The Actuarial Profession
making financial sense of the future

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Life In China

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Life in China

- ***Development of China's life insurance market***
- Key aspects of regulatory framework
- Distribution trends – the emergence of bancassurance
- Product Strategy in China
- Challenges and Opportunities for actuaries

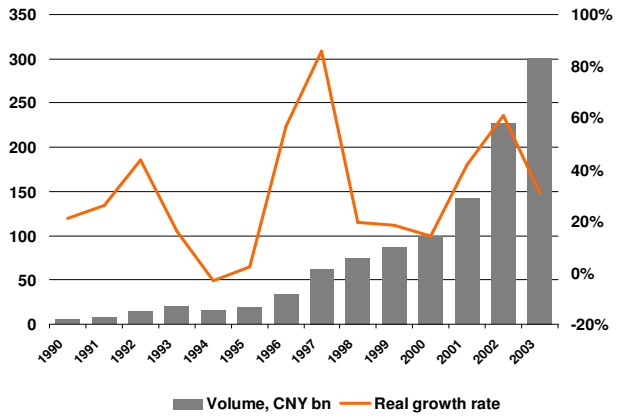
Development of China's Life insurance market

- Pre 1949 – Foreign insurers dominate
- Oct 1, 1949 – Founding of People's Republic of China.
- State-owned People's Insurance Company of China (PICC) set up 19 days later
- Foreign insurance companies start to withdraw in 1952
- 1952 - 1979 Market stagnation

Development of China's Life insurance market (cont'd)

- 1979 - China starts to open-up and reform, domestic business resumes
- 1988 - Launch of Ping An, end of PICC monopoly
- 1992 - AIA get approval to open branch in Shanghai
- 1996 - PICC split up, China Life formed
- December 2001 – China accedes to WTO, market starts to open fully for Foreign companies

Rapid Growth of China's Life Insurance Market since mid 1990's

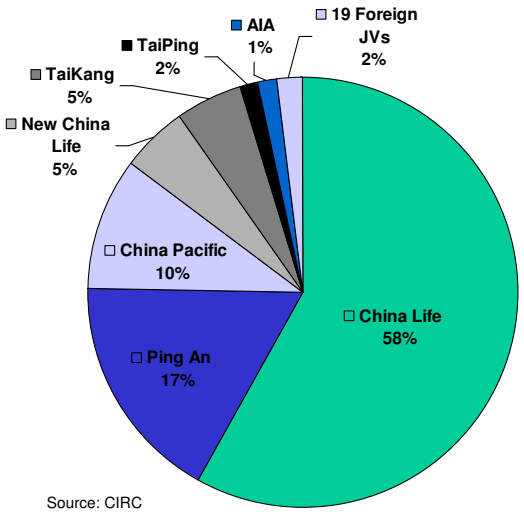


Source: Yearbook of China's Insurance, 2003

China's Life Insurance market today

- 28 players
  - 6 National domestics
  - 2 Regional domestics
  - 19 Foreign JVs
  - AIA
- UK JVs – Prudential, Aviva, Standard Life

2004 Market Shares to end July



Source: CIRC

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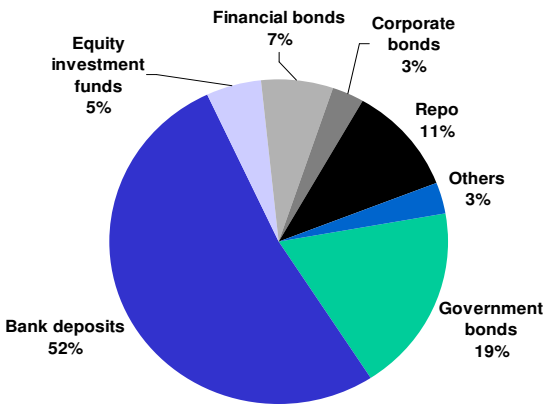
Key aspects of Regulatory framework - Impact of WTO entry

- Licensing - based on "prudential criteria" with no limits on number
- Ownership - 50% maximum share for foreign life insurers
- Geographical scope - allow access to key cities upon accession and eliminate all geographic limits on insurance licences within 3 years after the accession;
- Business scope - expand the scope of activities for foreign insurers to include group, health and pension insurance, to be phased in over 3 years

Key aspects of Regulatory framework

- China Insurance Regulatory Commission (CIRC) established December 1998
- Gradual Liberalisation
- Product Regulation
- Investment Restrictions

Bonds and Cash dominate Investment Mix



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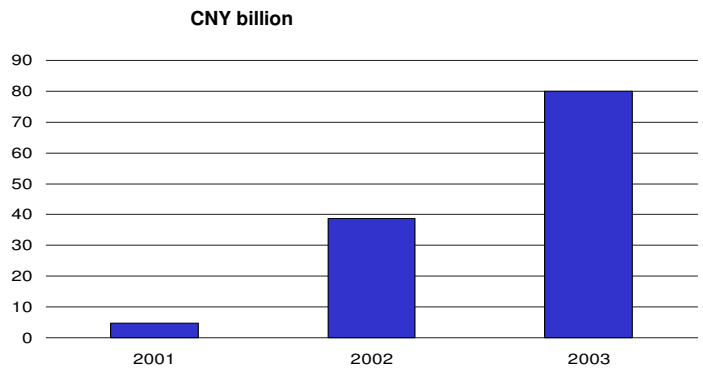
Distribution in China

- Individual self employed agents – AIA model
- Massive scale – China Life 650,000 agents
- High Turnover rates - 80% every year
- Insurers looking to alternatives
- Bancassurance
- Employed Financial Planning Consultants

Bancassurance sales in China



Source: Nankai University.

Distribution - Emergence of Bancassurance

- Insurers looking for cross-selling opportunities and new customer bases
- Declining banks' interest margins
- Savings culture in China
- Distribution agreements ----> Strategic Alliances
- Increasing competition from foreign insurers

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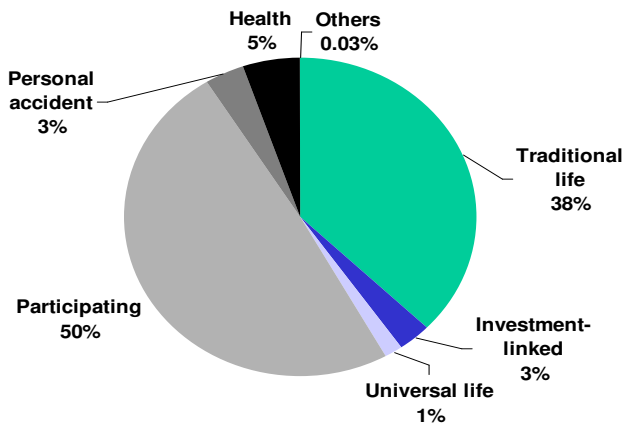
Product Strategy in China

- Pre-approval of new products by CIRC
- More innovation needed and encouraged
- Low market sophistication
- Pricing
  - Maximum interest rate 2.5%
  - Maximum commission rates
  - Maximum expense loadings
  - Prescribed mortality basis

New Business Product Mix – 2003



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Challenges for Actuaries

- Dealings with Regulator
- Language and Skills Transfer
- Pace of Change
- Expectations of Shareholders
- Professionalism?

Opportunities for Actuaries

- Domestic Insurers – internationalisation policy
- Can be hugely influential
- Broaden skill set
- Exciting time to be in China

My experience – a personal insight