



Investing in Insurance Broking Business in China

Market overview

According to the latest statistics from the China Insurance Regulatory Commission (“CIRC”), at the end of 2010, there are 392 insurance brokers companies in China.

Brokers handled premiums of RMB31.31bn in 2010, giving them a 2.13% share of the total premium income of the Chinese insurance market. Brokers handled premiums for non-life sector are RMB26.16bn amounting to 6.71% of market share and RMB4.30bn for life sector representing 0.41% of the total life market. The brokers handled premiums for reinsurance sector in 2010 are RMB0.85bn.

The following table shows the market shares of the top 10 brokers in 2010:

	Brokers	Share of brokerage (%)
1	Chang'an Insurance Brokers Co Ltd	10.60
2	Beijing Union Insurance Brokers Co Ltd	7.89
3	Jiang Tai Insurance Brokers Co Ltd	5.10
4	AON – COFCO Insurance Brokers Co Ltd	4.57
5	Willis Insurance Brokers Co Ltd	4.21
6	Marsh (Beijing) Insurance Brokers Co Ltd	4.16
7	Jinsheng Insurance Brokers Co Ltd	3.39
8	Huatai Insurance Consultancy Service Ltd	2.43
9	Zhongsheng International Insurance Brokers Co Ltd (joint venture between PICC and Tokio Marine)	2.09
10	China Insurance Brokers Co Ltd	2.06

Foreign-invested brokers

There are around 10 foreign-invested insurance brokers in China and their market share is about 15%. The largest 3 foreign-invested insurance brokers in China are AON-COFCO, Willis and Marsh. Their market share is about 90% of the 15% indicated above.

AON-COFCO is the first foreign-invested broker in China, which was established in 2003 by AON and China National Cereals, Oil & Foodstuffs Corp (“COFCO”). The shareholding ratio between AON and COFCO is 50:50. Willis is in co-operation with Pudong Insurance Brokers Co Ltd. Willis increased its equity ratio in the joint venture to 51% in 2005 and it is now the majority shareholder of the joint venture.

Since 11 December 2006, foreign brokers have been allowed to own 100% equity interest in an insurance broking company in China (i.e. a Chinese partner is no longer required). Marsh is the first 100% foreign owned insurance broker in China, which was incorporated in 2007 in Beijing. There are also some other wholly foreign owned insurance brokers such as Lockton (which obtained CIRC approval in 2008) and Guy Carpenter (which obtained its licence from CIRC recently in December 2010.)

Market Entry Requirements

A foreign broker is required to have a corporate presence in the form of a foreign-invested insurance broking company in order to carry on insurance broking business in China. Otherwise, it will be deemed by the CIRC as carrying on business without a licence and will expose the foreign broker concerned to various administrative penalties.

A foreign-invested insurance broking company can adopt either of the following two corporate structures:

- (i) establishing a wholly foreign owned enterprise (“WFOE”);
- (ii) entering into a joint venture with a Chinese partner (“JV”).

Any JV structure involves having one or more Chinese shareholders. This is unlike the WFOE corporate structure where the foreign broker remains the only shareholder. The main advantage to have a JV is that the foreign broker could enjoy the business network of the Chinese partner. However, there are also disadvantages of a JV structures such as that it is often difficult to find a suitable and willing Chinese partner with compatible management style and business model in place structure and the negotiations with prospective Chinese partners could be very time-consuming and protracted.

In practice, whether to adopt a corporate structure of JV or WFOE will largely depend on the strategy of the foreign broker. As indicated above, AON and Willis adopted JV as their initial corporate structure when entering the Chinese insurance market while Marsh adopted a 100% owned subsidiary in China.

The process

It is a statutory requirement that any foreign broker wishing to set up a foreign-invested insurance broking company in China must first have established its Representative Office (“RO”) in China for at least two years.

A foreign broker would usually go through the following 2-stage process (in sequence) before it can obtain an insurance broker licence from the CIRC:

- a) set up a RO;
- b) set up a JV or WFOE.

RO

a) Requirements

A foreign broker which satisfies the following requirements can apply to establish a RO in China:

- (i) good business performance;
- (ii) having been engaged in insurance business for at least 20 years;
- (iii) no record of any major violation of laws and regulations within three years prior to the application date;
- (iv) the investor's total assets as at the year end prior to the application shall be no less than US\$200 million; and
- (v) other requirements stipulated by CIRC.

b) Operating funds

Since a RO is only entitled to carry out liaison and coordination activities / market research but not undertake business or income generating activities, there is no operating funds / registered capital requirement.

JV or WFOE

a) Requirements

In accordance with China's commitment upon its accession to WTO on 11 December 2001, a foreign broker which satisfies the following requirements can apply to establish a JV or WFOE in China:

- (i) it must have been engaged in insurance business for more than 30 years;
- (ii) a RO has been established in China for more than 2 years;
- (iii) its total assets as at the year end prior to the application shall be no less than US\$200 million;
- (iv) the country where it is situated must have a sound system for the regulation of insurance business and it must already be under the effective supervision of the relevant authority in the country concerned;
- (v) it must obtain the approval of the relevant authorities in its country of incorporation for the establishment of proposed JV or WFOE in China; and
- (vi) it must satisfy other requirements stipulated by CIRC.

b) Paid-up capital

The minimum paid-up capital of an insurance broking company in China is RMB10 million (equivalent of approx £1 million), which must be injected by shareholder(s) of the insurance broking company in cash.

Further information

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