Current Situation, Problems and Countermeasures of China's Insurance Industry

Xinpei Wang *

Faculty of Data Science, City University of Macau, Macau, China

*Corresponding author: T20090105779@cityu.mo

Abstract. Insurance is a contractual economic relationship, an effective way to plan for risk and an important pillar of the financial system and the social security system. This article introduces the basic overview of Chinese insurance industry: the scale of insurance premium and the number of market players, insurance depth and insurance density, loss ratio and expense rate, claim timeliness and payout rates. And point out the difficulties meet by the insurance industry at this stage of development: difficulty to make new customers, Employees slumped, Industry losses public trust, the quality of employees is low. Then analyze the reason behind these problems. About four problems mentioned earlier, this article proposes countermeasures to solve the dilemma of Chinese insurance industry from many aspects such as employment mechanism, laws and regulations, and mass public.

Keywords: Insurance Industry; China; Law.

1. Introduction

With nearly ten years of rapid development, China's insurance industry has become the world's second largest insurance market and contains great potential even if it still has a certain gap with insurance industry in Western developed countries. the insurance industry is facing many problems and dilemmas affected by many factors in recently years, so the industry needs continuous improvement. This article discuss and analyze development status and existing problems of Chinese insurance industry and hopes to put forward some effective development suggestions.

2. Present Situation

'The scale of insurance premium and the number of market players', 'insurance depth and insurance density', 'loss ratio and expense rate' and 'Claim timeliness and payout rates' all are important indicators to measure the market vitality of a country or region's insurance industry. So, this article will evaluate the development status of Chinese insurance industry from these four aspects.

2.1 Scale of Insurance Premium and the Number of Market Players

Table 1. National Insurance Premium Income Statement

Attribute	Total	property insurance	life insurance	accident insurance	health insurance
2010	14528	3896	9680	275	677
2011	14229	4618	8696	334	692
2012	15488	5331	8908	386	863
2013	17222	6212	9425	461	1123
2014	20235	7203	10902	543	1587
2015	24283	7995	13241	636	2410
2016	30959	8724	17442	750	4042
2017	36581	9835	21456	901	4389
2018	38017	10770	20723	1076	5448
2019	42645	11649	22754	1175	7066
2020	45257	11929	23982	1174	8173
2021	44900	11671	23572	1210	8447

