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UNLOCKING THE 45 TRILLION YUAN POTENTIAL

The future of China's Life Insurance Market

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IN BRIEF

Headwinds have been observed in China's life insurance industry in recent years with growth in Gross Written Premium (GWP) slowed down to single digits and First Year Premium (FYP) dropped for three years in a row. This has given rise to questions if China's life insurance market is saturated, and if not, what prerequisites it will take to regain momentum. This report aims to address the questions by analysing the long-term potential of the industry, demystifying misperceptions and short-term challenges faced by the industry, while bringing forward the reform agenda for the industry to achieve the long-term potential.

Long-term potential: Based on a set of peer comparisons across Asian markets, at a mature stage, China's life insurance market can be expected to reach 11%-13% penetration rate, expressed in premium/disposable income; drawing from the experience in other matured markets, one can expect that China's life insurance market will enter into an accelerated growth stage when disposable income per capita hits the US$7,000-10,000 range. The anticipated growth rate will reach up to 13% annually, sending the market to become the world's largest in size by 2030, and tripling that of the US by early 2040s. Supporting the growth, medical insurance, pension & annuities, and term / whole life products present the biggest opportunity set.

Market misperceptions and short-term challenges: With technology disrupting various 2C sectors, many believe that digital enablement can be the silver bullet to the life insurance industry and the traditional headcount-based agency model will no longer work. To understand the issues more thoroughly, a primary research has been conducted covering 12,000 life policyholders and agents from twelve firms. The results of the study point towards a different yet nuanced direction. Digital channel and tools are only the means while agent empowerment and reform will be required. Life insurance will remain a "people business" while the original "mass-in-mass-out" tied agency model is no longer sustainable to serve the target customer segments, i.e. middle class and above, of the China's life insurance industry. High quality agents are called for and the roll-out of digital tools is only the first step in the reform process while what is more urgent is the enablement impact such tools can create and the behaviour changes that follow afterwards.

Reform initiatives: To address the short-term challenges and seize the long-term opportunities, a customer-centric model should be adopted to link customer profile & needs, product sales & service delivery channels, and insurance ecosystem offerings together. At the heart of the model is a mindset change from focusing on product sales to fulfilling customer lifecycle needs. Adopting such a model means gradually building trust with customers in three layers: sales, products, and insurers themselves. To do so, a customer centric ecosystem will be required to bring financial, healthcare, and other needs together. Supporting the ecosystem, an agency reform is needed to build the future generations of agents. Diverse 2B2C channels should be leveraged to reach customers in the right context (bancassurance, group, or other scenario-based setting). Convenience and efficiency will be key to customers for standard products and digital channel will have its advantage.

Nonetheless, patience is required for the industry to get over with the transformation period ahead. To set the industry back on the right track of growth, both management and shareholders should show faith in the market, commit to the right initiatives, and continuously devote resources, even when there may not be immediately visible results.

EXECUTIVE SUMMARY

China's commercial insurance market has recorded exponential growth in the last 40 years. That said, the momentum has seemingly reversed in recent years, as First Year Premium (FYP) dropped for three years in a row unprecedentedly. This has give rise to questions if China's life insurance market is saturated, and if not, what it takes for the industry to regain its growth momentum to reach the long-term potential.

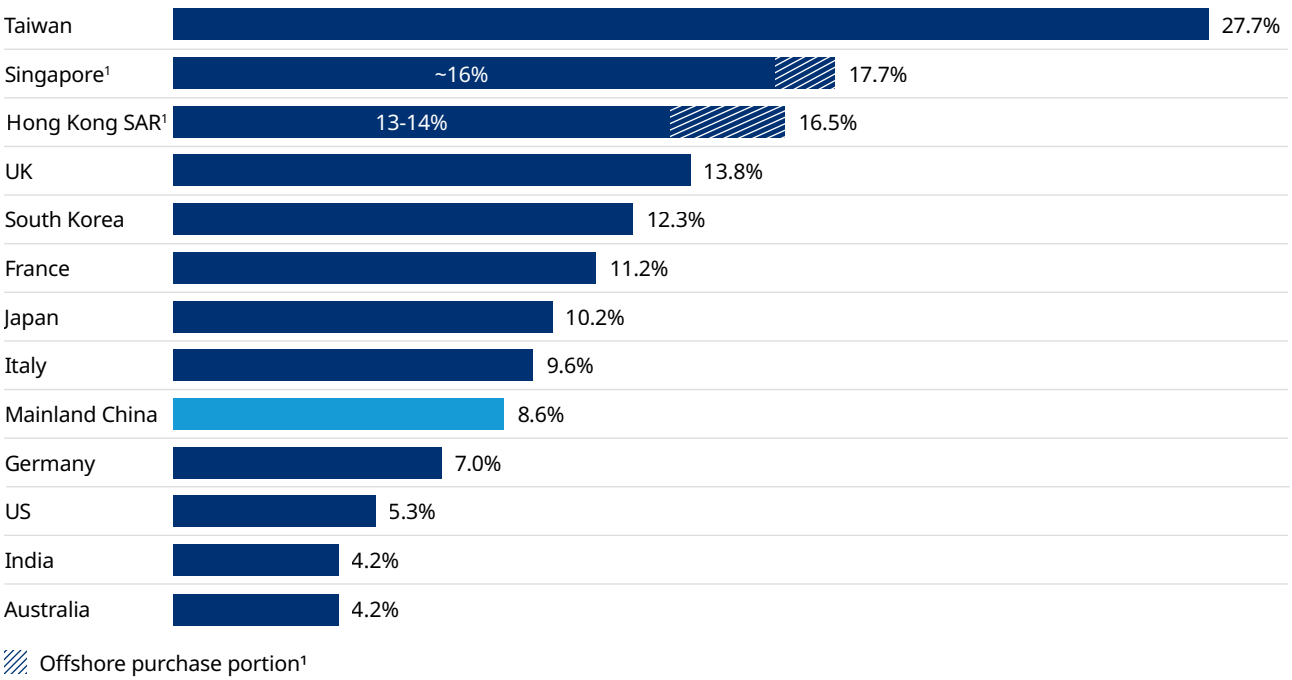
Attempting to examine these pressing questions, the report is grounded on the most comprehensive life insurance consumer survey in recent years covering 12,000 policyholders, coupled with in-depth agent interviews across twelve firms.

LONG-TERM INDUSTRY PROSPECTS

China's life insurance penetration is still low compared to the other developed Asian markets' (see exhibit 1). Despite near term slowdown, cross-market research shows that its long-term potential remains significant and will be unlocked gradually as China grows wealthier and customer awareness improves over the next three decades. With disposable income per capita expected to reach US$7,000-US$10,000 in the late 2020s and simultaneously aging population, the massive middle-class and above segments in China will become the largest life insurance customer base in the world.

Exhibit 1: China's life insurance penetration is low

Adjusted life insurance penetration, =premium/disposable income[2], 2020



1. Hong Kong and Singapore life insurance premium was split into offshore and domestic insurance purchases; 2. Disposable income ≈ total income-income tax-personal social security expenditures, to adjust for the difference in tax and social security structures across different markets.

Source: World Bank, Euromonitor, The China Banking and Insurance Regulatory Commission, National Development Council of Taiwan, Office for National Statistics

While there is never a perfectly comparable market, other Asian economies at a more mature stage can offer some foresight (see exhibit 2):

- China shares similarity with its Asian neighbours on demographics, saving attitudes, and culture elements. Rapid ageing in its population over the next 30 years combined with a long-term oriented mindset and prudent saving habit will benefit the life insurance market
- Unlike most of the European markets where the government is providing comprehensive public healthcare, public funding only accounts for 50%-60% of the bill in China, like most Asian economies. Social health insurance scheme is under pressure with the rapidly ageing population. This calls for the development of commercial insurance to reduce out-of-pocket expenses
- Structural-wise, the Japanese experience (with similar low replacement ratio for Pillar 1 pension) suggests the possibility for more aggressive tax incentives which translate into Pillar 2 and Pillar 3 participation rates and opportunities for life insurers
- Although income taxpayers only account for 6% of the population in China today, they make up for 90% of the life policyholders in the survey. Experiences from other markets have shown that tax benefits would promote the life insurance sector

Referencing the experiences in such markets, namely Singapore, Hong Kong (excluding visitor business), South Korea, and Japan, it is expected that China's life insurance penetration can reach 11-13% in its mature stage.

The trajectory is expected to follow a typical three-stage growth pattern (see exhibit 3):

- Stage One features low disposable income and low penetration, as it is today with low single digits CAGR in the near term
- Then in Stage Two, when disposable income per capita reaches the tipping point of US$7,000-US$10,000 by late 2020s, the market is expected to witness a rapid increase in life insurance penetration until 2040. Along the journey, with a 11-13% CAGR, China's life insurance market size will have surpassed that of the US by 2030, and tripled that of the US by early 2040s
- After 2040, the market will enter Stage Three as disposable income attains US$20,000-US$25,000. Although penetration is expected to stay relatively flat, market expansion will continue with a 5-6% CAGR as income rises. By 2050, the market size is expected to reach 45 trillion RMB in premium

Exhibit 2: Asian markets are more comparable to China

Benchmark Analysis for Market Comparability — Market & Policy Factors

		Metrics Selected		Mainland China	Taiwan	South Korea	Singapore	Hong Kong SAR	Japan	India	Australia	UK	France	Italy	Germany	US
Market Factors	**Income and Wealth**	Disposable income per capita, 2020, K RMB		32	113	117	201	334	166	11	250	198	174	150	200	364
		Net wealth[1] per capita, 2019, K RMB		142	961	299	451	3,231	844	8	705	736	522	524	498	1,827
	Demographic	Population, 2020, MN		1,412	24	51	6	8	126	1,382	26	67	67	60	83	330
		Dependency ratio[2], 2020		19%	24%	15%	19%	28%	52%	11%	28%	32%	37%	40%	36%	28%
		Expected increase in dependency ratio[2], Δ 2020 - 2050		+29%	+47%	+63%	+44%	+43%	+29%	+11%	+14%	+15%	+17%	+35%	+22%	+12%
		Urbanization ratio, 2020		61%	79%	81%	100%	100%	92%	35%	86%	84%	81%	71%	77%	83%
	Savings Habit	National Savings as % of GDP, 2020		45%	35%	36%	40%	26%	27%	31%	24%	14%	21%	21%	28%	19%
	Culture	Individualism Index, 2021		20	17	18	20	25	46	48	90	89	71	76	67	91
		Long Term Orientation Index, 2021		87	93	100	72	61	88	51	21	51	63	61	83	26
Policy Factors	**Healthcare Payors Dynamics**	Healthcare expenditure by payors 2019	Public spending	58%	60%	60%	50%	51%	84%	28%	69%	78%	74%	73%	77%	50%
			Commercial health insurance	7%	40%	40%	19%	49%	3%	10%	13%	5%	17%	3%	10%	39%
			Out of pocket	35%			31%		13%	62%	18%	17%	9%	24%	13%	11%
		Pillar 1 replacement ratio, 2020		42%	Est. < 40%	30 ~ 40%	N/A	N/A	~35%	30 ~ 40%	N/A	~20%	~60%	~75%	~40%	~40%
	Pension System	Pension assets by pillars, 2020	Pillar 1 Government backed	72%	17%	42%[4]	0%	0%	58%	33%[4]	100%[3]	31%[4]	49%[4]	56%	32%[4]	8%
			Pillar 2 Employer backed	28%	49%	17%[4]	50%	81%	35%	65%[4]		35%[4]	46%[4]	37%	34%[4]	53%
			Pillar 3 Individual plans	<1%	34%	41%[4]	50%	19%	7%	2%[4]	0%	34%[4]	5%[4]	7%	34%[4]	32%
	Tax Structure	Income tax payors as % of total population, 2019		~6%	N/A	36%	29%	35%	24%	~1%	58%	48%	57%	69%	55%	44%

More comparable markets

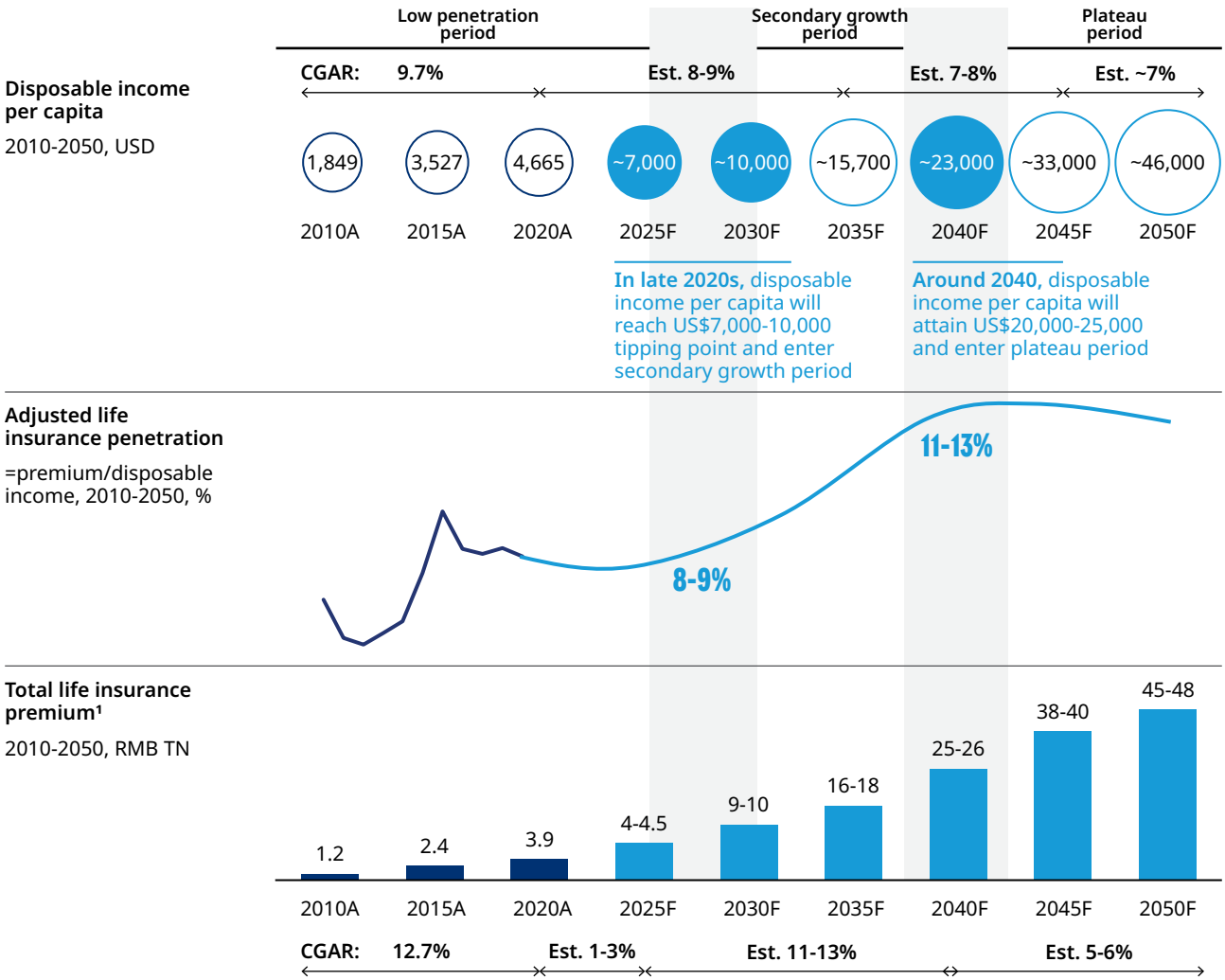
Similarity to China

High **Low**

1. Measures the net worth (i.e. financial assets plus non-financial assets less liabilities) of the household sector; 2. Population of 65+/Population of 20-64; 3. In Australia, pension needs are covered by Pillar 1 Age Pension Scheme for universal basic protection paid directly by government revenue, and Pillar 2 defined contribution Superannuation fund; 4. 2019 data shown.

Source: United Nations, Euromonitor, Hofstede Insights, Oxford Economics, Organization for Economic Co-operation and Development, World Bank, World Health Organization, Government Websites, CEIC

Exhibit 3: China's life insurance premium will reach RMB45 trillion by 2050



1. Includes the gross written premium (GWP) and deposit components for universal and investment-linked life products.

Source: The China Banking and Insurance Regulatory Commission, National Bureau of Statistics of China, Oliver Wyman Analysis

Such enormous potential of 10x growth is also confirmed by a bottom-up protection gap assessment. Health insurance, especially medical insurance, is a clear opportunity for insurers given the protection gap and low level of commercial insurance share in health spending today. Pension/annuities and traditional life products represent another set of opportunities given the poor management of longevity and early mortality risk in the population today. Life insurers can deepen customer trust and capture growth momentum by addressing these unmet needs.

MARKET MISPERCEPTIONS AND SHORT-TERM CHALLENGES

The contrast between the market's long-term prospect and a near-term slowdown suggests that challenges do exist. While issues like high-churning agency forces and lacking product differentiation may have been well understood by industry practitioners nowadays, there are also lots of noises and misperceptions. To demystify current misperceptions, a comprehensive life insurance primary research has been conducted.

INSIGHTS FROM CONSUMER SURVEY AND AGENT INTERVIEWS

A survey with 12,000 policyholders (largest in scale in recent years) and focus group interviews with agents from twelve firms of diverse archetypes have been conducted to capture the market dynamics and cross validate findings from both the demand and supply sides of the market.

The following six core insights have been concluded based on the analysis of the primary study:

Insight 1

The traditional "mass-in-mass-out" model widely adopted by the industry is now suffering from unstable and low-quality agency workforce. Digging deeper, primary research finds that life insurance agents who churned quickly often entered the industry with unrealistic income expectations and an underestimation of the professionalism required (see exhibit 4).

Insight 2

Middle class and affluent segments are more underserved than saturated, due to the mismatch in the capabilities of the agency force versus the service quality required (see exhibit 5). As a result, the industry is yet to fully capture the opportunity of rising middle-class and affluent segments, which accounts for over 75% of life policyholders.

Insight 3

Agency reform is urgently needed. However, it has yet to invoke behavioural changes among tied agents in many cases; while early success has been observed among independent broker and agents who took similar measures a few years ago with extensive promotion and training.

Insight 4

Digital channel, albeit gaining traction, only accounts for 5-6% of GWP and is unlikely to challenge the leading status of tied agency and bancassurance. Although digital channel is popular for conducting research and purchasing simple products, consumers often switch to offline channels for purchasing complex long-term products (see exhibit 6). Without the ability to build trust digitally, the stagnation of the online penetration for life insurance is expected to continue.

Insight 5

Contrary to the view that Huiminbao may cannibalize commercial insurance sales, primary research has shown that it may help deepen commercial insurance penetration. Agents believe that Huiminbao may target different customer segments, aided by government marketing campaigns that are further enhancing insurance awareness in the population (see exhibit 7).

Insight 6

The inadequate protection in China is often not felt by the consumers, as many enjoy a false sense of protection likely stipulated by the existing policies they have purchased and low insurance literacy.

Fortunately, these challenges are not so fundamental that cannot be addressed. A structural reform is required where insurers need to put customer first and at the centre of their business model evolution.

Exhibit 4: High churn rate after agents exhaust close friends and relatives as main sales targets

New agents	One year retention rate ~30%	Three-year retention rate ~10%
Freedom, and high salary without an entry threshold are key reasons attracting many agents to the industry Mainly rely on **close friends and relatives** to meet sales targets in this phase	When demand from close friends and relatives are almost exhausted within ~1 year, the expansion of the customer network is the **key bottleneck driving the churn of most agents**	**A broad customer network with stable inflow of referrals is usually built** Those who stay for a long-term career share the characteristics of: • Disciplined self-learning in professional knowledge • Resilience in taking pressure and rejections • Genuine passion for the industry
To most people who do not understand the industry, they believe that it is an easy job given the absence of an entry threshold. However, the jobs that appear the easiest are never easy. **People entering this industry with the wrong expectations usually leave very soon.** An agent from a foreign insurer	**If the agent has his own savings, social network, and resources, these would give him a lot of help in the early stage of his career, especially in the first 3 months or 6 months. This is an industry that requires the long-term accumulation of resources.** An agent team leader from a tier 1 domestic insurer	**Each agent should be passionate for their company, because you can only sell what you believe in.** **An agent can only excel in the industry if they have high recognition of the brand for which they stand.** An agent team leader from a tier 1 domestic insurer

Source: The primary research supporting the report

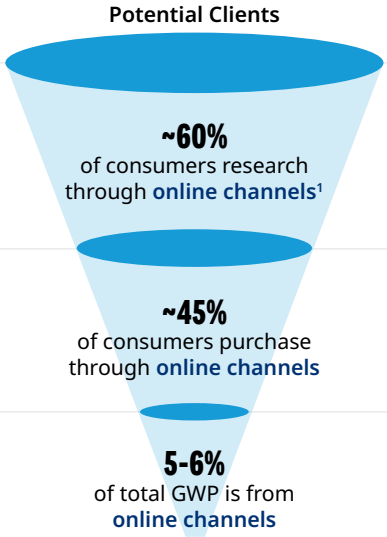
Exhibit 5: Underserved middle-class and above segments

	Population by wealth tier[1]	Life insurance customers by wealth tier[2]	Customer potential	Agent coverage effectiveness
Affluent and above Annual Income: >RMB 300,000	~1% ~20MN people	34% 4,088 respondents	✓ Diverse needs to be covered by multiple policies ✓ Easy to convert if essential pain points can be identified	✗ **I can't find that many wealthy prospects in my network.** Even if I met with one, I don't know what to talk with them. **Without common topics for small talks,** hard-sale is very difficult. Agent from a tier 2 domestic insurer
Middle-class Annual Income: RMB 100,000-300,000	~30% ~350MN people	41% 4,907 respondents	✓ Family oriented and recognize the value of insurance ✓ Protection gaps grow with progression in life stage	✗ Young agents are ideal for serving post-90s customers middle-class who are their peers… But y**oung agents are hard to recruit or retain** Agent team leader from a tier 1 domestic insurer
Mass Annual Income: <RMB 100,000	~69% ~800MN people	25% 3,005 respondents	✓ Some needs among the upper mass segment who are expected to migrate to the middle-class ✗ Limited income after covering basic life needs ✗ Less educated about risk transfer mechanisms	**>80%** of agents are in the mass segment themselves More than enough to cover their own cohorts

1. Age 15 and above; 2. Proxy based on survey respondents (n=12,000)

Source: Public data, The primary research supporting the report, Oliver Wyman analysis

Exhibit 6: "Research online — Buy offline" is commonly observed and "Human Touch" is necessary especially for complex long-term products



Research channel	—
Purchase channel	Over **60%** among customers who "research online-buy offline" choose insurance agents as their offline purchase channel
GWP contribution	Almost **50%** of online policies[2] are accident insurance and short-term medical insurance Average online ticket size is **~220 RMB**

1. Including insurers' own online channel and 3rd party online channels; 2. In terms of number of policies.

Source: The primary research supporting the report, 2016-2020 online life insurance market analysis report

Exhibit 7: Positive effect expected by Huiminbao on China's commercial health insurance

Huiminbao supplements commercial health insurance with different customer targeting

- Low-income customers who cannot afford commercial health insurance in the first place
- Elderly customers or those with pre-existing conditions who cannot buy commercial health insurance

Huiminbao is intended to serve the elderly population, and those with medical conditions. They cannot buy commercial medical insurance... [so] there is not much impact to commercial health insurance sales.

