The Financial Game Changing: The Implications of Now-Trending Internet Finance in the Chinese Insurance Market

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With economic growth in China slowing further, the development of economy requires particular types of financial arrangements, and the financial system responds automatically to these requirements. Consequently, the internet finance in the Chinese insurance market thus forecasts to grow at this the rate of the economy as a whole. This research is vital to study for the impacts of China's financial reform on insurance business in Chinese market as an indicator of China's internet finance and economic development. The prime question of this research is 'how foreign insurance companies survive in China after the financial game changing?' This paper discusses the revolution of China’s financial system in terms of the insurance industry bases on information technologies. It indicates foreign guarantors are ready to access in China’s insurance market by observing instructions which are implicated by the internet finance for foreign insurance companies, the regulatory dynamics, and the third-party online payment method. The implications have on foreign insurance companies are thus requiring the Chinese government to make corresponding actions to ease the admission of foreign insurance companies.

[Keywords: Internet finance, Foreign insurance, Chinese insurance market, Chinese economic reforms]

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1. Background

1.1 The Development of the Insurance System in China

The modern concept of ‘insurance’ was firstly developed in late 1600s among European traders to cover the variable risk from seasons and pirates. Later stimulated by industrial revolution, the benefits of insurance were quickly recognized, and the practice spread rapidly to the Americas and then Asia. Marine, fire and life insurance were placed to protect cargo, ware houses and their lives with insurance. However, unlike the Western, the development of insurance took an altered path in China. In the early 1800s, the Canton ports in Southern part of China was functioned as the first spawning ground for the insurance industry in the Asia-Pacific region as well as the first insurance entity, established in China in 1805, as known as Canton Insurance Society. The society ran as they pooled the shipping risks of its member companies and later found first two insurance trading houses; Dent & Co. and Jardine Matheson & Co. (Phipps, 2011). This was due to the increase number of British East India Company and other trades in this far East region, thus both the foreign and Chinese traders began insuring trade among the traders. Foremost, Canton Insurance leaded to a rapid growth of shareholders and was able to extend their trading with insurance network covering the whole region. Followed by many domestic insurance industries which had been popping up resulting from the trading demands such as Renhe Maritime Insurance Company (1871), Jehe Maritime and Fire Insurance Company (1878) and China Merchants Steamship Navigation Company (1875). However according to Pichon (2006), although these Chinese insurers were fully subsidized by the private investment, they still worked under the imperial palace and the Emperor until 1911 revolution. This was because, Chinese merchant’s only ventured into capital-intensive procedures under official support (Grace, 2014).

After the foundation of the People’s Republic of China in 1949, changed the insurance landscape of China. All of the pre-1949 capitalist companies and institutions were nationalized by 1950. During 1950-1978, Chinese government began to support a new state-owned insurer, in doing so they merged most of all domestic insurers into one company under government’s authorization. Eventually, it decided to rely on alternative forms of security, and almost all insurance operations in the country were closed down in 1959 (Allen & Qian, 2014). In the case of foreign insurance companies, they were subjected to heavy taxation and forced to followed strict laws, resulting to a steady decline number of the insurance companies from estimated 100 companies before 1949 to only 27 companies left by 1950 (Abdul & Mody, 2003). Following the harsh policy, the last of the foreign companies then shut in 1953 by reason of the early reformation in the Chinese financial system. During the said period, the only financial institution was being operated which was the People’s Bank of China (PBOC), serving as a central state-owned bank and was under the Ministry of Finance. The PBOC controlled
over 93 percent of the total financial assets of the country as they used both a ‘cash-plan’ and a ‘credit-plan’ to control the cash flows. As a result, the operations of private-sector in Chinese insurance companies began to merge and progressively transform to state-own enterprise as People’s Insurance Company of China (PICC) in which the government majority shares.

However, after the launch of the Great Leap Forward, the campaign led by Mao Zedong, this significantly reduced the role of insurance in China. Under this circumstance, insurance as an independent industry had no place in a communist society, and the PICC was effectively closed. Despite the closure of the PICC, commercial insurance did manage to survive in a few parts of China, yet only agencies that survived were its subsidiaries operating in Hong Kong and Macau (Naughton, 1995). Although the PICC resumed some insurance activities between 1969 and 1970, insurance in mainland China only really picked up after trade was resumed in 1972.

