
EURASIAN JOURNAL OF ECONOMICS AND FINANCE

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THE OPENNESS OF THE INSURANCE INDUSTRY: DATA INSPECTION FROM CHINA

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Abstract

Among banking, securities, and insurance industries in the field of finance; insurance industry was opened earliest and most thoroughly. Starting from 1980 when foreign insurance companies were allowed to set up representative offices, China's insurance industry has undergone nearly 40 years of opening-up. Under the background of China's proposal to further enhance the opening-up of the financial industry, this paper assesses the actual opening-up of the insurance industry since 2004 from the three dimensions such as the number of Chinese-foreign joint-venture insurance companies, the premium income of foreign-funded insurance companies, and the asset size of foreign-funded insurance companies. The Mattoo method was used to measure the openness of the insurance industry since 1992. The results show that the openness of China's insurance industry will reach the international advanced level after 2020 as a whole, but it will take a longer period for the life insurance industry to reach the level of developed countries. At present, the main problem facing China's insurance industry is not excessive opening-up but the inadequacy of openness and industry competitiveness.

Keywords: Insurance Industry, Openness, Enhanced Supervision, High-Quality Development

JEL Classifications: G22, F60, F65

1. Introduction

The opening-up of China's insurance industry experienced a period of preparation from 1980 to 1992, a pilot phase from 1992 to 2001, a three-year (after China's entry into WTO) transitional period from 2001 to 2004, and an all-round opening phase from 2004 to the present (Sun and Yang, 2008). Opening-up requires the coming-in of foreign insurance companies and also the going-out of Chinese insurance institutions. Studies by Erramilli and Rao (1990) and Majkgard and Sharma (1998) have shown that service companies have the awareness of opening the international market after they develop to a certain degree, and subsequently, they will enter the local market and develop localized services through direct investment or cooperation with the appropriate legal entity of the host country. From the perspective of international experience, the US insurance market is completely open and its main measures for opening-up after the financial crisis includes reducing the scale of losing foreign companies' insurance abroad, implementing

¹ The views expressed in this paper are those of the author and should not be ascribed to the PICC AMC. Wu Jie provided valuable research assistance. The errors and omissions that remain are on the author's responsibility.

regulatory reforms, and conducting international regulatory cooperation, etc. (Li and Sun, 2011). The basic principles of the EU insurance industry's opening process are minimum coordination, bilateral consultations, and host country control (Bongini, 2003). However, the Japanese insurance industry's oligopoly-dominated local companies have caused industrial crisis due to inefficiency and inadequate strength in the face of competition from foreign companies (Sun *et al.* 2014).

As one of the troika (banking, securities, and insurance industries) in the field of finance, China's insurance industry has accumulated valuable experiences in the opening-up of the past 40 years. That is to say, promoting internal reforms by opening-up and promoting opening-up by internal reforms are the key to steadily promoting market-oriented reforms and achieving stable development while the insurance industry is accelerating its pace of opening-up (Sun *et al.* 2009). Opening-up has enhanced the strength of the insurance industry and promoted the improvement of supervision (Jiang, 2018). However, in the process of opening-up, the insurance industry still has problems such as imperfect market and legal environment, challenges to protection policies, and violations of laws and regulations by some foreign insurance institutions (Yang and Wang, 2009). In the current economic transition period, the opening-up of the insurance industry is facing a series of major issues such as the limited proportion of equity in joint-venture life insurance companies, the depth and breadth of opening-up, the balanced development of foreign insurance regions, the balanced development of insurance supply structure, and the "going out" of insurance companies. (Sun *et al.* 2012). The solution of these problems requires internal and external improvement of the governance structure and competitiveness of domestic insurance institutions, improvement of market environment and system construction, and enhancement of regulatory capacity and the regulatory coordination among different departments (Chen, 2008).

