

Analysis of the Development Status of Foreign Insurance Companies in China

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ABSTRACT

Today, China has become the second-largest insurance market in the world. Attracted by China's policies and good prospects for the development of the insurance industry, foreign insurance companies continue to expand their presence in the Chinese market and actively participate in the wave of development and reform of the Chinese insurance industry. This paper reviews the development characteristics and the evolution of regulatory policies of foreign-funded insurance institutions in various stages, analyzes and explores the current difficulties they face and the support they hope to obtain, to provide references for further strengthening international cooperation. The full text is divided into three parts: the process and methods of foreign insurance entering the Chinese market, the difficulties faced by foreign insurance institutions in China, and suggestions to promote the development of foreign insurance institutions in China. China's attitude toward foreign investment has always been inclusive and open, and it hopes that Chinese insurance institutions can learn more experience and innovation from foreign insurance companies, but also hope that foreign insurance companies can contribute to the development of China.

KEYWORDS

Foreign Insurance Company, Chinese Insurance Market, Development Status

1. INTRODUCTION

As the most potential insurance market in the world, China's insurance industry has developed rapidly since its resumption in 1979. From 2012 to 2021, the premium income of China's insurance industry increased from 1.55 trillion yuan to 4.49 trillion yuan, with an average annual growth of 12.55%. During the same period, the average annual growth rate of premium income in major countries and regions in the world was only about 3%. Foreign insurance companies in China have developed rapidly in recent years. In recent years, China's insurance industry has introduced a series of measures to open up the insurance industry to the world, steadily lifting restrictions on foreign ownership, and significantly reducing the quantitative threshold for foreign investment. China's first foreign-funded insurance holding company, wholly foreign-funded life insurance company, wholly foreign-funded insurance asset management company, and foreign-funded pension insurance company have been established. From 2012 to 2021, the market share of foreign insurance companies increased from 3.5% to 7.8%. In Beijing, Shanghai, and other regions, the market share of foreign insurance companies has reached 20%.

From 2012 to 2021, insurance penetration increased from 2.98% to 3.93%, and the density of insurance increased from \$160 (1,144 yuan) to \$446 (3179 yuan) per person. In contrast, in 2021, the global insurance density was \$661 per person and the insurance depth was 5.96%, while the insurance depth of developed countries such as the United States and the United Kingdom remained above 10%.

In the future, China's insurance density and insurance depth will have great room for growth. 2021 is the 20th year of China's accession to the World Trade Organization, ushering in a broader period of China's opening up, and the insurance industry has always been at the forefront of China's financial opening up. The research on the history and mode of foreign insurance entering the Chinese market helps sum up the policy effect and experience of opening up the insurance industry in China. This paper reviews the development characteristics and the evolution of regulatory policies of foreign-funded insurance institutions in various stages, analyzes and explores the current difficulties they face and the support they hope to obtain, to provide references for further strengthening international cooperation.

2. THE PROCESS AND METHODS OF FOREIGN INSURANCE ENTERING THE CHINESE MARKET

2.1. History of foreign insurance entering the Chinese market

The opening up of China's insurance industry has the characteristics of phases, which can be divided into the following four stages according to the relevant landmark time nodes:

2.1.1. Before 2001: embryonic stage

In the early 1980s, China's insurance industry was officially opened to the world, with foreign insurance companies allowed to open representative offices in China. In September 1992, AIA was approved to enter China, marking the beginning of foreign insurance companies entering China's insurance industry. In 1993, Goldman Sachs and JP Morgan Committee invested a total of 70 million yuan in Ping An, beginning the history of cooperation with Chinese insurance capital. The following year, with the establishment of the Shanghai branch of Tokio Marine Fire Insurance Company, China's insurance industry entered a new era of opening up to the world. At this stage, in addition to AIA, other foreign life insurance companies need to enter through joint ventures, and China's regulatory authorities have strictly restricted their shareholding ratio, which cannot exceed 50%. After entering China, foreign insurance companies are mainly concentrated in economically developed areas, such as first-tier cities such as Beijing, Shanghai, Guangzhou, and Shenzhen. Restrictions on the scope of business are also relatively strict, for example, foreign life insurance companies can only engage in a single premium life insurance business.

