The development of non-life markets in Asia with a focus on China and India – Opportunities and risks for foreign investors

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Asia non-life markets

Key findings

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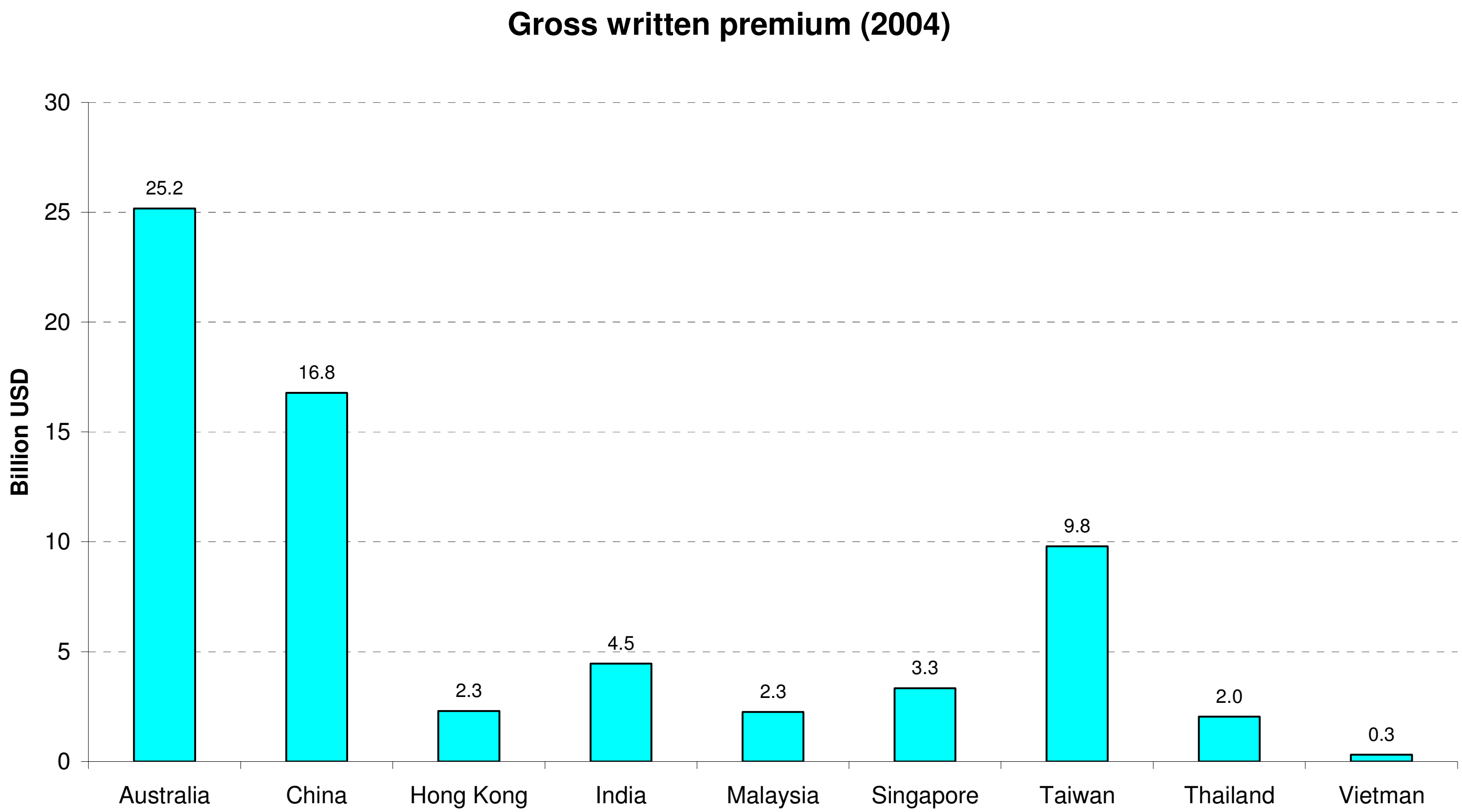
Key findings

