

# Special Report The Chinese Insurance Market

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## Inside This Report

Summary

Chinese Potential

Skills & Culture

Key Differences

Entering the Market

## Summary

China is the largest growing economy in the world with a combined GDP of \$10.17 trillion (2006 est.). The immense business opportunities it provides have attracted a growing number of foreign companies to invest in China in all sectors. The insurance industry is one such area offering strong growth prospects for western companies willing to get involved with China.

Due to China's relatively late commercialization, opening up and development, the insurance market at present is very underdeveloped and immature. However, like many industries in China, a game of catch-up and leapfrog is being played at very high speed. The Chinese are learning from developed nations and are encouraging development in key industries, such as insurance, to improve the strength of the nation.

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Investment by foreigners in the insurance sector in China has been heavily regulated until recently, and even now, there are more barriers than in some other industries. Protectionist mechanisms are being relaxed rapidly, and the insurance industry is no longer off limits to foreign investors. However, from the outset of deciding to enter the Chinese insurance industry, it is essential to have a full understanding of the regulations, the key players and the market trends and local behaviour. In addition, having a good knowledge of Chinese business culture, and a strong organization that can represent you and protect your interests is essential.

The Chinese Insurance market certainly has huge potential in the eyes of western insurers, brokers, aggregators and other insurance related organizations. To turn this potential into genuine returns requires knowledge, skill and determination.

China Consulting Ltd helped a UK insurance company enter the Chinese market by forming a Joint Venture with a local player.

## Full Report

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## Chinese potential

Although the insurance market is relatively young, figures show a [huge potential market](#). Total premiums grew an average of 25% p.a. from 2001 to 2005. Presently there are more than 40 foreign companies working in the insurance sector. Compared to the global market, the insurance market in China is both young and small and is therefore full of potential. There are many reasons that make investment in China highly appealing, especially the idea of earning a share of its financial wealth. However, a prospective investor must understand the difficulties and risks of the marketplace before deciding to enter China.

## Skills & Culture

One of the disadvantages many industries face in China is a short supply of skilled workforce. Even in major cities, depending on the industry, it is difficult to find qualified people to carry out the job for which they are hired. However, the current insurance sector is not as hampered by this issue as other sectors. The insurance market comprises 1.815 million staff, accounting for 40% of the total number of employees working in financial enterprises. These are mainly located in the major cities such as Beijing and Shanghai. Foreign insurance companies have mainly focused on the larger coastal cities due to the demand in these areas. Since many people are still living in poverty, insurance is a relatively new concept for Chinese and only around 6% of the population has a clear idea of its benefits. The middle-class society, which did not exist before, is a key growth phenomenon in the present period. As this middle class grows in both the coastal cities and in the second-tier cities further inland, the market for all types of insurance is expected to keep growing.

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China's growth model, due to both size and unequal distribution of wealth, is likely to be sustained for a long time to come.



For the majority of the period since the communists took power, the Chinese people have been looked after by the state. The "work-unit" provided for all an individuals requirements and looked after them into their old age. Free healthcare meant that health insurance was unheard of. Even though the "work-unit" culture has now largely disappeared, the market in insurance has been limited by the Chinese saving culture (reducing need for insurance because of large savings stockpiles) and the high cost of education and housing. However, a turning point occurred last year when the Eleventh Five-Year plan stipulated a need to directly promote the establishment of a stronger insurance industry. Furthermore, problems of speed, efficiency, transparency and regulation have been generally addressed in the interest of protecting consumers in China and sustaining a healthy and rapid development of the insurance industry.

### *Key Differences*

There are some key differences in the insurance industry in China and that in most other countries. The first is that the large insurance companies rely far more on individual agents than on retail outlets or brokers. Each of the large insurance firms have a huge network of agents who cover their own local area selling insurance to friends, family and individuals in their catchment area. Without a strong local partner, this makes it very difficult for western insurance companies to compete in similar products offered to a similar section of society.

The second difference is that the five largest insurers (PICC, China Pacific, Ping An, Tian An, China United) still account for approximately 94% of the market share. Of these, the government owns a large proportion, which means it is difficult to enter the market and take significant market share. The approval for a foreign company to operate in China is controlled by the government and requires various strict conditions, for example, that the company has 30 years operating history in their home market. Alternatives to entering as a wholly foreign owned company would include taking a stake in an existing insurance company in China, or inviting a Chinese insurance company or broker to enter into a joint venture with your company.

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## *Entering the Market*

Once these regulations have been overcome, an advantage that western insurance companies may be able to take advantage of is that the majority of the insurance firms are very large, state owned behemoths which react slowly to market trends. China currently has 123 Million internet users, and the growth in numbers of people with credit cards is also immense. [The online market](#) is clearly an area where western firms can use their expertise to find a niche in China, or use these skills as leverage to form a joint venture with a local insurer or broker.

Finding a correct strategy for entry into the Chinese market is key, including decisions such as which city or province, which partners, what type of business presence etc. Once these decisions have been made, introductions can be sought with suitable partners. Once again, detail is required. Websites are generally not bilingual, and sometimes do not open in the UK. Telephoning potential partners is also haphazard, even in Chinese, with the phrase "I'll just transfer you" commonly being followed by the phone going dead. When selecting partners be sure that they provide a close match, or that there are suitable areas for collaboration.

There is a certain etiquette framework to keep in mind when doing business with Chinese. It is very important to acknowledge and understand and respect the key differences between Chinese and Westerners to ensure success. Formality is generally retained longer than in the West – meetings will start with a set introduction to everyone present, exchange of name cards and then a set spiel about the company. Following the meeting, a banquet may well be suggested which will generally involve copious amounts of alcohol, numerous specialty dishes, but will retain an atmosphere of formality and mutual respect – diners are expected to make a quick toast to other diners each time they sip an alcoholic drink. With such differences in business culture, it is essential to have some cultural tuition before departure. If your firm does not have Chinese staff, then hiring a Western intermediary to deal with Chinese interactions is often a good solution.

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## *Long Term Commitment*

Despite the problems encountered due to the different natures of the insurance market in China and the UK, it is clear that there are numerous advantages to be had by entering the Chinese insurance market. There is a clear advantage to be gained by early entry, but any efforts made must be backed up with high quality research, high quality partnerships and strong understanding of the local background. Entering the Chinese market is a long term commitment, but one that will undoubtedly bring a great deal of success to those who get it right.

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We hope you have enjoyed this report brought to you by Insurance Echo in conjunction with China Consulting. If you would like others to view this report please let me know.

David Taylor, Editor  
Insurance Echo  
[david@insurance-echo.com](mailto:david@insurance-echo.com)  
+44 (0) 1273 832221



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## *About China Consulting*

China Consulting Ltd is a London based company offering market entry solutions for the Chinese Market – this includes strategic planning, market investigation, partner sourcing, office set-up and all relevant support services. For more details see <http://www.china-consulting.co.uk>



[Written by Alexandra Suriano and Edward Holroyd Pearce.](#)