

A look across the fence: Life Insurance in China

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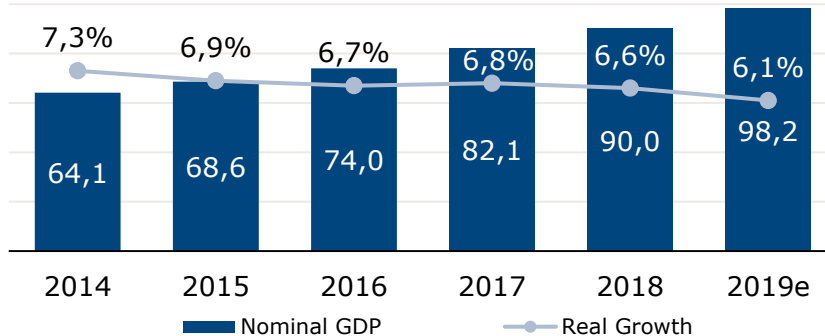
Sales Channels & Product Mix



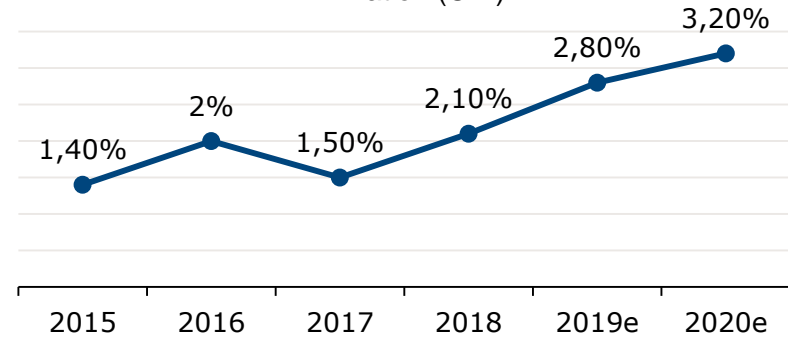
Macroeconomics

China enters phase of medium economic growth, aiming to be driven by domestic consumption rather than investments

GDP (tnRMB)

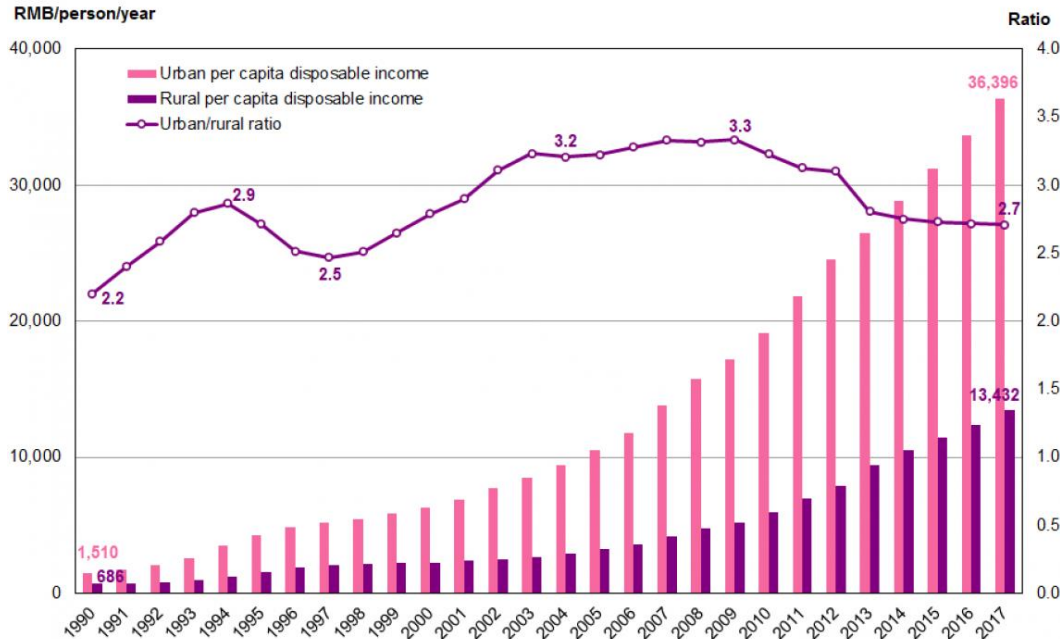


Inflation (CPI)



