

# Analysis of Development status, Problems and Countermeasures of China's Insurance Industry

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**Abstract.** In recent years, China's insurance industry has maintained steady development. As the pillar of social security, it plays a key role in protecting the economy and benefiting the people. At the same time, the development of China's insurance industry is in good shape. The development speed is gradually increasing, the development level is also constantly improving, and the service fields and business types are gradually enriched. The continuous innovation of insurance products and the continuous transformation of business concepts have provided strong support for China's economic and social development. This article first reviews the development history of China's insurance industry and conducts an in-depth analysis of the following four problems: backward horizontal development, improper market supervision, low product innovation, and irregular personnel levels. Secondly, corresponding countermeasures are provided for each problem. The problems and countermeasures studied in this article may promote the development of China's insurance industry.

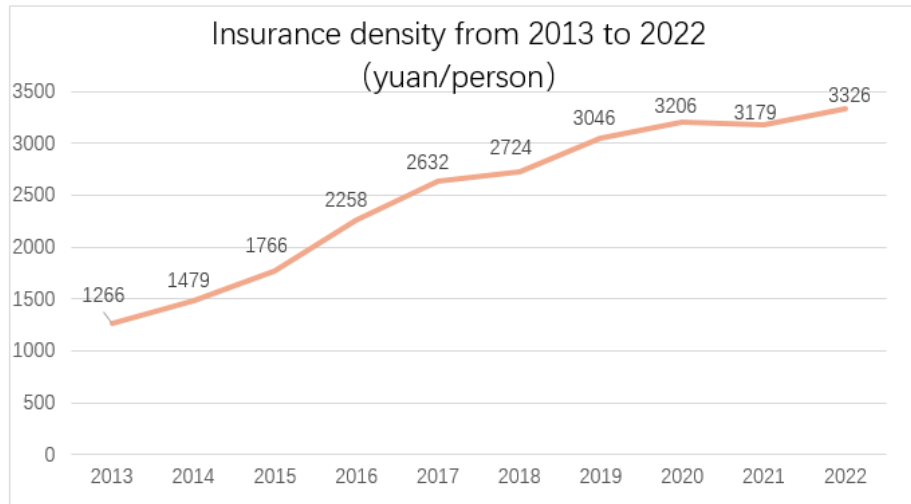
**Keywords:** China; insurance; social security.

## 1. Introduction

The insurance industry provides important support for stability and risk management to the Chinese economy. It reduces the financial pressure on individuals, businesses and governments in the face of unexpected losses through the transfer and diversification of risks. It also plays a role in promoting China's economic structural adjustment, transformation and upgrading. In addition to traditional property insurance and life insurance, the insurance industry continues to innovate, covering health, pension, agriculture and other fields [1]. This provides funds and guarantees for the upgrading and transformation of China's economy and promotes the optimization of industrial structure and improvement of innovation capabilities. For the people, insurance provides people with a sense of security and confidence, reduces social risks and uncertainties, and is conducive to the harmonious development of society. This article proposes corresponding solutions to four problems from different angles. While discussing the development issues of insurance in China, it supplements the limitations of previous research in the insurance field and provides a new perspective for research in this field.

