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Greater China Insurance Practice

Growth under uncertainty

Trends, issues, and outlook of China's life insurance industry

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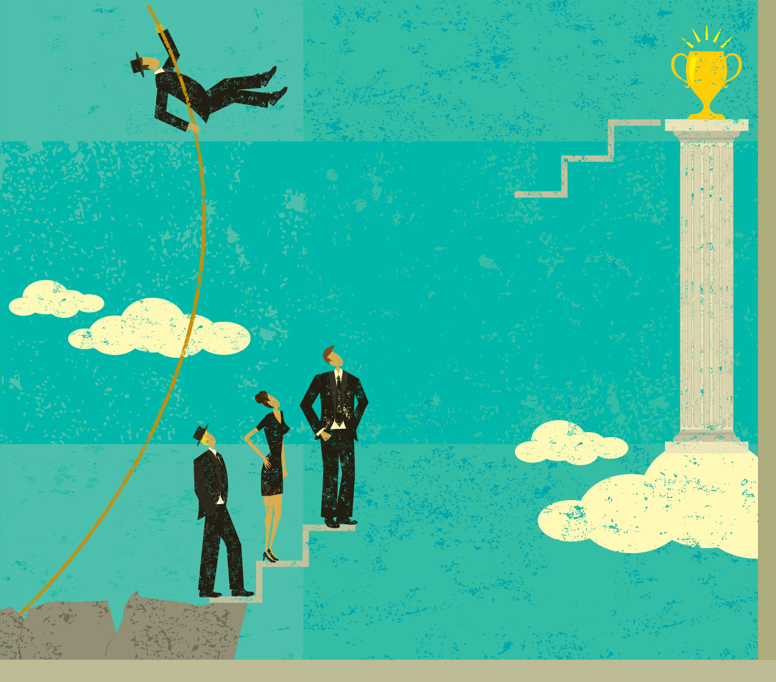
Introduction

China's life insurance industry has experienced rapid growth over the last decade, emerging as the fifth-largest market in the world. Strong growth is expected in the long term, given relatively low life insurance penetration, an aging population, the emerging middle class, and rapid urbanization.

In 2012, however, the market has slowed significantly. While some of the weakness is cyclical, we do observe more alarming developments. For one, the current scale-oriented, channel-driven business model based on undifferentiated, shorter-term investment products and alternatives to bank deposits is fundamentally misaligned with the core value proposition of life insurance. In addition, existing distribution channels are facing structural issues and are ill-prepared to serve the changing needs of the Chinese consumer. For example, it's increasingly hard to recruit insurance agents, especially in large cities, because better job opportunities exist, resulting in slower premium growth. At the same time, the bancassurance model is under pressure because of the high commissions that insurance companies must pay to banks to sell their products, and their difficulties in offering attractive products in the current low interest rate environment. Finally, insurers are burning through capital and may have to raise more money, leading to a higher cost of capital and possible downward pressures on share prices.

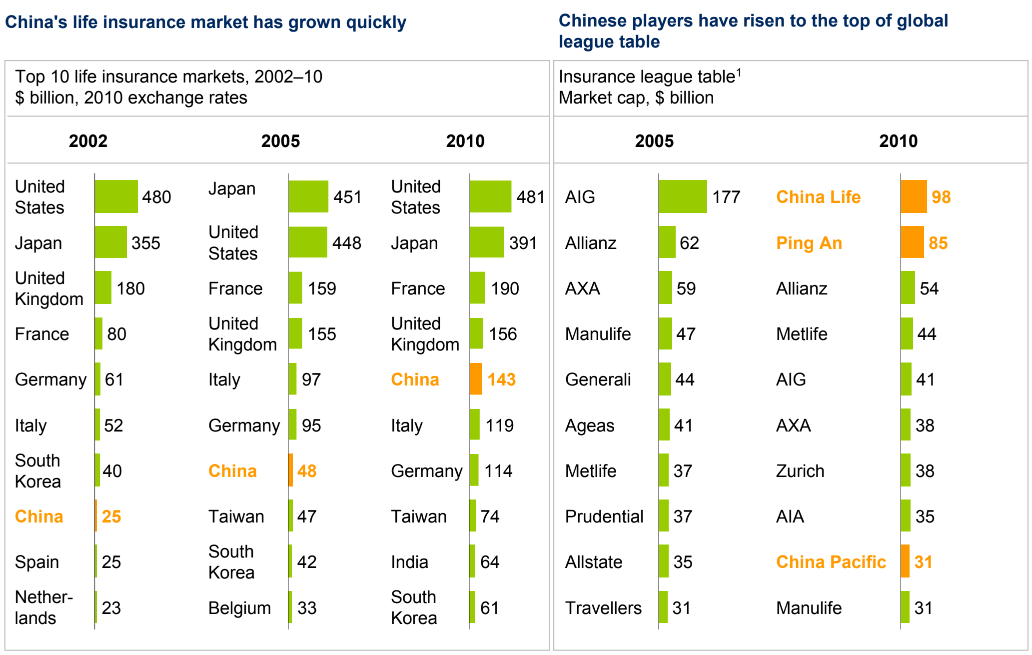
China's life insurers can overcome these challenges but there's a lot of work ahead. In this report, we will look at the factors that are driving growth in the industry and the barriers that are holding insurers back. We then look at what companies can do to overcome the hurdles. Chinese insurers must develop and offer differentiated products that fit customer needs, especially those of the emerging middle class. They will have to renew their agency and bancassurance distribution models. And to ensure long-term success, insurers must begin to focus on value rather than scale and rank.



