

Biennial Convention 2007

Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



Institute of Actuaries of Australia



A look at some rapidly growing general insurance markets in Asia

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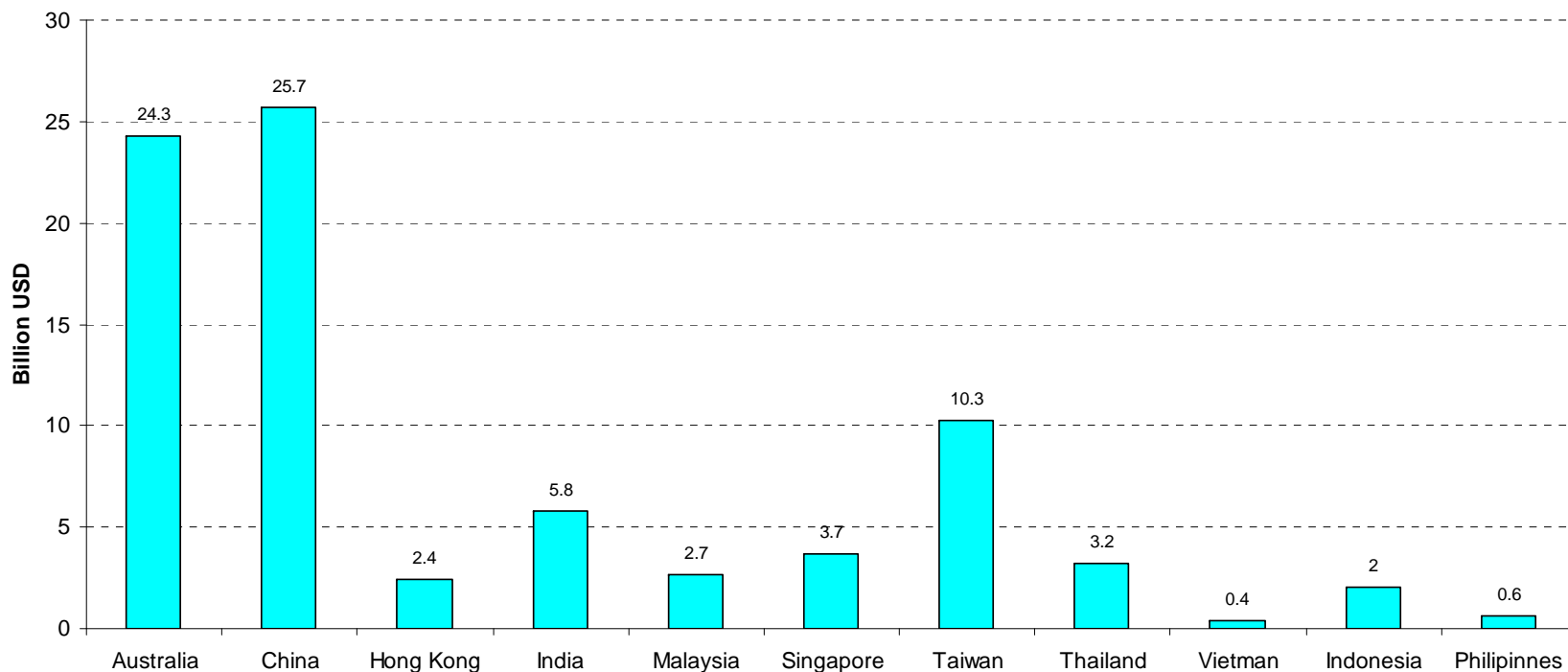


Asia general insurance markets

Key findings

- Asian markets still immature compared to Australia

General insurance gross written premium (2006)