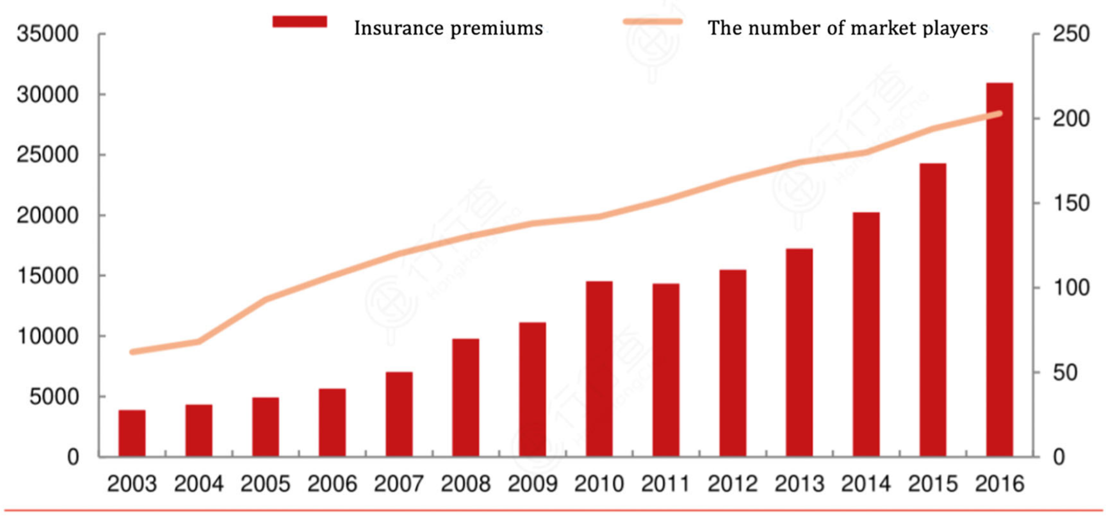

Fig. 1 The number of premium income and institutions in China

According to data from China Banking and Insurance Regulatory Commission (Table 1), as of 2021 the insurance premium income in various parts of China reached 4,490 billion yuan, ranking second in the world. In the past twelve years, the average annual growth rate of insurance fee nationwide has been 17.4, although there have a little of fluctuations, but it is basically maintained year by year. And the categories of property insurance, life insurance, accident insurance, and health insurance all continue to grow, so that a rapid increase in Chinese total insurance premium income, which has tripled in just ten years. The bar chart in Figure 1 gives a clearer view of the increase in insurance premium income. At the same time, we can also see that the number of institutions in Chinese insurance industry is growing year by year with a rapid and stable trend.

It can be seen from Chinese rapidly growing insurance premium that Chinese insurance industry have huge potential value and there are still unlimited possibilities in the future.

2.2 Insurance Depth and Insurance Density

Insurance depth is percentage of premium income to gross domestic product (GDP) in one place, which used to reflect the important position of insurance business in the entire national economy and depends on the overall level of economic development of a country and the development speed of the insurance industry. Insurance density is the amount of the average premium for the resident population in one place, which marks the degree of development of insurance business in the region, and also reflects the economic development of the region and the strength of people's insurance awareness.

As of 2019, the insurance depth in China was 4.3% increased by 1.3 percentage points compared with 3.0% in 2011, and the average annual growth rate was 5.4% (Figure 2). There were a little of fluctuations in 2018, but the overall insurance depth has shown an upward trend in the past decade. The increasing insurance depth show that the insurance industry is growing in the national economy. Looking at the insurance industry in the global and China from 2003 to 2016 (Figure 3). It can be seen that the insurance depth in China is floating rises while the global insurance depth continues to decline slightly, which can also show that China's insurance industry is developing rapidly and gradually showing its potential to people. However, there is still a big gap compared with the developed countries in the West and it’s even on the way to catch up with the world average insurance depth.

Taking the insurance depth data of major countries and regions in the world in 2018 as an example (Figure 4), Chinese mainland only has about half of the level of Japanese French insurance depth, which is nearly two percentage points away from the world average, and the insurance depth of Taiwan is even close to five times that of the mainland. As of 2019, the insurance density in China was 3051.6yuan/person increased by about two thousand yuan/person compared with

1062yuan/person in 2011, and the average annual growth rate was 23.4%. It can be seen that Chinese insurance density was stable and rapidly rising, which represents the market development of Chinese insurance industry is getting better and better. However, Chinese insurance industry still has a long way to go compared with insurance density developed countries. Taking the data collected by SwissRe in 2019 as an example (Figure 5), we can see that China's insurance density is 121.2 dollars / person, which is about fifty times the gap between developed countries, such as Switzerland (6257.6dollars/person), Holland (6554.6dollars/person), and even the gap is still four times the global average (595.1dollars/person).