- China's economy grew by 6.1% in 2019, its slowest pace in more than 25 years
- Economic development going forward will be driven by the service sector, importance of agriculture and industry expected to decline
- Mostly fiscal policy to stimulate growth

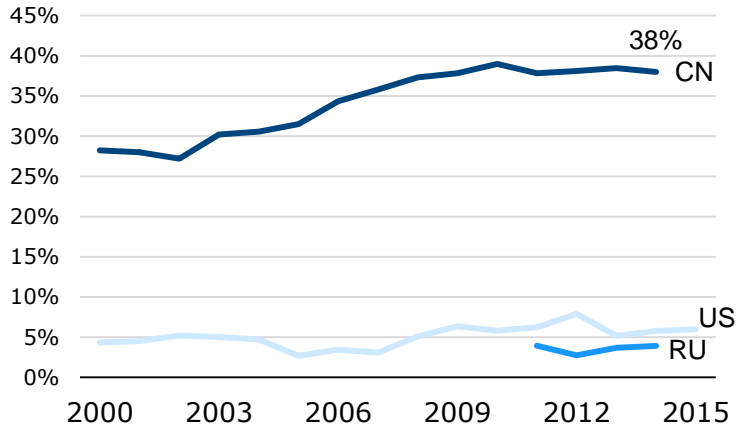
Ca. 50% of Chinese living in urban areas; while income steadily increases, big differences between rural and urban areas remain



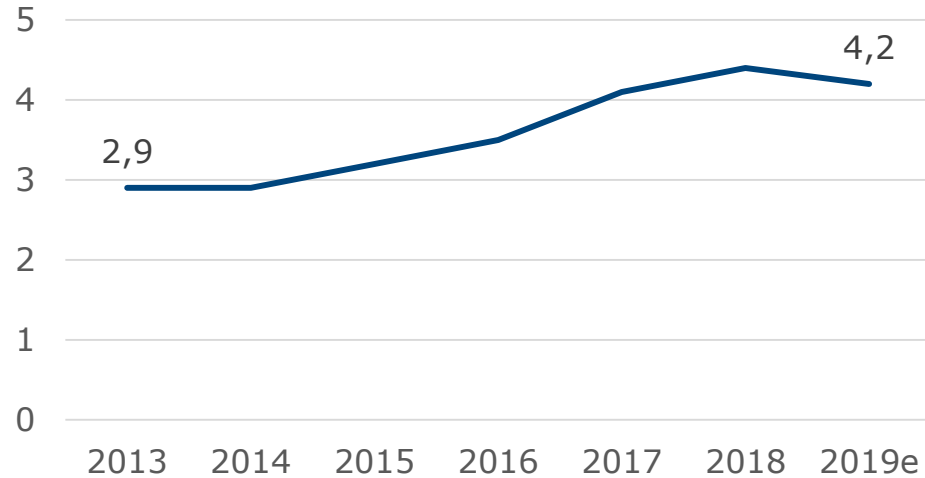
- Disposable income is continuously increasing, though a strong divide between urban and rural exists
- Disposable income of central and western Chinese rural regions range between 60 to 80% of those of eastern areas
- Income inequality has declined since 2008, as central, western and northern parts of the country catch up

Household savings rate in China among the highest in the world, insurance penetration rather low

Household Saving
(% of disposable income)



