In, On and For Emerging Markets

CHINA INSURANCE SECTOR 2019 Q1

An EMIS Insights Industry Report

ABBREVIATIONS

CBRC	China Banking Regulatory Commission
CBIRC	China Banking and Insurance Regulatory Commission
CIRC	China Insurance Regulatory Commission
FYP	Five-Year Plan
GWP	Gross Written Premiums
IAC	Insurance Association of China
NBS	National Bureau of Statistics
NPC	National People's Congress
NPE	Net Premiums Earned
PRC	the People's Republic of China
State Council	State Council of the People's Republic of China

EMIS
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01 EXECUTIVE SUMMARY

Sector in Numbers

2nd
Largest Insurer Globally*

RMB 3,802bn
Insurance Premiums

RMB 1,230bn
Insurance Payments

9.5%
Property Insurance Premium Growth

1.9%
Human Insurance Premium Growth

24.1%
Health Insurance Premium Growth

19.2%
Accident Insurance Premium Growth

RMB 2,724
Insurance Depth

4.22%
Insurance Density

Note: Data is for 2018
* Based on 2017 data from Swiss Re, *sigma*, No. 3/2018.
Source: CBIRC, NBS, Swiss Re, CEIC

Sector Overview

At the end of 2018 there were 195 insurance institutions operating in China, of which roughly 30% were foreign-funded or joint ventures. Traditional insurance subsectors, such as life insurance and property insurance, are highly concentrated, with the top four or five companies accounting for more than half of the total gross written premiums (GWP). The market share of these top companies improved during 2018 as they have adequate capital to adjust their business strategies and cope with industry restructuring. The total GWP in the mainland China insurance market grew by nearly 4% y/y in 2018, continuing its upward trend.

Entry Modes

In March 2014, the China Insurance Regulatory Commission (CIRC) issued Administrative Measures for the Acquisition and Merger of Insurance Companies. The new M&A rules, which came into effect in June 2014, allow a single investor to control more than one insurance company competing in the same segment. This, along with the new liquidity rules, has led to an increase in the number of transactions in insurance assets in 2015 and 2016. Foreign capital is allowed in China's insurance sector in the form of joint ventures for both life and property business or wholly foreign-funded for property business alone. But the Chinese government has been facilitating a more open environment for foreign investment. In April 2018, CBIRC issued two notices to eliminate some restrictions on foreign financial institutions' investments and business scope in China. The cap for foreign life insurance companies' shareholding in joint ventures has been raised from 50% to 51% and will be fully removed in three years.

Segment Opportunities

The CBIRC has been encouraging the development of specialised insurance companies in various segments – pension, agriculture, health, automobile, etc. Due to these policies, some segments, such as health insurance, have grown faster than others, including the life and property insurance segments. In recent years many of the top players have set up specialised insurance entities, thus diversifying their business operations. Foreign insurers are most welcome and have abundant opportunities in the health insurance segment due to huge health protection gap existing in the country. Along with the rapid development of information technologies and consumers' stronger appetite for online shopping, internet insurance is another promising growth channel.

Government Policy

All the newly adopted regulations are in tune with the country's five-year plans, the latest of which - the 13th - was adopted in March 2016. The sector-specific plan, issued in August 2016 by the State Council, is known as the *New National Ten Notice*. The two plans target an insurance depth of 5%, insurance density of RMB 3,500 per capita, and annual insurance premiums of RMB 4,500bn by 2020. To reach the goals, regulators have been carrying out reforms in both property and human insurance subsectors.

Source: CBIRC, NBS, the State Council

Sector Snapshot

China Insurance Sector

INSURANCE SECTOR

RMB 3,802bn
Insurance Premiums

RMB 1,230bn
Insurance Payments

INSURANCE DENSITY

RMB 772
Property and Casualty
RMB 1,953
Life, Health and Accident

INSURANCE DEPTH

1.2%
Property and Casualty
3.03%
Life, Health and Accident

INSURANCE PREMIUMS

RMB 3,566bn
Domestic
RMB 236bn
Foreign and JVs

Property Insurance: RMB 1,077bn
Life Insurance: RMB 2,072bn
Health Insurance: RMB 545bn
Accident Insurance: RMB 108bn

Sector Total Asset
RMB 18,331bn

KEY PLAYERS' GROSS PREMIUM INCOME

1. Ping An Insurance: RMB 719.1bn
2. China Life Insurance: RMB: 536.2bn
3. People's Insurance: RMB 388bn
4. China Pacific Insurance: RMB 319.9bn
5. New China Life: RMB 122.3bn

Note: Data for 2018.

Source: CBIRC, NBS, Company Data

Sector Snapshot
China Insurance Sector

China's insurance sector grew by 3.9% y/y in terms of insurance premiums in 2018, significantly slower than the annual average expansion rate of 20.7% during 2013-2017. However, with its premium income reaching RMB 3,802bn, the country became the world second largest insurance market according to a research report published by Swiss Re in July 2018.

The insurance sector in China consists of the human insurance (life, health and accident) and the property insurance subsectors, each contributing 72% and 28% of total premium in 2018. The human insurance segment went through a product portfolio restructuring during the year in response to the government's tightened rules regarding medium- and short-term high-yield products as well as to the demand for more risk-oriented products. Despite a mere annual increase of 1.9% in premiums, the sector successfully introduced an improved product mix. Protection products, mainly consisting of health, accident and annuity insurance, have been gaining importance. Health insurance was the biggest winner as its premiums soared by 24.1% y/y during 2018 to RMB 545bn, resulting in a higher share in the segment (20% in 2018 vs. 16% in 2017). Property insurance registered a 9.5% y/y increase in premiums to RMB 1,077bn. This segment experienced a slowdown in recent years due to the contraction in motor vehicle sales in the country. Other property insurance products, however, are likely to provide a new growth spur to the sector, as China will engage in more international trade and overseas projects.

Insurance payments rose by 10% y/y to RMB 1,230bn in 2018, among which human and property segments generated RMB 640bn and RMB 590bn, up by 15.9% y/y and 5% y/y, respectively. This growth was mainly backed by the 18.2% y/y expansion in business volume in 2017. Net assets reached RMB 2tn by the end of 2018, RMB130.9bn or 9.4% higher than the end of the previous year, indicating improved solvency of the industry.

China's insurance sector remained dominated by domestic players. At the end of 2018, of the 195 insurance companies in China, 60 were joint ventures or foreign-funded companies. They held 2% and 8% market share in the property and human insurance segments, respectively, in 2018. The Chinese government has been facilitating a more open environment for foreign investment, which is creating more opportunities for foreign players to enter the sector.

China's insurance sector is highly likely to return to a fast track growth in the coming few years. EMIS Insights expects the industry premiums to increase by 5.5% in 2019 and reach the country's target of RMB 4,500bn in 2020.

Source: CBIRC, NBS, Swiss Re, CEIC, EMIS Insights

Driving Forces

Despite the economic slowdown in China in the past few years, the insurance sector still grew steadily with a few reforms underway expected to increase its development potential. Though there are concerns that the sector scale will expand at a slower pace in the short run, the growth quality is bound to become higher, supported by many internal and external factors.

External

The ageing population and the still inadequate social insurance coverage will remain supporting pillars for the development of the insurance sector in China. According to the NBS, the number of people aged over 60 reached 249.5mn by the end of 2018, some 9.5mn more than that at the end of 2017. In addition, Swiss Re, the world's leading reinsurance company and insurance research institute, estimated China's health protection gap at USD 805bn. This creates market opportunities for life insurance companies offering relevant products such as pension insurance and health insurance. The insurance sector in China is also backed by the second-largest economy in the world. China's Belt and Road Initiative is expected to boost the country's international trade and project opportunities overseas, leading to huge demand for the property and casualty related products of the sector. The government has also implemented a major reform on the motor vehicle insurance segment since 2015 to guarantee a healthier market-driven business environment.

Internal

There are several factors within the industry that support its steady growth, the most notable of which are the low sector penetration rate and the low insurance density. The insurance penetration in China has been rising steadily over the past decades and reached 4.22% in 2018, which was far below the global level of 8.9% as published by the OECD in 2017. Insurance density (premium/person) in China reached RMB 2,724 (USD 397) at the end of 2018 – an increase of 3.5% over 2017. This is much lower than the global average figure of USD 3,457 in 2017, the latest data available, according to OECD. The low density represents high growth potential for the industry, as personal wealth and disposable income levels are expected to continue rising in the near future. Another promising driving force for the sector is the fast developing internet finance and people's growing demand for online consumption. Leading market players have tried out selling simple-structure products online, such as commercial auto insurance, short-term health and accident insurance, and received positive feedbacks from consumers. The improving information technologies also facilitate insurers to provide services with higher quality and efficiency, improving the reputation of insurance products among ordinary people.

Restraining Forces

Apart from the worsening economic situation in China in 2018, the insurance sector faced additional sector-specific constraints that had a negative impact on its performance and slowed down its growth to some extent. However, there are in general fewer constraints than drivers in China's insurance sector. Most of these constraints were internal in nature and resulted from the growth-oriented sector policies from the past few years.

External

The economic situation in China, marked by falling exports, currency depreciation, inflation and the resulting weaker consumption intentions, has affected the growth rate of the insurance sector. The year 2018 saw a reduction in the sales of automobiles, largely hampering the growth of motor vehicle insurance, the top driver for the property and casualty subsector, given the high correlation between the two. Meanwhile, being highly regulated by the government, the sector reacts slowly to newly emerging market demand. For example, setting up an internet insurance company or branch must be approved by CBIRC first and so far CBIRC has only permitted four such companies. This restricts insurance companies' opportunities to extend their service online despite the growth potential internet insurance brings to the sector.

Internal

One of the fundamental challenges to China's insurance sector is the premium-driven growing strategies adopted by most life companies in the past few years. To realise rapid premium growth, life insurers focused on promoting short-term policies offering high investment return. This placed the whole sector into a risky situation due to potential insolvent problems. Although the regulators were aware of the issue and forbade further sales of such products, existing policies are about to expire within 1-2 years and require concentrated payments, which will likely lead to weaker profitability of the industry. Meanwhile, the sales restriction rules have deprived some smaller companies of their major income source and undermined their competitiveness. As a result, the industry may become more and more dominated by a few giant players.

Quarterly Update

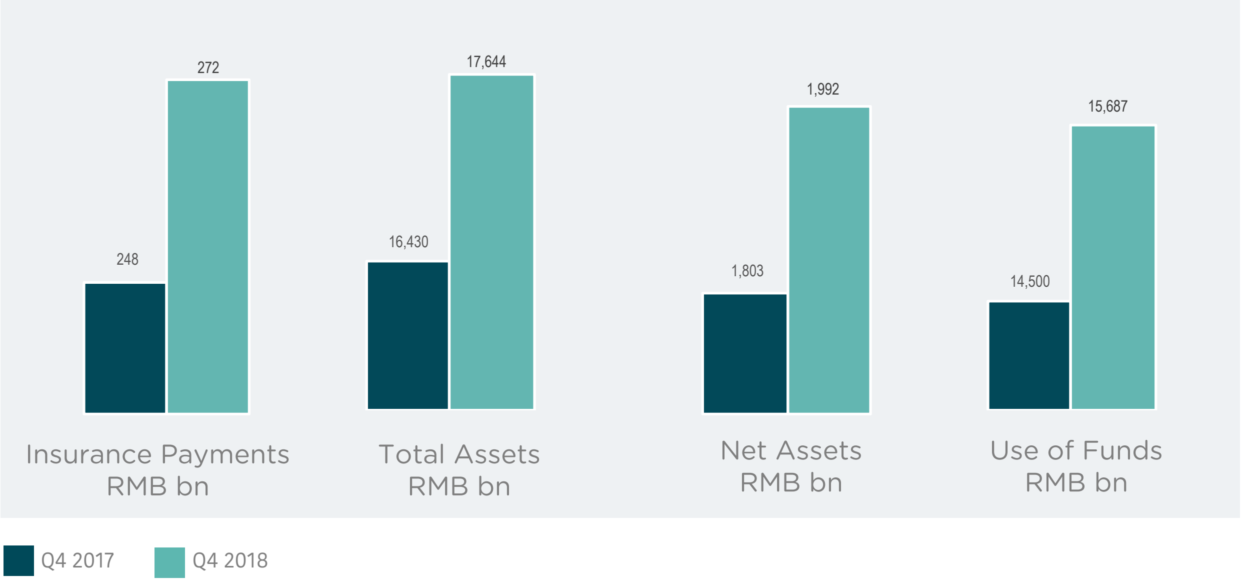
02
SECTOR IN FOCUS

China Insurance Sector Q4 2018

RMB 735.5bn
Total Insurance Premiums

20.1%
y/y growth

RMB 276.7bn Property Insurance	**37.6%** of Total Insurance Premiums
RMB 232.2bn Life Insurance	**43.9%** of Total Insurance Premiums
RMB 111.1bn Health Insurance	**15.1%** of Total Insurance Premiums
RMB 24.5bn Accident Insurance	**3.3%** of Total Insurance Premiums



Source: CBIRC, CEIC

Quarterly Summary

Comments

As the negative impact from the life product restructuring continued to diminish, China's insurance sector reported a stronger growth during Q4 2018. Total insurance premiums reached RMB 735.5bn in Q4, registering a y/y increase of 20.1%, about 7 pp higher than the growth rate in Q3. Compared with the significant 11% y/y drop in premiums in the previous quarter, which was the first quarterly premium contraction of the sector since 2011, the recovery in growth pace quarter by quarter indicates that the headwinds have gradually faded away and that the sector will likely get back on a fast growth track soon. The full year premium rose by 3.9% y/y to RMB 3,802bn.

In 2018, the performance of the sector was significantly affected by the human insurance segment, as the latter contributed RMB 2,725bn in premiums, or 72% of industry total. Q4 alone saw human insurance premiums surge by 30.4% y/y to RMB 458.8bn. The full-year growth rate was 1.9% y/y, indicating the segment's fluctuating growth path during the year. Due to the tightened regulations on marketable products imposed by CBIRC, life insurers suffered from extremely weak kick-off sales at the beginning of the year. However, most of them responded to the situation quickly and successfully adopted alternative strategies to sell long-term life protection products, mainly consisting of accident, health and annuity insurance. Health insurance was no doubt the best performer in the segment. Its premiums soared by 37.9% y/y to RMB 111.1bn in the fourth quarter and by 24.1% to RMB 545bn in the whole year. Accident insurance also enjoyed strong growth momentum with its premiums increasing significantly by 23.7% y/y in Q4 and 19.2% y/y in the whole year to RMB 24.5bn and RMB 108bn respectively. The life insurance segment was the most impacted by the stricter rules and experienced a dramatic 59.4% quarterly contraction in Q2, but since the annuity insurance products are gaining popularity among China's ageing society, the segment recovered strongly with a 28.5% y/y growth rate in Q4, which pulled the full year rate from -12.1% in H1 2018 to -3.4%. Premium income was reported at RMB 323.2bn in Q4 and RMB 2,072bn for the whole year.

Property insurance continued to grow but at a slower pace. Premiums improved by 6.2% y/y in Q4 to RMB 276.7bn. Total premiums amounted to RMB 1,077bn in 2018, up by 9.5% y/y. The slowdown in segment expansion is mainly attributable to the reduction in the country's auto sales during the year as motor vehicle insurance provide 60%-70% of the segment's total income. The Chinese government has encouraged the development of other property insurance products to support real economy recovery, which will facilitate segment product diversification and bring new growth motivation.