1.2 The Change of Internet Finance in the Chinese Insurance Market

Conversely, the rise of Deng Xiaoping’s initiative economic reform and China’s door policy to outside resulted in far-reaching market economy reforms and China opening up to the global trade. The ratio of insurance premiums as a percentage of the gross domestic product rose from more than double between 1980 and 1990 and from 1.8% to 3.3% by 2003 (Goldman, 2014). Alongside this overall productivity, the insurance business too, boomed like spring shoots after China Insurance Regulatory Commission (CIRC) was established, allowing foreign insurers invested in China’s insurance industry (Chen & Thomas, 2001). The People’s Insurance Company was revived in the historic 3rd Plenum of the 11th Central Committee, which was held towards the end of 1978. The consequence of this move reoriented the economy in favor of more overseas trade, reintroduced private enterprise to the Chinese economy and permitted limited forms of foreign investment through Special Economic Zones. With this push up economic environment, accordingly China’s insurance industry grew rapidly from 1980s. The ratio of insurance premiums as a percentage of the gross domestic product rose from more than double between 1980 and 1990 and from 1.8% to 3.3% by 2003 (Goldman, 2014).

Additionally, as China intensified its relationships with the outside world, the country began a period of reform and liberalization under the leadership of Deng. The Chinese government, keen to tap the benefits insurance brings to a developing economy, revived the insurance market before paving the way for full liberalization. The changes in the insurance sector during the period reflected the government’s realization that the centralized state enterprise approach needed to be complemented with the more flexible business structure of joint-stock ownership.
According to the strategic collected by Swiss Reinsurance (2013) states, by the beginning of the 21st century, the insurance market in China had reached a turning point. The insurance industry was on a firm footing and looking to unleash its true potential. China, joining the World Trade Organization (WTO), has provided the opportunity to fast-track market and opens the least of China to wholly foreign competitions. China’s insurers were more than a match for this and continue to go from strength to strength as the market becomes increasingly sophisticated. The situation in the reinsurance market began to change after China joined WTO in 2001, which allowed foreign reinsurers to operate through joint ventures, branches and subsidiaries, with no limits on the regions in which they could operate in. This development was reflected in the astonishing increase in the regular sales force as points out, “some 1.6 million insurance sales people earned commission from insurance sales in China, according to a 2007 industry report” (Swiss Reinsurance, 2013 : 44). While the number of participants in the state retirement schemes from 1990 to 2006 overstuffed from 48 million people to 141 million and the participation in medical insurance more than doubled from 72.9 million to 157.3 million people (Wang, 2013).

Henceforward, the situation is uncertain as the capitals are also constantly being tested by the new challenges coming up with internet business, rivals between external and internal, which on the other hand, is becoming increasingly intense. At the present, the market structure of China has significantly changed from what it was in the past, various financial structures have adapted themselves to internet finance along with the change of the new trading system. At the same time, those old fashion marketers have to also adjust with these changes; from regular market selling insurance face to face, door to door, and transforming to the online market business to business (B2B) and business to customer (B2C). Alongside with third-party online payment measures are also involving more in globalization days (Naughton, 1995). This is envisaged: there is a huge market potential with numerous online customer supports in insurance sector.

Further, in the moderate scenario, the average annual real growth rate for China’s insurance industry during the period 2006-2020 is now forecasted to be at 12.3 percent (Wei, Liu & Dickinson, 2008, p.1). This open opportunity in Chinese insurance industry thus, goes with more competitions in this industry as the foreigner investors also desire to participate in the largest potential insurance market in the world. According to the China Internet Network Information Center statistics (China Internet Network Information Center [CINIC], 2016), the latest published country’s premium income reached 2.8 trillion Yuan so far as the end of November 2016, a jump of 28.88 percent year on year.

This is due to China has the advantage of massive population and the ever, growing middle class serves as a huge market of demanded insurance. Indeed, the annual growth is amazingly increasing, market share of insurance sector still tiny
compares to other foreign insurance markets even like in developing countries. Thus, the opportunity of China’s internet finance innovation is especially important for foreign insurance firms (Naughton, 2007). This arising of foreign insurance corporations confronts a series changes from the innovated financial sector. Insurance industry is looking for a niche that is capable for the economic contribution of China (Naughton & Tsai, 2015). As the newest battleground for insurance industry, both foreign and domestic insurers are all ready to compete each other. All this drives economically to a service and consumption-based market economic reform.