What will drive growth

Gross written premiums (GWP) of Chinese life insurers rose about 23 percent compounded annually from 2000 to 2010. As a result of the rapid growth, Chinese insurers have become among the largest in the world, supplanting some Western powerhouses along the way (Exhibit 1).

Exhibit 1 Over the past decade, China's life insurance market has grown into one of the largest in the world.

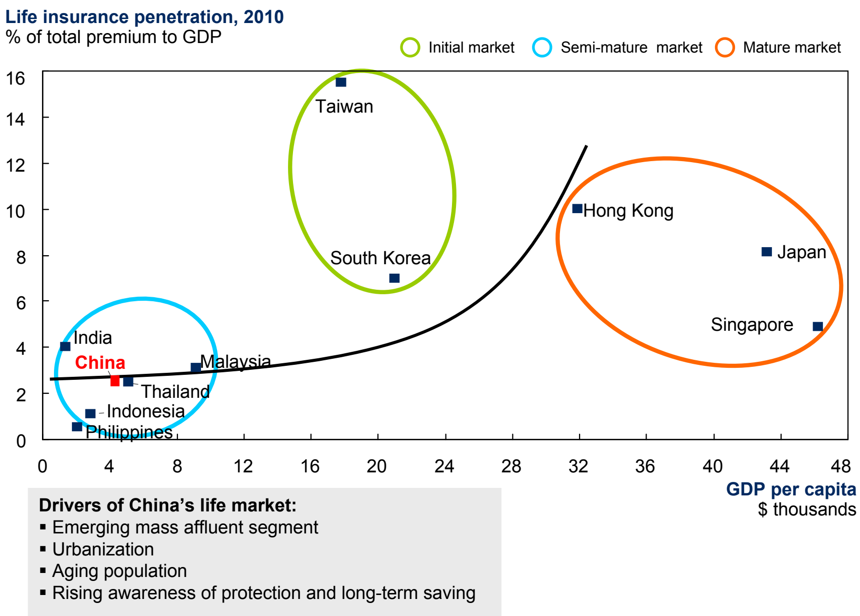


1 Includes life and property and casualty insurance.

Source: Bloomberg; McKinsey Global Insurance Pools

But China's life insurance market is nascent. In 2010, Chinese insurers generated a GWP/GDP penetration ratio of 2.5 percent, compared with 10 percent in Hong Kong, 4.4 percent in India, and 3.2 percent in Malaysia (Exhibit 2). In the future, the Chinese life insurance industry will benefit from GDP growth as well as increases in life insurance penetration. We estimate that the market will grow to about RMB 4 trillion by 2020, making China the second-largest life insurance market in the world after the United States. There are several fundamental drivers of this growth.

Exhibit 2 China's life insurance market is in a nascent stage of development with high long-term growth potential driven by macrofactors.



Source: *Swiss Re Sigma World Insurance Report*, 2011

Emerging—and urbanizing—middle class

Increasing wealth is rapidly creating a mass affluent segment in China, with household disposable income between RMB 100,000 and RMB 500,000, propelled by continued economic growth. Mass affluent consumers are expected to contribute the majority of life insurance premiums by 2025, when they might represent about 60 percent of urban households and 70 percent of the urban life insurance market.

It is estimated that China's urbanization rate will increase from 47 percent in 2010 to 59 percent by 2020, meaning 208 million people are expected to move into cities over the period. In our view, many would consider purchasing their first insurance products as they move into cities, opening a new customer segment for insurers.

Aging population

The population of Chinese aged 45 and older is expected to grow at about 3 percent a year over the next five years while the number of younger people will continue to decline. The demographic changes will translate into stronger demand for health and retirement income products (see sidebar "Another growth opportunity"). In addition, the Chinese government has signaled its intention to enhance the country's retirement safety net (as explicitly stated in the 12th five-year plan by the State Council and the China Insurance Regulatory Commission as well as in a speech by Premier Wen Jiabao in March 2012) through encouraging commercial retirement income coverage.

Favorable tax treatment

The government may introduce tax policies favorable to company or individual pension or annuity products to promote retirement income protection supplementary to public pensions. Shanghai's soon-to-be-launched retirement-income tax-deferral plan suggests the direction regulation is heading. These kinds of changes are likely to increase demand for savings and retirement products, as we have seen in many European markets, and with the 401(k) retirement-savings regime in the United States.

Banks have been a major channel for distribution of pension and annuity products in Europe and mature Asian markets, and they are likely to have a bigger role in China if the government moves to increase the penetration of long-term savings products. With the government's support, this could be a breakthrough opportunity for insurers to forge closer ties with banks.

Capital-market evolution

Chinese insurers would benefit from a maturing capital market, loosening the constraints on investments in different asset classes, and an increase in availability of long-term investment vehicles. More sophisticated asset management as well as a healthier Chinese equity markets should enable insurers to perform better asset allocation and in turn design longer-term products and improve their investment return.

