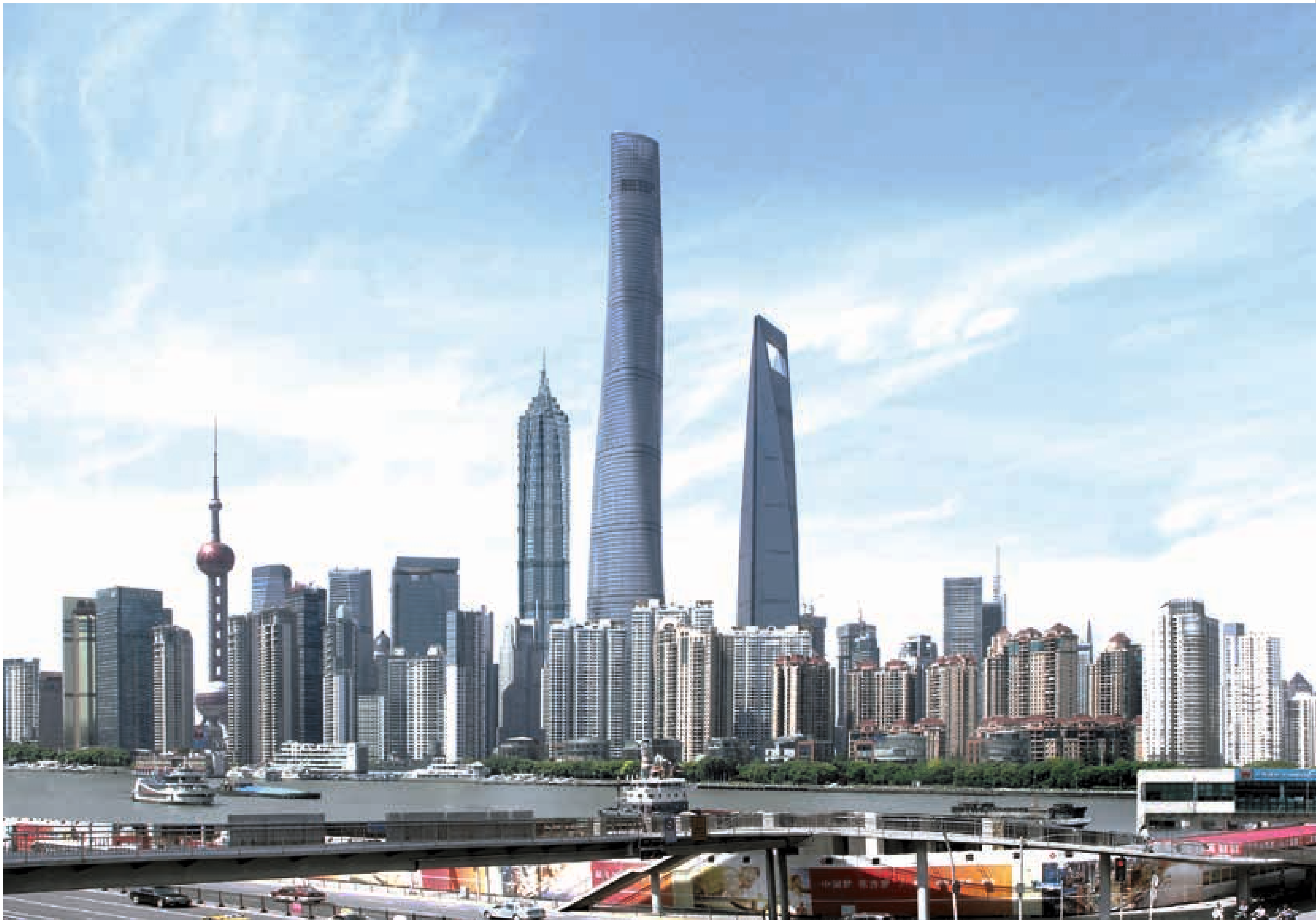

Fosun building Shanghai.

On the Insurance 'Superhighway'

Fosun, China's largest privately owned conglomerate, became a truly global insurance group last year. It further increased its shareholding in Portugal's leading insurer group Fidelidade to just under 90% and bought US insurer Meadowbrook Insurance Group (MIG) and Ironshore, the Bermuda-based international specialty insurer to add to its existing Asian insurance and reinsurance operations. The insurance operations join Fosun's fast-growing range of industrial, lifestyle and health businesses as Chairman Guo Guangchang pursues his aim of becoming the Chinese Warren Buffett and says the group is now on the 'superhighway' of growth. Adrian Ladbury takes a closer look at the group's insurance and wider strategy and growth in recent times.

