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To be or not to be

China Motor Insurance and De-tariffication

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A short history

- 2002 – the failed first attempt of motor deregulation
- 2006 – heavily regulated product and premium rates
- 2007 – launch of CTP
- 2010 – 2012 – explosive growth in top line
- 2014 – a new round of deregulation.
    - 3 stage plan
    - stage one completed in 2016: same product + 85%*85% max discount
    - the regulators are “riding a tiger” and the insurers are confused and disoriented.

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3 Questions

- Regulators – should we proceed with the de-regulation?
- Insurers – can we still create value from motor?
- Foreign players – should we desert motor or China?

9 observations

- A saturated motor market
- High claims frequency
- Low cover limit + short duration
- High premium rate + high commission rate
- Volatility in u/w results
- Low capital consumption + high return on capital (for big players)
- Tariff deregulation stalled + heavy hand market behaviour regulation
- High concentration + miserable small players (they all look the same)
- Technology disruption + innovation hot air.

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Talking point 1 – 5-wave view of China insurance industry

5 wave evolution

- motor + savings (2000 – 2015)
- health + government schemes (2015 – 2020)
- pension + mortality (2020 – 2025)
- liability + wc (2025 – 2030)
- property + natcat (2030 – 2035).
  - Extraordinary growth is behind us but stable growth is going to continue
  - With 75% of the overall premium, motor is still the most important P&C risk pool
  - It is also important to serve as the ‘mineral water’ of the personal insurance space
  - Quite unfortunate how a huge housing boom didn’t trigger a surge in homeowners insurance.

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Talking point 2 – short pain is better than long term suffering

3 possible outcomes of motor de-tariffication:

- UK/Korea
- Germany/US
- Australia.

  - Motor is probably the most inefficient sector in the financial service industry in China
  - The current situation is the worst. Deregulation is the only cure to many of the diseases
  - Regulatory cycle needs to give way to underwriting cycle
  - Less pressure on premium growth but bankruptcy will be hard to bear
  - Motor deregulation will be the most important catalyst for non motor development.

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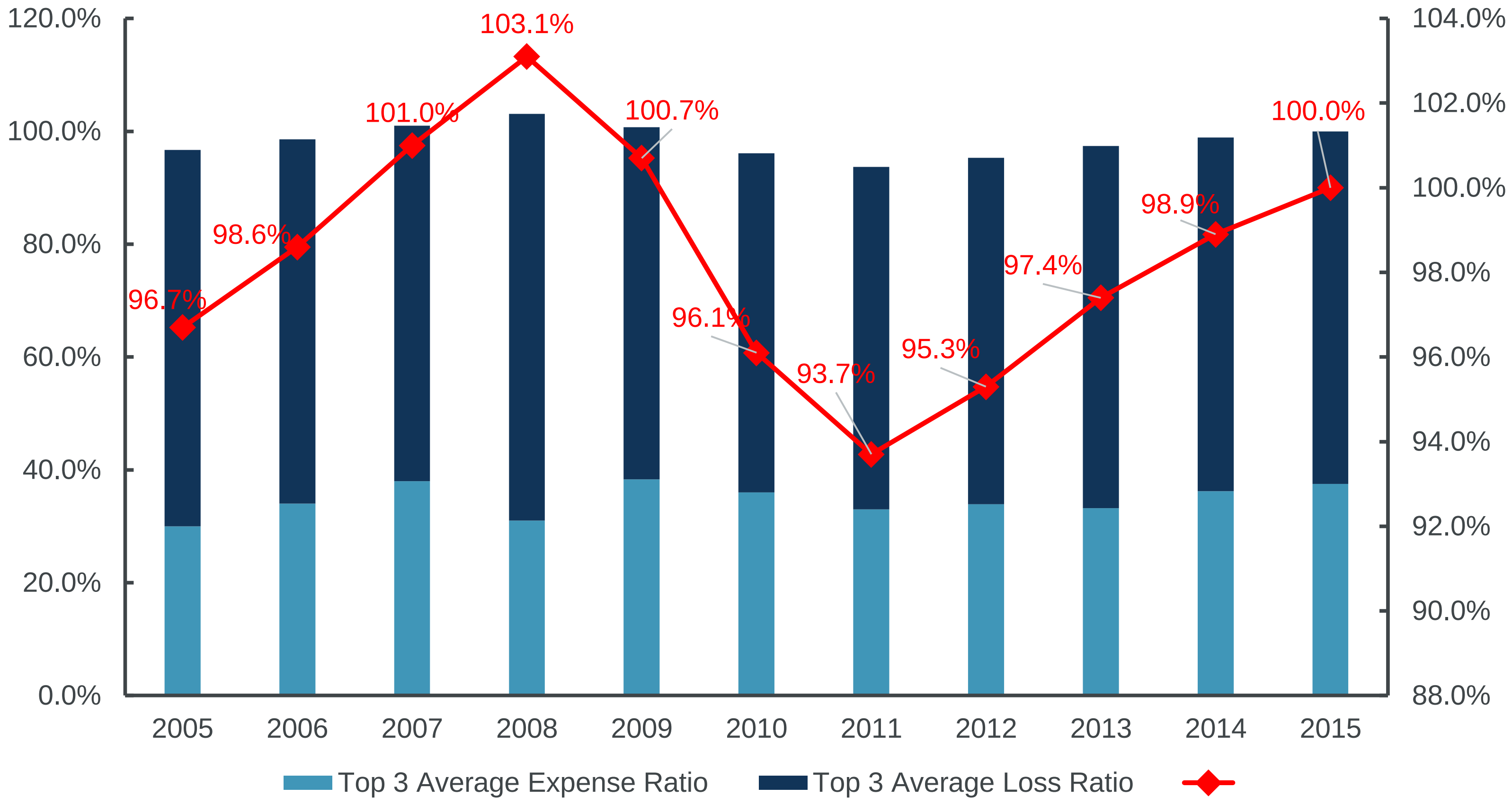
Regulatory cycle



