

February 2018

# The Chinese insurance market



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# Executive summary

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## Economic outlook

- The Chinese economy grew by an estimated 6.8% in real terms in 2017, a little stronger than in 2016. There was strength in the services and consumption sectors, and sustained expansion in new strategic industries. Industrial output growth remained firm, and enterprise profitability improved. Export growth eased towards the last quarter, but full-year performance was better than in 2016.
- Inflation remained moderate in 2017. The headline consumer price inflation (CPI) index rose by 1.5% on average in the first 10 months of 2017. Producer price inflation accelerated to 6.5% over the same period.
- On 18-24 October 2017, China held the 19<sup>th</sup> National Congress of the Communist Party in Beijing. There was a continued focus on growing consumption, improving productivity through innovation and encouraging entrepreneurship to promote long-term inclusive growth. The commitment to further opening up and better integrating into the global economy was affirmed.

## Non-life insurance

- Total non-life premiums are estimated to have risen by 11.9% (+10.1% in real terms) in 2017 to CNY 1 037 billion, supported by rapid expansion in non-motor lines, especially liability and agriculture.
- Motor is by far the biggest business line. The segment has gone through further liberalisation in recent years. Since 2012, foreign insurers have been permitted to provide compulsory third-party liability cover and since 2016, the CIRC has piloted programmes to de-tariff voluntary motor rates. As a result, competition is getting more intense and premiums per vehicle are declining.
- In May 2016, VAT reform exerted short-term negative pressure on insurers.
- Non-life premiums are projected to grow by an annual average real rate of 7.5% between 2019 and 2028.

## Life insurance

- Total life insurance premiums are estimated to have risen to CNY 2 700 billion in 2017, another year of robust growth in real terms (+22.5%). The strong growth was driven by increasing penetration in health insurance, rising demand for protection-typed life insurance, and expanding sales through new distribution channels (including online). At the same time, surrender rates have dropped.
- Traditional and universal policies were the key drivers behind business growth in 2016 (+55.3% and +443.7%, respectively). Sales of participating life products (+7.3%) and unit-linked policies (+7.2%) also increased but at a slower pace.
- Life premiums are forecast to rise by an average of 9.3% per year in real terms from 2019 to 2028.

# Country introduction

Area	9 596 960 km <sup>2</sup>
Natural resources	China has ample natural resources such as coal, iron ore, petroleum, natural gas, mercury, tin, tungsten, antimony, manganese, molybdenum, vanadium, magnetite, aluminium, lead, zinc, rare earth elements, uranium and the world's largest potential for hydropower.
Natural exposures	Earthquake (very high), typhoon (high), flood (high), drought (high)
Political system	<p><b>Type of government</b> Communist state</p> <p><b>Head of state</b> President Xi Jinping (since 14 March 2013)</p> <p><b>Head of government</b> Premier Li Keqiang (since 16 March 2013)</p> <p><b>Main parties</b> The Communist Party of China (CPC) and eight other registered small parties</p> <p><b>Capital</b> Beijing</p>
Demographics	<p><b>Population</b> 1.41 billion (2017 estimate)</p> <p><b>Age distribution</b> 0-14: 17.6%, 15-64: 71.7%, 65+: 10.7% (2017 estimates).</p> <p><b>Life expectancy</b> Total: 75.7 years Male: 73.6 years Female: 78.0 years (2017 estimates)</p> <p><b>Urban population</b> 57.9% (2017)</p> <p><b>Literacy</b> Male: 98.2% Female: 94.5% (2015 estimates)</p> <p><b>Ethnic groups</b> Han Chinese 91.6%, Zhuang 1.3%, others (includes Hui, Manchu, Uighur, Miao, Yi, Tujia, Tibetan, Mongol, Dong, Buyei, Yao, Bai, Korean, Hani, Li, Kazakh, Dai and other nationalities) 7.1% (2010 estimates).</p> <p><b>Religions</b> Buddhist 18.2%, Christian 5.1%, Muslim 1.8%, folk religion 21.9%, Hindu &lt; 0.1%, Jewish &lt; 0.1%, other 0.7% (includes Daoist (Taoist)), unaffiliated 52.2% (2010 estimates)</p>
Economic structure	<p><b>GDP</b> USD 11 938 billion (2017 estimate)</p> <p><b>GDP per capita</b> USD 8 466 (2017 estimate)</p> <p><b>Currency</b> Renminbi with the currency unit yuan CNY 6.8/USD 1 (2017 daily average)</p> <p><b>Main trading partners</b> The US, Hong Kong, Japan, South Korea, Germany, Australia (2016)</p> <p><b>Major export products</b> Mechanical and electronic goods, including computers and telecommunication equipment, textiles, apparel, furniture (2016)</p>

Source: The CIA World Factbook, Oxford Economics, Swiss Re Institute.

# Economic outlook

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## The state of the economy

- China's real economic growth is estimated to have strengthened slightly to 6.8% in 2017, from 6.7% in 2016. The robust performance was underpinned by a stronger contribution from the services sector, and also growth in strategic industries involving new materials, energy saving and environmental protection technologies.
- Industrial production growth remained strong at 6.7% y-o-y during first 10 months of 2017,<sup>1</sup> while industrial profits rose 22.8% in the first three quarters. Export growth eased towards the end of the year but overall full-year momentum remained strong. Infrastructure investment was also strong, rising 19.6% y-o-y in first 10 months. In particular, investment in high-tech manufacturing increased by 16.8%, outperforming other sectors. Meanwhile, housing investment is expected to continue to slow following a series of measures adopted by the government to restrict demand.
- Consumption continued to contribute to economic growth. During the first 10 months of the year, total retail sales increased by 10.3% y-o-y, little changed from 2016. Online sales contributed 14% of total sales in the first three quarters of the year, up 2.2% from the same period in 2016.
- Inflation remains moderate. CPI inflation averaged 1.5% during the first 10 months of 2017, while PPI rose faster by an average of 6.5% over the same period.

## Short-term outlook

- GDP growth in China is forecast to remain strong in the near term, although moderating investment and export growth could drag. The Belt & Road Initiative was included in the Communist Party's constitution during the Party's 19<sup>th</sup> National Congress, pointing to sustained efforts by the government to bolster trade and investment links with participating countries/markets. At home, ongoing tightening of restrictions in the property sector has resulted in moderating investment, but property prices are still high. The Chinese government will likely continue to keep a tight rein on property investment, particularly in Tier-1 cities.
- Concerns over credit risk remain, primarily in relation to the high and rising level of corporate debt. To manage the problem, China has accelerated "debt-for-bond" swaps for provincial government debt and "debt-for-equity" swaps for bank debt.<sup>2</sup> Supply-side reforms are also helping reduce excess industrial production capacity and facilitate deleveraging. By the end of September 2017, the debt-to-asset ratio for above-scale industrial enterprises had narrowed by 0.6 percentage points to 55.7%.
- China is expected to maintain a neutral monetary policy stance to facilitate de-risking of the financial sector. Selective support in terms of easier credit availability will be offered to small business and agriculture. Fiscal policy will remain growth supportive.

## Medium-term outlook

- The Chinese government will relax or eliminate foreign ownership limits in the commercial banking, securities, futures, asset management and insurance sectors, including removing the 20% ceiling on ownership of a Chinese commercial bank or asset management company by a single foreign investor, and also the 25% cap on total foreign ownership of such companies. These liberalisations actions will further increase competition and support RMB internationalisation.
- On 18-24 October 2017, China held the 19<sup>th</sup> National Congress of the Communist Party in Beijing. President Xi Jinping's messages throughout the Congress focussed on a pivotal vision for China's all-round development over next few decades, and at the same time confirmed a strong commitment to reform in order to redress various imbalances and sustain the country's long-term development. China is expected to continue to focus on maintaining strong GDP growth in the near-term to 2020, while reforms will be implemented only very gradually. At the same time, the State and Party will likely retain a leading role in economic growth and development, even alongside talk of giving the market a "decisive" role. Lastly, there has been emphasis on quality rather than speed of growth, but this should be taken as a medium/longer-term goal.

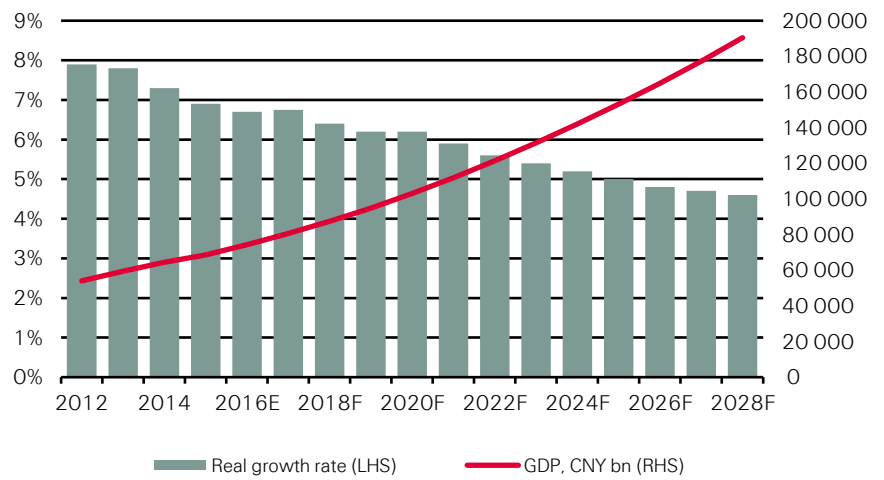
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<sup>1</sup> For the national above-scale industrial sector, the index is industrial added-value.

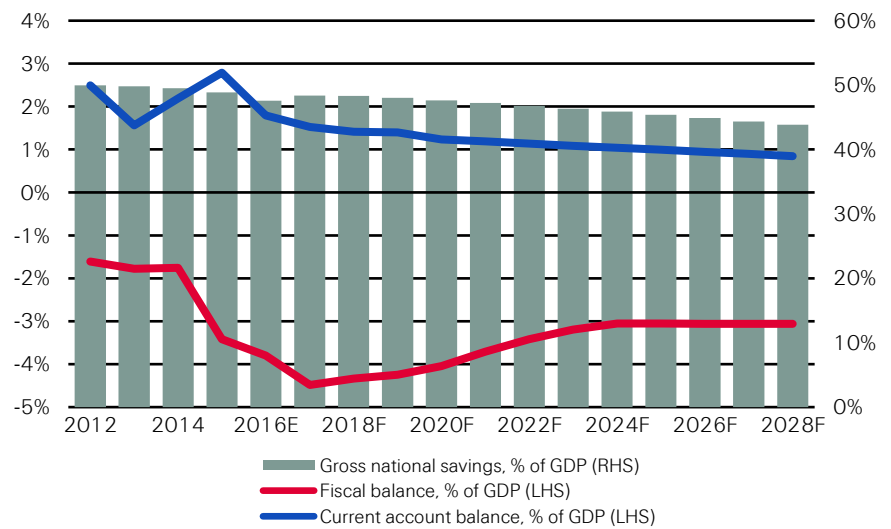
<sup>2</sup> The debt-for-bond swap mechanism allows local governments to convert debt to low-interest bonds with longer maturities. The debt-to-equity swap programme allows some banks to convert debt into equity.

# Economic outlook

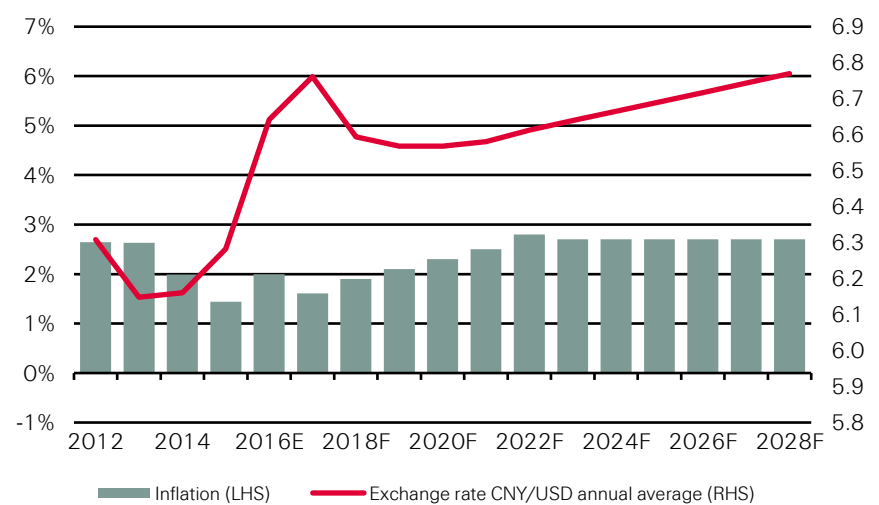
## Gross domestic product



## Savings, fiscal balance, and current account balance



## Inflation and exchange rate



Source for all charts: Oxford Economics, Swiss Re Institute.