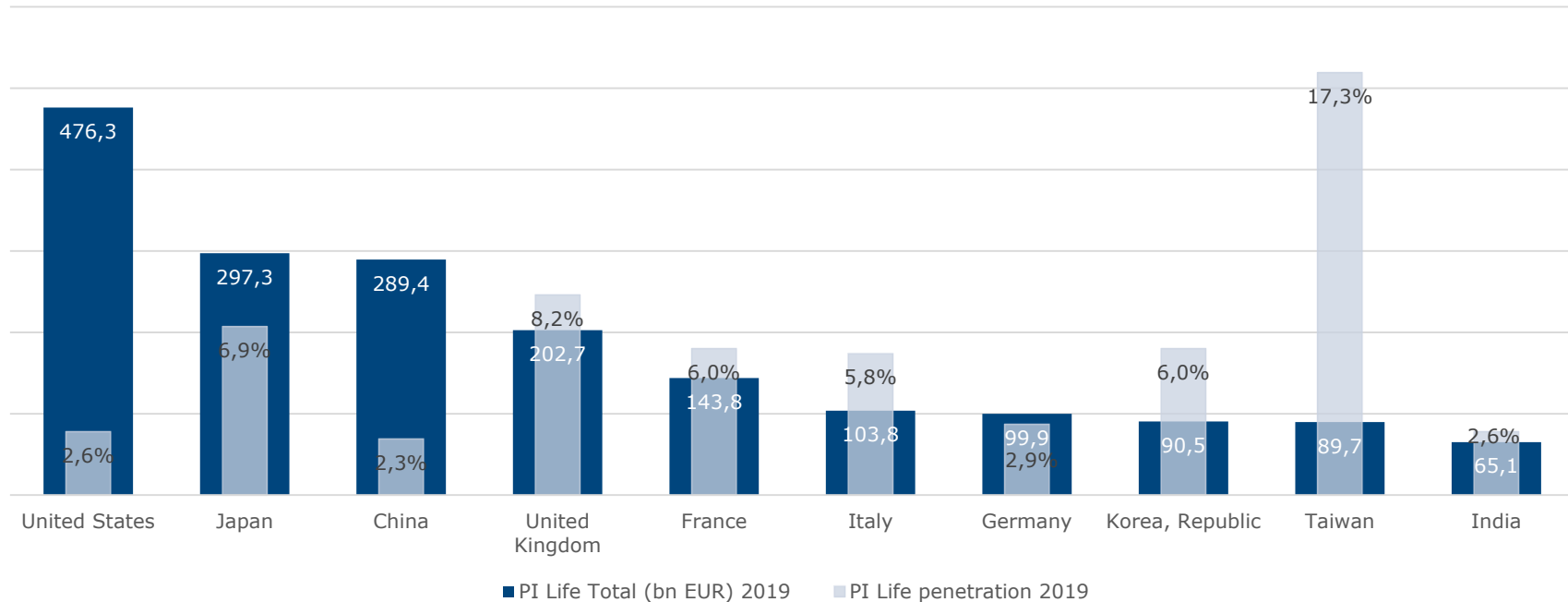
Primary insurance penetration (in % of GDP)



- China features a significant household saving rate given the need to save for old-age security, health and education
- Insurance penetration in the life segment suffered a throwback lately, partly due to tightening regulations governing investment products

