



**Deloitte.**

2015 CAS RPM Seminar, International Track

## Current Regulatory and Market Advancements in the China P&C Insurance Market

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Dallas, Texas

March, 2015



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## Agenda

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- I. Introduction of China P&C Insurance Market
- II. Auto Insurance Pricing and Its Recent Reforms
- III. Solvency Regulations and Market Trend
- IV. Ping An Insurance Company Overview
- V. Q&A

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# I. Introduction of China P&C Insurance Market

# China – A Fast Growing Market

- China has a fast growing market since the market opened up in 1978.

*Then.....*



*Now!*



## China – A Fast Growing Market

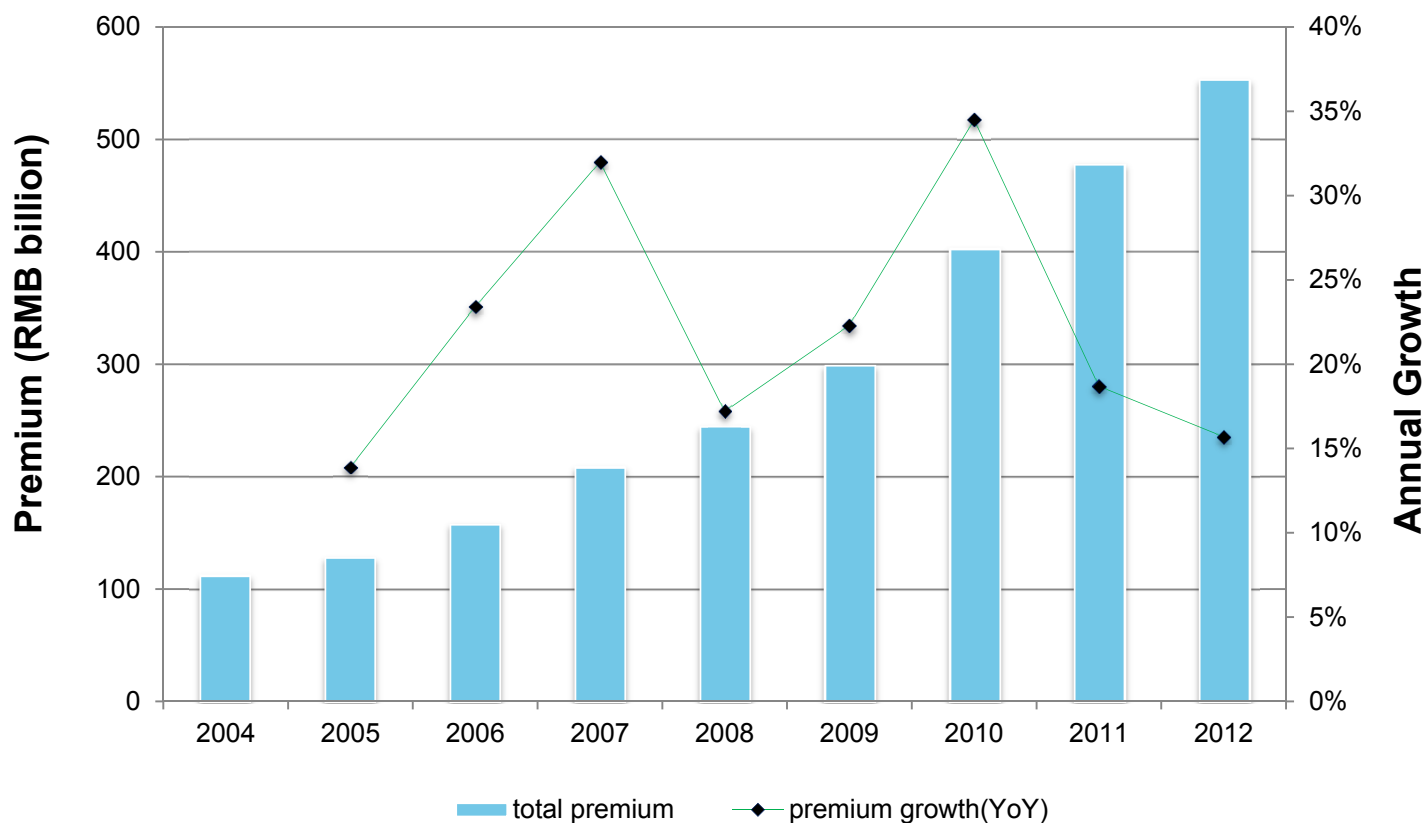
- In 2009, China took over US to become the world #1 country in auto sales, 13.6 million vs. 10.4 million.
- The annual auto sale grew from 2.4 million in 2001 to 18 million in 2011
- In 2013, the total number of registered vehicles in China hit 219 million.



Red: China  
Blue: US  
Per 10,000 Unit

## China – A Fast Growing Market

- In 2013, the total P&C premium in China exceeded \$600 billion RMB (\$100 US billion). The growth rate in recent years has slowed down to less than 20%.



- \$1 US Dollar = 6.2 RMB

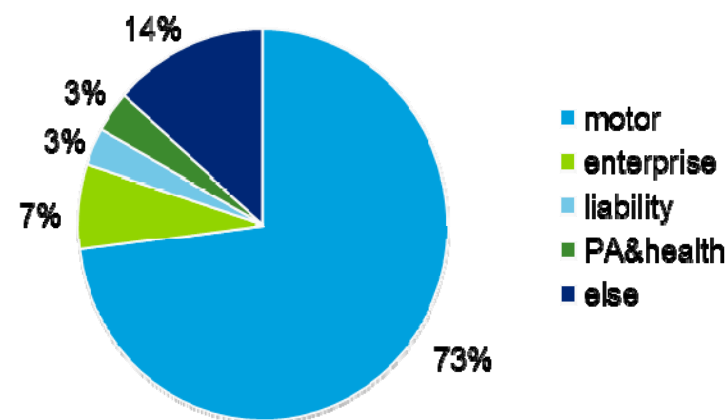


# China P&C Insurance Market Overview

- As of 12/2012, there are a total 62 P&C insurance companies in China, of which 41 companies are Chinese owned and 21 are foreign owned.
- The total market share of the 20 foreign companies is only 1.2% with a total premium of 6.7 billion RMB (\$1.1 billion US dollars).
- In 2012, the top 3 P&C companies, PICC, Ping An, and CPIC, have a total of 66% market share.

