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The Impact of Interest Rate Marketization on China's Life Insurance Products

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Abstract: The interest rate is a crucial macroeconomic variable, and the marketization of interest rates is one of the fundamental reforms in the economic and financial domains. China continues to promote market-oriented interest rate reform in accordance with the Central Committee of the Communist Party of China and the State Council's strategic deployment, which not only conforms to China's national conditions but also essentially fulfills international norms. While deregulating interest rates in an orderly manner, it places a premium on building and enhancing a market-based interest rate system in which rates are determined by market supply and demand. The People's Bank of China employs monetary policy instruments to influence market interest rates and maximizes the regulatory function of interest rates for macroeconomic activities. This article seeks to assess the issues China's life insurance industry faces from three perspectives: power, product structure, and depth and density. The study then analyzes the impact of marketization of interest rates on China's life insurance business and suggests countermeasures for China's life insurance companies.

Keywords: interest rate marketization, life insurance industry, macroeconomics, financial reform

1. Introduction

Liberalization of interest rates emphasizes the importance of the market, and market interest rates are determined by the interplay between supply and demand in the financial market. It can maximize market competitiveness, enhance the pricing independence of life insurance companies, and facilitate indirect monetary authority administration. Interest rate marketization is a country with significant quality standards and financial development. This is the first time that McKinnon and Shaw have presented the fundamental concept of equilibrium, one country, one level of financial development. The marketization of interest rates is also known as interest rate market reform. Interest rate marketization is the loosening of the government's direct administrative control over deposit and loan interest rates, allowing the supply and demand of financial markets to decide the level of deposit and loan interest rates charged by financial institutions. This is a process of harmonious economic and financial growth. Interest rate marketization is neither merely a process of interest rate liberalization nor a straightforward market-oriented reform process of interest rate control mechanism. It also include the process of improving other economic systems associated with interest rate reform. This is a coordinated and promoted system coordinated by businesses, markets, and governments. The marketization of interest rates reflects not only the period of time required for interest rate reform to

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resolve the problematic relationship between the free market and regulatory restraints, but also the operation of interest rate marketization demonstrated after the conclusion of reform.

With the changes in the economic climate at home and abroad, the CIRC has implemented the scientific idea of development, focusing on essential issues and prevented dangers. The industry has established a favorable growth pattern. Through the establishment of numerous policies, the CIRC has guided the industry to alter its mode of development in order to improve its ability for sustainable development. The marketisation of interest rates on traditional life insurance products will encourage companies to break traditional thinking and practices, increase product innovation, achieve people-oriented through fruit sharing, fully meet the increasingly diverse security needs of consumers, and create additional benefits for the transformation of the development mode and the enhancement of sustainable development capabilities [2].

The Chinese life insurance sector faces enormous obstacles. This article examines the obstacles China's life insurance industry faces from three perspectives: power, product structure, and depth and density. The study then analyzes the impact of marketization of interest rates on China's life insurance business and suggests countermeasures for China's life insurance companies. The significance of this research lies in its examination of the impact of interest rate marketization on China's life insurance products, and it has contributed to China's life insurance business to some extent. In addition, it presents reference development directions for China's life insurance business, as well as strategies for overcoming the challenges posed by interest rate marketization.

2. Analysis

2.1. Insufficient Power

In industrialized nations such as Europe and the United States, insurance companies can create consumer-friendly life insurance products as soon as there is market demand [3]. In China, life insurance companies typically adhere to the philosophy of "heroes based on premiums." From head office to branch office, they have made seizing the insurance market a major priority, with the aim of rapidly enhancing the evaluation of premium income and profit indicators. Developing and innovating life insurance products requires a substantial amount of human, material, and monetary resources. Consequently, life insurance companies disregard product innovation and are ordinarily unmotivated while developing and designing life insurance products. Even if some new products that meet market demand and have development potential are developed, salespeople will only introduce old products that they are familiar with or have high commissions to consumers in order to facilitate and obtain more commissions, resulting in innovative products not producing economies of scale in the short term and not being valued, which further hinders product development and innovation, and enthusiasm and drive of the new division [3].