2. Research Methodology

The significant of the research is vital to study for the inter-relationship of financial development and economic growth in the insurance industry with the provided examples of insurance industry and the implications of the financial revolution. The research frame sets up upon the theory of financial development supported by Levine’s financial theory (1997), and economic growth base on the S curve model, benchmark ratio of insurance penetration model of which focus on the internet finance while the current situations of Chinese insurance market also been analyzed. The data are both collected from primary and secondary sources. Qualitative approach is too, being adopted in order to comprehensively examine the nature of China’s internet finance and focus on the reform in financial sector as it provides a better analysis of the contemporary problems. The sum implications on foreign insurance companies will be discussed accordingly later and the appropriate recommendations will also be provided to foreign insurers for mutual benefits between foreign and domestic insurers in China.

3. The Findings

3.1 World Insurance Growth Curve Method ‘The S-curve Model’

The S-curve model is selected as the main method to examine the insurance market of China, and Benchmark Ratio of Insurance Penetration (BRIP) to finalize a predictable trend of Chinese insurance in a long run. The “S-Curve model” is the put forth work of the economic theory by Enz (2000) based on earlier work by Carter and Dickinson (1992). S-Curve model is the hypothesis that insurance penetration may be approximated (Millo, 2014 : 1), “country by country, by a logistic function of economic development”, as the result the relationship of income elasticity of insurance can be put into calculation as means of a logistic curve. Moreover, the idea such the relationship of the evolution of insurance, would provide a natural characterization of the evaluative pattern of insurance penetration per period and a link with that of income, allowing the forecasting market condition more consistently (Schumpeter, 1912). The research uses foreign insurance companies in China and their performance after the adjusting of
financial sector to discuss the implications of China’s financial reform on foreign insurers.

China altogether has experienced a fluctuated and a wide range of insurance industry unstable period during 2001-2005, of which Chinese insurance industry firstly reached its peak of insurance penetration in the year of 2005, simultaneously, foreign insurance companies has also won their market share a peak of 8.9% in China (Naughton, Tsai, 2015). Another key factor to push up the growth is the change of foreign insurers’ behavior in the digital marketing (Bodie & Merton, 2000). Thus, understanding the conditions of China’s doable insurance market to foreign insurance companies is especially important as of to ensure every segments of its policy and environment dynamics such as the regulatory dynamics, internet finance policies and product distribution channel after the internet finance transformation. Thirdly, while there are detailed discrepancies of opinions between different insurance experts, some are assuming that China’s insurance industry has huge potential which will attract foreign insurers to access in the marketplace; others thought China’s insurance market will go on a market saturation in particular sectors due to the sharp competition. Following with empirical studies, have shown that the last key factor in the long term is overall size of the economy (Arrow, 1964; Pichon, 2006). However, a country’s economy, finance and marketplace exist cannot have one without the others, which perhaps these four altogether drives the long-term growth of insurance industry (Schumpeter, 1912). In particular, internet finance has driven the market place gone further itself to achieve different possibilities and open up the opportunities to both foreign and domestic insurers in insurance sector.

3.2 Benchmark Ratio of Insurance Penetration Model

The Benchmark Ratio of Insurance Penetration (BRIP) is another factor to demonstrate the market potential of China’s insurance industry. Again, according to Wei, Liu & Dickinson’s study, the BRIP is defined this measurement model as “a measure of the relative development of a country’s insurance industry” (2008: 495). It is represented by the equation of:

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BRIP = \frac{\text{actual penetration}}{\text{benchmark penetration}} \times 100
\]

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BRIP = \left(\frac{\text{actual penetration}}{\text{benchmark penetration}}\right) \times 100\%
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BRIP represents the country’s actual penetration; benchmark penetration represents the world average penetration at the country’s economic development level. In their report, the BRIP could be equal to, greater or less than 1. In any cases of BRIP equals 1, then the country’s actual penetration is equal to the world average penetration at that country’s economic development level. As in the formulation, if BRIP is either less or greater than 1, the actual penetration will also either less than
or greater than the world average level. In case of China’s insurance growth in the long run, which considering respectively for life and non-life insurance, according to data collected; the calculation China’s life BRIP would be 2.31 and non-life BRIP would be 0.39 after calculating, which means for life insurance the actual penetration is greater than world average level in China and for non-life insurance and the actual penetration is less than world average level (Wei, Liu & Dickinson, 2008). However, the BRIP is absolutely not the only fact to estimate insurance sector’s growth potential of a country, it still needs to comply with the actual stage or situation of that country and data of the country’s economy and its insurance development (Debreu, 1959; Elliott & Yan, 2013).