	Company	Premium (RMB Billion)	Annual Growth, %	Market Share, %
1	People Insurance Company of China	193.0	11.3	34.9
2	Ping An Property	98.8	18.5	17.9
3	China Pacific Property	69.6	12.9	12.6
4	China United Property	24.6	17.2	4.4
5	China Life P&C	23.5	43.6	4.3
6	China Continent P&C	17.9	10.1	3.2
7	Sunshine Property	14.7	10.1	2.7
8	Sinosure	14.3	39.3	2.6
9	Tian An	8.1	3.9	1.5
10	Taiping	7.8	33.9	1.4

P&C Product Distribution, 2011



- Auto insurance has been the main growth engine for the China P&C insurance market. As of 2012, Auto insurance accounts for 73% of the total market, about \$57 billion US dollars.
- \$1 US Dollar = 6.2 RMB**
- Due to different regulatory environments, the data quality for auto business is better than the data quality for the other LOB.



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## II. Auto Insurance Pricing and Its Recent Reforms

## Two Types of Auto Insurance Policies in China's Auto Insurance

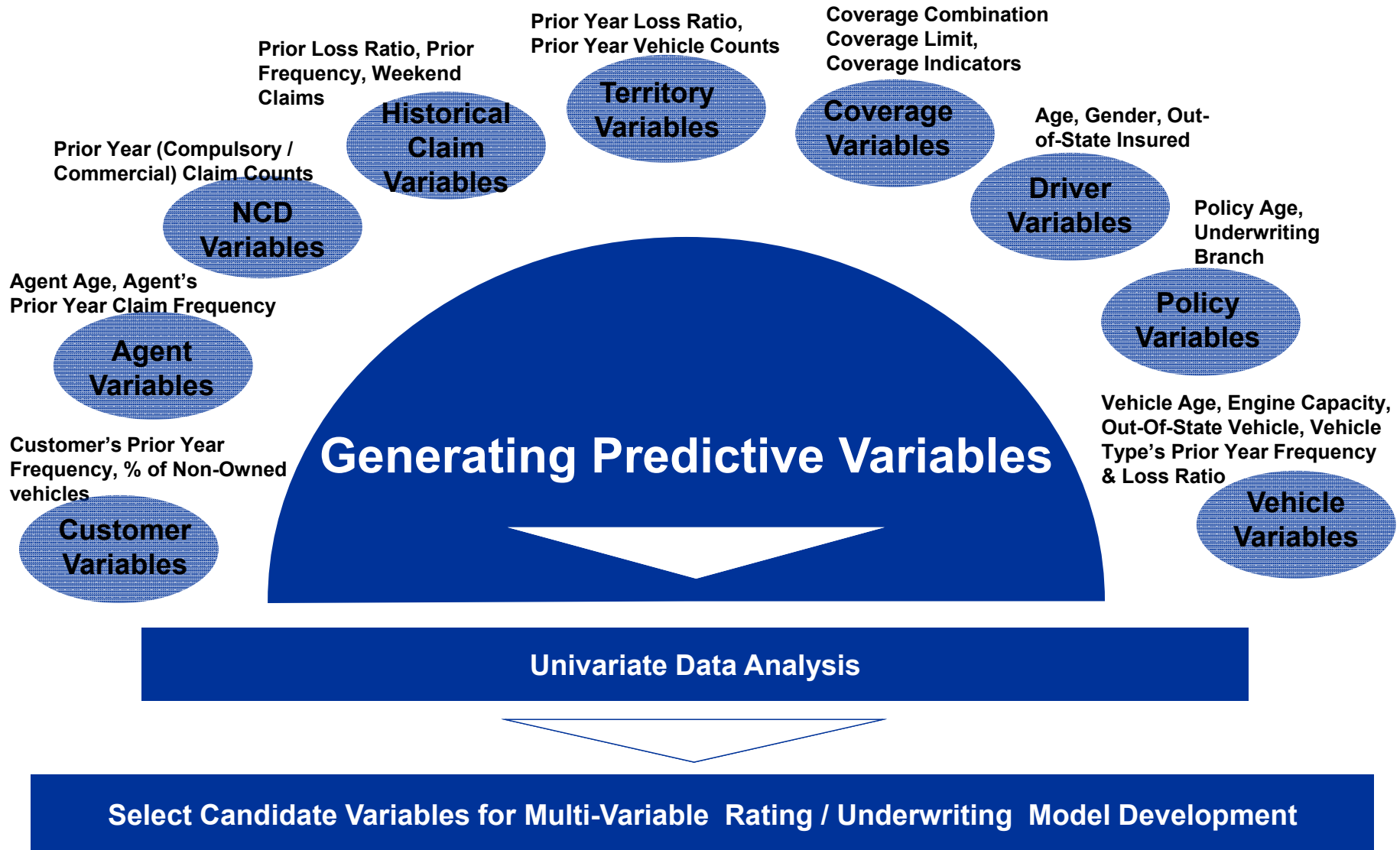
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- Compulsory “Take All Comers” Third Party Liability Insurance
  - Provides minimum liability coverage required by law. It covers BI with indemnity for death, medical expense, and property damage. No automobiles can be operated on the road without it.
  - The same limits (\$122K RMB limit for BI&PD&MP Staggered) are applied for all vehicles types, both personal and commercial.
  - Premium is regulated and is stipulated by a simple rating table. The premium is differed by vehicle types and few other variables with no territory differentiations at all.
  - Overall, the industry compulsory insurance has suffered UW loss in recent years due to an increasing severity trend and no rate changes, but the performance varies widely by region due to the loss cost differentiations of fatal accident between poor regions vs. rich regions.
- Voluntary Auto Insurance for Excess Liability and Physical Damage
  - Covering both excess liability and physical damages
  - Currently, there are 4 government approved rating plans, but they are fairly similar to each other regarding structure and rating variables.
  - There are two parts in each of the 4 rating plans:
    - By coverage base rate and the associated class plan
    - Regulated discount and surcharge rules on all coverage combined policy level premium: the maximum allowed discount is typically 30% with some variations by risk and by region
- One vehicle could have two policies, one for compulsory third party liability and the other one for voluntary excess liability and physical damage. Two policies could have different effective dates.