EMIS Insights expects China's insurance sector to continue its recently implemented protection-oriented development strategy. Premiums are estimated to increase by 5.5% y/y in 2019 to RMB 4,011bn but return to double-digit growth in 2020-2023.

Source: CBIRC, NBS, CEIC, EMIS Insights

Sector Outlook

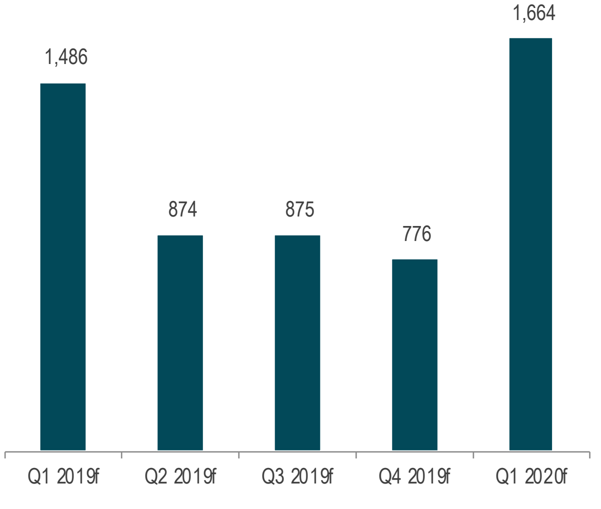
Comments

Despite the economic slowdown, China's insurance sector is likely to enjoy fast growth until 2020 according to the *New National Ten Notice* by the State Council and the 13th Five-Year Plan of CBIRC. The two official documents target an insurance depth of 5%, insurance density of RMB 3,500 per capita, and annual insurance premiums of RMB 4,500bn by 2020, compared with 4.22%, RMB 2,724 per capita, and RMB 3,802bn, respectively, at the end of 2017.

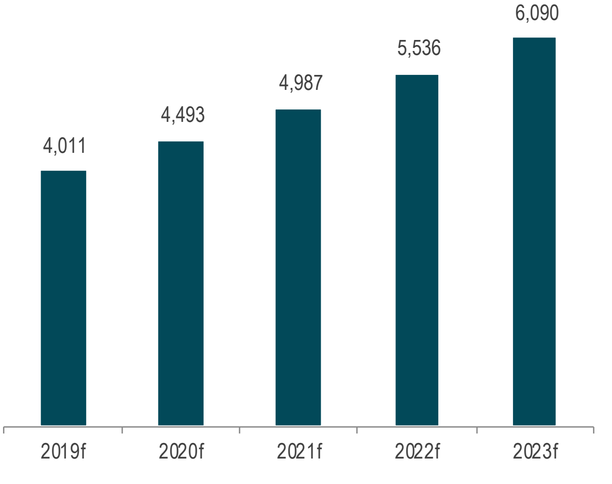
To cater to the country's ageing population's demand, sales of protection products such as health, accident and pension insurance will most likely see significant growth in the future. Health insurance is expected to become most life insurers' flagship product type as the current social insurance system can hardly cover people's medical expenses, especially in the case of critical illness.

The property insurance sector still relies heavily on the motor vehicle segment, its product mix will become more diversified in a few years given that the regulators have issued favourable policies on other products including liability and agriculture insurance. Meanwhile, analysts expect the profitability of the motor vehicle segment to improve along with the continuous commercial auto price reform.

Quarterly Premiums, RMB bn



Annual Premiums, RMB bn



Source: EMIS Insights, State Council, CBIRC

Sector Highlights

First Foreign Group Holding Insurance Company To Be Founded in China

In November 2018, CBIRC released a list of 12 foreign financial institutions that were allowed to set up subsidiaries or branches in China in 2018. Global insurance leader Allianz was permitted to establish a group holding insurance company, the first time a foreign insurance provider can own a business in such a form in China. This is a result of China's increasingly open policies towards foreign capital investment in the financial sector. In April 2018, CBIRC issued two notices to eliminate some restrictions on foreign financial institutions' investments and business scope in China. The cap for foreign life insurance companies' shareholding in joint ventures has been raised from 50% to 51% and will be fully removed in three years.

Stricter Supervision of Motor Vehicle Insurance

To form a cleaner and healthier environment for further commercial auto insurance reform, CBIRC issued a notice requesting stricter and more effective supervisory actions in the motor vehicle insurance segment in January 2019. According to the notice, three measures will be taken to solve the issues of unauthorised pricing and fake business data. First, the branches of CBIRC will be in charge of inspecting insurance companies' motor vehicle insurance business and cracking down on any illegal issues. Second, the Insurance Association of China (IAC) will be in charge of dealing with complaints from member companies and reporting illegal cases to CBIRC. Third, China Insurance Information Technology Company will build a monitoring system for commercial auto insurance pricing data and will report abnormal data to CBIRC.

Top Life Insurers Report Premium Income

China's top life insurers reported their premium income in January 2019, the period of the year widely known as the kick-off sales season in the country's insurance sector. China Life generated RMB 157.8bn (up by 24.4% y/y), Ping An Life had RMB 121.2bn (up by 5.2%y/y), CPIC Life had RMB 51.6bn (up by 2.9% y/y), and NCI had RMB 19.9bn (up by 6.9% y/y). Considering the 25% y/y drop of the total life insurance premium, the recovery of kick-off sales is relatively small. The key reason is that life insurers are no longer permitted to sell products with especially high returns or shorter duration, which are traditionally popular products for the sales season. But several leading companies indicated that they expect to see sales of protection products grow steadily throughout the year as a positive result of the product portfolio restructuring.

Source: China Insurance News, CBIRC

Main Sector Indicators

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Real GDP, y/y change, %	6.8	6.8	6.8	6.7	6.5	6.4
Financial Intermediation Real GVA, y/y change, %	6.1	4.0	2.9	4.3	4.0	6.3
Insurance Premiums, RMB bn	731.7	612.4	1,408.4	828.5	829.2	735.5
Property, RMB bn	237.8	260.4	275.3	268.9	256.2	276.7
Human, RMB bn	493.9	351.9	1,133.1	559.6	573.1	458.8
Life, RMB bn	373.1	251.5	950.1	386.1	412.9	323.2
Health, RMB bn	96.7	80.6	156.2	145.8	131.8	111.1
Accident, RMB bn	24.1	19.8	26.9	27.8	28.4	24.5
Insurance Payments, RMB bn	254.2	285.4	326.8	271.9	314.2	316.8
Property, RMB bn	127.2	152.0	125.5	137.3	152.1	174.8
Human, RMB bn	126.9	133.3	201.3	134.6	162.1	142.1
Life, RMB bn	87.1	86.2	156.8	36.1	110.0	79.9
Health, RMB bn	33.8	41.0	38.4	36.1	45.0	54.9
Accident, RMB bn	6.1	6.1	6.1	6.4	7.1	7.2
Total Assets, RMB bn	16,582.40	16,748.90	17,224.20	17,644.22	17,875.36	18,330.89
Net Assets, RMB bn	1,859.56	1,884.51	1,968.23	1,991.67	1,987.37	2,015.44
Use of Funds, RMB bn	14,647.20	14,920.60	15,263.30	15,687.37	15,873.86	16,408.84

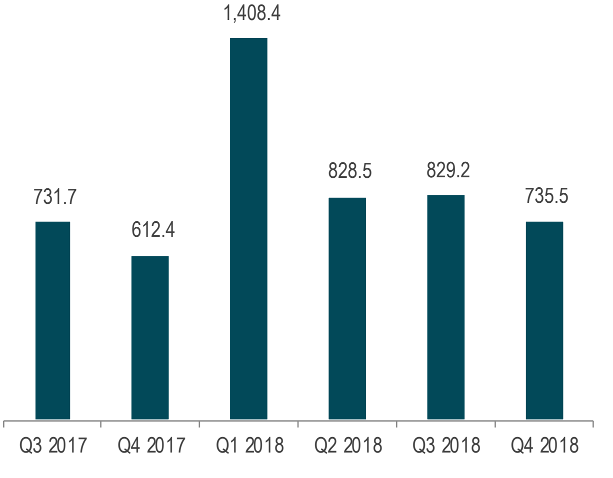
Source: NBS, CBIRC, CEIC

Main Sector Indicators

Insurance Premiums

Following a decent 13.3% y/y growth during Q3 2018, China's insurance premiums increased more significantly by 20.1% y/y to RMB 735.5bn in Q4 2018. Human insurance premiums, soaring by 30.4% y/y to RMB 458.8bn and contributing to 62.4% of total, acted as the main growth driver. Property insurance premium registered a 6.2% y/y increase to RMB 276.7bn. For the entire 2018, total premiums amounted to RMB 3.8tn - RMB 2.7tn from human insurance and RMB1.1tn from property insurance. The sector income expanded by 3.9% y/y, much slower than the 2017's 18.2%, mainly due to stricter rules on the human segment that led to product restructuring.

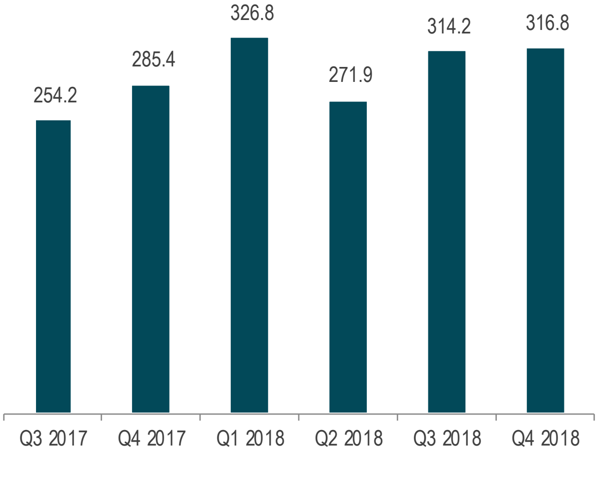
Insurance Premiums, RMB bn



Insurance Payments

Total insurance payments in Q4 2018 rose by 11% y/y to RMB 316.8bn, a more moderate growth compared with the 23.6% y/y in Q3 2018. Full-year payments reached RMB 1.2tn with human insurance and property insurance accounting for 52% and 48%, respectively. Payments of the human insurance segment were RMB 142.1bn in Q4 alone, up by 6.6% y/y, with life down by 7.3% y/y, health up by 33.9% y/y and accident up by 18.6% y/y. Payments of property insurance expanded by 15% y/y to RMB 174.8bn in Q4 2018 and by 15.9% y/y to RMB 589.7bn in the full year 2018.

Insurance Payments, RMB bn



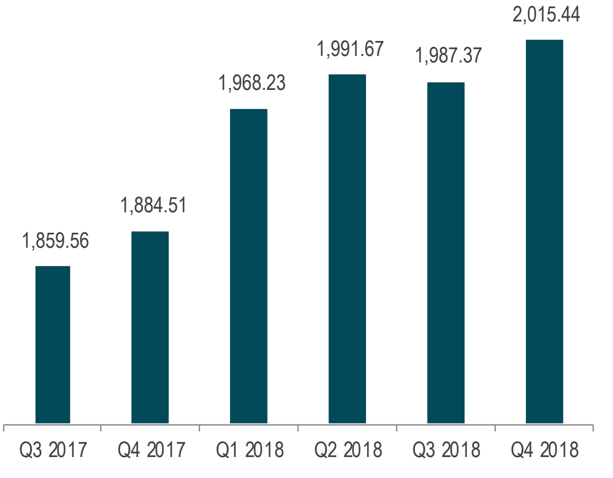
Source: CBIRC, CEIC

Main Sector Indicators (cont'd)

Net Assets

At the end of 2018, the total assets of China's insurance sector were RMB18.3tn, up 9.4% y/y. Total liability grew at a faster rate of 9.8%, partially attributable to more sales of long-term protection life products that require higher level of insurance reserves. As a result, net assets reached RMB 2tn at end-2018, up 9.4% y/y. According to CBIRC's requirement, life insurers must maintain net assets of no less than RMB 1.5bn in order to apply for sales of individual tax-deferred commercial pension insurance. Based on the 195 operating insurance companies (96 life, 87 property and 12 reinsurance) listed on the CBIRC website, the average net assets of each insurance company were RMB 10.3bn.

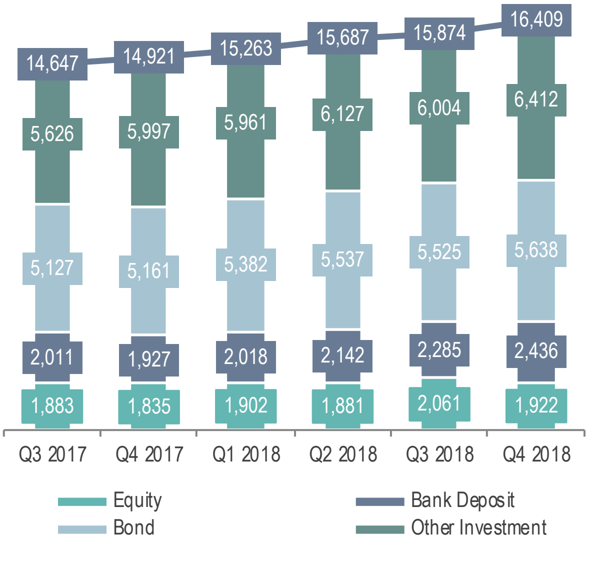
Net Assets, RMB bn



Use of Funds

Since Q1 2017, Chinese insurers' investments have grown steadily to reach RMB 16.4tn at the end of 2018. Total investments rose by 10% y/y and 3.4% q/q. Investment targets consist of fixed income, equity and other investments, all of which saw an increase in terms of absolute value. However, facing a volatile economic environment in 2018, insurance players were more prudent and raised bank deposit investment by 26.4% y/y and bond investment by 9.2% y/y versus 4.7% y/y growth in equity investment. In fact, due to the sluggish equity market of the country (the Shanghai Composite Index dropped by 11.6% and the Hang Seng Index by 7% in Q4 2018) equity investment shrank by 6.7% q/q to RMB 1.9tn at end-December 2018.