The empirical measurement of the openness of the insurance industry learned and followed the research methods of service trade, from the single index measure to the comprehensive index measure (Sachs and Warner, 1995), such as the factor endowment model of Leamer (1988) and the gravity model of Stewart (1999). In the past ten years, measurement research has been characterized by multidimensionality and measurement. Li and Sun (2011) believe that the openness of the insurance industry should be determined based on market capacity, legal integrity, market maturity, and regulatory effectiveness. Wang and Ying (2010) studied the openness of China's insurance industry using the frequency of Mattoo service trade barriers quantification. The "commitment to openness" shows that it is at the middle and high level, and the "actual openness" shows that foreign capital is expanding rapidly but the market is less affected. Chen (2013) used the analytic hierarchy process (AHP) to analyze the opening level of China's insurance industry, and the results show that it was at a high level and had a positive economic effect.

As can be seen from the literatures, there were no uniform standards and methods for the measurement of insurance openness, and the exploratory studies by scholars remain to be deepened. The contribution of this paper lies in: firstly, using a single index and the Mattoo model to measure simultaneously, the results of which confirm each other to truly reflect the actual openness of China's insurance industry; secondly, making a forecast of China's openness after 2018 based on the existing opening-up policy and the opening-up commitment of the central policymakers.

2. Openness of China's Insurance Industry - Single Index Measurement

The actual operation of foreign-funded insurance companies can partly explain the actual openness of the insurance industry. Using existing statistical data, this paper makes an analysis of the openness of China's insurance industry over the all-round opening phase after 2004, based on such three indexes as the number of Chinese-foreign joint-venture insurance companies, the premium income of foreign-funded insurance companies, and the asset size of foreign-funded insurance companies.

2.1. The Number of Chinese-Foreign Joint-Venture Insurance Companies Increased Year by Year

The number of Chinese-foreign joint-venture insurance companies increased from 40 in 2005 to 57 in 2016, while the number of provincial branches increased from 47 to 327, representing an increase of nearly 7 times. Some international well-known insurance companies such as France AXA, German Allianz, UK Prudential and U.S. MetLife have set up joint-venture property insurance companies or life insurance companies in China, and gradually set up branches. This part shows that foreign insurance companies have begun to focus on the deepening of business operations and geographical coverage of customers after the initial headquarters' settlement in China. However, it is insufficient in that among the World Top 500, there are only 60 insurance companies, of which 54 are foreign-funded insurance companies,² and 26 foreign-funded insurance companies have not yet set up institutions in China, such as Berkshire Hathaway and Unithenhealth Group ranking 1st and 2nd in the global insurance industry, as can be seen in Table 1.

Table 1. Insurance companies among 2016 World Top 500 that haven't entered the Chinese market

Insurance industry ranking	Ranking among World Top 500	Company name	Country
1	8	BERKSHIRE HATHAWAY	United States
2	13	UNITEDHEALTH GROUP	United States
4	33	JAPAN POST HOLDINGS	Japan
11	70	ANTHEM	United States
19	130	AETNA	United States
21	142	DAI-ICHI LIFE HOLDINGS	Japan
24	166	HUMANA	United States
30	242	SUMITOMO LIFE INSURANCE	Japan
31	243	NEW YORK LIFE INSURANCE	United States
32	244	CENTENE	United States
36	254	NATIONWIDE	United States
39	266	POWER CORP. OF CANADA	Canada
40	270	MASSACHUSETTS MUTUAL LIFE INSURANCE	United States
41	278	TIAA	United States
42	285	POSTE ITALIANE	Italy
43	288	ALLSTATE	United States
45	302	TALANX	Germany
48	378	NORTHWESTERN MUTUAL	United States
50	394	TRAVELERS COS.	United States
51	401	UNITED SERVICES AUTOMOBILE ASSN.	United States
52	409	ACHMEA	Netherlands
55	422	OLD MUTUAL	UK
56	426	MAPFRE GROUP	Spain
58	464	PROGRESSIVE	United States
59	483	AFLAC	United States

Source: Wu (2018)

² Chinese insurance companies ranked among the World Top 500 include: Ping An Insurance, China Life Insurance, People's Insurance Company of China, Anbang Insurance Group, China Pacific Insurance Group, and Xinhua China Life Insurance.

