Dagong Europe Publishes Commentaries on the Chinese Insurance and Reinsurance Industries

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Dagong Europe has published two commentaries related to the Chinese Insurance and Reinsurance industries:

- China’s Reinsurance Market Overview – A Double-Edged Sword
- China’s Insurance Market Overview – Characteristics and Trends

Both reports are available to read at www.dagongeurope.com.

**China’s Reinsurance Market Overview – A double Edged Sword** provides a snapshot of the main trends and characteristics, the performance of the largest players, and opportunities and challenges in the medium term.

“We see China’s reinsurance industry showing satisfactory profitability, mainly driven by investment income. However, we expect profitability to be challenged in the next few years by increasing competition, an environment of reducing domestic interest rates, and a more volatile domestic equity market” says Linas Grigaliunas, Director of the Financial Institutions Analytical Team.

“Over the last 5 years the reinsurance market has grown at an average of about 15%. However, yoy growth rates have been volatile and we expect that reinsurance premiums will grow at an average of 10-15% over the next three years, driven by the development of the primary market and increased risk-awareness. In addition, under C-ROSS (China Risk-Oriented Solvency System), primary insurers will be subject to lower capital charges for placing reinsurance with reinsurers registered in China. As a result, we expect to see changes in the mix of reinsured business lines and eventually more sophisticated reinsurance protection strategies from domestic players”.

**China’s Insurance Market Overview – Characteristics and Trends** provides a summary of the industry highlights and trends as well as the main challenges in the medium term, and the most relevant regulatory developments implemented in 2014 and 2015. It also provides a more detailed view on the performance of the industry by business segment (Life, Accident and Health and Non-Life), the largest players and the expected growth drivers.

“China’s insurance market promises high growth potential due to its low penetration, low density and the large population; as well as the prospects for economic growth and social development, policies promoting economic growth and market-opening, and evidence of a regulatory environment opening to a more market-oriented nature”, says Mr. Grigaliunas.

In 2014, the industry’s growth was driven by the Life business (including Accident & Health), which picked-up significantly to 18% from 8% in 2013; while Non-life grew at a stable rate of 16%, compared to 17% in 2013. Historically, Life insurance has been the dominating sector and the main growth driver for China’s insurance industry. At end-2014, Life insurance accounted for 62.7% of aggregated GPW and Non-life for 37.3%.

There are also important challenges related to investment income and the upcoming implementation of C-ROSS. In terms of investment income, we see limited investment and asset-liability management opportunities due to various investment restrictions, volatile and relatively shallow capital markets, and lack of a long-term bond market. Regarding C-ROSS, we see China’s insurance industry as sufficiently capitalised according to the existing solvency regime. However,

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we expect regulatory solvency ratios to weaken when C-ROSS is implemented due to a more comprehensive risk-based solvency capital calculation with a broader scope, and varying capital charges compared to the existing regime.

We expect the growth drivers for the Life business to derive from growth in investment products, regulatory reforms promoting regular life products, and tax reforms. For Health insurance, the fast-growing demand for healthcare services fuelled by a rapidly growing middle class, the already relatively large affluent segment, and the growing proportion of the aging population with rising life expectancy are the main factors that in our view will fuel the growth.

Lastly, Non-life insurance, which is highly concentrated in the motor business line, remains largely under-penetrated due to a still basic product range, low awareness, low penetration in rural areas, and lack of effective distribution. In our view the regulatory reforms and growth-oriented economic policy are addressing these issues and will thus support further developments.

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