Agent from a tier 1 domestic insurer

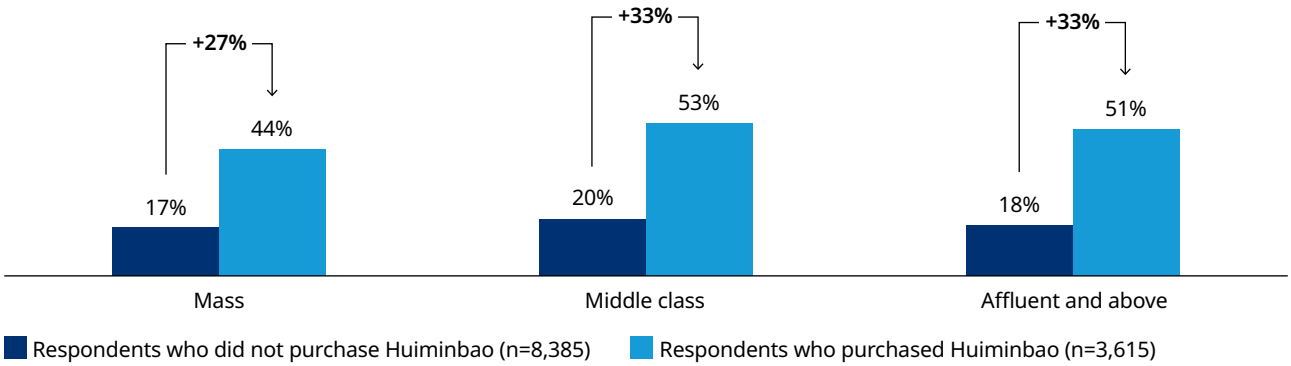
The launch of Huiminbao provides a great opportunity for educating the general public on medical insurance

I love it when customers consult me on questions about Huiminbao; then I can get the chance to explain insurance concepts to them.

Agent from an independent broker

Customers who had already bought Huimingbao are more willing to purchase commercial health insurance

Survey Question: Do you plan to purchase commercial health insurance in the future?

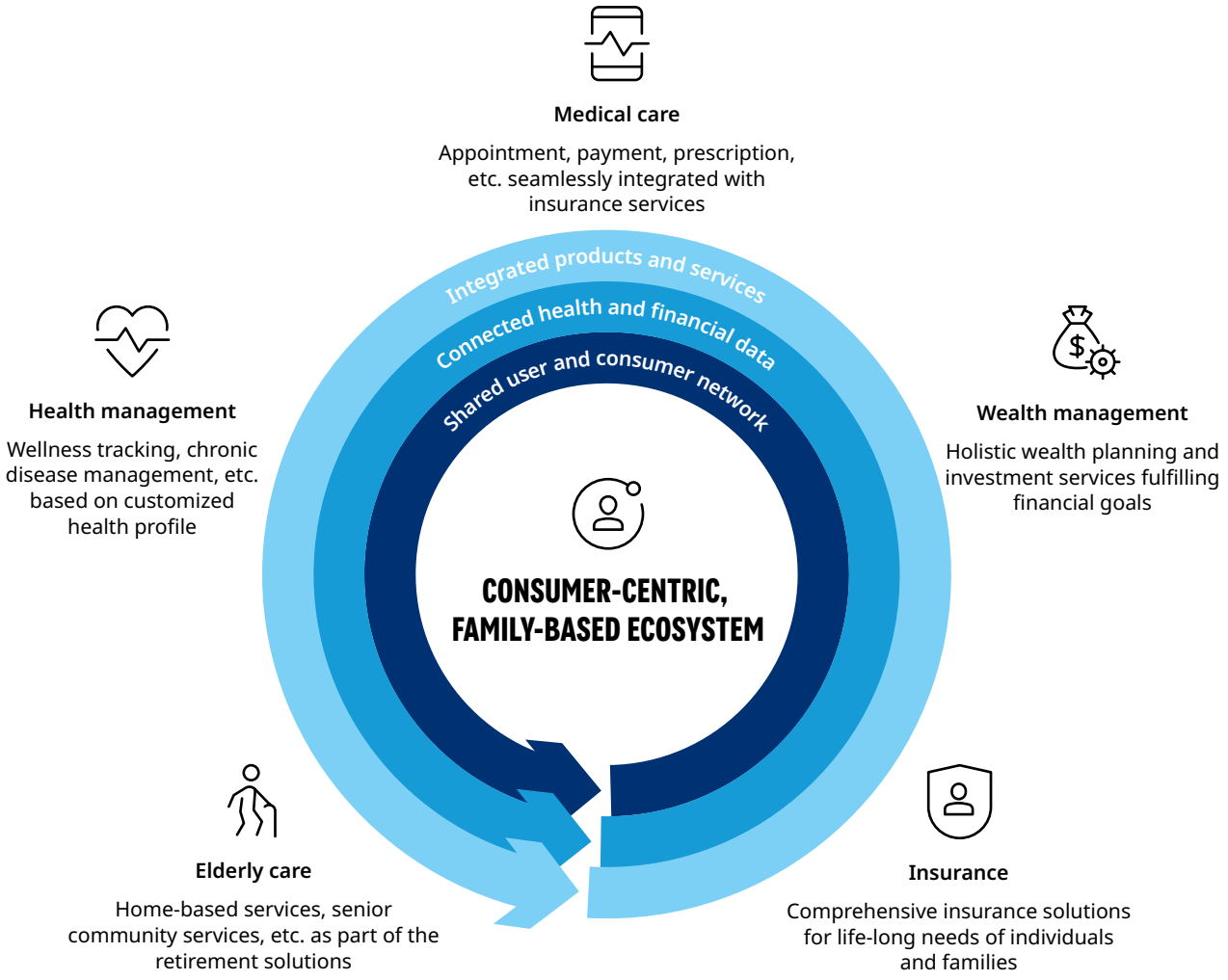


Source: The primary research supporting the report

A CUSTOMER CENTRIC STRUCTURAL REFORM TO UNLOCK THE 45 TRILLION RMB POTENTIAL

To launch the growth journey towards the 45 trillion RMB potential, distribution and product challenges need to be addressed. For insurers, a customer-centric model, which links customer profile & needs, product sales & service delivery channels, and insurance ecosystem offerings together, should be adopted (see exhibit 8). At the heart of the model is a mindset change from focusing on product sales to fulfilling customer lifecycle needs. Adopting such a model means gradually building trust with customers in three layers: trust in sales, in products, and lastly in insurers.

Exhibit 8: A consumer-centric ecosystem to integrate services and solution



Source: Oliver Wyman Analysis

To establish the building of trust under the new business model, life insurers should proactively reform their distribution capabilities and enhance product propositions. Potential initiatives include:

Building a customer-centric ecosystem, allowing for comprehensive customer access, understanding, and lifecycle services through a multi-layered delivery model supported by agents, potential third parties, and digital tools. Beyond simply a full range of life insurance products, ecosystem services should further include medical care, health management, elderly care, and wealth management/pension management services. What the insurer can provide through the ecosystem platform is beyond a combination of “insurance + services” but a modularised approach to meet life needs of customers.

Reforming the agency channel to serve middle-class and above customers, with initiatives to improve agent quality through recruiting/qualification, professional training, compensation and incentive restructuring, and career planning; insurers should also adopt digital tools to improve agent management and focus on behaviour changes rather than simply roll-outs; scenario-based sales and ecosystem embedding should be encouraged.

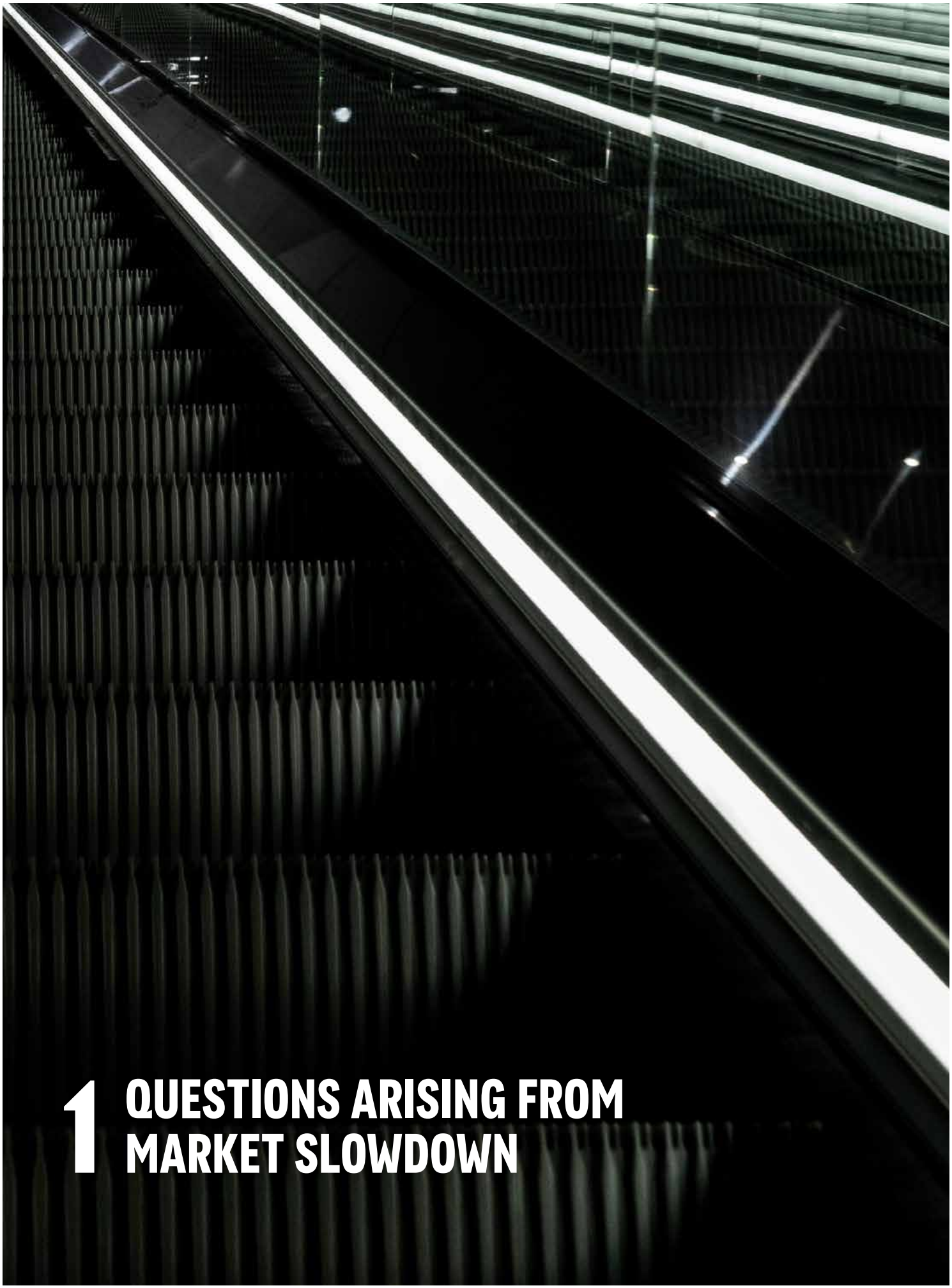
Upgrading 2B2C capabilities with institutional partners to improve end customer value proposition, so that insurers can work closely with bank partners to design new products to address the massive pension market jointly and work with institutional clients on group coverage and end consumer conversion leveraging the broader established ecosystem.

Enhancing digital capabilities to capture broader market and kick-start customer services and conversion. Digital channels are suitable for broadening the reach of insurers in the mass segment and with the increase in income level, mass to middle-class migration will follow through rapidly. Matching the digital channel with simple product offerings and suitable customer education programmes will enable insurers to better position for the future. At the same time, a digital delivery of the established ecosystem will offer a unique competitive edge in the otherwise heavily contested online space, while allow for future customer touchpoints and service upgrades.

CONCLUSION

In sum, Oliver Wyman is fully confident in China's life insurance market. The painful and bumpy transformation period needed to overcome the short-term challenges ahead will require patience. To set the industry back on the right track of growth, both management and shareholders should show belief and faith in the market, commit to the right initiatives, and continuously devote resources, even when there may not be immediately visible results. With the correct mid to long-term approach, it is expected that China's life insurance market will regain its growth momentum and have a bright future for next 30 years to come.

In the following chapters, text highlighted in blue represents key conclusions of the report, and text highlighted in green represents key findings from the primary research.



1 QUESTIONS ARISING FROM MARKET SLOWDOWN

Over the past 40 years, China's life insurance[1] market has witnessed exponential growth with premium[2] reaching 3.9 trillion RMB in 2020. The sheer size of the industry rendered the market one of the largest in the world, second only to that of the US. The 40-year development of the market can be classified into five phases, as shown in exhibit 9 and summarized below:

Emergence (Before 2000)

- Traditional life insurance products (e.g. term life and whole life) dominated while other products (e.g. critical illness, endowment insurance) emerged
- Tied agency model was first introduced and soon widely adopted by insurers
- Insurance penetration and consumer awareness were at a nascent stage

Product diversification (2000-2007):

- Products with investment and savings features (e.g. participating life, universal life, investment-linked) gained early traction
- Bancassurance rose rapidly by selling deposit-substitute products
- SARS further boosted awareness and demand for health products
- Regulators imposed 2.5% cap on return guarantees in 1999, which has prevented the market suffering from negative spread[3] since then
- China's life insurance industry established a complete set of product lines and each one of them gained momentum

Product divergence (2008-2012):

- Investment-linked and universal products faced pressure as the bancassurance channel underwent rectification from regulators[4]
- Bearish market sentiment following the Global Financial Crisis also affected sales of such products
- Nonetheless, participating life outperformed during the crisis and continued to be favoured

1 In this report, life insurance refers to the individual and group life (i.e. traditional life, participating life, universal life, and investment-linked life), health, and accident businesses under the "China Life Insurance License", unless otherwise noted.

2 In this report, China's life insurance premium includes the Gross Written Premium (GWP) and deposits from universal and investment-linked life products, which are not counted in the GWP after 2009 due to the accounting rule adjustment, unless otherwise noted.

3 CIRC, 1999 [93] "Urgent Notice of China Insurance Regulatory Commission on Adjusting the Assumed Interest Rate of Life Insurance Policies".

4 CBRC, 2010 [90] "Notice of China Banking Regulatory Commission on Further Strengthening the Sales Compliance and Risk Management of the Bancassurance Business of Commercial Banks".

Dual-growth engines (2013-2016):

- Health insurance took off as one of the growth engines due to
  - Improvement in consumer awareness
  - Increased cap on pricing rates for critical illness[5]
  - Digital enabled product innovation (e.g. "million-yuan-medical-insurance")
- Universal life was the other growth engine benefiting from
  - Increase in the cap of guaranteed return[6]
  - Relaxation of investable asset classes[7]
- The two growth engines were further fuelled by the cancellation of regulator-conducted agent qualification exam in 2015 which resulted in a surge in agent headcount

Redirection (2017-Now)

- Economic slowdown and prolonged COVID pandemic have negatively impacted the sector
- Regulators have re-emphasized that the function of insurance is long-term protection[8]
- Sales conduct is under stringent regulatory scrutiny to enforce sound suitability management; the misconduct previously observed in bancassurance is in focus[9]

5 CIRC, 2013 [62] "Notice of the China Insurance Regulatory Commission on Relevant Matters concerning the Policy Reform of Premium Rates of Ordinary Personal Insurance".

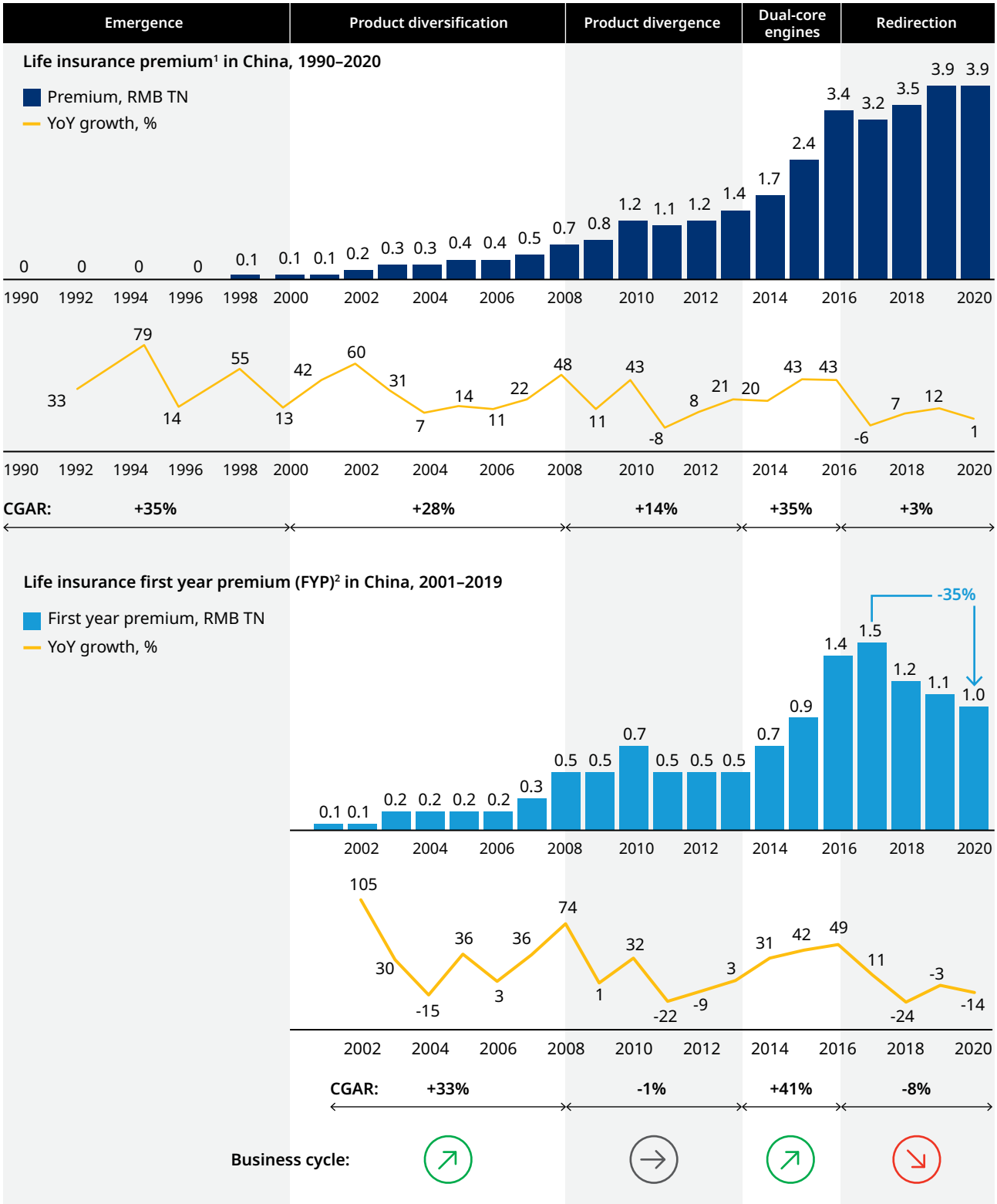
6 CIRC, 2013 [62] "Notice of the China Insurance Regulatory Commission on Relevant Matters concerning the Policy Reform of Premium Rates of Ordinary Personal Insurance".

7 In 2012-13, a series of regulation changes took place and expanded investable asset classes for insurance companies, including hybrid and convertible bonds, derivatives, and overseas assets. Thresholds for infrastructure debt investment, private equity, etc. were also increased

8 CIRC 2017 [134] "Notice of the China Insurance Regulatory Commission on Regulating the Product Development and Design of Personal Insurance Companies".

9 CBIRC 2019 [179] "Administrative Measures for the Insurance Agency Business of Commercial Banks"; CBIRC 2021 [24] "Measures for the Supervision and Evaluation of the Protection of Consumer Rights and Interests of Banks and Insurance Institutions".

Exhibit 9: The five development phases of China's life insurance market



1. Includes the gross written premium (GWP) and deposit components for universal and investment-linked life products; 2. FYP does not include additional collections from universal and investment-linked life products due to data availability.

Source: The China Banking and Insurance Regulatory Commission (CBIRC), Oliver Wyman analysis

As shown in the exhibit above, life insurance premium dropped sharply in 2017 by 6% and has only rebounded to single-digit percentage growth in subsequent years. First Year Premium (FYP) in 2020 dropped by 35% from its peak in 2017 in estimate[10], recording three consecutive years of declines. **Such prolonged slowdown has give rise to questions if China's life insurance market is saturated, and if not, what it takes for the industry to regain its momentum.**

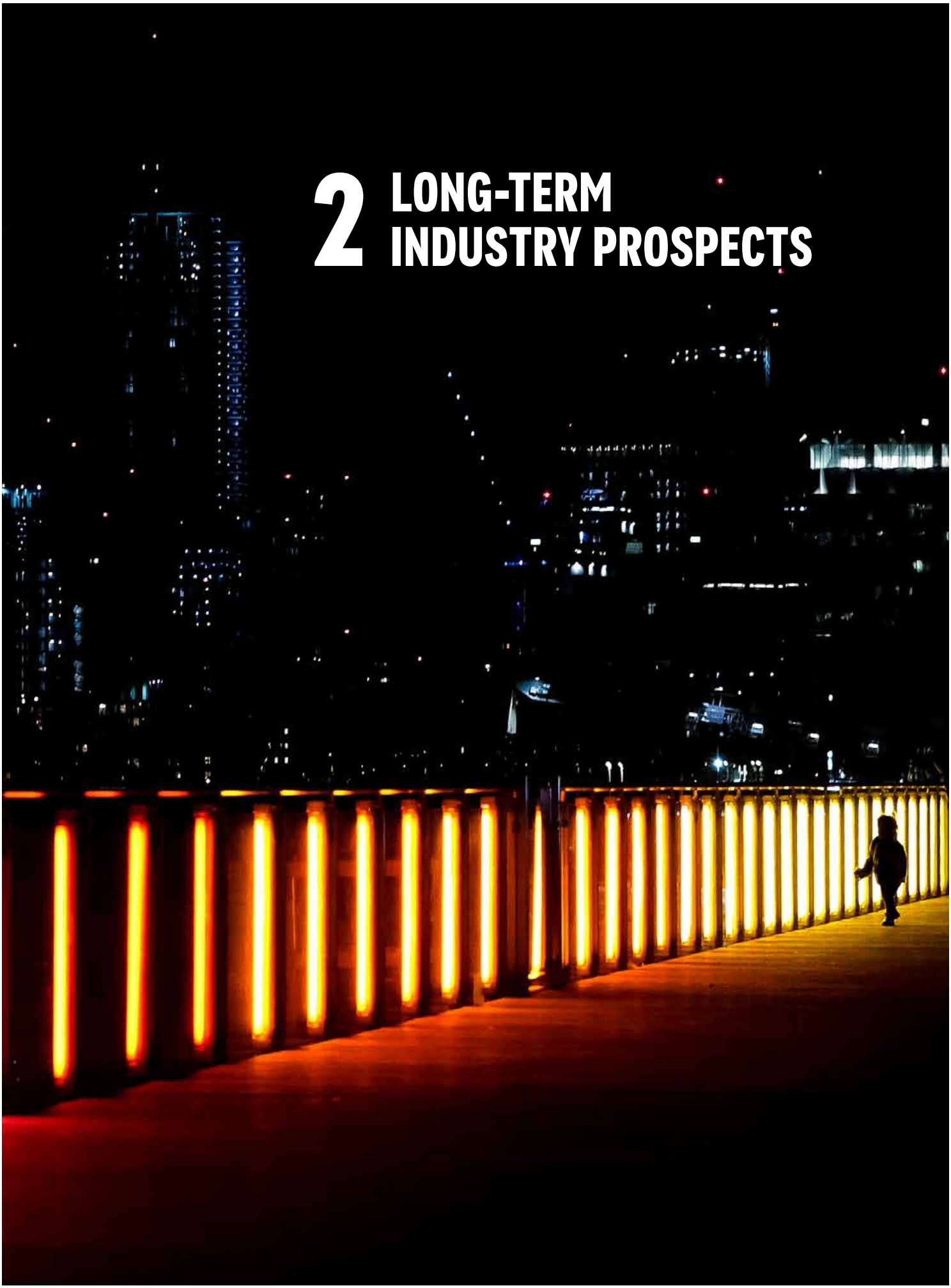
Attempting to examine these pressing questions, the most comprehensive life insurance consumer survey in recent years covering 12,000 policyholders, coupled with in-depth agent interviews across twelve firms, is conducted.