# Economic outlook

## Economic outlook (2014-2028F)

	2014	2015	2016	2017E	2018F	2019F	2020F	2028F*
<b>Gross domestic product</b>								
GDP, USD bn	10 453	10 911	11 204	11 938	13 272	14 447	15 696	28 134
GDP, CNY bn	64 397	68 551	74 413	80 713	87 510	94 888	103 088	190 456
- real GDP growth rate	7.3%	6.9%	6.7%	6.8%	6.4%	6.2%	6.2%	5.4%
GDP per capita, USD	7 514	7 806	7 979	8 466	9 376	10 170	11 014	19 517
<b>Savings, government budget and current account balance</b>								
Gross national savings, USD bn	5 176	5 334	5 329	5 772	6 411	6 936	7 474	12 333
- in % of GDP	49.5%	48.9%	47.6%	48.3%	48.3%	48.0%	47.6%	46.0%
Government balance, USD bn	-184	-373	-426	-535	-576	-613	-635	-862
- in % of GDP	-1.8%	-3.4%	-3.8%	-4.5%	-4.3%	-4.2%	-4.0%	-3.4%
Current account balance, USD bn	229	304	201	182	188	202	194	237
- in % of GDP	2.2%	2.8%	1.8%	1.5%	1.4%	1.4%	1.2%	1.1%
<b>Inflation, exchange rate and unemployment</b>								
Consumer price index, base 2000	113	115	117	119	121	124	127	157
- average growth rate	2.0%	1.4%	2.0%	1.6%	1.9%	2.1%	2.3%	2.6%
CNY/USD, period average	6.2	6.3	6.6	6.8	6.6	6.6	6.6	6.8
Urban unemployment rate	4.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Population</b>								
Population, m	1 391	1 398	1 404	1 410	1 416	1 421	1 425	1 442
- average growth rate	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.2%
Population aged 0 to 14, % share	17.7%	17.7%	17.7%	17.6%	17.6%	17.5%	17.4%	16.8%
Population aged 15 to 64, % share	72.9%	72.6%	72.2%	71.7%	71.2%	70.7%	70.3%	69.5%
Population aged 65+, % share	9.4%	9.7%	10.2%	10.7%	11.2%	11.8%	12.2%	13.7%

\*Average growth rate for the multi-year period (2019-2028). Inflation-adjusted growth rate based on local currencies. CNY/USD refers to onshore exchange rate of Chinese yuan against the US dollar.

E = estimates, F = forecasts.

Source: Oxford Economics, Swiss Re Institute.

# Non-life insurance

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## Regulations

Supervisory body

- The China Insurance Regulatory Commission (CIRC) (<http://www.circ.gov.cn/web/site0/>)

Insurance laws

- The Insurance Law of the People's Republic of China.
  - The Law was first issued in 1995 and has been amended four times: in October 2002, February 2009, August 2014 and most recently in April 2015.
  - The last amendment follows the principle of “liberalising the front, supervising the end” set by the State Council. It focuses on deregulation and innovation in insurance and also on insurers' asset management business.

Licensing requirements (for domestic companies with less than 25% foreign ownership)

- Insurance companies and branches are licensed either for life or non-life business. Composite insurers are not permitted.
- However, since 2003 non-life insurers have been allowed to write personal accident (PA) and short-term health insurance of up to 1 year.
- Before May 2013, the minimum capital requirement of insurance companies was governed by CIRC licensing guidelines, as follows:<sup>3</sup>
  - Each new branch requires a subsidiary to have minimum registered capital of no less than CNY 200 million (USD 29 million at the 2017 average exchange rate) fully paid-up in cash, plus CNY 20 million (USD 3 million). If the subsidiary's capital reaches CNY 500 million (USD 72 million), no further capital for opening new branches is required.
- In May 2013, the CIRC issued new rules<sup>4</sup> on the business scope and minimum capital requirements for insurance companies. Insurance business was categorised into "basic" and "extended" groups. For non-life insurers:
  - the basic category includes the following classes of business: motor, property, engineering, liability, marine hull/cargo/transport, and short-term accident and health.
  - the extended category includes: agriculture, credit, special risks (aviation, nuclear) and investment-linked products.
  - new insurers may apply to undertake basic business only. The minimum capital requirement is CNY 200 million (USD 29 million) for the first class of business, plus another CNY 200 million for one more basic class.
  - an insurer can only apply for extended business after obtaining operating qualifications for three or more classes of basic business, and can only apply for one extended business class at a time. The interval between applications must be at least six months. There is no extra capital requirement for the extended classes.
- In July 2013, Ping An was recognised as the only Chinese "globally systemically important insurer" (GSI) by the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board (FSB).<sup>5</sup> Ping An is required to increase capital to meet higher loss absorbency targets by early 2019. In April 2016, the CIRC kicked off a project to identify "domestically-systemically important insurers" and to establish additional supervision measures with respect to capital management, cooperation governance and risk management for those insurers.

Licensing requirements (for foreign-invested companies)

- A foreign applicant for an insurance licence must meet the following criteria:
  - have more than 30 years of experience in insurance;
  - have total assets of at least USD 5 billion; and
  - have had a representative office in China for at least two years.
- Foreign insurers were originally restricted to some cities but since December 2004, they have been allowed to apply for licences across the country.
- The classification of business scope into "basic" and "extended" classes, and related minimum capital requirements, applies to foreign insurers also.

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<sup>3</sup> "Notice of China Insurance Regulatory Commission on Issuing the Guidelines on the Business Start-up Check of Insurance Companies".

<sup>4</sup> "Measures for the Classified Administration of the Business Scope of Insurance Companies".

<sup>5</sup> FSB identifies an initial list of global systemically important insurers, *Financial Stability Board*, 18 July 2013. [http://www.fsb.org/wp-content/uploads/pr\\_130718.pdf?page\\_moved=1](http://www.fsb.org/wp-content/uploads/pr_130718.pdf?page_moved=1)

# Non-life insurance

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- Foreign insurers may denominate their capital in either CNY or freely convertible foreign currencies of equivalent value.
- Foreign investors are allowed to invest in domestic Chinese insurance companies with the following restrictions:
  - Since June 2010, foreign investors must have total assets in excess of USD 2 billion and have had a credit rating of A or above from a recognized international credit rating agency (eg, Moody's, Standard & Poor's and Fitch) for the three years prior to making the investment.
  - Since August 2011, individual foreign investors can have a shareholding of more than 20% up to a maximum of 25%.

## Market access for foreign insurers

- Branches and wholly-owned foreign subsidiaries are allowed.
- Existing branches are encouraged to convert to wholly-owned subsidiaries.
- Foreign insurers have been permitted to sell compulsory motor third-party liability (CMTPL) insurance since 1 May 2012. Since 21 June 2013, the Cross-strait Agreement on Trade in Services allowed qualified Taiwanese insurers to engage in CMTPL business.
- On 1 March 2011, new and more stringent regulations were issued by the State Council for Representative Offices (RO) of foreign companies. The rules say:
  - foreign insurers should operate RO in China for at least two years before applying for an insurance licence, and cannot conduct profit-generating business in that time.
  - the RO should not employ more than four representatives (including the chief representative).
  - as of March 2011 regulations, RO are no longer exempt from the Enterprise Income Tax (EIT) and have to pay profit tax at a rate of 11% of their expenses.

## Supervisory requirements

- Filing and approval authority:
  - "Use and file" for all lines of business except policies involving social and public interests (eg, agricultural insurance), mandatory insurance (eg, motor third-party liability), unit-linked products, long-term credit and bond insurance.
  - Effective from August 2016, non-life insurance companies are required to file their new products on the self-registration platform (cxcx.iachina.cn) in real time rather than filing with the CIRC within 10 days of a product's launch. Under this system, all information of registered products will be fully disclosed to the public.
  - Since May 2014, insurers with branches in the Shanghai Free Trade Zone have been able to access new marine insurance products approved by the Shanghai Marine Insurance Association.
- Solvency control
  - The new solvency regime, known as the China Risk Oriented Solvency System (C-ROSS), was formally implemented by the CIRC in January 2016.
  - The C-ROSS emphasises insurers' own solvency management and has a three-pillar framework, namely quantitative capital requirements (Pillar I), qualitative capital requirements (Pillar II) and market conduct (Pillar III). Pillar I covers insurance risk for life and non-life business, market risk and credit risk. Pillar II includes unquantifiable risks and control risks, such as operational and reputational risk. Pillar III covers other risks (including the systemic risk of the whole market).
  - Three indicators need to be reported by insurers to the CIRC in their solvency reports: the "core solvency adequacy ratio" (the ratio of core capital to minimum capital); the "comprehensive solvency adequacy ratio" (the ratio of core capital plus supplementary capital to minimum capital); and the "integrated risk rating (IRR)",<sup>6</sup> which ranges from A (highest rating) to D (lowest) based on both quantitative capital requirements (eg, solvency ratio), and an evaluation of unquantifiable risks.
  - The Solvency Aligned Risk Management Requirements and Assessment (SARMRA), which has been described as equivalent to the Own Risk and Solvency Assessment (ORSA) requirement of Solvency II, was implemented

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<sup>6</sup> The integrated risk rating (IRR) has been formally implemented since the third quarter of 2016.

# Non-life insurance

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- in July 2016. SARMRA rewards insurers which have superior risk management capabilities with lower capital requirements. Insurers with a score above 80 (out of a maximum of 100), enjoy concessions on capital requirements. The average SARMRA score was 70.72 for 77 piloted non-life insurers in 2016, with six of those having a score above 80.
- On 6 September 2017, the CIRC released the interim report of solvency regulation for insurance industry:
    - The comprehensive and core solvency adequacy ratios for the Chinese insurance sector overall were healthy in the first half of 2017, at 235% and 220%, respectively.
    - For non-life insurers, the comprehensive solvency adequacy ratio was 253%, and the core solvency adequacy ratio was 223%.
  - On 20 October 2017, the CIRC launched the public consultation on C-ROSS II Phase II. The aim is to better regulate and rectify insurance management issues, and set higher solvency standards as follows: (1) core solvency ratio to be not less than 50%; (2) comprehensive solvency ratio to be not less than 100%; and (3) comprehensive rating to be not less than B.
  - Corporate governance:
    - Corporate governance and enterprise risk management are very important for the CIRC, with key requirements listed in various official documents.
    - On 27 September 2017, the CIRC circulated the assessment results on corporate governance of insurance companies, based on four categories: (1) operation of shareholders' meeting, the board of directors, the board of supervisors, and management in corporate governance; (2) internal control mechanisms; (3) changes in shareholders and equity and relevant information disclosure; and (4) operations of the group and its subsidiaries.
      - For 130 domestic insurance entities (including 11 insurance groups, 53 non-life insurers, 3 reinsurers, 44 life insurers and 19 asset management companies), the regulatory average score was 79.74 out of 100. The score for non-life insurers and reinsurers was 79.30.
      - For 50 foreign insurers (including 22 non-life insurers, 27 life insurers and one reinsurer), and one asset management company, the regulatory average score was 85.06. The score for non-life insurers and reinsurers was 84.36.
    - The CIRC wants to identify domestically systemically important insurers (D-SII), and enhance group supervision and corporate governance. On 25 May 2016, it collected data for rating D-SII from more than 10 insurance companies, including PICC (Group), China Life (Group), China Re (Group), Ping An (Group) and CPIC (Group). A second round of consultation started on 31 August 2016.
  - Policyholders' protection fund (PPF):
    - A policyholders' protection fund (PPF) has been in operation since 1995. It is now managed by a non-profit state-owned enterprise, the China Insurance Security Fund Co. Ltd that was set up on 11 September 2008.
    - For non-life insurers, the contribution to the PPF is defined as follow:
      - To contribute to the PPF until the contribution reaches 6% of total assets.
      - 0.8% of gross written premiums for non-unit-linked P&C, short-term health, and non-unit-linked PA policies.
      - 0.08% of insurance business income for unit-linked P&C and PA policies with guarantees; 0.05% for both policies without guarantees.
    - In case of bankruptcy, the PPF will cover 100% of all unpaid claims under CNY 50 000. For unpaid claims over CNY 50 000, the PPF will cover 90% for personal and 80% for commercial policyholders.
  - Investment regulations:
    - The key regulation on investment is the CIRC Circular issued in February 2014,<sup>7</sup> which relaxed investment restrictions and divided all types of investment into five asset categories: liquid assets, fixed-income assets, equity assets, real estate assets and other financial assets (including asset-backed securities). See Appendix I: insurance investment regulations.

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<sup>7</sup> Circular on Strengthening and Improving the Proportional Use of Insurance Funds.

# Non-life insurance

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- In June 2015, the establishment of Insurance Investment Fund (IIF) was approved by the State Council, with an initial capital injection of CNY 300 billion. The IIF has been managed by the China Insurance Investment Company (CI-INV), which was founded in December 2015 with registered capital of CNY 1.2 billion. The IIF supports national strategic projects such as urban infrastructure construction, water conservation, transportation in central and western China, Public-Private-Partnerships (PPP) and the "One Belt One Road" initiative.<sup>8</sup>
- Regulations on type of business
  - Captive insurance:<sup>9</sup>
    - A captive owner must be a large-scale enterprise with total assets in excess of CNY 100 billion.
    - Captives may only cover non-life risks, including employees' short-term health and PA insurance.
  - Agricultural insurance:
    - On 12 November 2012, the State Council issued the Agricultural Insurance Regulation which came into effect on 1 January 2013. This provides a regulatory framework for agriculture insurance and strengthens the state's commitment to subsidised cover for rural areas.
    - Since 19 December 2013, the Ministry of Finance (MOF) has required agriculture insurers to build catastrophe reserves by setting aside a certain portion of their gross written premiums and profits.
  - Guarantee insurance:
    - In January 2015, the authorities jointly issued the Guidance on Developing Credit Guarantee Insurance Services and Support for Small and Micro Businesses, to support the growth of credit guarantee insurance business facilitating SMEs.
  - Mutual insurance:
    - The CIRC issued regulations on mutual insurance organisations on 23 January 2015. A mutual insurer can take the form of a general mutual insurance company, a professional or regional mutual insurance organisation operating in a particular industry or area, or a small-scale mutual insurer for farmers or rural businesses.
    - General mutual insurance organisations at the national level are required to have initial capital of no less than CNY 100 million and at least 500 founder members. Regional and professional mutual insurers must have initial capital of at least CNY 10 million and no fewer than 100 founder members. The small-scale mutual insurance organisation requires initial capital of CNY 1 million.
  - Mergers and acquisitions (M&A):
    - The Regulation on Merger and Acquisitions of Insurance Companies, issued by the CIRC on 1 June 2014 was the first regulation ever allowing M&A activity within the insurance sector.
    - Upon CIRC approval, investors in an M&A can apply for financing support such loans of no more than 50% of the total monetary value.
    - Foreign investors in M&A of insurance companies in China should comply with the qualification requirements of Regulations on Foreign Insurance Companies if, in some exceptional cases, their combined shareholding exceeds 25%.