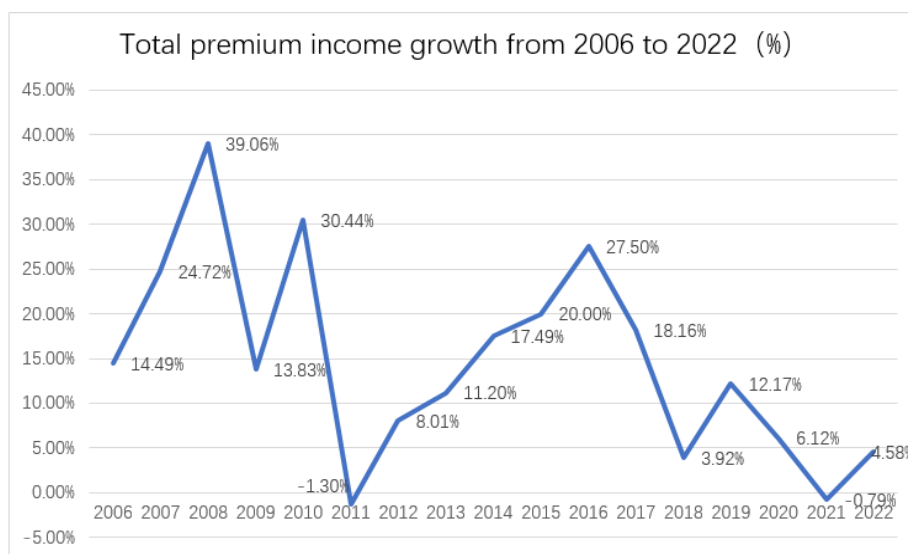
## 2. Overall

The overall insurance density in China is on an upward trend and is growing well. From 2013 to 2022, insurance density will increase by 163%. At the same time, insurance density will rebound significantly in 2022, reaching 3,326 yuan. Economic growth and premium income continue to increase, while population growth slows down. In 2022, China's insurance density will be US\$550/person, while the US insurance density will be US\$5,981/person, with a huge gap (See Fig. 1).



**Fig 1.** Insurance density.

There are two development troughs from 2006 to 2022. In 2011, the insurance industry's business in the bancassurance channel was hampered. In 2021, the epidemic suppressed consumer willingness and combined with weak sales of auto insurance and critical illness insurance, premium income experienced negative growth. At the same time, it can be found that in 2018, the growth rate of premium income dropped significantly (See Fig. 2).



**Fig 2.** Total premium income growth.

### 3. Problems

#### 3.1. Backward Horizontal Development

The development level of China's insurance industry is relatively backward. On the one hand, people are hardworking and frugal, and prefer to save the rewards they earn from work in banks or investments. Most people believe that the probability of risks such as illness and accidents is too small, therefore, they are unwilling to buy insurance products that they may not use [2]. On the other hand, from the perspective of insurance coverage and security levels, the development of the social pension security system is uneven. Although the commercial insurance market has developed steadily, there is still a bigger space for improvement in China's insurance density and insurance penetration due to the low acceptance of insurance by the people.

Insurance penetration refers to the contribution of China's insurance industry to the economy, which is the proportion of the insurance market in GDP. In 2022, this figure stood at 3.88%, showing

a significant increase compared too many previous years, yet it showed a gradual decline from 4.45% in 2020. Insurance density refers to the average annual insurance premium amount per person. This value will be 3,326 yuan in 2022, which is far lower than the world average insurance density of \$818 in 2020. Therefore, compared with developed countries such as the United States and Japan, China's insurance penetration and insurance density still have greater room for development.

### **3.2. Improper Market Supervision**

China's insurance market has many problems. First, changes in legislation and related regulatory systems for some emerging businesses and innovative insurance products have a time lag, and the construction of regulatory mechanisms often follows actual changes in the market. For example, the relevant insurance clauses for new energy vehicles still use the original relevant clauses for motor vehicles. As a result, even if violations are discovered during actual supervision, regulatory agencies are unable to impose penalties. In addition, the industry's entry and exit mechanism is not sound enough, and effective competition constraints are difficult to achieve. When risks arise, the insurance market cannot repair itself through a self-regulating mechanism. Secondly, market oligopoly is not conducive to reasonable competition. The current situation of China's insurance market is that there are only a small number of insurance companies. A few large state-owned insurance companies such as PICC, China Life, and China Pacific Insurance Company have a high degree of monopoly on the market [3]. In the long run, the market efficiency will become increasingly low, and market resources cannot be allocated reasonably and effectively. It not only hinders the development of the insurance market, but also inhibits the expansion of the scale of the insurance market.

### **3.3. Low Product Innovation**

With the rapid development of China's insurance market, products have become the core competitiveness of insurance institutions. There are many insurance products on the market, but their essence is the same. First of all, China's insurance industry has a shorter development history than Western developed countries, and the calculation of insurance product premiums and the definition of risk scope require a lot of historical data, which makes the road to innovation of insurance products that adapt to national conditions difficult. Secondly, financial regulatory policies are relatively strict and change frequently, which to a certain extent hinders the research and development of insurance products and makes it difficult for insurance companies to make long-term product innovation plans. Finally, when a popular innovative insurance product appears on the market, the first reaction of other insurance companies is not to create a better one, but to imitate and quickly follow up with similar products [4]. This trend-following strategy has led to the increasingly serious homogeneity of insurance products, which is very detrimental to the development of China's insurance industry.