2.2. Unbalanced Product Structure with Neglect of Customer Needs

There are significant discrepancies in the product structure of life insurance firms; the number of investment products is excessively large, but the proportion of insurance and long-term savings products is inadequate. This issue is largely due to a lack of risk security knowledge [4]. On the one hand, firms are incentivized to pursue large-scale premiums, while on the other hand, the demand for investment among certain consumer groups vastly outweighs the demand for guarantee. Therefore, it is a peculiar phenomena that the premium and insurance amount are comparable. As a result, consumers purchase insurance despite the lack of a guarantee. Almost every life insurance firm in the sector has acknowledged client demand orientation, yet the majority of insurers prioritize their own development goals over the insurance needs of consumers. Operations are primarily focused on items or channels, as opposed to the client. Companies blatantly disregard client feedback. This is because,

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from the standpoint of internal mechanism development, it is the main problem of insurance company management. In pursuit of size and profitability, the corporation develops goods with a greater focus on the company's profitability and social impact than on the actual demands of customers [4].

2.3. Low Depth and Density of Insurance

In 2013, the insurance penetration rate in China was 3.0%, the insurance penetration rate for life insurance was 1.9%, the insurance density was 1265.7 yuan per person, and the insurance density for life insurance was 809.2 yuan per person1. In 2012, the global average depth of life insurance was 3.69 percent, and the average insurance density per square meter was $373 per person, or approximately RMB 2,289.66 per person at the current conversion rate [5]. China's insurance depth and density are well below the global average, let alone comparable to wealthy nations. China's insurance market has significant possibility for growth. In recent years, the insurance depth of China's life insurance companies has stagnated, in contrast to the country's sustained economic expansion. According to the "Ten Articles of New Countries" objective, the insurance density will reach 3,500 yuan per person and the insurance depth will reach 5% by 2020. With the growth of an aging population and the implementation of favorable tax regulations, the life insurance market has limitless growth potential [5]. In addition, the structure of insurance fund use is unfair, and the yield is low. In China, insurance funds are mostly invested in fixed-income financial securities, bank deposits, and bonds. At the end of 2013, bank deposits accounted for 29.45 percent of total investments, bonds for 43.42 percent, stock and securities investment funds for 10.23 percent, and other investments for 16.9 percent [6].

As an actuarial assumption, the life insurance business commonly employs a return on investments of approximately 5.5% [6]. Since 2010, the rate of return on insurance fund utilization has been consistently below this level, creating a yield gap. In most years from 2000 to 2013, the average rate of return on insurance funds in China was approximately 3.5% [6]. If the utilization efficiency of insurance funds is too low and the return on investment is less than the predetermined interest rate of the policy, there will be an interest rate spread, which will have a significant impact on the operation of life insurance.

3. Analysis of Impact of Interest Rate Marketization on China's Life Insurance Industry

The marketization of interest rates will have a profound effect on China's life insurance business. This article focuses on the positive analysis and discussion of the subject. Positive impact of marketization of interest rates on the life insurance sector. If the fluctuation of commodity prices complies to the price law, the marketization of interest rates is an unavoidable tendency under the current favorable global conditions. The link between supply and demand also necessarily affects the price-interest rate as a capital. Once the interest rate is marketized, it will be an opportunity for the growth of China's life insurance business, which consists of:

First, it might give life insurance investment a larger room for growth. The expansion of the scale of investments is difficult to predict [7]. Under the unified interest rate regulation, banks cannot differentiate consumers based on interest rate discrepancies. It is difficult for a significant percentage of businesses with inadequate qualifications to acquire financing. After the interest rate is marketized, the likelihood of these businesses obtaining loans increases significantly. Interest rate marketization provides investment prospects for emerging insurance subjects in the future, so boosting the expansion of life insurance investment size and the life insurance market's activity. Agreement deposits make investments in life insurance more selective. Despite the ongoing deregulation of investment channels, life insurance firms cannot overlook bank deposits as a traditional investment technique. Because, firstly, a significant component of the source of life insurance funds is liability

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reserves, which are life insurance firms' obligations to policyholders. This quality dictates that life insurance firms must prioritize the security of their investments. Second, future payments to life insurance companies are anticipated to be substantial. In addition to the existence of enormous profit margins and losses in the past, life insurance businesses are compelled to pursue profit maximization. Therefore, the most desired investment strategy for life insurance firms is to maximize earnings under stable conditions.

