

Foreign insurance companies in China September 2008



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Foreword

Welcome to the second PricewaterhouseCoopers survey on foreign insurance companies in China. We are very pleased that 28 foreign insurance companies agreed to participate in the survey. The objectives of the survey is to continue to:

- Find out how companies themselves see the market issues facing them in China;
- Get a consensus view on industry trends;
- Understand the thinking of Chief Executive Officers in the China insurance industry;
- Provoke discussion and debate on the best options open to foreign insurance companies for capitalising on current trends;
- Provide industry views on how insurance in China may evolve over the next three years.

The survey includes observations on the changes in China's market place, the risks, the development of the regulatory environment, future opportunities and how the participants in the survey rate their competitors.

2008 has been an eventful year for the insurers in China. Because of the natural disasters, the heavy snow storms in early 2008 and the earthquake in May, the general awareness and accordingly the demands for all insurance protection have increased. On the other hand, the significant decline in capital market so far this year has negatively impacted on the investment returns and the marketing of investment products.



Mervyn Jacob
Financial Services Leader for
China and Hong Kong

September 2008

Foreign insurers operating in China continue to increase their market share and yet still account for less than 10% of the market, which is dominated by a small number of large domestic companies. These giants continue to improve their operations and drive how the market develops.

Both the existing domestic insurers and foreign insurers will face fresh challenges from banks. Four banks have been granted special approval from the State Council to acquire a stake in insurance companies. Since bancassurance has been growing as a major distribution channel to many insurers, this latest development will introduce new dynamics in the market.

Foreign insurers still have advantages from their global experience and scale, and add significant value to the market through their expertise. Our survey suggests that the domestic insurers (especially the giants) are gradually developing their own expertise and are catching up with the foreign insurers. In addition, a regulatory environment which is relatively restrictive to innovation or rapid development will further hold back breakaway success.

I would like to thank the Chief Executive Officers and Senior Executives who participated in this survey for their time and efforts in making this publication possible. I would also like to thank Dr Brian Metcalfe for his research and producing this report. We look forward to feedback on this survey and on topics to be included in future surveys on the China insurance industry.

To obtain further information, please contact the PricewaterhouseCoopers insurance industry specialist partners. They are listed at the back of this survey.

About the author

Dr Brian Metcalfe is an Associate Professor in the Business School at Brock University, Ontario, Canada. He has a doctorate in financial services marketing and has researched and produced over 30 reports, such as this one, on behalf of PricewaterhouseCoopers in 11 different countries including Australia, Canada, China, India, Japan and South Africa.

Previous reports have examined strategic and emerging issues in corporate, investment and private banking, life and property and casualty insurance, insurance broking and wealth management.

In June 2008 he authored the third report on Foreign Banks in China.

He has consulted for a wide range of organisations, including Royal Bank of Canada, Bank of Nova Scotia, Barclays Bank, Sun Life Insurance Company, Equitable Life of Canada and several major consulting firms.

He has taught an executive management course entitled "Financial Services Marketing" at the Graduate School of Business, University of Cape Town.

This report was researched and written by Brian Metcalfe, Ph.D. Information presented herein, while obtained from sources believed reliable, is not guaranteed as to accuracy or completeness. This report has been commissioned by and distributed through PricewaterhouseCoopers.

Additional copies of this report can be obtained from Anna Lai of PricewaterhouseCoopers on +852 2289 8719 or at anna.th.lai@hk.pwc.com.

Executive summary

The insurance market continues to experience strong growth. The China Insurance Regulatory Commission (CIRC) has reported that property insurance premium income was RMB 130 billion in the first half of 2008 while premium income from life, accident and health insurance, was RMB 432 billion. The combined total of RMB 562 billion (US\$ 83.8 billion) represents a 51% increase over the previous period last year.

Despite this strong growth both China and India continue to display very low levels of insurance penetration. It has been estimated that general insurance premium against GDP is 1% in China (compared to 0.6% in India, 3.4% in the UK and 4.8% in the U.S.).* While life insurance premium against GDP is 1.7%, (compared to 4.1% in India, 8.3% in Japan, 13.1% in the UK and 4% in the US).*

Against the significant increase in China's GDP over the last decade, the potential for domestic and foreign insurers is therefore enormous.

This potential is fully recognised by the 28 foreign insurers participating in this survey. Despite the recent setbacks resulting from the stock market's decline and natural disasters, they remain optimistic about future demand. They also believe that as the market matures the expanding middle class will

increasingly recognise the need and value of insurance for both investment and protection. This is evident in their growth projections to 2011.

China's accession to the WTO in December 2006 paved the way to further opening up the market to foreign insurers. But the survey suggests that foreign insurers believe it is slow to enter and service the market in a way that would fully benefit Chinese consumers.

Chinese financial institutions including their insurers are expanding globally (for example, Ping An Insurance invested US\$ 65 billion to buy a 5% holding in the Belgian financial group, Fortis).

Foreign insurers would like to be placed on an equitable footing with their domestic counterparts. Life companies feel constrained by the joint venture structures which prevent foreign majority interest. Both life and property and casualty companies are chasing sales growth and argue that the slow branch approval process and a host of other restrictions is limiting market expansion.

The foreign insurers believe they can bring technology and experience in managing risk and controlling costs to this market which will, in turn, benefit the Chinese auto-insurance consumer.

In conclusion, the foreign insurers believe they continue to be hindered by barriers to market access. As the industry statements of American Chamber of Commerce and the European Chamber (included in the Appendices) attest, these barriers relate to general insurance, reinsurance, geographic expansion channels and products, auto-insurance, cross-selling enterprise annuities, joint venture and holding company structures, etc.

The foreign insurers participating in this report emphasised that several domestic insurance companies now represent formidable competitors.

They argue that increasing market access can only benefit both the individual and corporate Chinese consumer.

*Information sourced from www.ibef.org

This survey focuses on the strategic and emerging issues surrounding foreign insurance companies in China. The survey attempts to bring together diverse viewpoints and offer insights into this fast changing investment market.

The survey is based on interviews with CEOs and senior executives of 28 foreign insurance companies. Confidentiality is protected by not identifying individual responses.

The interviews were approximately one hour in length and were conducted in Beijing, Chongqing, Dalian, Guangzhou, Shanghai, Shenzhen and Tianjin in June and July 2008.

The following companies were interviewed:

Life insurance companies

- AEGON-CNOOC Life Insurance
- American International Assurance
- Allianz China Life Insurance
- Aviva-COFCO Life Insurance
- AXA-Minmetals Assurance
- CIGNA & CMC Life Insurance
- CITIC Prudential Life Insurance
- Generali China Life Insurance
- Great Eastern Life Assurance
- Haier New York Life Insurance
- Heng An Standard Life Insurance
- ING Capital Life Insurance
- Manulife-Sinochem Life Insurance
- United MetLife Insurance
- Nissay-SVA Life Insurance
- Pacific-Antai Life Insurance
- Samsung Air China Life Insurance
- Skandia-BSAM Life Insurance
- Sun Life Everbright Life Insurance

Property and casualty insurance companies

- AIG General Insurance
- AXA General Insurance
- Bank of China Insurance
- Liberty Mutual Insurance
- Mitsui Sumitomo Insurance
- Royal & Sun Alliance Insurance
- Sompo Japan Insurance
- Tokio Marine & Nichido Fire Insurance
- Zurich Insurance Company

The following findings are based on interviews with 28 foreign insurance companies that are considered to provide a valid representation of the 40 or more foreign insurance companies, currently active in the Chinese market. A foreign insurance company refers to one based outside Mainland China.

Drivers of change

The three most critical drivers of change in the insurance business are regulatory forces, capital markets and the domestic insurers. Several domestic insurers are now considered to be highly innovative in product development.

Pressing issues

The most pressing issues are centered on recruitment and training, profit performance and premium growth. The foreign insurers displayed increased concern in 2008 with regard to the domestic and global economies, the Chinese stock market and the appreciation of the Renminbi.

Chinese consumer and insurance

The increasing affluence and emergence of a middle class will stimulate recognition of the value of insurance as a vehicle for both investment and protection. But the foreign insurers contend that the process can be accelerated through insurance education programmes.

Competitive marketplace

The foreign insurers believe competition is intensifying in the market place. The life insurers view the savings market to be intensively competitive, while the property and casualty insurers hold similar views for enterprise property insurance. The dramatic decline in the stock market has had a profound impact on unit-linked products.

Bancassurance and other distribution channels

The foreign insurers believe the bancassurance channel will enjoy further market expansion, but they are unclear on how successfully their products will be allowed to compete with the banks' own proprietary insurance offerings. Telemarketing has already resulted in success for some foreign insurers and will receive increased attention. However, they have expressed less optimism on internet distribution.

Human resources

Human resources are a major concern for foreign insurers as they plan future growth and expansion. Twenty-two of the 28 participants awarded it a score of 8 or above on a difficulty scale of 1 to 10. It is difficult to hire across the board. Recruitment of senior executives, actuarial personnel, branch and middle management represents difficult challenges. As a result these areas will experience salary inflation at 15% or above in 2008.

Staff turnover compounds the human resource issue. In 2008, 68% of participants indicated turnover rates of 10% to 24%. This is not expected to change by 2011. A lack of talent also impacts on the foreign insurers' ability to achieve first rate compliance.

The most pronounced skill shortages are found in sales and marketing.

Risk management

The top risks identified by all foreign insurers were distribution channels, equity markets and investment performance. Risks that had the highest “rising” percentage were for the life companies, distribution channels, equity markets and new competitors. Property and casualty companies identified their key risks as management quality, corporate governance and pricing new risks.

The majority of foreign insurance companies believe that management of these risks is “mixed” and only 28% believe they manage these risks “well”.

Market share

Most foreign insurers believe that they will achieve 10% market share by 2011. There will be variations by geographic location and product offering. The majority of participants contend that the current total of just below 50 foreign insurers will expand to between 50 and 70 companies by 2011.

Foreign parents’ commitment

The parents of both the life insurers and the property and casualty insurers are strongly committed to the Chinese market. Twenty-seven respondents assigned a score of 8 or above, on a scale of 1 to 10, where 10 represents the highest level of commitment.

Successful markets

As a group the foreign life insurers record significant success on the savings dimension of life insurance. In other areas such as health insurance, personal accident and group insurance, they believe they have only achieved modest success. They attached great importance to the life insurance market over the next three years and placed it ahead of these other types of insurance.

A number of property and casualty companies believe they have been successful in cargo and transportation insurance and personal accident insurance. They attribute major importance to both these markets and assigned strong scores to health, auto, enterprise property and group business by 2011.

The foreign insurers’ five years strategies will continue to place a major emphasis on building alliances with Chinese partners.

Annual premium growth

The foreign insurers continue to emphasise sales growth. Most life insurance companies project annual premium growth in the 30% to 50% range. Several companies hope to double in size in 2008 and again in 2011.

The foreign property and casualty companies recorded more modest growth targets of 20% to 40% in 2008 and 2011.

Peer ranking summary

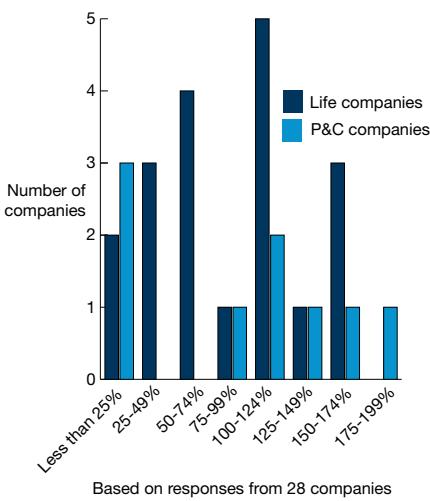
A summary of the top ranked foreign insurance companies is shown in the table below. Full details are shown later in the report.

	First	Second	Third
Life insurance – savings	AIA	Aviva-COFCO	CITIC Prudential
Life insurance – protection	AIA	Manulife-Sinochem	CITIC Prudential
Health insurance	AIA/AIG	Manulife-Sinochem	CITIC Prudential
Personal accident insurance	AIA/AIG	CIGNA & CMC	Manulife-Sinochem
Enterprise property insurance	AIU	Tokio Marine & Nichido Fire	Allianz/Chubb
Cargo, transportation insurance	Tokio Marine & Nichido Fire	AIU	Mitsui Sumitomo
Customer relationships	AIA	CITIC Prudential/ Manulife-Sinochem	Aviva-COFCO
Geographic expansion	CITIC Prudential	Aviva-COFCO	AIU
Innovation	AIU	Aviva-COFCO	United MetLife
Distribution effectiveness	AIU	CITIC Prudential	CIGNA & CMC
Marketing strategies	AIA	Aviva-COFCO	CITIC Prudential
Technically competent staff	AIA	Manulife-Sinochem	CITIC Prudential
Investment products	CITIC Prudential	United MetLife	Aviva-COFCO/ Skandia-BSAM
Group life	Aviva-COFCO	AIA/AIG	Generali
Group accident and health	AIA/AIG	Generali	Aviva-COFCO

These rankings are based on the perceptions recorded by the senior executives in the foreign insurance companies. A simple scoring method awarded three points to first place, two points to second and one point to third place. This allowed the foreign insurance companies to be ranked based on a total score. Foreign insurance companies were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance, presence and momentum) as opposed to mere size. They were not permitted to rank their own institution. Often foreign insurance companies would choose just to indicate first or second places.

Market environment

Projected growth in employment by 2011



Number of employees

The 19 life companies employed 14,370 people in 2008 and anticipate a 69% increase to 24,281 by 2011. This includes a 2011 estimate for one small company based on the overall respondents' average.

Five companies currently employ more than 1,000 employees and by 2011 this will increase to eight companies. Nine companies expect to more than double their employee number by 2011

Within the total of 14,370, there are 166 expatriate employees (1.1%) and this will grow modestly to 176 by 2011 (0.72%).

The nine property and casualty companies employ 3,480 and this is forecast to increase to 6,580 or 89.1% by 2011. Only one property and casualty company employs more than 1,000 people in 2008 and this will remain unchanged in 2011. Five companies anticipate a 100% growth or more in employment by 2011.

The nine property and casualty companies have 114 expatriate employees in 2008 and this will increase to 150 by 2011.

Number of branches and sub-branches and offices

The 19 life insurance companies have 115 branches in 2008 and anticipate the addition of 81 branches resulting in a total of 196 branches by 2011.

The nine property and casualty companies operate 33 branches increasing to 75 branches by 2011.

The life companies predict that they will expand their current total of 350

sub-branches and offices by 101% to 705 branches and offices by 2011.

The property and casualty companies will increase their 2008 total of sub-branches and offices from 105 to 263 by 2011.

Number of agents

The 19 life companies surveyed had 108,250 agents in 2008 and anticipate a 107% increase to 224,500 by 2011. Two companies do not use agents. Three companies have 10,000 or more agents. Twelve companies expect to at least double their number of agents by 2011.

The nine property and casualty companies had 632 agents in 2008 increasing to 1,730 by 2011. Three of these companies said they had no agents.

Number of policyholders

Eighteen of the 19 participating life companies were able to provide details of their 2008 policyholder numbers and a projection for 2011.

The participants have 4.1 million policyholders and expect a 117% increase to produce a total of 8.9 million policyholders by 2011.

Five companies predict that they will have one million or more policyholders by 2011.

The property and casualty companies also predict very buoyant growth. Six companies provided data and estimates were used for two additional companies using 2007 data.

*Under CIRC regulations a branch of a foreign insurance company can only conduct business within the territory of the province, autonomous region or municipality where the branch is located. However a foreign insurance company may also apply to establish a central sub-branch or sub-branch, operating office or marketing service office.

The property and casualty companies have 123,000 policyholders in 2008 and expect an increase of 422% to 642,500 policyholders by 2011.

Number of Corporate Policyholders

Eighteen life companies estimated that they have 6,653 corporate policyholders in 2008 and this will increase by 250% to 23,280 by 2011. Three companies have more than 1,000 corporate policyholders.

Eight property and casualty companies estimated that they have 37,100 corporate policyholders and expect to more than double this figure to 78,700 by 2011.

Gross Premium Income

Eighteen life companies indicated that gross premium income will expand from RMB 33.75 billion in 2008 to RMB 92.2 billion in 2011. This is a 173% increase.

Two companies project a 50% increase while 16 companies expect to at least double their gross premium income.

Four companies anticipate 300% growth or more by 2011.

Eight property and casualty companies expect gross premium income to increase from RMB 4.29 billion to RMB 12.6 billion – a 194% increase.

Assets under management

Seventeen life companies provided estimates for their assets under management at the end of 2008 and 2011.

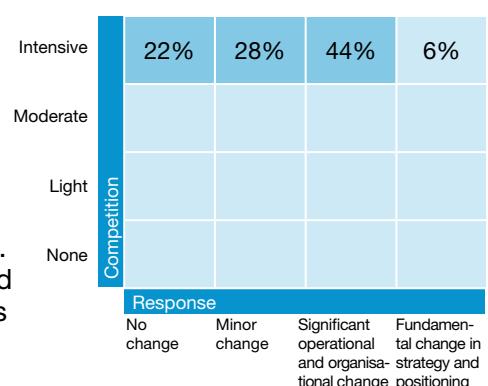
The seventeen companies estimate RMB 73.1 billion in 2008 expanding by 116% to RMB 158 billion by 2011. Eleven companies forecast 100% growth or greater by 2011.

Only five of the nine property and casualty companies provided data for assets under management.

They project a total of RMB 2.4 billion increasing to RMB 3.79 billion in 2011.

Life insurance - savings

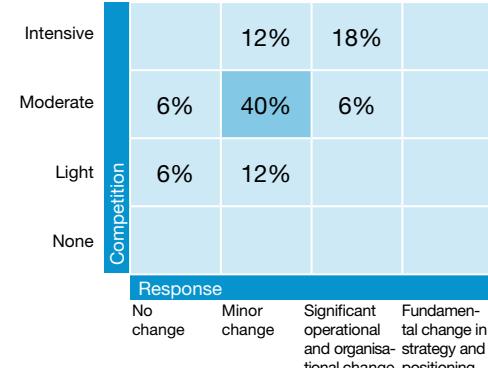
Life insurance savings is one of the three markets reviewed this year that was unanimously considered to be intensively competitive. Nine companies indicated that they had made no or minor changes, while a further nine companies have made significant or fundamental changes. Sales of unit linked products offered by the foreign insurance companies have been negatively impacted by the stock markets' decline during 2008. Several companies mentioned that they launched participating products in the last 12 months.



Note: Based on responses from 18 companies
Shading represents greater than 20%

Life insurance - protection

Over 75% of the respondents have made no or minor change to their protection products. The market is considered to be moderately competitive by half the respondents and intensively competitive by less than one third. Several participants noted how difficult it was to sell protection insurance to Chinese consumers.



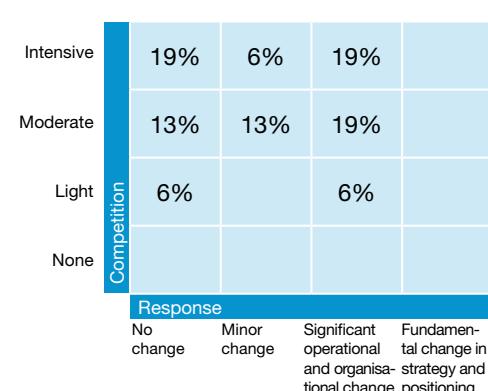
Note: Based on responses from 17 companies
Shading represents greater than 20%

Health insurance

In June 2008, Aetna announced that it has established a representative office in Shanghai as the first step in a two-year process toward licensing. "Aetna's exploration of the Chinese market represents our commitment to follow our customers and their employees into critical markets," said Martha Temple, president of Aetna Global Benefits. "We believe we can help multinational employers expanding to the Far East, as well as Chinese-based companies, by leveraging our local knowledge and our global approach to effectively manage health care quality and cost."

Health insurance is considered intensively competitive by 44% of respondents and moderately competitive by 45%.

This sector is expected to become increasingly competitive as more new foreign players enter the market such as WellPoint, BUPA and Aetna. The pending hospital reform will also stimulate change in this market.



Note: Based on responses from 16 companies
Number adds to 101 because of rounding
Shading represents greater than 20%

Personal accident insurance

In 2007, more than half the respondents considered the market to be moderate or light competition.

Only four of the 19 respondents said they had made significant changes.

Competition	Intensive	16%	5%	22%	
	Moderate	26%	26%		
	Light		5%		
	None				
Response					
No change					
Minor change					
Significant operational change and organisational change					
Fundamental strategy and positioning change					

Note: Based on responses from 19 companies
Shading represents greater than 20%

Auto insurance

Only three companies answered this question. All three companies consider the competition to be intensive while two companies stated they had made fundamental changes to strategy over the last year. However the foreign joint venture companies remain restricted by the CIRC in their ability to market auto-insurance. At the same time, the domestic insurers are increasing their marketing activity in this fast expanding sector. In February 2008, Taikang Auto Insurance became the fourth domestic insurer permitted to sell vehicle insurance policies by phone. The other three front runners are Ping An, People's Insurance Company of China (PICC) and China Continent. Foreign general insurance companies are currently not permitted to offer MTPL (mandatory third-party liability insurance).

Competition	Intensive		33%		67%
	Moderate				
	Light				
	None				
Response					
No change					
Minor change					
Significant operational change and organisational change					
Fundamental strategy and positioning change					

Note: Based on responses from 3 companies
Shading represents greater than 20%

Enterprise property insurance

All the respondents view enterprise property insurance to be intensively competitive. In 2007, three companies maintained it was only moderately competitive.

