The dynamics of Asia's emerging markets

Peter Hugger examines the structure, performance, regulatory environment and growth prospects of Greater China, India, South Korea and South East Asia

The most recent financial crisis has further fuelled interest in Asia's emerging insurance markets. Even though some heavily export-oriented Asian countries have been severely hit by the global economic slowdown others, especially China and India, have proven remarkably resilient. Some pundits even believe that these countries have structurally decoupled from Europe, Japan and North America, developing into engines of the world economy on their own.

Against this backdrop, this article examines the structure, performance, regulatory environment and growth dynamics of the nine non-life markets of Greater China (People's Republic of China, Hong Kong SAR, Taiwan), India, South Korea and South East Asia (Indonesia, Malaysia, Singapore and Thailand).

These markets account for more than $110bn in non-life premium volume (*see table*). Market sizes vary greatly, ranging from China's $45bn (comparable to Spain, for example) to Indonesia's $2.2bn (comparable to Hungary, for example).

In terms of non-life premiums as a share of GDP (insurance penetration) only South Korea and Taiwan exceed or match the global average of 2.9%. China, India and Indonesia lag far behind, with ratios of 1% or less, indicating their insurance markets' enormous potential to capture a larger share of GDP.

Even more striking is an analysis of insurance spending per capita. India's non-life insurance density, for example, is a mere $6 per capita, a tiny fraction of the global average of $264.

MARKET SHARE OF THE TOP NON-LIFE INSURERS

In terms of market structure, the formerly monopolised insurance sectors of China and India display the highest levels of concentration, with the top five non-life insurers accounting for approximately three quarters and two thirds of the market, respectively.

The South East Asian markets of Indonesia, Malaysia and Thailand, however, are considerably more fragmented, with the share of the top 10 hovering around 50%. In China, the market share of the 'Big 3' (PICC, CPIC and Ping An) could further erode as new providers broaden their footprint.

Currently, China counts 43 non-life insurers, a third of which are foreign-owned. The same trend can be expected for India, where the market share of the former state-owned monopoly companies (New India, National, Oriental and United India) has already declined to below 60% and new privately-owned companies (with a maximum foreign equity stake of 26%) keep gaining market share.

On the other hand, markets such as Indonesia, where close to 100 non-life insurers chase after a premium pot of as little as $2.2bn, are poised to consolidate. Most Indonesian non-life insurance companies are thought to operate with less than $10m in capital. Under-capitalisation and overcrowding encourage fierce price competition, rather than technical underwriting.

In terms of the lines of business split, the motor sector dominates in most markets.

REGIONAL MARKET BREAKDOWN – 2008

COUNTRY	*DIRECT NON-LIFE PREMIUMS	** INSURANCE PENETRATION	*** INSURANCE DENSITY
China	45.0	1.0	34
South Korea	30.6	3.7	621
Taiwan	11.5	2.9	500
India	7.3	0.6	6
Singapore	5.1	1.6	630
Thailand	4.2	1.5	65
Malaysia	3.2	1.5	120
Hong Kong SAR	2.8	1.3	381
Indonesia	2.2	0.4	9
World	1779.3	2.9	264

* In US$bn
** Non-life premiums in % of GDP
*** Non-life premiums per capita in US$

Source: Swiss Re *Sigma* database

This is in line with a pattern that can be observed globally as characteristic of emerging non-life insurance markets. In China, for example, motor business accounts for almost three quarters of the total. Even in the more advanced insurance market of Taiwan, close to 50% of non-life premiums are generated in the motor line of business. Another distinctive feature of some Asian markets is the importance of long-term non-life business, ie savings and investment premiums rather than conventional risk premiums.

This pattern is particularly pronounced in South Korea where more than a third of non-life business is written on a long-term basis, suggesting that many Koreans are only buying insurance if they can expect to recoup their premium payments at the end of the policy term.

SHARE OF FOREIGN NON-LIFE INSURERS

Asia's non-life markets are similarly heterogeneous as far as the share of foreign insurers is concerned. The spectrum ranges from Hong Kong, where foreign players have a dominating role, Malaysia and Singapore, where foreign companies have captured a sizeable market share, to South Korea and China where their role is purely marginal.

Throughout the region there is a trend towards liberalisation of market access, also driven by WTO commitments. Having said this, significant barriers remain, such as a 26% foreign equity participation cap in India, a 25% foreign ownership limit as well as a ban on new foreign branches in Thailand and geographical and operational restrictions on foreign branches in China.

