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Romance of the Three Kingdoms

Insight into China's Insurance Market

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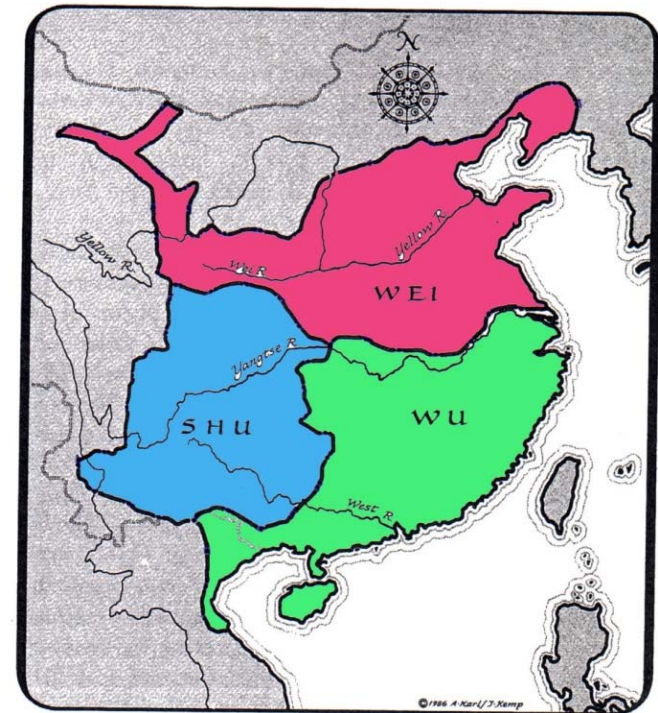
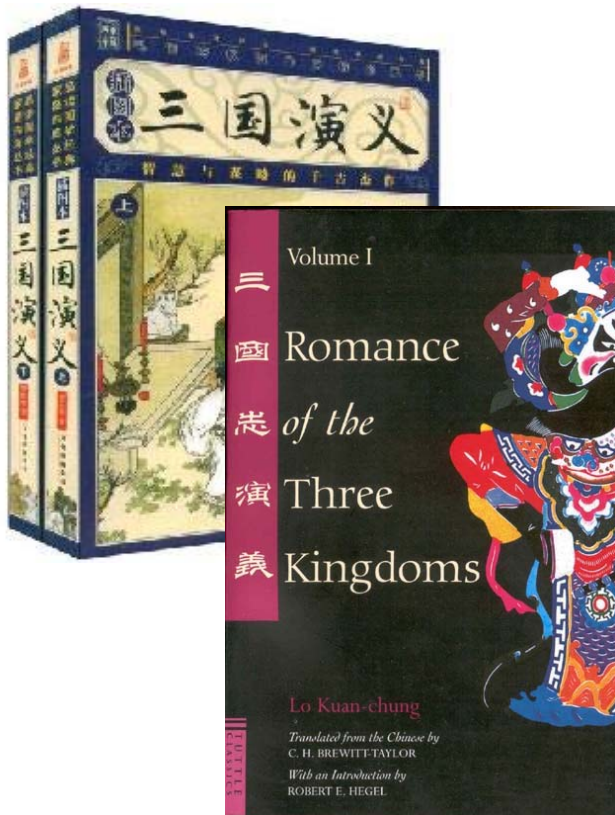
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Literary and Historical Background for the Three Kingdoms Story

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 14th century.

