China's WTO Entry and Insurance Market Access

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1. China's Bid for WTO Membership

The World Trade Organization is an international institution that governs global trade in goods and services. Accession to the WTO requires that candidates first complete bilateral negotiations with member nations.

China has conducted an ongoing campaign for accession to the WTO for the past 13 years. In April of last year, Prime Minister Zhu Rongji visited the U.S. and brought the talks to near completion on most issues. However, talks were suspended in May following the aerial bombing of the Chinese embassy in Yugoslavia.

Meanwhile, negotiations between China and Japan were concluded in July. In their meeting, Japanese Prime Minister Keizo Obuchi expressed an optimistic stance toward the imminent market entry of a second insurance company following that of Tokio Marine & Fire Insurance Company.

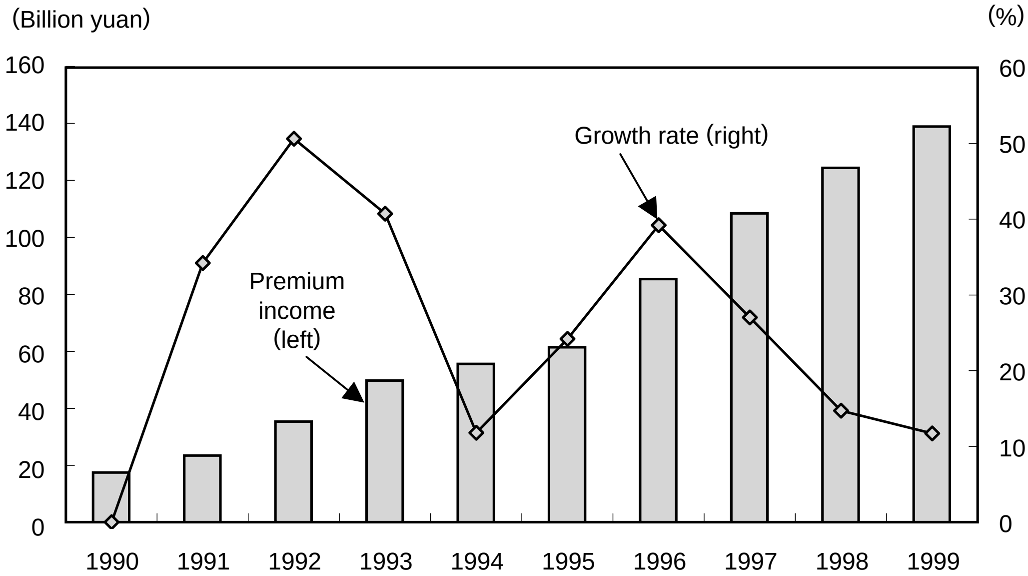
The U.S. and China resumed talks in August, and reached agreement in November. The most difficult negotiations with the European Union were successfully completed on May 19 of this year. The agreement requires China to approve the market entry of seven insurance companies within two months of signing the agreement. As of late July, two approvals have already been issued.

Moreover, on May 24, the U.S. House of Representatives passed a bill granting China permanent normal trade relations (PNTR), clearing the final hurdle to China's accession.

2. Outline of Bilateral Agreements with the U.S. and EU

Following the implementation of reforms and market opening measures, China's insurance business has grown rapidly (Figure 1). However, due to the government's strong reluctance to open the insurance market, only 16 foreign-funded insurance companies have been able to enter thus far. For this reason, the opening of the insurance market was a key issue in bilateral negotiations for WTO entry, and the U.S. and EU agreements explicitly make WTO membership conditional on market opening. Foreign insurance companies — particularly European and American companies — have patiently waited a decade to enter the Chinese market.

Figure 1 Premium Income in China



Sources: *China Statistics Yearbook; Almanac of China's Insurance*, media reports.

The major points regarding market access in the bilateral agreements with the U.S. and EU are as follows:

1. *Licensing of insurance businesses* — After gaining formal WTO membership, China must issue licenses to foreign insurance companies. There is no ceiling on the number of licenses issued. License requirements include being from a WTO member nation, having at least 30 years of business experience as an insurer, maintaining an office in China for at least two years, and having at least $5 billion in net assets as of the end of the year prior to filing an application. The reinsurance market is to be opened immediately after accession.

