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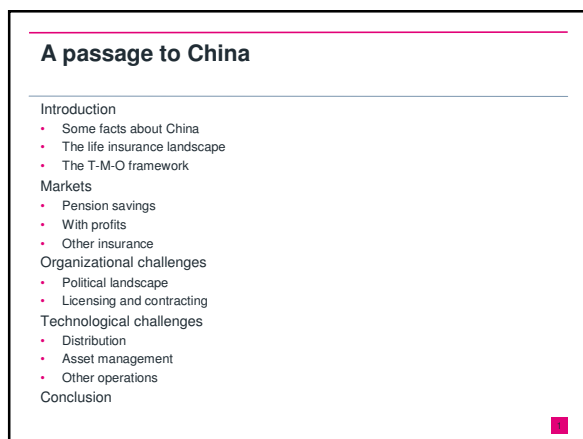
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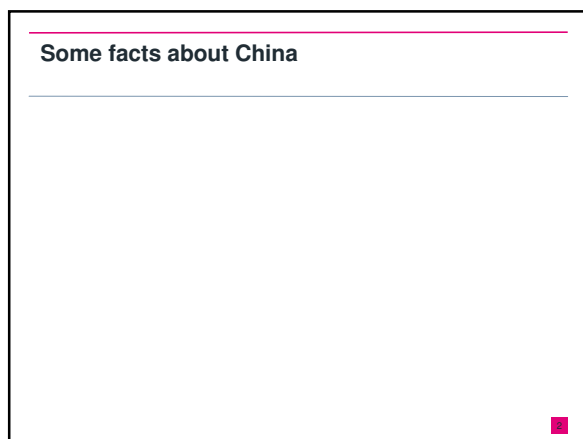
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## Some facts about China – Part I

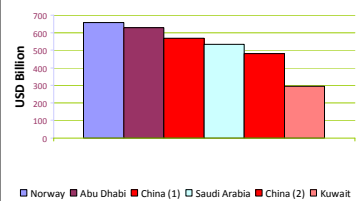
- 20% of the world lives there
- 80% of the world's zippers, and two thirds of the world's buttons come from Qiaotou
- 70% of the world's cigarette lighters made in Wenzhou



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## Some facts about China – Part II

World's largest sovereign wealth funds



China (1) was established in 1997 and primarily invests in developed countries

China (2) was established in 2007 and has a combination of overseas and local investments – diversified away from US

China has two more funds, a social security fund (USD 137Bn), and another with an African focus (USD 5Bn), both financed by government's cash balances

Source: SWF Institute, October 2012

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## Some facts about China – Part III

World's largest listed companies by market value (All figures in USD Billion)

Global Ranking	Company	Market Value	Turnover	Net Income	Total assets
1	Apple	559	109	26	116
2	Exxon Mobil	409	434	41	327
3	Petro China	279	318	21	305
4	Microsoft	271	70	23	109
5	IBM	242	107	16	113
6	ICBC	236	N/R	33	2455
7	Royal Dutch Shell	222	454	30	341
8	China Mobile	221	82	20	150
9	General Electric	212	142	14	717
10	Chevron	212	237	27	208

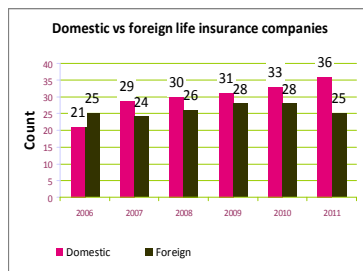
Source: Financial times, March 2012

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## Life insurance landscape

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## Life insurance landscape – part I



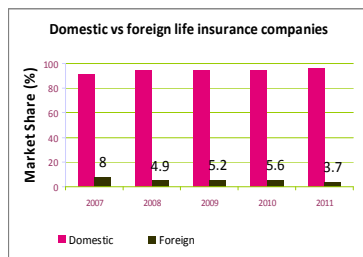
On 1 January 2011 there were 100 pending applications mostly from regional governments

Source: The 2011 China insurance yearbook

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## Life insurance landscape – part II



Source: The 2011 China insurance yearbook

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## Life insurance landscape – part III

Profitability of domestic and foreign Life Insurance Companies in 2010

Type of company	Companies making a profit	Companies not making a profit	Total	Average return on equity
Domestic	15	16	31 <sup>iii</sup>	15.5%
Foreign	8	20	28	(2.6%)