China ranks 3rd regarding life market size in 2019

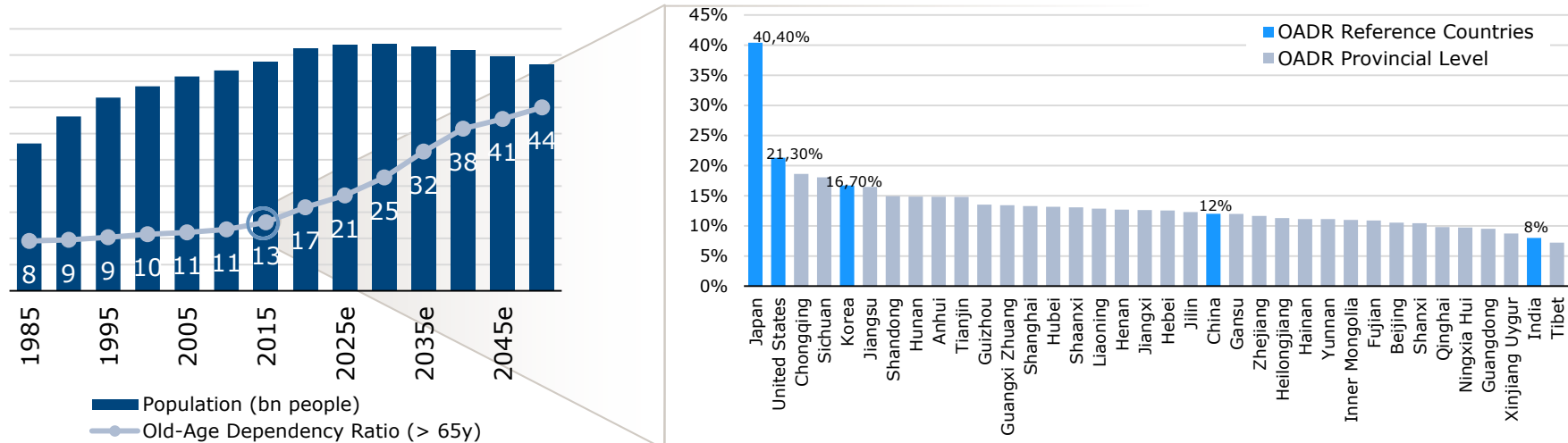
Top 10 Life premium + penetration





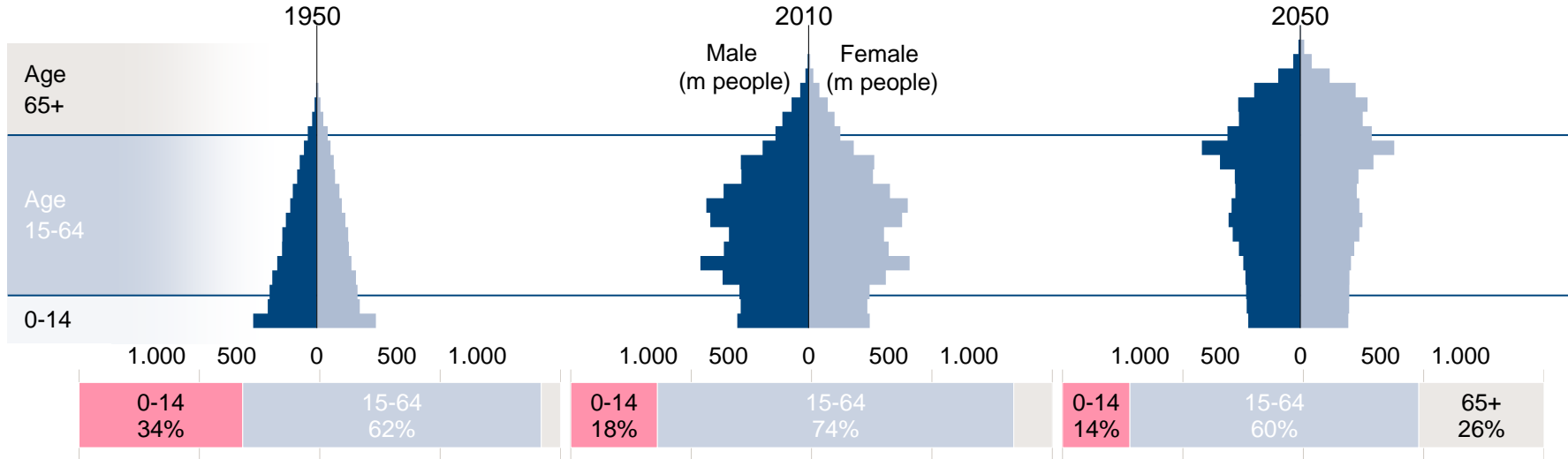
Demographic development

Old-age dependency rising, but not yet on levels of developed countries; situation in China's provinces varies widely



- Speaking of China as a single country can be misleading in many aspects, as there are massive differences between provinces/autonomous regions regarding demography, economy and even language and culture
- While China average old-age dependency is still significantly below the levels of developed countries, many regions in China are actually catching up quite rapidly