## Auto Insurance Pricing Reform on Voluntary Auto Insurance

- “Allow insurers to determine their premium; allow customers to choose their insurer” - major changes with the recent Voluntary Auto Insurance Reforms include:
  - Personal auto and commercial auto still share a similar rating structure
  - The current 4 rating plans will be integrated into a single rating plan
  - A “No Claim Discount” (NCD) schedule for voluntary insurance is explicitly specified and has to be part of the base premium:
    - NCD is similar to MVR surcharges/discounts in US
    - NCD is different between compulsory liability and voluntary insurance
    - NCD is applied on the vehicle basis, not on the driver basis
  - Vehicle symbol rating is added to the physical damage premium
  - Two types of risk based adjustments are allowed in the final policy level premium:
    - ***Underwriting adjustment: (-15% , 15%)***
    - ***Additional adjustment by distribution channel: (-15% , 15%)***
  - Agent commission can vary within an overall ceiling
- Reforms for Compulsory Third Party Liability insurance is planned for 2015-2016
- P&C insurers will leverage the two risk premium adjustments in competition:
  - Rate inefficiency for the compulsory policy will be considered in determining the voluntary policy adjustments for a customer
  - Additional data resources and advanced analytics tools have become popular for auto pricing

# Data Analytics and Predictive Modeling Opportunities



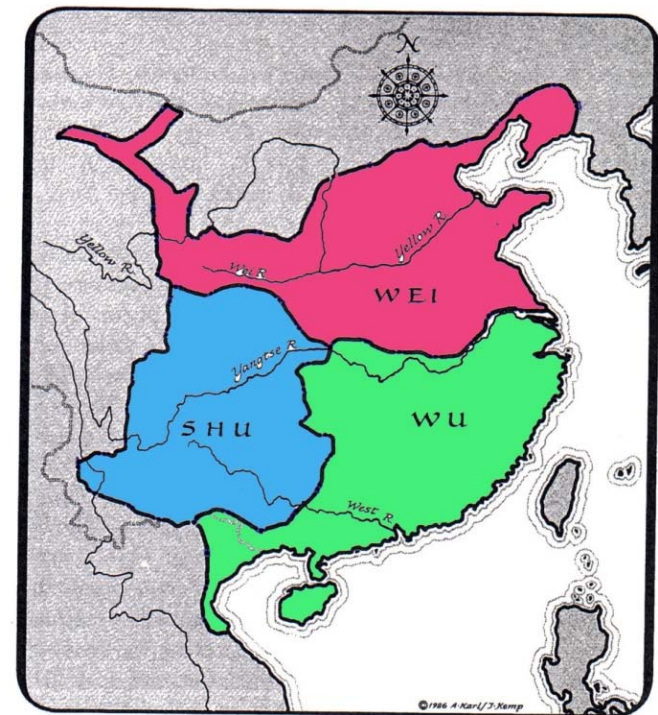
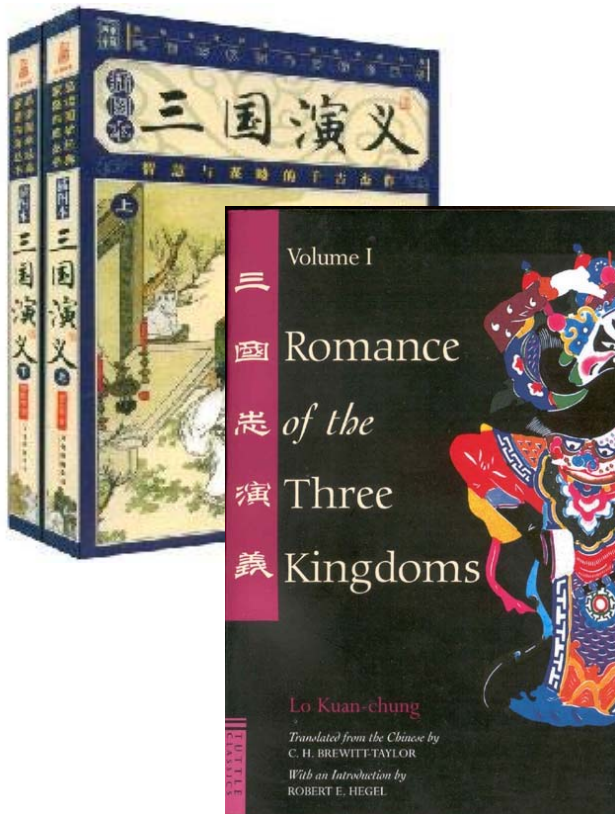
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## III. Solvency Regulations and Market Trend

## Literary and Historical Background for the Three Kingdoms Story

**Romance of the Three Kingdoms** is a historical novel – one of China’s most beloved and defining literature works – written by Luo Guanzhong in the 14<sup>th</sup> century.

For the main theme of the story, there were three main regional powers competing the final dominance of the country. The story dramatizes the power struggle and tug of war between these three kingdoms.

