In a nutshell

Digital transformation means new opportunities for insurers. For instance, there is a near-100% protection gap for cyber-related exposures in China today; we expect online distribution to contribute a large share of what will be a growing rural insurance market under the national "Rural Revitalisation" programme; and smart cities will offer growth potential across many lines of business.

Digitisation has become a key growth engine for the Chinese economy, accounting for 35% of national GDP in 2018. The share of the digital economy of national GDP is forecast to increase to more than 50% by 2030.¹ The impact of the increasing interconnectedness of the economy and business is wide ranging, including for insurers. Further, with ongoing development of advanced analytics capabilities, insurers will be able to curate and make sense of larger volumes of structured and unstructured data, to improve risk pricing, provide more customised solutions to targeted customers. Digital transformation is also opening up new risk pools and premium growth opportunities, particularly in the fields of cyber risk, intangible corporate assets, and insurance for rural areas and smart cities.²

Increasingly, insurers in China are partnering with enterprises from other industries to build their digital capability through leveraging well-established digital ecosystems. Chinese insurers are more advanced than many overseas peers in providing services to customers through ecosystems.³ For instance, PICC Group, China’s largest property insurer, has established its online motor service unit Bang Bang Auto Service, with the goal of integrating online car retail, financing and after-sale services. It has also established partnerships with DNV GL and VeChain to apply blockchain technology to reform its legacy claim management system, to enhance data management and processing.

A side effect of increasing digital interconnectivity is growing threat from cyber-related risks such as cybercrime, data breaches, internet connection issues and more, with fast-growing exposures that are almost 100% underinsured. A market survey conducted by Swiss Re Institute estimates the current size of the cyber insurance market in China to be USD 10.6 million in premium terms.⁴ That is just 0.5% the size of the market in the US (USD 2 billion).⁵ The share of cyber of non-life premiums in China is likewise negligible, at 0.06% in 2018 (see Figure 1-1). For more vivid quantification of the risk exposure, a report from McAfee estimates that the total economic loss potential of cybercrime incidents alone in China in 2017 was USD 80-120 million.

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¹ CAICT, see http://tradeinservices.mofcom.gov.cn/article/yanjiu/hangyezk/201906/85232.html
⁴ Cyber insurance market in China, Swiss Re Institute, 2019, for details.
⁵ Cyber insurance are profitable today but wary of tomorrow's risks, A.M. Best, June 2019
Digital transformation in China (II): a near-100% cyber protection gap just one of many insurance opportunities

billion. Including possible losses from other cyber-type incidents, the gap relative to existing levels of cyber cover in the market would even larger.

Another area of insurance opportunity resulting from digital transformation is the development of innovative solutions for previously uninsurable corporate assets. As corporate balance sheets transform from being rich in physical assets to deriving more value from intangibles such as intellectual property, networks data and information, and as analytics capabilities advance, insurers will be better able to develop more personalised solutions for risks such as earnings losses and cash flow volatility.

Digitisation will also be a key force in the national "Rural Revitalisation" programme. This includes in driving agricultural-sector modernisation and extending the reach of insurance across rural areas. Over the past decade, disposable income growth in rural areas has outpaced that of urban areas, but internet penetration in the countryside is still relatively low (see Figure 1-2). This will change with the next phase of digitisation, and insurers will be able to tap into rising rural purchasing power by distributing standard personal line and microinsurance products online. We believe online distribution with, for example, the expanded presence IoT sensors and the launch of 5G networks, will make a large contribution to the growing rural insurance market.

Lastly, as part of China’s commitment to "high-quality" development, smart cities are a priority. By 2018, more than 500 local governments in China had put forward proposals for the building of new smart cities, in which modern, data-driven digital infrastructure for "smart" social governance will be a central feature. The smart city concept presents new risk pool opportunities across many lines of business, including commercial engineering, liability, credit and surety as well as general property insurance.

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Figure 1-1 (LHS)
Projections for cyber insurance premium (RMB million) and its share in total non-life market (%)

Figure 1-2 (RHS)
Internet penetration (internet users as % of total population) and growth rates of disposable income (yoy, %) by rural/urban areas

Source: (LHS) CAICT; (RHS) National Bureau of Statistics of China, Swiss Re Institute

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6 Center for Strategic and International Studies, McAfee.
7 See sigma 5/2018, Global insurance and economic outlook 2020, Swiss Re Institute.
8 Guidelines on rural industry revitalization released, State Council, June 2019 Link