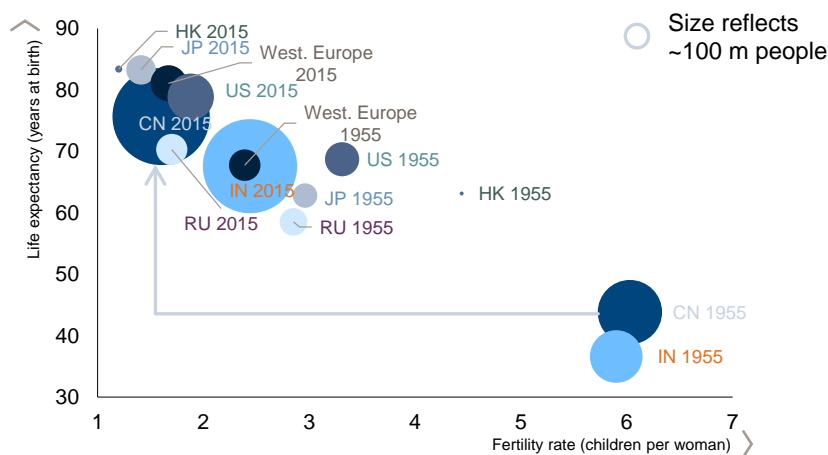
China's working age population already peaked in 2015; gross age dependency increasing ever since



- By 2050 China's population will have shrunk to 1.36 bn people; China's workforce, which contributed to the booming economy, peaked in size in 2015, reaching 1.01 bn people; 2050 the country's population structure will have changed dramatically, while at the same time life expectancy will have increased from 76.5 years in 2015 to 87.4 years by 2050
- The demographic change will leave a work force of 784 m people vs. 580 m dependent people (children and elderly) by 2050, increasing the dependency ratio from 2015 13 to 44 by 2050 (working age people vs. elderly dependent people)
- Despite a slight increase in fertility rate (1.64 children per woman in 2015 to 1.76 by 2050), age group of children declines

China nearly on levels of developed countries in terms of life expectancy; due to low fertility & demographic structure similar social problems occur

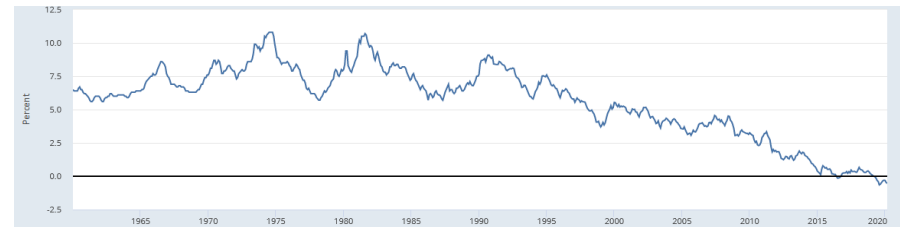
Life Expectancy vs. Fertility Rate 1955 and 2015



10-Year Bond Yield China



10-Year Bond Yield Germany



- Pension system partly pay-as-you go, partly account (defined contribution) based; overall level of pensions low
- System not well equipped to handle demographic stress, notoriously underfunded and very fragmented with huge differences between provinces
- System development did not keep up with rapidly increasing life expectancy and drop in fertility (which does not bounce back even though the 1-child policy is in large parts abolished)
- In consequence: Great need for private pension system; solutions based on interest rate guarantees appear difficult

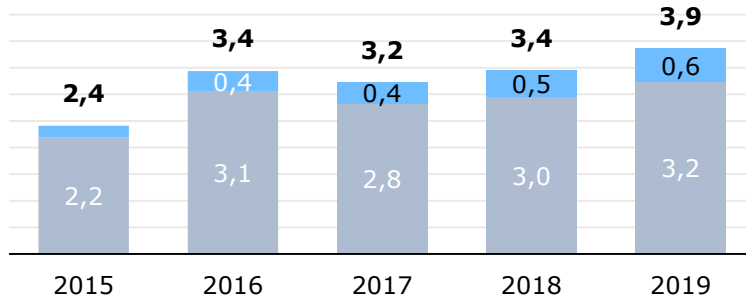


Life Market & Competition

Long-term life market potential high; short-term outlook over-shadowed by regulatory pressure and economy-wide leverage