2.1.2. 2001-2004: transition phase

After China entered the WTO in 2001, it took the lead in opening up China's insurance industry, becoming the earliest industry in China's financial industry, and completed a short transition within three years. This also marks that the opening up of China's insurance industry has changed from a trial period to a transitional period. In 2002, PetroChina and Generali Insurance Group of Italy each contributed 50% to set up Zhongyi Life Insurance in Guangzhou, becoming the first Sino-foreign joint venture life insurance company. By the end of 2004, the number of foreign life insurance companies in China increased to 37, and the market share of foreign insurance companies reached 2.3%. Since China's insurance industry is much more open than other financial industries, China's accession to the WTO has become an important opportunity for China's insurance industry to open to the world, and China's insurance industry has had a big wave of opening to the outside world during this period.

2.1.3. 2005-2017: Rapid development stage

With the end of the transition period, China's insurance industry began to accelerate. Foreign insurance companies have entered China's insurance industry in various ways, and continue to expand their business on this basis. For example, China France Life Insurance and China Aviation Samsung (now Bank of China Samsung Life) and other foreign companies have been set up in China; French

reinsurance companies and Cologne Reinsurance companies have also entered China. With the entry of foreign insurance giants, China's insurance industry is developing in the direction of diversification. However, after the financial crisis in 2008, the development of foreign insurance in the Chinese market showed a different trend. Some foreign insurance companies with strong risk management ability and abundant capital continued to move forward steadily in the Chinese insurance market, while some foreign insurance companies with poor management and failed to adapt to the Chinese market tended to choose to withdraw. In 2012, China's traffic force insurance business was opened to foreign non-life insurance companies. Although foreign insurance companies have been allowed to expand their service areas many times, most foreign insurance companies entered China through joint ventures, and their management concepts and values are quite different from those of Chinese companies. Faced with the strong market competition pressure of Chinese insurance companies and strict approval of expansion by regulators, The pace of foreign insurance companies' development in China is relatively limited.

2.1.4. From 2018 to now: Full opening stage

In 2018, the People's Bank of China and the China Banking and Insurance Regulatory Commission began to introduce various policies, further relaxed the access conditions of the financial and insurance market, and released more than 10 measures for the opening up of the financial and insurance industry and their implementation time to the society, and the process of opening up the Chinese insurance industry achieved a leapfrog development: In April 2018, the China Banking and Insurance Regulatory Commission (CBIRC) announced the "CBIRC Measures to Accelerate the Implementation of the Opening Up of the Banking and Insurance Industry", indicating the strength of the opening up of China's insurance industry. In July 2019, the Relevant Measures on Further Expanding the Opening up of the Financial Industry were issued, emphasizing that the transition period of the above measures will be advanced by one year to 2020. Starting from 2020, the shareholding ratio of joint venture life insurance companies can reach 100%. In March 2021, the CBIRC issued amendments to the Implementation Rules of the Regulations on the Administration of Foreign Insurance Companies, increasing the types of foreign shareholders of foreign insurance companies to three categories, and the restriction on the shareholding ratio of foreign insurance companies is no longer stipulated. In December 2021, the CBIRC issued the Notice on Clarifying Relevant Measures for the Opening Up of the Insurance Intermediary Market to the Outside World, greatly relaxing the access conditions for foreign insurance brokerage companies. In August 2022, the CBIRC issued the "Regulations on the Management of Insurance Asset Management Companies", which no longer restricts the proportion of foreign insurance companies holding shares of insurance asset management companies. With the opening up of the insurance industry to the outside world, Allianz Insurance accelerated its layout of the Chinese insurance market, converted its branch in China into a subsidiary, and the group's shareholding ratio reached 100%, thus giving birth to the first wholly foreign-owned insurance company in China. In March 2022, Anda Group's shareholding in Huatai Insurance Group increased to 83%, in August, the Banking and Insurance Regulatory Commission approved Spain's Manford Reinsurance to build a Beijing branch, and in October, Allianz Insurance Group's shareholding in Jingdong Allianz property Insurance increased to 53.33%. It is believed that in the future, foreign insurance will gain remarkable development in China's insurance market.