Competition	Intensive	14%	58%	14%	14%
	Moderate				
	Light				
	None				
Response					
No change					
Minor change					
Significant operational change and organisational change					
Fundamental strategy and positioning change					

Note: Based on responses from 7 companies
Shading represents greater than 20%

Cargo, transportation insurance

This sector was considered to be intensively competitive by seven of the eight respondents.

This is a radical change from 2007 when over half the group believed it was only moderately competitive.

Only two companies have made significant or fundamental changes.

Competition	Intensive	12.5%	50%	12.5%	12.5%
Response	No change	Minor change	Significant operational change	Fundamental change in strategy and organisational positioning	
Intensive	12.5%	50%	12.5%	12.5%	
Moderate		12.5%			
Light					
None					

Note: Based on responses from 8 companies
Shading represents greater than 20%

Group life

Group life was split between approximately half the respondents who considered it intensively competitive and half the group that believed the competition was moderate.

The majority of companies have made minor or no change to their group life offering.

Competition	Intensive		33%	13%	7%
Response	No change	Minor change	Significant operational change	Fundamental change in strategy and organisational positioning	
Intensive		33%	13%	7%	
Moderate	20%	13%	7%		
Light		7%			
None					

Note: Based on responses from 15 companies
Shading represents greater than 20%

Group accident and health

Almost three quarters of respondents indicated that group accident and health was intensively competitive while eight of the 18 respondents have made significant or fundamental changes to strategy over the last 12 months.

Competition	Intensive		38%	33%	
Response	No change	Minor change	Significant operational change	Fundamental change in strategy and organisational positioning	
Intensive		38%	33%		
Moderate	11%	6%	6%	6%	
Light					
None					

Note: Based on responses from 18 companies
Shading represents greater than 20%

Q In your view, is regulatory pressure in the insurance industry likely to increase or decrease over the next three years?

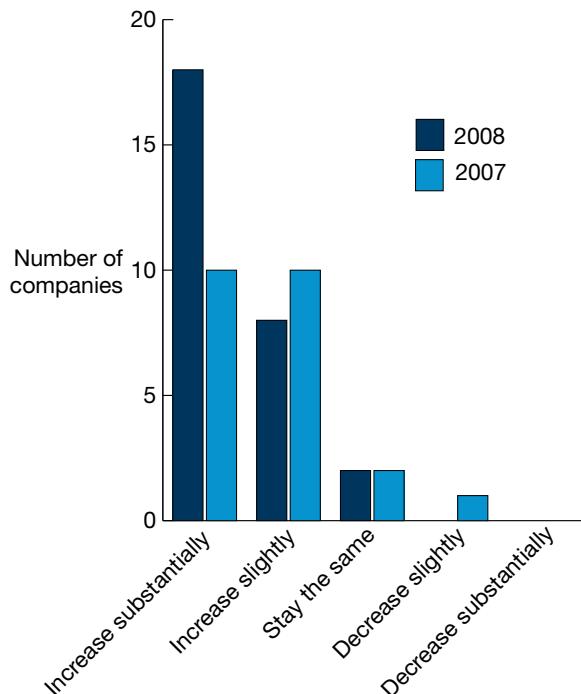
Eighteen of the 28 participants believe that regulatory pressure will increase substantially over the next three years.

This is a much clearer interpretation of regulatory demands than that suggested in the 2007 survey.

Seventy-eight percent of property and casualty companies believed

there would be a substantial increase compared to sixty-one percent of life companies. Only one company indicated that there might be a slight decrease.

Areas where regulators might focus future attention include micro-insurance and health insurance.



Based on responses from 28 companies in 2008 and 23 companies in 2007

Q Can you identify three major concerns of the Chinese insurance business at present?

Human resource management is a major concern to the foreign insurers.

Several respondents highlighted the lack of talent as a major criticism of the insurance industry. This point is noted later in a discussion of human resources deficiencies in the industry. Staff shortages were mentioned by both life and property and casualty companies.

One European life insurer mentioned that it had been subject to a competitive attack losing 20 staff to three foreign competitors.

The foreign insurers stressed the poor quality and inadequate management of the agency sales force. They believe this negative association will spill-over and affect the consumers' perception of all insurance agents working for both the domestic and foreign companies.

The regulatory environment is also a growing concern to foreign insurers.

A major criticism that was expressed widely by both the life and property and casualty companies centred on a feeling of unequal treatment of the foreign insurers.

The foreign insurers contend that the CIRC's regulations are inconsistent and there needs to be closer coordination across product lines.

The compulsory joint venture structure limits growth and opportunity. Several joint venture companies noted that expansion plans were hindered by the unwillingness of the local partner to inject fresh capital.

The inability to gain multiple branch approvals was raised by a number of participants. Companies can only apply for one branch at a time and approval may take six months or longer.

Other concerns mentioned were:

- A European insurer commented that in the past, foreign insurers were seen as innovators. This has changed and the foreign companies are now closely monitoring product innovation by domestic competitors such as Ping An Insurance.
- Some foreign insurers observed that a number of new domestic companies were, in their opinion, not properly reserved.
- Commission payments in some channels are posing ethical questions for some foreign insurers. A few foreign insurers mentioned cash payments to bank managers and advisors as an area of concern.

Q What are the most important changes taking place in China's financial market?

Channel change

There is a lot of uncertainty in the distribution channels with banks winning State Council approval to invest in insurance companies on a pilot basis. As the major banks line up insurance investments, the foreign insurers are unsure of their future distribution relationships.

Increase in the number of insurance companies

The field is becoming more crowded as new domestic insurers enter a variety of new markets using innovative marketing methods.

Stock market decline

The 50 percent decline in stock market value since October 2007 has impacted the foreign insurers in a variety of ways. On the investment side foreign insurance companies cannot invest outside China and most therefore follow the market. On the product offering side there has been a precipitous decline in the sale of unit linked products.

Agency sales forces

It was reported that the quality and number of active agents in the industry is declining.

New markets

The foreign insurers see potential in new marketing such as pensions, health insurance and auto insurance but await deregulation to define and clarify the parameters of these markets.

Intensifying competition

One large foreign life insurer argued that in some areas competition had become irrational (e.g. a free return of principal after one year on a single premium five-year product). They argued that this type of offering was really a form of advertising and promotion rather than creative product design.

Telemarketing

Telemarketing has gained recognition as a distribution channel. In April 2007, the CIRC issued regulations on the telemarketing of non-life products.

These regulations are quite restrictive. For example, they limit telemarketing to approved products, to regions where the company is licensed and the designated products can only be offered by telemarketing employees.

Universal model

With the move to a universal banking model, a European insurer argued that there was a need for a super regulator such as Germany's BaFin or the Australian Prudential Regulation Authority.

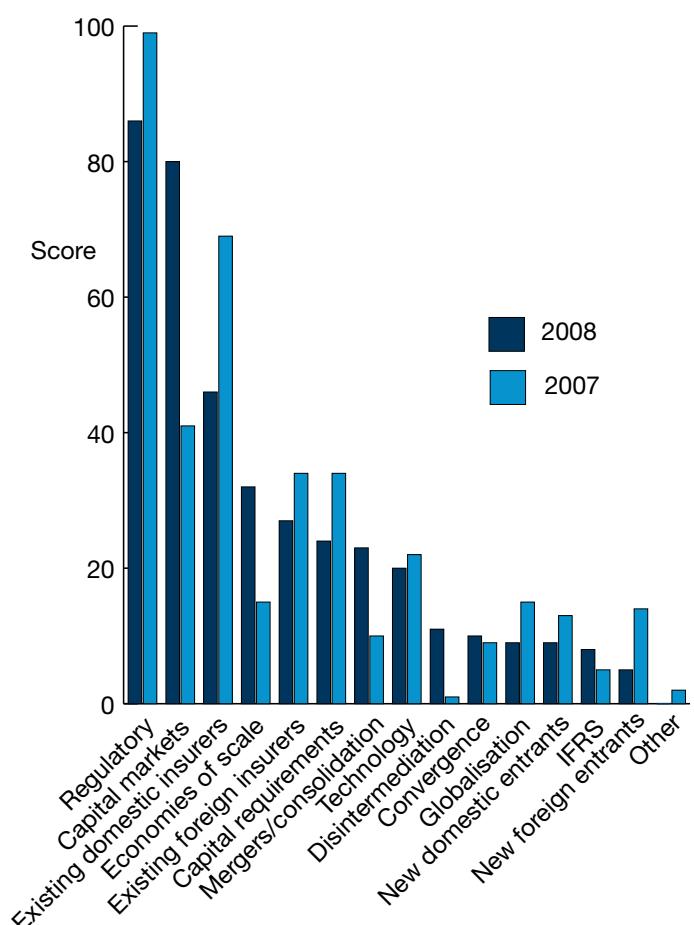
Q What are the major drivers of change in the Chinese insurance business?

The three most important drivers of change in the insurance business remain regulatory, capital markets and existing domestic insurers.

Capital markets doubled its score in 2008 and came close to challenging regulatory factors as the most important driver.

Economies of scale and mergers and consolidation also increased their scores dramatically in 2008.

Several foreign insurers made specific reference to the innovative strategies and marketing of two domestic companies, Ping An Insurance and Taikang Life Insurance.

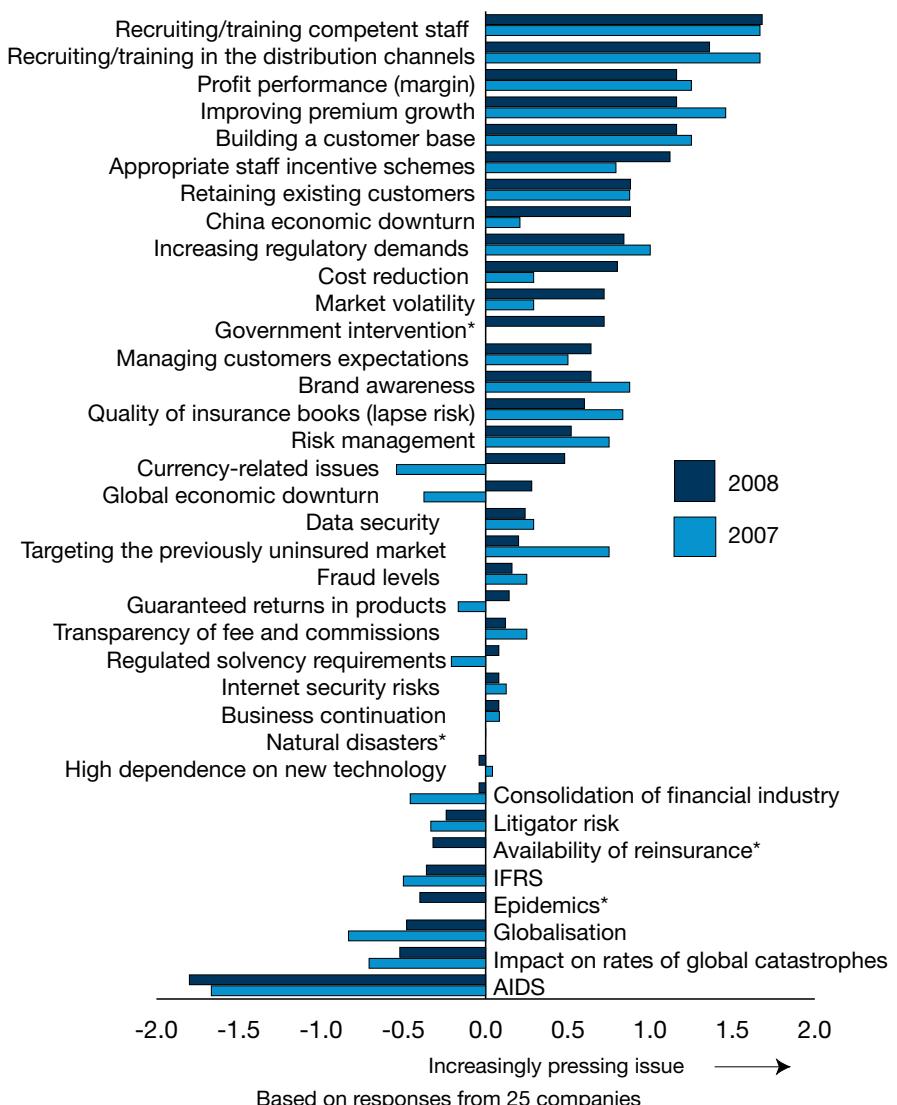


Based on responses from 26 companies in 2008
2007 responses are pro-rated

Q What are the most pressing issues you face? Can you rate them from 1 to 5?

The two most pressing issues in 2008 from an expanded list of 36 issues, were recruiting and training competent staff and recruiting and training the distribution channels. Profit performance moved up two positions to third spot in 2008, alongside improving premium growth and building a customer base. The threat of an economic downturn in China was ranked in eighth position in 2008 up from 19th position in 2007.

Market volatility moved from 16th position in 2007 to 11th position in 2008. While currency-related issues moved from 29th position in 2007 to 17th position in 2008. The dynamics of the economic environment both globally and domestically, the stock market decline and the appreciation of the Renminbi have all contributed to the foreign insurers' uncertainty in 2008.



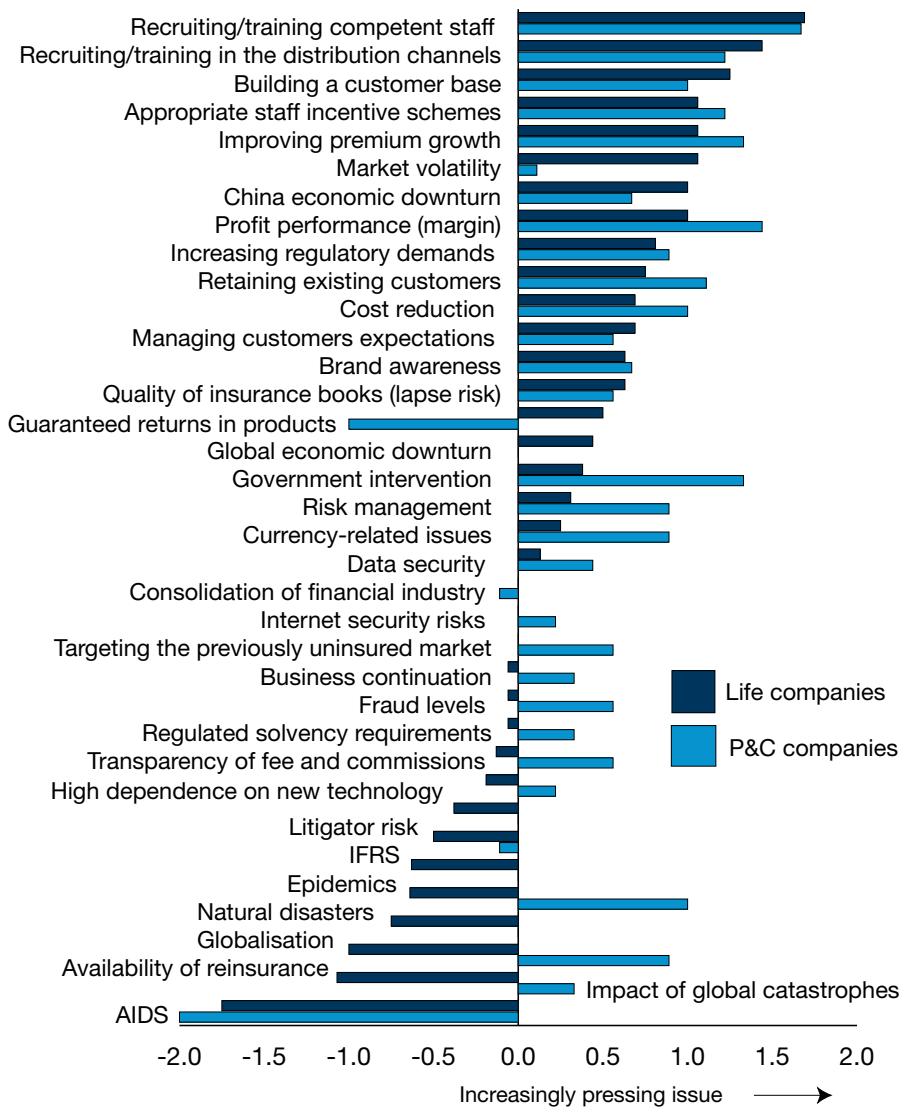
In the adjacent chart the axis is based on a scale of the respondents' rating of 1 to 5, where 5 is most pressing. The central spine of the chart is "0" which reflects a score of 3 on the 1 to 5 scale. As a result 2.0 represents 5 and -2.0 represents 1 on the scale.

Pressing issues: Differences between life companies and property and casualty companies

This chart compares the life companies with the property and casualty companies. Although there is a strong consistency between both types of insurers across the top five factors, variation occurs in a number of less critical issues.

For example, government intervention and profit performance were deemed to be more pressing for the property and casualty companies.

Market volatility had a major impact on the life companies.



Based on responses from 16 Life and 9 P&C companies

Q How will the needs of the Chinese insurance consumer in 2011 differ from the needs of today's insurance consumer?

A number of participants noted that there would be an increased need for protection products and that the market was under-served at present.

Participants believe that the Chinese consumer, particularly in the growing middle class, will become more aware of the need for insurance on both the savings and protection sides.

They will be wealthier in three years and more receptive to a longer term focus. This will in turn influence capital accumulation, pensions and health insurance.

One participant noted that there was a need for performance rating and evaluation services to help the consumer discriminate between different companies' products.

There was a general feeling that social change and increasing international awareness will help develop recognition of the value

of insurance. Participants believe the Sichuan earthquake will also have an impact on the merits of insurance. One property and casualty insurer said there was a growing demand for travel and accident insurance.

A life insurer observed that there had not been significant progress in health insurance and retirement insurance regulation over the last year, although this was an important area where consumers were seeking more innovative changes.

A general insurer contended that in three years time there would be more product delivery through direct channels and the internet.

A life insurer believed that more affluent consumers will buy advice through fee-based services rather than commission-based services.

Q Do you think there is a need to make insurance more attractive through tax incentives and relaxation of rules governing how insurers and consumers can invest?

The participants unanimously agreed that there is a need to make insurance more attractive through tax incentives.

A number of participants noted the proposed new incentives that will be available in Tianjin Binhai New Area Insurance Pilot Zone.

Several foreign insurers are already located in Tianjin and will therefore be able to take advantage of the proposals once they have been implemented.

Participants also believe that education is needed for the insurance market to develop.

They agree that the low level of awareness in the benefits of insurance, particularly in the protection side, means that education rather than tax incentives represents a critical first step.

Q What changes do you see in distribution channels? Are companies moving towards or away from their use?

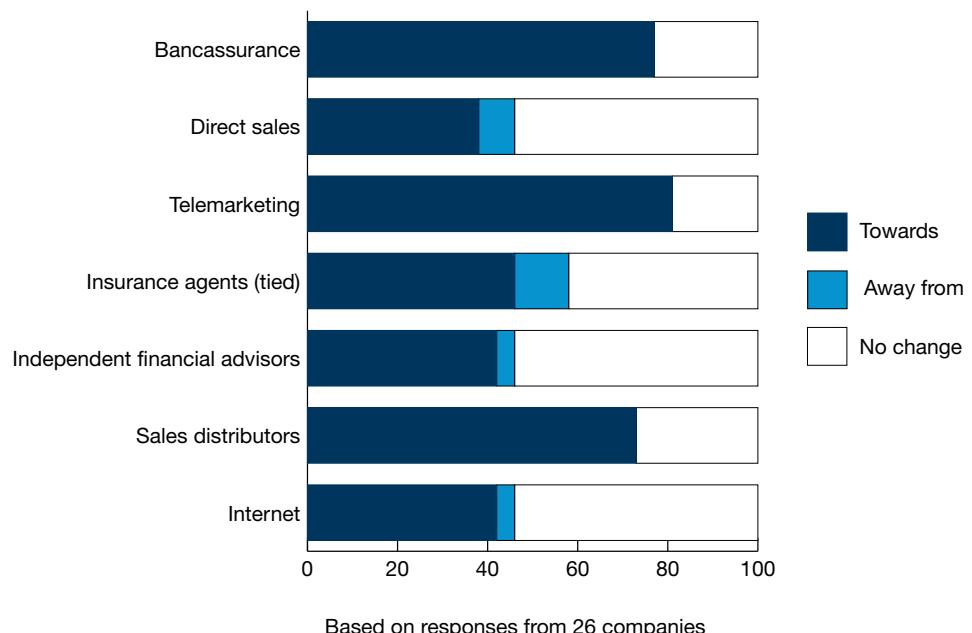
Participants believe that there will continue to be a strong movement towards bancassurance, telemarketing and sales distributors.

Bancassurance is a critical channel of distribution which will become more complex and challenging as banks directly enter the business through their own subsidiaries.

Despite the potential “channel conflict”, respondents believe the market will continue to emphasise the bank channel.

Telemarketing is also considered to be a channel with potential. The success of CIGNA & CMC was noted by a number of participants and as mentioned elsewhere in this report the CIRC has approved four domestic insurers to sell auto insurance by phone.

The internet continues to lack traction as a distribution channel. Respondents believe it will be some time before this channel gains recognition.