Another growth opportunity

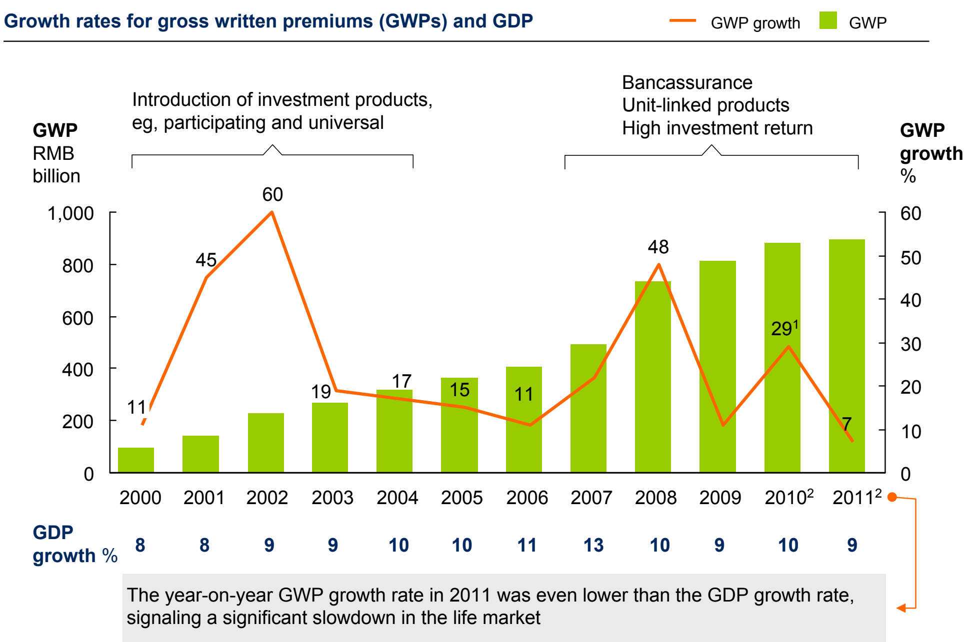
Health care reform represents another major growth opportunity for life insurers in China. Public health coverage has expanded over recent years to include 95 percent of China's population but thin coverage leaves room for supplementary insurance, especially for mass affluent and affluent customers (including groups) who are seeking additional protection and value-added services.

The government's reform of the payor system—for example, adjusting hospital incentives to control treatment costs—and build-up of the community health center network should increase insurers' ability to better manage claims. But the process is expected to be lengthy. In addition, local governments are shifting portions of public health insurance management responsibilities to private insurers. For instance, PICC is managing portions of NRBMI, one of the country's medical insurance systems, in the Pinggu district of Beijing.

A revealing slowdown

Growth of GWPs in 2011 of 7 percent (under new accounting standards for both 2010 and 2011) was the lowest in the last decade. That was also the only year that GWP percentage growth was below GDP growth in the last ten years (Exhibit 3). Is the slowdown a result of market cyclicality or a sign of strain caused by more serious issues?

Exhibit 3 Growth in China's life insurance market has slowed significantly.



1 Calculated using old accounting method.
2 From 2010 on, gross written premium is calculated according to new accounting method issued in 2009.

Source: China Bureau of Statistics; *China Insurance Yearbook*; CIRC

In fact, this development is in line with historic market cyclicality. Growth of the life insurance market ebbs when current-year inflation is near or above five-year interest rates or when the previous year's investment return is at or below five-year interest rates. Both preconditions were present in 2011. However, we believe that the slowdown reveals deeper issues that insurers must begin to address.

What will drive the next wave of growth?

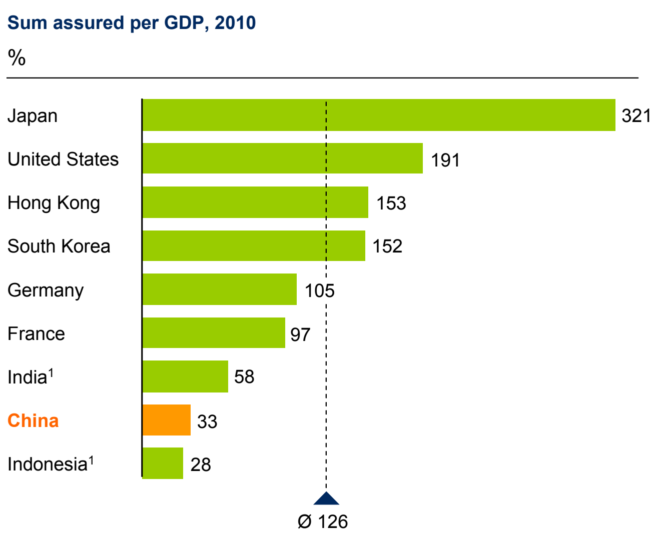
Over the years, China's life insurance industry has grown in waves, but it is now facing a sluggish period with no obvious growth driver in sight. From the mid- to late 1990s, high-yield products, with guaranteed returns of 8 percent or more, fueled the market's expansion. The introduction of universal and participating products propelled much of the growth from 2000 to 2005. Then, the rise of the bancassurance channel, combined with high returns in 2006 and 2007, boosted market growth in the last decade.

A quick turnaround in market conditions is unlikely, even though we expect an increase in liquidity in 2012. Moreover, weak investment performance in 2011 (3.6 percent annually compared with a 5.3 percent annual yield from a five-year deposit) will continue to dampen insurance sales in the short term.

Misaligned life insurance value proposition

The industry's scale-oriented, channel-driven business model is fundamentally misaligned with the core value proposition of life insurance of protection and long-term savings. Chinese consumers do not have adequate life insurance coverage; China's sum assured per GDP, which is a measure of insurance coverage, was 33 percent in 2010, only slightly higher than Indonesia's 28 percent and significantly below India's 58 percent, not to mention 100 percent and above in many mature markets (Exhibit 4).

Exhibit 4 China's sum assured per GDP is low even compared with other developing Asian countries.