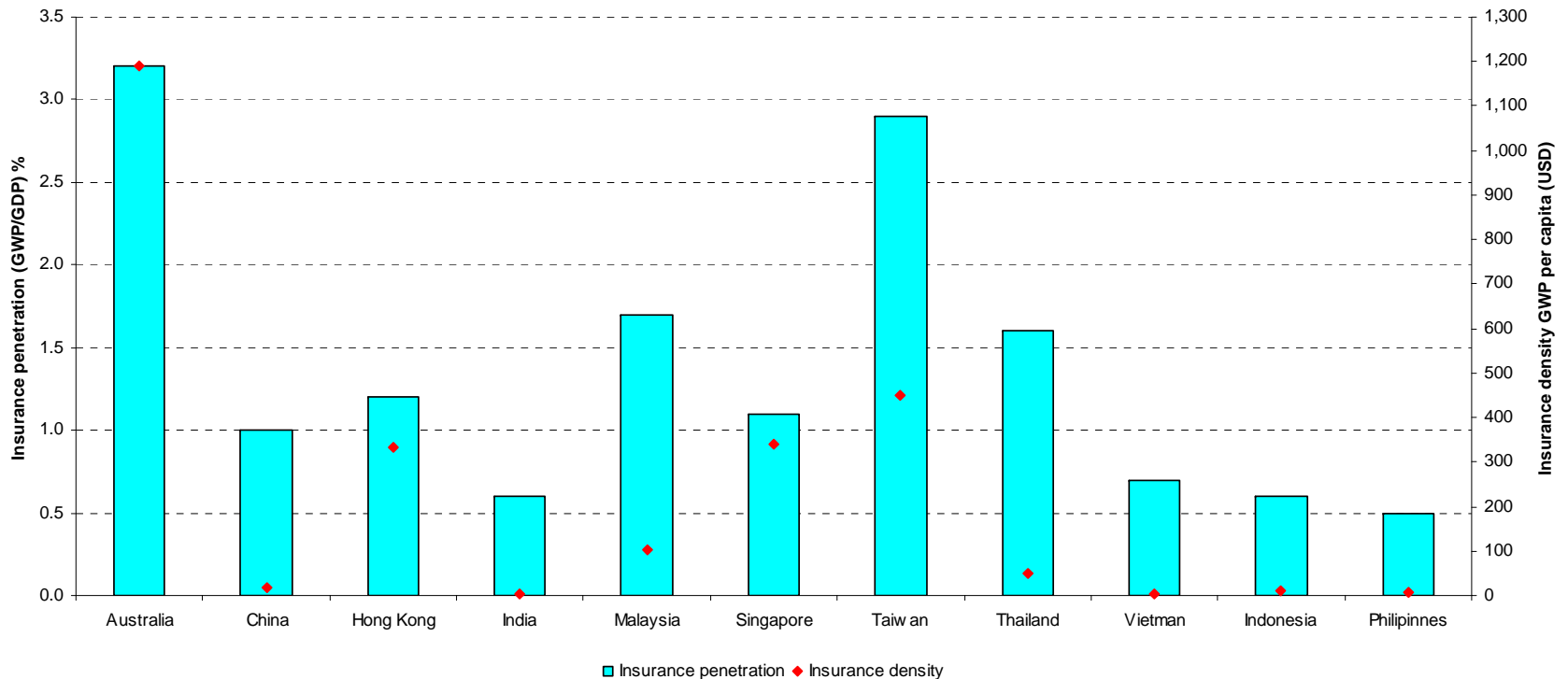


Asia general insurance markets

Key findings

- Very low insurance penetration

General insurance market penetration and density in Asia 2006



Source: Swiss Re Sigma

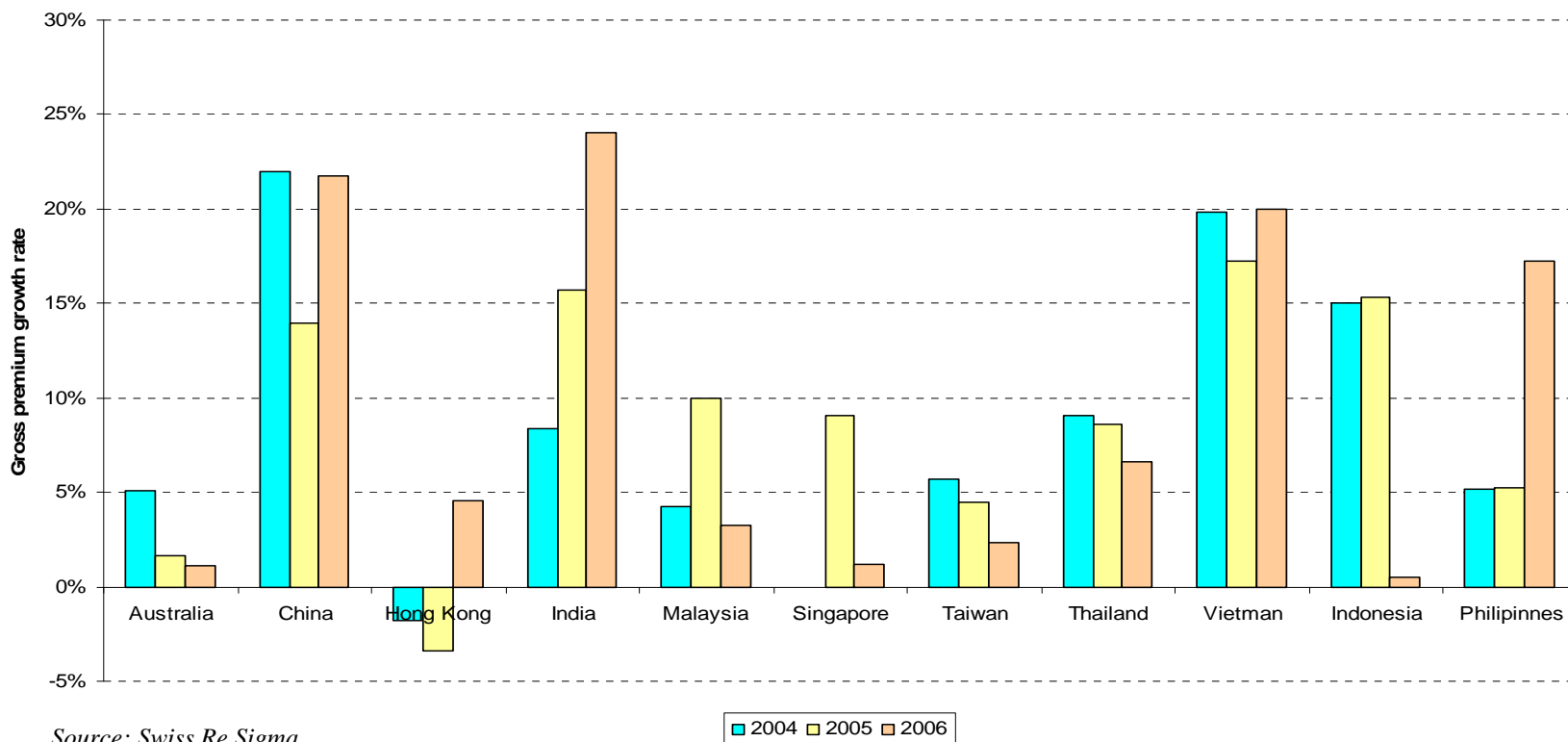


Asia general insurance markets

Key findings

- Very strong growth prospects in undeveloped markets

General insurance gross written premium growth rate





Asia general insurance markets

Key findings

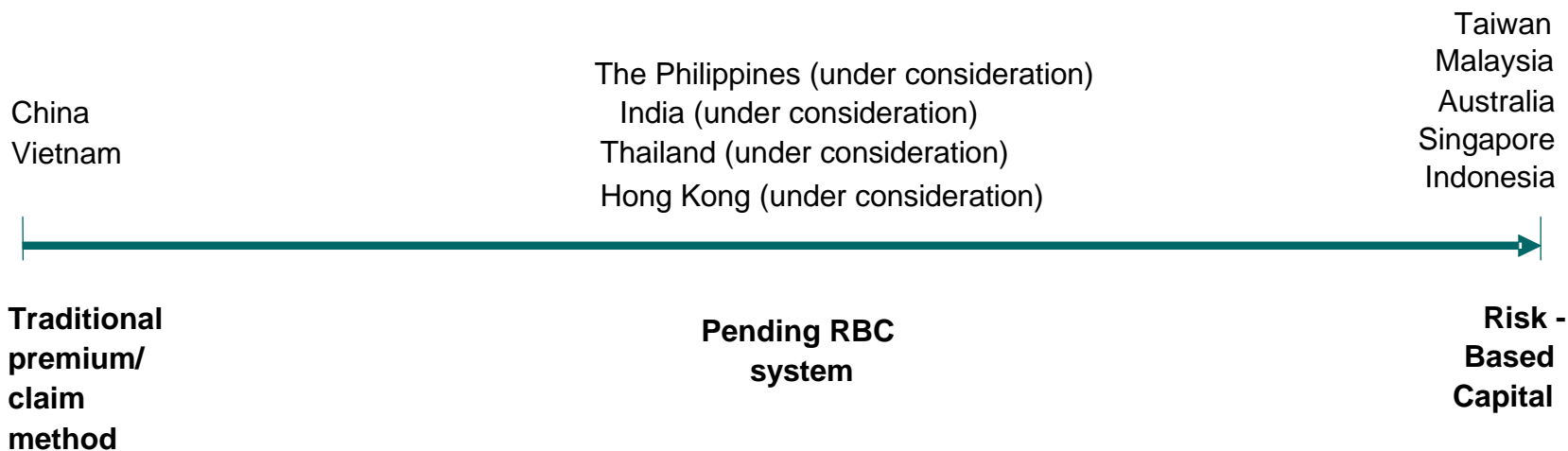
- Developing regulatory systems and best practice
 - Risk based capital requirements in some countries
 - Increased use of actuaries in general insurance including reserve certification (although still very little in pricing and capital management)
 - Opening up of markets to foreign companies
 - Progressive removal of premium tariffs Regulators slowly starting to promote best practice principles
 - Operational guidelines
 - Risk management
 - Corporate governance