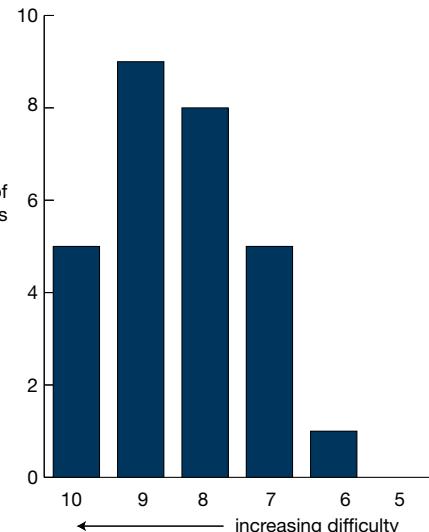


Q Is human resource management a major concern to foreign insurance companies? On a scale of 1 to 10, where 10 is extremely difficult and 1 easy, can you indicate a score?

Human resource management continues to be a major concern to the foreign insurance companies.

In 2007, 18 companies scored it 8 out of 10 or above and in 2008 that number has increased to 22 companies.

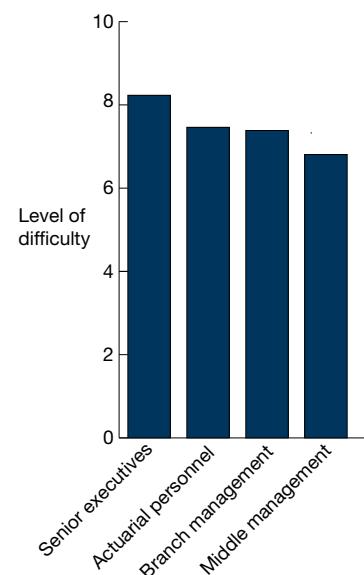
Only one company scored it as low as six.



Q How difficult is it to hire in the following areas? On a scale of 1 to 10, where 10 is extremely difficult and 1 easy, can you indicate a score?

The most challenging area for hiring was identified as senior executives. On a difficulty scale of 1 to 10, the average based on 26 responses was 8.23.

The second most difficult area was actuarial personnel, followed by branch management and middle management.

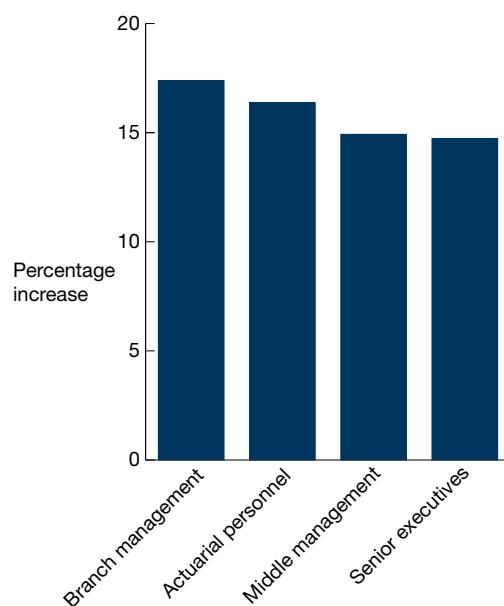


Based on responses from 26 companies

Q What are the expected salary increases in 2008 for the following grades?

The anticipated percentage salary increases in 2008 show that most positions can expect an increase of around 15%

The average increases based on 26 companies place branch management at the top of the list followed by actuarial personnel and then middle management and senior executives.

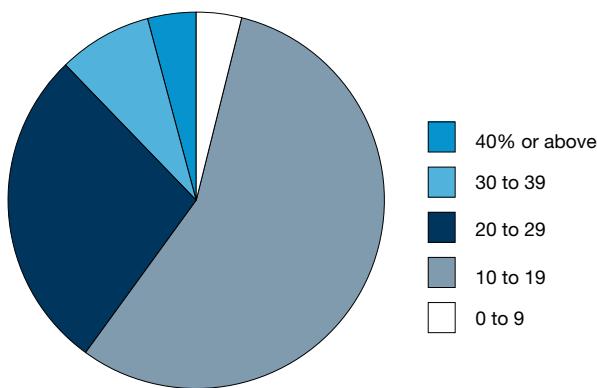


Based on responses from 26 companies

Q What will your annual staff turnover rate be in 2008?

Staff turnover remains at a high level. In 2007, 65% of participants recorded levels of 10% to 24%. In 2008, the figure was 68%. One life insurer mentioned that in their finance area, within a total of 22 employees, only two had been employed for longer than one year.

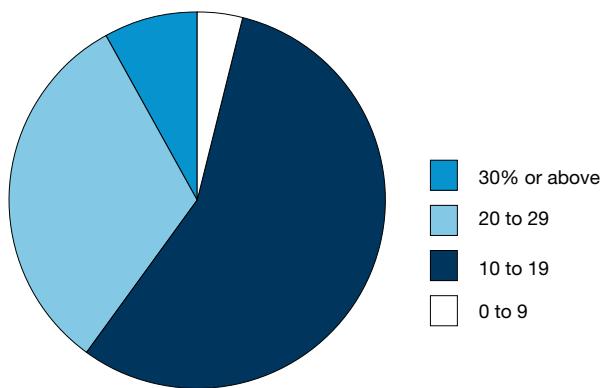
Two companies indicated that turnover was above 30% and one company said their turnover was 40%.



Ten companies were above 20% or above
Based on responses from 25 companies

Q What will your annual staff turnover rate be in 2011?

The participants expect little to change over the next three years. Seven of the 25 respondents predicted that turnover would remain above 25% in their companies.



88% recorded 10% to 29% turnover
Two companies were 30% or above
Based on responses from 25 companies

Q In which areas are you currently experiencing the greatest shortage of skills?

Ten different functional areas were identified and participants scored each one in terms of skill shortages. Eight of the ten areas were awarded scores above 3 on a 1 to 5 scale. The functional area with the highest score (4.44) was sales and marketing.

These averages mask chronic shortages at individual companies. For example, five life companies awarded a 5/5 for actuarial skills

and 10 life companies recorded 5/5 for sales and marketing skills.

On the property and casualty side, four companies awarded 5/5 for sales and marketing and three companies assigned 5/5 for underwriting skills.

Sometimes, these deficiencies were more apparent geographically, for example Shanghai versus Beijing or other cities.

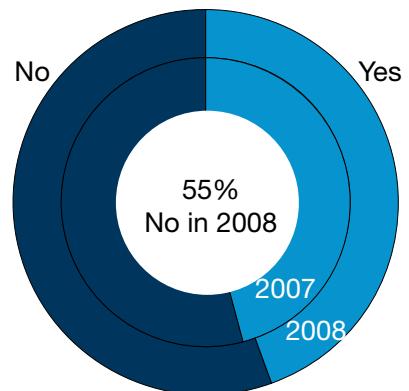


27 companies responded overall with the exception of non-executive directors where 22 companies responded

Q Do you currently use a customer relationship management system in China?

In 2007, less than half the number of participants recorded that they had a customer relationship management (CRM) system in operation.

In 2008, twelve companies said they had CRM systems.



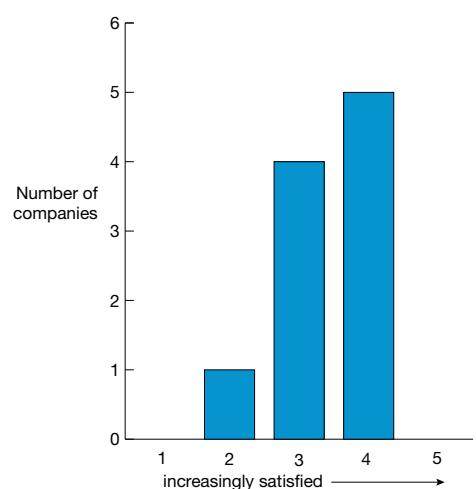
Based on responses from 27 companies in 2008

Q On a scale of 1 to 5 (where 5 is very satisfied), how satisfied are you with the system?

Eleven companies indicated the level of satisfaction with their CRM system. Only five of these awarded a score of 4 out of 5 while four companies scored 3 out of 5.

The foreign insurers have to undertake further work on their CRMs if they are to fully leverage the potential to cross sell products in the future.

This moderate level of development may be a reflection of the dependence on the bancassurance channel.



Based on responses from 11 companies that indicated they had a CRM system

Q What are the key applications of technology that the foreign partner has brought to the Chinese insurance market?

Several companies stressed that in their joint venture relationship the technology component was provided exclusively by the foreign partner. They noted that the technology “platform” introduced to China was identical to that used in some other developing markets (for example, India) which meant that products available in other

markets could be launched in China within weeks.

One company indicated that it had imported its agency management system, while another introduced a telemarketing system.

One participant emphasised the ease of transfer of its policy administration system.

Q In negotiating your original joint venture arrangement with your Chinese partners, was there a technology contribution by your company? Can you indicate on a scale of 1 to 10, where 10 is of greatest importance, how you would score the technology component of your agreement?

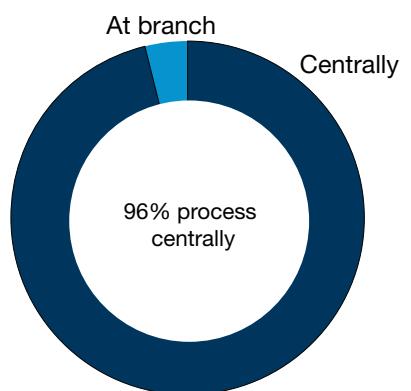
Fourteen life companies responded to this question.

Only one company recorded a score below six while six companies recorded a score of eight or above.

Q Do you currently undertake your processing centrally at one location or at the branch level?

Almost all the processing in the foreign insurance companies occurs centrally.

Those that still perform some tasks at the branch level are migrating to a centralised model.



Based on responses from 26 companies

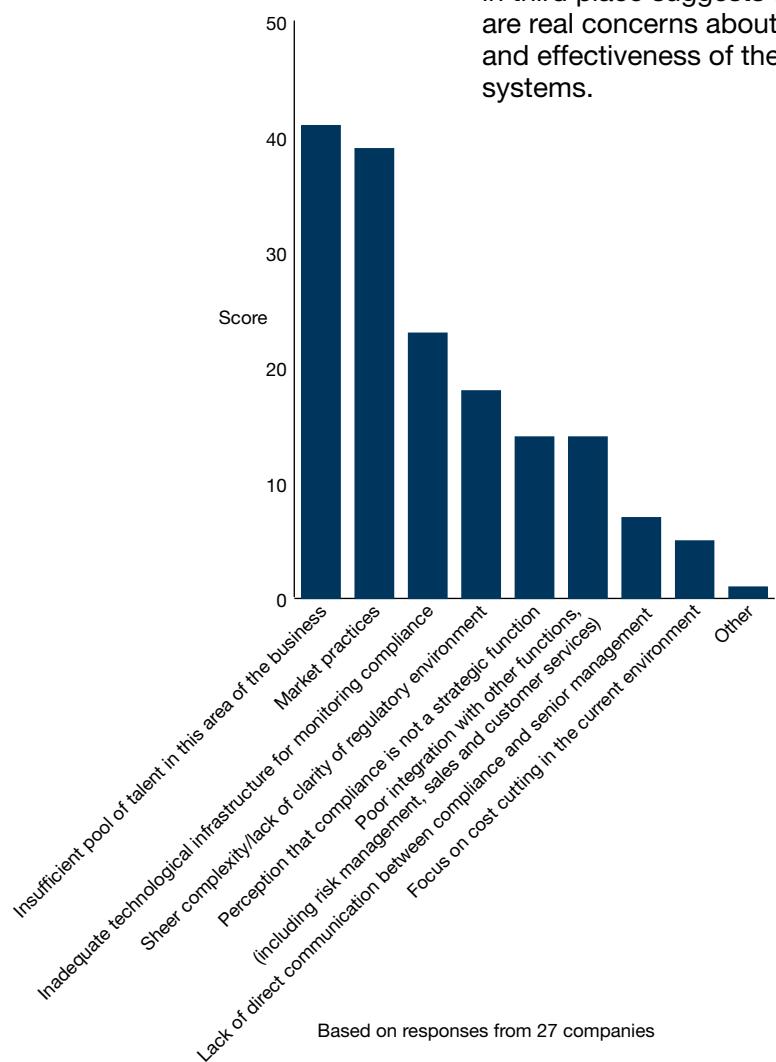
Q What are the key barriers to achieving first-rate compliance?

The two most important barriers to compliance in 2008 were identified as insufficient talent and market practices.

This represents a significant shift from 2007 when the regulatory environment and perception that compliance was not a strategic function, were considered most important. The lack of talent issue

was in sixth position in 2007 and market practices was added as a new factor in 2008. Several companies voiced concern on market practice, particularly in relation to the compensation in the very competitive bancassurance channel.

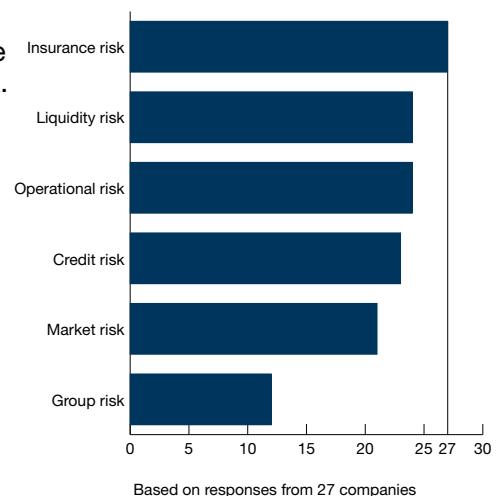
The positioning of inadequate technology to monitor compliance in third place suggests that there are real concerns about the scope and effectiveness of the current systems.



Q Do you have procedures in place to measure each of the following risks?

Presented with six different types of risk, all the participants indicate that they measured insurance risk.

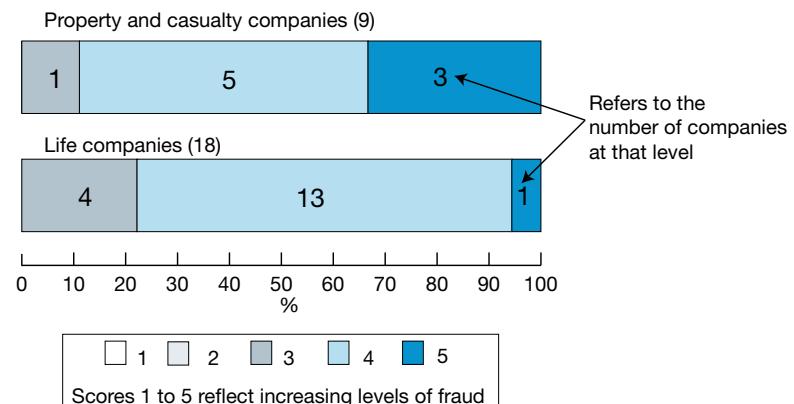
Twenty-four insurance companies said they measured liquidity and operational risks while only 12 companies monitored group risk.



Q On a scale of 1 to 5, where 5 is very effective, how effective is fraud control in your organisation?

All the property and casualty companies and 18 life companies provided an assessment of their ability to manage fraud.

Overall, they believe they are very effective. Eighty-nine percent of property and casualty companies and 78% of life companies recorded scores of 4 or 5.

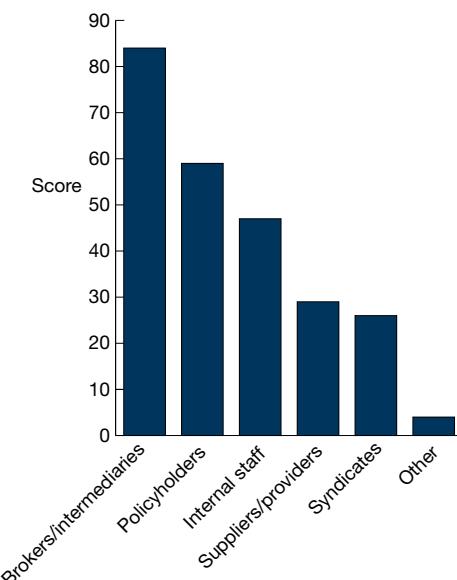


Q What are the major sources of fraud in your organisation? Please rank the following in order of greatest risk.

Respondents suggested that the most likely sources of fraud in life companies would be the brokers, followed by policyholders and internal staff.

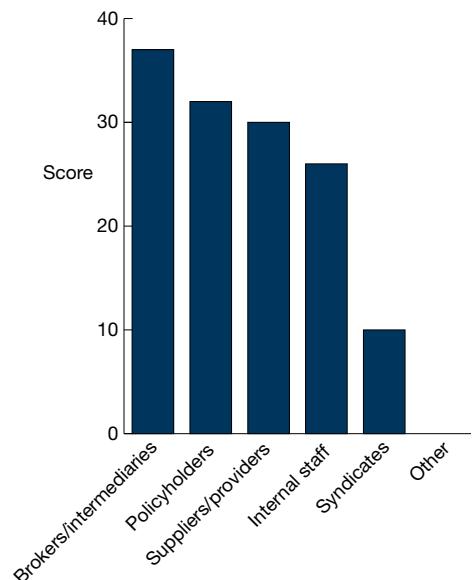
The property and casualty companies also placed brokers and policyholders in first and second positions. They however, placed suppliers in third position ahead of internal staff.

Life companies



Based on responses from 18 companies

Property and casualty companies



Based on responses from 9 companies

Q Below is a list of areas of risk. How do you rate their severity, and how do they compare with last year?

Also see a related table on the following page

Thirty-one different areas of risk were evaluated on a scale of 1 to 5, where 5 was the highest level of risk. In addition, participants were required to assess whether the risk was falling, steady or rising.

The top three risks were identified as distribution channels, equity markets and investment performance.

	Score	Rank (2008)	Rank (2007)
Distribution channels	3.77	1	1
Equity markets	3.62	2	4
Investment performance	3.62	3	6
Interest rates	3.50	4	5
Regulation – too much	3.50	5	7
Management quality	3.46	6	3
Asset liability matching risk	3.44	7	N/A
Regulatory bias	3.35	8	N/A
Retail sales practices	3.27	9	2
New types of competitors	3.23	10	20
Pricing new risks	3.23	11	12
Back office/operational/systems quality	3.19	12	13
Fraud	3.19	13	15
Managing technology	3.15	14	11
Corporate governance	3.08	15	8
Risk management techniques	2.96	16	9
Accuracy of actuarial assumptions	2.92	17	10
Long tail liabilities	2.90	18	16
Managing the cycle	2.88	19	17
Regulation – too little	2.85	20	14
Longevity assumptions	2.84	21	24
Reinsurance – availability	2.81	22	27
Business continuation	2.77	23	18
Contract wording/coverage	2.77	24	19
Capital availability	2.69	25	22
Complex instruments	2.69	26	25
Reinsurance – security	2.64	27	26
Credit risk	2.56	28	N/A
Demographic trends	2.52	29	23
Political shocks and pressure	2.46	30	21
Merger-mania	2.38	31	N/A

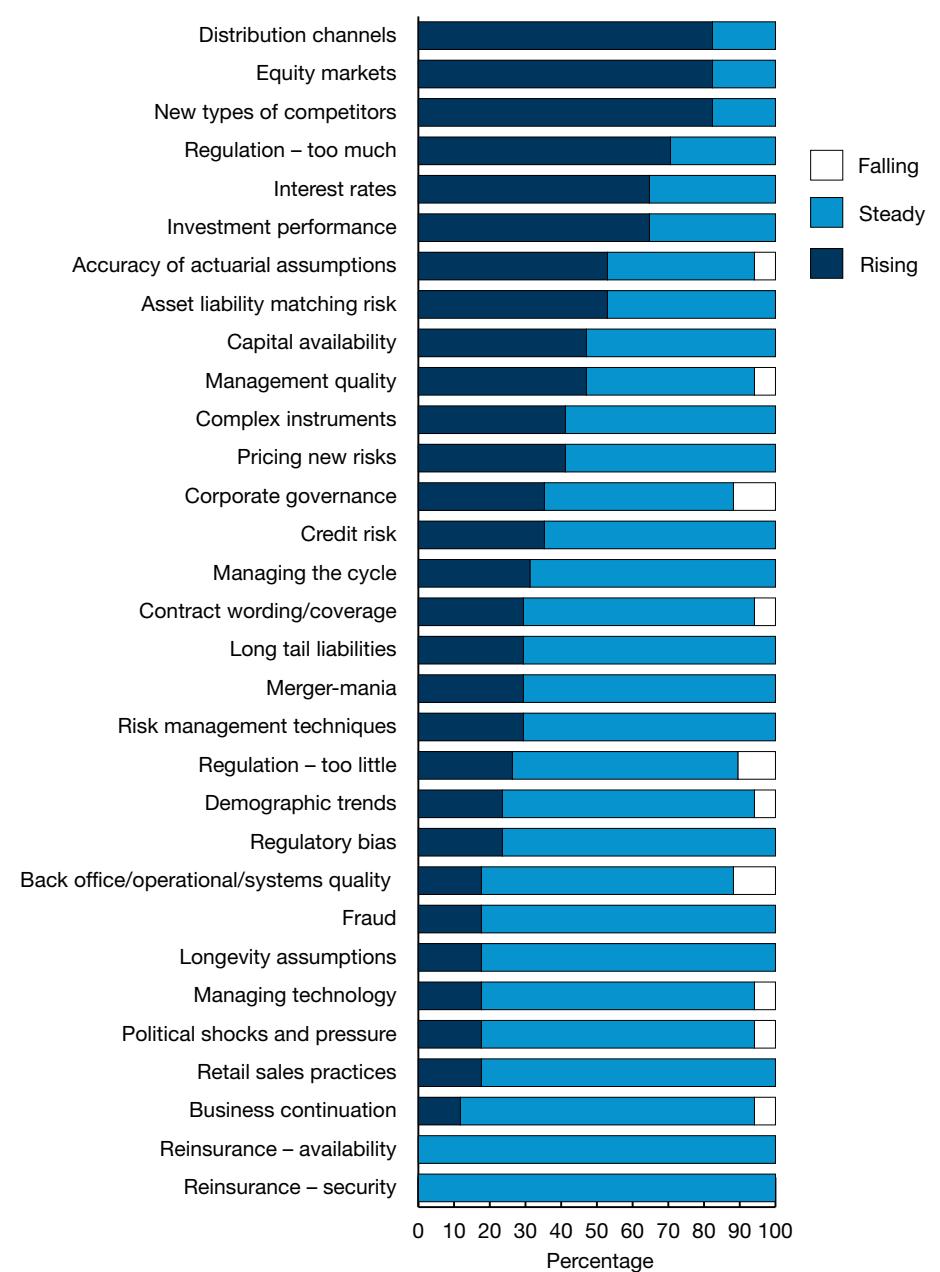
Based on responses from 26 companies in 2008 and 24 companies in 2007

N/A relates to risks that were added in 2008

Q Are these risks rising, steady or falling for your life company?

