

Asian Insurance Focus: India & China

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New Delhi, 29th August 2008: Globalization is the key source which is bringing about an "irreversible transformation" in the Asian insurance market. India and China are "dynamically" driving the growth of insurance markets in Asia. This process has been expedited by the "soothing impact" of the Asian financial crisis on reform resistance and its contribution towards acceleration of change, including deregulation, particularly "on the back of gradual opening up of two of the most important growth markets - China and India," says the study conducted by Swiss Re, one of the world's leading reinsurers.

Asia is becoming an important growth engine for global insurers due to the changing socio-economic dynamics. According to a latest research report from HSBC, in order to be long-term winners, life insurance companies in Asia need to diversify their income streams such that at least 25% of earnings are sourced overseas, while maintaining a dominant position in the domestic market.

Many Asian financial services companies have exceeded the overall growth rate for their domestic economies and are therefore looking to expand globally or invest their shares in new markets. Another trend predicted by PwC, was that intra-Asian trade would continue to increase, particularly as the West decreased its investment in this region. The increasing wealth and educational development in Asia, has built a good foundation for the development of financial services.

China is the major hand behind the dynamic growth in the Asian insurance sector. Being the world's largest untapped insurance market, it has the GDP growth of over 10% per annum, rapid economic development and a burgeoning consumer class. It has been the fastest-growing nation for the past quarter of a century, and its economy is the 4th largest in the world after the US, Japan and Germany, with a nominal GDP of US\$3.42 trillion (2007) when measured in exchange-rate terms. Several factors like China's aging population; high savings rate and poor social security systems as well as an increasing number of wealthy consumers segment, are responsible for this astounding level of growth.

However, India has also significantly contributed towards the development of the insurance sector in Asia. Indian economy is the 12th largest in the world, with a GDP of \$1.25 trillion and 3rd largest in terms of purchasing power parity. With factors like a stable 8-9 per cent annual growth, rising foreign exchange reserves, a booming capital market and a rapidly expanding FDI inflows, it is on the fulcrum of an ever increasing growth curve. Between 2000 and 2007, it had an increase of 120% and reached \$47.89 billion, and the CAGR growth during this time frame has been 11.96%. It was one of the most consistent growth patterns that the Knowledge Centre has noticed in any other emerging economies in Asian as well as Global markets.

Market Performance:

Asia is becoming a major player with four Chinese financial services companies listed among the top 21 global companies last year by market capitalisation.

In the recent times, China has moved ahead of the Indian insurance sector. India opened the market to private players in 2000 while China did that a decade earlier. Apart from India and China, which are putting Asia on a global scale, other countries like Japan and Hong Kong are also increasingly diversifying their insurance sectors. Japan is home to some of the largest Asian insurers, and has an urgent desire to expand its client portfolio across the region. The insurance sector in this region has seen Western financial services companies compete for Asian assets. However, regional companies – especially from Japan and China – are expected to become more dominant in this market over the next few years. In the year 2007, Hong Kong saw the greatest amount of M&A transactions in their insurance sector. Due to globalization, deregulation, and terrorist attacks, the insurance industry has gone through a tremendous transformation over the past decade.

Competitive Landscape:

Some of the largest US, Japanese and French insurers focus exclusively on their home markets. However, multi-national groups who have 'international' businesses almost invariably have operations in the Asia-Pacific region, if only because of the size and growth potential of many of the national markets.

Under the Life Insurance Sector, AIG is the biggest in Asia, in terms of country presence and premiums. ING comes second by premiums. However, globally, Prudential tops the list, being the most dependent on the region.

Among the non-life insurance cos., regional player Mitsui Sumitomo, leads the property and casualty side.

Major Driving Factors:

- => Globalization
- => Deregulation which is opening up the markets
- => Cheaper and more effective distribution channels
- => Ongoing industry consolidation
- => Increment in the policy holder firms
- => Boost in Merger and Acquisitions activities
- => Changing socio-economic dynamics
- => Market offering wider margins
- => Unique combination of size, age profile and growth prospects
- => Many more..

Major Issues, Trends and Opportunities

- => Continuous increment in intra-Asian trade
- => Need for diversification in the income streams
- => Rise in selling investment type products like annuities
- => Chance to compete directly with financial services companies
- => Focus on paying out more in claims
- => Drastic increment in marine and cargo insurance sectors
- => Developments in countries, who were closely regulated by their government
- => Lack of proper agent quality
- => Change in the distribution method
- => Difficulties in building networks and brands
- => Hindrance in expansion in some of the emerging markets
- => Risk management concerns in insurance companies
- => Global Expansion
- => Transformation in the organizational system to win customer loyalty
- => Weak equity markets
- => Impact of sub-prime
- => Regulatory and market obstacles in the emerging markets

Topics covered in the report

- => Overview of the Asian Insurance Sector
- => Trends analysis of the Asian economy
- => Asia's economic presence as compared to other countries
- => Trend analysis of Chinese economy & macroeconomic factors contributing to the growth of the sector
- => Market performance and forecast of insurance sector (total, life & non-life) since 1996 till 2007
- => Key issues & challenges, major trends & opportunities in the Chinese insurance sector
- => China's position in the context of emerging countries, and driving factors
- => Company profiles of the top players in China
- => Trend analysis of Indian economy and growing macroeconomic trends
- => Market overview, performance & forecast (total, life & non-life) since 2000 till 2011
- => Growth drivers, key issues, challenges, major trends & opportunities in the Indian insurance sector

- => Government's initiatives to promote & regulate the insurance market
- => India's position in the context of emerging countries
- => Company profiles of the top players in India

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