Asia general insurance markets

Strengthening regulatory control of insurance industry

- Capital and solvency management
 - Introduction of Risk Based Capital (RBC) in a number of countries

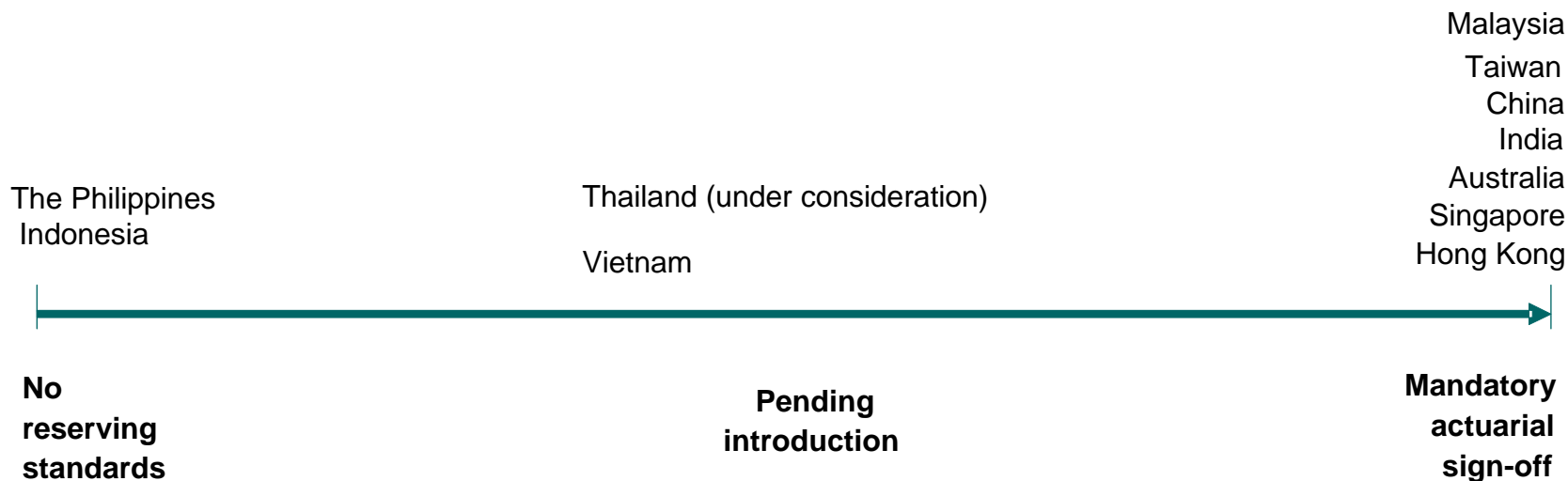




