INVESTMENT

Chinese cash chases world's insurers now

Low funding cost encourages cash-flush companies to go on an M&A spree

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Overseas insurers are increasingly noticeable on the shopping list of acquisition-minded Chinese companies whose recent buying sprees globally have driven the country's outbound mergers and acquisitions to a record high.

Since last year, Chinese companies have announced at least nine M&A deals for overseas insurers. The total deal value (both pending and completed) exceeded $8.4 billion, up 280 percent from China's total outbound insurance M&A value in 2014, according to financial data provider Dealogic.

The global insurance sector could be the next target of Chinese capital. China is already the world's leader in technology M&As, analysts said.

"What we are seeing now is just the beginning and such a trend will continue in the future," said Wang Guojun, an insurance professor at the University of International Business and Economics in Beijing.

The trend highlighted the ambition of the cash-rich Chinese conglomerates such as Anbang Insurance Group and Fosun International Group to build an insurance-driven investment empire, inspired by the principles of US billionaire investor Warren Buffett.

The focus on insurance also reflects the shift in China's overseas M&A activity from energy and resource industries to service and consumer-centric sectors.

The most recent deal is Anbang's purchase of Allianz Life Insurance Korea and Allianz Global Investors Korea, the South Korean operations of German insurer Allianz SE.

It was the second time for Anbang to acquire a South Korean insurer as it bought a controlling stake in Tongyang Life Insurance Co for $1 billion last year.

Beyond Asia, Anbang has also expanded its presence in the US and European markets in a slew of high-profile deals, including its agreement to buy US insurer Fidelity & Guaranty Life for about $1.6 billion as well as its purchase of Dutch insurer Vivat last year and Belgium insurer Fidea in 2014.

Another major active Chinese acquirer is Fosun, which has spent more than $5.7 billion buying insurance assets over the past two years. Prominent deals included Fosun's $1.84-billion purchase of an 80 percent stake in US insurer Ironshore Inc last March and its $1.5-billion acquisition of Portugal's largest insurer Fidelidade in 2014.

Simon Harris, managing director for global insurance and managed investments at global ratings agency Moody's Investors Service, said that the M&As are attractive because of a combination of economics and favorable asset prices.

He cited low funding cost and depressed insurance asset prices in some markets as reasons for the latest wave of Chinese M&As in insurance.

The moves by Chinese companies came at a time when overseas insurers, in particular those in Europe, are struggling with stricter regulatory requirements as well as a low interest rate environment, which adversely affected their investment returns. For, they often invest heavily in fixed-income assets.

German insurer Allianz decided to spin off its South Korean business and sell it to Anbang after the insurer suffered a $277-million loss on the South Korean life and health insurance unit last year.

Analysts said the M&As could also be fueled by the desire of Chinese companies to diversify their investment into global markets against a weaker renminbi and the intention to gain more low-cost capital through the expansion of the insurance business.

"In the case of Fosun, insurance can offer a long-term and low-cost channel to gain capital so that it can reinvest the premiums to feed its other business which could yield higher returns," said Zhao Shasha, an insurance analyst at Huarong Securities Co.

Meanwhile, other Chinese investors have joined the acquisition spree to take advantage of China's growing demand for overseas insurance products.

JD Capital, a Beijing-based private equity firm, has offered to buy the life insurance operations of Hong Kong-based financial group Dah Sing Financial Holdings Ltd, Bloomberg had reported citing people familiar with the matter.

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The report said the deal reflected JD Capital's plan to unlock the value of the business at a time when Hong Kong insurers are seeing big increases in product demand from the Chinese mainland.

But analysts warned the latest insurance M&A deals could bring new challenges such as low interest rate exposure, volatile business conditions and growth pain.

"The targets are in large markets but these targets sometimes exhibit modest market positions," said Harris at Moody's Investors Service.

He noted the M&A activities would continue but they will likely be at a slower pace in the coming years.

Just how increasingly prudent and cautious Chinese companies are is illustrated by Fosun's termination of its $462-million purchase of Israeli insurer Phoenix Holdings Ltd in February. Fosun attributed the termination to global market turmoil.

Some analysts speculated the cancellation may indicate the intention of Fosun to reduce its leverage and improve its investment rating after the rapid sprawl of its investment in international markets. Others said the shift toward a more prudent investment strategy may have to do with the detention of Fosun's chairman Guo Guangchang who was later released.

A nurse measures body temperature of patients at a medical center in Hangzhou, Zhejiang province. LONG WEI FOR / CHINA DAILY

Medical: Tele-diagnosis promises profits

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lion yuan in 2011. The figure for 2015 will likely be 15.7 billion yuan, Analysys predicted.

"By setting up internet-based hospitals, tech companies are finally looking at the key aspects of tele-diagnosis, which promises bigger chances of profitability," Jiang said.

Qin Zexi, an analyst at Beijing-based iResearch Consulting Group, said the internet-based healthcare industry will continue to gain steam, thanks to the swift development of the mobile internet technology and the government's intensified efforts to push forward medical reform.

"Public hospitals used to be very reluctant to embrace the internet. But now, that has been gradually changed by the government," Qin said.

In March, Li Bin, minister for the National Health and Family Planning Commission, called for more widespread use of the internet to direct patients to different medical institutions based on their needs, so as to reduce the pressure on big hospitals and improve the efficiency of medical resources.

Unlike other internet-enabled services such as e-commerce which first boomed in rich eastern provinces, online medical service providers have ventured into less-developed western regions from the very beginning.

We Doctor Group, which has raised more than $100 million from Tencent, opened an internet-based hospital for northwestern Gansu province earlier this month by teaming up with a local public hospital.