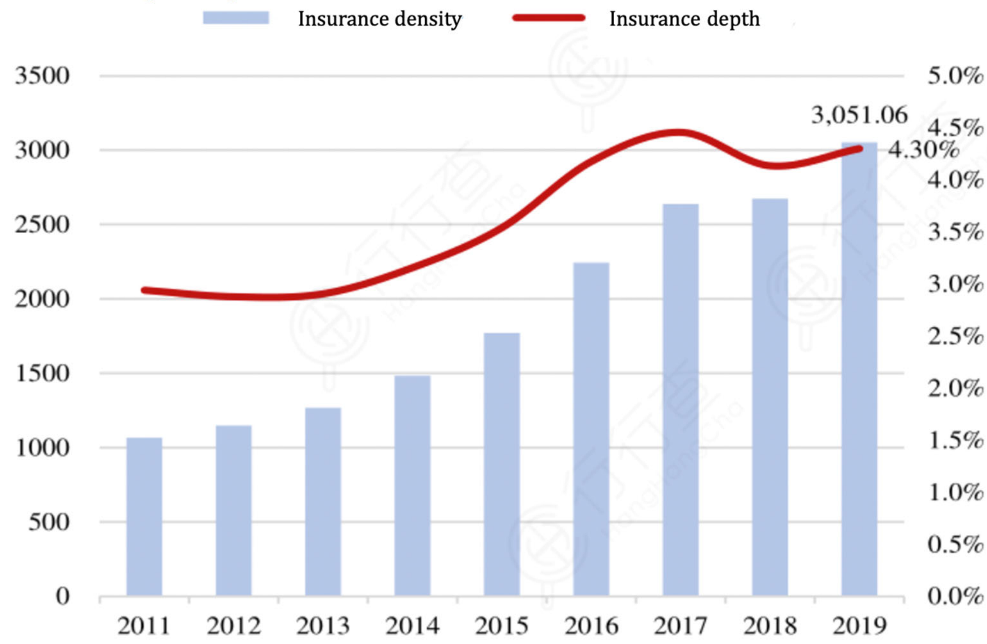

Fig. 2 Insurance density and insurance depth in China

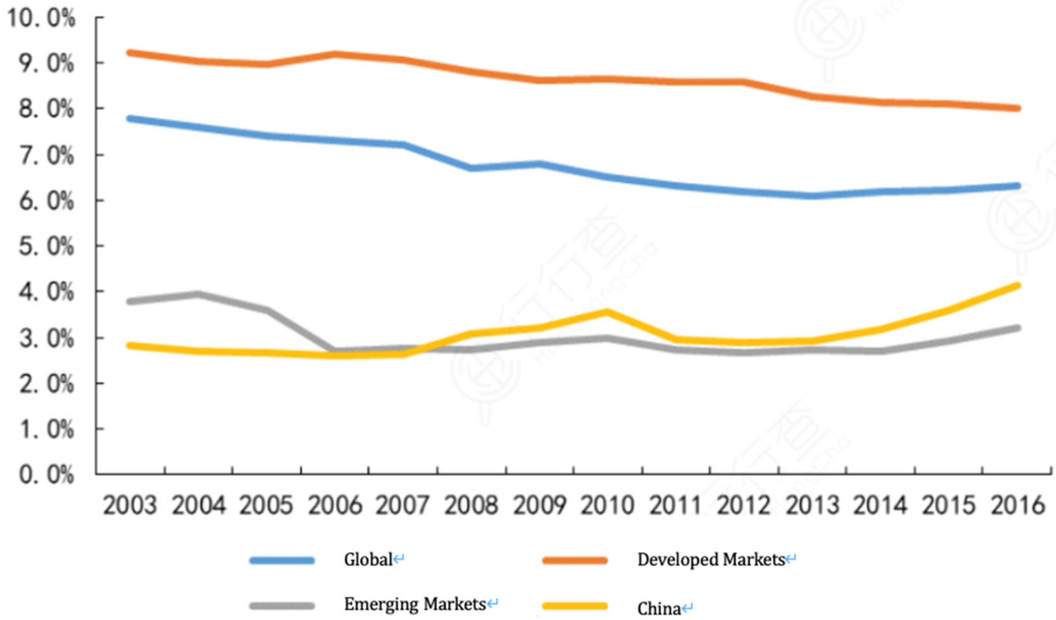

Fig. 3 Comparison of insurance depth in China and globally

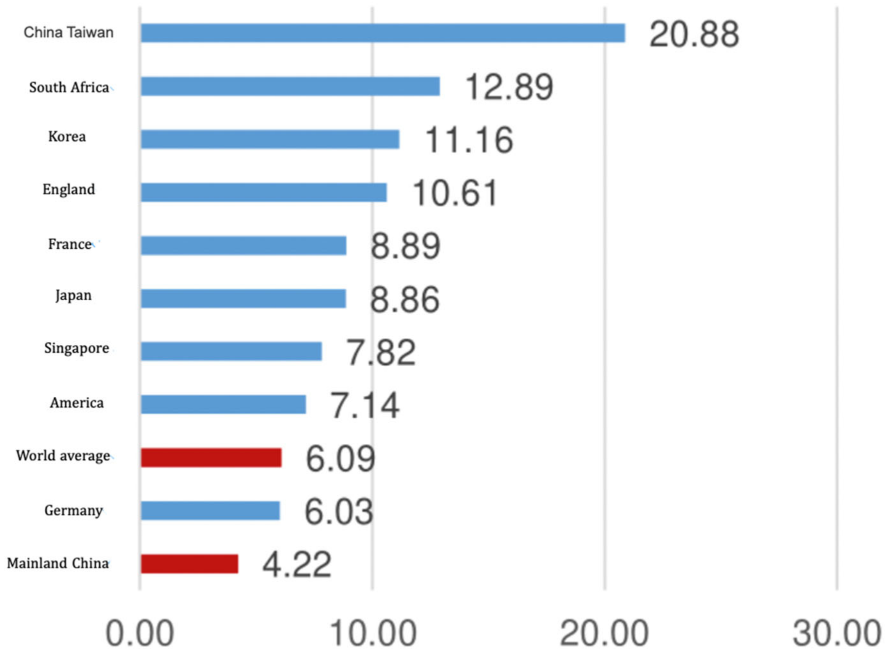

Fig. 4 Insurance depth in major countries(region)around the world in 2018