Asia general insurance markets

Strengthening regulatory control of insurance industry

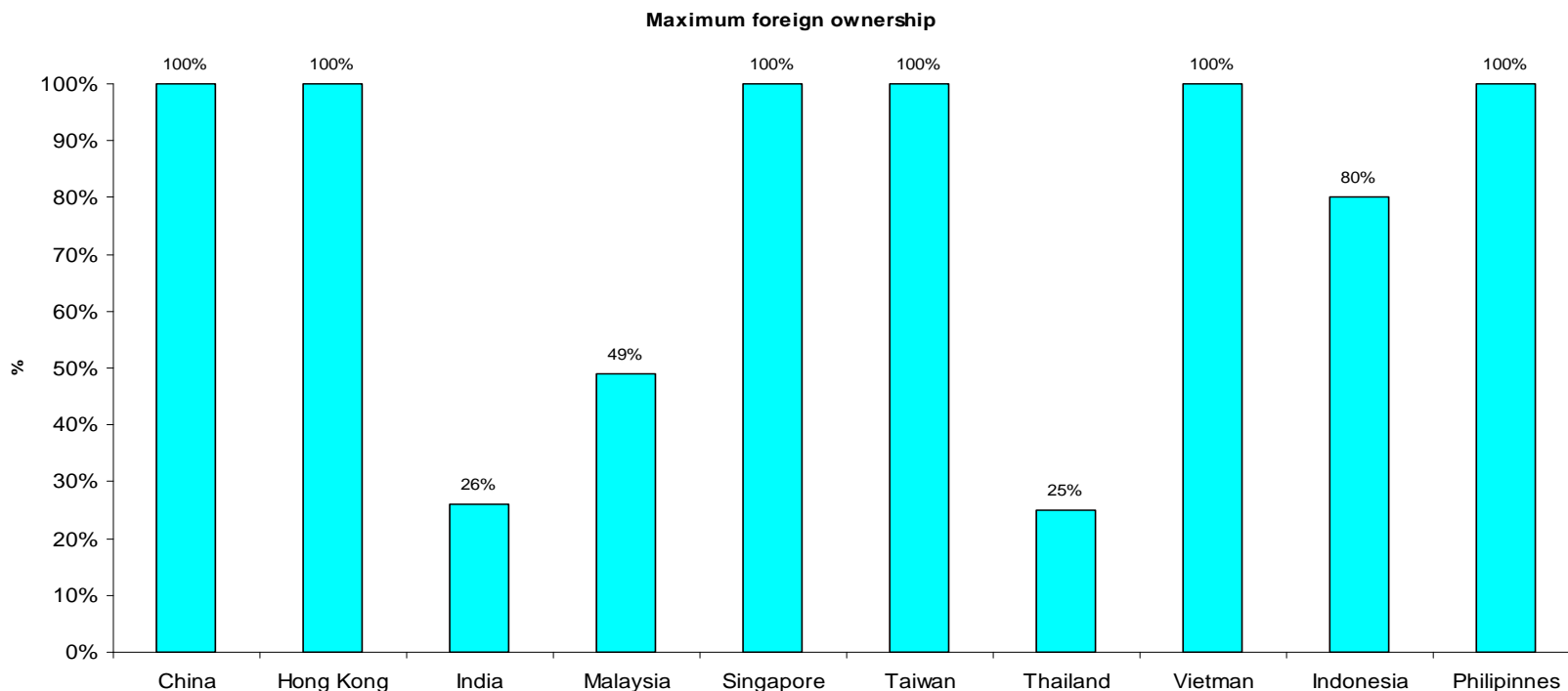
- Increasing role for actuaries
 - Mainly in certification of policy liabilities