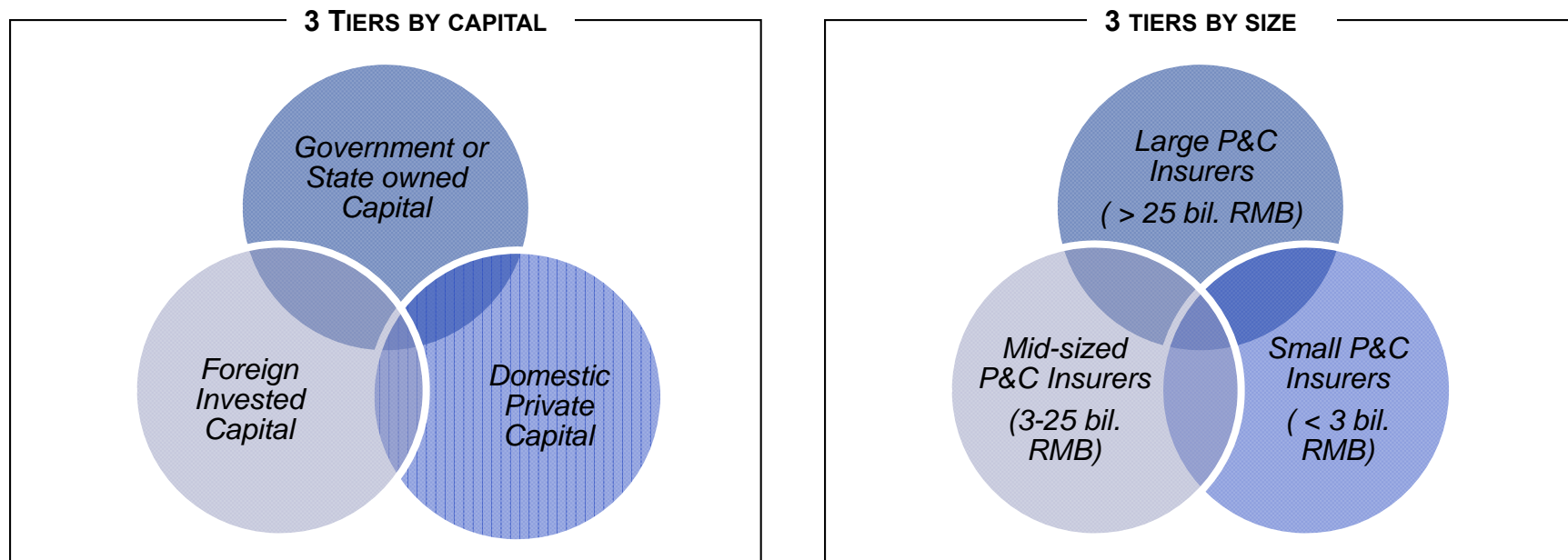


*The Three Kingdoms (220–265)*

# Romance of the Three Kingdoms

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## Perspective 1: Different Type of Insurers in China



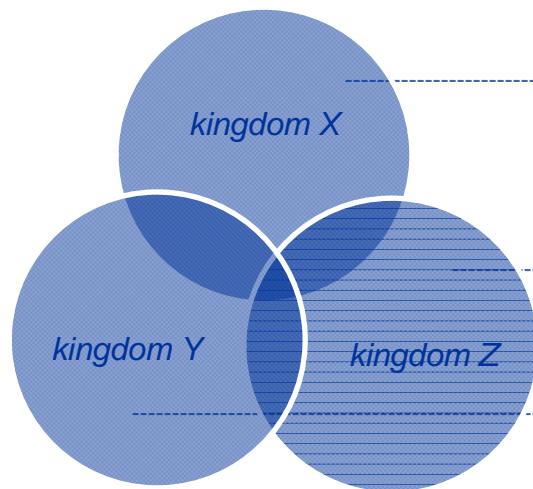
**Main Challenge:** Lack of market standards and sound regulations to fairly regulate all insurance companies across the industry.



# Romance of the Three Kingdoms

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## Perspective 2: Actuary, Economist, and Politician



### Actuary

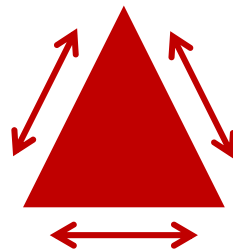
- Risk/cost driven: insurance performance metrics

### Economist

- Market and customer driven: supply & demand

### Politician

- Public & political interest driven: policy and regulation



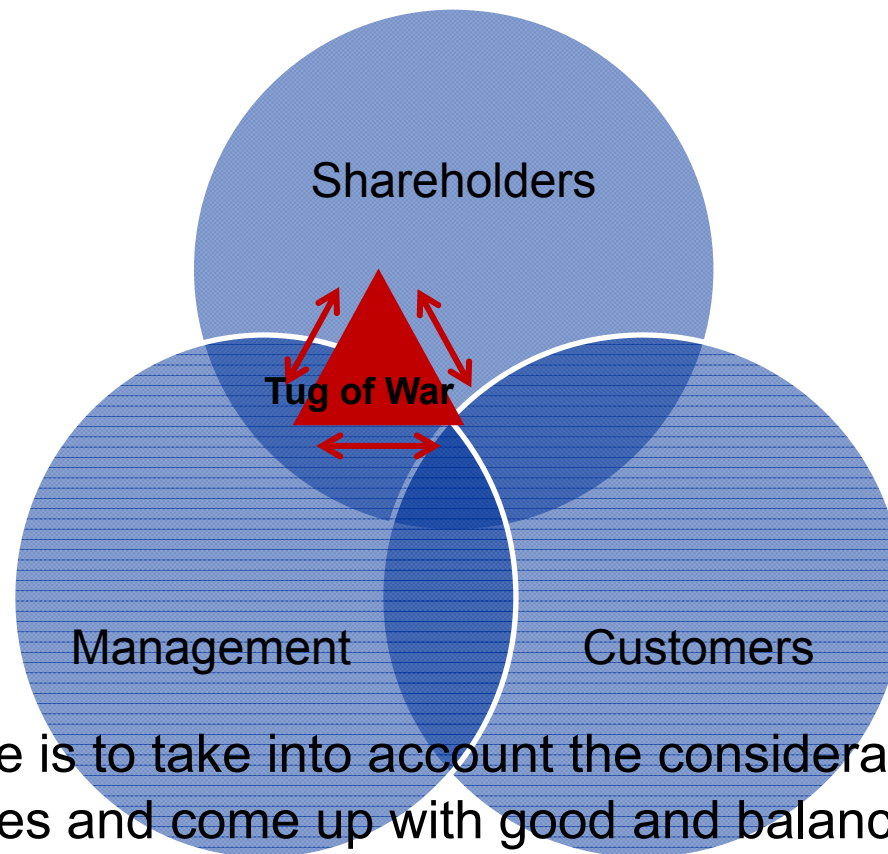
### Actuary

- The role is to take into account the considerations and interest of all different parties and come up with good and balanced decisions

# Romance of the Three Kingdoms

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Perspective 3 : Actuarial profession's role in the company



**Actuary:** The role is to take into account the considerations and interest of all different parties and come up with good and balanced decisions.