- Asian markets still immature compared to Australia

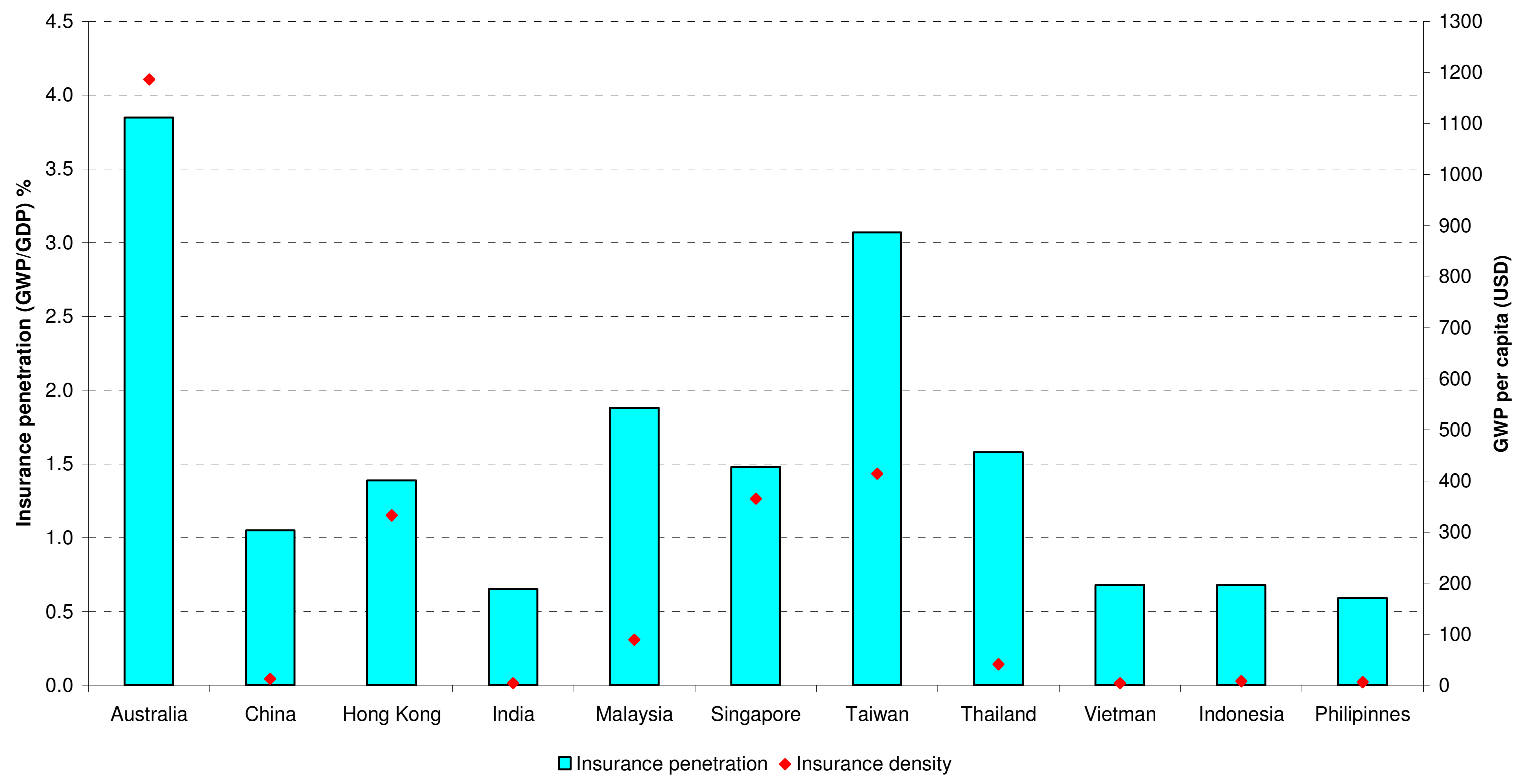


Asia non-life markets

Key findings

- Low insurance penetration

Non-life Insurance density and penetration in Asia 2004

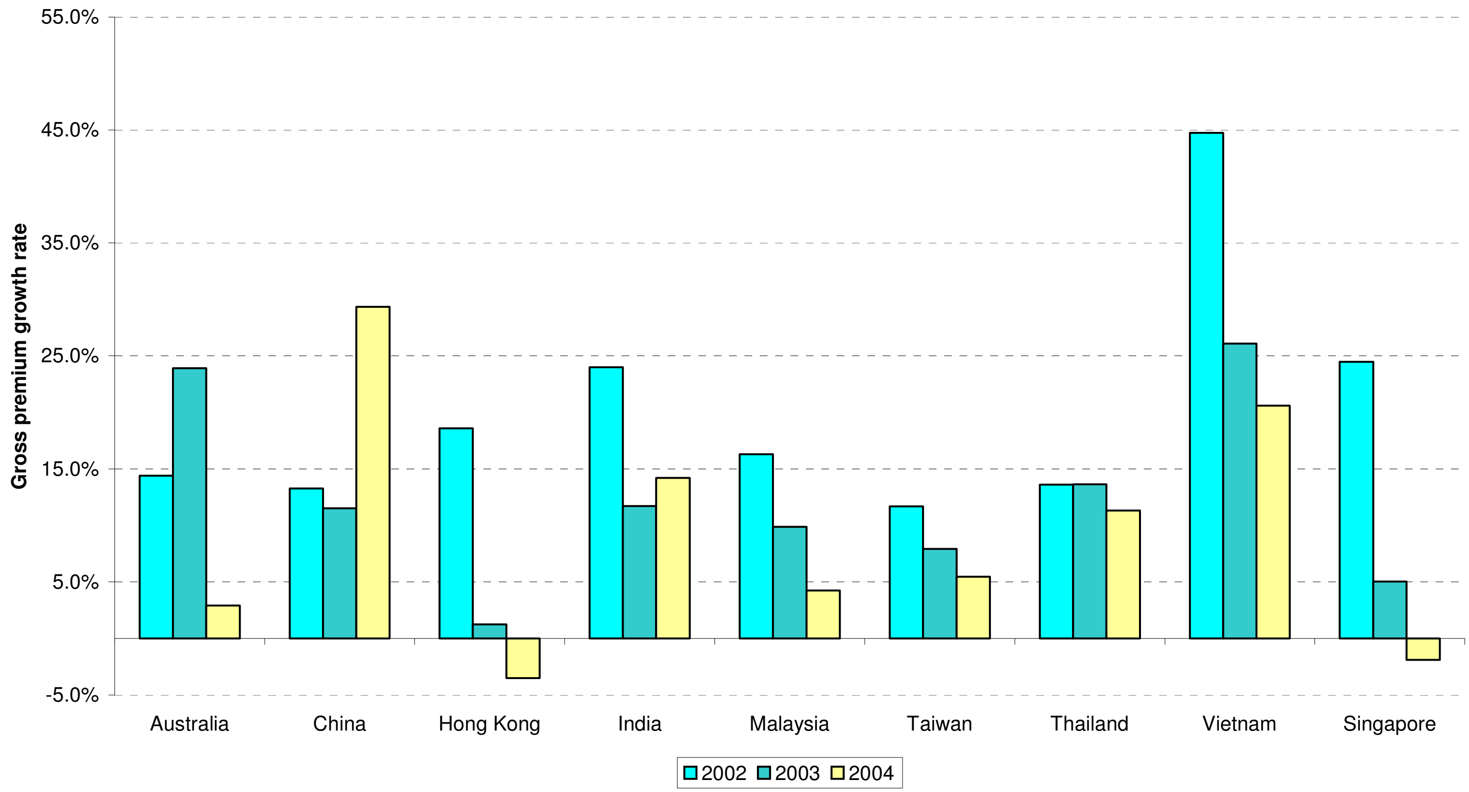


Asia non-life markets

Key findings

- Strong growth prospects in most countries

Gross Written Premium Growth Rate



Asia non-life markets

Key findings

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

China vs India

A comparison of market potential

- Key factors to consider include:
  1. Current state of non-life market and growth potential
  2. Cost of entry
  3. Profitability potential and timeframe for breakeven
  4. Products
  5. Key risks and opportunities

China vs India

A comparison of market potential

- Current state of non-life market and growth potential

	China	India
Regulatory framework	Still in infancy but appear committed	Progressive regulator
Market penetration	Very low penetration (1% GDP).	Low penetration, good growth prospects
Premium and GDP growth	Long term GDP growth 7%-8%. 11%-12% pa premium growth	7- 8% premium growth. Rapid growth for private sector
Competition	Dominance by 3 major locals (>90%). Foreign companies < 1%.	Strong amongst private sector companies. Public sector difficult to compete on service grounds
Human resources	Very competitive market for quality staff, including distribution	Talent pool from the public sector. Good supply of university recruits.