Life and Health market
(GWP incl. investment parts, tnRMB)

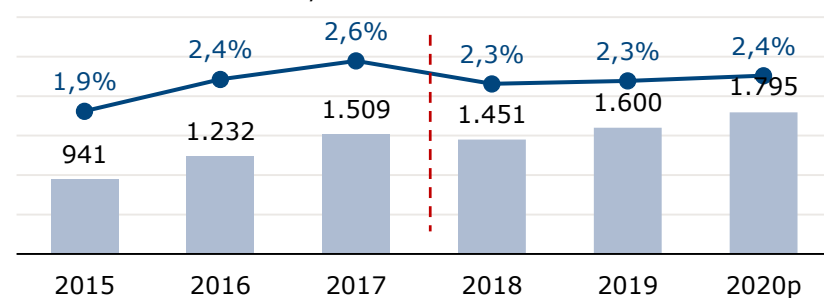
■ Life ■ Health



- CAGR 15-19 of Chinese life sector 10%, health sector 30%
- Life sector contracted 2016-17 by 8% as result of a series of changes in regulation
- Going forward focus on regulatory cleanup to further de-risk insurance sector; agency remains key driver to long-term sustainable growth and value creation

Life penetration (GWP/GDP)*
and density (mRMB per capita)

■ Density ● Penetration



- Life insurance penetration increased significantly (2015-19 CAGR 18%) due to slower GDP growth and steady high life insurance premium growth
- Density was mostly driven by premium development, since population growth stagnated at around 0.5%
- Life and health benefitting from insufficient coverage of social security systems and increasing demand for protection products

Regulatory focus shifting from growth to risk containment and expected to tighten further

Regulation prior regulatory shift 2017

- Very short term savings products (<5years) returning high yields allowed, accounting for majority of products esp. in banca
- Annuity payments starting in policy year one allowed
- Unit-linked / investment-linked products not required to include biometric covers
- Handling of agency expansion (e.g. branch approvals, provincial licenses) rather liberal

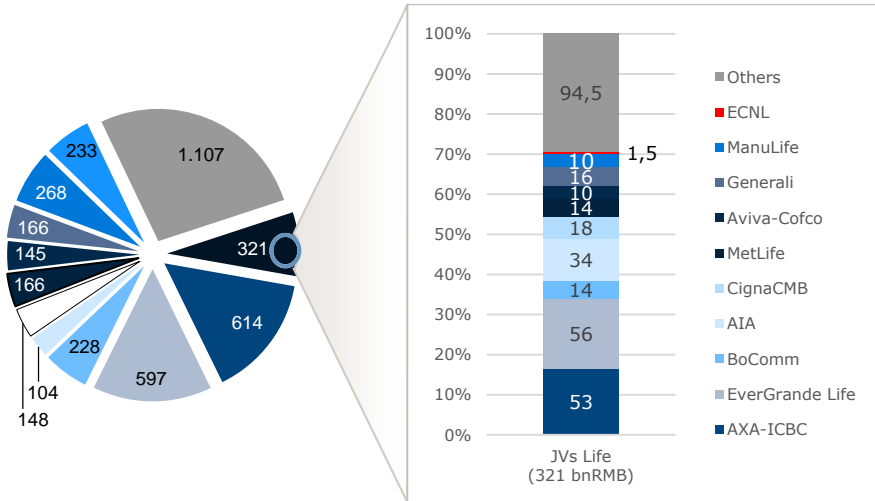
Regulation post-shift 2017

- Short-term high-cash-value insurance products (<5 years) forbidden by law, short term savings with high yield and high flexibility still allowed to be offered by banks
- No annuity payments prior to policy year six
- All insurance products including unit-/investment-linked required to provide (very small) biometric components (2019), reducing yield nonetheless
- Government initiatives geared towards increasing share of long-term or pure risk coverage in insurers' product portfolios (e.g. tax incentivization of health and pension insurance)
- Branch approvals increasingly restrictive, substantially hampering expansion speed of newcomers