<sup>iii</sup> Data for China Life Insurance (Group) Company and Taikang Pension Insurance Co not complete, therefore they were not included

Source: China Insurance Yearbook 2011

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## The T-M-O framework

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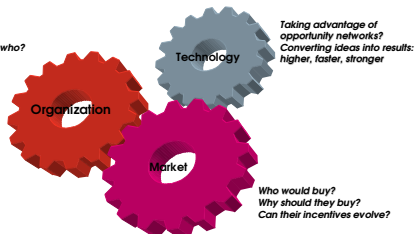
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## The T-M-O framework - Outline

Sources of good ideas  
Sources of innovation  
Who needs to adapt to who?



Adapted from Ventresca and Rao, 2007

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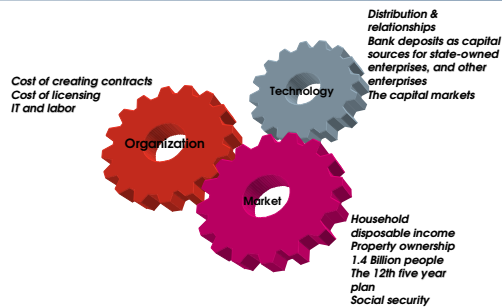
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## The T-M-O framework - Examples



Adapted from Ventresca and Rao, 2007

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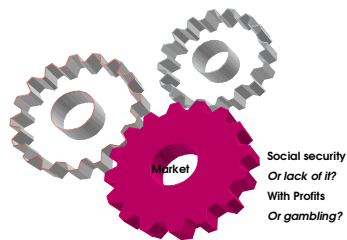
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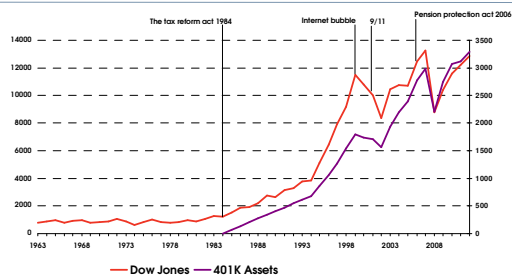
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## Correlation of US 401 K assets to market indices



Source: Investment company institute, "The US Retirement Market, 2nd Quarter 2012"  
<http://www.ici.org/liter/retire/2012/q2/retire-2012-q2.pdf>  
 Note: Dow Jones is a price index

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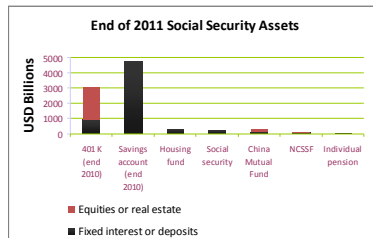
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## China's social security schemes vs. 401K



13% of China Mutual Fund's assets are in respect of Enterprise Annuity

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## China's pension savings vs. developed economies

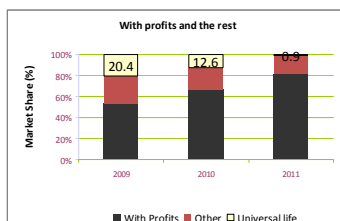
Type of company	Total Assets in 2011 (USD Billion)	Total assets as % of GDP (in local currency)	2011 Equity backing ratio
US <sup>[1]</sup>	16,080	107%	44%
Japan	3,363	55%	31%
UK <sup>[2]</sup>	2,394	101%	45%
Canada <sup>[3]</sup>	1,303	78%	39%
Australia	1,301	96%	50%
Netherlands	1,046	133%	27%
Switzerland <sup>[4]</sup>	693	115%	27%
China <sup>[5]</sup>	466	6%	20%

Source: Towers Watson Global Pension Asset Study, 2012 (except China data)

- [1] US figure includes Individual Retirement Accounts, a private arrangement
- [2] UK figure excludes personal and stakeholder defined contribution assets which are not disclosed
- [3] Canada figure excludes Registered Retirement Savings Plan, a private arrangement
- [4] Switzerland figure only includes total autonomous funds, not private arrangements
- [5] Estimated figures for China as NCSF + Social security + enterprise annuity + individual pension

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## The rise of with profits



### 2011 split in detail

- Accident insurance 3.2%
- Health insurance 6.8%
- Investment linked 0.1%
- Participating profit 82%
- Traditional life 7.0%
- Universal life 0.9%

Source: IBS report January 2012

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## Is there a market for anything else?