To answer the big questions, each section of this report has been directed to answer an expanded sub-set of questions as detailed below:

- **Section 2 — Long-term industry prospects:** Despite the recent slowdown, what are the factors that will impact the long-term growth prospects of China's life insurance industry? What is the size of the target addressable market for the life insurance sector in China at its full potential? And where the opportunities lay?
- **Section 3 — Market misperceptions and short-term challenges:** What market misperceptions are demystified by first-hand consumer survey results and agent focus group interviews? What are the market headwinds during current downturn cycle?
- **Section 4 — A customer centric structural reform to unlock the 45 trillion RMB potential:** How should insurers react to the current challenges so as to take the market to its full potential? More importantly, how long will it take?

10 Estimated based on the trend of FYP across six publicly listed insurers (i.e., China Life, Ping An Life, Pacific Life, PICC Life, New China Life, and Taiping Life)

2 LONG-TERM INDUSTRY PROSPECTS



CHAPTER SUMMARY

Market and policy factors jointly determine the long-term perspective of life insurance penetration in an economy. To understand the potential size of the life insurance market in China, other Asian economies at a more mature stage can offer some foresight:

- China shares similarity with its Asian neighbours on demographics, saving attitudes, and culture elements. Rapid ageing in its population over the next 30 years combined with a long-term oriented mindset and prudent saving habit may benefit the life insurance market
- Unlike most of the European markets where the government is providing comprehensive public healthcare, public funding only accounts for 50%-60% of the bill in China, like most Asian economies. Social health insurance scheme is under pressure with the rapidly ageing population. This calls for the development of commercial insurance to reduce out-of-pocket expenses
- Structural-wise, the Japanese experience (with similar low replacement ratio for Pillar 1 pension) suggests the possibility for more aggressive tax incentives which translate into Pillar 2 and Pillar 3 participation rates and opportunities for life insurers
- Although income taxpayers only account for 6% of the population in China today, they make up for 90% of the life policyholders in the survey. Experiences from other markets have shown that tax benefits would promote the life insurance sector

Referencing the experiences in such markets, namely Singapore, Hong Kong (excluding visitor business), South Korea, and Japan, it is expected that China's life insurance penetration can reach 11-13% in its mature stage.

Typically, a market follows a three-stage growth pattern as its income level evolves:

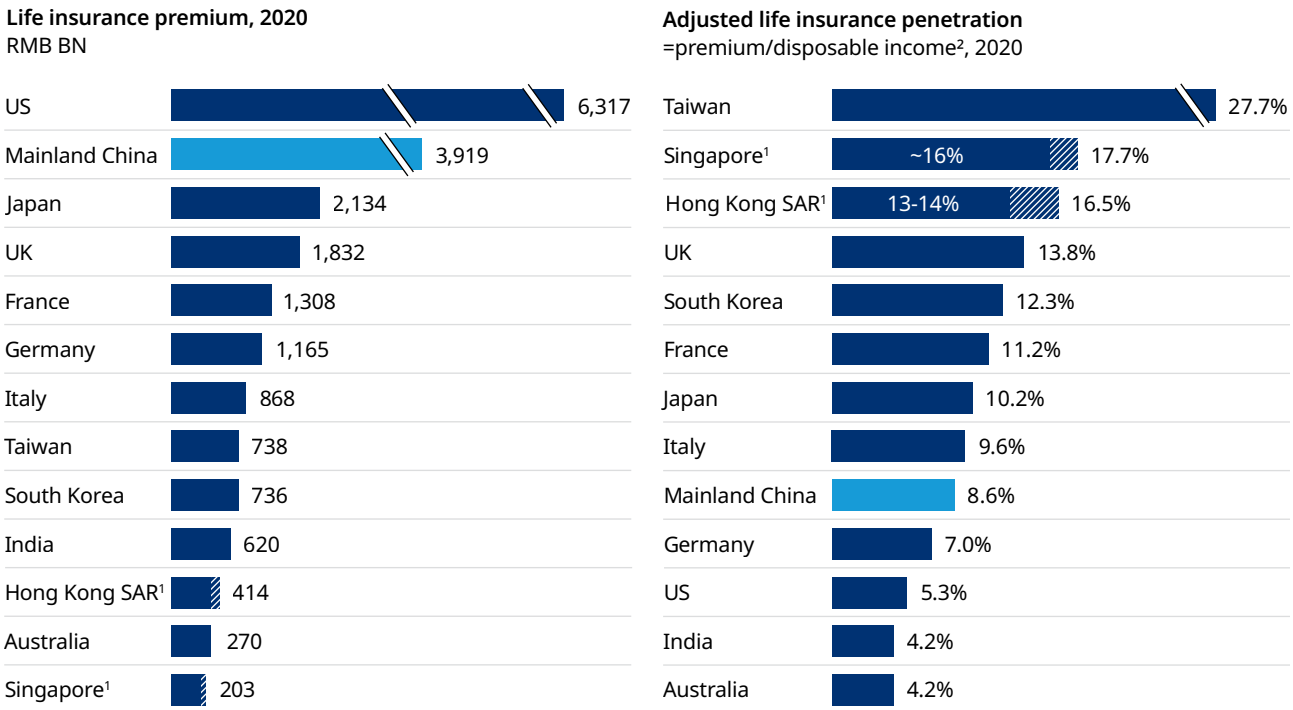
- Stage One features low disposable income and low penetration, as it is today with low single digits CAGR in the near term
- Then in Stage Two, when disposable income per capita reaches the tipping point of US$7,000-US$10,000 by late 2020s, the market is expected to witness a rapid increase in life insurance penetration until 2040. Along the journey, with a 11-13% CAGR, China's life insurance market size will have surpassed that of the US by 2030, and tripled that of the US by early 2040s
- After 2040, the market will enter Stage Three as disposable income attains US$20,000-US$25,000. Although penetration is expected to stay relatively flat, market expansion will continue with a 5-6% CAGR as income rises. By 2050, the market size is expected to reach 45 trillion RMB in premium

Such enormous potential of 10x growth is also confirmed by a bottom-up protection gap assessment. Health insurance, especially medical insurance, is a clear opportunity for insurers given the protection gap and low level of commercial insurance share in health spending today. Pension/annuities and traditional life products represent another set of opportunities given the poor management of longevity and early mortality risk in the population today. Life insurers can deepen customer trust and capture growth momentum by addressing these unmet needs.

2.1. THE 11%-13% PENETRATION OUTLOOK FOR CHINA'S LIFE INDUSTRY

To understand the industry's long-term potential, a cross-market benchmarking study has been conducted. Twelve markets have been included in the study, namely, the US, Japan, the UK, France, Germany, Italy, Taiwan, South Korea, India, Hong Kong SAR, Australia, and Singapore. The selection represents a balanced view across Asian and western economies, but is heavily weighted on mature markets, aiming to derive a forward-looking view of the Chinese market at maturity. Exhibit 10 gives a comparison of the market size and penetration of the twelve markets in the study[11]. China's life insurance penetration is still low compared to the other markets', especially its Asian neighbours', implying a large growth potential.

Exhibit 10: Despite the second-largest market in premium, China's life insurance penetration is low



1. Hong Kong and Singapore life insurance premium was split into offshore and domestic insurance purchases; 2. Disposable income ≈ total income — income tax — personal social security expenditures, to adjust for the difference in tax and social security structures across different markets.

Source: World Bank, Euromonitor, The China Banking and Insurance Regulatory Commission, National Development Council of Taiwan, Office for National Statistics

11 It is acknowledged that no single perfect metric exists to define and compare life insurance penetration. The premium payment schedule (i.e. single versus regular payments) could distort premium-based metrics, including the standard life insurance penetration (equals to premium/GDP) or adjusted life insurance penetration (equals to premium/disposable income). Insurance ceding and asset accumulation effects could distort life insurance asset-based metrics from the wealth allocation perspective (i.e. life insurance assets as a percentage of household financial wealth). Nonetheless, China's life insurance penetration has consistently ranked low across multiple metrics, when compared to those of other developed markets. To minimize the impact from different tax structures and social security schemes, adjusted life insurance penetration (equal to premium/disposable income) is adopted throughout this report.

Market and policy factors jointly determine the long-term perspective of life insurance penetration in an economy. Market factors refer to the consumers' characteristics, reflecting the intrinsic demand for life insurance products. The most prominent ones are average income and wealth, with demographic structure, saving habits, and culture all playing critical roles. **Policy factors shape the environment of the industry and affect how consumer demand is met.** The most relevant factors are healthcare payor dynamics, pension schemes, and tax incentives.

INDUSTRY DRIVERS: MARKET FACTORS

China shares similarity with its neighbouring economies in Asia in terms of demographics, attitude to saving, and cultural elements, especially Taiwan, South Korea, and Singapore. The dependency ratio for the Chinese population is at a similar level compared to its Asian peers today, which is lower versus the western economies. However, it is important to note the rapid aging of the Asian population, including the Chinese, over the next 20-30 years, highlighting opportunities for the development of pension and annuities markets. Additionally, from a behavioural and cultural perspective, similar to other Asian consumers, Chinese consumers demonstrate a high propensity to save for the future with long-term oriented thinking. All of the above indicate a solid foundation and positive forces for the development of China's life insurance sector (see exhibit 11).

Income and wealth gap between China and the other more developed Asian markets also implies enormous intrinsic potential for the Chinese life insurance sector. As economic growth continues in China, its middle-class population will build up at an unprecedented rate never witnessed before in any other economy. With disposable income per capita expected to reach US$7,000 to US$10,000 in the late 2020s and the population's ageing happening at the same time, the massive middle-class and above segments will become the largest customer base for life insurance that the world has ever seen.

INDUSTRY DRIVERS: POLICY FACTORS

Across the three identified dimensions of policy factors, namely 1) healthcare payer dynamics, 2) pension structure, and 3) tax incentives, China is unique in its own way. Nonetheless, Asian economies as a whole share more similarities with each. As shown in exhibit 11, public expenditure accounts for about 60% of China's total healthcare expenses, similar to the payor dynamics in Taiwan and South Korea, with Hong Kong and Singapore slightly behind. China's Pillar 1 pension scheme accounts for nearly 80% of the contribution to its pension system as a whole, much higher than any of the other markets in the study. Japan is the most comparable Asian neighbour with close to 60% Pillar 1 pension contribution. With regard to tax incentives, only India is comparable given the limited number of Personal Income Taxpayers. Nonetheless, as China gets wealthier over time, the benefit of tax incentives will be felt across a larger portion of the population, similar to the experience in other Asian markets.

Unlike most of the European markets where the government provides comprehensive public healthcare services, most Asian economies, including China, only pay for 50-60% of the bill with public funding, which is also under pressure given an ageing population. The rest is shouldered by commercial insurance schemes and out-of-pocket expenses. In China, public spending, including government transfers and social health insurance, made up 58% of the total healthcare expenditure in 2019, leaving the rest for commercial health insurance and individuals to pay out-of-pocket but mainly the latter. In markets with similar healthcare payor dynamics, such as Singapore, strong tax incentives are provided to encourage the purchase of commercial health insurance as a supplement to the public safety net, pushing up its share of Singapore's total healthcare expenditure. There is sufficient room for Chinese insurers to close the gap that exists in China.

Structural-wise, China's pension scheme is unique, featuring a high Pillar 1 contribution rate but low replacement ratio. Nonetheless, the Japanese market offers a good comparison. Despite a 44% Pillar 1 replacement ratio, Pillar 1 dominates the pension scheme in China at a contribution rate of close to 80%. This highlights the insufficient pension coverage in China and implies the potential for Pillars 2 and 3 to plug the need. In Japan, Pillar 2 pension was initiated as early as 1961 to supplement the market's Government Pension Investment Fund (GPIF), and it underwent a major reform in 2001 to improve its investment return and participation rates. To further mitigate the low replacement ratio of Pillar 1, Japan rolled out its tax-privileged investment account, individual-type Defined Contribution pension plan (iDeCo) in 2001, and tax-exempted investment programme, Nippon Individual Savings Account (NISA) in 2014. The Japanese experience shed lights on how national government could push for the development of Pillar 2 and Pillar 3 pension schemes. This could be a path that China may follow in the future.

Different from other markets, insurers in China can uniquely benefit from the development of Pillar 2 schemes. In general, life insurers are more competitive in Defined Benefits (DB) schemes, given their expertise in managing longevity risk compared to other asset managers. However, the persistently low interest rate environment had put pressure on DB plan managers. As a result, almost all other markets in the study have already adopted or started to transit to Defined Contribution (DC) schemes, under which Pillar 2 assets are directed into investment management companies (e.g. mutual fund companies). In contrast, in China, Pillar 2 schemes for both the public and private sectors are outsourced to authorized external asset managers, including eight life insurers. In addition, Pillar 2 schemes for the public sector in China follow a DB scheme, playing to the strength of the insurers.

Exhibit 11: Asian markets are more comparable to China

Benchmark Analysis for Market Comparability — Market & Policy Factors

		Metrics Selected		Mainland China	Taiwan	South Korea	Singapore	Hong Kong SAR	Japan	India	Australia	UK	France	Italy	Germany	US
Market Factors	**Income and Wealth**	Disposable income per capita, 2020, K RMB		32	113	117	201	334	166	11	250	198	174	150	200	364
		Net wealth[1] per capita, 2019, K RMB		142	961	299	451	3,231	844	8	705	736	522	524	498	1,827
	Demographic	Population, 2020, MN		1,412	24	51	6	8	126	1,382	26	67	67	60	83	330
		Dependency ratio[2], 2020		19%	24%	15%	19%	28%	52%	11%	28%	32%	37%	40%	36%	28%
		Expected increase in dependency ratio[2], Δ 2020 - 2050		+29%	+47%	+63%	+44%	+43%	+29%	+11%	+14%	+15%	+17%	+35%	+22%	+12%
		Urbanization ratio, 2020		61%	79%	81%	100%	100%	92%	35%	86%	84%	81%	71%	77%	83%
	Savings Habit	National Savings as % of GDP, 2020		45%	35%	36%	40%	26%	27%	31%	24%	14%	21%	21%	28%	19%
	Culture	Individualism Index, 2021		20	17	18	20	25	46	48	90	89	71	76	67	91
		Long Term Orientation Index, 2021		87	93	100	72	61	88	51	21	51	63	61	83	26
Policy Factors	**Healthcare Payors Dynamics**	Healthcare expenditure by payors 2019	Public spending	58%	60%	60%	50%	51%	84%	28%	69%	78%	74%	73%	77%	50%
			Commercial health insurnace	7%	40%	40%	19%	49%	3%	10%	13%	5%	17%	3%	10%	39%
			Out of pocket	35%			31%		13%	62%	18%	17%	9%	24%	13%	11%
		Pillar 1 replacement ratio, 2020		42%	Est. < 40%	30 ~ 40%	N/A	N/A	~35%	30 ~ 40%	N/A	~20%	~60%	~75%	~40%	~40%
	Pension System	Pension assets by pillars, 2020	Pillar 1 Government backed	72%	17%	42%[4]	0%	0%	58%	33%[4]	100%[3]	31%[4]	49%[4]	56%	32%[4]	8%
			Pillar 2 Employer backed	28%	49%	17%[4]	50%	81%	35%	65%[4]		35%[4]	46%[4]	37%	34%[4]	53%
			Pillar 3 Individual plans	<1%	34%	41%[4]	50%	19%	7%	2%[4]	0%	34%[4]	5%[4]	7%	34%[4]	32%
	Tax Structure	Income tax payors as % of total population, 2019		~6%	N/A	36%	29%	35%	24%	~1%	58%	48%	57%	69%	55%	44%

More comparable markets

Similarity to China

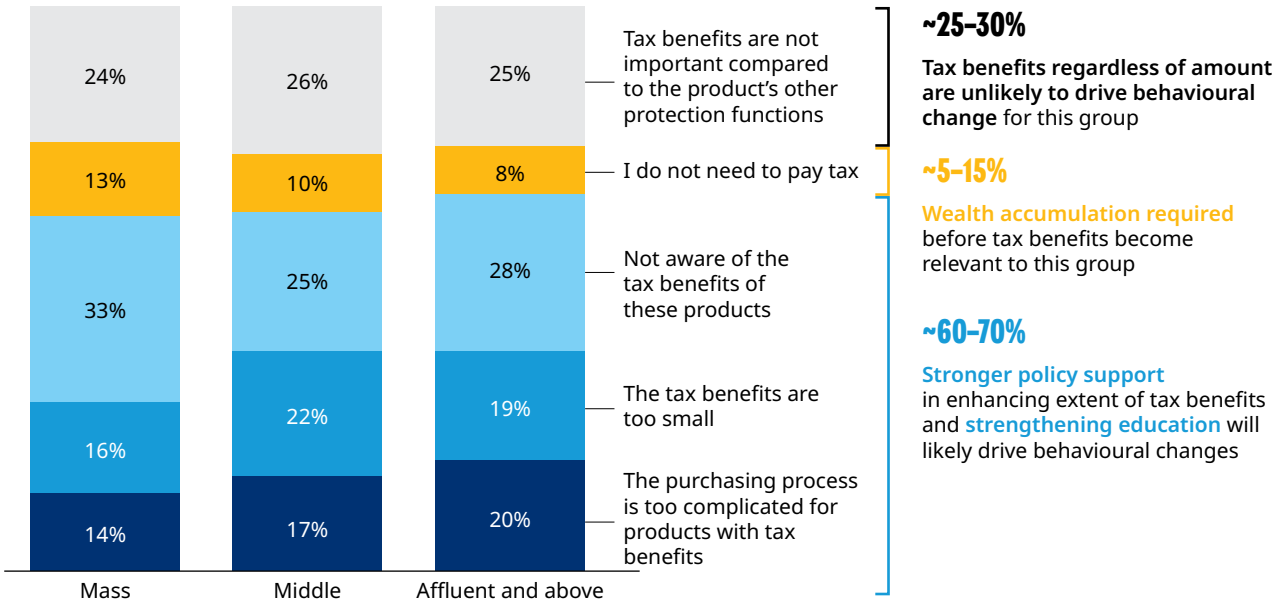
Low **High**

1. Measures the net worth (i.e. financial assets plus non-financial assets less liabilities) of the household sector; 2. Population of 65+/Population of 20-64; 3. In Australia, pension needs are covered by Pillar 1 Age Pension Scheme for universal basic protection paid directly by government revenue, and Pillar 2 defined contribution Superannuation fund; 4. 2019 data shown.

Source: United Nations, Euromonitor, Hofstede Insights, Oxford Economics, Organization for Economic Co-operation and Development, World Bank, World Health Organization, Government Websites, CEIC

Lastly, it is important to highlight that **tax incentives play a critical role in supporting the life insurance industry.** Given China's low taxpayer share as a percentage of the total population today (about 6%)[12], Chinese residents are not sensitive to tax benefits yet. On a positive note, **the consumer survey shows that among respondents who have purchased at least one insurance product, about 90% of them are taxpayers.** The clear correlation between paying taxes and purchasing insurance suggests that continued economic and income growth will not only broaden the insurance customer base but also amplify, through the provision of tax incentives, the role of commercial insurance as a supplement to the insufficient public system. **According to the customer survey, with enhanced policy support and strengthened insurance education, 60-70% of customers will likely change their purchasing behaviour and favour insurance products with tax benefits** (see exhibit 12).

Exhibit 12: Enhanced policy support is essential to change pension investors' behaviour



Source: The primary research supporting the report

12 Estimated figure as the exact number of taxpayers in China is not officially disclosed. According to research conducted by the Southwestern University of Finance and Economics in 2017, there were about 150 million in China at that time. After the implementation of the 2018 Individual Income Tax Reform, the State Tax Administration disclosed that the number of taxpayers reduced by about 70 million given that the taxable threshold was increased from RMB3,000 to RMB5,000 (i.e. only about 80 million taxpayers remained after the tax reform, representing about 6% of the total population in China).

Market anomaly 1

Negative spread has hurt Taiwanese and German markets

Taiwan and Germany are examples of insurance markets with a culture of deep-rooted, conservative saving, and both have experienced robust growth in the life insurance sector, featuring endowment products with attractive guaranteed returns.

For **Taiwan**, its life insurance Assumed Interest Rate has been consistently **50-150 bps** higher than its one-year deposit interest rate for the past two decades, leading to Taiwan's abnormally high life insurance penetration. However, with the global market entering a low-interest environment, the declining ROA / ROI has pressured the profitability of the insurers in markets with products that offer a high level of guaranteed interest saving. As a result, Taiwan's insurance regulator has started to strengthen the regulations on short-term, high-interest products, and shifted to policies favouring protection-oriented products since 2019.

Similarly, the life insurance sector in **Germany** enjoyed rapid growth before the 2008 Financial Crisis with its attractive savings-substitute products. However, after interest rates in the Eurozone turned negative in 2014, the growth of the industry stagnated. Significant duration mismatches forced a product and investment portfolio reform in the industry, which negatively affected the penetration of life insurance in Germany thereafter, and it remains lower than those in other European markets today.

Implications for China: These ill-fated market experiences teach the lesson that it is critical for the life insurance market to have discipline regarding the return guarantees on savings-substitution products for its long-term health. In 1999, the former CRIC announced cap on guaranteed return at 2.5%, with the goal of prohibiting excessive price war and ensuring reasonable profitability for the industry. Chinese insurance regulators started to emphasize "the protection principle of life insurance" in 2016, banned short-term annuities and universal life riders in 2017, and adjusted the cap in the Assumed Interest Rate from 4.025% to 3.5% for annuity products in 2019. These regulatory measures have effectively managed the risk of trying to run an unsustainable race in attracting customers by offering high return-guaranteed products.

Market anomaly 2

Pension schemes in Australia and the US suppressed life penetration

The integrated view of the pension system structure explains the anomalies in the low life insurance penetration in developed markets, such as Australia and the US.