- Strong industry wide decrease in savings business, especially hitting bancassurance channels as these predominantly sold short-term high cash value products which could not immediately be compensated by a corresponding increase in long-term savings (which is commonly sold via agency channels). Savings seem to recuperate as companies and customers are forced to adjust, but in general there is a switch towards biometric products, especially Critical Illness, resulting in increasingly tough price competition in this segment
- Loss of competitiveness of unit linked products compared to competing offers from banks and wealth management companies
- Tax incentivization of insurance product might in mid-term perspective open up new options for life insurers, although number of actual tax payers in China rather low compared to working population overall

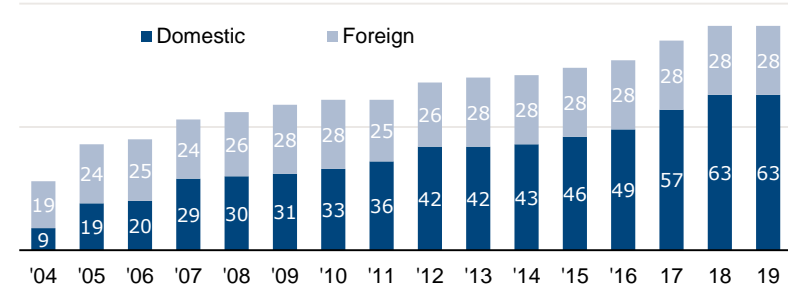
Domestic players by far dominating the market; foreign life insurers gain market share only slow

Market Overview 2019 (GWP incl. invest. parts, bnRMB)

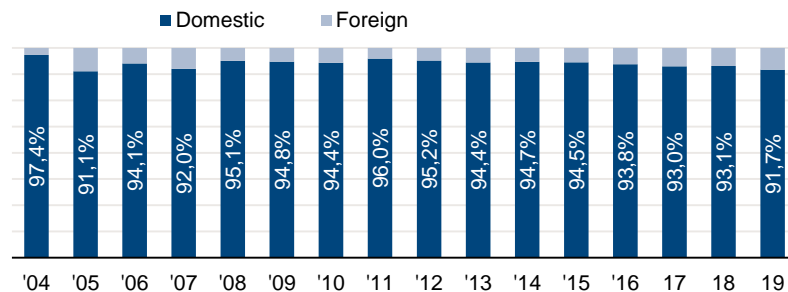


■ China Life ■ Ping An Life ■ CPIC Life ■ PICC Life
 □ Taiping Life ■ Taikang ■ Xinhua ■ Sino Life
 ■ HuaXia ■ DaJia Life (Anbang) ■ Others domestic ■ JV

Number of life insurers in China



Market shares (GWP, incl. investment part)

