

An exciting place to do business

By **DAVID NISH**

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joined Standard Life on 1 November 2006 as Group Finance Director and became Chief Executive on 1 January 2010. From 1999 to 2005 he was Finance Director at Scottish Power plc. Mr Nish was previously a partner with Price Waterhouse where his clients included major plcs. Since 2005, he has been a non-executive director of Northern Foods plc. In 2000 and 2009 he was awarded the Scottish Business Awards Finance Director of the Year. Mr Nish served on the UK Government Employers Pension Task Force from 2004-05.

While many Western economies are still recovering from the recession that followed the global financial crisis, the Chinese economy is flourishing. For the third successive year, the Chinese economy is expected to deliver a real GDP growth rate in excess of 9 per cent. It is this potential for business growth, and ultimately value creation, that underpins foreign investors' interest in China.

Since the inaugural China-UK Economic and Financial Dialogue (EFD) meeting in 2008 there has been an unprecedented level of policy dialogue between the two countries on strategic economic issues, including financial regulation and stability. Such collaboration is helping to drive the ongoing reform and opening up of China's financial system, promoting stronger commercial links and greater levels of engagement between UK financial institutions and Chinese officials. These discussions have helped create a better environment for the UK players in the financial services sector and in particular, the life insurance sector in China.

The economic fundamentals and demographics in China have created substantial business development opportunities for participants in the life insurance sector. Life insurance 'penetration' (premium spend relative to GDP) and 'density' (premium spend per capita) are still low relative to more mature markets. Demographic projections (in particular the ageing population and growth of the middle classes) underpin the high growth rates for the sector.

Other factors influencing growth include the continuing market de-regulation and improving regulatory environment which have enhanced the operating environment and have created a more level playing field for foreign joint ventures. In addition, the Chinese government's continuous focus on urbanisation and development of a sustainable and high growth economy should provide a strong foundation for future growth.

Standard Life's engagement in the Chinese life insurance sector highlights the potential for business growth. Historically, Standard Life has had a long association with China – the early operation of the company in China dated back to the middle of the 19th century. Standard Life started business in Shanghai in 1847, developing its business to over 20 cities before ceasing operations in the 1930s. More recently, Standard Life's commitment to China as a key strategic market

has been highlighted through our life insurance joint venture, Heng An Standard Life (HASL). Standard Life has committed a large capital investment to fund the development and expansion of the business. Since commencing trading in late 2003, HASL has established a presence in 30 cities across 8 provinces with more than 4,500 employees and sales staff.

Many commentators often highlight the difficulties and challenges facing foreign companies when conducting business in China. For foreign participants in the life insurance sector, this has meant operating in a highly regulated and intensely competitive environment. Although by number, almost half of the life companies in China are foreign owned, the foreign players together only represent around 5 per cent of the overall market.

Like any other foreign participant in China, we have faced a learning curve of challenges. Understanding and embracing cultural differences is clearly a prerequisite for doing business in China. Financial investment must be accompanied by investment in human capital. The local talent pool for financial services is relatively small, but it is developing quickly. Finding the requisite calibre of candidates that possess specialised skills (particularly actuarial, accounting and risk management) is a recognised challenge for the life insurance sector. The best candidates can demand a premium and there is a need for astute human capital management to attract and retain good people.

The language difference is another obvious hurdle but certainly not insurmountable. Investment in language training is a key requirement where UK employees are deployed to participate in the management team, but it is also important to consider transitioning towards less reliance on 'ex pat' involvement in the management team, especially once necessary specialist knowledge transfer has been embedded in the business.

For new entrants to China a key need is to understand its unfamiliar regulatory system. Companies that invest time in developing relationships with the key stakeholders (central, local government and regulators in particular), are likely to gain a better insight of how best to navigate the various interconnections prevalent in corporate China. UKTI can offer UK businesses special insight to such network development.

Each time I visit China I observe an admirable 'can do' attitude and an incredible enthusiasm to effect change at pace. That energy for delivering change makes China an exciting place to do business. **F**