Use of Funds, RMB bn



Source: CBIRC, CEIC, Shanghai Stock Exchange, Hong Kong Stock Exchange

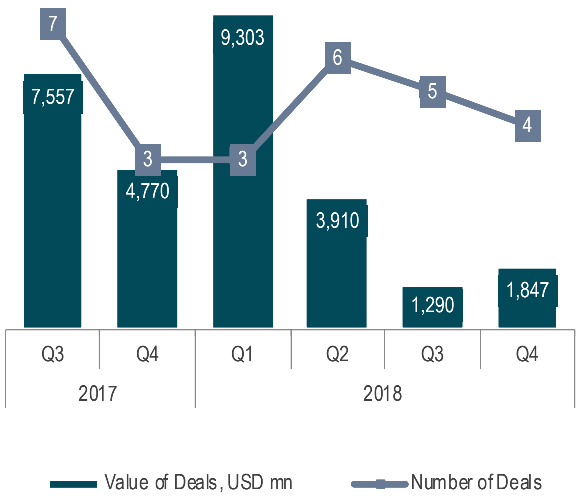
Top M&A Deals, Q1 2018 – Q4 2018

Date	Target Company	Deal Type	Buyer	Country of Buyer	Deal Value, USD mn	Stake, %
24-Feb-18	Daimler AG	Minority stake	Zhejiang Geely Holding Group Co Ltd (Geely Holding)	China	9,000.0	9.7
24-Apr-18	COFCO Capital Investment Co Ltd	Acquisition	Zhongyuan Special Steel Co Ltd	China	3,093.6	64.5
13-Sep-18	Chaucer Holdings	Acquisition	China Reinsurance (Group) Corp	China	865.0	100.0
15-Nov-18	The People's Insurance Co (Group) of China Ltd	IPO	Institutional investor(s)		864.5	5.1
27-Nov-18	AXA Tianping Property & Casualty Insurance Co Ltd	Acquisition	AXA Versicherungen AG	Switzerland	662.5	50.0
9-May-18	Hangzhou Guangfa Technology Co Ltd	Minority stake	China Capital Zhongcai Fund Management; NWS Holdings Ltd; AIA Co Ltd	China; Hong Kong	500.0	9.1
9-Jul-18	Lian Life Insurance Co Ltd	Minority stake	Jiangsu Guoxin Corp Ltd	China	357.6	11.3
23-Oct-18	PT Commonwealth Life	Acquisition	FWD Group	Hong Kong	306.1	80.0
16-Mar-18	Old Mutual Colombia; Old Mutual Mexico; AIVA Business Platforms	Acquisition	China Minsheng Investment Group Co Ltd	China	300.0	100.0
17-Apr-18	Allianz China General Insurance Co Ltd	Minority stake	JD.com Inc	China	85.4	33.3
12-Sep-18	Beijing Nongxin Microfinance Co Ltd; Beijing Nongxin Insurance Broker Co Ltd; Beijing Nongxin Financial Information Services Co Ltd	Acquisition	Beijing Nongxin Hulian Technology Co Ltd	China	48.0	100.0
20-Apr-18	Hong Kang Life Insurance Co Ltd	Minority stake	Nanjing Sample Technology Co Ltd	Hong Kong	10.1	3.0
16-Jun-18	Shanghai Dongrui Insurance Agency Co Ltd	Acquisition	Wuxi Commercial Mansion Grand Orient Co Ltd	China	7.8	100.0
17-Sep-18	Shanghai Hehui Insurance Brokers Co Ltd	Acquisition	Shanghai Conant Macroflag Group Co Ltd	China	7.1	70.0
24-Mar-18	Qianhai Mintaian Insurance Brokers Co Ltd	Minority stake	Yonyou Network Technology Co Ltd	China	3.2	20.0

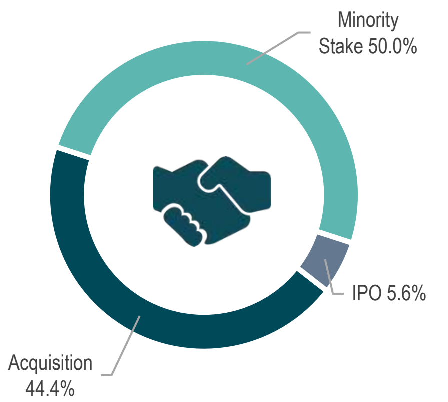
Source: EMIS DealWatch

M&A Activity

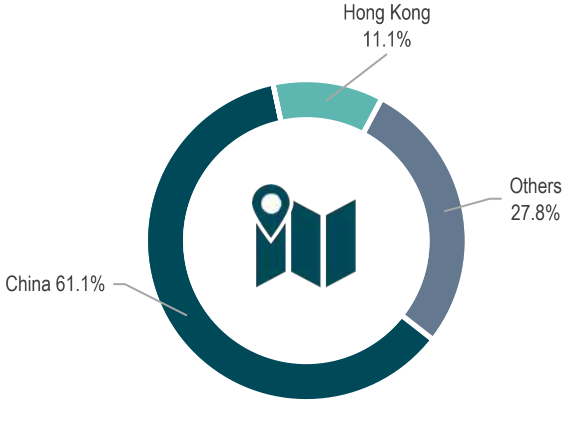
Number and Value of Deals, Q3 2017 – Q4 2018



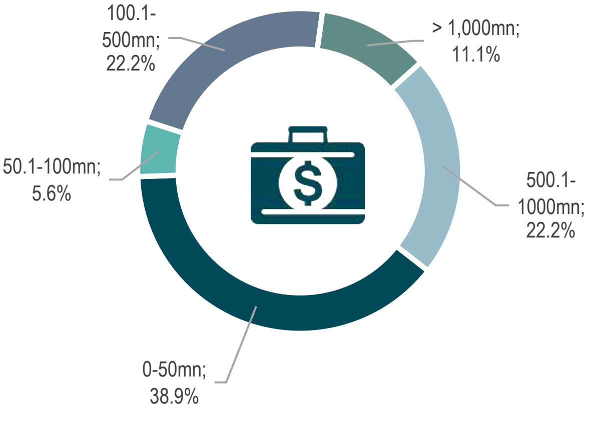
Deals by Type, Q1 2018 – Q4 2018



Deals by Region of Investors, Q1 2018 – Q4 2018



Deals by Deal Value, USD, Q1 2018 – Q4 2018



Source: EMIS DealWatch

03

COMPETITIVE LANDSCAPE

Timeline China Insurance

1949 Development Milestones

People's Insurance Group Company of China (PICC Group) is established in Beijing along with the foundation of PRC.

1958 Development Milestones

China ceases all insurance business. PICC Group also stops operating.

1980 Development Milestones

Property insurance business in the country is restarted. In the same year, PICC Group resumes operation.

1986 Market Players

Bank of Communications forms insurance business department, restructured into China Pacific Insurance Company in 1991.

1988 Market Players

Ping An Insurance, China's first non-state-owned insurance company, launches operations. Later in 1994, the company received foreign capital investment.

1992 Market Players

US life insurer AIA, sets up a branch in Shanghai and introduces the system of insurance agent.

1995 Development Milestones

The *Insurance Law* is released, indicating the very start of a regulation system in the sector.

1998 Development Milestones

China Insurance Regulatory Commission (CIRC) is founded as the main regulatory body.

PICC Group finishes restructuring and was separated into three insurance companies - PICC, China Life and China Reinsurance Company.

Market Players

2001 Development Milestones

The Insurance Association of China is founded to complement the sector's regulation system and provide communication platform for market players.

2003 Development Milestones

CIRC allows foreign life insurance companies to set up branches in China and sell health, group and pension/annuity products.

2012 Development Milestones

CIRC introduces China's C-ROSS, which is a risk-oriented solvency management model independently developed by Chinese regulators.

2013 Market Players

ZhangAn Insurance, China's first internet insurance company, is founded.

2014 Development Milestones

CIRC starts the premium rate management system reform in the commercial auto insurance segment.

2018 Development Milestones

CIRC merges with China Banking Regulatory Commission (CBRC) to form China Banking and Insurance Regulatory Commission (CBIRC).

Highlights

Overview

China's insurance sector is highly concentrated, with a few government-controlled groups dominating both the property insurance and the life, health and accident insurance segments. New players have been entering the industry in the past few years, as the profits are much higher than in other sectors of the economy and are growing steadily. The number of enterprises in the sector increased from just 33 in 2000 to 195 in 2018.

Market Structure

With the sector maturing, the market share of the leading companies has been gradually decreasing and, despite their growing income and profits, the market has become more fragmented. This trend, in turn, might get a consolidation process going, if the big companies try to preserve their positions by acquiring some of the smaller players. Consolidation might also be prompted by the economic difficulties, as many of the smaller players might be forced out of business due to their growth-dependent strategies. Apart from traditional insurance companies, some tech giants also started to participate in the sector, riding on the booming momentum of Fin-tech and their large client base.

Main Players

China's insurance sector is dominated by a few big domestic players, most of them state-owned. Operating in the form of group holding companies, these include China Life Insurance, the People's Insurance Company of China (PICC), Ping An Insurance, China Pacific Insurance, New China Life Insurance and China United Property Insurance. Their subsidiaries are the top players in both the life and health insurance, and the property and casualty insurance segments. The dominant player in the reinsurance segment is the former state monopoly China Re.

Foreign Players

Foreign capital is allowed in China's insurance sector in the form of joint ventures for both life and property business or wholly foreign-funded for property business alone. In 2018, the Chinese government facilitated a more open environment for foreign investment, which creates more opportunities for foreign players to enter the sector. At the end of November 2018, CBIRC announced that German insurer Allianz received permission to establish a group holding company in China, being the first foreign-funded company in such form. By 2018-end, there were 36 life insurers and 24 property insurers in China.

Source: CBIRC, CEIC

Top Companies

China Life

China Life Insurance (Group) Company is a Beijing-based state-owned insurance conglomerate created in 1999 in the process of restructuring PICC Group. China Life originally sold only life insurance products and annuity products, but since 1999 it has developed into a finance and insurance corporation, offering insurance, asset management and brokerage services. The group is one of the main institutional investors in the capital market of China. Its core member China Life Insurance Company Ltd is a leading listed life insurance player in China.

The People's Insurance Company of China (PICC)

The People's Insurance Company of China was founded in 1998 in Beijing in the process of restructuring PICC Group. It is the largest casualty insurance provider in China. In addition to the casualty insurance, the group also offers life, property and health insurance, asset management, insurance brokerage and trust-fund services.

Ping An Insurance Company of China

Ping An Insurance Group was founded in Shenzhen, Guangdong province, in 1988. The group began as a casualty insurance company but has since diversified into life insurance and financial business. Today the group has four main businesses – insurance, banking, asset management and fintech. The group offers life, automobile, property, accident, health and other insurance products. Ping An operates mainly in China, Hong Kong and Macau. It also provides insurance services for China's international projects.

New China Life Insurance

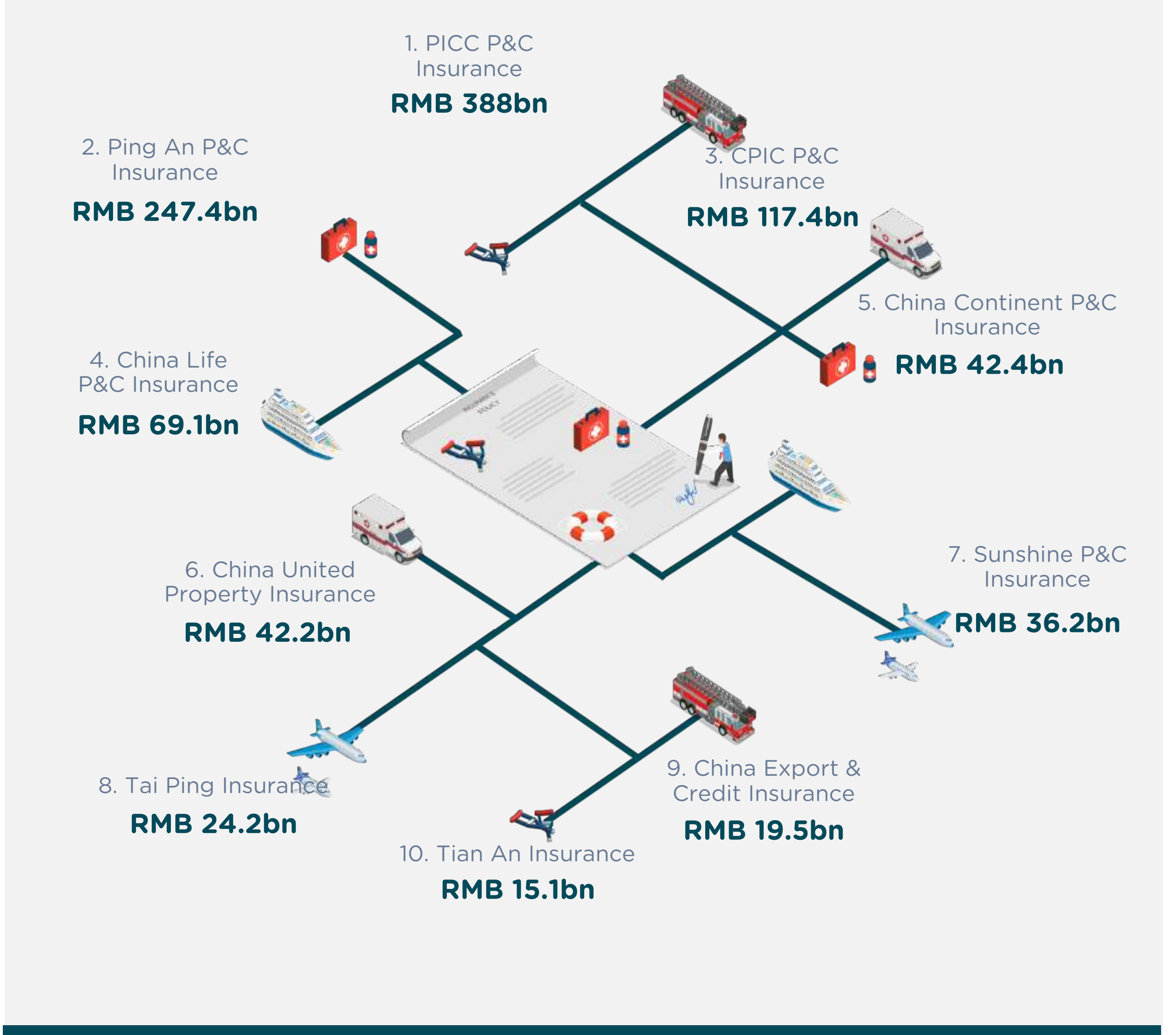
New China Life Insurance is a Beijing-based insurer offering various life insurance products and services. New China Life was founded in September 1996 and quickly grew to become one of the leaders of the life insurance segment in China. The company's main products include traditional life insurance, participating life insurance, universal life insurance, investment-linked insurance, health insurance, casualty insurance and asset management.

China Pacific Insurance Company (CPIC)

China Pacific Insurance Company was founded in Shanghai in 1991. The group offers a wide variety of life, health, property, casualty, annuity and other insurance and asset management services. In 2018, it ranked third in China in both human and property insurance segments in terms of premiums income.