# Romance of the Three Kingdoms

## Perspective 4 : New Regulation Trends and Impacts

### Banking and Currency Reform:

- China Central Bank allowed a double digit trading range on currency
- Expected to relax interest rate control
- A series of banking reforms and pilots in progress

Market Driven Reform of Interest Rates and Currency Rates

### Pricing Reform:

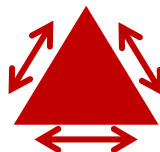
- Allow a wider range of credits and debits
- Independent rating and products for financially strong companies
- National accident reporting platform
- Adoption of UBI

### Solvency Regulation Reform:

- C-ROSS: China Risk Oriented Solvency System (in development)
- More requirements on capital adequacy testing, 3 pillar framework

Evaluation Driven Reform of Solvency Regulations

Competition and Risk Driven Reform of Pricing



**For actuaries, the China insurance industry does need your inputs, contributions, and participations.**

# Two Topics for New Regulations and Market Trends

- Topic #1: Regulation Reforms
  - C-ROSS: China Risk Oriented Solvency
  - Product Deregulation and Marketization for Rules and Rating
- Topic #2: Constantly Emerged New Risks in the China Market
  - Case Study : iCarclub, a P2P Car-Rental Platform - What type of new risks to cover and how to rate the risks?

## Topic #1: Regulation Reforms

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Two important regulations pilots in 2015: which one will eventually become the rules first?

- CROSS - Solvency Regulation Rules #13
  - On February, 2015 , CIRC issued the new CROSS Regulations No.1-17, and will start experimental implementation in 2015
- Motor Insurance Rating Marketization
  - On February 2015, CIRC issued the statement of “Administration Reform for Commercial Motor Insurance Product Clauses and Rating” ( 《关于深化商业车险条款费率管理制度改革的意见》 ) , and will start the pilot program for the reform in 5 provinces/cities on May 1<sup>st</sup>, 2015

## Topic #2: New Market Trends

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China market constantly experiences new products and risks. The following is a case study for new risks – how to cover and rate the risks?

- iCarsclub, a P2P car-rental platform
  - Established in Singapore on October 2012 and started its operation on December 12, 2012
  - On February 2013, iCarsclub received capital infusion from both Singapore Government and venture capitals
  - On October 10, 2013, iCarsclub entered the China market and invested a China operation in Beijing.
  - Up to September 9, 2014, iCarsclub operation covers 11 top cities in China with more than 1 million members registered.
  - On November 2014, iCarsclub completed its second round of \$60 million US dollar financing from private venture investors.

## Topic #2: New Market Trends

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- So for iCarsclub, how the auto insurance works for the company?
  - In Singapore, iCarsclub works with DirectAsia to provide each member a \$2.5 million insurance protection coverage
  - In China, iCarsclub is trying to find local insurers to provide similar insurance coverage for its customers, but it is still in progress. One of key challenges is what kinds of risks are involved and how to rate them?



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## IV. Ping An Insurance Company Overview

# PING AN GROUP - BUSINESS STRUCTURE

## “Ping An Chariot” 4- 2 - 3 – 1 Formation



## INVESTMENT

- Ping An Lufax
- Ping An Haofang
- Ping An Haoche
- Ping An Wanlitong
- Ping An Fu
- Ping An Financial & Technical

## INSURANCE

- Ping An Life
- Ping An Property & Casualty
- Ping An Annuity
- Ping An Health
- Ping An Hong Kong

### Written Premiums (in USD million)

2013	54,475
2012	48,574
2011	44,058

## BANKING

- Ping An Bank

### Loan Balance (in USD million)

2013	137,768
2012	117,198
2011	100,915

## INVESTMENT

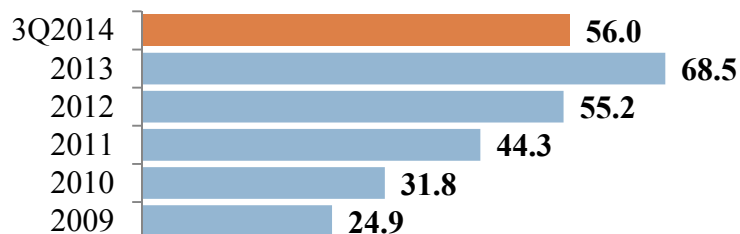
- Ping An Trust
- Ping An Securities
- Ping An Asset Management
- Ping An Overseas Holdings
- Ping An Asset Management (HK)
- Ping An – UOB Fund

### Assets Held in Trust (in USD million)

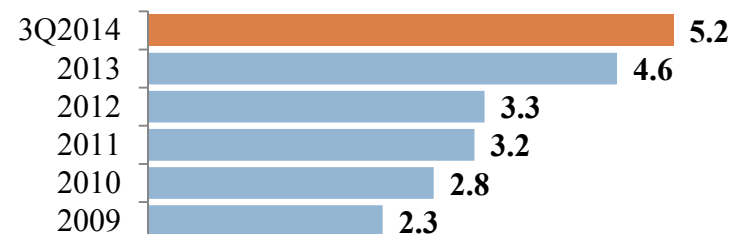
2013	47,205
2012	34,475
2011	31,904

# PING AN GROUP - FINANCIAL DATA

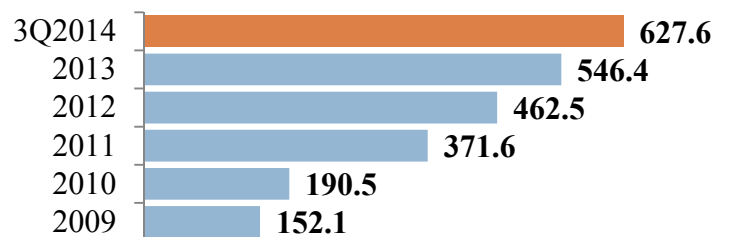
**Total Income (in Billion USD)**



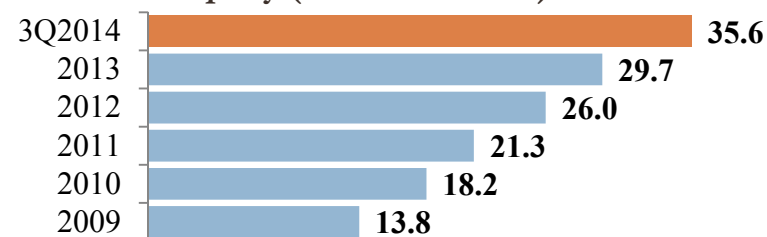
**Net Profit Attributable to Shareholders of Parent Company ( in Billion USD)**