Fosun Group was originally founded as a market research company by five graduates of Fudan University, China in 1992 and over the last 34 years has transformed itself into the biggest privately held conglomerate in China.

Guo Guanchang, group Chairman and lead shareholder, openly bases his strategy on that followed so successfully over the years by legendary US investor Warren Buffett.

Put very simply, Mr Buffett uses the 'float' generated by insurance companies that does not need to be paid back to policyholders immediately to invest in a wide range of other businesses in non-related sectors.

Those businesses obviously benefit from preferential terms and conditions for their coverage from the group insurers because they know the risk profile of these companies better than any rival.

At the same time, the premiums generated feed the float in a virtuous circle. The group also has significant investment and asset management activities that also benefit both the industrial operations and the insurers.

Lots of capital is needed to make this system work as the insurers need to be diversified by line and territory to avoid dangerous accumulation, hence the recent international expansion.

Apart from the fundamental business strategy, Mr Guo also follows Mr Buffett's example by writing a long and revealing letter to shareholders along with the group's annual results.

In his latest letter published last month as he revealed the group's full year 2015 results he explained the strategy as thus: "The Group has regarded insurance as a good means to connect Fosun's investment capability to high quality long-term capital. On one hand, the insurance companies can improve their profits from underwriting by leveraging on the group's extensive industrial operations experience and expertise in insurance and finance, and on the other hand may also help the group to realise higher investment revenue through effective investment practices. As a result, insurance plus investment will be our core business in the future," he explained.

Just like Mr Buffett's Berkshire Hathaway, Fosun is doing rather well in this highly competitive global insurance market.

Mr Guo revealed that, as at 31 December 2015, total insurance assets under its management reached RMB 180.6bn (US $27.9bn). This accounted for 44.6% of the group's total assets and represented an increase from 32.9% at the end of 2014.

Total investable assets reached RMB 160.4bn (US $24.8bn), an increase of 50.2% compared with 2014. Profit attributable to the owners of the parent company from the insurance business rose by 88.4% year-on-year to RMB 2.10bn (US $320m) and accounted for 26.2% of the net profit of the group.

The profit increased at a compound average growth rate (CAGR) of 100.5% from 2013 to 2015, reported Mr Guo.

So how exactly did Fosun build such a presence in the insurance business?

FOSUN MILESTONES

1992

Fundan University graduates founded Fosun with an initial investment of US $4,00

1994

Founded Fosun Pharma and Forte

1998

Fosun Pharma listed in China A-share market

2002

Yuyuan

2003

Nanjing Iron & Steel

2004

Zhaojin Mining

2007

Youg'an P&C Insurance, Hainan Mining

2008

Focus Media

First step with Yong'an

Xi'an-based Yong'an Insurance P&C was founded in 2003 and was Fosun's first investment in the insurance market.

The Group holds a 19.93% equity interest in Yong'an, a national insurance company that underwrites all types of non-life insurance business and was ranked 11th in the P&C market in 2014.

The Chinese market is currently highly competitive and profits are not easily found.

Financial details are hard to come by for Yong'an, but Mr Guo's letter accompanying the group 2015 results states that the insurer has 'taken the initiative' and will be continuing to 'adjust and transform' its business in 2016, indicating that it has experienced a tricky time of late along with the wider Chinese market.

The group said that Yong'an has discontinued certain 'less efficient' businesses and 'constantly optimised' its business portfolio. It has also increased per capita production capacity, reduced claims settlement costs, enhanced innovative development and actively explored Internet applications.

Despite the need for 'adjustment' Yong'an recorded gross premium income of RMB 8.1bn, net profit of RMB 833.3m, investable assets of RMB 10.9bn, net combined ratio of 98.0%, solvency adequacy ratio of 263.7%. The total investment return reached 10%.

So the results show that Yong'an is not doing bad at all.

The biggest step forward in Fosun's insurance growth story came in May 2014 with Fosun's completion of its €1.038bn acquisition of 80% of the share capital and voting rights of each of Fidelidade, Multicare and Cares, collectively now known as the Portuguese Insurance Group.

Second step Pramerica

Fosun's next big step into the insurance market came in September 2012 when it announced a joint venture with US financial services giant Prudential Financial.