Top Companies (cont'd)

Premiums of the Top 10 Property Insurance , 2018



Share of Property Insurance Premiums, 2018

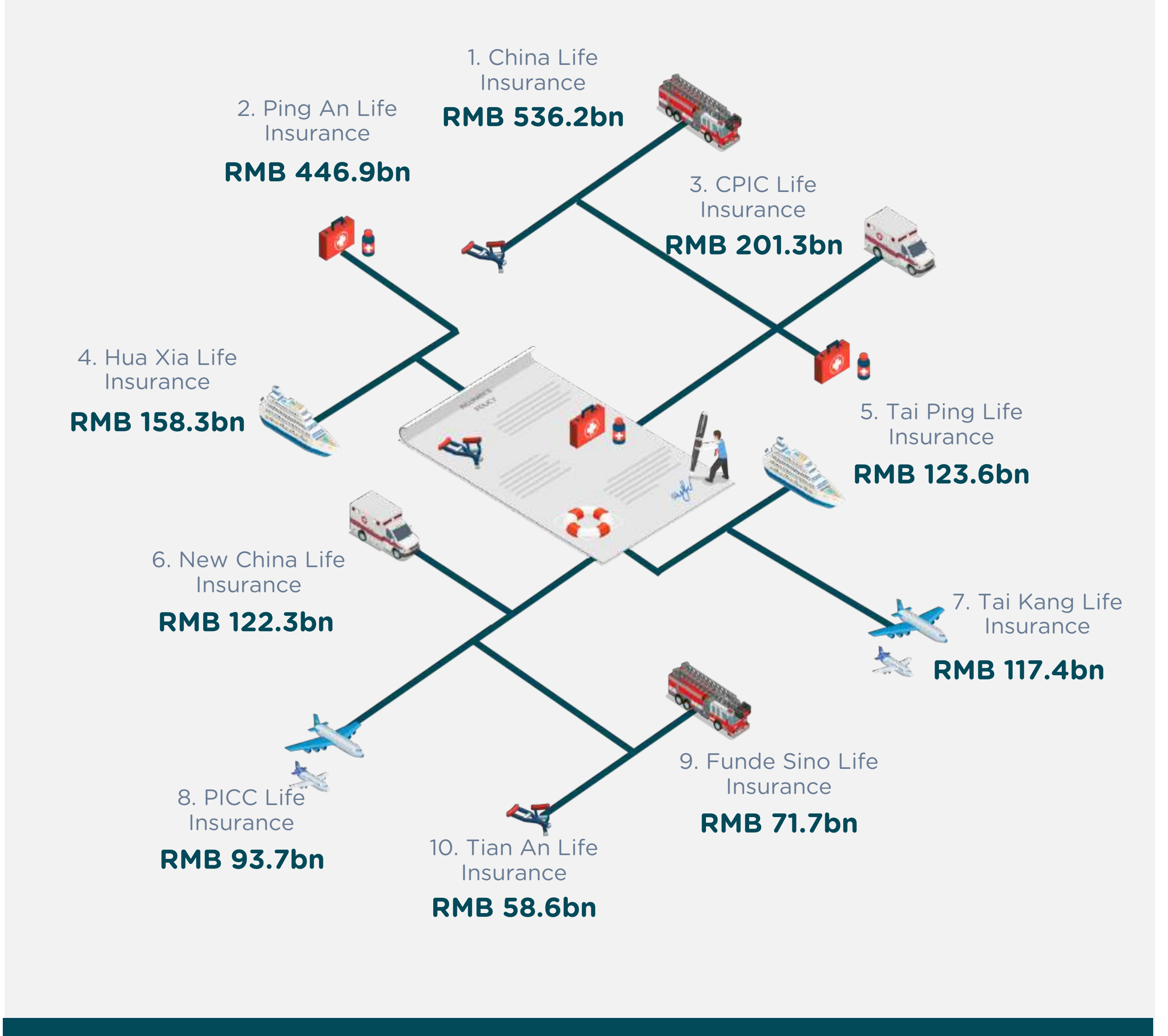
98% Domestic Companies

2% JVs and Foreign Companies

Source: CBIRC, CEIC

Top Companies (cont'd)

Top Life Insurance Companies, 2018

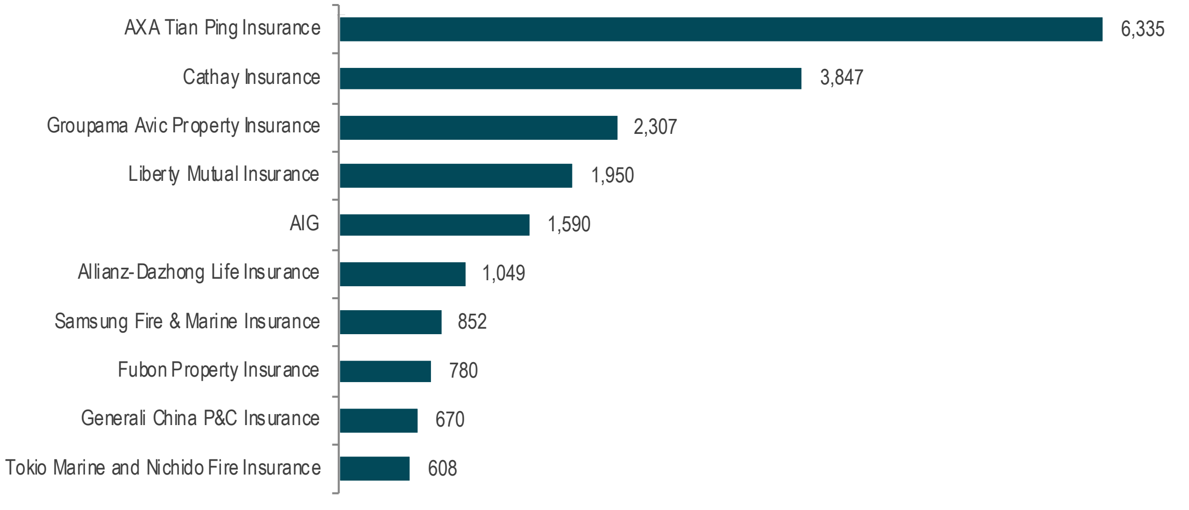


Share of Life Insurance Premiums, 2018

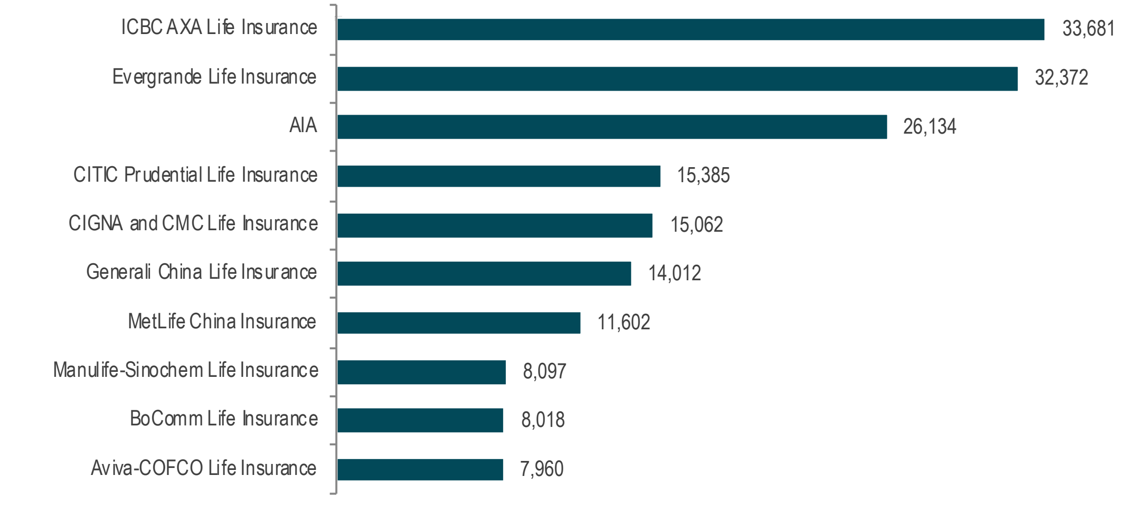
Source: CBIRC, CEIC

Top Foreign Companies

Top Property Insurance Companies Premium, RMB mn, 2018



Top Life Insurance Companies Premium, RMB mn, 2018



Source: CBIRC, CEIC

04
COMPANIES IN FOCUS

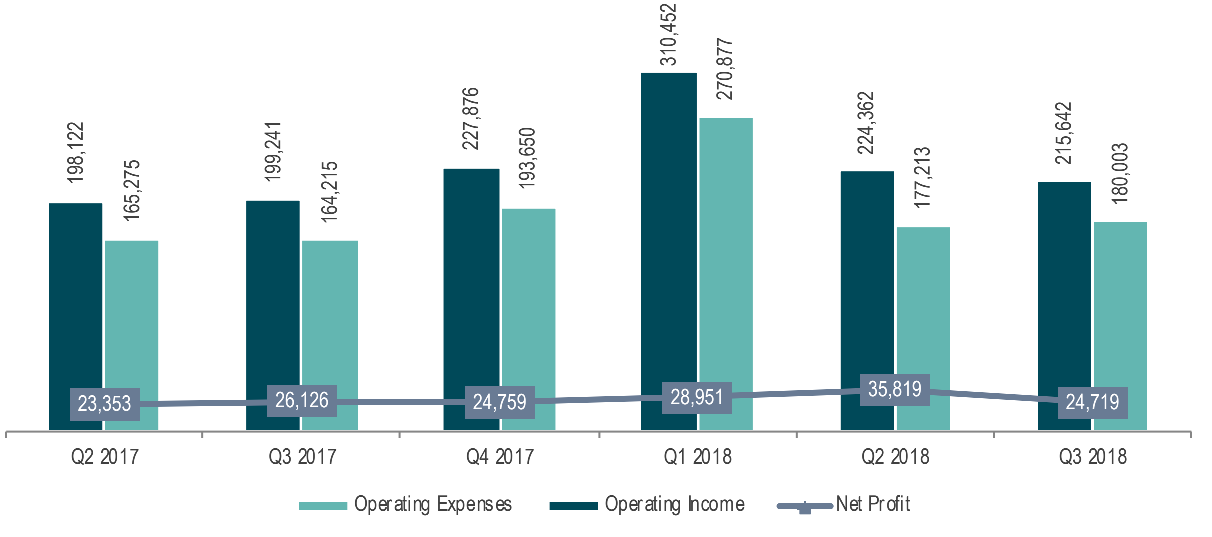
Ping An Insurance (Group) Co Ltd

Quarterly Update

Ping An sustained its growth momentum in Q3 2018, with operating income increasing by 8.2% y/y to RMB 215.6bn. For the first three quarters, operating income expanded by 13.2% y/y to RMB 750.5bn, mainly boosted by the 19.1% annual growth in gross premium income. Net profit for January-September 2018 improved by 19% y/y and reached RMB 89.5bn. Life and health insurance contributed RMB 46.6bn, property and casualty insurance generated RMB 8.1bn, banking accounted for RMB 20.5bn, and other finance and tech made up the rest. To improve customer service and enhance sales in the life and health unit, Ping An increased its payroll and has been introducing technological tools to boost the efficiency of the sales team.

According to Ping An's report, the number of clients who hold contracts at more than one company subsidiary accounted for 32.5% of total clients in Q1-Q3 2018, up by 5.4 pp y/y. The company's fintech and medical technology unit is gaining importance and accounted for 6.3% of operating profit attributable to shareholders of the parent company for Q1-Q3 2018, a huge rise from 0.9% during the same period of 2017.

Income Statement, RMB mn



Source: Company Data

Ping An Insurance (Group) Co Ltd (cont'd)

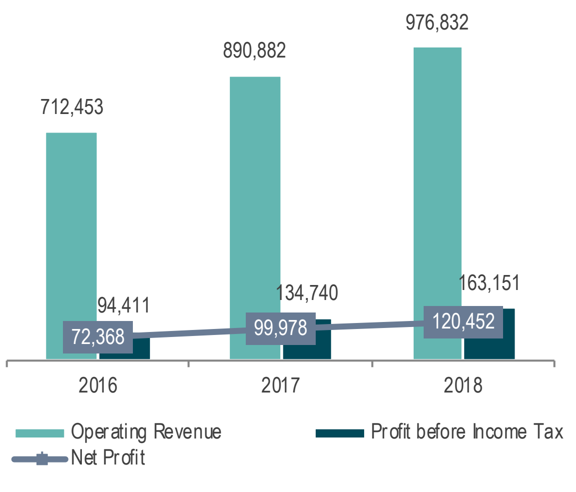
中国平安 PING AN

Highlights

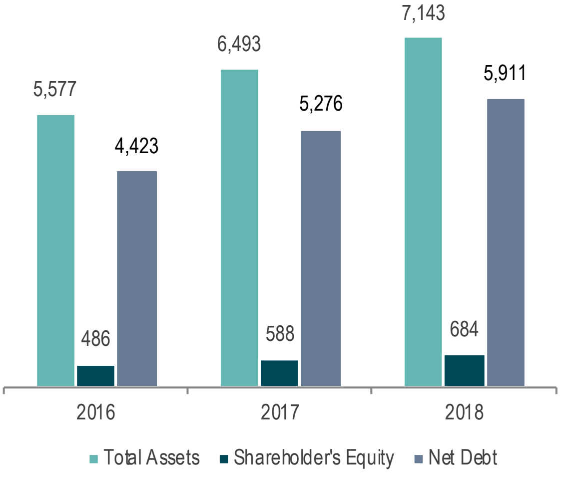
In 2018, the operating income and net profit of Ping An increased by 9.6% y/y to RMB 977bn. The insurance unit remained the largest revenue driver during the year. The group increased agent's payroll and introduced technological tools for higher sales efficiency, which resulted in 5.9% y/y higher new business from the agent's channel, according to Ping An's annual report. Net premiums earned (NPE) during the year reached RMB 677.5bn, increasing by 18.3% y/y, of which NPE from life and health insurance were RMB 465.6bn, up by 21.1% y/y, and NPE from property and casualty insurance stood at RMB 211.9bn, up by 12.6% y/y.

The group's net profit amounted to RMB 120bn, recording a significant 20.5% annual growth. The four major business segments of the group, namely life and health insurance, property and casualty insurance, banking, and fintech and healthtech, contributed to 48.8%, 10.2%, 20.6% and 12.4% of its profit, respectively. The return on equity (ROE) of Ping An stood at 17.6%, up by 0.6 pp compared with 2017. The enhanced profitability led to a 14.7% increase in cash dividend per share to RMB 1.72.

Income Statement, RMB mn



Balance Sheet, RMB bn



Source: Company Data

Ping An Insurance (Group) Co Ltd (cont'd)

中国平安
PING AN

Company Background

Ping An Insurance Group was established in 1988 in Shenzhen. It began as a casualty insurance company but has since diversified into a financial conglomerate offering also banking, fintech, and investment and asset management services. Ping An Insurance Group was the first insurance company in China to adopt a shareholding structure. It was successfully listed on the Hong Kong Stock Exchange in 2004 and on the Shanghai Stock Exchange in 2007.

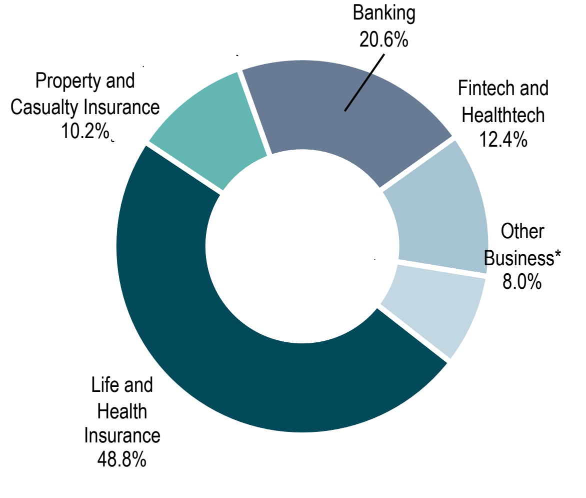
At the end of 2018, Ping An Insurance Group had 22 major subsidiaries, operating in four areas – insurance, banking, investment and technology. The group ranked second in both the life insurance and property insurance sectors in China in 2018 through its subsidiaries – Ping An Life Insurance and Ping An Property Insurance, respectively.

The group continued investing in its technology arm to extend its business scope and foster the growth of insurance segment. The group has formed its online financial service ecosystem based on Lufax Holding and OneConnect, and its online health care ecosystem based on Ping An Good Doctor. At the beginning of 2018, OneConnect finished an A-round financing valued at up to USD 7.5bn. In May 2018, Ping An Good Doctor went public on the Hong Kong Exchange.