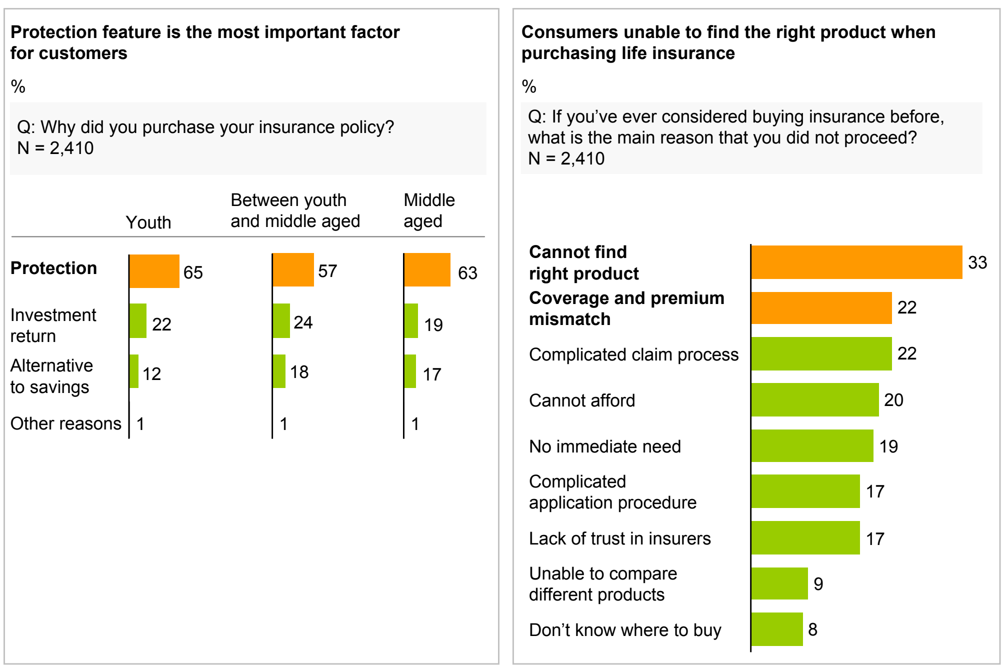
1 India and Indonesia's sum assured per GDP is based on data from 2009.

Source: Regulatory bodies; McKinsey analysis

Current offering fails to meet customer needs

Protection—assuring one's survivors have money to live on—is the most important factor when consumers choose insurance products. In a McKinsey survey of Chinese consumers, we found that protection was about three times more important than investment return for customers across different age groups (Exhibit 5). However, 33 percent of potential buyers said they could not find a suitable product while 22 percent said they do not think the coverage warrants the premium charged. Many have bought life insurance policies with less coverage than they had hoped for; about 50 percent of the insured expect coverage of 10 or more years of current annual income but are only covered for two to five years.

Exhibit 5 Current products do not fully meet consumer needs.



Source: 2011 market survey; McKinsey analysis

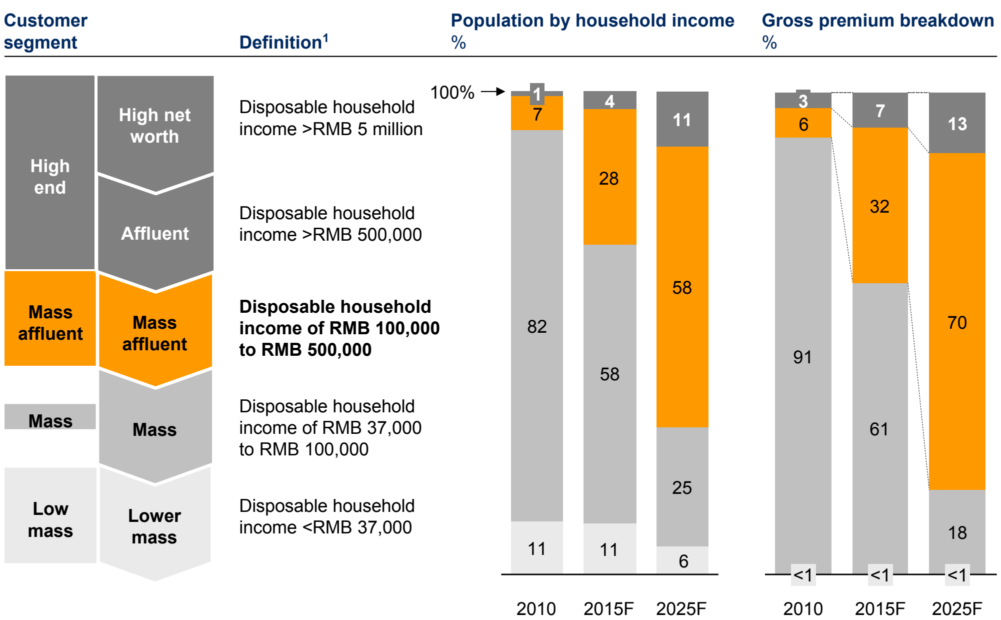
A host of fundamental challenges

We anticipate basic market changes and structural issues that will further challenge the sustainability of the industry's current approach.

An outdated operating model

The industry's unsophisticated, mass-focused sales approach and undifferentiated, simple products are inadequate for the main customer segments of tomorrow. Wealth levels are rapidly increasing, particularly in the mass affluent and above segments (Exhibit 6). These consumers are becoming more sophisticated financially. As a result, they are beginning to use more channels and need more value-added services and diversified insurance products.

Exhibit 6 The mass affluent will emerge as the main segment for insurers in the medium to long term.



1 Disposable household income is calculated by 2010 RMB value.

Structural issues in sales channels

In the early 2000s, agents were the most dominant distribution model in life insurance. Then bancassurance came into its own as a major channel. However, these two important channels are facing structural challenges, and improving their productivity and effectiveness will require substantial effort.