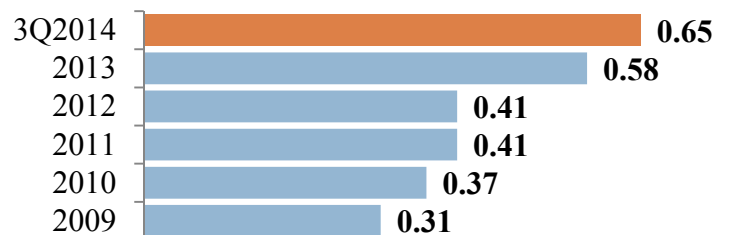
**Total Asset (in Billion USD)**



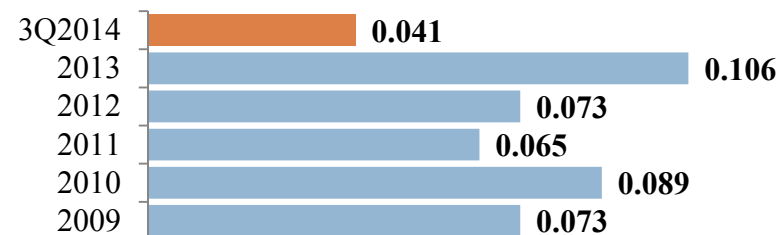
**Equity Attributable to Shareholders of Parent Company ( in Billion USD)**



**EPS (in USD)**



**Dividend per Share (in USD)**

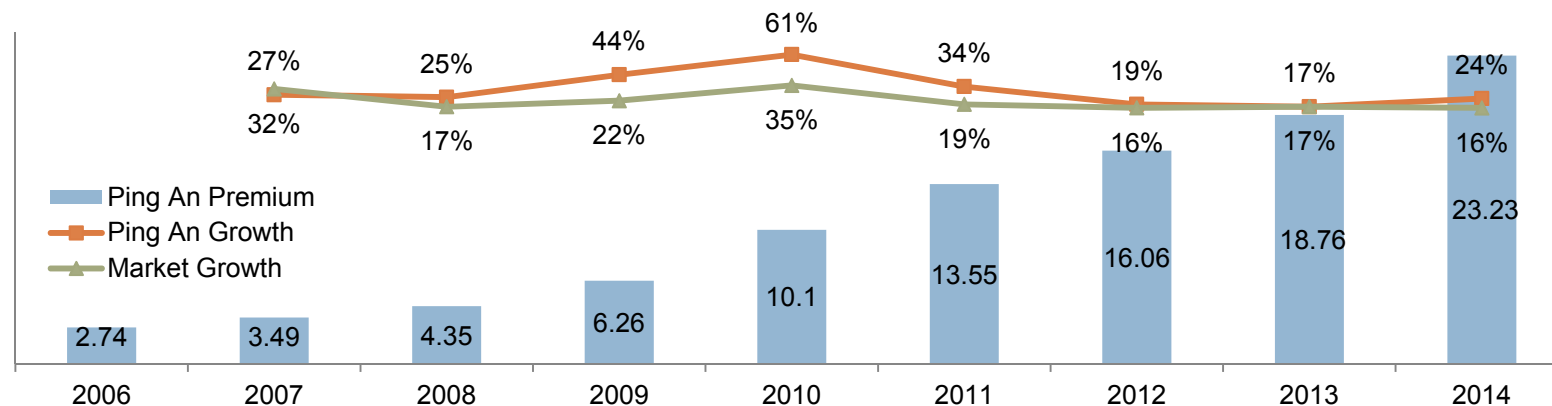


Note: Exchange rate: 1 USD = 6.1501 RMB; Data from PING AN Annual Report 2013

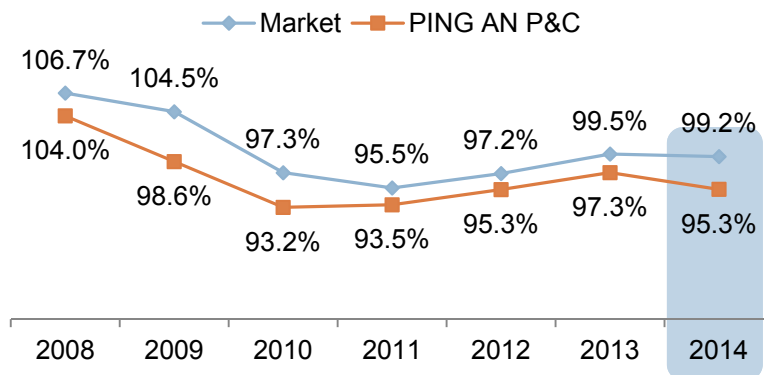
# PING AN P&C - PERFORMANCE

PING AN P&C

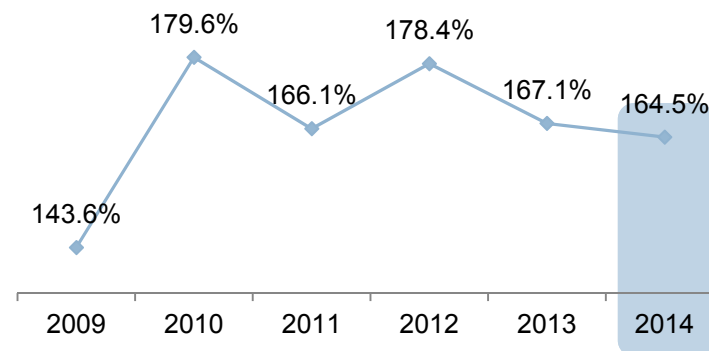
Premium Income & Growth Rate (in Billion USD)