But there are non-legal obstacles, too, such as conglomerate relationships and customer preferences for national insurers, for example in South Korea. In general, the woes suffered by some Western financial giants in the wake of the credit crisis will certainly not help overcome these invisible barriers to market access.

NON-LIFE MARKET LOSS RATIOS

In most Asian markets overall loss ratios appear attractive when compared to other regions. However, it needs to be remembered that most Asian market statistics report loss ratios on an incurred claims/gross written premiums basis. Loss reserves are not included.

Therefore, low loss ratios should be viewed with a pinch of salt, also given the fact that acquisition cost is rather high in most markets. For example, India seems to be a market with relatively poor underwriting profitability. For the four public companies, loss ratios have hovered between 80% to 90% in recent years while private sector insurers performed at levels of between 50% and 70%. These numbers reflect an ever fiercer competition as more players enter the market and tariffs are being abolished.

THE BRIEF

- **In China, the market share of the 'Big 3' (PICC, CPIC and Ping An) could further erode as new providers expand**
- **In terms of the lines of business split across the region, the motor sector still dominates**
- **Financial woes suffered by some Western re/insurers will not help them to overcome 'invisible barriers' to market access**
- **Two major regulatory trends across the region: deregulation and risk-based capital**
- **However, fierce competition, driven by the abolition of tariffs and the emergence of new players, threatens to erode overall profitability in some markets**

REGULATION

On the regulatory front, there are two major trends across the region: deregulation and risk-based capital (RBC). Most regulatory authorities move from micro-regulation to consumer protection and solvency control.

For example, tariffs have been largely abolished in China, Korea and – most recently – India. In Taiwan, the withdrawal of fire tariffs has been completed, with the motor line of business expected to follow suit.

In addition, regulations on policy wordings have been loosened. Malaysia is one of the few countries where tariffs in fire and motor business still persist. Besides the detariffication of insurance markets the introduction of RBC solvency regulations is the other major development.

In Thailand, Malaysia and South Korea, RBC frameworks are under preparation or nearing implementation. Once in force, these new solvency requirements are expected to drive consolidation and strengthen risk management throughout these non-life insurance markets.

GROWTH DYNAMICS

When examining the real, inflation-adjusted growth performance of the region's non-life insurance markets since the mid 1990s it should come as no surprise to find that China leads the league table of growth – given its rapid macroeconomic development and the enormous catch-up potential of its nascent insurance markets.

India ranks second, reflecting an accelerated pace of economic growth since the 1990s when deregulation and liberalisation started to reshape large parts of its economy, including the insurance sector which saw the emergence of new, privately owned companies. Taiwan, despite being ranked fourth after Singapore has recorded negative real growth rates from 2005 to 2008, primarily driven by a shrinking manufacturing base (due to outsourcing to China), declining car sales and continued pressure on rates as loss experience has been favourable over the past few years.

Thailand, Indonesia and Hong Kong have recorded lower average growth rates which are reflective, for the former two, of the severe setback suffered in the wake of the Asian crisis in 1997. Hong Kong's moderate growth performance is attributable to an accelerating relocation of manufacturing activities to mainland China, the territory's small size which limits the number of cars, and therefore the growth prospects of motor business, as well as fierce price competition in a crowded marketplace.

In general, most countries' non-life insurance markets have grown faster than underlying GDPs, resulting in an increased insurance penetration (premiums as a share of GDP). The trend of robust growth is expected to continue as Asia's economies have proven to be impressively resilient and bouncy in the face of the global financial crisis. More specifically, increasing levels of private wealth will further boost car sales and motor insurance business. Also, the corporate sector will require more sophisticated and comprehensive insurance solutions as it evolves beyond pure manufacturing and starts to establish a foothold in non-Asian markets.

However, many markets are highly fragmented and ripe for consolidation. Fierce competition, driven by the abolition of tariffs and the emergence of new players, threatens to erode overall profitability. Further, some markets present huge, yet still largely underinsured or uninsured natural catastrophe exposures. And finally, in a number of countries there is a certain cultural negativity towards insurance as reflected in a general preference for savings-type forms of insurance, rather than pure risk transfer products.

Looking ahead, despite the weaknesses and challenges we have identified, the Asian insurance markets continue to offer tremendous opportunities. Their growth dynamics will not abate anytime soon as middle classes' prosperity keeps growing at a fast rate. ®

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