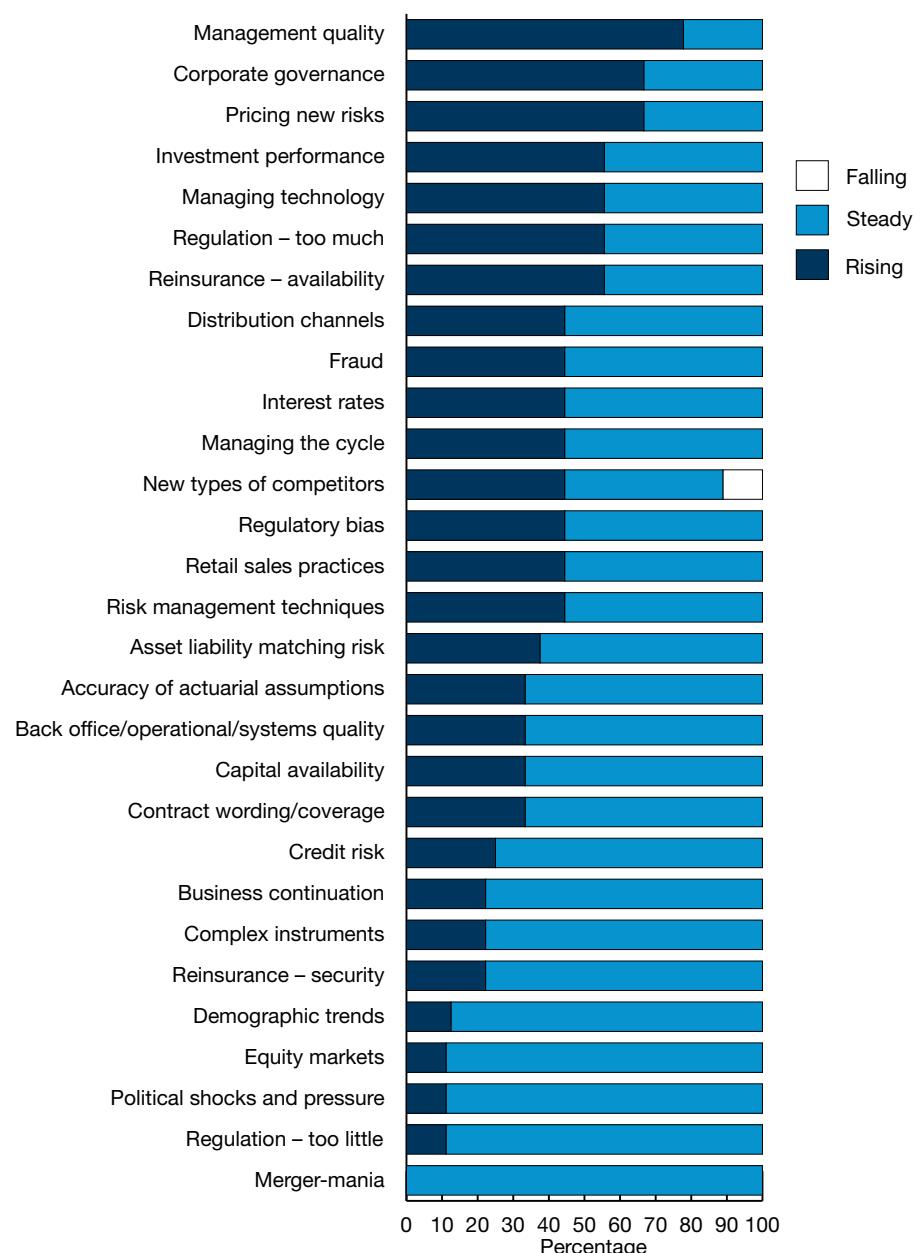
The top three risks that life companies classified as “rising” were distribution channels, equity markets and new types of competitors.

The chart below shows that 82.3% of life companies believe these factors are rising in importance and 17.7% believe they are steady.



Q Are these risks rising, steady or falling for your property and casualty company?

The property and casualty companies selected three different “rising” risks. They were management quality, corporate governance and pricing new risks.



Q How do you rate the severity of these different types of risk ranked according to severity and what is the direction of their trend?

Five specific risks with direct relevance to non-life companies were examined by all nine property and casualty respondents.

Three of these risks, natural catastrophes, pollution and climate change scored three or above and two of these, namely natural catastrophes and climate change were interpreted as rising.

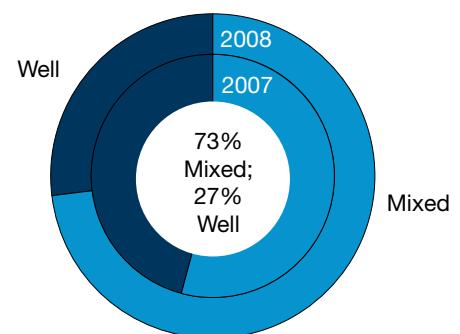
Risk	Score	Falling (%)	Steady (%)	Rising (%)
Natural catastrophes	3.56	0.0	0.0	100.0
Climate change	3.22	0.0	22.2	77.8
Pollution/contamination	3.13	0.0	50.0	50.0
Terrorism	2.88	0.0	44.5	55.6
Asbestos	2.33	0.0	83.3	16.7

Based on responses from 9 companies

Q How well prepared do you think your own and other institutions are to handle the risks you have identified?

Nineteen of the 26 participants assessed their handling of these risks as "mixed". Only 28% of the group believed they managed the risks "well".

This represents a decline in comparison to 2007 when 46% indicated they managed risks "well".



Based on responses from 26 companies in 2008 and 24 companies in 2007

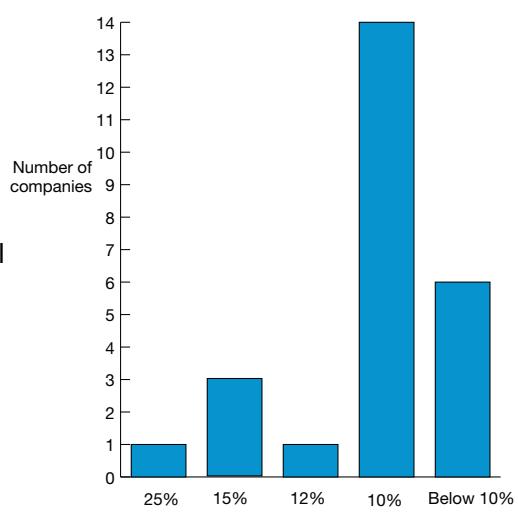
Competition and positioning

Q What market share will the foreign insurers represent by 2011?

The market share for the foreign insurance companies varies between life versus non-life and across different markets.

Companies also question the validity of published data. They implied that data submitted to the CIRC may be classified and interpreted differently by individual companies. Estimates suggest market share is currently around 5% to 6%. Against this backdrop, participants provided an estimate of the market share of the foreign insurers by 2011. The responses indicate that most companies believe the foreign insurers will increase market share and be around 10% by 2011.

A further six companies estimate market share will remain below 10% while five companies optimistically predict it will rise above 10%. These predictions are in line with those made in the 2007 report.



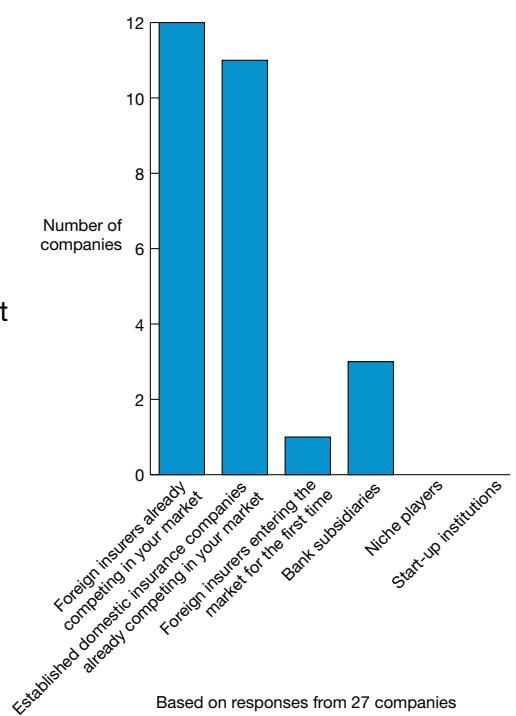
Based on responses from 25 companies

Q In your opinion, which category of institution represents the most significant competitive threat to your organisation over the next five years?

Respondents were permitted to select just one type of institution from a list of competitors.

Twelve companies chose foreign insurers already active in the market while 11 companies opted for domestic insurers.

Three companies selected bank subsidiaries, once again reinforcing the looming uncertainty in the bancassurance channel.



Based on responses from 27 companies

Q How many foreign insurance companies will be operating in the Chinese market in 2011?

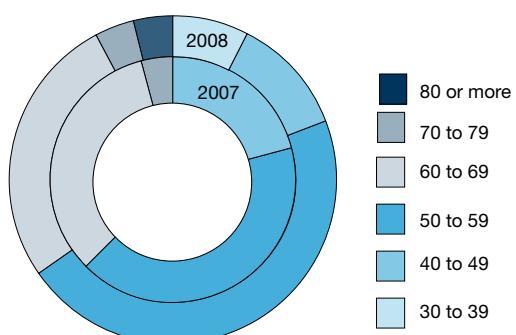
In September 2007, HSBC Insurance (Asia) Ltd received approval from the China Insurance Regulatory Commission (CIRC) to form a joint venture insurance company with Beijing based strategic partner National Trust Ltd. The final formation and launch of the joint venture is subject to the joint venture partners meeting certain CIRC requirements within a period of 12 months. Upon meeting the CIRC requirements, the regulator will give final approval to open for business, at which time the joint venture will be formed. China HSBC currently has a 16.8 per cent stake in Ping An Insurance and a 24.9 percent stake in a joint venture insurance broker, Beijing HSBC Insurance Brokers Ltd. HSBC also has representative offices in life and general insurance in Beijing, Shanghai and Guangzhou and an insurance broking representative office in Beijing.

Source HSBC Press Release,
27 September 2007

There are currently approximately 47 foreign insurers in the Chinese market. This total includes several foreign companies that share the same foreign parent. For example, ING with Pacific Antai Life Insurance and ING Capital Life Insurance, MetLife with United MetLife and Sino-US MetLife and Manulife with Manulife-Sinochem and John Hancock Tianan Life. The response in 2008 is consistent with that expressed in 2007. It shows that 18 companies believe the total by 2011 will be between 50 and 69 companies. One company predicts as many as 80 companies by 2011.

Participants expect new entrants to come from a variety of places. For example, health specialists are expected to enter from Europe and the United States. Asia is also expected to be an important source of new entrants. With a relaxation in business relations, new insurers may enter from Taiwan while Japanese participants noted that several Japanese companies are planning entry.

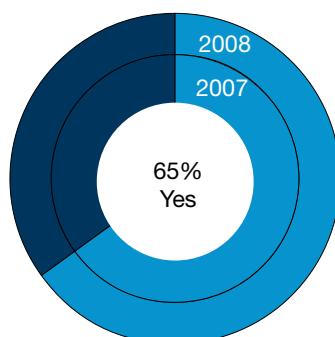
In 2007, representative offices were set up by Britain's RBS Insurance Group and Taiwan's Chung Kuo Insurance.



Based on responses from 26 companies in 2008 and 24 companies in 2007

Q Might there be consolidation?

Fifteen companies predict further consolidation among the foreign insurers. However, this also considers the possibility that consolidations might occur between companies located outside China.



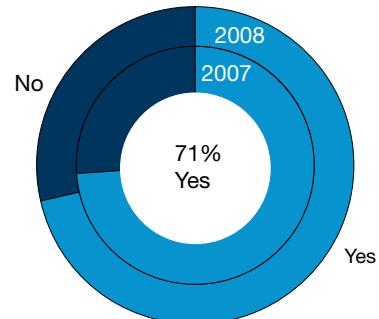
Based on responses from 23 companies in 2008 and 20 companies in 2007

Q Do you segment your market geographically?

The participants responded to three questions on market segmentation and three on distribution channels.

Twenty of the 28 participants indicated they segmented their market geographically. Some companies maintain a city-centric approach for example Beijing or Guangzhou while others are trying to build a “national” presence.

Their expansionary goals are however limited by the “two branches a year” regulation.

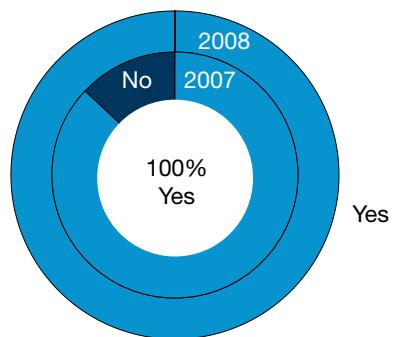


Based on responses from 28 companies in 2008 and 23 companies in 2007

Q Do you segment your market by distribution channel?

All 28 respondents acknowledged that they segmented their market by distribution channel.

Some companies operate through just one channel, for example, the agency channel or bank channel, while others operate a balanced multi-channel strategy.

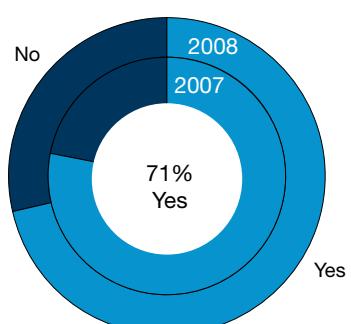


Based on responses from 28 companies in 2008 and 23 companies in 2007

Q Do you segment your market by product?

Twenty of the 28 participants stated that they segmented the market by product.

Examples included retail/commercial products, products based on levels of affluence and a micro-insurance line of products.



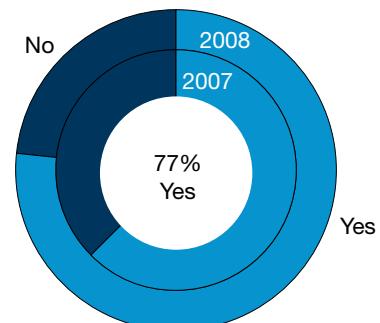
Based on responses from 28 companies in 2008 and 23 companies in 2007

Q Is there currently overcrowding in any geographic market?

Twenty companies believe that there is overcrowding in some insurance markets.

The most common example is Shanghai but Beijing, Guangzhou and Nanjing were also mentioned.

In some cases, several insurance companies may simultaneously be granted CIRC permission to enter the same city.

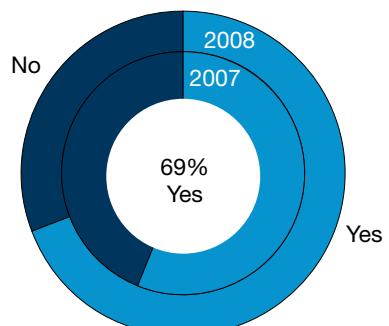


Based on responses from 26 companies in 2008 and 16 companies in 2007

Q Is there currently overcrowding in any distribution channel?

Sixty-nine percent of participants (18 companies) believe that there is overcrowding in distribution channels. In 2007, this percentage was 56%.

More than half of the participants cited overcrowding in bancassurance.

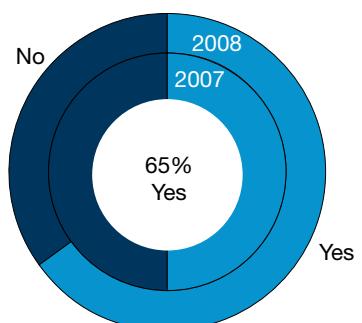


Based on responses from 26 companies in 2008 and 16 companies in 2007

Q Is there currently overcrowding in any product area?

The percentage of respondents that believe there is product overcrowding increased from 50% in 2007 to 65% in 2008.

Examples of product overcrowding included unit-linked products, universal life, auto and travel insurance, flight insurance and property insurance.



Based on responses from 23 companies in 2008 and 16 companies in 2007

Q How did you choose your location strategy at the time of market entry? Was it province first followed by city?

Respondents provided a variety of answers explaining how they decided on their initial market entry location.

In several cases, the city chosen was based on the location of the joint venture partner. For example, Beijing, Chongqing, Dalian, Shanghai, Tianjin, etc. Others selected Shanghai because it was the financial centre. A number of companies chose Shanghai as their entry city because it provided an affluent target market.

First-mover advantage was mentioned by companies that chose locations other than the coastal cities.

Q How did you select your target locations for geographic expansion?

In terms of market expansion, participants often use a matrix of indicators that analyse economic maturity, distribution of wealth, population size, demographic trends and level of competition.

First-mover advantage also plays a part in western city expansion. However, when an application is made to the CIRC to open a branch in a new province, applicants are unaware of other foreign companies' plans to enter these target locations.

Q How would you characterise the commitment of your foreign parent to the Chinese market in comparison to other markets around the world on a scale of 1 to 10, where 1 represents no commitment and 10 is an extremely aggressive commitment to the market?

Twelve life companies believed that they receive the maximum level of support and commitment from their foreign parent. A further five companies rate their parent's commitment as 9 out of 10.

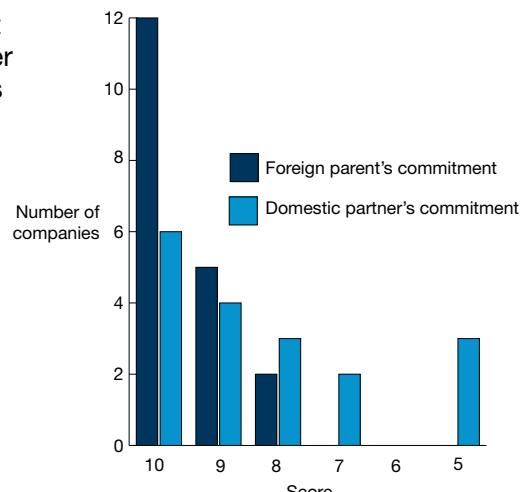
The level of support in the joint venture for the domestic partner is more tempered.

Six life companies indicated that their domestic partners' support was 10 out of 10. However, three domestic companies assigned a score of 5 out of 10.

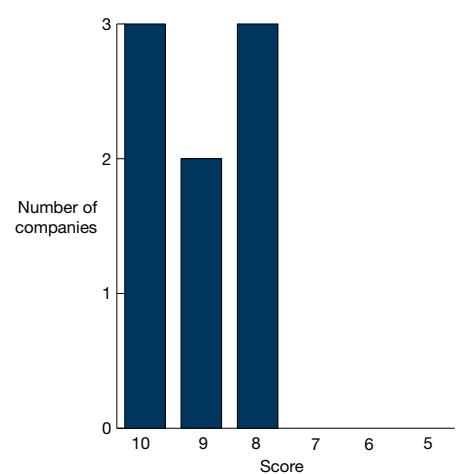
On the property and casualty side, the support of the parent company to the Chinese subsidiary is also very strong. Three companies assigned the maximum score, two awarded a 9 out of 10 and three an 8 out of 10.

These perceptions are particularly noteworthy given the economic, regulatory and market place challenges recorded elsewhere in this report.

Life companies



Property and casualty companies



Q How successful has your foreign life insurance company been in penetrating the following markets in the last year?

Six different markets were identified. If the participating foreign insurance companies had been active in a particular market, they scored their perceived levels of success on a scale of 1 to 5 where 1 was very unsuccessful and 5 was very successful.

If the number exceeds three then participants believe that they have succeeded in the market.

