

CHINA INSURANCE REPORT

Market Development and Current Issues
2004-2005

English Edition

Editor in Chief of the Chinese Edition

Shengzhong Jiang, PhD

Professor, Dean of the Dept. of Risk Management and Insurance
Nankai University

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Preface

The developing situation of the globalization of Insurance and China entering WTO is reshaping the landscape of world insurance market. The geography of international insurance resources flows is changing. China is emerging as one of the developing center of world insurance market. The publication and distribution of the English edition of the "China Insurance Report (CIR)" enable those foreign-funded insurance institutions licensed in China as well as foreign insurance institutions abroad to learn and get involved in the development of China insurance market, and enhance the international communication on the research of insurance theories and practice.

The *China Insurance Report* is a kind of research report on the development of China's insurance industry each year, which is under the cooperation program with Swiss Reinsurance Company. Professor Shengzhong Jiang, editor in chief of the CIR, leads a team work doing the research with all the academic staffs at the Dept. of Risk Management & Insurance (DRMI) of Nankai University. The *China Insurance Report* has been published continuously for 4 years in 2003, 2004, 2005, and 2006. It has been recognized by the insurance academics and practitioners, insurance enterprises, and regulatory authorities as valuable references and information. We started to publish the English version of the CIR from this year, which makes the "China Insurance Report 2005, English Edition" come into being.

The undertakings in insurance industry under the globalization and worldwide economic integration background would boost the international communication and cooperation. China insurance market is in the process towards the complete opening and the number of the foreign-funded insurance institutions is increasing. The reasonable allocation of Chinese and foreign insurance resources in the process of the internationalization of Chinese insurance market turns out to be the focus of the insurance field. The *China Insurance Report* stresses the need for promoting the reforming and opening policy in insurance industry. It is the critical resources for the research on relevant issues, and is particularly valuable for China licensed foreign-funded insurance institutions as well as foreign insurance institutions abroad to understand the pace of the development of China insurance industry in all dimensions, and learn the reform process, so as to participate in the construction of the Chinese

insurance industry.

Thus, for the sake of the development of insurance service liberalization under the WTO legal framework and the world insurance market integration, publishing the English edition of the CIR is considered as one of the significant and continuous task, which will necessitate the full support of the international communities.

Wei Liu

**Associate Director of the Research Institute
of International Insurance**

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The CIR2005, E. E. was prepared under the overall guidance of Wei Liu by a translation team led by those of postgraduate students Na Yuan, Xuehang Bai, Ting Li, Yang Zheng, Jian Wei, Hairui Dai, Xiaoquan Jin, Feng Jiao, Dianna Liang, Yun Gao, Liye Zhang, Yanwu Xiang, Menglei Feng, Huining Liang, Zhuo Jing, Zhenli Sun, Zhenghua Sun, Chang Li, Zheng Chen, Changlin Yu, Yu Jiang, and those of undergraduate students Jia He, Lusheng Wei, Yujing Huang, Hongye Zhang, Wenjing Zhao, Di Zhang, Tianyu Ma A, Xin Li, Sijia Chang, Wenlong Cao, Bohuan Wei, Yinji Cui, Xiuling Bao, Yingxue Feng, Mingyue Chang, Zhenkun Zhao, Haomin Zhang, Yi Wang, Menglin Zhang from the Dept. of Risk Management and Insurance, Nankai University.

Wolf-Bernhard-Kersten, visiting professor of the Research Institute of International Insurance (RIII), Nankai University, was the principal translation consultant. The translation assistance and checking was provided by Wei Liu, associated professor of the DRMI and the associate director of the RIII, Dr. Pangtuo BO and Gary Wei, the research fellows of the RIII. Dr. Pangtuo Bo has done most of the work of the proof-reading.

The financial support from the School of Economics of Nankai University and Swiss Reinsurance (China) Company, and the sincere support from Mr. Naijun Li, the vice chief editor of China Finance and Economics Publishing House (CFEPPH), and Dr. Dongmei ZHANG, the editor of the CFEPPH, are gratefully acknowledged.

