China's 2020 Motor Insurance Reform and Its Market Impact

Delvin Cai, FCAS
September 2020

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Agenda

1. Overview of China's 2020 motor rate reform

2. Expected short-term impact of the reform

3. Longer-term outlook of motor insurance market

What is the China's 2020 motor insurance reform?

The 4th reform on motor insurance aims to raise coverage and reduce premium, bringing the target loss ratio to 75% and raising the bar for P&C insurers

Better Protection for Motor Policyholders

Expanded Coverage and Discount for Compulsory Liability

- Coverage nearly double for death and injury, medical expenses.
- Total coverage increased from RMB122k ~ 200k should the insured be liable.
- Max discount expanded from -30% to -50% for no-claim drivers in the past three years.

Expansion Coverage and Innovation for Commercial Insurance

- Six risks added into the basic coverage: auto theft and robbery, glass damage, vehicle explosion, engine damage from water immersion; non-deductible; when the liable third-party is missing.
- Commercial Liability limits doubled to RMB 100k ~ 10mil.
- Encourage innovative products incl. new energy vehicle, personal accident, extended warranty, UBI, etc.
- Max discount is -35% (discretionary). Limit could be fully removed In future phase of reform.

More Affordable Insurance Price

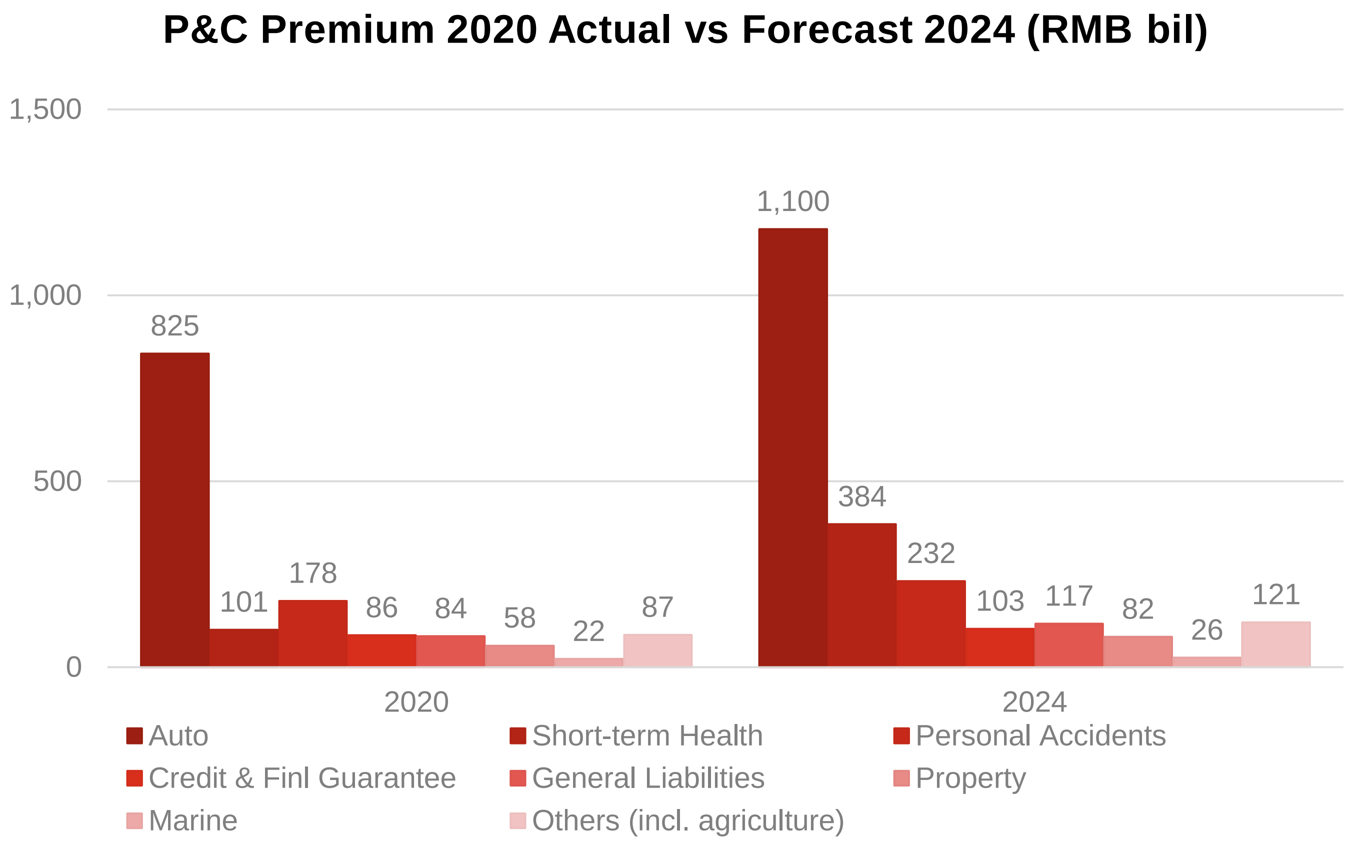
Recalibrated Rate Table to Reach 75% Expected Loss Ratio