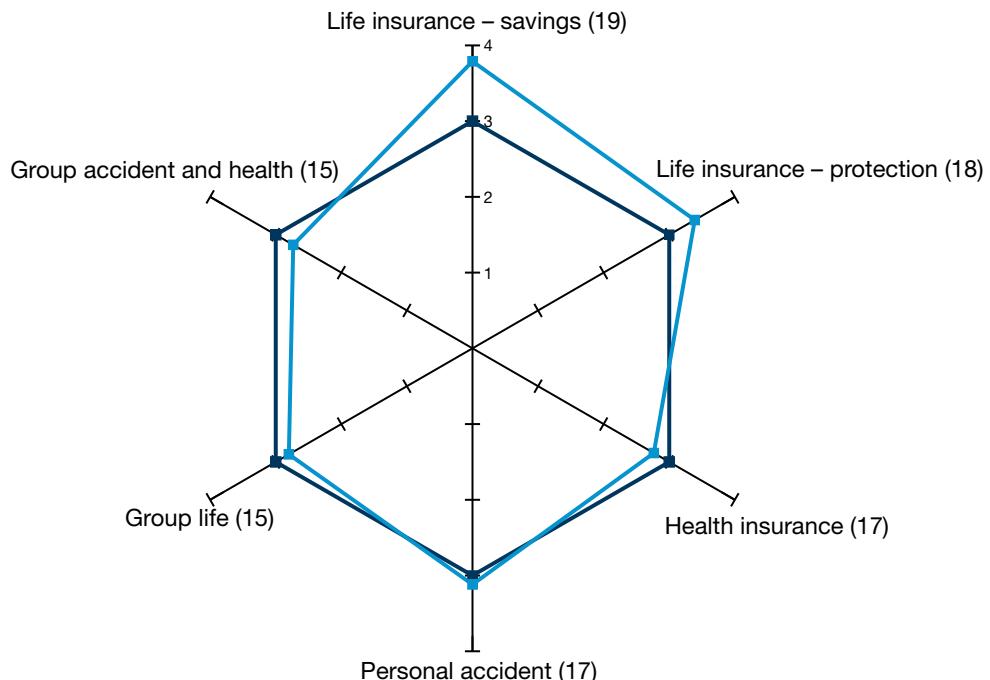
Figures in parentheses indicate the number of participants providing a score in that particular market. In the radar diagrams appearing

below and on the following page, a six-sided and four-sided frame based on the value of three has been drawn.

If the line pierces the frame (i.e. the line moves to the outside of the circle frame), success has been achieved in that respective market.

The participants identified their greatest success in the life insurance markets both savings and protection.

Marginal success was recorded in personal accident insurance.



Figures in brackets represent the number of respondents

Q How important are the following markets for your foreign life insurance company over the next three years?

To identify the markets that the foreign insurance companies believe will be of greatest importance over the next three years, the 19 participants ranked the following four markets on a scale of 1 to 5.

A score of 1 indicates little or no importance while a score of five can be considered very important.

Average scores should exceed three for the market to be considered important.

All four markets will be important to the life companies over the next three years.

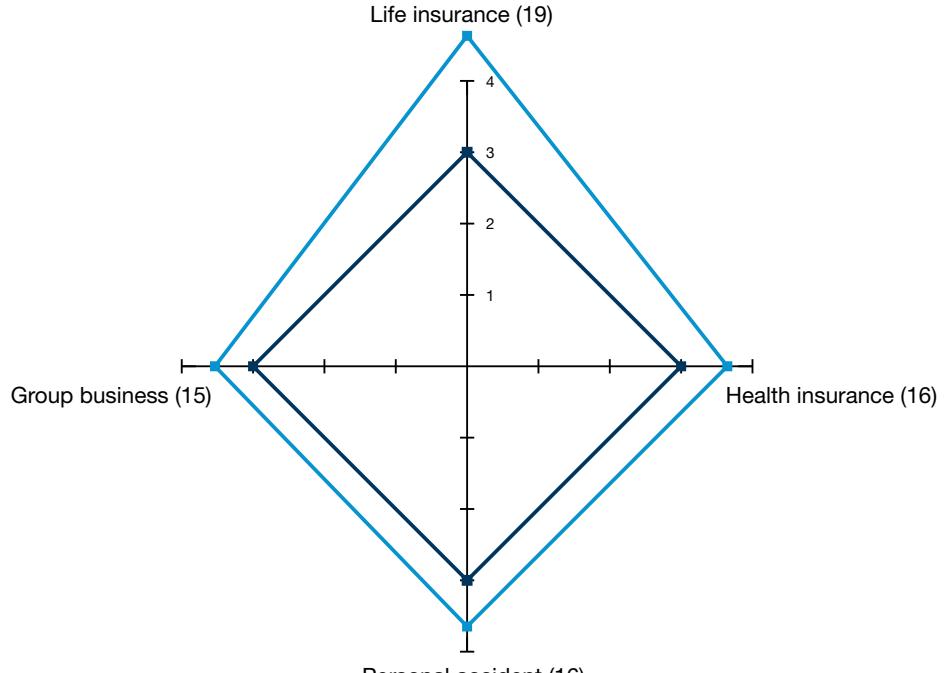
The life insurance market recorded the highest market importance score but strong expansion can also be expected into health insurance, personal accident insurance and group business.

DKV, Europe's leading private health insurer and a member of the Munich Re Group, expects China's health insurance market to triple to RMB 120 billion (€11 billion) by 2015 as more and more companies and individuals seek out private healthcare in line with growing standards of living.

Industry forecasts indicate that by the year 2010, health insurance premiums in China are predicted to reach up to RMB 60 billion (€5.5 billion).

Due to a combination of a growing elderly population and an expanding economy, healthcare spending is expected to account for 6% to 7% of GDP, pushing the health insurance market.

Source: DKV Press Release
27 March 2008



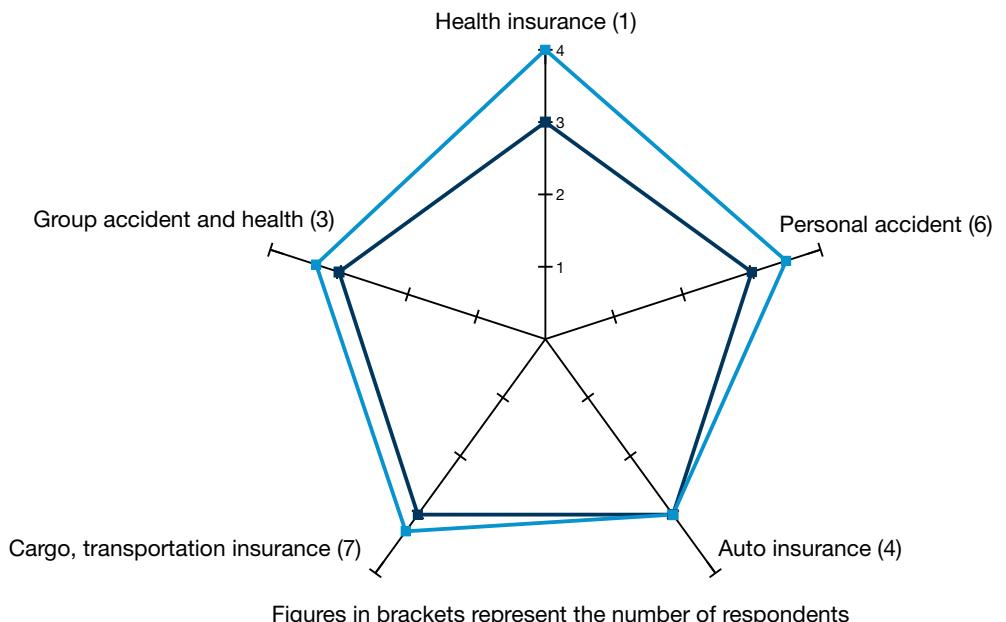
Figures in brackets represent the number of respondents

Q How successful has your foreign property and casualty insurance company been in penetrating the following markets in the last year?

Five different markets were identified. If the participating foreign property and casualty insurance companies had been active in a particular market, they scored their perceived levels of success on a scale of 1 to 5 where 1 was very unsuccessful and 5 was very successful.

If the number exceeds three then participants believe that they have succeeded in the market.

Figures in parentheses indicate the number of participants providing a score in that particular market.



Q How important are the following markets for your foreign property and casualty insurance company over the next three years?

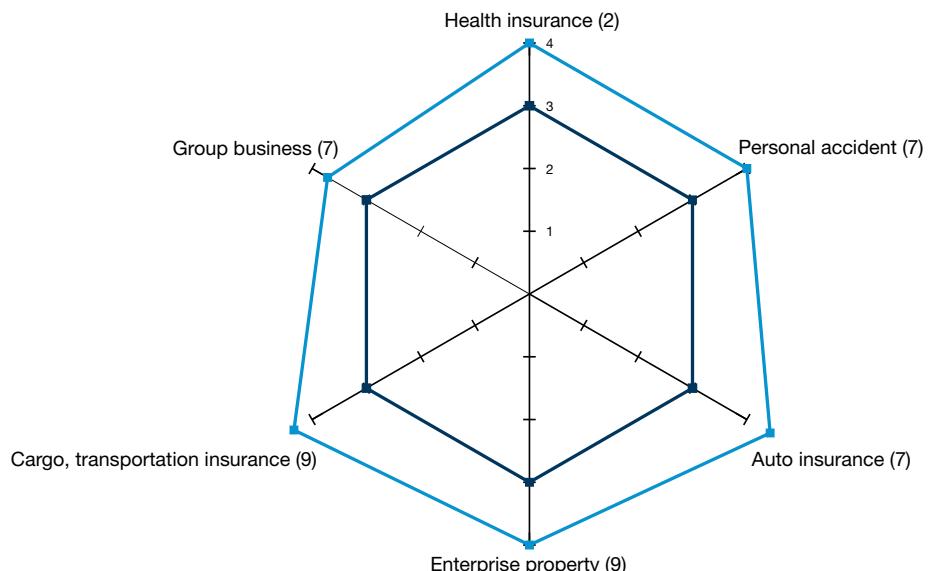
To identify the markets that the foreign property and casualty insurance companies believe will be of greatest importance over the next three years, the nine participants ranked the following seven markets on a scale of 1 to 5.

A score of 1 indicates little or no importance while a score of five can be considered very important.

Average scores should exceed three for the market to be considered important.

All seven markets will grow significantly in importance over the next three years.

Six of the seven markets recorded values of 4 out of 5 or greater.



Figures in brackets represent the number of respondents

Q Which of the following strategies will be the primary focus of your organisation's restructuring activities over the next five years?

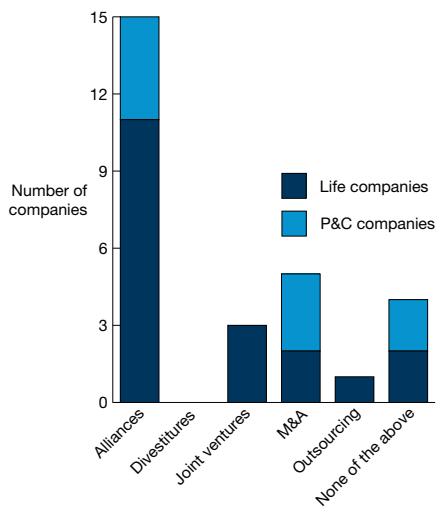
Alliances remain the most likely strategic option for the foreign insurance companies over the next five years. Eleven life companies and four property and casualty companies selected this option. Many participants are thinking of alliances with banks and other financial institutions with this response.

The second most likely option chosen by two life companies and three property and casualty companies was M&A. Those that selected none of the above declined to elaborate on their selection.

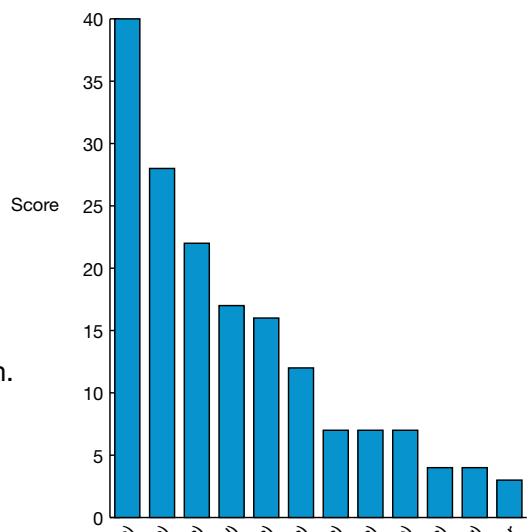
Q What will the main external drivers of your organisation's restructuring activity be over the next five years?

The most important external driver impacting on restructuring was identified as increasing competition.

This factor was in first place in 2007. Regulatory restrictions included issues such as compliance and capital requirements increased in importance in 2008 moving from fourth position to second position. Increasing customer demands remained in third position.



Based on responses from 28 companies



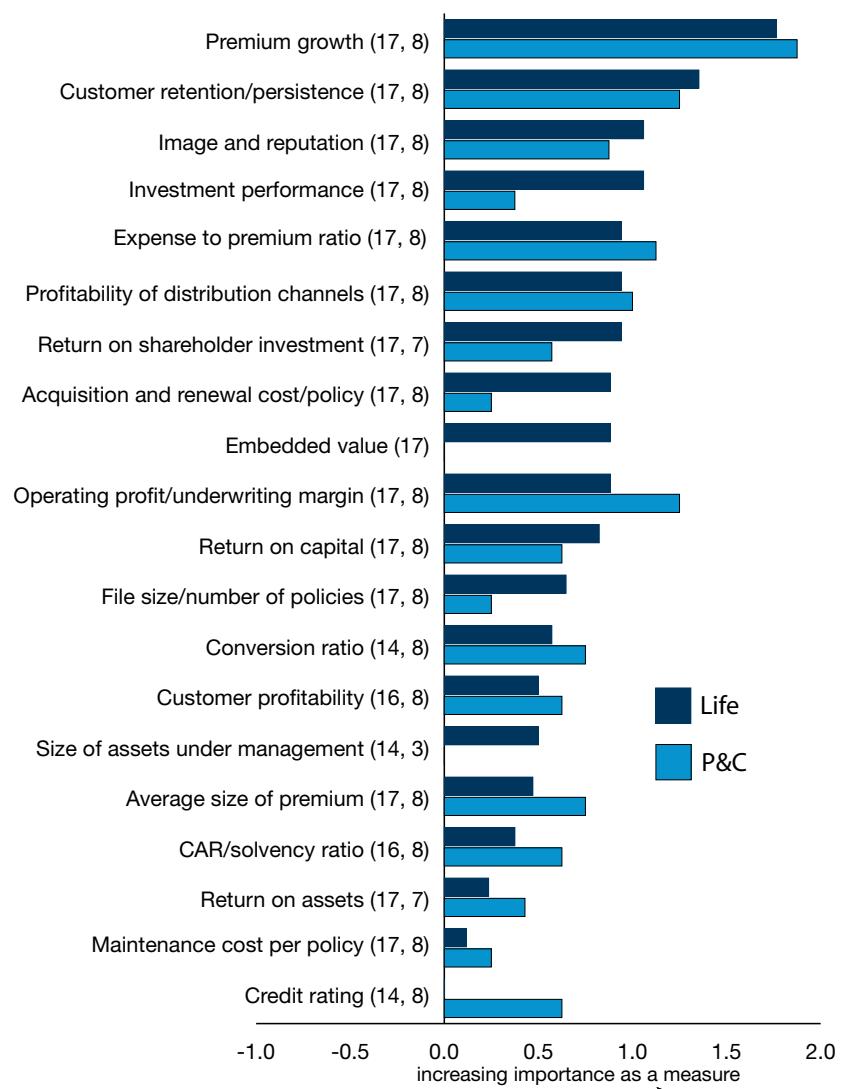
Based on responses from 28 companies

Performance

Q Which of the following key performance indicators are important in your company, on a scale of 1 to 5, where 5 is very important?

Participants identified the most important performance measures. For life companies, the three most important performance indicators were premium growth, customer retention and image and reputation.

Premium growth is also the most critical performance measurement for property and casualty companies. However, alongside customer retention these companies also value operating profit and the expense to premium ratio.

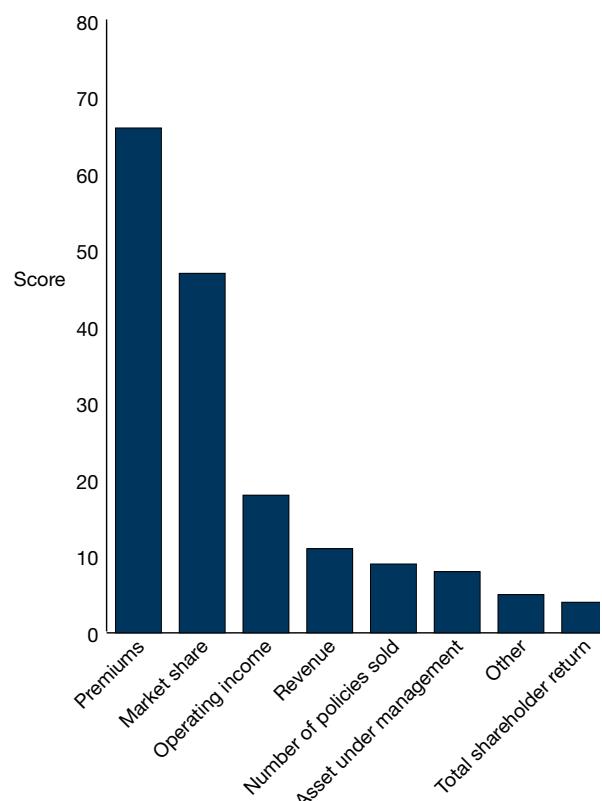


Figures in brackets are the number of companies that recorded a score and did not indicate N/A
(The first number refers to Life companies and the second P&C)

Q What are the primary metrics used by your organisation to measure growth?

The two most important measures of growth are premiums and market share.

The six other measures cited by the foreign insurance companies are overshadowed by these measures. Operating income appears in third place.

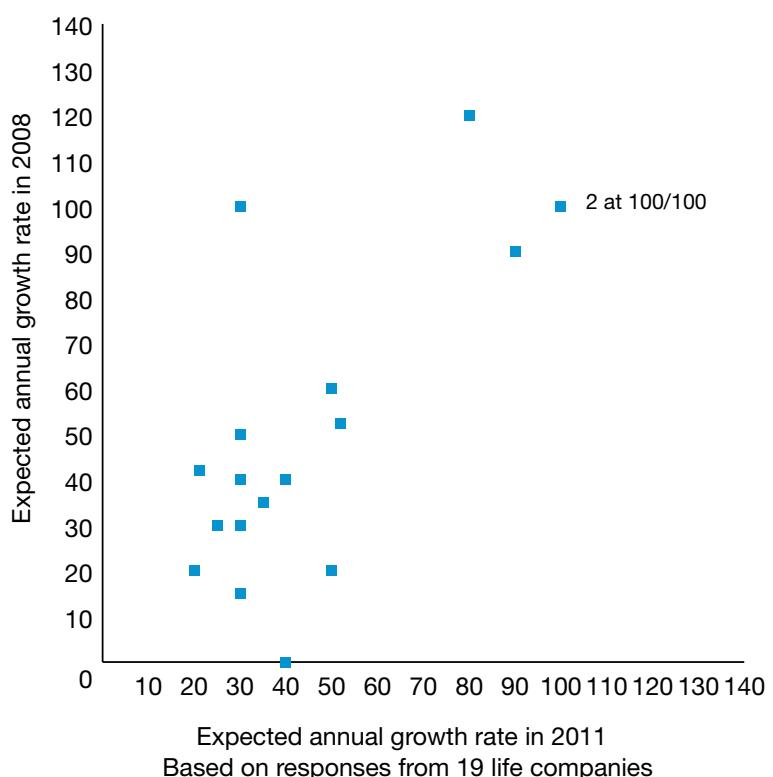


Based on responses of 28 companies

Q What is your estimate of the annual growth in premiums of your business in life insurance for 2008 and over the next three years?

Most life insurance companies are clustered in the 30% to 50% range for annual growth in premiums.

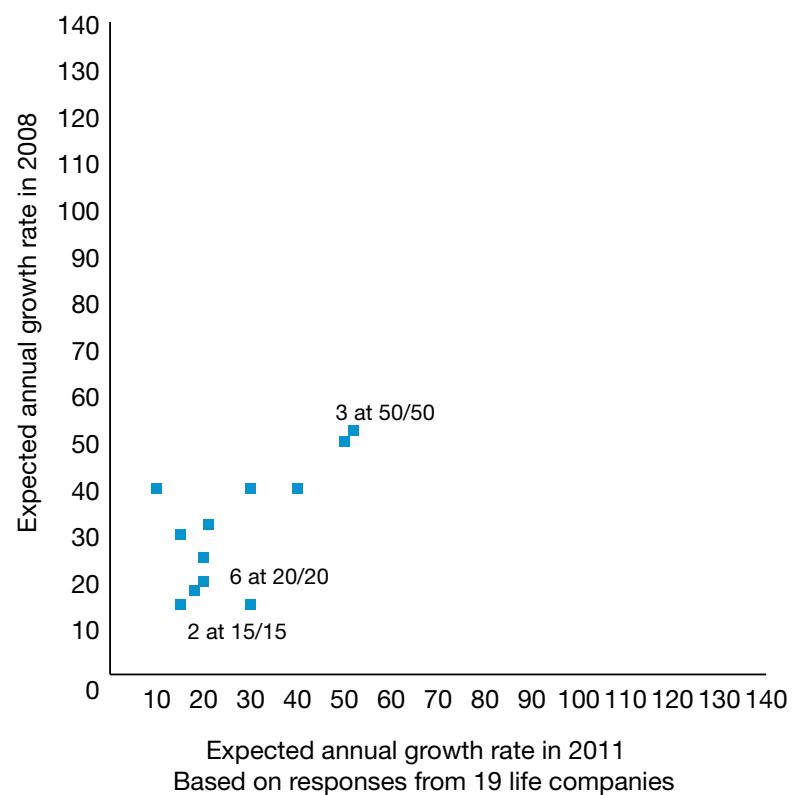
Several companies anticipate growth of 100% or more in both 2008 and 2011. One company predicted zero growth in 2008 but 40% growth in 2011.



Q What is your estimate of the annual growth in premiums of the life insurance industry for 2008 and over the next three years?

When the foreign life companies were asked to predict industry growth the forecasts appeared more modest.