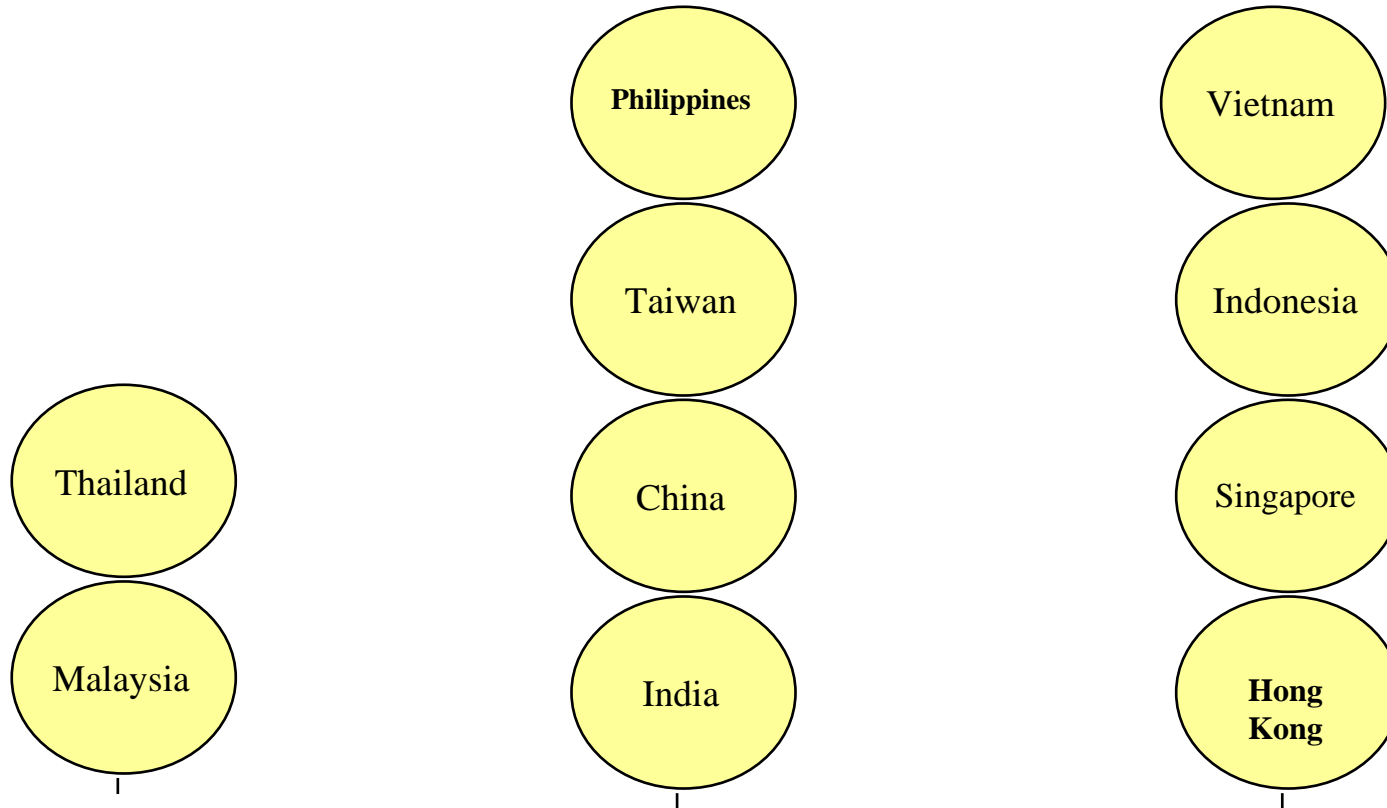
Asia general insurance markets

- 100% foreign owned companies are possible in most countries





State of pricing deregulation of markets



Tariff on major classes such as Motor, Fire

No tariff though regulator does apply a certain degree of control

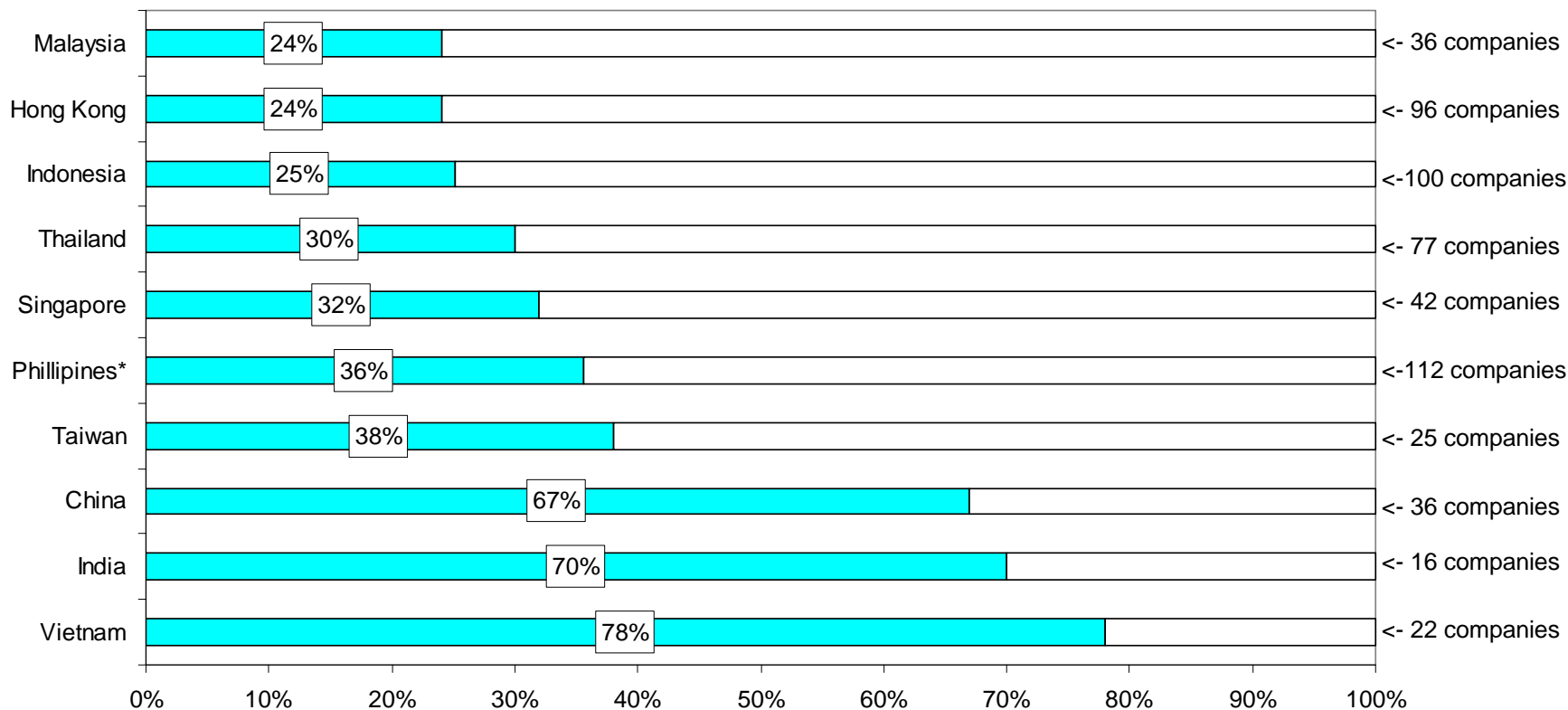
Mostly free market of premium rates



Asia general insurance markets

Some markets are very fragmented

General insurance market concentration among companies in Asia (2006)



* Phillipines market concentration is based on premium in 2004.



A look at the key markets of China, India and Vietnam

A comparison of market potential for foreign investors

- Key factors to consider include:
 1. Demographics and key indicators
 2. Current state of general insurance market and growth potential
 3. Cost and barriers of entry
 4. Profitability potential
 5. Key products for foreign companies
 6. Key risks and opportunities



A look at the key markets of China, India and Vietnam

A comparison of insurance market potential

- Demographics and key indicators

	China	India	Vietnam
Population	1.3 billion	1.1 billion	85 million
Life expectancy at birth and median age (World Health Org)	72 years/33 years	69 years/25 years	72 years/26 years
GDP growth since 2000	9% p.a.	8% p.a.	7.5% p.a.
GDP per capita (CIA Factbook)	US\$7,700	US\$3,800	US\$3,100
Medium/long term economic outlook	Very strong	Very strong	Strong