In **Australia**, the need for retirement saving and longevity risk protection are largely covered by the Age Pension Scheme for universal basic protection, paid directly by government revenue, and the mandatory Pillar 2, defined-contribution Superannuation fund scheme introduced in 1992. The income streams from the Superannuation funds upon retirement can be retrieved either from account-based pension, annuity products (e.g. life annuity and term annuity) or hybrid products (e.g. variable annuity) with account-based pension being the default and dominant option. This pension structure resulted in the life insurance market having an adjusted life insurance penetration of merely 4.2% in 2020.

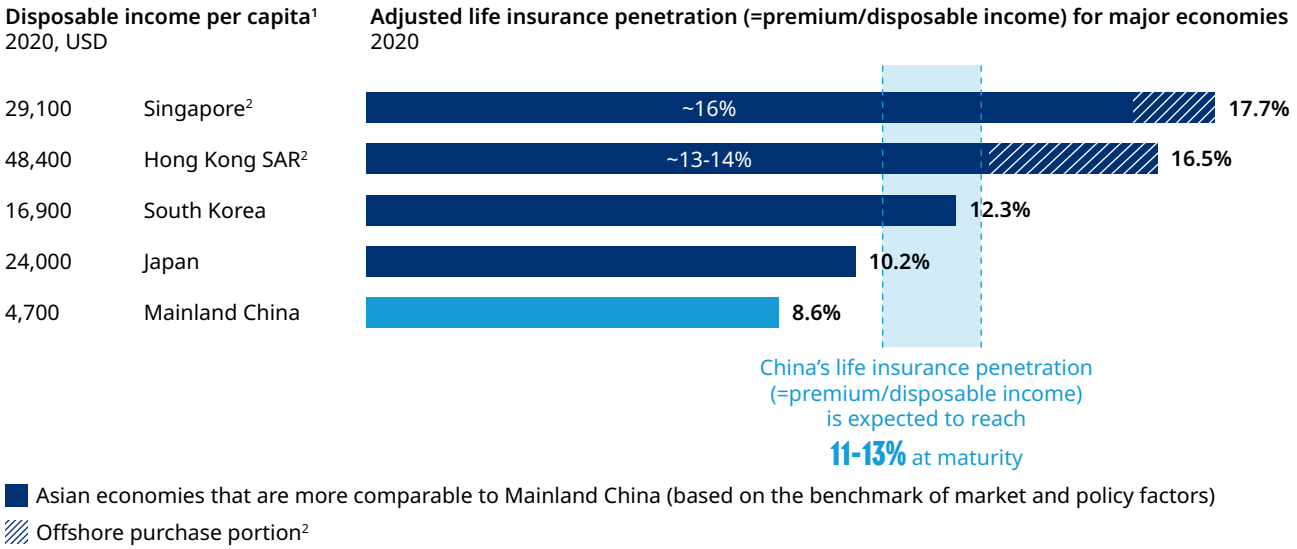
In **the US**, the voluntary Pillar 2 (i.e. 401(K) and other such schemes) and Pillar 3 (i.e. Individual Retirement Account (IRA) and other such schemes) are extremely popular, fuelled by a series of favourable tax treatments. However, both the 401(K) and IRA schemes are mainly operated as investment accounts managed by asset managers, which has limited the life insurers' role in the pension market and resulted in a relatively low adjusted life insurance penetration of 5.3%.

Implications for China: The Australian and American experiences reflect that, from a policy perspective, the design of China's pension structure and related tax incentives need to be examined in detail to fully understand their impact on commercial pension. Given that China's social security schemes and tax policies are still being actively shaped by policymakers at present, insurers still have a chance for a share of the spoils.

PENETRATION BENCHMARK

Referencing the experiences of the more comparable Asian markets, Singapore, Hong Kong (excluding visitor business), South Korea, and Japan, **China's life insurance penetration can be expected to reach 11-13% as disposable income per capita increases and the market matures** (see exhibit 13). Moreover, supportive tax incentives and the development of the Pillar 2 and 3 pension schemes will greatly accelerate the process.

Exhibit 13: China's life insurance penetration to reach 11-13% at maturity, benchmarking to the experience in other mature Asian markets



1. Rounded to 100; 2. Hong Kong SAR and Singapore life insurance premium was split into offshore and domestic insurance purchases.

Source: World Health Organization, The Life Insurance Association of Japan, HK Insurance Authority, S&P Global, Oxford Economics, Insurance Association (life-licensee only)

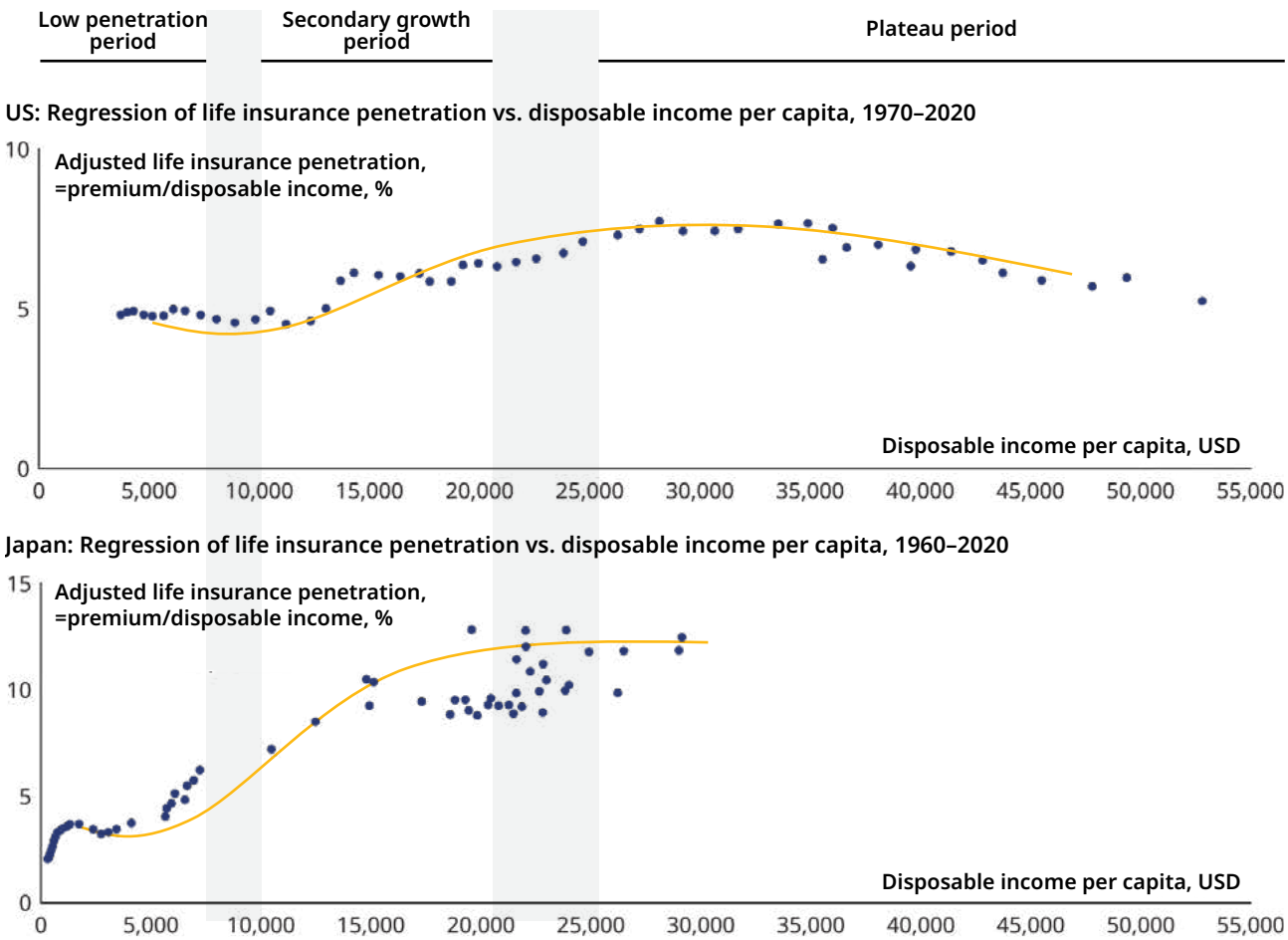
2.2. THE 45 TRILLION RMB POTENTIAL

In addition to where the Chinese life insurance penetration will be at maturity, it is also important to understand the path it is likely to follow to reach the potential. A rising average income level has been identified as the single most important driver of life insurance penetration for most global markets. **Typically, a market follows a three-stage growth pattern that is in the shape of an S-curve as its income level evolves:**

- **Low penetration stage: Disposable income per capita below US$7,000-10,000:** Life insurance penetration remains low and shows a moderate growth pace after the initial inception
- **Secondary growth stage: After disposable income per capita reaches US$7,000-10,000, and until it hits US$20,000-25,000:** Life insurance penetration increases rapidly to approach full market potential
- **Plateau stage: After disposable income per capita reaches US$20,000-25,000:** Life insurance penetration peaks regardless of whether the income level increases further

As shown in exhibit 14, developed markets such as the US and Japan have both followed this growth pattern. The US has already plateaued, while Japan just reached its peak. **At about US$4,500 of disposable income per capita, China has yet to reach the US$7,000-10,000 tipping point.**

Exhibit 14: The US and Japan both have the S-curve growth pattern

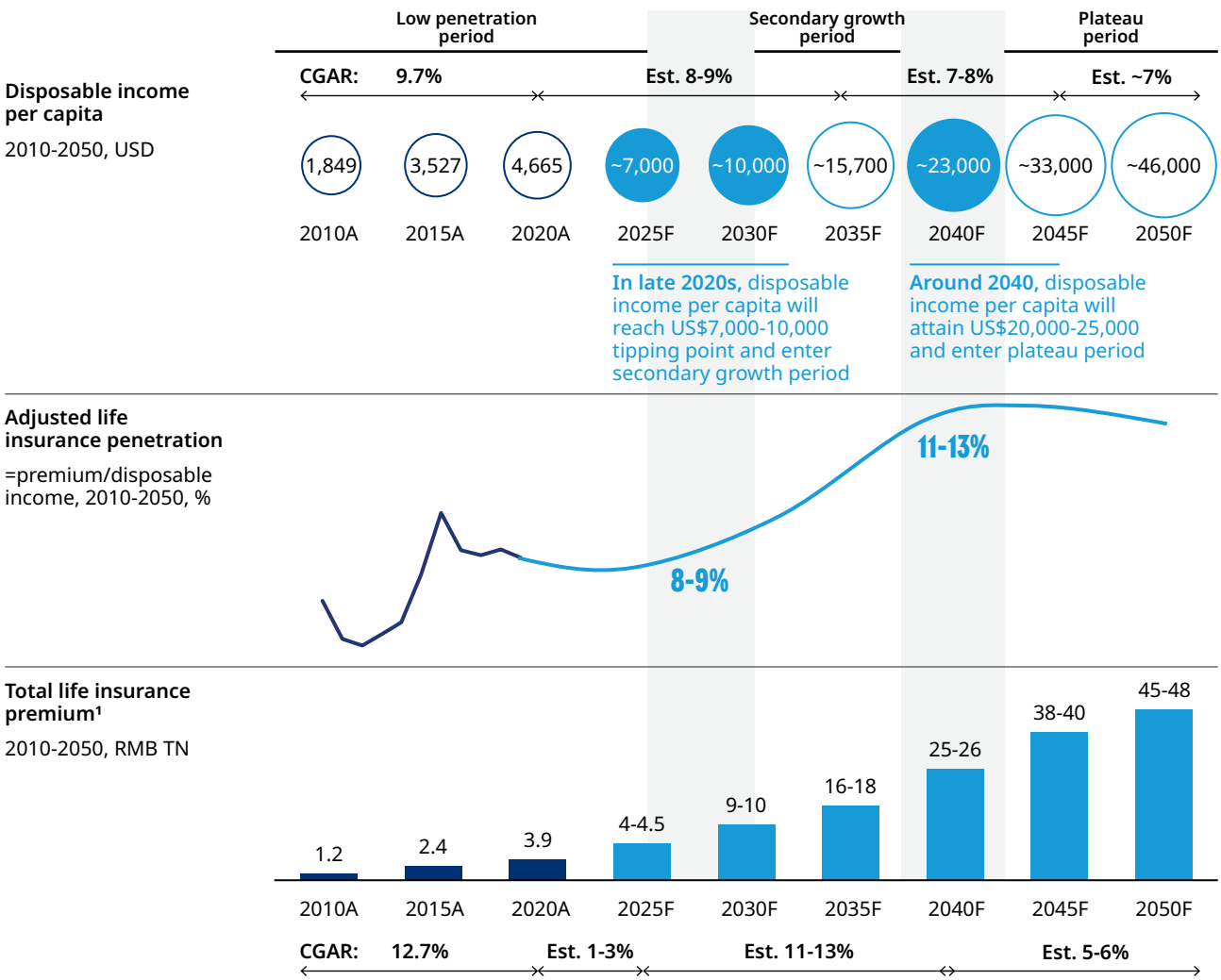


Source: Wind, S&P Global, Euromonitor, The Life Insurance Association of Japan, AXCO, Oliver Wyman analysis

In the next 5-10 years, with disposable income per capita hitting the US$7,000-10,000 tipping point, the Chinese life insurance market is expected to enter the next stage featuring rapid increase in life insurance penetration. Along the journey, with a 11-13% CAGR, China's life insurance market size will have surpassed that of the US by 2030 and becoming the largest life insurance market in the world; and tripled that of the US by early 2040s.

Growth acceleration will continue until disposable income per capita reaches US$ 20,000-25,000 by 2040. Although penetration is expected to stay relatively flat, market expansion will continue with a 5-6% CAGR as income rises. By 2050, the market size is expected to reach 45 trillion RMB in premium (see exhibit 15).

Exhibit 15: China's life insurance premium will reach RMB45 trillion by 2050



1. Includes the gross written premium (GWP) and deposit components for universal and investment-linked life products.

Source: The China Banking and Insurance Regulatory Commission, National Bureau of Statistics of China, Oliver Wyman Analysis

2.3. BACKBONE OF THE POTENTIAL: TRADITIONAL LIFE, ANNUITIES, AND HEALTH INSURANCE

To provide more colour for the 10x growth of the life insurance market, it is important to understand the backbone of the potential. As revealed by a bottom-up assessment, enormous protection gaps still exist for the Chinese population today. On the health insurance side, the protection provided by the existing products is ineffective while there is an over reliance on critical illness. Gaps are further observed in the protection needs against longevity risks and premature death, highlighting the underdevelopment of China's annuity and traditional life insurance products.

Based on the snapshot of the Chinese population today, remaining lifetime expenditure totals up to 1,600 trillion RMB tallying up all life-related risk exposures. The greatest financial needs for Chinese households lie in healthcare expenditure (about RMB 1,050 trillion) and pension support (about RMB 370 trillion). Children's education (about RMB 95 trillion) comes in third and is often paid for by working-age parents. Taking a probability-weighted view across the population, income substitution (about RMB 85 trillion) against various individual risk incidents (e.g. critical illness) is much more modest, despite its tail risk nature (see exhibit 16).

Exhibit 16: Chinese today face life-related risk exposure of about RMB 1,600 trillion

Bottom-up analysis of life insurance market demand, as of 2020

Demand type	Remaining lifetime demand, by age cohort, RMB TN								Aggregated need, RMB TN	
Healthcare expenditure	226	180	186	180	138	91	34	6	~1,050	Total risk coverage needed ~1,600 RMB TN
Income substitution for critical illness	3.2	3.0	3.8	4.4	3.9	2.4	-	-	~20	
Pension	42	40	50	60	61	60	44	1	~370	
Education expenditure	65	25	3	-	-	-	-	-	~95	
Income substitution for premature death	10	9	11	13	11	7	-	-	~60	
Income substitution for accidental death and disability	0.7	0.6	0.8	0.9	0.7	0.4	-	-	~5	
Age cohort	**0-9**	**10-19**	**20-29**	**30-39**	**40-49**	**50-59**	**60-69**	**70+**		
2020 population, million	**158**	**148**	**184**	**220**	**221**	**214**	**149**	**103**		

Note: Time value of money is not included in the analysis assuming both demand and coverage will grow at the same interest rate and overall inflation. But additional healthcare and education inflation is accounted for in the demand-side analysis.

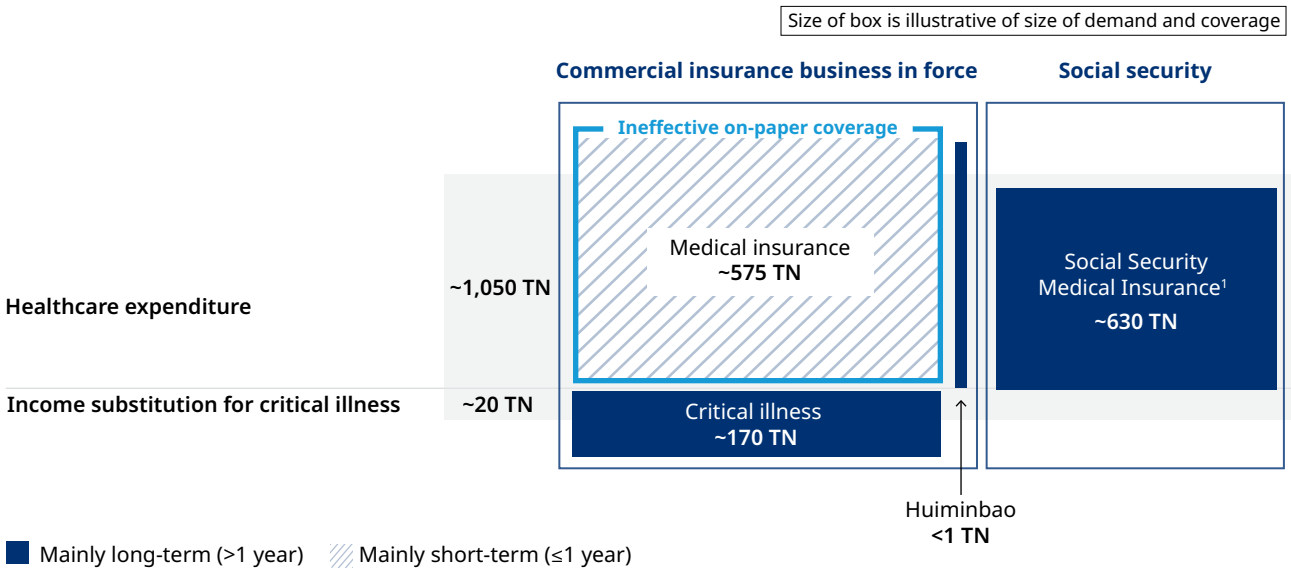
Source: The China Banking and Insurance Regulatory Commission, National Healthcare Security Administration, Ministry of Human Resources and Social Security, Peking University China Center for Economic Research, Peking University China Institute for Educational Finance Research, Census and Economic Information Center, China Household Finance Survey, Forbes, World Bank, Asset Management Association of China, Wind, Oliver Wyman Analysis

Against the RMB 1,600 trillion future expenditure, three sources of coverage can be considered: personal wealth, social securities, and lastly commercial insurance. As of 2020, total personal investable assets in China only amount to RMB 250 trillion. Despite future growth, it is still dwarfed by the total coverage needed and it is important to note its other uses including large chunk of spending on housing, etc. As such, the bottom-up gap assessment has focused more on the protection provided by social security and commercial insurances when identifying opportunities.

OPPORTUNITY: MEDICAL INSURANCE

Medical insurance is an opportunity that insurers cannot miss. As revealed in exhibit 17, social security alone cannot support the entirety of healthcare related expenditure for the population, especially since social health insurance itself is under pressure with the ageing society. On the commercial insurance side, despite the high on-paper coverage for each insured individual, pay-out from medical insurance is insufficient rendering ineffective protection. Penetration of commercial medical insurance is still low, explaining why commercial insurance is only footing 7% of the total healthcare bill today in China (see exhibit 18).

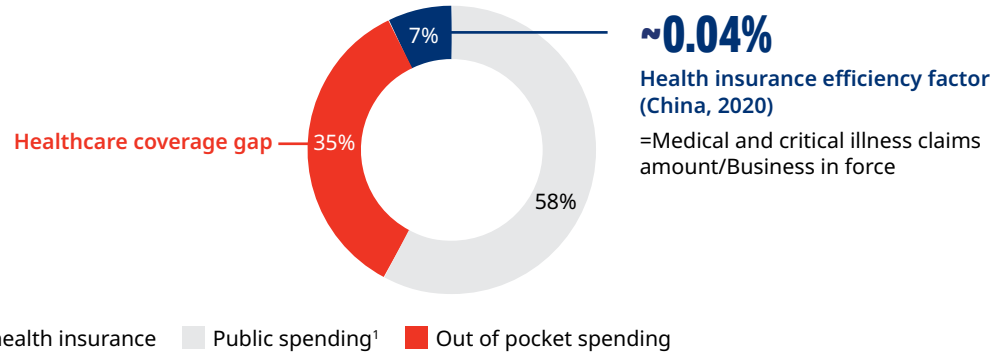
Exhibit 17: Ineffective medical insurance coverage and over-reliance on critical illness
Health risk related market gap as of 2020, RMB



Note: Time value of money is not included in the analysis assuming both demand and supply coverage will grow at the same interest rate and overall inflation. But additional healthcare and education inflation is accounted for in the demand-side analysis; 1. Assumes public healthcare spending remains at ~60% of total healthcare spending.