The company, named PramericaFosun Life Insurance Company Limited (PFI), is a 50/50 joint venture that started with registered capital of RMB 500m.

The company was China's first life insurer jointly funded by a Chinese private investor and a foreign investor.

Mr Guo said at the time: "The life insurance industry in China is experiencing rapid growth, driven by an increasing focus on protecting the livelihoods of families around the country. We look forward to benefitting from PFI's deep actuarial experience, asset management expertise and 137-year history of success in the life insurance industry, as we move forward together to develop products that address the life insurance needs of this market."

In the latest financial report for 2015 Fosun said that in recent years the premium received by PFI has grown rapidly on the back of several innovative projects.

He said that the company continuously promotes product innovation and is also exploring a new sales model of "Insurance + Health Manager + Retirement Community + Overseas Asset Allocation," and crowd-funding insurance.

The group now offers a comprehensive set of product lines that span from life, accident, critical illness to universal life and health insurance.

In 2015 the new annualised premium income and the total premium of PFI reached RMB 125.3m and RMB 978.1m respectively (both including universal life insurance policyholders' deposits).

The company also recorded gross premium income of RMB 57.2m, net loss of RMB 113m, investable assets of RMB 1.9bn, a solvency adequacy ratio of 985.5% and the total investment return reached 6.9%.

Climbing to the peak

Then in January of 2013 Fosun created Peak Reinsurance Company Limited (Peak Re), a Hong Kong based reinsurer designed to capture the growing demand for modern reinsurance solutions in the Asia Pacific region. The company started with an initial capital of US $550m.

Peak Re is actually held jointly with the International Finance Corporation (IFC), a member of the World Bank Group focused on private sector development. It invested US $82m (14.9%) in the company.

At the time of launch Mr Guo said: "Together with Fosun's other insurance projects, we believe our investment in Peak Re will create an anchor revenue stream from the insurance business to support our investment activities and steadily making inroads to establish Fosun as 'a premium investment group.'"

The group pointed out that Asia Pacific has been underinsured in general for too long. It pointed out that, in the aftermath of a series of natural catastrophes in Asia Pacific in 2011, including the Thai floods, Tohoku earthquake and tsunami in Japan, New Zealand earthquake and Australian floods, less than 22% of the total economic loss registered was insured. This was significantly below the ratio of insured loss to economic loss seen in the US and Europe at that time, which stood at approximately 63% and 50% respectively.

Moreover, in 2010 China suffered its most devastating floods in a decade that caused around US $50bn economic loss, of which only US $1bn was covered by insurance.

Peak Re therefore planned to invest 'significantly' in the research and development of risk management solutions for households and business in the region. It said that, in cooperation with IFC and Fosun, Peak Re planned to enter emerging Asian markets including China, India and Indonesia in its first five years.

The new reinsurer also said that it planned to grow both organically and strategically via the acquisition of portfolios of profitable underwriting business.

Last year the reinsurer took some big steps to diversify itself by territory and product line.

It announced its plan to acquire a 50% stake in Caribbean insurance group NAGICO Holdings Limited in July 2015, currently pending for regulatory approvals.

Peak Re also set up a Zurich branch in September 2015 to get closer to its clients in Europe and further diversify the book of business.

Fosun revealed that the reinsurer's business in Asia Pacific expanded 'steadily' and added that it has also made 'solid' progress in Europe and North America.

In 2015, the gross premium written from Europe and North America accounted for 41.5% of the total premium income, showing an increase of 24.4% from 17.1% in 2014.

By the end of last year Peak Re had served over 285 customers in 47 markets around the world, compared to 175 customers by the end of 2014.

The company wrote gross premiums of US $582.7m in 2015 compared to US $288.1m for the same period in 2014. Net profit was US $59.2m, up by US $17.6m on 2014.

The net combined ratio was 96.8%, solvency adequacy ratio was 754%, investable assets were US $913m and total return on investment was 6.4%.

2010

Club Med

2011

Folli Follie

2012

Pramerica Fosun Life Insurance, Peak Reinsurance

2013

St. John, Alma Lasers, Saladax, Caruso, Atlantis Resort, Sanya, 28 Liberty in New York, Loyds Chambers in London

2014

Fidelidade, Secret Recipe, REN, Osborne, Studio 8, Tom Tailor, ROC Oil, IDERA, Luz Saúde, BHF Kleinwort Benson Group SA, Hainan Mining IPO

2015

Ironshore, MIG, Thomas Cook, Club Med, Cirque du Soleil, Hauck & Aufhäuser Privatbankiers (H&A), Silver Cross, RPIM, Phoenix Holdings, Zhejiang Internet Commerce Banking Co., Ltd. commenced operation

Based on Fosun Institutional Presentation.