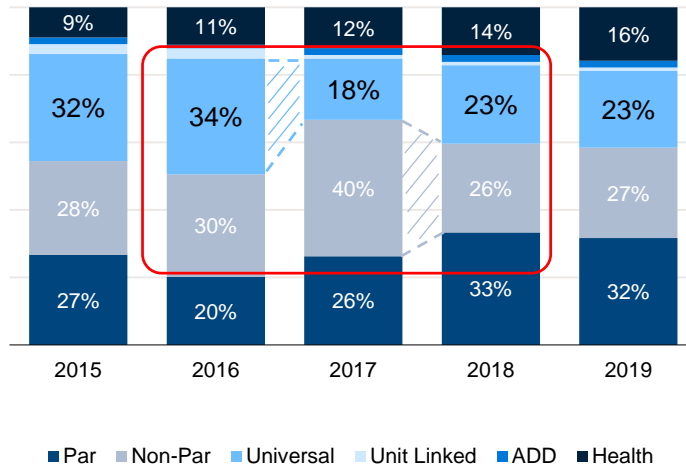




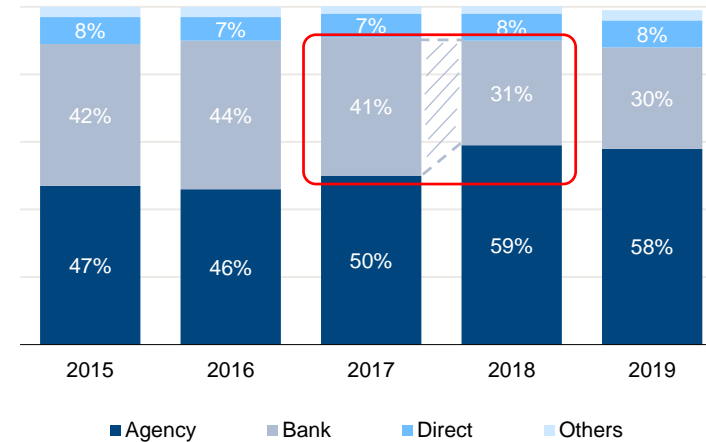
Sales Channels & Product Mix

Development of product and channel mix strongly influenced by regulation

Business mix Market (GWP)



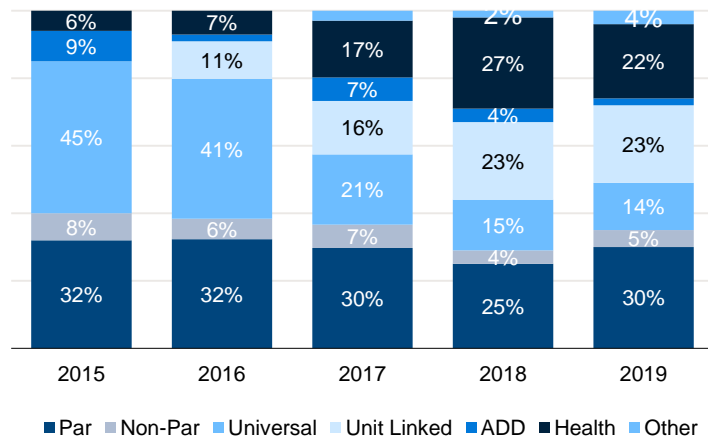
Channel mix Market (GWP **excl.** Investment parts)



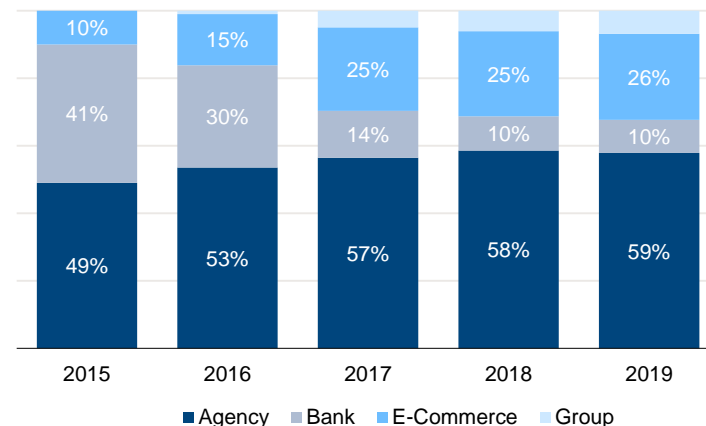
- Changes in regulation resulted in a market wide switch from universal to non-par products and later to par, health (primarily Critical Illness) increasing steadily
- Channel mix would likely show stronger direct channels if unit-linked was included, as this product is predominantly sold via online platforms

Development and Status of ERGO China Life (ECNL)

Business mix ECNL (GWP)



Channel mix ECNL (GWP)



- Consistent with market developments, ECNL reduced the universal share, while increasing unit-linked and health (predominantly Critical Illness)
- Overall product/channel mix better balanced out than in the past, the large share of e-commerce is mainly due to the increase in unit linked, which are sold via third-party online platforms. Guarantee risks in participating products have been reduced via adjustments in product design
- The impact of the current Corona crisis cannot be judged yet: will e-commerce compensate for any losses in agency? Will new models, combinations of agency and online tools, gain traction?

Thank you!



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