Source: The China Banking and Insurance Regulatory Commission, National Healthcare Security Administration, Ministry of Human Resources and Social Security, Peking University China Center for Economic Research, Peking University China Institute for Educational Finance Research, Census and Economic Information Center, China Household Finance Survey, Forbes, World Bank, Wind, Oliver Wyman Analysis

Exhibit 18: Low health insurance efficiency factor leaves 35% healthcare coverage gap
China's healthcare expenditure by payor, 2019



1. Includes government transfers and social health insurance.
Source: The China Banking and Insurance Regulatory Commission; World Health Organization

In addition, there is an over-reliance on critical illness insurance in the market. Critical illness insurance became one of the agency channel's main sales focuses given its relatively high commission rates among protection products after short-term investment-oriented products had become strictly regulated in 2017. This resulted in RMB 170 trillion coverage for critical illness against only RMB 20 trillion income-substitution needs (see exhibit 17). The surplus is often regarded as a supplement to medical expenditure, resulting in the over-reliance and lack of properly sought medical insurance protection. In addition, the redefinition of illness categories in early 2021[13] has largely boosted "last call' critical illness insurance sales and exhausted near-term consumer demand before the old products get phased out. **Focus groups with front-line agents have consistently confirmed the significant drop in critical illness insurance demands since March of 2021 owing to this "last call" effect.**

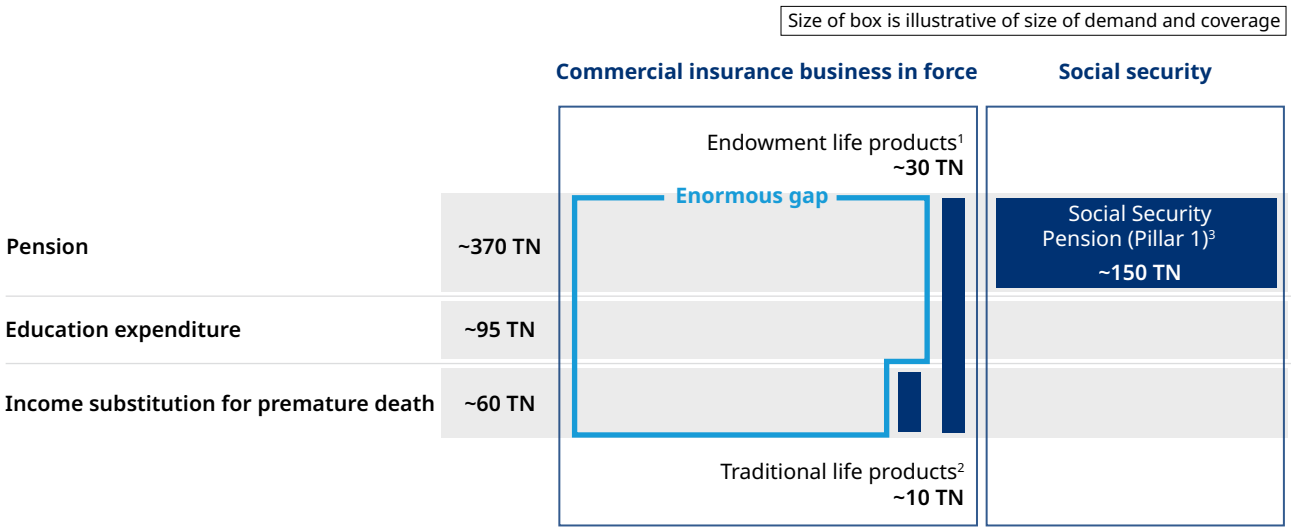
OPPORTUNITY: ANNUITY AND TRADITIONAL LIFE INSURANCE

Longevity and early mortality risks are poorly managed in China today, highlighting another set of products, annuities and traditional life insurances, which can fuel the future industry growth. As shown in exhibit 19, social security pension scheme (Pillar 1) is only plugging less than 50% of the pension need for the population. Taking a historical view, one can further observe the deterioration in Pillar 1 replacement ratio implying that Pillar 2 and Pillar 3 pensions will have to play necessary and critical complementary roles (see exhibit 20). However, annuity and endowment products today can only cover about RMB 30 trillion, much shorter of the pension need, highlighting the gap and opportunities for insurers and other asset managers. Nonetheless, as mentioned in Section 2.1, life insurers are well positioned to benefit from the development of the commercial pension schemes considering the longevity risk management expertise and the underlying long-dated asset-liability management capability the industry has.

13 The Insurance Association of China and the China Medical Doctor Association, "The Specifications for the Use of Illness Definitions for Critical Illness Insurance (2020 Revised Edition)" and "the Critical Illness Empirical Incidence Rate Tables of China Life Insurance Industry (2020)", published by November 5th, 2020 and implicated by February 1st, 2021

Exhibit 19: Enormous gap in annuity and traditional life products

Life risk related market gap as of 2020, RMB

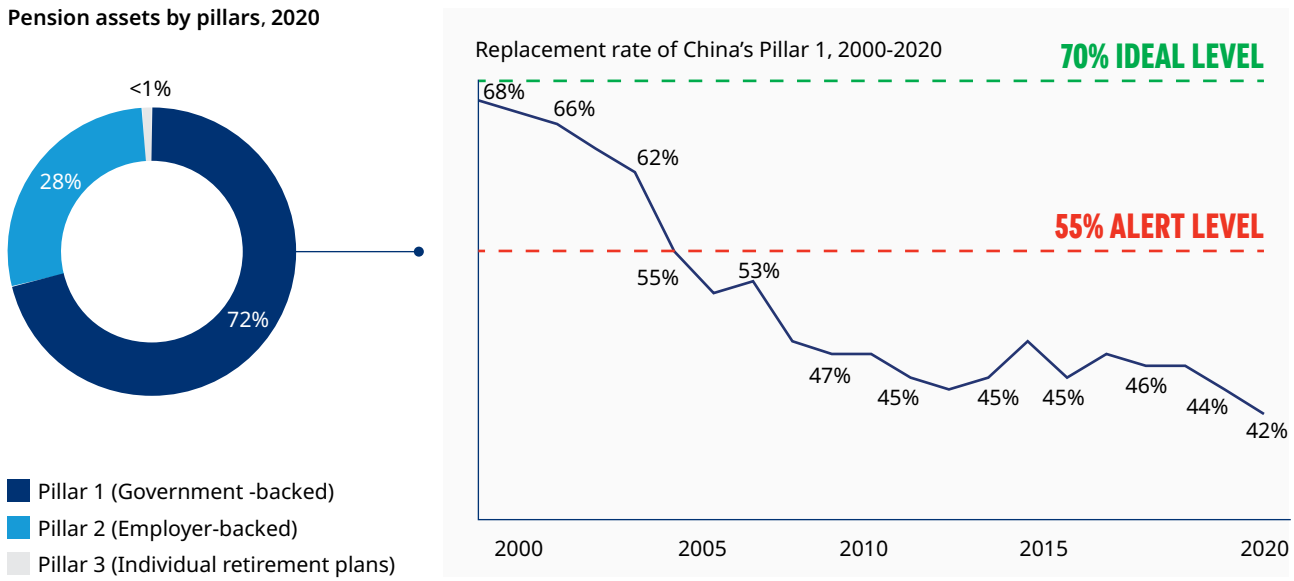


Note: Time value of money is not included in the analysis assuming both demand and supply coverage will grow at the same interest rate and overall inflation. But additional healthcare and education inflation is accounted for in the demand-side analysis.

1. Including endowment insurance, annuities, unit-linked products and universal life products; 2. Including whole life and term life products; 3. Assumes China Pillar 1 remains at ~40% replacement ratio.

Source: The China Banking and Insurance Regulatory Commission, National Healthcare Security Administration, Ministry of Human Resources and Social Security, Peking University China Center for Economic Research, Peking University China Institute for Educational Finance Research, Census and Economic Information Center, China Household Finance Survey, Forbes, World Bank, Asset Management Association of China, Wind, Oliver Wyman Analysis

Exhibit 20: Pillar 1's current replacement ratio calls for Pillar 2 and 3 pension development



1. Includes government transfers and social health insurance.

Source: The China Banking and Insurance Regulatory Commission; World Health Organization

In addition, the government is determined to build up the commercial pension schemes in China. The recent CBIRC announcement in August 2021 regarding the proposed establishment of the National Pension Insurance Company, funded by China's top six commercial banks, is a strong signal of the government's intentions to the market. Policymakers are planning to combine insurers' longevity risk management capabilities and bancassurance's strong distribution power to support China's ageing society. The market is positive about policy support for pension development, through either the bank or insurance sectors, or both.

Moreover, annuity products with Assumed Interest Rate as high as 3.5% is becoming more and more attractive compared to other "deposit substitutions", such as bank wealth management products. Since the introduction of the New AM Regulation in 2018[14], the bank wealth management products are no longer allowed to offer guaranteed return and facing a declining average rate of return (i.e., from 4.8% in June 2018 to 3.5% in June 2021)[15]. Such development leaves a unique opportunity for investment-oriented life products to fulfill Chinese customers' preference of products with guaranteed returns.

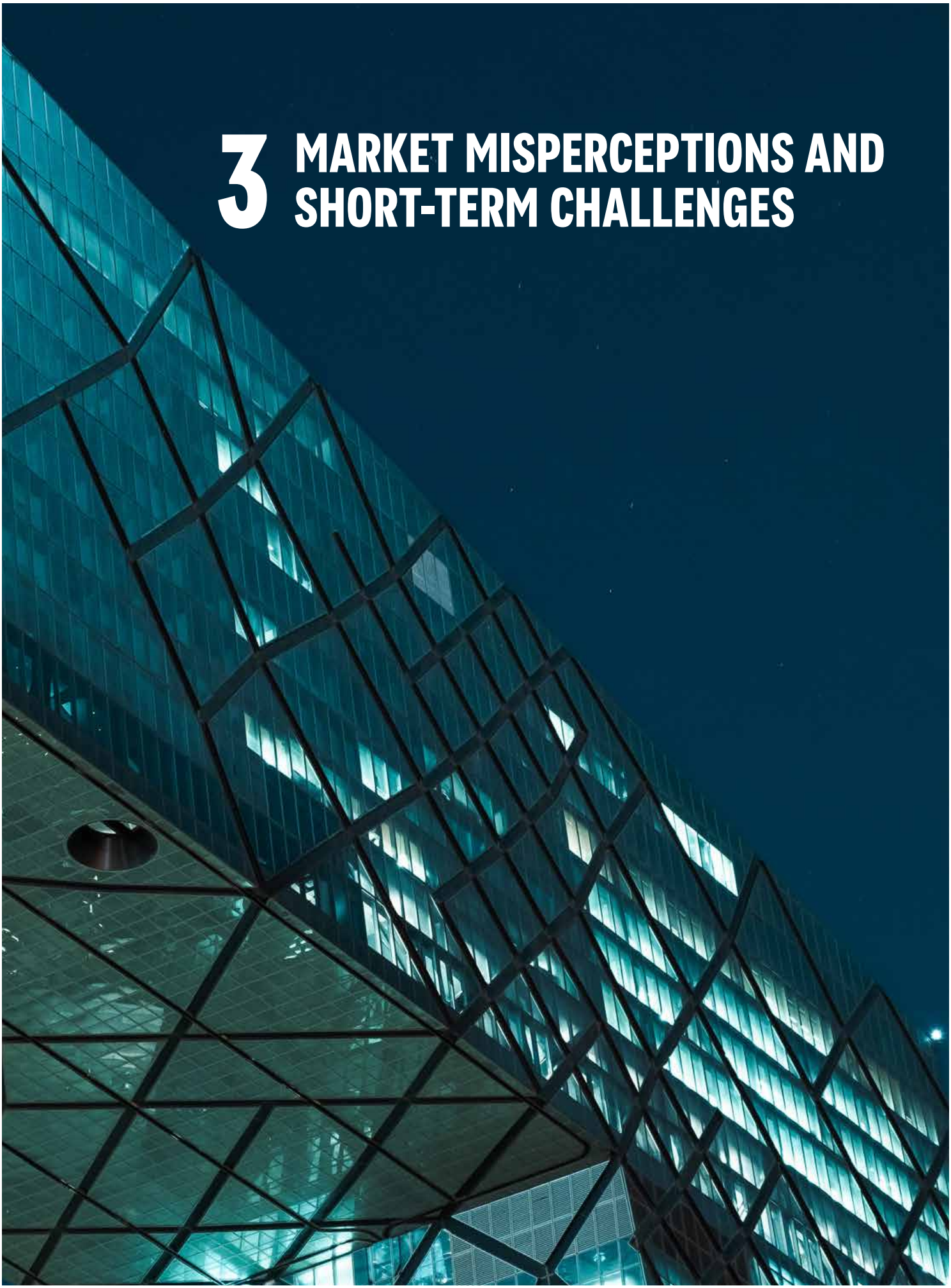
Lastly, **the analysis reveals insufficient income-substitution protection from traditional life insurance against non-accident premature death.** With RMB 60 trillion in estimated risk exposure, the current protection provided by traditional life insurance products only stands at RMB 10 trillion. Traditional life insurance products, especially term life, have limited scale today, partially due to the relatively low agent commissions. In addition, **premature death is also a taboo subject in Chinese culture according to agent focus groups, which adds to the challenge in the sales process of term life products.** Nonetheless, with channel and product innovation to overcome such challenges, life insurers can not only capture the opportunity but also respond to the "protection principle of insurance" as highlighted by the regulator and policymaker consistently over the past few years.

With the set of opportunities identified through a bottom-up assessment process, which is rooted in the fundamental needs of Chinese consumers, it is possible to concretely envision the growth of the market in the near future. Further stimulated by the continued income improvement and wealth accumulation of the Chinese consumers, the life insurance sector will enter into a fast growth stage until a 45 trillion RMB size is reached, and the market matures.

14 The China Financial Stability and Development Committee (FSDC), April 2018, "The Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (i.e., the New AM Regulation)". By January 2022, the New AM Regulation is fully implemented.

15 The Registration and Custodian Center of China Banking Industry, August 2021, "Semi-Annual Report of the Chinese Banking Industry Wealth Management Market (2021H1)".

3 MARKET MISPERCEPTIONS AND SHORT-TERM CHALLENGES



CHAPTER SUMMARY

The market, given the recent slowdown and negative growth in GWP and FYP, is obviously under a lot of pressure. At the time of drafting the report, industry challenges have been reasonably understood and attributed to the unhealthy model in the tied agency channel. However, many may still believe that digital could be a silver bullet and may also attribute the root cause to under-educated customer base along with cannibalisation from low-cost inclusive insurance products.

Oliver Wyman, after careful study, do not agree with some of the common believes. To demystify current market misperceptions and identify targeted supply-side reform initiatives to pull the industry back on track to growth, the most comprehensive life insurance primary research in recent years is conducted. A large-scale survey with 12,000 policyholders and focus group interviews with agents from twelve firms of diverse archetypes have been conducted to capture the market dynamics and cross validate findings from both the demand and supply sides of the market.

The following six core insights have been concluded based on the analysis of the primary study:

Insight 1

The traditional "mass-in-mass-out" model widely adopted by the industry is now suffering from unstable and low-quality agency workforce. Digging deeper, primary research finds that life insurance agents who churned quickly often entered the industry with unrealistic income expectations and an underestimation of the professionalism required (see exhibit 4).

Insight 2

Middle class and affluent segments are more underserved than saturated, due to the mismatch in the capabilities of the agency force versus the service quality required (see exhibit 5). As a result, the industry is yet to fully capture the opportunity of rising middle-class and affluent segments, which accounts for over 75% of life policyholders.

Insight 3

Agency reform is urgently needed. However, it has yet to invoke behavioural changes among tied agents in many cases; while early success has been observed among independent broker and agents who took similar measures a few years ago with extensive promotion and training.

Insight 4

Digital channel, albeit gaining traction, only accounts for 5-6% of GWP and is unlikely to challenge the leading status of tied agency and bancassurance. Although digital channel is popular for conducting research and purchasing simple products, consumers often switch to offline channels for purchasing complex long-term products (see exhibit 6). Without the ability to build trust digitally, the stagnation of the online penetration for life insurance is expected to continue.

Insight 5

Contrary to the view that Huiminbao may cannibalize commercial insurance sales, primary research has shown that it may help deepen commercial insurance penetration. Agents believe that Huiminbao may target different customer segments, aided by government marketing campaigns that are further enhancing insurance awareness in the population (see exhibit 7).

Insight 6

The inadequate protection in China is often not felt by the consumers, as many enjoy a false sense of protection likely stipulated by the existing policies they have purchased and low insurance literacy.

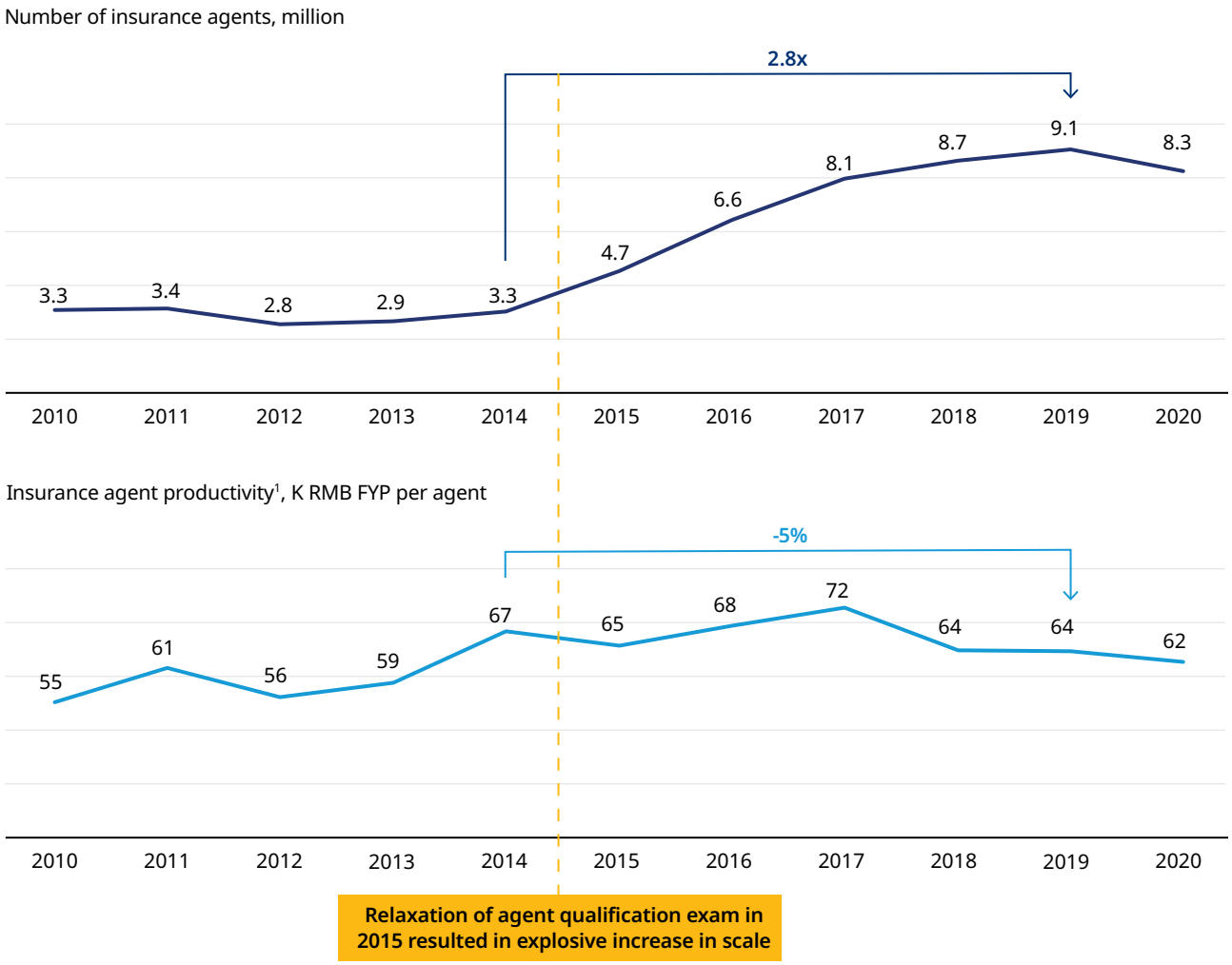
These headwinds will inevitably lead to an industry-wide slowdown, caused by a general lack of commitment to a customer centric business model. Fortunately, these challenges are not so fundamental that cannot be addressed in the short term. A structural reform is required where insurers need to put customer first and at the centre of their business model evolution.

INSIGHT 1 INFLUX OF TIED AGENTS WITH UNREALISTIC EXPECTATIONS LEADING TO UNSUSTAINABLE "MASS-IN-MASS-OUT" MODEL

The "mass-in-mass-out" model, concurrently featuring high rates of agent recruitment and turnover, used to be a key growth driver of the industry. In 2015, regulator-conducted agent qualification exam was cancelled, which lowered the job entry barrier for agents and allowed insurers to quickly ramp up their business by expanding their agency workforce. The industry's agency workforce increased 2.8 times from 3.3 million in 2014 to 9.1 million in 2019 (see exhibit 21), which has led total agency GWP to grow by almost three folds.

Exhibit 21: Influx of tied agents and deterioration in productivity

Tied agent headcount and productivity, 2010-2020



1. Estimated based on the tied agent channel FYP divided by the number of tied agents across six publicly listed insurers (i.e., China Life, Ping An Life, Pacific Life, PICC Life, new China Life, and Taiping Life).

Source: The China Banking and Insurance Regulatory Commission, Yearbook of China's insurance

While successful on surface, the model has also left the industry with an unstable and low-quality agency workforce. With many new agents flooding the industry, their average productivity deteriorated by 5% during the same period of time (see exhibit 21). **Based on agent focus groups, many agents entered the industry with unrealistic income expectations and they also underestimated the professional quality required. As summarized by interviews with some of the successful and experienced agents, this is a profession that requires the following attributes: 1) self-learning discipline to continue enhancing one's professionalism; 2) resilience in taking on pressure and accepting rejection; and most importantly, 3) belief in the value of insurance and passion for the industry.** It is difficult for newly recruited agents to meet such standards, and because of the poor economics, many leave the job within their first year (see exhibit 22).

As a result, turnover rates have stayed high above 50% since 2015. With the rise of gig-economy jobs in recent years, insurers face increasing challenges when trying to recruit new agents. Without the need to obtain insurance expertise and learn the corresponding sales tactics, food deliverers, ride-hailing drivers, and live-streaming broadcasters can easily earn as much as an agent if not more. Agent recruiting rates have steadily decreased since 2015 (see exhibit 23).

Exhibit 22: High churn rate after agents exhaust close friends and relatives as main sales targets

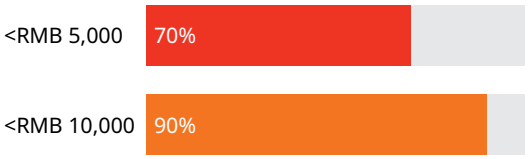
New agents	One year retention rate **~30%**	Three-year retention rate **~10%**
Freedom, and high salary without an entry threshold are key reasons attracting many agents to the industry Mainly rely on **close friends and relatives** to meet sales targets in this phase	When demand from close friends and relatives are almost exhausted within ~1 year, the expansion of the customer network is the **key bottleneck driving the churn of most agents**	**A broad customer network with stable inflow of referrals is usually built** Those who stay for a long-term career share the characteristics of: • Disciplined self-learning in professional knowledge • Resilience in taking pressure and rejections • Genuine passion for the industry
To most people who do not understand the industry, they believe that it is an easy job given the absence of an entry threshold. However, the jobs that appear the easiest are never easy. **People entering this industry with the wrong expectations usually leave very soon.** An agent from a foreign insurer	**If the agent has his own savings, social network, and resources, these would give him a lot of help in the early stage of his career, especially in the first 3 months or 6 months. This is an industry that requires the long-term accumulation of resources.** An agent team leader from a tier 1 domestic insurer	**Each agent should be passionate for their company, because you can only sell what you believe in.** **An agent can only excel in the industry if they have high recognition of the brand for which they stand.** An agent team leader from a tier 1 domestic insurer

Source: The primary research supporting the report, Report of Human Resources in China Insurance Industry 2019

Exhibit 23: Tied agency channel with high turnover and deteriorating recruitment

Unattractive income

Monthly income of insurance agents in 2019



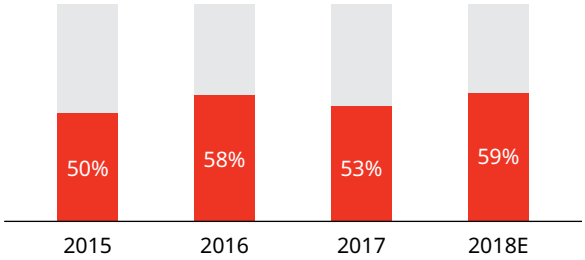
versus

Median monthly income of gig-economy jobs

Delivery riders	**~6,000 RMB**
Ride-hailing drivers	**~7,000 RMB**
Micronet	**~9,000 RMB**
Live-streaming broadcasters	**~10,000 RMB**

Consistently high turnover

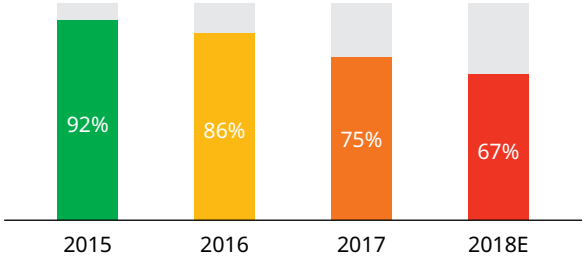
Turnover rate
No. of agents left over the year/employed start of the year



Turnover rate of insurance agents has remained high since 2015, indicating significant team instability

Inreasingly challenging recruitment

Recruitment rate
No. of agents hired over the year/employed start of the year



The sharply decreasing recruitment rate will be unable to support the teams' continued expansion

Source: Insurance Association of China, Report of Human Resources in China Insurance Industry 2019

INSIGHT 2 INADEQUATE COVERAGE FOR THE MIDDLE-CLASS AND AFFLUENT DUE TO MISMATCHED AGENT QUALITY

Among the surveyed consumers dissatisfied with agent services, 21% complain about the frequent change of agents, and thus the inability to develop a stable relationship and trust with any one agent. The consumers' attitude to the 'mass-in-mass-out' model is costing the industry acceleration opportunities.