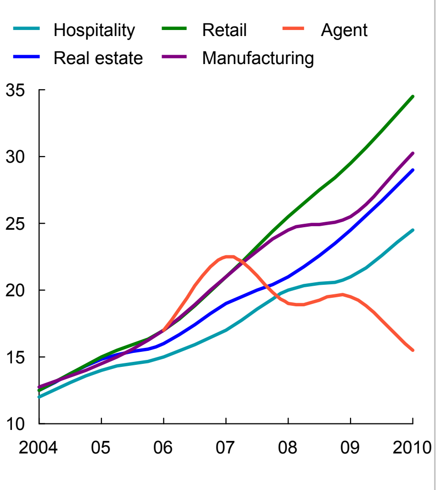
- **Is the current mass recruiting-based agency model reaching its limits?** First-year-premium growth has slowed from 25 percent in 2007 to 10 percent in 2011, while growth of the agency sales force dipped to almost zero in 2011. The fact is that working as a life insurance agent is no longer as attractive a career in China as it once was, a result of the rapid economic growth that has spawned a range of better-paying jobs, especially in the fast-developing urban centers. Average agent income is 70 percent of its peak in 2007 while wages in other sectors have increased 12 to 15 percent a year. The average agent earns only about 50 percent of what workers do in manufacturing and construction industries.

- The higher cost of living and wages makes recruiting most difficult in China's Tier 1 cities. For example, the average monthly income (gross income minus business expenses and social-benefit program payments) in 2010 of an agent in Shanghai was about RMB 3,400, slightly below the city's overall average wage of RMB 3,900 (Exhibit 7). This means that newly recruited and low-performing agents are earning much less than the city average, given that the top 15 to 25 percent of performers generate the majority of premiums.

Exhibit 7 Agents are struggling with low productivity and income, especially in Tier 1 cities.

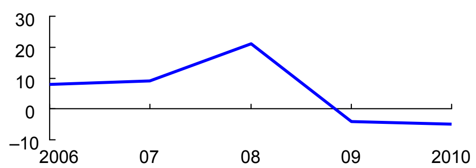
Widening income gap between insurance agents and other occupations makes expansion difficult

Industry average annual income
RMB thousands



The situation is exacerbated in Tier 1 cities

Agent growth rate in Shanghai and Beijing
%



In 2010, average agent monthly income in Shanghai was ~RMB 3,400, lower than Shanghai's overall average of ~RMB 3,900

Survival becoming difficult for local agents in Tier 1 cities

- **Customers becoming more mature and sophisticated**
  - Researching and comparing prices through multiple channels
  - Shifting toward holistic and professional financial-planning services
- **Fierce foreign competition**
  - Foreign insurers are more adept at fulfilling mass affluent and wealthier customers' needs, owning 20% of market in Shanghai and Beijing
- **The same trend will spread to large Tier 2 cities in the near future**

Source: Analyst reports; Wind; McKinsey analysis

- The agency model suffers from a vicious cycle of low-quality recruits creating high turnover or becoming ineffective team leaders. In addition, a pyramid incentive structure encourages the best-producing agents to move from sales to team building. At the same time, a front-loaded commission structure fuels agent turnover.

- **Existing bancassurance model is unsustainable.** The current model focuses on rudimentary, low-margin products and fails to capture demand for protection and long-term savings products, especially from mass affluent and above segments. Also, misleading sales practices in the bancassurance channel have drawn public scrutiny and tarnished the industry's image.

- The way forward for insurers in bancassurance is challenging. Insurers lack bargaining power with banks, which control access to customers and can choose which products they want to sell. As a result, insurers' profitability in bancassurance has been declining. Low-margin products dominate the channel while bank commission rates on single premium participating products increased from 3.2 percent in 2005 to about 5.5 percent in 2010. In addition, regulatory changes have forced insurers' sales staff out of bank branches, which further reduces bancassurance product sales capacity and capability. It is now even more challenging for insurers to distribute high-margin—but complicated—products in the channel.

Rapid capital consumption

Many life insurers are failing to manage capital efficiently, given their emphasis on premium growth. As a result of their land-grab expansion mentality and unsophisticated capital management practices, many Chinese insurers are facing tight solvency ratios and will need large capital infusions to continue their rapid growth (Exhibit 8). In turn, that will increase insurers' cost of capital, as a result of the tightening regulations on subordinated debt, and may also have dilutive effects on existing shareholders.

The Chinese life insurance industry has focused on scale and near-term profitability, an approach that has led to fast growth but disappointed shareholders. The industry has been barely covering its cost of capital. Indeed, return on equity (ROE) minus cost of capital averaged –2.7 percent from 2003 to 2010. A weak ROE may make it even more difficult and expensive for insurers to secure capital (Exhibit 9).

Exhibit 8 Consumption of capital has been rapid given the land-grab expansion approach and lack of sophisticated capital management.

