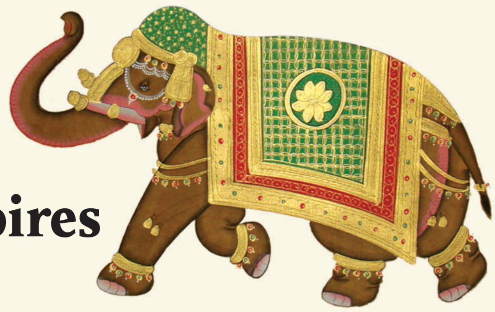

The tale of two rising empires

Over the past decade, China and India have achieved many firsts and have captured the attention of the world. Likewise, their insurance markets are not only growing but flourishing due to a fast emerging middle-class and strategies to nurture the insurance business to meet world-class standards. How far have they come and where will they be heading to next?

By Min Yong

China and India are two of the dominant emerging markets with growing global influence. While China and India both boast billion-plus populations and sprawling metropolises with improving education and entrepreneurial potential, their respective paths to macro-economic prosperity remain starkly different. China has fondly become the "world's factory", as India has developed into the "world's service centre".

Growing at breakneck speed, these twin engines are said to have been the buttress of the international economic growth during the global financial crisis, with the highest real GDP forecast of roughly 10% for China and 9% for India last year, according to the IMF World Economic outlook.

Their insurance markets tell a similar tale.

Breakneck pace

China's insurance industry is indeed rising fast, not only in terms of growth, but also in keeping pace with the changes necessary for its development and competitiveness. The regulatory front is evolving, and players are focusing more on the sustainability of their businesses and the importance of profitability.

India's insurance market has transformed as many more players focus on catering to the increasing demands of new customers, and reaching underdeveloped pockets of society over the last decade. Considered a perfect incubator for microinsurance, India has also carved out many innovative methods to tap rural communities, in addition to coining innovative channels such "shopassurance" – selling insurance through supermarkets and retail chains.

West looks East for growth

Both insurance markets will continue thriving thanks to rising incomes, a growing middle class, ageing populations, and younger generations becoming more open to taking up insurance policies – luring more domestic and foreign players to enter the fray.

Economies of the West are expected to be sluggish for years, so the younger populations and less-penetrated consumers of the developing countries have become a magnet for western businesses, say market experts.

Dragon overshadows the elephant

By the numbers however, on most accounts, China eclipses India two-fold. This was the case a decade earlier and remains so to this day.

Collectively, these two behemoths garnered over US$220 billion in premium volumes in 2009, making up 5.41% of the world's total insurance premiums, according to the most updated *sigma* figures. They grew by over 15% y-o-y, with China registering US$163.04 billion, and India recording US$65.08 billion in 2009.

Combined, their total premiums were double those of the whole Latin America and Caribbean region which tally at US$110.91 billion, and even if you threw in the whole African region (with US$49.2 billion), the numbers would still fall very short.

Despite the magnitude of numbers, these two markets have some distance before they catch up to Asia's leader, Japan, which pulled in US$505.95 billion.

Mr Katsuo Matsushita

Comparing the non-life markets, China will outpace India because of its significantly larger manufacturing industry base which will require insurance, forecasts Mr Katsuo Matsushita, Special Advisor and Liaison Officer for Japan and East Asia of The Geneva Association.

As for the life markets, Mr Matsushita expects China to experience a faster shift in the ageing society, so savings products may become popular, hence fuelling strong growth in the market.

Sound capital market needed

However, he notes that one caveat when building a sustainable life insurance market is whether a country can develop a sound capital market with enough liquidity.

"Life insurance cannot develop stand alone and must develop in tandem with the sound development of capital markets. Even though life insurers can build huge premium portfolios, they will face difficulty in asset liability management, if availability of long-term bonds in their markets are limited," Mr Matsushita elaborates.

Challenges in both markets

Mr Jose Ribeiro, Director of International Markets, Lloyd's, says that both markets are extremely attractive for Lloyd's as they are the world's fastest growing markets. However, there are challenges in each market.

Mr Jose Ribeiro

Due to the 26% cap on foreign direct investment allowed into India, Mr Ribeiro says: "The Lloyd's model for India will depend on how Indian insurance regulation will work in the future. "Currently we can only write offshore reinsurance so there is no need for an office on the ground. However we continue to monitor the regulatory

Foreign companies struggle

India slow to raise foreign investment cap

India's private non-life companies have close to 40% market share, and private life companies have close to 29% market share. As these data also includes a few private Indian companies without any JV partnerships, it is difficult to decipher the exact market share figure for foreign players alone, according to an industry observer.