Lack of trust with agents is especially profound among the middle-class and above customers. According to the agents interviewed, the middle-class and above segments are the target segments for life insurance products given their sufficient income, vast protection gaps, and improving insurance literacy. This view is corroborated by the results of the consumer survey featuring the response from 12,000 policyholders. **Despite making up only 30% of the entire population of age 15 and above, the middle-class and above segments account for about 75% of life insurance policyholders,** reflecting their vast potential. However, affluent and above consumers are having difficulty in finding elite insurance agents who understand their distinct needs and pain points. Similarly, as post-90s customers enter the middle-class segment, they struggle to obtain professional insurance advice that is tailored to their needs. The low-quality and unstable agency workforce that has resulted from the "mass-in-mass-out" model is inadequate to serve the target segments of the life insurance market, and therefore missing opportunities that would otherwise accelerate business growth (see exhibit 24).

Exhibit 24: Underserved middle-class and above segments

	Population by wealth tier[1]	Life insurance customers by wealth tier[2]	Customer potential	Agent coverage effectiveness
Affluent and above Annual Income: >RMB 300,000	~1% ~20MN people	34% 4,088 respondents	✓ Diverse needs to be covered by multiple policies ✓ Easy to convert if essential pain points can be identified	✗ **I can't find that many wealthy prospects in my network.** Even if I met with one, I don't know what to talk with them. **Without common topics for small talks,** hard-sale is very difficult. Agent from a tier 2 domestic insurer
Middle-class Annual Income: RMB 100,000-300,000	~30% ~350MN people	41% 4,907 respondents	✓ Family oriented and recognize the value of insurance ✓ Protection gaps grow with progression in life stage	✗ Young agents are ideal for serving post-90s customers middle-class who are their peers... But y**oung agents are hard to recruit or retain** Agent team leader from a tier 1 domestic insurer
Mass Annual Income: <RMB 100,000	~69% ~800MN people	25% 3,005 respondents	✓ Some needs among the upper mass segment who are expected to migrate to the middle-class ✗ Limited income after covering basic life needs ✗ Less educated about risk transfer mechanisms	**>80%** of agents are in the mass segment themselves More than enough to cover their own cohorts

1. Age 15 and above; 2. Proxy based on survey respondents (n=12,000).

Source: Public data, The primary research supporting the report, Oliver Wyman analysis

INSIGHT 3 AGENCY REFORM IS BEYOND SIMPLY OFFERING DIGITAL TOOLS TO AGENTS

With the above-mentioned challenges and missed opportunities, reforming the "mass-in-mass-out" model is urgently needed, but it will take time and effort for the impact to kick in. Leading insurers are taking charge of the issue, but the sheer size of their respective workforces means any new model implementation will take time. **As revealed through agent interviews, transformative measures and digital enablers have been rolled out by leading insurers, but their deployment has not been perceived as effective due to the lack of promotion and training.** In short, it is not enough to simply give agents digital tools and expect them to fundamentally change how they behave. That explains why any tangible increase in workforce productivity has yet to be witnessed.

In contrast, non-tied agents from independent agencies and brokers have started utilizing adaptive measurers earlier, as they have been provided with more sufficient training. In interviews with independent agents, they gave positive comments on the transformation, appreciating the commercial effectiveness of the digital tools and measures once they formed the habit of properly utilizing them (see exhibit 25).

Exhibit 25: Insurers' agency reform yet to invoke behavioural change

The progress of agency reform initiatives across the industry

	Agency reform measures	Deployment & implementation	Behavioral change
Tied agencies of insurers	Some leading insurers have introduced agency reform measures, especially in digital enablement	Not yet fully deployed, some still in pilot phase Promotion and training of digital tools is often insufficient	Limited behavioral change observed, productivity uplift often not perceived by agents
Independent agencies and brokers	Advanced analytics tools often provided Systematic methodologyin assessment of family protection gaps	Widely deployed in customer acquisition process, e.g. monitoring customer segment interest with click-through rate of WeChat articles	Impact perceived in higher success rate in customer acquisition

Feedback from agents on progress of reform initiatives

> **We are too large to turn around. We need to wait until the new systems are tested by the entire industry.**
>
> Agent team leader from a tier 1 domestic insurer

> **There are a lot of different digital tools availabl but we do not know their benefits and no one trains us on their uses.**
>
> Agent from a tier 1 domestic insurer

> **We have some of the latest articles [from the company] to share on WeChat Moments, where we then receive feedback, as long as the reader opens the link, e.g. how long he/she spent reading the article, whether or not he/she forwarded the link. If the customer has more clicks or a longer reading time, he/she is interested and I can then follow up. This truly raises our conversion rate.**
>
> Agent from an independent broker

Source: The primary research supporting the report

INSIGHT 4 DIGITAL CHANNEL WITH INHERENT LIMITATIONS IS UNLIKELY TO CHALLENGE THE CURRENT DISTRIBUTION LANDSCAPE

Given the challenges with the tied agency channel, some insurers, especially the smaller ones, are going online as an alternative. However, **the digital channel is unlikely to challenge the current distribution landscape that dominate by offline tied agency and bancassurance channels,** accounting for approximately 60% and 30% of total life GWP, respectively.

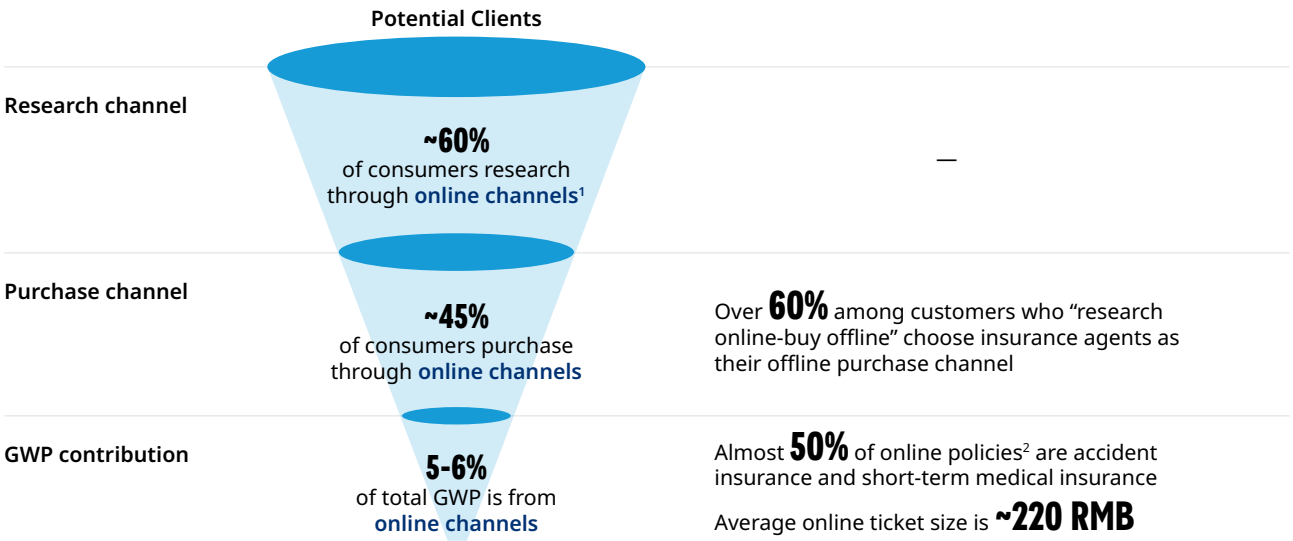
The digital channel is effective for simple product sales and product promotions, but it fails to pick up the volume necessary for complex long-term life insurance products. There is no doubt that China has been a pioneer in digital ecosystems, which has changed the dynamics of many industries fundamentally, including insurance. For the life insurance sector, the online channel has proven effective for standardized, self-explanatory, and small ticket-sized products. For more complex and long-term products, in-depth communication is needed before consumers make purchasing decisions. The human touch rather than digital interfaces can better serve consumer needs. In addition, the digital channel plays an essential role in promoting product knowledge and reducing information asymmetry. **The consumer survey results confirmed that the digital channel, especially third-party platforms, is popular for conducting research. When it comes to the final purchase, however, many shift to offline channels.** As such, the trust and after-sales service offered by offline professionals and direct channels are irreplaceable (see exhibit 26).

Efforts to push more complex products online have also been observed among digital insurance platforms, but they have also decided to build sizable telemarketing teams. This in effect means online insurance distribution is a headcount-driven “people business” and confirms the irreplaceability of the “human touch” needed in the life insurance sales process.

“Trust” is the prerequisite of insurance sales, especially for more complex and large ticket-sized products. The human touch is indispensable in building trust. Today, the digital channel only accounts for about 5-6% of total life GWP, with this cap observed in non-accident and health life, and accident lines (see exhibit 27). **Without the ability to build trust digitally, the stagnation of the online penetration for life insurance is expected to continue,** especially after the release of new regulations targeting inappropriate online marketing and sales conduct[16].

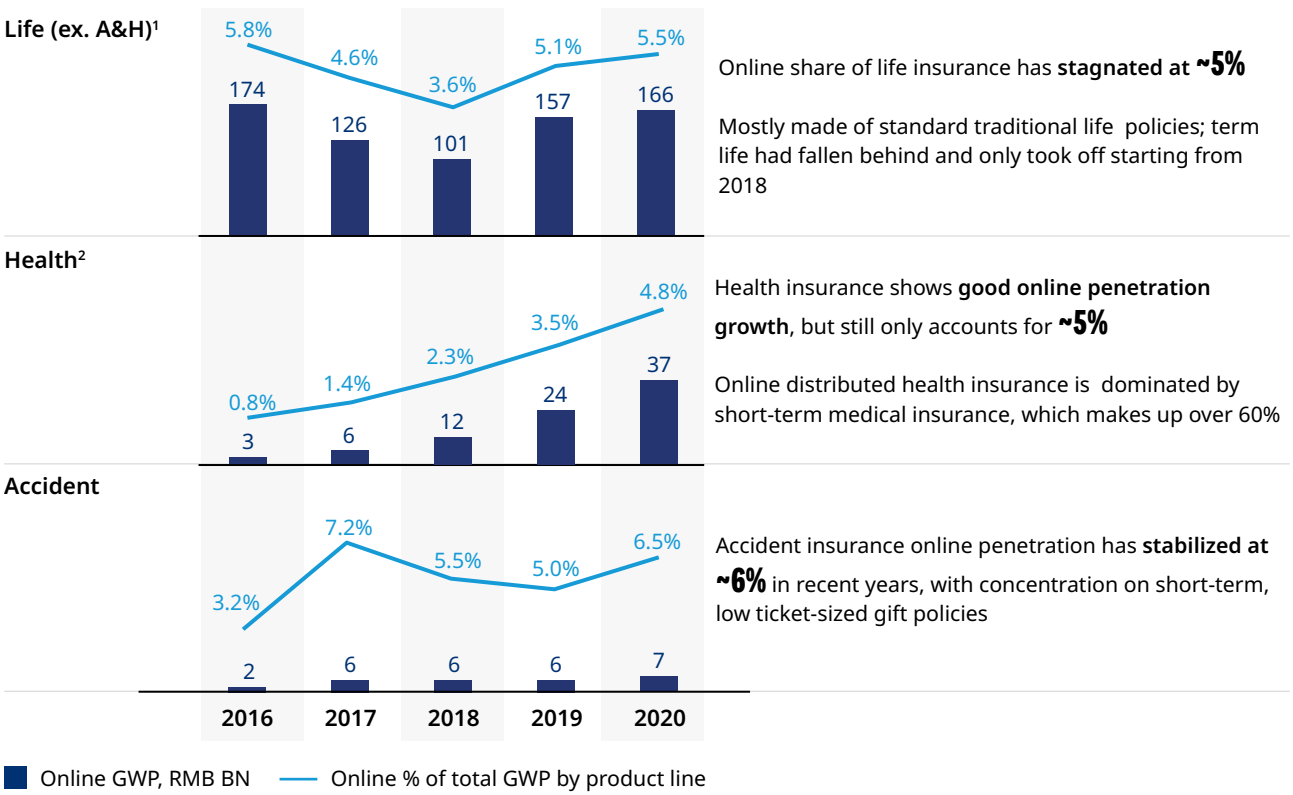
16 CBIRC 2021 [108] “Notice of the China Insurance Regulatory Commission on Regulating the Online Life Insurance Business of Life Insurance Companies”.

Exhibit 26: "Research online — Buy offline" is commonly observed and "Human Touch" is necessary especially for complex long-term products



1. Including insurers' own online channel and 3rd party online channels; 2. In terms of number of policies.
Source: The primary research supporting the report, 2016-2020 online life insurance market analysis report

Exhibit 27: Online penetration of life insurance stuck at about 5-6%



1. Include traditional life, participating life, universal life, and investment linked life; 2. Include medical insurance and critical illness insurance.
Source: 2016-2020 online life insurance market analysis report, The China Banking and Insurance Regulatory Commission

INSIGHT 5 HUIMINBAO TO SPUR COMMERCIAL HEALTH INSURANCE, NOT CANNIBALISE

Initially introduced in Shenzhen in 2015 and further catalysed by the COVID pandemic in 2020, the city-specific inclusive supplementary medical insurance **Huiminbao (also known as "Benefit the People" Health Insurance) has rapidly blossomed across cities in 26 provinces in China.** Adopting a municipal government-led, commercial underwriting, voluntary enrolment, and multi-channel financing model, Huiminbao has quickly gained traction, as it is offered at a deep discount with relaxed health notifications, no age restrictions, and high insured amounts.

Yet, Huiminbao is still at a nascent stage, and its future success depends on its commercial sustainability. By the end of May 2021, there were more than 50 million insured individuals under Huiminbao. Contributing to less than 0.2% of China's total health insurance insured amount, Huiminbao has yet to enter the mainstream in providing healthcare coverage. Moreover, although "thin profitability" is expected and "minor losses" can be accepted, the model's long-term commercial viability is in question. Shenzhen Huiminbao recorded a 5.5% loss from 2017 to 2020. Shanghai Huiminbao also witnessed quadrupling pay-outs from July to September 2021, putting its profitability at significant risk. Huiminbao's highest priority is to balance product attractiveness and actuarial pricing rigor before further coverage expansion and large-scale rollout.

Contrary to the view that Huiminbao may cannibalize commercial insurance sales, primary research has shown that it may help deepen commercial insurance penetration. Agents believe that Huiminbao may target different customer segments, aided by government marketing campaigns that are further enhancing insurance awareness in the population. All the agents in the focus groups said they have received an influx of inquiries from existing and new customers about Huiminbao, and took the opportunity to educate them better. The consumer survey confirms that there is ~25-35% greater commercial health insurance purchase intent from respondents who had already bought Huiminbao compared with those who had not (see exhibit 28).

Exhibit 28: Positive effect expected by Huiminbao on China's commercial health insurance

Huiminbao supplements commercial health insurance with different customer targeting

- Low-income customers who cannot afford commercial health insurance in the first place
- Elderly customers or those with pre-existing conditions who cannot buy commercial health insurance

Huiminbao is intended to serve the elderly population, and those with medical conditions. They cannot buy commercial medical insurance... [so] there is not much impact to commercial health insurance sales.

Agent from a tier 1 domestic insurer

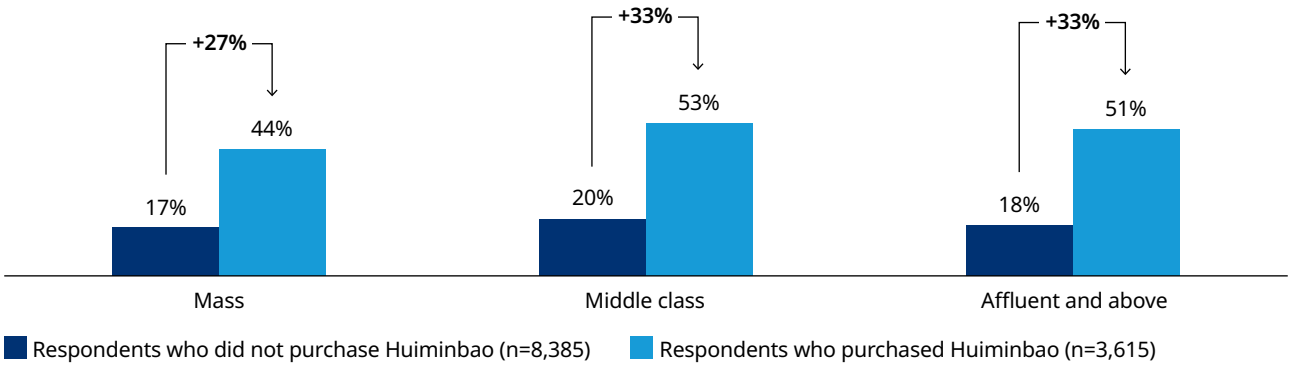
The launch of Huiminbao provides a great opportunity for educating the general public on medical insurance

I love it when customers consult me on questions about Huiminbao; then I can get the chance to explain insurance concepts to them.

Agent from an independent broker

Customers who had already bought Huimingbao are more willing to purchase commercial health insurance

Survey Question: Do you plan to purchase commercial health insurance in the future?



Source: The primary research supporting the report

INSIGHT 6 FALSE SENSE OF PROTECTION AMONG CUSTOMERS WITH WEAL INSURANCE LITERACY

Since 2016, regulators have started to advocate for the function of insurance's long-term protection[17], noticing the insufficient protection provided by the current products. In the 16 December 2020 State Council Standing Committee Meeting, the former deputy chairperson of the CBIRC commented on the issues on the different types of life insurance products offered in the market:

- **For traditional life:** "There is significant room to improve long-term life insurance product penetration in China. However, existing products are undifferentiated and not tailored to consumer demands."
- **For annuities:** "More product innovation is required for pension annuity products to provide lifelong protection against longevity risk."
- **For health insurance:** "Undifferentiated health insurance products are facing furious price competition while failing to provide effective protection, with low claim amounts versus coverage."

However, such protection gap is not felt by the consumers who enjoy a false sense of protection likely stipulated by the existing policies they have purchased and low insurance literacy. Sufficient protection provided by insurance is commonly perceived among the majority of surveyed respondents, even for those that have only one in-force policy. This clearly indicates weak insurance literacy across all wealth tiers. Moreover, **the individuals surveyed are generally incapable of differentiating the protection functions of the different products,** as a similar perception of protection sufficiency is rated (i.e. about 80%) among those insured, even though they may have vastly different levels of coverage (i.e. having one type of policy to as many as four types of policies) (see exhibit 29).

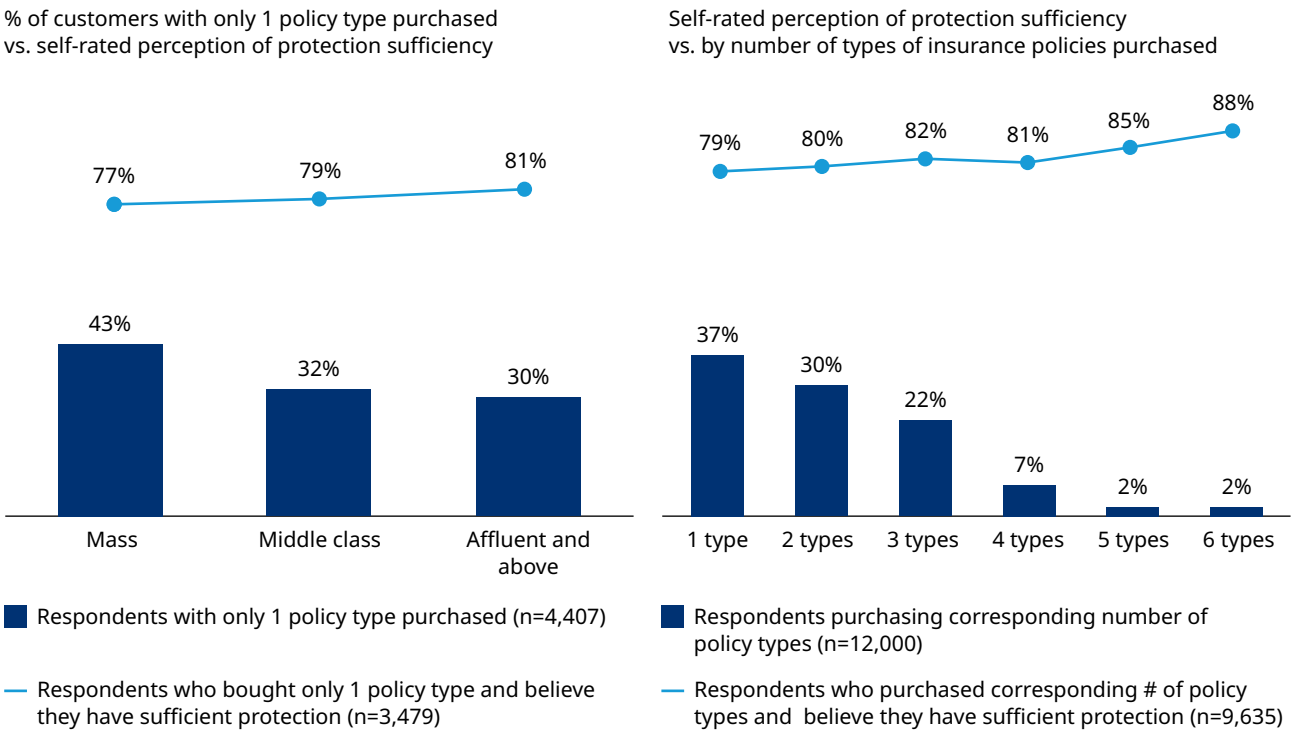
Medical insurance can shed more light. In the case of "million-yuan-medical-insurance", the seemingly high assured amount on paper is usually a marketing tactic to attract customers' attention, and claims are often strictly managed. **China's insured consumers are generally unaware of the low effective pay-outs, and so enjoy a false sense of protection. Among the surveyed insurance customers with only medical insurance policies in force, 72% believe that they have sufficient coverage for all protection needs, suggesting an inaccurate self-assessment.** It is also a blind spot for Chinese consumers to understand the high renewal risk for short-term medical indemnity policies.