General insurance penetration (GWP %GDP) (Swiss Re)	1%	0.6%	0.7%
General insurance density GWP per capita (Swiss Re)	US\$19.4	US\$5.2	US\$4.9



A look at the key markets of China, India and Vietnam

A comparison of insurance market potential

- Current state of general insurance market and growth potential

	China	India	Vietnam
Regulatory and legal framework	Still in infancy but seem committed	Fairly progressive	Very much in infancy
Market penetration	Very low by Aus standards	Very low by Aus standards	Very low by Aus standards
Premium and GDP growth (Asia Development Bank)	Medium term GDP 7%-8% 11%-12% premium growth	Medium term GDP 7%-8% 8%-10% premium growth	Medium term GDP 6%-7% 11%-12% premium growth
Competition	Dominance by 3 major locals (>70%), Foreign companies only 1% market share	From a start in 2001, private sector companies have gained 34% market share	Dominated by state-owned companies but foreign companies have 7% share
Human resources	Very competitive market for experienced staff, including distribution	Talent pool from public sector, good pool of university recruits	Very difficult to acquire and retain experienced Vietnamese staff
Foreign ownership restrictions	Foreign branch or subsidiary allowed, can acquire small stakes in local companies	Max 26% stake through joint venture only. Pending increase to 49%	Foreign branch or subsidiary allowed, can acquire small stakes in local companies