Foreign ownership restriction	Branch or 100% subsidiary allowed	Max 26%, possible increase to 49%

China vs India

A comparison of market potential

- Cost of entry

	China	India
Capital requirement	1 region: USD24m; National USD60m. Proposal to reduce national to 1 region cost	100 Crore min capital (US $22.4m)
License granted	Branch or subsidiary	Nationwide
Solvency margin	Ratios of net premiums of claims	Ratios of either gross or net premiums and claims.
Set-up cost	Likely to be higher than for India.	Staff costs may be cheaper. Rentals in Mumbai likely to be similar to Shanghai
Entry requirements	Representative office for 2 years before application.	Go through licensing process
Territorial restrictions	Regional licenses, expected to be removed under WTO	None

China vs India

A comparison of market potential

- Profitability potential and timeframe for breakeven

	China	India
Term to breakeven	5 years (refer to report for assumptions)	3-4 years
Expected return	ROE of 12% to 15% p.a.	Similar to China
Sustainable profit	Good but probably behind India in quickly generate sustainable profits.	Recent ventures achieved quick profits. Quick access to client base by joint venture.
Long term prospect	More attractive than India with the WTO agreement	Reforms likely to be slow.

China vs India

A comparison of market potential

- Products

	China	India
Viable products	Cargo, properties, liability classes other than statutory	Motor, household, cargo, PA, liability