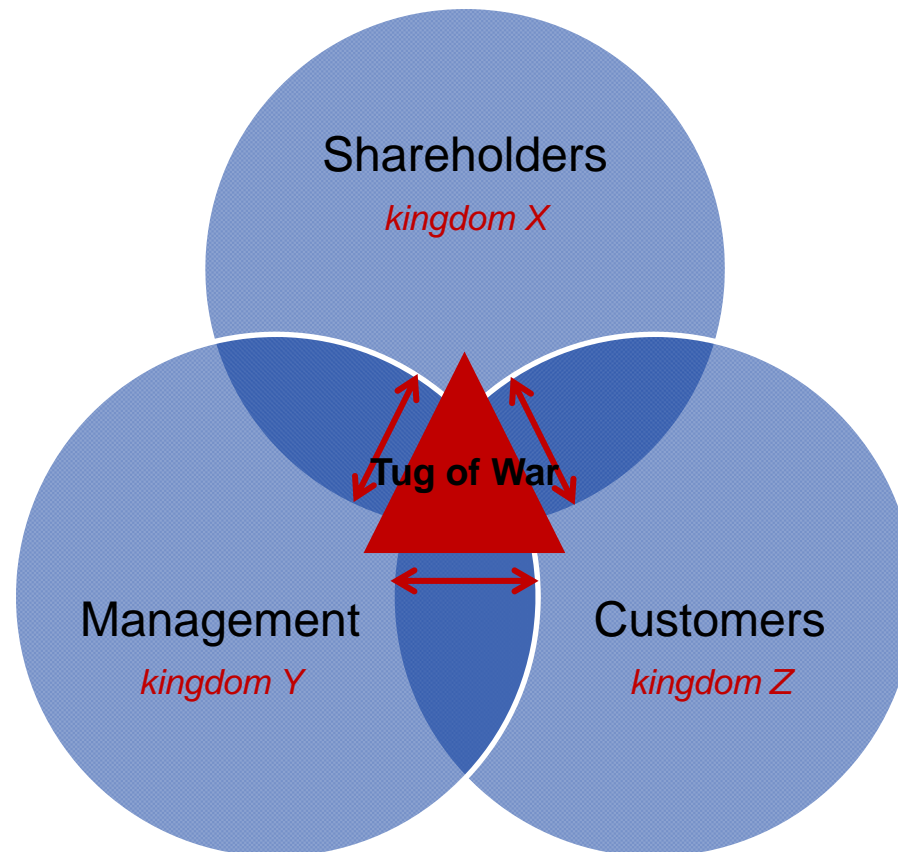
For the main theme of the story, there were three main regional powers competing the final dominance of the country. The story dramatizes the power struggle and tug of war between these three kingdoms.



The Three Kingdoms (220–265)

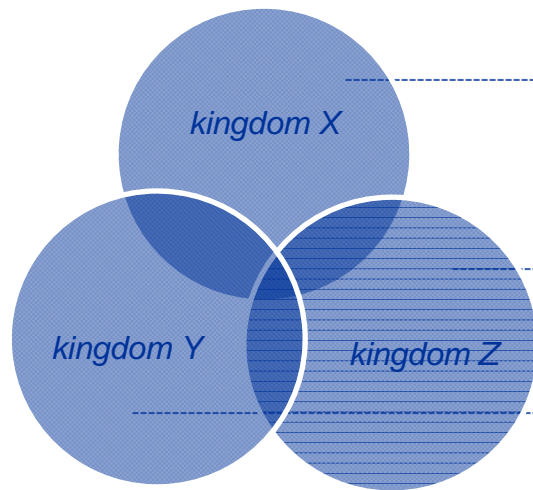
Three Kingdoms/Tug of War: The Role of the Actuarial Profession

As a profession, actuaries' roles and responsibility can be defined in different ways, depending on certain specific perspective, position or focus. In a big picture, one way that the role and responsibility of an actuary can be defined is to use the 'Three Kingdoms' framework and perspective:



Three Kingdoms/Tug of War: Pricing Insurance Products

A new insurance company is being set up, and at the beginning, it has just one insurance product. The company management is seeking consulting help from three possible consultants: an actuary, an economist, and a politician.



Actuary

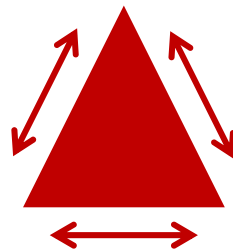
- Risk/cost driven: insurance performance metrics