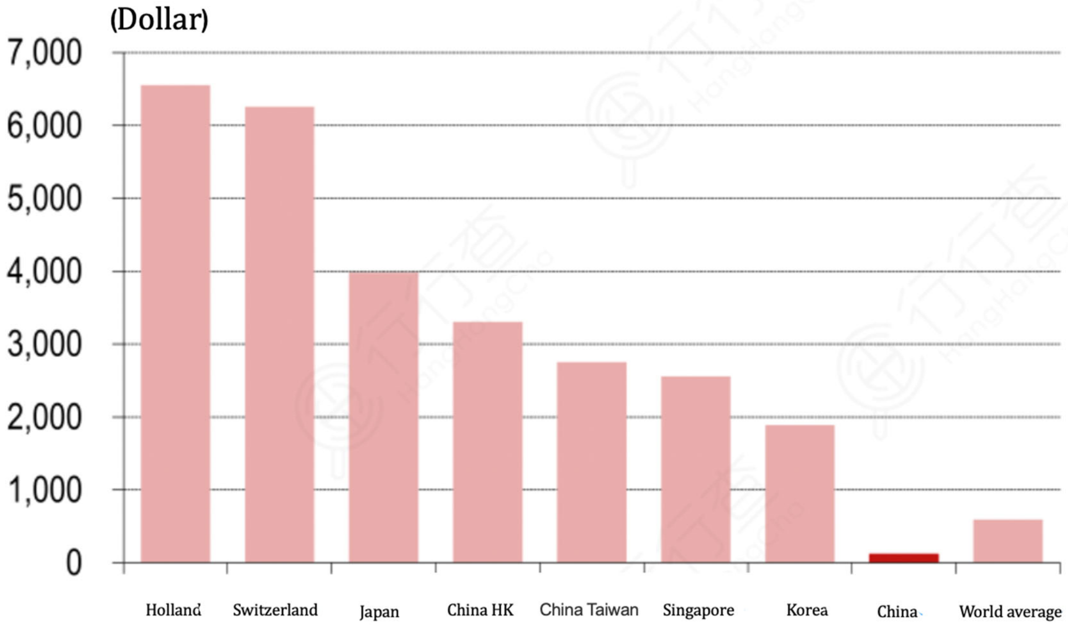

Fig. 5 Insurance density in major countries(region)around the world in 2019

2.3 Loss Ratio and Expense Rate

Loss ratio is percentage of indemnity expenses to premium income in a certain accounting period. Expense rate is percentage of insurance operating expenses to insurance premiums.