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<sup>8</sup> The NDRC (National Development and Reform Commission, China's top economic planner.) and CIRC jointly published "Guiding Opinions on the Insurance Industry Support Major Construction Projects". Guidance on investing in major construction projects: (1) insurance institutions are encouraged to invest in key projects by means of bonds, investment funds, infrastructure investment plans and asset-supporting plans to provide financing aid; (2) insurance companies should strengthen protection of key projects by providing engineering insurance, catastrophe insurance and reinsurance; and (3) the authorities will guarantee land supplies for insurance institutions investing in pension service facilities and health service industry.

<sup>9</sup> The Notice on the Supervision of Captive Insurance Companies which took effect 2 December 2013, regulates the establishment of onshore captives set up by domestic corporations.

# Non-life insurance

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- Liberalisation of motor insurance:
  - Foreign insurers have been allowed to write compulsory motor third-party liability (CMTPL) business since 2012.
  - The CIRC introduced the liberalisation of voluntary motor rating nationwide on 1 July 2016. This followed a first test of liberalisation in six localities<sup>10</sup> that started on 1 June 2015, and a further batch of 12 localities<sup>11</sup> on 1 January 2016.
  - The new rating system incorporates the model clauses formulated by the Insurance Association of China (IAC). Non-life insurers can independently decide four risk factors to determine their premium rates: the vehicle factor, the underwriting factor, the channel factor, and the accident factor. The rating for vehicle factor is restricted to +/- 20% of the benchmark rates, +/-15% (+/-25% in Shenzhen) for the underwriting factor, +/-15% for the channel factor, and -40% to +100% for the accident factor.
- The Shanghai Insurance Exchange (SHIE) and the China Residential Earthquake Insurance Pool (CREIP):
  - The SHIE officially opened on 12 June 2016. The aim is for SHIE to have four trading platforms: (1) a direct business exchange; (2) a reinsurance business exchange; (3) insurance asset management; and (4) other insurance products.
  - The SHIE is also the administrator of CREIP.
    - ✓ The Pool was set up by 45 insurance companies in April 2015, and is the first national plan covering damages caused by earthquake of magnitude 4.7 and above. It also covers fires, tsunamis and subsidence or landslides following an earthquake.
    - ✓ The basic sum insured is CNY 50 000 for urban dwellers and CNY 20 000 for rural residents. Cover will be available either on a stand-alone basis or as a household policy rider. Premiums will vary with location and construction-type.
    - ✓ The MOF will act as insurer of last resort through a special insurance reserve fund, to further ensure capacity beyond that provided by the CREIP and reinsurers.
- Other controls:
  - Non-life companies are required to establish an "unexpired liability reserve fund", an "outstanding loss reserve fund" and other liability reserve funds, as stipulated by the Administrative Measures on Non-life Insurance Reserves.
  - As of 1 January 2017, the CIRC has prohibited non-life insurers from issuing investment-linked products.<sup>12</sup>

## Compulsory insurance

- Motor third-party liability.
- Nuclear liability.
- Liability for marine oil pollution, injury to passengers and damage to their personal property.
- Third-party liability for schools and travel agents.
- Professional indemnity for insolvency practitioners, insurance agencies and brokers, and accounting firms (effective from 1 July 2015).
- Compulsory environmental liability for the following industries: non-ferrous metal mining and smelting; lead battery manufacturing; leather and related products manufacturing; chemical and chemical products manufacturing.
- Some other compulsory insurance classes are enforced in select municipalities and provinces. For example, in Beijing employers' liability and public liability insurance for industries with high exposures like mining, firework manufacturing, transport, construction and hazardous chemicals. In Jiangsu, elevator safety insurance is mandatory.

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<sup>10</sup> Heilongjiang, Shandong, Guangxi, Chongqing, Qingdao and Shaanxi

<sup>11</sup> Tianjin, Inner Mongolia, Jilin, Anhui, Henan, Hubei, Hunan, Guangdong, Sichuan, Qinghai, Ningxia and Xinjiang

<sup>12</sup> The name of regulation is the Guidelines for the Development of Insurance Products of Property Insurance Companies Released, issued on 30 December 2016.

# Non-life insurance

## Taxation

- Non-life insurance businesses are subject to the following tax and charges:
  - Effective from 1 May 2016, a value-added tax (VAT) replaced the Business Tax (BT) for the insurance industry. The applicable VAT rate for non-life insurers is 6%. Special lines, including agricultural, export credit, export product liability and export cargo, are exempt from VAT. Insurance claims received by the insured are not liable for VAT.
  - A stamp duty tax of 0.1% of insurance premium.
  - A municipal tax surcharge of average 12% of net VAT, but this varies by area. Special lines including agricultural, export credit, export product liability and export cargo are exempt from this tax.
  - A policyholders' protection fund charge of 0.08% for investment-type business with guarantee; 0.05% for investment-type business without guarantee; and 0.8% for all other business.
  - A supervisory levy charge (except agricultural) of 0.06% of net retained premiums for liability, credit, and short-term health insurance, 0.08% of net retained premiums for PA and other business.

## Market overview

- As at October 2017, there were 62 domestic non-life insurance companies in China and 22 foreign branches (for the purposes of this report, multiple branches are grouped under one company name). The changes in late 2016 and 2017 included:<sup>13</sup>
  - In January 2017, with an investment of CNY 2 billion from China COSCO Shipping Corporation, the COSCO Shipping Captive Insurance ("COSCO Captive") received regulatory approval from the CIRC to operate. The company is the first shipping industry captive in China, and is based in the Shanghai Free Trade Zone.
  - Two non-life mutual insurance associations were authorised by the CIRC to operate in 2017: Public Mutual (众惠财产相互保险社) in February and Hero Mutual (汇友建工相互保险社) in June.
  - In October 2017, Guangdong Yudean P&C Captive was approved by the CIRC to start operation.
- There are five domestic specialist agricultural insurers in China (Heilongjiang Sunlight, Shanghai Anxin<sup>14</sup>, Jilin Anhua, Anhui Guoyuan and Henan Zhongyuan), and two motor insurers<sup>15</sup> (Urtrust and Xin'an).
- There are four dedicated online insurance companies: Zhong An P&C, TK.cn Insurance, 1An Insurance (易安财), and Answern P&C.
- There are four captives: Petro-China Captive, China Railway Captive, COSCO Captive and Guangdong Yudean P&C Captive.
- There are nine insurance groups (PICC, China Life, China Re, Tai Ping, Ping An, CPIC, Sunshine, Huatai and Anbang) and two holding companies (China United, and Funde Insurance) in China.
- Based on provisional CIRC statistics for January to September 2017:
  - the top five companies had a 73.5% market share of direct premiums.
  - the total foreign market share was 1.96%, little changed from 2.02% in the same period of 2016.
  - the largest non-life insurers are PICC (33.5% market share), Ping An (20.2%) and China Pacific (9.8%).
- The top five foreign players include AXA-Tianping, Groupama-AVIC, AIG (formerly Chartis), Liberty Mutual, and Allianz. Together these accounted for 68.0% of total non-life premiums received by foreign insurers in January-September 2017.
- Despite a tightening of national controls on capital outflows, Chinese insurers have continued to expand overseas in recent years. The regulator continues to encourage long-term overseas investments that have strategic value and serve national interests, such as investments in Belt & Road Initiative projects.

<sup>13</sup> This information is taken from company websites.

<sup>14</sup> CPIC acquired a stake of 34.34% in Anxin Agricultural Insurance in 2014, and increased its shares to 52.13% in April 2016.

<sup>15</sup> AXA merged with Tianping Auto and aims to develop internet insurance. Motor insurance becomes the major business line for the new joint venture AXA-Tianping P&C.

# Non-life insurance

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- Foreign insurers are also investors in some domestic insurers. Examples include ACE Group, which owns 20% of Huatai P&C. AIG has a 9.9% share in PICC P&C, Allianz has 3% of CPIC Group shares, Fairfax Financial Holdings of Canada has a 15% shareholding and Swiss Re 5% in Alltrust, and IAG owns 20% of Bohai P&C.<sup>16</sup>

## Premiums and portfolio split

- Total non-life premiums increased by 10% (+7.9% in real terms) in 2016 to CNY 927 billion (2015: CNY 842 billion).
- In 2016, the biggest line by far was motor (73.8% of total premiums), followed by agriculture (4.5%), guarantee and credit (4.2%), enterprise property (4.1%), liability (3.9%), short-term health (3.2%), and accident (2.7%). For first nine months of 2017, non-life insurance premiums grew by 14.5% in nominal terms.<sup>17</sup>
- Government support has helped spur growth in some business areas, including in commercial lines like guarantee and credit, agriculture, and liability insurance.
  - Agricultural insurance premium income was CNY 41.8 billion in 2016, up 11.4% from 2015. China has become the world's second largest agricultural insurance market after the US, this development largely driven state subsidies.
  - Liability premiums increased by 20% in 2016 (2015: +19.2%) following the government's promotion of compulsory liability insurance (eg, carriers' liability, hospital liability, food safety liability and environmental pollution liability).
- Increasing individual risk awareness along with income growth and advancement in technology has contributed to growth of personal lines.
  - Since 2013, short-term health insurance premiums written by non-life insurance companies have achieved sequential double-digit growth (including a strong increase by 62.9% in 2013), mainly due to rising risk awareness and emerging online distribution channels. The growth rate eased slightly to 28.8% in 2016 (2015: +35.0%).
  - Household property insurance premiums grew by 24.9% in 2016, partly due to rising demand for natural catastrophe (eg, earthquake) protection, and also government initiatives such as the launch of the China Residential Earthquake Insurance Pool (CREIP) program.

## Distribution

- In recent years, most non-life business has been sold through direct channels, which collectively accounted for 32.1% of sector premiums in 2016. These channels include direct marketing, telemarketing and sales handled by insurance staff directly. Individual agents/sales accounted for 23.6% of non-life premiums, and cross-sector distribution channels for 23.2% (down from 26.4% in 2014). To diversify and reduce reliance on dealers for distribution, insurers have established call centres, especially for motor policies.
- E-commerce ("internet + insurance") has gained in popularity in China.
  - According to a report issued by the InsurView and Warp Speed Capital,<sup>18</sup> combined P&C and L&H premiums from internet sales reached CNY 234.7 billion in 2016, a 5% increase from 2015. Growth slowed sharply from a 160%-gain reported in 2015 partly due to tighter CIRC regulations on investment-linked insurance products, and partly due to negative growth in online motor insurance sales.
  - For non-life insurers, online premiums were CNY 40.3 billion in 2016, down 47.6% from 2015. The decline was mostly due to weaker online sales of motor insurance: motor accounted for 79.4% of total online-generated non-life premiums, down from 93.2% in 2015. Online motor has lost an advantage because alongside motor detariffication, the CIRC has set the same standards on risk factors for online and offline insurance products.
  - The number of insurers engaged in internet business increased from 85 in 2014 to 110 in 2015, and to 117 in 2016.

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<sup>16</sup> Information on ownership shares taken from company websites.

<sup>17</sup> See <http://www.circ.gov.cn/web/site0/tab5179/info4088983.htm>

<sup>18</sup> See <http://www.warpspeedcap.com/1476.html>

# Non-life insurance

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- Other professional channels including insurance brokers and insurance agencies have gained importance in recent years. They collectively accounted for 21.1% of total non-life business in 2016. The number of insurance sales/agents continued to increase in first quarter of 2017, by 4 017 000 persons. The significant increase resulted in large part from relaxed regulations on qualification examinations and certification for insurance intermediaries since 2015. This has driven more use of individual agents by life insurers, especially larger ones.
- Aon was the first foreign broker to establish a joint venture in China. Aon-COFCO Insurance Brokers was approved by the CIRC in October 2003. Willis-Pudong and Marsh have since also started operations in China. Benfield gained CIRC approval to establish a subsidiary in Shanghai in November 2008. Willis Towers Watson started operations in China in January 2016.<sup>19</sup>
- Bancassurance is conducted through strategic alliances between banks and insurers (eg through banks, premium payments are made and debit/credit cards are issued to insurers' clients). So far, BOC Insurance and CCB P&C Insurance are two P&C insurers that own a bank.

## Premium growth and results

- Total premiums are estimated to have increased by 11.9% (+10.1% in real terms) in 2017 to CNY 1 037 billion.
- Motor insurance accounted for 73.8% of total non-life market premiums in 2016 (2015: 73.6%). In the past years, the segment has benefited from the introduction of CMTPL as well as a large increase in car ownership. Near-term growth will likely be held back by further restrictions on car ownership/usage in some major cities such as Beijing and Shanghai, which face heavy traffic and air pollution issues. Another factor is liberalisation of motor insurance pricing, which has increased competition and strained profitability. Longer-term, motor premiums are expected to grow due to urbanisation of third- and fourth-tier cities, as consumers in big cities like Beijing and Shanghai upgrade to more expensive vehicles, and as sales of electric automobiles increase supported by government incentives, including subsidies.
- The interim results of PICC P&C, China's largest non-life insurer, provide a glimpse on the sector's overall profitability. In its 2017 interim report, PICC indicated a net profit of CNY 12.08 billion, up from the CNY 10.7 billion in same period of 2016.<sup>20</sup> Positive underwriting results (H1 2017: CNY 6.52 billion vs. H1 2016: CNY 6.45 billion) were reported for almost all lines including motor, enterprise property, liability, cargo and agricultural insurance. The only exceptions were PA & health business. Nonetheless, only enterprise property, liability and cargo saw improved underwriting profit margins.
  - The overall loss ratio at PICC P&C was 60.9% in the first half of 2017, slightly higher than the corresponding figure of 60.2% in 2016. This was mainly attributable to an increase in the motor loss ratio to 59.1% from 58.5% due to a decline in premiums per vehicle, and rising costs for auto parts and labour.
  - Investment income rose to CNY 9.97 billion from CNY 7.60 billion in the first half of 2016, due to improved performance of the Chinese equity markets.