Shareholder Structure, 31 December 2018

Shareholder	Number of Shares	%
HKSCC (Nominees) Limited	5,991,668,030	32.78
Shenzhen Investment Holdings Co., Ltd.	962,719,102	5.27
Business Fortune Holdings Limited	717,306,596	3.92
New Orient Ventures Limited	714,663,997	3.91
Others	-	54.12

Profit by Business Share, 2018



* Mainly consisting of Trust, Securities and Other Asset Management

Source: Company Data

China Life Insurance Group

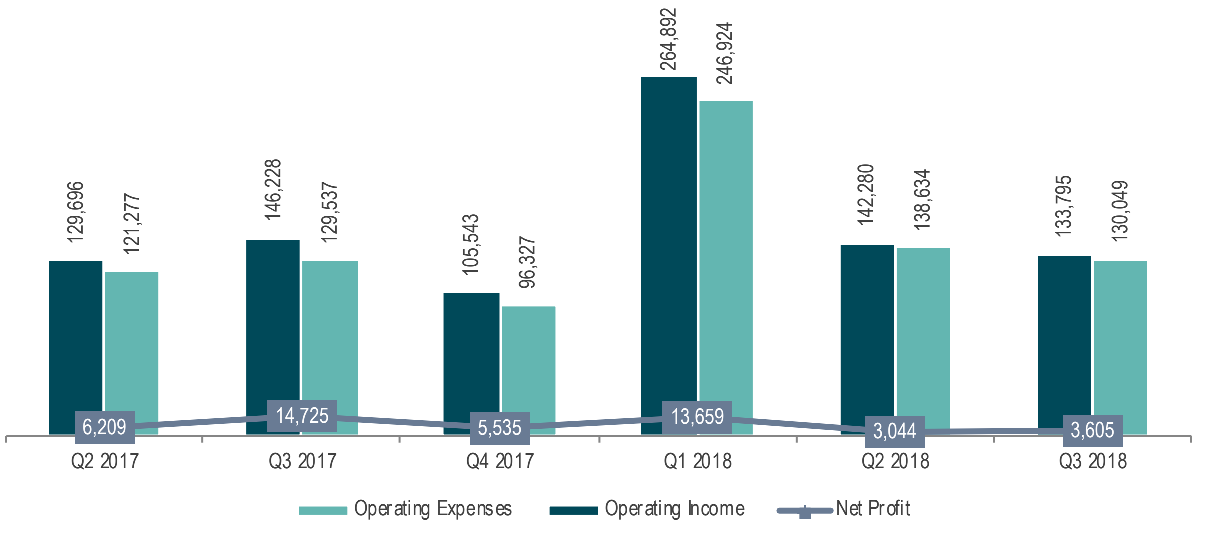
中国人寿
CHINA LIFE

Quarterly Update

China Life's operating income decreased by 8.5% y/y to RMB 133.8bn and its net profit plunged by 75.5% y/y to RMB 3.6bn in Q3 2018. As a result, China Life suffered a 25.4% y/y decline in net profit for Q1-Q3 2018. The main reason for the huge decrease in profitability lies in the poor performance of investment, in particular investment in stocks. Due to China's continuously weakening stock market, the fair value of China Life's financial assets lost RMB 5.2bn in Q1-Q3 2018, leading to a further lower annualized total investment return of 3.32% compared with 3.7% for H1 2018.

Despite the loss in investment segment, the insurance business of China Life remained healthy. The Q1-Q3 2018 premium income reached RMB 468.5bn, rising by 4.1% y/y. The number of agents serving individual policy holders grew by 14,000 in Q3 2018, in line with the company's strategy to promote more life protection products. Backed by the large sales team consisting of 145.5mn agents, personal monthly average sales of protection products improved by 49.7% y/y in Q3 2018.

Income Statement, RMB mn



Source: Company Data

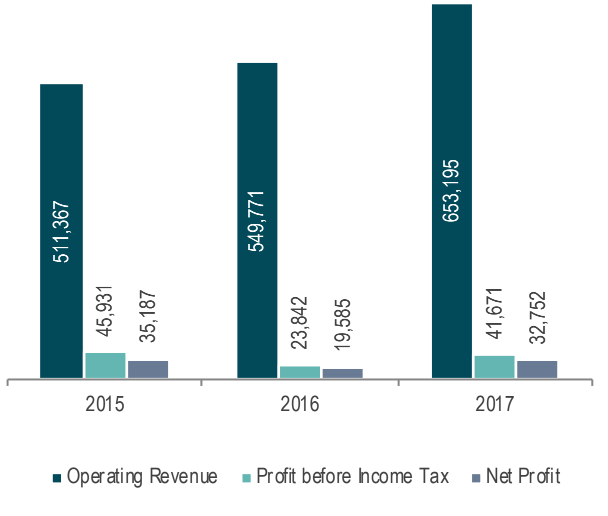
China Life Insurance Group (cont'd)

Highlights

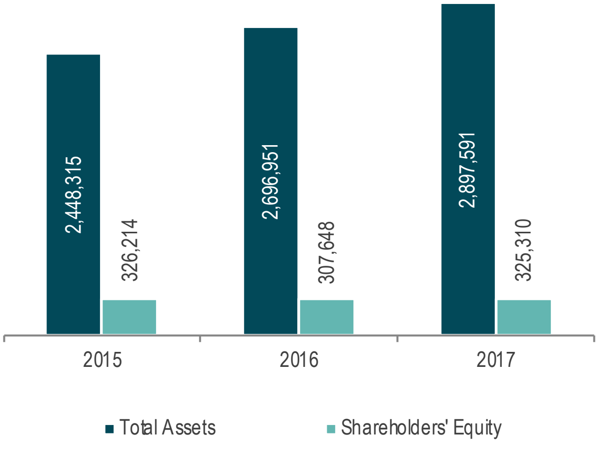
In 2017, the total operating revenue of China Life was RMB 653.2bn, up by 18.8% y/y. The company's net profit improved to RMB 32.8bn from RMB 19.6bn in 2016, representing an increase of 67.2% y/y.

During the year 2017, the company's net written premium from life insurance amounted RMB 429.8bn, up by 18.8% compared to the previous year. The premium from health insurance was RMB 67.7bn, representing an increase of 25.4% y/y and the gross written premium from accident insurance business amounted to RMB 14.4mn, remaining at the same level as in 2016. The total gross written premium of the company reached RMB 512.2bn, up by 19% y/y, making China Life the largest life insurer in the country.

Income Statement, RMB mn



Balance Sheet, RMB bn



Source: Company Data

China Life Insurance Group (cont'd)

Company Background

China Life is the largest life insurance company in China. It was established in 1999 by restructuring the life insurance division of the former state-owned insurance monopolist the People's Insurance Company of China. China Life is headquartered in Beijing.

China Life accounted for roughly 23% of China's life insurance market.

The company was successfully listed on both the Hong Kong and New York stock exchanges in 2003, raising USD 3.5bn. It was also the first insurance company to be listed on the Shanghai Stock Exchange in 2007.

China Life was the second-largest insurance company in the world by market capitalisation in 2017.

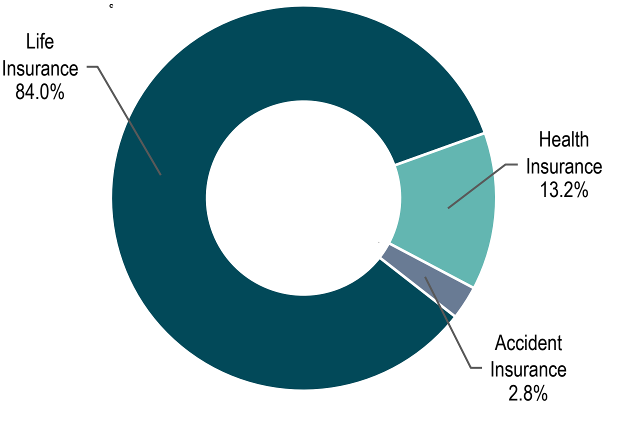
In addition to the insurance business, the company also deals in asset management and provides pension, e-commerce and educational services.

In 2015, China Life became the first mainland insurer to issue Core Tier 2 bonds under the new C-ROSS system. The bonds are estimated to be for around USD 1bn.

Shareholder Structure, December 31, 2017

Shareholder	Number of Shares	%
China Life Insurance (Group) Company	19,323,530,000	68.37
HKSCC Nominees Limited	7,313,184,811	25.87
China Securities Finance Co., Ltd.	591,848,451	2.09
Central Huijin Investment Co., Ltd.	119,719,900	0.42
Other	N/A	3.25

Insurance Premiums, % of total



Source: Company Data

The People's Insurance Company (Group) of China

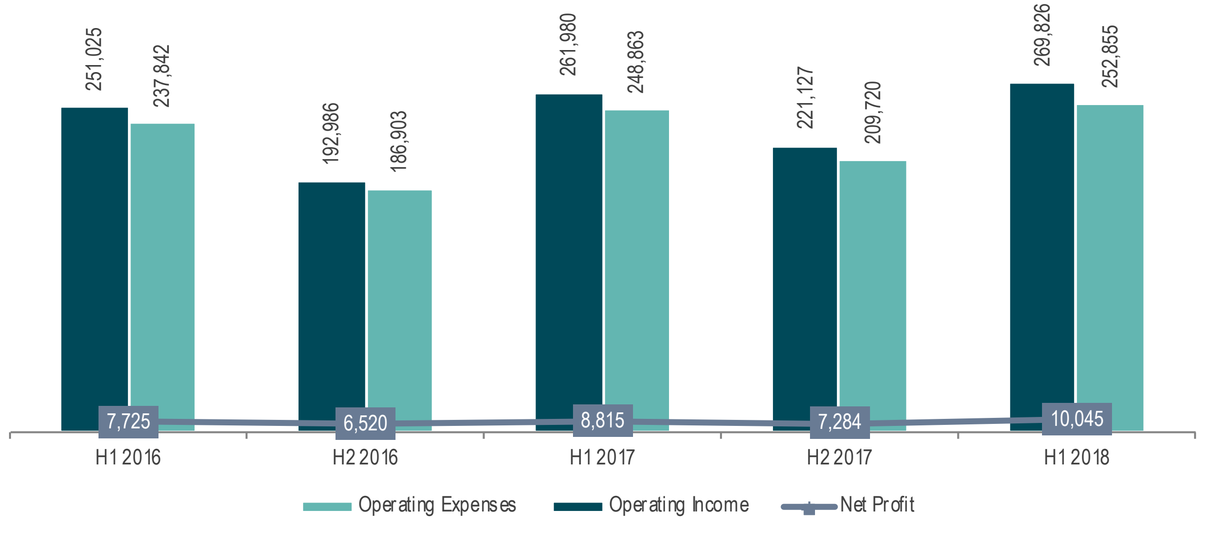
Quarterly Update

In H1 2018, the People's Insurance Company (Group) of China (PICC) generated operating income and net profit of RMB 269.8bn and RMB 10bn, growing by 3% y/y and 14% y/y, respectively. By the end of June 2018, PICC's total premiums were RMB 286.2bn and increased by 2.3% y/y. The property & casualty, health and life insurance units contributed premiums of RMB 205.7bn, RMB 10.6bn and RMB 69.9bn, respectively.

During H1 2018, the market share of PICC in the property & casualty segment rose by 0.9 pp to 34% and that in life insurance grew by 0.2 pp to 4.3%. The market share in the health segment, on the other hand, declined by 0.1 pp to 0.6%.

At the end of September 2018, PICC's IPO application was approved by the China Securities Regulatory Commission. On November 16, the company's stocks started trading at the Shanghai Stock Exchange with issue price of RMB 3.34 per share.

Income Statement, RMB mn



Source: Company Data

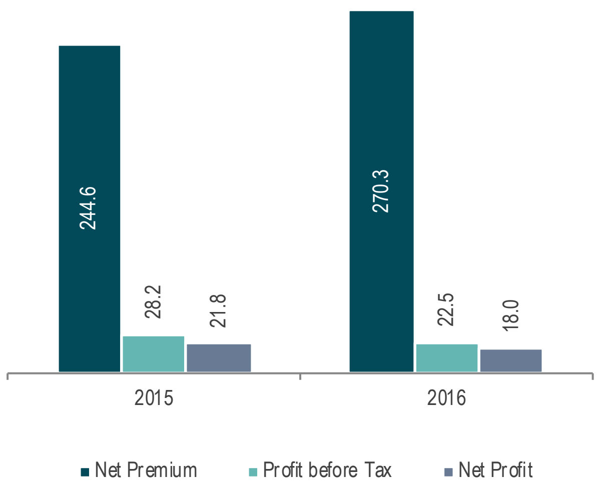
The People's Insurance Company (Group) of China (cont'd)

Highlights

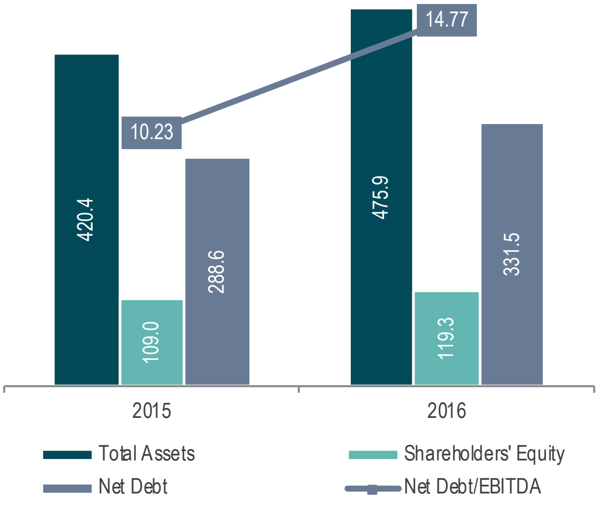
In 2016, the net premiums of PICC improved by 10.5% y/y to RMB 270.3bn. The gross written premiums of the motor vehicle insurance segment amounted to RMB 255.6bn and the premiums of all other segments were RMB 85.5bn. In 2016, the profitability of the company declined compared to the previous year. The profit before tax decreased from RMB 28.2bn in 2015 to RMB 22.5bn, and the net profit attributable to shareholders declined from RMB 21.8bn to RMB 18bn. However, the profitability of PICC for the year surpassed that of the overall insurance market in China.

In 2016, the total assets of the company and its subsidiaries reached RMB 475.9bn, representing a y/y increase of 13.2%. The shareholders' equity was RMB 119.3bn, up by 9.5% from the previous year. The total amount of investment assets grew steadily, reaching RMB 378bn.

Income Statement, RMB bn



Balance Sheet, RMB bn



Source: Company Data

The People's Insurance Company (Group) of China (cont'd)

Company Background

PICC P&C, a subsidiary of the People's Insurance Company (Group) of China, is the biggest property and casualty insurance company in China. It was founded in Beijing in 2002 by restructuring the property and casualty department of the former state-owned insurance monopolist – The People's Insurance Company of China.

Since 2002, the company has grown into a comprehensive financial group, engaged in insurance, asset management, financial and investment activities.

PICC P&C is also the third largest agricultural insurance company in the world and the biggest in Asia. It controls more than 50% of agricultural insurance in China.

In 2005, PICC and Sumitomo Life Insurance Co established the joint venture PICC Life Insurance Co, which has since become one of the top five life insurance companies in China.