It can be seen from the data in the Figure 6, the loss rate and expense rate of each insurance company are basically the same fluctuation trend. Among them, the loss rate has been fluctuating between 55% and 70%. After 2018, the loss rate began to rise steadily, and at the same time, the expense rate began to decline sharply.

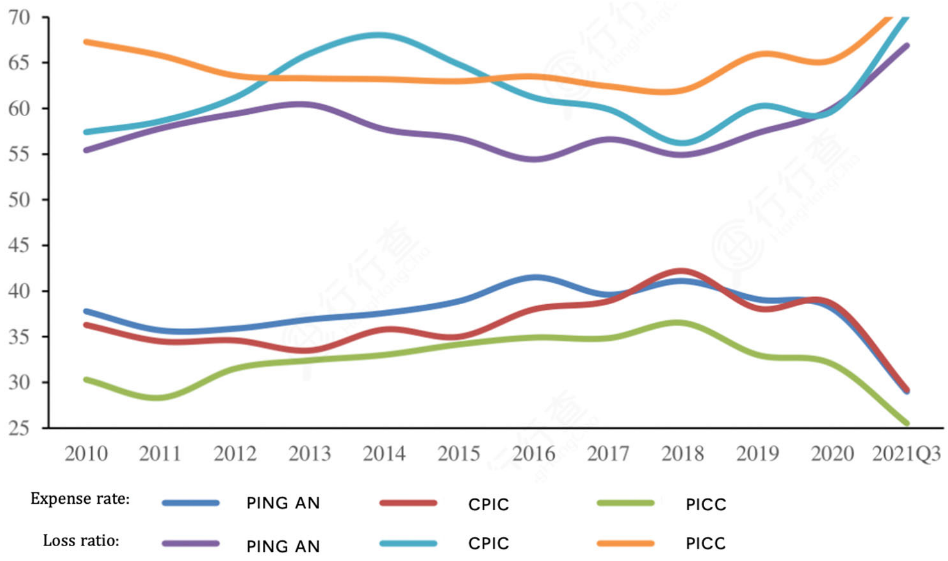

Figure 6 Expense rate and Loss ratio in Chinese major companies

2.4 Claim Timeliness and Compensation Rates

According to the report of China's insurance companies in 2019, the compensation rate of each insurance company basically exceeds 97%, and even many companies have a compensation rate of more than 99%. The Claim timeliness is basically within two days, even the same day the information is submitted can obtain the claim at some insurance companies.

3. Problem

3.1 Difficult to Make New Customers

With shortcomings such as unstable insurance quality, many kinds of financial traps fraud on internet and so on exposed to the public, people lose trust in insurance industry. And most of insurance industry practitioners prefer to promote insurance to their relatives or friends depend on the trust which was existed between them. Although the success rate higher, people more detest insurance industry. And the number of relatives and friends of one person is limited, so his work scope will be saturated and hard to develop the next step when he finishes these insurance policies. The total number of insurance policies is increasing, but it’s piles up with a large population base. It's very difficult to develop new customers in China, if we do not change this situation.