- **Lack of state support** e.g. healthcare
- **Natural disasters**<sup>[1]</sup>  
Sichuan earthquake, May 2008
- **Disease outbreaks**  
SARS in 2003
- **Improving regulation**
- **Improving property rights**

<sup>[1]</sup>The four countries in the world which are at extreme risk of economic losses arising from catastrophic events such as earthquakes, typhoons, tornadoes and floods are **China**, US, Japan and Taiwan  
Source: AON, 2011

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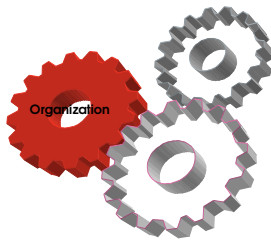
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Where is the power?  
Licenses and limitations  
What does the contract say, or not say?  
Assembling a winning team  
Finding your JV partner



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## Who is in charge of China?

The central people's government?

The people's liberation army?

The Chinese Communist Party?



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## Duality in Beijing - outline

### Formal structure of the party

- **Chairman**
- **Politburo standing committee**  
(中国共产党中央政治局 常务委员会)  
(2012 members: include Hu Jintao, Wen Jiabao, Xi Jinping)
- **Politburo**  
More than 20 members
- **Central committee**
- **Party congress** (中国共产党全国代表大会)  
~ 1500 members

### Formal structure of the government

- **Premier and vice premier**
- **Standing committee of the state council**
- **State council** (国务院)  
about 50 members, including 27 ministries and commissions, such as
- *China insurance regulatory commission*  
*China banking regulatory commission*  
*China securities regulatory commission*
- **National people's congress**  
Thousands of members

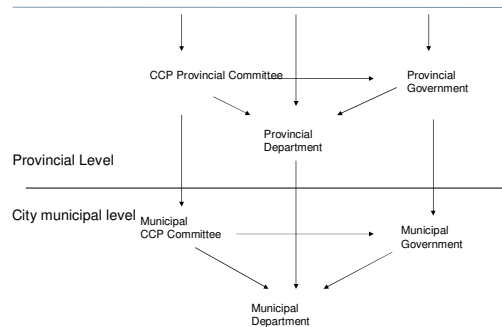
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## Duality in Beijing - example

- The party organ formulates policy, the state function implements policy
- A state function is answerable BOTH to the next higher state function *and* to the party function at the SAME level
- Delegation vs. consensus

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## Duality outside Beijing



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## Duality in the boardroom

- Large or strategically important enterprises, including listed companies
- To every board, there is a party committee
- Board must solicit and respect Party Committee before making major decisions  
*Circular Concerning Furthering Strengthening and Improving the Party's Construction Work in State-Owned Enterprises, CCP Central Committee, 1997*
- Party positions and management roles are sometimes fused
- Nomination and appointment of top and medium level managers

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## Starting out

- Some licensing requirements:
  - *30 – year operating history*
  - *2 years operating a representative office in China*  
Apply at the end of the two years
  - *At least USD 5 billion in capital*  
one year before applying for license
  - *Reserve of 20% of capital or operating fund to be held with CIRC and only used in case of liquidation*
- License is valid for 2 years  
*avoid miss-selling!*

*Requirement applies to foreign-owned companies*

Source: IBIS report January 2012

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## Expanding operations

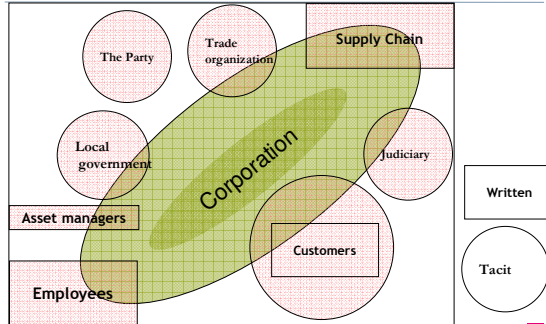
- *Cannot combine life with short-term insurance*
- Maximum of three branches in the first year of operation
- Branch expansions approved at province or municipal
- Additional capital required for each additional branch  
*up to a limit*

*Requirement applies to foreign-owned companies*

Source: IBIS report January 2012

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## A nexus of contracts.....