We must apologize for mistakes and improbable expressions existed in the CIR2005, E. E. . Since it is the first time for us to publish Chinese research outcome in English and will continuously doing this task afterwards, any correction and consulting guidance will be warmly welcome.

We sincerely invite criticisms and suggestions from specialists and various kinds of readers in order to improve our work.

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Contents

Preface	(1)
Acknowledgements	(1)
Part One Overview of the Development of China's Insurance Market in 2004—2005	(1)
I. The Outline	(1)
II. The Development of China's Life Insurance Market in 2004—2005	(5)
III. The Development of Property & Casualty Insurance in China in 2004—2005 ...	(21)
IV. The Development of China's Insurance Intermediaries in 2004—2005	(30)
V. Reinsurance Market in China	(36)
VI. The Development of Insurance Industry in Taiwan Province	(47)
Part Two Overview of the Development Insurance Legal and Regulation System in China 2004—2005	(64)
I. Development of Insurance Legal System in China	(64)
II. Development of Insurance Regulation in China(2004—2005)	(88)
Part Three Forum on Current Issues	(117)
I. Life Insurance	(117)
A. <i>The Development of Group Life Insurance in China</i>	(117)
B. <i>Reform and Adjustment of the Employee's Management in Life Insurance Companies</i>	(133)
II. Property & Casualty Insurance	(141)
A. <i>Analysis on the Technical Efficiency of Property Insurance Industry in China</i> ...	(141)
B. <i>Ocean Marine Cargo Insurance in China: Review, Focus and Forecast</i>	(153)
C. <i>Concerns about the Current Development of Automobile Third Party Liability Insurance in China</i>	(188)
III. Credit Insurance	(198)
A. <i>Analysis on the Development of Export Credit Insurance in China</i>	(198)
B. <i>The Measurement and Assessment of Credit Risk in the Pricing of Export</i>	

<i>Credit Insurance</i>	(208)
IV. Insurance Contract	(220)
Analyses on "Unfair Clauses" in Insurance Contracts	(220)
V. Foreign Insurance Companies in China	(231)
Analysis on the Management of Foreign-funded Insurance Companies in China	(231)

Appendix I:

Content of 《China Insurance Reprint 2006 – 2007》(English Edition)	(252)
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Appendix II:

Invitation Letter on Sponsoring the Publication of <i>China Insurance Report</i> (English Edition) and <i>International Insurance Studies</i> (Chinese/English Bilingual Journal)	(254)
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Part One

Overview of the Development of China's Insurance Market in 2004—2005

Written by Xiangjun Zhu, Xing Zhang, Yanbing Yang, Chen Jiang, Ke Wang,
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I . The Outline



The background of insurance marketing development is the external environment for the development of insurance industry, that is to say, the market factors, which affect insurance enterprises when they are actualizing and managing the insurance activities. It includes economic environment both at home and abroad, humanistic social, law and policy environment etc. Every country's insurance market is formed in a particular development background, thus, through the analysis of its background of China insurance market, we can know more clearly the present Status and its developing trend.

1. 1 The Domestic Macro Economic Environment

1. 1. 1 The GDP grew rapidly

China's GDP grew rapidly in 2004. The whole year GDP summed up to RMB13651.5 billion

Yuan, increased by 9.5% compared with the previous year. Among this increase, the primary industry amounted to RMB2074.4 billion Yuan and up by 6.3%; the secondary industry amounted to RMB7238.7 billion Yuan and up by 11.1%; the tertiary industry amounted to RMB4338.4 billion Yuan and up by 8.3%. According to the latest statistics, the GDP grew rapidly in the first three quarters in 2005, reaching up to RMB10627.5 billion Yuan, up by 9.4% compared to the same period of the previous year, and the speed of increase was 0.1% less than the same period of the previous year. The primary industry amounted to RMB1351 billion Yuan and up by 9.4%; the secondary industry amounted to RMB6044 billion Yuan and up by 11.1%; the tertiary industry amounted to RMB3232.5 billion Yuan and up by 8.1%. The GDP increased by 9.4%, 9.5%, 9.4% respectively in the first three quarters, showing a steady increasing status.