- Recalibrated Commercial Coverage's risk premium rate table in order to increase ultimate loss ratio from 65% to 75%.
- Expense loading ceiling is reduced from 35% to 25%.
- The rate table shall be reviewed and adjusted every 1~3 years to ensure pricing fairness.

Implication to the Market Pricing

- Based on H1'21 published results, ~90% customers saw premium decrease, ~60% customers saw over 30% premium decrease.
- Part of the rate cut is absorbed by the insurance distribution channels via lowered commissions.
- Rate cut impact most obvious on passenger vehicles (versus commercial trucks).

Slowing down pace, motor portfolio isn't going to give away the lead role in China's P&C portfolio in the next few years



Source: CBIRC, Fitch Solutions

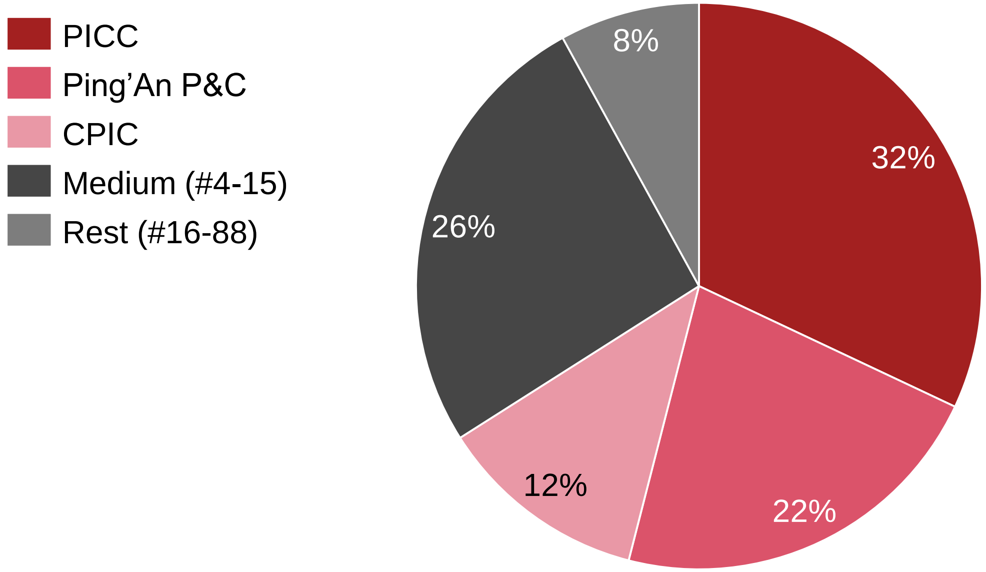
Motor insurance line is expected to grow at slower pace, but will still accounting for **~55%** of the 2024 portfolio, with car PARC increasing from the current 180 out of 1000 people to **250** in 2024 (US is 840).

