## *News release*

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# Insurance companies face unprecedented challenges in China

*Domestic insurers, banks and talent shortage pose greatest threats*

**Hong Kong, 5 Dec 2011** – 2011 proves to be a challenging year for foreign insurance companies in China. Besides operating in a tough regulatory environment, they have to contend with the increasing dominance of domestic insurers and banks encroaching into their traditional marketplace. In addition, China's rising cost of living is also making talent retention and recruitment more difficult. These findings were revealed in PwC's fifth Foreign Insurance Companies in China survey report.

"It hasn't gotten any easier for foreign insurance companies to operate in China since we released our last report a year ago. In fact, since then some new rules have been established to regulate the industry. One in particular – the limited number of insurance companies being allowed to distribute their products through the bancassurance channel has unsettled many of the foreign players," says Peter Whalley, PwC Insurance Leader for Hong Kong. "While this may benefit companies with a good partnership with banks, others, particularly the smaller insurers may lose out," adds Mr Whalley.

This has resulted in several shareholding changes, with an increasing number of Chinese banks replacing other domestic companies as joint venture partners. Going forward, foreign insurers expressed interest in taking a share in their Chinese peers, a move they feel will help them in expanding geographically in China. They are also supportive of dual investments, where foreign insurers are allowed to invest in more than one insurance entity.

For the first time in the five years PwC has conducted the survey, the 18 life insurance companies that participated this year identified increasing competition from domestic insurers and the war for talent as posing the greatest challenges. Their ten property and casualty counterparts, on the other hand, still consider China's tight regulatory environment as the top concern.

The market share of these foreign insurers hasn't moved much either, with life insurers hovering at 5% and property and casualty insurers at 1%, the lowest in Asia. The figures are not expected to change dramatically in the next three years. The announcement in May this year that foreign insurers will be allowed to enter into the mandatory third party liability (MTPL) market may help boost the pie for property and casualty companies.

Despite the challenges of penetrating the Chinese market, foreign insurance companies continue to stake their future in China. "The relatively low market share of foreign insurers in China is both a challenge and significant opportunity. Premiums are experiencing high levels of growth with low levels of market penetration, showing why China is such an attractive market. However, selecting the right business model to capture China's growth potential will be key," says Tom Ling, PwC Insurance Leader for China. "Some foreign insurers are particularly looking forward to the increasing internationalisation of the renminbi, a move they believe will better differentiate themselves by encouraging greater product innovation and provide better hedging opportunities," adds Mr Ling.

For the respondents, there is no question of quitting the Chinese market. While the challenges may be great, they say, they are certainly not insurmountable, especially not a market that presents huge potential relative to other parts of the world.

You can download the full report on www.pwchk.com.

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**About the survey**

- Senior executives from 28 foreign insurance companies were interviewed for the survey
- The survey is based on a questionnaire containing 50 questions
- Interviews with respondents were conducted during August and September 2011
- Respondents were interviewed in Beijing, Chengdu, Chongqing, Guangzhou, Shanghai

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