

China's insurance market has great investment value



In 2012, the insurance premium income realized by the insurance industry was 1.549 trillion Yuan, an increase of 8.01% compared with 1.434 trillion Yuan in 2011. Property insurance premiums income increased by 15.44% to 533 billion Yuan, but was lower than the 18.5% of 2011; and life insurance premiums income increased by 4.48% to 1.016 trillion Yuan. Generally speaking, the insurance industry in 2012 featured “sluggishness in life insurance and a decline in property insurance”.

In fact, the growth rate in property insurance premiums has continued to decline since 2010, with 34.5% in 2010, 18.7% in 2011 and 15.44% in 2012. It is mainly hindered by the decline in new car sales. Life insurance premium income declined in 2011, and increased slightly in 2012.

This means that China's insurance industry has gone through the stage of prioritising quantity over the past ten years, and entered a new period that pays more attention to both quantity and quality, which is the only way China's insurance market can mature.

Firstly, standardizing banc assurance channels is an important step for the insurance industry to normalize. *The Regulatory Guidelines for the Banc Assurance Business of Commercial Banks* was issued by the China Banking Regulatory Commission (CBRC) and the China Insurance Regulatory Commission (CIRC) in March 2010. This file further standardizes the banc assurance business, with the aim of restraining all the wrongdoing in the banc assurance business, and avoiding potential risk, enhancing the quality of the banc assurance business, and appropriately slowing down the growth of the banc assurance business.



Secondly, quality has begun to be taken seriously in the insurance industry. Under the individual marketing mode, the improvement in marketers unit capacity is limited; and the total premium income is proportional to the number of marketers, which is one of the momentums stimulating China's insurance industry to grow rapidly. However, while blindly pursuing quantity, marketers cannot get high social approval; then a problem such as huge pressure to perform comes into play. In recent years, the "Lewis turning point" has arrived, which makes it difficult to grow the amount of marketers. "Supervision Measures for Insurance Sales Practitioners" will be implemented on July 1, 2013, which will change the minimum qualification for employees from junior high school to college. This is one of the measures that improve the quality of sales. It can improve individual performance and provide a more careful service, so as to gradually increase this group's social identity, and is conducive to the development of the insurance industry in the long-term.

Thirdly, new deals in the field of insurance investment have been continuously introduced. In the past two years, the performance of stocks and bond markets, which was the major area to invest insurance funds, was not satisfactory. It led to low investment income for the insurance industry. However, the performance of insurance substitutes was better. For example, bank financial products absorbed a lot of money, but insurance investments yields sometimes were below 5-year deposit rates. In this case, the CIRC has gradually opened the fields of investment, including bonds, entrusted investment, stock rights, real estate, financial derivatives, financial products, stock index futures, overseas investment, asset management investment and infrastructure debt investments. It is for the purpose of broadening investment channels and reducing investment barriers for insurance companies. Although under the current conditions, their short-term effects are not obvious, but point out the general direction for the marketization of China's insurance industry and will be helpful to playing a market mechanism role, so as to promote the industry's development.

Fourthly, protection for consumers has been raised to new heights. At the same time as the CIRC set up the Insurance Consumer Protection Bureau, it also officially opened the consumer complaints rights hotline 12378. For auto insurance claims and misleading life insurance tactics, the CRIC issued the documents including "The China Insurance Regulatory Commission on strengthening and improving the service quality of property insurance claims," "Management guidelines for Motor vehicle insurance claims," and "Notice on the comprehensive management of personal insurance misleading sales related work," which marked its determination to regulate the insurance market.

The large international insurance company AIG is also very optimistic about China's insurance market. After the financial crisis, AIG's main task has been to divest assets to repay US government bailout funding, but it has not reduced its market exploitation efforts in China. It has been relying on its AIU (AIU Insurance Co., Ltd.) to strengthen competition in China's insurance market. In late November 2012, when the People's Insurance Company of China (PICC) planned to launch an IPO of up to \$ 3.6 billion, AIG had been willing to invest \$ 500 million to subscribe to PICC's new shares. AIG already has a 9.9% stake in PICC P&C, another subordinate enterprise of PICC. Meanwhile, it plans to set up a joint venture with PICC P&C to sell life insurance in China. AIG has been optimistic about the Chinese market and willing to invest in China's insurance industry over the long term.

Therefore, on quantity, China's insurance industry seems to have encountered a bottleneck during these two years; but on quality, it continues to strive to be healthier. So China's insurance companies should adapt to this trend, focus on enhancing service quality, and provide a solid foundation for the enterprises' long-term growth. At the same time, the investment value of China's insurance companies will also be raised substantially.

The author works in the Institute of Finance and Banking, Chinese Academy of Social Sciences.