2.2. Ways for foreign insurance companies to enter China's insurance market

According to the relevant provisions in the Regulations on the Administration of Foreign-Funded Insurance Companies revised for the third time in 2019 and the Implementation Rules of the Regulations revised for 2021, foreign-funded insurance companies mainly have the following four ways to enter the Chinese insurance market.

2.2.1. Joint venture insurance company

A joint venture insurance company is an insurance company jointly funded and established by an overseas insurance company or group and a Chinese enterprise or insurance company. With the participation of Chinese investors, joint ventures can better adapt to China's insurance industry, shorten the adaptation period caused by social, cultural, conceptual, and other differences, promote their products and services more effectively, and avoid certain policy constraints. For Chinese insurance companies that jointly contribute to the establishment of foreign insurance companies, they can better understand the advanced operation and management ideas of foreign insurance companies, and understand the latest developments and insurance innovations in the world insurance industry. However, due to the differences in cultural backgrounds of Chinese and foreign-funded insurance companies, the differences in management concepts will lead to differences and contradictions in the process of joint venture operation, which in a sense increases the decision-making cost of enterprises and affects the level of risk-bearing of enterprises.

2.2.2. Sole proprietorship insurance company

A wholly owned insurance company refers to an insurance company wholly owned by a foreign investor in China. The legal status of wholly-owned insurance companies in China is no different from that of Chinese-funded insurance companies in China, and they are subject to the same constraints and supervision. The establishment of a wholly-owned insurance company can effectively reduce the conflicts caused by the differences in management concepts in the process of joint investment with Chinese enterprises, and at the same time reduce various risks caused by institutional changes in a certain sense. However, due to the direct control of the parent company, the enterprise must make certain compromises and sacrifices to adapt to the changes in the overall strategy and policy of the parent company.

2.2.3. Branches of foreign insurance companies

A branch of a foreign-funded insurance company is a branch established by its headquarters to gain control over it and further realize its international business strategy. It does not have an independent legal person status and is subject to the constraints and influence of the parent company in all aspects.

2.2.4. Subsidiaries of foreign insurance companies

Different from branch companies, subsidiaries of foreign-funded insurance companies refer to legal persons established in the host country by investing all or part of the shares of foreign-funded insurance parent companies in transnational operations, which can independently assume operational risks and legal liabilities and have a complete corporate organization and management system.

3. DIFFICULTIES FACED BY FOREIGN INSURANCE INSTITUTIONS IN CHINA

Facing the Chinese insurance market which is still in the transition of opening up, the development of foreign insurance companies is still restricted by many factors. These factors include: foreign insurers believe that Chinese insurers are more competitive in China; The Chinese market is not yet mature; Chinese residents have low insurance consciousness; Insurance products in the Chinese market are not abundant enough; China is in the transition period of industry development; The sales channels and systems of insurance products are not perfect. Affected by regional policies, the regional layout is limited; The requirements for obtaining licenses are high and the approval speed is slow.

The difficulties encountered by foreign insurance enterprises in China are as follows: small scale and limited growth range; The challenge of the rapid development of Chinese enterprises; Facing multiple transition pressures; Team channel construction period is long, investment is large; The epidemic affects the contraction of consumer demand for products; The localization degree is not enough; The

epidemic restricts the marketing and training of exhibition industry; Industry growth pattern and institutional advantages mismatch; Rising market credit risk; Limited ownership structure; The degree of openness is limited.

