

Update

Changes to investment rules signal next stage of journey for Chinese insurance industry

The China Insurance Regulatory Commission (CIRC) has historically played a prominent role in managing competition in the insurance market. However, with the launch of its new Insurance Company Mergers and Acquisitions Regulations, they are relaxing a number of competition rules to effect significant change in the industry.

From 1 June, insurers in China – including Chinese-based foreign insurers and domestic insurers – will for the first time be allowed to buy shares in more than one company operating in competing lines of business. This brings it in line with other competition laws now in place in the country. The way in which capital can be contributed is also changing; under the new rules companies will be permitted to use external debt to fund acquisitions, up to a limit of 50% of the overall price, subject to approval from the CIRC.

The next stage

These changes are the latest steps in a process which has seen the CIRC make a number of moves to liberalise the industry – for example in 2012 it opened up the motor third-party liability insurance market to foreign-invested insurers in China.

Foreign insurers have struggled to expand in China – market share for overseas insurance firms declined to 4.3% in 2012 from 8.9% in 2005 according to CIRC data. This is due

in part to the previous restrictions on M&A that made it difficult for them to achieve scale and maximize advantages in underwriting techniques in China.

A number of insurance regulators across the Asia Pacific region have expressed the view that there are too many industry participants and have either indicated that new licences will not be issued, or at the very least, new entrants will be encouraged to enter local markets through acquisition rather than new start-ups.

These new rules in China are exactly in line with this philosophy, aiming to achieve consolidation in the market to allow stronger domestic and foreign insurers to invest in weaker peers – facilitating a stronger and more competitive insurance sector. As well as foreign investment, it is likely that there will be more domestic consolidation and rationalisation of existing ownership structures. Those insurers who are seeking investment partners or an injection of capital will find it easier to do so under the new rules.

Where next?

The direction of travel is clearly set and it will be interesting to see what happens next. China may also look at opening up other key areas of the market and changes around pensions, retirement products, tax incentives and health insurance could allow foreign insurers to leverage their knowledge and expertise, ultimately paving the way for more transaction activity.

Equally, from a stronger base, domestic insurers may look to move more rapidly into other mature markets, and the deal flow will reverse with more Chinese inbound investment to come to markets such as Lloyd's, Europe and the US.

Further information

If you would like further information on any issue raised in this update please contact:

Andrew Holderness

E: andrew.holderness@clydeco.com

Clyde & Co LLP
The St Botolph Building
138 Houndsditch
London EC3A 7AR

T: +44 (0)20 7876 5000

F: +44 (0)20 7876 5111

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