NON-LIFE INSURANCE - INSIGHTS FROM AUSTRALIA

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Practical Issues of Solvency Regulation in China

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I Existed Risk Factors & Solvency Rules

I-1 Solvency of China Insurance Industry by December 2003

		2003	
(1) Industry data:	Asset	912.284	Billions
	Annual premium	388.04	Billions
	total capital	about 30	Billions

(2) Standard Poor's Report about China Insurance (2003):

Short of Capital: 15-20 billions (Life), 7-10 (P&C)

(3) Main character of the industry (before 12/2003):

Assets (premium) Increase >> Capital Increase

Example 1: PICC (2001)

registered capital	7.7	billions RMB
total assets	52.5	billions RMB
annual premium	50.5	billions RMB

(4) Other factors influencing the solvency

- Historical non-performing assets during the business years of 1980-1995
- Very low rate of capital return
- Interest loss for life insurers
- Underestimate of OCL & overestimate of receivable premiums
- Other risk factors

e.g. 2: Low rate of capital return----

2003:	2.68	%
2002:	3.14	%
2001:	4.3	%

Investment assets:	bank savings	54. 3 %
	bonds	40. 2 %
	share funds	5. 5 %

e.g. 3: Interest loss of life insurers

Estimate by CIRC at early 2003: 50 billions being increased with the add of policy liabilities

Interest rates falling 8 times since 1996:

9.18% (1996) ↘ 1.98% (2003)

Two alternatives to improve solvency

1) Enhance risk management and internal control, moving from market share to profit oriented principle (long run solution)

2) Add capital from strategic investor and from public investors (emergent solution)

Choice: (2), and expect that (2) may reach (1).

e.g. 4: The IPO process of PICC

Financing from share markets:

PICC (06/11/2003, HKSE)： 5.4 billions HK$

China Life（17,18/12/2003, NYSE, HKSE):

3.475 billions US$

Ping-an (06/2004, HKSE)： 14.3 billions HK$

Total: 5 billions US$

Issue raised : capital returns and relevant risks

I-2 Issues in the CIRC Solvency Supervision System

- Registered capital and guarantee fund
- Restrictions on investment assets
- Restrictions on business & products
- Qualification of sinner managers & approved persons
- **Minimum Solvency Margin (capital)**
- Disclosure requirement

(1) Registered capital and guarantee fund

Registered capital---

The Insurance Act (2003): 200 millions RMB

The Insurance Act (2003): 500 millions RMB

Guarantee Fund: 20% registered capital

Background: low capital returns

(2) Restrictions on investment assets

Insurance Act (2003) clause 105:

bank savings, government bonds,
financial bonds, other approved uses

CIRC + PBOC (18 August 2004):

Administration on Insurers' Foreign Capital

(3) Restrictions on business & products

- Insurance Act (2003) clause 92, 93; and

  Insurance Regulation (2004) clause 47、48
- CIRC (2004, No. 76): *Administration for Applying, submitting, and Approving of life insurance products*
- CIRC (2004, No. 34): *Administration for product clauses and premium rates of P&C insurers*

(4) Qualification of sinner management

CIRC (issued on 1 March 2002, revised at 23 July 2003):

Administration of the sinner management of insurance company

Definition of the sinner management:

Chair director, director, independent director,

Secretary of Board, CEO and Vice CEO of head office, General Manager of Branch Company, and equivalent persons

(5) Solvency Margin Regulation

- CIRC: Solvency Regulation (24/03/2003)

  Solvency Margin + Regulatory indicators

  (statutory) (early warning)

  Submit "Solvency Condition Report" to CIRC by 30 April every year.

- Principle: A simplified version of EU Solvency I :

  Actual SM > Minimum SM

Solvency Condition Report --- SM

(1) Minimum SM ---- use similar ratios as of the EU directives

(2) Actual SM =

== Admissible Assets － Admissible liabilities

based on CIRC's on going research projects of

A. Statutory Insurance Accounting Principles

B. Insurance Reserving Administration, etc

II Facing future environment and the new Solvency System

CIRC announced objective: in 3 to 5 years, to build an effective supervision system which fits China insurance industry and consistent to international developing direction.

II-1 Explore the developing direction and risk construction of the China insurers

II-2 Catch up with the international trend

II-1 Explore the developing direction and risk construction of the China insurers

key points:

- *Chinese version of the Global framework*
- *Risk-based (Risk oriented) System*

the moving commercial environment

the risk construction of industry & insurers

II-1 Fundamental work:

Risk Construction of China Insurers

How can we identify (before we talk about how to measure and control) the risks which are facing China Insurers ?

What risks can be measured (in Basel Pillar I) , and what can not be quantitatively measured (treated in Pillar II and III) ?

II-2 Catch up with the international trend

IAIS: Core Principles	Basel Committee: Basel II	IAA: Global framework
IASB: Fair Value Acc.	EU Solvency II	Groupe Consultatif Actuariel Européen
US/NAIC: RBC model	Canada, Australia models	Singapore, and other Asian versions of RBC

Initial conclusions

- Risks in Pillar II, III are very significant which should be controlled by Insurance Corporate Governance and Internal Control.
- For quantitative risks, reserving for outstanding claims is an urgent issue for Chinese insurers.
- For reserving issue, reasonable grouping of business lines and risks is even more urgent.

We are on the beginning stage,

and we need your cooperation!

Thank you !