## Current market concerns

- VAT reform was implemented in the insurance sector in May 2016. This is expected to have a negative impact on China's non-life insurers in the short-term.
  - Higher tax for P&C insurers. The premium tax base for VAT is the same as that for business tax (BT), ie premiums for short-term accident and most P&C lines are taxable. Only agriculture, export credit, export cargo and export product liability insurance are exempt from the VAT tax. As the overall VAT tax rate (6.34%, surcharges included) is higher than that of BT (5.5%, surcharges included), the tax amounts will be substantially higher.
  - Most expenses are not deductible. As most of insurers' expenses are either paid to individuals (including claims, commissions to individual agent and staff expenses) or on a non-cash basis (ie, reserves), it is not possible to have

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<sup>19</sup> This information is taken from company websites

<sup>20</sup> See

<http://www.picc.com/res/PICCCMS/structure/653c56155cfd51eec63484f68bf7a39.pdf>

## Non-life insurance

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the input VAT invoices for such expenses and hence, these expenses are non-VAT-deductible. Some insurers are trying to settle auto claims with car salesrooms instead of paying individual customers directly, as automobile 4S<sup>21</sup> stores can issue input VAT invoices.

- Overall lower profits. Under the VAT system, only net revenue is recognised as revenue and this will negatively influence profitability.
- On 18-24 October 2017, China held the 19<sup>th</sup> National Congress of the Communist Party in Beijing. President Xi Jinping's messages throughout the Congress focussed on a pivotal vision for China's all-round development, while at the same time confirming a strong commitment to reforms to redress various imbalances and sustain China's long-term development.
  - The Congress laid out plans to increase the number of the middle-income households and grow the disposable income of low-income groups over the next few decades. Rising incomes and asset ownership will likely benefit non-life personal lines, although this will probably show only gradually.
  - The Belt & Road (B&R) Initiative, proposed by President Xi in 2013, is now formally written into the CPC Constitution. While there may be no change in substance and how this initiative is carried out, that it is part of the CPC Constitution shows China's determination to make it a success. In particular, China could step up effort to fund and finance various B&R-related infrastructure projects, an opportunity for insurers in China and beyond.
  - Poverty-alleviation is a central focus. Though Congress did not make mention of it, the re/insurance industry can make an active contribution to alleviation of poverty. The government is also committed to supporting the agricultural sector to stabilise rural incomes and close the urban-rural wealth gap. To this end, fiscal and other policy support for agro insurance will likely continue.
  - The Congress also emphasises sustainable development. Here, green insurance for the renewable energy sector, and natural catastrophe property insurance among others, can help to build an environmental friendly and more resilient society.

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<sup>21</sup> 4S stores are "four-in-one" facilities offering car sales, spare parts sales, post-sale servicing and car surveys.

# Non-life insurance

## Non-life insurance companies, January to September 2017

Domestic insurer	Direct premiums CNY m	Market share %	Foreign insurer / JV	Direct premiums CNY m	Market share %
PICC	261 633.0	33.47%	AXA Tianping	5 979.6	0.76%
Ping An	157 507.0	20.15%	Groupama-AVIC	1 425.8	0.18%
China Pacific	76 955.9	9.84%	AIG	1 117.4	0.14%
China Life P&C	47 826.8	6.12%	Liberty Mutual	1 113.7	0.14%
China United	30 604.6	3.92%	Allianz	771.0	0.10%
China Continental	27 527.5	3.52%	Cathay P&C	766.5	0.10%
Sunshine P&C	24 527.3	3.14%	Fubong P&C	718.1	0.09%
Tai Ping	15 931.2	2.04%	Samsung	635.9	0.08%
Sinosure	11 716.2	1.50%	Generali P&C	447.2	0.06%
Tianan	10 569.3	1.35%	Tokio Marine	401.1	0.05%
SinoSafe	8 343.0	1.07%	Zurich	385.3	0.05%
Yingda P&C	7 091.7	0.91%	Mitsui Sumitomo	349.6	0.04%
Yong An	6 855.6	0.88%	Chubb	346.3	0.04%
Huatai	5 910.5	0.76%	Sompo Japan	280.1	0.04%
Anbang	5 183.7	0.66%	Starr P&C	152.2	0.02%
Alltrust	4 950.6	0.63%	Swiss Re CorSo	112.6	0.01%
Guoyuan Agricultural	4 336.7	0.55%	Hyundai	89.9	0.01%
An Hua Agricultural	4 202.3	0.54%	LIG	87.7	0.01%
ZhongAn online P&C	4 167.5	0.53%	Nipponkoa	47.7	0.01%
BOC Insurance	4 080.9	0.52%	Aioi	43.1	0.01%
Zking P&C	3 730.5	0.48%	XL Insurance (China)	28.9	0.00%
Dinghe P&C	3 122.2	0.40%	Lloyd's	6.9	0.00%
Sunlight Agricultural	3 054.7	0.39%			
Du Bang	3 008.9	0.38%			
Ancheng	2 975.6	0.38%			
Bohai P&C	2 766.4	0.35%			
Zheshang P&C	2 646.0	0.34%			
Xinda P&C	2 314.2	0.30%			
Chang An Property & Liability	2 289.3	0.29%			
API	2 154.4	0.28%			
Funde P&C	1 491.8	0.19%			
Beibu Gulf P&C	1 472.5	0.19%			
TK.on Insurance	1 271.4	0.16%			
Tai Shan P&C	1 046.0	0.13%			
Jintai P&C	1 023.6	0.13%			
Huahai P&C	992.6	0.13%			
China Coal P&C	972.2	0.12%			
Zhongyuan Agricultural	918.8	0.12%			
Urtrust Insurance	917.0	0.12%			
Huanong	894.5	0.11%			
Anxin Agricultural	826.7	0.11%			
Chengtai P&C	701.4	0.09%			
1An Insurance	657.4	0.08%			
Yanzhao P&C	628.8	0.08%			
Changjiang P&C	604.2	0.08%			
China Railway Captive	516.1	0.07%			
Petro-China Captive	469.1	0.06%			
Xin'an Auto	382.6	0.05%			
Xinjiang Qianhai United P&C	373.7	0.05%			
Answern P&C	368.0	0.05%			
Hengbang Property	345.5	0.04%			
Qomolangma P&C	305.2	0.04%			
Haixia Goldenbridge Insurance	270.2	0.03%			
Zhonglu P&C	243.9	0.03%			
COSCO Captive	176.6	0.02%			

## Non-life insurance

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Jiulong Property Insurance	138.0	0.02%
Donghai Shipping Insurance	123.2	0.02%
Sunshine Yurong C&G	97.7	0.01%
Union P&C	73.7	0.01%
CCB P&C	50.8	0.01%
Public Mutual	43.2	0.01%
Hero Mutual	1.1	0.00%

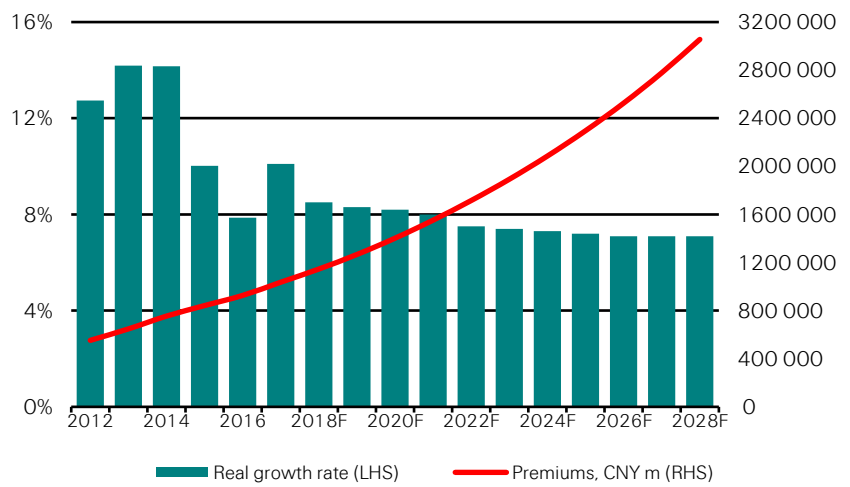
Domestic total	766 380.8	98.04%
Foreign/JV total	15 306.5	1.96%
Grand total	781 687.3	
Top five market share		73.50%
Top ten market share		85.05%

Note: CIRC statistics are unaudited data, which may differ slightly from companies' financial statements reported in the Yearbook as well as the CIRC Annual Report of the China Insurance Market.

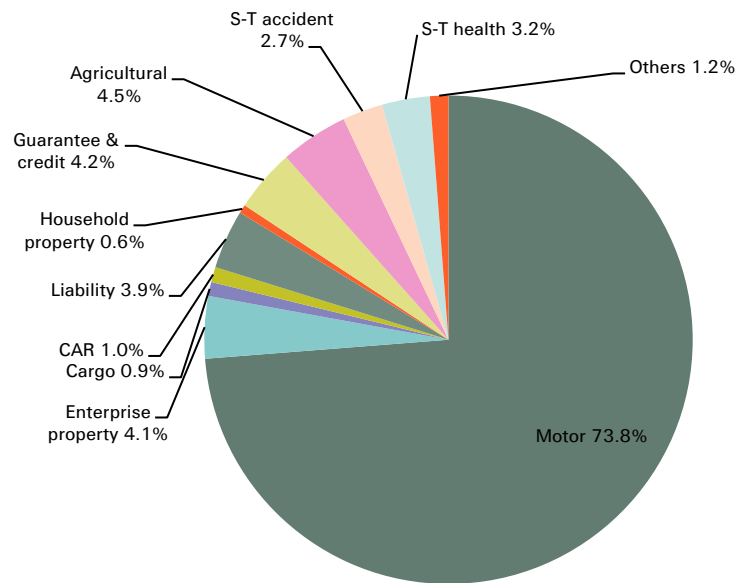
Source: CIRC website.

# Non-life insurance

Non-life insurance premiums



Non-life insurance premiums by business line, 2016



Sources for all charts on this page: the China Insurance Development Bluebook (various issues), the Yearbook of China's Insurance (various years), Swiss Re Institute.

# Non-life insurance

## Non-life insurance premiums (2014-2028F)

	2014	2015	2016	2017E	2018F	2019F	2020F	2028F*
<b>Non-life insurance premiums</b>								
<i>Direct premiums written</i>								
USD billion	122	134	140	153	174	193	214	451
CNY billion	755	842	927	1 037	1 146	1 267	1 403	3 056
- average real growth rate	14.2%	10.0%	7.9%	10.1%	8.5%	8.3%	8.2%	7.5%
Premiums/GDP (%)	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%	1.4%	1.5%
Premiums per capita, USD	88.0	95.9	99.4	108.7	122.8	135.8	149.9	312.8
<b>Non-life insurance premiums by business line</b>								
<i>Direct premiums, CNY billion</i>								
Total non-life	755	842	927	1037	1 146	1 267	1 402	3 056
Motor and third-party liability	552	620	683	-	-	-	-	-
Enterprise property	39	39	38	-	-	-	-	-
Cargo	10	9	9	-	-	-	-	-
CAR	8	8	9	-	-	-	-	-
Liability	25	30	36	-	-	-	-	-
Household property	3	4	5	-	-	-	-	-
Guarantee and credit	40	40	38	-	-	-	-	-
Agricultural	33	37	42	-	-	-	-	-
Accident	17	20	25	-	-	-	-	-
Short-term health	17	23	29	-	-	-	-	-
Others	11	12	11	-	-	-	-	-
<i>Average growth rate</i>								
Total non-life	16.4%	11.6%	10.0%	11.9%	10.6%	10.6%	10.7%	10.3%
Motor and third party liability	16.8%	12.4%	10.3%	-	-	-	-	-
Enterprise property	2.3%	-0.3%	-1.2%	-	-	-	-	-
Cargo	-7.3%	-7.6%	-3.1%	-	-	-	-	-
CAR	3.9%	1.5%	12.5%	-	-	-	-	-
Liability	16.9%	19.2%	20.0%	-	-	-	-	-
Household property	-11.0%	23.7%	24.9%	-	-	-	-	-
Guarantee and credit	45.4%	0.0%	-4.0%	-	-	-	-	-
Agricultural	6.3%	15.1%	11.4%	-	-	-	-	-
Accident	13.9%	16.3%	23.9%	-	-	-	-	-
Short-term health	43.3%	35.0%	28.8%	-	-	-	-	-
Others	17.4%	6.9%	-5.0%	-	-	-	-	-
<i>Loss ratios, %</i>								
Total non-life	52.6%	52.5%	54.2%	-	-	-	-	-
Motor and third party liability	54.9%	53.8%	53.4%	-	-	-	-	-
Enterprise property	55.6%	56.0%	69.8%	-	-	-	-	-
Cargo	45.8%	52.4%	64.7%	-	-	-	-	-
Liability	42.5%	42.8%	45.9%	-	-	-	-	-

\*Average growth rate for the multi-year period (2019-2028). The growth rate is inflation-adjusted based on local currencies. CNY/USD refers to onshore exchange rate of Chinese yuan against the US dollar.

Source: the China Insurance Development Bluebook (various issues), the Yearbook of China's Insurance (various years), Swiss Re Institute.

