Back to Beginning of the Newsletter

Chinese Insurers — Willing to Invest Internationally
But Unwilling to Underwrite Chinese Risks

By Michael R. Newman, Daar & Newman, P.C.

Startlingly, with the headlines filled with stories about the dangers of Chinese manufactured goods, Chinese insurance companies are not underwriting much of the risk.

Despite the fact that some 20 years ago a joint venture underwriting company was established between the People's Insurance Company of China Group (PICC), China's largest insurer, and the AIG Group in the United States, and the increasing Chinese investments in the United States, there is no sign that PICC will step up its U. S. operations in the near future. It is believed that the volume of business is viewed to be too low to justify major investment by the group. This may be the same consideration facing other Chinese insurance companies despite the Chinese State Council pushing Chinese insurers to "go global." Howard Tsang, executive director of Willis China, believes that banking and insurance could become China's "second wave of global business."

In August 2004, the China Insurance Regulatory Commission (CIRC) issued provisional regulatory measures on the offshore investment of foreign currency insurance assets, which allowed qualifying PRC insurance companies to invest their foreign currency assets offshore. Now, three years later, the focus of Chinese insurance carriers is broadening. On November 29, 2007, Ping An, China's second-largest life assurer, paid US$2.7 billion to become the leading shareholder in Fortis, the Belgian-Dutch banking and insurance group. Ping An acquired a 4.2 percent stake in Fortis, making it the largest foreign purchase by a Chinese insurer, thereby paving the way for multinational collaboration to develop banking and insurance products. (*Financial Times* – **www.ft.com**, Nov. 29, 2007.)

The *Financial Times* also notes that Chinese insurers are eager to use their US$300 billion pool of assets to build a presence overseas. China Life, the largest Chinese life assurer, is expected to announce in December that it will purchase a "stake in a big insurance company in Europe or North America."

Despite several Chinese insurers being on the "road to internationalization" and having a vast pool of money for acquisitions, none seems eager to underwrite the risks arising from the manufacturing of products in China. The *San Francisco Chronicle* notes, "The anonymous 'Made in China' label is fast giving way to a new generation of distinctively designed, manufactured and marketed 'Made by China' brands that are on the verge of exploding into the global markets." Unfortunately, this explosion has been more literal than figurative, with consumer exposure to vast potential harm.

Without Chinese insurers underwriting the risk, consumers are left to make claims under Chinese liability law. However, the Chinese legal system provides no reasonable forum in which American or European consumers can seek redress for damages. Chinese manufacturers and apparently Chinese insurers are complacent enough to believe that foreign distributors will accept the brunt of product liability exposure and the expense of product recalls. Is it any wonder that the Chinese economy can sustain a 10 percent annual growth rate when its manufacturers are virtually immune from foreign liability and its insurers, despite their "internationalization," defer underwriting the risk of loss?

IBM Business Consulting Services says China's economic growth culminated in China's entry into the World Trade Organization (WTO) in 2001, and that economists project China's economy will surpass the U.S. economy by 2035. Maybe the WTO should bring pressure to bear on China and its insurers so that China's gains are not earned while placing everyone else at risk.

Back to Beginning of this Newsletter