

ASIAN MARKET by Jane Croft

The chase is on by western giants

The world's leading insurers, realising the huge potential that the region offers, are pursuing policies of expansion

Prudential, the UK life assurer, has made developing a strong position in Asia a key plank of its strategy.

"We just see enormous opportunity in the region. The ingredients are all there: an increasing population, emerging middle class and a shift in pension provision away from the state," says Mark Tucker, chief executive of Prudential Asia Corporation.

Nor is Prudential alone in its enthusiasm for the region. Some of the world's largest insurers, particularly life companies, have recognised the opportunities in newly-liberalised Asian markets, particularly in China and India.

Growth may have slowed since the economic crisis but the Asian markets still offer huge potential.

Between 1990 and 1997, the emerging Asian non-life and life insurance markets expanded at a real average rate of about 13 per cent a year. At the same time, the world non-life and life markets were growing at annual rates of between 2 and 4 per cent. Market penetration of insurance products is also relatively low.

According to research conducted by Sigma, the research arm of Swiss Re, life premiums in China, for example, as a percentage of GDP in 1999 was just 1 per cent compared with 10 per cent for the UK.

Add to this that many Asian countries are now shifting the responsibility for pension provision away from the state and on to the individual and this makes Asia exciting for insurers.

Kai-Uwe Schanz, head economist of Swiss Re (Asia), says: "I think the prospects are exciting particularly in India, with the emergence of a middle class, and China."

Margins are also healthy. For Prudential, which is in 11 countries, including China and India, new business margins in Asia are around 60 per cent compared with about 20-30 per cent in the UK.

American International Group (AIG), the world's largest insurer, has a strong life and non-life presence in the region.

It is represented in 15 countries, including Vietnam, Sri Lanka and Indonesia, and was the first to receive a licence for China in 1992.

AIG, through a subsidiary, AIA, now operates in four Chinese cities and has recently entered the Indian life and general insurance market in joint ventures with Tata.

Axa, the French insurer, is in several countries, including China; Aegon, the Dutch insurer, is in Taiwan and the Philippines and has applied for a licence to operate in China.

US insurers are also well represented in Asia with New York Life in nine countries, including India, while ManuLife of Canada is in eight Asian countries, including China. Among others, Sun Life of Canada also has a strong presence.

The attractiveness of the Asian market has been such that other large European and US insurers are trying to bolster what presence they have.

Allianz recently acquired Allianz First Life in South Korea and in Taiwan

Axa says it has steered clear of certain markets

acquired a 50 per cent stake in companies called Allianz President and Allianz President Life.

CGNU, the UK insurer, is one of the top five general insurers in Malaysia, Thailand, Singapore and Hong Kong and has applied for life licences in India and China.

Often, China and India offer some of the best prizes

for expansion.

According to Royal & Sun Alliance, the UK composite insurer, the annual per capita premium spend on insurance in China is \$12 compared with \$1,191 in Singapore and \$2,350 in the US. Total annual premiums represent around 1.5 per cent of GDP in China compared with 10 per cent in the UK.

Royal & Sun Alliance estimates that by 2010 the Indian market could be worth \$33bn-\$39bn in premiums split between \$23bn-\$28bn of life premium income and \$10-11bn of non-life premium income.

Mark Tucker of Prudential says: "The opportunity is a massive one in India and China - India has just opened up at the end of last year."

In India, overseas insurers can only hold around 26 per cent stake in such joint ventures when they are launched.

But there are challenges and there are key questions about how quickly this investment will need to pay off. And although future prospects may be great, actual contributions to current profits is usually quite small.

Asia contributed £22m to Prudential's operating profits in 2000 compared with the £471m contributed by its UK operations.

West LB Panmure, the broker, expects Prudential Asia Corporation to account for 50 per cent of new business premiums by 2005 compared with 11 per cent in 1999.

It estimates that margins of new business written in Asia for Prudential is twice as profitable as that written in the UK and six times as profitable as that written through the soon-to-be disbanded UK direct sales force.

But there are other barriers to profitability and expansion. In China, licences granted to foreign insurers tend to be restrictive, usually permitting companies to do either life or general insurance.

There are hopes, however, that the present regime will be extended if China is granted entry to the World Trade Organisation, when Beijing has promised to lift geographical restrictions and allow 50 per cent overseas investment in life assurance.

Winning a licence is just the beginning. Insurers need

a separate licence for each city and then have to hire, train and motivate large salesforces.

Also, it would not be true to say all the major global insurers believe that expansion into India is the right thing to do.

Axa, the French insurer, is in Japan, Hong Kong, Singapore and has a licence to operate in China - in Shanghai - and is awaiting another licence to operate. About 11 per cent of its revenue comes from Asia. Axa says it has steered clear of certain markets such as India and has small presences in markets such as Thailand.

Other barriers include distribution. "In some markets like Japan, there the dominant local players have huge distribution networks and it is difficult for new entrants to gain a foothold," says Kai-Uwe Schanz of Swiss Re.

But there is no doubt that despite these hurdles, Prudential and others have decided that the liberalising markets in Asia represent substantial growth opportunities and will more than reward their patience.