Combined Ratio



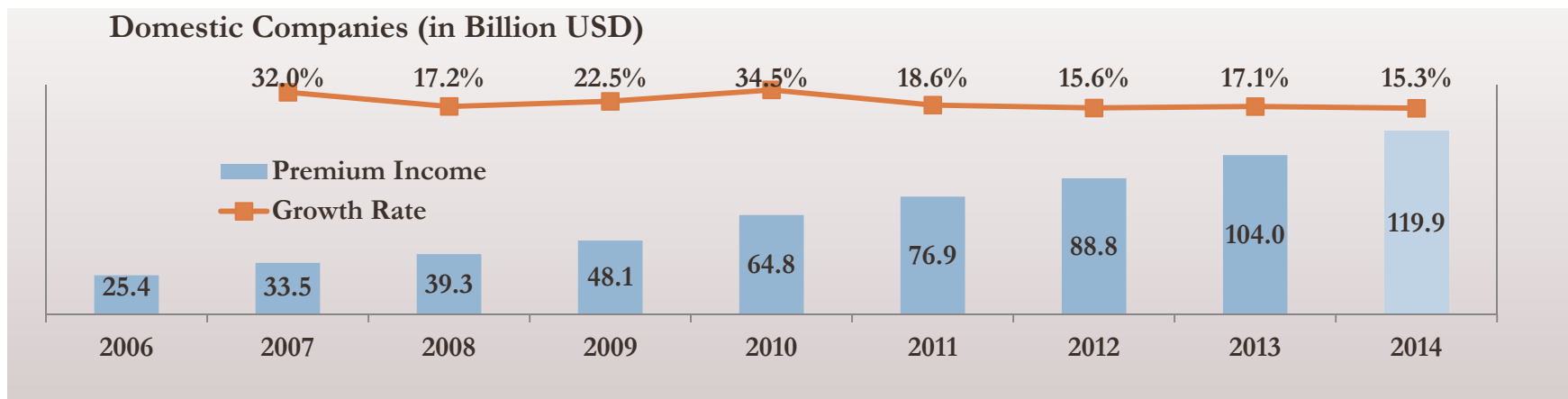
Solvency Margin Ratio



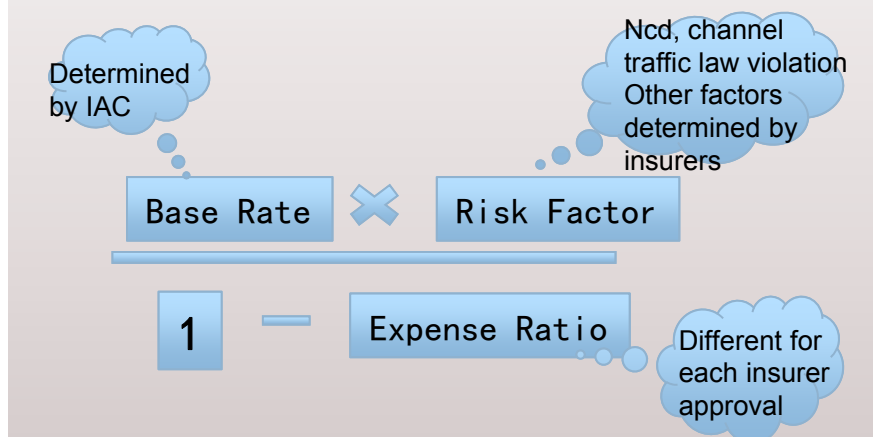
**42 Branches**  
About **54,000** staffs  
Over **25 million** customers

Note: Exchange rate: 1 USD = 6.1501 RMB; Data from CIRC and Ping An 2014 Internal Results

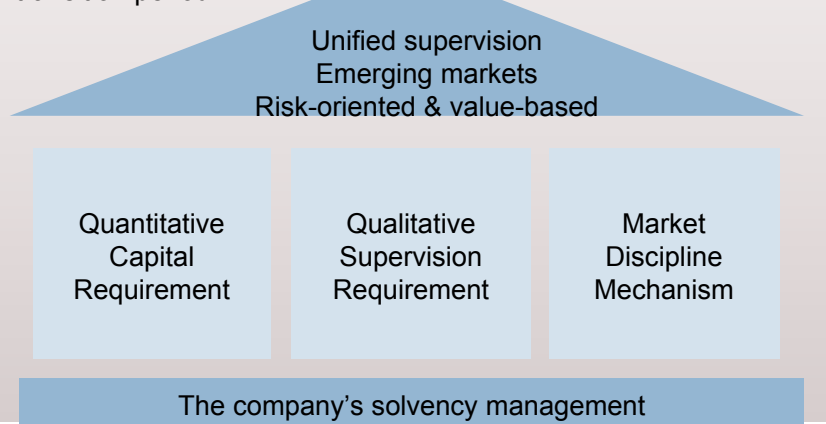
# PRACTICE-INDUSTRY



The Premium Marketization is split into several stages. The first stage will be implemented in Apr and May in six different branches.  
**Products:** Three different products :Basic/Standard/Luxury + company developed products



C-ROSS has entered its transition period since Feb. During this period, company needs to provide reports for both system with the previous system being the regulatory requirement. The CIRC will decide the implementation time based on the feedback during transition period.