2.2. Foreign Insurance Companies' Premium Income Steadily Grew

The premium income of foreign-funded property insurance companies increased from RMB1,680.21 million in 2005 to RMB20,639.38 in 2017, representing an increase of 12.3 times, but only accounting for about 2% of the premium income of Chinese-funded insurance companies, as shown in Figure 1. The premium income of foreign-funded life insurance companies increased from RMB32,440.18 in 2005 to RMB193,366.16 in 2017, representing an increase of 5.96 times, accounting for 8% of the premium income of Chinese-funded life insurance companies, as shown in Figure 2. The above data shows that: firstly, compared with themselves, foreign-funded insurance companies witnessed a significant increase in premium income; compared with Chinese-funded insurance companies, foreign-funded insurance companies have quite limited premium size. Secondly, compared with foreign-funded property insurance companies, foreign-funded life insurance companies have greater market expansion, which indicates to some extent that the operating results of foreign-funded life insurance companies determine the overall development of foreign-funded insurance companies in China. Thirdly, the years' development of foreign-funded insurance companies has not been able to break the dominant position of Chinese-funded insurance companies, and currently cannot have a major impact on the Chinese insurance market.

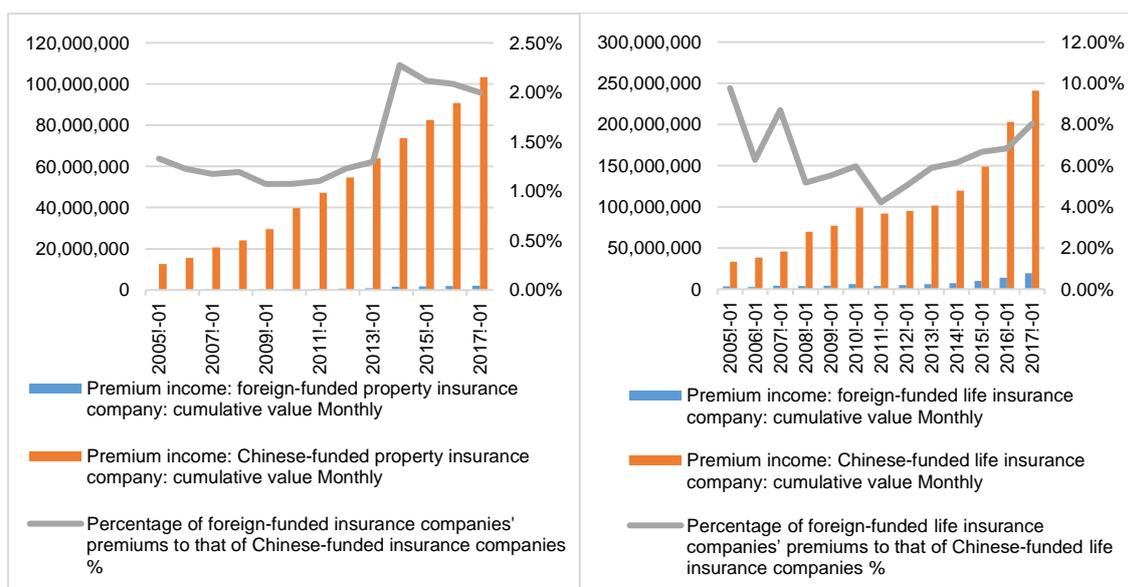


Figure 2. Scale and proportion of premium income of foreign-funded property insurance companies

Figure 3. Scale and proportion of premium income of foreign-funded life insurance companies