17 Since 2016, the CBIRC released several regulations to reemphasize the protection function of insurance and rectify the instances of misconduct regarding investment-oriented products; the relevant regulations include "Notice of the China Insurance Regulatory Commission on Strengthening the Supervision of Personal Insurance Products", "Notice by the General Office of the China Banking and Insurance Regulatory Commission of Issuing the Actuarial Provisions on Ordinary Personal Insurance", etc.

Insurers may lose customer trust in the long run once customers realise that there is indeed a protection gap. Should this persist, consumers who originally purchased the "cheap" insurance with attractively high on-paper coverage may lose trust in these products and so refuse to renew them. Thus, not only insurer profitability and segmental growth could be affected, but consumers may also be exposed to unnecessary risks due to their loss of faith in these types of products.

As to commercial pension, **China's middle-class and affluent customers have started to recognize the value of annuities and endowment products for savings and wealth preservation purposes. However, these products are often regarded as "important but not urgent" and extensive education is required to catalyse the conversion** (see exhibit 30). Hence, front-line agents responded positively towards the CBIRC's announcement in August 2021 regarding the proposed establishment of the National Pension Insurance Company. **In interviews with agents, they voiced the expectation that the top banks' involvement nationwide will help enhance customer education and cultivate the market.**

Exhibit 29: False sense of protection commonly exists



Note: The six types of life policies in-force defined in the survey include the following: General life insurance (whole life and term life), participating life and annuities (incl. pensions), investment-type insurance (universal life and unit-linked), critical illness, health insurance, and accident insurance.

Source: The primary research supporting the report

Exhibit 30: Proactive education is needed to catalyse commercial pension market

Agents interviewed across the market believe that pensions and annuities will drive the next wave of growth

- Mainly demanded by middle class and affluent customers
- Policy support in Pillar 3 pension products widely recognized

> **Some middle-class customers may have greater demand for pensions and annuities than affluent customers, as they have limited choices for investment vehicles.**
>
> Agent from an independent broker

Agents believe that insurers will play an irreplaceable role along with banks in offering pension products

- Longevity risk management, long track record in asset management capabilities, and value-add services provided

> **In the pension market, product earnings is the main consideration factor for customers, and after-sales services is a critical second factor. Bancassurance cannot offer after-sales services, such as aging care, but we [insurance companies] can.**
>
> Agent from a tier 1 domestic insurer

VS.

However, pension demand does not naturally convert into purchasing decisions easily, as long-term saving products are often regarded as "important but not urgent"

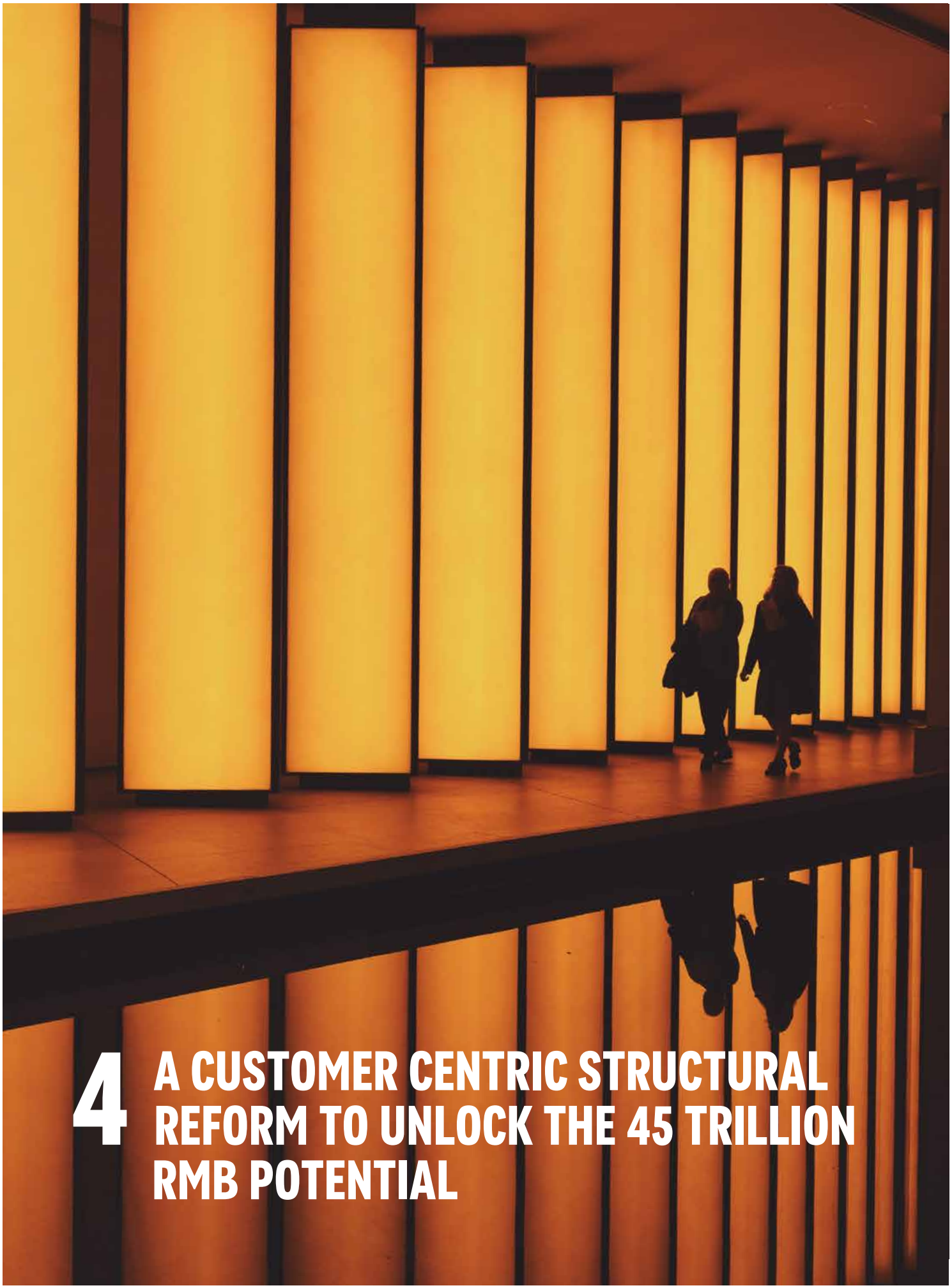
~70%

of surveyed individuals believe that they have received sufficient coverage for pension and retirement

> **Annuity or pension products are a hidden demand...While customers may have considered their needs, they think it is important but not urgent, and so let it sit aside.**
>
> Agent from a foreign insurer

Source: The primary research supporting the report

As revealed by the primary study, challenge in the tied agency channel is merely a surface level cause of the issues the industry is facing. The root cause is a general lack of commitment to a customer centric business model. The "mass-in-mass-out" model focused too much on agency sales and dismisses the importance of quality and long-term trust building with customers. Products that left customers with a false sense of protection not only erode the customer value for insurers today but also dampen the reputation of the industry in the future. Fortunately, these challenges are not so fundamental that cannot be addressed in the short term. A structural reform is required where insurers need to put customer first and at the centre of their business model evolution.



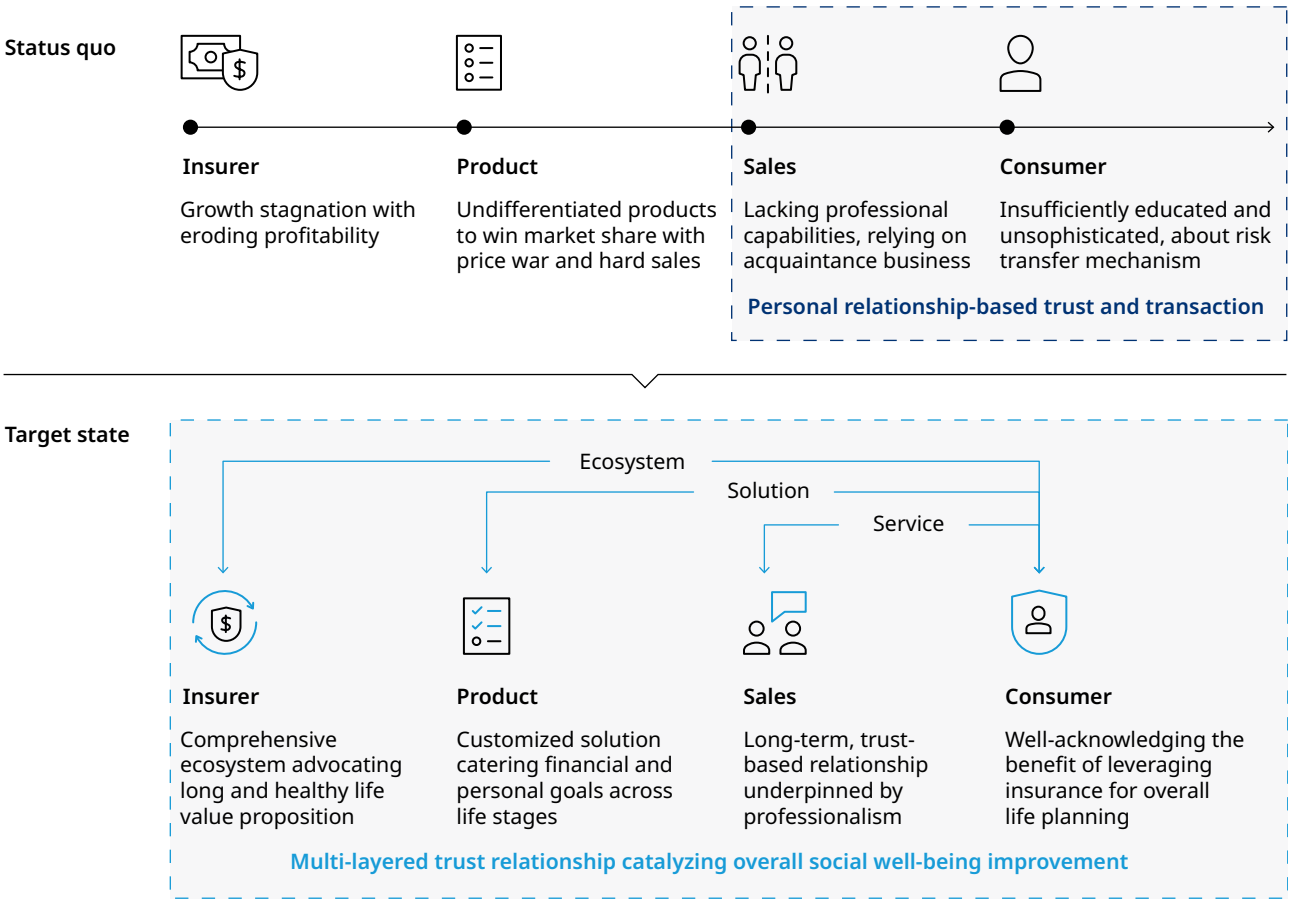
4 A CUSTOMER CENTRIC STRUCTURAL REFORM TO UNLOCK THE 45 TRILLION RMB POTENTIAL

CHAPTER SUMMARY

To address the aforementioned short-term challenges in Section 3 and seize the long-term opportunities identified in Section 2, **a customer-centric model, which links customer profile & needs, product sales & service delivery channels, and insurance ecosystem offerings together, should be adopted. At the heart of the model is a mindset change from focusing on product sales to fulfilling customer lifecycle needs.** Adopting such a model means gradually building trust with customers in three layers (see exhibit 31):

- **Trust in sales:** Emphasis on professionalism instead of personal relationships. End-to-end upgrades along qualification and registration, professional training, compensation and incentivization, and long-term career development support are needed to reboot the tied agency model
- **Trust in product:** Differentiation in product innovation and customization instead of price. Insurers need to upgrade the existing vanilla products to tailored solutions with high quality services attached that truly address customer needs
- **Trust in insurer:** Enrichment in brand value with life insurers becoming the advocators of living a long and healthy life through ecosystem building, and committing investment in customer education

Exhibit 31: Multi-layered trust building is key to boosting China's life insurance industry



Source: Oliver Wyman analysis

To kick-start such a customer-centric reform, life insurers can take a full suite of initiatives include:

- Building a customer-centric ecosystem
- Reforming the agency channel to serve middle-class and above customers
- Upgrading 2B2C capabilities with institutional partners to improve end customer value proposition
- Enhancing digital capabilities to capture broader market and kick-start customer services and conversion

4.1. BUILDING A CUSTOMER-CENTRIC ECOSYSTEM

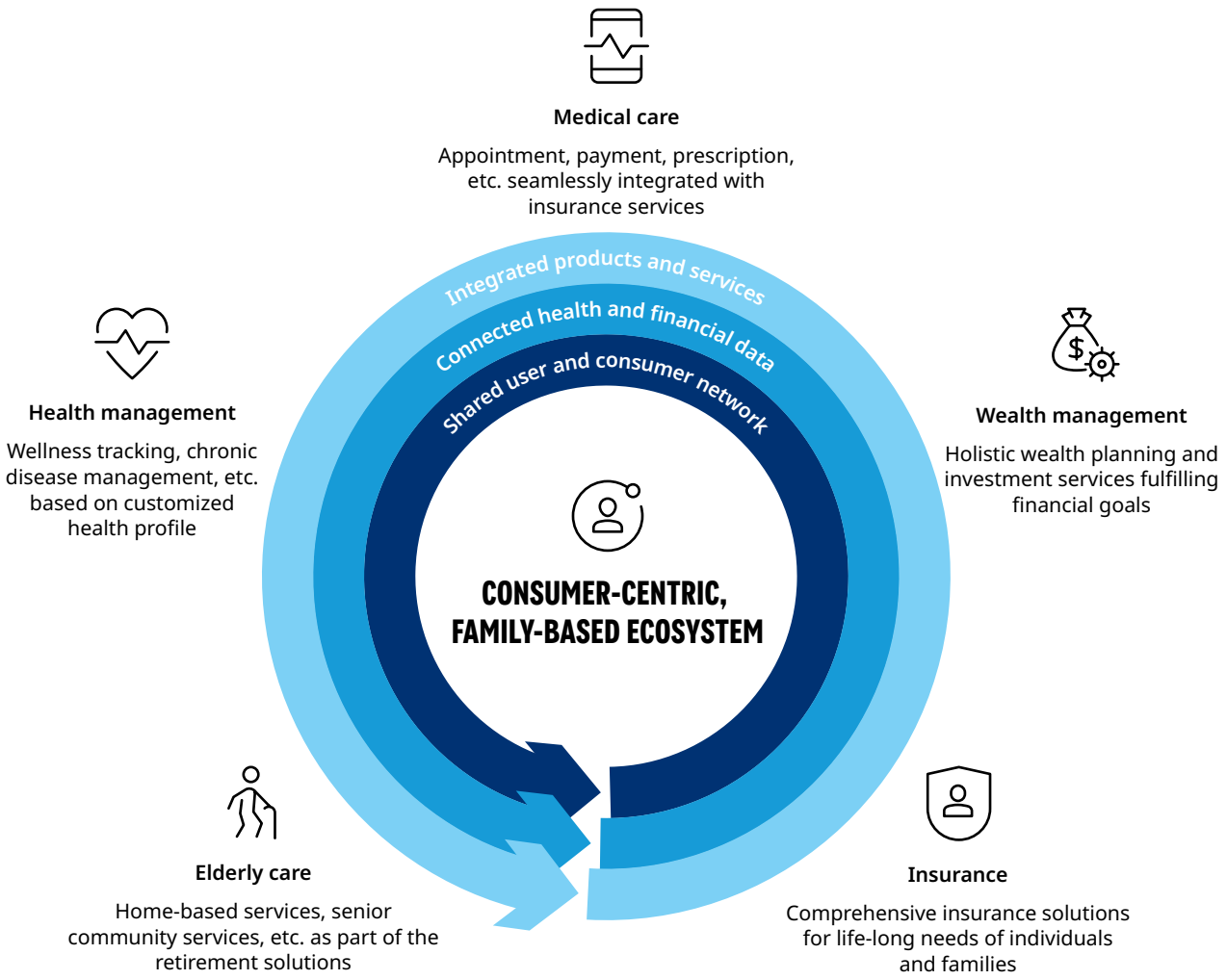
Underpinned by a customer centric structural reform, insurers need to engage with consumers, understand their needs, and deliver the right offerings in the most suitable scenario. To enable the success, a customer-centric ecosystem needs to be established. Specifically, such an ecosystem should effectively integrate insurance with other customer-centric services through the following three layers (see exhibit 32):

- **Shared user and consumer network:** It is critical for insurers to develop the capability to aggregate and manage online and offline traffic with different types of life services to attract customers to the platform in their daily lives; the core is to establish a common customer base across all products and services offered
- **Connected health and financial data:** Insurers need to link their data across different products and services together to harness a comprehensive view on customers; cross-service scenario data analytics capabilities, such as federated learnings, are essential to establish comprehensive customer insights, without comprising data privacy or security
- **Integrated products and services:** The ultimate success of an insurance ecosystem lies in having company values embodied in the integrated products and services with multi-dimensional user relationships. **Beyond simply a full range of life insurance products, ecosystem platform services should further include medical care, health management, elderly care, and wealth management services. What the insurer can provide through the ecosystem platform is way beyond a simple combination of "insurance + services" but a modularised approach to meet the life needs of its customers** with a wide range of products and services that can be combined and matched together. A deep-rooted impression of an insurer's branding reflecting the pursuit of high-quality life and common prosperity will differentiate the insurer from its competitors with homogenous offerings

One approach is to build a closed ecosystem with considerable influence over all service providers. Under such a model, life insurers will have an elevated level of control in service quality and efficiency in service mobilization across subsidiaries or departments to respond to market changes. However, this will require significant investment. For example, an ecosystem centred around retirees may require the build-up of retirement communities with comprehensive medical and healthcare support facilities.

An alternative is an open ecosystem with third party providers welcomed. It gives the flexibility in enlisting a broad range of services under the partner network in an asset-light model, while letting all the ecosystem participants enjoy the scale benefit of the ecosystem platform. However, partnership negotiation and quality control over the third-party partners will be key.

Exhibit 32: A consumer-centric ecosystem to integrate services and solutions



Source: Oliver Wyman analysis

The build-up of either a closed or an open ecosystem, or a hybrid one, would require years of commitment in aggregating a holistic range of services from different stakeholders, so as to attract a critical user-base mass, and connect the services with health and financial data analytics. As such, life insurers require strong faith in their long-term strategic goal and be willing to devote significant resources to achieve it.

As the ecosystem builds up over-time, it should be embedded into all delivery channels the insurers may have, including the agency channel, 2B2C channels, and digital ones. Critically, agents need to be trained to leverage the ecosystem and become the representative of the system in services delivery and relationship management beyond the simple sales role they originally would take. Customer traffic management in 2B2C setting could be intricate but the support by the ecosystem should be a complement rather than a distraction to end users. The established ecosystem should also have a digital delivery portal so that it can go hand-in-hand with the digital channel to ensure user base development and continuous digital customer value management.

4.2. AGENCY CHANNEL: MIDDLE-CLASS AND ABOVE CUSTOMERS SERVED BY HIGH-QUALITY AGENTS

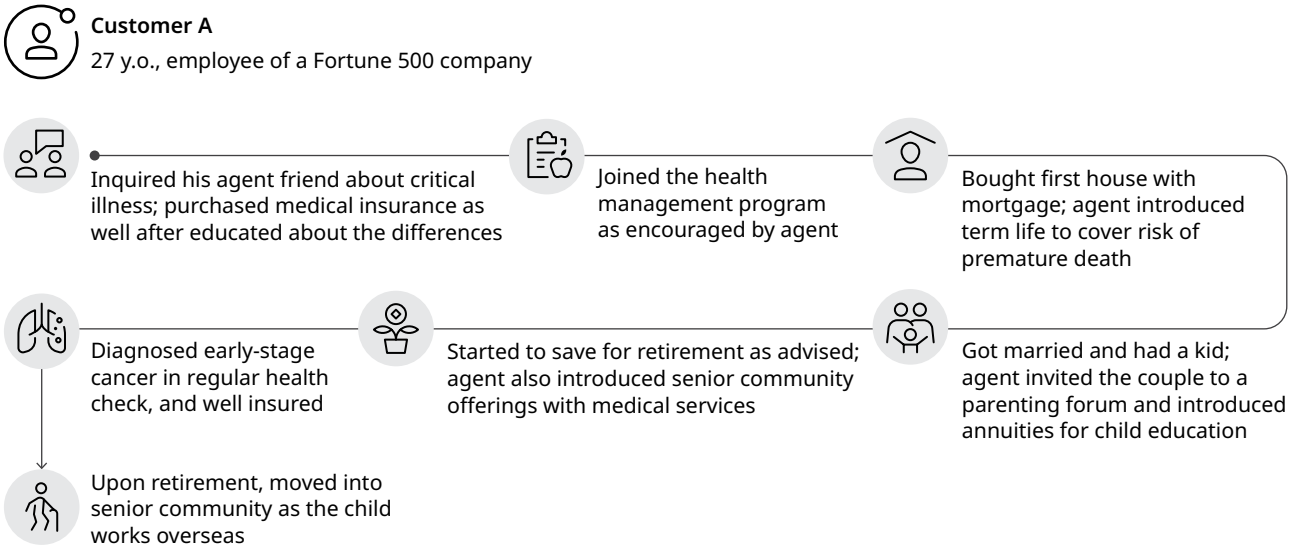
Channel characteristics: Agency channel enjoys unparalleled advantage of reaching a broad, diverse range of potential customers, from the younger generation to senior citizens, from mass to high net-worth segments. With the unique proposition of human interactions, the agency channel provides insurers with the opportunity to comprehensively understand their customers and build trust effectively. To the best extent, agents should endeavour to **reposition themselves as "relationship managers" rather than "salespersons" and build up their reputation with professional capabilities.**

Customer characteristics: Exhibit 33 below shows at a micro-level an average middle-class customer who had initial connection with insurance agents early on in his life stage. Through the following life stage transitions, insurance needs emerged. With a diverse set of needs, the agency channel featured by an indispensable human touch is best positioned to capture the needs and match those with suitable products and services the insurers may provide.

Considering the cost associated with the agency channel, **such "high-touch" relationship management approach is most suitable for middle-class and above segments, which is also widely recognized by the agent focus group interviews.** These customers are generally well-educated and have stronger recognition of the value of insurance. The upcoming life stage transitions they face would also bring in continuous sales opportunities and knock-on conversions of family members.

Offering characteristics: With long-term relationship management approach adopted, agents can effectively introduce a full range of products and services to their customers. With human touch and trust in place, agent channel has more advantage in selling long-term, high valued, and more complex products. In addition to the full insurance product shelf, it is also crucial to introduce a variety of value-added services, provided by either the insurers or ecosystem partners, to meet customer needs beyond the basic protection. Health management and retirement planning are the emerging themes for now while it is not unthinkable to evolve the offerings into lifetime planning services by insurers together with partners while managed through high quality agents. Showcasing the "one-stop solution' helps deepen the trust and loyalty, and therefore ecosystem build is a significant competitive edge for insurers to win in the long run.

