

# Business opportunity driven by relationships

By Kevin Edison  
Published March 26, 2007

On a recent visit to Beijing for the Spring Festival, I was surprised by what I found: a Starbucks coffee shop. The Forbidden City, built during the 14th century Ming Dynasty, got its name from those executed simply for being in the city if they were not members of the imperial court. Allowing a symbol of Western indulgence to locate there made me think of China's economic progress and the effect it's having on the insurance business.

Insurers and brokers, like most outside companies, see China as an emerging market with endless possibilities. While China welcomes Western consumer goods, few citizens and businesses perceive the need for insurance. The market has been dominated by a handful of large insurers: China Reinsurance Group for reinsurance, People's Insurance Co. of China for property/casualty and China Life Insurance Co. for life insurance. Ping An Insurance (Group) Co. of China Ltd. is another major player, writing life and P/C insurance.

Outside insurers' and brokers' must first open a representative office to form business relationships but may not write or sell coverage. After two years, foreign companies may form joint ventures with existing Chinese firms. The China Insurance Regulatory Commission says outside insurers and brokers currently have more than 200 representative offices.

Aon Corp. formed the first licensed international joint venture insurance and reinsurance brokerage, Aon-COFCO Insurance Brokers Co. Ltd., in 2003. Willis Group Holdings Ltd. formed a joint venture with Shanghai Pudong Insurance Brokers in 2004 to become the first foreign company the CIRC allowed to hold a majority stake in a Chinese broker. Willis took a 51% share in the venture, now called Willis Pudong Insurance Brokers Co. Ltd.

Marsh Inc. opened a representative office in 1982 and recently became the first foreign broker to obtain a license to open a wholly owned insurance brokerage. Marsh (Beijing) Insurance Brokers Co. Ltd. opened in January.

Eric Yang Yingshun, vice general manager at brokerage HDTT Insurance Consulting (Beijing) Co. Ltd., said China's brokerage business only began in 2001. Most domestic brokers do not produce a profit and agencies close every year, said Mr. Yang, who noted brokers face two major concerns: lack of resources and Chinese businesses' lack of interest in purchasing insurance.

CIRC has done little to help local brokers develop, some market observers say. As a result, the world's three largest brokers—Marsh, Aon and Willis—place most of China's large risks, including aviation, satellite, marine and oil drilling.

China's domestic brokerages tend to fall into three groups, said Janet Zhang, account director at brokerage Beijing New World Insurance Services Ltd. The first group is brokers that have a large business volume supported by wealthy client shareholders but that lack the professional staff and knowledge to prepare comprehensive proposals. The second group has formed strong relationships with governmental agencies, enabling them to place large project business and attract talented people. Most local brokers fall into the third category, however, with neither professional staff nor relationships to effectively compete, Ms. Zhang said.

Chinese law generally does not require insurance, except third-party liability insurance for automobiles and social insurance—basic health cover—for workers. Chinese companies are most interested in property all-risk insurance, machinery breakdown and business interruption cover, Mr. Yang said. Terrorism risk is excluded in China, and few insurers offer this coverage. The most requested liability lines are public liability insurance and, increasingly, employers liability.

While insurance is a relationship business worldwide, personal relationships are especially important in China, he said.

Western insurers and brokers hoping to serve local clients in China will have to earn their trust and demonstrate the value of buying insurance. Like the Starbucks in the Forbidden City, it's hard to sell coffee to a country that has a long tradition of drinking tea.

*Research Director Kevin Edison reflects on his recent trip to China. He can be reached at: [kedison@businessinsurance.com](mailto:kedison@businessinsurance.com).*



**Bai Huo Da Lou shopping center on Wangfujing Street in Beijing. Wangfujing Street has been a commercial shopping district for more than 700 years, offering a wide variety of Chinese and Western shops.**



**Building belonging to Tower of Buddhist Incense (Foxainggge), perched atop Longevity Hill at the Summer Palace.**



**China Life Insurance Co. office located near Tiananmen Square in central Beijing.**





A digital clock provided by Omega Inc., located near Tiananmen Square, counts down the time to the opening of the Beijing Olympics in 2008.



Dongan Market on Wangfujing Street is one of the oldest markets in Beijing. The market is filled with individual stores that offer everything from jewelry to sports equipment.



**Feng Xian (Hall for Ancestral Worship) Palace in the Forbidden City (Palace Museum), built in 1656, is now used as an exhibition hall for clocks and watches given to the emperors.**



**The Hall of Jewelry located in the inner court of the Forbidden City (Palace Museum), houses Imperial Jewelry from the Ming and Qing dynasties.**