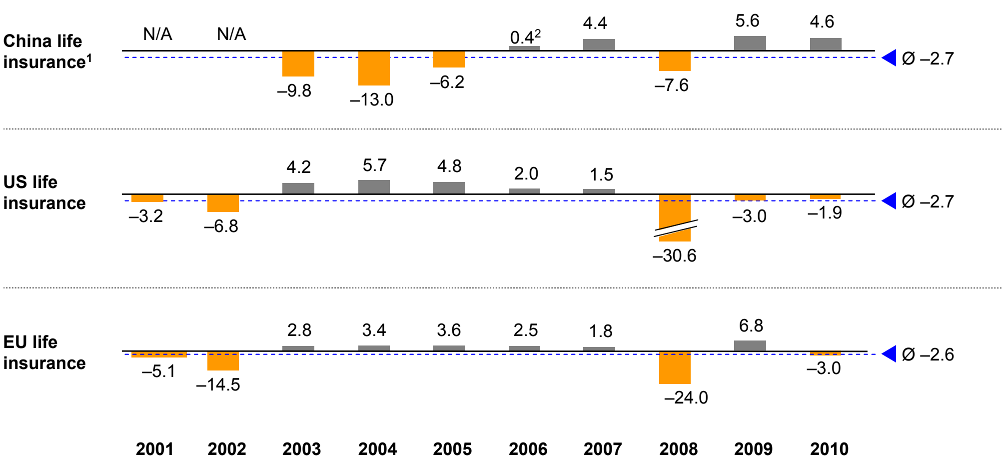
		2010 GWP[1] RMB billion	2009–10 year-on-year growth, %	2010 solvency ratio, %	Year-on-year difference, %	Capital injected, 2010 RMB billion
Top domestic life players, 2010	China Life	333	13	211	–93	
	Ping An	159	20	180	–47	
	NCI	94	40	35[2]	–1	
	CPIC	92	36	241	33	11.8
	Taikang	87	29	177	–29	
	PICC Life	82	57	124	–57	
	Taiping	33	46	268	0	3.7
	Sino Life	15	119	212	68	4.4
	Sunshine Life	15	267	391	–19	4.2
Top 5 foreign life players, 2010	AIA	8	5	156	–8	
	Generali	6	37	145	–37	
	Huatai Life	6	40	221	–28	
	Citic-Prudential	5	35	177	–16	
	Aviva-Cofco	5	18	167	–29	
				150		

1 Gross written premiums.
2 Data as of 2010; NCI received CIRC approval on its capital injection in March 2011, which raised its solvency ratio to 146%.

Source: Annual reports; McKinsey analysis

Exhibit 9 The overall weak return on equity for China's life insurance industry may make capital more scarce and expensive in the future.

Return on equity minus cost of equity
%



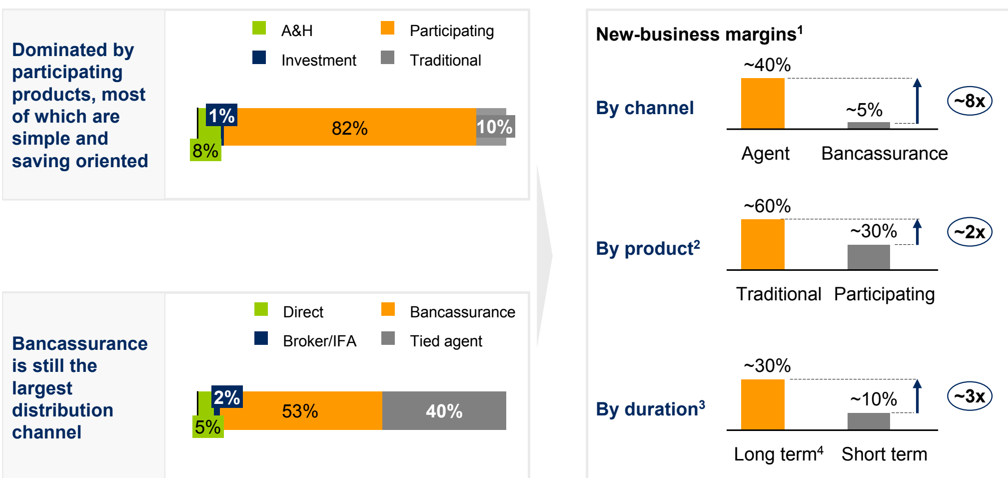
1 In cost-of-equity calculation, we use the beta of China Life as the proxy for the China life insurance industry.
2 After 2006, asset valuation is based on the market-to-market approach, which makes the numbers for China comparable with those for US and EU markets.

Source: AM Best; Bloomberg; *China Insurance Yearbook*; McKinsey analysis

Undifferentiated, low-profitability products

China's insurers have 1,000 to 2,000 products, but they usually have fewer than 3 to 5 sizable ones. Indeed, they lack signature, blockbuster products. Also, compared with mature markets, China has an unusually high share of low-margin participating products. These represent over 80 percent of China's GWPs compared with 30 percent in Germany and 15 percent in South Korea. Participating products' new-business margin is roughly half that of traditional products (Exhibit 10).

Exhibit 10 Chinese life insurers have low new-business margins because of their concentration in participating products and the bancassurance channel.



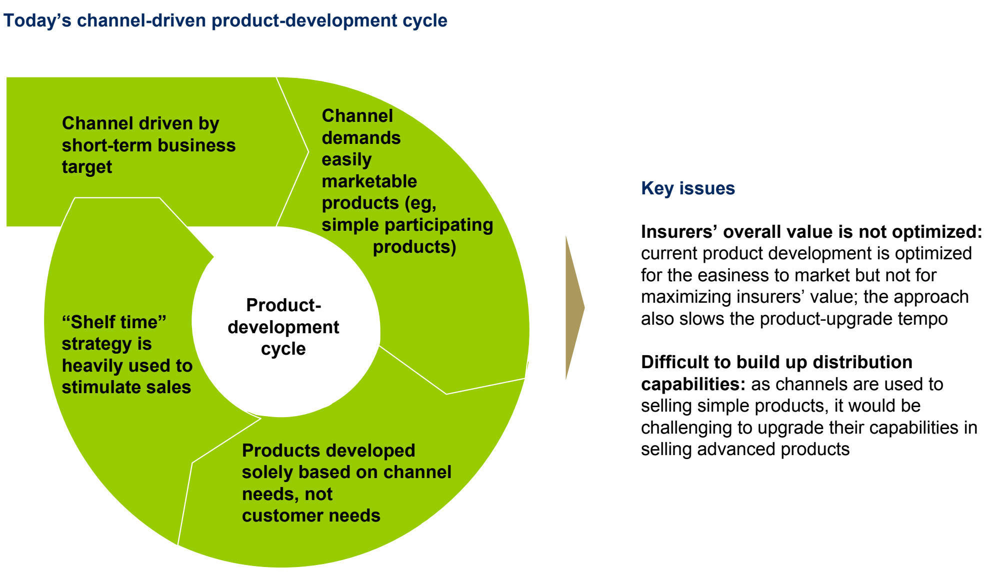
1 New-business margins = new-business value/APE.
2 Long-duration and regular-payment products.
3 Participating and long-duration products.
4 Longer than 10 years.

