Since competition can accelerate product innovation, improve service, reduce cost and promote a fair market, there should be some competition, i.e. there should be a number of insurers.

Among China’s commitments to WTO, there are regulations on setting up foreign-funded insurers, but not on economy demand testing and with no restrictions on numbers when issuing operation licences. So, a lot of foreign insurers will enter the Chinese market, and thus promote competition.

The search for economies of scale will result in some degree of monopoly. Scale can reduce costs, and some insurers will merge to gain this advantage, which may lead to a monopolistic situation.

Insurers need some degree of monopoly. As an insurer itself has to exercise risk management, only large insurers can take over the business when small ones go



bankrupt (in order to protect the insured). If all the insurers are of small size, no one is able to take over a bankrupt business, and the insured would not be properly protected, thus leading to social problems.

An insurance giant is needed to meet the trend towards globalization. Under globalization, in which there is international competition among insurers, each country will try to have at least one insurance giant for national competitiveness. On the other hand, insurers will also increase their capital by merging and going public to meet the intense competition.

### Regional Differences Within China

Chinese national conditions mean that the national economy develops unevenly in different areas. One of the characteristics of economic development in China is that it is unevenly spread. China is relatively developed in its eastern areas and relatively underdeveloped in middle and western areas. As a result, the insurance industry has developed unevenly as well. Economically well-developed areas such as Shanghai and Guangzhou have many insurers, larger demand and tougher competition. In the middle and western regions, the insurance industry has a smaller insurance demand and only a vague insurance awareness. The Chinese government tries to support the western areas by exploring economic potential. Statistics show that as to the total premium income in 2001, Guangdong ranked the first (9.21%), then Shanghai: 8.55%; Jiangsu (8.49%), Zhejiang: 7.37%; and Beijing: 6.71%. Tibet had the smallest market share: 0.038%. Guangdong ranked first in property insurance: 10.93%; Shanghai ranked first in life insurance: 9.85%. From 1998 to 2001, Guangdong ranked first in property insurance with a market share of more than 8%.

**Table 9 Market Share and Premium Income of Top Five and Last Five Provinces in 2001<sup>31</sup>**

Ranking	Province	Premium Income (100 million RMB)	Market Share	Property Insurance		Life Insurance	
				Premium Income (100 million RMB)	Market Share	Premium Income (100 million RMB)	Market Share
1	Guangdong	194.8000	9.206	74.9000	10.928	119.9000	8.420
2	Shanghai	180.2500	8.545	39.9400	5.827	140.3150	9.854
3	Jiangsu	179.1637	8.494	47.6140	6.947	131.5497	9.238
4	Zhejiang	155.4209	7.368	52.2040	7.617	103.2168	7.248
5	Beijing	141.4550	6.706	38.1892	5.572	102.8650	7.224
<b>Total</b>		<b>851.0896</b>	<b>40.348</b>	<b>252.8472</b>	<b>36.891</b>	<b>597.8665</b>	<b>41.984</b>
32	Tibet	0.7951	0.038	0.7951	0.116	0.0000	0.000
31	Qinghai	5.4627	0.259	2.3132	0.337	3.1495	0.221
30	Ningxia	6.2361	0.296	1.9916	0.291	4.2445	0.298
29	Hainan	7.6044	0.361	3.2798	0.479	4.3247	0.304
28	Guizhou	20.1354	0.955	8.3052	1.212	11.8301	0.831
<b>Total</b>		<b>40.2337</b>	<b>1.909</b>	<b>16.6849</b>	<b>2.435</b>	<b>23.5488</b>	<b>1.654</b>



As indicated by the table, in 2001, the premium of the top five most developed provinces in the east had a market share of 40.35%, while that of the five most underdeveloped provinces was only 1.91%, less than the market share of a medium sized province. Such an unevenly developing situation requires a need for multi-participants in the insurance market to ensure market stability as well as society stability. Meanwhile, as the Chinese insurance market is not yet mature, a free competition market-structure is not suitable.

### **Suggestions for a Future Chinese Insurance Market Structure**

The following are suggestions for a future market structure.

1. Encourage the growth of insurance market participants. Firstly, in cultivating the existing participants, more insurers should be set up step by step, to form a monopolistic competition insurance market. Secondly, insurance intermediaries should grow faster, making good use of agents, brokers and surveyors. Thirdly, reinsurance should be strengthened, so that there is a multi-participants reinsurance market with a reinsurance group, so as to fully disperse insurance risks.
2. Create an insurance giant. The Chinese state sole-funded insurance companies should be reconstructed as stock companies to attract more social funds and to operate efficiently. The existing stock companies should add capital and increase stocks to improve solvency and competitiveness.
3. Improve insurance legislation, and establish a sound international insurance legislation system. There should be an improved insurance regulatory system, with *Insurance Law* as the core and with supplementary detailed rules and regulations. Also, *Insurance Law* should be revised according to the new environment, national situation and WTO rules. It should include the following provisions: that accident insurance and health insurance should be common business for both life insurers and property insurers; that insurance clauses and premium rates should be decided by the market; that types of permitted investment should be expanded (subject to controls on maximum proportions for various types); and that mutual insurer and insurance cooperation may be set up to form a multi-participants insurance market.
4. Transform the insurance regulation function and method. As to insurance regulation function, the regulatory body should strengthen macro-regulation, and as to regulation method, attention should be transferred from market intervention to solvency regulation.
5. Improve industry self-discipline and insurer's internal control. The Chinese



Insurance Industry Association was founded in November 2000, and has drawn up many industry agreements. Improved industry self-discipline includes sound industry self-disciplining bodies, various kinds of rules and regulations, and an inspecting and supervising mechanism.