Economist

- Market and customer driven: supply & demand

Politician

- Public & political interest driven: policy and regulation

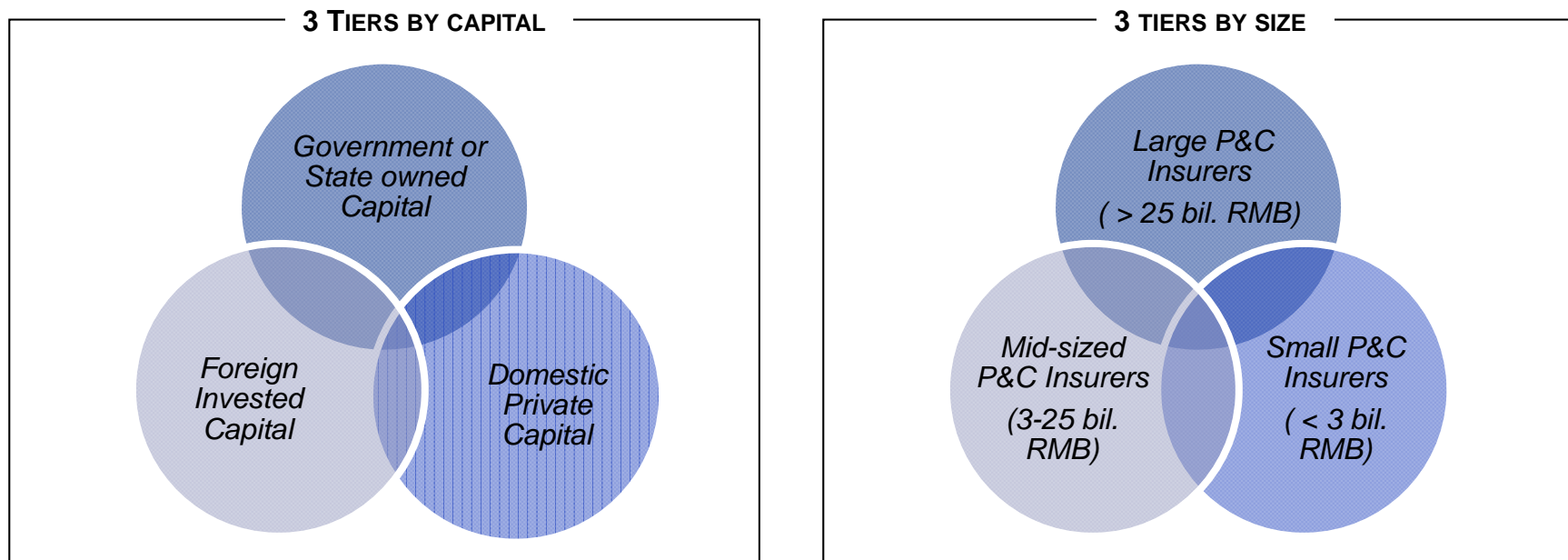


Actuary

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

Three Kingdoms/Tug of War: China's Insurance Market Today

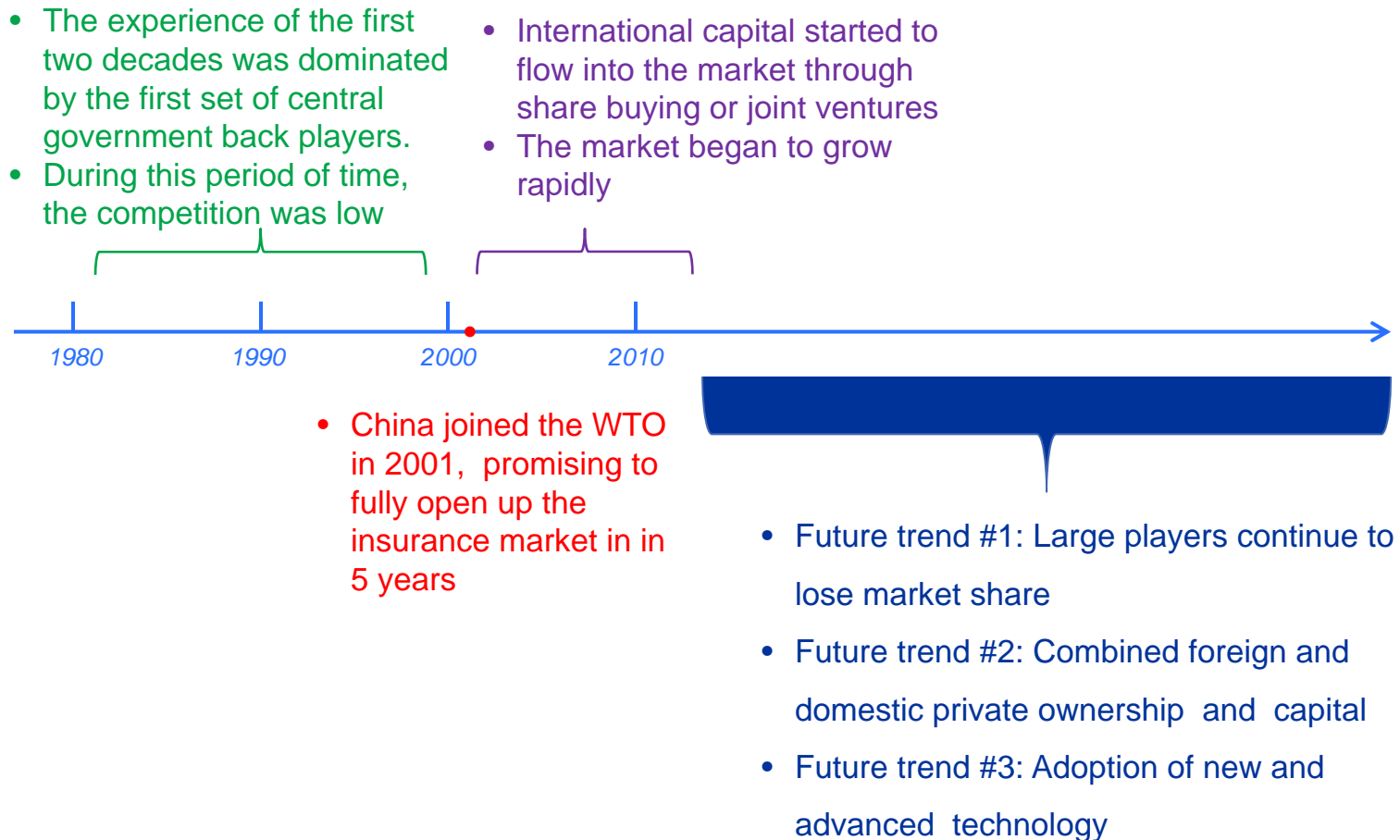
Insurance is one of China's fastest growing industries today. As more domestic and international competitors enter the market, 3 tiers of companies begin to form by capital, market size, company structure, products, and so on. As a result of this rapid expansion, there is an increasing division between these tiers. We believe that it is time now to call for fair and sound regulations in order to standardize the market rules and level the playing field.



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

Three Kingdoms/Tug of War: Market Evolution

China's joining the WTO in 2001 was an milestone event in the evolution of its insurance market. The event led to a sharp upturn in growth, competition, and complexity of China's insurance industry.



Three Kingdoms/Tug of War: Future Trends in the Marketplace

Predictions

I

Local government backed insurers are competing with Central government backed companies. The large players will continue to lose their market shares.

II

Foreign investors will increase their work relationship with China's private investors through joint venture or combined capital

III

Adoption of new technologies is providing effective tools for small and medium size insurers to compete against the large players

Latest Events

- Zking P&C Insurance Co.Ltd (2009)
- Zheshang P&C Insurance Co.Ltd (2009)
- Jintai P&C Insurance Co.Ltd (2010)

- AXA TIANPING P&C Insurance Co.Ltd (January 2014; AXA: 50%)

- ZHONGAN Online Insurance (November 2013)
 - Alibaba.com 19.9%
 - QQ.com 15%
 - PingAn Ins 15%

PICC Market Share :

2010	2011	2012	2013
38%	36%	35%	34%



Three Kingdoms/Tug of War: Future Regulation Trends

The China insurance market is very large and complex now, therefore, various reforms are urgently needed to modernize the industry. Consider the following types of reforms:

Banking and Currency Reform:

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

Market Driven Reform of Interest Rates and Currency Rates

Pricing Reform:

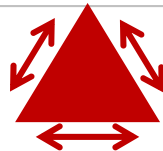
- Allow a wider range of credits and debits
- Independent rating and products financially strong companies
- National accident reporting platform
- Interest and pilots in UBI

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.