Source: CIRC; expert interviews; McKinsey analysis

Why are Chinese life insurers struggling? We see three main reasons:

- **Channel-driven product design.** Product design remains channel- rather than customer-driven. Even though many insurers have product-development departments to assess customer needs, in reality, the channel has the final decision. Easily marketable products are particularly important because the channels have low sales capability and are only equipped for selling simple products (Exhibit 11).

Exhibit 11 Product development is mostly driven by channels without consideration for customer needs.



- **Unsophisticated product marketing.** Marketing is not systematic in China, and there is a lack of product differentiation across customer segments. Most products sold in China are single purpose. By contrast, mature markets have modularized products under specific themes. For example, Million Dollar Woman insurance in Australia identifies 18- to 60-year-old women as customer segments within which it recognizes different prototypes (for example, single, young mother, professional). It offers the same five products to all segments but varies the mix according to the needs of the prototypes.

- **Unsophisticated pricing.** Chinese insurers are unsophisticated about balancing levers such as pricing, claims management, acquisition and maintenance, and financial guarantees. The result is needlessly higher product pricing. In a study, we found that the premium of a term life policy in China was double the cost of the premium for an identical policy in the United States. There is also a common misperception that cheaper products will sell more; in other words, insurers focus on the price of the product instead of the product's value to customers.

Recapturing growth

Given the trends and challenges discussed above, we see several areas on which insurers can focus to help secure sustainable long-term growth. Insurers should also reflect on what businesses they want to be in (see sidebar "Choosing a strategy").

Agency-model renewal

The current model's effectiveness is waning in large cities but may continue to work in smaller cities and rural areas, where consumer sophistication and average wages are lower. Insurers might consider adopting a different model for urban areas. For example, they could professionalize the urban agent force through tighter sales management and higher quality training and recruiting, and enable agents with new skills and tools such as financial planning and customer segmentation.

But these measures won't address their fundamental challenges. Instead, insurers should make strategic choices about the future across five key dimensions (Exhibit 12).

Exhibit 12 Life insurance players should make five strategic decisions on agent team establishment and reformation.

Strategic choices	Dimensions		Descriptions	Examples
Customer segment	Mass or below	Affluent or above	▪ Agent team targets different customer segments with regard to wealth/income	New York Life focuses on mass affluent
Agency structure	Flat	Pyramid	▪ In a flat model, team leaders receive minimal or no "tax" (commission) from their affiliated agents	MLP and Northwestern Mutual apply a flat model
Management style	Entrepre-neurship	Strongly controlling	▪ In a controlling model, insurers directly supervise agents' behavior; they are less concerned about behavior and instead emphasize their performance in an entrepreneurship model	ICICI and Mass Mutual apply an entrepreneurship model
Career path	Recruiting dominated	Professional development (sales/management)	▪ In the recruiting-dominated path, agents focus on recruiting team members; in the professional-development path, agents can focus on sales or management	New York Life and Northwestern Mutual provide professional-development path
Interface model	1 to 1	1 to many	▪ In 1-to-1 model, agents face 1 client at a time, while in 1-to-many model, agents deliver products to multiple individuals simultaneously (worksite model)	Allstate and Colonial Life apply 1-to-many model

Choosing a strategy

While China's life insurance market holds tremendous potential, maximizing the opportunity requires companies to identify a strategy that plays to their capabilities. Analysis shows that scale is highly correlated with profitability and that the larger players, besides benefiting from economies of scale, enjoy advantages in brand awareness, distribution, investment channels, and funding. Smaller companies must focus on a niche and develop differentiated value propositions for products, customer segments, channels, or geographies.

Among the models used in mature markets are the following:

- Product specialist: the companies develop strong value propositions around a specific product category. Examples include Standard Life in the United Kingdom (unit-linked products) and Prudential of the United Kingdom (annuities).

- Segment focused: in this strategy, insurers target customers in select segments. Examples include these US-based companies: USAA (military affiliation), Puritan Financial Companies (retirees), Northwestern Mutual (mass affluent), and Thrivent Financial (religious affiliation).

- Channel driven: in this category, companies focus on one distribution channel. Examples include CNP Assurances of France (bancassurance); Admiral of the United Kingdom (online and telesales); CosmosDirekt of Germany (term life and disability, sold mostly through the Internet); and Ameriprise Financial of the United States (captive financial planner team).

- White labeling: some insurers focus on product manufacturing but don't do their own distribution, such as Aviva of the United Kingdom, which employs the bancassurance channel model.

Customer-segment focus. US insurers have focused on different customer segments, mostly in terms of wealth and income. Once they choose a segment, they then hire the appropriate agency force to serve the customers. For example, Northwestern Mutual recruits many college graduates as graduate trainees to serve the mass affluent segment, as they are more likely to share a common background with the target customers. And MLP in Germany focuses on doctors and other professionals as their core target segment—and recruits agents from that background.

Agency structure. Most Chinese insurers have employed the traditional pyramid agency model, where team leaders share the commissions, or overrides, generated by their agents. And they pursue a mass recruiting model, where incentives are designed to attract new agents, many of whom will only sell to a few friends and family members and then quit. The result is massive churn in the organization. Insurers in mature markets, such as MLP and Northwestern Mutual, are using a different structure. They are working with flatter hierarchies and less overrides, leading to more emphasis on agent productivity and less on recruiting new agents. They are much more selective in recruiting agents and then focus on their success, including providing them with a customer base and leads. This approach results in much lower agent churn.