Source: Wind Economic Database

2.3. The Asset Size of Foreign-Funded Insurance Companies Steadily Increased

The asset size of foreign-funded insurance companies increased from RMB6.66 million in 2005 to RMB91.18 million in 2016, representing an increase of 13.7 times, with proportion to total assets of insurance companies increasing from 4.35% to 5.93% and reaching the highest -- 6.91% in 2015. Compared with the 1% share upon China's initial participation in the WTO, the market share of foreign-funded insurance companies has increased significantly, and their influence has been gradually enhanced. This has become an important part of the development of China's insurance market. However, in China's insurance market, there have been several companies that have long dominated the market. For example, the total assets of four listed insurance companies, namely, New China Insurance, Ping An Insurance, China Life Insurance and China

Pacific Insurance account for more than 50% of the total assets of insurance companies in 2016. In addition, the market shares of the two companies PICC P&C and Ping An Property & Casualty totaled 53.63% in 2017.³ If foreign-funded insurance companies wish to gain greater market share in China, they need to give full play to their competitive advantages in terms of products, services and technologies.

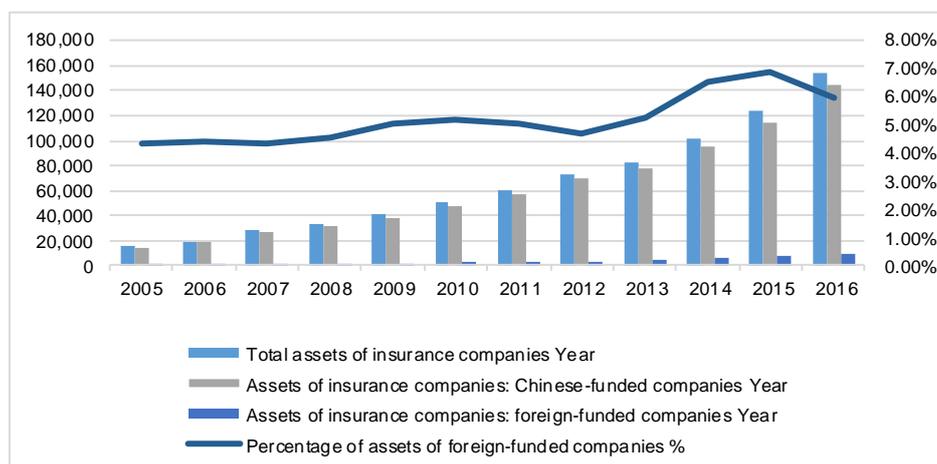


Figure 4. Scale and proportion of assets of foreign-funded insurance companies

Source: Wind Economic Database

3. Openness of China's Insurance Industry -- Mattoo Measurement

The key elements of Mattoo's frequency measurement method are: Firstly, the opening level of financial services can be represented by the level of market access. Secondly, the insurance industry only involves direct insurance, namely, life insurance and non-life insurance. Thirdly, the service supply method is divided into cross-border deliver, consumption abroad and commercial presence. The weight distribution is shown in Table 2. Fourthly, the degree of restriction on the market access commitment is assigned, the unrestricted service commitment is assigned 1, and the non-commitment is assigned 0. Retained commitments are assigned, depending on different methods of supply: cross-border supply and consumption abroad are assigned 0.5, and commercial presence is assigned specifically, given the strictest restrictions by each country, as shown in Table 3.

Table 2. Modal Weights in Insurance

	Cross-border Supply	Consumption Abroad	Commercial Presence
Life Insurance	0.12	0.03	0.85
Non-life Insurance	0.20	0.05	0.75

Source: Mattoo (1998)

Table 3. Assignments to different restriction commitments on commercial presence

Degree of Restrictiveness	Value
No new entry or unbound for new entry	0.10
Discretionary licensing for new entry	0.25
Ceiling on foreign equity at less than 50%	0.50
Ceiling on foreign equity at more than 50%	0.75
Restrictions on the legal form of commercial presence	0.75
Other minor restrictions	0.75

Source: Mattoo (1998)