Many of the industry forecasts centred around the 20% range for both 2008 and 2011, although three companies suggested industry premium growth at 50% in 2008 and 50% in 2011.

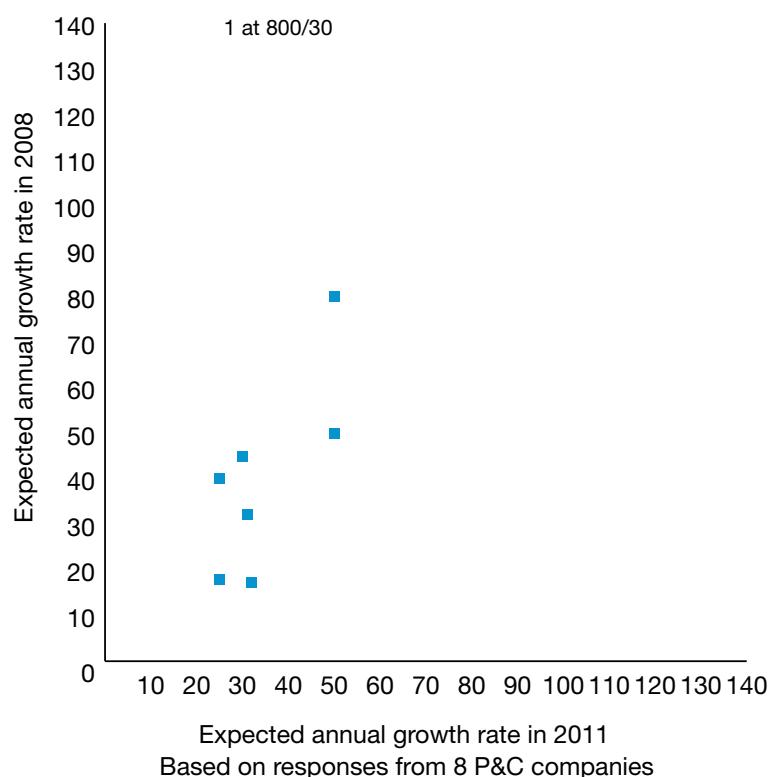


Q What is your estimate of the annual growth in premiums of your business in property and casualty insurance for 2008 and over the next three years?

Eight property and casualty companies provided premium growth estimates.

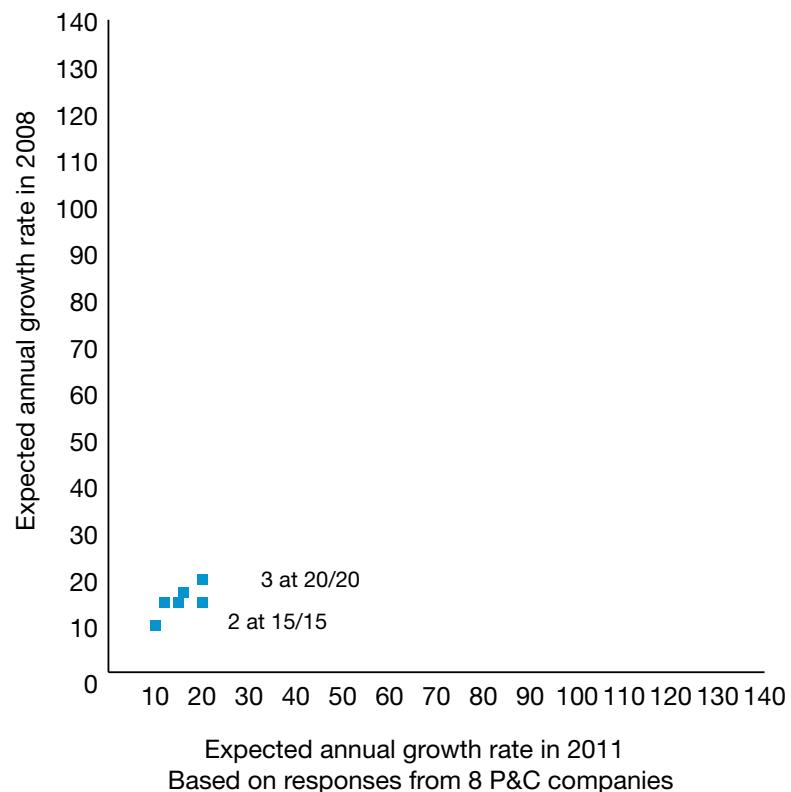
Two companies were at the 20% level, three companies at the 20% to 40% level, one at 50%, one at 80%/50% and finally an outlying

response with one company predicting a huge percentage increase in 2008 and 30% growth in 2011.



Q What is your estimate of the annual growth in premiums of the property and casualty insurance industry for 2008 and over the next three years?

The foreign property and casualty insurance companies expect annual growth in the industry of 15% to 20% for both 2008 and 2011.



Q Has there been a change in emphasis in the industry in 2008 away from sales growth?

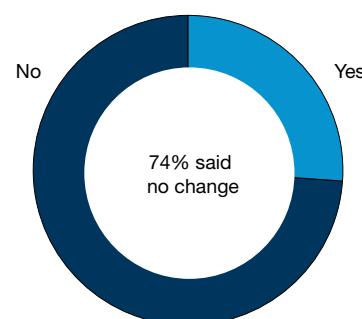
In the 2007 report it was evident that the foreign insurance companies were following a strategy of sales growth.

In 2008, the companies were asked if this pursuit of growth continued unabated.

The life company respondents indicated that growth continued to be a top priority. Almost 75% confirmed that there had been no deviation from this goal.

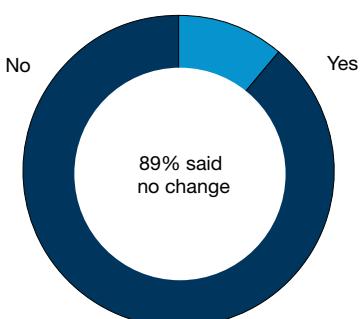
The property and casualty companies were even more convinced that sales growth was the most important objective. Almost 90% indicated that there had been no change.

Life companies



Based on responses from 19 companies

Property and casualty companies



Based on responses from 9 companies

Peer review

Q Can you name the top three foreign insurance companies in terms of success (performance, presence, momentum) across a variety of different markets?

A simple scoring method awarded three points to first place, two points to second and one point to third place. This allowed the foreign insurance companies to be ranked based on a total score.

Foreign insurance companies were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance,

presence and momentum) as opposed to mere size.

They were not permitted to rank their own institution. Often foreign insurance companies would choose just to indicate first or second places.

These rankings are based on the views given by the senior executives in the foreign insurance companies.

Life insurance – savings

	First	Second	Third	Score
AIA	8	1		26
Aviva-COFCO	8		2	26
CITIC Prudential	1	3	2	11
Manulife-Sinochem	1	2	2	9
United MetLife		3	2	8
Allianz		1	6	8
ING	1	1	1	6
CIGNA & CMC		2	1	5
Skandia-BSAM		2		4
Generali		1	1	3
AXA-Minmetals		1		2

Based on 19 foreign insurance companies

Life insurance – protection

	First	Second	Third	Score
AIA	12		2	38
Manulife-Sinochem	2	5	2	18
CITIC Prudential		7		14
CIGNA & CMC	1	2	3	10
United MetLife	1	1	1	6
Aviva-COFCO	1		1	4
AXA-Minmetals		1		2
ING			2	2
Aetna			1	1
Generali			1	1

Based on 17 foreign insurance companies

Health insurance

	First	Second	Third	Score
AIA/AIG	9	1	1	30
Manulife-Sinochem	1	2	3	10
CITIC Prudential		3	1	7
Aviva-COFCO	2			6
CIGNA & CMC		2	1	5
ING Capital		1	1	3
Allianz		1		2
United MetLife		1		2
Aetna			1	1

Based on 12 foreign insurance companies

Personal accident insurance

	First	Second	Third	Score
AIA/AIG	15	3		51
CIGNA & CMC	2	3	1	13
Manulife-Sinochem	1	3	3	12
CITIC Prudential		4	2	10
Aviva-COFCO	1		1	4
ACE-Huatai*	1			3
United MetLife		1	1	3
Royal & Sun Alliance	1			3
Allianz			2	2
AXA		1		2
ING			2	2
Aetna			1	1

Based on 21 foreign insurance companies

*ACE is a Bermuda based property and casualty company

Enterprise property insurance

	First	Second	Third	Score
AIU	4			12
Tokio Marine & Nichido Fire		3		6
Allianz		1	1	3
Chubb	1			3
Mitsui Sumitomo		1		2
Samsung Fire and Marine			1	1
Zurich			1	1

Based on 5 foreign insurance companies

Cargo, transportation insurance

	First	Second	Third	Score
Tokio Marine & Nichido Fire	6	1		20
AIU	2	3	1	13
Mitsui Sumitomo		2		4
Chubb		1	1	3
Royal & Sun Alliance			2	2
Allianz			1	1
Samsung Fire and Marine			1	1

Based on 8 foreign insurance companies

Group life insurance

	First	Second	Third	Score
Aviva-COFCO	4	1	2	16
AIA/AIG	4	1	1	15
Generali	3	2		13
Manulife-Sinochem		2		4
Allianz	1			3
CITIC Prudential		1	1	3
ING	1			3
Heng An Standard Life		1		2
Aetna			1	1

Based on 13 foreign insurance companies

Group accident and health

	First	Second	Third	Score
AIA/AIG	4	3	1	19
Generali	4	2	1	17
Aviva-COFCO	3	3	1	16
Allianz	1		2	5
AXA Minmetals	1			3
ING	1			3
Royal & Sun Alliance	1			3
ACE-Huatai*		1		2
CITIC Prudential			2	2
Heng An Standard Life		1		2
Manulife-Sinochem		1		2

Based on 15 foreign insurance companies

*ACE is a Bermuda based property and casualty company

Customer relationships

	First	Second	Third	Score
AIA	10	1	1	33
CITIC Prudential		5	3	13
Manulife-Sinochem	2	3	1	13
Aviva-COFCO	2	1	1	9
Tokio Marine & Nichido Fire	1	1		5
Allianz	1		1	4
United MetLife		1	2	4
ING	1			3
Mitsui Sumitomo	1			3
Samsung Fire and Marine		1		2
Aetna			1	1
CIGNA			1	1

Based on 18 foreign insurance companies

Geographic expansion

	First	Second	Third	Score
CITIC Prudential	3	7	1	24
Aviva-COFCO	5	2	3	22
AIU	5	3		21
Manulife-Sinochem	5	1		17
Allianz	1	2	4	11
Mitsui Sumitomo	1	1		5
ACE Huatai*	1			3
ING	1			3
United MetLife			2	2
Samsung Fire and Marine		1		2
Generali			1	1
Sompo			1	1

Based on 22 foreign insurance companies

*ACE is a Bermuda based property and casualty company

Innovation

	First	Second	Third	Score
AIU	6	1		20
Aviva-COFCO	4	2		16
United MetLife	3	2	1	14
CITIC Prudential		1	2	4
CIGNA & CMC		1	1	3
Manulife-Sinochem	1			3
Skandia-BSAM	1			3
Sun Life Everbright	1			3
AEGON-CNOOC		1		2
Chubb		1		2
Tokio Marine & Nichido Fire			1	1

Based on 16 foreign insurance companies

Distribution effectiveness

	First	Second	Third	Score
AIU	13		1	40
CITIC Prudential	1	3	3	12
CIGNA & CMC	1	2	3	10
United MetLife	2	1	1	9
Aviva-COFCO	1	2	1	8
Allianz	1	2	1	8
Manulife-Sinochem		2	1	5
Generali	1			3
Royal Sun Alliance		1		2
Skandia-BSAM		1		2

Based on 20 foreign insurance companies

Marketing strategies

	First	Second	Third	Score
AIA	8	1	1	27
Aviva-COFCO	5		1	16
CITIC Prudential	2	4	1	15
Allianz	2		1	7
CIGNA & CMC	1	2		7
United MetLife		2	1	5
Royal Sun Alliance	1	1		5
Haier New York Life		1		2
Sun Life Everbright		1		2
AEGON-CNOOC			1	1
Manulife-Sinochem			1	1

Based on 19 foreign insurance companies

Technically competent staff

	First	Second	Third	Score
AIA	10	4		38
Manulife-Sinochem	3	2	1	14
CITIC Prudential		4	1	9
Allianz	2		2	8
Chubb	1			3
United MetLife		1	1	3
Aviva-COFCO			2	2
AXA		1		2
Sun Life Everbright		1		2
Aetna			1	1
Generali			1	1

Based on 16 foreign insurance companies

Investment products

	First	Second	Third	Score
CITIC Prudential	4	2	3	19
United MetLife	3	3	1	16
Aviva-COFCO	1	3	1	10
Skandia-BSAM	3		1	10
AIA	1		1	4
AEGON-CNOOC	1			3
Allianz		1		2
Generali		1		2
ING		1		2
Sun Life Everbright			1	1

Based on 13 foreign insurance companies

Appendices

Appendices

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Methodology

Previous experience has shown that personal interviews with senior executives using a standard questionnaire offers the best research approach. The questionnaire contained 42 questions and was completed during interviews of approximately one hour. The author conducted interviews in May and June 2008 in Beijing, Chengdu, Dalian, Shanghai and Tianjin.

Responses have not been attributed in this report to individual foreign insurance companies. On occasion separate results have been shown for life companies and property and casualty companies.

At times, individual foreign insurance companies declined to answer particular questions or were unable to provide sufficiently accurate data. This is noted where applicable.

The time commitment, cooperation and support by all the foreign insurance companies in this survey was outstanding.

Participants

Life insurance companies	City	Country of foreign partner
AEGON-CNOOC Life Insurance Co. Ltd.	Shanghai	Netherlands
American International Assurance Co. Ltd.	Shanghai	USA
Allianz China Life Insurance Co. Ltd.	Shanghai	Germany
Aviva-COFCO Life Insurance Co. Ltd.	Shanghai	Britain
AXA-Minmetals Assurance Co. Ltd.	Shanghai	France
CIGNA & CMC Life Insurance Co. Ltd.	Shenzhen	USA
CITIC Prudential Life Insurance Co. Ltd.	Guangzhou	Britain
Generali China Life Insurance Co. Ltd.	Beijing	Italy
Great Eastern Life Assurance China Co. Ltd.	Chongqing	Singapore
Haier New York Life Insurance Co. Ltd.	Shanghai	USA
Heng An Standard Life Insurance Co. Ltd.	Tianjin	Britain
ING Capital Life Insurance Co. Ltd.	Dalian	Netherlands
Manulife-Sinochem Life Insurance Co. Ltd.	Shanghai	Canada
United MetLife Insurance Co. Ltd.	Shanghai	USA
Nissay-SVA Life Insurance Co. Ltd.	Shanghai	Japan
Pacific-Antai Life Insurance Co. Ltd.	Shanghai	Netherlands
Samsung Air China Life Insurance Co. Ltd.	Shanghai	Korea
Skandia-BSAM Life Insurance Co. Ltd.	Beijing	Britain
Sun Life Everbright Life Insurance Co. Ltd.	Tianjin	Canada

Property and casualty insurance companies	City	Country of foreign partner
AIG General Insurance Company China Ltd.	Shanghai	USA
AXA General Insurance China Ltd.	Shanghai	France
Bank of China Insurance Co. Ltd.	Beijing	Hong Kong
Liberty Mutual Insurance Co. Ltd.	Chongqing	USA
Mitsui Sumitomo Insurance Co. Ltd.	Shanghai	Japan
Royal & Sun Alliance Insurance Co. Ltd.	Shanghai	Britain
Sompo Japan Insurance (China) Co. Ltd.	Dalian	Japan
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Shanghai	Japan
Zurich Insurance Company	Beijing	Switzerland

Premium income for domestic life insurance companies (2007)

Company	Premium income (RMB 10,000)
China Life Insurance	19,661,065
Ping An Life Insurance	7,917,750
China Pacific Insurance	5,068,682
Taikang Life Insurance	3,423,667
New China Life Insurance	3,260,626
China Life Insurance (old business)	2,077,600
Taiping Life Insurance	1,584,207
Sino Life Insurance	655,966
PICC Life Insurance	435,876
Minsheng Life Insurance	321,763
Union Life Insurance	306,662
PICC Health Insurance	260,500
Jiahe Life Insurance	257,369
Greatwall Life Insurance	150,248
Huatai Life Insurance	70,513
Dragon Life Insurance	30,944
Yingda Taihe Life Insurance	19,323
Huaxia Life Insurance	15,554
Ping An Annuity Insurance	9,932
Reward Insurance	1,588
Sinatay Life Insurance	1,521
Ping An Health Insurance	277
Kunlun Health Insurance	52
Happy Life Insurance	45
Taiping Pension Co. Ltd	-
China Life Pension Company Ltd.	-
Changjiang Pension Insurance	-
Taikang Pension Co. Ltd*	-
Sunshine Insurance Group	-
Sub total of domestic companies	45,531,730

* A subsidiary owned by Taikang Life Insurance Group doing pension/annuity business.

Source: http://www.circ.gov.cn/Portal0/InfoModule_5193/63413.htm

Premium income for foreign life insurance companies (2007)

Company	Premium income (RMB 10,000)
American International Assurance	889,650
Aviva-COFCO Life Insurance	353,602
Generali China Life Insurance	330,450
CITIC Prudential Life Insurance	301,167
Allianz China Life Insurance	300,058
CIGNA & CMC Life Insurance	239,757
United MetLife Insurance	208,557
Skandia-BSAM Life Insurance	186,099
Sino-US MetLife Insurance	170,761
Sun Life Everbright Insurance	166,455
Heng An Standard Life Insurance	139,869
ING Capital Life Insurance	125,686
AEGON-CNOOC Life Insurance	122,491
Manulife-Sinochem Life Insurance	112,704
AXA-Minmetals Assurance	90,103
Pacific-Antai Life Insurance	70,756
Cathay Life Insurance	53,139
Haier New York Life Insurance	37,232
China Life-CMG Life Assurance	29,581
John Hancock Tianan Life Insurance	12,732
Nissay-SVA Life Insurance	7,502
Sino-French Life Insurance	3,728
Samsung Air China Life Insurance	3,414
Great Eastern Life Assurance (China)	2,462
Sub total of foreign companies	3,957,953
Total	49,489,681

Source: http://www.circ.gov.cn/Portal0/InfoModule_5193/63413.htm

Premium income for property and casualty insurance companies (2007)

Company	Premium income (RMB 10,000)
People's Insurance Company of China	8,859,180
China Pacific Insurance	2,343,304
Ping An Insurance	2,144,953
China United Property	1,831,098
China Continent Property & Casualty Insurance	1,002,840
Tianan Insurance	732,520
AB Property & Casualty Insurance	575,221
Yong An Property Insurance	553,349
Sunshine Property & Casualty Insurance	415,346
Taiping Insurance	341,356
Sinosure	336,031
Du-bang Insurance	267,529
Huatai Insurance	256,363
Alltrust Insurance	150,561
Anhua Agricultural Insurance	140,842
Dazhong Insurance	128,015
Tianping Auto Insurance	117,250
Sinosafe Insurance	83,140
China Life Property & Casualty Insurance	78,585
Bohai Property Insurance	74,246
Sunlight Agricultural Mutual Insurance	53,637
Bank of China Insurance	50,841
Min An Insurance	46,224
Anxin Agricultural Insurance	27,662
Ancheng Property & Casualty Insurance	9,801
China Huanong Property & Casualty Insurance	2,854
Chang An Property & Liability Insurance	0
Sub total of domestic companies	20,622,749
AIA Life Insurance*	83,026
Tokio Marine & Nichido Fire Insurance	36,548
Mitsui Sumitomo Insurance Shanghai	24,952
Samsung Fire & Marine Insurance	22,027
Allianz Insurance	18,182
Royal & Sun Alliance Group	14,345
Federal Insurance	8,834
Sompo Japan	8,233
Zurich Insurance	7,082
Liberty Mutual Insurance Chongqing	6,608
Winterthur Insurance	6,329
Hyundai Insurance (China)	4,155
Groupama SA Chengdu	1,065
Generali China Insurance	443
Aioi Insurance Tianjin Branch	266
Sub total of foreign companies	242,096
Total	20,864,844

*AIA includes AIA Shanghai, AIA Guangzhou and AIA Shenzhen.