A look at the key markets of China, India and Vietnam

A comparison of insurance market potential

- Cost of entry

	China	India	Vietnam
Paid in capital requirement	US\$25 million plus US\$3 million for each additional branch	US\$22 million	Recently increased from US\$4 million to US\$19 million
Licence granted	Branch or subsidiary but more difficult to get subsidiary approval	Joint venture company with nationwide access	Branch, subsidiary or joint venture company all with nationwide access
Solvency margin	Multiple of premiums and claims	Multiple of premiums and claims	Multiple of premiums and claims
Set-up cost	Likely higher than India or Vietnam	Staff costs likely to be lower than China. Rentals in Mumbai similar to Shanghai	Lower staff costs but property prices in major cities are very expensive
Entry requirements	Representative office for 2 years before licence application which can take many months.	No rep office requirement. Application process usually takes 3 months.	No rep office requirement. Application process said to take up to 60 days.
Territorial restrictions	Licences on a regional basis. Less red tape if a subsidiary rather than foreign branch.	None. Freedom to operate country wide.	None. Freedom to operate country wide.



A look at the key markets of China, India and Vietnam

A comparison of insurance market potential

- Profitability potential

	China	India	Vietnam
Term to breakeven	Most likely at least 5 years with a sound business model. Key factors include operating region, developing effective distribution and product focus.	Many new entrants since 2001 have achieved breakeven within 3 years. Critical issue is the quality of joint venture partner.	Still too early to estimate but most likely similar to China.
Expected return	Most foreign companies are expecting 15% to 20% + long term ROE.	Similar to China	Similar to China
Sustainable profit potential	Very good in long term but probably behind India in quickly generating sustainable profits.	Recent ventures have achieved quick profits. Quick access to client base of joint venture partner.	Most likely in between India and China.



A look at the key markets of China, India and Vietnam

A comparison of insurance market potential

- Key products for foreign companies

	China	India	Vietnam
Viable products	Cargo, commercial property, liability classes other than statutory	Motor, household, cargo, PA, liability	Marine, Commercial property, energy
Market restrictions	Foreign companies cannot sell statutory classes (e.g. Motor TPL).	None	Foreign companies currently not allowed to write business for State Owned Enterprises.
Distribution channels	Direct sales most common. Agents/brokers for foreign insurers.	Agents, corporate agents, bancassurance.	Internal sales force, general agents and insurance agents.
Setting up distribution channel	Direct sales force, brokers/agents are viable. Broker channel may be most viable short term	Private sector companies are able to build distribution channels with joint venture partner.	Foreign companies tend to focus on broker business or internal sales force dealing direct with corporates.
Controlling distribution channel	High turnover, escalating remuneration costs, evidence of fraud.	Perhaps less fraud than China. Agents have less control.	High staff turnover, escalating remuneration costs, evidence of fraud.



A look at the key markets of China, India and Vietnam

Key risks and opportunities

- Corruption and fraud is prevalent in developing Asian markets, particularly on the distribution side with overpayments of commission, writing false policies and in motor repairs.
 - China is possibly the worst case
- The regulatory and legal framework is still very much a work in progress, particularly China and Vietnam. Very frustrating for foreign companies.
- Insurance reforms are developing quite rapidly in China and Vietnam. Regulator in India appears to move slowly.



A look at the key markets of China, India and Vietnam

Key risks and opportunities

- Competition is strong and foreign companies need to develop sound business model in order to succeed.
 - Local companies continue to dominate in China but foreign companies can be profitable and grow with small market share.
 - Opportunities to find niches through product selection, underwriting and pricing.
- Major problem for prospective new entrants in India now is the lack of suitable/credible joint venture partners
- Investment markets are generally very thin (equities and bonds)
 - Restrictions on foreign investments, particularly China
- China, India and Vietnam are all prone to major natural hazards such as typhoons, earthquakes and floods.



A look at the key markets of China, India and Vietnam

Thank You