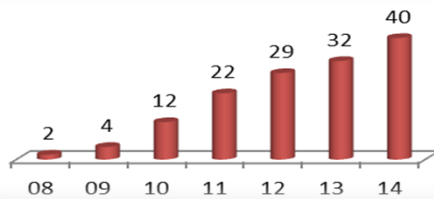
Note: Exchange rate: 1 USD = 6.1501 RMB; Data from CIRC

# PRACTICE-PING AN P&C

## marketing

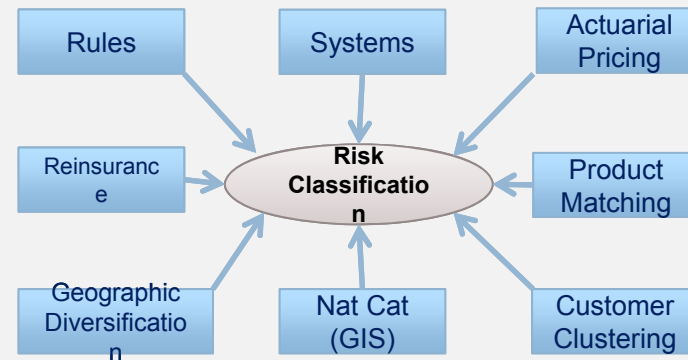
Found in 2004, it was the first telephone sale insurance company in China  
Its telephone-only products premium has increase by more than 25 times since 2007.

(in Billion RMB)

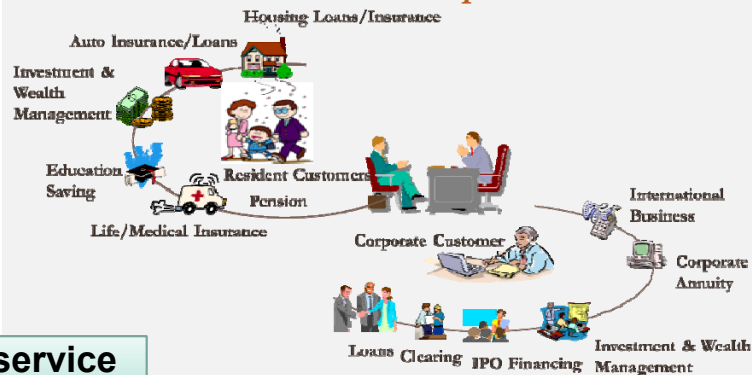


## underwriting

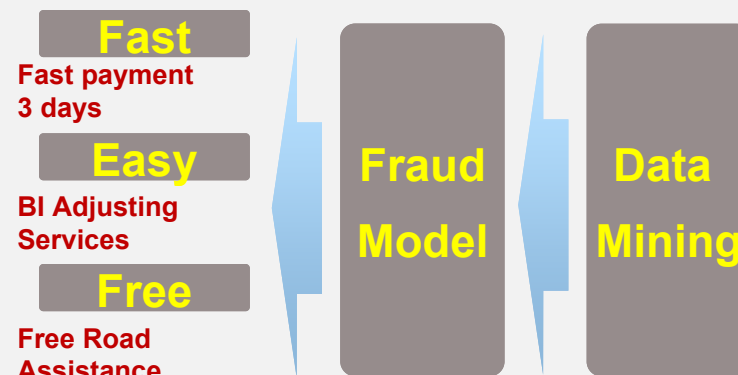
We have a fully functional automated system that underwrites 96% of the policies.



## One Customer · One Account · Multiple Products · One-Stop Services



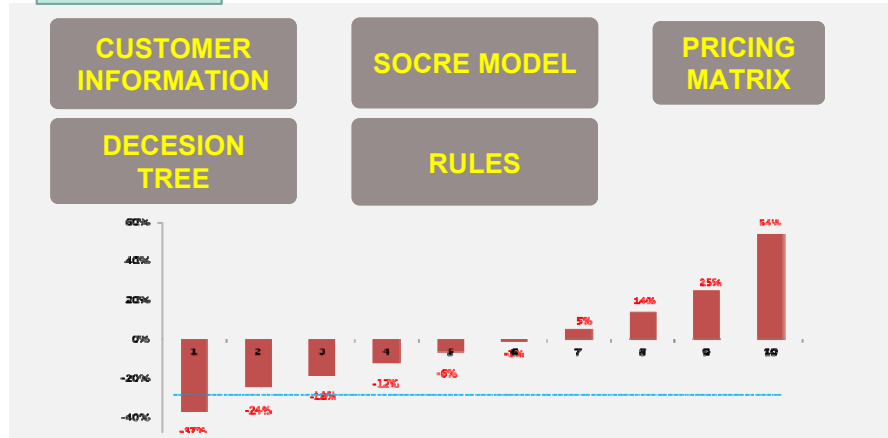
## service



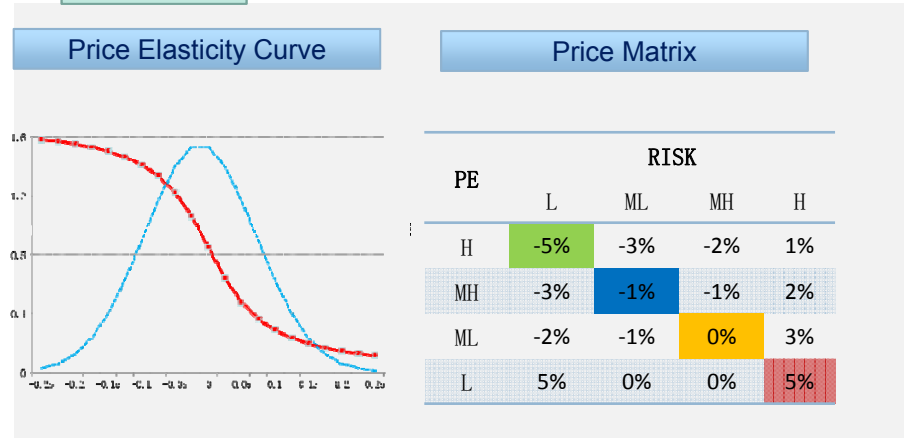
## claim

# PRACTICE-PING AN P&C

## UW model



## PEC



## APP

Launched in Nov. 2014  
Until Jan.2015 it has millions of registered users, 72,000 active users and a total of 10 million km coverage.



## UBI

Launched in 2013 , it has 13,000 installed users and more than 120 million recorded km.



UBI



**PING AN**

Insurance · Banking · Investment



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## Q&A