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Online sales in China's promising auto insurance market

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China's auto insurance market is growing rapidly in tandem with car ownership. Some insurers have started selling auto insurance via telephone and/or the Internet in addition to the agency channel. Online insurance sales are expected to grow in China, but insurers must pursue growth in the online channel through strategies that seek to avoid conflict with existing sales channels.

Motorization and development of auto insurance market in China

Motorization is in full swing in China. With new car sales of 13.64 million vehicles in 2009, China has surpassed the US to become the world's largest auto market. China's auto fleet (including three wheelers and low-speed trucks) totals 76.19 million vehicles, putting China ahead of Japan in terms of car ownership. China's Ministry of Industry and Information Technology (MIIT) projects that by 2020 China's auto fleet will exceed 200 million vehicles[1)], roughly triple Japan's current auto fleet.

In conjunction with growth in domestic auto sales, auto insurance sales continue to grow in unit terms at a double-digit annual rate. In 2009, the Chinese auto insurance market was valued at an estimated RMB209.5 billion[2)] (approximately ¥2,723.5 billion at an exchange rate of ¥13/RMB) in premium-revenue terms. By comparison, Japan's auto insurance market was valued at ¥3,413.5 billion on a corresponding basis in fiscal 2009. The Chinese auto insurance market is on track to soon overtake its Japanese counterpart.

Auto insurance in China is sold mostly through agencies, including auto dealers. The agency channel reportedly accounts for over 90% of auto insurance sales. In recent years, direct telephone sales have emerged as a new sales channel. Nonlife insurers have been opening up call centers in rapid succession, emulating Ping An Insurance, which grew from the third- to second-ranked domestic nonlife insurer by virtue of market share gains achieved through telephone sales.

Ping An, together 11th-ranked Anbang Insurance, is also among the first nonlife insurers to sell auto insurance online. With competition for market share intensifying, the Internet is seen as a promising new sales channel, behind telephone sales. In major metropolitan areas such as Beijing and Shanghai, the Internet usage rate is already above 60%, on a par with Japan's Internet usage rate circa 2003, when online auto insurance sales became popular in Japan. Consumer awareness of online insurance sales is still extremely low in China, but the stage has been set for future growth.

Current state of online auto insurance sales in China

Online sales in China are considerably different than in Japan. In Japan, insurers generally enter the online market by establishing a separate subsidiary specializing in online sales and downplaying their own brand as much as possible, lest their agents complain about competition from online sales (channel conflict). Because such subsidiaries specialize in online sales, they have pursued development of maximally automated business models (low-cost operations) tailored to the online channel[3)].

China, by contrast, does not yet have any online-only insurers. With the auto insurance market burgeoning, most nonlife insurers are endeavoring to expand new sales channels, including online sales, as a top priority. Their approach to online sales is to develop a simple auto insurance application form for their websites and maximally utilize existing business systems and processes, partly because they want to swiftly enter the online channel. For Chinese insurers, the Internet is strictly a sales gateway. Once a customer is through the gateway, the sales process is identical to that of the agency channel.

Chinese insurers' Internet sales model is partly a product of the domestic regulatory environment. Insurers are prohibited by regulatory authorities from developing differentiated auto insurance products. Insurance products sold through the online or telephone sales channel are identical to products sold through the existing agency channel. Insurers are permitted to discount premiums up to 15%. Although this maximum discount applies to all sales channels, insurers are utilizing it to offer lower premiums in the online and telephone sales channels than in the agency channel.

Online auto insurance sales' growth potential and prospective challenges

As mentioned above, consumer awareness of online auto insurance sales is still extremely low in China. Nonetheless, online sales are projected to grow substantially over the next several years, partly because China's insurance regulatory authorities are enthusiastically in favor of online sales. Other factors conducive to online sales growth include the following.

(1) Many consumers in China's car-buying class have busy work schedules and are heavy Internet users. Such consumers are highly likely to favor the convenience of the online channel to apply for or renew insurance coverage.

(2) Auto insurance premiums have been liberalized on a pilot basis in the city of Shenzhen. If insurance premiums are liberalized on a nationwide basis, insurers would have more latitude to differentiate themselves based on premiums. The online sales channel should benefit disproportionately from such liberalization, given its facilitation of price comparison shopping.

(3) Consumer recognition that "direct sales = low price" has been steadily rising in recent years by virtue of insurers' advertisements for the telephone sales channel.

(4) In urban areas, loan-financed auto purchases by twentysomething consumers have been growing in recent years. Such consumers are presumably more price-sensitive auto insurance shoppers than the high-income consumers that have hitherto constituted China's car-buying class.

As Internet sales grow, insurers will also face new challenges. One such challenge is establishing online sales as a full-fledged channel. As mentioned above, most Chinese nonlife insurers have a single set of business processes deployed uniformly across all sales channels, including online sales. With such a monolithic business model, insurers are unable to differentiate themselves from competitors. Instead of treating the Internet as merely a gateway for capturing prospective customers, insurers should grow their online channels as a platform for providing a full range of insurance services to existing policyholders. To do so, they should formulate phased growth plans. They also must develop business processes specific to the online channel.

Another issue is conflict with existing sales channels. Such conflict has yet to arise in China, largely because auto sales are so strong that car dealers do not care much about auto insurance sales commissions. If auto sales growth slows, however, income from such commissions may become more important to car dealers, potentially leading to the emergence of previously ignored channel conflicts. To avoid channel conflict, insurers will likely have to look into measures such as cooperating with existing agencies on sales via the online channel (e.g., through customer referrals) or establishing incentives to induce agencies to steer customers to the online channel.

Even in China, insurers are likely to diversify their auto insurance product offerings if auto insurance continues to grow in prevalence and is deregulated. Meanwhile, as ordinary consumers gain knowledge of insurance, they will likely become more discriminating vis-à-vis price and product attributes. China is ultimately progressing along a similar path as Japan, Europe, and the US, albeit with a lag of some 10–15 years. Developing and successfully executing strategies targeting online sales growth will become increasingly important in China.

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Note

1) Comment by Wang Fuchang, deputy director-general of MIIT's equipment industry department (September 5, 2010). Japan's auto fleet totals 75.238 million vehicles (including three-wheeled but excluding two-wheeled vehicles) as of end-April 2010.

2) In 2009, China's nonlife insurance market was valued at roughly RMB299.3 billion by premium revenues. We estimated auto insurance premium revenues at RMB209.5 billion based on reports that auto insurance accounts for approximately 70% of total nonlife insurance premium revenues.

3) Cost savings derived from development of low-cost business models would be available to invest in strategic initiatives such as additional advertising, reduction of insurance premiums, and/or after-sales service.

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