# Life and health insurance

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## Regulations

### Supervisory body

- The China Insurance Regulatory Commission (CIRC), (<http://www.circ.gov.cn/web/site0/>)

### Insurance laws

- The Insurance Law of the People's Republic of China.
  - The Law was first issued in 1995 and has been amended four times, in October 2002, February 2009, August 2014 and most recently in April 2015.
  - The last amendment follows the principle of “liberalising the front, supervising the end” set by the State Council. It focuses on deregulation and innovation in insurance, and also on insurers' asset management business.
- The Regulation of Health Insurance and the Regulation of Pension Insurance Business govern the conduct of health and medical insurers. The CIRC released a draft of Regulation of Health Insurance for public consultation in late 2017. It focuses on healthcare management and potential cooperation with social medical insurance.

### Licensing requirements (for domestic companies with less than 25% foreign ownership)

- Minimum capital requirements before May 2013 were governed by a guideline issued effective from 1 July 2011:<sup>22</sup>
  - A subsidiary must have minimum registered capital of no less than CNY 200 million (USD 29 million at 2017 average daily exchange rate) fully paid-up in cash, plus CNY 20 million (USD 3 million) to open a new branch. If the subsidiary's capital reaches CNY 500 million (USD 72 million), no further capital is required for new branches.
- In May 2013, the CIRC issued further rules<sup>23</sup> on the business scope for insurers and minimum capital requirements. Insurance business was categorised into "basic" and "extended" groups, for life insurance:
  - The "basic" category includes the following classes of business: general (life insurance, annuity insurance), health, accident, participating and universal insurance.
  - The "extended" category includes investment-linked insurance and variable annuities.
  - New insurers may apply for basic business only.
    - The minimum capital requirement is CNY 200 million for the first class of business, and CNY 200 million for another one.
    - If a company would like to write the first three classes of basic business plus one of participating or universal insurance, it must have capital of CNY 1 billion (USD 145 million). To write all five basic classes, it must have capital of CNY 1.5 billion (USD 217 million).
  - An insurer shall not apply for a licence for extended business before obtaining the operational qualifications for the first three classes of basic business (general, health and accident). It can only apply for a licence for only one extended business at a time, and the interval between applications must be at least six months.
- Specialised health and pension insurers are supervised by the Life Department of the CIRC and face the same licensing requirements as all other life insurers. Licensed pension insurers providing corporate annuities are allowed to operate nationwide.
- In July 2013, Ping An was recognised as the only "globally systemically important insurer" (GSII) in China by the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board (FSB). Ping An has to increase its capital to meet "higher loss absorbency" targets by early 2019. In April 2016, the CIRC kicked off a project to identify "domestically systemically important insurance companies", with the aim of identifying those insurance companies which need additional supervision with respect to capital requirements, corporate governance and risk management.

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<sup>22</sup> The guidelines were published under the name "Notice of China Insurance Regulatory Commission on Issuing the Guidelines on the Business Start-up Check of Insurance Companies".

<sup>23</sup> The "Measures for the Classified Administration of the Business Scope of Insurance Companies".

# Life and health insurance

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## Licensing requirements (for foreign-invested companies)

- A foreign applicant must have more than 30 years of experience in the insurance business and total assets of at least USD 5 billion. The company will need to have operated a representative office in China for at least two years prior to submitting an application.
- A foreign insurer can only enter China's life market through a joint venture. Joint ventures are required to have a minimum registered capital of CNY 200 million.
- Foreign insurers may denominate their capital in either CNY or freely convertible foreign currencies of equivalent value.<sup>24</sup>
- The Measures for the Classified Administration of the Business Scope of Insurance Companies<sup>25</sup> is applicable to foreign insurance companies.

## Market access for foreign insurers

- Branches and wholly-owned foreign subsidiaries are not permitted (AIA is an exception).<sup>26</sup>
- Foreign equity stakes of up to 50% in life insurance companies are permitted.
- On 1 March 2011, new and more stringent regulations were issued by the State Council for Representative Offices (RO) of foreign companies. The rules say:
  - Foreign insurers should operate RO in China for at least two years before applying for an insurance licence, and cannot conduct profit-generating business in that time.
  - The RO should not employ more than four representatives (including the chief representative).
  - With the March 2011 regulations, RO are no longer exempt from the Enterprise Income Tax (EIT), and have to pay profit tax at a rate of 11% of their expenses.

## Supervisory requirements

- Filing and rate controls:
  - The "use-and-file" rule is applied to all insurance products, except those of social and public interest, mandatory insurance and some select formats (eg, unit-linked products).
  - The CIRC completed pricing reforms for the life sector in 2016. With the reform, insurers are free to set their own guaranteed interest rates up to 3.5% for universal life policies, and up to 3.0% for participating life policies. Higher rates need CIRC approval.
- Solvency control
  - The CIRC formally implemented the new solvency regime, known as the China Risk Oriented Solvency System (C-ROSS), in January 2016.
  - The C-ROSS has a three-pillar framework, namely quantitative capital requirements (Pillar I), qualitative capital requirements (Pillar II) and market conduct (Pillar III). Pillar I covers insurance risks for life and non-life business, and market and credit risks. Pillar II covers unquantifiable risks and control risks, including operational and reputational risk. Pillar III covers other risks, including systemic market risk.
  - Insurers need to report three solvency indicators to the CIRC: the "core solvency adequacy ratio" (the ratio of core capital to minimum capital); the "comprehensive solvency adequacy ratio" (the ratio of core capital plus supplementary capital to minimum capital); and the "integrated risk rating (IRR)".<sup>27</sup> The latter ranges from A (highest) to D (lowest) and is based on quantitative capital requirements (eg, solvency ratio) and an evaluation of unquantifiable risks.
  - The Solvency Aligned Risk Management Requirements and Assessment (SARMRA), which has been described as equivalent to the Own Risk and Solvency Assessment (ORSA) requirement of Solvency II, was implemented in July 2016. SARMRA rewards insurers with superior risk management capabilities with lower capital requirements. Insurers with a score of 80 and above (out of a maximum of 100) can enjoy such concessions. The average

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<sup>24</sup> With effect from 1 August 2013

<sup>25</sup> Issued in May 2013

<sup>26</sup> At present, foreign life insurers can only hold up to 50% of a joint venture. This is with the exception of AIA which wholly-owned by foreign investors. This happened before the cap was introduced.

<sup>27</sup> The integrated risk rating (IRR) has been formally implemented since the third quarter of 2016.

## Life and health insurance

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- SARMRA score was 76.35 for 72 piloted life insurers in 2016, and only 22 life insurers got scores above 80.
- On 6 September 2017, the CIRC released the interim report of solvency regulation for insurance industry:
    - The comprehensive and core solvency adequacy ratios for the insurance sector overall were high in the first half of 2017, at 235% and 220%, respectively.
    - For life insurers, the comprehensive solvency adequacy ratio was 229%, and the core solvency adequacy ratio was 216%.
  - On 20 October 2017, the CIRC launched public consultation for C-ROSS Phase II. This aims to better regulate and rectify insurance management issues and set higher requirements including: (1) a core solvency ratio of no less than 50%; (2) a comprehensive solvency ratio of not less than 100%; and (3) a comprehensive rating of not less than B.
  - Corporate governance:
    - Corporate governance and enterprise risk management are very important for the CIRC, and it has a list of key requirements.
    - On 27 September 2017, the CIRC circulated the assessment results on corporate governance of insurance companies, based on four categories of index with 151 sub-indicators: (1) operation of shareholders' meeting, board of directors, board of supervisors, and management in corporate governance; (2) internal control mechanisms; (3) changes in shareholders, equity and relevant information disclosure; and (4) operations on group and its subsidiaries:
      - For 130 domestic insurance entities (including 11 insurance group, 53 non-life insurers, 3 reinsurers, 44 life insurers, and 19 asset management companies), the regulatory average score was 79.74 out of 100. The score for life insurers was 79.21.
      - For 51 foreign insurance entities (including 22 non-life insurers, 27 life insurers, one reinsurer, and one AM company), the regulatory average score was 85.06, and the score for life insurers was 85.97.
    - The CIRC wants to identify "domestically systemically important insurers" and to enhance group supervision and corporate governance. On 25 May 2016, it started collecting data to determine which insurers are domestically systemically important. The insurers being rated are: PICC (Group), China Life (Group), Taiping Group, China Re (Group), Ping An (Group), CPIC (Group), China United Holding, Sunshine (Group), Taikang Life, New China Life, Huatai (Group), Anbang (Group), Fude Holding, Union Life, China Post Life, and Huaxia Life. A second round of consultation started on 31 August 2016.
  - Policyholders' protection fund (PPF):
    - A policyholders' protection fund (PPF) has been in operation since 1995. It is now managed by a non-profit state-owned enterprise, the China Insurance Security Fund Co. Ltd, which was established on 11 September 2008.
    - For life and health insurers, the amount of their contributions to the PPF should equate to 1% of their assets. The contribution rates are:
      - 0.8% of gross written premiums for personal accident and short-term health insurance.
      - 0.15% of gross written premiums for long-term health insurance, and for life policies with guaranteed investment returns.
      - 0.05% of gross written premiums for life insurance without guarantees
    - In case of bankruptcy, the PPF will cover 100% of all unpaid claims under CNY 50 000. For unpaid claims over that amount, the PPF will cover 90% of personal claims and 80% for commercial policyholders.
  - Investment regulations:
    - The key regulation on investment is the Circular issued in February 2014,<sup>28</sup> which at the same time relaxed investment restrictions and divided all types of investment into five asset categories: liquid assets, fixed-income assets, equity assets, real estate assets and other financial assets (including asset-backed securities). See Appendix I: insurance investment regulations.

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<sup>28</sup> The name of circular is Circular on Strengthening and Improving the Proportional Use of Insurance Funds.

## Life and health insurance

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- In June 2015, the establishment of an Insurance Investment Fund (IIF) was approved by the State Council, with an initial capital injection of CNY 300 billion. The IIF is managed by the China Insurance Investment Company (CIINV), founded in December 2015 in Shanghai with registration capital of CNY 1.2 billion. The IIF supports national strategic projects such as urban infrastructure construction, water conservation, transportation in central and western China, Public-Private-Partnership (PPP) projects, and the One Belt One Road initiative.<sup>29</sup>
- Regulations on type of business
  - Mutual insurance:
    - The CIRC issued regulations on mutual insurance organisations on 23 January 2015. A mutual insurance organisation can be a general mutual insurance organisation, a professional or regional mutual insurance organisation operating in a particular industry or area, or a small-scale mutual insurance organisation for farmers or rural businesses.
    - General mutual insurance organisations at the national level are required to have initial capital of not less than CNY 100 million, and at least 500 founder members. Regional and professional mutual insurance organisations are required to have initial capital of at least CNY 10 million and no fewer than 100 founder members. The small-scale mutual insurance organisation need initial capital of CNY 1 million.
  - Merger and acquisitions (M&A):
    - The Regulation on Merger and Acquisition of Insurance Companies, issued by the CIRC on 1 June 2014, was the first regulation ever allowing M&A activity within the insurance sector.
    - Upon CIRC approval, investors in the M&A can apply for financing support such as M&A loans of no more than 50% of the total monetary value.
    - Foreign investors in M&A of insurance companies in China should comply with the qualification requirements of Regulations on Foreign Insurance Companies, if their combined shareholding exceeds 25%.
- Pilot of variable annuity (VA) products:
  - Five cities – Beijing, Shanghai, Guangzhou, Shenzhen and Xiamen – were chosen as pilot areas in 2011. Eligible insurers were allowed to launch one VA product with a benefit term of no less than seven years.
  - Total premiums for VA products should not fall below CNY 8 billion, or four times an insurer's actual capital in the latest quarter, whichever is larger.
- Insurance coverage:
  - The sum insured of death benefit is set at no least than 20% of account value and the cap on regular premiums has increased to CNY 10 000.
  - The sum insured for death in individual term life, whole life, endowment long-term care (LTC) insurance should account for 160%/140%/120% of accumulated premiums for the "arrival age" groups 18-40/41-60/61+ years,<sup>30</sup> respectively.
  - Insurance with death benefits should include at least liability for death due from diseases and accidents.
- Insurance asset risk classifications:<sup>31</sup>
  - Insurance assets are classified into five categories: normal, of concern, secondary, suspicious and loss-making, of which the last three categories are collectively referred to as non-performing assets.

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<sup>29</sup> The NDRC (National Development and Reform Commission, China's top economic planner) and CIRC jointly published "Guiding Opinions on the Insurance Industry Support Major Construction Projects". Guidance on investing in major construction projects: (1) insurance institutions are encouraged to invest in key projects by means of bonds, investment funds, infrastructure investment plans and asset-supporting plans to provide financing aid; (2) insurance companies should strengthen protection of key projects by providing engineering insurance, catastrophe insurance and reinsurance; and (3) the authorities will guarantee land supplies for insurance institutions investing in pension service facilities and the health service industry.

<sup>30</sup> The arrival age is the age of the insured at policy signing, plus years of policy in effect minus 1 (year).

<sup>31</sup> The "Guidelines on Five-category Risk Classification of Insurance Assets" (17 October 2014).