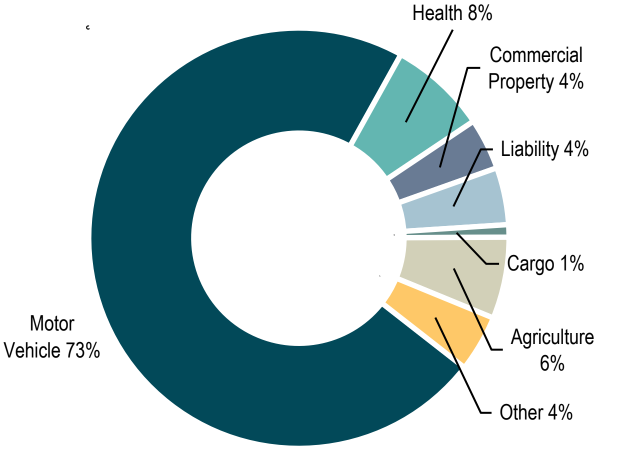
In 2013, PICC was the second-largest property insurance company in the world in terms of GWP and the biggest in Asia, according to a report by the consultancy Accenture.

The group had over 174,000 employees at the end of 2016, according to the company's annual report.

Shareholder Structure, December 31, 2017

Shareholder	Number of Shares	%
Ministry of Finance	29,896,189,564	70.47
National Council for Social Security Fund	3,801,567,019	8.98
American International Group, Inc.	1,113,405,000	2.62
Blackrock Inc.	465,399,883	1.10
Other	N/A	16.85

Insurance Premiums, December 31, 2017



Source: Company Data, Accenture

China Pacific Insurance (Group) Co Ltd

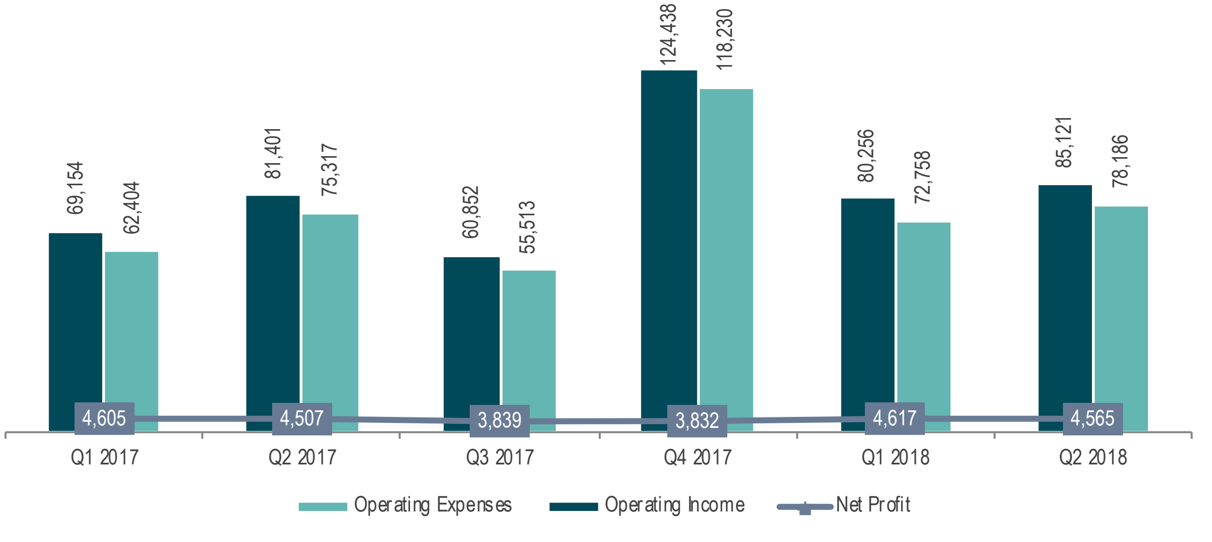
太平洋 CPIC

Quarterly Update

China Pacific Insurance (CPIC) remained China's third largest insurer in both life and property sectors in 2018. It received RMB 201.3bn in premiums from the life segment and RMB 117.4bn from the property segment, up by 15.7% y/y and 12.9% y/y, respectively.

During Q4 2018, property insurance contributed RMB 29.7bn in income, 9.7% higher y/y. The company performed particularly well in the life segment in Q4 2018, with premiums rising by 23.2% y/y to RMB 25.4bn. CPIC demonstrated its emphasis on healthcare products in a company report released in November 2018. During January-September 2018, the company signed 892,000 new clients who bought both long-term critical illness and short-term medical policies, more than doubling the number of such new clients in 2017.

Income Statement, RMB mn



Source: Company Data, CBIRC

China Pacific Insurance Company (cont'd)

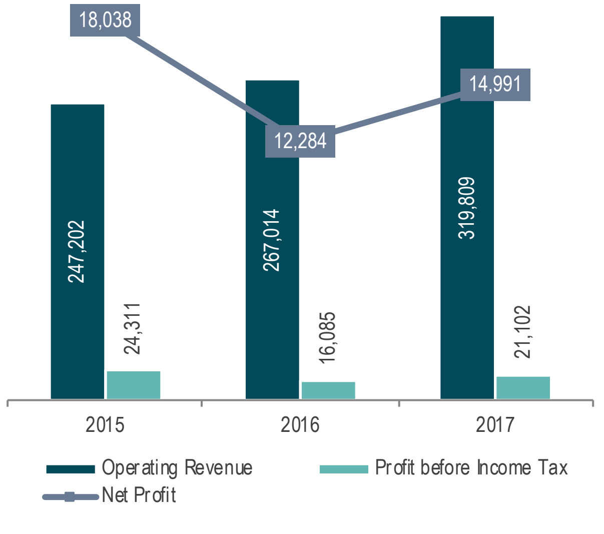
Highlights

In 2017, the total operating revenue of CPIC increased by 19.8% y/y to RMB 319.8bn. The company's profit after taxes was RMB 21.1bn, up from RMB 16.1bn in the previous year and the net profit attributable to shareholders reached RMB 15bn, up by 22% compared to the previous year.

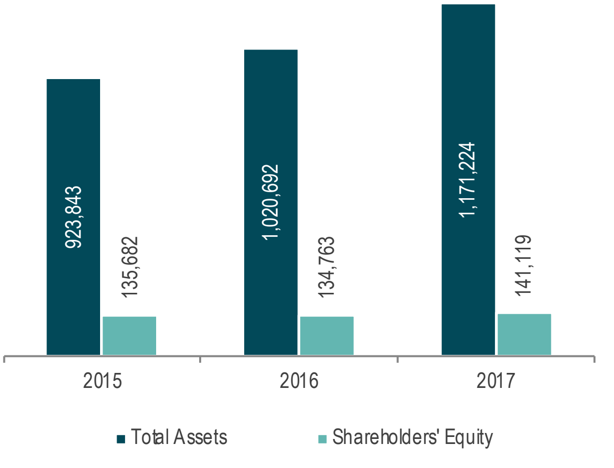
The insurance premium revenue of CPIC rose by 20.5% y/y to RMB 547.5bn in 2017. The premium from life insurance rose by 34.1% y/y to RMB 368.9bn and the premium from property insurance was RMB 216bn, up by 21.4% y/y.

The total assets of CPIC reached RMB 1,171mn, up by 14.7% y/y and the shareholders' equity rose by 4.7% y/y.

Income Statement, RMB mn



Balance Sheet, RMB mn



Source: Company Data

China Pacific Insurance Company (cont'd)

太平洋 CPIC

Company Background

CPIC is one of the biggest insurance companies in China. It was established in 1991 and is headquartered in Shanghai.

The company provides insurance, asset management, financial and investment services to over 85mn customers.

China Pacific Insurance was successfully listed on the Shanghai Stock Exchange in 2007 and on the Hong Kong Stock Exchange in 2009.

The company offers its clients a variety of insurance products including life, automobile, liability, investment, health, endowment and other insurances.

In June 2015, CPIC announced it was buying 15-year preferred shares of China Railway Development Fund Co worth some RMB 32bn.

In 2016, CPIC disclosed that one of its subsidiaries acquired 200mn shares of Anxin Agricultural Insurance Co Ltd for RMB 398mn, increasing its stake to 51.35%.

In June 2016, CPIC set up a JV in Shanghai with a Beijing-based asset management company. CPIC has a share of at least 50% in the new company.

Shareholder Structure, December 31, 2017

Shareholder	Number of Shares	%
HKSCC Nominees Limited	2,772,401,036	30.59
Fortune Investment Co Ltd	1,284,277,846	14.17
Shenergy Group Co Ltd	1,225,082,034	13.52
Shanghai Haiyan Investment Management Co Ltd	468,828,104	5.17
Others	N/A	36.55

History

1991	China Pacific Insurance Co Ltd established
1994	China Pacific Insurance Co (H.K.) Limited established
2001	China Pacific Insurance Company underwent restructuring. China Pacific Insurance (Group) Co Ltd was established.
2006	Pacific Asset Management Co Ltd established
2007	A-Shares of CPIC were listed (中國太保, SH601601)
2009	CPIC became the holding company of Changjiang Pension Insurance Co Ltd; Class H-Shares of CPIC were listed
2010	CPIC Investment Management (H.K.) Co Ltd was established
2012	Pacific Insurance Online Services Technology Co Ltd was incorporated
2014	CPIC Allianz Health Insurance Co Ltd was established

Source: Company Data

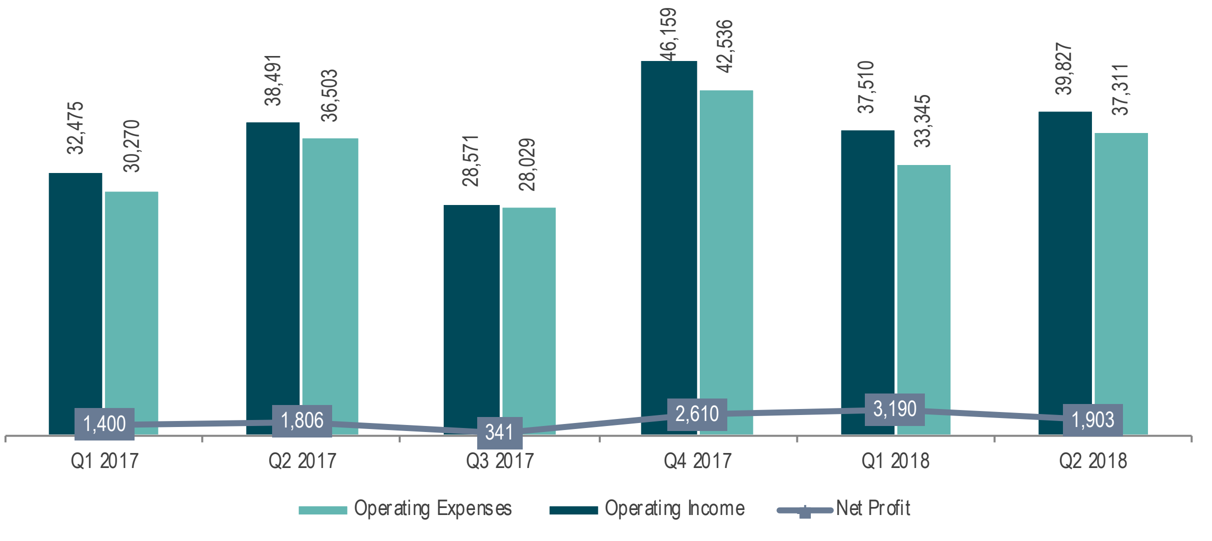
New China Life Insurance Co Ltd

Quarterly Update

The operating income of New China Life Insurance (NCI) for the first nine months of 2018 reached RMB 123.5bn, increasing by 6.9% y/y. The company generated RMB 100bn in income from insurance business, representing 81% of total income. Renewal premiums of long-term insurance products surged by 29.9% y/y to RMB 64.6bn. The share of premiums from individual clients improved significantly from 69.7% for Q1-Q3 2017 to 80.4% a year later. This indicates that NCI had sold more period payment long-term products than lump payment short-term ones, which makes the company's income more sustainable.

The net profit of NCI soared by 52.7% y/y to RMB 7.7bn for Q1-Q3 2018, largely due to the adjustment of insurance benefit reserves during H1 2018. For Q3 alone, NCI reported a 5.4% y/y growth in net profit to RMB 1.9bn.

Income Statement, RMB mn



Source: Company Data, Xinhua

New China Life Insurance Co Ltd (cont'd)

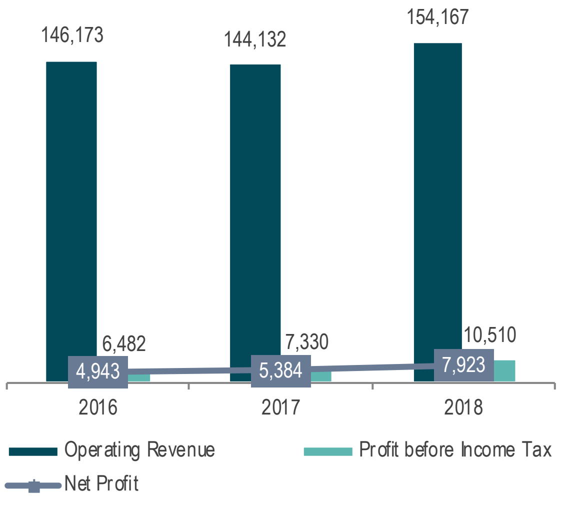
NCI
新华保险

Highlights

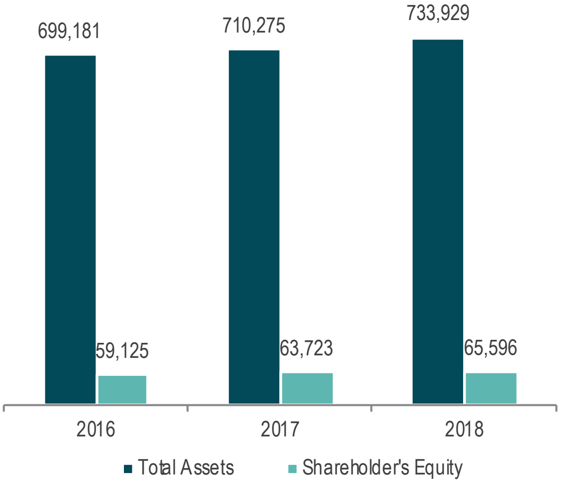
NCI recorded RMB 154,167mn operating income and RMB 7,923mn net profit in 2018, growing by 7% y/y and 47.2% y/y, respectively. The company's performance was mainly driven by its improved product structure. Of the annual gross written premium (GWP) of RMB 122,286mn, 11.9% higher than in 2017, renewal premiums contributed RMB 95,860mn or 78.4%, improving by 8.2 pp y/y. In terms of product type, premiums from health insurance rose by 36.2% y/y to RMB 42,571mn, increasing their share in total premiums from 28.6% in 2017 to 34.8% in 2018. Other major products sold by NCI include participating insurance (40.6%) and traditional insurance (22.9%).

NCI strengthened its sales team by enhancing their capability to promote protection products and increasing the number of agents by 6.3% to 370,000 people by the end of 2018. This resulted in an improved performance of the individual insurance channel, whose GWP amounted to RMB 99,166mn in 2018, up by 13.6% y/y. The bancassurance channel and group insurance contributed RMB 20,793mn and RMB 2,327mn in premiums, respectively.

Income Statement, RMB mn



Balance Sheet, RMB mn



Source: Company Data

New China Life Insurance Co Ltd (cont'd)

Company Background

New China Life was established in Beijing in 1996. Since then the company has become one of the best known names in China's life insurance segment.

New China Life is listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

The company is one of the nationwide insurers and had 35 provincial branches and approximately 370,000 insurance agents across the country at the end of 2018. Shandong, Henan and Beijing were the top three premium generating provinces of the company in 2018.

New China Life provides various insurance products in life, health, annuity and accident segments through three main distribution channels, namely individual insurance, bancassurance and group insurance.