New players other than the government-owned insurers were allowed to enter the market in 2001. Most entrants were JVs with foreign insurers restricted by a 26% foreign direct investment cap. The government had said it would raise this to 49% a few years ago but till now, nothing has happened.

India's 26% cap is inconsistent with the international status of this country, given, especially, the fact that national insurance companies are permitted branch operations in other countries. "India is no longer a developing country anymore. It is viewed and must behave as a responsible country in the international trade and market access, especially in the service sector, including financial and insurance sectors", says Mr Katsuo Matsushita, Special Advisor and Liaison Officer for Japan and East Asia of The Geneva Association.

Mr Rohit Bhasin, Executive Director, Financial Advisory Services, PricewaterhouseCoopers LLP (PwC) India meanwhile believes that the implementation of effective policies will strongly depend on political will and the support of parliament, rather than just the regulator's nod.

Concurring, Mr Matsushita underscores: "The difference is not about the quality of regulation but the difference of policy intentions of the two countries. In China, once the government decides on a policy, it would be done under one party system. Whereas in India, the current state is not due to inertia of the regulator but rather more due to the political system in India."

Seeking own niche in China

In China, the market share of foreign JVs has remained stagnant for the last three years. Regulatory restrictions have also tilted the playing field away from foreign JVs and continue to hinder potentially innovative business models from gaining scale and introducing meaningful competitive pressure.

China's foreign life companies expect their shares to continue to hover at the current level of 5% till 2013, while the slice of the pie for foreign P&C insurers is expected to remain at 1%, according to a recent PwC report.

The same report also advised that insurers should not just be excited about the business prospects because of the market's huge potential, but must seek out their own niche and find a strategic focus rather than competing head to head with giant local players.

very closely and are ready to react once the regulatory framework is changed," highlighting this as Lloyd's key obstacle in the market.

"If regulation were to change in India, Lloyd's would certainly reconsider its strategy and focus more time and resources to develop and support the Indian market," he adds.

For India, the biggest hurdles for life insurance include an ever changing product mix due to regulatory changes, mis-selling practices, as well as increasing management and distribution costs. To overcome this, insurers must accept the new world order and start selling insurance rather than mutual funds, and control rising costs through innovative channels.

As for India's non-life insurance industry, profitable rates have been replaced with discounted pricing after detariffing. In addition, inadequate databases, low actuarial capabilities, and consumer resistance towards purchasing insurance jeopardises future growth.

Perennial operational challenges confront Chinese insurers such as improving product mix, channel productivity, and the balance between volume growth and value creation. The industry landscape is about to undergo significant changes, and these changes will require some major management decisions on strategic focus – decisions that will heavily influence the shape of the industry and the winners and losers within the next decade, according to a spokesperson at consulting company, Oliver Wyman.

In a broad sense, to overcome these challenges, both life insurance markets must stop focusing on selling investment-linked products and return to selling protection. But more importantly, to create sustainable life and non-life industries with leading global players, it is crucial to nurture local talent.

Sky's the limit for "ChIndia"

The scope of these markets is huge but competition is intense and has reached new heights as everyone wants to be a part of the action.

It is difficult to say which market will be the clear winner, but Mr Rohit Bhasin, Executive Director, Financial Advisory Services, PricewaterhouseCoopers LLP (PwC) India, predicts a stronger chance for India to shine in the next decade given that it is a significantly under-penetrated market and there is potential for high growth due to a number of factors. Namely, he notes these as increasing asset creation, government push on certain classes of business, changing demographic profiles, super growth in the high net-worth segment, and various e-channels emerging.

Mr Ribeiro does not see this situation in terms of winners and losers. "Clearly both countries will be winners as both markets will grow tremendously over the next few years and create huge opportunities for Lloyd's," he says and adds: "Our biggest market today, the US, was very small a century ago, from a Lloyd's perspective, and I see no reason why during the course of this century, both India and China cannot outgrow the US."

While these markets have grown impressively over the past decade, the question is, can they expand beyond just increasing top-line growth, and despite experiencing difficult regulations sometimes, to become the dominant markets of the next century?

How they've grown

CATEGORY	2009 China	2009 India	1999 China	1999 India
Ranked	7	12	16	23
Total Premium Volume (US$)	163.04 bln	65.08 bln	19.27 bln	9.93 bln
Life Premium Volume (US$)	109.17 bln	57.11 bln	10.53 bln	6.4 bln
Non-Life Premium Volume (US$)	53.87 bln	7.97 bln	6.29 bln	2.30 bln
Total Penetration	3.40%	5.20%	1.60%	1.90%
Population	1.34 bln	1.19 bln	1.26 bln	1 bln

Source: Sigma