A high proportion of foreign insurance companies think that the most obvious situation of foreign insurance companies is weak competition with Chinese insurance companies. Despite the statistics, from 2012 to 2021, the market share of foreign insurance companies increased from 3.5% to 7.8%. In Beijing, Shanghai, and other regions, the market share of foreign insurance companies has reached 20%. In Shanghai and other regions, the market share of foreign insurance companies has reached 20%. Foreign insurers are still weak in China.

The expansion of foreign insurance companies in other regions of China is still restricted by many regional regulatory requirements, and it is necessary to pay a large cost in the multi-provincial business layout.

Compared with the mature insurance market, the incomplete sales service and agent system in China's insurance market, as well as the relatively low level of residents' insurance consciousness, have become important constraints for the development of foreign insurance companies in China.

In addition, due to the development and transformation of the industry, the risks accumulated over the past years are also facing the possibility of centralized release. Under the restriction of various factors, foreign insurance companies seeking further development will also face no small dilemma.

The lack of scale and competition of foreign insurance companies has limited the development of foreign insurance companies. Moreover, as an outsider to enter the local market, foreign insurance companies need to lay out all aspects of business, channels, sales, etc., which requires a large amount of investment in the early stage. In the market stage where high-quality development requirements are constantly emphasized, how to position the transformation of foreign insurance companies and how to establish a firm foothold and occupy a place in the Chinese market will become an important issue to be solved urgently in the development of foreign insurance companies in China.

4. SUGGESTIONS TO PROMOTE THE DEVELOPMENT OF FOREIGN INSURANCE INSTITUTIONS IN CHINA

4.1. Deepen reform of the insurance industry system

In the important opportunity period of opening up to the world, continue to encourage opening up and create conditions for the entry of foreign insurance companies. Governments all over the country may, in light of their own economic and insurance industry development, adjust industry rules and regulations, simplify access rules for foreign-funded insurance institutions, facilitate the establishment and business development of institutions, and encourage the entry of foreign-funded insurance companies and their branches from a policy perspective.

4.2. Serve the real economy and support major strategies and key areas

Promote economic development and create an environment for the development of foreign insurance companies. Through policy encouragement, the insurance industry will be encouraged to participate in innovative ecological construction and provide professional services in key areas of economic and social development according to its own resource conditions and market positioning. To a certain extent, this also provides space and possibility for foreign insurance companies to expand their business. Local governments can explore the combination with the insurance industry according to the local economic development strategy and key areas, and promote the participation of insurance companies in social risk management. While developing the insurance industry, we will promote the development of the real economy and attract foreign insurance institutions.

4.3. Innovative technological development, strengthen the deep integration of technology and insurance

Strengthen science and technology to support the transformation of foreign insurance companies. The development of innovative technology can provide more possible paths and business expansion channels for foreign insurance companies in China. Local governments can also introduce more incentive measures in fintech to provide fertile ground for the technological transformation development of foreign insurance companies.

4.4. Strengthen the regulatory system, improve risk control capabilities and consumer protection capabilities

Improve supervision and escort the sustainable development of foreign insurance companies. We will deepen the rectification of market disturbances, promote the rule of law in regulation, and make the exercise of regulatory power more standardized. At the same time, we will streamline administration delegate power to lower levels, and improve the efficiency of administrative review and approval. Carry out detailed and in-depth classification supervision, implement differentiated supervision policies, and guide small medium-sized, and foreign-funded insurance companies to transform and develop into special, specialized, and refined insurance companies.

In addition, all localities should continue to improve the construction of the consumer rights and interests protection system, deepen the construction of the whole-process insurance consumer rights and interests protection system, implement the backtracking management system of insurance sales behavior, and promptly correct the illegal behaviors that mislead consumers.

On the consumer side, the government can cooperate with insurance industry associations and institutes to strengthen financial knowledge popularization and consumer education, and help financial consumers establish value investment, rational investment, and risk prevention awareness. The improvement of the regulatory system and the strengthening of the protection of consumer rights and interests create a good market atmosphere for the stable development and effective service of the entire insurance industry and also provide good support for the sustainable development of foreign insurance companies.

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