Xi'an-based Yong'an Insurance P&C was founded in 2003 and was Fosun's first investment in the insurance market.

Fosun arrives in Europe... Via Portugal

The biggest step forward in Fosun's insurance growth story came in May 2014 when Chinese President Xi Jinping and Portuguese President Aníbal Cavaco Silva witnessed the signing of documents to secure Fosun's completion of its €1.038bn acquisition of 80% of the share capital and voting rights of each of Fidelidade, Multicare and Cares, collectively now known as the Portuguese Insurance Group.

The three companies were wholly-owned subsidiaries of Caixa Seguros e Saúde (CSS), the insurance arm of Portugal's state-owned bank CGD.

Fosun said that, following the successful completion of the acquisition, it had made a 'major stride' towards becoming a world-class investment group underpinned by the twin drivers of 'insurance-oriented comprehensive financial capability' and 'profound industrial foothold based investment capability.'

This, said the group, moved it closer towards implementing the 'Warren Buffett model of development'.

The Portuguese Insurance Group's unaudited total assets reached €12.8bn by end-2013. On a pro forma basis after consolidating the Portuguese Insurance Group, the proportion of Fosun's insurance assets to the Group's total assets increased significantly from 3% to 39%.

"As insurance is the core business for Fosun's development, the cooperation between Fosun and the Portuguese Insurance Group will undoubtedly be a long-term and stable one. Meanwhile, Fosun is fully confident about the existing management team and has committed to maintaining the stability of the ongoing business strategy. Through efforts of both parties and synergies derived from shared resources in various aspects, Fosun hopes to develop higher quality products and services as part of its efforts in achieving sustainable returns to our shareholders, employees and customers," stated Fosun.

The Chinese group said that it would also facilitate collaboration and synergy with other insurance companies that it had invested in, again following the Buffett model.

"For instance, we will facilitate collaboration with Peak Reinsurance to lower the reinsurance costs and to cooperate with Yong'an P&C Insurance in technologies, products and sales channels to achieve rapid business development. On the other hand, Fosun will make use of its core investment capability to optimize the investment portfolio to improve the investment returns for the Portuguese Insurance Group, especially combining with Fosun's global investment strategies. Fosun will also review in at full lengths the investment opportunities across Europe and OECD markets while broadening its business scope, with a view to minimizing systemic risks of geographical concentration through diversification," explained Fosun.

The Chinese group added that it had been actively identifying different types of 'value investing opportunities' around the world and decided that, despite Portugal's recent economic problems, it believed that that country remains a highly attractive key market and matches well with Fosun's global expansion strategy.

"Fosun stays vigilant and is attentive to other investment opportunities in other sectors of the Portuguese market, in particular the sectors of property, tourism and brand products," added Fosun.

Fosun's representative office was set up in Lisbon from where it would be able to provide better support to the Portuguese Insurance Group and explore investments in other sectors in Portugal and further promote 'Sino-Portugal' economic exchange and cooperation, said the group.

"This move will also allow Fosun to contribute its effort, albeit minute, to recovery of the economy in Portugal. Fosun aspires to play the role as a bridge that facilitates business developments in China by companies originated in Portugal, and developments in Portugal by companies originated in China," added the group.

In early 2015, Fosun further increased its equity interest in Fidelidade to 84.986%.

Fosun Insurance Portugal is now a significant global operator in the Portuguese insurance market.

Fosun explained in its latest set of annual results that it sells its products in all key lines of business and benefits from the largest and most diversified insurance sales network in Portugal.

This includes exclusive and multi-brand agents, brokers, own branches, Internet and telephone channels. It also has strong distribution partnerships with the post office and Caixa Geral de Depósitos, a leading Portuguese bank.

Fosun Insurance Portugal is also active in seven countries on three continents (Europe, Asia and Africa).

During the Reporting Period, Fosun Insurance Portugal reported gross premium income of €3.9bn, a non-life business net combined ratio of 98.4%, a solvency adequacy ratio of 215.7% and net profit of €301.1m.