On one hand, the insurance industry's rapid growth to some extent guaranteed the increase of GDP; on the other hand, the increase of GDP provided macro economic condition for insurance industry's development. The insurance industry grew with the increase of GDP, and in China, it grew more rapidly than GDP, which we can see from Table 1-1. In 2004, along with the economic growth, the insurance market was adjusted step by step, and kept developing steadily. The premium income in the whole country was RMB431.81 billion Yuan, increased by 11.3% compared with the previous year, which was more rapidly than GDP.

We can also see the followings from Table 1-1: the premium income of the year of 2004 increased most slowly compared with the year 2001, 2002, 2003 which increased respectively by 32.2%, 44.7%, 27.1%, but the growth quality and effectiveness was better. This indicates that insurance companies were changing the management concept and the operators were more rational in pursuing their business expansion.

Insurance penetration is the ratio of premium to GDP. It is an important guideline to reflect the role played by insurance industry in the national economy. We can see from table 1-1 that the insurance penetration is continuously increasing from 0.1% in 1980 to 3.4% in 2004, which indicates that insurance is playing a more and more important role in national economy, but because China insurance industry started up late, so it is far less than the average insurance penetration in the world (Table 1-1-1).

1.1.2 The government carried out the macro-control policies on economy, and properly controlled the investment of fixed asset

As China's economy comes into a new round of growth cycle, the internal power of economy growth is increasingly built up, but the following problems came out as well: Over-heated investments, short of supply of coal, electricity, gas and transportation; rising price, falling production of grains, etc. Thus the government carried out macro-control policies in 2004. This made the Chinese economy grow steadily and in the same time avoid sharp fluctuation of economy.

After one year's macro-control in 2004, the amount of fixed assets investment totaled RMB7007.3 billion. The extent of increase lowered from 43% in the first quarter to 25% in the whole year. The too rapid growth speed of the investment in industries such as iron and steel, cement,

Table 1 - 1 - 1 GDP, premium, insurance penetration and insurance density

Year	GDP		Insurance premium		Insurance Penetration (%)	Insurance density (RMB Yuan)
	RMB Billion Yuan	Growth rate(%)	RMB Billion Yuan	Growth rate(%)		
1980	451.78	7.8	4.6	—	0.1	0.4
1981	486.24	5.2	7.8	69.5	0.16	0.6
1982	529.47	9.1	10.3	32.1	0.19	0.8
1983	593.45	10.9	13.2	28.1	0.22	1
1984	717.1	15.2	20	51.5	0.28	1.5
1985	896.44	13.5	33.1	65.5	0.37	2.5
1986	1020.22	8.8	45.8	38.4	0.45	3.5
1987	1196.25	11.6	71.04	55.1	0.59	5.5
1988	1492.83	11.3	110.4	55.4	0.74	8.5
1989	1690.92	4.1	97.63	-11.6	0.58	7.5
1990	1854.79	3.8	135.2	34.4	0.73	10.4
1991	2161.78	9.2	178.2	35.9	0.82	13.7
1992	2663.81	14.2	211.7	18.8	0.79	16.3
1993	3463.44	13.5	395.5	86.8	1.14	30.4
1994	4975.94	12.6	500.4	26.5	1.01	38.5
1995	5847.81	10.5	594.9	18.9	1.02	45.8
1996	6788.46	9.6	777.1	30.6	1.14	59.8
1997	7446.26	8.8	1087.9	40	1.46	83.7
1998	7834.52	7.8	1247.6	14.7	1.59	96
1999	8206.75	7.1	1393.2	10.2	1.7	107.2
2000	8940.36	8	1595.9	14.5	1.79	122.8
2001	9593.32	7.3	2109.4	32.2	2.2	162.3
2002	10239.8	8	3053.1	44.7	2.98	234.9
2003	11669.4	9.1	3880.4	27.1	3.33	298.5
2004	136515	9.5	4318.1	11.3	3.4	332.2
2005	183868	10.4	4928.4	13.02	2.8	379

Source: website of National Statistics Bureau and CIRC.

and electrolytic aluminums etc. was under control. In the first three quarters of 2005, the whole fixed assets investment amount was RMB5700 billion, down by 1.6 percentage point compared to the same period of the previous year.