Source: http://www.circ.gov.cn/Portal0/InfoModule_5192/63412.htm

Background comments on participants

Foreign insurance company	Background comments [†]
AEGON-CNOOC Life Insurance Co. Ltd. 750 employees www.aegon-cnooc.com	Established in May 2002 and headquartered in Shanghai, AEGON-CNOOC Life Insurance Co. Ltd. is a 50/50 joint venture between AEGON Group and China National Offshore Oil Corporation (CNOOC). Its current registered capital is RMB 1.2 billion. AEGON-CNOOC started its life insurance business in Shanghai, China in May 2003. By 2008 it opened branches in Beijing and Jiangsu, Shandong, Zhejiang and Guangdong provinces.
Allianz China Life Insurance Co. Ltd. 600 employees www.allianz.com.cn	Allianz China Life Insurance Co. Ltd. (previously named as Allianz Dazhong Life Insurance Co. Ltd.), was the first European life insurance joint venture established in China. It officially opened in Shanghai on 25 January, 1999. The company is jointly invested by the German financial conglomerate Allianz AG and CITIC Trust & Investment Co. Ltd. of China. In April 2008, Allianz China increased its registered capital from RMB 550 million to RMB one billion. It operates a life insurance business in Shanghai, Beijing, Shenzhen, Guangzhou and Zhejiang, and Sichuan and Jiangsu provinces.
American International Assurance Co. Ltd. 2,500 employees www1.aia.com.cn	American International Assurance Company, Limited (AIA), a wholly-owned subsidiary of American International Group, Inc. (AIG), has been serving Asia for over 75 years since its inception in 1931 in Shanghai. In 1992, AIA was the first foreign organisation to be granted an insurance license in China. Headquartered in Hong Kong, AIA has branch offices, subsidiaries and affiliated companies in China in the following cities: Beijing, Dongguan, Foshan, Jiangmen, Guangzhou, Shanghai, Shenzhen and Suzhou. In 2003 AIG companies acquired a 9.9% stake in PICC P&C's outstanding share capital at its initial public offering in Hong Kong and reached a cooperative agreement with PICC P&C to develop the accident and health insurance market in China.
Aviva-COFCO Life Insurance Co. Ltd. 1,100 employees www.aviva-cofco.com.cn	Aviva-COFCO Life Insurance Co. Ltd. (ACL) is a joint venture between Aviva Plc and COFCO group, the largest oils and food importer and exporter in China and a leading food manufacturer. ACL commenced operation in Guangzhou in January 2003, with a registered capital of RMB 500 million. By 2008, ACL's business has expanded into 9 provinces and 30 major cities. Its current registered capital is 1.4 billion. In 2007, its total premium income ranked No.2 among all foreign life insurance companies in China, and No.10 among all life insurance companies.
AXA-Minmetals Assurance Co. Ltd. 300 employees www.axa-minmetals.com.cn	AXA-Minmetals Assurance Co. Ltd. is a joint venture of AXA Group and Minmetals Group. It was the first Sino-French insurance company in China and also the first life insurer to be approved by China Insurance Regulatory Commission after it was established. The company was established in Shanghai in June 1999.
CIGNA & CMC Life Insurance Co. Ltd. 2,100 employees www.cigna-cmc.com	CIGNA was the first American insurance company granted by the Qing Dynasty government and entered the Chinese market in 1897. The joint venture was established in August 2002. It is the first Chinese life insurance company not to use agents and brokers. Instead, telemarketing is the preferred distribution channel.

[†]The background comments were taken from the respective foreign insurance companies' websites in July 2008

Foreign insurance company	Background comments [†]
CITIC Prudential Life Insurance Co. Ltd. 2,000 employees www.citic-prudential.com.cn	CITIC Prudential Life Insurance Co. Ltd. was the first Sino-British joint venture life insurance company when it was established in Guangzhou in October 2000. CITIC PRU is jointly owned by China International Trust and Investment Corporation and Prudential Plc UK. CITIC PRU has a registered capital of RMB 1.82 billion, in which CITIC and Prudential Plc each hold 50%. At the end of 2007, the company operated in 9 provinces and 24 cities.
Generali China Life Insurance Co. Ltd. 850 employees www.generalichina.com	Generali China Life Insurance Company Limited is a joint venture between Assicurazioni Generali S.p.A. (Generali) and China National Petroleum Corporation (CNPC). The company was approved by the China Insurance Regulatory Commission on 15 January, 2002. It was the first Sino-foreign joint venture insurance company approved for operation by the Chinese authorities after China joined the World Trade Organization. The registered capital of the company is RMB 1.9 billion. In February 2006, the company moved its headquarters from Guangzhou to Beijing.
Great Eastern Insurance Co. Ltd. 200 employees www.lifeisgreat.com.cn	Established in 1908, Great Eastern Life Assurance is the oldest and most established life insurance company in Singapore and Malaysia. It is a fully-owned subsidiary of Great Eastern Holdings Limited, the largest insurance group in Singapore and Malaysia with about S\$40 billion in assets. Great Eastern is a subsidiary of OCBC Bank. In May 2006, Great Eastern and Chongqing Land Properties Group launched their 50:50 joint venture life insurance company, Great Eastern Life Insurance Co. Limited. Chongqing Land Properties Group is a state-owned enterprise under the Chongqing People's Municipal Government. The company offers life, health, accidental death & dismemberment insurances for both individuals and groups to the Chinese market.
Haier New York Life Insurance Co. Ltd. 800 employees www.hnylic.com	Haier New York Life Insurance Company Limited, established in 2002 in Shanghai, is a joint venture company partnership between the Haier Investment & Development Company Limited., (under the Haier Group of Qingdao) and New York Life International. It provides its customers with a comprehensive range of life insurance products and services and operates in 15 cities.
Heng An Standard Life Insurance Co. Ltd. 2,000 employees www.hengansl.com	Heng An Standard Life Insurance Co. Ltd. (HASL) is a joint venture life insurance company established by Standard Life Assurance and Tianjin TEDA Investment Co. Ltd. with headquarters in Tianjin. The registered capital of HASL is RMB 1.3 billion, of which each shareholder owns 50%. HASL expanded its business to Yangzhou, Jiangsu Province on April 2007, and became the first foreign insurance company in Yangzhou.

[†]The background comments were taken from the respective foreign insurance companies' websites in July 2008

Foreign insurance company	Background comments [†]
ING Capital Life Insurance Co. Ltd. 500 employees www.ing-cap.com.cn	ING Capital Life Insurance Co. Ltd. was the first joint venture life insurance company in the northeast of China. It was co-established by Beijing Capital Group, a large-scale state-owned enterprise and ING Insurance International B.V. of ING Group at the end of 2002. Headquartered in Dalian, the company also has branches in 5 provinces.
Manulife-Sinochem Life Insurance Co. Ltd. 800 employees www.manulife-sinochem.com	Manulife-Sinochem Life Insurance is the first insurance joint venture established in China. It was created by Manulife Financial of Canada and Sinochem Corporation in November 1996. Based in Shanghai, the joint venture has RMB 500 million registered capital, with 51 percent of ownership belonging to Manulife and 49 percent belongs to Sinochem. In 2002, the joint venture established its southern China branch in Guangzhou. In May 2004, it opened a branch in Beijing. Manulife-Sinochem is the official life insurance partner of the 2008 Beijing Olympic games.
United MetLife Insurance Co. Ltd. 220 employees www.metlife.com.cn	United MetLife Insurance Company Limited offers life insurance and savings products to individuals in Shanghai. In 2004 Travelers Life & Annuity, formerly a subsidiary of Citigroup Inc., gained approval from the CIRC to set up a life insurance joint venture with Shanghai Alliance Investment - an investment company funded by the State-owned Assets Supervision and the Administration Commission of the Shanghai municipal government. In 2005 MetLife acquired Travelers Life & Annuity from Citigroup. The insurer is now called United MetLife. Sino-US Met Life was not interviewed in this survey. Sino-US Met Life Insurance began its operation in March of 2004. Although it is a joint venture between US Metropolitan Life Insurance company and Capital Airports Holding Company of China, the joint venture operates under the MetLife brand. It is based in Beijing.
Nissay-SVA Life Insurance Co. Ltd. 200 employees www.nissay-svalife.com.cn	Nissay Life Insurance from Japan is the only Japanese joint venture partner in the life insurance industry. It established a joint venture with SVA group of Shanghai in November of 2003 with a registered capital of RMB 300 million. Both partners have 50 percent ownership.
Pacific-Antai Life Insurance Co. Ltd. 500 employees www.cpic-ing.com.cn	Pacific-Antai Life Insurance Co. Ltd. (PALIC), is a joint venture between China Pacific Insurance (Group) Co. Ltd. and ING Group N.V. It was established in October 1998 in Shanghai. In February 2005, PALIC opened a subsidiary in Guangdong province. At the end of 2006 the company increased its registered capital from RMB 500 million to 700 million. The company now has 20 sales and service centres in Shanghai, Guangzhou and Jiangsu province

[†]The background comments were taken from the respective foreign insurance companies' websites in July 2008

Foreign insurance company	Background comments [†]
Samsung Air China Life Insurance Co. Ltd. 100 employees www.samsung-airchinalife.com.cn	Samsung Air China Life Insurance Co. Ltd. is a joint venture between China National Aviation Holding Company and the South Korean company Samsung Life Insurance. The company was licensed in May 2005.
Skandia-BSAM Life Insurance Co. Ltd. 220 employees www.skandia-bsam.com.cn	Beijing State-owned Assets Management Co. Ltd and Skandia Insurance Company from Sweden formed the joint venture in January of 2004. It has registered capital of RMB 200 million with each partner owning 50 percent. The company's business model plans on building long term relationships with partner companies, instead of using agents. Skandia is owned by Old Mutual of South Africa which is listed on the London Stock Exchange.
Sun Life Everbright Life Insurance Co. Ltd. 630 employees www.sunlife-everbright.com	Canada's Sun Life Financial is in a joint venture with China's Everbright group. It opened for business in Tianjin in April of 2002. In June 2004 the joint venture established a branch in Beijing. It now has branches in Beijing, Shanghai and Guangzhou.

[†]The background comments were taken from the respective foreign insurance companies' websites in July 2008

Foreign insurance company	Background comments [†]
AIG General Insurance Company China Ltd. 500 employees www.aiu.com.cn	In September 1992, AIG was first granted an insurance licence to operate property insurance businesses in Shanghai. In 2006, AIG was approved to run business in the whole Guangdong Province, no longer limited to where it has branches only. In 2007, AIG was approved to establish a fully owned subsidiary in China.
AXA General Insurance Company China Ltd. 100 employees www.axa-ins.com.cn	AXA acquired 100% of Winterthur Group on 14 June, 2006. Winterthur obtained an insurance licence to operate a full foreign owned branch in Shanghai in 1997. Its business operation is confined to general non-life insurance business targeting solely foreign-funded enterprises, Sino-foreign joint cooperative ventures, etc.
Bank of China Insurance Co. Ltd. 1,700 employees www.boc-ins.com	BOC Insurance Co. Ltd., was restructured from the Shenzhen branch of BOC's Hong Kong-incorporated subsidiary of Bank of China Group Insurance Co Ltd. BOC was the first Chinese bank to gain absolute control of a mainland insurance company. BOC Insurance had RMB 517 million premium incomes in 2007. Its market share increased from 0.08% to 0.23%, ranked as No.23 in all Chinese property insurance companies.
Liberty Mutual Insurance Co. Ltd. 130 employees www.libertymutual.com	In November 2003, the CIRC granted Liberty Mutual Insurance Company permission to begin conducting business in the city of Chongqing. Since then, Liberty Mutual has been growing the business by selling insurance products to individuals and small to medium enterprises through a captive agent force, brokers and bank relationships. While the largest line of business is motor (on the commercial side), the company provides an array of other property and casualty products such as fire, cargo, liabilities, homeowners and personal accident insurance. The headquarters are in Chongqing and Liberty Mutual also maintains a representative office in Beijing.
Mitsui Sumitomo Insurance Co. Ltd. 250 employees www.ms-ins.com	Mitsui Sumitomo Insurance Co. Ltd. was created from a merger in 2001. The Shanghai Branch was established in May 2001, and became the second 100%-Japanese-owned insurance company in China. It mainly operates property insurance, health & accident insurance and the related reinsurance business. In addition to the Shanghai Branch, the company has set up 9 offices in major cities across China.

[†]The background comments were taken from the respective foreign insurance companies' websites in July 2008

Foreign insurance company	Background comments [†]
Royal & Sun Alliance Insurance Co. Ltd. 150 employees www.royalsunalliance.com.cn	RSA's links with China go back to 1853 when it first operated in Shanghai. In 1992, Royal & Sun Alliance returned to China and opened a representative office in Beijing, becoming the first European insurer to set up an office in China. In April 1998, the Chinese Premier of the State Council announced during his visit to the UK that Royal & Sun Alliance would be the first British insurance company to be granted an operating licence in China. On 8 October 1998, Royal & Sun Alliance Insurance PLC Shanghai branch was officially opened by the British Prime Minister.
Sompo Japan Insurance (China) Co. Ltd. 200 employees www.sompo-japan.co.jp	Sompo Japan Insurance Inc. established its branch office in Dalian, China on 1 July, 2003 as the first foreign non-life insurance company. As more Japanese companies enter into mainland China, Sompo Japan Insurance offers insurance in respect to accidents occurring during the storage of products and goods exported, imported and transported in the country and accidents during transportation.
Tokio Marine & Nichido Fire Insurance Co. Ltd. 200 employees www.tokiomarine-nichido.co.jp	Tokio Marine & Nichido Fire Shanghai's gross premium income in 2005 was RMB 286 million, an increase of 11.1% from the previous year. Tokio Marine & Nichido's business in China dates back to 1879. In 1980, Tokio Marine & Nichido became the first foreign insurance company to set up a representative office in Beijing and now has seven representative offices in China. In 1994, Tokio Marine & Nichido set up a branch in Shanghai, becoming the first Japanese insurance company to obtain a licence in China.
Zurich Insurance Company 250 employees www.zurich.com	Zurich Insurance Company opened its Beijing Branch in May 2006, with a registered capital of RMB 200 million. Zurich Insurance Company Beijing Branch will focus on serving corporate customers, including foreign customers with activities in China and large and medium-sized enterprises from China, particularly those with business overseas.

[†]The background comments were taken from the respective foreign insurance companies' websites in July 2008

The insurance industry in China has grown at a compound annual growth rate of over 20 percent in the past 10 years. Featured prominently during China's 11th Five-Year Plan (2006-2010), insurance is recognized by the Chinese government as an important industry for supporting the national goals of sustainable growth and a harmonious society.

Given China's double-digit GDP growth but relatively low insurance penetration of 2.8 percent (insurance premiums as a percentage of GDP), the potential for further growth in the insurance industry is tremendous.

The end of the five-year transition period for China's accession to the WTO in December 2006 provided an opportunity to usher in a new beginning for foreign companies to participate in China's insurance markets. The Chinese Government has taken a number of positive steps to comply with its WTO commitments. There remain, however, market access barriers to foreign participation, which raise questions as to their WTO consistency as well as compatibility with China's goals of integration with the global economy and development of global financial markets. These barriers deny Chinese businesses and individuals access to the products and services that American insurance companies can provide.

Significant developments

There have been a number of positive developments in the insurance regulatory environment in the past year. Many new rules have been promulgated in an ongoing effort to improve the regulatory framework. Noteworthy regulations included guidelines on the development of insurance intermediaries, measures for managing pension insurance business (i.e., individual, group and enterprise annuities) and rules for investing insurance funds overseas. Significant developments with respect to market access for foreign companies are described below.

General insurance

Following the U.S.-China Strategic Economic Dialogue in May 2007, Chinese authorities allowed several foreign general insurers, including U.S. companies, to convert their branches in China into locally incorporated subsidiaries. Meanwhile, several foreign general insurance companies were allowed to establish new operations in China in various legal forms such as branch, subsidiary or joint venture.

Reinsurance

Consistent with China's WTO commitments, the China Insurance Regulatory Commission (CIRC) phased out the remaining five percent mandatory reinsurance cession to China Re.

Insurance intermediaries

CIRC, in compliance with China's WTO commitments, allowed wholly foreign-owned insurance brokerages.

QDII

At least two foreign-invested life insurance companies, along with nearly 20 Chinese insurers, were approved for the Qualified Domestic Institutional Investor (QDII) status to invest foreign exchange funds in the Hong Kong stock market.

Specific Issues:

Allowing national treatment for branch approvals

Although Chinese regulations make no formal distinction between Chinese-invested and foreign-invested insurance companies with respect to in-country branching, AmCham members continue to report that they are told by local and national CIRC officials submitted simultaneously or, if so submitted, the applications will not be concurrently reviewed and approved. No AmCham members have been able to obtain branch approvals concurrently. Meanwhile, Chinese-invested insurance companies, even newly established ones, have obtained multiple concurrent branch approvals, enabling them to rapidly build multi-provincial or national branch

networks. For instance, one new domestic insurer has received nearly 30 branch licenses since its establishment less than three years ago. Many of those licenses were granted in batches within a short period of time; some of them on the same day.

AmCham members believe that there are structural and procedural explanations for the disparate treatment that they face. Specifically, branch and other license applications by foreign-invested insurance companies, even those that enjoy legal-person status in China, are subject to supervision by CIRC's International Department, a layer of scrutiny that does not apply to Chinese-invested insurance companies. CIRC's Development and Reform Department appears to have extensive responsibilities, both for centralizing market entry-exit of Chinese legal-person insurance companies and for promoting the development of China's insurance industry. AmCham members are concerned that the Development and Reform Department tends to favor expanded market-entry for Chinese-invested insurance companies over foreign-invested insurance companies, even if this ultimately results in the slower development of the insurance industry and disadvantages the interest of insured.

In addition, CIRC appears to maintain separate procedures for applications by foreign-invested

insurance companies compared to Chinese-invested insurance companies. All applications by foreign-invested insurance companies must be submitted by their head office and are subject to CIRC approval. By contrast, Chinese-invested insurance company applications can be submitted by branches, and branch applications need only to be reviewed by CIRC local bureaus instead of CIRC headquarters. Chinese-invested insurance companies are also entitled to simpler and faster procedures for the establishment of sales offices and for registration of branches and sub-branches.

AmCham believes that these distinctions lack a reasonable basis and are incompatible with China's WTO national treatment obligations. Foreign insurance companies should be allowed to enjoy national treatment by receiving new branch licenses on a concurrent basis.

Relaxing restrictions on reinsurance arrangements

As it phased out the remaining five percent mandatory reinsurance cession to China Re, CIRC instituted a new set of rules on reinsurance arrangements, some of which are inconsistent with the principle of national treatment and/or cumbersome to implement.

More stringent requirements for reinsurance business involving foreign insurers

CIRC has issued several regulations on reinsurance arrangements in an effort to strengthen supervision of the reinsurance business. Foreign companies, however, appear to be subject to more stringent standards. For instance, in conducting treaty or facultative reinsurance, direct insurers are required to make first offers to at least two professional reinsurers in China and the amount offered must be at least 50 percent of the total ceding business. In addition, a foreign-invested insurer has to undergo a rigorous CIRC approval process to undertake reinsurance business with an affiliated company. They are required to provide extensive supporting documents such as annual reports for the past three years, a solvency certificate issued by the relevant regulators and ratings by S&P, Moody's or AM Best. Domestic companies are not subject to such requirements.

Furthermore, the new rules on the security of reinsurance businesses, effective January 1, 2008, require that non-state-owned insurers, including foreign companies, must have ratings above the equivalent of S&P A- to be qualified as the principal re-insurer or re-insurer with the largest share for treaty reinsurance. And other receiving re-insurers must have ratings

above the equivalent of S&P BBB unless they are state-owned companies. Chinese state-owned insurance companies, by definition, are not subject to such rating requirements. Consistent with the WTO principle of national treatment, AmCham believes that CIRC should standardize requirements for re-insurers between domestic and foreign companies. In the long run, unified standards for re-insurers will help Chinese companies become more competitive.

Rigid 80 percent rule on business ceded to a single re-insurer

Current reinsurance rules require that each risk-unit ceded to a single re-insurer may not exceed 80 percent of the sum insured or the liability limit of the direct insurance business. While this requirement may help spread risks, it increases costs and creates difficulty for the reinsurance business. For instance, when the ceding amount exceeds 80 percent of a risk unit, the ceding company would have to decline the business if it is unable to find at least two receiving re-insurers. AmCham believes that to support the growth of the insurance business in China, CIRC should relax the 80 percent rule on business ceded to a single re-insurer.

broadening investment channels for insurers

In the past year, Chinese authorities have gradually broadened investment channels for insurance companies, enabling insurance funds to be more productively allocated to the benefit of society and the insured. “The Provisional Measures for Managing Investment of Insurance Funds Overseas,” issued in July 2007, eliminated previous requirements for excessively high total assets. As of the end of 2007, at least two foreign-invested life insurers, one U.S. company and nearly 20 domestic companies had received QDII status. U.S. insurance companies, however, continue to encounter delays and difficulties applying for QDII quotas and permission to invest insurance funds overseas.

Meanwhile, with respect to establishing asset management businesses, U.S. companies are also at a disadvantage because of requirements for operational experience in China and high total assets levels. The “Provisional Regulations on the Administration of Insurance Assets Management Companies” (2004) require that at least one shareholder or founder be an insurance company or insurance holding company with at least eight years of experience in the insurance business. In addition, they must have net assets of at least RMB1 billion and total assets of at least RMB5 billion or RMB10

billion if the shareholder or founder is an insurance holding company or life insurance company. The insurance business requirements refer only to operations in China with no recognition of the experience of an overseas parent company. The requirements for net assets and total assets are also excessively high and have no direct bearing on the capacity to engage in the insurance asset management business. Those requirements put smaller and/or newer companies to the China market at a disadvantage, even if their parent companies have long and extensive records of successfully investing insurance funds.

AmCham urges the regulators to optimize the requirements for asset management companies by eliminating the China-specific experience and high assets requirements and to simplify and make more transparent the procedures for applying for QDII quotas and permission to invest insurance funds overseas.

Expanding distribution channels by allowing cross-selling between life and non-life insurers

In the past, under the regulatory principle of strict separation of life and non-life insurance operations, life and non-life insurance companies were not allowed to engage in cross-selling, even with an affiliated company. However, as part of an effort to encourage the development of financial group companies, the CIRC has approved

cross-selling in several domestic insurance group companies between their life and general insurance subsidiaries. AmCham believes that cross-selling between life and non-life insurers is a cost-effective distribution channel that can increase productivity of both life and non-life sales forces, improve customer services by making a wider range of products and services available, increase customer retention and renewal ratios because multi-line policies are sold, and improve sales force morale and retention because they have a wider range of products to market and a higher income potential. In short, cross-selling is a win-win solution for insurance companies, their customers and their sales forces.