Theoretically, China has the potentiality for long-term growth of insurance industry. According to Chang & Lee (2012) the estimates of growth rate of China’s insurance industry (Billion Yuan) suggests that the size (Measured by Premium) of China’s insurance market by 2020 will be 5.7 times larger than year in 2005. China’s insurance penetration changed along with the change of GDP per Capita in general. The selected year and an S-curve shows the result of China’s insurance penetration according to Estimation of China’s insurance penetration shows that the current situation of China, an increasingly upward S-curve indicates explicitly the capacity of the purchasing insurance products with the increasing of GDP per capita (Lee & Chiu, 2012; Xiao & Hu, 2016). Therefore, the wealthier the people are in China, the more likely they spent on insurance, which means the insurance penetration will largely increase in the next. In contrast, even if in the future China’s GDP annually drops to 6 percent compare to what it is that of 6.8 percent at present, the premium of China’s insurance industry will still likely keep increasing, higher than the global average level (Xie, Zou & Liu, 2016a; Wooldridge, 2002).

3.3 Internet Finance in Insurance Industry

As illustrated above, the higher degree of insurance market penetration is possible and the business environment for insurance industry is now in ready. The more developed the internet finance is, in return, the more it has capacity to cooperate with insurance industry (Hou, Karolyi, & Kho, 2011). Chinese economists have already argued that the internet finance transformation is very important over the years for integrating with Chinese insurance market. China has pretty much transformed from regular financial status to an internet one since the marketplace is ready, which is reflected by the marketplace digitalization and a newly emerged third-party online payment paying through the internet channel (Kenneth, 1962). Foreign insurers have even stronger resolution for doing insurance business in China after they see the potentiality not only on the growth of GDP per capita but also on the development of internet finance because foreigners see there is more and more young generation who are the main working force for social productivity have joined into internet finance using internet to meet daily
needs and becoming part of it (Bagehot, 1962). This has stimulated the internet giants to cope inter-connectedly with the netizens in order to improve e-services. (Lee & Chang, 2012) In a manner internet finance has stanchly revealed the implications to foreign insurance companies in terms of what area shall they pay attention on.

For instance, Yu’E Bao, China’s biggest Money Funding company, together with ‘www.Alibaba.com’ lunches the insurance fund management allowing Alipay’s customer to use their unused account balance to invest in other money funds such as Zhong Le Bao Money Market Fund (Xinhuanet, 2017). Jack Ma, Founder of Alibaba Groups gives explanation as he sees e-commerce as the main course in China (Gervasi, 2016) These have also accelerated China’s social media account which owed by different internet companies such as Wechat, Weibo and the Chinese most trading search engine like ‘www.baidu.com’ to cooperate with several leading funds in order to achieve benefits in e-finance. Besides, it is to be observed that the new funds were offering rates of return up to 10 percent while the traditional bank had the saving rate only of 3 percent which is more advantageous(Swiss Reinsurance, 2017). Another example that of internet finance developed rapidly and successfully is, Zhong An Insurance, China’s online insurance company, which is the first online insurance company in 2013. It is a joint venture company jointly own by several internet giants such as Alibaba Groups, Tencent Company, and Ping An insurance company (Reuters, 2014). The joint venture of Ping An insurance company marks the maturity of online insurance business and the insurance business plays a unique role in the internet financial market. Both of the examples explained the strong momentum of internet environment that has to thank for China’s financial reform. It develops from conventional financial environment to online finance and at the same time, it means online insurance business is able to work inextricable with the internet finance. Moreover, according to Zhong An Online Insurance Company website: Zhong An online insurance’ (2017) covers comprehensive products line from individuals to enterprises, including commercial property, cargo and liability insurance (Xie, Zou & Liu, 2016b). This is how internet helps economic development in China entirely.

To break down this growing trending, the customer is the most important not to look over. China’s young generation is the principal forces who prefer to consume online products than products in regular market, regarding to the convenience and internet’s trustworthy evidence. This is the main reason that can assure the internet companies can survive and develop to an advanced stage. Foreign insurers are searching for ways in which they can benefit from the digital technologies and innovations. In spites of foreign insurers are relatively new in Chinese online market with a relatively small size of market share, China’s also quite new internet finance technology still remains some space for foreigners to
access in (McKinsey Global Institute, 2011). Thus, for foreign insurers, firstly is to overcome the difficulties such as product distribution, weak brand awareness, product design and technology.