## Finding your JV partner

"A JV is like a marriage", Seichi Kawasaki, Director and president, Sony China

How big do you want to be?

Your partner will have a web of relationships

Ever wondered why private investigation is big business in China?

Heavy regulation means you cannot go it alone

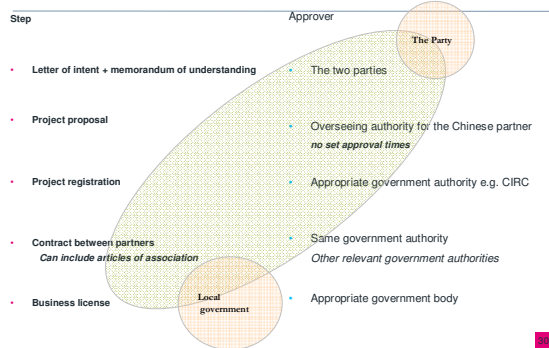
Consider the cost of separation

## What type of company is this?

- Assets offered by local counterparty:
- Kindergarten
  - Water treatment plant
  - Workers' dormitories
  - Three breweries
- Foreign investor paid:
- Over sixty million US dollars
  - For controlling stake
- New General Manager proposed by the head of the City bureau:
- Party secretary of a nearby piano factory

Example taken from "Mr. China", Chapter 11, written by Tim Clissold

## Incorporating a joint venture




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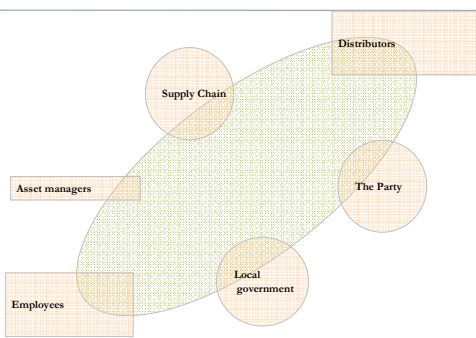
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## Due diligence




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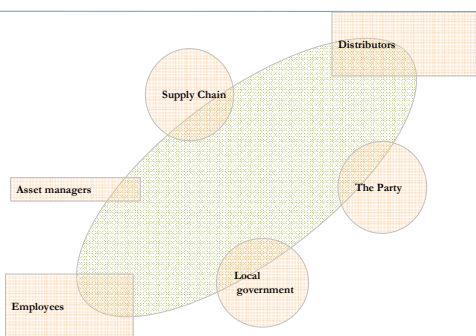
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## Dispute resolution




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## Judicial system

In less than forty years (Legal profession re-established in 1979)

- Over 125 000 new judges
- More than 200 000 new lawyers
- Over 150 000 new prosecutors

The party vets all significant legal personnel

Judges need to consult a lot, there is no jury

**Don't get a lawyer, I want this resolved!**

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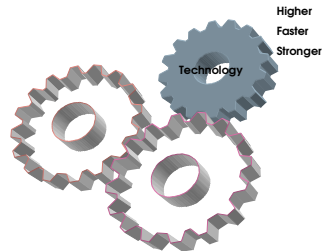
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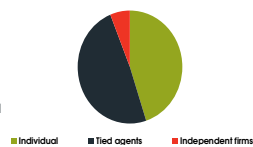
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## Distribution

- 100% foreign ownership of an independent agent only allowed after 5 years of operating
- Independent agency can only set up three branches in its first year of operation
- A bank can distribute products for a maximum of three insurance companies (all types of insurance)
- Bank premises for bank employees only
- Only nine banks have national reach
- Distribution is currently low-tech, labour intensive

2011 sources of life insurance business



Source: IBIS report January 2012

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## Investment management

How many people can answer all the following questions?

- Which assets can an insurance company invest in?
- Who borrows on the debt market?
- How big is the derivative market?
- How does book-building happen in an IPO?
- What are shareholders' voting rights on A, B, H shares

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## Operations management

- Man or machine?
- Contract or guanxi?
- In-house or out-sourced?
- Brand or price?

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## Summary

- You cannot sue the party
- A firm can change its identity if ownership changes  
**bundled assignability of contracts?**
- When does price discovery happen?  
**Sometimes there is no market (including auction)**
- Your partner has a web of relationships  
**Guanxi can trump contract**
- There are no short-cuts
- Banqueting enables one-to-many negotiations
- Socialise from birth?

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## Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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