Secondly, the implementation of interest rate marketization is advantageous for life insurance businesses in that it allows them to alter the assessed interest rate of their contracts in accordance with market dynamics. After the predetermined interest rate of life insurance is marketized, life insurance firms can cut the predefined interest rate of valid contracts. Obviously, this process typically involves the insured, the insured, and the beneficiary. This strategy should be evaluated with extreme caution and a holistic perspective. Thirdly, it facilitates the improvement of life insurance firms' solvency. The solvency of life insurance firms is a complete indication of their whole operating level. How to protect and grow the enormous quantity of life insurance funds is a major concern for insurance firms. After the reform of the Insurance Law, limits on the use of insurance company money will be further loosened, and investment channels for life insurance funds will become increasingly accessible. After the implementation of interest rate marketization, all financial market participants will be fully engaged to produce interactive advantages with life insurance businesses, to improve the rationality and efficacy of life insurance funds and the solvency of life insurance firms.

4. Suggestions

This study proposes two strategies for life insurance businesses to deal with the marketization of interest rates.

First, increase the risk consciousness of Chinese citizens and build the proper notion of insurance consumption. Currently, Chinese residents' risk awareness is relatively low. Many people view insurance as a kind of savings or investment. However, insurance offers clients protection, not an investment. Numerous consumers prioritize the maximization of present interests while ignoring future hazards. In order to compete with other wealth management products on the market, life insurance companies establish a relatively high fixed interest rate, resulting in a dispersion of life insurance companies and interest rate risk. Therefore, the government should increase the dissemination of insurance knowledge, continuously increase citizens' risk consciousness, and build a correct insurance consumption concept for customers. Likewise, when carrying out product development, life insurance businesses should balance and satisfy the features and needs of China's life insurance market, and provide consumers with affordable, useful, and easily understood insurance products [8]. Promoting the demand for life insurance products and the growth of the life insurance business are largely dependent on educating consumers about the importance of insurance. Correct insurance awareness can also minimize the cancellation rate of life insurance products in China, hence minimizing the operating risk and interest rate risk of life insurance firms.

Second, increase innovation and product development. In recent years, the rate of innovation in the insurance industry has gradually risen due to its ongoing expansion. As a life insurance firm, it is unquestionably one of the most important means of addressing interest rate risk, bolstering its own innovation, and promoting the creation of new products [9]. Increasing numbers of international life insurance businesses are addressing the subject of interest rate risk by developing universal insurance products. Compared to traditional life insurance products, so-called universal insurance products have a flexible mechanism and can determine premiums flexibly in conjunction with market demand. This eliminates the need for life insurance companies to offer higher predetermined interest rates, which is unquestionably essential for the management of interest rate risks by life insurance companies. In order for life insurance businesses to increase their interest rate risk management,

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innovation and development of universal insurance products is a crucial step. Of course, universal insurance products are not flawless. Their procedure is more difficult and costly. In order to achieve this goal, domestic life insurance businesses must develop investment-linked insurance in addition to developing innovative universal insurance products. The so-called "investment-linked insurance" ties the insured's money to the yield of each financial product, and the policyholder is solely responsible for the loss of financial products. This life insurance policy has assisted life insurance businesses in avoiding interest rate risk and matching cash inflows and outflows. Obviously, domestic life insurance companies can also innovate life insurance products based on their own unique circumstances, launch life insurance products that are conducive to interest rate risk management or reduce interest rate risk, and support the sustainable development of life insurance companies.

5. Conclusion

The marketization of interest rates has a significant impact on the growth of the life insurance sector. Faced with interest rate risk, it is necessary to have a reasonable and exhaustive understanding, scientific and rigorous analysis, and highly operational countermeasures. Based on the previous debate, the following conclusions are drawn in this study. The Chinese life insurance market faces numerous opportunities and obstacles. In such a setting, the future of life insurance in China is both hopeful and turbulent. The marketization of interest rates necessitates that life insurance firms continually innovate and advance. This study will investigate the future potential and challenges of China's interest rate market.

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