First of all, recent research demonstrates product distribution is the main struggle for both of life and non-life foreign insurers because they failed to develop the distribution channels effectively, part reason of that could be they failed to understand the local practices and the customer needs. Besides, this is because of the fierce competitiveness of domestic insurers (Metcalfe, 2014). Foreign insurance companies currently have set up some storefronts on China’s biggest e-commerce website; ‘Tmall and Tao Bao’, to sell their products (Guo, 2016). Moreover, even ban-assurances can be a distribution channel for insurance, resulting in its high commission requirement and making foreign insurers feel difficult to overcome. In addition, ban-assurances are less efficiency if compares to the internet channel (Robinson, 1952).

Other struggles that have to be getting over are product design and the technology. The research found that foreign insurers have to think of making their products compatible with the market and receptiveness by Chinese. Nevertheless, their products have to be easy to purchase and are trustworthy. Digital market provides both life and non-life foreign insurers a platform to communicate directly with customers through internet no matter where has the company located in without a needed of third party and agent (Locus, 1988; Merton & Bodie, 1995). This in one hand requires some new investments in hightech for foreigners. On the other hand, according to Chinese SEO Shifu website (2017), a provider of information product, services and solution in China getting over the technological difficulties, require foreign insurers register an Alipay account in China and provide online bank transfer; Union Pay in order to get their product premium periodically and safely. Some marketing surveys of recent years have revealed a fact that people in China are not likely to use their credit card to deal with payment online, but an Alipay account is favorable which is safer and secured.

Previous study also indicated a disappointed performance on foreign insurance companies in China plus a small market share for both life and non-life companies but foreign companies believe digital market will make this circumstance a reverse by somehow novel strategies (Swiss Reinsurance, 2017). According to Swiss Re research (2013), China has a very favorable online sales compare to any other countries. China reached the amount over 617 million internet users with a penetration rate of 45.85 percent, and the number of mobile internet users grew by 80 million totaled 500 million at the end of 2013 which means over half of its population have accessed to China Internet Network Information Center (CINIC, 2014). The evidence above demonstrated internet utilization rate is in a high level. Under the major premise of online customer basement, foreign products will build the brand awareness and trustworthy to customers through internet channel from time to time.
In one hand, the research also found that foreign insurance companies aimed at merging with China’s insurance companies via acquisition to gain market share. According to CIRC(2016), foreigners have acquired some China’s insurance companies in order to cooperate and adopt their insurance system thereafter adjusting the products strategies to build up brand awareness and to optimize customer after sell services. On the other hand, foreign insurers are looking to increase their presence through organic growth by using their available resources efficiently and effectively. Both of the approaches indicate foreign insurers are anxious to gain attractions from the internet finance implications (Xie, Zou & Liu, 2014).

3-4 Governmental Restrictions

Governmental restriction is another issue that foreign insurers have to get over. China started to invite foreign insurers to participate in China’s insurance industry after it opens its door to the world economy. This is common that foreign insurers are subjected to some regulations and restrictions in which it protects China’s economy and maximizes benefits but allow foreign companies to participate in China’s economic growth in the long run. As China’s insurance market lacked practices of regulatory institutions, thus Chinese government decided to set up a series restrictions for those who are interested in entering in the Chinese insurance industry. Generally, the formation of a foreign-funded insurance company shall be subject to the approval of China Insurance Regulatory Commission (China Insurance Regulatory Commission [CIRC], 2013). New amendment has stated in CIRC Rules & Regulations that, to apply for the formation of a foreign-funded insurance company, a prospective foreign insurer would have to meet the following formal criteria (CIRC, 2013); for instance, having at least 30 continuous years of experience in insurance underwriting; having a representative office in China for a minimum of 2 years, and having the total assets at the end of the year before its application for the formation is field were not less than 5 billion U.S. dollars etc. Thus, If an applicant certainly meets the requirements, they will have a chance to receive the ‘Insurance Institution Legal Person Permit’ (Ward & Zurbruegg, 2002), accordingly from the China Insurance Regulatory Commission. At that point the next set up is to meet an additional regional and local business requirement in order to obtain another business license from the respective jurisdiction. General reviews for formal regulations are appeared above; the main concern at present is the regulatory dynamic of internet insurance. The regulator in China is facing with a bunch of critical issues after the popularity of internet finance in terms of online sale issues, particularly after the first online insurance company-Zhong An Online has been set up. In spite of there are a lot of insurance products can be sold online, what sorts of them could be legally and rationally sold is the serious question to be considered of. For instance, online sales are vital if they are concerning to the level of risk, sales practices and
the unlimited geographic scope of foreign insurance companies. The governmental restriction has perfectly illustrated some implications on foreign insurers which subjects to the law making by Chinese government. Besides, an Alipay account is not only a technological concern, but it is also depends on governmental restrictions. Chinese government has regulations on foreign transactions including the transaction amounts and the frequency (Wang, 2013). A registered foreign company must have certain amount of assets to register on a business account. Thus, the implications on internet regulations are distinct to be seen for foreign insurance companies from the Chinese government.