### **3.4. Irregular Personnel Levels**

In order to attract people to buy insurance, some insurance personnel deliberately cater to consumers' expectations of "asset appreciation", exaggerate the investment returns of insurance products, link demonstration benefits with actual benefits, and some insurance personnel fail to explain their obligations in the insurance contract. In the early stages of the development of my country's insurance industry, recruitment methods were not standardized. Some employees entered the insurance industry through job transfers, training courses, etc. This low entry threshold resulted in the largest number of insurance employees in the financial industry, and they generally took low-level sales positions. Mainly staff, they come from all walks of life, the short training cannot give them a systematic understanding of the functions, benefits and significance of insurance products, and their professional knowledge reserves and skill levels remain at a low level [5]. Coupled with the unreasonable behavior of insurance companies using premium income as the assessment criterion, sales staff whose first goal is performance have engaged in illegal activities such as inducing customers, false advertising, and opaque services in order to increase their salaries. They did not put themselves in the customer's shoes, resulting in a poor customer experience and even an inability to

settle claims when problems occurred. In addition, the career development path of employees in the insurance industry is not clear enough, and the personnel appointment and dismissal systems of some insurance companies are not fair enough, resulting in a lack of enthusiasm and innovation among employees in the insurance industry. It often happens that outstanding employees who have worked hard at the grassroots level are locked out of promotion paths and then switch to other industries [6]. As a result, insurance companies fail to retain highly professional talents, which is very detrimental to the long-term development of the insurance industry.

## **4. Suggestions**

### **4.1. Enhance Insurance Awareness**

Enhance people's insurance awareness to promote the development of the insurance market, strength people's willingness to purchase insurance to reduce social risks, and protect the public's property and life safety. Insurance awareness refers to the public's awareness, understanding and acceptance of insurance. It is an important indicator of the willingness and ability of individuals or groups to purchase insurance. It is an important factor affecting the depth of the insurance market and the density of insurance. Through reasonable publicity by major insurance institutions, they will reform themselves and establish an integrity system. Design insurance products that protect people's legitimate rights and interests, change people's original stereotypes, improve people's trust, and increase people's awareness of insurance. Naturally, people's demand for insurance products will increase. As the aging of the population accelerates, the demographic dividend is gradually lost, and the traditional competitive strategies of the insurance industry are no longer effective. High-cost blind expansion not only fails to bring competitive advantages, but also creates a heavy burden. The government's simultaneous opening of the "two-child" policy hopes to alleviate social conditions, but it is far less effective than creating a pension insurance market [7]. At this time, pension insurance can better provide retirement security for the people, and the demand for insurance by the elderly will gradually increase, thus bringing more profit opportunities and market opportunities to the insurance industry, thus creating a virtuous cycle.

### **4.2. Strengthen Regulatory System**

A complete and comprehensive insurance system is a prerequisite for ensuring the healthy development of the insurance industry. Without the support of relevant systems, the insurance industry will not be able to achieve healthy and sustainable development [8]. First, in order to eliminate the lag in supervision of the insurance industry, the government should, on the basis of the existing system, formulate targeted regulations that are in line with the current development status of insurance companies, closely follow the market, and further supervise insurance institutions in strict accordance with operating procedures. Second, it is necessary to standardize the responsibilities of regulatory agencies and ensure the independence of regulatory agencies. For example, the independence of personnel appointments and assessments must be strictly guaranteed, so as to effectively break down the correlation between regulatory agencies and the industry and reduce the probability of systemic risk events. In the face of oligopoly, the market structure should be optimized and market competition encouraged. The market structure of oligopoly has advantages and disadvantages. On the one hand, monopolistic enterprises can achieve economies of scale to a certain extent by virtue of their own strength. On the other hand, the development of the scale and performance of small and medium-sized enterprises will be restricted due to the strength of oligarchs, which may trigger a serious price war and is not conducive to the improvement of the overall economic performance of the insurance industry. Therefore, adjusting the market structure is the core of industrial optimization, and the key to adjusting the market structure is to establish an effective competition mechanism, promote the common development of small and medium-sized enterprises, and improve economic efficiency from the industry as a whole.