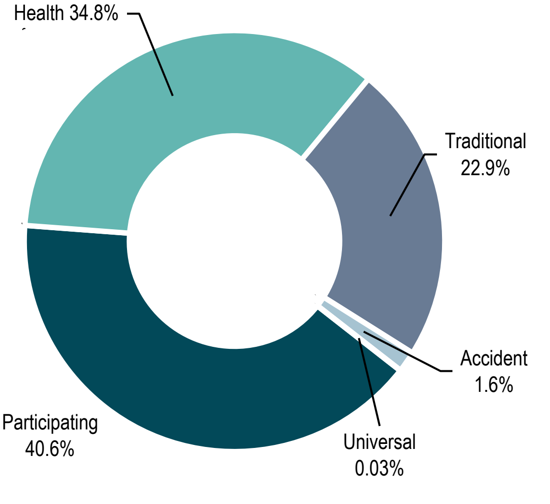
In addition, New China Life offers asset management and investment management through its subsidiaries in China and Hong Kong.

New China Life also develops business in related area such as health industry. By the end of 2018, the company completed 16 health management centers and served almost 420,000 people annually.

Shareholder Structure, December 31, 2018

Shareholder	Number of Shares	%
HKSCC Nominees Limited	1,033,829,636	33.14
Central Huijin Investment Ltd	977,530,534	31.34
Baosteel Group Corporation	377,162,581	12.09
China Securities Finance Co Ltd	93,339,045	2.99
Others	-	20.44

Premiums by Product Type, 2018



Source: Company Data

05
REGULATORY ENVIRONMENT

Government Policy

Regulatory Bodies

The China Banking and Insurance Regulatory Commission (CBIRC), incorporated from former China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) in April 2018, is in charge of issuing sector rules and regulations, approving new entrants, supervising operations of market players, registering insurance products and releasing sector operating data. Other key regulatory bodies include the State Council and the Standing Committee of the National People's Congress, which are responsible for establishing insurance laws, and Insurance Association of China (IAC), which provides supportive services such as industry communication, education, research, information release, etc.

Second Generation Solvency System

CIRC first introduced China's second generation solvency system for insurance companies, named as China Risk Oriented Solvency System (C-ROSS), at the beginning of 2012, and aimed for full implementation within 3-5 years. The system was later officially put into force in January 2016 and since then all insurance providers, including group holding companies, life insurance companies, property & casualty insurance companies and reinsurance companies, are required to publish solvency reports on quarterly basis.

C-ROSS was entirely and independently developed by Chinese regulators to complement the first generation solvency system a more risk-oriented model. The implementation of C-ROSS is a key step for the industry to grow in a healthier manner and provide solid support to the development of real economy. The new system is built on the so-called Three Pillars. The first pillar stands for the quantitative capital requirements, the second consists of the qualitative regulatory requirements, and the market restraint mechanisms constitute the third pillar.

The first pillar introduces minimum capital requirements for credit, insurance and market risk. The solvency regulatory rules also set new standards for assessment of balance sheet parameters, real capital and capital classification, and introduce dynamic solvency testing and various related regulatory measures. The qualitative regulatory requirements deal with quantitative evaluations of quantifiable risk and qualitative evaluation of non-quantifiable risk, along with changes in solvency capability assessment. The newly introduced market restraint mechanisms include standards for credit rating, disclosure and exchange of information.

According to the latest solvency reports available on IAC website, two out of 146 companies that uploaded the report failed to meet the solvency standard during Q4 2018.

Source: CBIRC

Government Policy (cont'd)

Administrative Measures for the M&A of Insurance Companies

In March 2014 CIRC released Administrative Measures for the Acquisition and Merger of Insurance Companies, which took effect on June 1, 2014. The M&A rules regulate the mergers and acquisitions of both domestic and foreign-capital insurance companies (the distinction is a matter of shareholding threshold: any company with less than 25% foreign share capital is considered domestic under the Insurance Law of China). The aim is to increase the competitiveness and create an optimal structure for the insurance market. Probably the most important change is that CIRC allowed the so-called peer control. This means that a single investor will be able to control two insurance companies that compete in the same business segment, e.g. two general insurance companies or two life insurance companies. This was an issue with the old rules as many foreign players had an interest in having more than one insurance company in China but were forced to merge their subsidiaries, which was the case with MetLife Inc in particular. Peer control is not the only good news for foreign investors, as the new rules remove the requirement for foreigners to have been shareholders of a domestic insurance company for at least three years before they are allowed to control more than 20% of the shares. The new rules also allow investors in mergers or acquisitions of local companies to use loans.

The 13th Five-Year Plan

In March 2016, China adopted the outline of the 13th Five-Year Plan for National, Economic and Social Development. The long-awaited plan sets guidelines for the country's development through 2020. The industry-specific plans are still being developed by the relevant authorities but as the target for GDP growth is set at 6.5% y/y for the entire period of the plan, the insurance sector is anticipated to continue expanding quickly with government support, as it is seen as one of the pillars of the country's financial sector, which in turn is vital for the achievement of this target. The social security system is to be reformed in the coming years, with an emphasis on the development of a superior medical insurance system. This means that the health insurance sector will grow faster than before, with more products being offered and GWP increasing as the healthcare system moves from partial to universal coverage by 2020. The pension system will undergo reforms too, which will result in increased business opportunities for the annuity insurance companies and the introduction of new pension insurance products to the market. The asset management arms of the insurance companies will also benefit from these reforms as they will have increased funds at their disposal. During the period covered by the 13th Five-Year Plan, the government will continue liberalising its financial and insurance system and the sector players stand to benefit from the emerging market opportunities.

Source: CBIRC, State Council, NDRC

Segment Regulations

Increased Control on Short and Medium-Term Life Insurance Products

In 2015, multi-sector holding China Baoneng Group started buying shares of real estate developer China Vanke in the open market and became one of its largest stakeholders with a 25% share in the first China mainland hostile takeover attempt. Analysts estimated that Baoneng spent roughly RMB 50bn on acquiring Vanke shares. The takeover attempt was unsuccessful but it raised a major issue of concern for the insurance sector, as a significant part of the funds invested in Vanke's stocks came from one of Baoneng's subsidiaries, namely Foresee Life Insurance. Foresee Life Insurance accumulated the funds by selling short-term universal life insurance policies (ULIPs). The ULIPs have been one of the most popular insurance products in China since their introduction in 2000. However, the ULIP is structured more like a mutual fund than an investment-linked insurance product. In the last few years the maturity of some ULIPs has been getting shorter, sometimes to less than one year. This attracted the attention of CIRC, as in order to ensure the high yield needed for such products the insurance companies entered in some high-risk asset transactions. If unsuccessful, these might have led to bankruptcy of the insurers. As a result, in March 2016, CIRC tightened control over the short and medium-term life insurance products. Under the new rules, insurance companies in China must immediately stop selling ULIPs with policy duration of less than one year and gradually reduce the share of premiums from such products to less than 50% in 2019, 40% in 2020 and 30% in 2021 and onwards.

Roll-Out of Individual Tax-Related Life Products

To better cope with the ageing society, Chinese regulators introduced two types of tax-related life insurance products over the past few years, namely individual tax deduction medical insurance and individual tax-deferred commercial pension insurance. In December 2015, CIRC, the Ministry of Finance and the State Administration of Taxation jointly issued the *Circular on the Launch of a Pilot Programme of Individual Income Tax Credit for Commercial Health Insurance*, which took effect on January 1, 2016. This new rule regulates the specific products and areas where individuals can enjoy tax deductions or tax credit for purchasing health insurance. It also sets an annual tax deduction limit for insurance premiums of RMB 2,500 per person. In July 2017, the individual tax deduction medical insurance was approved for nationwide sales. During May-June 2018, a series of notices were published by the Ministry of Finance and CBIRC regarding the pilot of individual tax-deferred commercial pension insurance. The trial has been firstly rolled out in Shanghai, Fujian Province and Suzhou Industrial Park, Jiangsu Province for a period of one year. The individual tax-deferred commercial pension insurance allows premiums of certain pension insurance to be deducted from individual's taxable base at present and insurance benefits to be subject to income tax in future. By January 4, 2019, CBIRC had approved 20 life insurance companies through four batches to design and sell the tax-deferred pension insurance under its guidance.

Source: CBIRC

Segment Regulations (cont'd)

Commercial Auto Insurance Premium Rate Reform

In July 2014, CIRC released the advisory document *Guiding Opinions on Deepening the Commercial Auto Insurance Clauses and Premium Rate Management System Reform*. The new system divided commercial auto insurance premiums into three parts, namely, standard pure risk premium, standard additional charges and a rate-adjustment coefficient. With this, the regulators aims for a highly market-oriented commercial auto insurance premium rating system. The reform had gone through three stages during mid-2015 to 2017, where CIRC released the limitations on the rate-adjustment coefficient step by step and spread the reform from several pilot places to the whole country. In July 2018, the CBIRC further entitled Guangxi, Shaanxi and Qinghai Provinces with full authority to determine commercial auto insurance premiums as a trial of insurers' completely independent pricing system.

Internet Insurance

China's first internet insurance company, ZhongAn Insurance, was founded in November 2013. In 2014, the company sold approximately 1bn insurance policies with insured amount reaching RMB 2bn. Its outstanding success drew the attention of CIRC, resulting in the regulator's push for a broader trial of internet insurance. In July 2015, CIRC issued the *Notice on Issuing the Interim Measures for the Supervision of the Internet Insurance Business* to specify the requirements for participating in the internet insurance business and the information disclosure rules for companies engaged in it, and also approved the establishment of three more internet insurance companies. In October 2016, CIRC organised a special inspection to make sure all the internet insurance providers and the related products were licensed.

Hong Kong Insurance Products Purchase Restriction

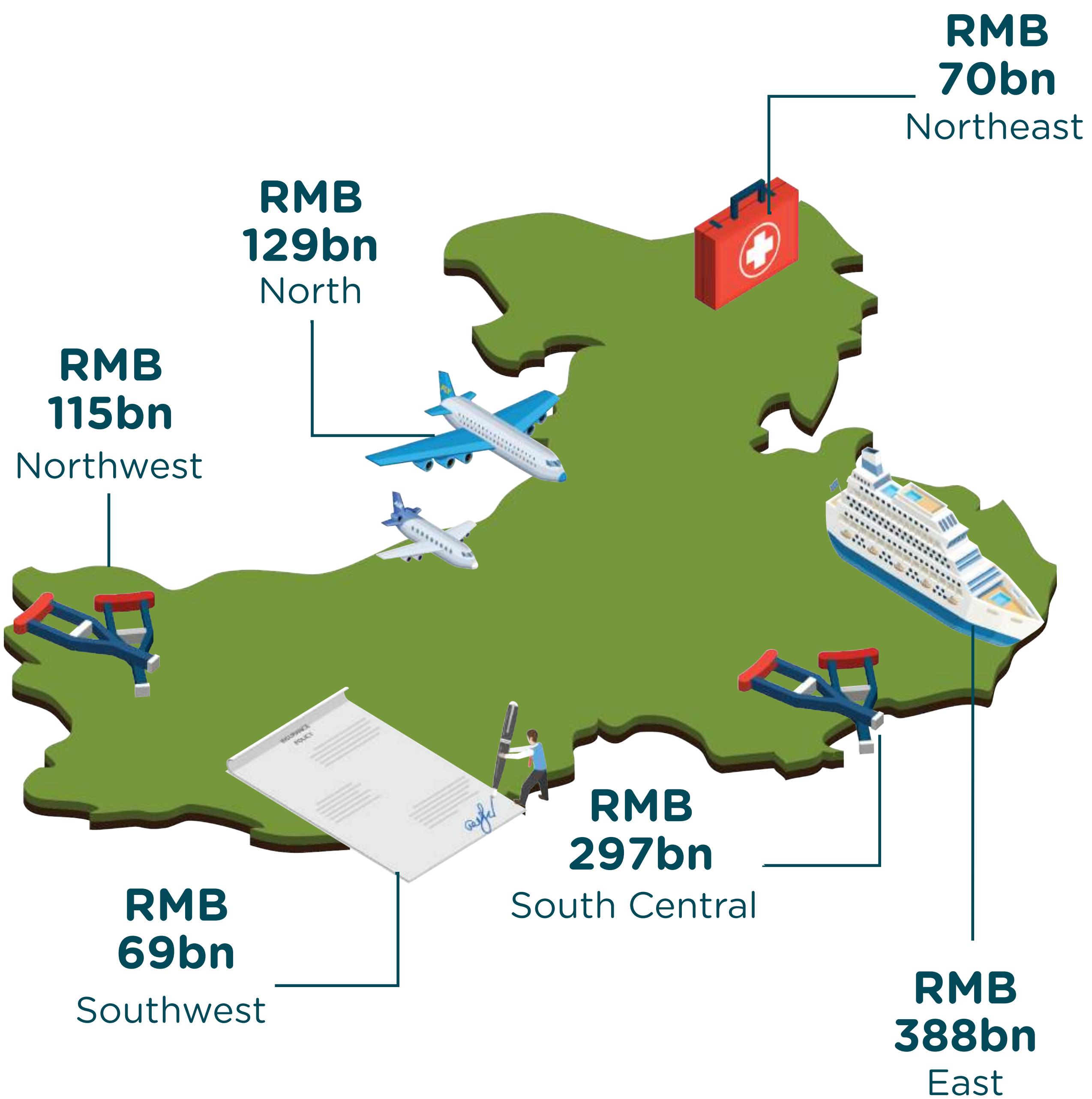
In the second half of March 2016, the Chinese authorities reportedly issued a restriction allowing Hong Kong-based companies to only sell personal accident, medical and transport coverage policies to mainland customers. The sale of life insurance and insurance-related investment products was banned. A daily cap of USD 5,000 was established for electronic payments to buy insurance abroad. These restrictions came in a move to close one of the popular channels for many Chinese to send money abroad despite the restrictions on such transactions introduced by the State Administration of Foreign Exchange (SAFE).

Source: CBIRC

06 PROPERTY INSURANCE

FOCUS POINT

Property Insurance Premiums, 2018



Source: CBIRC, CEIC

Highlights

Overview

In 2018, premiums generated by property insurance reached RMB 1,176bn, increasing by 11.5% y/y after a 13.8% y/y growth in 2017. The subsector's growth has been decelerating throughout the year from 14.6% in Q1 to 9.8% in Q2, 7.7% in Q3 and 6.2% in Q4. This is mainly because the sales of commercial auto insurance, the major premium generator in the subsector, were affected by the continuous slump in auto sales. According to data released by the China Association of Automobile Manufacturers, vehicle sales in 2018 declined by 2.8% y/y.

Domestic property insurance companies still dominated the market based, generating 98% of total premiums in 2018. The premiums of the five leading property insurance providers, PICC P&C, Ping An P&C, CPIC P&C, China Life P&C and China Continent P&C, amounted to RMB 864bn, representing 73.5% of the industry total.

There are currently four internet insurance companies operating in the property subsector in China - ZhongAn P&C, TK.CN of Tai Kang Insurance Group, An Xin P&C and Yi An P&C in the order of 2018 premium income. Their premiums generated from this subsector soared by 88.4%, 78.2%, 92.6% and 53% y/y respectively in 2018.