3.5 Analysis of the Future Internet Finance in the Chinese Insurance Market

China’s financial reform is a game changing event that generally speaks for internet finance, which particularly talks for insurance industry in this research. Levine’s study explains a fine developed financial system spur the growth of economy, because market frictions are existed coming from the information costs and the transaction cost (Levine, 1997 : 33). Financial markets and intermediaries therefore derived from market frictions in order to provide financial functions. From here financial functions discovered the channels to growth which are consisted of capital accumulation and technological innovation which indirectly suggest the utilization of internet channels (Arrow, 1970). This section includes the finding that explains in internet finance, regulatory dynamics, distribution channel, representative office and the third-party online payment measure.

Internet finance has become a leading term in all the financial activities in China. It can be existed however relying on information technology (IT) companies such as Alibaba - China’s e-commerce group, the other way is the traditional financial companies in general such as banks, as they can generally develop their IT department and improve their IT system (Gervasi, 2016). Foreign insurers are itching to have a go in China’s insurance thought there will be a numerous success because of their well-developed insurance model in their home country. However, the weak awareness to deploy Chinese self-internet finance resulting a small market share of foreign insurance brands. The total market share of foreign brands therefore is remaining small. Foreign insurers if are interested in the marketplace shall discuss the implications from the information technology companies in China. The highlighted hurdle of foreign insurance companies in Chinese market in this research are i) Regulatory dynamics, ii) Distribution channel iii) Representative office and iv) Third-party online payment measure as analyzed follows.

The regulatory development decides whether foreigners are eligible to operate business in China. In particular, there are certain regulations and requirements regarding to different types of insurance which are needed to be noticed in order to maintain business in Chinese market. For foreign life insurance companies, the main concern is government restriction; because of not every life
insurance company can engage in insurance underwriting even domestic ones according to the law. For foreign property and casualty insurers, the biggest facing challenge is the shortage of personnel, followed by the governmental restrictions (Abdul & Mody, 2003). Even if all the market regulation and other domestic concerns are set aside, the market strategy is still a key obstacle for foreign insurers, as well as the weak brand awareness are being taken under the consideration. Moreover, the regulatory development towards internet channel is enforcing increasingly intensive due to foreign insurers often felt the disadvantages of limited geographic footprint and a strict CIRC approval to new branches. Foreign insurers therefore have to pay their attention on the different types of request from insurance according to the law and consider it separately due to the needs of life and non-life insurance.

Following by distribution channel which is vital for future business strategies. Distributing insurance involves direct and indirect ways and through different channel. There are three ways to be categorized including indirect, direct distribution and internet channel. Firstly, indirect distribution involves using other agencies to sell out insurance products, such as through bancassurance, workplaces, associations and so on. Next, direct distribution goes through insurance company’s agents or independent agents, they can represent single company or several companies simultaneously. The last sort is through internet channel based on the technology today. So this is to be clear that the implications on foreign insurance companies are not only on many other paper issues such as laws and restrictions but it is based on technologies.