- Control on asset-liability management under challenging investment environments. On 3 December 2015, the CIRC issued the "Notice on the Relevant Issues of Strengthening Prudent Supervision on Asset Allocation of Insurance Companies" for L&H insurers. For certain insurers, the results of a stress test and asset allocation report should be submitted to the regulator semi-annually. Impacted insurers are:
  - L&H insurance companies with average liability duration of less than 5 years, and with a ratio of investment in equity, real estate and other financial assets to total assets exceeding 20% as the end of the previous quarter; or
  - L&H insurers with ROE lower than the capital cost of insurance products for any one category of ordinary, participating and universal products.
- Control on critical illness (CI)-related business:<sup>32</sup>
  - The minimum capital is 1% of policy liabilities for business not passing the risk significance test, or calculated based on type of risk-sharing arrangement for business that meet the test's requirements.
  - The critical illness table "CI (2006-2010)" has been used in the valuation of statutory reserves of CI products.<sup>33</sup> The experience rates used by CI insurers in the statutory reserve valuation cannot be lower than the rates in the Table. Insurers should determine the ratio of CI-deaths in total deaths. For life products covering CI, insurers should use the sum of death rate and CI rate as the minimum valuation rate.
- Control on high-cash-value insurance products<sup>34</sup> ("short- and mid-term insurance products", SMP):
  - Insurers selling SMP are required to have a solvency ratio over 150%.
  - Annual in-force SMP income shall not be more than twice an insurer's invested capital or net assets (whichever is larger) at last quarter-end.
  - In order to control mismatch risk between the asset/liability and the liquidity risk, the CIRC regulates that: (1) sale for products with a maturity of less than 1 year shall be discontinued immediately; (2) the annual sale size for products with a maturity of 1 year or more, and less than 3 years is no more than double the larger of injected equity and net assets in the year, with shrinking size of 90% of overall limit in 2015, 70% in 2016 and 50% in 2017. Annual SMP premium income should be limited at 50%/40%/30% of total premiums by 2019/2020/2021, respectively.
  - Effective 1 January 2017, insurers have needed to assess and report their unit-linked and VA products based on the SMP definition. They should not design whole life, annuity, LTC products as SMP, but should assess the expected duration of products with universal insurance and unit-linked insurance as riders to judge whether it is SMP.
- Elderly housing reverse mortgage pension insurance:
  - Municipalities, capital cities (capitals of autonomous regions), cities specifically designated in the state plan, and some prefecture-level cities (Jiangsu, Zhejiang, Shandong and Guangdong provinces) have been selected as a second batch of pilot cities effective 30 June 2018.<sup>35/36</sup>
- Long-term care (LTC) insurance:

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<sup>32</sup> The "Announcement on Rules for Critical Illness Insurance Solvency Reports (No.14): Minimum Capital of Critical Illness for Urban and Rural Residents", 17 January 2013. The "Interim Management Measures for Insurance Companies on Critical Illness Insurance Business of Urban and Rural Residents", 12 March 2013. The Interim Measures for the Administration of Bidding/Service Standard/ Financial Management/ Risk Management/ Market Exit for CI insurance of Urban and Rural Residents" (five measures), 9 October 2016.

<sup>33</sup> The "China Life Insurance Experienced Critical Illness (CI (2006-2010) Table)", effective 31 December 2013. The illnesses are in line with the "Definition of Critical Illness" issued by China Insurance Association.

<sup>34</sup> High-cash-value insurance products refer to those satisfying the following criterions: (1) the sum of the cash value and cumulated survival benefits at the end of the second policy year exceed the cumulated premiums paid; and (2) over 60% insurance policies are expected to persist no more than three years. Investment-linked products and variable annuities are excluded.

<sup>35</sup> "Notice on Extending the Pilot Period of Elderly Housing Reverse Mortgage Pension Insurance and Expanding the Pilot Scope", 7 July 2016.

<sup>36</sup> Ibid.

# Life and health insurance

- A pilot long-term care insurance system shall be operated in 15 cities including Shanghai, Ningbo, Qingdao, etc<sup>37/38</sup>. The pilot will focus on care needs in basic daily life.

## Compulsory insurance

- None

## Taxation

- Effective 1 May 2016, VAT has replaced the Business Tax (BT) for the insurance industry, as jointly announced by the MOF and the State Administration of Taxation (SAT) in the Notice Regarding the Final Stage of the Value-added Tax (VAT) Pilot Arrangements (Taxation [2016] "Circular 36") on 23 March 2016. The rationale for the government to implement VAT reform was to avoid existing issues of double taxation, and to boost investment in the service industry. The applicable VAT rate for life insurers is 6% and for most intermediaries, 3%. Specific lines, including agricultural, export credit, export product liability, export cargo, international shipping<sup>39</sup> and long-term life, health and pension insurance, are exempt from VAT. Claims received by the insured are not liable for VAT.
- Effective 1 July 2017, the "Commercial health insurance with individual income tax (IIT) deductible" policy has been expanded across the whole country<sup>40</sup>, with the following conditions:
  - Qualifying commercial health insurance products for IIT deduction should have a protection function, taking the form of universal insurance with minimal guaranteed income, including liabilities of medical insurance and personal account accumulation.
  - Individuals who filed IIT in pilot regions are eligible for tax deduction, with an annual cap of CNY 2400 (or CNY 200 per month) in purchasing qualifying IIT deductible commercial health insurance products. Where the qualifying health insurance products are purchased by an employer for their employees, the expense of a limit of CNY 200/month can be deducted.

## Market overview

### Market structure

- As at September 2017, there was 1 foreign life branch in China, 27 Sino-foreign joint ventures, and 55 domestic companies (including six health and seven pension insurers; China Life and its run-offs are treated as a single entity). New market participants include:<sup>41</sup>
  - New China Pension received regulatory approval to operate in September 2016, with headquarters in Beijing.
  - The CIRC approved Hengqin Life to operate in December 2016, with headquarters in Guangdong Province and registered capital of CNY 2 billion.
  - In 2017, as of November the CIRC had approved six life and health insurers for operation: Fosun Health in Guangdong (in January), Hetai Life in Shandong (January); Huagui Life in Guizhou (February); a first life mutual insurance company, the Trust Mutual Life (信美人寿相互保險社) in Beijing (May); Aixin Life in Beijing (June), and Merchants Renhe Life in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (June).

<sup>37</sup> The "Guiding Opinions on Carrying out the Pilot Long-term Care Insurance System", issued by the Ministry of Human Resources and Social Security of the PRC, 27 June 2016.

<sup>38</sup> Pilot cities include Shanghai, Chengde (Hebei), Changchun (Jilin), Qiqihar (Heilongjiang), Nantong (Jiangsu), Suzhou (Jiangsu), Ningbo (Zhejiang), Anqing (Anhui), Shangrao (Jiangxi), Qingdao (Shandong), Jingmen (Hubei), Guangzhou (Guangdong), Chengdu (Sichuan), Shihezi (Xinjiang Production and Construction Corps), where Jilin and Shandong are primary pilot provinces.

<sup>39</sup> (1) Underlying insurance provided by insurance companies incorporated in Shanghai and Tianjin;

(2) underlying insurance provided for companies incorporated in the Shenzhen (Qianhai) - Hong Kong Modern Service Industry Cooperation Zone by insurance companies incorporated in Shenzhen; (3) underlying insurance provided for companies incorporated in Pingtan County by insurance companies incorporated in Pingtan County (平潭县, is a county comprising 126 islands in the Taiwan Strait, under the administration of Fuzhou).

<sup>40</sup> Taxation [2017] No. 39 ("Circular 39"), jointly released by MOF, SAT and CIRC to launch the reduction in Individual Income Tax (IIT) policies for commercial health insurance, effective from 1 July 2017.

<sup>41</sup> This information are taken from companies' websites.

# Life and health insurance

- Market share in terms of premium income,<sup>42</sup> based on unaudited CIRC statistics for January to September 2017:
  - The top five companies had a 52.90% market share in terms of premium income (China Life includes its run-off income).
  - The total share of foreign/JV was 6.87%.
  - China Life (including its run-off), Ping An Life and Anbang Life are the top three insurance groups, with market shares of 19.88%, 13.16% and 8.36%, respectively.
- There are 10 insurance groups (PICC, China Life, China Re, Tai Ping, Ping An, CPIC, Taikang, Sunshine, Huatai and Anbang) and two holding companies (China United and Funde Insurance) in China.
- An increasing number of banks have invested in insurance companies over the years.

## Premiums and portfolio split

- Total life insurance premiums are estimated to have increased to CNY 2 700 billion in 2017 (2016: CNY 2 169 billion). Adjusted for inflation, this represents another sequential increase of 22.5% from 2016. Growth was driven by increasing penetration of personal accident and health insurance, robust demand for protection-typed life insurance, expanding sales through new distribution channels (including the internet), and lower surrenders.
- The statistics available on new business and per line of business show that in 2016:
  - New business totalled CNY 1.39 trillion (of which 30.65% was single premiums), or 63.97% of life insurers' premium income.
  - Individual business constituted the majority of life insurance business.
  - The combined share of participating, unit-linked and universal life policies in total ordinary life premiums decreased from 49% in 2015 to 41% in 2016.
  - Ordinary policies dominate the life insurance market. Within the ordinary segment, traditional life policies had a 58.5% share of total ordinary life premiums in 2016, and participating policies a 38.5% share of total ordinary.
  - Personal accident and health insurance accounted for 17.7% of life and health premiums in 2016, up from 16.5% in 2015.

## Distribution

- Effective from early August 2015, the CIRC removed the qualification examination and certification for insurance intermediaries, in accordance with the work plan on simplification of administrative issues initiated by the State Council. In doing so, the CIRC has put the responsibility of managing intermediaries on to individual insurance companies. Provincial CIRC offices will also play a bigger role in ensuring qualified insurance intermediaries.
- The number of life insurance sales/agents increased significantly in first half of 2017, up 0.88 million persons to 7.45 million. Of those, 55.24% were tied to the Big 4 (China Life, Ping An, CPIC and New China Life). The increase was supported by the relaxed regulations on qualification and certification.
- To improve the professionalism of insurance intermediaries, the CIRC has strengthened the regulation and supervision, especially of sales agents and cross-sector distribution.
- With effect from 27 April 2013, the minimum capital to establish an insurance broker and insurance agency company has been CNY 50 million. To regulate market access of insurance intermediaries, the CIRC issued the "Notice on Further Regulation of Market Entry of Insurance Intermediaries" on 26 June 2012, which states that new intermediary licences will only be issued for the following: (1) insurance intermediary groups; (2) insurance agencies or brokers with registered capital of CNY 50 million, set up by auto industry companies, banks, China Post or insurance companies; and (3) branch offices of an existing nationwide agency or broker.
- Since AIA's entry into the Chinese life insurance market and the introduction of the agency system in 1992, tied agents have remained an important mode of

<sup>42</sup> Effective 1 January 2011, measurement of premium income follows Chinese GAAP accounting standards, which require premium recognition based on a substantial insurance risk test and on the reserve calculation principle for financial reporting.

# Life and health insurance

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distribution. Life premiums distributed through tied agents accounted for 46.2% of the total in 2016.

- After four years of a micro-insurance pilot programme that the CIRC launched in June 2008 to encourage insurers to develop micro-insurance products, especially for rural populations, the regulatory authority issued the "Scheme for the Overall Promotion of Micro Life Insurance" on 12 June 2012. This relaxed the qualification review of micro life insurance service providers in order to encourage segment development nationwide.
- Direct sales such as telemarketing, mailings and e-channels have gained popularity in recent years and are being tested by several companies.
  - E-commerce is gaining popularity in China. So far, a significant number of insurers including China Life, Ping An Life, and New China Life have made use of e-channels to distribute motor, enterprise property, household property, liability, marine cargo, life, health and accident insurance.
  - According to report issued by the Warp Speed Capital and InsurView, total insurance premiums (both non-life and life) generated through internet sales reached CNY 234.7 billion in 2016, up 5% from a year earlier.
  - For life insurers, online premiums were CNY 194.5 billion in 2016, accounting for 8.7% of total life premiums (2015: 6.1%).
  - The number of insurers engaging in internet business increased from 110 in 2015 to 117 in 2016, of which 85 were life insurers.
- Life insurance brokers play a small role in China. They generated just 0.56% of total life premiums in 2016 (0.54% in 2015). Life insurance agencies wrote 0.54% of total life premium (0.55% in 2015).
- Effective 1 January 2009, a categorisation and supervision system similar to the one for insurance companies, was introduced for insurance brokers and agencies. Intermediaries are classified as either: (1) requiring on-site inspection; (2) requiring attentive off-site inspection; or (3) requiring general off-site inspection. In principle, no less than 5% of all intermediaries should fall into the first category and no less than 20% should fall into the second.

## Premium growth and results

- Life and health premiums grew by 34.1% in real terms in 2016 after a 23.2% gain in the preceding year.
- Traditional and universal policies were the key drivers behind business growth in 2016 (+55.3% and +443.7% respectively). The participating life products (+7.3%) and unit-linked (+7.2%) segments also contributed. The huge growth in the universal life segment was in part due to liberalisation of investment regulations and interest rate caps by the CIRC, which allowed some life insurers to repackage universal life insurance from long-term flexible savings products into a kind of short-term, high-yielding wealth management product.
- Health and personal accident insurance saw a robust growth of 49.2% and 34.5% in 2016, respectively. This gain was due to increasing insurance awareness and the national healthcare scheme promoted by the government.
- Tailored products are increasingly being offered to the affluent middle class in urban China.

## Current market concerns and opportunities

- On 18-24 October 2017, China held the 19<sup>th</sup> National Congress of the Communist Party in Beijing. President Xi Jinping's messages throughout the Congress focussed on a pivotal vision for China's all-round development, while at the same time confirming a strong commitment to reforms to redress various imbalances and sustain China's long-term development.
  - The Congress laid out plans to increase the number of the middle-income households and improve disposable income of low-income groups over next few decades. Rising incomes and asset ownership will likely favour non-life personal lines, but some life and health insurance products should also benefit. However, the impact will likely materialise only gradually.
  - The Congress highlighted the need to deepen medical reforms and strengthen basic medical institutions/infrastructure across the country. Closing the mortality and health protection gap remains a key concern
  - The aging issue has not escaped the attention of the Congress. China will encourage the development of more old-age healthcare and pension plans.

## Life and health insurance

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Re/insurers have a unique opportunity to design post-retirement health, risk financing, and LTC solutions to address the changing social dynamics.

