China's insurance regulator is considering opening the market for compulsory automobile insurance to foreign firms, said three people with knowledge of the matter.

The China Insurance Regulatory Commission may allow foreign firms to offer mandatory liability insurance, said the people, who declined to be identified because the decision isn't final. Foreign insurers, which can now only offer some optional car insurance products, are losing out to local firms as drivers tend to choose the same company for both non-compulsory and mandatory coverage.

Easing the rules would allow overseas insurers including American Insurance Group Inc. to boost their business in the world's biggest car market, and increase their share from 4 percent of the $164 billion insurance market six years after it was opened under World Trade Organization commitments. Auto insurance generates more than 70 percent of revenue for PICC Property & Casualty Co., China's biggest non-life insurer.

"The government is no longer worried about foreign companies dominating China's insurance market," said Tuo Guozhu, a professor with Beijing-based Capital University of Economics and Business. The proposed relaxations "reflect their confidence in the nation's own insurance industry."

Foreign banks including Citigroup Inc. have also trailed Chinese rivals, whose strong ties with local clients and nationwide networks helped defend their dominance.

PICC added 0.7 percent in Hong Kong trading as of 11:23 a.m. local time. The shares of China Life Insurance Co., the world's biggest life insurer, were unchanged in Hong Kong.

Banks Languish

Overseas lenders' share of China's banking market by assets slid to 1.71 percent last year from 2004's 1.84 percent, according to China Banking Regulatory Commission's 2009 annual report. That's even as their total assets more than doubled and the number of operational entities rose 80 percent to 338.

China lifted geographical and most business limitations on foreign insurers in 2004 to comply with WTO commitments made upon its entry into the global trading group. Fifty-two overseas insurers have set up local operations, the CIRC said in December, almost tripling from 18 before the nation became a member of the WTO on Dec. 11, 2001.

Foreign insurers' market share has risen by less than 2 percentage points from 2.3 percent in 2004.

China Life more than quadrupled revenue from 2004 to 2009 in a market that's expanded an average 30 percent a year during the past three decades.

Foreigners ‘Trapped’

Only three out of 24 foreign life insurers made a profit in 2008, according to the 2009 Yearbook of China’s Insurance compiled by the regulator. Money losers included Allianz China Life Insurance Co., whose loss more than doubled from 2007 to 483 million yuan ($71.3 million).

Some foreign insurers are retreating: Canada’s Sun Life Financial Inc. on July 20 won regulatory approval to cut its stake in an eight-year-old venture to below 25 percent, which designates it as a local insurer. Sun Life Everbright Life Insurance Co., now a Chinese company after the Canadian firm sold half of its 50 percent stake to two local investors, lost 243 million yuan in 2008.

Foreign insurers are struggling due to a joint-venture requirement on life insurance, unequal treatment, and stricter regulations and solvency rules following the financial crisis, PricewaterhouseCoopers LLP said in a September report after a survey of 29 foreign companies including AIG.

‘Well-Positioned’

“A number of foreign insurers feel trapped” as they are unable to grow at a pace that would accelerate profitability, the PwC report said. “At the same time they fear that if they leave the market the regulator would look unfavorably on any request to reenter at a later date.”

While it may take another few years to break even, Sun Life Everbright now is “well-positioned to capture more than a fair share” of China’s life insurance market after its restructuring, according to Dikran Ohannessian, president of Sun Life Financial Asia. Premium income is forecast to more than double this year from 2009’s, he said.

“It’s not fair to say the commitment has diminished,” Ohannessian said in an interview on Aug. 2. “The market is attractive, we are committed, and we want to grow the business.”

Biggest Earner

While foreign life insurers are now able to offer the same services that local rivals can, a constraint on overseas non- life insurers is the fact they still can’t write legally required business, including the compulsory third-party liability auto coverage.

In the total property insurance market -- which includes auto, commercial property, homeowner and cargo cover -- the share of foreign companies slid 0.1 percentage point in 2009 to 1.06 percent, according to data from the regulator. Foreign life insurers doubled their share to 5.2 percent last year from 2.6 percent in 2004. Only five of the 15 overseas property insurers were profitable in 2008, according to the yearbook.

The CIRC held discussions this year on opening up the compulsory business, the people said. The Ministry of Commerce, which leads China’s WTO negotiations, supports the liberalization although the nation isn't obliged to do so under its WTO commitments, two of them said.

A press official at the regulator said no immediate comment was available.

China added almost 50 million vehicles in the six years since 2004, according to the China Association of Automobile Manufacturers, and overtook the U.S. as the largest auto market last year.

'Crying Wolf'

Beijing-based PICC won't object to the regulatory relaxation, Chairman Wu Yan said in an interview in Shanghai.

"We'll follow any decision by the CIRC," he said. "Foreign insurers have been here for many years and people have been crying wolf, but look at the market share."

In the fight for new clients, overseas insurers "definitely aren't as competent as local companies," which have stronger ties with car dealers and more outlets in inland cities where most future growth is forecast, said Nan Sheng, a Shanghai-based analyst at UOB Kayhian Investment Co.

"If lots of foreign companies come into the market, there will be some pressure on policy acquisition costs" at local insurers, he said, referring to higher expenses on commissions and agents.