3.2 Employees Slumped

According to data from China Banking and Insurance Regulatory Commission, as of June 30th, 2022, the number of sales representatives who are engaged in insurance industry and registered in books is 5.71 million. It’s unbelievable that the number of employees decreased by 4 million compared with the peak number 9.73 million in 2019. Now, the young people don’t be willing to enter insurance industry and the average educational background of the employed gradually decreases. The first reason is that insurance industry has bad reputation low social goodwill so that the person engaged in insurance industry is disadvantaged. The second reason is that average wages in insurance industry are often linked to the number of one’s insurance policies, with a large proportion of performance and a little proportion of baes salary so that employees lack of sense of security and belonging. The third reason is that people have little understanding and recognition of policies’ functions that’s why the business promotion of this industry really exist a little of difficulty. According to the survey results of the Development Research Center of the State Council, most family have only a general understanding of insurance knowledge. It’s show that only 6% families think they know more about insurance, while 36% families consider they know little or nothing about the insurance industry. Similarly, masses know very little about the services or insurance products offered by insurance companies. The information between the employees and customers is not equal when they communicate so that waste time and energy for employees to explain.

3.3 Public Trust

With the rapid development of the Internet and the impact of e-commerce mode, insurance industry began to run online business to keep in step with the times, such as Alipay WeChat Cloud Flash and other diversified trading means. However, the rampant online fraud and financial traps have caused the masses to lose trust in the insurance industry, unwilling to contact, and even refuse to communicate with Insurance industry employees. For example, insurance technology is a new thing in this industry, which have a broad space for application but loss the relevant laws. What's more, the insurance industry has, short-term stimulus, product speculation and other business models in past, resulting in data fraud, sale misguidance, drilling holes in legal loopholes and unable to settle claims in the late stage of problems. These behaviors have caused serious damage to the industry ecology and overdrawn the trust of consumers. In addition, this industry exists survival bias phenomenon. The more insurance contracts are rejected, the more complex claims disputes, the more likely it is to be widely concerned by netizens, and most of the insurance contracts for normal and rapid claims are unknown. So that people subconsciously think that insurance contracts are mostly false, have many traps and follow-up claims are really difficult to get the illusion, so that the industry has lost customer trust.

3.4 The Quality of Employees

The first reason is that the insurance industry has a low entry threshold and low requirements for professional knowledge. Employees have a good salary as long as they can sell out insurance contracts. In fact, the interpretation of insurance products requires a certain amount of expertise, such as the statement of the disclaimer, the determination of the specific claim amount requires the support of certain professional knowledge. The low entry threshold and the lack of expertise makes it difficult for practitioners to effectively introduce products in a complete way, causing consumers to misunderstand. These problems are the causes of subsequent claims disputes. The second reason is that insurance companies generally measure the level of employees by the number of insurance contracts signed. At the same time, the masses lack insurance industry basics knowledge and are susceptible by salesperson recommendations. Different salespeople have different emphases when they promote insurance policies. Some people be willing to emphasize the scope of protection and preferential points, and some people be willing to emphasize the service conditions and disclaimers. Obviously, the latter have more work ethic. But in real life, masses tend to react for incentive and most people are more inclined to spend on impulses so that the former tend to sell better. As a result, the insurance market will be left with some opportunistic people, which makes the average quality of insurance industry practitioners decline.

The insurance industry situation in China does not bode well for the future, and there are too many problems. To continue to develop the national economy, China must take corresponding methods for the insurance industry.

4. Solutions

4.1 Advice for Difficulty to Make New Customers

At first, we need reinvent the insurance industry with integrity so that it is truly based on honest. Trust is an intangible asset of the insurance industry, which the insurance industry really relies on for survival. If it is lost, the foundations of the insurance industry will no longer exist.

At second, we need pay attention to sustainable development, and change development model and working mode of industry. Considering about customer requirement, promote the insurance industry into a long-term, healthy and sustainable development process. As the current public pays more and more attention to personalization, sustainability and specialization, the future insurance industry should help customers to personalize the design of a set of integrated solutions to replace relying on human feelings to pay or product speculation sales modes.

At the same time, the masses should correct their cognition and attitude towards insurance, try to operate within the scope of norms, do not easily covet small profits, and do not give opportunities to traps.