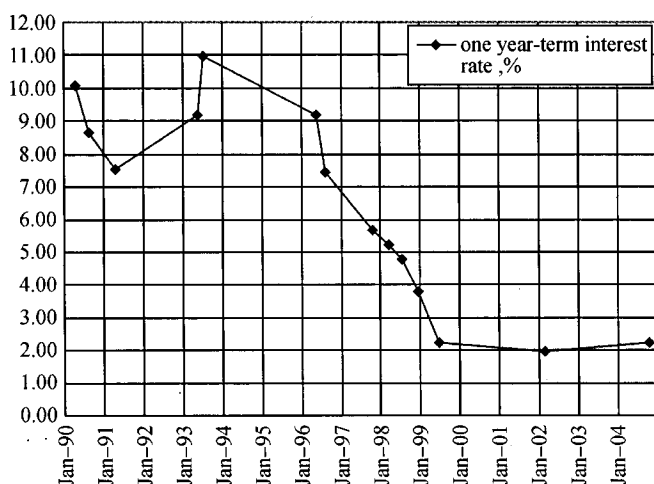
The impact of fixed assets investment on insurance industry was as follows: On one hand, through multiple functions, the investment can make a larger increase of GDP. On the other hand, the growth of fixed assets investment directly promoted the development of property insurance especially engineering insurance. In 2004, the premium income of property insurance amounted to RMB108.99 billion Yuan, up by 25.4% compared to the same period of the previous year, and for the first time the extent of increase exceeds that of life insurance. While in 2005, the premium

income of property insurance was RMB122.99 billion Yuan, up by 12.9% compared to the same period of the previous year.

1.1.3 The People's Bank of China for the first time in recent 9 years raised the interest rate

Interest rate is a tool for central bank to carry out currency policy and adjust national economy. We can see from the curve of benchmark interest rates of the People's Bank, the central bank of China, that the interest rate decreased from Jul 1993, and was lowered down for 8 times from 1996 to 2002. On Oct 28th, 2004, the central bank for the first time in recent 9 years raised the interest rate to 2.25% and the level goes on till now (Chart 1-1-1).

Chart 1-1-1 the curve of interest rate



Source: The People's Bank of China.

On one hand, the raised interest rate reduced the negative interest rate spread and the debt of insurance companies. In the past 10 years, because of the decreased interest rate by central bank, the preconcerted interest rate of long-term life insurance policies fell down from 8.8% to about 2.5%. After this time's raised interest rate, the negative interest rate spread of old policies and the loss of insurance companies would decrease. At the same time, the raised interest rate could help improve the yield rate level of insurance capital operation. On the other hand, the negative impact of the raised interest rate can't be neglected. After the interest rate increased, the attraction of insurance investment decreased, and the risk of policy withdrawal by the insured increased.

1.1.4 The income of residents keeps increasing

We can see from table 1-1-2 that the income of residents in our country has kept increasing in recent years. In 2004, the disposable income was RMB9422 Yuan, up by 7.7% compared to the previous year. The increase of the disposable income per capita stimulated the insurance consumption.

However, there was one exception. Although the peasant's income grew rapidly in 2004, the agriculture insurance didn't develop as rapidly as it should be. According to statistics from CIRC, the premium income of agriculture insurance in 2004 was RMB377 million Yuan and down by 18.86% compared to that of the previous year. In order to help the agriculture insurance develop in the same way as the other kinds of insurance, CIRC initiated a series of pilot work in several provinces. In 2005, the premium income of agriculture insurance amounted to RMB729 million Yuan, up by 84.26% compared to the same period of the previous year. It was the first time in recent years that agriculture insurance gained profit.

Table 1 - 1 - 2

The disposable income per capita from 1998 to Sep 2005

RMB Yuan

Index	1999	2000	2001	2002	2003	2004	2005
Disposable income of urban residents	5854	6280	6860	7703	8748	9422	10327
Net income of rural residents	2210	2253	2366	2476	2749	2936	3118

Source: Website of National Bureau of Statistics of China.

