

China Insurance Industry Report, 2007-2008



- The report probes into China insurance industry by starting with the status quo of insurance market. It makes comprehensive analysis of the insurance segment markets involving the supervision policy, market environment, operation, competitive structure, utility of the insurance capital as well as the development trend. The report interprets the status quo of investment and merger in insurance industry, describes the characteristics, analyzes the motivations and influences brought along by merger, but also makes suggestions for both insurance institutions and investors.

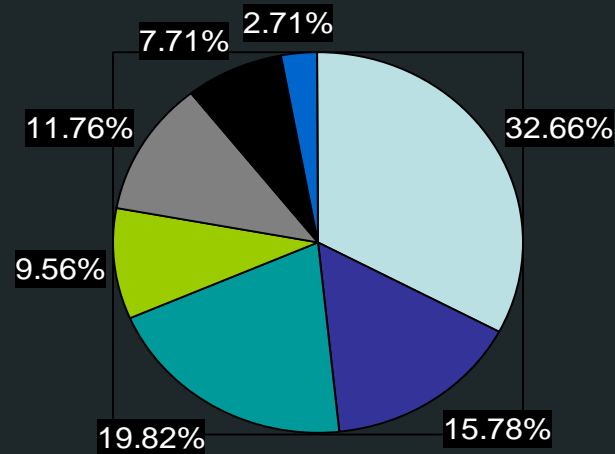
- China insurance began to expand from 2004. By Dec. 15th 2007, 8 insurance groups and 105 insurance companies (including 62 Chinese companies, 43 foreign companies, and 2300 insurance agencies) have come into being in China. Basically, a complete insurance market system with reasonable assignment and fair competition and mutual development has formed.

	Financial Insurance Companies	Life Insurance Companies	Reinsurance Companies	Total
Foreign Insurance Companies	15	24	4	43
China Insurance Companies	28	32	2	62
Total	43	56	6	105

Source: China Securities Regulatory Commission

- By the end of June of 2007, the outstanding balance was about RMB 231 billion and the yield hit RMB137.4 billion, up 260% year on year, of which, the yield of fund, stock and unlisted equity investment added up to 72.9% of the total.

Investment of Insurance Funds, Jan-Jun 2007



Source: China Securities Regulatory Commission

- Currently, the competition on China insurance market still takes the low end. As China insurance industry is on the initial stage, competition is not fully initiated. The market potential has not been exploited fully and the industry needs further integration. After fund companies and the finance and leasing companies were open, State Department issued the policy on Jan. 17th 2008, which permitted the bank to hold the shares of insurance company. The mixed operation began to prevail among the financial industry and each insurance company was busy making preparations for this operation. By 2007, ten foreign insurance companies have gotten the ratification to transfer into an independent legal entity that would facilitate the expansion of operation network.

Companies	Original Names
Chubb Group of Insurance (PLC) Companies	Federal Insurance Company Shanghai Branch
Mitsui Sumitomo Insurance (PLC) Co., Ltd	Mitsui Sumitomo Insurance Co., Ltd Shanghai Branch
Royal and Sun Alliance Insurance (PLC) Company	Royal and Sun Alliance Insurance Company Shanghai Branch
Liberty Mutual Insurance (PLC) Company	Liberty Mutual Insurance Company Chongqing Branch
AIG General Insurance Company China, Ltd	AIG General Insurance Company (USA) Co., Ltd
Samsung Fire & Marine Insurance (PLC) Co., Ltd	Samsung Fire & Marine Insurance Co., Ltd Shanghai Branch
Sompo Japan Insurance (PLC) Company	Sompo Japan Insurance Company Dalian Branch
Hyundai Insurance (China) Company Limited	Hyundai Marine & Fire Insurance Co., Ltd Beijing Representative Office
Bank of China Group Insurance Company Limited Shenzhen Branch	Transfer from the foreign company into national company
The Ming An Insurance Co., (HK) Ltd. Shenzhen Branch	

- There are two main modes to merger. The first mode is taken place in insurance industry, usually between the life and the non-life insurance companies, between the reinsurance and the direct insurance, between the reinsurance companies. The second form of merger usually happen in the financial field, including banks, securities, insurance, and trust, especially the merger between the insurance company and the asset management company. In addition, the foreign capital is rather interested on China insurance agency market which is just in its infancy. On Oct. 31st 2007, Cninsure Inc. landed on NASDAQ as the first national insurance agency.
- Rural financial upgrade is an important direction to develop finance in China. China Life Insurance Company is one of the biggest beneficiaries. It is expected that the preferential policy on the tax of the personal endowment insurance will be issued. China is a developing country with the population of 1.3 billion; the lack of the endowment and the medical insurance becomes more and more obvious; the insurance industry itself does not keep a balance on its structural and regional development. All of these realities determine that the rural financial upgrade has great potential and high investment value.

- Although the intermediary business in China has developed very fast in recent years, there still exists a big gap between China and developed countries no matter in the quantity or in the quality. On the one hand, the proportion of intermediary business revenue to the total in most of the commercial banks in China is about 10%, much lower than the U.S. and Europe, and even compared to Asian countries like Japan and Singapore, the proportion is still lower. On the other hand, the varieties of intermediary business in China's commercial banks are very limited, focused only on the conventional products, like settlement, agiotage, bill payment service, credit card, letter of credit and bill of draft and so on, and the high-tech and high value-added intermediary business regarding the consulting service, investment and financing and derivative trading is much needed.

Therefore, to accelerate the development of intermediary business has become a crucial issue to China's banking industry. We should promote the establishment of automatic clearing system in the same city to automatize accounts process and we should also make more efforts to develop private banking business and asset securitization so as to lay a solid foundation for future development.

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