

China Life

Watchlist Proposal

Analyst: Sujey Subramanian

Summary: China Life Insurance Company Limited provides financial services such as life insurances, health insurance plans, accident insurance and investment in securities. Premium accounted for 75% of 2000 revenues; investment income, 18%; gain/loss on sale of securities 3% and other, 4%. It has total assets of 299,974 Billion RMB.

The company will do a dual listing in Hong Kong and New York later this year.

China's Insurance Industry:

- The Hang Seng China Enterprises Index, which tracks mainland companies, surged 94 percent this last year, compared with a 33 percent gain in the benchmark Hang Seng Index.
- By the end of 2002 China was home to 52 insurance firms, including five State-owned companies, 15 smaller shareholding firms, 20 joint ventures and 14 branches of foreign firms.
- The size of the market will continue to grow rapidly, given the low level of insurance in China's market.
- Insurance premium income in China rose 32.57 percent in the first seven months of this year from the year-earlier period to 239.84 billion Yuan (USD 28.98 billion).
- Life insurance premiums stood at 74 billion Yuan or an annual increase of 40.2 percent, while that of property insurance totaled 42.3 billion Yuan during the same period.
- Domestic insurance companies registered a combined premium of 114.5 billion Yuan, up 30 percent, while overseas insurers earned a premium of 1.8 billion Yuan.
- China's insurance industry recorded a 14.5 percent growth in terms of premium income in 2000.
- Survey: Five major Chinese insurance firms enjoy a remarkably higher recognition rate than others. They are the People's Insurance Co. of China Group, China Pingan Insurance Co., China Pacific Insurance Co., China Life Insurance Co. and Xinhua Life Insurance Co. The combined recognition rate of the five reaches 92.76 percent, while that for other companies is merely 7.24 percent.

Regulation of Insurance Industry:

- After China's entry into the WTO, China will open its insurance sector wider to the outside world, and gradually lift restrictions on foreign insurance companies in terms of the forms of admission, investment ratio, regional and time limit, business scope subject to opening, and relevant business operations.
- With regard to the forms of admission and investment ratio for overseas insurance companies, those not engaged in life insurance are permitted to establish branches or joint ventures immediately after China's WTO accession, with the ratio of foreign investment in joint ventures not exceeding 51 percent. Two years after China's WTO

entry, overseas insurance companies will be permitted to establish exclusively foreign-funded subsidiaries in China.

- For China Life, a shareholding reform, followed by a public flotation, is believed, by top decision-makers, to be the only way to cement their capital base and shore up corporate governance to survive the fierce competition following China's accession to the World Trade Organization.

China Life:

- China Life Insurance Co, the country's largest life insurer. Controls 75% of the nation's life insurance market. Plans to sell as much as US 2.5 billion of its shares in Asia's biggest IPO this year. Trading of China Life's shares in Hong Kong may start as early as next month, and the company plans to file for sales in the US within the next two weeks. China Life has appointed China International Capital Corp, Citigroup Inc, Credit Suisse First Boston, and Deutsche Bank to arrange the sale. The firm will list in both Hong Kong and New York.
- China Life is expected to increase profit 18 percent to 5.4 billion Yuan this year. China Life expects to record a net profit of about CNY6.7 billion by 2004 and of around CNY8.5 billion by 2005.
- China Life, ranked as the eighth largest Chinese firm in 2002, was also the country's only insurer to be listed as a Fortune 500 company. Its business has skyrocketed in recent years, and its premiums have doubled in the past three years from some 65 billion yuan (US\$7.85 billion) in 2000 to 128.7 billion yuan (US\$15.54 billion) in 2002, taking some 57 per cent of the country's total market stakes.
- The company is targeting to pay 10% -20% of its earnings as dividends to shareholders.

Leadership:

Wang Xianzhang

- Mr.Wang Xianzhang graduated from Liaoning Finance & Economic Institute)in 1965 and has been working in the insurance industry since then. He acted successively as General Manager of the People's Insurance Company of PICC, Liaoning Branch,Vice President of PICC, Vice President of the People's Insurance (Group)Company of China (and concurrently President of China Insurance H.K(Holding) Co.,Ltd.).He assumed the position of Party Secretary and President of China Life Insurance Company since 2000. He is the President of Insurance Association of China and Vice president of China Insurance Academy. He has also been voted as delegate of 16th CPC National and member of the people's Political Consultative Congress

Competition - PICC, Property and Casualty:

- Last week, PICC Property and Casualty Co., had a USD 695 million offering and became the first Chinese insurer to sell shares abroad. Public orders for the stock exceed shares on sale by 135 times. The stock price rose 50% on the first day of trading from 1.80 HKD to 2.70 HKD.
- Besides China Life, People's Insurance Co of China, the top property underwriter, and Ping An Insurance are also planning IPOs.

Competition - PING AN:

- Although Ping An didn't open for business until 1988 and didn't begin selling individual life policies until 1995, by last year Ping An had about 20% of China's life-insurance market. It is second behind the state-owned former insurance monopoly, China Life Insurance Co. In Shanghai, China's top life insurance market, Ping An has 55.11% of the market, vs. China Life's 17.5% and AIG's 9.3%.

Ping An's aftertax profit hit \$169 million in the first six months of this year, compared with \$155 million for all of last year.

But:

- Ping An Insurance, China's largest private life insurance company, has decided to indefinitely delay its US offering because of the current SARS crisis. Originally, the company had planned to raise capital on the Hong Kong and US markets at the same time. Ping An had hoped to raise US\$1.5 billion, then lowered its goal to \$1 billion. Now, facing general market uncertainty because of the SARS crisis, it has decided to indefinitely delay the US offering.

Concluding Remarks:

- Large and growing insurance market in China.
- Only a few key players currently, almost all of which are having IPOs.
- China Life is making IPO to both New York and Hong Kong, others only to Hong Kong.
- PICC Property and Casualty rose 50% in one day in Hong Kong.
- Question of if life insurance demand or other insurances will be the most important in China.
- Question of increasing foreign competition.