2. *Abolition of geographic restrictions* — Present geographic restrictions on foreign-funded life insurance and property & casualty insurance companies are to be lifted after two years in major cities, and three years nationwide.

3. *Expansion of scope of business* — After two years, foreign-funded insurers will have access to group insurance, health insurance, and old-age insurance (pension insurance). However, third-party automobile insurance (mandatory insurance) will not be opened.

4. *Joint venture ownership* — Foreign-funded insurers can select their partners and hold a maximum 50% stake in a joint venture insurance company. Foreign-funded p&c insurers can hold a maximum 51% stake, and can establish a wholly owned subsidiary within two years.

3. Reaction of the Local Insurance Industry and the CIRC

For China's local insurance industry, the entry of foreign insurance companies has been likened to wolves knocking at the door. A vice president of a major insurance company complains, "When foreign insurance companies enter the Chinese market, they will raid Chinese companies and lure the good employees away with attractive compensation packages and working conditions. The situation will deteriorate after WTO membership." This view is typical of the strong resistance among Chinese toward the entry of foreign insurance companies.

To ease the impact of the foreign invasion, Chinese insurance companies are preparing by adding branch offices, forming alliances with domestic financial institutions, and pursuing tie-ups (joint ventures) with foreign insurance companies.

Meanwhile, the China Insurance Regulatory Commission (CIRC) is also taking steps. First, it is strengthening its supervisory capabilities by establishing offices in Beijing, Shanghai, and Gangzhou. Second, it is urgently preparing the legal framework by revising the Management Regulations for Insurance Companies, and drafting new laws including Management Regulations for Foreign Insurance Companies, Management Regulations for Foreign Owned and Sino-Foreign Joint Venture Insurance Companies, and the Actuary Law. Examinations for insurance representatives have also been doubled. In addition, the CIRC has shown it will take a hard line as industry watchdog. Recently, the offices of two U.S. companies and one Hong Kong company were ordered closed for failure to submit address change forms, annual statements, and annual company reports.

4. Issues Awaiting Japanese Insurers

Japanese insurance companies entering China can expect to encounter intense competition. In addition to Chinese insurers, they will face tough foreign competition from Europe, the U.S., Taiwan, Hong Kong, and Korea. Moreover, the following two issues will arise.

1. *Competition for human resources* — Competition to hire and retain insurance specialists from the limited pool will heat up. Compensation levels are already rising, and labor mobility is increasing as people jump between jobs. As a result, Japanese insurers will need to fill their needs not only in the labor market, but through training & development and localization.

2. *Asset management issues* — Since investment alternatives for insurance assets are limited to bank deposits, government bonds, financial bonds, and corporate bonds designated by the CIRC, a reduction in bank deposit rates significantly impacts the assumed interest rates of insurance companies (Figure 2). In this environment, asset management is a major issue.

Figure 2 Reduction of Deposit Rates and Their Effect on Assumed Interest Rates

Rate cut	Date	1-year deposit rate	Assumed rate of interest
1	May 11, 1996	9.18 %	At least 9%
2	Aug. 23, 1996	7.47 %	8% - 9%
3	Oct. 23, 1997	5.67 %	4% - 6.5% (adjusted Dec. 1)
4	Mar. 25, 1998	5.22 %	4% - 6.5%
5	Jul. 1, 1998	4.77 %	Approx. 5%
6	Dec. 7, 1998	3.78 %	5%
7	Jun. 10, 1999	2.25 %	2.5%

Source: Media reports

5. Prospects for the Insurance Market After Opening

After China's WTO entry, China will undergo a renewed foreign investment boom as opportunities expand in the insurance business and foreign companies enter the insurance market with greater ease. At the same time, competition will reach intense levels, causing some companies to go out of business. Thus measures are needed not only to develop the market, but to protect consumers from the coming turbulent conditions.