

STRATEGIC THINKING



HITTING the Silk Road

ARE YOU PREPARED TO DO
BUSINESS IN CHINA?

By Anita Kwan

In the 2007 Asian Investment Intentions Survey conducted by The Asia Pacific Foundation of Canada, 58 per cent of Asia-focused companies polled reported having a formal strategy for increasing business with China, one of the fastest growing markets in the world.

This is well above the 42 per cent of Canadian-based companies doing business with China that said they have a formal China strategy in a 2006 survey carried out by the Asia Pacific Foundation and the Canadian Manufacturers & Exporters Association.

Clearly, more and more Canadian companies are eyeing Asia-Pacific markets and increasing their business activities in China as its economy flourishes, requiring them to also arrange insurance for these offshore expansions. Are Canadian brokers ready and able to respond?

How would you react to notice from one of your clients that it is moving its manufacturing operations to a suburban city called Dongguan in the Guangdong Province? Would you be able to find Dongguan on a map? Would you have any idea of the general nature of the construction of industrial and commercial buildings? How much do you know about the insurance marketplace in China or, more specifically, in Guangdong Province?

Recognizing these challenges, and realizing that business and commercial ties with China are only going to grow, HKMB International Insurance Brokers, for one, has dedicated a special Asian practice team to handling issues like these full-time. Members of the group are familiar with the structure and operation of the insurance marketplace in most of the larger Asian commercial centres. With in-depth background and contacts in China and other countries in the region, they specialize in managing risks in emerging economies.

Most of the team members have more than 25 years of experience working in both Asia and Canada. They have maintained their ties with the Asian marketplace whilst developing and deepening their knowledge in the Canadian insurance industry.

Photo: John Hrynjuk



Unique challenges

China is not just a different country with a singular culture and distinct traditions and values. It is a separate and unique marketplace with a different business culture and customs. What is considered standard practice in North America may be totally new to a market like China. The customs that prevail in Corporate Canada are often foreign to Asian countries.

For instance, consider the case of a client who entered into a contract to sell a piece of equipment to a company in China. The agreement stated that 70 per cent of the value of the equipment would be payable upon shipment and the remaining 30 per cent only when the equipment had been installed and tested. The client asked the buyer in China to insure 100 per cent of the value of the goods and to be named on the policy as a loss payee.

While this is a very common practice in North America, the Chinese buyer responded that it could not name the seller as a loss payee. The solution: That the interests of both the contracting parties be specified.

In another situation, a Canadian wholesaler and distributor of household goods requested its suppliers in China to provide products liability insurance. It's not possible to get such coverage in China, the suppliers replied. There are many reasons why this Canadian company would be so advised. The solution is not a simple one but with the right knowledge and know-how, the problem can be worked out.

If you don't understand the contrasting business environments, then bridging the gap will be impossible. Misconceptions, misinterpretations and misguided assumptions lead to missed opportunities. Business etiquette, negotiating techniques and the decision-making process are not the same in the East versus the West.

Evolution

China's insurance industry is undergoing reforms arising from the country's economic and social developments and is standing up vigorously to new challenges brought by market liberalization.



Up until the early 1990's, the insurance market in China was monopolized by the state-owned People's Insurance Company of China (PICC). The 2005 Yearbook on China's Insurance Market indicates that the PICC still dominates with a market share of more than 51 per cent in the non-life insurance market, with the remaining 49 per cent being split amongst numerous domestic and foreign-owned companies. Foreign-owned insurance companies have less than a 1.3-per-cent market share.

With China entering into the World Trade Organization, the insurance sector is being opened up to foreign insurers and brokers and PICC's monopoly is gradually being eroded. Foreign insurers have introduced new managerial and operational concepts such as a standardized reserving policy to provide higher

levels of consumer protection.

The growth of insurance intermediaries in China is also playing a significant role in the reform process. In 2005, insurance intermediaries handled 73 per cent of insurance premiums collected by insurance companies, up 6 per cent from 2004. In 2005, there were 1,800 professional insurance intermediaries across the country, of which six were foreign-invested.

Connections

The term "guanxie" is often used in discussing how business is transacted in China. Guanxie means the "relationship" with the powers that be that allows you to get things done, and it is vital to success. In other words, quite simply, it is not what you know but who you know that matters. Guanxie cannot be built up



overnight and it is a two-way street. It comes from connections from many sources — from long-standing personal friendships and family bonds to business, government, school and military ties.

To address local servicing issues for a plant in China, HKMB, for instance, relies on the close contacts it has with many of the top insurance intermediaries in China via its involvement in the Assurex Global and WBN broker networks. However, given the growing ranks of intermediaries, it is still a challenge to choose the best one for any situation. That's where "guanxie" comes in.

It is also crucial to understand that the way an investment is structured — i.e., a joint venture versus 100-per-cent foreign ownership — very much determines the way in which insurance coverage is placed. Full control of how the insurance coverage is placed is available to a Canadian enterprise only if the

project is completely foreign-owned. However, only a limited number of foreign insurance companies are licensed in China, so Canadian investors still have to go through a process to structure the coverages placed in China to meet their Canadian requirements.

As China is still a relatively new market, many insurance products are still evolving. For example, it may not be possible to get what we call "all risks" insurance in certain small cities in less developed provinces. Language poses yet another challenge. Although some policies have been translated into English, the terms and references of many of the clauses may be different than the wordings that are commonly used in the North American market.

It also helps if you can provide guidance beyond the conventional insurance advisory role. For instance, an HKMB client was recently having problems



arranging the shipment of equipment from his plant in Canada to his plant in China. He was going through the proper channels but these can be very slow to grant the required licence. The Asian practice team suggested seeking alternative arrangements with shippers in Canada who are knowledgeable about importing into China — someone who has the 'guanxie' to get things done.

In this insurance niche, you can't just offer prospects a quote on their insurance program. You need specialized market intelligence and insight to design solutions that will have a meaningful impact on the total cost of risk. ∞

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