"The internet can help expand medical services to secluded villages and remote regions such as Tibet," Liao Jieyuan, CEO and chairman of We Doctor Group, said, adding patients can enjoy video diagnosis, e-prescription and drug delivery service from its platform.

Alibaba also moved in the same direction by running a similar project in a village in central Hubei province, hoping to help villagers deal with common and chronic illnesses like hypertension and diabetes.

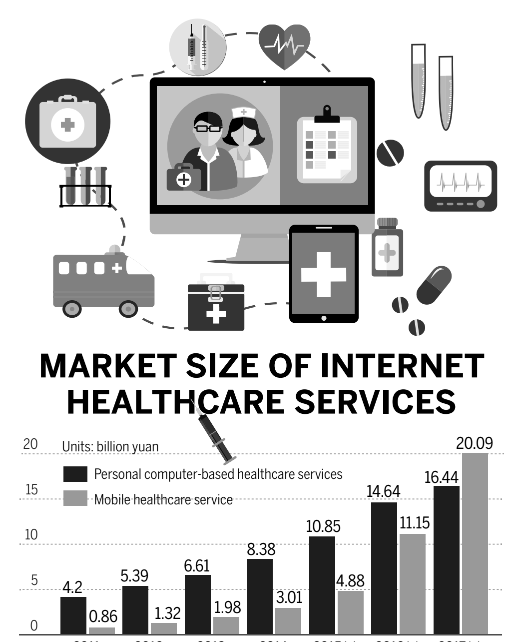
But other players are eyeing the higher-end of the online healthcare market, which includes handling of serious and complicated illnesses by pooling top-level doctors.

"Every year, thousands of people travel to top-tier cities, looking for experts to treat diseases which local doctors fail to cure," said Wang Hang, CEO of Haodf, which claims to have 100,000 qualified doctors on its service.

"By leveraging the internet, patients can first have a video call with experts to see whether they need to be treated in person. This helps reduce unnecessary transportation costs. Local doctors will also be present to offer the most accurate descriptions of patients' symptoms," Wang said.

Haodf inked a deal with the municipal government of Yinchuan, capital of Ningxia Hui autonomous region, earlier this month to build an internet-based or online hospital that connects top-level doctors from big cities with patients and doctors in local clinics.

The system can work even better for re-diagnosis, given that experts can offer training and technical guidance to doctors in local clinics, who will then be able to properly treat patients, according to him.



> **The internet can help expand medical services to secluded villages and remote regions such as Tibet.**
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> **Liao Jieyuan**, CEO and chairman of We Doctor Group

Jiang of Analysys International said: "The two models are still nascent, but I am more optimistic about the high-end medical services market because of the enormous demand (for it). And patients of this group are more willing to pay (for such services)."

But Tian Junzhang, president of the Second People's Hospital of Guangdong province, thinks it is next to impossible to attract so many experts to offer online diagnosis.

"The more renowned a doctor, the less willing he or she is to treat a patient online because it is too difficult and risky to handle complicated diseases through the internet," he said, adding internet-based hospitals by nature are more suitable to deal with chronic diseases which require frequent re-diagnosis.

Huang Jinchang, director of the oncology department at the Beijing University of Chinese Medicine Third Affiliated Hospital, said, "The key to internet-based services is whether doctors can make accurate diagnosis based on the information they get from the internet and video calls."

Huang said time is not a factor because doctors can freely budget their time as long as they adopt an efficient way to treat patients. Currently, he spends 40 minutes to an hour every day answering questions that patients pose online.

"Online medical service is a growing trend. But it just complements face-to-face diagnosis, which is still the most efficient way. In the near term, I won't consider shifting to video diagnosis. After all, the technology is not that mature yet," he said.

In addition to technological bottlenecks, analysts said the issue of getting internet-based medical services covered by the National Medical Insurance System remains thorny, especially for prescription drugs sold online.

Ni Jianwen, vice-president of Alibaba's health business division, said in an interview with Caixin.com that due to the different regional policies, drug sales receipts sometimes are not accepted by local medical insurance authorities, creating difficulties for people buying medicine from online stores.

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Tech: Travel for health tests is not a must

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ny gradually set up more than 90 consultation sites at drugstores and other facilities within the province.

"By the end of this year, we will be able to offer more than 3,000 daily online diagnoses and the network of consultation sites will be expanded to more than 200 facilities," Wang said

But the company's ambition is not limited to the Guizhou province. Similar to a project initiated by one of its rivals, haodf.com, Longmaster is planning to launch an online platform in May to link nationwide patients suffering from complicated and serious diseases with leading doctors from top-tier cities.

Eager to boost its ability to reach more patients, the company acquired 39.net, a leading health information and consultation website in China, for 650 million yuan. The website covers 160 million users, it said.

"Many patients travel to top-tier cities to look for experts while many renowned doctors are burdened with the pressure of dealing with minor illnesses," Wang said. "We want to help change that."

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> population that 39.net, a leading health information and consultation website, covers

According to him, the company has so far recruited over 200 medical experts from across China for the online initiative.

"The service will be priced between 2,000 yuan and 3,000 yuan, depending on what services consumers want," he said.

According to the National Health and Family Planning Commission, China's hospitals and clinics provided nearly 5.7 billion clinical treatments during the January-September period of last year, up 2.8 percent year-on-year.

Qin Zexi, an analyst at Beijing-based iResearch Consulting Group, said it is important to remain cautious about the role of the internet in handling complicated diseases.

"The online video diagnosis model has inherent risks because many patients can't accurately express their symptoms. In the case of complicated diseases, patients' inputs could be potentially misleading without on-site examinations."

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