1.2 The Social Environment

1.2.1 The insurance consciousness of the public becomes more and more mature

The insurance consciousness is an essential factor to make people buy insurance products. Because of the short history of China's insurance industry, people don't know much about insurance. As the economy developed and people's income increased, they have gradually realized that risk exists everywhere and insurance is truly important.

1.2.2 The social security system is improved.

The social security system improved a lot in 2004. The number of people covered by old age insurance, medical insurance, work injury insurance, and maternity insurance was 163 million Yuan, 123 million Yuan, 68 million Yuan, and 43 million Yuan. The social security income and expenditure exceeded RMB1000 billion Yuan. At the same time, the Ministry of Finance gave more support for the development of social security system. For example, in 2004, the subsidies given by the central government reached RMB50 billion Yuan, and subsidies given by the local governments reached RMB7 billion Yuan.

II. The Development of China's Life Insurance Market in 2004—2005



In recent years, the life insurance industry in China continuously grew but at low speed to a con-

siderable degree because many life insurance companies have adjusted their business structures. Because of rising interest rates, although in 2005, quite a few life insurance companies have cut down their businesses which were not or less profitable. Experience showed that in a short period there is no chance of creating good business, so the speed of business's growth became slower than before.

2.1 The General Situation of Life Insurance Market

2.1.1 The situation of life insurance business in China

In 2004, the growth of China life insurance market slowed down after the rapid growth in the years 2001 to 2003. In 2004, life insurance premium income amounted to RMB322.82 million Yuan, up by 7.2% compared to the previous year, and it took up a market share of 74.76% (Table 1-2-1). The life insurance penetration (the proportion of life insurance to GDP) reached 2.54% and the insurance density amounted to RMB248 Yuan (life insurance premium income per person according to the whole population).

Table 1-2-1 China life insurance premium income in 1992—2004 RMB100 Million Yuan

Year	Life insurance premium income	Rate of growth compared to the same period of the previous year (%)	Gross premium income	The proportion of life insurance vs. the whole insurance industry (%)
1989	19.58	—	97.63	20.06
1990	28.41	45.10	135.17	21.02
1991	41.41	45.76	178.24	23.23
1992	64.29	55.25	211.69	30.37
1993	144.07	124.09	395.47	36.43
1994	163.45	13.45	500.35	32.67
1995	204.20	24.93	594.90	34.33
1996	324.62	58.97	776.60	41.80
1997	601.96	85.44	1087.95	55.33
1998	747.70	24.21	1247.30	59.95
1999	872.10	15.00	1393.22	62.60
2000	997.50	14.4	1595.50	62.50
2001	1421.7	42.52	2109.4	67.4
2002	2274.6	59.9	3053.1	74.5
2003	3011	32.4	3880.4	77.6
2004	3228.2	7.2	4318.1	74.76

As set out before, life insurance market grew slower in 2004, and even showed a negative growth. This was the result of the adjustment made by insurance companies on their own initiative

for the purpose of healthy development and solving underlying problems. From the second half of 2003, many companies adjusted their product structure continuously and they did not concentrate only on the scale of premium income alone. Companies started to concentrate on benefit types of business, and increased the proportion of products, which it requires the premium paid in terms, and offers mainly the risk protection in all the contracts. In the past, short-period participating life insurance and lump-sum insurance contracts took up a large part of the business, but presently, the proportion of them has decreased, as a result of the adjustment of the life insurance products structure.

Table 1 - 2 - 2 Premium income per month of life insurance companies in China

from Jan. to Sept. in 2005

RMB10 Thousand Yuan

Month	Premium income	Chain increase (%)	Gross premium income	The proportion of life insurance companies vs. the whole insurance industry (%)
Jan.	3117246.68	—	4588781.69	67.9
Feb.	2395180.96	-23.16	3131237.58	76.5
Mar.	5729116.73	139.19	7048480.58	81.3
Apr.	2537433.44	-55.71	3715323.05	68.3
May.	2469679.90	-2.67	3463055.40	71.3
June.	3834291.66	55.25	5146740.62	74.5
July.	2176941.77	-43.22	3126677.82	69.6
Aug.	2344502.45	7.70	3303250.36	71.0
Sep.	3168877.42	35.16	4263647.40	74.3
Total	27773271.01	—	37787194.50	—