More than 20% of new cars sold in China by 2024 will be **New Energy Vehicles**, requiring new way of insurance and attracting disruptors.

For **non-motor insurance sector**, we expect it to pick up momentum in the next few years (such as **accident & health, liabilities**), thanks to growing market demand and favorable regulatory policies.

China motor insurance market is highly concentrated, with Big 3 defending their lead both in top line and bottom line

China's Motor Insurance Market Share



Source: CBIRC, PwC research

Top 3 insurers dominate the market holding 66% of the motor insurance market share (32%, 22%, 12% respectively).

Medium-sized insurers (#4-15) hold 26% of the motor insurance market. **Smaller** insurers (#16-88) hold the remaining 8%. (Note that small insurers are not small in relative terms, 55 insurers' motor book exceeding RMB 100mil)

Online insurers' motor portfolios are rapidly growing but face profitability challenge as online insurers have yet to crack the cost structure challenge.

Foreign insurers achieved competitive loss performance, but suffer high expense ratios comparable to small domestic insurers, accounting for 1% of market share.

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Expected short term impact (2021-2022)

Insurers are expected to adopt differentiating strategies to address the reform impact, reduce expense, and adapt better sustainability

Big 3

- Expected to aggressively compete for motor market share, maintain **profitable** bottom line.
- Strengthen **direct** channels, and also more collaboration with auto industry to provide **value-add services**.
- Flex **product** and **pricing** strengths, innovate ways to evaluate and manage risks.

Mid-sized
(#4-15)*

- Expected to tighten **commission** expenses, **underwriting**, **pricing**, and **claims** processes to mitigate rising cost pressure.
- Dial down **growth target** and focus on **strategic** channels, regions, customer segments.
- Accelerate **digital** and **org** transformation to increase cost efficiency.

Small
(#16-88)*

- Regional players may focus on **local** geographies and **shareholder** businesses to secure their niche markets.
- Bring in **strategic** investors to reimagine the synergies in future business models.
- Shift growth strategy into **non-motor** portfolios (however, no guarantee to be successful there).

* The #4-15 largest motor insurers are a proxy for mid-sized national players;
The #16-88 are a proxy for small regional players (although not all underwrite motor insurance).

Introduction of new mobility insurance

China regulator has developed new energy vehicle insurance policies to guide the industry’s adaptation to the emerging insurance needs.

	Traditional Motor Insurance	Mobility risks are being transferred towards mobility service providers			
Players	Car Owners	**New Energy OEMs**	**Connected Service Providers**	**Shared Mobility Service Providers**	**Autonomous Service Providers**
Type of Risks	Driver-related road accidents	Product design and parts defect	Connectivity failure, data breach	Safety and service disruption	Sensor and algorithm failure

Insurers are actively exploring new partnership and service models to capture this growth sector.

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Expected longer term impact (2023-2025)

In longer-term, motor insurance will become more specialized and deliver competitive value to the mobility market

For the longer-term market development, our industry survey shows that most insurers will be **here to stay** and the number of P&C insurers will continue to grow **beyond 100**. However, majority of the new entrants will focus on **non-motor lines**.

We estimate motor to continue representing **~50%** of the P&C portfolio thanks to the continuous growth of car parcs and emergence of new insurance demands as NEV and shared mobility prevail in China. By 2025, we estimate **8~10%** of the motor insurance in China would be related to NEV, Shared and Smart mobility.

Insurers will prepare to provide **more value-add services** along the insurance journey to enhance customer satisfaction. The fight for **customer retention** will intensify as the market reaches mature stage and growth slows down. The future motor insurance market dynamics may focus on **creating value** in the following pillars:

Proprietary, value-add services

Data-enriched pricing

Tech-enabled risk prevention

Smarter claims mitigation

Thank you

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