4.2 Advice for Employees Slumped

Employees slumped problem is related to evaluation in society about insurance industry. Improving the enterprise mechanism and recovering the society's bad assessment of the insurance industry is actually a remedy for the loss of employees. At the same time, companies should pay attention to guarantee the basic salary and benefits of employees to guarantee their basic standard of living. For example, increase employee's base salary or reduce the proportion of performance to enhancing employees' sense of belonging and security. What's more, insurance industry not only does the number of insurance policies to determine the salary of employees, but also the ability to customize a satisfactory insurance portfolio for customers in communication can also be included in the fluctuation factor of employee wages. Gain respect in both-way communication and enhance employees' goodwill and interest in their work.

4.3 Advice for Industry Losses Public Trust

At first, the supervision department strength the recognition of regulatory rules by digital technology to narrow the error between the purpose of regulation and the actual operation. It will prevent insurance companies from exploiting loopholes in the rules and not being responsible after receiving money. Second, under the context of "Internet +", we need attach importance to Build a secure, transparent and trusting trading environment and prevent data leakage when data involving personal privacy is applied and disseminated many times. In addition, customer privacy data needs to be listed as the industry's "waring line" when insurance industry keeping up with the trend. On the one hand is the inviolability of personal data privacy, on the other hand is the change and creation promoted by big data so that we must find the balance of develop by control with two sides. The third, related department must improve laws and regulations about emerging technology in insurance industry as soon as possible to promote accountability and prevent unfair and irregular situations so that increase people's sense of security.

4.4 Advice for the Low Quality of Employees

Firstly, strengthen the entry threshold for insurance industry employees. The relevant regulatory authorities can extension the qualification examination for those engaged in the insurance industry to increase the difficulty of entry [10]. Through this fair examination method screening of employees, so that it increases the learning of participants' relevant knowledge and truly capable people would go to their matching positions to sell products. Secondly, carrying out public welfare lectures for residents to popularize insurance knowledge, so that people can more rationally choose the suitable products when buying insurance policies and better protect themselves rights and interests. And at the same time, fewer disputes arising from claims settlement will retain more conscientious and diligent practitioners, so that promote the insurance industry healthy development in the future.

5. Conclusion

With the continuous development of China's economy in recent years, the insurance industry as an essential industry for the development of people's lives and the real economy has also continued to develop, but there is still a gap between itself and developed countries. We must pay attention to the problems encountered in development, explore the reasons behind them, combine the current economic situation and public demand, find solutions to actively respond. The trust in the near future, China's insurance industry will burst out a strong momentum of development.

References

[1] Xie J., Zhao Z.H., Guan W. Research on the Development Status, Dilemma and Optimization Suggestions of Guarantee Insurance in China. Financial Theory and Practice, 2022 (06): 83-92.

[2] Sheng M. Economic Analysis of Insurance Consumption Choice Behavior in China. Economic Science Press, 2008.

[3] Sun X.T., Fang Y.X. Development Issues and Coping Strategies of Insurance Industry. Modern Marketing, 2020 (12): 120-121.

[4] Qiu B. China's insurance industry: Status Quo and Future Developments. Journal of Finance and Economics, 2002, (06): 31-36.

[5] Li J.B. Potential Manifestations and Prevention Suggestions of Systemic Risks in China's Insurance Industry. Financial Theory and Practice, 2018, (12): 97-102.

[6] Li Q, Wu Y, Marshall A, et al. Enterprise risk management and firm value within China's insurance industry. Acta Commercii, 2014, 14(1): 1-10.

[7] Lu W M, Wang W K, Kweh Q L. Intellectual capital and performance in the Chinese life insurance industry. Omega, 2014, 42(1): 65-74.

[8] Shi G, Bu H, Ping Y, et al. Customer relationship investment and relationship strength: evidence from insurance industry in China. Journal of Services Marketing, 2016.

[9] Li T, Li M. An empirical analysis of the factors influencing the development of insurance industry in China. SAGE Open, 2020, 10(4): 2158244020971593.

[10] Huang W, Eling M. An efficiency comparison of the non-life insurance industry in the BRIC countries. European Journal of Operational Research, 2013, 226(3): 577-591.