Challenges

The property insurance subsector in China faces several problems, the most important of which are the heavy reliance on the motor vehicle insurance segment and the fierce competition. Though Chinese regulators stopped publishing official data on the segment in 2018, PICC P&C, Ping An P&C and CPIC P&C reported that 60%, 71% and 72% of their total premium came from motor vehicle insurance in first half of 2018. The low degree of product diversity harms the soundness of subsector growth, especially during an economic downturn. It has also led to increasingly serious competition as insurers endeavor to win more business through lower prices and enhanced client relationship. As a result, large market players tend to grow larger, while small ones have to work even harder to survive.

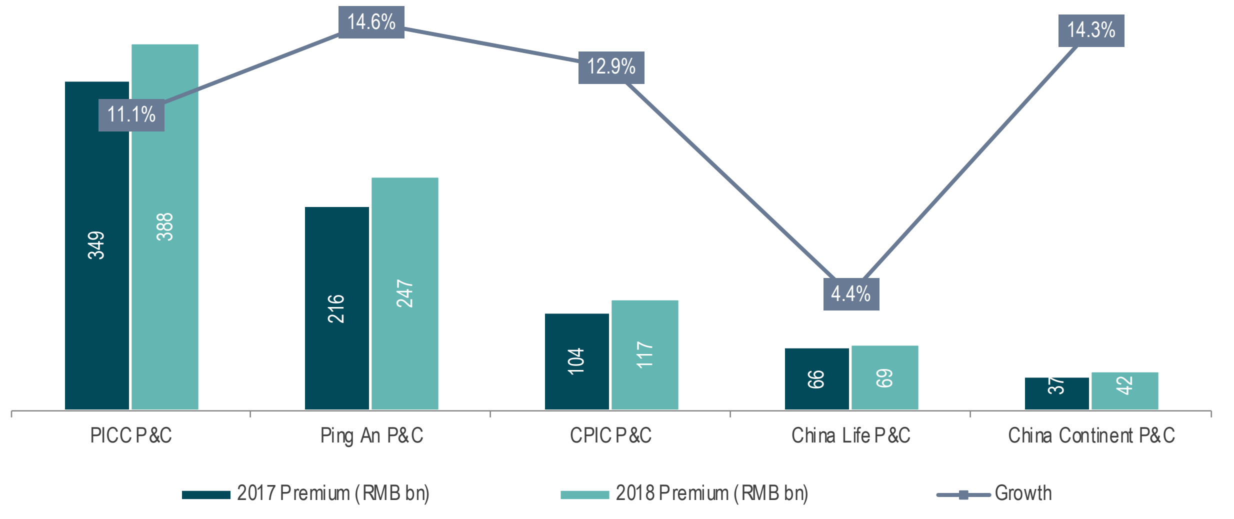
Outlook

China's property insurance subsector is likely to continue growing in the coming few years but at a slower pace. The regulators have been aware of the challenges and thus required stricter reporting measures on commercial auto insurance prices, while encouraging the development of other products, such as liability insurance and agriculture insurance. The emergence of online insurance platforms is becoming another motivator for the subsector. They are expected to facilitate the sales of short-term individual health and accident insurance the most.

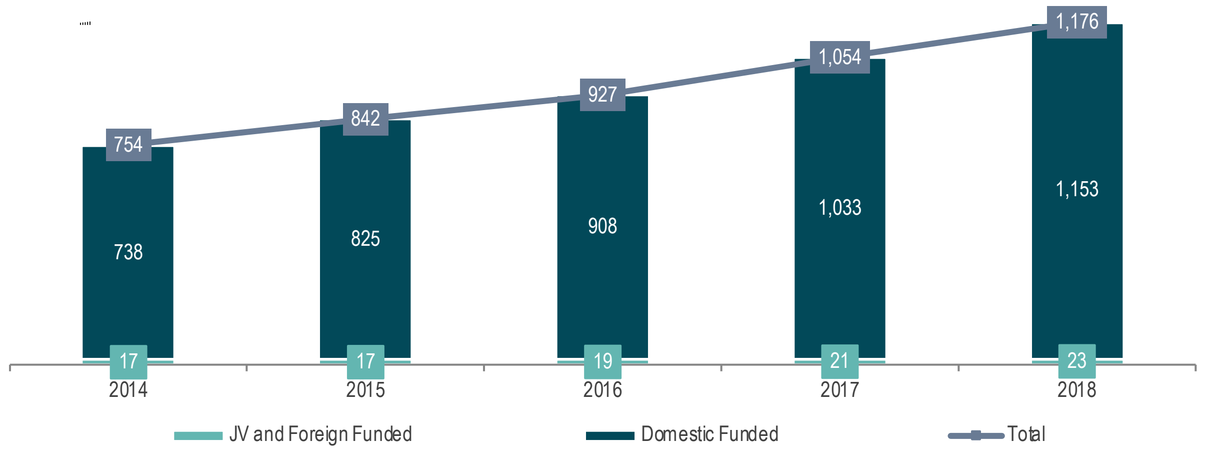
Source: CBIRC, China Association of Automobile Manufacturers, Company Data

Property Insurance Premiums

Premium Growth of Top 5 Property Insurance Companies



Property Insurance Premiums, RMB bn



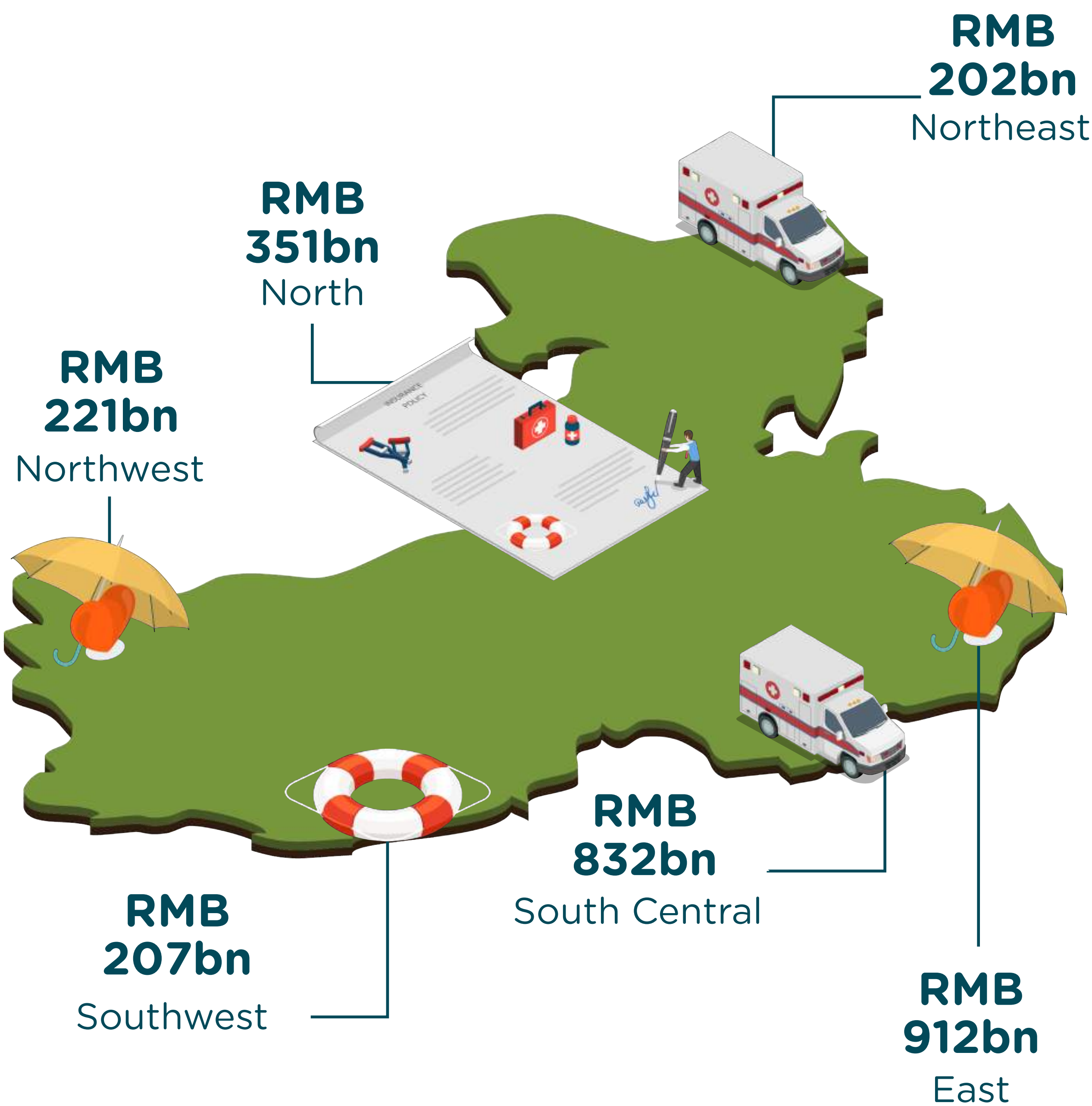
Source: CBIRC

07

LIFE, HEALTH AND ACCIDENT INSURANCE

FOCUS POINT

Life, Health and Accident Insurance Premiums, 2018



Source: CBIRC, CEIC

Highlights

Overview

The life, health and accident insurance subsector, also known as the human insurance subsector, generated RMB 2,725bn in premiums in 2018, up by 1.9% y/y, and had a share of 72% in China's insurance sector. Compared with the average annual growth rate of 25% during 2013-2017, the meagre growth was mainly a result of the ongoing product restructuring in the subsector. China's regulators have imposed restriction rules to cut down on the sales of medium- and short-term high-yield life insurance products, which gained popularity as many people see them as an alternative to bank deposits. However, companies have gradually adapted to the policies and successfully recovered as evidenced by the increasing y/y growth rate of each quarter's premium (-16% in Q1 2018, 16% in Q2, 16% in Q3 and 30% in Q4).

The subsector is as concentrated as the property insurance subsector. Domestic life insurers generated 92% of total insurance premiums with the rest coming from JVs and foreign-funded companies. The top three companies were China Life, Ping An Life and CPIC Life, whose aggregated premiums reached RMB 1,184bn and accounted for 43% of industry total.

Distribution Channels

The most popular distribution channels for human insurance so far are individual agent channel, the bancassurance channel and the insurance broker channel. The online sales of insurance products are seen as a new growth driver and many experts expect they might replace traditional distribution channels soon. According to a Tencent report released in February 2019, the number of internet insureds is around 0.2bn.

Challenges

The human insurance subsector in China faces several challenges. Bancassurance is no longer an ideal distribution channel for the subsector, as the payment structure of protection products is more complicated and requires explanation by agents. Internet is another promising channel due to its high efficiency and low cost.

Outlook

As more and more life insurers are restructuring their product portfolios, the subsector is expected to return to fast growth in the coming few years. Health insurance is likely to be the main growth engine. According to Swiss Re's estimates published in October 2018, China's health protection gap is around USD 805bn, which is nearly tenfold 2018's health insurance premium.

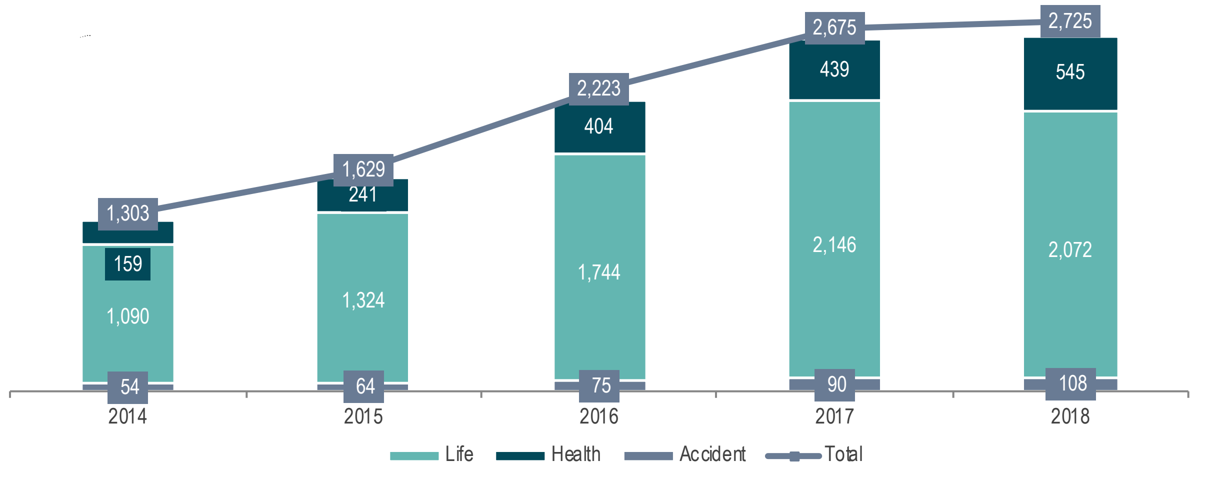
Source: CBIRC, Swiss Re, China Insurance News, Tencent

Main Subsector Indicators

Subsector Premiums Distribution, RMB bn, 2018

Region	Health Insurance	Life Insurance	Accident Insurance	Total
North	73.3	265.1	12.8	351.2
Northeast	39.3	157.1	5.3	201.7
East	179.6	694.7	37.4	911.7
South Central	167.0	630.8	33.8	831.6
Southwest	39.0	160.5	7.4	207.0
Northwest	46.4	164.1	10.4	221.0
Total	544.7	2072.3	107.1	2,724

Subsector Premiums by Segment, RMB bn



Source: CBIRC, CEIC

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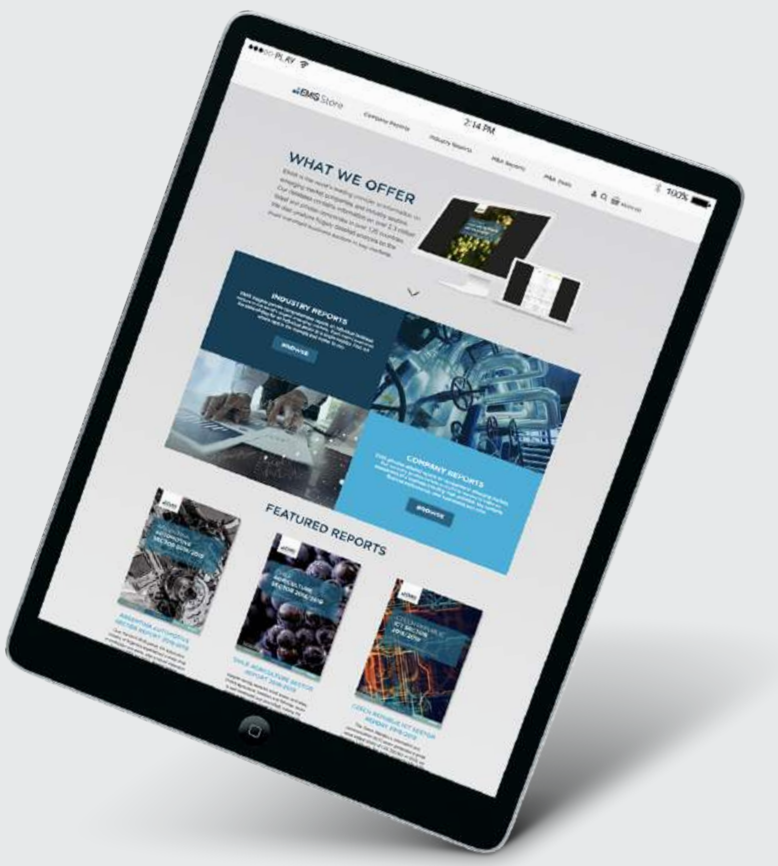

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