According to the statistics from CIRC, by the end of September of 2005, the life insurance premium income of the whole country amounted to RMB377.87 billion Yuan, up by 13.1% compared to the same period of the previous year. If we exclude the policies signed by Generali China Life Insurance Co. Ltd., which were about RMB20 billion Yuan, the rate of increase would be around 5%. This indicates that more than half of the increasing speed of life insurance market was due to the policies signed by Generali China Life Insurance Co. Ltd. The premium income of property insurance, life insurance, health insurance and accidental insurance respectively amounted to RMB96.33 billion Yuan, RMB246.71 billion Yuan, RMB23.91 billion Yuan and RMB10.93 billion Yuan, increased by 11.2%, 13.1%, 15% and 23.6% compared to the same period of the previous year.

By the end of September of 2005, all the 39 life insurance companies in China had gained premium income of RMB277.73 billion Yuan, up by 13.2% compared to the same period of the previous year (from September 2004 to September 2005, there came out 11 new companies including 8 China-funded companies and 3 foreign-funded companies) (Table 1 - 2 - 2). The 17 China-funded companies gained premium income of RMB248.77 billion Yuan, up by 3.8% compared to the same period of the previous year, and took up 89.6% of the whole premium income;

the 22 foreign-funded companies gained premium income of RMB28.97 billion Yuan, up by 398% compared to the same period of the previous year, but if we exclude the policies of RMB20 billion Yuan by Generali China Life Insurance Co. Ltd., the increase was only 54.3%. Obviously, considering the less quantity of newly established companies, the speed of growth of foreign-funded life insurance companies was much faster than that of China-funded companies.

The premium income of the whole life insurance industry in China in September 2005 amounted to RMB31.69 billion Yuan, including RMB30.58 billion Yuan by China-funded companies, up by 14%, taking up 96.5% of the whole premium income and RMB1.11 billion Yuan by foreign-funded companies, up by 4%. Obviously, considering the speed of growth in September 2005, foreign-funded companies grew much more slowly than China-funded companies.

2.1.2 Area differences

Table 1-2-3 Life Insurance Premium Income of Each Province in China

RMB100 Million Yuan

Province	Year 2003			Year 2004		
	Premium income	Increasing rate (%)	Proportion in the market (%)	Premium income	Increasing rate (%)	Proportion in the market (%)
Anhui	82.63	64.37	79.62	95.18	15.19	77.86
Beijing	230.0	22.56	81.56	213.00	-7.61	76.37
Fujian	80.47	34.39	77.11	37.77	-15.26	72.55
Gansu	30.10	26.90	73.55	32.41	7.69	72.89
Guangdong	208.74	22.70	69.97	239.23	14.61	69.59
Guangxi	40.58	21.16	70.63	46.46	14.55	69.8
Guizhou	19.49	24.91	65.08	20.87	7.06	62.06
Hainan	9.23	46.58	68.21	95.71	3.65	65.97
Hebei	134.48	59.17	80.47	155.58	14.83	75.74
Henan	140.80	36.86	84.44	169.11	20.10	83.71
Heilongjiang	101.94	46.99	85.86	109.92	7.24	86.12
Hubei	84.09	21.67	78.66	93.05	10.66	76.83
Hunan	83.14	23.40	79.74	90.87	8.4	78.54
Jilin	55.25	42.09	81.85	61.63	11.56	82.92
Jiangsu	318.18	39.45	83.39	333.81	4.91	79.99
Jiangxi	56.10	65.24	80	64.62	15.55	80.69
Liaoning	97.36	24.10	76.92	119.21	22.44	77.58
Inner Mongolia	31.38	29.86	73.90	40.81	30.05	77.58
Ningxia	7.87	24.22	72.18	9.66	22.73	69.92
Qinghai	4.77	19.57	62.65	4.18	5.00	56.57
Shandong	224.70	33.34	79.25	210.28	11.01	77.7
Shanxi	69.74	31.77	77.05	75.20	7.83	72.2
Shaanxi	57.91	23.18	76.80	60.76	4.92	73.59