Waking Tiger

With 59 million people online, China's e-commerce potential is enormous for insurers.

by J. Tim Query and Zhentu Jin

The Internet and its soaring use in China are creating a promise of great growth for the insurance industry. E-commerce is the engine driving the globalization and convergence of various facets of China's financial-services industry. The recent addition of China, the world's most populous nation, to the World Trade Organization also is fueling potential business for insurers.

The rapid expansion of technology and Internet use in China is impressive. The number of registered Internet accounts at the end of 2001 was 15.91 million, an increase of 1.06 million accounts from the previous year. According to the University of Southern California's Annenberg School of Communication, 59 million people use the Internet in China.

And future growth potential also is impressive because fewer than 3% of Chinese are currently connected online, but the number of Internet users in China was nearly 42 times greater at mid-2001 than it was at the end of October 1997. A particularly interesting statistic is the increasing growth in Internet use among females. Nearly 98% of Internet users in China in 1997 were males, but by mid-2001, females comprised almost 40% of the Chinese using the Internet. Two-thirds of Internet surfers are under age 30, which is comparable to other countries and bodes well for the future comfort level of using the Internet as a tool to plan for and purchase insurance products and services.

The Chinese also are increasing investments in telecommunications. From January to November 2001, the total capital expenditure on telecommunications was 19.79 billion yuan, or about US$2.3 billion, a 54% increase from a year earlier. Most of this investment involved the expansion of Internet capacity for broadband access to Internet users, according to information released by the Xinhua News Agency.

China is expected to become the world's second-largest personal computer market by 2006, according to a study by CCID Consulting Co. Ltd. The study also reveals that shipments of personal computers to China are surpassing shipments to Japan. Dell Computers receives 40% of its orders from China online. China has the seventh greatest number of weekly Internet users, and is the third largest market for total Internet use. The number of computers in use within China ranks sixth in the world, and 2002 forecasts expect...
China to surpass France in this ranking shortly.

**Regulating Insurance on the 'Net**

The China Insurance Regulatory Commission, the supervisory body of the insurance industry, was established in 1998. CIRC is an independent commission subordinate to the State Council. Most of the same issues facing state and federal insurance regulators in other countries regarding e-commerce regulation, such as agent licensing, rate and form filing, company licensing, technical issues, electronic signatures and digital fingerprinting, are on the agenda in China. Regulators already appreciate the Internet’s usefulness in effectively regulating and monitoring business practices of the 800,000 insurance agents in China.

China is also developing new laws to govern telecommunications. Early indications suggest that membership in the WTO is providing an impetus for change. After joining the WTO, the Ministry of Information issued more regulations concerning Internet commerce in December 2001 than in the preceding 11 months. According to the Ministry of Information, the “Telecommunication Law” will use the experiences of both domestic and international practices. As the first law of its kind in China, it will abolish all rules and regulations that are in conflict with the WTO agreements, according to a Xinhua News Agency report.

Payment systems remain a major bottleneck for e-commerce development in China. Chinese are not permitted to use personal checks, and the credit-card business follows a different system than it does in the United States. Although the Central Bank of China started developing the credit payment authorization project in 1998, there has been little discussion of further development of the payment system.

**Putting the Internet to Work**

The China Insurance Information Network, the first insurance information network in the country, was founded in 1997. It was renamed the China Insurance Network in July 2001 and underwent numerous transformations from its original intention to maintain a Web site for insurance agents and to profit from membership fees. Xinhua Life Insurance Co. is credited with issuing the first insurance policy via the Web in China in 1997, according to Asia Pulse. The transaction involved the customer sending an e-mail to the Web master, with a subsequent face-to-face follow-up by the company’s agents.

As evidence began mounting in 2000 that China would eventually become a member of WTO, domestic insurance companies began developing Web sites to compete for leadership in this area. Perhaps the most significant period in the Chinese insurance industry’s brief online history occurred in August 2000. During
that month, Ping An launched its PA18.com online division, which provides comprehensive financial services; Tai Ping Yan Insurance Co. started its Electronic Commerce Web site, and Tai Kang Insurance started its Tai Kang Online.

Consortiums Form
Various specialized insurance consortiums and joint ventures are starting to increase, as well. Asia Pulse reported that in January 2001 Rawmart.com launched the first online insurance quotation system in Asia for the raw material market. This service offers coverage for marine hull and cargo protection and indemnity by providing quotes to members of the Raw Mart exchange. In late 2000, Quamnet.com entered into a strategic partnership with Speedinsure to launch the Quamnet-Speedinsure Center. The center provides customers with a comprehensive comparison of insurance policy terms and premiums for 13 insurers. This one-stop shop provides instant quotations and coverage for nine products.

Basic Coverage
In January 2001, SOHU.com, China’s largest Internet portal, entered into a co-branding agreement with Ping An Insurance Co. to provide online access to the most up-to-date insurance and financial planning services. China Online reported that in April 2002, Legend Holdings, the largest property/casualty manufacturer in China, paid nearly US$3 million for Zhiruan Corp., a company engaged in the development of software for the insurance industry.

Currently, most insurance products sold online in China are simple policies that require little information and verification. They include travel insurance, various forms of accident insurance, term life insurance and basic types of annuities. Two major life insurance companies in China—China Life Insurance and Taibao Insurance—recently signed contracts with online service providers to sell airline accident insurance policies. Other coverages with limited but expanding availability online include household comprehensive insurance, individual residence insurance, computer insurance, business property insurance, motor vehicle insurance and air cargo insurance.

Similar to insurance structures in other countries, some insurers in China are primarily life and health insurers, some are primarily property/casualty insurers and others are involved in both segments of risk transfer. About half of the insurer Web sites have the capability to allow online purchases of insurance. Of the China insurance firms in this sample, 64% provide a copy of the insurance policy at their Web site, while 36% offer a multilingual version of their Web site.

Growing Pains
Both the insurance industry and Internet usage in China are full of potential. While the insurance industry in China may be considered in the early stages of its formative years, it is possible to draw some conclusions about how domestic insurers are incorporating the Internet into their distribution systems.

Regulation of a rapidly changing technological foundation customarily involves playing catch-up for a period of time, as unforeseen complications arise. No country is immune to the challenge of providing regulatory intervention that facilitates fair trade without materially impeding economic growth. Currently, there is no mature standard for electronic data interchange in China, and the sharing of information among industries via Extranet is nearly impossible. The exchange of information between insurance companies and other industries, however, is crucial for the success of online insurance.