The innovation of an insurance company's internal control system is the core of enterprise reform. Modern co-operative systems should be established according to *Cooperate Law* and *Insurance Law*. The decision-making body, operation body and supervision body of insurers should have defined work division to ensure legal operation and long-term growth, and thus increase competitiveness.

In conclusion, the Chinese insurance market has an unpredictably great potential, and choosing a sound market structure is of great importance for the Chinese insurance industry.

### Endnote

<sup>1</sup>This is a revised version of a paper presented at the Annual Conference in Shanghai of the Asia-Pacific Risk & Insurance Association, July 2002.

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<sup>3</sup>Data before 2001 is from *Statistics Yearbook of China 2001*, Statistic Publishing House of China, 2001; Data of 2001 come from *Statistics Journal*, 2002

<sup>4</sup>Pei Guang, *Research on Chinese Insurance Industry Supervision*, Chinese Finance Publishing House, Nov., 1999, P. 378, P. 380.

<sup>5</sup>Data of growth rates are calculated by comparing the premium income, property insurance premium income and life insurance premium income of the successive years.

<sup>6</sup>Data for 1982-1984 come from *Chinese Insurance History*, Chinese Finance Publishing House, 1998, P. 464.

<sup>7</sup>Data for 1985-1988 are calculated by total premium income minus life insurance premium income.

<sup>8</sup>Data for 1980-1987 are those of PICC.

<sup>9</sup>The same as Footnote 2, P. 388- P. 393.

<sup>10</sup>According to *Statistics Yearbook of China 1998*, total premium income of 1997 was 108.736 billion RMB, property insurance premium income was 48.073 billion RMB, life insurance premium income was 60.024 billion RMB.

<sup>11</sup>Ma Yongwei, *Strengthening Supervision, Reforming Innovation, Stable Development, Insurance Studies*, 2000. 2, P. 1.



<sup>12</sup>The same as Footnote 9, it should be 11.7 by comparing the premium income of 1998 and 1999 without the affect of price change.

<sup>13</sup>The same as Footnote 9, it should be 4.3% by comparing the premium income of 1998 and 1999 without the affect of price change.

<sup>14</sup>The same as Footnote 9, it should be 16.63% by comparing the premium income of 1998 and 1999 without the affect of price change.

<sup>15</sup>Data of 2000 are from *Chinese Insurance Newspaper*, Jan. 12, 2001.

<sup>16</sup>*Chinese Insurance Statistics Yearbook 2001*, Chinese Insurance Statistics Yearbook Publishing House, P. 4-P. 7.

<sup>17</sup>*Chinese Insurance Statistics Yearbook 2001*, Chinese Insurance Statistics Yearbook Publishing House, P. 4-P. 7., The ratios of premium income of property insurance companies and life insurance companies should be 37.5% and 62.5% respectively.

<sup>18</sup>The same as Footnote 15 for insurance depth and density, and those for property insurance and life insurance are calculated.

<sup>19</sup>2109.4 - 12.9533

<sup>20</sup>Wan Lihong, *The Insurance Market, Chinese Economic Statistics Yearbook 2001*, Chinese Economic Statistics Yearbook Publishing House

<sup>21</sup>Wang Xujin, *The Principles of Insurance* (the 2<sup>nd</sup> edition), Economics and Management Publishing House, Aug. 2000, P. 61-P. 62

<sup>22</sup>Wang Xujin, *The Current Situation and Trend of Chinese Insurance Market*, Economics Daily, 5 Oct. 1998

<sup>23</sup>Wang Xujin, *The Principles of Insurance* (the 2<sup>nd</sup> edition), Economics and Management Publishing House, Aug. 2000, P. 66

<sup>24</sup>China Insurance Information Web, 22 May 2000.

<sup>25</sup>The same as Footnote 15, property insurance has a loss ratio of 51.1% in 2000.

<sup>26</sup>*Chinese Statistics Yearbook 2001*, Chinese Statistics Yearbook Publishing House, P. 630.

<sup>27</sup>Wan Lihong, *The Insurance Market, Chinese Economic Statistics Yearbook 2001*, Chinese Economic Statistics Yearbook Publishing House

<sup>28</sup>Wang Xujin: On China's Insurance Investment, Economics Study, No. 7, PP. 37-39, 1999.

<sup>29</sup>Monopolized insurance market structure means that only one or very few insurance companies monopolize all the insurance business, there is no competition. Monopolistic insurance companies can be state-owned or private-owned. Oligopolistic insurance market structure means that the market is dominated by several big insurers. For example, as the second largest insurance market in the world in 1996, Japan accounted for 24.67% in the total insurance premium income of the world, among which property insurance accounted for 12.39% while life insurance accounted for 34.5%, but it only has 39 life insurance companies, 51 property insurance companies and 5 reinsurance companies. Another example is Korea, which has the sixth largest insurance market in the world, the top four insurers in Korea have a market share of 32.6%.

Oligopolistic market has a quite evident characteristic that the state insurance macro-regulation body takes a strict control over market size, making it difficult for new companies to enter, and thus leads to a stable market structure. Japan is of such type. On one hand, it is helpful for market stability, on the other hand, it is also helpful for market competition, as when 8 insurers went bankrupt in Japan during recent years, large insurers took over their business for market stability.

Monopolistic competition insurance market structure is an insurance market in which there are quite a lot of insurers, both small and large, and several large ones have a big market share. Such a market structure is quite popular nowadays in many countries, for instance, United States and most European countries such as England. The top ten non-life insurers in Germany, England and the United States in 1998 had a market share of 59%, 55%, 45% respectively, and the life insurance market is more centralized.

<sup>30</sup>*Chinese Insurance Yearbook 2001*. The premium income does not include the ceded premium.

<sup>31</sup>*Yearbook of China Insurance 2002*. The Publisher of China's Insurance Annual Statistics, PP. 15-16.



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