Exhibit 33: Illustrative customer lifecycle management



Source: Oliver Wyman analysis

INITIATIVES

The realisation of customer lifecycle value exploration highly relies on the professional capabilities of agents, and several initiatives have been identified for insurers:

- **Improve agent quality**
- **Enhance agent management**
- **Adopt scenario-based sales**
- **Embed ecosystem into service delivery**

Initiative 1: Improve agent quality

Agent reform has been a key initiative adopted by many insurers in the past 3-5 years, with the goal of cultivating a leaner and more productive agent team. The transition from “salesperson” to “relationship manager” does require such reform, which should be underpinned by improvement in professional quality of the agent workforce.

Developed Asian markets such as Japan and Taiwan have also been through decades of agent reform to overcome the challenges following rapid agent headcount expansion (see exhibit 34). With regulators and market participants joining forces and the well-rounded support of the insurers both Japan and Taiwan initiated and implemented thorough measures to arm agents with professional skills. The measures touched across multiple dimensions including qualification and registration, professional training, compensation and incentivization, as well as long-term career development support. As a result, agents have been able to go beyond the “acquaintance business” and participate in market-oriented competition. After implementing their reforms, Japan and Taiwan have regained growth momentum and continued to deepen penetration.

Exhibit 34: Agency reform experience from Japan and Taiwan

	Qualification & registration	Professional training	Compensation & incentivization	Long-term career support	Which leads to...
Japan 1960s-1990s	Set thresholds on age, education, experience, etc. Design recruitment process from interview, training, to qualifying Require Financial Services Agency registration	Curriculum developed, e.g. orientation, on-the-job and thematic training Exams are prerequisite for sustaining career and selling certain products	Include base, commission and bonus in compensation to ensure reasonable income and motivate sales Provide promotion opportunities to encourage long-term dedication	Offer diversified career paths, comprehensive welfare benefits, and adminstrative support to increase career attractiveness	13-month agent retention **~20%** in 1976 **39%** in 1987 13-month contract renewals **80%** in 1976 **87%** in 1987
Taiwan 1996-2013	With the announcement of the New Insurance Law and Insurance Agent Management Guidelines, agents are under the centralized supervision of regulator and are required to complete qualification tests and formal registration Hurdle on agents' education level	Regulator specified requirements for professional training plan, curriculum, length, and outcome reporting to insurers During both phases, specific KPIs were determined by regulator to enforce execution and assess outcomes These KPIs were progressive YoY and tailored to reflect the reform emphasis during that period	Market-driven compensation improvement as competition increased (especially after Taiwan opened up insurance market entry in 1994-1995)	Retention-related KPI set to encourage insurers to better facilitate long-term career development	13-month agent retention **45%** in 1996 **50%** in 2019 13-month contract renewals **74%** in 1996 **93%** in 2019
Mainland China 2018 onwards	With the insurance agent qualification test abolished in 2015, CBIRC delegated responsibilities of screening, qualifying, and training to insurers	Team-based professional training and customized training arrangement based on agent profiling have been generally adopted to provide continuous training support	Incentive programme reform is in progress for major insurers, with the main purpose to calibrate agents based on performance, and provide motivations matching career stages (e.g. new joiners, team leaders)	Currently mainly rely on financial incentives and team structure to offer long-term support	We expect the reform to be **accelerated** in China with massive **digital empowerment**, and see improvement in both agent team stability and service quality
Digital empowerment in China		Integrate face-to-face in-class training and e-learning platform, supported by multi-dimensional buddy and mentorship programmes	Based on comprehensive performance tracking and assessment: • Derive agent profiling and offer customized training content • Filter out unqualified agents using competency model to continuously optimize agent team	Develop sales-supporting applications to empower agents, e.g. CRM tools, productivity tracking, product shelf overview, etc.	

Source: Oliver Wyman analysis

In the case for China, early success has been observed when independent broker and agents took similar measures years ago while massive scale of digital empowerment can further help accelerate the reform. From the recruiting side, systematic programmes can be put in place to help attract more “elites” into the profession and offer a different compensation structure and training support to increase the probability of success. The recent development of tied independent agency may offer another case in point in agent quality improvement. Such model breaks out from the traditional ones in which agents are incentivised for sizable recruiting but focuses on sales and service delivery and hinged on a true set of partnership of like-minded agents. As the model is drastically different from the sales + recruiting + management model today, a greenfield pilot is often a better way to test out the effect of the model for some insurers.

Initiative 2: Enhance agent management

Although agent reform will be a lengthy process, China has an unparalleled advantage in digital capabilities. A wide range of agent tools can be developed and deployed to accelerate the progress. Rather than using digital channels to replace agents, digital tools can be better used to empower the agents, improving agent productivity while maintaining the necessary “human touch” which is critical to build trust with customers.

Multiple success stories have been shared in the agent focus groups:

- **2C applications: One example is the Policy Management System, which serves as a starting point for insurance consulting and coverage gap analysis once prospective customers share their previous policies through the system. Another example is the Social Post Traffic Analysis which can report back on the reviewers who show strong interest at the social ID level and are ready for contact. These enablers can effectively improve customer conversion rate at the prospecting stage and sales process**
- **2B applications: Digital tools can also be adopted on the operational side to enhance internal management. Many industry players have rolled out agent team dashboard to help team leaders maintain a high-efficiency team. E-learning systems ensure agents to access information and training materials within clicks. With performance tracking functions embedded into agent portals, the management would have real-time views on how well the business is going and if requested initiatives are carried out smoothly (e.g., boosting sales of certain products)**

Nonetheless, it is critical to also note that simply developing tools and handing the tools to agents will not be sufficient. In fact, behaviour changes need to be harnessed through motivative training, activity tracking, and incentivisation.

Initiative 3: Adopt scenario-based sales

Based on the comprehensive customer profiling and insights generated from digital tools, agents should be able to identify potential life cycle needs and proactively offer events/benefits to customers, targeting their areas of interests. For instance, parenthood sharing sessions can be offered to young fathers and mothers as a benefit, and retirement planning forums could be attractive to middle-aged customers. Such online/offline events are deeply rooted in the life needs to customers and open up dialogue for agents with their customers naturally. On the other hand, agents should not treat such occasions as pure sales scenarios but regard the event itself a part of the relationship management journey which covers the needs of customers across their lifecycle. Sales, once the trust and service delivery are there, will follow naturally.

These initiatives often require team efforts as there is clear economies of scale. In the best case, such effort should go hand-in-hand with the build-out of the customer centric ecosystem as mentioned in Section 4.1. In short of that, insurers will need to support the programme development and scenario development for agents. Additionally, activity-based management should be adopted to ensure scenarios are leveraged and conversations follow through.

Initiative 4: Embed ecosystem into service delivery

Last but not least, along with the build-out of the ecosystem, insurers will want to embed that into the service delivery of agents with their customers. The ecosystem will allow agents to better manage their customer relationships, better understand their customer needs, and based on that, better match products and services when customers need emerged. To ensure success, as mentioned, agents need to function as relationship managers with customers. All quality improvement initiatives need to take effect. Additionally, insurers will need to support agents with the right product and service experts and proper incentives needs to be devised for both relationship management and service delivery.

Given the strategic importance of the tied agency channel and its considerable weight in life insurance distribution today (accounting for about 60% of China’s life insurance GWP), it is critical for Chinese life insurers to invest patience and efforts to push through the reform. A sizable, productive, stable, and professional agent workforce is a prerequisite for them to thrive in the long run combined with the ecosystem that is build-up over time as well.

4.3. 2B2C CHANNELS: GO HAND-IN-HAND WITH INSTITUTIONAL PARTNERS TO ENHANCE END CUSTOMER VALUE CREATION

Within 2B2C channels, bancassurance dominates but group insurance model offers a compelling case for customer value management and conversion. Nonetheless, the key to excel is to understand the needs and agenda of institutional partners and individual customers, and offer accordingly.

BANCASSURANCE CHANNEL

Channel characteristics: As the second largest life insurance distribution channel, bancassurance maintains 30-40% share despite some fluctuations following regulatory changes. Banks are among the most well-established financial institutions in China and have gained deep trust from the broad retail customers. The extensive branch network is another key advantage of banks. However, given the 2B2C business nature, insurers do not interact with the banks' customers directly or 'own' the relationship. Thus, it is important to understand the needs of banks and retail customers and export resources and capabilities to meet the needs.

Customer characteristics: On the bank partnership side, fulfilling regulatory agenda while seizing commercial opportunities is the key, given that strengthening wealth and asset management has become a key theme for commercial banks in China. One manifestation is the professionalization of personnel and enrichment of offerings, namely upgrading from wealth management product sales to professional investment advisory.

On the individual customer side, they often come to banks for wealth and asset management solutions, and value-added services could be a plus. Therefore, both investment-oriented insurance products and ecosystem offerings (e.g. senior care property, health care concierge services, etc.) become increasingly appealing especially for affluent and above segment.

Offering characteristics: Under the wave of rising retail wealth management and high-net-worth private banking trends, **insurers can collaborate more closely with banks to better position insurance as one of the components in investment portfolios. Considering the alarming demand gaps in the current pension schemes, annuities with both long-term protection and investment features** not only fit well with the advisory model for lifetime financial planning of private banking and wealth management, but also echo the regulators' advocate for Pillar 3 development.

Initiatives: Armed with long-standing history of asset-liability management, insurers are recognized as professional asset managers with strong expertise, while banks extensive branches network around the country and access to numerous customers across wealth levels. Combining insurers' investment capabilities with the banks' customer base, both can establish a win-win collaboration.

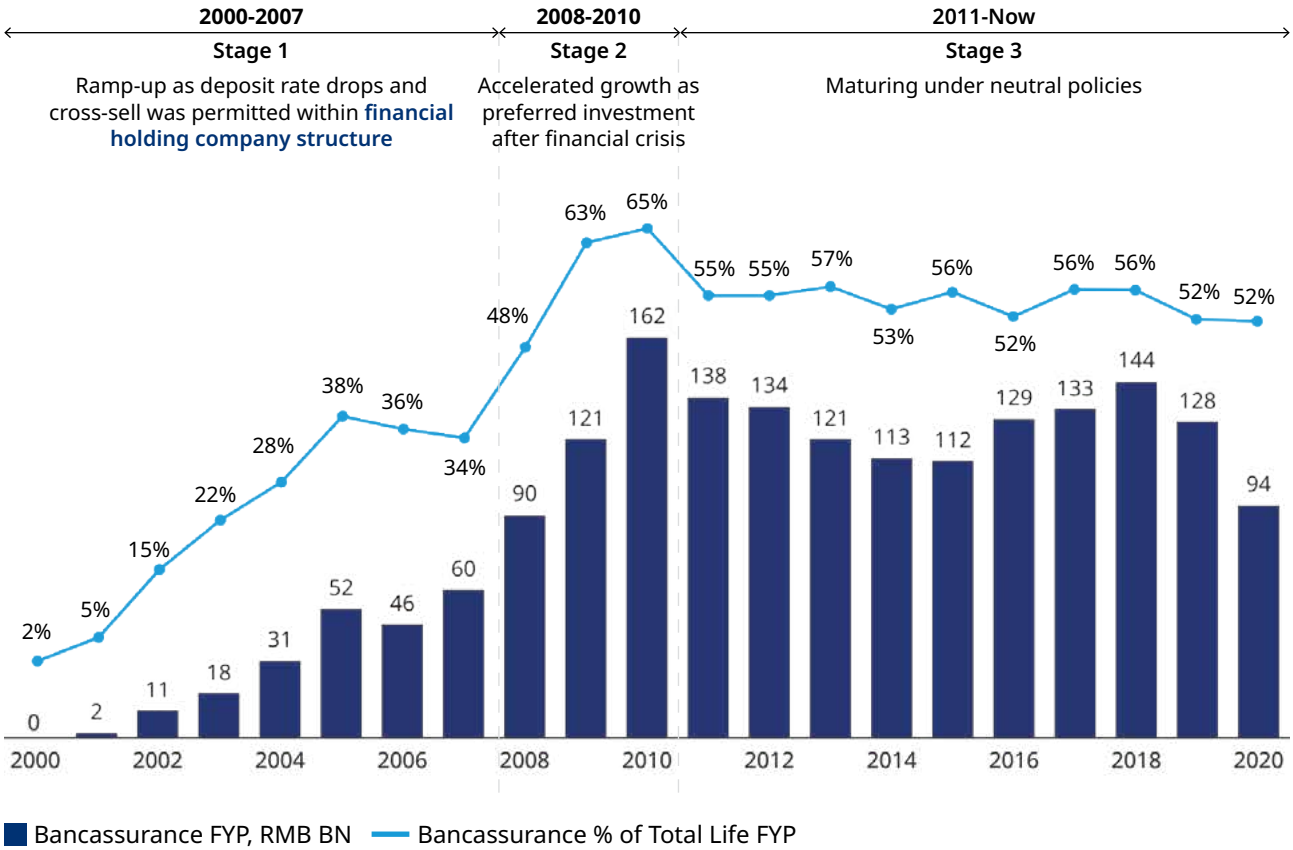
The complementary resources and capabilities of insurers and banks naturally bring growth potential of bancassurance channel. Various collaboration strategies can be explored under the local regulatory framework.

Such close collaboration has proven effective in markets like Taiwan, where the financial market is dominated by a dozen financial holding companies with both bank and insurance arms. Since the introduction of Taiwan's financial holding company structure in the early 2000s, the share of the bancassurance channel increased dramatically from 5% in 2001 to over 50% in the 2010s. Currently, four out of the top five life insurance companies in Taiwan are part of financial holding companies. In Taiwan, to facilitate insurance sales in banks, insurance consultants are employed by insurers to provide in-branch training, support new product launches, and promote sophisticated non-deposits-substitute products (see exhibit 35). Caveating the regulatory environment differences, employing more well-trained financial advisory talents motived by customer-centric compensation/incentives and establishing closer strategic cooperation to co-develop insurance products tailored for the banca-channel should be no-regret moves for Chinese insurers that wish to double-down on their bancassurance strength.

Such transformation will be mid-to-long-term in nature and requires the full integration of the banks' bancassurance and wealth management functions. The systematic changes involved in revising the sales and coverage model, methodology for portfolio advisory, and compensation schemes will require rounds of debates among key stakeholders to achieve long-term growth.

Exhibit 35: Unique financial holding company structure in Taiwan underpins the unshakable position of its bancassurance channel

Taiwan bancassurance first year premium (FYP)



Source: Taiwan Insurance Institute

GROUP INSURANCE CHANNEL

Channel characteristics: Group insurance is underpenetrated in China, making up only about 5% of the total life premium. The current situation has stemmed from multiple factors, including government-driven social security programmes, insufficient tax incentives to promote corporate welfare, and the profitability pressure faced by the majority of private enterprises. However, with China's central government repivoting the national agenda towards sustainable growth and "Common Prosperity" since the 14th Five-year Plan, group insurance and company-level welfare programme are expected to be in the spotlight and gain new traction.

Customer characteristics: Due to the channel nature, most individual employees accessed through group insurance channel are corporate employees, and in general are middle-class or above with great purchasing power. This means they are also the main group of customers that agent channel is going after, whose value can be further explored.

Offering characteristics: Currently, the typical group insurance products include health, accident insurance and annuities. In many cases, such products are relatively simple and competitively priced, being viewed as customer acquisition tools rather than main profit sources. Despite the cross-sell/up-sell potential, limited mechanisms have been in place to enable further value creation.

Initiatives: However, a successful group insurance business is beyond merely aggregating individual policies. Providing ecosystem offerings, for example, health management and financial planning services for corporate clients' employees is the rising trend. In other words, **instead of viewing 2B corporates as clients, life insurers should collaborate with them as partners to serve their employees which could achieve win-win results** — insurers can increase the life insurance premium at scale, while corporates can improve employee stability and operational sustainability.

Once good customer experience is provided, these individual customers reached through group policies would have better impression and trust towards the insurers, and in return bringing opportunities to cross-sell/up-sell other products and services within the ecosystem. Customer conversion mechanisms between group insurance and agent channel should also be constructed to enable smooth information and service delivery.

4.4. DIGITAL CHANNEL: BROADEN CUSTOMER REACH TO JUMP START SERVICES AND CONVERSION

Channel characteristics: Despite the smaller portion of ~5% share, the impact of digital channel is never negligible given its broad customer base and dual role of both sales and customer education. Breaking through the time and spatial limitations of offline channels, **digital channel largely complements the customer reach of insurers, and is especially effective in covering the mass and below customer segment, i.e. the long tail.**

Customer characteristics: Customers in the mass segment, despite the significant size, are in general less sophisticated with limited insurance literacy. **As revealed in primary research, these customers not only consider digital channels as a purchasing venue, but also a go-to information source.** Given the "open-shelf' nature, price competition is fierce in online space, and the customers are also sensitive to price.

Although such customer groups are not the targets for the agency channel, considering **the massive potential in the group when income rises and the possible migration to the middle-class from this segment,** insurers will need to find an effective way to cover these customers and onboard them onto the ecosystem established. Once more sophisticated needs are identified, agents or relationship representatives can effectively follow-up and a conversion can be secured.

Offering characteristics: Considering the customer characteristics and channel constraints, **more vanilla products such as term life insurance and short-term health insurance are more common on the digital shelf.** Such offerings align with the gap assessment in Section 2.3 and can support the closure of longevity risk gap identified. Additionally, micro-innovation in product payment terms may further allow originally large ticket-sized products to be offered online benefiting the broader consumer base in China.

On top of the simple products, a digital portal for the established ecosystem should also be part of the offering. The online delivered "product + service" model allows insurers to differentiate against other pricing-focused competitors. It also offers insurers a set of touchpoints to access customers again post-sales and understand customers' needs better. This offering will pave out the foundation for customer conversion.

Initiatives: To ensure a smoother self-service experience online, a customer centric journey shall be devised. Some desired initiatives for insurers to secure online shelf space include:

- Punchy propositions of popular products are key to gain attention in the first place. Brief and clear introduction should be tailored for online products, while simple, customizable features are often favoured by customers
- Engaging campaigns across various online platforms are critical to increase share of voice, strengthen brand image, and educate broader customer base, which in return drive traffic and conversion
- Link digital offerings of the ecosystem with the digital channel to ensure strong customer access post-sales, customer understanding, and need discovery; additionally, services offered in the ecosystem will be a key differentiator and enhance stickiness of customers to the platform
- As regulatory landscape is evolving rapidly, especially in the online space, insurers shall closely monitor the regulatory direction to ensure compliance

CONCLUSION

In sum, Oliver Wyman is fully confident in China's life insurance market. Patience is required for the industry to get over with the bumpy transformation period ahead. To set the industry back on the right track of growth, both management and shareholders should show faith in the market, commit to the right initiatives, and continuously devote resources, even when there may not be immediately visible results. With the correct mid to long-term approach, it is expected that China's life insurance market will regain its growth momentum and have a bright future for next 30 years to come.

ACKNOWLEDGEMENT

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APPENDIX A. PRIMARY RESEARCH DISCLOSURE

To fully capture the current market dynamics and develop first-hand insights, the most comprehensive insurance consumer survey in recent years (sample size = 12,000), coupled with about 20 hours of in-depth agent interviews, have been conducted under the design of Oliver Wyman.

CONSUMER SURVEY

Theme of study: The topics of focus included the following:

- Basic background information including basic demographic set, income level, and recent insurance purchase history
- Sufficiency of existing insurance coverage and purchase motives
- Awareness of protection needs and factors of consideration for future purchases
- Feedback on most recent insurance product purchased
- Customer experience based on the most recent insurance purchase (e.g. channels adopted along customer journey, reasons for satisfaction, and pain points)

Format: Online survey of 25 questions (single choice or multiple choice)

Sample size and distribution: 12,000 valid responses collected

- **Location[18]:**
  - Tier 1 cities: 3,600
  - Tier 2 cities: 4,800
  - Tier 3 and below cities: 3,600
- **Wealth tier distribution:**
  - Mass segment (annual income of RMB100,000 and below): 3,005
  - Middle-class segment (annual income of RMB100,000-300,000): 4,907
  - Affluent and above segment (annual income of above RMB300,000): 4,088
- **Respondents with respective insurance policy types in force:** Even and diverse distribution of sample, with different types of in-force insurance policies, including term life/ whole life, participating life/annuities, universal life/unit-linked insurance, critical illness insurance, medical insurance, and accident insurance

18 **Tier 1:** 14 cities: Beijing, Guangzhou, Shanghai, Shenzhen, Chengdu, Chongqing, Dongguan, Foshan, Hangzhou, Nanjing, Shenyang, Tianjin, Wuhan, and Xi'an; **Tier 2:** 35 cities: Baotou, Changchun, Changsha, Changzhou, Dalian, Fuzhou, Guiyang, Harbin, Hefei, Hohhot, Huizhou, Jiangmen, Jinan, Kunming, Linyi, Nanchang, Nanning, Nantong, Ningbo, Qingdao, Quanzhou, Shantou, Shijiazhuang, Suzhou, Taiyuan, Tangshan, Wenzhou, Wuxi, Xiamen, Xuzhou, Yantai, Zhengzhou, Zhongshan, Zhuhai, and Zibo; **Tier 3:** The rest

AGENT FOCUS GROUPS

Theme of study: The topics of focus included the following:

- Drivers behind entering and exiting the career as an insurance agent
- Process and challenges in customer acquisition
- Profiles of customers by wealth tiers (e.g. protection needs, insurance literacy, and market potential)
- Observations in product trends and market changes (e.g. Huiminbao, regulation changes, and product preference changes)
- Process of providing consultation and serving customers
- Company support in training, customer acquisition, and customer management (e.g. training resources, digital analytic tools, and company networking events)
- Effectiveness of agent reforms in their companies

Format: Six online focus groups with 2-3 hours discussion each; four agents within each focus group

Sample size and distribution

- **Age:** Diverse mix within the range of 20-50 years old
- **Location:** Diverse mix of Tier 1, Tier 2, and Tier 3 or below cities
- **Industry experience:** Diverse range between 1 and 20 years
- **Background:** Ensured a diverse background of both tied agents from insurance companies, and non-tied agents from the independent broker and agent channel; from top-tier insurance companies and mid-to-small-sized insurance companies; from domestic insurers and foreign insurers
- **Position:** Two focus groups with agent team leads, and four focus groups with non-lead agents

APPENDIX B. GLOSSARY

Abbreviation	Long Form
2B2C	To-Business-to-Customer
AMAC	Asset Management Association of China
CAGR	Compound Annual Growth Rate
CBIRC	The China Banking and Insurance Regulatory Commission (After April 2018)
CBRC	The China Banking Regulatory Commission (Before April 2018)
CIRC	The China Insurance Regulatory Commission (Before April 2018)
COVID	Corona Virus Disease
DB	Defined Benefit
DC	Defined Contribution
FYP	First Year Premium
GDP	Gross Domestic Product
GPIF	Government Pension Investment Fund
GWP	Gross Written Premium
iDeCo	Individual-type Defined Contribution pension plan
IRA	Individual Retirement Account
NISA	Nippon Individual Savings Account
ROA/ROI	Return on Asset / Return on Investment
SARS	Severe Acute Respiratory Syndrome

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