Currently a group-company structure appears to be the criterion used by the CIRC for approving cross-selling between life and non-life companies. Because of regulatory constraints foreign insurance companies are not yet able to structure their operations in China as group companies. As a result, foreign insurers are excluded from cross-selling. AmCham believes that regulators should ease the group-company qualification, at least to the extent of allowing foreign-invested insurance companies to engage in cross-selling with their affiliates in China.

Opening mandatory automobile insurance business

While mandatory third-party liability (MTPL) automobile insurance was not part of China's WTO accession commitments, the rapid growth in demand for automobile insurance in recent years calls for the inclusion of foreign-invested insurers in the MTPL business to support the development of the automobile insurance market. Allowing foreign general insurance companies to enter the MTPL market would positively affect both consumers and the insurance industry in China for many reasons.

First, foreign general insurance companies bring experience with similar automobile insurance schemes in many developed and developing countries. By leveraging their significant knowledge in managing automobile risks and pricing worldwide, foreign companies could bring efficiency and sustainability to the young MTPL industry in China. Second, foreign general insurance companies can bring their best practices in sales, customer service and claims processing to China's nascent MTPL industry. Foreign insurers can contribute greatly to the industry as it searches for the best ways to handle automobile accidents and claims in a fair and expedited manner. Finally, introducing competition in the MTPL business by allowing foreign participation would help lower costs, improve services and strengthen the industry.

With significant experience and best practices in automobile insurance, foreign-invested insurers have much to offer to the sustainable growth of the automobile insurance market in

China. AmCham believes that the CIRC should consider allowing foreign-invested insurers to provide MTPL automobile insurance.

Summary

While China has taken important steps to meet its WTO commitments, significant market-entry barriers remain, in some cases due to implementation that is not fully consistent with the intent or spirit of WTO obligations. The removal of remaining barriers would not only stimulate the growth of China's insurance market but also benefit Chinese consumers.

Recommendations

- Allow foreign insurance companies to enjoy national treatment by granting new branch licenses on a concurrent basis.
- Standardise requirements for reinsurance businesses between domestic and foreign companies and relax the 80 percent rule on the amount ceded to a single re-insurer.
- Simplify the procedures for applying for permission to invest insurance funds overseas and optimize the standards for asset management companies by eliminating requirements for long China-specific operational history and high assets.
- Allow foreign-invested insurance companies to cross-sell between their affiliated life and non-life insurance companies.
- Allow foreign-invested insurers to provide mandatory third-party liability automobile insurance.

Key recommendations

1. Transparent and consistent regulations

Implement a transparent set of regulations that are consistently applied to both domestic and foreign insurers in accordance with the world Trade Organization (WTO) national treatment requirements.

2. Geographical expansion

Ensure equal treatment between domestic and foreign insurers with regards to branch/sub-branch licensing and geographic expansion. Establish and implement transparent guidelines, timetables and approval processes governing insurance branch applications.

3. Investment related issues

Permit investment in stock, infrastructure and other strategic investment opportunities to be part of the investment mandate of foreign insurance joint ventures (JV). Permit and enable foreign insurance JVs the same business options to develop products (e.g. ability to invest in suitable underlying investments, such as Chinese equities), as well as channels (e.g. broker companies) to serve their customers better.

4. Compulsory lines

Eliminate the restriction on foreign non-life insurers in writing compulsory lines of business (Motor Third Party Liability (TPL)).

5. New market access

Enterprise Annuities: Allow foreign insurers to set up pension companies and lower the benchmark requirements that take into consideration the parent company's capability.

Asset Management: Consider the net asset value and total assets of the parent company when setting minimum asset requirements.

6. Joint venture restrictions

Increase flexibility in the Chinese share ownership to allow majority foreign interest and to remove the limitation of one single Chinese shareholder.

7. Holding companies

Clarify the rules or guidelines for foreign financial services establishing holding companies or regional headquarters in China.

8. Speciality insurance capital requirements

Consider different market access conditions for single line specialty insurance companies; in particular, reduced minimum capital requirements for specialty insurers with a proper international rating.

Introduction to the working group

the insurance Working Group represents some 20 leading European insurers active in life, non-life, reinsurance, and speciality insurance. The members of the Working Group have different operational structures; many have established life and/or non-life JVs with Chinese partners, whilst others have set up branches and in some cases upgrades these to wholly owned enterprises.

Working Group members see China as a long term priority market and are fully committed to their investments, as insurance companies play a key role in the economic and social development of China.

The Working Group appreciates China Insurance Regulatory Commission's (CIRC) efforts in reforming and liberalising the insurance market. Members also welcome the regulator's co-operative approach and willingness to be guided by international practice and look forward to deepening our co-operation in the coming year. Nonetheless, Working Group members are still concerned with regard to the unequal treatment between local and foreign insurers, as it undermines the spirit of WTO commitments and it lessens the opportunities for foreign insurers to participate in the development of the insurance industry in China.

Recent developments

There has been much anticipation about the opening of the financial services sector in China, but overall progress in the insurance sector has been slow and is behind expectations. There is a huge market which is still underdeveloped and given the priorities of the 10 Opinions of the State Council and hence the 11th Five-Year Plan (FYP) for National Economic and Social Development in terms of developing a 'harmonious society' with sustainable growth, an efficient financial sector is imperative to achieve this.

The Chinese financial reform has reached a significant stage, where 4 out of 5 national banks (6 if the newly created China Postal Saving Bank is included) have successfully been listed. It is expected that the emergence of major Chinese banking and insurance groups expanding their portfolio of business capabilities to become integrated financial service providers will continue to dominate the Chinese market. Such development has occurred in many European markets and it must be of interest to the Chinese authorities to take advantage of the European market experience. During the past 5 years since China's accession to the WTO, the Chinese insurance market has gradually opened up, but much has yet to be done in order to have a level playing field between domestic and foreign insurance companies. The Chinese insurance

sector is still small in comparison to the European insurance sector, but it is developing quickly. A recent report from the Ministry of Commerce (MOFCOM) stated that China's insurance premium income rose 22.7% year-on-year to RMB 196.5 billion (roughly €19 billion) in the first quarter of 2007.

The CIRC has recently issued rules and regulations, some of which were to rectify improper market situations and some to guide future developments. In this regard, the Insurance Working Group in particular, welcomes initiatives aimed at bringing stronger corporate governance, internal control and open-market behaviour. These initiatives are essential to ensure that the insurance industry is well placed to contribute proactively towards building a harmonious society in China.

However, no significant regulation was issued in regard to the operation and further expansion of the foreign invested insurance companies in China. The Working Group considers that the 11th FYP for the development of the Chinese insurance industry meets our expectations and hopes, and it is consistent with our collective will to contribute to reaching this programme's objectives.

The huge potential of the Chinese insurance market can be appreciated in the anticipated targets of the 11th FYP: more than RMB 1 trillion (roughly €95 billion) premium income, 4% insurance penetration, RMB 750 (roughly €72) insurance density and RMB 5 trillion (roughly €479

billion) of total assets managed by the insurance industry by year 2010. The Insurance Working Group is committed to bringing about close co-operation between European and Chinese insurance professionals and authorities to assist in the development of the Chinese insurance market, and to share knowledge and expertise in an increasingly sophisticated and complex insurance industry.

The Insurance Working Group is convinced that China will benefit from continuously opening up its insurance market, and take further advantage of the European experience and know-how to modernise the related legal framework and develop a generation of local insurance talents, therefore bringing about a healthy and rapid development of the Chinese insurance market. The Working Group would also like to encourage the use of more tax incentives in order to strengthen private insurance.

Many Chinese laws and regulations are complex and may appear unsystematic, especially when they were designed to rectify a particular market situation. The Insurance Working Group believes that it is critical for the healthy development of the Chinese insurance industry to have a transparent legal system that is consistent with the overriding long-term objective of developing a fair and open Chinese insurance market. The general view is that the Chinese authorities are moving in the right direction, although the speed of which could be accelerated.

Key recommendations

1. Transparent and consistent regulations

Concern:

Foreign insurers are concerned that the implementation rules of the Insurance Law remain inconsistent as foreign insurers remain at a disadvantage in comparison to local companies. They believe that there is still room for further improvement with regard to implementing a transparent and consistent set of regulations.

Assessment:

The operations of companies, local or foreign, must rely on a common legal framework that would general equal conditions for the development of its activities. The initiated opening process has provided steps forward and the Insurance Working Group recognise the efforts already fulfilled from the regulatory authorities. The promulgation by CIRC of the Regulations on the Procedures for the Formulation of Rules made the rule-making procedures transparent and consistent, but the above mentioned process must tend towards equal treatment between local and foreign insurers. To this end, it is essential to encourage the CIRC to further develop a transparent set of regulations and administrative procedures that are uniformly and consistently applied to both domestic and foreign insurers.

Recommendation:

Implement a transparent set of regulations that are consistently

applied to both domestic and foreign insurers in accordance with WTO national treatment requirements.

2. Geographical expansion

Concern:

Foreign insurance are facing difficulties in business planning and resource management due to limited predictability in geographical business expansion and lack of established criteria in the development of new regional markets.

Assessment:

Participation in the development of all regional markets is one of the prerequisites for foreign insurers to contribute their experience in corporate governance, risk management, distribution and product development throughout China. Local provincial governments – including local China Insurance Regulatory Bureaus – are supportive of such broader deployment of foreign insurers, providing their market entry does not impose additional strain on talent availability to domestic insurers. In view of this, decisions on speed and regional priorities taken by the governing boards of the insurers themselves. The role of the regulator during an expansion approval process could be confined to ascertaining adequate capital availability and appropriate solvency, as well as availability of a qualified local management team based on diversity of recruitment sourcing or own training. At the same time

there is room for shared activity between the regulator, local governments and the insurance industry for preventing talent drain from individual companies and for creating a framework in providing broader training efforts at universities or technical colleges.

In terms of legal status, domestic and foreign insurers should receive equal treatment in the deployment of their regional operations.

Market participants should be able to decide on appropriate timing, direction and speed in the deployment of their regional operations, whereas their individual assessment of regional markets – including business potential, competitive situation, own branded profile, channel preferences and talent development – will lead to diversity in approaches and priorities.

Currently the criteria for admitting foreign insurers into regional markets are not completely transparent. This regularly imposes additional financial strain on the shareholders or impairs effective development planning in cases of uncertainties in approval timing and location. If the performance of foreign insurers in previously opened provincial branches is a serious concern for the regulator, this should be communicated to the relevant company with deadlines for improvement.

Recommendation:

- Ensure equal treatment between domestic and foreign insurers

with regards to branch/sub-branch licensing and geographic expansion.

- Establish and implement transparent guidelines, timetables and approval processes governing insurance branch applications.

3. Investment related issues

Concern:

The limitations on foreign insurers' investment regulatory plans represent a disadvantage as opposed to domestic insurance companies.

Assessment:

The opening process of the investment regulatory plans for insurance institutions has contributed enormous advantages for the companies that are constituted as Qualified Domestic Institutional Investors (QDII). These advantages are not limited to the improvement in their investment income, but also allow them to reduce the risk on financial operations and to offer products related to operations in foreign currencies.

The Insurance Working Group recognises the CIRC's efforts to expand the investment channels available to insurance companies and welcomes the recent announcement from CIRC for foreign and domestic insurers to receive equal treatment and be allowed to apply for the QDII

license. However, the Working Group remains concerned as one of the conditions for a trust or to fulfil the QDII application is to have two independent directors, which presumes a disadvantage for both local and foreign joint ventures.

The Working Group believes that foreign insurance companies should be allowed to invest in stock and infrastructure investment channels if they have the technical ability. Currently, such channels are only open to insurance companies with insurance asset management subsidiaries. Existing regulations stipulate that only insurers that have held licenses for more than eight years and assets of over RMB 10 billion (roughly €959 million) (RMB 50 billion (roughly €4 billion) for non-life companies) are permitted to establish an insurance asset management company. Although the limitation applies to both local and foreign insurers, it effectively excludes all foreign companies entering the market after China's WTO accession in 2001. Foreign companies' international operation experience and capital should be accredited in fulfilment of local operating experience and asset threshold requirements.

Recommendation:

- Permit investment in stock, infrastructure and other strategic investment opportunities to be part of the investment mandate of foreign insurance JVs.
- Permit and enable foreign insurance JVs the same business options to develop products (e.g. ability to invest in suitable underlying investments,

such as Chinese enquiries), as well as channels (e.g. broker companies) to serve their customers better.

4. Compulsory lines

Concern:

The restrictions in writing compulsory lines represents a limitation for foreign non-life insurers to access the motor market and subsequently, it affects the development of personal lines.

Assessment:

In the area of non-life insurance business, the bulk of the business is currently in motor insurance, where the compulsory cover for Motor TPL represents access to this line of business. Until the current restrictions for foreign insurers to write compulsory lines are waived, foreign insurance companies will not have real access to the motor insurance business. Furthermore, since motor insurance is the most extended of the personal lines, it is impossible for the foreign insurers to develop specialised distribution networks without writing the compulsory motor coverage, as it is not possible to generate sufficient income for their commercial agents, who need to rely on motor business while developing other personal lines.

Recommendation:

Eliminate the restriction on foreign non-life insurers in writing compulsory lines of business (Motor TPL).

5. New market access

Concern:

Foreign insurers in life and non-life sectors should be allowed to make the same strategic decisions in entering new markets (e.g. in corporate pension, health or asset management business) as domestic insurers. This is currently not the case due to the existence of access barriers that apply to foreign insurers, and means that the insurance industry lacks the expertise and knowledge that European insurers can offer.

Assessment:

In the interests of allowing China's insurance market to develop more rapidly so as to lead the development of the Chinese financial market, and to share best international practices, it is recommended that the decision for life insurance companies to expand into related businesses, such as health insurance, corporate pension and asset management, shall be business-based and reside with its respective boards. It should not be restricted by regulation. Many European life insurers have experience in supporting the development of enterprise annuity schemes and wish to bring this expertise to assist developments in China. Allowing foreign insurance ventures into these businesses is consistent with the spirits of WTO accession conditions.

The Working Group acknowledges the need for the Chinese regulators

to differentiate and permit only those foreign players with the proper expertise, track record and financial strength to venture into China. However, the Working Group recommends that the minimum qualifying requirements should be consistent with global standards and the particular characteristics of the business involved should be taken into account. For example, none of the top three global credit insurers can qualify as a foreign partner on the basis of asset value, even though they have all been in business for over 30 years. Also, the expertise of an insurance parent company (e.g. in corporate annuity and health insurance) should be taken into account as an alternative to satisfying local qualifications, such as the current requirement to set up a representative office in China for a least two years.

Recommendation Enterprise Annuities

- Allow foreign insurers to set up pension companies.
- Lower benchmark requirements that take into consideration the parent company's capability.

Asset Management

- Consider the net asset value and total assets of the parent company when setting minimum asset requirements.

6. Joint venture restrictions

Concern:

Many JVs are facing difficulties due to conceptual differences in strategic decision making, which are vital to its operations. The current capital structure, due to its inflexibility, generates difficulties in solving conflicts and harms the viability of the companies, which in turn undermines the public's confidence in the insurance industry.

Assessment:

Many foreign insurance companies, which have established JVs with local shareholders, have genuine and honest differences of opinion with their local associates. These differences prevent the formation of strategic decisions of a technical and financial nature which are necessary to ensure the adequacy of capital and solvency of the companies. Limiting foreign participation to 50% and the local partner to only one local shareholder makes it difficult to solve these differences. By increasing the flexibility of the Chinese share ownership of the JVs, further investment opportunities will be created for a broader range of domestic investors.

Recommendation:

Increase flexibility in the Chinese share ownership to allow majority foreign interest and to remove the limitation of the one single Chinese shareholder.

7. Holding companies

Concern:

Foreign insurers remain concerned as there are no clear guidelines from the Chinese government on how foreign investors should establish a cost effective holding structure in China.

Assessment:

In recent years, single foreign companies have been investing more and more in the various sectors of the financial service industry in China, namely banking, insurance, assets management, mutual fund and securities brokerage. It is important for the foreign investor to establish a cost efficient holding structure in China to centralise the shared services and compliance reporting. So far, there are no clear guidelines from the Chinese government on how this practice can be established. The Ministry of Foreign Trade and Economic Co-operation's (MOFTEC) ruling on the 'Foreign Investment Company' is still focusing on manufacturing enterprises. To establish such guidelines for the financial services sector there needs to be closer co-ordination amongst the CBRC, China Securities Regulatory Commission (CSRC), the CIRC and other government bodies.

We believe the establishment of such a holding structure will also benefit the transfer of know-how from the foreign investor to the local market. Meanwhile, it will make the supervision more transparent and reduce the compliance costs for the foreign investor.

Recommendation:
Clarify the rules or guidelines for foreign financial services companies establishing holding companies or regional headquarters in China.

8. Specialty insurance capital requirements

Concern:
The current market access conditions and capital requirements prohibit the development of specialty insurance businesses in China.

Assessment:
Under the current market access conditions, there is no distinction between general insurers and specialty insurers. The requirements of US\$ 5 billion (roughly €3.6 billion) total assets and RMB 200 million (roughly €19 million) minimum registered capital are excessive for specialty insurers which, in most cases, are highly specialised in one or two products (e.g. credit, sports and event insurance, architect and engineering design), within a niche market. The best specialty insurers typically have very specific know-how and can have a very healthy

solvency situation. Their niche focus means their assets scale is not, and need not be, comparable to multi-line general insurers.

The current market access conditions make it impossible for specialty insurers to develop activities in China. This inhibits their know-how to contribute to the healthy development of the Chinese insurance sector.

Recommendation:
Consider different market access conditions for single line specialty insurance companies; in particular, reduced minimum capital requirements for specialty insurers with a proper international rating.

Source: European Business in China Position Paper
2007/2008 Insurance Working Group

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Intelligence Unit on M&A in Asia's financial services sector (issued March 2008)

- Asia Pacific Insurance Digest (issued January 2008)
- Accounting for M&A in the insurance sector: A practical guide to IFRS and US GAAP implications (issued December 2007)
- Insurance reporting at the crossroads: What do analysts think? (issued November 2007)
- Countdown to Solvency II – Bridging risk and capital (issued October 2007)
- Insurance Banana Skins 2007 – a CSFI survey on the risks facing insurance companies sponsored by PricewaterhouseCoopers (issued May 2007)

Financial Services

[Mervyn Jacob](#)

Tel: +852 2289 2700

Insurance

[Tom Ling](#)

Tel: +86 (10) 6533 2381

[Shu-Yen Liu](#)

Tel: +86 (10) 6533 2592

[Peter Whalley](#)

Tel: +852 2289 1192

Banking & Capital Markets

[Simon Copley](#)

Tel: +852 2289 2988

[Raymond Yung](#)

Tel: +86 (10) 6533 2121

Investment Management

[Robert Grome](#)

Tel: +852 2289 1133

[Alex Wong](#)

Tel: +86 (21) 2323 3171

Assurance

Tom Ling

Tel: +86 (10) 6533 2381
tom.tm.ling@cn.pwc.com

Peter Whalley

Tel: +852 2289 1192
peter.whalley@hk.pwc.com

Lloyd Bryce

Tel: +852 2289 2712
lloyd.bryce@hk.pwc.com

Pebbles Punia

Tel: +852 2289 2701
pebbles.punia@hk.pwc.com

Felix Sutter

Tel: +86 (10) 6533 2110
felix.sutter@cn.pwc.com

Alex Wong

Tel: +86 (21) 2323 3171
alex.wong@cn.pwc.com

Tax

Rex Ho

Tel: +852 2289 3026
rex.ho@hk.pwc.com

Matthew Wong

Tel: +86 (21) 2323 3052
matthew.mf.wong@cn.pwc.com

Advisory

Nelson Lou

Tel: +86 (10) 6533 2003
nelson.ip.lou@cn.pwc.com

Tim Pagett

Tel: +86 (10) 6533 2352
tim.pagett@cn.pwc.com

Matthew Phillips

Tel: +86 (21) 2323 2303
matthew.phillips@cn.pwc.com

Christopher Tan

Tel: +86 (10) 6533 2552
christopher.tan@cn.pwc.com

Audit and Assurance

- Actuarial services
- Assistance on capital market transactions
- Corporate reporting improvement
- Financial reporting
- Financial statement audit
- Sustainability reporting
- IFRS reporting
- Independent controls & systems process assurance
- Internal audit
- Regulatory compliance and reporting
- Sarbanes-Oxley compliance

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- Business Recovery Services (for services primarily outside the US)
- Dispute Analysis & Investigations

Human Resources

- International assignments
- Reward
- HR management
- Change and programme effectiveness

Performance Improvement

- Basel II readiness – Planning and implementation
- Integrated risk and compliance process improvement
- Enhancement of risk governance, measurement, management and reporting
- Operational process improvement
- Financial management efficiency and effectiveness
- IT Efficiency and effectiveness

Tax

- International tax structuring
- Compliance
- International assignments
- Mergers & acquisitions
- Transfer pricing

Transactions

- Accounting valuations
- Advice on fundraising
- Bid support and bid defence services
- Commercial and market due diligence
- Financial and business economics
- Financial due diligence
- Independent expert opinions
- Markets entry advice
- Mergers & acquisitions advisory (buy and sell)
- Modelling and business planning
- Post deal services
- Private equity advice
- Project finance
- Privatisation advice
- Regulation, competition and merger economics
- Strategy and structuring services
- Tax valuations

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