³ Source: former China Insurance Regulatory Commission

3.1. Measurement of Commercial Presence Assignment

This paper divides the opening-up of China's insurance industry into six phases, which are a period of preparation from 1980 to 1991, a pilot phase from 1992 to 2001, a three-year transitional period from 2002 to 2004, an all-round opening phase from 2005 to 2017, a further expansion of openness period of 2018 to 2020, and the stage of socialist modernization after 2020. According to China's WTO accession agreement and the various regulations promulgated by the former CIRC, there are significant differences in the market access restrictions on commercial presence at various stages. In order to assign value to the commercial presence more precisely, the geographic restrictions on operations, foreign equity ratio, business scope limitations, and new institution establishment qualifications are individually assigned and then weighted and averaged using Mattoo's research method according to the specific commitments, to work out the commercial presence assignments of life insurance and non-life insurance at each stage as shown in Table 4.

Table 4. Assignments to commercial presence in China's insurance industry at each stage

Period of time	Life insurance	Non-life insurance
1980-1991	0	0
1992-2001	0.238	0.3
2002-2004	0.275	0.4
2005-2017	0.525	0.775
2018-2020	0.588	0.775
After 2020	0.65	0.775

3.2 Measurement of Insurance Openness

The quantitative model given by Mattoo (1998) is as follows:

$$L = \sum W_i R_i \quad (1)$$

in which, L represents the liberalization of a department in a country; W_i represents the weight of the i th supply, R_i represents the assigned value of the commitment under the i th supply. $i=1, 2,$ and 3 represents the three ways of supply in Table 2.

The Chinese government's WTO commitments on cross-border supply and consumption abroad are that no commitment is made on cross-border supply, except for international shipping, aviation, cargo insurance and reinsurance, large-scale commercial insurance and reinsurance brokerage services; no restrictions are set on consumption abroad, in addition that no commitment is made to insurance brokerage. Among the insurance industry opening-up measures announced in 2018, there is no mention of these two methods of supply. Based on these rules, this paper assigns values to these two methods of supply, as shown in Appendix Table 1B in the Appendix. As for the commercial presence, its value assignment is more difficult and detailed, as shown in Table 1A in the Appendix.

According to the model and the weights as given in Table 2, the opening levels of life insurance and non-life insurance and the opening level of the insurance industry at each phase are shown in Table 5.

Table 5. Measurements of the opening level of China's insurance industry at various stages

Period of time	Life insurance	Non-life insurance
1980-1991	0	0
1992-2001	0.20	0.23
2002-2004	0.28	0.37
2005-2017	0.49	0.65
2018-2020	0.54	0.65
After 2020	0.59	0.68

The results show that China's insurance industry has adopted a strategy of gradual opening up. Compared with other periods, the opening-up of the stage from 2005 to 2017 has reached or exceeded the international average level. According to the measurement results of Mattoo (1998), the openness of life insurance in developed countries was 0.71, and that of non-life insurance was 0.697, and the global average was 0.50 and 0.49, respectively. The openness of China's non-life insurance has now reached the international advanced level, and the openness of China's life insurance industry will reach the international advanced level after 2020, but it needs a longer period for the life insurance industry to reach the level of developed countries. The above data further shows that the main problem facing China's insurance industry at present is not the excessive opening-up but the inadequacy of opening-up and industry competitiveness. Xu (2018) pointed out that reform and opening-up did not bring systemic negative impact on China's financial industry, but instead promoted the development of the entire financial system and the improvement of international competitiveness. The above measurement is kept in line with Xu's judgment.

4. Conclusion

According to the strategic deployment of the central policymakers, China will continue to enhance its opening-up, accelerate the opening-up of the insurance industry, and greatly ease market access. In practice, the following points should be concerned.

Firstly, strengthen the top-level design and clarify the general ideas about further opening-up. We must adhere to the principle of expanding opening-up, stick to the way of promoting reforms by opening-up and promoting development by opening-up, take the initiative to prevent and resolve systemic financial risks and continue to improve the construction of laws and regulations and allocation systems so that the insurance industry can narrow the gap during the introduction, improving efficiency in competition and enhance competitiveness in opening-up.