### 4.3. Improve Innovation Capabilities

Improving product innovation capabilities requires starting from four aspects. First, companies must change their thinking. In a fiercely competitive market, every company wants to make a profit, but every time a new product comes out, they must not just imitate it, but develop new products and open up new markets [9]. Only in this way can a virtuous cycle of thriving insurance market be created. Second, with the development of the insurance industry and the advancement of technology, it is necessary to better utilize accumulated historical data and more advanced technology to design products. Use big data to develop customers, provide customers with better and more suitable solutions, and promote the sustainable development of the insurance industry. Third, through market research and customer demand analysis, insurance companies must first conduct sufficient market research and customer demand analysis before launching new products [10]. Through research, we can understand the existing product types on the market, the advantages and disadvantages of competitors, etc., and use this as a reference for formulating new product strategies. In addition, it is also necessary to have a deep understanding of customer needs and insurance protection pain points, so as to design insurance products that are closer to customer needs and solve customer problems. Fourth, propose diversified product lines and customized services. In terms of innovative products, the insurance industry can meet different customer needs through diversified product lines and customized services. Diversifying product lines means launching insurance products of different types and coverages, such as life insurance, medical insurance, accident insurance, etc., to better meet the insurance needs of different customers. At the same time, insurance companies can also provide customized services and exclusive customized products based on customers' individual needs, so that customers can feel more considerate and personalized insurance protection.

### 4.4. Classification of Personnel

Insurance companies should standardize and specialize their employees and improve the recruitment standards for industry employees. Due to the low entry threshold in the insurance industry, many sales staff have not received specialized training. In the future development, those without sales practice skills will need to be quickly eliminated, and professionals with systematic training will take their place. Improving consumers' purchasing experience and consumers' trust in insurance companies is conducive to the sustainable development of the insurance industry. Secondly, insurance companies should standardize and specialize their sales methods. Many insurance products are promoted through the salesperson's circle of friends. The method is single and frequent, which can easily make consumers feel disgusted. With the professionalization of personnel and the widespread application of technology, future promotions will be able to directly connect with potential customers, improving the efficiency of promotion [11]. Finally, we should strengthen the training of mid-to-high-end talents. Although the demand for such employees is not as high as that of salespeople, they are still in a relatively short supply. The professional knowledge, sales ability, integrity level, character status, etc. of insurance sales personnel are used as the main criteria to classify their insurance sales personnel. It is also connected with the insurance product hierarchical management system of insurance companies, differentiates sales capabilities and qualifications, implements differential authorization, and clarifies the insurance products that insurance sales personnel at each level can sell. After grading, experienced salespeople can sell a wider range of insurance products with higher complexity. New salespeople who have just joined an insurance company are limited in the products they can sell. If they lack ability and experience, they cannot introduce complex personal insurance products to consumers. This move will help reduce sales misleading and improve the market and consumers' perceptions of the insurance industry, thereby reducing insurance complaints and lowering surrender rates.

## 5. Conclusion

China's insurance industry plays a key role in ensuring social stability, becoming a pillar of economic development and a guarantee of people's well-being. Its steady development trend is obvious, its development speed is gradually accelerating, its business scope and service types are constantly expanding, and its continuously innovative insurance products and business concepts provide strong support for the national economy and society.

Based on the research of this article, it is proposed that the level of insurance development in the market environment should start from people's insurance awareness. When market monopolies and regulatory agencies face problems, they choose to strengthen the supervision system and encourage competition. And to improve innovation capabilities to face the phenomenon of product homogeneity. At the same time, insurance companies protect the rights and interests of consumers by regulating the professionalism of employees. The analysis of this article is mainly based on existing literature and related data, with a certain degree of subjectivity, and can conduct more in-depth research on the selection of new data variables.

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