- China implemented a VAT reform in the insurance sector in May 2016. This will be largely neutral for life insurers in the short-term:
  - Limited impact on premium revenue. The premium tax base for VAT is the same as that for business tax (BT), but the overall VAT tax rate (6.34%, surcharges included) is higher (BT is 5.5%, surcharges included). For life insurance, it is estimated that 80-95% of premiums will be tax-free.
  - Slightly higher tax liability from investment income. The tax base for investment income is the same under for VAT and BT. But given the VAT tax-rate (surcharges included) is 6.34% (higher than the 5.5% BT rate), the tax amount is likely to be slightly higher. Also, interest from corporate bonds and dividends from equities may be subject to VAT.
  - Most expenses are not deductible. As most of insurers' expenses are either paid to individuals (through claims, commissions to individual agent and staff expenses) or on a non-cash basis (reserves), these usually cannot be deducted from VAT.
- The government is expected to continue to support insurance growth, particularly in areas like health and LTC insurance.
  - Alongside the focus on a "Healthy China" initiative laid out in the 13<sup>th</sup> Five-year Plan, China has been reforming its healthcare system, which has supported growth in health insurance. Since the launch of IIT deduction for commercial health insurance, the market has developed considerably. However, medical insurance still accounts for relatively small share of overall insurance premiums.
  - Health insurers may continue to face challenges given their lack of bargaining power vis-à-vis medical services providers in diagnosis and treatment costs.
  - A pilot scheme aims to explore the appropriateness of a national LTC structure including the scope of cover, premium rates and the claims system. The aim is to come up with a viable structure within one to two years, or by the end of 13<sup>th</sup> Five-year Plan (ie, 2020).
- In October 2017, following a summit meeting between President Xi Jinping and US President Donald Trump, the Chinese government announced that it will relax or eliminate foreign ownership limits in the commercial banking, securities, futures, asset management and insurance industries. In life insurance, the cap on foreign stakes in joint ventures will be raised to 51% in three years, and removed entirely in five years.

# Life and health insurance

## Life insurance companies, January to September 2017

Domestic insurer	Direct premiums* CNY m	Market share %	Foreign insurer / JV	Direct premiums CNY m	Market share %
China Life**	449 989.0	19.88%	ICBC-AXA	35 922.5	1.59%
Ping An Life	297 907.1	13.16%	Ever Grande Life	21 991.9	0.97%
Anbang Life	189 303.8	8.36%	AIA	15 330.1	0.68%
China Pacific Life	153 345.5	6.77%	BoComm Life	12 596.2	0.56%
Tai Kang	101 741.1	4.49%	CIGNA & CMC	9 386.3	0.41%
PICC Life	98 146.7	4.34%	Citic-Prudential	9 036.7	0.40%
Taiping	97 757.8	4.32%	Metlife	7 246.5	0.32%
New China Life	89 840.3	3.97%	Generali-China Life	7 161.9	0.32%
Huaxia Life	74 194.7	3.28%	Aviva Cofco	5 956.8	0.26%
Sino-Life	71 124.5	3.14%	Manulife-Sinochem	4 998.1	0.22%
Sunlight Life	42 381.4	1.87%	Huatai Life	3 559.2	0.16%
Tian An Life	41 470.0	1.83%	BOB-Cardif Life	3 193.7	0.14%
Guohua Life	40 330.9	1.78%	Allianz	3 065.7	0.14%
China Post Life	37 838.0	1.67%	BOC-SAMSUNG Life	3 017.8	0.13%
Hexie Health	35 971.8	1.59%	AEGON CNOOC	2 114.8	0.09%
Qian Hai Life	28 620.9	1.26%	Heng An Standard	2 079.3	0.09%
Aeon Life	26 513.4	1.17%	PKU Founder Life	1 676.8	0.07%
CCB-Life	25 073.4	1.11%	Ping An Health	1 657.5	0.07%
Junkang Life	22 729.8	1.00%	GWCS Life	1 240.5	0.05%
ABC Life	22 531.8	1.00%	Lujiazui Cathy Life	1 163.0	0.05%
Union Life	19 980.7	0.88%	HSBC Life	966.5	0.04%
PICC Health	17 820.9	0.79%	King Dragon Life	692.3	0.03%
Happy Life	17 689.4	0.78%	Pramerica Fosun Life	452.5	0.02%
Ping An Annuity	14 361.1	0.63%	Sino-Korea Life	366.9	0.02%
Sinatay Life	9 956.1	0.44%	ERGO Life	318.7	0.01%
Min Sheng	9 142.5	0.40%	Old Mutual-Guodian	268.6	0.01%
Zhujiang Life	8 976.7	0.40%	Shin Kong & HNA Life	74.0	0.00%
Li An Life	8 141.7	0.36%	Sino-French Life	0.2	0.00%
Shanghai Life	6 036.5	0.27%			
China Life Run Off	5 368.9	0.24%			
Ji Xiang Life	5 186.1	0.23%			
Soochow Life	4 999.0	0.22%			
Taikang Pension	4 594.4	0.20%			
Sunlife-Everbright	4 575.2	0.20%			
Great Wall Life	4 073.7	0.18%			
Taiping Pension	3 814.6	0.17%			
Bohai Life	3 554.3	0.16%			
ZhongRong Life	3 168.0	0.14%			
Ying Dai Tai He	2 961.9	0.13%			
Hong Kang Life	2 718.2	0.12%			
Kunlun Health	1 242.0	0.05%			
Anbang Pension	765.6	0.03%			
Guolian Life	733.1	0.03%			
Trust Mutual Life	359.5	0.02%			
Hengqin Life	309.0	0.01%			
China Life Insurance	291.5	0.01%			
Huagui Life	243.5	0.01%			
Sino-Conflux Life	227.3	0.01%			
Merchants Renhe Life	212.3	0.01%			
CPIC Allianz Health	121.6	0.01%			
Fosun Health	33.9	0.00%			
Hetai Life	29.4	0.00%			
Aixin Life	1.9	0.00%			
China Life Pension	0	0.00%			
Chang Jiang Pension	0	0.00%			
New China Pension	0	0.00%			

## Life and health insurance

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Domestic total*	2 108 502.6	93.13%
Foreign/JV total	155 535.0	6.87%
Grand total	2 264 037.6	
Top five market share*		52.90%
Top ten market share		71.94%

Note: \* Effective 1 January 2011, premium income measurement follows Chinese GAAP accounting standards, which require a substantial insurance risk test for premium recognition, and the reserve calculation principle for financial reporting.

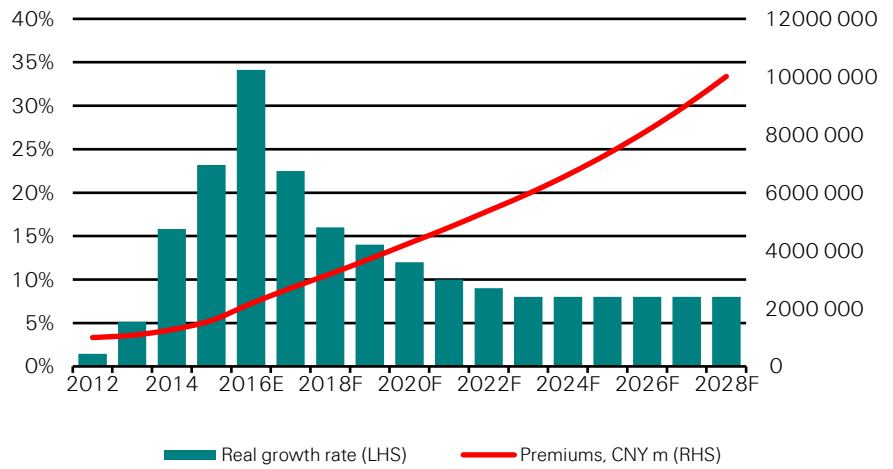
\*\* China Life and China Life Run Off are counted as one company. China Life run-off business is reported separately. There are seven pension insurers – Ping An, Taiping, Anbang, China Life Pension, Chang Jiang, Taikang and New China Life.

Note: Their revenue was booked as annuity contributions within the CIRC database. The CIRC's unaudited statistics may differ slightly from financial data in the Yearbook and in the CIRC Annual Report. Multiple branches are grouped into a single entity in this table.

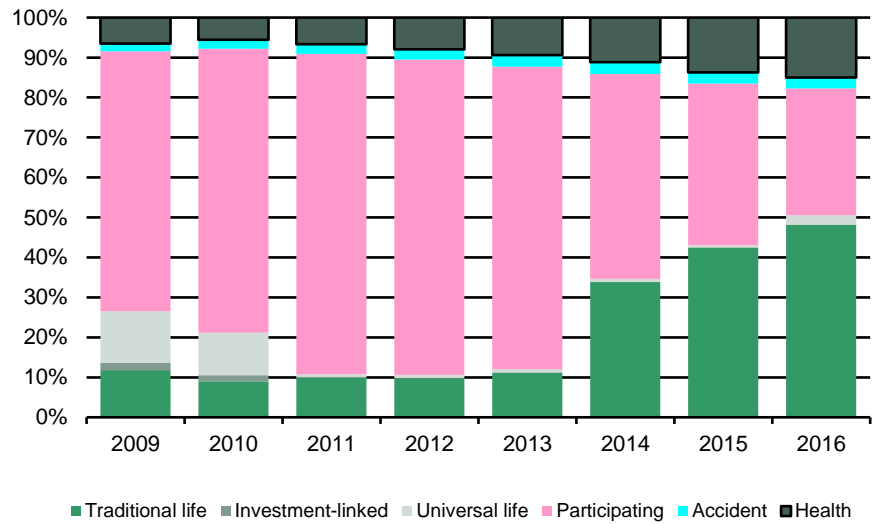
Source: CIRC website.

# Life and health insurance

Life insurance premiums



Life insurance premiums by business line, 2016



Sources for all charts on this page: China Insurance Development Bluebook (various years), China Insurance Yearbook (various years), Swiss Re Institute.

# Life and health insurance

## Life and health insurance premiums (2014-2028F)

	2014	2015	2016	2017E	2018F	2019F	2020F	2028F*
<b>Life premiums</b>								
USD billion	206	252	327	399	484	566	648	977
CNY billion	1 269	1 586	2 169	2 700	3 192	3 715	4 256	6 524
- average real growth rate	15.8%	23.2%	34.1%	22.5%	16.0%	14.0%	12.0%	9.3%
Premiums/GDP (%)	2.0%	2.3%	2.9%	3.3%	3.6%	3.9%	4.1%	4.6%
Premiums per capita, USD	148	181	233	283	342	398	455	681
<b>Life insurance premiums by business line</b>								
Direct premiums, CNY billion								
Life total	1 269	1 586	2 169	2 700	3 192	3 715	4 256	6 524
- Ordinary	1 090	1 324	1 785	2 282	2 720	3 181	3 649	5 479
- Traditional life	430	673	1045	-	-	-	-	-
- Unit-linked	0.38	0.36	0.39	-	-	-	-	-
- Universal life	9	10	52	-	-	-	-	-
- Participating	651	641	688	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
- Accident	37	44	59	71	83	93	104	157
- Health	142	218	325	347	389	441	503	889
<i>Average growth rate</i>								
Life total	18.1%	25.0%	36.8%	24.5%	18.2%	16.4%	14.6%	18.7%
- Ordinary	15.7%	21.5%	34.8%	27.8%	19.2%	17.0%	14.7%	18.3%
- Traditional life	258.0%	56.6%	55.3%	-	-	-	-	-
- Unit-linked	-13.5%	-5.5%	7.2%	-	-	-	-	-
- Universal life	4.4%	4.4%	443.7%	-	-	-	-	-
- Participating	-20.0%	-1.5%	7.3%	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
- Accident	19.4%	17.5%	34.5%	20.4%	17.2%	12.3%	12.5%	16.5%
- Health	40.8%	54.0%	49.2%	6.7%	12.1%	13.3%	14.1%	22.5%

\*Average growth rate for the multi-year period (2019-2028). Inflation-adjusted growth rate based on local currencies. CNY/USD refers to onshore exchange rate of Chinese yuan against the US dollar.

Sources: China Insurance Development Bluebook (various years), China Insurance Yearbook (various years), Swiss Re Institute.

# Appendix I: Insurance investment regulations

Investment regulations				
	Type of assets	Investment	Investment limitation (total investment in one type/insurer's asset)*	Concentration limitation (total investment in one asset/insurance company's total asset)*
Domestic assets	Liquidity	Cash, money market funds, bank current deposits, bank notice deposits, money market asset management products; and government bonds, quasi-government bonds, reverse repo agreements with maturity less than 1 year.	No restrictions	
	Fixed-income	Bank deposits, bank deposit agreement, bond funds, fixed-income insurance asset management products, financial companies (corporate) bonds, non-financial corporations (corporate) bonds and government bonds, quasi government bonds with residual maturity of over 1 year.	No restrictions	(1) 5% for a single asset <sup>43</sup> . - The total balance of insurance investment in a single fixed-income asset, equity asset, real estate asset and other financial asset shall not exceed 5% of total assets of the insurance company at the end of the previous quarter.
	Equity <sup>44</sup>	For those listed domestically, equity assets include stocks, stock funds, hybrid funds, equity insurance asset management products	30%; 40% for blue-chip stocks <sup>45</sup>	- Except for central government bonds, quasi-government bonds, bank deposit in domestic markets, major equity investment, and insurance-type corporate equity investment by own fund, real estate for own use and internal purchase of asset management insurance products. (2) 2% for a single VC fund. (3) 10% for a single blue-chip stock <sup>19</sup> . (4) 20% for a single corporate entity. - The total balance of insurance investment in a single corporate entity shall not exceed 20% of total assets of the insurance company at the end of the previous quarter.
		For those unlisted, equity assets include equity of unlisted companies, equity investment funds and related financial products, and venture capital fund.		
	Real estate	Real estate, infrastructure investment plan, real estate investment plans, real estate related insurance asset management products and other real estate related financial products	30%; 50% for own use.	
Other financial assets	Commercial bank financial products, credit asset-backed securities (ABS) by banking institutions, trust companies' trust plans of assembled funds, securities companies' special asset management plans, insurance asset management companies' asset-backed project plans, other insurance asset management products	25%		
Foreign assets (Oversea investment)	Liquidity assets	Current account, money market funds, overnight lending; and commercial bills, bank exchange bills, negotiable certificates of deposit (NCD), reverse repo agreements, short-term government bonds, government-backed debt securities, international financial organizations bonds, corporate bonds, convertible bonds with remaining maturity of more than 1 year, and others.	15%, for listed 45 national or regional financial markets	
	Fixed-income assets	Bank deposits, structured deposits with bank guaranteed commitments, fixed-income securities investment funds and government bonds, government-backed debt securities, international financial organizations bonds, corporate bonds, convertible bonds with remaining maturity of more than 1 year, and others. Bonds are required to have "BBB-" rating or above.		
	Equity assets	For those listed overseas, equity assets include main board stocks from listed countries and stocks from Hong Kong's Growth Enterprise equity market.		
		For those unlisted, equity assets include equity of unlisted companies, equity investment funds and related financial products, and venture capital fund.		
	Real estate	Commercial real estate, office real estate and real estate investment trusts (REITs), and others.		
Others	Structured deposits without bank guaranteed commitments, and others			
Private Equity (PE)	Insurance capital can be used to form private equity funds, including growth funds, buyout funds, funds for strategic emerging industries,		(i) The expected investment scale of the reserve projects for which the proposal has	

<sup>43</sup> Except VC fund.

