

Insurance in Asia

Unprofitable policies

HONG KONG

A fast-growing market, but maybe not one worth fighting over

THE only thing now delaying China's accession to the World Trade Organisation (WTO) is a spat between its two biggest members, America and the European Union, over insurance. At issue is whether America's largest insurance company, AIG, should continue to enjoy preferential treatment by China's regulators, thus putting European competitors at a disadvantage. To judge by the effort the multinational insurance giants are putting into urging their respective governments to fight their corner, it would seem that there is a great deal to play for.

Then again, the companies could be wrong. Emerging Asia has long posed a conundrum for western insurers with global ambitions. On the one hand, the region is home to some of the world's fastest-growing markets, at a time when insurance in developed markets is pretty saturated. On the other hand, there is no guarantee that growth brings profits.

In the long term, and if growth were the only criterion, multinationals' regional strategy ought to be clear enough. In a forthcoming report, *Kai-Uwe Schanz, chief Asian economist at Swiss Re*, the world's second-largest reinsurer, estimates that the insurance markets in both China and India could double in size by 2005. In contrast, most Asian markets, which shrank during the financial crisis of 1997-98, are still making up lost ground.

Moreover, South-East Asia's markets are fragmented—and already open to foreign insurers. India's and China's are highly concentrated, and only just starting to open up. In Malaysia, the Philippines and Singapore, foreign insurers already control over half of the life-insurance market. They have less than 1% in China and not even that in India.

Growth rates can deceive. Take China, which is reckoned to be Asia's most promising market, with 1.3 billion people. Even if insurance did double by 2005, China's market would merely rank alongside Switzerland's in size. If it doubled again by 2010, it would be equal to Italy's. More important, in any case, is the fact that growth alone says nothing about whether foreign insurers would make money from these markets.

The lure of losing

In China so far, they have not. The multinationals give few hard figures about their Chinese business, but, by best estimates, only AIG, the first foreigner in China, was briefly profitable and now barely breaks even; all other multinationals lose money. With or without the WTO, this is unlikely to change soon, says Stephen Harner, a consultant in Shanghai. In the current jostling for licences, "the winners may end up envying the losers."

In China, insurance is unprofitable partly because the only people who can afford to buy policies are the top earners, and the only way to reach these (in a country that had no insurance at all until the 1980s) is by sending agents from door to door. There is no more expensive way of selling

insurance. In developed markets, insurers make their profits entirely from investment income, since premiums are usually too small to cover claims and expenses. In China, on the other hand, insurance companies are condemned to invest mainly in low-yielding bank deposits and government bonds. China now plans to allow insurers to invest directly in the capital markets. Yet the stockmarket is, says Wu Jinglian, China's grand old man of economics, "worse than a casino".

It is unprofitable especially because of red tape. Ma Yongwei, China's insurance regulator, likes to talk about the "golden opportunities ahead" for foreign insurers. In practice, however, regulators will work hard to take the shine off. Much as in Japan two decades ago, says Mr Harner, the regulators' priorities are not to benefit consumers, but to nurture a strong domestic industry. The regulators will tolerate foreigners, and even make a point of learning their skills. But they will not want to let them prosper, and that is something which will not change much with WTO membership.

A few hurdles

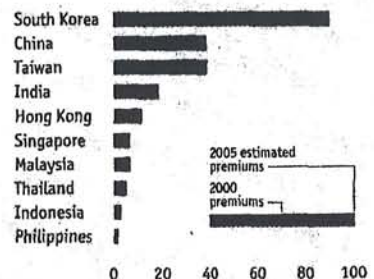
Consider the straitjackets for foreign insurers in China. To enter the market at all, multinationals must maintain representative offices for years before upgrading these to branches. In between, there is a lot of entertaining of regulators in karaoke bars. Then, insurers may do business in just one city at a time—and, in non-life insurance, with foreign customers only. In life insurance, China forces foreigners (with the ex-

ception of AIG, hence the spat) to form joint ventures with local companies. Foreign insurers which want access to the national market (as opposed to one city) may take stakes of up to 25% in a domestic insurer—provided, that is, they get the regulators' say-so.

The idea in all this is to attract foreign expertise and to pass it on to locals before the foreigners can capitalise on it. Given this, corporate strategists at western headquarters may do well to weigh up as much whether to invest in Asia as where and how much. ■

Premium business?

Insurance premiums, \$bn



Source: Swiss Re