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Talking point 3 – niche players will thrive

Some ideas yet to be explored:

- white label players distributing via other channels (car manufacturers /financing firms, banks, super market, internet companies, etc.)
- segment players (commercial fleet, retirees, females, NEV/s, second hand cars, etc.)
- service/channel/product differentiators (UBI, XOL cover, driver cover, etc.).
  - It's only the beginning of Motor 2.0 in China
  - Deregulation + C-ROSS + technology innovation = Motor 2.0
  - No need for big all round players any more (PICC + Ping An + 2 more?)
  - No need for easy copying of 'international best practice' any more
  - Innovative segment players will emerge with good returns
  - Any segment in China is massive.

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Talking point 4 – service-focused will change to capital-intensive

Some significant changes in the next few years:

- bodily injury cover will be separated from OD cover
- cover limit will increase by 5 - 10 times
- deductibles will be introduced
- frequency will normalize
- duration will lengthen.

  – Motor sector in China will become less service and labor intensive but more capital intensive
  – Although the overall book is well diversified, concentration in terms of flash flood, earthquake, man-made disaster (e.g., Tianjin explosion) will grow fast
  – High liability cover, new risks from NEV/shared ride/driverless cars will add pressure.

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Talking point 5 – analytical power and technology innovation should not be exaggerated

- analytical skill is never in short supply and easy to copy for the young industry, so it in itself won't be a sustainable differentiator, let alone barrier
- technology innovations are constantly being developed and tested. Chinese players are resilient to disruptions
- business model is usually the missing piece for many local motor insurers when they invest in technology innovations.
  - Most fertile ground for innovation - price sensitivity and readiness to accept new technology exist simultaneously and both at its extreme compared with other markets
  - Innovation and internet thinking is needed most in the claims and service space rather than acquisition, distribution and pricing
  - A standalone innovation piece will add little value unless it's a must-have from a sound business model.

3 questions revisited

- Regulators – should we proceed with the de-regulation?
  - No question asked. The sooner the better … and hopefully in one step

- Insurers – should we continue to focus on motor?
  - Beginning of v2.0. The race to become value creators begins now

- Foreign players – should we desert motor or China?
  - Always a painful choice. A good partner is a pre-requisite?

Questions

Comments

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