"International business of Fosun Insurance Portugal continued to reveal a strong commercial performance, reaching overall €202.1m in direct insurance premiums, an increase of 13.7% compared to 2014," reported Fosun at the end of March this year.

Next stop United States!

Despite the scale of the Portuguese acquisition China's Warren Buffett was not ready to stop there and the next target was in the huge US insurance market.

In July of last year Fosun announced the completion of its acquisition of 100% of Meadowbrook Insurance Group (MIG) for US $439m. "Meadowbrook will further strengthen Fosun's capability to access long-term high-quality capital and enhance the Group's insurance business capabilities on both the liability end and investment end. We are committed to leveraging Fosun's global resources to support long-term and stable development of Meadowbrook," said Mr Guo.

Meadowbrook is a property & casualty insurer and insurance administration services company focused on specialty niche markets. It markets and underwrites specialty property and casualty insurance programs and products on both an admitted and non-admitted basis through a diverse network of independent retail agents, wholesalers, program administrators and general agencies.

Critically, Meadowbrook possesses a full range of non-life insurance licenses in 50 states nationwide, which cover admitted and non-admitted product lines.

The completion of the Meadowbrook acquisition gave Fosun a strategic insurance platform in the US, enabling the Group to establish a significant presence in the world's biggest property and casualty market.

Last year MIG recorded gross premium income of US $726.5m and net profit of US $34.3m on the back of a net combined ratio of 100.3% and solvency adequacy ratio of 200.3%. MIG has investable assets of US $1,570.6m.

And now international specialty market

In February of last year, as Fosun was preparing its acquisition of MIG, it completed the acquisition of approximately 20% of the total outstanding ordinary shares of Ironshore, the Bermuda-based international specialty insurance group. The purchase price was approximately US $466.6m.

True to form, in November of last year, the Chinese group completed the acquisition of the remaining interests in Ironshore for US $2bn in cash.

Ironshore is a big step forward for Fosun into the highly valuable and currently popular large corporate and commercial insurance market. Apart from Bermuda, Ironshore has operations in the US, Lloyd's and Ireland.

In 2015 Ironshore's gross premium income reached US $2.16bn and it delivered a net profit of US $57.8m on the back of a net combined ratio of 96.7%. The solvency adequacy ratio was approximately 166% and total investable assets were US $5.1bn.

Given the group's existing presence in the potentially massive Chinese primary life and non-life markets, the Asian and international reinsurance market, mainland European life and non-life market and the US commercial specialty markets, the addition of Ironshore gave Fosun arguably the final piece in its jigsaw, for now at least.

As the Ironshore deal was revealed, Mr Guo stressed the Buffett style synergies that the companies will enjoy within the Fosun family. He said: "Now and in the coming year, Fosun will strengthen its integration and collaboration efforts, seeking to establish a cross-region and cross-industry global insurance and financial group. We encourage our invested companies to collaborate wherever applicable, seeking to connect them to Fosun's resources with our global insurance and finance platforms to enhance their competitiveness in their respective industries."

And Ironshore did not hang around long to take advantage of its new group potential for in January it announced that its Lloyd's subsidiary, Pembroke Managing Agency, would set up an office in Shanghai to join the Lloyd's China platform.

The Shanghai Pembroke Managing Agency will underwrite specialty lines of business, initially focused on the agriculture, marine and healthcare sectors.

Tracy Ma was appointed underwriting manager of the entity and reports to Hui Yun Boo, managing director of Ironshore's Asia Pacific region.

"Ironshore's parent Fosun, headquartered in Shanghai, positions us with clear distinction in the local market, allowing us to offer onshore specialist products to meet growing demand within this vibrant city," said Mark Wheeler, chief executive officer of Ironshore International.

Ms Boo said the new Shanghai office complements Ironshore's existing regional presence in Asia Pacific growth hubs, such as Singapore, Hong Kong, Tokyo, Sydney and Auckland.

Interestingly only two months later on March 22, the board of directors of Fosun announced that the Company is considering pursuing an initial public offering of the ordinary shares of Ironshore.

"As at the date of this announcement, no final decision has been made by the respective board of directors of the Company and Ironshore on whether, when, or where to proceed with the Possible IPO," stated the group.

Whatever Fosun decides to do with Ironshore it is clear that the Chinese group will continue to build its business in the international insurance space. As Ms Lan Kang states in the following Q&A Fosun will remain focused on this market and use its Portuguese and international bases to seek further growth opportunities. Watch this space! •