Management style. In the traditional strong-control model, insurers directly supervise agents' behavior. Other insurers, such as ICICI-Prudential, use an entrepreneurship model. In this case, the insurer contracts with individual entrepreneurs, usually from mass affluent and above segments, provides them with training and support, but employs a loose management style, and is not responsible for the agents they may hire.

Career path. China mostly follows the recruiting-dominated career path, where agents focus on recruiting their own team members so that they can receive more overrides in the long term. As a result, recruiting more team members is the agents' main goal. There's an alternative—mature-market companies such as New York Life and Northwestern Mutual use professional development. In this model, successful agents can choose between sales-oriented or management career paths. This allows agents to focus on their strengths. In the sales-oriented career path, agents concentrate on selling more products. Their productivity determines their compensation, without any overrides taken into account, and could be higher than the management path. In that path, agents choose to become managers of the sales force.

Customer interaction model. Chinese insurers mostly follow the traditional one-to-one sales model, which usually means focusing on one customer at a time. Insurers in mature markets, such as Allstate and Colonial Life, have shown that worksite marketing, where agents sell insurance products at a company workplace with the agreement of its owner, can be an effective customer acquisition channel. The penetration rate of worksite marketing, measured by number of purchases divided by number of targets, ranges from 3 percent to 25 percent, depending on the approach. Penetration rises when a company allows agents to pitch its workers directly; it is much lower if the agents can only market the products to employees indirectly, for example through brochures or e-mails.

Bancassurance revival

In bancassurance, the key to success is creating a win-win partnership with banks rather than trying to re-divide the customer-deposit pie. Insurers must consider new ways to collaborate with banks to unlock customer demand in risk management and long-term savings products rather than simply shifting demand from deposits to deposit-alternative products. This will increase the size of overall the profit pool while helping banks to develop longer relationships with their customers and to gain a deeper understanding of their needs.

Exclusive partnerships, such as restricting the bancassurance business of a bank to one insurance company, as well as some level of commercial integration are required. Chinese insurers have not adapted these approaches yet but they have shown some success internationally. Key levers include:

- Jointly developing sales capacity and capability to increase overall share of customer assets
- Increasing effectiveness and value of customer acquisition and retention through customer insight and marketing
- Developing differentiated products that complement the bank's product portfolio
- Improving customer experience and enhance stickiness through efficient, standardized service operations
- Creating alignment on joint-value creation and execution from the top (headquarters) to the bottom (branches) to ensure consistent integration is carried out
- Integrating operational processes to increase effectiveness of customer service and sales support, such as bank and insurance sales systems and direct policy issuance

Differentiated products to match customer needs

Today, life insurance agents and banks focus on selling a few products, driven by monthly or seasonal sales campaigns. But China's insurers should move to address the changing requirements of consumers, including their substantial unmet protection needs, as described above. In mature markets, innovations have centered on segments like retirement care, protection for working mothers, and accident and health products for the elderly.

To implement such a strategy, insurers should adapt a customer-driven product cycle. Customer needs should be the first priority across the cycle, namely marketing and packaging, distribution, and product design. In marketing and packaging, insurers must work to identify different needs across customer segments and develop bundled products that fulfill those needs. In distribution, insurers should enhance channel capabilities so that they can distribute complex products. In product design, customer needs should be incorporated in the design stage, using insights obtained from channels and the customers themselves.

Effectively capturing value from mass affluent customers

Customers in this segment are generally well educated and have good jobs. McKinsey research shows that small- and midsize-enterprise (SME) owners, white-collar professionals and managers, government employees, and professional services staff account for the majority of the segment. They are also more financially sophisticated: for example, most use three or more investment channels. They are also open to financial advice, sensitive to value-added services, and trust well-known brands.

However, the needs of customers in this segment are not homogeneous. For example, SME owners require wealth management advice and asset protection and are mostly not price-sensitive. On the other hand, professional services workers such as lawyers and accountants have more balanced needs—protection, savings, and health—and are more price-sensitive. Government employees exhibit greater demand for agent quality and a strong need for protection.

To serve these customers effectively, insurers should identify and develop value propositions for different subsegments, such as younger white-collars workers or middle-aged managers; build a professional advisory model with analytical support; establish a multichannel communication and service model; and invest in building a sub-brand that clearly conveys distinguishing factors with which mass affluent customers can identify. Insurers can also create mass affluent-specific products—for example, a balanced portfolio of products that cover the protection, savings, and health needs of the SME-owner prototype.

Focus on value

Chinese life insurers emphasize premium growth since this is the metric the domestic industry uses to rank them. As a result, insurers try to increase the top line by selling as many products as possible, even if they are not very profitable. Another consequence of such a strategy is the rapid consumption of capital, as described earlier, which has led to suboptimal capital adequacy for many life insurers.

To ensure sustainable growth of the company and shareholder value, Chinese life insurers should shift their focus from scale to value, and rethink their business portfolio accordingly. Recent regulations imposing limits on subordinated debt and the potential negative effect on shareholders of raising capital through equity markets will mean higher cost of capital for insurers in the future. Companies should optimize product and channel mix to efficiently use capital and grow profitably and sustainably, in turn creating more value for shareholders.[1]

1 For more information, see *Life Insurance in Asia: Sustaining Growth in the Next Decade* (Wiley, 2012) by Stephan Binder and Joseph Luc Ngai.

About McKinsey & Company in Greater China

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McKinsey Insurance Practice in Greater China
May 2012
Designed by GCO NewMedia

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