<sup>44</sup> Insurance asset management companies should not demand early repayment from brokers for debt products on margin financing.

<sup>45</sup> The insurance companies that can invest in blue-chip stocks higher than 30% of "investment limit" and 5% in "concentration limit" are required to have solvency ratio no less than 120% at the end of last quarter and the share of blue-chip stocks in equity investment is no lower than 60%.

## Appendix I: Insurance investment regulations

	<p>mezzanine funds, real estate funds, venture capital funds, and fund of funds (FOF) mainly investing in the aforesaid funds.</p> <p>PE fund shall be mainly invested in national priority industries and fields, including but not limited to major infrastructure projects, shantytown renovation, construction of new urbanization projects, and other livelihood projects and national key projects; sci-tech enterprises, small- and micro-sized enterprises, strategic emerging industries, and national priority enterprises or industries; and pension service, health and medical service, security service, Internet financial services, and other industries and businesses in line with the extension of the insurance industry chain.</p>	<p>been completed shall cover at least 20% of the amount of funds to be raised;</p> <p>(ii) The associated insurance institutions shall invest or subscribe not less than 30% of the amount of funds to be raised;</p> <p>(iii) PE fund shall be equipped with an exclusive investment management team and, during the investment period have at least three investment managers with over 3 years of experience in the related field.</p>
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\*Note:

- "Investment limitation" refers to the upper limit (i.e. the maximum ratio) of total insurance investment in any one type of assets to insurance company's total assets at the end of previous quarter.
- "Concentration limitation" refers to the upper limit (i.e. the maximum ratio) of total insurance investment in any single asset to insurance company's total assets at the end of previous quarter.
- Under the Qualified Domestic Institutional Investor (QDII) Scheme, 29 insurers on individual base, including Ping An Group, China Life Group, PICC Group, CPIC Group, and China Re Group have obtained regulatory approval to invest in H-shares, red chips and the offshore debt instruments issued by Chinese state-owned enterprises in Hong Kong.

Source: China Insurance Regulatory Commission; Swiss Re Institute.

## Appendix II: Commercial insurance

### Market overview

#### Market structure

- There is no official data on the size of China's corporate insurance market. Large domestic insurers are believed to be the dominant players. Foreign insurers have formed close ties with multinationals that have branches and subsidiaries in China.
- In purely commercial lines such as marine, transit, aviation and machinery, PICC has a leading position. Other domestic insurers, including China Pacific Property, China Continental, Ping An P&C, China United and Huatai, also have significant market shares. Large domestic insurers are believed to have strong ties to major domestic corporations.
- A specialist Shanghai Institute of Marine Insurance (SIMI) was founded on 26 December 2013, with a total 39 insurers and brokers as members. This includes 25 insurers with marine insurance business in Shanghai. On 15 May 2014, the CIRC issued the "Notice on Further Simplifying Administration Examination and Approval to Support the Development of the Shanghai Pilot Free Trade Zone", highlighting that the SIMI has the authority to approve new marine insurance products in the Shanghai FTZ.
- Foreign insurers had a share of 1.98% of total non-life business during the period of January-September 2017 (full year of 2016: 2.04 %). In 2016, motor, commercial property, liability, cargo and other commercial lines premiums made up 90.3% of foreign non-life insurance business. AXA Tianping, Groupama -AVIC, and AIG (formerly Chartis) are the major players with an estimated 60% of all corporate premiums collected by foreign insurers. In 2016, foreign insurers had a market share of 14.51 % in Beijing, 13.72% in Shanghai, 7.04% in Shenzhen and 10.8% in Guangzhou.
- China commercial insurance premiums were USD 59 billion in 2016 (43% of total P&C insurance premiums), the second biggest market globally after the US (USD 301 billion in premiums written).<sup>46</sup>

#### Premiums, portfolio split

- Domestic and foreign companies have different attitudes towards commercial risks. A significant number of domestic enterprises are uninsured or under-insured (ie, only to the extent required by their banks), while foreign companies, by contrast, are normally insured on an all-risks basis including earthquake.
- Based on the research by Swiss Re Institute,<sup>47</sup> the penetration of commercial insurance is only 0.5% in China (world average 1.0%; mature markets 1.3%; emerging markets 0.5%).
- According to *sigma* research, there are vast differences in the volume of insurance spending in relation to revenues for the differently sized groups. When looking at the US, larger corporations there have lower relative insurance costs than medium-sized and small ones. The main reason is that large companies are able to make more extensive use of the alternative risk mitigation solutions, including captives or qualified self-insurance. However, in China, the large corporation is an important buyer of commercial insurance because ART is still underdeveloped, despite the regulator's approval of the establishment of a captive insurer by CNPC in Karamay, Xinjiang Uygur Autonomous Region.
- Two methods can be deployed to estimate the size of the market:
  - Based on China's GDP (CNY 744137 billion) and non-life insurance penetration (1.81 %) in 2016, it is estimated that total non-life insurance premiums paid by private corporations in China could stand at CNY 1 347 billion in 2016 (2015: CNY 1 103 billion).
  - According to the China Insurance Yearbook 2017, net premiums received by direct insurers for commercial line insurance in 2016 totalled CNY 139 billion (commercial property CNY 38 billion, hull CNY 5 billion, cargo CNY 9 billion, credit CNY 20 billion, guarantee CNY 18 billion, engineering CNY 9 billion, general liability CNY 36 billion, and special risk CNY 4 billion). Corporations also paid premiums for other lines of business, such as automobile, possibly totalling CNY 340 billion.<sup>48</sup> Collectively, the total corporation insurance market could be valued at CNY 479 billion.

<sup>46</sup> *sigma* No. 5/2017: Commercial insurance: innovating to expand the scope of insurability, Swiss Re Institute.

<sup>47</sup> *Ibid.*

<sup>48</sup> Companies also paid premiums for life and health insurance, but these are not the focus here.

## Appendix II: Commercial insurance

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- The baseline estimate for the corporate non-life insurance market in 2016 makes use of the average of the two estimates above to come up with a size estimate of CNY 913 billion (2015: CNY 773 billion).

### Distribution channels

- The strong tie between large domestic corporations and local insurers implies that intermediaries play a minor role in the corporate market.
- Compared with western markets, international brokers do not play a significant role in corporate insurance in China. Most of the top brokers are domestic companies.

### Premium growth and prospects

- According to the latest data from the China Enterprise Confederation/China Enterprise Directors Association, the total turnover of the 2016 Top 500 Chinese Enterprises reached CNY 64 trillion, up 7.6% from 2015.
- As China is a developing market, and with strong government support to increase insurance penetration,<sup>49</sup> non-life insurance is forecast to grow by on average 7.5% annually between 2019 and 2028, in real terms. The commercial insurance market, however, is lacking in terms of sophistication and product penetration.<sup>50</sup>
- On the other hand, commercial insurance is expected to grow faster due to:
  - More foreign ownership of Chinese companies and better risk management.
  - Increased financial management sophistication on the part of insureds.
  - Changes in Chinese accounting and globalisation of compliance standards.
  - Chinese companies increasingly recognising their uninsured exposures and evaluating options for coverage (eg, earthquake shock, earthquake/business interruption). Government pressure is also increasing for companies to close their uninsured exposures gap.
  - Urbanization would act as the engine for macro-economic growth, and will bring new opportunities for commercial insurance during the construction phase of infrastructure projects. Post-construction, recurrent insurance demand will likely also remain strong.
  - Supporting policies to drive development of commercial lines, like emerging industries listed in the 13<sup>th</sup> FYP, and relevant industries benefit from "one belt, one road" initiative.
  - Belt & Road Initiative is expected to trigger a new wave of construction activities and trade liberalisation, driving insurance premium growth both in China and abroad based on the Sigma expertise research.<sup>51</sup>
- China is becoming an increasingly active outward investor, to acquire new technologies<sup>52</sup> and to secure supplies of raw materials.<sup>53</sup> Overseas expansion is also encouraged by the State Council's "Going Out" policy, which aims for greater integration with the world economy. China's outward non-financial FDI in 2016 was USD 170.1 billion, up 44.1% y-o-y, with growth for 13 consecutive years. By the end of 2016, Chinese firms invested in 53 B&R countries, amounting to USD 14.53 billion, down by 2.0% y-o-y. Chinese enterprises have actively invested in leasing/business service, manufacturing, IT/software & Information services in 2016, up by 81.4%, 45.3%, and 173.6% y-o-y respectively.
- The government is promoting the development of Shanghai as a marine insurance centre. To this end, any form of marine policy issued in Shanghai is exempt from business tax and municipal tax surcharges. This exemption applies to marine cargo, air cargo, marine hull and marine liabilities.
- Considering the above, non-life commercial insurance premiums are forecast to grow by an annual average of 9% in real terms over the next decade.

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<sup>49</sup> For details, see New Directives in Non-life Insurance part.

<sup>50</sup> As regards, for example, earthquake and business interruption insurance.

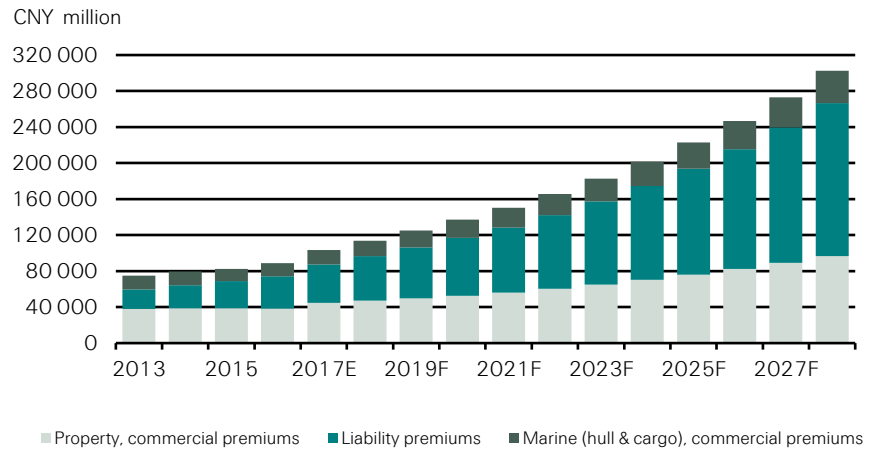
<sup>51</sup> See Swiss Re, "China's Belt & Road Initiative, and the impact on commercial insurance", October 2016.

<sup>52</sup> For example, Lenovo's takeover of IBM's personal computer division and Nanjing Automobile's takeover of the British Rover car manufacturing group.

<sup>53</sup> Examples include purchases of South American mining assets and joint venture developments of Iranian oil and gas fields.

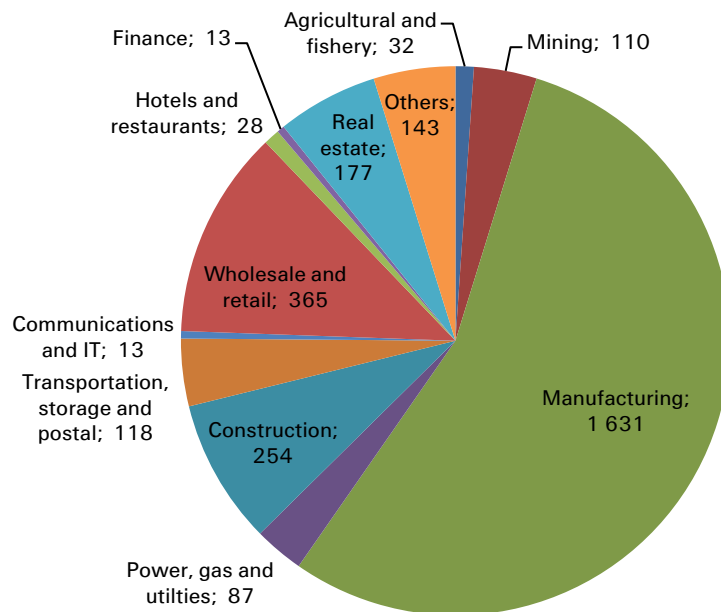
## Appendix II: Commercial insurance

### Non-life commercial insurance



Sources: Yearbook of China Insurance Market 2017; Swiss Re Institute.

### Number of enterprises with capital greater than CNY 500 million, 2008 (Total = 2 971 units)



Source: National Bureau of Statistics of China Large Corporations of China 2008; Swiss Re Institute.

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