Market restrictions	Foreign companies cannot sell statutory classes (e.g. motor TPL).	None
Distribution channels	Direct sales most common. Agents/brokers for foreign insurers.	Agents, corporate agents, bancassurance
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
Controlling distribution channel	High turnover, escalating remuneration costs, evidence of fraud	Perhaps less fraud. Agents have less control
Profitability	Cargo and property - quite profitable. Liabilities - little experience to date.	Fire, cargo, engineering - profitable. Concern over future deregulation

China vs India

A comparison of market potential

- Key risks and opportunities

	China	India
Corruption	Evidence at distribution level. Heavy penalties at management level.	
Regulatory	Regulator in infancy but shows promise. Undeveloped legal system. Major economic reforms.	
Insurance reforms	Very fast. Most reforms announced but not formulated.	Legislation well drafted. Slower than China
Accounting standards	Fair value style GAAP accounting	Agenda for adoption of fair value unknown
Foreign exchange controls	Strong monetary control	
investment markets	Very thin equity and bond markets. Restrictions on foreign assets.	Investment restrictions do not appear to be too onerous
Competition	Dominance of local insurers continues. Increasing foreign competition	Opportunities to find niches through underwriting and pricing.
Natural catastrophes	Very high - typhoon, floods, earthquake.	Similar to China