Secondly, cultivate internal strength and improve the operating strength of Chinese-funded insurance companies. Opening-up gives Chinese-funded insurance companies the opportunity to learn and draw experience from foreign-funded insurance companies, but it is not a simple act of copying. The ultimate goal is to gain market recognition through the training of professionals, the enhancement of innovation capabilities and the optimization of business model, to achieve high-quality development.

Thirdly, strengthen supervision and ensure a balance between risk prevention and opening-up. We must adhere to the overall tone of stability and progress, properly deal with the relationship between "ease" and "supervision", and strengthen supervision during and after the event to ensure that it is both open and manageable. On the one hand, grasp the rhythm and strength of opening-up, improve the risk prevention system, and ensure that there are no major systemic risks. On the other hand, align the supervisory ability with the openness level, fill up the regulatory shortcomings, and block regulatory loopholes.

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Appendix

Table 1A. Assignments to commercial presence in China's insurance industry

Period of time	Type of insurance	Regional restriction		Foreign equity restriction		Service scope		Business license		Weighted assignment	
		Specific provisions	Assignment	Specific provisions	Assignment	Specific provisions	Assignment	Specific provisions	Assignment		
1980-1991	Life insurance	Non-commitment	0	Non-commitment	0	Non-commitment	0	Non-commitment	0	0	
1992-2001		Limited to Shanghai and Guangzhou	0.1	Foreign investment shall not exceed 50%	0.5	Can only provide personal insurance	0.25	There are requirements on the establishment of new institutions	0.1	0.238	
2002-2004		Expand geographical coverage	0.25	Foreign investment shall not exceed 50%	0.5	Can only provide personal insurance	0.25	There are requirements on the establishment of new institutions	0.1	0.275	
2005-2017		Cancel geographical restrictions	1	Foreign investment shall not exceed 50%	0.5	Can provide health, group, pension/annuity insurance	0.5	There are requirements on the establishment of new institutions	0.1	0.525	
2018-2020		Cancel geographical restrictions	1	Foreign investment shall not exceed 51%	0.75	Can provide health, group, pension/annuity insurance	0.5	There are requirements on the establishment of new institutions	0.1	0.588	
After 2020		Cancel geographical restrictions	1	Cancel proportion restrictions	1	Can provide health, group, pension/annuity insurance	0.5	There are requirements on the establishment of new institutions	0.1	0.65	
1980-1991		Non-life insurance	Non-commitment	0	Non-commitment	0	Non-commitment	0	Non-commitment	0	0
1992-2001			Limited to Shanghai and Guangzhou	0.1	Foreign investment shall not exceed 51%	0.75	Can only provide personal insurance	0.25	There are requirements on the establishment of new institutions	0.1	0.3
2002-2004			Expand geographical coverage	0.25	Foreign investment shall not exceed 51%	0.75	Can provide policy insurance and large commercial insurance	0.5	There are requirements on the establishment of new institutions	0.1	0.4
2005-2017			Cancel geographical restrictions	1	Can establish a wholly-owned subsidiary	1	Can provide all non-life insurance services	1	There are requirements on the establishment of new institutions	0.1	0.775
2018-2020	Cancel geographical restrictions		1	Can establish a wholly-owned subsidiary	1	Can provide all non-life insurance services	1	There are requirements on the establishment of new institutions	0.1	0.775	
After 2020	Cancel geographical restrictions		1	Can establish a wholly-owned subsidiary	1	Can provide all non-life insurance services	1	There are requirements on the establishment of new institutions	0.1	0.775	

Table 1B. Assignments to three ways of supply of life insurance at each stage

Period of time	Life insurance		Non-life insurance	
	Cross-border supply	Consumption abroad	Cross-border supply	Consumption abroad
1980-1991	0	0	0	0
1992-2001	0	0	0	0
2002-2004	0.1	1	0.1	1
2005-2017	0.1	1	0.1	1
2018-2020	0.1	1	0.1	1
After 2020	0.1	1	0.25	1