One form of distribution is the representative office. Representative office decides whether foreign insurance products are well distributed to different places in order to closely keep in touch with the locals. Setting up headquaters of each foreign brands certainly helps to create foreign brand awareness in some way. It is another key factor to affect the locals from the bottom of their heart to strengthen the effects of foreign insurance companies. Moreover, geographic footprint of foreign insurers in life insurance is most likely located on the east coast where the most Tier One City is, whereas in property and casualty side, foreign insures are most located in the Tier Two City (Hornstein & Prescott, 1991). Distribution locations are decided by the appetite of each locals according to each ones’ background, educations and the demands of insurance products. Keeping the brand awareness and choosing the located cities are being considered in one respect as it is to make more and more optimistic effects of foreign brands on the Chinese and lead them to follow their brand effect (Chang & Lee, 2012). The last finding in this research has implicated the behavior of foreign insurers conducting in China’s online business which engaged with the third-party online payment measure. This measure is vital to foreign insurers who are trying to do business with Chinese nowadays, because they need to think of how to get their premium periodically and safely through online payment. Third-party online payment
measure has been widely used in China in paying different types of bills, including expense cost and receive transactions. So foreign insurers shall pay their attention on this measure as well.

4. Conclusion

In a foreseeable future Internet finance is on the main stream of Chinese financial innovation which is taking place in recent years. This research concludes China’s insurance market for foreign insurance companies and it is undoubtedly potentiated as that has been proved by the world insurance growth curve and the BRIP calculation. This can be the time that foreign insurers enter in Chinese market to invest in insurance sector and fairly compete with domestic insurers in the internet market. Digitalized market provides a relatively looser and wider environment for both insurers who have the interests and is ready to join. China’s emerged internet finance is giving incentives for foreign insurers to promote their insurance business in China and it gives a bigger space for foreign insurance companies to conduct business. Being innovative and creative is tough, nevertheless, foreign insurers have to consider conscientiously for making ‘made in China’ solutions to indulge the Chinese government in terms of the regulation dynamic and the Chinese market in their favorites. Most importantly, the implications that have on foreign insurance companies decide whether foreign insurers are vigorous and supportive enough to provide a strong financial support and innovative capability in order to survive in China’s market and contribute in China’s internet finance.

The finding of this research indicates foreign insurers are ready to access in China’s insurance market by observing instructions which are implicated on the internet finance for foreign insurance companies, the regulatory dynamics, the representative offices and the third-party online payment method. Even though regulatory dynamic by each year is accordingly adjusting, the big frame of CIRC regulations are as usual in general. As the more popular the internet finance is, the more attention it is caught by the Chinese government and the regulatory dynamic of internet insurance was always been supervised since the first appearing in 2014 for preventing from an unregulated online insurance market. Internet policies have been enforcing on internet finance as it is to guarantee a safe connection and prevent the internet mess. Foreign insurers would have to look for a way to deploy internet finance effectively without copying and pasting their internet finance model from their home country (Wang, 2013). It is better that foreign insurers can adjust themselves to suit for the Chinese types of the internet finance. Besides, the representative office of different foreign brands in China sometimes own more than one place due to the many companies have multiple offices, of which many of them present as joint ventures or subsidiaries of Chinese insurance companies. Foreign insurance companies shall establish a representative office in China as their first step in order to build brand awareness and legally stay in China. The
internet finance is based on the progress of information technology development, it is developed for various area which also has influences in the insurance industry. Foreign insurers shall be able to follow the instructions which are set by the Chinese government and followed by the internet giants if their internet capacity and strategies are good enough to make mutual benefits with the China’s insurance companies. Moreover, foreign insurers shall keep abreast with the needs of Chinese customers to be able to offer them a favorable request such as the third-party online payment method for their interests.

The implications too, have on foreign insurance companies requiring the Chinese government also to make corresponding actions. The government shall respond to encourage foreign insurers and give incentives to the foreign business in order to have a good long-term relationship with each other on business. Law on foreign investment should encourage foreigners to trade accordingly with the demands of the locals and compete legally with domestic insurers. Company merging and acquisitions should be encouraged and approved in order to allow a better penetration of foreign insurers and attract more foreign investments to infuse with fresh bloods for Chinese insurance market. Last but not least, it is essential to protect foreign insurers while protecting domestic companies. The government should provide legal laws which discourage corruptions and bribes, prevent the illegal fees from making conveniences in business rivals. Innovative internet finance is implementing in China, and it will be the key to future development of China’s economy. Nevertheless, there are so many uncertainties, if the foreign insurance companies is rightfully conduct business according to the rules which set by Chinese government, both foreigner and Chinese business shall cooperate and operate peacefully and gain mutual benefits in the long-run.

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