Industry Update and RBC Development
---China

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IAA Fund Seminar
14 October 2013
Singapore
China Insurance: Sector


China Insurance Weekly

China insurance weakness—time to revisit?

Recently the Chinese insurers’ share prices were weak, which, in our view, was due to market uncertainty and a premium growth slowdown. We encourage investors to revisit on weakness selectively (CPIC, PICC and Ping An).

The China Market in Transition: Sharpening for Sustainability

The Chinese insurance market is in a state of transition after a period of rapid expansion. The market must now adjust for sustainable and healthy growth. Since enhancing risk management and market discipline in recent years, China’s regulator has gradually rolled out plans for solvency reform, less restrictive investment rules, the opening of compulsory motor insurance to foreign players and the partial liberalization of commercial motor rates.

These developments are paving the way for more sophisticated underwriting practices and offsetting market issues brought on by the previous fast expansion. Among the issues expected to affect the industry are stricter regulatory requirements, rising competitive pressure in the motor business and volatile financial markets. Decelerating profit is now a distinct possibility.
Key Challenges

- **Product**
  - Savings-oriented
  - Compete with the other financial institutions on investment yield which is not insurer’s strength
  - Heavy reliance on bank which is out of insurer’s control

- **Distribution Channel**
  - Agency: increasing concern on sustainability and future direction
  - Bank: remodeling
    - Tightened bancassurance rules
    - Bank entry into insurance
    - Bank’s liquidity strain makes it change focus to selling its own products

- **Capital**

- **Human Resources**
Latest Trend

Insurance investment: easing restrictions

- Pros:
  - Potential to increase investment yield
  - Greater flexibility in ALM

- Cons: increase investment risk
Latest Trend

- Pricing interest rate liberalization

One-year bank deposit interest rate in 1990’s

After 7 consecutive decrease in interest rate, on 10 June 1999, one-year bank deposit rate dropped to 2.25%
Latest Trend

- Pricing interest rate liberalization (Cont’d)
  - On 10 June 1999, CIRC issued urgent notice to cap the pricing rate at 2.5%
  - Cap limit remains unchanged until 5 August 2013.

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<th>Pricing Rate/Minimum guaranteed rate</th>
<th>Reserving Rate</th>
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<tr>
<td>Traditional Non-par</td>
<td>Capped at 2.5%</td>
<td>No cap limit. But need to get prior-approval from CIRC if pricing rate higher than 3.5%</td>
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*Note: For annuity business with insurance period of no less than 10 years and the deferred annuity with payout starting no earlier than the official retirement age, the reserving rate is capped at min(pricing rate, 4.025%)

- Distribution channel: go online
  - In December 2012, Guohua Life collected more than RMB 105 million from the universal life products within 3 days via Taobao
  - The premium income from internet sales in 2012 is about RMB 3.96 billion. The number is expected to be RMB 59 billion in 2016.
RBC (Solvency) Development

- Existing solvency regime does not align risk with required capital
- China’s 2\textsuperscript{nd} generation solvency regime: C-ROSS (China Risk Oriented Solvency System)

**Timeline in Plan**

- **2012**: Formally Initiated in April 2012
- **2013**: Overall Framework released in May 2013
- **2014**: Draft proposal by the end of 2014
- **2015**: Take 1 to 2 years for quantitative testing and collecting industry opinions before implementation
- **2016**:
RBC (Solvency) Development

- C-ROSS adopts the overall framework of “three-pillars” with Chinese characteristics taken into consideration.
## RBC (Solvency) Development

- CIRC has initiated 12 task forces which are split into two phases

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<th>Phase 1 (April 2012)</th>
<th>Phase 2 (August 2013)</th>
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<td>- Assessment of China's existing solvency regime</td>
<td>- Correlation between various risks</td>
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<td>- Comparative analysis of China’s existing solvency regime, EU Solvency II and RBC</td>
<td>- Valuation standards on asset and liability</td>
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<td>- Overall framework</td>
<td>- Dynamic solvency testing</td>
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<td>- Underwriting risk of P&amp;C insurers</td>
<td>- Actual Capital Available and Capital Tiering</td>
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<td>- Underwriting risk and Interest rate risk of life insurers</td>
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<td>- Investment risk</td>
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<td>- Solvency Regulation on Insurance Group Company</td>
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Thank You!

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